

# FINANCIAL SUMMARY

*The overall market environment has a significant influence on IFC's financial performance.*

*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   |
|--|--|
| <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 administrative 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 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:</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.   |

## 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 \$1,782 million in FY14, as compared to \$909 million in the year ended June 30, 2013 (FY13) and \$2,013 million in the year ended June 30, 2012 (FY12).

The increase in income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA in FY14 when compared to FY13 and in FY13 when compared to FY12 was principally as a result of the following (US\$ millions):

### Increase (decrease) FY14 vs FY13

|  |              |
|--|--------------|
| Higher gains on equity investments and associated derivatives, net               | \$336        |
| Lower other-than-temporary impairments on equity investments and debt securities | 206          |
| Lower provisions for losses on loans, guarantees and other receivables           | 155          |
| Higher income from liquid asset trading activities                               | 99           |
| Other, net   | 77           |
| <b>Overall change</b>  | <b>\$873</b> |

Net unrealized losses on non-trading financial instruments accounted for at fair value totaled \$43 million in FY14 (net gains of \$441 million in FY13 and net losses of \$355 million in FY12) resulting in income before grants to IDA of \$1,739 million in FY14, as compared to \$1,350 million in FY13 and \$1,658 million in FY12. Grants to IDA totaled \$251 million in FY14, as compared to \$340 million in FY13 and \$330 million in FY12. Net gains attributable to non-controlling interests totaled \$5 million in FY14 (\$8 million losses in FY13 and \$0 in FY12). Accordingly, net income attributable to IFC totaled \$1,483 million in FY14, as compared with \$1,018 million in FY13 and \$1,328 million in FY12.

IFC's net income for each of the past five fiscal years ended June 30, 2014 is presented below (US\$ millions):

### NET INCOME (LOSS)

For the years ended June 30 (US\$ millions)

|      |       |
|------|-------|
| 2010 | 1,746 |
| 2011 | 1,579 |
| 2012 | 1,328 |
| 2013 | 1,018 |
| 2014 | 1,483 |

The table below presents selected financial data for the last five fiscal years (in millions of US dollars, except where otherwise stated):

| <b>As of and for the Years Ended June 30</b>   | <b>2014</b>     | <b>2013</b>     | <b>2012</b>     | <b>2011</b>     | <b>2010</b>     |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Consolidated income highlights:</b>   |                 |                 |                 |                 |                 |
| Income from loans and guarantees, realized gains and losses on loans and associated derivatives                                  | \$ 1,065        | \$ 996          | \$ 993          | \$ 802          | \$ 759          |
| (Provision) release of provision for losses on loans & guarantees  | (88)            | (243)           | (117)           | 40              | (155)           |
| Income from equity investments and associated derivatives  | 1,289           | 732             | 1,548           | 1,601           | 1,595           |
| Income from debt securities and realized gains and losses on debt securities and associated derivatives                          | 89              | 69              | 71              | 67              | 89              |
| Income from liquid asset trading activities  | 599             | 500             | 313             | 529             | 815             |
| Charges on borrowings  | (196)           | (220)           | (181)           | (140)           | (163)           |
| Other income   | 461             | 441             | 448             | 222             | 176             |
| Other expenses   | (1,418)         | (1,401)         | (1,207)         | (981)           | (853)           |
| Foreign currency transaction gains (losses) on non-trading activities  | (19)            | 35              | 145             | (33)            | (82)            |
| Income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA | 1,782           | 909             | 2,013           | 2,107           | 2,181           |
| Net unrealized gains and losses on non-trading financial instruments accounted for at fair value                                 | (43)            | 441             | (355)           | 72              | (235)           |
| Income before grants to IDA  | 1,739           | 1,350           | 1,658           | 2,179           | 1,946           |
| Grants to IDA  | (251)           | (340)           | (330)           | (600)           | (200)           |
| <b>Net income</b>  | <b>1,488</b>    | <b>1,010</b>    | <b>1,328</b>    | <b>1,579</b>    | <b>1,746</b>    |
| Less: Net (gains) losses attributable to non-controlling interests   | (5)             | 8               | –               | –               | –               |
| <b>Net income attributable to IFC</b>  | <b>\$ 1,483</b> | <b>\$ 1,018</b> | <b>\$ 1,328</b> | <b>\$ 1,579</b> | <b>\$ 1,746</b> |

| As of and for the Years Ended June 30  | 2014             | 2013             | 2012             | 2011             | 2010             |
|--|------------------|------------------|------------------|------------------|------------------|
| <b>Consolidated balance sheet highlights:</b>                                    |                  |                  |                  |                  |                  |
| Total assets   | \$ 84,130        | \$ 77,525        | \$ 75,761        | \$ 68,490        | \$ 61,075        |
| Liquid assets, net of associated derivatives                                     | 33,738           | 31,237           | 29,721           | 24,517           | 21,001           |
| Investments  | 38,176           | 34,677           | 31,438           | 29,934           | 25,944           |
| Borrowings outstanding, including fair value adjustments                         | 49,481           | 44,869           | 44,665           | 38,211           | 31,106           |
| <b>Total capital</b>   | <b>\$ 23,990</b> | <b>\$ 22,275</b> | <b>\$ 20,580</b> | <b>\$ 20,279</b> | <b>\$ 18,359</b> |
| Of which   |                  |                  |                  |                  |                  |
| Undesignated retained earnings   | \$ 20,002        | \$ 18,435        | \$ 17,373        | \$ 16,032        | \$ 14,307        |
| Designated retained earnings   | 194              | 278              | 322              | 335              | 481              |
| Capital stock  | 2,502            | 2,403            | 2,372            | 2,369            | 2,369            |
| Accumulated other comprehensive income (AOCI)                                    | 1,239            | 1,121            | 513              | 1,543            | 1,202            |
| Non-controlling interests  | 53               | 38               | –                | –                | –                |
| <b>Financial ratios:<sup>a,b</sup></b>   |                  |                  |                  |                  |                  |
| Return on average assets (GAAP basis) <sup>b</sup>                               | 1.8%             | 1.3%             | 1.8%             | 2.4%             | 3.1%             |
| Return on average assets (non-GAAP basis) <sup>c</sup>                           | 1.8%             | 0.9%             | 2.8%             | 1.8%             | 3.8%             |
| Return on average capital (GAAP basis) <sup>d</sup>                              | 6.4%             | 4.8%             | 6.5%             | 8.2%             | 10.1%            |
| Return on average capital (non-GAAP basis) <sup>e</sup>                          | 6.5%             | 3.1%             | 9.9%             | 6.0%             | 11.8%            |
| Overall liquidity ratio <sup>f</sup>   | 78%              | 77%              | 77%              | 83%              | 71%              |
| External funding liquidity level <sup>g</sup>                                    | 359%             | 309%             | 327%             | 266%             | 190%             |
| Debt to equity ratio <sup>h</sup>  | 2.7:1            | 2.6:1            | 2.7:1            | 2.6:1            | 2.2:1            |
| Total reserves against losses on loans to total disbursed portfolio <sup>i</sup> | 6.9%             | 7.2%             | 6.6%             | 6.6%             | 7.4%             |
| Capital measures:  |                  |                  |                  |                  |                  |
| Total Resources Required (\$ billions) <sup>j</sup>                              | 18.0             | 16.8             | 15.5             | 14.4             | 12.8             |
| Total Resources Available (\$ billions) <sup>k</sup>                             | 21.6             | 20.5             | 19.2             | 17.9             | 16.8             |
| Strategic Capital <sup>l</sup>   | 3.6              | 3.8              | 3.7              | 3.6              | 4.0              |
| Deployable Strategic Capital <sup>m</sup>  | 1.4              | 1.7              | 1.8              | 1.8              | 2.3              |
| Deployable Strategic Capital as a percentage of Total Resources Available        | 7%               | 8%               | 9%               | 10%              | 14%              |

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. Net income excluding unrealized gains and losses on certain investments accounted for at fair value, income from consolidated VIEs, and net gains and losses on non-trading financial instruments accounted for at fair value, as a percentage of total disbursed loan and equity investments (net of reserves) at cost, liquid assets net of repos, and other assets averaged for the current period 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. Net income excluding unrealized gains and losses on certain investments accounted for at fair value, income from consolidated VIEs, and net gains and losses on non-trading financial instruments accounted for at fair value, as a percentage of paid in share capital and retained earnings (before certain unrealized gains and losses and excluding cumulative designations not yet expensed) averaged for the current period and previous fiscal year.

f. IFC's overall Liquidity Policy states that the Corporation 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. IFC's objective is to maintain a minimum level of liquidity, consisting of proceeds from external funding to cover at least 65% of the sum of (i) 100% of committed but undisbursed straight senior loans; (ii) 30% of committed guarantees; and (iii) 30% of committed client risk management products. As of FY13 Q3, IFC's management decided to modify the External Funding Policy by eliminating the cap on the operational range of 65% to 85%.

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. The minimum capital required consistent with the maintenance of IFC's AAA rating. It is computed as the aggregation of risk-based economic capital requirements for each asset class across the Corporation.

k. Paid in capital plus retained earnings net of designated retained earnings plus general and specific reserves against losses on loans. This is the level of available resources under IFC's risk-based economic capital adequacy framework.

l. Total resources available less total resources required.

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

## COMMITMENTS

In FY14, total commitments were \$22,404 million, compared with \$24,853 million in FY13, a decrease of 10%, of which IFC commitments totaled \$17,261 million (\$18,349 million—FY13) and Core Mobilization totaled \$5,143 million (\$6,504 million—FY13).

FY14 and FY13 commitments and Core Mobilization comprised the following (US\$ millions):

|   | FY 14            | FY 13           |
|---|------------------|-----------------|
| <b>Total commitments<sup>1</sup></b>                                    | <b>\$ 22,404</b> | <b>\$24,853</b> |
| <b>IFC commitments</b>  |                  |                 |
| Loans   | \$ 7,579         | \$ 8,520        |
| Equity investments  | 2,324            | 2,732           |
| Guarantees:   |                  |                 |
| Global Trade Finance Program  | 7,007            | 6,477           |
| Other   | 321              | 482             |
| Client risk management  | 30               | 138             |
| <b>Total IFC commitments</b>  | <b>\$ 17,261</b> | <b>\$18,349</b> |
| <b>Core Mobilization</b>  |                  |                 |
| <b>Loan participations, parallel loans, and other mobilization</b>      |                  |                 |
| Loan participations   | \$ 2,043         | \$ 1,829        |
| Parallel loans  | 730              | 1,269           |
| Managed Co-lending Portfolio Program                                    | 320              | —               |
| Other mobilization  | 606              | 480             |
| <b>Total loan participations, parallel loans and other mobilization</b> | <b>\$ 3,699</b>  | <b>\$ 3,578</b> |
| <b>AMC</b>  |                  |                 |
| Equity Capitalization Fund  | \$ 7             | \$ 214          |
| Sub-debt Capitalization Fund  | 516              | 209             |
| ALAC Fund   | 84               | 210             |
| Africa Capitalization Fund  | —                | 92              |
| Russian Bank Cap Fund   | 2                | 43              |
| Catalyst Funds  | 75               | —               |
| Global Infrastructure Fund  | 146              | —               |
| <b>Total AMC</b>  | <b>\$ 830</b>    | <b>\$ 768</b>   |
| <b>Other initiatives</b>  |                  |                 |
| Global Trade Liquidity Program and Critical Commodities Finance Program | \$ 500           | \$ 1,096        |
| Public Private Partnership  | 114              | 942             |
| Infrastructure Crisis Facility  | —                | 110             |
| Debt & Asset Recovery Program   | —                | 10              |
| <b>Total other initiatives</b>  | <b>\$ 614</b>    | <b>\$ 2,158</b> |
| <b>Total Core Mobilization</b>  | <b>\$ 5,143</b>  | <b>\$ 6,504</b> |
| <b>Core Mobilization Ratio</b>  | <b>0.30</b>      | <b>0.35</b>     |

**Core Mobilization Ratio**—For each dollar that IFC committed, IFC mobilized (in the form of loan participations, parallel loans, other mobilization, the non-IFC portion of structured finance and the non-IFC commitments in Initiatives, and the non-IFC investments committed in funds managed by AMC) \$0.30 in FY14 (\$0.35 in FY13).

Beginning in FY15, IFC plans to change its current practice of reporting the cumulative commitment volume of its short-term finance (STF) business over the course of a fiscal year, and then aggregating that with its long-term finance (LTF) commitment volumes to reporting STF business based on the average annual outstanding portfolio of its STF business in a fiscal year, and report that separately from its LTF business. Had the new practice been applied to FY14, GTFP and GTSF, included in loans and guarantees, would have been lower by \$4.3 billion in FY14 (lower by \$4.6 billion—FY13).

<sup>1</sup> Debt security commitments are included in loans and equity investments based on their predominant characteristics.

## AMC

The activities of the funds managed by AMC at June 30, 2014 and June 30, 2013 can be summarized as follows (US\$ millions unless otherwise indicated):

|  | Equity<br>Capitaliza-<br>tion Fund | Sub-Debt<br>Capitaliza-<br>tion Fund | ALAC<br>Fund | Africa<br>Capitaliza-<br>tion Fund | Russian<br>Bank Cap<br>Fund | Catalyst<br>Funds | Global<br>Infrastruc-<br>ture Fund | Total   |
|--|------------------------------------|--------------------------------------|--------------|------------------------------------|-----------------------------|-------------------|------------------------------------|---------|
| Assets under management<br>as of June 30, 2014 | \$1,275                            | \$1,725                              | \$1,000      | \$182                              | \$550                       | \$418             | \$1,200                            | \$6,350 |
| From IFC                                       | 775                                | 225                                  | 200          | –                                  | 250                         | 75                | 200                                | 1,725   |
| From other investors                           | 500                                | 1,500                                | 800          | 182                                | 300                         | 343               | 1,000                              | 4,625   |
| For the year ended June 30, 2014               |                                    |                                      |              |                                    |                             |                   |                                    |         |
| Disbursements from investors to Fund:          |                                    |                                      |              |                                    |                             |                   |                                    |         |
| From IFC                                       | 8                                  | 77                                   | 21           | –                                  | 9                           | 3                 | 32                                 | 150     |
| From other investors                           | 5                                  | 514                                  | 83           | 3                                  | 10                          | 15                | 165                                | 795     |
| Disbursements made by Fund                     | 21                                 | 544                                  | 89           | –                                  | 4                           | 12                | 172                                | 842     |
| Disbursements made by Fund (number)            | 3                                  | 8                                    | 9            | –                                  | 2                           | 17                | 6                                  | 45      |
| For the year ended June 30, 2013               |                                    |                                      |              |                                    |                             |                   |                                    |         |
| Disbursements from investors to Fund:          |                                    |                                      |              |                                    |                             |                   |                                    |         |
| From IFC                                       | 336                                | 33                                   | 63           | –                                  | 38                          | 1                 | 1                                  | 472     |
| From other investors                           | 217                                | 223                                  | 252          | 94                                 | 46                          | 2                 | 3                                  | 837     |
| Disbursements made by Fund                     | 546                                | 249                                  | 297          | 91                                 | 78                          | –                 | –                                  | 1,261   |
| Disbursements made by Fund (number)            | 7                                  | 5                                    | 12           | 4                                  | 2                           | –                 | –                                  | 30      |

## 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, 2014, IFC expanded its sustainable development impact through private sector investments and advice.*