International Finance Corporation
WORLD BANK GROUP

Management's Discussion and Analysis
and
Condensed Consolidated Financial Statements
March 31, 2016
(Unaudited)

INTERNATIONAL FINANCE CORPORATION

Management's Discussion and Analysis

March 31, 2016

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Management's Discussion and Analysis

I. INTRODUCTION

This document should be read in conjunction with the International Finance Corporation's (IFC or the Corporation) consolidated financial statements and management's discussion and analysis issued for the year ended June 30, 2015 (FY15). IFC undertakes no obligation to update any forward-looking statements.

BASIS OF PREPARATION OF IFC'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accounting and reporting policies of IFC conform to accounting principles generally accepted in the United States (GAAP). IFC's accounting policies are discussed in more detail in Note A to IFC's Condensed Consolidated Financial Statements as of and for the three and nine months ended March 31, 2016 (FY16 YTD Financial Statements).

Management uses income available for designations (Allocable Income) (a non-GAAP measure) as a basis for designations of retained earnings. Allocable Income 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.

II. SELECTED FINANCIAL DATA AND FINANCIAL RATIOS

	As of and for the nine months ended		As of and for the three months ended		As of and for the year ended
Investment Program (US$ millions)	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015	June 30, 2015
Long-Term Finance	$ 7,336	$ 6,874	$ 2,440	$ 1,825	$ 10,539
Core Mobilization	5,155	4,727	2,425	837	7,133
Total commitments (Long-Term Finance and Core Mobilization)	**$ 12,491**	**$ 11,601**	**$ 4,865**	**$ 2,662**	**$ 17,672**
Income Statement (US$ millions)					
Income before grants to IDA	$ 161	$ 191	$ (2)	$ (206)	$ 749
Grants to IDA	(330)	(340)	(330)	(340)	(340)
Net Income (loss)	**$ (169)**	**$ (149)**	**$ (332)**	**$ (546)**	**$ 409**
Add: Net losses (gains) attributable to non-controlling interests	2	29	(3)	(1)	36
Net Income (loss) attributable to IFC	**$ (167)**	**$ (120)**	**$ (335)**	**$ (547)**	**$ 445**
Income available for designations[1]	**$ 385**	**$ 955**			
Amount designated for Grants to IDA	-	-			$ 330
Financial Ratios[2]					
Deployable strategic capital (DSC) as a percentage of Total Resources Available (TRA)	6.9%	6.2%			5.4%
External funding liquidity level	614%	613%			494%
Cash and liquid investments as a percentage of next three years' estimated net cash requirements	89%	84%			81%
Debt to equity ratio	2.9:1	2.7:1			2.6:1
Return on average assets (GAAP-basis)	(0.2)%	(0.2)%			0.5%
Return on average capital (GAAP-basis)	(0.9)%	(0.7)%			1.8%

[1] Income available for designations in the nine months ended March 31, 2016 totaled $385 million ($955 million – nine months ended March 31, 2015). Based on the distribution policy approved by IFC's Board of Directors, the maximum designation would be $51 million in respect of the nine months ended March 31, 2016 ($217 million – nine months ended March 31, 2015). Actual designations in respect of the year ending June 30, 2016 will ultimately be dependent on full year financial results.

[2] Returns on average assets are annualized.

IFC's DSC as a percentage of TRA was 6.9% at March 31, 2016, as compared with 5.4% at June 30, 2015. The increase in the DSC in FY16 YTD is due to lower Total Resources Required (TRR) and higher TRA. TRR decreased primarily due to a decrease in the capital used by the Treasury portfolio. The increase in TRA was supported by strong realized capital gains on the equity portfolio offset by the $330 million designation to IDA noted with approval by the Board of Governors in the three months ended December 31, 2015 (FY16 Q2). The decline in the DSC as a percentage of TRA from December 31, 2015 (7.4%) to March 31, 2016 (6.9%) was due to the higher TRR outweighing the higher total TRA. The higher TRR is due to growth in the committed business portfolio, partially offset by lower Treasury economic usage.

IFC's debt-to-equity ratio was 2.9:1, well within the maximum of 4:1 required by policy approved by IFC's Board of Directors. The externally funded liquidity ratio was 614%, above the Board required minimum of 65% and IFC's overall liquidity as a percentage of the next three years' estimated net cash needs stood at 89%, above the minimum requirement of the Board of 45%.

III. OVERVIEW OF FINANCIAL RESULTS

IFC is the largest global development institution focused on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines its policies. IFC is a member of the World Bank Group (WBG)[3] but is a legal entity separate and distinct from IBRD, IDA, MIGA, and ICSID, with its own Articles of Agreement, share capital, financial structure, management and staff. Membership in IFC is open only to member countries of IBRD.

The WBG's two goals, to be achieved by 2030, are to end extreme poverty by reducing the percentage of people living on less than $1.90 per day to no more than 3% globally, and to promote shared prosperity in a sustainable manner by fostering income growth for the bottom 40% of the population in every developing country. In October 2015, the WBG raised its poverty line figure upwards, from $1.25 to $1.90 a day, to reflect the increase in prices worldwide based on updated purchasing-power-parity data.

IFC's overall strategy remains focused on contributing to the WBG strategy and goals.

IFC helps developing countries achieve sustainable growth by financing private sector investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments. IFC's principal investment products are loans and equity investments, with smaller debt securities and guarantee portfolios. IFC also plays an active and direct role in mobilizing additional funding from other investors and lenders through a variety of means. Such means principally comprise: loan participations, parallel loans, sales of loans, the non-IFC portion of structured finance transactions which meet core mobilization criteria, the non-IFC portion of commitments in IFC's initiatives, and the non-IFC investment portion of commitments in funds managed by IFC's wholly owned subsidiary, IFC Asset Management Company LLC (AMC), (collectively Core Mobilization). Unlike most other development institutions, IFC does not accept host government guarantees of its exposures. IFC raises virtually all of the funds for its lending activities through the issuance of debt obligations in the international capital markets, while maintaining a small borrowing window with IBRD. Equity investments are funded from capital (net worth).

IFC's capital base and its assets and liabilities, other than its equity investments, are primarily denominated in US Dollars ($ or US$) or swapped into US Dollars but it has a growing portion of debt issuances denominated in currencies other than USD and which are invested in such currencies. Overall, IFC seeks to minimize foreign exchange and interest rate risks arising from its loans and liquid assets funded by the proceeds of market borrowings by closely matching the currency and rate bases of its assets in various currencies with liabilities having the same characteristics. IFC generally manages non-equity investment related and certain lending related residual currency and interest rate risks by utilizing currency and interest rate swaps and other derivative instruments.

The Management's Discussion and Analysis contains forward looking statements which may be identified by such terms as "anticipates," "believes," "expects," "intends," "plans" or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond IFC's control. Consequently, actual future results could differ materially from those currently anticipated.

FINANCIAL PERFORMANCE SUMMARY

IFC's net income is affected by a number of factors that can result in volatile financial performance.

Global equity markets in emerging economies have been volatile in recent years and in the six months ended December 31, 2015 experienced significant deterioration. The three months ended March 31, 2016 (FY16 Q3) were characterized by a modest recovery but for the nine months ended March 31, 2016 (FY16 YTD) global equity markets overall trended lower. Additionally, there was further depreciation of certain of IFC's major investment currencies against IFC's reporting currency, the US$, particularly in the Latin America and Caribbean region in the first six months of FY16, continuing the trend experienced throughout much of FY15. FY16 Q3 saw a partial reversal of the recent trend as certain of IFC's major investment currencies appreciated against the US$. FY16 YTD also saw a continuation of lower commodities prices. Collectively, these factors negatively impacted the valuation of many of IFC's investments in FY16 YTD.

The above factors, together with some adverse project-specific developments in a small but growing number of IFC loans, particularly in the Latin America and the Caribbean region and the Middle East and North Africa region, have contributed to an increase in the credit risk of the loan portfolio. Non-performing loans decreased in FY16 Q3, primarily due to write-offs and sales of loans, but are still higher than the end of FY15.

These factors have put downward pressure on IFC's investment portfolio returns in FY16 YTD, resulting in continuing high other-than-temporary impairments on equity investments and debt securities, albeit marginally lower than in FY15 YTD, along with higher provision

[3] The other institutions of the World Bank Group are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guaranty Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

for losses on loans. Partially offsetting these negative impacts on the investment portfolio, IFC was able to realize robust capital gains on a small number of equity investments sales, concentrated in the three months ended September 30, 2015 (FY16 Q1) with five investments accounting for 65% of the realized gains in FY16YTD.

Capital markets were turbulent in FY16 Q3 with credit spreads widening significantly. By the end of FY16 Q3, however, markets had largely recovered and IFC ultimately recorded stronger liquid asset income in FY16 Q3 than in earlier quarters in FY16 although gross income from liquid assets in FY16 YTD remained lower than in the nine months ended March 31, 2015.

NINE MONTHS ENDED MARCH 31, 2016

IFC reported income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA of $110 million in FY16 YTD, as compared to $376 million in the nine months ended March 31, 2015 (FY15 YTD) reflecting the overall difficult market environment and some weaknesses in IFC's investment portfolio. The $266 million decrease in FY16 YTD when compared to FY15 YTD can be analyzed as follows:

Table 1a: 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 FY16 YTD vs FY15 YTD (US$ millions)

		Increase (decrease) FY16 YTD vs FY15 YTD
Higher provisions for losses on loans, guarantees and other receivables	$	(184)
Change in foreign currency transaction gains and losses on non-trading activities		(91)
Higher charges on borrowings		(89)
Lower income from liquid asset trading activities		(40)
Lower other-than-temporary impairments on equity investments		47
Higher gains on equity investments and associated derivatives, net		142
Other, net		(51)
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	**$**	**(266)**

Net unrealized gains on non-trading financial instruments accounted for at fair value totaled $51 million in FY16 YTD (net unrealized losses of $185 million in FY15 YTD) resulting in income before grants to IDA of $161 million in FY16 YTD, as compared to a net income of $191 million in FY15 YTD. Grants to IDA totaled $330 million in FY16 YTD ($340 million in FY15 YTD). Net losses attributable to non-controlling interests totaled $2 million in FY16 YTD ($29 million in FY15 YTD). Accordingly, net losses attributable to IFC totaled $167 million in FY16 YTD, as compared to net losses of $120 million in FY15 YTD.

THREE MONTHS ENDED MARCH 31, 2016

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 $14 million in the three months ended March 31, 2016 (FY16 Q3), as compared to a loss of $155 million in the three months ended March 31, 2015 (FY15 Q3). The $141 million decrease in loss in FY16 Q3 when compared to FY15 Q3 can be analyzed as follows:

Table 1b: 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 FY16 Q3 vs FY15 Q3 (US$ millions)

		Increase (decrease) FY16 Q3 vs FY15 Q3
Higher gains on equity investments and associated derivatives, net	$	126
Lower other-than-temporary impairments on equity investments and debt securities		61
Higher income from liquid asset trading activities		51
Higher income from loans and guarantees, including realized gains and losses on loans and associated derivatives		27
Higher charges on borrowings		(41)
Higher provisions for losses on loans, guarantees and other receivables		(47)
Change in foreign currency transaction gains and losses on non-trading activities		(59)
Other, net		23
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	**$**	**141**

Net unrealized gains on non-trading financial instruments accounted for at fair value totaled $12 million in FY16 Q3 (net unrealized losses of $51 million in FY15 Q3) resulting in loss before grants to IDA of $2 million in FY16 Q3, as compared to net loss of $206 million in FY15 Q3. Grants to IDA recorded in FY16 Q3 were $330 million ($340 million in FY15 Q3). Net gains attributable to non-controlling interests totaled $3 million in FY16 Q3 ($1 million net gain in FY15 Q3). Accordingly, net loss attributable to IFC totaled $335 million in FY16 Q3, as compared to $547 million in FY15 Q3.

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

IV. CLIENT SERVICES

BUSINESS OVERVIEW

IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments.

For all new investments, IFC articulates the expected impact on sustainable development, and, as the projects mature, IFC assesses the quality of the development benefits realized.

IFC's strategic focus areas are aligned to advance the World Bank Group's global priorities.

INVESTMENT SERVICES

IFC's investments are normally made in its developing member countries. The Articles of Agreement mandate that IFC shall invest in productive private enterprise. The requirement for private ownership does not disqualify enterprises that are partly owned by the public sector if such enterprises are organized under local commercial and corporate law, operate free of host government control in a market context and according to profitability criteria, and/or are in the process of being totally or partially privatized.

IFC provides a range of financial products and services to its clients to promote sustainable enterprises, encourage entrepreneurship, and mobilize resources that wouldn't otherwise be available. IFC's financing products are tailored to meet the needs of each project. Investment services product lines include: loans, equity investments, trade finance, loan participations, structured finance, client risk management services, and blended finance.

IFC carefully supervises its projects to monitor project performance and compliance with contractual obligations and with IFC's internal policies and procedures.

ADVISORY SERVICES

IFC's Advisory Services (AS) strengthens the capacity and development impact of firms, helps governments design and implement public-private partnership transactions (PPP), and helps governments and non-government institutions improve the enabling environment for private investment. AS extends IFC's footprint, especially in challenging markets. In these areas AS often leads the way for IFC, and is a crucial part of its growth strategy.

ASSET MANAGEMENT COMPANY

IFC Asset Management Company, LLC (AMC), a wholly-owned subsidiary of IFC, invests third-party capital and IFC capital, enabling outside investors to benefit from IFC's expertise in achieving strong equity returns, as well as positive development impact in the countries in which it invests in developing and frontier markets. Investors in funds managed by AMC include sovereign wealth funds, national pension funds, multilateral and bilateral development institutions, national development agencies and international financial institutions. AMC helps IFC mobilize additional capital resources for investment in productive private enterprise in developing countries.

At March 31, 2016, AMC managed eleven funds, with $8.7 billion total assets under management (ten funds; $8.5 billion at June 30, 2015):

Table 2: List of Funds Managed by AMC

Fund Name	Established	Description
The IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	Year ended June 30, 2009 (FY09)	Help strengthen systemically important banks in emerging markets
The Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund)	FY09	Help strengthen systemically important banks in emerging markets
The African, Latin American and Caribbean Fund, LP (ALAC Fund)	Year ended June 30, 2010 (FY10)	Invest in equity investments across a range of sectors in Sub-Saharan Africa, Latin America, and the Caribbean.
The Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	FY10	Capitalize on systemically important commercial banking institutions in northern and Sub-Saharan Africa
The Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)	Year ended June 30, 2012 (FY12)	Invest in mid-sized commercial banks in Russia that are either: (i) privately owned and controlled; or (ii) state-owned; or (iii) controlled and on a clear path to privatization
The Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	Year ended June 30, 2013 (FY13)	Make investments in selected climate- and resource efficiency-focused private equity funds in emerging markets
The Global Infrastructure Fund, LP (Global Infrastructure Fund)	FY13	Focus on making equity and equity-related investments in the infrastructure sector in global emerging markets
The China-Mexico Fund, LP (China-Mexico Fund)	FY15	Focus on making equity and equity-related investments across all sectors in Mexico

Table 2: List of Funds Managed by AMC (continued)

Fund Name	Established	Description
The Financial Institutions Growth Fund, LP (FIG Fund)	FY15	Invest in equity and equity-related investments in financial institutions in global emerging markets
The Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds)	FY15	Primarily invest in a portfolio of investment funds in global emerging markets.
The Middle East and North Africa Fund, LP (MENA Fund)	July 2015	Make equity and equity related investments in the Middle East and North Africa region

The activities of the funds managed by AMC as of and for the nine months ended March 31, 2016 and 2015 can be summarized as follows:

Table 3: Activities of the Funds Managed by AMC FY16 YTD vs FY15 YTD (US$ millions unless otherwise indicated)

	As of March 31, 2016			**For the nine months ended March 31, 2016**			
	Total assets under management			Disbursements to Fund		Disbursements made by Fund	Disbursements made by Fund (number)*
	Total	From IFC	From other investors	From IFC	From other investors		
Equity Capitalization Fund	$ 1,275	$ 775	$ 500	$ 2	$ 1	$ -	-
Sub-Debt Capitalization Fund	1,725	225	1,500	-	2	-	-
ALAC Fund	1,000	200	800	5	23	18	6
Africa Capitalization Fund	182	-	182	-	24	6	1
Russian Bank Cap Fund	550	250	300	2	2	-	-
Catalyst Funds	418	75	343	7	30	37	75
Global Infrastructure Fund**	1,430	200	1,230	22	96	99	4
China-Mexico Funds	1,200	-	1,200	-	7	-	-
FIG Fund	406	150	256	18	23	-	-
GEM Funds	406	81	325	5	19	15	8
MENA Fund	125	60	65	7	8	12	1
Total	**$ 8,717**	**$ 2,016**	**$ 6,701**	**$ 68**	**$ 235**	**$ 187**	**95**

* Number of disbursements may include multiple disbursements to a single investee company or fund.
** Includes co-investment fund managed by AMC on behalf of Fund LPs.

	As of March 31, 2015			**For the nine months ended March 31, 2015**			
	Total assets under management			Disbursements to Fund		Disbursements made by Fund	Disbursements made by Fund (number)*
	Total	From IFC	From other investors	From IFC	From other investors		
Equity Capitalization Fund	$ 1,275	$ 775	$ 500	$ 5	$ 3	$ 8	1
Sub-Debt Capitalization Fund	1,725	225	1,500	29	192	254	4
ALAC Fund	1,000	200	800	20	79	87	6
Africa Capitalization Fund	182	-	182	-	2	-	-
Russian Bank Cap Fund	550	250	300	3	4	-	-
Catalyst Funds	418	75	343	5	25	24	27
Global Infrastructure Fund**	1,430	200	1,230	13	210	209	5
China-Mexico Funds	1,200	-	1,200	-	4	-	-
FIG Fund	344	150	194	-	-	-	-
GEM Funds	-	-	-	-	-	-	-
MENA Fund	-	-	-	-	-	-	-
Total	**$ 8,124**	**$ 1,875**	**$ 6,249**	**$ 75**	**$ 519**	**$ 582**	**43**

* Number of disbursements may include multiple disbursements to a single investee company or fund.
** Includes co-investment fund managed by AMC on behalf of Fund LPs.

INVESTMENT PROGRAM

COMMITMENTS

In FY16 YTD, the Long-Term Finance program was $7,336 million, as compared to $6,874 million in FY15 YTD and Core Mobilization was $5,155 million, as compared to $4,727 million for FY15 YTD, a total increase of 8% reflecting the more favorable investing climate in FY16 YTD. In addition, the average outstanding balance for Short-Term Finance was $2,748 million at March 31, 2016, as compared to $2,837 million at June 30, 2015.

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. IFC mobilizes such private sector finance from other entities through a number of means, as outlined in the Table below.

Table 4: FY16 YTD and FY15 YTD Long-Term Finance and Core Mobilization (US$ millions)

	FY16 YTD	FY15 YTD
Total Long-Term Finance and Core Mobilization[4]	**$ 12,491**	**$ 11,601**
Long-Term Finance		
Loans	$ 5,560	$ 4,423
Equity investments	1,500	2,207
Guarantees	235	194
Client risk management	41	50
Total Long-Term Finance	**$ 7,336**	**$ 6,874**
Core Mobilization		
Loan participations, parallel loans, and other mobilization		
Loan participations	$ 2,508	$ 1,466
Parallel loans	802	1,394
Managed Co-lending Portfolio Program	491	500
Other Mobilization	479	300
Total loan participations, parallel loans and other mobilization	**$ 4,280**	**$ 3,660**
AMC		
GEM Funds	$ 64	$ -
Catalyst Funds	48	46
FIG Fund	16	-
Africa Capitalization Fund	6	-
MENA Fund	6	-
ALAC Fund	5	78
Global Infrastructure Fund	2	183
Sub-debt Capitalization Fund	-	150
Equity Capitalization Fund	-	3
Total AMC	**$ 147**	**$ 460**
Other initiatives		
Public Private Partnership	$ 728	$ 457
Global Trade Liquidity Program and Critical Commodities Finance Program	-	150
Total other initiatives	**$ 728**	**$ 607**
Total Core Mobilization	**$ 5,155**	**$ 4,727**

DISBURSEMENTS

IFC disbursed $7,216 million for its own account in FY16 YTD ($6,970 million in FY15 YTD): $5,242 million of loans ($4,900 million in FY15 YTD), $1,411 million of equity investments ($1,607 million in FY15 YTD), and $563 million of debt securities ($463 million in FY15 YTD).

INVESTMENT PORTFOLIO

The carrying value of IFC's investment portfolio was $37,294 million at March 31, 2016 ($37,578 million at June 30, 2015), comprising the loan portfolio of $21,976 million ($21,336 million at June 30, 2015), the equity portfolio of $12,425 million ($13,503 million at June 30, 2015), and the debt security portfolio of $2,893 million ($2,739 million at June 30, 2015).

The carrying value of IFC's investment portfolio comprises: (i) the disbursed investment portfolio; (ii) reserves against losses on loans; (iii) unamortized deferred loan origination fees, net and other; (iv) disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets; (v) unrealized gains and losses on equity investments held by consolidated variable interest entities; (vi) unrealized gains and losses on investments accounted for at fair value as available-for-sale; and (vii) unrealized gains and losses on investments.

[4] Debt security commitments are included in loans and equity investments based on their predominant characteristics.

GUARANTEES AND PARTIAL CREDIT GUARANTEES

IFC offers partial credit guarantees to clients covering, on a risk-sharing basis, client obligations on bonds and/or loans. IFC's guarantee is available for debt instruments and trade obligations of clients and covers commercial as well as noncommercial risks. IFC will provide local currency guarantees, but when a guarantee is called, the client will generally be obligated to reimburse IFC in US dollar terms. Guarantee fees are consistent with IFC's loan pricing policies.

Guarantees of $3,385 million were outstanding (i.e., not called) at March 31, 2016 ($3,168 million at June 30, 2015).

V. LIQUID ASSETS

All liquid assets are managed according to an investment authority approved by the Board of Directors and liquid asset investment guidelines approved by IFC's Corporate Risk Committee, a subcommittee of IFC's Management Team.

IFC funds its liquid assets from two sources, borrowings from market (funded liquidity) and capital (net worth). Liquid assets are managed in a number of portfolios related to these sources.

IFC invests its liquid assets generally in highly rated fixed and floating rate instruments issued by, or unconditionally guaranteed by, governments, government agencies and instrumentalities, multilateral organizations, and high quality corporate issuers; these include asset-backed securities and mortgage-backed securities, time deposits, and other unconditional obligations of banks and financial institutions. Diversification across multiple dimensions ensures a favorable risk return profile. IFC has a flexible approach to managing the liquid assets portfolios by making investments on an aggregate portfolio basis against its benchmarks within specified risk parameters. In implementing these portfolio management strategies, IFC utilizes derivative instruments, principally currency and interest rate swaps and futures and options, and takes positions in various industry sectors and countries.

IFC's liquid assets are accounted for as trading portfolios. The net asset value of the liquid assets portfolio was $43.0 billion at March 31, 2016 ($39.5 billion at June 30, 2015). The increase in FY16 YTD was principally due to additions to the portfolio from the investment of the net proceeds of market borrowings, plus returns made on the investment portfolio partially offset by reductions due to investment disbursements.

FUNDED LIQUIDITY

The primary funding source for liquid assets for IFC is borrowings from market sources. Proceeds of borrowings from market sources not immediately disbursed for loans and loan-like debt securities (Funded Liquidity) are managed internally against money market benchmarks. A small portion of Funded Liquidity is managed by third parties with the same benchmark as that managed internally.

MANAGED NET WORTH

The second funding source of liquid assets is that portion of IFC's net worth not invested in equity and equity-like investments (Managed Net Worth) which is managed against a U.S. Treasury benchmark. A portion of these assets is managed by third parties with the same benchmark as that part managed internally.

For FY16 YTD, Income from liquid assets trading activities[5] from Funded Liquidity was $265 million and from Managed Net Worth totaled $44 million.

VI. FUNDING RESOURCES

BORROWINGS

The major source of IFC's borrowings is the international capital markets. Under the Articles of Agreement, IFC may borrow in the public markets of a member country only with approvals from that member, together with the member in whose currency the borrowing is denominated.

IFC's new medium and long-term borrowings (after the effect of borrowing-related derivatives) totaled $11.0 billion during FY16 YTD ($12.7 billion, including $1.2 billion from IDA, in FY15 YTD).

IFC is increasingly using its borrowings issuances as a tool to promote capital markets development in emerging and frontier markets. Proceeds of these issuances not disbursed into loans have primarily been invested in securities of the related sovereign and sovereign instrumentalities in the currency of the issuances. As a result, borrowings from market sources at March 31, 2016 that have not been swapped amounted to 4% of the total borrowings from market sources (6% at June 30, 2015 and 5% at June 30, 2014).

Market borrowings are generally swapped into floating-rate obligations denominated in US dollars. IFC's mandate to help develop domestic capital markets can result in raising local currency funds. As of March 31, 2016, $2.3 billion of non-US$ denominated market borrowings were outstanding, denominated in Armenian drams, Chinese renminbi, Costa Rican colones, Dominican pesos, Georgian lari, Indian rupees, Namibia dollar, Nigerian naira, Russian rubles and Rwandan francs and Zambian kwachas. Proceeds of these borrowings were invested in corresponding local currencies, on lent to clients and/or partially swapped into US dollars.

[5] Reported gross of borrowing costs and excluding foreign exchange gains and losses on local currency Funded Liquidity which are reported separately from income from liquid assets trading activities in foreign currency gains and losses on non-trading activities and the effects of internal trades related to foregone swapping of market borrowings and Funded Liquidity in certain currencies.

CAPITAL AND RETAINED EARNINGS

As of March 31, 2016, IFC's authorized capital was $2.58 billion ($2.58 billion - June 30, 2015), of which $2.57 billion was subscribed and paid in at March 31, 2016 ($2.57 billion at June 30, 2015).

Table 5: IFC's Capital (US$ millions)

	March 31, 2016	June 30, 2015
Capital		
Capital stock, subscribed and paid-in	$ 2,566	$ 2,566
Accumulated other comprehensive income	215	1,197
Retained earnings	20,474	20,641
Total IFC capital	**$ 23,255**	**$ 24,404**
Non-controlling interests	21	22
Total capital	**$ 23,276**	**$ 24,426**

At March 31, 2016 and June 30, 2015, retained earnings comprised the following:

Table 6: IFC's Retained Earnings (US$ millions)

	March 31, 2016	June 30, 2015
Undesignated retained earnings	**$ 20,316**	**$ 20,457**
Designated retained earnings:		
Advisory services	119	137
Performance-based grants	14	16
IFC SME Ventures for IDA countries and Global Infrastructure Project Development Fund	25	31
Total designated retained earnings	**$ 158**	**$ 184**
Total retained earnings	**$ 20,474**	**$ 20,641**

SELECTIVE CAPITAL INCREASE (SCI)

On July 20, 2010, the IFC Board of Directors recommended that the IFC Board of Governors approve an increase of $130 million in the authorized share capital of IFC to $2,580 million, through the issuance of $200 million in shares (including $70 million in unallocated shares). The Board of Directors also recommended that the Board of Governors approve an increase in Basic Votes aimed at enhancing the voice and participation of developing and transition countries which required an amendment to IFC's Articles of Agreement.

The resolution recommended by the Board of Directors was adopted by the Board of Governors on March 9, 2012 (IFC Resolution no. 256 entitled "Amendment to the Articles of Agreement and 2010 Selective Capital Increase"). The amendment to the Articles of Agreement and the increase in the authorized share capital became effective on June 27, 2012. As of the same date, eligible members were authorized to subscribe to their allocated IFC shares.

As of June 30, 2015, IFC had received payments with respect to the SCI totaling $194.303 million and the balance of $5.697 million has become part of IFC's authorized and unallocated capital stock.

DESIGNATIONS OF RETAINED EARNINGS

Amounts available to be designated are determined based on a Board of Directors-approved income-based formula and, beginning in the year ended June 30, 2008, on a principles-based Board of Directors-approved financial distribution policy, and are approved by the Board of Directors.

IFC recognizes designations of retained earnings for advisory services when the Board of Directors approves it and recognizes designation of retained earnings for grants to IDA when it is noted with approval by the Board of Governors. Expenditures for the various approved designations are recorded as expenses in IFC's condensed consolidated income statement in the year in which they occur, and have the effect of reducing retained earnings designated for this specific purpose.

On August 6, 2015, the Board of Directors approved a designation of $330 million of IFC's retained earnings for grants to IDA and a designation of $14 million of IFC's retained earnings for Advisory Services. These designations were noted with approval by the Board of Governors on October 9, 2015.

On January 15, 2016 IFC recognized grants to IDA of $330 million on the signing of a grant agreement between IDA and IFC concerning the transfer to IDA and use of funds corresponding to the designation of retained earnings for grants to IDA approved by IFC's Board of Directors on August 6, 2015 and noted with approval by IFC's Board of Governors on October 9, 2015. Grants to IDA recorded in FY16 YTD totaled $330 million and $340 million in FY15 YTD.

Income available for designations in FY16 YTD (a non-GAAP measure)[6] totaled $385 million. Based on the distribution policy approved by IFC's Board of Directors the maximum amount available for designation would be $51 million - actual designations in respect of the year-ending June 30, 2016 will ultimately be dependent on the full year financial results.

VII. RESULTS OF OPERATIONS

OVERVIEW

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:

Table 7: Main Elements of Net Income and Comprehensive Income

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:	
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.

The following paragraphs detail significant variances between FY16 YTD and FY15 YTD, covering the periods included in IFC's FY16 YTD Condensed Consolidated Financial Statements. Certain amounts in FY15 YTD have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total assets.

[6] 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.

NET INCOME

IFC 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 $110 million in FY16 YTD, as compared to $376 million in FY15 YTD.

Table 8: Change in Net Income FY16 YTD vs FY15 YTD (US$ millions)

	Increase (decrease) FY16 YTD vs FY15 YTD	
Higher provisions for losses on loans, guarantees and other receivables	$	(184)
Change in foreign currency transaction gains and losses on non-trading activities		(91)
Higher charges on borrowings		(89)
Lower income from liquid asset trading activities		(40)
Lower other-than-temporary impairments on equity investments and debt securities		47
Higher gains on equity investments and associated derivatives, net		142
Other, net		(51)
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	**$**	**(266)**

		FY16 YTD		FY15 YTD
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	**$**	**110**	**$**	**376**
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value		51		(185)
Income before grants to IDA		**161**		**191**
Grants to IDA		(330)		(340)
Net loss		**(169)**		**(149)**
Net losses attributable to non-controlling interests		2		29
Net loss attributable to IFC	**$**	**(167)**	**$**	**(120)**

A more detailed analysis of the components of IFC's net income follows.

INCOME FROM LOANS AND GUARANTEES, INCLUDING REALIZED GAINS AND LOSSES ON LOANS AND ASSOCIATED DERIVATIVES

IFC's primary interest earning asset is its loan portfolio. Income from loans and guarantees, including realized gains and losses on loans and associated derivatives for FY16 YTD totaled $830 million, compared with $829 million in FY15 YTD, an increase of $1 million.

The disbursed loan portfolio increased $808 million from $23,252 million at June 30, 2015 to $24,060 million at March 31, 2016.

The increase in the loan portfolio due to new disbursements exceeding repayments ($1,190 million in FY16 YTD) was partially offset by the reduction in loans outstanding due to currency exchange rate fluctuations ($200 million in FY16 YTD) as IFC's reporting currency, the US Dollar appreciated against most of IFC's lending currencies in FY16 YTD notwithstanding the depreciation of the US Dollar against most of IFC's lending currencies in FY16 Q3.

The weighted average contractual interest rate on loans at March 31, 2016 was 5.1% (4.9% as of June 30, 2015), up from 4.7% at March 31, 2015.

Table 9: FY16 YTD Change in Income from Loans and guarantees, including realized gains and losses on loans and associated derivatives (US$ millions)

Income from loans and guarantees, including realized gains and losses on loans and associated derivatives in FY15 YTD	**$**	**829**
Increase due to increase in the loan portfolio and interest rate environment		58
Increase due to higher income from participation notes and other income		5
Decrease due to lower recoveries of interest on non-accruing loans, net		(28)
Decrease due to lower realized gains on loans, guarantees and associated derivatives		(21)
Decrease due to lower commitment and financial fees		(13)
Change in Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	**$**	1
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives in FY16 YTD	**$**	**830**

INCOME FROM EQUITY INVESTMENTS AND ASSOCIATED DERIVATIVES

Income from the equity investment portfolio, including associated derivatives, increased by $190 million from $96 million in FY15 YTD to $286 million in FY16 YTD.

IFC sells equity investments where IFC's developmental role was complete, where pre-determined sales trigger levels had been met and, where applicable, lock ups have expired. Gains on equity investments and associated derivatives comprise realized and unrealized gains.

IFC recognized realized gains on equity investments and associated derivatives in the form of cash and non-monetary considerations for FY16 YTD of $951 million, as compared with $1,111 million for FY15 YTD, a decrease of $160 million. Realized gains on equity investments and associated derivatives are concentrated in a small number of investments. In FY16 YTD, there were nine investments that generated individual capital gains in excess of $20 million for a total of $710 million, or 75%, of the FY16 YTD realized gains, compared to nine investments that generated individual capital gains in excess of $20 million for a total of $815 million, or 73%, of the FY15 YTD realized gains.

Dividend income in FY16 YTD totaled $163 million, as compared with $165 million in FY15 YTD. Dividend income in FY16 YTD included returns from two unincorporated joint venture (UJVs) in the oil, gas and mining sectors accounted for under the cost recovery method, which totaled $9 million, as compared with $17 million from four such UJVs in FY15 YTD.

Other-than-temporary impairments on equity investments totaled $600 million in FY16 YTD, as compared with $647 million in FY15 YTD, driven by the continued economic downturn across key emerging markets, foreign exchange deterioration, and the continuing low commodity prices. The largest amount of write-downs in FY16 YTD were from the Latin America and the Caribbean region, accounting for 23% of the total write-downs, followed by Middle East and North Africa (20%) and East Asia and the Pacific (19%). There were also fifteen individual equity write-downs in FY16 YTD greater than $10 million across all regions.

Net unrealized losses on equity investments and associated derivatives totaled $234 million (net unrealized losses of $536 million in FY15 YTD), reflecting a generally deteriorating macro environment in emerging market equities which has negatively impacted the value of many of IFC's equity investments accounted for at fair value in net income.

INCOME FROM DEBT SECURITIES AND REALIZED GAINS AND LOSSES ON DEBT SECURITIES AND ASSOCIATED DERIVATIVES

Income from debt securities and realized gains and losses on debt securities and associated derivatives decreased to $96 million in FY16 YTD from $99 million in FY15 YTD, a decrease of $3 million. The largest changes were higher interest income ($8 million) and lower realized gains on debt securities and associated derivatives ($10 million) in FY16 YTD when compared with FY15 YTD.

PROVISION FOR LOSSES ON LOANS, GUARANTEES AND OTHER RECEIVABLES

The quality of the loan portfolio, as measured by average country risk ratings and average credit risk ratings, deteriorated in FY16 YTD. Non-performing loans (NPLs) increased by $191 million, from $1,578 million of the disbursed loan portfolio at June 30, 2015 to $1,769 million* at March 31, 2016. The increase of $191 million comprised $521 million of loans and loan-like debt securities being placed in NPL status, $287 million being removed from NPL status and a $43 million reduction due to repayments and currency translation adjustments. In FY16 YTD, 17 loans greater than $10 million, and totaling $458 million, were placed in NPL status. Loans being removed from NPL status were concentrated in FY16 Q3 with six loans totaling $224 million being removed from NPL status due to write-off ($63 million), sale ($140 million) and repayment ($21 million).

IFC recorded a net provision for losses on loans, guarantees and other receivables of $320 million in FY16 YTD ($260 million of specific provisions on loans; $59 million of portfolio provisions on loans; less than $0.5 million provision on guarantees; and $1 million provision on other receivables) as compared to a provision of $136 million in FY15 YTD ($163 million of specific provisions for losses on loans; $23 million release of portfolio provisions for losses on loans; and net $4 million of release of provision for losses on guarantees and other receivables). Project-specific developments on four loans comprised $122 million of the specific provision for losses on loans in FY16 YTD.

At March 31, 2016, IFC's total reserves against losses on loans were $1,904 million or 7.9% of the disbursed loan portfolio ($1,743 million; 7.5% at June 30, 2015), an increase of $161 million from June 30, 2015. The increase in reserves against losses on loans due to provisions of $319 million has been partially offset by foreign exchange gains related to reserves held against non-U.S. Dollar-denominated loans and the strengthening of the U.S. Dollar against many of IFC's lending currencies of $16 million and write-offs, net of recoveries, and other adjustments of $142 million.

Specific reserves against losses on loans at March 31, 2016 of $1,069 million ($962 million at June 30, 2015) are held against impaired loans of $1,712 million ($1,722 million at June 30, 2015), a coverage ratio of 62% (56% at June 30, 2015).

INCOME FROM LIQUID ASSET TRADING ACTIVITIES

The liquid assets portfolio, net of derivatives and securities lending activities, increased by $3.5 billion from $39.5 billion at June 30, 2015, to $43.0 billion at March 31, 2016. Gross income from liquid asset trading activities totaled $309 million in FY16 YTD compared to $349 million in FY15 YTD, a decrease of $40 million.

Interest income in FY16 YTD totaled $414 million, compared to $458 million in FY15 YTD. In addition, the portfolio of ABS and MBS experienced fair value losses totaling $83 million in FY16 YTD. Holdings in other products, including US Treasuries, global government bonds, high quality corporate bonds and derivatives generated $22 million of losses in FY16 YTD, a total loss of $105 million (realized and unrealized). This compares to a total loss of $109 million in FY15 YTD.

* Includes $74 million reported as debt securities on the Balance Sheet as of March 31, 2016 ($44 million - June 30, 2015).

In FY16 Q3, the liquid assets portfolios outperformed their benchmarks by $35 million. The capital markets were highly turbulent during FY16 Q3 with equity markets dropping and credit spreads widening dramatically. By the end of the quarter, however, markets had largely recovered. The net-of-benchmark returns on liquid assets over the period reflected the environment. More generally in FY16 YTD, the performance of IFCs liquid asset portfolios has been hindered by (i) an increase in risk aversion that has resulted in wider credit spreads for many of IFC's securitized assets and (ii) narrowing U.S. Treasury swap spreads.

The absolute return on liquid assets in FY16 Q3 benefited from a relatively dovish Federal Reserve and easing by the European Central Bank and Bank of Japan, which supported a rally in U.S. Treasury yields that contributed to the performance of the net worth portion of liquid assets. The rise in short-term U.S. Treasury yields has contributed to an increase in the performance of the net worth portion of liquid assets due to reinvestment at higher yields. The increase was neither great enough nor rapid enough to generate significant capital losses on the U.S. Treasuries held in this portfolio. Similarly, the absolute level of income accruing to the funded liquidity portion of liquid assets has risen compared to FY15 YTD due to the increase in LIBOR rates. Note that this is offset by a corresponding increase in IFC's funding cost.

The liquid assets portfolios outperformed their benchmarks by $59 million in FY16 YTD, of which more than half was earned in FY16 Q3 due to the quarter over quarter stability of credit spreads as compared to the widening observed in the first half of the year.

At March 31, 2016, trading securities with a fair value of $58 million are classified as Level 3 securities ($86 million on June 30, 2015).

CHARGES ON BORROWINGS

IFC's charges on borrowings increased by $89 million, from $188 million in FY15 YTD (net of $1 million gain on extinguishment of borrowings) to $277 million in FY16 YTD (net of $5 million gain on extinguishment of borrowings), largely attributable to rising LIBOR rates and increased interest charges on the back of pricing in the SSA (Sovereigns, Supranational and Agency) market becoming more expensive due to USD swap curve tightening and widening borrowing spreads vs. LIBOR and an increase in borrowings outstanding.

OTHER INCOME

Other income of $333 million for FY16 YTD was $21 million lower than in FY15 YTD ($354 million). There were lower returns on the Post Employment Benefit Plan (PEBP) assets which are partly invested in global equities and reflected the challenging market for equity investments in FY16 YTD as compared to the same period in FY15. The decline in service fees was due to decreases in FY16 YTD evaluation fees, supervision fees, and other project related fees, partially offset by an increase in mobilization fees when compared with FY15 YTD activities.

Other income also includes management and other fees from IFC's consolidated subsidiary, AMC, of $48 million ($43 million in FY15 YTD) and income from Advisory Services of $177 million ($172 million in FY15 YTD).

OTHER EXPENSES

Administrative expenses (the principal component of other expenses) increased by $37 million from $699 million in FY15 YTD to $736 million in FY16 YTD. Administrative expenses includes the grossing-up effect of certain revenues and expenses attributable to IFC's reimbursable program and expenses incurred in relation to workout situations ($17 million in FY16 YTD, as compared with $19 million FY15 YTD). The increase in FY16 YTD is due to marginally higher salary and benefit costs, the largest component of administrative expenses, and higher variable expenses, primarily consultants and travel.

IFC recorded expenses from the Staff Retirement Plan (SRP), the Retired Staff Benefits Plan (RSPB), and the PEBP in FY16 YTD of $139 million, a decrease of $9 million from $148 million in FY15 YTD generally reflecting lower service cost and lower amortization of unrecognized net loss, net of higher interest cost.

Advisory services expenses totaled $201 million in FY16 YTD, unchanged from FY15 YTD.

FOREIGN CURRENCY TRANSACTION GAINS AND LOSSES ON NON-TRADING ACTIVITIES

Foreign currency transaction losses reported in net income in FY16 YTD totaled $42 million (gains of $49 million - FY15 YTD). Foreign currency transaction losses on debt securities accounted for as available-for-sale in the amount of $43 million in FY16 YTD (losses of $115 million – FY15 YTD) are reported in Other Comprehensive Income, while gains and losses on the derivatives economically hedging such debt securities are reported in net income.

Largely due to IFC having a small population of unhedged non-U.S. Dollar-denominated loans and debt securities and the U.S. Dollar strengthening against such currencies, IFC has recorded overall foreign exchange related losses in a combination of Net Income and Other Comprehensive Income of $85 million in FY16 YTD (losses of $66 million – FY15 YTD).

NET UNREALIZED GAINS AND LOSSES ON NON-TRADING FINANCIAL INSTRUMENTS

IFC accounts for certain financial instruments at fair value with unrealized gains and losses on such financial instruments being reported in net income, namely: (i) all market borrowings that are economically hedged with financial instruments that are accounted for at fair value with changes therein reported in net income; (ii) unrealized gains and losses on certain loans, debt securities and associated derivatives; and (iii) borrowings from IDA.

Table 10: Net Unrealized Gains and Losses on Non-Trading Financial Instruments FY16 YTD vs FY15 YTD (US$ millions)

	FY16 YTD	FY15 YTD
Unrealized gains and losses on loans, debt securities and associated derivatives	**$ (104)**	$ (95)
Unrealized gains and losses on borrowings from market, IDA and associated derivatives, net	**155**	(90)
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	**$ 51**	**$ (185)**

Changes in the fair value of IFC's borrowings from market, IDA and associated derivatives, net, includes the impact of changes in IFC's own credit spread when measured against US$ LIBOR. As credit spreads widen, unrealized gains are recorded and when credit spreads narrow, unrealized losses are recorded (notwithstanding the impact of other factors, such as changes in risk-free interest and foreign currency exchange rates). The magnitude and direction (gain or loss) can be volatile from period to period but do not alter the cash flows. IFC's policy is to generally match currency, amount and timing of cash flows on market borrowings with cash flows on associated derivatives entered into contemporaneously.

In FY16 Q3, the trend of the first half of the fiscal year to higher after swap borrowing costs continued, coupled with an increase in volatility in credit markets. Additionally, at the end of FY16 Q3, the cost of economically hedging borrowings in US dollars, Australian dollars, New Zealand dollars and Japanese yen was more expensive across all maturities with respect to benchmarks as compared to the end of FY15. In FY16 YTD, higher market interest rates and a widening of the credit spreads for IFC borrowing issuances resulted in unrealized gains from the valuation of IFC's market borrowings that were only partially offset by losses on related hedging swaps. Widening credit spreads produced after swap valuation gains as borrowing liabilities were discounted relatively more than swap receivables. IFC reported $155 million, net, of unrealized gains on borrowings and associated derivatives in FY16 YTD ($90 million, net, of unrealized losses in FY15 YTD).

IFC reported net unrealized losses on loans, debt securities and associated derivatives of $104 million in FY16 YTD (net unrealized losses of $95 million in FY15 YTD). In FY16 YTD this comprised unrealized losses of $40 million on the loan and debt securities portfolio carried at fair value, unrealized gains of $6 million on client risk management swaps, and unrealized losses of $70 million on other derivatives, mainly conversion features, warrants in investment contracts and interest rate and currency swaps hedging the fixed rate and/or non-US$ loan portfolio and funding local currency lending pools. Currency swap losses were mainly in instruments denominated in Brazilian real, euros and Indian rupees reflecting declines in local interest rates and supply and demand in forward foreign exchange markets.

GRANTS TO IDA

Grants to IDA recorded in FY16 Q3 were $330 million ($340 million in FY15 YTD).

On January 15, 2016, IFC recognized grants to IDA of $330 million upon the signing of a grant agreement between IDA and IFC concerning the transfer to IDA and use of funds corresponding to the designation of retained earnings for grants to IDA approved by IFC's Board of Directors on August 6, 2015 and noted with approval by IFC's Board of Governors on October 9, 2015.

OTHER COMPREHENSIVE INCOME (OCI)

UNREALIZED GAINS AND LOSSES ON EQUITY INVESTMENTS AND DEBT SECURITIES

IFC's investments in debt securities and equity investments that are listed in markets that provide readily determinable fair values are classified as available-for-sale, with unrealized gains and losses on these investments being reported in OCI until realized. When realized, the gain or loss is transferred to net income. Changes in unrealized gains and losses on equity investments and debt securities reported in OCI are significantly impacted by (i) the global environment for emerging markets; and (ii) the realization of gains on sales of such equity investments and debt securities.

Table 11: Change in Other Comprehensive Income (Loss) - Unrealized Gains and Losses on Equity Investments and Debt Securities FY16 YTD vs FY15 YTD (US$ millions)

	FY16 YTD	FY15 YTD
Net unrealized gains and losses on equity investments arising during the period:		
Unrealized gains	$ 123	$ 914
Unrealized losses	(813)	(853)
Reclassification adjustment for realized gains and other-than-temporary impairments included in net income	(279)	(346)
Net unrealized gains and losses on equity investments	**$ (969)**	**$ (285)**
Net unrealized gains and losses on debt securities arising during the period:		
Unrealized gains	$ 86	$ 86
Unrealized losses	(118)	(209)
Reclassification adjustment for realized gains, non-credit related portion of impairments which were recognized in net income and other-than-temporary included in net income	(6)	(11)
Net unrealized gains and losses on debt securities	**$ (38)**	**$ (134)**
Total unrealized gains and losses on equity investments and debt securities	**$ (1,007)**	**$ (419)**

Net unrealized losses on equity investments arising in FY16 YTD totaled $969 million, mainly due to decreases in equity fair values reflecting the volatile and overall significantly negative market conditions (equity, commodities and FX) in FY16 YTD. Unrealized losses of $976 million were reported in FY16 Q1, unrealized gains of $24 million in FY16 Q2 and unrealized losses of $55 million in FY16Q3, reflecting the significantly weaker emerging markets environment that existed in FY16 Q1 when compared to FY16 Q2 and FY16 Q3 and larger realizations of gains on equity investments accounted for as available for sale early in FY16 Q1.

VIII. SENIOR MANAGEMENT CHANGES SINCE JULY 1, 2015

The following changes became effective July 1, 2015:

Nena Stoiljkovic assumed the role of Vice President, Global Client Services. Jean Philippe Prosper left the position of Vice President, Global Client Services and became an Adviser to IFC's Executive Vice President and CEO. Karin Finkelston left the position of Vice President, Global Partnerships to become Vice President and Chief Operating Officer of MIGA. Saran Kebet-Koulibaly assumed the role of Vice President, Corporate Risk and Sustainability. The units that previously reported to the Co-Vice Presidents, Global Partnerships, were realigned with synergistic functional areas in IFC.

James Scriven, Vice President, Corporate Risk and Sustainability on June 30, 2015 left IFC effective October 31, 2015.

Jin-Yong Cai left IFC effective January 8, 2016. IFC appointed Philippe Le Houérou Executive Vice President and CEO effective March 1, 2016. Ethiopis Tafara, IFC's Vice President and General Counsel was the acting Executive Vice President and CEO until Mr. Le Houérou's appointment became effective.

The following is a list of the principal officers of IFC as of March 31, 2016.

President	Dr. Jim Yong Kim
Executive Vice President and CEO	Philippe Le Houérou
Vice President, Global Client Services	Dimitris Tsitsiragos
Vice President, Global Client Services	Nena Stoiljkovic
Vice President, Corporate Risk & Sustainability and General Counsel	Ethiopis Tafara
Vice President, Corporate Risk & Sustainability	Saran Kebet-Koulibaly
Vice President, Treasury and Syndications	Jingdong Hua
Vice President, CEO, IFC Asset Management Company LLC (a wholly-owned subsidiary of IFC)	Gavin E.R. Wilson

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2016

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CONDENSED CONSOLIDATED BALANCE SHEETS

as of March 31, 2016 (unaudited) and June 30, 2015 (unaudited)
(US$ millions)

	March 31	June 30
Assets		
Cash and due from banks	$ 1,495	$ 1,509
Time deposits	13,794	7,509
Trading securities - Note K	31,243	34,731
Securities purchased under resale agreements and receivable for cash collateral pledged - Note P	1,024	68
Investments - Notes B, D, E, F, G, K and M		
Loans ($866 at March 31, 2016, $784 at June 30, 2015 at fair value; net of reserve against losses of $1,904 at March 31, 2016, $1,743 at June 30, 2015) - Notes D, E, K, and M	21,976	21,336
Equity investments ($9,193 at March 31, 2016, $10,253 at June 30, 2015 at fair value) - Notes B, D, G, K, and M	12,425	13,503
Debt securities - Notes D, F, K, and M	2,893	2,739
Total investments	37,294	37,578
Derivative assets - Notes J, K and P	3,474	3,255
Receivables and other assets	2,799	2,898
Total assets	**$ 91,123**	**$ 87,548**
Liabilities and capital		
Liabilities		
Securities sold under repurchase agreements and payable for cash collateral received - Note P	$ 3,388	$ 4,695
Borrowings outstanding - Note K		
From market and other sources at amortized cost	2,268	1,587
From market sources at fair value	53,310	48,329
From International Development Association at fair value	1,085	1,136
From International Bank for Reconstruction and Development at amortized cost	209	213
Total borrowings	56,872	51,265
Derivative liabilities - Notes J, K and P	4,142	4,225
Payables and other liabilities	3,445	2,937
Total liabilities	**67,847**	**63,122**
Capital		
Capital stock, authorized (2,580,000 at March 31, 2016 and June 30, 2015) shares of $1,000 par value each		
Subscribed and paid-in	2,566	2,566
Accumulated other comprehensive income - Note H	215	1,197
Retained earnings - Note H	20,474	20,641
Total IFC capital	23,255	24,404
Non-controlling interests	21	22
Total capital	23,276	24,426
Total liabilities and capital	**$ 91,123**	**$ 87,548**

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

for each of the three and nine months ended March 31, 2016 (unaudited) and March 31, 2015 (unaudited)
(US$ millions)

	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Income from investments				
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives - Note E	$ 285	$ 258	$ 830	$ 829
Provision for losses on loans, guarantees and other receivables - Note E	(125)	(78)	(320)	(136)
Income (loss) from equity investments and associated derivatives - Note G	20	(180)	286	96
Income from debt securities, including realized gains and losses on debt securities and associated derivatives - Note F	27	9	96	99
Total income from investments	**207**	**9**	**892**	**888**
Income from liquid asset trading activities - Note C	196	145	309	349
Charges on borrowings	(111)	(70)	(277)	(188)
Income from investments and liquid asset trading activities, after charges on borrowings	**292**	**84**	**924**	**1,049**
Other income				
Advisory services income	68	60	177	172
Service fees	24	21	74	92
Other - Note B	30	35	82	90
Total other income	**122**	**116**	**333**	**354**
Other expenses				
Administrative expenses	(245)	(234)	(736)	(699)
Advisory services expenses	(73)	(67)	(201)	(201)
Expense from pension and other postretirement benefit plans - Note O	(47)	(49)	(139)	(148)
Other - Note B	(9)	(10)	(29)	(28)
Total other expenses	**(374)**	**(360)**	**(1,105)**	**(1,076)**
Foreign currency transaction gains (losses) on non-trading activities	(54)	5	(42)	49
Income (loss) before net unrealized gains and losses on non-trading Financial instruments accounted for at fair value, grants to IDA and net losses attributable to non-controlling interests	**(14)**	**(155)**	**110**	**376**
Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value - Note I	12	(51)	51	(185)
Income (loss) before grants to IDA	**(2)**	**(206)**	**161**	**191**
Grants to IDA - Note H	(330)	(340)	(330)	(340)
Net loss	**(332)**	**(546)**	**(169)**	**(149)**
Net (gains) losses attributable to non-controlling interests	(3)	(1)	2	29
Net loss attributable to IFC	**$ (335)**	**$ (547)**	**$ (167)**	**$ (120)**

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

for each of the three and nine months ended March 31, 2016 (unaudited) and March 31, 2015 (unaudited)
(US$ millions)

	Three months ended March 31,		Nine months ended March 31,	
	2016	**2015**	**2016**	**2015**
Net loss attributable to IFC	**$ (335)**	**$ (547)**	**$ (167)**	**$ (120)**
Other comprehensive income (loss)				
Unrealized gains and losses on debt securities				
Net unrealized gains (losses) on available-for-sale debt securities arising during the period	72	(58)	(32)	(123)
Reclassification adjustment for realized gains included in net income (income from debt securities and realized gains and losses on debt securities and associated derivatives)	(5)	(1)	(35)	(40)
Reclassification adjustment for other-than-temporary impairments included in net income (income from debt securities and realized gains and losses on debt securities and associated derivatives)	3	20	29	29
Net unrealized gains (losses) on debt securities	**70**	**(39)**	**(38)**	**(134)**
Unrealized gains and losses on equity investments				
Net unrealized gains (losses) on equity investments arising during the period	(147)	-	(690)	61
Reclassification adjustment for realized gains included in net income (income from equity investments and associated derivatives)	(63)	(104)	(561)	(702)
Reclassification adjustment for other-than-temporary impairments included in net income (income from equity investments and associated derivatives)	85	104	282	356
Net unrealized gains (losses) on equity investments	**(125)**	**-**	**(969)**	**(285)**
Net unrecognized net actuarial losses and unrecognized prior service credits on benefit plans - Note O	**8**	**11**	**25**	**34**
Total other comprehensive loss	**(47)**	**(28)**	**(982)**	**(385)**
Total comprehensive loss attributable to IFC	**$ (382)**	**$ (575)**	**$ (1,149)**	**$ (505)**

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

for each of the nine months ended March 31, 2016 (unaudited) and March 31, 2015 (unaudited)
(US$ millions)

	Attributable to IFC							
	Undesignated retained earnings	Designated retained Earnings	**Total retained earnings**	Accumulated other comprehensive income (loss) - Note H	Capital stock	**Total IFC capital**	Non-controlling interests	**Total capital**
At June 30, 2014	**$ 20,002**	**$ 194**	**$ 20,196**	**$ 1,239**	**$ 2,502**	**$ 23,937**	**$ 53**	**$ 23,990**
Nine months ended March 31, 2015								
Net loss attributable to IFC	(120)		(120)			(120)		(120)
Other comprehensive loss				(385)		(385)		(385)
Payments received for IFC capital stock Subscribed					4	4		4
Designations of retained earnings - Note H	(398)	398	-			-		-
Expenditures against designated retained earnings - Note H	382	(382)	-			-		-
Non-controlling interests issued			-			-	4	4
Net losses attributable to non-controlling interests			-			-	(29)	(29)
At March 31, 2015	**$ 19,866**	**$ 210**	**$ 20,076**	**$ 854**	**$ 2,506**	**$ 23,436**	**$ 28**	**$ 23,464**
At June 30, 2015	**$ 20,457**	**$ 184**	**$ 20,641**	**$ 1,197**	**$ 2,566**	**$ 24,404**	**$ 22**	**$ 24,426**
Nine months ended March 31, 2016								
Net loss attributable to IFC	(167)		(167)			(167)		(167)
Other comprehensive loss				(982)		(982)		(982)
Payments received for IFC capital stock Subscribed					-	-		-
Designations of retained earnings - Note H	(344)	344	-			-		-
Expenditures against designated retained earnings - Note H	370	(370)	-			-		-
Non-controlling interests issued			-			-	1	1
Net losses attributable to non-controlling interests			-			-	(2)	(2)
At March 31, 2016	**$ 20,316**	**$ 158**	**$ 20,474**	**$ 215**	**$ 2,566**	**$ 23,255**	**$ 21**	**$ 23,276**

The notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for each of the nine months ended March 31, 2016 (unaudited) and March 31, 2015 (unaudited)
(US$ millions)

	2016	2015
Cash flows from investing activities		
Loan disbursements	$ (5,242)	$ (4,900)
Investments in equity securities	(1,411)	(1,607)
Investments in debt securities	(563)	(463)
Loan repayments	4,052	4,555
Debt securities repayments	183	157
Proceeds from sales of equity investments	1,611	2,000
Proceeds from sales of debt securities	130	107
Net cash used in investing activities	**(1,240)**	**(151)**
Cash flows from financing activities		
Medium and long-term borrowings		
Issuance	12,053	13,241
Retirement	(6,641)	(5,971)
Medium and long-term borrowings related derivatives, net	(1,032)	(503)
Short-term borrowings, net	700	285
Capital subscriptions	-	4
Non-controlling interests issued	1	4
Net cash provided by financing activities	**5,081**	**7,060**
Cash flows from operating activities		
Net income (loss) attributable to IFC	(167)	(120)
Add: Net gains (losses) attributable to non-controlling interests	(2)	(29)
Net income (loss)	(169)	(149)
Adjustments to reconcile net income to net cash used in operating activities:		
Realized gains on loans and associated derivatives, net	(2)	(23)
Realized gains on debt securities and associated derivatives, net	(36)	(46)
Gains on equity investments and related derivatives, net	(717)	(575)
Provision for losses on loans, guarantees and other receivables	320	136
Other-than-temporary impairments on debt securities	29	29
Other-than-temporary impairments on equity investments	600	647
Net premiums received at issuance of borrowings	4	9
Net discounts paid on retirement of borrowings	(79)	(4)
Net realized gains on extinguishment of borrowings	(5)	(1)
Foreign currency transaction gains and losses on non-trading activities	42	(49)
Net unrealized (gains) losses on non-trading financial instruments accounted for at fair value	(51)	185
Change in accrued income on loans, time deposits and securities	(111)	(103)
Change in payables and other liabilities	549	484
Change in receivables and other assets	167	(197)
Change in trading securities and securities purchased and sold under resale and repurchase agreements	1,269	(4,491)
Net cash provided by (used in) operating activities	**1,810**	**(4,148)**
Change in cash and cash equivalents	5,651	2,761
Effect of exchange rate changes on cash and cash equivalents	620	453
Net change in cash and cash equivalents	6,271	3,214
Beginning cash and cash equivalents	9,018	6,735
Ending cash and cash equivalents	**$ 15,289**	**$ 9,949**
Composition of cash and cash equivalents		
Cash and due from banks	$ 1,495	$ 1,119
Time deposits	13,794	8,830
Total cash and cash equivalents	**$ 15,289**	**$ 9,949**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for each of the nine months ended March 31, 2016 (unaudited) and March 31, 2015 (unaudited)
(US$ millions)

		2016		2015
Supplemental disclosure				
Change in ending balances resulting from currency exchange rate fluctuations:				
Loans outstanding	$	(200)	$	(1,179)
Debt securities		(43)		(115)
Loan and debt security-related currency swaps		297		1,284
Borrowings		443		4,115
Borrowing-related currency swaps		(323)		(3,891)
Charges on borrowings paid, net	$	226	$	158
Non-cash items:				
Loan and debt security conversion to equity, net	$	48	$	162

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PURPOSE

The International Finance Corporation (IFC), an international organization, was established in 1956 to further economic development in its member countries by encouraging the growth of private enterprise. IFC is a member of the World Bank Group (WBG), which also comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Each member is legally and financially independent. Transactions with other World Bank Group members are disclosed in the notes that follow. IFC's activities are closely coordinated with and complement the overall development objectives of the other World Bank Group institutions. IFC, together with private investors, assists in financing the establishment, improvement and expansion of private sector enterprises by making loans, equity investments and investments in debt securities where sufficient private capital is not otherwise available on reasonable terms. IFC's share capital is provided by its member countries. It raises most of the funds for its investment activities through the issuance of notes, bonds and other debt securities in the international capital markets. IFC also plays a catalytic role in mobilizing additional funding from other investors and lenders through parallel loans, loan participations, partial credit guarantees, securitizations, loan sales, risk sharing facilities, and fund investments through the IFC Asset Management Company, LLC and other IFC crisis initiatives. In addition to project finance and mobilization, IFC offers an array of financial and technical advisory services to private businesses in the developing world to increase their chances of success. It also advises governments on how to create an environment hospitable to the growth of private enterprise and foreign investment.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

The Condensed Consolidated Financial Statements include the financial statements of IFC and consolidated subsidiaries as detailed in Note B. The accounting and reporting policies of IFC conform with accounting principles generally accepted in the United States of America (US GAAP). In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments necessary for the fair presentation of IFC's financial position and results of operation.

Condensed Consolidated Financial Statements presentation – Certain amounts in prior years have been changed to conform to the current year's presentation.

Advisory services – Funding received for IFC advisory services from governments and other donors are recognized as contribution revenue when the conditions on which they depend are substantially met. Advisory services expenses are recognized in the period incurred. Advisory client fees and administration fees are recognized as income when earned. See Notes L and N.

Functional currency – IFC's functional currency is the United States dollar (US dollars or $).

Use of estimates – The preparation of the Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of income and expense during the reporting periods. Actual results could differ from these estimates. A significant degree of judgment has been used in the determination of: the reserve against losses on loans and impairment of debt securities and equity investments; estimated fair values of financial instruments accounted for at fair value (including equity investments, debt securities, loans, trading securities and derivative instruments); projected benefit obligations, fair value of pension and other postretirement benefit plan assets, and net periodic pension income or expense. There are inherent risks and uncertainties related to IFC's operations. The possibility exists that changing economic conditions could have an adverse effect on the financial position of IFC.

IFC uses internal models to determine the fair values of derivative and other financial instruments and the aggregate level of the reserve against losses on loans and impairment of equity investments. IFC undertakes continuous review and analysis of these models with the objective of refining its estimates, consistent with evolving best practices appropriate to its operations. Changes in estimates resulting from refinements in the assumptions and methodologies incorporated in the models are reflected in net income in the period in which the enhanced models are first applied.

Consolidation, non-controlling interests and variable interest entities – IFC consolidates:
- i) all majority-owned subsidiaries;
- ii) limited partnerships in which it is the general partner, unless the presumption of control is overcome by certain management participation or other rights held by minority shareholders/limited partners; and
- iii) variable interest entities (VIEs) for which IFC is deemed to be the VIE's primary beneficiary (together, consolidated subsidiaries).

Significant intercompany accounts and transactions are eliminated in consolidation.

Equity interests in consolidated subsidiaries held by third parties are referred to as non-controlling interests. Such interests and the amount of consolidated net income/loss attributable to those interests are identified within IFC's condensed consolidated balance sheet and condensed consolidated income statement as "non-controlling interests" and "net gains/losses attributable to non-controlling interests", respectively.

An entity is a VIE if:
- i) its equity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties;
- ii) its equity investors do not have decision-making rights about the entity's operations; or
- iii) its equity investors do not absorb the expected losses or receive the expected returns of the entity proportionally to their voting rights.

A variable interest is a contractual, ownership or other interest whose value changes as the fair value of the VIE's net assets change. IFC's variable interests in VIEs arise from financial instruments, service contracts, guarantees, leases or other monetary interests in those entities.

IFC is considered to be the primary beneficiary of a VIE if it has the power to direct the VIE's activities that most significantly impact its economic performance and the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially be significant to the VIE.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Prior to the adoption, effective July 1, 2015, of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-02, *Amendments to the Consolidation Analysis*, IFC was considered to be the primary beneficiary of a VIE if it had the power to direct the VIE's activities that most significantly impact its economic performance and the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially have been significant to the VIE unless:

i) the entity had the attributes of an investment company or for which it is industry practice to account for their assets at fair value through earnings;
ii) IFC had an explicit or implicit obligation to fund losses of the entity that could potentially have been significant to that entity; and
iii) the entity was a securitization vehicle, an asset-backed financing entity, or an entity that was formerly considered a qualifying special purpose entity, as well as entities that were required to comply with or operate in accordance with requirements that are similar to those included in Rule 2a-7 of the Investment Company Act of 1940.

In those cases, IFC was considered to be the primary beneficiary if it would absorb the majority of the VIE's expected losses or expected residual returns. See "Recently adopted accounting standards" in this Note A and Note M for more information regarding the adoption of ASU 2015-02. IFC has a number of investments in VIEs that it manages and supervises in a manner consistent with other portfolio investments.

Fair Value Option and Fair Value Measurements – IFC has adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (ASC 820) and the Fair Value Option subsections of ASC Topic 825, Financial Instruments (ASC 825 or the Fair Value Option). ASC 820 defines fair value, establishes a framework for measuring fair value and a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels and applies to all items measured at fair value, including items for which impairment measures are based on fair value. ASC 825 permits the measurement of eligible financial assets, financial liabilities and firm commitments at fair value on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at fair value under other accounting standards. The election to use the Fair Value Option is available when an entity first recognizes a financial asset or liability or upon entering into a firm commitment.

The Fair Value Option

IFC has elected the Fair Value Option for the following financial assets and financial liabilities:

i) investees in which IFC has significant influence:
    a) direct investments in securities issued by the investee and, if IFC would have otherwise been required to apply equity method accounting, all other financial interests in the investee (e.g., loans);
    b) investments in Limited Liability Partnerships (LLPs), Limited Liability Companies (LLCs) and other investment fund structures that maintain specific ownership accounts and loans or guarantees to such;
ii) direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence;
iii) all equity interests in private equity funds;
iv) certain hybrid instruments in the investment portfolio;
v) all market borrowings, that are economically hedged with financial instruments that are accounted for at fair value with changes therein reported in earnings; and
vi) borrowings from IDA.

All borrowings for which the Fair Value Option has been elected are economically hedged with derivative or other financial instruments that are accounted for at fair value with changes in fair value reported in earnings as such changes occur. Measuring at fair value those borrowings for which the Fair Value Option has been elected mitigates the earnings volatility that would otherwise occur, due to measuring the borrowings and related economic hedges differently, without having to apply ASC Topic 815's, *Derivatives and Hedging* (ASC 815) complex hedge accounting requirements.

Measuring at fair value those equity investments that would otherwise require equity method accounting simplifies the accounting and renders a carrying amount on the condensed consolidated balance sheet based on a measure (fair value) that IFC considers preferable to equity method accounting. For the investments that otherwise would require equity method accounting for which the Fair Value Option is elected, ASC 825 requires the Fair Value Option to also be applied to all eligible financial interests in the same entity. IFC has disbursed loans to certain of such investees; therefore, the Fair Value Option is also applied to those loans. IFC elected the Fair Value Option for equity investments with 20% or more ownership where it does not have significant influence so that the same measurement method (fair value) will be applied to all equity investments with more than 20% ownership.

The FVO has been elected for certain hybrid instruments in the investment portfolio that would otherwise require bifurcation of the host and embedded derivative. Election of the FVO for these instruments eliminates the bifurcation requirement.

Equity securities held by consolidated subsidiaries that are investment companies

Pursuant to ASC Topic 946*, Financial Services - Investment Companies* (ASC 946) and ASC Topic 810, *Consolidation*, equity securities held by consolidated subsidiaries that are investment companies are accounted for at fair value, with unrealized gains and losses reported in earnings.

Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or transfer a liability (i.e., an exit price) in an orderly transaction between independent, knowledgeable and willing market participants at the measurement date assuming the transaction occurs in the entity's principal (or most advantageous) market. Fair value must be based on assumptions market participants would use (inputs) in determining the price and measured assuming that market participants act in their economic best interest, therefore, their fair values are determined based on a transaction to sell or transfer the asset or liability on a standalone basis. Under ASC 820, fair value measurements are not adjusted for transaction costs.

Notwithstanding the following paragraph, pursuant to ASC Topic 320, *Investments - Debt and Equity Securities* (ASC 320), IFC reports equity investments that are listed in markets that provide readily determinable fair values at fair value, with unrealized gains and losses being reported in other comprehensive income.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The fair value hierarchy established by ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical unrestricted assets and liabilities (Level 1), the next highest priority to observable market based inputs or unobservable inputs that are corroborated by market data from independent sources (Level 2) and the lowest priority to *unobservable* inputs that are not corroborated by market data (Level 3). Fair value measurements are required to maximize the use of available observable inputs.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date. It includes IFC's debt securities and equity investments, which are listed in markets that provide readily determinable fair values, government issues and money market funds in the liquid assets portfolio, and market borrowings that are listed on exchanges.

Level 2: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly for substantially the full term of the asset or liability. It includes financial instruments that are valued using models and other valuation methodologies. These models consider various assumptions and inputs, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity and current market and contractual pricing for the underlying asset, as well as other relevant economic measures. Substantially all of these inputs are observable in the market place, can be derived from observable data or are supported by observable levels at which market transactions are executed. Financial instruments categorized as Level 2 include non-exchange-traded derivatives such as interest rate swaps, cross-currency swaps, certain asset-backed securities, as well as the majority of trading securities in the liquid asset portfolio, and the portion of IFC's borrowings accounted for at fair value not included in Level 1.

Level 3: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. It consists of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are non-observable. It also includes financial instruments whose fair value is estimated based on price information from independent sources that cannot be corroborated by observable market data. Level 3 includes equity and debt securities in the investment portfolios that are not listed in markets that provide readily determinable fair values, all loans for which IFC has elected the Fair Value Option, and certain hard-to-price securities in the liquid assets portfolio.

IFC estimates the fair value of its investments in private equity funds that do not have readily determinable fair value based on the funds' net asset values (NAVs) per share as a practical expedient to the extent that a fund reports its investment assets at fair value and has all the attributes of an investment company, pursuant to ASC 946. If the NAV is not as of IFC's measurement date, IFC adjusts the most recent NAV, as necessary, to estimate a NAV for the investment that is calculated in a manner consistent with the fair value measurement principles established by ASC 820.

Remeasurement of foreign currency transactions – Assets and liabilities not denominated in US dollars, other than disbursed equity investments, are expressed in US dollars at the exchange rates prevailing at March 31, 2016 and June 30, 2015. Disbursed equity investments, other than those accounted for at fair value, are expressed in US dollars at the prevailing exchange rates at the time of disbursement. Income and expenses are recorded based on the rates of exchange prevailing at the time of the transaction. Transaction gains and losses are credited or charged to income.

Loans – IFC originates loans to facilitate project finance, restructuring, refinancing, corporate finance, and/or other developmental objectives. Loans are recorded as assets when disbursed. Loans are generally carried at the principal amounts outstanding adjusted for net unamortized loan origination costs and fees. It is IFC's practice to obtain collateral security such as, but not limited to, mortgages and third-party guarantees.

Certain loans are carried at fair value in accordance with the Fair Value Option as discussed above. Unrealized gains and losses on loans accounted for at fair value under the Fair Value Option are reported in Net unrealized gains and losses on non-trading financial instruments accounted for at fair value on the condensed consolidated income statement.

Certain loans originated by IFC contain income participation, prepayment and conversion features. These features are bifurcated and separately accounted for in accordance with ASC 815 if IFC has not elected the Fair Value Option for the loan host contracts and the features meet the definition of a derivative, and are not considered to be clearly and closely related to their host loan contracts. Otherwise, these features are accounted for as part of their host loan contracts in accordance with IFC's accounting policies for loans as indicated herein.

Loans held for sale are carried at the lower of cost or fair value. The excess, if any, of amortized cost over fair value is accounted for as a valuation allowance. Changes in the valuation allowance are recognized in net income as they occur.

Revenue recognition on loans – Interest income and commitment fees on loans are recorded as income on an accrual basis. Loan origination fees and direct loan origination costs are deferred and amortized over the estimated life of the originated loan; such amortization is determined using the interest method unless the loan is a revolving credit facility in which case amortization is determined using the straight-line method. Prepayment fees are recorded as income when received.

IFC does not recognize income on loans where collectability is in doubt or payments of interest or principal are past due more than 60 days unless management anticipates that collection of interest will occur in the near future. Any interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when the actual payment is received. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income, included in the condensed consolidated balance sheet in payables and other liabilities, and credited to income only when the related principal is received. Such capitalized interest is considered in the computation of the reserve against losses on loans in the consolidated balance sheet.

Reserve against losses on loans – IFC recognizes impairment on loans not carried at fair value in the condensed consolidated balance sheet through the reserve against losses on loans, recording a provision or release of provision for losses on loans in net income, which increases or decreases the reserve against losses on loans. Individually impaired loans are measured based on the present value of expected future cash flows to be received, observable market prices, or for loans that are dependent on collateral for repayment, the estimated fair value of the collateral.

The reserve against losses on loans reflects management's estimates of both identified probable losses on individual loans (specific reserves) and probable losses inherent in the portfolio but not specifically identifiable (portfolio reserves). The determination of identified probable losses represents management's judgment of the creditworthiness of the borrower. Reserves against losses are established through a review of individual loans undertaken on a quarterly basis. IFC considers a loan as impaired when, based on current information and events, it is probable that IFC will be

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

unable to collect all amounts due according to the loan's contractual terms. Information and events, with respect to the borrower and/or the economic and political environment in which it operates, considered in determining that a loan is impaired include, but are not limited to, the borrower's financial difficulties, breach of contract, bankruptcy/reorganization, credit rating downgrade as well as geopolitical conflict, financial/economic crisis, commodity price decline, adverse local government action and natural disaster. Unidentified probable losses are the losses incurred at the reporting date that have not yet been specifically identified. The risks inherent in the portfolio that are considered in determining unidentified probable losses are those proven to exist by past experience and include: country systemic risk; the risk of correlation or contagion of losses between markets; uninsured and uninsurable risks; nonperformance under guarantees and support agreements; and opacity of, or misrepresentation in, financial statements. There were no changes, during the periods presented herein, to IFC's accounting policies and methodologies used to estimate its reserve against loan losses.

For purposes of providing certain disclosures about IFC's entire reserve against losses on loans, IFC considers its entire loan portfolio to comprise one portfolio segment. A portfolio segment is the level at which the method for estimating the reserve against losses on loans is developed and documented.

Loans are written-off when IFC has exhausted all possible means of recovery, by reducing the reserve against losses on loans. Such reductions in the reserve are partially offset by recoveries, if any, associated with previously written-off loans.

Equity investments – IFC invests primarily for developmental impact; IFC does not seek to take operational, controlling, or strategic equity positions within its investees. Equity investments are acquired through direct ownership of equity instruments of investees, as a limited partner in LLPs and LLCs, and/or as an investor in private equity funds.

Revenue recognition on equity investments – Equity investments, which are listed in markets that provide readily determinable fair values, are accounted for as available-for-sale securities at fair value with unrealized gains and losses reported in other comprehensive income in accordance with ASC 320. As noted above under "Fair Value Option and Fair Value Measurements", direct equity investments and investments in LLPs and LLCs that maintain separate ownership accounts in which IFC has significant influence, direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence and all new equity interests in funds are accounted for at fair value under the Fair Value Option. Direct equity investments in which IFC does not have significant influence and which are not listed in markets that provide readily determinable fair values are carried at cost, less impairment. Notwithstanding the foregoing, equity securities held by consolidated subsidiaries that are investment companies are accounted for at fair value, with unrealized gains and losses reported in earnings.

IFC's investments in certain private equity funds in which IFC is deemed to have a controlling financial interest, are fully consolidated by IFC, as the presumption of control by the fund manager or the general partner has been overcome. Certain equity investments, for which recovery of invested capital is uncertain, are accounted for under the cost recovery method, such that receipts are first applied to recovery of invested capital and then to income from equity investments. The cost recovery method is applied to IFC's investments in its oil and gas unincorporated joint ventures (UJVs). IFC's share of conditional asset retirement obligations related to investments in UJVs are recorded when the fair value of the obligations can be reasonably estimated. The obligations are capitalized and systematically amortized over the estimated economic useful lives.

Unrealized gains and losses on equity investments accounted for at fair value under the Fair Value Option are reported in income from equity investments and associated derivatives on the condensed consolidated income statement. Unrealized gains and losses on equity investments listed in markets that provide readily determinable fair values which are accounted for as available-for-sale are reported in other comprehensive income. Realized gains on the sale or redemption of equity investments are measured against the average cost of the investments sold and are generally recorded as income from equity investments and associated derivatives when received. Capital losses are recognized when incurred.

Dividends on listed equity investments are recorded on the ex-dividend date, and dividends on unlisted equity investments are recorded upon receipt of notice of declaration. Realized gains on listed equity investments are recorded upon trade date, and realized gains on unlisted equity investments are recorded upon incurring the obligation to deliver the applicable shares. Losses are recognized when incurred.

IFC enters into put and call option and warrant agreements in connection with certain equity investments; these are accounted for in accordance with ASC 815 to the extent they meet the definition of a derivative.

Gains and losses on debt conversions and exchanges of equity interests – Loan and debt security conversions to equity interests are based on the fair value of the equity interests received. Transfers of equity interests in exchange for equity interests in other entities and other non-cash transactions are generally accounted for based on the fair value of the asset relinquished unless the fair value of the asset received is more clearly evident in which case the accounting is based on the fair value of the asset received. The difference between the fair value of the asset received and the recorded amount of the asset relinquished is recorded as a gain or loss in the income statement.

Impairment of equity investments – Equity investments accounted for at cost, less impairment and available-for-sale are assessed for impairment each quarter. When impairment is identified, it is generally deemed to be other-than-temporary, and the equity investment is written down to the impaired value, which becomes the new cost basis in the equity investment. Such other-than-temporary impairments are recognized in net income. Subsequent increases in the fair value of available-for-sale equity investments are included in other comprehensive income, while subsequent decreases in fair value, if not other-than-temporary impairment, also are included in other comprehensive income.

Debt securities – Debt securities in the investment portfolio are classified as available-for-sale and carried at fair value on the condensed consolidated balance sheet with unrealized gains and losses included in accumulated other comprehensive income until realized. Realized gains on sales of debt securities and interest on debt securities is included in income from debt securities and realized gains and losses on debt securities and associated derivatives on the condensed consolidated income statement.

Certain debt securities are carried at fair value in accordance with the Fair Value Option as discussed above. Unrealized gains and losses on debt securities accounted for at fair value under the Fair Value Option are reported in net unrealized gains and losses on non-trading financial instruments accounted for at fair value on the condensed consolidated income statement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

IFC invests in certain debt securities with conversion features; these features are accounted for in accordance with ASC 815 to the extent they meet the definition of a derivative.

Impairment of debt securities – In determining whether an unrealized loss on debt securities is other-than-temporary, IFC considers all relevant information including the length of time and the extent to which fair value has been less than amortized cost, whether IFC intends to sell the debt security or whether it is more likely than not that IFC will be required to sell the debt security, the payment structure of the obligation and the ability of the issuer to make scheduled interest or principal payments, any changes to the ratings of a security, and relevant adverse conditions specifically related to the security, an industry or geographic sector.

Debt securities in the investment portfolio are assessed for impairment each quarter. When impairment is identified, the entire impairment is recognized in net income if (1) IFC intends to sell the security, or (2) it is more likely than not that IFC will be required to sell the security before recovery. However, if IFC does not intend to sell the security and it is not more likely than not that IFC will be required to sell the security but the security has a credit loss, the impairment charge will be separated into the credit loss component, which is recognized in net income, and the remainder which is recorded in other comprehensive income. The impaired value becomes the new amortized cost basis of the debt security. Subsequent fair value increases and decreases in the fair value of debt securities, if not an additional other-than-temporary impairment, are included in other comprehensive income.

The difference between the new amortized cost basis of debt securities for which an other-than-temporary impairment has been recognized in net income and the cash flows expected to be collected is accreted to interest income using the effective yield method. Significant subsequent increases in the expected or actual cash flows previously expected are recognized as a prospective adjustment of the yield.

Guarantees – IFC extends financial guarantee facilities to its clients to provide credit enhancement for their debt securities and trade obligations. As part of these financial guarantee facilities, IFC offers partial credit guarantees to clients covering, on a risk-sharing basis, client obligations on bonds or loans. Under the terms of IFC's guarantees, IFC agrees to assume responsibility for the client's financial obligations in the event of default by the client (i.e., failure to pay when payment is due). Guarantees are regarded as issued when IFC commits to the guarantee. Guarantees are regarded as outstanding when the underlying financial obligation of the client is incurred, and this date is considered to be the "inception" of the guarantee. Guarantees are regarded as called when IFC's obligation under the guarantee has been invoked. There are two liabilities associated with the guarantees: (i) the stand-ready obligation to perform and (ii) the contingent liability. The fair value of the stand-ready obligation to perform is recognized at the inception of the guarantee unless a contingent liability exists at that time or is expected to exist in the near term. The contingent liability associated with the financial guarantee is recognized when it is probable the guarantee will be called and when the amount of guarantee called can be reasonably estimated. When the guarantees are called, the amount disbursed is recorded as a new loan, and specific reserves against losses are established, based on the estimated probable loss. Guarantee fees are recorded in income as the stand-ready obligation to perform is fulfilled. Commitment fees on guarantees are recorded as income on an accrual basis. All liabilities associated with guarantees are included in payables and other liabilities, and the receivables are included in other assets on the consolidated balance sheet.

Designations of retained earnings – IFC establishes funding mechanisms for specific Board approved purposes through designations of retained earnings. Designations of retained earnings for grants to IDA are recorded as a transfer from undesignated retained earnings to designated retained earnings when the designation is approved by the Board of Governors. All other designations are recorded as a transfer from undesignated retained earnings to designated retained earnings when the designation is noted with approval by the Board of Directors. Total designations of retained earnings are determined based on IFC's annual income before expenditures against designated retained earnings and net unrealized gains and losses on non-trading financial instruments accounted for at fair value in excess of $150 million, and contemplating the financial capacity and strategic priorities of IFC.

Expenditures resulting from such designations are recorded as expenses in IFC's condensed consolidated income statement in the year in which they are incurred, also having the effect of reducing the respective designated retained earnings for such purposes. Expenditures are deemed to have been incurred when IFC has ceded control of the funds to the recipient. If the recipient is deemed to be controlled by IFC, the expenditure is deemed to have been incurred only when the recipient disburses the funds to a non-related party. On occasion, recipients who are deemed to be controlled by IFC make investments. In such cases, IFC includes those assets on its condensed consolidated balance sheet until the recipient disposes of or transfers the asset or IFC is deemed to no longer be in control of the recipient. These investments have had no material impact on IFC's financial position, results of operations, or cash flows. Investments resulting from such designations are recorded on IFC's condensed consolidated balance sheet in the year in which they occur, also having the effect of reducing the respective designated retained earnings for such purposes.

Liquid asset portfolio – The liquid asset portfolio, as defined by IFC, consists of: time deposits and securities; related derivative instruments; securities purchased under resale agreements, securities sold under repurchase agreements and payable for cash collateral received; receivables from sales of securities and payables for purchases of securities; and related accrued income and charges. IFC's liquid funds are invested in government, agency and government-sponsored agency obligations, time deposits and asset-backed, including mortgage-backed, securities. Government and agency obligations include positions in high quality fixed rate bonds, notes, bills, and other obligations issued or unconditionally guaranteed by governments of countries or other official entities including government agencies and instrumentalities or by multilateral organizations. Asset-backed and mortgage-backed securities include agency and non-agency residential mortgage-backed securities, commercial mortgage-backed securities, consumer, auto and student loan-backed securities, commercial real estate collateralized debt obligations and collateralized loan obligations.

Securities and related derivative instruments within IFC's liquid asset portfolio are classified as trading and are carried at fair value with any changes in fair value reported in income from liquid asset trading activities. Interest on securities and amortization of premiums and accretion of discounts are also reported in income from liquid asset trading activities. Gains and losses realized on the sale of trading securities are computed on a specific security basis.

IFC classifies cash and due from banks and time deposits (collectively, cash and cash equivalents) as cash and as cash equivalents in the consolidated statement of cash flows because they are generally readily convertible to known amounts of cash within 90 days of acquisition generally when the original maturities for such instruments are under 90 days or in some cases are under 180 days.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Repurchase, resale and securities lending agreements – Repurchase agreements are contracts under which a party sells securities and simultaneously agrees to repurchase the same securities at a specified future date at a fixed price. Resale agreements are contracts under which a party purchases securities and simultaneously agrees to resell the same securities at a specified future date at a fixed price. Securities lending agreements are similar to repurchase agreements except that the securities loaned are securities that IFC has received as collateral under unrelated agreements and allowed by contract to rehypothecate. Amounts due under securities lending agreements are included in securities sold under repurchase agreements and payable for cash collateral received on the consolidated balance sheet.

It is IFC's policy to take possession of securities purchased under resale agreements, which are primarily liquid government securities. The market value of these securities is monitored and, within parameters defined in the agreements, additional collateral is obtained when their value declines. IFC also monitors its exposure with respect to securities sold under repurchase agreements and, in accordance with the terms of the agreements, requests the return of excess securities held by the counterparty when their value increases.

Repurchase, resale and securities lending agreements are accounted for as collateralized financing transactions and recorded at the amount at which the securities were acquired or sold plus accrued interest.

Borrowings – To diversify its access to funding, and reduce its borrowing costs, IFC borrows in a variety of currencies and uses a number of borrowing structures, including foreign exchange rate-linked, inverse floating rate and zero coupon notes. In managing the currency exposure inherent in borrowing in a variety of currencies, generally, IFC either simultaneously converts such borrowings into variable rate US dollar borrowings through the use of currency and interest rate swap transactions or utilizes liquid asset portfolio or debt investments denominated in the same currency to economically hedge changes in the fair value of certain borrowings. Under certain outstanding borrowing agreements, IFC is not permitted to mortgage or allow a lien to be placed on its assets (other than purchase money security interests) without extending equivalent security to the holders of such borrowings.

Substantially all borrowings are carried at fair value under the Fair Value Option with changes in fair value reported in net unrealized gains and losses on non-trading financial instruments accounted for at fair value in the condensed consolidated income statement.

Interest on borrowings and amortization of premiums and accretion of discounts are reported in charges on borrowings.

Risk management and use of derivative instruments – IFC enters into transactions in various derivative instruments primarily for financial risk management purposes in connection with its principal business activities, including lending, investing in debt securities and equity investments, client risk management, borrowing, liquid asset portfolio management and asset and liability management. There are no derivatives designated as accounting hedges.

All derivative instruments are recorded on the condensed consolidated balance sheet at fair value as derivative assets or derivative liabilities. Where they are not clearly and closely related to the host contract, certain derivative instruments embedded in loans, debt securities and equity investments are bifurcated from the host contract and recorded at fair value as derivative assets or liabilities unless the hybrid instrument is accounted for at fair value with any changes in fair value reported in income. The fair value at inception of such embedded derivatives is excluded from the carrying amount of the host contracts on the consolidated balance sheet. Changes in fair values of derivative instruments used in the liquid asset portfolio are recorded in income from liquid asset trading activities. Changes in fair values of derivative instruments other than those in the liquid asset portfolio and those associated with equity investments are recorded in net unrealized gains and losses on non-trading financial instruments accounted for at fair value. The risk management policy for each of IFC's principal business activities and the accounting policies particular to them are described below.

Lending activities IFC's policy is to closely match the currency, interest rate basis, and maturity of its loans and borrowings. Derivative instruments are used to convert the cash flows from fixed rate US dollar or non-US dollar loans into variable rate US dollars. IFC has elected not to designate any hedging relationships for any of its lending-related derivatives.

Client risk management activities IFC enters into derivatives transactions with its clients to help them hedge their own currency, interest rate, or commodity risk, which, in turn, improves the overall quality of IFC's loan portfolio. To hedge the market risks that arise from these transactions with clients, IFC enters into offsetting derivative transactions with matching terms with authorized market counterparties. Changes in fair value of all derivatives associated with these activities are reported in net income in net unrealized gains and losses on non-trading financial instruments accounted for at fair value.

Borrowing activities IFC issues debt securities in various capital markets with the objectives of minimizing its borrowing costs, diversifying funding sources, and developing member countries' capital markets, sometimes using complex structures. These structures include borrowings payable in multiple currencies, or borrowings with principal and/or interest determined by reference to a specified index such as a stock market index, a reference interest rate, a commodity index, or one or more foreign exchange rates. IFC generally uses derivative instruments with matching terms, primarily currency and interest rate swaps, to convert certain of such borrowings into variable rate US dollar obligations, consistent with IFC's matched funding policy. IFC elected to carry at fair value, under the Fair Value Option, all market borrowings for which a derivative instrument, liquid asset portfolio investment or debt investment is used to create an economic hedge. Changes in the fair value of such borrowings and the associated derivatives are reported in net unrealized gains and losses on non-trading financial instruments accounted for at fair value in the condensed consolidated income statement.

Liquid asset portfolio management activities IFC manages the interest rate, currency and other market risks associated with certain of the time deposits and securities in its liquid asset portfolio by entering into derivative transactions to convert the cash flows from those instruments into variable rate US dollars or by utilizing market borrowings denominated in the same currency to economically hedge changes in the fair value of certain liquid asset portfolio investments. The derivative instruments used include short-term, over-the-counter foreign exchange forwards (covered forwards), interest rate and currency swaps, and exchange-traded interest rate futures and options. As the entire liquid asset portfolio is classified as a trading portfolio, all securities (including derivatives) are carried at fair value with changes in fair value reported in income from liquid asset trading activities. No derivatives in the liquid asset portfolio have been designated as hedging instruments under ASC 815.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Asset and liability management In addition to the risk managed in the context of its business activities detailed above, IFC faces residual market risk in its overall asset and liability management. Residual currency risk is managed by monitoring the aggregate position in each lending currency and reducing the net excess asset or liability position through sales or purchases of currency. Interest rate risk arising from mismatches due to write-downs, prepayments and re-schedulings, and residual reset date mismatches is monitored by measuring the sensitivity of the present value of assets and liabilities in each currency to each basis point change in interest rates.

IFC monitors the credit risk associated with these activities by careful assessment and monitoring of prospective and actual clients and counterparties. In respect of liquid assets and derivatives transactions, credit risk is managed by establishing exposure limits based on the credit rating and size of the individual counterparty. In addition, IFC has entered into master agreements with its derivative market counterparties governing derivative transactions that contain close-out and netting provisions and collateral arrangements. Under these agreements, if the credit exposure to one of the parties to the agreement, on a mark-to-market basis, exceeds a specified level, that party must post collateral to cover the excess, generally in the form of liquid government securities or cash. IFC does not offset the fair value amounts of derivatives and obligations to return, or rights to receive, cash collateral associated with these master-netting agreements.

Loan participations – IFC mobilizes funds from commercial banks and other financial institutions (Participants) by facilitating loan participations, without recourse. These loan participations are administered and serviced by IFC on behalf of the Participants. The disbursed and outstanding balances of loan participations that meet the applicable accounting criteria are accounted for as sales and are not included in IFC's consolidated balance sheet. All other loan participations are accounted for as secured borrowings and are included in loans on IFC's consolidated balance sheet, with the related secured borrowings included in payables and other liabilities on IFC's consolidated balance sheet.

Pension and other postretirement benefits – IBRD has a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of its staff members as well as the staff of IFC and of MIGA.

The SRP provides regular pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides pension benefits administered outside the SRP. All costs associated with these plans are allocated between IBRD, IFC, and MIGA based upon their employees' respective participation in the plans. In addition, IFC and MIGA reimburse IBRD for their share of any contributions made to these plans by IBRD.

The net periodic pension and other postretirement benefit income or expense allocated to IFC is included in income or expense from pension and other postretirement benefit plans in the condensed consolidated income statement. IFC includes a receivable from IBRD in receivables and other assets, representing prepaid pension and other postretirement benefit costs.

Recently adopted accounting standards – In June 2013, the FASB issued ASU 2013-08, *Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements* (ASU 2013-08). Among other things, ASU 2013-08 amends the criteria for an entity to qualify as an investment company under ASC Topic 946, introduces new disclosure requirements applicable to investment companies, and amends the measurement criteria for certain investments by an investment company in another investment company. ASU 2013-08 is applicable for annual reporting periods and interim periods within those annual periods, beginning after December 15, 2013 (which is the year ended June 30, 2015 for IFC). IFC adopted ASU 2013-08 on July 1, 2014 with no material impact on IFC's financial position, results of operations or cash flows.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (ASU 2014-11). ASU 2014-11 requires secured borrowing accounting for repurchase-to-maturity transactions, eliminates current accounting guidance on linking repurchase financing transactions and expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and repurchase agreements, securities lending transactions and repurchase to maturity transactions accounted for as secured borrowings. The accounting changes and expanded disclosure requirements for certain transfers accounted as sales are applicable for the first interim or annual reporting period beginning after December 15, 2014 (which was the interim period ending March 31, 2015 for IFC). The disclosure requirements for certain transactions accounted for as secured borrowings are applicable for interim periods beginning after March 15, 2015 (which was the quarter ended June 30, 2015 for IFC) and are reflected in Note P. IFC adopted ASU 2014-11's accounting changes on January 1, 2015 with no material impact on IFC's financial position, results of operations or cash flows.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments whose fair values are measured at NAV (or its equivalent) under the practical expedient in the ASC, requires disclosure by reporting entities of the amount of investments measured at NAV (or its equivalent) under the practical expedient, and limits the disclosure requirements all investments eligible to be measured at NAV under the practical expedient to only those to which the practical expedient is applied. ASU 2015-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. As permitted, IFC early adopted ASU 2015-07 effective June 30, 2015 as reflected in Note K.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* (ASU 2015-02). ASU 2015-02 amends ASC Topic 810, *Consolidation,* by modifying the evaluation of whether limited partnerships and similar entities are VIEs; eliminating the presumption that a general partner should consolidate a limited partnership; modifying the consolidation assessment of reporting entities that are involved with VIEs, particularly those that have fee arrangements (with the VIE) and related party relationships; providing a scope exception from Topic 810 for reporting entities with interests in certain money market funds. ASU 2015-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (which is the year ending June 30, 2017 for IFC). As permitted, IFC early adopted ASU 2015-02 on July 1, 2015, as reflected in Note M, with no material impact on IFC's financial position, results of operations or cash flows.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In November 2014, the FASB issued ASU 2014-16, *Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* (ASU 2014-16). ASU 2014-16 requires, for purposes of evaluating embedded features for bifurcation under ASU 815, the determination of the nature of a host contract issued in share form to be based on the economic characteristics and risks of the entire hybrid instrument, including the embedded feature being evaluated. Further, the ASU stipulates that the existence or omission of any single term or feature does not necessarily determine the economic characteristics and risks of the host. ASU 2014-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (which is the year ending June 30, 2017 for IFC). As permitted, IFC early adopted ASU 2014-16 on January 1, 2016 resulting in no material impact on IFC's financial position, results of operations or cash flows.

Accounting and financial reporting developments – In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and interpret its requirements. Pending the development of these rules, no impact on IFC has been determined as of March 31, 2016. IFC continues to evaluate the potential future implications of the Act.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 replaces most existing revenue recognition guidance by establishing a single recognition model for revenue arising from contracts with customers to deliver goods and services and requires additional disclosure regarding those revenues - it does not change current accounting guidance for derivative contracts, investments in and transfers of financial instruments or guarantees. ASU 2014-09 is currently applicable for annual reporting periods and interim periods within those annual periods, beginning after December 15, 2017 (which is the year ending June 30, 2019 for IFC). IFC is currently evaluating the impact of ASU 2014-09.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Instruments - Going Concern* (ASU 2014-15). ASU 2014-15 requires reporting entities to perform interim and annual assessments of their ability to continue as a going concern within one year of the date of issuance of the entity's financial statements (or within one year of the date on which the financial statements are available to be issued). A reporting entity will be required to make certain disclosures if there is substantial doubt about the entity's ability to continue to as a going concern. ASU 2014-15 is effective for annual periods ending after December 15, 2016 (which is the year ending June 30, 2017 for IFC) and for interim periods thereafter.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 requires all investments in equity securities to be accounted for at fair value through net income. However, entities may elect to account for equity investments that do not have readily determinable fair values at cost less impairment, as adjusted for observable price changes in orderly transactions for the identical and similar instrument of the issuer. ASU 2016-01 will require separate presentation in other comprehensive income (OCI) the portion of the total change in fair value resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value under the FVO. For public business entities, ASU 2016-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, (which is the year ending June 30, 2019 for IFC). ASC 2016-01's requirements are to be adopted by means of a cumulative-effect adjustment of the balance sheet as of the beginning of the fiscal year of adoption. Entities may adopt ASU 2016-01's guidance relative to OCI recognition of changes in fair value due to changes in the instrument-specific credit risk of liabilities measured under the FVO for financial statements of fiscal years or interim periods that have not yet been issued, as of the beginning of the fiscal year of adoption – otherwise early adoption is not permitted. IFC is currently evaluating the impact of ASU 2016-01.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 introduces a new accounting model that will result in lessees recording most leases on the balance sheet, aligns many of the underlying profit recognition principles with those in ASU 2014-09 and eliminates the use of "bright line" tests currently required for determining lease classification. ASU 2016-02 is effective for fiscal years, and interim periods within the fiscal years, beginning after December 15, 2018, (which is the year ending June 30, 2020 for IFC). Earlier adoption is permitted. IFC is currently evaluating the impact of ASU 2016-02.

In March 2016, the FASB issued ASU 2016-06, *Contingent Put and Call Options in Debt Instruments*; ASU 2016-07, *Simplifying the Transition to the Equity Method of Accounting*; and ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross Versus Net).*

ASU 2016-06 clarifies certain matters regarding the assessment required under ASC 815 of whether contingent puts and calls embedded in debt instruments require bifurcation. ASU 2016-06 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, (which is the year ended June 30, 2018 for IFC). Early adoption is permitted. ASU 2016-06 will have no material impact on IFC's financial position, results of operations or cash flows.

ASU 2016-07 simplifies the equity method of accounting by eliminating the requirement to retroactively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in ownership and/or degree of influence. Consequently, when an investment qualifies for equity method accounting, the cost of acquiring the additional ownership would be added to the investor's previous cost basis and the equity method subsequently applied upon the date the investor obtains the ability to exercise significant influence over the investee. ASU 2016-07 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2016, (which is the year ended June 30, 2018 for IFC). Given IFC's current election of the FVO for all investments that otherwise qualify for equity method accounting, ASU 2016-07 is not expected to materially impact IFC's financial position, results of operations or cash flows.

ASU 2016-08 amends ASU 2014-09's principal-versus-agent guidance. It requires a reporting entity to evaluate whether it is a principal or agent for each specified good or service in a contract with a customer and clarifies the application of the related indicators in accordance with ASC 2014-09's control principle. ASU 2016-08 has the same effective date as 2014-09, (which is the year ending June 30, 2019 for IFC). IFC is currently evaluating the impact of ASU 2016-08.

In addition, during the nine months ended March 31, 2016, the FASB issued and/or approved various other ASUs. IFC analyzed and implemented the new guidance, as appropriate, with no material impact on the financial position, results of operations or cash flows of IFC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE B – SCOPE OF CONSOLIDATION

IFC Asset Management Company, LLC (AMC) and AMC Funds

IFC, through its wholly owned subsidiary, AMC, mobilizes capital from outside IFC's traditional investor pool and manages third-party capital. AMC is consolidated into IFC's financial statements. At March 31, 2016, IFC has provided $2 million of capital to AMC ($2 million - June 30, 2015).

As a result of the consolidation of AMC, amounts included in IFC's condensed consolidated balance sheet at March 31, 2016 and June 30, 2015 comprise (US$ millions):

	March 31, 2016	June 30, 2015
Cash, receivables and other assets	$ 49	$ 51
Equity investments	*	*
Payables and other liabilities	2	3

* less than $0.5 million.

As a result of the consolidation of AMC, amounts included in IFC's condensed consolidated statement of operations for the three and nine months ended March 31, 2016 and 2015 comprise (US$ millions):

	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Other income	$ 15	$ 14	$ 48	$ 43
Other expenses	6	5	18	14

At March 31, 2016, AMC managed eleven funds (collectively referred to as the AMC Funds). All AMC Funds are investment companies and are required to report their investment assets at fair value through net income. IFC's ownership interests in these AMC Funds are shown in the following table:

AMC Funds	IFC's ownership interest
IFC Capitalization (Equity) Fund, L.P.	61%**
IFC Capitalization (Subordinated Debt) Fund, L.P.	13%
IFC African, Latin American and Caribbean Fund, LP	20%
Africa Capitalization Fund, Ltd.	-
IFC Russian Bank Capitalization Fund, LP	45%
IFC Catalyst Funds	18%***
IFC Global Infrastructure Fund, LP	17%
China-Mexico Fund, LP	-
IFC Financial Institutions Growth Fund, LP	37%
IFC Global Emerging Markets Fund of Funds	20%****
IFC Middle East and North Africa Fund, LP	48%

** By virtue of certain rights granted to non-IFC limited partner interests, IFC does not control or consolidate this fund.

*** The ownership interest of 18% reflects IFC's ownership interest taking into consideration the overall commitments for the IFC Catalyst Funds, which is comprised of IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, IFC Catalyst Funds). IFC does not have an ownership interest in either the IFC Catalyst Fund (UK), LP or the IFC Catalyst Fund (Japan), LP.

**** The ownership interest of 20% reflects IFC's ownership interest taking into consideration the current committed amounts for the IFC Global Emerging Markets Fund of Funds, which are comprised of IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds, (Japan Parallel) LP. IFC is the sole limited partner of IFC Global Emerging Markets Fund of Funds, LP. IFC does not have an ownership interest in the IFC Global Emerging Markets Fund of Funds, (Japan Parallel) LP.

IFC's investments in AMC Funds, except for the IFC Russian Bank Capitalization Fund, LP (RBCF) created in June 2012 and IFC Global Emerging Markets Fund of Funds, LP created in June 2015, are accounted for at fair value under the Fair Value Option. RBCF and IFC Global Emerging Markets Fund of Funds, LP are both VIEs and consolidated by IFC because IFC is deemed their primary beneficiary.

As a result of consolidating RBCF, IFC's condensed consolidated balance sheet at March 31, 2016 includes $38 million of equity investments ($41 million - June 30, 2015), and non-controlling interests of $21 million ($22 million - June 30, 2015). These non-controlling interests meet the FASB's definition of mandatorily redeemable financial instruments because the terms of the underlying partnership agreement provide for a termination date at which time its remaining assets are to be sold, its liabilities settled and the remaining net proceeds distributed to the non-controlling interest holders and IFC. RBCF's termination date is 2021 with a possible extension to 2023. As RBCF is considered an investment company, its investment securities (equity investments) are measured at fair value in IFC's condensed consolidated balance sheet; therefore, the settlement value or estimate of cash that would be due and payable to settle these non-controlling interests, assuming an orderly liquidation of RBCF on March 31, 2016, approximates the $21 million of non-controlling interests reflected on IFC's condensed consolidated balance sheet at March 31, 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

IFC is the sole limited partner of IFC Global Emerging Markets Fund of Funds, LP and hence there are no non-controlling interests in this entity. As of March 31, 2016, IFC Global Emerging Markets Fund of Funds, LP had $3 million of equity investments ($0 - June 30, 2015) included in IFC's condensed consolidated balance sheet.

Other Consolidated entities

In August 2015, IFC created a special purpose vehicle, IFC Sukuk Company, to facilitate a $100 million Sukuk under IFC's borrowings program. The Sukuk is scheduled to mature in September 2020. IFC Sukuk Company is a VIE and has been consolidated into these Condensed Consolidated Financial Statements because IFC is the VIE's primary beneficiary. The collective impact of this and other entities consolidated into these Condensed Consolidated Financial Statements under the VIE or voting interest model is insignificant.

NOTE C – LIQUID ASSET PORTFOLIO

Income from liquid asset trading activities

Income from liquid asset trading activities for the three and nine months ended March 31, 2016 and 2015 comprises (US$ millions):

	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Interest income, net	$ 139	$ 151	$ 414	$ 458
Net gains and losses on trading activities (realized and unrealized)	57	(6)	(105)	(109)
Total income from liquid asset trading activities	**$ 196**	**$ 145**	**$ 309**	**$ 349**

Net gains and losses on trading activities comprise net gains on asset-backed and mortgage-backed securities of $5 million and net losses of $83 million for the three and nine months ended March 31, 2016 ($24 million net gains and $1 million net gains - three and nine months ended March 31, 2015) respectively and net gains on other trading securities of $52 million and net losses of $22 million for the three and nine months ended March 31, 2016 ($30 million net losses and $110 million net losses - three and nine months ended March 31, 2015) respectively.

NOTE D – INVESTMENTS

The carrying amount of investments at March 31, 2016 and June 30, 2015 comprises (US$ millions):

	March 31, 2016	June 30, 2015
Loans		
Loans at amortized cost	$ 23,014	$ 22,295
Less: Reserve against losses on loans	(1,904)	(1,743)
Loans at amortized cost less reserve against losses	21,110	20,552
Loans accounted for at fair value under the Fair Value Option (outstanding principal balance $914 at March 31, 2016, $802 – June 30, 2015)	866	784
Total loans	**21,976**	**21,336**
Equity investments		
Equity investments at cost less impairment*	3,232	3,250
Equity investments accounted for at fair value as available-for-sale (cost $2,393 at March 31, 2016, $2,505 – June 30, 2015)	3,469	4,557
Equity investments accounted for at fair value (cost $5,160 at March 31, 2016, $4,800 – June 30, 2015)	5,724	5,696
Total equity investments	**12,425**	**13,503**
Debt securities		
Debt securities accounted for at fair value as available-for-sale (amortized cost $2,500 at March 31, 2016, $2,329 - June 30, 2015)	2,450	2,317
Debt securities accounted for at fair value under the Fair Value Option (amortized cost $440 at March 31, 2016, $408 – June 30, 2015)	443	422
Total debt securities	**2,893**	**2,739**
Total carrying amount of investments	**$ 37,294**	**$ 37,578**

* Equity investments at cost less impairment at March 31, 2016 includes unrealized gains of $7 million ($0 – June 30, 2015) related to equity investments accounted for as available-for-sale in previous periods and for which readily determinable fair vales are no longer available.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES

Loans

Income from Loans and guarantees, including realized gains and losses on loans and associated derivatives for the three and nine months ended March 31, 2016 and 2015 comprise the following (US$ millions):

	Three months ended March 31, 2016	Three months ended March 31, 2015	Nine months ended March 31, 2016	Nine months ended March 31, 2015
Interest income	$ 262	$ 230	$ 758	$ 723
Commitment fees	9	6	26	27
Other financial fees	14	15	44	56
Realized gains on loans, guarantees and associated derivatives	-	7	2	23
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	**$ 285**	**$ 258**	**$ 830**	**$ 829**

Reserve against losses on loans and provision for losses on loans

Changes in the reserve against losses on loans for the three and nine months ended March 31, 2016 and 2015, and for the years ended June 30, 2015 and 2014, as well as the related recorded investment in loans, evaluated for impairment individually (specific reserves) and on a pool basis (portfolio reserves) respectively, are summarized below (US$ millions):

	Three months ended March 31, 2016			Nine months ended March 31, 2016		
	Specific reserves	Portfolio reserves	Total reserves	Specific reserves	Portfolio reserves	Total reserves
Beginning balance	$ 1,116	$ 785	$ 1,901	$ 962	$ 781	$ 1,743
Provision for losses on loans	81	44	125	260	59	319
Write-offs	(143)	-	(143)	(160)	-	(160)
Recoveries of previously written-off loans	-	-	-	20	-	20
Foreign currency transaction adjustments	11	6	17	(11)	(5)	(16)
Other adjustments*	4	-	4	(2)	-	(2)
Ending balance	**$ 1,069**	**$ 835**	**$ 1,904**	**$ 1,069**	**$ 835**	**$ 1,904**
Related recorded investment in loans at March 31, 2016 evaluated for impairment**	$ 23,014	$ 21,302	$ 23,014	$ 23,014	$ 21,302	$ 23,014
Recorded investment in loans with specific reserves	$ 1,712			$ 1,712		

	Three months ended March 31, 2015			Nine months ended March 31, 2015		
	Specific reserves	Portfolio reserves	Total reserves	Specific reserves	Portfolio reserves	Total reserves
Beginning balance	$ 881	$ 803	$ 1,684	$ 838	$ 848	$ 1,686
Provision for (release of provision for) losses on loans	80	(1)	79	163	(23)	140
Write-offs	(13)	-	(13)	(18)	-	(18)
Recoveries of previously written-off loans	-	-	-	1	-	1
Foreign currency transaction adjustments	(18)	(18)	(36)	(46)	(41)	(87)
Other adjustments*	3	-	3	(5)	-	(5)
Ending balance	**$ 933**	**$ 784**	**$ 1,717**	**$ 933**	**$ 784**	**$ 1,717**
Related recorded investment in loans at March 31, 2015 evaluated for impairment**	$ 22,492	$ 20,829	$ 22,492	$ 22,492	$ 20,829	$ 22,492
Recorded investment in loans with specific reserves	$ 1,663			$ 1,663		

*Other adjustments comprise reserves against interest capitalized as part of a debt restructuring.

**IFC individually evaluates all loans for impairment. Portfolio reserves are established for losses incurred, but not specifically identifiable, on loans for which no specific reserve is established.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

	Year ended June 30, 2015			Year ended June 30, 2014		
	Specific reserves	Portfolio reserves	Total reserves	Specific reserves	Portfolio reserves	Total reserves
Beginning balance	$ 838	$ 848	$ 1,686	$ 741	$ 887	$ 1,628
Provision for (release of provision for) losses on loans	199	(30)	169	127	(44)	83
Write-offs	(34)	-	(34)	(44)	-	(44)
Recoveries of previously written-off loans	4	-	4	1	-	1
Foreign currency transaction adjustments	(43)	(37)	(80)	1	5	6
Other adjustments*	(2)	-	(2)	12	-	12
Ending balance	**$ 962**	**$ 781**	**$ 1,743**	**$ 838**	**$ 848**	**$ 1,686**
Related recorded investment in loans at June 30, 2015 and 2014 evaluated for impairment**	$ 22,295	$ 20,573	$ 22,295	$ 23,562	$ 21,837	$ 23,562
Recorded investment in loans with specific reserves	$ 1,722			$ 1,725		

*Other adjustments comprise reserves against interest capitalized as part of a debt restructuring.
**IFC individually evaluates all loans for impairment. Portfolio reserves are established for losses incurred, but not specifically identifiable, on loans for which no specific reserve is established.

Reserve for losses on guarantees and other receivables and provision for losses on guarantees and other receivables

Changes in the reserve against losses on guarantees for the three and nine months ended March 31, 2016 and 2015, and for the years ended June 30, 2015 and 2014, are summarized below (US$ millions):

	Three months ended March 31,		Nine months ended March 31,		Year ended June 30,	
	2016	2015	2016	2015	2015	2014
Beginning balance	$ 20	$ 15	$ 20	$ 22	$ 22	$ 17
Provision for (release of provision for) losses on guarantees	***	(1)	***	(8)	(2)	5
Ending balance	**$ 20**	**$ 14**	**$ 20**	**$ 14**	**$ 20**	**$ 22**

*** less than $0.5 million.

Changes in the reserve against losses on other receivables for the three and nine months ended March 31, 2016 and 2015, and for the years ended June 30, 2015 and 2014, are summarized below (US$ millions):

	Three months ended March 31,		Nine months ended March 31,		Year ended June 30,	
	2016	2015	2016	2015	2015	2014
Beginning balance	$ 8	$ 7	$ 7	$ 3	$ 3	$ 3
Provision for (release of provision for) losses on other receivables	-	-	1	4	4	-
Ending balance	**$ 8**	**$ 7**	**$ 8**	**$ 7**	**$ 7**	**$ 3**

Impaired loans

The average recorded investment and the recorded investment in loans at amortized cost that are impaired at March 31, 2016 and June 30, 2015 are as follows (US$ millions):

	March 31, 2016	June 30, 2015
Average recorded investment in loans at amortized cost that are impaired	$ 1,751	$ 1,771
Recorded investment in loans at amortized cost that are impaired	1,712	1,722

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

Loans at amortized cost that are impaired with specific reserves are summarized by industry sector and geographic region as follows (US$ millions):

	March 31, 2016				
	Recorded investment	Unpaid principal balance	Related specific reserve	Average recorded investment	Interest income recognized
Manufacturing, agribusiness and services					
Asia	$ 102	$ 154	$ 71	$ 150	$ 1
Europe, Middle East and North Africa	671	690	427	663	6
Sub-Saharan Africa, Latin America and Caribbean	235	257	162	226	2
Other	14	14	14	14	-
Total manufacturing, agribusiness and services	**1,022**	**1,115**	**674**	**1,053**	**9**
Financial markets					
Asia	-	2	-	-	-
Europe, Middle East and North Africa	12	13	11	14	-
Sub-Saharan Africa, Latin America and Caribbean	28	53	26	28	-
Other	1	1	1	1	-
Total financial markets	**41**	**69**	**38**	**43**	**-**
Infrastructure and natural resources					
Asia	152	152	84	153	(1)
Europe, Middle East and North Africa	217	217	146	223	5
Sub-Saharan Africa, Latin America and Caribbean	280	280	127	279	5
Total infrastructure and natural resources	**649**	**649**	**357**	**655**	**9**
Total	**$ 1,712**	**$ 1,833**	**$ 1,069**	**$ 1,751**	**$ 18**

All impaired loans at March 31, 2016 had specific reserves.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

	June 30, 2015				
	Recorded investment	Unpaid principal balance	Related specific reserve	Average recorded investment	Interest income recognized
Manufacturing, agribusiness and services					
Asia	$ 126	$ 128	$ 82	$ 126	$ 1
Europe, Middle East and North Africa	673	676	408	684	(10)
Sub-Saharan Africa, Latin America and Caribbean	251	299	149	278	6
Other	15	15	14	15	-
Total manufacturing, agribusiness and services	**1,065**	**1,118**	**653**	**1,103**	**(3)**
Financial markets					
Asia	-	2	-	-	-
Europe, Middle East and North Africa	15	15	9	16	1
Sub-Saharan Africa, Latin America and Caribbean	37	63	36	42	3
Other	1	1	1	1	-
Total financial markets	**53**	**81**	**46**	**59**	**4**
Infrastructure and natural resources					
Asia	166	166	68	171	9
Europe, Middle East and North Africa	160	160	93	172	3
Sub-Saharan Africa, Latin America and Caribbean	137	137	79	136	(1)
Total infrastructure and natural resources	**463**	**463**	**240**	**479**	**11**
Telecom, media & technology, and venture investing					
Sub-Saharan Africa, Latin America and Caribbean	29	29	7	29	2
Other	112	112	16	101	1
Total Telecom, media & technology, and venture investing	141	141	**23**	**130**	**3**
Total	**$ 1,722**	**$ 1,803**	**$ 962**	**$ 1,771**	**$ 15**

All impaired loans at June 30, 2015 had specific reserves.

Nonaccruing loans

Loans on which the accrual of interest has been discontinued amounted to $1,696 million at March 31, 2016 ($1,534 million – June 30, 2015). The interest income on such loans for the three and nine months ended March 31, 2016 and 2015 is summarized as follows (US$ millions):

	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Interest income not recognized on nonaccruing loans	$ 52	$ 26	$ 117	$ 96
Interest income recognized on loans in nonaccrual status related to current and prior years, on a cash basis	10	5	20	26

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

The recorded investment in nonaccruing loans at amortized cost at March 31, 2016 and June 30, 2015 is summarized by industry sector and geographic region as follow (US$ millions):

March 31, 2016	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Telecom, media & technology, and venture investing	Total recorded investment in nonaccruing loans
Asia	$ 96	$ -	$ 152	$ -	$ 248
Europe, Middle East and North Africa	650	12	196	-	858
Sub-Saharan Africa, Latin America and Caribbean	269	25	155	16	465
Other	15	1	-	-	16
Total disbursed loans at amortized cost	**$ 1,030**	**$ 38**	**$ 503**	**$ 16**	$ **1,587**

June 30, 2015	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Telecom, media & technology, and venture investing	Total recorded investment in nonaccruing loans
Asia	$ 125	$ -	$ 122	$ -	$ 247
Europe, Middle East and North Africa	597	12	129	-	738
Sub-Saharan Africa, Latin America and Caribbean	250	30	135	45	460
Other	15	-	-	-	15
Total disbursed loans at amortized cost	**$ 987**	**$ 42**	**$ 386**	**$ 45**	$ **1,460**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

Past due loans

An age analysis, based on contractual terms, of IFC's loans at amortized cost by industry sector and geographic region follows (US$ millions):

	March 31, 2016					
	30-59 days past due	60-89 days past due	90 days or greater past due	Total past due	Current	Total loans
Manufacturing, agribusiness and services						
Asia	$ -	$ 1	$ 73	$ 74	$ 1,413	$ 1,487
Europe, Middle East and North Africa	83	7	588	678	2,129	2,807
Sub-Saharan Africa, Latin America and Caribbean	9	19	221	249	2,254	2,503
Other	-	-	15	15	214	229
Total manufacturing, agribusiness and services	92	27	897	1,016	6,010	7,026
Financial markets						
Asia	-	-	-	-	1,907	1,907
Europe, Middle East and North Africa	-	-	5	5	1,851	1,856
Sub-Saharan Africa, Latin America and Caribbean	-	-	25	25	2,972	2,997
Other	-	1	-	1	862	863
Total financial markets	-	1	30	31	7,592	7,623
Infrastructure and natural resources						
Asia	-	-	152	152	1,346	1,498
Europe, Middle East and North Africa	-	-	135	135	1,818	1,953
Sub-Saharan Africa, Latin America and Caribbean	3	14	39	56	3,841	3,897
Other	-	-	-	-	200	200
Total infrastructure and natural resources	3	14	326	343	7,205	7,548
Telecom, media & technology, and venture investing						
Asia	-	-	-	-	386	386
Europe, Middle East and North Africa	-	-	-	-	162	162
Sub-Saharan Africa, Latin America and Caribbean	-	-	16	16	253	269
Other	-	-	-	-	132	132
Total Telecom, media & technology, and venture investing	-	-	16	16	933	949
Total disbursed loans at amortized cost	**$ 95**	**$ 42**	**$ 1,269**	**$ 1,406**	**$ 21,740**	**$ 23,146**
Unamortized deferred loan origination fees, net and other						(120)
Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets						(12)
Recorded investment in loans at amortized cost						**$ 23,014**

At March 31, 2016, there are no loans 90 days or greater past due still accruing.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

	June 30, 2015					
	30-59 days past due	60-89 days past due	90 days or greater past due	Total past due	Current	Total loans
Manufacturing, agribusiness and services						
Asia	$ -	$ -	$ 125	$ 125	$ 1,747	$ 1,872
Europe, Middle East and North Africa	6	16	581	603	2,258	2,861
Sub-Saharan Africa, Latin America and Caribbean	-	15	211	226	2,209	2,435
Other	-	-	15	15	156	171
Total manufacturing, agribusiness and services	6	31	932	969	6,370	7,339
Financial markets						
Asia	-	-	-	-	2,089	2,089
Europe, Middle East and North Africa	-	-	5	5	2,010	2,015
Sub-Saharan Africa, Latin America and Caribbean	-	-	30	30	2,585	2,615
Other	-	-	-	-	501	501
Total financial markets	-	-	35	35	7,185	7,220
Infrastructure and natural resources						
Asia	-	-	122	122	1,502	1,624
Europe, Middle East and North Africa	-	-	96	96	1,648	1,744
Sub-Saharan Africa, Latin America and Caribbean	-	-	42	42	3,557	3,599
Other	-	-	-	-	156	156
Total infrastructure and natural resources	-	-	260	260	6,863	7,123
Telecom, media & technology, and venture investing						
Asia	-	-	-	-	252	252
Europe, Middle East and North Africa	-	-	-	-	196	196
Sub-Saharan Africa, Latin America and Caribbean	-	16	29	45	152	197
Other	-	-	-	-	123	123
Total Telecom, media & technology, and venture investing	-	16	29	45	723	768
Total disbursed loans at amortized cost	**$ 6**	**$ 47**	**$ 1,256**	**$ 1,309**	**$ 21,141**	**$ 22,450**
Unamortized deferred loan origination fees, net and other						(119)
Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets						(36)
Recorded investment in loans at amortized cost						**$ 22,295**

At June 30, 2015, there are no loans 90 days or greater past due still accruing.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

Loan Credit Quality Indicators

IFC utilizes a rating system to classify loans according to credit worthiness and risk. Each loan is categorized as very good, good, average, watch, substandard, doubtful or loss.

A description of each category (credit quality indicator), in terms of the attributes of the borrower, the business environment in which the borrower operates or the loan itself, follows:

Credit quality indicator	Description
Very good	Excellent debt service capacity; superior management; market leader; very favorable operating environment; may also have strong collateral and/or guarantee arrangements.
Good	Strong debt service capacity: good liquidity; stable performance, very strong management, high market share; minimal probability of financial deterioration.
Average	Satisfactory balance sheet ratios, average liquidity; good debt service capacity; good management; average size and market share.
Watch	Tight liquidity; financial performance below expectations; higher than average leverage ratio; weak management in certain aspects; uncompetitive products and operations; unfavorable or unstable macroeconomic factors.
Substandard	Poor financial performance; difficulty servicing debt; inadequate net worth and debt service capacity; loan not fully secured: partial past due amounts of interest and/or principal; well-defined weaknesses may adversely impact collection but no loss of principal is expected.
Doubtful	Bad financial performance; serious liquidity and debt service capacity issues: large and increasing past due amounts: partial loss is very likely.
Loss	Close to or already in bankruptcy; serious regional geopolitical issues/conflicts; default and total loss highly likely.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

A summary of IFC's loans at amortized cost by credit quality indicator effective March 31, 2016 and June 30, 2015 respectively, as well as by industry sector and geographic region follows (US$ millions):

	March 31, 2016							
	Very good	Good	Average	Watch	Substandard	Doubtful	Loss	Total
Manufacturing, agribusiness and services								
Asia	$ -	$ 446	$ 545	$ 379	$ 44	$ 8	$ 65	$ 1,487
Europe, Middle East and North Africa	-	420	691	753	250	187	506	2,807
Sub-Saharan Africa, Latin America and Caribbean	65	220	557	1,101	346	46	168	2,503
Other	75	57	32	50	-	15	-	229
Total manufacturing, agribusiness and services	140	1,143	1,825	2,283	640	256	739	7,026
Financial markets								
Asia	-	904	765	231	7	-	-	1,907
Europe, Middle East and North Africa	-	379	1,183	240	42	-	12	1,856
Sub-Saharan Africa, Latin America and Caribbean	-	873	1,578	491	24	6	25	2,997
Other	-	250	242	370	-	-	1	863
Total financial markets	-	2,406	3,768	1,332	73	6	38	7,623
Infrastructure and natural resources								
Asia	-	208	378	707	31	77	97	1,498
Europe, Middle East and North Africa	-	129	313	1,076	238	67	130	1,953
Sub-Saharan Africa, Latin America and Caribbean	300	116	958	1,203	1,128	175	17	3,897
Other	-	-	200	-	-	-	-	200
Total infrastructure and natural resources	300	453	1,849	2,986	1,397	319	244	7,548
Telecom, media & technology, and venture investing								
Asia	-	186	200	-	-	-	-	386
Europe, Middle East and North Africa	-	52	8	24	78	-	-	162
Sub-Saharan Africa, Latin America and Caribbean	-	4	90	150	9	16	-	269
Other	-	-	-	132	-	-	-	132
Total telecom, media & technology, and venture investing	-	242	298	306	87	16	-	949
Total disbursed loans at amortized cost	**$ 440**	**$ 4,244**	**$ 7,740**	**$ 6,907**	**$ 2,197**	**$ 597**	**$ 1,021**	**$ 23,146**
Unamortized deferred loan origination fees, net and other								(120)
Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets								(12)
Recorded investment in loans at amortized cost								**$ 23,014**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

June 30, 2015	Very good	Good	Average	Watch	Substandard	Doubtful	Loss	Total
Manufacturing, agribusiness and services								
Asia	$ -	$ 531	$ 601	$ 546	$ 69	$ 9	$ 116	$ 1,872
Europe, Middle East and North Africa	-	276	865	779	328	94	519	2,861
Sub-Saharan Africa, Latin America and Caribbean	60	236	730	978	213	51	167	2,435
Other	-	57	49	50	-	15	-	171
Total manufacturing, agribusiness and services	60	1,100	2,245	2,353	610	169	802	7,339
Financial markets								
Asia	-	1,036	899	148	6	-	-	2,089
Europe, Middle East and North Africa	-	455	1,102	350	22	74	12	2,015
Sub-Saharan Africa, Latin America and Caribbean	-	596	1,613	334	35	7	30	2,615
Other	-	250	-	250	1	-	-	501
Total financial markets	-	2,337	3,614	1,082	64	81	42	7,220
Infrastructure and natural resources								
Asia	-	298	381	719	54	111	61	1,624
Europe, Middle East and North Africa	-	118	458	823	293	30	22	1,744
Sub-Saharan Africa, Latin America and Caribbean	300	154	1,245	1,332	426	115	27	3,599
Other	-	6	150	-	-	-	-	156
Total infrastructure and natural resources	300	576	2,234	2,874	773	256	110	7,123
Telecom, media & technology, and venture investing								
Asia	-	165	85	2	-	-	-	252
Europe, Middle East and North Africa	-	71	38	87	-	-	-	196
Sub-Saharan Africa, Latin America and Caribbean	-	5	73	70	4	45	-	197
Other	-	-	-	-	123	-	-	123
Total telecom, media & technology, and venture investing	-	241	196	159	127	45	-	768
Total disbursed loans at amortized cost	**$ 360**	**$ 4,254**	**$ 8,289**	**$ 6,468**	**$ 1,574**	**$ 551**	**$ 954**	**$ 22,450**
Unamortized deferred loan origination fees, net and other								(119)
Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets								(36)
Recorded investment in loans at amortized cost								**$ 22,295**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

Loan modifications during the three and nine months ended March 31, 2016 considered troubled debt restructurings totaled $42 million and $201 million ($7 million and $66 million – three and nine months ended March 31, 2015). There were two loans that defaulted during the nine months ended March 31, 2016 that had been modified in a troubled debt restructuring within 12 months prior to the date of default with a combined outstanding balance of $41 million. One of the loans with an outstanding balance of $25 million was brought current subsequent to March 31, 2016. The remaining loan was evaluated and included as part of the specific reserve.

Guarantees

IFC extends financial guarantee facilities to its clients to provide full or partial credit enhancement for their debt securities and trade obligations. Under the terms of IFC's guarantees, IFC agrees to assume responsibility for the client's financial obligations in the event of default by the client, where default is defined as failure to pay when payment is due. Guarantees entered into by IFC generally have maturities consistent with those of the loan portfolio. Guarantees signed at March 31, 2016 totaled $4,253 million ($4,091 million – June 30, 2015). Guarantees of $3,385 million that were outstanding (i.e., not called) at March 31, 2016 ($3,168 million – June 30, 2015), were not included in loans on IFC's consolidated balance sheet. The outstanding amount represents the maximum amount of undiscounted future payments that IFC could be required to make under these guarantees.

NOTE F – DEBT SECURITIES

Income from debt securities, including realized gains and losses on debt securities and associated derivatives for the three and nine months ended March 31, 2016 and 2015 comprise the following (US$ millions):

	Three months ended March 31, 2016	Three months ended March 31, 2015	Nine months ended March 31, 2016	Nine months ended March 31, 2015
Interest income	$ 28	$ 28	$ 83	$ 75
Dividends	3	-	6	7
Realized gains (losses) on debt securities and associated derivatives	(1)	1	36	46
Other-than-temporary impairments	(3)	(20)	(29)	(29)
Total income from debt securities, including realized gains and losses on debt securities and associated derivatives	**$ 27**	**$ 9**	**$ 96**	**$ 99**

Debt securities accounted for as available-for-sale at March 31, 2016 and June 30, 2015 comprise (US$ millions):

March 31, 2016	Amortized cost	Unrealized gains	Unrealized losses	Foreign currency transaction losses	Fair value
Corporate debt securities	$ 1,896	$ 114	$ (33)	$ (151)	$ 1,826
Preferred shares	465	50	(3)	3	515
Asset-backed securities	139	4	-	(34)	109
Total	**$ 2,500**	**$ 168**	**$ (36)**	**$ (182)**	**$ 2,450**

June 30, 2015	Amortized cost	Unrealized gains	Unrealized losses	Foreign currency transaction losses	Fair value
Corporate debt securities	$ 1,642	$ 125	$ (30)	$ (126)	$ 1,611
Preferred shares	543	64	(2)	(21)	584
Asset-backed securities	144	5	-	(27)	122
Total	**$ 2,329**	**$ 194**	**$ (32)**	**$ (174)**	**$ 2,317**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE F – DEBT SECURITIES (Continued)

The following table shows the unrealized losses and fair value of debt securities at March 31, 2016 and June 30, 2015 by length of time that individual securities had been in a continuous loss position where the fair value of securities declined below their cost basis (US$ millions):

	March 31, 2016					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debt securities	$ 58	$ (6)	$ 167	$ (27)	$ 225	$ (33)
Preferred shares	64	(3)	4	**	68	(3)
Total	**$ 122**	**$ (9)**	**$ 171**	**$ (27)**	**$ 293**	**$ (36)**

** less than $0.5 million.

	June 30, 2015					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debt securities	$ 189	$ (23)	$ 152	$ (7)	$ 341	$ (30)
Preferred shares	42	(1)	8	(1)	50	(2)
Total	**$ 231**	**$ (24)**	**$ 160**	**$ (8)**	**$ 391**	**$ (32)**

Corporate debt securities comprise investments in bonds and notes. Unrealized losses associated with corporate debt securities are primarily attributable to movements in the credit default swap spread curve applicable to the issuer. Based upon IFC's assessment of expected credit losses, IFC has determined that the issuer is expected to make all contractual principal and interest payments. Accordingly, IFC expects to recover the cost basis of these securities.

Preferred shares comprise investments in preferred equity investments that are redeemable at the option of IFC or mandatorily redeemable by the issuer. Unrealized losses associated with preferred shares are primarily driven by changes in discount rates associated with changes in credit spreads or interest rates, minor changes in exchange rates and comparable market valuations in the applicable sector. Based upon IFC's assessment of the expected credit losses, IFC expects to recover the cost basis of these securities.

NOTE G – EQUITY INVESTMENTS AND ASSOCIATED DERIVATIVES

Income (loss) from equity investments and associated derivatives for the three and nine months ended March 31, 2016 and 2015 comprises the following (US$ millions):

	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Gains (losses) on equity investments and associated derivatives	$ 103	$ (23)	$ 717	$ 575
Dividends	73	45	163	165
Other-than-temporary impairments:				
Equity investments at cost less impairment	(74)	(99)	(318)	(291)
Equity investments available-for-sale	(85)	(104)	(282)	(356)
Total other-than-temporary impairments	(159)	(203)	(600)	(647)
Custody, fees and other	3	1	6	3
Total income (loss) from equity investments and associated derivatives	**$ 20**	**$ (180)**	**$ 286**	**$ 96**

Gains (losses) on equity investments and associated derivatives includes realized gains and losses on equity investments and associated derivatives of $194 million for the three months ended March 31, 2016 ($148 million – three months ended March 31, 2015) and $951 million for the nine months ended March 31, 2016 ($1,111 million - nine months ended March 31, 2015).

Dividends include $2 million for the three months ended March 31, 2016 ($5 million – three months ended March 31, 2015) and $9 million for the nine months ended March 31, 2016 ($17 million – nine months ended March 31, 2015) of receipts, net of cash disbursements, related to investments accounted for under the cost recovery method, for which cost has been fully recovered.

Equity investments include several private equity funds that invest primarily in emerging markets across a range of sectors and that are accounted for at fair value under the Fair Value Option. These investments cannot be redeemed. Instead distributions are received through the liquidation of the underlying assets of the funds. IFC estimates that the underlying assets of the funds will be liquidated over five to eight years. The fair values of these funds have been determined using the net asset value of IFC's ownership interest in partners' capital and totaled $3,185 million as of March 31, 2016 ($3,409 million – June 30, 2015).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE H – RETAINED EARNINGS DESIGNATIONS AND RELATED EXPENDITURES AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Designated retained earnings

The components of designated retained earnings and related expenditures are summarized below (US$ millions):

	Grants to IDA	Advisory services	Performance-based grants	SME Ventures for IDA countries	Global Infrastructure Project Development Fund	Total designated retained earnings
At June 30, 2014	$ -	$ 131	$ 21	$ 25	$ 17	$ 194
Year ended June 30, 2015						
Designations of retained earnings	340	58	-	-	-	398
Expenditures against designated retained earnings	(340)	(52)	(5)	(4)	(7)	(408)
At June 30, 2015	**$ -**	**$ 137**	**$ 16**	**$ 21**	**$ 10**	**$ 184**
Nine months ended March 31, 2016						
Designations of retained earnings	330	14	-	-	-	344
Expenditures against designated retained earnings	(330)	(32)	(2)	(1)	(5)	(370)
At March 31, 2016	**$ -**	**$ 119**	**$ 14**	**$ 20**	**$ 5**	**$ 158**

On August 6, 2015, the Board of Directors approved a designation of $330 million of IFC's retained earnings for grants to IDA and a designation of $14 million of IFC's retained earnings for Advisory Services. On October 9, 2015, the Board of Governors noted with approval the designations approved by the Board of Directors. IFC recognizes designation of retained earnings for advisory services when the Board of Directors approves it and recognizes designation of retained earnings for grants to IDA when it is noted with approval by the Board of Governors.

On January 15, 2016, IFC recognized grants to IDA of $330 million on the signing of a grant agreement between IDA and IFC concerning the transfer to IDA and use of funds corresponding to the designation of retained earnings for grants to IDA approved by IFC's Board of Directors on August 6, 2015 and noted with approval by IFC's Board of Governors on October 9, 2015.

Accumulated other comprehensive income

The components of accumulated other comprehensive income (loss) at March 31, 2016 and June 30, 2015 are summarized as follows (US$ millions):

	March 31, 2016	June 30, 2015
Net unrealized losses on available-for-sale debt securities	$ (50)	$ (12)
Net unrealized gains on available-for-sale equity investments	1,083	2,052
Unrecognized net actuarial losses and unrecognized prior service costs on benefit plans	(818)	(843)
Total accumulated other comprehensive income	**$ 215**	**$ 1,197**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE I – NET UNREALIZED GAINS AND LOSSES ON NON-TRADING FINANCIAL INSTRUMENTS ACCOUNTED FOR AT FAIR VALUE

Net unrealized gains and losses on non-trading financial instruments accounted for at fair value for the three and nine months ended March 31, 2016 and 2015 comprises (US$ millions):

	Three months ended March 31,		Nine months ended March 31,	
	2016	2015	2016	2015
Unrealized gains and losses on loans, debt securities and associated derivatives:				
Unrealized gains (losses) on loans and associated derivatives	$ (27)	$ (45)	$ (85)	$ (76)
Unrealized gains (losses) on debt securities and associated derivatives	(9)	(18)	(19)	(19)
Total net unrealized gains (losses) on loans, debt securities and associated derivatives	**(36)**	**(63)**	**(104)**	**(95)**
Unrealized gains and losses on borrowings from market, IDA and associated derivatives:				
Unrealized gains (losses) on market borrowings accounted for at fair value:				
Credit spread component	112	58	251	(8)
Interest rate, foreign exchange and other components	(467)	(237)	(230)	(283)
Total unrealized gains (losses) on market borrowings	(355)	(179)	21	(291)
Unrealized gains (losses) on derivatives associated with market borrowings	426	209	155	203
Unrealized gains (losses) on borrowings from IDA accounted for at fair value	(23)	(18)	(21)	(2)
Total net unrealized gains (losses) on borrowings from market, IDA and associated derivatives	**48**	**12**	**155**	**(90)**
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	**$ 12**	**$ (51)**	**$ 51**	**$ (185)**

As discussed in Note A, "Summary of significant accounting and related policies", market borrowings economically hedged with financial instruments, including derivatives, accounted for at fair value with changes therein reported in earnings are accounted for at fair value under the Fair Value Option. Differences arise between the movement in the fair value of market borrowings and the fair value of the associated derivatives primarily due to the different credit characteristics. The change in fair value reported in "Unrealized gains and losses on borrowings from market, IDA and associated derivatives" includes the impact of changes in IFC's own credit spread. As credit spreads widen, unrealized gains are recorded and when such credit spreads narrow, unrealized losses are recorded (notwithstanding the impact of other factors, such as changes in risk-free interest and foreign currency exchange rates). The magnitude and direction (gain or loss) can be volatile from period to period but they do not alter the timing of the cash flows on the market borrowings.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE J – DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

As discussed in Note A, "Summary of significant accounting and related policies", IFC enters into transactions in various derivative instruments for financial risk management purposes in connection with its principal business activities, including lending, investing in debt securities, equity investments, client risk management, borrowing, liquid asset management and asset and liability management. None of these derivative instruments are designated as hedging instruments under ASC Topic 815. Note A describes IFC's risk management and use of derivative instruments. The fair value of derivative instrument assets and liabilities by risk type at March 31, 2016 and June 30, 2015 is summarized as follows (US$ millions):

Condensed consolidated balance sheet location	March 31, 2016	June 30, 2015
Derivative assets		
Interest rate	$ 581	$ 426
Foreign exchange	70	221
Interest rate and currency	2,454	2,319
Equity and other	369	289
Total derivative assets	**$ 3,474**	**$ 3,255**
Derivative liabilities		
Interest rate	$ 391	$ 268
Foreign exchange	204	154
Interest rate and currency	3,546	3,799
Equity and other	1	4
Total derivative liabilities	**$ 4,142**	**$ 4,225**

The effect of derivative instrument contracts on the condensed consolidated statement of operations for the three and nine months ended March 31, 2016 and 2015 is summarized as follows (US$ millions):

		Three months ended March 31,		Nine months ended March 31,	
Derivative risk category	Income statement location	2016	2015	2016	2015
Interest rate	Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	$ (8)	$ (4)	$ (22)	$ (23)
	Income from debt securities, including realized gains and losses on debt securities and associated derivatives	(1)	(1)	(2)	(2)
	Income from liquid asset trading activities	(111)	(87)	(185)	(168)
	Charges on borrowings	70	107	256	325
	Other income	-	(1)	(2)	-
	Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	158	109	83	29
Foreign exchange	Income from liquid asset trading activities	37	(51)	(19)	(177)
	Foreign currency transaction gains and losses on non-trading activities	(41)	41	3	176
	Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	-	2	1	3
Interest rate and currency	Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	(48)	(43)	(135)	(140)
	Income from debt securities, including realized gains and losses on debt securities and associated derivatives	(3)	(5)	(12)	(16)
	Income from liquid asset trading activities	38	17	78	47
	Charges on borrowings	156	178	488	620
	Foreign currency transaction gains and losses on non-trading activities	331	(718)	(3)	(1,823)
	Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	201	77	10	143
Equity	Income (loss) from equity investments and associated derivatives	(9)	(44)	87	(254)
	Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	-	-	-	4
	Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	1	(13)	(3)	(31)
	Total	**$ 771**	**$ (436)**	**$ 623**	**$ (1,287)**

The income related to each derivative risk category includes realized and unrealized gains and losses.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE J – DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS (continued)

At March 31, 2016, the outstanding volume, measured by US$ equivalent notional, of interest rate contracts was $67,253 million ($55,792 million at June 30, 2015), foreign exchange contracts was $11,375 million ($12,020 million at June 30, 2015) and interest rate and currency contracts was $34,504 million ($33,034 million at June 30, 2015). At March 31, 2016, there were 263 equity contracts related to IFC's loan and equity investment portfolio and 2 other derivative contracts recognized as derivatives assets or liabilities under ASC Topic 815 (290 equity risk and other contracts at June 30, 2015).

NOTE K – FAIR VALUE MEASUREMENTS

Many of IFC's financial instruments are not actively traded in any market. Accordingly, estimates and present value calculations of future cash flows are used to estimate the fair values. Determining future cash flows for fair value estimation is subjective and imprecise, and minor changes in assumptions or methodologies may materially affect the estimated values. The excess or deficit resulting from the difference between the carrying amounts and the fair values presented does not necessarily reflect the values which will ultimately be realized, since IFC generally holds loans, borrowings and other financial instruments with contractual maturities with the aim of realizing their contractual cash flows.

The estimated fair values as of March 31, 2016 and June 30, 2015 reflect multiple factors such as interest rates, credit risk, foreign currency exchange rates and commodity prices. Reasonable comparability of fair values among financial institutions is not likely because of the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices. This lack of objective pricing standard in the market introduces a greater degree of subjectivity and volatility to these derived or estimated fair values. Therefore, while disclosure of estimated fair values of financial instruments is required, readers are cautioned in using these data for purposes of evaluating the financial condition of IFC. The fair values of the individual financial instruments do not represent the fair value of IFC taken as a whole.

All of IFC's financial instruments in its liquid assets portfolio are managed according to an investment authority approved by the Board of Directors and investment guidelines approved by IFC's Corporate Risk Committee (CRC), a subcommittee of IFC's Management Team. Third party independent vendor prices are used to price the vast majority of the liquid assets. The vendor prices are evaluated by IFC's Treasury department and IFC's Corporate and Portfolio Risk Management department maintains oversight for the pricing of liquid assets.

IFC's regional and industry departments are primarily responsible for fair valuing IFC's investment portfolio (equity investments, debt securities, loan investments and related derivatives). IFC's Portfolio Valuation Unit, in Corporate Risk & Sustainability, and Portfolio Review Unit, in Finance and Accounting, provide oversight over the fair valuation process by monitoring and reviewing the fair values of IFC's investment portfolio. Prior to October 1, 2014, IFC's Valuation Oversight Subcommittee (VOS), which was a subcommittee of CRC, reviewed significant valuation principles and the reasonableness of high exposure valuations quarterly. Pursuant to a simplification of IFC's organizational structure effective October 1, 2014, the committees of IFC's Management Team, including the VOS, are continuing to be reassessed.

IFC's borrowings are fair valued by the Quantitative Analysis and Modeling Group in IFC's Treasury department under the oversight of the Corporate Portfolio and Risk Management department.

The methodologies used and key assumptions made to estimate fair values as of March 31, 2016, and June 30, 2015, are summarized below.

Liquid assets – The primary pricing source for the liquid assets is valuations obtained from external pricing services (vendor prices). The most liquid securities in the liquid asset portfolio are exchange traded futures, options, and US Treasuries. For exchange traded futures and options, exchange quoted prices are obtained and these are classified as Level 1 in accordance with ASC 820. Liquid assets valued using quoted market prices are also classified as Level 1. Securities valued using vendor prices for which there is evidence of high market trade activity may also be classified as Level 1. US Treasuries are valued using index prices and also classified as Level 1. The remaining liquid assets valued using vendor prices are classified as Level 2 or Level 3 based on the results of IFC's evaluation of the vendor's pricing methodologies and individual security facts and circumstances. Most vendor prices use some form of matrix pricing methodology to derive the inputs for projecting cash flows or to derive prices. When vendor prices are not available, liquid assets are valued internally by IFC using yield-pricing approach or comparables model approach and these are classified as Level 2 or Level 3 depending on the degree that the inputs are observable in the market.

The critical factors in valuing liquid assets in both Level 2 and Level 3 are the estimation of cash flows and yield. Other significant inputs for valuing corporate securities, quasi-government securities and sovereign or sovereign-guaranteed securities include reported trades, broker/dealer quotes, benchmark securities, option adjusted spread curve, volatilities, and other reference data. In addition to these inputs, valuation models for securitized or collateralized securities use collateral performance inputs, such as weighted average coupon rate, weighted average maturity, conditional prepayment rate, constant default rate, vintage, and credit enhancements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

Loans and debt securities – Loans and debt securities in IFC's investment portfolio that do not have available market prices are primarily valued using discounted cash flow approaches. All loans measured at fair value are classified as Level 3. Certain loans contain embedded conversion and/or income participation features. If not bifurcated as standalone derivatives, these features are considered in determining the loans' fair value based on the quoted market prices or other calculated values of the equity investments into which the loans are convertible and the discounted cash flows of the income participation features. The valuation techniques and significant unobservable inputs for loans and debt securities classified as Level 3 as of March 31, 2016 and June 30, 2015 are presented below:

March 31, 2016

	Valuation technique	Fair value (US$ millions)	Significant inputs	Range (%)	Weighted average (%)
Debt securities – preferred shares	Discounted cash flows	$ 227	Discount rate	7.4– 30.0	10.0
	Relative valuations	32	Valuation multiples*		
	Recent transactions	213			
	Other techniques	66			
Total preferred shares		538			
Loans and other debt securities	Discounted cash flows	1,839	Credit default swap spreads	1.0 – 20.0	2.6
			Expected recovery rates	10.0 – 85.0	42.4
	Recent transactions	504			
	Other techniques	218			
Total loans and other debt securities		2,561			
Total		**$ 3,099**			

June 30, 2015

	Valuation technique	Fair value (US$ millions)	Significant inputs	Range (%)	Weighted average (%)
Debt securities – preferred shares	Discounted cash flows	$ 274	Discount rate	6.9 – 30.0	10.4
	Relative valuations	126	Valuation multiples*		
	Recent transactions	140			
	Other techniques	15			
Total preferred shares		555			
Loans and other debt securities	Discounted cash flows	1,724	Credit default swap spreads	1.2 – 20.0	3.0
			Expected recovery rates	10.0 – 85.0	41.6
	Recent transactions	495			
	Other techniques	60			
Total loans and other debt securities		2,279			
Total		**$ 2,834**			

* In case of valuation techniques with multiple significant inputs, the range and weighted average are not provided.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

Borrowings – Fair values derived by using quoted prices in active markets are classified as Level 1. Fair values derived by determining the present value of estimated future cash flows using appropriate discount rates and option specific models where appropriate are classified as Level 2. The significant inputs used in valuing borrowings classified as Level 2 are presented below:

Classes	Significant Inputs
Structured bonds	Foreign exchange rate and inter-bank yield curves, IFC's credit curve and swaption volatility matrix, foreign exchange rate volatility, equity spot price, volatility and dividend yield.
Unstructured bonds	Inter-bank yield curve and IFC's credit curve.

As of March 31, 2016, IFC had bond issuances with a total fair value of $150 million classified as level 3 in Costa Rican colones, Nigerian naira and Rwandan francs, where the significant unobservable inputs were yield curve data.

Derivative instruments – The various classes of derivative instruments include interest rate contracts, foreign exchange contracts, interest rate and currency contracts, equity contracts and other derivative contracts. Certain over the counter derivatives in the liquid asset portfolio priced in-house are classified as Level 2, while certain over the counter derivatives priced using external manager prices are classified as Level 3. Fair values for derivative instruments are derived by determining the present value of estimated future cash flows using appropriate discount rates and option specific models where appropriate.

The significant inputs used in valuing the various classes of derivative instruments classified as Level 2 and significant unobservable inputs for derivative instruments classified as Level 3 as of March 31, 2016 and June 30, 2015 are presented below:

Level 2 derivatives	Significant Inputs
Interest rate	Inter-bank yield curves, foreign exchange basis curve and yield curves specified to index floating rates.
Foreign exchange	Foreign exchange rate, inter-bank yield curves and foreign exchange basis curve.
Interest rate and currency	Foreign exchange rate, inter-bank yield curves, foreign exchange basis curve and yield curves specified to index floating rates.

March 31, 2016

Level 3 derivatives	Type	Fair value (US$ millions)	Significant inputs	Range (%)	Weighted average (%)
Equity related derivatives	Fixed strike price options	$ 38	Volatilities	11.1– 65.0	19.6
	Variable strike price options	330	Contractual strike price*		
	Other	-			
Interest rate and currency swap assets	Vanilla swaps	52	Yield curve points, exchange rates		
Interest rate and currency swap liabilities	Vanilla swaps	(26)	Yield curve points, exchange rates		
Total		**$ 394**			

June 30, 2015

Level 3 derivatives	Type	Fair value (US$ millions)	Significant inputs	Range (%)	Weighted average (%)
Equity related derivatives	Fixed strike price options	$ 34	Volatilities	12.0 – 50.2	24.7
	Variable strike price options	249	Contractual strike price*		
	Other	2			
Interest rate and currency swap assets	Vanilla swaps	40	Yield curve points, exchange rates		
Interest rate and currency swap liabilities	Vanilla swaps	(30)	Yield curve points, exchange rates		
Total		**$ 295**			

* In case of valuation techniques with multiple significant inputs, the range and weighted average are not provided.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

Equity investments – Equity investments valued using quoted prices in active markets are classified as Level 1. Equity investments classified as Level 2 were valued using quoted prices in inactive markets. The valuation techniques and significant unobservable inputs for equity investments classified as Level 3 as of March 31, 2016 and June 30, 2015 are presented below:

		March 31, 2016			
Sector	Valuation technique	Fair value (US$ millions)	Significant inputs	Range	Weighted average
Banking and other financial Institutions	Discounted cash flows	$ 609	Cost of equity (%)	10.3 – 22.6	15.3
			Asset growth rate (%)	(18.2) – 187.0	13.7
			Return on assets (%)	(5.1) – 6.8	1.8
			Perpetual growth rate (%)	2.5 – 11.0	5.2
	Relative valuations	53	Price to book value	1.0 – 2.7	2.7
	Listed price (adjusted)	37	Discount for lock-up (%)	0.0 – 6.4	0.5
	Recent transactions	164			
	Other techniques	23			
Total banking and other financial institutions		886			
Funds	Recent transactions	67			
Total funds		67			
Others	Discounted cash flows	533	Weighted average cost of capital (%)	6.6 – 21.5	12.4
			Cost of equity (%)	12.3 – 15.0	13.5
	Relative valuations	213	Valuation multiples*		
	Listed price (adjusted)	195	Discount for lock-up (%)	0.0 – 18.2	12.0
	Recent transactions	611			
	Other techniques	45			
Total others		1,597			
Total		**$ 2,550**			

* In case of valuation techniques with multiple significant inputs, the range and weighted average are not provided.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

June 30, 2015					
Sector	Valuation technique	Fair value (US$ millions)	Significant inputs	Range	Weighted average
Banking and other financial Institutions	Discounted cash flows	$ 580	Cost of equity (%)	10.2 – 22.6	15.1
			Asset growth rate (%)	(18.2) – 392.0	11.6
			Return on assets (%)	(8.9) – 6.8	1.8
			Perpetual growth rate (%)	2.5 – 11.0	5.0
	Relative valuations	17	Valuation multiples*		
	Listed price (adjusted)	36	Discount for lock-up (%)	0.0 – 10.2	6.0
	Recent transactions	216			
	Other techniques	52			
Total banking and other financial institutions		901			
Funds	Recent transactions	55			
Total funds		55			
Others	Discounted cash flows	522	Weighted average cost of capital (%)	6.6 – 23.2	12.0
			Cost of equity (%)	12.3 – 15.0	14.6
	Relative valuations	338	Valuation multiples*		
	Listed price (adjusted)	201	Discount for lock-up (%)	1.0 - 10.6	7.6
	Recent transactions	517			
	Other techniques	94			
Total others		1,672			
Total		**$ 2,628**			

* In case of valuation techniques with multiple significant inputs, the range and weighted average are not provided.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

Fair value of assets and liabilities

Estimated fair values of IFC's financial assets and liabilities and off-balance sheet financial instruments at March 31, 2016 and June 30, 2015 are summarized below (US$ millions):

	March 31, 2016		June 30, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from banks, time deposits, trading securities and securities purchased under resale agreements and receivable for cash collateral pledged	$ 47,556	$ 47,556	$ 43,817	$ 43,817
Investments:				
Loans at amortized cost, net of reserves against losses	21,110	22,589	20,552	21,758
Loans accounted for at fair value under the Fair Value Option	866	866	784	784
Total loans	21,976	23,455	21,336	22,542
Equity investments at cost less impairment	3,232	4,419	3,250	4,581
Equity investments accounted for at fair value as available-for-sale	3,469	3,469	4,557	4,557
Equity investments accounted for at fair value	5,724	5,724	5,696	5,696
Total equity investments	12,425	13,612	13,503	14,834
Debt securities accounted for at fair value as available-for-sale	2,450	2,450	2,317	2,317
Debt securities accounted for at fair value under the Fair Value Option	443	443	422	422
Total debt securities	2,893	2,893	2,739	2,739
Total investments	37,294	39,960	37,578	40,115
Derivative assets:				
Borrowings-related	981	981	620	620
Liquid asset portfolio-related and other	451	451	851	851
Investment-related	1,761	1,761	1,615	1,615
Client risk management-related	281	281	169	169
Total derivative assets	3,474	3,474	3,255	3,255
Other investment-related financial assets	1	65	1	75
Financial liabilities				
Securities sold under repurchase agreements and payable for cash collateral received	$ 3,388	$ 3,388	$ 4,695	$ 4,695
Market, IBRD, IDA and other borrowings outstanding	56,872	56,869	51,265	51,264
Derivative liabilities:				
Borrowings-related	3,201	3,201	3,722	3,722
Liquid asset portfolio-related and other	485	485	244	244
Investment-related	152	152	82	82
Client risk management-related	304	304	177	177
Total derivative liabilities	4,142	4,142	4,225	4,225

Other investment-related financial assets comprise standalone options and warrants that do not meet the definition of a derivative.

The fair value of loan commitments amounted to $37 million at March 31, 2016 ($34 million - June 30, 2015). Fair values of loan commitments are based on present value of loan commitment fees.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

Fair value hierarchy

The following tables provide information as of March 31, 2016 and June 30, 2015, about IFC's financial assets and financial liabilities measured at fair value on a recurring basis. As required by ASC 820, financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement (US$ millions):

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Trading securities:				
Government and agency obligations	$ 10,127	$ 985	$ 21	$ 11,133
Asset-backed securities	-	12,274	-	12,274
Corporate securities	5,511	1,730	37	7,278
Money market funds	558	-	-	558
Total trading securities	16,196*	14,989	58	31,243
Loans (outstanding principal balance $914)	-	-	866	866
Equity investments:				
Banking and other financial institutions	1,637	303	886	2,826
Funds	-	-	67	67
Others	1,460	58	1,597	3,115
Equity investments measured at net asset value***				3,185
Total equity investments	3,097	361	2,550	9,193
Debt securities:				
Corporate debt securities	330	-	1,584	1,914
Preferred shares	-	-	538	538
Asset-backed securities	-	-	109	109
Other debt securities	-	-	2	2
Debt securities measured at net asset value***				330
Total debt securities	330	-	2,233	2,893
Derivative assets:				
Interest rate	-	581	-	581
Foreign exchange	-	70	-	70
Interest rate and currency	-	2,402	52	2,454
Equity and other	-	-	369	369
Total derivative assets	-	3,053	421	3,474
Total assets at fair value	**$ 19,623**	**$ 18,403**	**$ 6,128**	**$ 47,669**
Borrowings:				
Structured bonds	$ -	$ 4,396	$ -	$ 4,396
Unstructured bonds	44,877	4,971	150	49,998
Total borrowings (outstanding principal balance $54,686**)	44,877	9,367	150	54,394
Derivative liabilities:				
Interest rate	-	391	-	391
Foreign exchange	-	204	-	204
Interest rate and currency	-	3,520	26	3,546
Equity and other	-	-	1	1
Total derivative liabilities	-	4,115	27	4,142
Total liabilities at fair value	**$ 44,877**	**$ 13,482**	**$ 177**	**$ 58,536**

* includes securities priced at par plus accrued interest, which approximates fair value.

** includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of $2,093 million, with a fair value of $1,227 million as of March 31, 2016.

***In accordance with ASC 820, investments that are measured at fair value using net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in consolidated balance sheet.

Note: For the nine months ended March 31, 2016: Trading securities with fair value of $83 million transferred from level 1 to level 2 and $1,346 million from level 2 to level 1 due to decrease/increase in market activities. Equity investments with fair value of $296 million transferred from level 1 to level 2 and $124 million from level 2 to level 1 due to decrease/increase in market activities. Bonds issued by IFC with a fair value $6 million transferred from level 1 to level 2, while bonds with a fair value of $56 million were transferred from level 2 to level 1 due to change in quality of market price information.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Trading securities:				
Government and agency obligations	$ 10,725	$ 4,342	$ 22	$ 15,089
Asset-backed securities	-	12,793	-	12,793
Corporate securities	3,613	2,080	64	5,757
Money market funds	1,092	-	-	1,092
Total trading securities	15,430*	19,215	86	34,731
Loans (outstanding principal balance $802)	-	-	784	784
Equity investments:				
Banking and other financial institutions	2,387	176	901	3,464
Funds	-	-	55	55
Others	1,561	92	1,672	3,325
Equity investments measured at net asset value***				3,409
Total equity investments	3,948	268	2,628	10,253
Debt securities:				
Corporate debt securities	326	-	1,371	1,697
Preferred shares	-	-	555	555
Asset-backed securities	-	-	122	122
Other debt securities	-	-	2	2
Debt securities measured at net asset value***				363
Total debt securities	326	-	2,050	2,739
Derivative assets:				
Interest rate	-	426	-	426
Foreign exchange	-	221	-	221
Interest rate and currency	-	2,279	40	2,319
Equity and other	-	-	289	289
Total derivative assets	-	2,926	329	3,255
Total assets at fair value	**$ 19,704**	**$ 22,409**	**$ 5,877**	**$ 51,762**
Borrowings:				
Structured bonds	$ -	$ 4,732	$ -	$ 4,732
Unstructured bonds	39,671	4,959	103	44,733
Total borrowings (outstanding principal balance $49,342**)	39,671	9,691	103	49,465
Derivative liabilities:				
Interest rate	-	268	-	268
Foreign exchange	-	154	-	154
Interest rate and currency	-	3,769	30	3,799
Equity and other	-	-	4	4
Total derivative liabilities	-	4,191	34	4,225
Total liabilities at fair value	**$ 39,671**	**$ 13,882**	**$ 137**	**$ 53,690**

* includes securities priced at par plus accrued interest, which approximates fair value.

** includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of $1,755 million, with a fair value of $1,364 million as of June 30, 2015.

***In accordance with ASC 820, investments that are measured at fair value using net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in consolidated balance sheet.

Note: For the year ended June 30, 2015: Trading securities with fair value of $1,447 million transferred from level 1 to level 2 and $615 million from level 2 to level 1 due to decrease/increase in market activities. Equity investments with fair value of $92 million transferred from level 1 to level 2 and $8 million from level 2 to level 1 due to decrease/increase in market activities. Bonds issued by IFC with a fair value $13 million transferred from level 1 to level 2, while bonds with a fair value of $428 million were transferred from level 2 to level 1 due to change in quality of market price information.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

The following tables present the changes in the carrying value of IFC's Level 3 financial assets and financial liabilities for the three and nine months ended March 31, 2016 and 2015 (US$ millions). IFC's policy is to recognize transfers in and transfers out at the beginning of the reporting period.

	Three months ended March 31, 2016							
		Net gains and losses (realized and unrealized) included in						
	Balance as of January 1, 2016	Net Income	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 (*)	Transfers out of Level 3 (**)	Balance as of March 31, 2016	Net unrealized gains/losses included in net income related to assets / liabilities held at period end
Trading securities:								
Asset-backed securities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate securities	40	(3)	-	-	-	-	37	(2)
Government and agency obligations	21	-	-	-	-	-	21	-
Total trading securities	61	(3)	-	-	-	-	58	(2)
Loans	812	37	-	17	-	-	866	37
Equity investments:								
Banking and other financial institutions	889	34	5	30	-	(72)	886	36
Funds	70	(1)	-	(2)	-	-	67	(1)
Others	1,802	32	-	(73)	-	(164)	1,597	(11)
Total equity investments	2,761	65	5	(45)	-	(236)	2,550	24
Debt securities:								
Corporate debt securities	1,443	(2)	53	141	-	(51)	1,584	1
Preferred shares	601	(3)	(1)	(59)	-	-	538	(2)
Asset-backed securities	106	-	5	(2)	-	-	109	-
Other debt securities	2	-	-	-	-	-	2	-
Total debt securities	2,152	(5)	57	80	-	(51)	2,233	(1)
Derivative assets:								
Interest rate and currency	47	10	-	-	-	(5)	52	-
Equity and other	369	(7)	-	7	-	-	369	1
Total derivative assets	416	3	-	7	-	(5)	421	1
Total assets at fair value	**$ 6,202**	**$ 97**	**$ 62**	**$ 59**	**$ -**	**$ (292)**	**$ 6,128**	**$ 59**
Borrowings:								
Structured bonds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unstructured bonds	(104)	(46)	-	-	-	-	(150)	(46)
Total borrowings	(104)	(46)	-	-	-	-	(150)	(46)
Derivative liabilities:								
Interest rate	-	-	-	-	-	-	-	-
Interest rate and currency	(32)	(12)	-	-	-	18	(26)	1
Equity and other	(2)	(1)	-	2	-	-	(1)	-
Total derivative liabilities	(34)	(13)	-	2	-	18	(27)	1
Total liabilities at fair value	**$ (138)**	**$ (59)**	**$ -**	**$ 2**	**$ -**	**$ 18**	**$ (177)**	**$ (45)**

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of March 31, 2016.
(**)Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities that were part of January 1, 2016 beginning balance as of March 31, 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	Nine months ended March 31, 2016							
		Net gains and losses (realized and unrealized) included in						
	Balance as of July 1, 2015	Net Income	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 (*)	Transfers out of Level 3 (**)	Balance as of March 31, 2016	Net unrealized gains/losses included in net income related to assets / liabilities held at period end
Trading securities:								
Asset-backed securities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate securities	64	(16)	-	(11)	-	-	37	(10)
Government and agency obligations	22	(1)	-	-	-	-	21	(1)
Total trading securities	86	(17)	-	(11)	-	-	58	(11)
Loans	784	(31)	-	113	-	-	866	(38)
Equity investments:								
Banking and other financial institutions	901	6	(9)	15	147	(174)	886	(7)
Funds	55	(1)	-	13	-	-	67	1
Others	1,672	42	(35)	111	2	(195)	1,597	(17)
Total equity investments	2,628	47	(44)	139	149	(369)	2,550	(23)
Debt securities:								
Corporate debt securities	1,371	(21)	(26)	311	-	(51)	1,584	(11)
Preferred shares	555	15	(17)	(15)	-	-	538	19
Asset-backed securities	122	-	(8)	(5)	-	-	109	-
Other debt securities	2	-	-	-	-	-	2	-
Total debt securities	2,050	(6)	(51)	291	-	(51)	2,233	8
Derivative assets:								
Interest rate and currency	40	13	-	6	-	(7)	52	25
Equity and other	289	82	-	(2)	-	-	369	87
Total derivative assets	329	95	-	4	-	(7)	421	112
Total assets at fair value	**$ 5,877**	**$ 88**	**$ (95)**	**$ 536**	**$ 149**	**$ (427)**	**$ 6,128**	**$ 48**
Borrowings:								
Structured bonds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unstructured bonds	(103)	(44)	-	(3)	-	-	(150)	(44)
Total borrowings	(103)	(44)	-	(3)	-	-	(150)	(44)
Derivative liabilities:								
Interest rate	-	-	-	-	-	-	-	-
Interest rate and currency	(30)	(15)	-	(1)	-	20	(26)	(12)
Equity and other	(4)	2	-	1	-	-	(1)	2
Total derivative liabilities	(34)	(13)	-	-	-	20	(27)	(10)
Total liabilities at fair value	**$ (137)**	**$ (57)**	**$ -**	**$ (3)**	**$ -**	**$ 20**	**$ (177)**	**$ (54)**

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of March 31, 2016.
(**)Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities that were part of July 1, 2015 beginning balance as of March 31, 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	Three months ended March 31, 2015							
		Net gains and losses (realized and unrealized) included in						
	Balance as of January 1, 2015	Net income	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 (*)	Transfers out of Level 3 (**)	Balance as of March 31, 2015	Net unrealized gains/losses included in net income related to assets / liabilities held at period end
Trading securities:								
Asset-backed securities	$ 15	$ -	$ -	$ (15)	$ -	$ -	$ -	$ -
Corporate securities	91	(23)	-	16	11	(36)	59	(37)
Government and agency obligations	22	-	-	-	-	-	22	-
Total trading securities	128	(23)	-	1	11	(36)	81	(37)
Loans	777	(38)	-	25	-	-	764	(37)
Equity investments:								
Banking and other financial institutions	876	(7)	2	30	4	-	905	(12)
Funds	58	(1)	-	(2)	-	-	55	(1)
Others	1,107	35	26	28	7	(23)	1,180	3
Total equity investments	2,041	27	28	56	11	(23)	2,140	(10)
Debt securities:								
Corporate debt securities	1,639	19	(31)	(47)	-	(47)	1,533	7
Preferred shares	523	(32)	(5)	26	-	-	512	(32)
Asset-backed securities	138	-	(9)	(3)	-	-	126	-
Other debt securities	1	1	-	-	-	-	2	1
Total debt securities	2,301	(12)	(45)	(24)	-	(47)	2,173	(24)
Derivative assets:								
Interest rate and currency	36	5	-	2	-	-	43	8
Equity and other	334	(59)	-	-	-	-	275	(41)
Total derivative assets	370	(54)	-	2	-	-	318	(33)
Total assets at fair value	**$ 5,617**	**$ (100)**	**$ (17)**	**$ 60**	**$ 22**	**$ (106)**	**$ 5,476**	**$ (141)**
Borrowings:								
Structured bonds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unstructured bonds	(72)	(10)	-	(19)	-	-	(101)	(10)
Total borrowings	(72)	(10)	-	(19)	-	-	(101)	(10)
Derivative liabilities:								
Interest rate	-	-	-	-	-	-	-	-
Interest rate and currency	(26)	(7)	-	(4)	-	1	(36)	(11)
Equity and other	(13)	2	-	-	-	-	(11)	2
Total derivative liabilities	(39)	(5)	-	(4)	-	1	(47)	(9)
Total liabilities at fair value	**$ (111)**	**$ (15)**	**$ -**	**$ (23)**	**$ -**	**$ 1**	**$ (148)**	**$ (19)**

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of March 31, 2015.
(**)Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities that were part of January 1, 2015 beginning balance as of March 31, 2015.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	Nine months ended March 31, 2015							
		Net gains and losses (realized and unrealized) included in						
	Balance as of July 1, 2014	Net Income	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 (*)	Transfers out of Level 3 (**)	Balance as of March 31, 2015	Net unrealized gains/losses included in net income related to assets / liabilities held at period end
Trading securities:								
Asset-backed securities	$ 20	$ -	$ -	$ (20)	$ -	$ -	$ -	$ -
Corporate securities	146	(43)	-	37	11	(92)	59	(37)
Government and agency obligations	22	-	-	-	-	-	22	-
Total trading securities	188	(43)	-	17	11	(92)	81	(37)
Loans	683	(78)	-	159	-	-	764	(74)
Equity investments:								
Banking and other financial institutions	1,312	136	(55)	(251)	18	(255)	905	(97)
Funds	45	1	-	9	-	-	55	(194)
Others	1,010	5	42	174	21	(72)	1,180	(19)
Total equity investments	2,367	142	(13)	(68)	39	(327)	2,140	(310)
Debt securities:								
Corporate debt securities	1,410	27	(85)	228	-	(47)	1,533	9
Preferred shares	760	1	(33)	(216)	-	-	512	(37)
Asset-backed securities	144	-	(14)	(4)	-	-	126	-
Other debt securities	1	1	-	-	-	-	2	1
Total debt securities	2,315	29	(132)	8	-	(47)	2,173	(27)
Derivative assets:								
Interest rate and currency	5	26	-	12	-	-	43	37
Equity and other	559	(288)	-	4	-	-	275	(14)
Total derivative assets	564	(262)	-	16	-	-	318	23
Total assets at fair value	**$ 6,117**	**$ (212)**	**$ (145)**	**$ 132**	**$ 50**	**$ (466)**	**$ 5,476**	**$ (425)**
Borrowings:								
Structured bonds	$ (361)	$ 189	$ -	$ -	$ -	$ 172	$ -	$ -
Unstructured bonds	(70)	(12)	-	(19)	-	-	(101)	(12)
Total borrowings	(431)	177	-	(19)	-	172	(101)	(12)
Derivative liabilities:								
Interest rate	-	(7)	-	(5)	-	12	-	-
Interest rate and currency	(63)	(170)	-	(4)	-	201	(36)	(42)
Equity and other	(18)	7	-	-	-	-	(11)	7
Total derivative liabilities	(81)	(170)	-	(9)	-	213	(47)	(35)
Total liabilities at fair value	**$ (512)**	**$ 7**	**$ -**	**$ (28)**	**$ -**	**$ 385**	**$ (148)**	**$ (47)**

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of March 31, 2015.
(**)Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities that were part of July 1, 2014 beginning balance as of March 31, 2015.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

The following tables present gross purchases, sales, issuances and settlements related to the changes in the carrying value of IFC's Level 3 financial assets and financial liabilities for the three and nine months ended March 31, 2016 and 2015 (US$ millions).

	Three months ended March 31, 2016				
	Purchases	Sales	Issuances	Settlements and others	Net
Trading securities:					
Asset-backed securities	$ -	$ -	$ -	$ -	$ -
Corporate securities	-	-	-	-	-
Total trading securities	-	-	-	-	-
Loans	-	-	25	(8)	17
Equity investments:					
Banking and other financial institutions	13	(4)	-	21	30
Funds	20	-	-	(22)	(2)
Others	30	(79)	-	(24)	(73)
Total equity investments	63	(83)	-	(25)	(45)
Debt securities:					
Corporate debt securities	172	(1)	-	(30)	141
Preferred shares	23	(28)	-	(54)	(59)
Asset-backed securities	-	-	-	(2)	(2)
Total debt securities	195	(29)	-	(86)	80
Derivative assets:					
Interest rate and currency	-	-	-	-	-
Equity and other	-	-	-	7	7
Total derivative assets	-	-	-	7	7
Total assets at fair value	**$ 258**	**$ (112)**	**$ 25**	**$ (112)**	**$ 59**
Borrowings:					
Structured Bonds	-	-	-	-	-
Unstructured Bonds	-	-	-	-	-
Total Borrowings	-	-	-	-	-
Derivative liabilities:					
Interest rate	-	-	-	-	-
Interest rate and currency	-	-	-	-	-
Equity and other	-	-	-	2	2
Total derivative liabilities	-	-	-	2	2
Total liabilities at fair value	**$ -**	**$ -**	**$ -**	**$ 2**	**$ 2**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	Nine months ended March 31, 2016				
	Purchases	Sales	Issuances	Settlements and others	Net
Trading securities:					
Asset-backed securities	$ -	$ -	$ -	$ -	$ -
Corporate securities	-	(8)	-	(3)	(11)
Total trading securities	-	(8)	-	(3)	(11)
Loans	-	-	179	(66)	113
Equity investments:					
Banking and other financial institutions	75	(53)	-	(7)	15
Funds	76	-	-	(63)	13
Others	198	(116)	-	29	111
Total equity investments	349	(169)	-	(41)	139
Debt securities:					
Corporate debt securities	436	(29)	-	(96)	311
Preferred shares	127	(82)	-	(60)	(15)
Asset-backed securities	-	-	-	(5)	(5)
Total debt securities	563	(111)	-	(161)	291
Derivative assets:					
Interest rate and currency	-	-	6	-	6
Equity and other	-	-	-	(2)	(2)
Total derivative assets	-	-	6	(2)	4
Total assets at fair value	**$ 912**	**$ (288)**	**$ 185**	**$ (273)**	**$ 536**
Borrowings:					
Structured Bonds	-	-	-	-	-
Unstructured Bonds	-	-	(3)	-	(3)
Total Borrowings	-	-	(3)	-	(3)
Derivative liabilities:					
Interest rate	-	-	-	-	-
Interest rate and currency	-	-	(1)	-	(1)
Equity and other	-	-	-	1	1
Total derivative liabilities	-	-	(1)	1	-
Total liabilities at fair value	**$ -**	**$ -**	**$ (4)**	$ 1	**$ (3)**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	Three months ended March 31, 2015				
	Purchases	Sales	Issuances	Settlements and others	Net
Trading securities:					
Asset-backed securities	$ -	$ (15)	$ -	$ -	$ (15)
Corporate securities	21	-	-	(5)	16
Total trading securities	21	(15)	-	(5)	1
Loans	-	-	57	(32)	25
Equity investments:					
Banking and other financial institutions	41	(19)	-	8	30
Funds	14	-	-	(16)	(2)
Others	82	(48)	-	(6)	28
Total equity investments	137	(67)	-	(14)	56
Debt securities:					
Corporate debt securities	11	-	-	(58)	(47)
Preferred shares	23	(8)	-	11	26
Asset-backed securities	-	-	-	(3)	(3)
Total debt securities	34	(8)	-	(50)	(24)
Derivative assets:					
Interest rate and currency	-	-	2	-	2
Equity and other	-	-	-	-	-
Total derivative assets	-	-	2	-	2
Total assets at fair value	**$ 192**	**$ (90)**	**$ 59**	**$ (101)**	**$ 60**
Borrowings:					
Structured Bonds	-	-	-	-	-
Unstructured Bonds	-	-	(19)	-	(19)
Total Borrowings	-	-	(19)	-	(19)
Derivative liabilities:					
Interest rate	-	-	-	-	-
Interest rate and currency	-	-	(4)	-	(4)
Total derivative liabilities	-	-	(4)	-	(4)
Total liabilities at fair value	**$ -**	**$ -**	**$ (23)**	**$ -**	**$ (23)**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	Nine months ended March 31, 2015				
	Purchases	Sales	Issuances	Settlements and others	Net
Trading securities:					
Asset-backed securities	$ -	$ (15)	$ -	$ (5)	$ (20)
Corporate securities	131	(89)	-	(5)	37
Total trading securities	131	(104)	-	(10)	17
Loans	-	-	198	(39)	159
Equity investments:					
Banking and other financial institutions	194	(442)	-	(3)	(251)
Funds	77	-	-	(68)	9
Others	222	(58)	-	10	174
Total equity investments	493	(500)	-	61	(68)
Debt securities:					
Corporate debt securities	399	-	-	(171)	228
Preferred shares	43	(107)	-	(152)	(216)
Asset-backed securities	2	-	-	(6)	(4)
Total debt securities	444	(107)	-	(329)	8
Derivative assets:					
Interest rate and currency	-	-	12	-	12
Equity and other	12	-	-	(8)	4
Total derivative assets	12	-	12	(8)	16
Total assets at fair value	**$ 1,080**	**$ (711)**	**$ 210**	**$ (447)**	**$ 132**
Borrowings:					
Structured Bonds	-	-	-	-	-
Unstructured Bonds	-	-	(19)	-	(19)
Total Borrowings	-	-	(19)	-	(19)
Derivative liabilities:					
Interest rate	-	-	-	(5)	(5)
Interest rate and currency	-	-	(9)	5	(4)
Total derivative liabilities	-	-	(9)	-	(9)
Total liabilities at fair value	**$ -**	**$ -**	**$ (28)**	**$ -**	**$ (28)**

Gains and losses (realized and unrealized) from trading securities, loans, equity investments and debt securities included in net income for the period are reported on the condensed consolidated income statement in income from liquid asset trading activities, Income from Loans and guarantees, including realized gains and losses on loans and associated derivatives, income from equity investments and associated derivatives, income from debt securities and realized gains and losses on debt securities and associated derivatives and net unrealized gains and losses on non-trading financial instruments accounted for at fair value.

As of March 31, 2016, equity investments, accounted for at cost less impairment, with a carrying amount of $1,726 million were written down to their fair value of $1,408 million ($1,281 million and $990 million – March 31, 2015), resulting in a loss of $318 million, which was included in income from equity investments and associated derivatives in the condensed consolidated income statement during the nine months ended March 31, 2016 (loss of $291 million – nine months ended March 31, 2015). The amount of the write-down was based on a Level 3 measure of fair value.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE L – SEGMENT REPORTING

For management purposes, IFC's business comprises three segments: investment services, treasury services and advisory services. The investment services segment consists primarily of lending and investing in debt and equity securities. The investment services segment also includes AMC, which is not separately disclosed due to its immaterial impact. Further information about the impact of AMC on IFC's condensed consolidated balance sheets and income statements can be found in Note B. Operationally, the treasury services segment consists of the borrowing, liquid asset management, asset and liability management and client risk management activities. Advisory services provide consultation services to governments and the private sector. Consistent with internal reporting, net income or expense from asset and liability management and client risk management activities in support of investment services is allocated from the treasury segment to the investment services segment.

The performance of investment services, treasury services and advisory services is assessed by senior management on the basis of net income for each segment, return on assets, and return on capital employed. Advisory services are primarily assessed based on the level and adequacy of its funding sources (See Note N). IFC's management reporting system and policies are used to determine revenues and expenses attributable to each segment. Consistent with internal reporting, administrative expenses are allocated to each segment based largely upon personnel costs and segment headcounts. Transactions between segments are immaterial and, thus, are not a factor in reconciling to the consolidated data.

The methodology for allocating foreign currency transaction gains and losses on non-trading activities between the investment services segment and the treasury services segment was revised during FY16 Q1 to more closely align with management reporting. This change has been reflected in the segment results for the three and nine months ended March 31, 2016 and 2015.

An analysis of IFC's major components of income and expense by business segment for the three and nine months ended March 31, 2016 and 2015, is provided below (US$ millions):

	Three months ended March 31, 2016			
	Investment services	Treasury services	Advisory services	Total
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	$ 285	$ -	$ -	$ 285
Provision for losses on loans, guarantees and other receivables	(125)	-	-	(125)
Income (loss) from equity investments and associated derivatives	20	-	-	20
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	27	-	-	27
Income from liquid asset trading activities	-	196	-	196
Charges on borrowings	(32)	(79)	-	(111)
Advisory services income	-	-	68	68
Service fees and other income	54	-	-	54
Administrative expenses	(225)	(6)	(14)	(245)
Advisory services expenses	-	-	(73)	(73)
Expense from pension and other postretirement benefit plans	(33)	(2)	(12)	(47)
Other expenses	(9)	-	-	(9)
Foreign currency transaction gains and losses on non-trading activities	(36)	(18)	-	(54)
Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**(74)**	**91**	**(31)**	**(14)**
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	(36)	48	-	12
Income (loss) before grants to IDA	**(110)**	**139**	**(31)**	**(2)**
Grants to IDA	(330)	**-**	**-**	(330)
Net income (loss)	**(440)**	**139**	**(31)**	**(332)**
Net (gains) losses attributable to non-controlling interests	(3)	-	-	(3)
Net income (loss) attributable to IFC	**$ (443)**	**$ 139**	**$ (31)**	**$ (335)**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE L – SEGMENT REPORTING (Continued)

	Nine months ended March 31, 2016			
	Investment services	Treasury services	Advisory services	Total
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	$ 830	$ -	$ -	$ 830
Provision for losses on loans, guarantees and other receivables	(320)	-	-	(320)
Income (loss) from equity investments and associated derivatives	286	-	-	286
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	96	-	-	96
Income from liquid asset trading activities	-	309	-	309
Charges on borrowings	(75)	(202)	-	(277)
Advisory services income	-	-	177	177
Service fees and other income	156	-	-	156
Administrative expenses	(681)	(15)	(40)	(736)
Advisory services expenses	-	-	(201)	(201)
Expense from pension and other postretirement benefit plans	(100)	(6)	(33)	(139)
Other expenses	(29)	-	-	(29)
Foreign currency transaction gains and losses on non-trading activities	(66)	24	-	(42)
Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**97**	**110**	**(97)**	**110**
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	(104)	155	-	51
Income (loss) before grants to IDA	**(7)**	**265**	**(97)**	**161**
Grants to IDA	(330)	**-**	**-**	(330)
Net income (loss)	**(337)**	**265**	**(97)**	**(169)**
Net (gains) losses attributable to non-controlling interests	2	-	-	2
Net income (loss) attributable to IFC	**$ (335)**	**$ 265**	**$ (97)**	**$ (167)**

	Three months ended March 31, 2015			
	Investment services	Treasury services	Advisory services	Total
Income from loans and guarantees, realized gains and losses on loans and associated derivatives	$ 258	$ -	$ -	$ 258
Provision for losses on loans, guarantees and other receivables	(78)	-	-	(78)
Income (loss) from equity investments and associated derivatives	(180)	-	-	(180)
Income from debt securities and realized gains and losses on debt securities and associated derivatives	9	-	-	9
Income from liquid asset trading activities	-	145	-	145
Charges on borrowings	(18)	(52)	-	(70)
Advisory services income	-	-	60	60
Other income	56	-	-	56
Administrative expenses	(216)	(4)	(14)	(234)
Advisory services expenses	-	-	(67)	(67)
Expense from pension and other postretirement benefit plans	(35)	(1)	(13)	(49)
Other expenses	(10)	-	-	(10)
Foreign currency transaction gains and losses on non-trading activities	(33)	38	-	5
Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**(247)**	**126**	**(34)**	**(155)**
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	(63)	12	**-**	(51)
Income (loss) before grants to IDA	**(310)**	**138**	**(34)**	**(206)**
Grants to IDA	(340)	**-**	**-**	(340)
Net income (loss)	**(650)**	**138**	**(34)**	**(546)**
Less: Net (gains) losses attributable to non-controlling interests	(1)	**-**	**-**	(1)
Net income (loss) attributable to IFC	**$ (651)**	**$ 138**	**$ (34)**	**$ (547)**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE L – SEGMENT REPORTING (Continued)

	Nine months ended March 31, 2015			
	Investment services	Treasury services	Advisory services	Total
Income from loans and guarantees, realized gains and losses on loans and associated derivatives	$ 829	$ -	$ -	$ 829
Provision for losses on loans, guarantees and other receivables	(136)	-	-	(136)
Income (loss) from equity investments and associated derivatives	96	-	-	96
Income from debt securities and realized gains and losses on debt securities and associated derivatives	99	-	-	99
Income from liquid asset trading activities	-	349	-	349
Charges on borrowings	(45)	(143)	-	(188)
Advisory services income	-	-	172	172
Other income	182	-	-	182
Administrative expenses	(650)	(12)	(37)	(699)
Advisory services expenses	-	-	(201)	(201)
Expense from pension and other postretirement benefit plans	(104)	(5)	(39)	(148)
Other expenses	(28)	-	-	(28)
Foreign currency transaction gains and losses on non-trading activities	(63)	112	-	49
Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**180**	**301**	**(105)**	**376**
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	(95)	(90)	-	(185)
Income (loss) before grants to IDA	**85**	**211**	**(105)**	**191**
Grants to IDA	(340)	-	-	(340)
Net income (loss)	**(255)**	**211**	**(105)**	**(149)**
Less: Net (gains) losses attributable to non-controlling interests	29	-	-	29
Net income (loss) attributable to IFC	**$ (226)**	**$ 211**	**$ (105)**	**$ (120)**

NOTE M – VARIABLE INTEREST ENTITIES

Significant variable interests

IFC has identified investments in 214 VIEs (43 of which were identified as such due to the adoption of ASU 2015-02 on July 1, 2015) which are not consolidated by IFC but in which it is deemed to hold significant variable interests at March 31, 2016 (163 investments - June 30, 2015).

The majority of these VIEs do not involve securitizations or other types of structured financing. IFC is usually the minority investor in these VIEs. These VIEs are mainly: (a) investment funds, where the general partner or fund manager does not have substantive equity at risk, which IFC does not consolidate because it does not absorb the majority of funds' expected losses or expected residual returns and (b) entities whose total equity investment is considered insufficient to permit such entity to finance its activities without additional subordinated financial support or whose activities are so narrowly defined by contracts that equity investors are considered to lack decision making ability, which IFC does not consolidate because it does not have the power to control the activities that most significantly impact their economic performance. IFC's involvement with these VIEs includes investments in equity interests and senior or subordinated interests, guarantees and risk management arrangements. IFC's interests in these VIEs are recorded on IFC's condensed consolidated balance sheet primarily in equity investments, loans, debt securities, and other liabilities, as appropriate.

Based on the most recent available data of these VIEs, the balance sheet size, including committed funding, in which IFC is deemed to hold significant variable interests, totaled $29,784 million at March 31, 2016 ($26,173 million - June 30, 2015). IFC's maximum exposure to loss as a result of its investments in these VIEs, comprising both carrying value of investments and amounts committed but not yet disbursed, was $5,761 million at March 31, 2016 ($4,096 million - June 30, 2015).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE M – VARIABLE INTEREST ENTITIES (continued)

The industry sector and geographical regional analysis of IFC's maximum exposures as a result of its investment in these VIEs at March 31, 2016 and June 30, 2015 is as follows (US$ millions):

	March 31, 2016					
	Loans	Equity investments	Debt securities	Guarantees	Risk management	Total
Manufacturing, agribusiness and services						
Asia	$ 147	$ 12	$ 22	$ -	$ -	$ 181
Europe, Middle East and North Africa	281	34	-	-	-	315
Sub-Saharan Africa, Latin America and Caribbean	228	96	-	-	-	324
Other	-	30	-	-	-	30
Total manufacturing, agribusiness and services	656	172	22	-	-	850
Financial markets						
Asia	98	15	-	-	10	123
Europe, Middle East and North Africa	21	-	200	-	-	221
Sub-Saharan Africa, Latin America and Caribbean	83	27	289	-	-	399
Other	2	93	227	-	9	331
Total financial markets	204	135	716	-	19	1,074
Infrastructure and natural resources						
Asia	559	173	3	-	3	738
Europe, Middle East and North Africa	586	182	3	-	25	796
Sub-Saharan Africa, Latin America and Caribbean	1,129	228	15	-	79	1,451
Other	220	1	-	-	-	221
Total infrastructure and natural resources	2,494	584	21	-	107	3,206
Telecom, media & technology, and venture investing						
Asia	-	230	-	-	-	230
Europe, Middle East and North Africa	-	120	5	-	-	125
Sub-Saharan Africa, Latin America and Caribbean	34	195	9	-	1	239
Other	-	37	-	-	-	37
Total telecom, media & technology, and venture investing	34	582	14	-	1	631
Maximum exposure to VIEs	**$ 3,388**	**$ 1,473**	**$ 773**	**$ -**	**$ 127**	**$ 5,761**
of which:						
Carrying value	3,021	829	537	-	86	4,473
Committed but not disbursed	367	644	236	-	41	1,288

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE M – VARIABLE INTEREST ENTITIES (continued)

	June 30, 2015					
	Loans	Equity investments	Debt securities	Guarantees	Risk management	Total
Manufacturing, agribusiness and services						
Asia	$ 164	$ 13	$ -	$ -	$ -	$ 177
Europe, Middle East and North Africa	328	37	-	-	-	365
Sub-Saharan Africa, Latin America and Caribbean	181	97	-	-	1	279
Total manufacturing, agribusiness and services	673	147	-	-	1	821
Financial markets						
Asia	167	-	-	-	10	177
Europe, Middle East and North Africa	23	13	118	2	-	156
Sub-Saharan Africa, Latin America and Caribbean	6	1	124	-	-	131
Other	3	-	218	-	9	230
Total financial markets	199	14	460	2	19	694
Infrastructure and natural resources						
Asia	450	57	2	-	-	509
Europe, Middle East and North Africa	439	31	51	-	19	540
Sub-Saharan Africa, Latin America and Caribbean	1,059	25	1	4	44	1,133
Other	-	1	-	-	-	1
Total infrastructure and natural resources	1,948	114	54	4	63	2,183
Telecom, media & technology, and venture investing						
Asia	2	71	13	-	-	86
Europe, Middle East and North Africa	-	25	17	-	-	42
Sub-Saharan Africa, Latin America and Caribbean	44	99	9	-	1	153
Other	-	109	8	-	-	117
Total telecom, media & technology, and venture investing	46	304	47	-	1	398
Maximum exposure to VIEs	**$ 2,866**	**$ 579**	**$ 561**	**$ 6**	**$ 84**	**$ 4,096**
of which:						
Carrying value	2,553	368	507	6	54	3,488
Committed but not disbursed	313	211	54	0	30	608

NOTE N – ADVISORY SERVICES

IFC provides advisory services to government and private sector clients. Since July 1, 2014, IFC advisory services to governments on investment climate and financial sector development have been delivered in partnership with IBRD through WBG Global Practices. IFC funds this business line by a combination of cash received from government and other donors and IFC's operations via retained earnings and operating budget allocations as well as fees received from the recipients of the services.

IFC administers donor funds through trust funds. Donor funds are restricted for purposes specified in agreements with the donors.

Donor funds under administration and IFC's funding can be comingled in accordance with administration agreements with donors. The comingled funds are held in a separate liquid asset investment portfolio managed by IBRD, which is not commingled with IFC's other liquid assets and is reported at fair value in other assets. Donor funds are refundable until expended for their designated purpose.

As of March 31, 2016, other assets include undisbursed donor funds of $546 million ($467 million - June 30, 2015) and IFC's advisory services funding of $220 million ($165 million - June 30, 2015). Included in other liabilities as of March 31, 2016 is $546 million ($467 million - June 30, 2015) of refundable undisbursed donor funds.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE O – PENSION AND OTHER POSTRETIREMENT BENEFITS

IBRD, IFC and MIGA participate in a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan and Trust (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members.

All costs, assets and liabilities associated with these plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the plans. Costs allocated to IBRD are then shared between IBRD and IDA based on an agreed cost-sharing ratio. The expenses for the SRP, RSBP, and PEBP are included in expense from pension and other postretirement benefit plans.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP allocated to IFC for the three and nine months ended March 31, 2016 and 2015 (US$ millions):

	Three months ended March 31,							
	2016				2015			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Benefit cost								
Service cost	$ 34	$ 9	$ 6	$ 49	$ 35	$ 9	$ 5	$ 49
Interest cost	34	6	5	45	33	5	3	41
Expected return on plan assets	(47)	(8)	-	(55)	(46)	(6)	-	(52)
Amortization of prior service cost	*	1	*	1	*	1	1	2
Amortization of unrecognized net loss	4	-	3	7	5	1	3	9
Net periodic pension cost	**$ 25**	**$ 8**	**$ 14**	**$ 47**	**$ 27**	**$ 10**	**$ 12**	**$ 49**

	Nine months ended March 31,							
	2016				2015			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Benefit cost								
Service cost	$ 103	$ 25	$ 18	$ 146	$ 105	$ 27	$ 16	$ 148
Interest cost	102	17	12	131	98	17	10	125
Expected return on plan assets	(141)	(22)	-	(163)	(139)	(20)	-	(159)
Amortization of prior service cost	1	2	1	4	1	2	1	4
Amortization of unrecognized net loss	12	-	9	21	16	4	10	30
Net periodic pension cost	**$ 77**	**$ 22**	**$ 40**	**$ 139**	**$ 81**	**$ 30**	**$ 37**	**$ 148**

* Less than $0.5 million

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE P – OFFSETTING OF DERIVATIVES, RESALE, REPURCHASE AND SECURITIES LENDING AGREEMENTS AND COLLATERAL

IFC does not present derivative assets and liabilities or amounts due or owed under resale, repurchase and securities lending transactions related to contracts entered into with the same counterparty under a legally enforceable netting agreement on a net basis on its consolidated balance sheet. The following table provides the gross and net positions of IFC's derivative contracts, resale, repurchase and securities lending agreements considering amounts and collateral held or pledged that are subject to enforceable counterparty credit support and netting agreements described below (US$ millions). Collateral amounts are included only to the extent of the related net derivative fair values or net resale, repurchase and securities lending agreements amounts.

	March 31, 2016			
Assets	Gross amount of assets presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amount
		Financial instruments	Collateral received	
Derivative assets	$ 3,867*	$ 2,110	$ 661***	$ 1,096
Resale agreements	-	-	-	-
Total assets	**$ 3,867**	**$ 2,110**	**$ 661**	**$ 1,096**

	March 31, 2016			
Liabilities	Gross amount of liabilities presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amount
		Financial instruments	Cash Collateral pledged	
Derivative liabilities	$ 4,384**	$ 2,110	$ 894	$ 1,380
Repurchase and securities lending agreements	3,166	3,166	-	-
Total liabilities	**$ 7,550**	**$ 5,276**	**$ 894**	**$ 1,380**

	June 30, 2015			
Assets	Gross amount of assets presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amount
		Financial instruments	Collateral received	
Derivative assets	$ 3,626*	$ 1,759	$ 966***	$ 901
Resale agreements	68	67	-	1
Total assets	**$ 3,694**	**$ 1,826**	**$ 966**	**$ 902**

	June 30, 2015			
Liabilities	Gross amount of liabilities presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amount
		Financial instruments	Collateral pledged	
Derivative liabilities	$ 4,398**	$ 1,759	$ -	$ 2,639
Repurchase and securities lending agreements	4,458	4,418	-	40
Total liabilities	**$ 8,856**	**$ 6,177**	**$ -**	**$ 2,679**

* Includes accrued income of $393 million and $371 million as of March 31, 2016 and June 30, 2015 respectively.
** Includes accrued charges of $242 million and $173 million as of March 31, 2016 and June 30, 2015 respectively.
*** Includes cash collateral of $210 million and $216 million as of March 31, 2016 and June 30, 2015 respectively. The remaining amounts of collateral received consist of off-balance-sheet US Treasury securities reported in the above table at fair value.

IFC's derivative contracts with market counterparties are entered into under standardized master agreements published by the International Swaps and Derivatives Association ("ISDA" Agreements). ISDA Agreements provide for a single lump sum settlement amount upon the early termination of transactions following a default or termination event whereby amounts payable by the non-defaulting party to the other party may be applied to reduce any amounts that the other party owes the non-defaulting party. This setoff effectively reduces any amount payable by the non-defaulting party to the defaulting party.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE P – OFFSETTING OF DERIVATIVES, RESALE, REPURCHASE AND SECURITIES LENDING AGREEMENTS AND COLLATERAL (Continued)

IFC's ISDA Agreements are appended by a Credit Support Annex ("CSA") that provides for the receipt, and in some cases, posting, of collateral in the form of cash, U.S. Treasury securities or U.K. gilts to reduce mark-to market exposure among derivative market counterparties. IFC recognizes cash collateral received and a corresponding liability on its balance sheet for the obligation to return it. Securities received as collateral are not recognized on IFC's balance sheet. As of March 31, 2016, $1,024 million of cash collateral was posted under CSAs ($0 June 30, 2015). IFC recognizes a receivable on its balance sheet for its rights to cash collateral posted. In accordance with the CSAs, IFC may rehypothecate securities received as collateral, subject to the obligation to return such collateral and any related distributions received. In the event of a counterparty default, IFC may exercise certain rights and remedies, including the right to set off any amounts payable by the counterparty against any collateral held by IFC and the right to liquidate any collateral held. As of March 31, 2016, IFC had $222 million ($237 million at June 30, 2015) of outstanding obligations to return cash collateral under CSAs. The estimated fair value of all securities received and held as collateral under CSAs of March 31, 2016, all of which may be rehypothecated was $522 million ($756 million - June 30, 2015). As of March 31, 2016, $87 million of such collateral was rehypothecated under securities lending agreements ($210 million - June 30, 2015).

Collateral posted by IFC in connection with repurchase agreements approximates the amounts classified as Securities sold under repurchase agreements. At March 31, 2016, trading securities with a carrying amount (fair value) of $198 million ($171 million - June 30, 2015) were pledged in connection with borrowings under a short-term discount note program, the carrying amount of which was $2,051 million ($1,343 million - June 30, 2015).

Under certain CSA's IFC is not required to pledge collateral unless its credit rating is downgraded from its current AAA/Aaa. The aggregate fair value of derivatives containing such a credit risk-linked contingent feature in a net liability position was $1,000 million at March 31, 2016 ($1,862 million at June 30, 2015). At March 31, 2016, IFC had no collateral posted under these agreements. If IFC's credit rating were to be downgraded from its current AAA/Aaa to AA+/Aa1 or below, then collateral in the amount of $402 million would be required to be posted against net liability positions with counterparties at March 31, 2016 ($1,097 million at June 30, 2015).

IFC's resale, repurchase and securities lending transactions are entered into with counterparties under industry standard master netting agreements which generally provide the right to offset amounts owed one another with respect to multiple transactions under such master netting agreement and liquidate the purchased or borrowed securities in the event of counterparty default. The estimated fair value of all securities received and held as collateral under these master netting agreements as of March 31, 2016 was $0 ($68 million - June 30, 2015).

The following table presents an analysis of IFC's repurchase and securities lending transactions by (1) class of collateral pledged and (2) their remaining contractual maturity as of March 31, 2016 and June 30, 2015 (US$ millions):

	Remaining Contractual Maturity of the Agreements, as of March 31, 2016				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Repurchase agreements					
U.S. Treasury securities	$ 30	$ 3,046	$ -	$ -	$ 3,076
Agency securities	-	-	-	-	-
Municipal securities and other	-	-	-	-	-
Total Repurchase agreements	**30**	**3,046**	**-**	**-**	**3,076**
Securities lending transactions					
U.S. Treasury securities	$ 90	$ -	$ -	$ -	$ 90
Agency securities	-	-	-	-	-
Covered Bonds and other	-	-	-	-	-
Total Securities lending transactions	**90**	**-**	**-**	**-**	**90**
Total Repurchase agreements and Securities lending transactions	**$ 120**	**$ 3,046**	**$ -**	**$ -**	**$ 3,166**

As of March 31, 2016, IFC has no repurchase-to-maturity transactions outstanding.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE P – OFFSETTING OF DERIVATIVES, RESALE, REPURCHASE AND SECURITIES LENDING AGREEMENTS AND COLLATERAL (Continued)

	Remaining Contractual Maturity of the Agreements, as of June 30 2015				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Repurchase agreements					
U.S. Treasury securities	$ 8	$ 3,409	$ 11	$ -	$ 3,428
Agency securities	-	70	95	64	229
Municipal securities and other	18	394	141	-	553
Total Repurchase agreements	26	3,873	247	64	4,210
Securities lending transactions					
U.S. Treasury securities	$ 209	$ -	$ -	$ -	$ 209
Agency securities	-	-	-	-	-
Covered Bonds and other	-	-	-	-	-
Total Securities lending transactions	209	-	-	-	209
Total Repurchase agreements and Securities lending transactions	**$ 235**	**$ 3,873**	**$ 247**	**$ 64**	**$ 4,419**

As of June 30, 2015, IFC has no repurchase-to-maturity transactions outstanding.

NOTE Q – RELATED PARTY TRANSACTIONS

During FY16 Q2, IFC sold a portion of its building in Accra, Ghana to IBRD for $13 million that generated a gain of $3 million that is included in Other income.

During FY15 Q1, IFC issued an amortizing, non-interest bearing promissory note, maturing September 15, 2039, to IDA (the Note) in exchange for $1,179 million. The Note requires payments totaling $1,318 million, resulting in an effective interest rate of 1.84%. With IFC's consent, IDA may redeem the Note after September 2, 2019, upon an adverse change in its financial condition or outlook. The amount due to IDA upon such redemption is equal to the present value of the all unpaid amounts discounted at the effective interest rate. IDA may transfer the Note; however, its redemption right is not transferrable. IFC has elected the Fair Value Option for the Note.

NOTE R – CONTINGENCIES

In the normal course of its business, IFC is from time to time named as a defendant or co-defendant in various legal actions on different grounds in various jurisdictions. Although there can be no assurances, based on the information currently available, IFC's Management does not believe the outcome of any of the various existing legal actions will have a material adverse effect on IFC's financial position, results of operations or cash flows.

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Independent Auditors' Review Report

President and Board of Directors
International Finance Corporation:

We have reviewed the condensed consolidated financial statements of International Finance Corporation (IFC), which comprise the condensed consolidated balance sheet as of March 31, 2016, the related condensed consolidated statements of operations and comprehensive income/(loss) for the three and nine-month periods ended March 31, 2016 and 2015, and the related condensed and consolidated statements of changes in capital and cash flows for the nine-month periods ended March 31, 2016 and 2015.

Management's Responsibility

IFC's management is responsible for the preparation and fair presentation of the condensed consolidated financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on Condensed Balance Sheet as of June 30, 2015

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of income, comprehensive income, changes in capital, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 6, 2015. In our opinion, the accompanying condensed consolidated balance sheet of IFC as of June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

May 10, 2016