IFC International Finance Corporation
WORLD BANK GROUP

Creating Markets, Creating Opportunities

Management's Discussion and Analysis
and
Condensed Consolidated Financial Statements
September 30, 2019
(Unaudited)

September 30, 2019

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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, 2019 (FY19). 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 months ended September 30, 2019 (FY20 Q1 condensed consolidated financial statements).

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

Management is in the process of reviewing the methodology for designations of retained earnings in FY20 due to the suspension of transfers to IDA beginning in FY20. Designations of retained earnings to advisory services, including the Creating Markets Advisory Window (CMAW), are expected to continue to further support IFC's efforts to work upstream and in challenging environments.

II. SELECTED FINANCIAL DATA AND FINANCIAL RATIOS

	As of and for the three months ended		As of and for the year ended
Investment Program (US$ millions)	September 30, 2019	September 30, 2018	June 30, 2019
Long-Term Finance Own Account Commitments	$ 1,398	$ 1,119	$ 8,920
Core Mobilization	1,157	700	10,206
Total Long-Term Finance Commitments (Own Account and Core Mobilization)	**$ 2,555**	**$ 1,819**	**$ 19,126**
Condensed Consolidated Statement of Operations (US$ millions)			
Net (loss) income	**$ (168)**	**$ (446)**	**$ 93**

Key Financial Ratios[1]	**as of September 30, 2019**	**as of September 30, 2018**	**as of June 30, 2019**
Deployable strategic capital (DSC) as a percentage of Total Resources Available (TRA)	14.8%	10.7%	11.6%
Cash and liquid investments as a percentage of next three years' estimated net cash requirements	92%	94%	104%
Debt to equity ratio	2.0:1	2.3:1	2.2:1
Return on average assets (GAAP basis)	(0.7)%	(1.9)%	0.1%
Return on average capital (GAAP basis)	(2.4)%	(6.7)%	0.3%

IFC's Capital Adequacy, as measured by DSC was 14.8% at the end of FY20 Q1, higher than the 11.6% level at the end of FY19 Q4. The 3.2 percentage points (pp) increase in DSC was largely due to the combined effect of the decline in the size of the committed investment portfolio by $2.0 billion and Treasury's liquid assets portfolio by $3.9 billion.

IFC's debt-to-equity ratio was 2.0:1, well within the maximum of 4:1 required by the policy approved by IFC's Board of Directors and IFC's overall liquidity as a percentage of the next three years' estimated net cash needs stood at 92%, above the minimum requirement of the Board of 45%.

[1] Returns on average assets and capital are annualized.

III. OVERVIEW

IFC is the largest global development institution focused on the private sector in developing countries. Established in 1956, IFC is owned by 185 member countries, a group that collectively determines its policies. IFC is a member of the World Bank Group (WBG)[2] 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.

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, equity investments, debt securities and guarantees. 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, the Managed Co-lending Portfolio Program (MCPP), the non-IFC portion of structured finance transactions, and the non-IFC portion of commitments in funds managed by IFC's wholly owned subsidiary, IFC Asset Management Company LLC (AMC[3]), (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 (or 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 borrowings denominated in currencies other than US dollars which are invested in such currencies. Overall, IFC seeks to minimize foreign exchange and interest rate risks arising from its loans, debt securities and liquid assets 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. IFC undertakes no obligation to update any forward-looking statements.

FINANCIAL PERFORMANCE SUMMARY

The overall market environment has a significant influence on IFC's financial performance. Emerging equity markets were volatile during FY20 Q1, ending lower for the quarter. IFC's major investment currencies depreciated against IFC's reporting currency, the U.S. dollar and commodity prices, including oil, declined in FY20 Q1. IFC reported a net loss of $168 million in FY20 Q1, as compared to a net loss of $446 million in FY19 Q1. The lower net loss in FY20 Q1 was primarily due to lower fair value losses on equity valuations by $673 million compared to FY19 Q1. Fair value losses on equity investments were $126 million in FY20 Q1 compared to fair value losses of $799 million in FY19 Q1. IFC's net loss was also impacted by lower debt security impairment losses and higher income from liquid asset trading activities. However, IFC also recorded lower net gains on sale of equity investments, lower foreign currency transaction gains on non-trading activities, and higher provisions for losses on loans and guarantees. IFC's financial performance is detailed more fully in Section VII – Results of Operations.

IV. CLIENT SERVICES

BUSINESS OVERVIEW

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 WBG'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 enterprises. 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 completely or partially privatized.

IFC's investment products and services are designed to meet the needs of clients in different industries, with a special focus on infrastructure, manufacturing, agribusiness services, and financial markets. Investment services product lines include: loans, equity

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[2] 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).

[3] On June 27, 2019, the Board approved a proposed change in legal status to be implemented by transferring AMC to IFC (by merger or transfer of assets and liabilities) following which AMC will cease to exist as a separate legal entity. This change is not expected to have a significant impact on IFC's financial position, results of operations or cash flows.

investments, debt securities, trade and supply-chain finance, local currency finance, partial credit guarantees, portfolio risk-sharing facilities, securitizations, blended finance, venture capital, the IDA Private Sector Window (IDA-PSW), client risk management and various mobilization products such as loan participations, parallel loans and the Managed Co-lending Portfolio Program (MCPP).

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

INVESTMENT PROGRAM

COMMITMENTS

Total Long-Term Finance Commitments (Own Account and Core Mobilization) were $2,555 million in FY20 Q1, an increase of $736 million or 40% from FY19 Q1. IFC's FY20 Q1 Long-Term Finance Commitments are the highest in the past five fiscal years. In FY20 Q1, the Long-Term Finance Own Account Commitments were $1,398 million, compared to $1,119 million in FY19 Q1 and Core Mobilization was $1,157 million, as compared to $700 million for FY19 Q1 mainly due to a $480 million increased mobilization in trade finance.

In addition, the Short-Term Finance Commitments were $1,360 million in FY20 Q1, as compared to $1,705 million in FY19 Q1.

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

Table 1: FY20 Q1 vs FY19 Q1 Long-Term Finance Commitments (Own Account and Core Mobilization) (US$ millions)

	FY20 Q1	FY19 Q1
Total Long-Term Finance Commitments (Own Account and Core Mobilization)[4]	**$ 2,555**	**$ 1,819**
Long-Term Finance Own Account Commitments		
Loans	$ 1,010	$ 945
Guarantees	256	100
Equity Investments	123	69
Client Risk Management	9	5
Total Long-Term Finance Own Account Commitments	**$ 1,398**	**$ 1,119**
Core Mobilization		
Parallel Loans	$ 402	$ 291
Managed Co-lending Portfolio Program	57	31
Loan Participations	50	166
Other Mobilization	129	—
Total loan participations, parallel loans and other mobilization	**$ 638**	**$ 488**
AMC (see definitions in Table 3)		
GEM Funds	$ —	$ 41
Catalyst Funds	—	3
Total AMC-Related	**$ —**	**$ 44**
Other:		
Global Trade Liquidity Program, Critical Commodities Finance Program and Global Warehouse Finance Program	$ 480	$ —
Public Private Partnership	39	168
Total other	**$ 519**	**$ 168**
Total Core Mobilization	**$ 1,157**	**$ 700**

INVESTMENT DISBURSEMENTS

IFC disbursed $2,938 million for its own account in FY20 Q1 ($2,662 million in FY19 Q1): $2,372 million of loans ($2,194 million in FY19 Q1), $215 million of equities ($185 million in FY19 Q1), and $351 million of debt securities ($283 million in FY19 Q1).

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

INVESTMENT PORTFOLIO

The carrying value of IFC's investment portfolio was $43,400 million at September 30, 2019 ($43,462 million at June 30, 2019), comprising the loan portfolio of $24,081 million ($23,983 million at June 30, 2019), the equity portfolio of $12,832 million ($13,130 million at June 30, 2019), and the debt security portfolio of $6,487 million ($6,349 million at June 30, 2019).

The carrying value of IFC's investment portfolio comprises: (i) the disbursed investment portfolio; (ii) less 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; and (vi) unrealized gains and losses on investments.

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 dollars terms. Guarantee fees are consistent with IFC's loan pricing policies.

Guarantees of $3,066 million were outstanding (i.e., not called) at September 30, 2019 ($2,899 million at June 30, 2019).

MCPP

As of September 30, 2019, eight global investors have committed over $8.1 billion to MCPP; four investors participate exclusively in infrastructure projects, two exclusively in financial institutions, and two others are cross-sectoral. Investors have also approved funding for 160 projects totaling $6.3 billion across 46 countries as of September 30, 2019. IFC will continue to deploy the remaining funds raised as IFC identifies projects that meet investors' investment criteria.

IDA-PSW

As of September 30, 2019, $603 million of instruments under the IDA-PSW had been approved, of which $382 million related to IFC. Refer to Note Q to the FY20 Q1 condensed consolidated financial statements for transaction details.

AMC

AMC is a wholly owned subsidiary of IFC that 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 (IFIs). AMC helps IFC mobilize additional capital resources for investment in productive private enterprise in developing countries.

On June 27, 2019, the Board approved a proposed change in the legal status of IFC to be implemented by transferring AMC to IFC (by merger or transfer of assets and liabilities) following which AMC will cease to exist as a separate legal entity. This change is not yet effective and is not expected to have a significant impact on IFC's financial position, results of operations or cash flows.

Cumulatively through September 30, 2019, AMC has raised total funds of $10.1 billion ($10.1 billion at June 30, 2019).

The Funds Managed by AMC and their activities as of and for the three months ended September 30, 2019 and 2018 are summarized as follows:

Table 2: Funds Managed by AMC and their Activities FY20 Q1 vs FY19 Q1 (US$ millions unless otherwise indicated)

	Through September 30, 2019				For the three months ended September 30, 2019	
	Total funds raised since inception			Cumulative investment commitments **	Investment commitments made by Fund ***	Investment disbursements made by Fund
	Total	From IFC	From other investors			
Investment Period						
China-Mexico Fund, LP (China-Mexico Fund)	$ 1,200	$ —	$ 1,200	$ 320	$ —	$ 9
IFC Financial Institutions Growth Fund, LP (FIG Fund)	505	150	355	158	—	5
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	66	—	1
IFC Emerging Asia Fund, LP (Asia Fund)	693	150	543	145	—	5
Post Investment Period						
IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	1,275	775	500	1,226	—	—
IFC Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund)	1,725	225	1,500	1,614	—	—
IFC African, Latin American and Caribbean Fund, LP (ALAC Fund)	1,000	200	800	876	—	1
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	—	182	130	—	—
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	418	75	343	365	—	5
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)*	1,430	200	1,230	931	7	—
IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds)	800	150	650	747	—	28
Women Entrepreneurs Debt Fund, LP (WED Fund)	115	30	85	110	—	—
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)****	550	250	300	82	—	—
Total	**$ 10,055**	**$ 2,265**	**$ 7,790**	**$ 6,770**	**$ 7**	**$ 54**

* Includes co-investment fund managed by AMC on behalf of Fund LPs.
** Net of commitment cancellations.
*** Excludes commitment cancellations from prior periods.
**** The Russian Bank Cap Fund has completed the exit from all its investments and was liquidated during FY18.

	Through September 30, 2018				For the three months ended September 30, 2018	
	Total funds raised since inception					
	Total	From IFC	From other investors	Cumulative investment commitments **	Investment commitments made by Fund ***	Investment disbursements made by Fund
Investment Period						
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	$ 418	$ 75	$ 343	$ 384	$ 5	$ 23
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)*	1,430	200	1,230	891	—	—
China-Mexico Fund, LP (China-Mexico Fund)	1,200	—	1,200	320	—	—
IFC Financial Institutions Growth Fund, LP (FIG Fund)	505	150	355	133	—	—
IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds)	800	150	650	447	50	16
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	52	—	—
Women Entrepreneurs Debt Fund, LP (WED Fund)	115	30	85	99	12	12
IFC Emerging Asia Fund, LP (Asia Fund)	693	150	543	90	—	9
Post Investment Period						
IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	1,275	775	500	1,226	—	—
IFC Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund)	1,725	225	1,500	1,614	—	—
IFC African, Latin American and Caribbean Fund, LP (ALAC Fund)	1,000	200	800	876	—	1
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	—	182	130	—	—
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)****	550	250	300	82	—	—
Total	**$ 10,055**	**$ 2,265**	**$ 7,790**	**$ 6,344**	**$ 67**	**$ 61**

* Includes co-investment fund managed by AMC on behalf of Fund LPs.
** Net of commitment cancellations.
*** Excludes commitment cancellations from prior periods.
**** The Russian Bank Cap Fund has completed the exit from all its investments and was liquidated during FY18.

ADVISORY SERVICES

It takes more than finance to achieve sustainable development. IFC's experience shows the powerful role advice can play in unlocking private sector investment, helping businesses to expand and create jobs. IFC's advisory engagements play an important role in helping to strengthen the WBG's efforts to end poverty and boost shared prosperity.

To help address increasingly complex development challenges, IFC initiated a holistic approach to create markets and mobilize private investment as articulated in IFC's Creating Markets strategy. Advisory is critical for IFC's delivery on this new strategy by bringing together the diverse WBG actions needed to create markets and by focusing on building a pipeline of bankable projects, especially in IDA countries and Fragile and Conflict Affected States (FCS). Advisory will also continue to deliver proven solutions that support clients to raise their standards and expand their market access, while working to enable sector reform and develop a level playing field in IFC's client countries.

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 the market (Funded Liquidity Portfolio) and capital. Liquid assets are managed in a number of portfolios related to these sources.

IFC generally invests its liquid assets 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 (ABS) and mortgage-backed securities (MBS), time deposits, and other unconditional obligations of banks and financial institutions. Diversification across multiple dimensions ensures a favorable risk return profile. IFC manages the individual liquid assets portfolios on an aggregate portfolio basis against each portfolio's benchmark 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 it 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 $36.6 billion at September 30, 2019 ($39.7 billion at June 30, 2019). The decrease in FY20 Q1 was primarily due to a $3.9 billion decrease in funded liquidity due to net debt redemptions and disbursements to clients. This was partially offset by an increase of $0.8 billion in the Net Worth Funded portfolio that reflects investment of cash from equity sales net of new equity investments plus net income from Investment Operations and liquidity management.

FUNDED LIQUIDITY PORTFOLIO

The primary funding source for liquid assets for IFC is Funded Liquidity. Proceeds of borrowings from market sources not immediately disbursed for loans and loan-like debt securities 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.

NET WORTH FUNDED PORTFOLIO

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

Income from liquid assets trading activities[5] was $278 million in FY20 Q1, $213 million from the Funded Liquidity Portfolio (net asset value of $24.9 billion) and $65 million from the Net Worth Funded Portfolio (net asset value of $11.7 billion).

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 and including discount notes with maturities greater than three months of $0.8 billion in FY20 Q1) totaled $3.4 billion during FY20 Q1 ($7.3 billion in FY19 Q1) reflecting paced implementation of the funding program. In addition, the Board of Directors has authorized the repurchase and/or redemption of debt obligations issued by IFC, which enhances the liquidity of IFC's borrowings. 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. Borrowings from market sources at September 30, 2019 with no associated interest rate swap or currency swap amounted to 4% of the total borrowings from market sources (4% at June 30, 2019).

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 September 30, 2019, $2.0 billion ($2.6 billion as of September 30, 2018) of such non-US$ denominated market borrowings were outstanding, denominated in Bangladeshi taka, Botswana pula, Costa Rican colòn, Dominican peso, Georgian lari, Indonesian rupiah, Indian rupee, Kazakhstan tenge, Namibia dollar, Philippine peso, New Romanian lei, New Serbian dinar, New Turkish lira, Ukraine hrivnya and Uzbekistan sum. Proceeds of such borrowings were invested in such local currencies, on-lent to clients, and/or partially swapped into US dollars.

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[5] Reported gross of borrowing costs and excluding foreign exchange gains and losses on local currency Funded Liquidity which are reported separately in foreign currency gains and losses on non-trading activities

IFC has short term discount note programs in US dollar and Chinese renminbi to provide an additional funding and liquidity management tool for IFC in support of certain of IFC's trade finance and supply chain initiatives and to expand the availability of short term local currency finance. The discount note programs provide for issuances with maturities ranging from overnight to one year. During FY20 Q1, IFC issued $3.2 billion of discount notes and $2.2 billion were outstanding as of September 30, 2019 under the short term discount note programs.

CAPITAL AND RETAINED EARNINGS

Table 3: IFC's Capital (US$ millions)

	September 30, 2019	June 30, 2019
Capital		
Capital stock, authorized	$ 2,580	$ 2,580
Capital stock, subscribed and paid-in	2,567	2,567
Accumulated other comprehensive loss	(1,177)	(1,232)
Retained earnings	26,103	26,271
Total capital	**$ 27,493**	**$ 27,606**

At September 30, 2019 and June 30, 2019, retained earnings comprised the following:

Table 4: IFC's Retained Earnings (US$ millions)

	September 30, 2019	June 30, 2019
Undesignated retained earnings	**$ 25,721**	**$ 25,905**
Designated retained earnings:		
Creating Markets Advisory Window	162	166
Grants to IDA	115	115
Advisory services	87	66
IFC SME Ventures for IDA countries	16	16
Performance-based grants	2	3
Total designated retained earnings	**$ 382**	**$ 366**
Total retained earnings	**$ 26,103**	**$ 26,271**

DESIGNATIONS OF RETAINED EARNINGS

Amounts available to be designated are determined based on a Board of Directors-approved income-based formula and, beginning in FY08, on a principles-based Board of Directors-approved financial distribution policy, and are approved by the Board of Directors.

IFC's Board of Directors approved a change to the sliding-scale formula and the methodology used for calculating the incremental rate of designation, beginning with the designation in respect of FY17. The revised approach establishes a threshold that no designations of any kind can take place if IFC's Deployable Strategic Capital (DSC) ratio is below 2%, and establishes a framework for prioritizing future designations to Advisory Services and for grants to IDA based on IFC's DSC ratio and a cushion for Advisory Services. IFC has also created a new mechanism that was funded for the first time in FY18, the CMAW, to focus on market creation in eligible IDA countries and fragile and conflict situations.

The revised approach establishes a maximum cumulative amount that can be contributed to IDA, during the IDA 18 Replenishment, of $300 million, with no more than $100 million in any given year (plus any shortfall from earlier years).

The approach also caps grants to IDA during a fiscal year at IFC's Net Income, if any, for the nine months ended March 31 of that fiscal year with actual transfer to occur in June of that fiscal year. Any amounts designated the prior year and not transferred pursuant to this requirement would be deferred to the next fiscal year. Grants to IDA will also be deferred to the next fiscal year if capital as reported on IFC's consolidated balance sheet has declined between June 30 of the prior fiscal year and March 31 of that fiscal year.

IFC recognizes designations of retained earnings for Advisory Services and CMAW 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 statement of operations in the period in which they occur, and have the effect of reducing retained earnings designated for this specific purpose.

Given the CMAW spending cushion at FY19-end, IFC did not make an additional designation in FY19 and expects to continue to make designations in future years as allowed by IFC’s net income and as CMAW spending ramps up.

On August 8, 2019, the Board of Directors approved a designation of $24 million of IFC’s retained earnings for Advisory Services, and, subject to the conditions detailed above, a designation of $98 million of IFC’s retained earnings for grants to IDA. These designations were noted with approval by the Board of Governors on October 18, 2019. IFC did not recognize expenditures against designations for grants to IDA in FY19 (from FY18 designations) and the transfer was deferred to FY20 due to IFC's net loss for the first nine months ended March, 31, 2019 in accordance with the Board of Directors approved approach.

Management is in the process of reviewing the methodology for designations of retained earnings in FY20 due to the suspension of transfers to IDA beginning in FY20. Designations of retained earnings to Advisory Services, including the CMAW, are expected to continue to further support IFC's efforts to work upstream and in challenging environments.

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 period to period are:

Table 5: 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, in particular the portion of the liquid assets portfolio funded by net worth, which are driven by external factors such as: the interest rate environment and liquidity of certain asset classes within the liquid asset portfolio.
Income from the equity investment portfolio	Global climate for emerging markets equities, fluctuations in currency and commodity markets and company-specific performance for equity investments. Overall performance of the equity portfolio.
Provisions for losses on loans and guarantees	Risk assessment of borrowers, probability of default, loss given default and loss emergence period.
Other income and expenses	Level of advisory services provided by IFC to its clients, the level of expense from the staff retirement and other benefits plans, and the approved and actual administrative expenses and other budget resources.
Gains and losses on other non-trading financial instruments accounted for at fair value	Principally, differences between changes in fair values of borrowings, excluding IFC's credit spread (beginning in FY19, changes attributable to IFC's credit spread are reported in other comprehensive income, prior to FY19, such changes were reported in net income) and associated derivative instruments and unrealized gains or losses associated with the investment portfolio including puts, warrants and stock options which in part are dependent on the global climate for emerging markets. These securities may be valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable.
Grants to IDA	Level of the Board of Governors-approved grants to IDA.
Other comprehensive income:	
Unrealized gains and losses on debt securities accounted for as available-for-sale	Global climate for emerging markets, fluctuations in currency and commodity markets and company-specific performance and consideration of the extent to which unrealized losses are considered other than temporary. Debt securities may be valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable.
Unrealized gains and losses attributable to instrument-specific credit risk on borrowings at fair value under the fair value option	Fluctuations in IFC's own credit spread measured against US dollar LIBOR resulting from changes over time in market pricing of credit risk. As credit spreads widen, unrealized gains are recorded and when credit spreads narrow, unrealized losses are recorded.
Unrecognized net actuarial gains and losses and unrecognized prior service costs on benefit plans	Returns on pension plan assets and the key assumptions that underlay projected benefit obligations, including financial market interest rates, staff expenses, past experience, and management's best estimate of future benefit cost changes and economic conditions.

The following paragraphs detail significant variances - FY20 Q1 vs FY19 Q1, covering the periods included in IFC’s FY20 Q1 condensed consolidated financial statements.

NET LOSS

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 $78 million in FY20 Q1, as compared to loss of $493 million in FY19 Q1.

The $415 million increase in income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA in FY20 Q1 when compared to FY19 Q1 was principally a result of the following:

Table 6: Change in Net Loss FY20 Q1 vs FY19 Q1 (US$ millions)

		Increase (decrease) FY20 Q1 vs FY19 Q1
Lower unrealized losses on equity investments and associated derivatives, net	$	673
Lower other-than-temporary impairments on debt securities		196
Higher provisions for losses on loans, guarantees, accrued interest and other receivables		(70)
Lower foreign currency transaction gains on non-trading activities		(97)
Lower realized gains on equity investments and associated derivatives, net		(265)
Other, net		(22)
Change in loss before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**$**	**415**

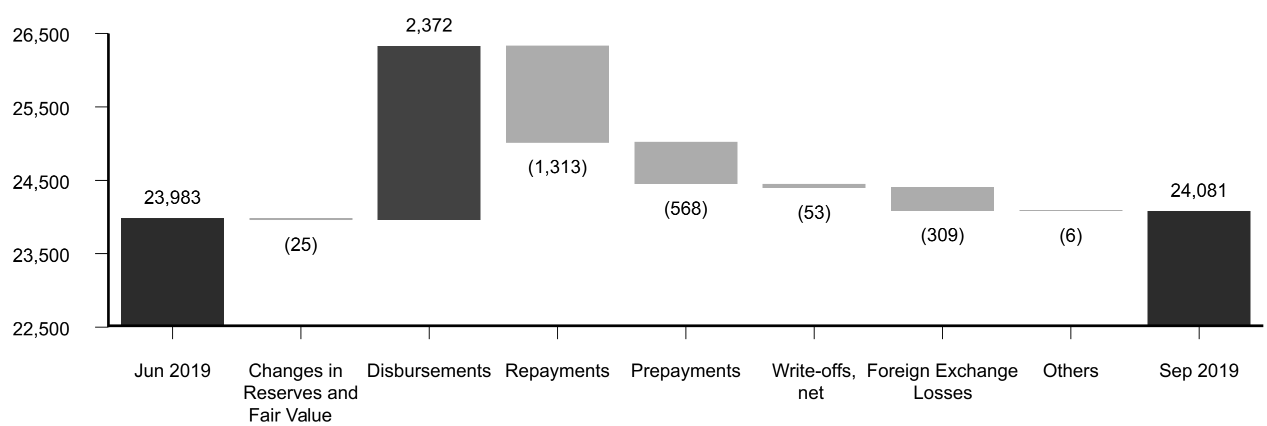
		FY20 Q1		FY19 Q1
Loss before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**$**	**(78)**	**$**	**(493)**
Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value		(90)		47
Net loss	**$**	**(168)**	**$**	**(446)**

A more detailed analysis of the components of IFC’s net loss 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 FY20 Q1 totaled $422 million, compared with $445 million in FY19 Q1, a decrease of $23 million. The decrease was mainly driven by higher front-end fee amortization in FY19 Q1 and higher reversal of interest on loans going into non-performing loan (NPL) status in FY20 Q1 when compared to FY19 Q1.

The carrying amount of IFC's loan portfolio on IFC's condensed consolidated balance sheet was $24,081 million at September 30, 2019 ($23,983 million at June 30, 2019) analyzed as follows

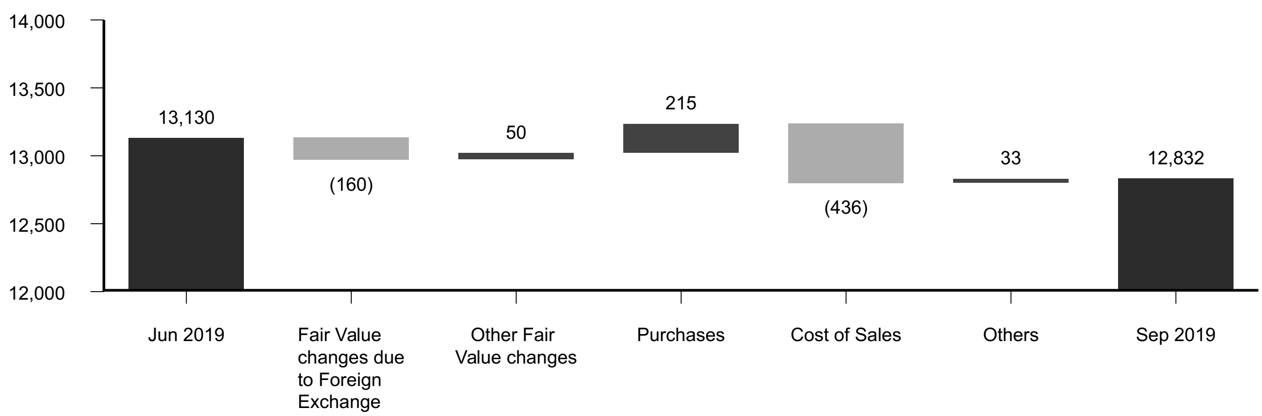


The carrying value of the loan portfolio grew by $98 million, primarily due to new disbursements exceeding repayments ($491 million in FY20 Q1), partially offset by reduction in loans outstanding due to write-offs net of recoveries ($53 million in FY20 Q1) and currency exchange rate fluctuations ($309 million in FY20 Q1). IFC's reporting currency, the US dollar, appreciated against investment currencies in FY20 Q1, particularly the Euro, Indian rupee, Chinese renminbi and Brazilian real. The remainder of the change is primarily due to loan conversions, capitalized interest and charges.

The weighted average contractual interest rate on loans at September 30, 2019 was 6.0% (6.3% as of June 30, 2019), down from 6.1% at September 30, 2018 reflecting the decline in average LIBOR as many of IFC's loans periodically reprice.

INCOME (LOSS) FROM EQUITY INVESTMENTS AND ASSOCIATED DERIVATIVES

The carrying amount of IFC's equity investment portfolio declined by $298 million to $12,832 million at September 30, 2019 ($13,130 million at June 30, 2019) analyzed as follows



Income from the equity investment portfolio, including associated derivatives, increased by $374 million from $521 million of losses in FY19 Q1 to losses of $147 million in FY20 Q1.

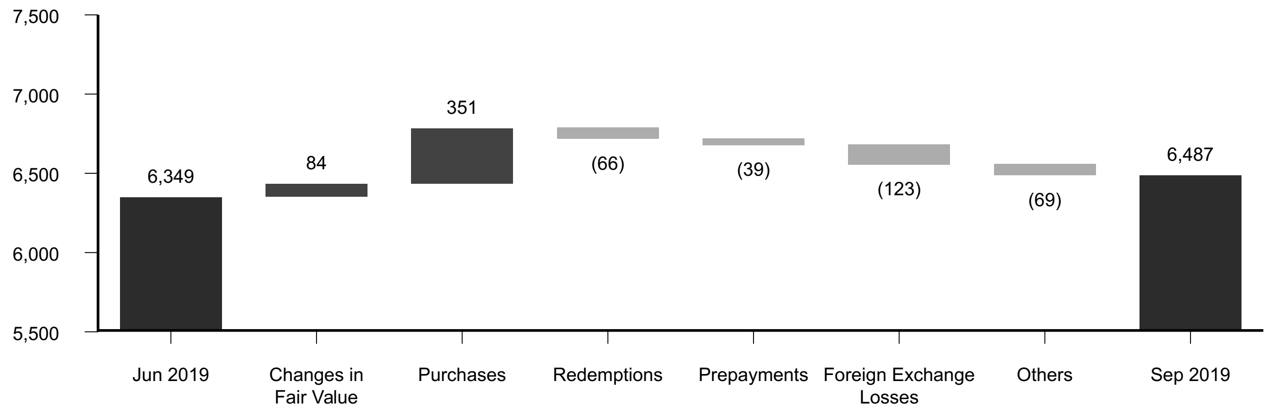
IFC sells equity investments where IFC's developmental role is complete, where pre-determined sales trigger levels have been met and, where applicable, lock ups have expired. Gains and losses on equity investments and associated derivatives comprise realized and unrealized gains.

IFC recognized realized net losses on equity investments and associated derivatives in FY20 Q1 of $34 million, as compared with gains of $231 million for FY19 Q1, a decrease of $265 million. Realized gains and losses on equity investments and associated derivatives are concentrated in a small number of investments. The overall net loss in FY20 Q1 was driven by a loss of $44 million on one investment in the Financial Markets sector. In FY20 Q1, there were no investments that generated individual realized capital gains in excess of $20 million, compared to two investments that generated individual gains in excess of $20 million for a total of $205 million, or 87%, of the FY19 Q1 realized gains. Dividend income in FY20 Q1 totaled $13 million, as compared with $46 million in FY19 Q1.

Net unrealized losses on equity investments and associated derivatives were $126 million (including reversals of unrealized gains, measured against original disbursement, upon realization) in FY20 Q1 due to declines in the value of equity investments, compared to net unrealized losses of $799 million in FY19 Q1.

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

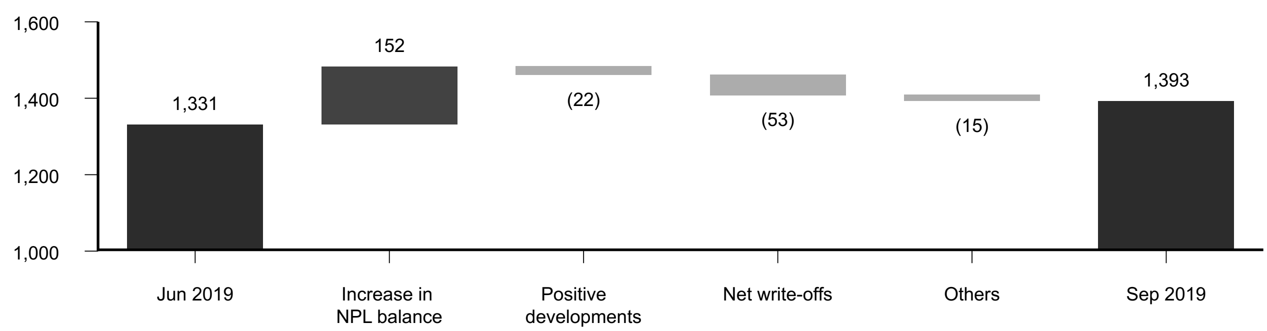
The carrying amount of IFC's debt securities portfolio grew by $138 million to $6,487 million at September 30, 2019 ($6,349 million at June 30, 2019) analyzed as follows



Income from debt securities and associated derivatives increased by $186 million from losses of $147 million in FY19 Q1 to income of $39 million in FY20 Q1. The increase was primarily due to other-than-temporary impairments of $238 million in FY19 Q1 ($42 million in FY20 Q1) related to cumulative foreign exchange losses from the significant currency depreciation in a country with a large debt security exposure deemed other than temporary. This was partially offset by a decrease in interest income of $15 million in FY20 Q1 when compared with FY19 Q1, driven by higher amount of interest reversed on loan-like debt securities in non-accrual status.

PROVISION FOR LOSSES ON LOANS, GUARANTEES, ACCRUED INTEREST AND OTHER RECEIVABLES

Non-performing loans (NPLs) increased by $62 million, from $1,331 million of the disbursed loan portfolio at June 30, 2019 to $1,393 million[6] at September 30, 2019. The increase was due to $152 million of loans and loan-like debt securities being placed in NPL status partially offset by write-offs, net of recoveries ($53 million), positive developments such as repayments and prepayments ($22 million) and other changes ($15 million). In FY20 Q1, three loans greater than $10 million, totaling $138 million, were placed in NPL status.



IFC recorded a net provision for losses on loans, guarantees, accrued interest and other receivables of $101 million in FY20 Q1 ($53 million of specific provisions on loans, $61 million portfolio provisions on loans, $13 million net release of provision on guarantees, other receivables and accrued interest) as compared to a provision of $31 million in FY19 Q1 ($57 million of specific provisions on loans; and $37 million of release of portfolio provisions on loans, $11 million net provision on guarantees, other receivables and accrued interest). Project-specific developments on ten loans comprised 88% of the specific provision for losses on loans in FY20 Q1 (excluding release of provisions).

[6] Includes $114 million reported as debt securities on the Balance Sheet as of September 30, 2019 ($51 million - June 30, 2019).

At September 30, 2019, IFC's total reserves against losses on loans were $1,243 million or 5.1% of the carrying value of loans at amortized cost ($1,191 million or 4.9% at June 30, 2019), an increase of $52 million from June 30, 2019. The increase in reserves against losses on loans due to provisions of $114 million and other adjustments of $1 million was partially offset by write-offs net of recoveries of $53 million and foreign exchange gains related to reserves held against non-U.S. dollar-denominated loans of $10 million.

Specific reserves against losses on loans at September 30, 2019 of $577 million ($580 million at June 30, 2019) are held against impaired loans of $1,233 million ($1,240 million at June 30, 2019), a coverage ratio of 47% (47% at June 30, 2019).

INCOME FROM LIQUID ASSET TRADING ACTIVITIES

The liquid assets portfolio, net of derivatives and securities lending activities, decreased by $3.1 billion from $39.7 billion at June 30, 2019, to $36.6 billion at September 30, 2019. The decrease in FY20 Q1 was primarily due to a $3.9 billion decrease in Funded Liquidity due to net debt redemptions and disbursements to clients. This was partially offset by an increase of $0.8 billion in the Net Worth Funded portfolio that reflects investment of cash from equity sales net of new equity investments plus net income from Investment Operations and liquidity management. During FY20 Q1, decreases in investments in deposits were partially offset by investments in covered bonds, emerging and developed markets' government-related securities, and U.S. ABS. Liquid asset holdings remain well diversified geographically and are concentrated in money-market instruments.

Income, net of allocated funding costs, from liquid asset trading activities totaled $110 million in FY20 Q1 compared to $36 million in FY19 Q1, an increase of $74 million.

Interest income in FY20 Q1 totaled $220 million, compared to $164 million in FY19 Q1. The portfolio of ABS and MBS generated fair value gains totaling $2 million in FY20 Q1. Holdings in other products, including US Treasuries, global government bonds, high quality corporate bonds and derivatives generated $56 million of gains in FY20 Q1, resulting in a net gains of $58 million (realized and unrealized). This compares to a total gain (realized and unrealized) of $38 million in FY19 Q1.

In FY20 Q1, the liquid assets portfolios outperformed their benchmarks by $47 million, up from $32 million in FY19 Q1. The increase was largely attributable to higher income from trading securities. In part, this reflected higher yield-spreads at the outset of FY20 due to prior under-performance. For FY20 Q1, most fixed-income sectors outperformed the Funded Liquidity benchmarks. Performance over benchmarks was primarily generated by investments in international securitized products, government-related securities and money markets. Much of the excess return was attributable to investments in instruments (bonds and money markets) denominated in foreign-currencies that benefited from deviations from interest-rate parity.

At September 30, 2019, and June 30, 2019, trading securities classified as Level 3 securities (unobservable inputs for the securities used to measure fair value) were an insignificant population of total trading securities.

CHARGES ON BORROWINGS

IFC's charges on borrowings increased by $8 million, from $357 million in FY19 Q1 ($0 on extinguishment of borrowings) to $365 million in FY20 Q1 (net of $1 million gain on extinguishment of borrowings), due in part to higher charges on local currency borrowings compared to the same period in FY19 Q1.

OTHER INCOME

Other income of $120 million for FY20 Q1 was $13 million lower than $133 million in FY19 Q1 primarily due to the decrease in income from Post-Employment Benefit Plan assets and lower income from management fees earned by AMC.

OTHER EXPENSES

Administrative expenses (the principal component of other expenses) increased by $12 million from $328 million in FY19 Q1 to $340 million in FY20 Q1 primarily due to an increase in pension service costs due to the increase in amortization of the actuarial loss from the lower discount rate at the end of FY19 and the lower expected return on net assets. Administrative expenses include the grossing-up effect of certain revenues and expenses attributable to IFC's reimbursable program.

Advisory services expenses decreased by $4 million from $68 million in FY19 Q1 to $64 million in FY20 Q1 due to a decrease in donor funds utilized in providing advisory services.

FOREIGN CURRENCY TRANSACTION GAINS AND LOSSES ON NON-TRADING ACTIVITIES

Foreign currency transaction gains reported in net income in FY20 Q1 totaled $90 million (gains of $187 million - FY19 Q1). Foreign currency transaction losses on debt securities accounted for as available-for-sale of $91 million in FY20 Q1 (losses of $190 million - FY19 Q1) are reported in other comprehensive income, while foreign currency transaction gains and losses on the derivatives economically hedging such debt securities are reported in net income. IFC has recorded foreign exchange related losses of $1 million (losses of $3 million - FY19 Q1) in a combination of Net Income and Other Comprehensive Income.

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 with associated currency or interest rate swaps 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 7: Net Unrealized Gains and Losses on Non-Trading Financial Instruments FY20 Q1 vs FY19 Q1 (US$ millions)

	FY20 Q1	FY19 Q1
Unrealized gains and losses on loans, debt securities and associated derivatives	$ (64)	$ 59
Unrealized gains and losses on borrowings from market, IDA and associated derivatives, net	(26)	(12)
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	**$ (90)**	**$ 47**

IFC reported net unrealized losses on loans, debt securities and associated derivatives of $64 million in FY20 Q1 (unrealized gains of $59 million in FY19 Q1). In FY20 Q1 this comprised unrealized gains of $32 million on the loan and debt securities portfolio carried at fair value with changes in fair value being reported in net income, unrealized losses of $67 million on lending-related swaps, unrealized losses of $18 million on client risk management swaps and unrealized losses of $11 million on other derivatives, mainly conversion features, warrants in investment contracts and interest rate and currency swaps economically hedging client obligations. The unrealized losses of $67 million on lending related currency and interest rate swaps economically hedging loans other than variable rate US dollar-denominated loans is driven mainly by the Turkish lira, Brazilian real, and US dollar swap portfolios, where lower discount rates during FY20 Q1 generated unrealized losses on the fixed-pay leg of the swaps. Chinese yuan swap rates rose over FY20 Q1, resulting in some offsetting unrealized gains.

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 dollar 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 does not alter the cash flows. IFC's policy is to generally match the currency, amount and timing of cash flows on market borrowings with the cash flows on the associated derivatives entered into contemporaneously.

Beginning in FY19, the portion of the total change in fair value of borrowings, accounted for at fair value, resulting from a change in IFC's own credit spread is reported as a separate component of Other Comprehensive Income due to the adoption of Accounting Standards Update 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01) as discussed in Note A to the accompanying condensed consolidated financial statements. ASU 2016-01 was applied through a cumulative adjustment to beginning period balances with no change to prior period reported results.

US Treasury yields declined further as the rally in US fixed income markets that began in October 2018 continued into FY20 Q1, amid signs of slowing global economic growth and reductions in official interest rates at both the European Central Bank and the US Federal Reserve to implement monetary policy accommodation. The yield on the benchmark 5-year U.S. Treasury bond stood at 1.5 percent at the end of September 2019, down from 1.7 percent at the beginning of the fiscal year. US dollar Libor rates fell in step and as a result, in FY20 Q1, IFC recorded unrealized losses of $606 million through net income on medium and long-term borrowings carried at fair value, comprising at $600 million loss on market borrowings and a $6 million loss on borrowings from IDA. Unrealized gains of $580 million were recorded on borrowing-related derivatives. Overall, IFC has reported $26 million of net unrealized losses on borrowings from market sources and associated derivatives, net and borrowings from IDA in FY20 Q1 (net unrealized losses of $12 million in FY19 Q1). The unrealized losses in FY20 Q1 include $28 million on borrowings in New Zealand dollar, Japanese yen, Mexican peso, and other currencies which are economically hedged with currency swaps, but where foreign exchange market premium on US dollar declined resulting in losses from foreign exchange basis spread movements. This was offset by a small unrealized gain on IFC's Indian rupee denominated borrowings that are not hedged with funding swaps but where IFC holds Indian rupee denominated loans that act as an economic hedge.

OTHER COMPREHENSIVE INCOME (OCI)

UNREALIZED GAINS AND LOSSES ON DEBT SECURITIES AND BORROWINGS

Table 8: Other Comprehensive Income (Loss) - Unrealized Gains and Losses on Debt Securities and Borrowings FY20 Q1 vs FY19 Q1 (US$ millions)

	FY20 Q1	FY19 Q1
Net unrealized gains and losses on debt securities arising during the period:		
Unrealized gains	$ 86	$ 51
Unrealized losses	(145)	(292)
Reclassification adjustment for realized gains, credit related portion of impairments which were recognized in net income and other-than-temporary impairments included in net income	41	238
Net unrealized losses on debt securities	**$ (18)**	**$ (3)**
Net unrealized gains and losses attributable to instrument-specific credit risk on borrowings at fair value under the fair value option arising during the period:		
Unrealized gains	$ 135	$ 137
Unrealized losses	(76)	(56)
Net unrealized gains on borrowings	**$ 59**	**$ 81**
Total unrealized gains on debt securities and borrowings	**$ 41**	**$ 78**

In FY20 Q1, other-than-temporary impairments on debt securities were $42 million concentrated in two impairments totaling $32 million in the aggregate. In FY19 Q1, other-than-temporary impairments on debt securities from a cumulative foreign exchange loss of $238 million were reclassified to net income, reflecting the significant currency depreciation in a country with a large debt security exposure considered other than temporary.

Net unrealized gains on debt securities and borrowings totaled $41 million in FY20 Q1, (net unrealized gains of $78 million in FY19 Q1). A gain of $59 million was recognized through other comprehensive income in FY20 Q1 due to movements in the instrument specific credit risk on borrowings at fair value. This was primarily due to IFC bond issuances in Mexican peso, Australian dollar, Turkish lira and New Zealand dollar, where after swap credit spreads widened by between 5 and 10 basis points on average across the term structure from the end of FY19, offset by unrealized losses in OCI on the US dollar bond portfolio, when compared to FY19-end.

VIII. GOVERNANCE AND CONTROL

SENIOR MANAGEMENT AND CHANGES

The following is a list of the principal officers of IFC as of September 30, 2019:

President	David Malpass
Chief Executive Officer	Philippe Le Houérou
Chief Operating Officer	Stephanie von Friedeburg
Regional Vice President, Latin America & Caribbean and Europe & Central Asia	Georgina Baker
Regional Vice President, Middle-East and Africa	Sérgio Pimenta
Regional Vice President, Asia and Pacific	Nena Stoiljkovic
Vice President and General Counsel (*)	Christopher Stephens (**)
Vice President, Risk and Finance	Mohamed Gouled
Vice President, Corporate Strategy and Resources	Monish Mahurkar
Vice President, Treasury and Syndications	John Gandolfo
Vice President, Economics and Private Sector Development	Hans Peter Lankes
Vice President, CEO, IFC Asset Management Company LLC (a wholly-owned subsidiary of IFC)	Marcos Brujis
Vice President, Partnerships, Communications and Outreach	Karin Finkelston

(*) Effective July 1, 2019, the Legal, Compliance Risk & Environmental, Social And Governance (ESG) Sustainability Vice Presidency Unit (VPU) was changed to the Legal and Compliance Risk VPU, after separating the ESG functions.

(**) On May 28, 2019, IFC announced that Ethiopis Tafara had been appointed as the new Vice President, Corporate Services and Chief Risk, Legal and Administrative Officer of MIGA. On August 5, 2019, IFC announced that Christopher Stephens had been appointed as Vice President and General Counsel of IFC. Both appointments became effective on September 23, 2019.

AUDITOR INDEPENDENCE

The external auditor is appointed to a five-year term, with a limit of two consecutive terms, and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board. On November 28, 2017, following a mandatory rebidding of the external audit contract, IFC's Directors approved the appointment of Deloitte as IFC's external auditor for a five-year term commencing FY19.

The appointment of the external auditor for IFC is governed by a set of Board-approved principles that previously included prohibiting the external auditor from providing any non-audit-related services. During FY17, the Board approved amendments to the policy on the appointment of an external auditor which went into effect for the FY19 audit period. The primary amendments now permit the external auditor to provide non-prohibited non-audit related services subject to monetary limits. Broadly, the list of prohibited non-audit services include those that would put the external auditor in the roles typically performed by management or in a position of auditing their own work, such as accounting services, internal audit services, and provision of investment advice. The total non-audit services fees over the term of the relevant external audit contract shall not exceed 70 percent of the audit fees over the same period.

OTHER

During FY19 Q3, the Supreme Court of the United States (Supreme Court) decided on a narrow question of US statutory law. The US International Organizations Immunities Act (IOIA) provides certain international organizations, including IFC, with the same immunity from suit in the United States as foreign states. This statutory grant of immunity is in addition to and independent of the immunities set forth in IFC's Articles of Agreement, as codified in a separate US statute. The Supreme Court decided that the grant of immunity under the IOIA had changed over time in line with changes in sovereign immunity, and that the IOIA now includes certain exceptions. The Supreme Court decision did not affect any of IFC's other immunities under US law, nor did it cover other sources of IFC's immunities under international law such as the IFC's Articles of Agreement and the United Nations Convention on the Privileges and Immunities of the Specialized Agencies. There are currently two court cases in the United States that are impacted by the Supreme Court decision. Such cases have now restarted in United States lower courts, and IFC will continue to present several defenses in both cases. See also Note S to the FY20 Q1 condensed consolidated financial statements.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2019

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CONDENSED CONSOLIDATED BALANCE SHEETS

as of September 30, 2019 (unaudited) and June 30, 2019 (unaudited)
(US$ millions)

	September 30	June 30
Assets		
Cash and due from banks - Note C	$ 570	$ 1,197
Time deposits - Note C	11,494	17,500
Trading securities - Notes C and K	29,649	28,526
Securities purchased under resale agreements and receivable for cash collateral pledged - Notes C and P	1,089	1,862
Investments - Notes B, D, E, F, G, K and M		
Loans		
$846 at September 30, 2019, $877 at June 30, 2019 at fair value;		
net of reserve against losses of $1,243 at September 30, 2019, $1,191 at June 30, 2019)		
- Notes D, E, K and M	24,081	23,983
Equity investments		
- Notes B, D, G, K and M	12,832	13,130
Debt securities - Notes D, F, K and M	6,487	6,349
Total investments	43,400	43,462
Derivative assets - Notes J, K and P	3,268	2,856
Receivables and other assets - Note C	4,415	3,854
Total assets	**$ 93,885**	**$ 99,257**
Liabilities and capital		
Liabilities		
Securities sold under repurchase agreements and payable		
for cash collateral received - Note P	$ 6,494	$ 8,454
Borrowings outstanding - Note K		
From market and other sources at amortized cost	2,975	3,023
From market sources at fair value	47,677	50,392
From International Development Association at fair value	662	717
Total borrowings	51,314	54,132
Derivative liabilities - Notes J, K and P	3,454	3,964
Payables and other liabilities - Note C	5,130	5,101
Total liabilities	**66,392**	**71,651**
Capital		
Capital stock, authorized (2,580,000 at September 30, 2019 and June 30, 2019)		
shares of $1,000 par value each		
Subscribed and paid-in	2,567	2,567
Accumulated other comprehensive loss - Note H	(1,177)	(1,232)
Retained earnings - Note H	26,103	26,271
Total capital	27,493	27,606
Total liabilities and capital	**$ 93,885**	**$ 99,257**

The notes to the condensed consolidated financial statements are an integral part of these statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

for the three months ended September 30, 2019 (unaudited) and September 30, 2018 (unaudited)
(US$ millions)

	2019	2018
Income from investments		
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives - Note E	$ 422	$ 445
Provision for losses on loans, guarantees, accrued interest and other receivables - Note E	(101)	(31)
Loss from equity investments and associated derivatives - Note G	(147)	(521)
Income (loss) from debt securities, including realized gains and losses on debt securities and associated derivatives - Note F	39	(147)
Total income (loss) from investments	**213**	**(254)**
Income from liquid asset trading activities - Note C	278	202
Charges on borrowings	(365)	(357)
Income (loss) from investments and liquid asset trading activities, after charges on borrowings	**126**	**(409)**
Other income		
Advisory services income	55	58
Service fees	31	25
Other - Note B	34	50
Total other income	**120**	**133**
Other expenses		
Administrative expenses - Note O	(340)	(328)
Advisory services expenses	(64)	(68)
Other - Notes B and O	(10)	(8)
Total other expenses	**(414)**	**(404)**
Foreign currency transaction gains on non-trading activities	90	187
Loss before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**(78)**	**(493)**
Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value - Note I	(90)	47
Net loss	**$ (168)**	**$ (446)**

The notes to the condensed consolidated financial statements are an integral part of these statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

for the three months ended September 30, 2019 (unaudited) and September 30, 2018 (unaudited)
(US$ millions)

	2019	2018
Net loss	**$ (168)**	**$ (446)**
Other comprehensive (loss) income		
Unrealized gains and losses on debt securities		
Net unrealized losses on available-for-sale debt securities arising during the period	(59)	(241)
Reclassification adjustment for realized gains included in net income (income from debt securities and realized gains and losses on debt securities and associated derivatives)	(1)	—
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)	42	238
Net unrealized losses on debt securities	**(18)**	**(3)**
Unrealized gains and losses on borrowings		
Net unrealized gains arising during the period attributable to instrument-specific credit risk on borrowings at fair value under the fair value option	**59**	**81**
Net unrealized gains on borrowings	**59**	**81**
Net unrecognized net actuarial gains and unrecognized prior service credits on benefit plans - Note O	**14**	**8**
Total other comprehensive income	**55**	**86**
Total comprehensive loss	**$ (113)**	**$ (360)**

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

for the three months ended September 30, 2019 (unaudited) and September 30, 2018 (unaudited)
(US$ millions)

	Undesignated retained earnings	Designated retained earnings	**Total retained earnings**	Accumulated other comprehensive income (loss) - Note H	Capital stock	**Total capital**
At June 30, 2018	**$ 23,116**	**$ 190**	**$ 23,306**	**$ 264**	**$ 2,566**	**$ 26,136**
Cumulative effect of adoption of ASU 2016-01, effective July 1, 2018 - Note A	2,872		2,872	(1,359)		1,513
Three months ended September 30, 2018						
Net loss attributable to IFC	(446)		(446)			(446)
Other comprehensive income				86		86
Designations of retained earnings - Note H	(115)	115	—			—
Expenditures against designated retained earnings - Note H	8	(8)	—			—
At September 30, 2018	**$ 25,435**	**$ 297**	**$ 25,732**	**$ (1,009)**	**$ 2,566**	**$ 27,289**
At June 30, 2019	**$ 25,905**	**$ 366**	**$ 26,271**	**$ (1,232)**	**$ 2,567**	**$ 27,606**
Three months ended September 30, 2019						
Net loss	(168)		(168)			(168)
Other comprehensive income				55		55
Designations of retained earnings - Note H	(24)	24	—			—
Expenditures against designated retained earnings - Note H	8	(8)	—			—
At September 30, 2019	**$ 25,721**	**$ 382**	**$ 26,103**	**$ (1,177)**	**$ 2,567**	**$ 27,493**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the three months ended September 30, 2019 (unaudited) and September 30, 2018 (unaudited)
(US$ millions)

	2019	2018
Cash flows from investing activities		
Loan disbursements	$ (2,372)	$ (2,194)
Investments in equity securities	(215)	(185)
Investments in debt securities	(351)	(283)
Loan repayments	1,881	1,896
Debt securities repayments	85	28
Proceeds from sales of loan investments	—	12
Proceeds from sales of equity investments	402	473
Proceeds from sales of debt securities	26	1
Investment in land and building for headquarters	(2)	(14)
Net cash used in investing activities	**(546)**	**(266)**
Cash flows from financing activities		
Medium and long-term borrowings		
Issuance	3,815	7,304
Retirement	(7,172)	(6,188)
Medium and long-term borrowings related derivatives, net	(415)	(14)
Short-term borrowings, net	743	(488)
Net cash (used in) provided by investing activities	**(3,029)**	**614**
Cash flows from operating activities		
Net loss	(168)	(446)
Adjustments to reconcile net loss to net cash used in operating activities:		
Realized losses on loans and associated derivatives, net	—	5
Realized gains on debt securities and associated derivatives, net	(5)	—
Losses on equity investments and related derivatives, net	160	568
Provision for losses on loans, guarantees, accrued interest and other receivables	101	31
Other-than-temporary impairments on debt securities	42	238
Net discounts paid on retirement of borrowings	(17)	(11)
Net realized gains on extinguishment of borrowings	(1)	—
Foreign currency transaction gains on non-trading activities	(90)	(187)
Net realized losses (gains) on non-trading financial instruments accounted for at fair value	90	(47)
Change in accrued income on loans, time deposits and securities	(124)	(183)
Change in payables and other liabilities	806	455
Change in receivables and other assets	179	(162)
Change in trading securities and securities purchased and sold under resale and repurchase agreements	(3,795)	(1,903)
Net cash used in operating activities	**(2,822)**	**(1,642)**
Change in cash and cash equivalents	(6,397)	(1,294)
Effect of exchange rate changes on cash and cash equivalents	(236)	391
Net change in cash and cash equivalents	(6,633)	(903)
Beginning cash and cash equivalents	18,697	14,405
Ending cash and cash equivalents	**$ 12,064**	**$ 13,502**
Composition of cash and cash equivalents		
Cash and due from banks	$ 570	$ 1,332
Time deposits	11,494	12,170
Total cash and cash equivalents	**$ 12,064**	**$ 13,502**

The notes to the condensed consolidated financial statements are an integral part of these statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the three months ended September 30, 2019 (unaudited) and September 30, 2018 (unaudited)
(US$ millions)

	2019	2018
Supplemental disclosure		
Change in ending balances resulting from currency exchange rate fluctuations:		
Loans outstanding	$ (309)	$ (157)
Debt securities	(123)	(208)
Loan and debt security-related currency swaps	382	242
Borrowings	813	861
Borrowing-related currency swaps	(740)	(713)
Charges on borrowings paid, net	$ 339	$ 251
Non-cash items:		
Loan and debt security conversion to equity, net	$ 18	$ —

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 its consolidated subsidiary 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 operations.

Condensed Consolidated Financial Statements presentation - The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete condensed consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The accompanying condensed consolidated financial statements include IFC's accounts as well as the accounts of other entities in which IFC has a controlling financial interest. All intercompany accounts and transactions have been eliminated. Certain amounts in prior period have been changed to conform to the current period's presentation. Results for the three months ended September 30, 2019 may not necessarily be indicative of the results for the year ending June 30, 2020.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

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.

Fair Value Option and Fair Value Measurements - IFC has adopted 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 (FVO) 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) all market borrowings that are economically hedged with financial instruments that are accounted for at fair value with changes therein reported in earnings;
iii) borrowings from IDA;

through June 30, 2018:
iv) direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence;
v) all equity interests in private equity funds;
vi) certain hybrid instruments in the investment portfolio;
vii) investments in certain debt securities that are economically hedged with financial instruments that are accounted for at fair value with changes therein reported in earnings;

effective July 1, 2018:
viii) all investments in debt securities; and
ix) substantially all hybrid instruments in the loan investment portfolio;

All borrowings and, through June 30, 2018, investments in debt securities 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 and investments for which the Fair Value Option has been elected mitigates the earnings volatility that would otherwise occur, due to measuring the borrowings and investments 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, through June 30, 2018, with 20% or more ownership where it did not have significant influence so that the same measurement method (fair value) was applied to all equity investments with more than 20% ownership.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

The FVO was elected through June 30, 2018, for certain hybrid instruments in the investment portfolio that would have otherwise required bifurcation of the host and embedded derivative. Election of the FVO for these instruments eliminated the bifurcation requirement.

The FVO has been elected for all investments in debt securities and hybrid loan instruments recognized after June 30, 2018. Among other things, measuring all investments in debt securities and hybrid loan instruments at fair value eliminates the requirement to bifurcate the host and embedded derivative that may have otherwise applied in certain instances, results in more accounting consistency across IFC's investment portfolio and results in a measurement method that is consistent with the manner in which the portfolio is managed.

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.

ASC 820 established a fair value hierarchy which 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.

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 quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and 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.

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.

IFC's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

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 Topic 946, *Financial Services - Investment Companies* (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 June 30, 2019 and June 30, 2018. 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 statement of operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

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 condensed 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 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.

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.

Pursuant to Accounting Standards Update 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01) and ASC Topic 321, *Investments - Equity Securities* (ASC 321), effective July 1, 2018 all equity investments are measured at fair value, with unrealized gains and losses reported in earnings.

Through June 30, 2018, equity investments, which were listed in markets that provided readily determinable fair values, were accounted for as available-for-sale securities at fair value with unrealized gains and losses reported in other comprehensive income. As noted above under "Fair Value Option and Fair Value Measurements", direct equity investments and investments in LLPs and LLCs that maintained separate ownership accounts in which IFC had significant influence, direct equity investments representing 20 percent or more ownership but in which IFC did not have significant influence and all new equity interests in funds were accounted for at fair value under the Fair Value Option. Direct equity investments in which IFC did not have significant influence and which were not listed in markets that provided readily determinable fair values were carried at cost, less impairment.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

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 Natural Resources 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 are reported in income from equity investments and associated derivatives on the condensed consolidated statement of operations. Unrealized gains and losses on equity investments which were accounted for as available-for-sale were 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. Through June 30, 2018, realized gains and losses on equity investments were recorded based on initial cash cost less write-downs; Effective July 1, 2018, realized gains and losses are recorded based on initial cash cost.

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 equity investments; these are accounted for in accordance with ASC 815 to the extent they meet the definition of a derivative. Effective July 1, 2018, such agreements that do not meet the definition of a derivative are measured at fair value with unrealized gains and losses recognized in earnings in accordance with ASU 2016-01 and included in "Equity investments" on the condensed consolidated balance sheets.

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 condensed consolidated statement of operations.

Impairment of equity investments - Through June 30, 2018, equity investments accounted for at cost, less impairment and available-for-sale were assessed for impairment each quarter. When impairment was identified, it was generally deemed to be other-than-temporary, and the equity investment was written down to the impaired value, which became the new cost basis in the equity investment. Such other-than-temporary impairments were recognized in net income. Subsequent increases in the fair value of available-for-sale equity investments were included in other comprehensive income, while subsequent decreases in fair value, if not other-than-temporary impairment, also were included in other comprehensive income.

Debt securities - Debt securities in the investment portfolio classified as available-for-sale are carried at fair value on the condensed consolidated balance sheet with unrealized gains and losses included in accumulated other comprehensive income until realized.

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 statement of operations.

IFC invests in certain debt securities with conversion features; if the hybrid instrument is not measured at fair value with unrealized gains and losses reported in earnings, 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 classified as available-for-sale 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

Debt securities in the investment portfolio classified as available-for-sale 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 condensed 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 noted with approval 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 approved 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 $350 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 statement of operations in the year in which they are incurred and reduces 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 and receivable for cash collateral pledged, 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

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 condensed 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).

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

Substantially all borrowings are carried at fair value under the Fair Value Option. All changes in the fair value of such borrowings through June 30, 2018 were reported in "Net unrealized gains and losses on non-trading financial instruments accounted for at fair value" in the condensed consolidated statement of operations. Effective July 1, 2018, in accordance with ASU 2016-01, the change in the fair value of these borrowings resulting from changes in instrument-specific credit risk is reported in other comprehensive income, while the remaining change in fair value is reported in "Net unrealized gains and losses on non-trading financial instruments accounted for at fair value" in the condensed consolidated statement of operations.

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 condensed 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

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 elects 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 statement of operations.

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 trading portfolio, all securities (including derivatives) are carried at fair value with changes in fair value reported in income from liquid asset trading activities.

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 condensed consolidated balance sheet. All other loan participations are accounted for as secured borrowings and are included in loans on IFC's condensed consolidated balance sheet, with the related secured borrowings included in payables and other liabilities on IFC's condensed consolidated balance sheet.

Pension and other postretirement benefits - IBRD sponsors a Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that are defined benefit plans and 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.

In accordance with ASU 2017-07, the service cost component of the net periodic benefit costs allocated to IFC is included in "Administrative expenses" in the condensed consolidated statement of operations. The remaining components of the net periodic benefit costs allocated to IFC are included in "Other pension cost" in the condensed consolidated statement of operations. IFC includes a receivable from IBRD in receivables and other assets, representing prepaid pension and other postretirement benefit costs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

Recently adopted accounting standards - In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 introduces a new accounting model that will result in lessees recording most leases on the balance sheet. IFC adopted ASU 2016-02 effective July 1, 2019 with no material impact on IFC's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities* (ASU 2017-08). ASU 2017-08 shortens the amortization period for certain investments in callable debt securities purchased at a premium by requiring the premium to be amortized to the earliest call date. IFC adopted ASU 2017-08 effective July 1, 2019 with no material impact on IFC's financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01. ASU 2016-01 requires all investments in equity securities to be accounted for at fair value through net income (except investments accounted for under the equity method and those that result in consolidation of the investee), and 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 a liability at fair value under the FVO. Given the magnitude of its investments in equity securities and the inherent volatility of prices for equity securities, the adoption of ASU 2016-01 introduced and will continue to cause a significant volatility in IFC's reported net earnings. IFC adopted this ASU on July 1, 2018 by means of a cumulative-effect adjustment to the condensed consolidated balance sheet, and a summary of the impact is listed below:

Increase (decrease)	**Cumulative effect of adoption of ASU 2016-01, effective July 1, 2018 (in US$ millions)**			
	Equity investments	**Accumulated other comprehensive income**	**Retained earnings**	**Total Capital**
Recognizing cumulative unrealized gains on equity securities that were previously accounted for at cost less impairment	$ 1,433	$ —	$ 1,433	$ 1,433
Reclassifying cumulative unrealized gains on equity securities previously classified as available-for-sale	—	(1,402)	1,402	—
Recognizing the fair value of other equity-related financial instruments	80	—	80	80
Reclassifying cumulative gains on borrowings measured at fair value under FVO due to changes in Instrument specific credit risk	—	43	(43)	—
Total	**$ 1,513**	**$ (1,359)**	**$ 2,872**	**$ 1,513**

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. In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, that 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 ASU 2014-09's control principle. ASU 2014-09 and ASU 2016-08 are 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 adopted ASU 2016-08 and ASU 2014-09 effective July 1, 2018 with no material impact on IFC's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 requires an entity to report the service cost component of net periodic benefit costs in the same line item as other compensation costs. The other components of net periodic benefit cost are required to be presented in the statement of operations separately from the service cost component, and are not eligible for capitalization. For IFC, this ASU became effective from the quarter ended September 30, 2018. Given the immateriality of the amounts subject to reclassification under the ASU, IFC has applied the requirements prospectively from the quarter ended September 30, 2018.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions made and Contributions Received* (ASU 2018-08). ASU 2018-08 provides guidance to assist entities in evaluating whether transactions are contributions and whether a contribution is conditional. For contributions received, ASU 2018-08 is effective for annual periods beginning after June 15, 2018, including interim periods within those annual periods (which is the year ended June 30, 2019 for IFC). For contributions paid, ASU 2018-08 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods (which is the year ended June 30, 2020 for IFC). IFC adopted ASU 2018-08 effective July 1, 2018 and July 1, 2019 for

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

contributions received and contributions paid, respectively, with no material impact on IFC's financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-05). In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-08). ASU 2016-15 and ASU 2016-18 clarify guidance in ASC 230. IFC adopted ASU 2016-15 and ASU 2016-18 effective July 1, 2018 with no material impact on IFC's financial position, results of operations or cash flows.

Accounting standards and regulations under evaluation - In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 requires the measurement of estimated credit losses on financial instruments held at the balance sheet date based on historical loss experience, current conditions, and reasonable and supportable forecasts of future economic conditions. Contrary to the incurred impairment loss accounting model currently in place, this forward-looking approach is intended to result in the immediate recognition of all estimated credit losses expected to occur over the remaining life of the instruments. The resulting allowance for current expected credit losses reduces the amortized cost basis of a financial asset to an amount expected to be collected. For future periods which cannot be forecasted in a reasonable and supportable manner, the reporting entity will revert to historical loss experience. Although ASU 2016-13 does not prescribe a specific methodology, it requires a collective assessment for financial assets with similar risk characteristics. Credit losses for financial assets that do not share similar risk characteristics with other financial assets will be measured individually. Impairment of investments in available-for-sale debt securities will be recognized via the allowance method, which allows for reversals of credit losses. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (which is the year ending June 30, 2021 for IFC). IFC is currently evaluating the impact of ASU 2016-13.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* (ASU 2019-04). ASU 2019-04 amends its standards on Credit Losses, Derivatives and Hedging, and Financial Instruments to address implementation issues. The amendments clarify the scope of the Credit Losses standard and address issues related to accrued interest receivable balances, recoveries, variable interest rates and prepayments. With respect to Hedge Accounting, the amendments address partial-term fair value hedges and fair value hedge basis adjustments. The amendments to the Credit Losses and Hedging standards have the same effective dates as those original standards (that are the year ending June 30, 2021 and the year ending June 30, 2020, respectively for IFC). The amendments to Financial Instruments recognition and measurement guidance are effective for fiscal years beginning after 15 December 2019 (which is the year ending June 30, 2021 for IFC). IFC is currently evaluating the impact of ASU 2019-04.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief* (ASU 2019-05). ASU 2019-05 provides transition relief for entities adopting ASU 2016-13 Measurement of Credit Losses on Financial Instruments. The amendments in ASU 2019-05 allow entities to elect the fair value option on certain financial instruments. ASU 2019-05 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (which is the year ending June 30, 2021 for IFC). IFC is currently evaluating the impact of ASU 2019-05.

In August 2018, the FASB issued ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). ASU 2018-13 amends the fair value disclosure requirements to include: (a) the amount of gain or loss for the period included in other comprehensive income attributable to fair value changes in Level 3 assets or liabilities, and (b) for Level 3 fair value measurements, the range and weighted average used to develop significant unobservable inputs and the method of calculating the weighted average. Existing fair value disclosure requirements eliminated by ASU 2018-13 include: (a) the amounts and reasons for transfers between Level 1 and Level 2 fair value measurements, and (b) the policy for determining when transfers between fair value measurement Levels occur. ASU 2018-13 modifies existing fair value disclosure requirements by (a) requiring a narrative description of the uncertainty of fair value measurements from the use of significant unobservable inputs if those inputs reasonable could have been different at reporting date, and (b) requiring disclosure of the estimate of the timing of liquidation events for investments measured using the Net Asset Value practical expedient only if such information has been communicated to the investor or announced publicly by the investee. ASU 2018-13 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019 (which is the year ending June 30, 2021 for IFC). Early adoption is permitted. The amendments that result in additional requirements and the narrative description with respect to uncertainty must be applied prospectively. All other amendments must be retrospectively applied to all periods presented.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES (continued)

In August 2018, the FASB issued ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans* (ASU 2018-14). ASU 2018-14 amends the disclosure requirements for defined benefit pension and other postretirement benefit plans. The added disclosures include the weighted-average interest crediting rates used in the reporting entity's cash balance pension plans and a narrative description for the reasons for significant gains or losses affecting the benefit obligation and any other significant changes in the benefit obligations or plan assets during the period that are not otherwise apparent in the other required disclosures. The disclosures removed include, among other things, the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit costs over the next year and the effects of a one-percent change in the assumed health care costs on service cost, interest cost, and the postretirement benefit obligation. ASU 2018-14 is effective for fiscal years ending after December 15, 2020 (which is the year ending June 30, 2021 for IFC). Earlier adoption is permitted.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* (ASU 2018-15). ASU 2018-15 amends ASC 350-40 to address a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The guidance will be effective for IFC from the quarter ending September 30, 2020. IFC is currently evaluating the impact of ASU 2018-15.

In October 2018, the FASB issued ASU 2018-17, *Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities* (ASU 2018-17). ASU 2018-17 amends the guidance for how a decision maker or service provider must determine whether its fee is a variable interest in a VIE when a related party also has an interest in the VIE. Under the amendment, the decision maker must consider interests held be its related parties on a proportionate basis when determining if such interests could absorb more than an insignificant amount of the VIE's variability. Current guidance requires the decision maker to consider such interests in their entirety. ASU 2018-17 is effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2019 (which is the year ending June 30, 2021 for IFC). ASU 2018-17 is not expected to have a material impact on IFC's financial position, results of operations or cash flows.

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 September 30, 2019, IFC has provided $2 million of capital to AMC ($2 million - June 30, 2019).

As a result of the consolidation of AMC, amounts included in IFC's condensed consolidated balance sheet at September 30, 2019 and June 30, 2019 comprise (US$ millions):

	September 30, 2019	June 30, 2019
Cash, receivables and other assets	$ 46	$ 49
Equity investments	—*	—*
Payables and other liabilities	2	2

* 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 months ended September 30, 2019 and 2018 comprise (US$ millions):

	September 30, 2019	September 30, 2018
Other income	$ 13	$ 17
Other expenses	5	6

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE B - SCOPE OF CONSOLIDATION (continued)

At September 30, 2019, AMC managed twelve funds (collectively referred to as the AMC Funds), none of which requires consolidation by IFC. 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 Catalyst Funds	18%**
IFC Global Infrastructure Fund, LP	17%
China-Mexico Fund, LP	—
IFC Financial Institutions Growth Fund, LP	30%
IFC Global Emerging Markets Fund of Funds	19%***
IFC Middle East and North Africa Fund, LP	37%
Women Entrepreneurs Debt Fund, LP	26%
IFC Emerging Asia Fund, LP	22%

* 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 19% 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 does not have an ownership interest in the IFC Global Emerging Markets Fund of Funds, (Japan Parallel) LP.

IFC’s investments in AMC Funds are accounted for at fair value.

On June 27, 2019, the Board approved a proposed change in legal status to be implemented by transferring AMC to IFC (by merger or transfer of assets and liabilities) following which AMC will cease to exist as a separate legal entity. This change is expected to be implemented in the year ending June 30, 2020 and is not expected to have a significant impact on IFC's financial position, results of operations or cash flows.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE C – LIQUID ASSET PORTFOLIO

Income from liquid asset trading activities

Income from liquid asset trading activities for the three months ended September 30, 2019 and 2018 comprises (US$ millions):

	2019	2018
Interest income, net	$ 220	$ 164
Net gains and losses on trading activities (realized and unrealized)	58	38
Total income from liquid asset trading activities	**$ 278**	**$ 202**

Net gains and losses on trading activities comprise net gains on asset-backed and mortgage-backed securities of $2 million for the three months ended September 30, 2019 ($13 million net losses - three months ended September 30, 2018) and net gains on other trading securities of $56 million for the three months ended September 30, 2019 ($51 million net gains – three months ended September 30, 2018).

Composition of liquid asset portfolio

The composition of IFC's net liquid asset portfolio included in the condensed consolidated balance sheet captions is as follows (US $ millions):

	September 30, 2019	June 30, 2019
Assets		
Cash and due from banks	$ 152	$ 790
Time deposits	11,494	17,500
Trading securities	29,649	28,526
Securities purchased under resale agreements and receivable for cash collateral pledged	1,089	1,862
Derivative assets	387	154
Receivables and other assets:		
Receivables from unsettled security trades	901	499
Accrued interest income on time deposits and securities	157	153
Accrued income on derivative instruments	42	36
Total assets	**43,871**	**49,520**
Liabilities		
Securities sold under repurchase agreements and payable for cash collateral received	6,494	8,454
Derivative liabilities	126	358
Payables and other liabilities:		
Payables for purchase of securities	580	960
Accrued charges on derivative instruments	42	35
Total liabilities	**7,242**	**9,807**
Total net liquid asset portfolio	**$ 36,629**	**$ 39,713**

The liquid asset portfolio is denominated primarily in US dollars; investments in other currencies, net of the effect of associated derivative instruments that convert non-US dollar securities into US dollar securities, represent 1.3% of the portfolio at September 30, 2019 (0.9% - June 30, 2019).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE D – INVESTMENTS

The carrying amount of investments at September 30, 2019 and June 30, 2019 comprises (US$ millions):

	September 30, 2019	June 30, 2019
Loans		
Loans at amortized cost	$ 24,478	$ 24,297
Less: Reserve against losses on loans	(1,243)	(1,191)
Loans at amortized cost less reserve against losses	23,235	23,106
Loans accounted for at fair value under the Fair Value Option		
(outstanding principal balance $916 at September 30, 2019, $968 - June 30, 2019)	846	877
Total loans	**24,081**	**23,983**
Equity investments		
Equity investments accounted for at fair value*		
(cost $12,697 at September 30, 2019, $12,885 - June 30, 2019)	12,832**	13,130**
Total equity investments	**12,832**	**13,130**
Debt securities		
Debt securities accounted for at fair value as available-for-sale		
(amortized cost $4,353 at September 30, 2019, $4,495 - June 30, 2019)	4,328	4,488
Debt securities accounted for at fair value under the Fair Value Option		
(amortized cost $2,071 at September 30, 2019, $1,784 - June 30, 2019)	2,159	1,861
Total debt securities	**6,487**	**6,349**
Total carrying amount of investments	**$ 43,400**	**$ 43,462**

* Equity investments at fair value as of September 30, 2019 are comprised of investments in common or preferred shares of $8,614 million, equity interests in private equity funds of $4,186 million, and equity-related options and other financial instruments of $32 million.

** Includes $22 million and $17 million for September 30, 2019 and June 30, 2019 of equity investments primarily accounted for under the cost recovery method. As the recovery of invested capital is uncertain, the fair value measurement is not applicable to these investments.

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 months ended September 30, 2019 and 2018 comprise the following (US$ millions):

	Three months ended September 30,	
	2019	2018
Interest income	$ 394	$ 424
Commitment fees	9	10
Other financial fees	19	16
Realized losses on loans, guarantees and associated derivatives	—	(5)
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	**$ 422**	**$ 445**

Reserve against losses on loans and provision for losses on loans

Changes in the reserve against losses on loans for the three months ended September 30, 2019 and 2018, 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 September 30, 2019			Three months ended September 30, 2018		
	Specific reserves	Portfolio reserves	Total reserves	Specific reserves	Portfolio reserves	Total reserves
Beginning balance	$ 580	$ 611	$ 1,191	$ 651	$ 642	$ 1,293
Provision (release of provision) for losses on loans, net	53	61	114	57	(37)	20
Write-offs	(53)	—	(53)	(49)	—	(49)
Recoveries of previously written-off loans	—	—	—	11	—	11
Foreign currency transaction adjustments	(5)	(5)	(10)	(1)	(3)	(4)
Other adjustments*	2	(1)	1	4	—	4
Ending balance	**$ 577**	**$ 666**	**$ 1,243**	**$ 673**	**$ 602**	**$ 1,275**
Related recorded investment in loans at September 30, 2019 and 2018 evaluated for impairment**	$ 24,478	$ 23,245	$ 24,478	$ 24,095	$ 22,778	$ 24,095
Recorded investment in loans with specific reserves	$ 1,233			$ 1,317		

* 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, accrued interest and other receivables and provision for losses on guarantees and other receivables

Changes in the reserve against losses on guarantees for the three months ended September 30, 2019 and 2018, are summarized below (US$ millions):

	Three months ended September 30,	
	2019	2018
Beginning balance	$ 25	$ 15
(Release of) provision for losses on guarantees	(18)	9
Foreign currency translation adjustments	—*	(1)
Ending balance	**$ 7**	**$ 23**

* Less than $0.5 million

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

Changes in the reserve against losses on other receivables and accrued interest for the three months ended September 30, 2019 and 2018 are summarized below (US$ millions):

	Three months ended September 30, 2019	2018
Beginning balance	$ 8	$ 8
Provision for losses on other receivables and accrued interest	5	2
Ending balance	**$ 13**	**$ 10**

Impaired loans

The average recorded investment and the recorded investment in loans at amortized cost that are impaired with specific reserves at September 30, 2019 and June 30, 2019 are as follows (US$ millions):

	September 30, 2019	June 30, 2019
Average recorded investment in loans at amortized cost that are impaired	$ 1,346	$ 1,294
Recorded investment in loans at amortized cost that are impaired	1,233	1,240

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 geographic region and industry sector as follows (US$ millions):

	As of September 30, 2019				For the three months ended September 30, 2019
	Recorded investment	Unpaid principal balance	Related specific reserve	Average recorded investment	Interest income recognized
Asia					
Manufacturing, agribusiness and services	$ 103	$ 222	$ 50	$ 116	$ —*
Financial markets	47	51	28	54	—*
Infrastructure and natural resources	102	174	48	114	1
Total Asia	**252**	**447**	**126**	**284**	**1**
Europe, Middle East and North Africa					
Manufacturing, agribusiness and services	192	216	80	195	2
Financial markets	1	1	1	1	—
Infrastructure and natural resources	211	310	116	230	—*
Total Europe, Middle East and North Africa	**404**	**527**	**197**	**426**	**2**
Sub-Saharan Africa, Latin America and Caribbean					
Manufacturing, agribusiness and services	258	286	104	263	2
Financial markets	11	59	8	21	—*
Infrastructure and natural resources	308	405	142	352	1
Total Sub-Saharan Africa, Latin America and Caribbean	**577**	**750**	**254**	**636**	**3**
Other					
Manufacturing, agribusiness and services	—	15	—	—	—
Disruptive technologies and funds	—*	—*	—*	—*	—
Total Other	**—***	**15**	**—***	**—***	**—**
Total	**$ 1,233**	**$ 1,739**	**$ 577**	**$ 1,346**	**$ 6**

* Less than $0.5 million

All impaired loans at September 30, 2019 had specific reserves.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

	As of June 30, 2019				For the year ended June 30, 2019
	Recorded investment	Unpaid principal balance	Related specific reserve	Average recorded investment	Interest income recognized
Asia					
Manufacturing, agribusiness and services	$ 71	$ 190	$ 33	$ 83	$ 2
Financial markets	48	53	23	47	3
Infrastructure and natural resources	106	174	52	112	1
Total Asia	**225**	**417**	**108**	**242**	**6**
Europe, Middle East and North Africa					
Manufacturing, agribusiness and services	201	224	79	200	6
Financial markets	1	1	1	1	—
Infrastructure and natural resources	213	315	110	259	8
Total Europe, Middle East and North Africa	**415**	**540**	**190**	**460**	**14**
Sub-Saharan Africa, Latin America and Caribbean					
Manufacturing, agribusiness and services	238	266	91	227	6
Financial markets	13	46	9	17	1
Infrastructure and natural resources	349	396	182	348	14
Total Sub-Saharan Africa, Latin America and Caribbean	**600**	**708**	**282**	**592**	**21**
Other					
Manufacturing, agribusiness and services	—	15	—	—	—
Disruptive technologies and funds	—*	—*	—*	—*	—
Total Other	**—**	**15**	**—**	**—**	**—**
Total	**$ 1,240**	**$ 1,680**	**$ 580**	**$ 1,294**	**$ 41**

* Less than $0.5 million

All impaired loans at June 30, 2019 had specific reserves.

Nonaccruing loans

Loans on which the accrual of interest has been discontinued amounted to $1,279 million at September 30, 2019 ($1,280 million – June 30, 2019). The interest income on such loans for the three months ended September 30, 2019 and 2018 is summarized as follows (US$ millions):

	Three months ended September 30, 2019	Three months ended September 30, 2018
Interest income not recognized on nonaccruing loans	$ 25	$ 40
Interest income recognized on loans in nonaccrual status related to current and prior years, on a cash basis	8	15

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

The recorded investment in nonaccruing loans at September 30, 2019 and June 30, 2019 is summarized by geographic region and industry sector as follow (US$ millions):

	September 30, 2019				
	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Disruptive technologies and funds	Total recorded investment in non-accruing loans
Asia	$ 90	$ 146	$ 116	$ —	$ 352
Europe, Middle East and North Africa	118	1	276	—	395
Sub-Saharan Africa, Latin America and Caribbean	350	12	283	—	645
Other	—	—	1	—*	1
Total disbursed loans	**$ 558**	**$ 159**	**$ 676**	**$ —***	**$ 1,393****

	June 30, 2019				
	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Disruptive technologies and funds	Total recorded investment in non-accruing loans
Asia	$ 54	$ 82	$ 120	$ —	$ 256
Europe, Middle East and North Africa	128	1	271	—	400
Sub-Saharan Africa, Latin America and Caribbean	359	23	292	—	674
Other	—	—	1	—*	1
Total disbursed loans	**$ 541**	**$ 106**	**$ 684**	**$ —***	**$ 1,331****

* Less than $0.5 million

** Includes $114 million reported as debt securities on the Balance Sheet as of September 30, 2019 ($51 million - June 30, 2019).

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 geographic region and industry sector follows (US $ millions):

	September 30, 2019					
	31-60 days past due	61-90 days past due	Greater than 90 days past due	Total past due	Current	Total loans
Asia						
Manufacturing, agribusiness and services	$ —	$ —*	$ 34	$ 34	$ 1,913	$ 1,947
Financial markets	—	—	—	—	3,392	3,392
Infrastructure and natural resources	—	—	102	102	1,898	2,000
Total Asia	—	—	136	136	7,203	7,339
Europe, Middle East and North Africa						
Manufacturing, agribusiness and services	2	16	73	91	1,583	1,674
Financial markets	—	—	1	1	1,494	1,495
Infrastructure and natural resources	—	—	102	102	1,496	1,598
Total Europe, Middle East and North Africa	2	16	176	194	4,573	4,767
Sub-Saharan Africa, Latin America and Caribbean						
Manufacturing, agribusiness and services	116	28	238	382	2,409	2,791
Financial markets	—	—	3	3	4,290	4,293
Infrastructure and natural resources	—	—	87	87	3,599	3,686
Total Sub-Saharan Africa, Latin America and Caribbean	116	28	328	472	10,298	10,770
Other						
Manufacturing, agribusiness and services	64	—	—	64	565	629
Financial markets	—	—	—	—	908	908
Infrastructure and natural resources	—	—	—	—	194	194
Disruptive technologies and funds	—	—	—*	—*	—	—*
Total Other	64	—	—*	64	1,667	1,731
Total disbursed loans at amortized cost	**$ 182**	**$ 44**	**$ 640**	**$ 866**	**$ 23,741**	**$ 24,607**
Unamortized deferred loan origination fees, net and other						(128)
Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets						(1)
Recorded investment in loans at amortized cost						**$ 24,478**

At September 30, 2019, loans 90 days or greater past due still accruing were insignificant.

* Less than $0.5 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

	June 30, 2019					
	31-60 days past due	61-90 days past due	Greater than 90 days past due	Total past due	Current	Total loans
Asia						
Manufacturing, agribusiness and services	$ —	$ —	$ 38	$ 38	$ 1,698	$ 1,736
Financial markets	—	26	—	26	3,178	3,204
Infrastructure and natural resources	—	—	106	106	1,991	2,097
Total Asia	—	26	144	170	6,867	7,037
Europe, Middle East and North Africa						
Manufacturing, agribusiness and services	—	—	85	85	1,732	1,817
Financial markets	—	—	1	1	1,554	1,555
Infrastructure and natural resources	—	—	96	96	1,575	1,671
Total Europe, Middle East and North Africa	—	—	182	182	4,861	5,043
Sub-Saharan Africa, Latin America and Caribbean						
Manufacturing, agribusiness and services	8	2	251	261	2,546	2,807
Financial markets	—	—	6	6	3,989	3,995
Infrastructure and natural resources	3	—	91	94	3,743	3,837
Total Sub-Saharan Africa, Latin America and Caribbean	11	2	348	361	10,278	10,639
Other						
Manufacturing, agribusiness and services	—	—	—	—	665	665
Financial markets	—	—	—	—	854	854
Infrastructure and natural resources	—	—	—	—	194	194
Disruptive technologies and funds	—	—	—*	—*	—	—*
Total Other	—	—	—	—	1,713	1,713
Total disbursed loans at amortized cost	**$ 11**	**$ 28**	**$ 674**	**$ 713**	**$ 23,719**	**$ 24,432**
Unamortized deferred loan origination fees, net and other						(133)
Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets						(2)
Recorded investment in loans at amortized cost						**$ 24,297**

At June 30, 2019, loans 90 days or greater past due still accruing were insignificant.

* Less than $0.5 million.

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. A description of each credit rating and categorization in terms of the attributes of the borrower, the business environment in which the borrower operates or the loan itself under the rating system follows:

Credit Risk Rating	Indicative External Rating	Category	Description
CR-1	AAA, AA+, AA, AA-	Very Strong	An obligor rated CR-1 is the highest rating assigned by IFC. The obligor's ability to meet its financial obligations is very strong.
CR-2	A+, A, A-	Strong	An obligor rated CR-2 is slightly more susceptible to the negative effects of changes in circumstances and economic conditions than obligors rated CR-1. The obligor's ability to meet its financial obligations remains strong.
CR-3	BBB+	Adequate	An obligor rated CR-3 exhibits an adequate financial profile, even though at a weaker level than "CR-1" and "CR-2."
CR-4	BBB		An obligor rated CR-4 exhibits an adequate financial profile. However, adverse economic conditions or changing circumstances are more likely to lead to a deterioration of the obligor’s ability to meet its financial obligations.
CR-5	BBB-		An obligor rated CR-5, as the lowest of the investment grade ratings, exhibits an adequate financial profile. However, adverse economic conditions and/or changing circumstances are more likely to lead to a weaker financial profile and a deterioration of the obligor’s ability to meet its financial obligations.
CR-6	BB+	Moderate	An obligor rated CR-6, as the first non-investment grade rating, is less vulnerable to default than other non-investment obligors.
CR-7	BB		An obligor rated CR-7 can face major uncertainties. Exposure to negative business, financial, or economic conditions could lead to the obligor's insufficient financial profile and a deterioration of the obligor’s ability to meet its financial obligations.
CR-8	BB-		An obligor rated CR-8 faces major ongoing uncertainties. Exposure to negative business, financial, or economic conditions could lead to the obligor's insufficient financial profile and a deterioration of the obligor’s ability to meet its financial obligations.
CR-9	B+	Weak	An obligor rated CR-9 is less vulnerable to default than obligors rated 'CR-10’ or ‘CR-11'. Significantly negative business, financial, or economic conditions will likely weaken the obligor's financial profile and ability to meet its financial obligations.
CR-10	B		An obligor rated CR-10 is more vulnerable to default than obligors rated 'CR-9’ but the obligor still has the capacity to meet its financial obligations. Negative business, financial, or economic conditions will likely weaken the obligor's financial profile and ability to meet its financial obligations.
CR-11	B-		An obligor rated CR-11 is more vulnerable to default than obligors rated 'CR-9’ or ‘CR-10’. The obligor still has the capacity to meet its obligations but slightly negative business, financial, or economic conditions are more likely to weaken the obligor's financial profile and ability to meet its financial obligations than a company rated CR-10.
CR-12	CCC+	Very Weak/ Special Attention	An obligor rated CR-12 faces significant challenges. While such obligors will likely have some positive characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. The obligor is dependent upon favorable business, financial, and economic conditions to meet its financial obligations.
CR-13	CCC	Very Weak / Substandard	An obligor rated CR-13 is currently vulnerable to default, and is dependent upon significantly favorable business, financial, and economic conditions to meet its financial obligations. In the event of negative business, financial, or economic conditions, the obligor is not likely to meet its financial obligations and rescheduling and/or restructuring is likely to be required.
CR-14	CCC-	Extremely Weak / Doubtful	An obligor rated CR-14 is highly vulnerable to default. It is highly likely that a rescheduling and/or restructuring are required without which a default under IFC’s accounting definition would ensue. In some cases, even though default has not occurred yet, cash flow may be insufficient to service debt in full.
CR-15	Worse than CCC- and D	Imminent Default /Default	An obligor rated CR-15 is currently extremely vulnerable to nonpayment and there are indications that the next payment will not be made before meeting IFC’s accounting definition of default.
D			An obligor rated D is in payment default according to IFC’s accounting definition of default.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

A summary of IFC's disbursed loans at amortized cost by credit quality indicator effective September 30, 2019 and June 30, 2019 respectively, as well as by industry sector and geographic region follows (US$ millions):

	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total
Total disbursed loans at amortized cost at September 30, 2019	$ 53	$ 801	$ 3,701	$ 8,843	$ 8,735	$ 493	$ 522	$ 636	$ 823	$ 24,607
Total disbursed loans at amortized cost at June 30, 2019	$ 52	$ 825	$ 3,626	$ 9,020	$ 8,885	$ 227	$ 563	$ 296	$ 938	$ 24,432

	September 30, 2019									
	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total
Geographic Region										
Asia	$ —	$ 153	$ 1,640	$ 2,903	$ 2,340	$ 62	$ 78	$ 28	$ 135	$ 7,339
Europe, Middle East and North Africa	—	314	450	1,271	2,107	106	152	87	280	4,767
Sub-Saharan Africa, Latin America and Caribbean	—	330	1,371	3,507	4,016	325	292	521	408	10,770
Other	53	4	240	1,162	272	—	—	—*	—	1,731
Total geographic region	**$ 53**	**$ 801**	**$ 3,701**	**$ 8,843**	**$ 8,735**	**$ 493**	**$ 522**	**$ 636**	**$ 823**	**$24,607**

	September 30, 2019									
	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total
Industry Sector										
Manufacturing, agribusiness and services	$ 53	$ 432	$ 1,439	$ 2,625	$ 1,624	$ 165	$ 231	$ 129	$ 343	$ 7,041
Financial markets	—	20	1,808	5,147	3,008	43	50	—	12	10,088
Infrastructure and natural resources	—	349	454	1,071	4,103	285	241	507	468	7,478
Disruptive technologies and funds	—	—	—	—	—	—	—	—*	—	—*
Total industry sector	**$ 53**	**$ 801**	**$ 3,701**	**$ 8,843**	**$ 8,735**	**$ 493**	**$ 522**	**$ 636**	**$ 823**	**$24,607**

* Less than $0.5 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE E – LOANS AND GUARANTEES (continued)

June 30, 2019

	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total
Geographic Region										
Asia	$ —	$ 158	$ 1,511	$ 2,719	$ 2,357	$ 31	$ 101	$ 16	$ 144	$ 7,037
Europe, Middle East and North Africa	—	334	514	1,662	1,909	100	107	88	329	5,043
Sub-Saharan Africa, Latin America and Caribbean	—	330	1,332	3,521	4,348	96	355	192	465	10,639
Other	52	3	269	1,118	271	—	—	—*	—	1,713
Total geographic region	**$ 52**	**$ 825**	**$ 3,626**	**$ 9,020**	**$ 8,885**	**$ 227**	**$ 563**	**$ 296**	**$ 938**	**$24,432**

June 30, 2019

	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total
Industry Sector										
Manufacturing, agribusiness and services	$ 52	$ 452	$ 1,333	$ 2,646	$ 1,701	$ 107	$ 226	$ 109	$ 399	$ 7,025
Financial markets	—	24	1,780	4,852	2,874	13	51	1	13	9,608
Infrastructure and natural resources	—	349	513	1,522	4,310	107	286	186	526	7,799
Disruptive technologies and funds	—	—	—	—	—	—	—	—*	—	—*
Total industry sector	**$ 52**	**$ 825**	**$ 3,626**	**$ 9,020**	**$ 8,885**	**$ 227**	**$ 563**	**$ 296**	**$ 938**	**$24,432**

* Less than $0.5 million

Loan modifications, including past due amounts capitalized and written off, during the three months ended September 30, 2019 considered troubled debt restructurings totaled $150 million ($171 million – three months ended September 30, 2018). There were no loans that defaulted during the three months ended September 30, 2019 that had been modified in a troubled debt restructuring within 12 months prior to the date of default (no loans defaulted during the three months ended September 30, 2018).

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 September 30, 2019 totaled $3,587 million ($4,017 million – June 30, 2019). Guarantees of $3,066 million that were outstanding (i.e., not called) at September 30, 2019 ($2,899 million – June 30, 2019), were not included in loans on IFC's condensed consolidated balance sheet. The outstanding amount represents the maximum amount of undiscounted future payments that IFC could be required to make under these guarantees.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE F – DEBT SECURITIES

Income from debt securities, including realized gains and losses on debt securities and associated derivatives for the three months ended September 30, 2019 and 2018 comprise the following (US$ millions):

	2019	2018
Interest income	$ 76	$ 91
Dividends	—*	—*
Realized gains (losses) on debt securities and associated derivatives	5	—*
Other-than-temporary impairments**	(42)	(238)
Total income from debt securities, including realized gains (losses) on debt securities and associated derivatives	**$ 39**	**$ (147)**

* Less than $0.5 million.

** Includes impairments of available-for-sale debt securities of $238 million for the three months ended September 30, 2018 to write down the cumulative foreign exchange losses due to significant currency depreciation, as IFC considers the foreign exchange losses associated with those debt securities as other-than-temporary.

Debt securities accounted for as available-for-sale at September 30, 2019 and June 30, 2019 comprise (US$ millions):

September 30, 2019	Amortized cost	Unrealized gains	Unrealized losses	Foreign currency transaction losses	Fair value
Corporate debt securities	$ 3,621	$ 143	$ (68)	$ (180)	$ 3,516
Preferred shares	76	77	(2)	—	151
Asset-backed securities	656	20	(8)	(7)	661
Total	**$ 4,353**	**$ 240**	**$ (78)**	**$ (187)**	**$ 4,328**

June 30, 2019	Amortized cost	Unrealized gains	Unrealized losses	Foreign currency transaction losses	Fair value
Corporate debt securities	$ 3,686	$ 104	$ (98)	$ (93)	$ 3,599
Preferred shares	117	101	(1)	—	217
Asset-backed securities	692	—	(17)	(3)	672
Total	**$ 4,495**	**$ 205**	**$ (116)**	**$ (96)**	**$ 4,488**

The following table shows the unrealized losses and fair value of debt securities at September 30, 2019 and June 30, 2019 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):

September 30, 2019	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debt securities	$ 187	$ (16)	$ 679	$ (52)	$ 866	$ (68)
Preferred shares	2	(1)	8	(1)	10	(2)
Asset-backed securities	—	—	112	(8)	112	(8)
Total	**$ 189**	**$ (17)**	**$ 799**	**$ (61)**	**$ 988**	**$ (78)**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE F - DEBT SECURITIES (continued)

	June 30, 2019					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debt securities	$ 301	$ (25)	$ 893	$ (73)	$ 1,194	$ (98)
Preferred shares	—	—	8	(1)	8	(1)
Asset-backed securities	—	—	107	(17)	107	(17)
Total	**$ 301**	**$ (25)**	**$ 1,008**	**$ (91)**	**$ 1,309**	**$ (116)**

Corporate debt securities comprise investments in bonds and notes. Fair value associated with corporate debt securities is primarily attributable to movements in the credit default swap spread curve applicable to the issuer, and also impacted by movements in the risk-free rates and foreign currency exchange rates. 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.

Nonaccruing debt securities

Debt securities on which the accrual of interest has been discontinued amounted to $114 million at September 30, 2019 ($51 million - June 30, 2019).

NOTE G – EQUITY INVESTMENTS AND ASSOCIATED DERIVATIVES

Income from equity investments and associated derivatives for the three months ended September 30, 2019 and 2018 comprises the following (US$ millions):

	2019	2018
Unrealized losses on equity investments and associated derivatives*	$ (126)	$ (799)
Realized (losses) gains on equity investments and associated derivatives, net	(34)	231
Losses on equity investments and associated derivatives, net	(160)	(568)
Dividends	13	46
Custody, fees and other	—**	1
Total loss from equity investments and associated derivatives	**$ (147)**	**$ (521)**

* Including unrealized gains and losses related to equity securities still held at September 30, 2019 - net gains of $8 million for the three months ended September 30, 2019.

** Less than $0.5 million.

Equity investments include 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. The fair values of these funds have been determined using the net asset value of IFC's ownership interest in partners' capital as a practical expedient and totaled $4,186 million as of September 30, 2019 ($4,191 million - June 30, 2019). 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. As of September 30, 2019, the maximum unfunded commitments subject to capital calls for these funds are $1,081 million ($1,121 million - June 30, 2019). As of September 30, 2019, IFC invested $755 million ($840 million - June 30, 2019) as a limited partner in funds managed by AMC (IFC's fully owned subsidiary). The sale of IFC's limited partner interests in these funds needs prior consent from the other limited partners.

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	Creating Markets Advisory Window	Performance-Based Grants	SME Ventures for IDA countries	Total Designated Retained Earnings
At June 30, 2018	**$ —**	**$ 46**	**$ 122**	**$ 5**	**$ 17**	**$ 190**
Year ended June 30, 2019						
Designations of retained earnings	115	45	70	—	—	230
Expenditures against designated retained earnings	—	(25)	(26)	(2)	(1)	(54)
At June 30, 2019	**$ 115**	**$ 66**	**$ 166**	**$ 3**	**$ 16**	**$ 366**
Three months ended September 30, 2019						
Designations of retained earnings	—	24	—	—	—	24
Expenditures against designated retained earnings	—	(3)	(4)	(1)	—*	(8)
At September 30, 2019	**$ 115**	**$ 87**	**$ 162**	**$ 2**	**$ 16**	**$ 382**

* Less than $0.5 million.

On August 8, 2019, the Board of Directors approved a designation of $24 million of IFC's retained earnings for Advisory Services, and, subject to the conditions detailed on page 11, a designation of $98 million of IFC's retained earnings for grants to IDA. These designations were noted with approval by the Board of Governors on October 18, 2019. IFC did not recognize expenditures against designations for grants to IDA in FY19 (from FY18 designations) and the transfer was deferred to FY20 due to IFC's net loss for the first nine months ended March, 31, 2019 in accordance with the Board of Directors approved approach.

Accumulated other comprehensive loss

The components of accumulated other comprehensive loss at September 30, 2019 and June 30, 2019 are summarized as follows (US$ millions):

	September 30, 2019	June 30, 2019
Net unrealized losses on available-for-sale debt securities	$ (25)	$ (7)
Net unrealized gains on borrowings at fair value under the fair value option due to changes in instrument-specific credit risk	190	131
Unrecognized net actuarial losses and unrecognized prior service costs on benefit plans	(1,342)	(1,356)
Total accumulated other comprehensive loss	**$ (1,177)**	**$ (1,232)**

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 months ended September 30, 2019 and 2018 comprise (US$ millions):

	2019	2018
Unrealized gains and losses on loans, debt securities and associated derivatives:		
Unrealized (losses) gains on loans and associated derivatives	$ (29)	$ 19
Unrealized (losses) gains on debt securities and associated derivatives	(35)	40
Total net unrealized (losses) gains on loans, debt securities and associated derivatives	**(64)**	**59**
Unrealized gains and losses on borrowings from market, IDA and associated derivatives:		
Unrealized gains and losses on market borrowings accounted for at fair value:		
Interest rate, foreign exchange and other components	(600)	453
Total unrealized (losses) gains on market borrowings	(600)	453
Unrealized gains (losses) on derivatives associated with market borrowings	580	(467)
Unrealized (losses) gains on borrowings from IDA accounted for at fair value	(6)	2
Total net unrealized losses on borrowings from market, IDA and associated derivatives	**(26)**	**(12)**
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	**$ (90)**	**$ 47**

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 includes the impact of changes in IFC's own credit spread. As credit spreads widen, unrealized gains occur and when such credit spreads narrow, unrealized losses occur (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.

Changes in fair value resulting from changes in IFC's own credit risk were estimated by incorporating the IFC's current credit spreads observable in the bond markets into the relevant valuation technique used to value each liability as described in Note K.

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 September 30, 2019 and June 30, 2019 is summarized as follows (US$ millions):

Condensed Consolidated Balance Sheet location	September 30, 2019	June 30, 2019
Derivative assets		
Interest rate	$ 644	$ 505
Foreign exchange	219	93
Interest rate and currency	2,275	2,097
Equity and other	130	161
Total derivative assets	**$ 3,268**	**$ 2,856**
Derivative liabilities		
Interest rate	$ 741	$ 699
Foreign exchange	34	189
Interest rate and currency	2,670	3,065
Equity and other	9	11
Total derivative liabilities	**$ 3,454**	**$ 3,964**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE J - DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS (continued)

The effect of derivative instrument contracts on the condensed consolidated statement of operations for the three months ended September 30, 2019 and 2018 is summarized as follows (US$ millions):

Derivative risk category	Condensed Consolidated Statement of Operations location	2019	2018
Interest rate	Loss from loans and guarantees, including realized gains and losses on loans and associated derivatives	$ —	$ (1)
	Income from debt securities, including realized gains and losses on debt securities and associated derivatives	—	1
	Loss from liquid asset trading activities	(29)	(14)
	Charges on borrowings	(13)	1
	Other income	9	13
	Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value	95	(100)
Foreign exchange	Income from liquid asset trading activities	589	36
	Foreign currency transaction gains (losses) on non-trading activities	3	(62)
	Net unrealized gains on non-trading financial instruments accounted for at fair value	1	—
Interest rate and currency	Loss from loans and guarantees, including realized gains and losses on loans and associated derivatives	(16)	(12)
	Loss from debt securities, including realized gains and losses on debt securities and associated derivatives	(6)	(2)
	Income from liquid asset trading activities	220	63
	Charges on borrowings	147	149
	Foreign currency transaction losses on non-trading activities	(360)	(480)
	Other Income	—	3
	Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value	400	(325)
Equity	Loss from equity investments and associated derivatives	(18)	(44)
	Net unrealized losses on non-trading financial instruments accounted for at fair value	(11)	(2)
	Total	**$ 1,011**	**$ (776)**

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

At September 30, 2019, the outstanding volume, measured by US$ equivalent notional, of interest rate contracts was $43,664 million ($51,273 million at June 30, 2019), foreign exchange contracts was $15,976 million ($21,509 million at June 30, 2019) and interest rate and currency contracts was $44,297 million ($43,225 million at June 30, 2019). At September 30, 2019, there were 183 equity contracts related to IFC's loan and equity investment portfolio and no other derivative contract recognized as derivatives assets or liabilities under ASC Topic 815 (187 equity risk and no other contracts at June 30, 2019).

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 September 30, 2019 and June 30, 2019 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, 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). The Investment Valuation Unit in IFC's Corporate Risk Management department in the Risk and Finance Vice Presidency provides oversight over the fair valuation process by monitoring and reviewing the fair values of IFC's investment portfolio. IFC's Operations Committee, a subcommittee of IFC's management team, is also responsible for oversight of complex or high risk projects, Debt and Equity portfolio performance and asset allocation.

IFC's borrowings are fair valued by the Quantitative Analysis department in IFC's Treasury and Syndications Vice Presidency under the oversight of the Corporate Risk Management department.

The methodologies used and key assumptions made to estimate fair values as of September 30, 2019, and June 30, 2019, 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. US Treasuries and US Government agency bonds are 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.

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. The majority of 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 significant unobservable inputs used in the fair value measurement of loans and debt securities are discount rates, credit default swap spreads, and expected recovery rates. The valuation techniques and significant unobservable inputs for available-for-sale debt securities classified as Level 3 as of September 30, 2019 and June 30, 2019 are presented below respectively. Valuation techniques and significant inputs for loans and debt securities accounted for at fair value under the fair value option are materially consistent with available-for-sale debt securities.

September 30, 2019

	Valuation technique	Fair value (US$ millions)	Significant inputs	Range (%)	Weighted average (%)
Debt securities – preferred shares	Discounted cash flows	$ 40	Discount rate	6.9 - 29.2	10.7
	Relative valuations	54	Valuation multiples*		
	Recent transactions	49			
	Other techniques	8			
Total preferred shares		151			
Other debt securities	Discounted cash flows	2,030	Credit default swap spreads	1.1 - 5.3	2.2
			Expected recovery rates	0.0 - 85.0	48.8
	Recent transactions	684			
	Other techniques	104			
Total other debt securities		2,818			
Total		**$ 2,969**			

* Including price/earnings ratio, enterprise value/sales ratio and enterprise value/earnings before interest, taxes, depreciation and amortization ratio, the range and weighted average are not provided due to the immaterial amounts.

June 30, 2019

	Valuation technique	Fair value (US$ millions)	Significant inputs	Range (%)	Weighted average (%)
Debt securities – preferred shares	Discounted cash flows	$ 53	Discount rate	6.6 - 29.2	12.6
	Relative valuations	59	Valuation multiples*		
	Recent transactions	97			
	Other techniques	8			
Total preferred shares		217			
Other debt securities	Discounted cash flows	2,172	Credit default swap spreads	1.1 - 5.4	2.4
			Expected recovery rates	0.0 - 85.0	48.2
	Recent transactions	804			
	Other techniques	57			
Total other debt securities		3,033			
Total		**$ 3,250**			

* Including price/earnings ratio, enterprise value/sales ratio and enterprise value/earnings before interest, taxes, depreciation and amortization ratio, the range and weighted average are not provided due to the immaterial amounts.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

Borrowings – 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. Fair values derived from market source pricing are also 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 September 30, 2019, IFC had bond issuances with a total fair value of $137 million classified as level 3 in Costa Rican colon, Kazakhstan tenge, Uruguayan peso and Uzbekistan sum where the significant unobservable inputs were yield curve data. As of September 30, 2019, the weighted average effective interest rate on medium and long-term borrowings carried at amortized cost was 6.8% and the effective interest rate on short-term borrowings carried at amortized cost was 2.5%.

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 September 30, 2019 and June 30, 2019 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.

September 30, 2019

Level 3 derivatives	Type	Fair value (US$ millions)	Significant inputs	Range (%)	Weighted average (%)
Equity related derivatives	Fixed strike price options	$ 9	Volatilities	22.4 - 35.4	32.5
	Variable strike price options	111	Contractual strike price*		
	Other	1			
Interest rate and currency swap assets	Vanilla swaps	43	Yield curve points, exchange rates		
Interest rate and currency swap liabilities	Vanilla swaps	(27)	Yield curve points, exchange rates		
Total		**$ 137**			

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

June 30, 2019

Level 3 derivatives	Type	Fair value (US$ millions)	Significant inputs	Range (%)	Weighted average (%)
Equity related derivatives	Fixed strike price options	$ 12	Volatilities	22.4 - 35.4	28.5
	Variable strike price options	137	Contractual strike price*		
	Other	1			
Interest rate and currency swap assets	Vanilla swaps	15	Yield curve points, exchange rates		
Interest rate and currency swap liabilities	Vanilla swaps	(2)	Yield curve points, exchange rates		
Total		**$ 163**			

* 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 are valued using quoted prices in inactive markets. Equity investments classified as Level 3 are primarily valued using discounted cash flow and relative valuation approaches. The significant unobservable inputs include cost of equity, weighted average cost of capital, asset growth rate, return on assets, perpetual growth rate and market multiples. The valuation techniques and significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy for equity investments that were required to be measured at fair value through net income as of September 30, 2019 and June 30, 2019 are presented below. Valuation techniques and significant inputs for equity investments accounted for at fair value under the fair value option are materially consistent with equity investments required to be measured at fair value.

September 30, 2019

Sector	Valuation technique	Fair value (US $ millions)	Significant inputs	Range	Weighted average (%)
Banking and other financial Institutions	Discounted cash flows	$ 594	Cost of equity (%)	10.4 - 24.7	14.9
			Asset growth rate (%)	(20.1) - 77.8	5.4
			Return on assets (%)	(8.8) - 9.8	1.5
			Perpetual growth rate (%)	2.5 - 13.0	5.2
	Relative valuations	57	Valuation multiples**		
	Listed price (adjusted)	516	Discount for lack of marketability (%)	***	35.0
	Recent transactions	349			
	Other techniques	186			
	Associated options****	21			
Total banking and other financial institutions		1,723			
Funds	Recent transactions	8			
Total funds		8			
Others	Discounted cash flows	1,160	Weighted average cost of capital (%)	1.0 - 22.5	10.2
			Cost of equity (%)	9.6 - 17.6	11.0
	Relative valuations	348	EV/EBITDA	3.4 - 22.8	11.9
			Price to book value	0.6 - 2.0	1.1
			Other valuation multiples**		
	Listed price (adjusted)	—*	Discount for lack of marketability (%)	***	10.0
	Recent transactions	586			
	Other techniques	100			
	Associated options****	32			
Total others		2,226			
Total		**$ 3,957**			

* Less than $0.5 million.
** Including price/book value ratio, price/earnings ratio, price/sales ratio, enterprise value/sales ratio, and enterprise value/earnings before interest, taxes, depreciation, and amortization ratio, the range and weighted average are not provided due to the immaterial amounts.
*** No range is provided as all of the projects that use this valuation technique are with the same institution and have the same discount percentage.
**** Fair values for associated options are derived by determining the present value of estimated future cash flows using appropriate discount rates and option specific models where appropriate.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

June 30, 2019

Sector	Valuation technique	Fair value (US$ millions)	Significant inputs	Range	Weighted average (%)
Banking and other financial Institutions	Discounted cash flows	$ 676	Cost of equity (%)	10.4 - 24.9	14.5
			Asset growth rate (%)	(24.0) - 82.1	3.5
			Return on assets (%)	(8.9) - 9.8	1.3
			Perpetual growth rate (%)	2.1 - 15.0	4.8
	Relative valuations	60	Valuation multiples**		
	Listed price (adjusted)	578	Discount for lack of marketability (%)	***	35.0
	Recent transactions	343			
	Other techniques	159			
	Associated options****	18			
Total banking and other financial institutions		1,834			
Others	Discounted cash flows	1,273	Weighted average cost of capital (%)	6.6 - 22.5	11.3
			Cost of equity (%)	10.9 - 16.7	11.3
	Relative valuations	325	EV/EBITDA	3.4 - 24.4	11.8
			Price to book value	0.6 - 2.0	1.1
			Other valuation multiples**		
	Listed price (adjusted)	—*	Discount for lack of marketability (%)	***	10.0
	Recent transactions	505			
	Other techniques	81			
	Associated options****	49			
Total others		2,233			
Total		**$ 4,067**			

* Less than $0.5 million.
** Including price/book value ratio, enterprise value/sales ratio, and enterprise value/earnings before interest, taxes, depreciation, and amortization ratio, the range and weighted average are not provided due to the immaterial amounts.
*** No range is provided as all of the projects that use this valuation technique are with the same institution and have the same lock-up discount percentage.
**** Fair values for associated options are derived by determining the present value of estimated future cash flows using appropriate discount rates and option specific models where appropriate.

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 September 30, 2019 and June 30, 2019 are summarized below (US$ millions):

	September 30, 2019		June 30, 2019	
	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	$ 42,802	$ 42,802	$ 49,085	$ 49,085
Investments:				
Loans at amortized cost, net of reserves against losses	23,235	24,799	23,106	24,349
Loans accounted for at fair value under the Fair Value Option	846	846	877	877
Total loans	24,081	25,645	23,983	25,226
Equity investments accounted for at fair value	12,832*	12,810	13,130*	13,113
Debt securities accounted for at fair value as available-for-sale	4,328	4,328	4,488	4,488
Debt securities accounted for at fair value under the Fair Value Option	2,159	2,159	1,861	1,861
Total debt securities	6,487	6,487	6,349	6,349
Total investments	43,400	44,942	43,462	44,688
Derivative assets:				
Borrowings-related	891	891	896	896
Liquid asset portfolio-related and other	387	387	154	154
Investment-related	1,508	1,508	1,417	1,417
Client risk management-related	482	482	389	389
Total derivative assets	3,268	3,268	2,856	2,856
Other investment-related financial assets	—	8	—	8
Financial liabilities				
Securities sold under repurchase agreements and payable for cash collateral received	$ 6,494	$ 6,494	$ 8,454	$ 8,454
Market, IBRD, IDA and other borrowings outstanding	51,314	51,320	54,132	54,138
Derivative liabilities:				
Borrowings-related	2,516	2,516	2,857	2,857
Liquid asset portfolio-related and other	126	126	370	370
Investment-related	250	250	285	285
Client risk management-related	562	562	452	452
Total derivative liabilities	3,454	3,454	3,964	3,964

* For $22 million as of September 30, 2019 ($17 million - June 30, 2019) of equity investments primarily accounted for under the cost recovery method, no fair value measurement is provided since the recovery of invested capital is uncertain.

The fair value of loan commitments amounted to $30 million at September 30, 2019 ($39 million - June 30, 2019). 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 September 30, 2019 and June 30, 2019, 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):

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Trading securities:				
Asset-backed securities	$ 14	$ 4,908	$ 134	$ 5,056
Corporate debt securities	—	4,873	—	4,873
Government obligations	11,538	8,039	—	19,577
Money market funds	—	143	—	143
Total trading securities	11,552	17,963*	134	29,649
Loans	—	—	820	820
Loans measured at net asset value**				26
Total Loans (Outstanding principal balance $916)	—	—	820	846
Equity investments:				
Banking and other financial institutions	1,346	110	2,283	3,739
Funds	22	—	83	105
Others	987	146	3,647	4,780
Equity investments measured at net asset value**				4,186
Total equity investments	2,355	256	6,013	12,810
Debt securities:				
Corporate debt securities	—	1,654	2,856	4,510
Preferred shares	—	—	415	415
Asset-backed securities	—		1,029	1,029
Other debt securities	—	—	—****	—****
Debt securities measured at net asset value**				533
Total debt securities	—	1,654	4,300	6,487
Derivative assets:				
Interest rate	—	644	—	644
Foreign exchange	—	219	—	219
Interest rate and currency	—	2,232	43	2,275
Equity and other	—	—	130	130
Total derivative assets	—	3,095	173	3,268
Total assets at fair value	**$ 13,907**	**$ 22,968**	**$ 11,440**	**$ 53,060**
Borrowings:				
Structured bonds	$ —	$ 6,887	$ —	$ 6,887
Unstructured bonds	—	41,314	137	41,451
Total borrowings (outstanding principal balance $50,793***)	—	48,201	137	48,338
Derivative liabilities:				
Interest rate	—	741	—	741
Foreign exchange	—	34	—	34
Interest rate and currency	—	2,643	27	2,670
Equity and other	—	—	9	9
Total derivative liabilities	—	3,418	36	3,454
Total liabilities at fair value	**$ —**	**$ 51,619**	**$ 173**	**$ 51,792**

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

** 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 condensed consolidated balance sheet.

***Includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of $5,252 million, with a fair value of $2,205 million as of September 30, 2019.

****Less than $0.5 million.

Note: For the three months ended September 30, 2019: Trading securities with fair value of $0 transferred from level 1 to level 2 and $0 from level 2 to level 1 due to decrease/increase in market activities and reassessment of market data inputs. Equity investments with fair value of $13 million transferred from level 1 to level 2 and $26 million from level 2 to level 1 due to decrease/increase in market activities. There were no bonds issued by IFC transferred from level 2 to level 1 & transferred from level 1 to level 2

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Trading securities:				
Asset-backed securities	$ —	$ 5,044	$ 1	$ 5,045
Corporate debt securities	—	4,715	—	4,715
Government and agency obligations	10,853	7,762	—	18,615
Money market funds	—	151	—	151
Total trading securities	10,853	17,672*	1	28,526
Loans	—	1	850	851
Loans measured at net asset value**				26
Total Loans (Outstanding principal balance $968)	—	1	850	877
Equity investments:				
Banking and other financial institutions	1,445	148	2,422	4,015
Funds	23	29	61	113
Others	1,062	127	3,605	4,794
Equity investments measured at net asset value**				4,191
Total equity investments	2,530	304	6,088	13,113
Debt securities:				
Corporate debt securities	—	1,390	2,994	4,384
Preferred shares	—	—	495	495
Asset-backed securities	—	57	887	944
Other debt securities	—	—	—	—
Debt securities measured at net asset value**				526
Total debt securities	—	1,447	4,376	6,349
Derivative assets:				
Interest rate	—	505	—	505
Foreign exchange	—	93	—	93
Interest rate and currency	—	2,082	15	2,097
Equity and other	—	—	161	161
Total derivative assets	—	2,680	176	2,856
Total assets at fair value	**$ 13,383**	**$ 22,104**	**$ 11,491**	**$ 51,721**
Borrowings:				
Structured bonds	$ —	$ 7,044	$ —	$ 7,044
Unstructured bonds	—	43,982	83	44,065
Total borrowings (outstanding principal balance $54,255***)	**—**	**51,026**	**83**	**51,109**
Derivative liabilities:				
Interest rate	—	699	—	699
Foreign exchange	—	189	—	189
Interest rate and currency	—	3,063	2	3,065
Equity and other	—	—	11	11
Total derivative liabilities	—	3,951	13	3,964
Total liabilities at fair value	**$ —**	**$ 54,977**	**$ 96**	**$ 55,073**

IFC reassessed market data inputs for estimating whether its trading securities, debt securities, and borrowings are traded in an active market as defined by ASC 820. Based on market data as of June 30, 2019, trading securities (except US Treasuries and Agency securities), debt securities, and borrowings were transferred from level 1 to level 2.

* Includes securities priced at par plus accrued interest, which approximates fair value.
**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 condensed consolidated balance sheet.
*** Includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of $5,571 million, with a fair value of $2,233 million as of June 30, 2019.

Note: For the year ended June 30, 2019: Trading securities with fair value of $5,149 million transferred from level 1 to level 2 and $12 million from level 2 to level 1 due to decrease/increase in market activities. Equity investments with fair value of $119 million transferred from level 1 to level 2 and $112 million from level 2 to level 1 due to decrease/increase in market activities and reassessment of market data inputs. Debt securities with a fair value of $417 million and bonds issued by IFC with a fair value $28,326 million were transferred from level 1 to level 2 due to reassessment of market data inputs. There were no bonds or debt securities transferred from level 2 to level 1.

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 months ended September 30, 2019 and 2018 (US$ millions). IFC's policy is to recognize transfers in and transfers out at the beginning of the reporting period.

	Three months ended September 30, 2019							
		Net gains and losses (realized and unrealized) included in						
	Balance as of July 1, 2019	Net Income	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 (*)	Transfers out of Level 3 (**)	Balance as of September 30, 2019	Net unrealized gains/losses included in net income related to assets / liabilities held at period end
Trading securities:								
Asset-backed securities	$ 1	$ 1	$ —	$ 85	$ 48	$ (1)	$ 134	$ 1
Corporate debt securities	—	—	—	—	—	—	—	—
Government and agency obligations	—	—	—	—	—	—	—	—
Total trading securities	1	1	—	85	48	(1)	134	1
Loans	850	13	—	(43)	—	—	820	3
Equity investments:								
Banking and other financial institutions	2,422	(61)	—	(73)	60	(65)	2,283	(77)
Funds	61	—	—	22	—	—	83	—
Others	3,605	(8)	—	54	—	(4)	3,647	(18)
Total equity investments	6,088	(69)	—	3	60	(69)	6,013	(95)
Debt securities:								
Corporate debt securities	2,994	(15)	4	164	104	(395)	2,856	(7)
Preferred shares	495	(4)	(25)	(51)	—	—	415	(3)
Asset-backed securities	887	(43)	25	103	57	—	1,029	(19)
Other debt securities	—***	—***	—	—	—	—	—***	—
Total debt securities	4,376	(62)	4	216	161	(395)	4,300	(29)
Derivative assets:								
Interest rate and currency	15	5	—	1	24	(2)	43	9
Equity and other	161	(30)	—	(1)	—	—	130	(30)
Total derivative assets	176	(25)	—	—	24	(2)	173	(21)
Total assets at fair value	**$ 11,491**	**$ (142)**	**$ 4**	**$ 261**	**$ 293**	**$ (467)**	**$ 11,440**	**$ (141)**
Borrowings:								
Structured bonds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Unstructured bonds	(83)	4	—	(6)	(60)	8	(137)	4
Total borrowings	(83)	4	—	(6)	(60)	8	(137)	4
Derivative liabilities:								
Interest rate	—	—	—	—	—	—	—	—
Interest rate and currency	(2)	(3)	—	(1)	(23)	2	(27)	(10)
Equity and other	(11)	2	—	—	—	—	(9)	2
Total derivative liabilities	(13)	(1)	—	(1)	(23)	2	(36)	(8)
Total liabilities at fair value	**$ (96)**	**$ 3**	**$ —**	**$ (7)**	**$ (83)**	**$ 10**	**$ (173)**	**$ (4)**

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of September 30, 2019.
(**) 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, 2019 beginning balance as of September 30, 2019.
(***) Less than $0.5 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	Three months ended September 30, 2018								
			Net gains and losses (realized and unrealized) included in						
	Balance as of June 30, 2018	Adoption of new accounting pronouncements	Net Income	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 (*)	Transfers out of Level 3 (**)	Balance as of September 30, 2018	Net unrealized gains/losses included in net income related to assets / liabilities held at period end
Trading securities:									
Asset-backed securities	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Corporate debt securities	—	—	—	—	—	—	—	—	—
Government and agency obligations	18	—	—	—	—	—	—	18	—
Total trading securities	18	—	—	—	—	—	—	18	—
Loans	894	—	(13)	—	1	—	(1)	881	(7)
Equity investments:									
Banking and other financial institutions	1,326	1,985	(119)	—	(6)	69	(14)	3,241	(119)
Funds	83	—	4	—	28	—	—	115	4
Others	1,688	2,219	(210)	—	32	—	(3)	3,726	(211)
Total equity investments	3,097	4,204	(325)	—	54	69	(17)	7,082	(326)
Debt securities:									
Corporate debt securities	2,590	—	(18)	(108)	267	146	(825)	2,052	(17)
Preferred shares	383	—	32	8	(23)	—	—	400	32
Asset-backed securities	840	—	(9)	(48)	(8)	—	—	775	5
Other debt securities	2	—	—	—	—	—	—	2	—
Total debt securities	3,815	—	5	(148)	236	146	(825)	3,229	20
Derivative assets:									
Interest rate and currency	8	—	7	—	3	—	—	18	8
Equity and other	235	—	(47)	—	—	—	—	188	6
Total derivative assets	243	—	(40)	—	3	—	—	206	14
Total assets at fair value	**$ 8,067**	**$ 4,204**	**$ (373)**	**$ (148)**	**$ 294**	**$ 215**	**$ (843)**	**$ 11,416**	**$ (299)**
Borrowings:									
Structured bonds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Unstructured bonds	(46)	—	(7)	—	—	—	—	(53)	(7)
Total borrowings	(46)	—	(7)	—	—	—	—	(53)	(7)
Derivative liabilities:									
Interest rate	—	—	—	—	—	—	—	—	—
Interest rate and currency	(7)	—	(3)	—	—	—	—	(10)	(2)
Equity and other	(11)	—	1	—	—	—	—	(10)	1
Total derivative liabilities	(18)	—	(2)	—	—	—	—	(20)	(1)
Total liabilities at fair value	**$ (64)**	**$ —**	**$ (9)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ (73)**	**$ (8)**

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of September 30, 2018.
(**) 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, 2018 beginning balance as of September 30, 2018.

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 months ended September 30, 2019 and 2018 (US$ millions).

	Three months ended September 30, 2019				
	Purchases	Sales	Issuances	Settlements and others	Net
Trading securities:					
Asset-backed securities	$ 98	$ (13)	$ —	$ —	$ 85
Corporate debt securities	—	—	—	—	—
Government and agency obligations	—	—	—	—	—
Total trading securities	98	(13)	—	—	85
Loans	—	—	75	(118)	(43)
Equity investments:					
Banking and other financial institutions	18	(24)	—	(67)	(73)
Funds	37	—	—	(15)	22
Others	51	(44)	—	47	54
Total equity investments	106	(68)	—	(35)	3
Debt securities:					
Corporate debt securities	222	—	—	(58)	164
Preferred shares	—	(25)	—	(26)	(51)
Asset-backed securities	129	(1)	—	(25)	103
Total debt securities	351	(26)	—	(109)	216
Derivative assets:					
Interest rate and currency	—	—	1	—	1
Equity and other	—	—	—	(1)	(1)
Total derivative assets	—	—	1	(1)	—
Total assets at fair value	**$ 555**	**$ (107)**	**$ 76**	**$ (263)**	**$ 261**
Borrowings:					
Structured Bonds	$ —	$ —	$ —	$ —	$ —
Unstructured Bonds	—	—	(6)	—	(6)
Total Borrowings	—	—	(6)	—	(6)
Derivative liabilities:					
Interest rate	—	—	—	—	—
Interest rate and currency	—	—	(1)	—	(1)
Equity and other	—	—	—	—	—
Total derivative liabilities	—	—	(1)	—	(1)
Total liabilities at fair value	**$ —**	**$ —**	**$ (7)**	**$ —**	**$ (7)**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE K – FAIR VALUE MEASUREMENTS (continued)

	Three months ended September 30, 2018				
	Purchases	Sales	Issuances	Settlements and others	Net
Trading securities:					
Asset-backed securities	$ —	$ —	$ —	$ —	$ —
Corporate debt securities	—	—	—	—	—
Government and agency obligations	—	—	—	—	—
Total trading securities	—	—	—	—	—
Loans	—	—	24	(23)	1
Equity investments:					
Banking and other financial institutions	14	—	—	(20)	(6)
Funds	13	—	—	15	28
Others	51	(38)	—	19	32
Total equity investments	78	(38)	—	14	54
Debt securities:					
Corporate debt securities	284	(1)	—	(16)	267
Preferred shares	—	(1)	—	(22)	(23)
Asset-backed securities	2	—	—	(10)	(8)
Total debt securities	286	(2)	—	(48)	236
Derivative assets:					
Interest rate and currency	—	—	3	—	3
Equity and other	—	—	—	—	—
Total derivative assets	—	—	3	—	3
Total assets at fair value	**$ 364**	**$ (40)**	**$ 27**	**$ (57)**	**$ 294**
Borrowings:					
Structured Bonds	$ —	$ —	$ —	$ —	$ —
Unstructured Bonds	—	—	—	—	—
Total Borrowings	—	—	—	—	—
Derivative liabilities:					
Interest rate	—	—	—	—	—
Interest rate and currency	—	—	—	—	—
Equity and other	—	—	—	—	—
Total derivative liabilities	—	—	—	—	—
Total liabilities at fair value	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

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 statements of operations 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.

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 statements of operations 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 assets of the investment, treasury, and advisory services segments are detailed in Notes D, C, and N, respectively. An analysis of IFC's major components of income and expense by business segment for the three months ended September 30, 2019 and 2018, is provided below (US$ millions):

Three months ended September 30, 2019	Investment services	Treasury services	Advisory services	Total
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	$ 422	$ —	$ —	$ 422
Provision for losses on loans, guarantees, accrued interest and other receivables	(101)	—	—	(101)
Loss from equity investments and associated derivatives	(147)	—	—	(147)
Income from debt securities, including and realized gains and losses on debt securities and associated derivatives	39	—	—	39
Income from liquid asset trading activities	—	278	—	278
Charges on borrowings	(197)	(168)	—	(365)
Advisory services income	—	—	55	55
Service fees and other income	65	—	—	65
Administrative expenses	(300)	(8)	(32)	(340)
Advisory services expenses	—	—	(64)	(64)
Expense from pension and other postretirement benefit plans	(4)	—*	(1)	(5)
Other expenses	(5)	—	—	(5)
Foreign currency transaction gains and losses on non-trading activities	90	—	—	90
(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**(138)**	**102**	**(42)**	**(78)**
Net unrealized losses on non-trading financial instruments accounted for at fair value	(64)	(26)	—	(90)
Net (loss) income	**$ (202)**	**$ 76**	**$ (42)**	**$ (168)**

* Less than $0.5 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE L – SEGMENT REPORTING (continued)

Three months ended September 30, 2018	Investment services	Treasury services	Advisory services	Total
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	$ 445	$ —	$ —	$ 445
Provision for losses on loans, guarantees, accrued interest and other receivables	(31)	—	—	(31)
Loss from equity investments and associated derivatives	(521)	—	—	(521)
Loss from debt securities, including and realized gains and losses on debt securities and associated derivatives	(147)	—	—	(147)
Income from liquid asset trading activities	—	202	—	202
Charges on borrowings	(165)	(192)	—	(357)
Advisory services income	—	—	58	58
Service fees and other income	75	—	—	75
Administrative expenses	(289)	(11)	(28)	(328)
Advisory services expenses	—	—	(68)	(68)
Expense from pension and other postretirement benefit plans	(1)	—*	(1)	(2)
Other expenses	(6)	—	—	(6)
Foreign currency transaction gains and losses on non-trading activities	161	26	—	187
(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	**(479)**	**25**	**(39)**	**(493)**
Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value	59	(12)	—	47
Net (loss) income	**$ (420)**	**$ 13**	**$ (39)**	**$ (446)**

* Less than $0.5 million.

NOTE M – VARIABLE INTEREST ENTITIES

Significant variable interests

IFC has identified investments in 223 VIEs which are not consolidated by IFC but in which it is deemed to hold significant variable interests at September 30, 2019 (223 investments - June 30, 2019).

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 have the power to direct the activities of the VIEs that most significantly impact their economic performance 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 $36,070 million at September 30, 2019 ($36,698 million - June 30, 2019). 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 $5,745 million at September 30, 2019 ($5,911 million - June 30, 2019).

IFC transacted with a VIE, of which IFC is the primary beneficiary, to construct an office building at 2100 K Street on land owned by IFC adjacent to its current office premise. IFC commenced occupying the building in March 2019. The building and land, totaling $125 million are included in Receivables and other assets on IFC's condensed consolidated balance sheet.

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 September 30, 2019 and June 30, 2019 is as follows (US$ millions):

	September 30, 2019				
	Loans	Equity investments	Debt securities	Risk management	Total
Asia					
Manufacturing, agribusiness and services	$ 175	$ 36	$ 22	$ —	$ 233
Financial markets	172	6	1	—	179
Infrastructure and natural resources	506	101	16	14	637
Disruptive technologies and funds	6	325	—	—	331
Total Asia	859	468	39	14	1,380
Europe, Middle East and North Africa					
Manufacturing, agribusiness and services	234	59	—	—	293
Financial markets	108	1	79	—	188
Infrastructure and natural resources	579	266	22	90	957
Disruptive technologies and funds	—	79	—	—	79
Total Europe, Middle East and North Africa	921	405	101	90	1,517
Sub-Saharan Africa, Latin America and Caribbean					
Manufacturing, agribusiness and services	110	103	9	—	222
Financial markets	206	54	38	—	298
Infrastructure and natural resources	925	334	—	98	1,357
Disruptive technologies and funds	—	179	—	—	179
Total Sub-Saharan Africa, Latin America and Caribbean	1,241	670	47	98	2,056
Other					
Manufacturing, agribusiness and services	—	28	—	—	28
Financial markets	376	61	78	7	522
Infrastructure and natural resources	194	8	—	—	202
Disruptive technologies and funds	—	40	—	—	40
Total Other	570	137	78	7	792
Maximum exposure to VIEs	**$ 3,591**	**$ 1,680**	**$ 265**	**$ 209**	**$ 5,745**
of which:					
Carrying value	$ 2,846	$ 1,254	$ 257	$ 165	$ 4,522
Committed but not disbursed	$ 745	$ 426	$ 8	$ 44	$ 1,223

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE M – VARIABLE INTEREST ENTITIES (continued)

	June 30, 2019				
	Loans	Equity investments	Debt securities	Risk management	Total
Asia					
Manufacturing, agribusiness and services	$ 161	$ 30	$ 23	$ —	$ 214
Financial markets	81	106	2	—	189
Infrastructure and natural resources	545	104	16	11	676
Disruptive technologies and funds	6	306	—	—	312
Total Asia	793	546	41	11	1,391
Europe, Middle East and North Africa					
Manufacturing, agribusiness and services	312	59	—	—	371
Financial markets	113	—	108	—	221
Infrastructure and natural resources	619	242	22	71	954
Disruptive technologies and funds	—	93	—	—	93
Total Europe, Middle East and North Africa	1,044	394	130	71	1,639
Sub-Saharan Africa, Latin America and Caribbean					
Manufacturing, agribusiness and services	111	144	16	—	271
Financial markets	152	59	40	—	251
Infrastructure and natural resources	965	330	—	83	1,378
Disruptive technologies and funds	—	183	—	—	183
Total Sub-Saharan Africa, Latin America and Caribbean	1,228	716	56	83	2,083
Other					
Manufacturing, agribusiness and services	—	11	—	—	11
Financial markets	402	60	76	7	545
Infrastructure and natural resources	194	8	—	—	202
Disruptive technologies and funds	—	40	—	—	40
Total Other	596	119	76	7	798
Maximum exposure to VIEs	**$ 3,661**	**$ 1,775**	**$ 303**	**$ 172**	**$ 5,911**
of which:					
Carrying value	$ 2,836	$ 1,331	$ 294	$ 128	$ 4,589
Committed but not disbursed	$ 825	$ 444	$ 9	$ 44	$ 1,322

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE N – ADVISORY SERVICES

IFC provides advisory services to government and private sector clients. IFC's advisory services to governments on investment climate and financial sector development are 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 commingled in accordance with administration agreements with donors. The commingled 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 September 30, 2019, other assets include undisbursed donor funds of $512 million ($484 million - June 30, 2019) and IFC's advisory services funding of $311 million ($311 million - June 30, 2019). Included in other liabilities as of September 30, 2019 is $512 million ($484 million - June 30, 2019) of refundable undisbursed donor funds.

NOTE O – PENSION AND OTHER POSTRETIREMENT BENEFITS

IBRD, IFC and MIGA participate in a 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 following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP allocated to IFC for the three months ended September 30, 2019 and 2018 (US$ millions). For the three months ended September 30, 2019 and 2018, the service costs of $67 million and $59 million are included in "Administrative expenses" respectively. The components of net periodic pension cost, other than the service cost component, are included in "Other" in the condensed consolidated statement of operations.

	Three months ended September 30,							
	2019				2018			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Benefit cost								
Service cost	$ 47	$ 11	$ 9	$ 67	$ 41	$ 9	$ 9	$ 59
Other components:								
Interest cost	41	7	6	54	43	7	6	56
Expected return on plan assets	(53)	(10)	—	(63)	(53)	(9)	—	(62)
Amortization of unrecognized prior service cost	—*	1	—*	1	—*	1	—*	1
Amortization of unrecognized net actuarial losses	5	—	8	13	1	—	6	7
Sub total	$ (7)	$ (2)	$ 14	$ 5	$ (9)	$ (1)	$ 12	$ 2
Net periodic pension cost	**$ 40**	**$ 9**	**$ 23**	**$ 72**	**$ 32**	**$ 8**	**$ 21**	**$ 61**

* Less than $0.5 million.

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 condensed 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 in accordance with enforceable counterparty credit support and netting agreements described below (US$ millions). The gross and net positions include derivative assets of $539 million and derivative liabilities of $66 million as of September 30, 2019, related to derivative

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

contracts that are not subject to counterparty credit support or netting agreements. Collateral amounts are included only to the extent of the related net derivative fair values or net resale, repurchase and securities lending agreements amounts.

September 30, 2019

Assets	Gross amount of assets presented in the condensed consolidated balance sheet	Gross amounts not offset in the condensed consolidated balance sheet		
		Financial instruments	Collateral received	Net amount
Derivative assets	$ 3,930*	$ 2,195	$ 460***	$ 1,275
Resale agreements	—	—	—	—
Total assets	**$ 3,930**	**$ 2,195**	**$ 460**	**$ 1,275**

September 30, 2019

Liabilities	Gross amount of liabilities presented in the condensed consolidated balance sheet	Gross amounts not offset in the condensed consolidated balance sheet		
		Financial instruments	Cash Collateral pledged	Net amount
Derivative liabilities	$ 3,989**	$ 2,195	$ 1,071	$ 723
Repurchase and securities lending agreements	6,087	6,065	—	22
Total liabilities	**$ 10,076**	**$ 8,260**	**$ 1,071**	**$ 745**

June 30, 2019

Assets	Gross amount of assets presented in the condensed consolidated balance sheet	Gross amounts not offset in the condensed consolidated balance sheet		
		Financial instruments	Collateral received	Net amount
Derivative assets	$ 3,560*	$ 2,120	$ 291***	$ 1,149
Resale agreements	124	—	—	124
Total assets	**$ 3,684**	**$ 2,120**	**$ 291**	**$ 1,273**

June 30, 2019

Liabilities	Gross amount of liabilities presented in the condensed consolidated balance sheet	Gross amounts not offset in the condensed consolidated balance sheet		
		Financial instruments	Cash Collateral pledged	Net amount
Derivative liabilities	$ 4,479**	$ 2,100	$ 1,635	$ 744
Repurchase and securities lending agreements	8,151	8,151	—	—
Total liabilities	**$ 12,630**	**$ 10,251**	**$ 1,635**	**$ 744**

* Includes accrued income of $662 million and $704 million as of September 30, 2019 and June 30, 2019 respectively.
** Includes accrued charges of $535 million and $515 million as of September 30, 2019 and June 30, 2019 respectively.
*** Includes cash collateral of $349 million and $143 million as of September 30, 2019 and June 30, 2019 respectively. The remaining amounts of collateral received consist of off-balance-sheet US Treasury securities reported in the above table at fair value.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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.

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 condensed consolidated balance sheet. As of September 30, 2019, $1,088 million of cash collateral was posted under CSAs ($1,734 million June 30, 2019). 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 September 30, 2019, IFC had $407 million ($178 million at June 30, 2019) of outstanding obligations to return cash collateral under CSAs. The estimated fair value of all securities received and held as collateral under CSAs as of September 30, 2019, all of which may be rehypothecated was $124 million ($162 million - June 30, 2019). As of September 30, 2019, $0 of such collateral was rehypothecated under securities lending agreements ($0 - June 30, 2019).

Collateral posted by IFC in connection with repurchase agreements approximates the amounts classified as Securities sold under repurchase agreements. At September 30, 2019, no trading securities were pledged in connection with borrowings under a short-term discount note program, the carrying amount of which was $2,168 million ($2,207 million - June 30, 2019) (at June 30, 2019, trading securities with a carrying amount (fair value) of $197 million were pledged to secure this program).

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 $19 million at September 30, 2019 ($71 million at June 30, 2019). At September 30, 2019, 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 $0 would be required to be posted against net liability positions with counterparties at September 30, 2019 ($0 at June 30, 2019).

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 September 30, 2019, was $0 ($124 million - June 30, 2019).

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 September 30, 2019 and June 30, 2019 (US$ millions):

	Remaining Contractual Maturity of the Agreements - September 30, 2019				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Repurchase agreements					
U.S. Treasury securities	$ —	$ 6,086	$ —	$ —	$ 6,086
Agency securities	—	—	—	—	—
Municipal securities and other	—	—	—	—	—
Total Repurchase agreements	**—**	**6,086**	**—**	**—**	**6,086**
Securities lending transactions					
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ —
Total Securities lending transactions	**—**	**—**	**—**	**—**	**—**
Total Repurchase agreements and Securities lending transactions	**$ —**	**$ 6,086**	**$ —**	**$ —**	**$ 6,086***

As of September 30, 2019, IFC has no repurchase-to-maturity transactions outstanding.

* Includes accrued interest.

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 - June 30, 2019				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Repurchase agreements					
U.S. Treasury securities	$ —	$ 6,263	$ 1,913	$ —	$ 8,176
Agency securities	—	—	—	—	—
Municipal securities and other	—	—	—	—	—
Total Repurchase agreements	**—**	**6,263**	**1,913**	**—**	**8,176**
Securities lending transactions					
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ —
Total Securities lending transactions	**—**	**—**	**—**	**—**	**—**
Total Repurchase agreements and Securities lending transactions	**$ —**	**$ 6,263**	**$ 1,913**	**$ —**	**$ 8,176***

As of June 30, 2019, IFC has no repurchase-to-maturity transactions outstanding.

* Includes accrued interest.

NOTE Q – RELATED PARTY TRANSACTIONS

IFC transacts with related parties including by providing grants to IDA (see Note H - Retained Earnings Designation and Related Expenditures and Accumulated Other Comprehensive Income), receiving loans, participating in shared service arrangements, as well as through cost sharing of IBRD's sponsored pension and other postretirement plans.

IFC's receivables from (payables to) its related parties are presented in the following table (US$ millions):

	September 30, 2019			June 30, 2019		
	IBRD	IDA	Total	IBRD	IDA	Total
Services and Support Payables	$ (44)	$ —	$ (44)	$ (67)	$ —	$ (67)
PSW Facility	—	1	1	—	—*	—*
Borrowings	—	(662)	(662)	—	(717)	(717)
Pension and Other Postretirement Benefits	413	—	413	414	—	414
Share of Investments**	120	—	120	114	—	114
	$ 489	**$ (661)**	**$ (172)**	**$ 461**	**$ (717)**	**$ (256)**

* Less than $0.5 million.

** Represents receivable from IBRD for IFC's share of investments associated with Post-Retirement Contribution Reserve Fund (PCRF), which is a fund established to stabilize contributions made to the pension plans.

The receivables from (payables to) these related parties are reported in the Balance Sheet as follows:

Receivables / Payables related to:	**Reported as:**
Receivable for pension and other postretirement benefits, and shares of investments	Receivables and other assets
Payable for services and support	Payables and other liabilities

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE Q – RELATED PARTY TRANSACTIONS (continued)

Services and Support Payments

IFC obtains certain administrative and overhead services from IBRD in those areas where common services can be efficiently provided by IBRD. This includes shared costs of the Boards of Governors and Directors, and other services such as communications, internal auditing, administrative support, supplies, and insurance. IFC makes payments for these services to IBRD based on negotiated fees, chargebacks and allocated charges, where chargeback is not feasible. Expenses allocated to IFC for the three months ended September 30, 2019, were $31 million ($31 million - for the three months ended September 30, 2018). Other chargebacks include $3 million for the three months ended September 30, 2019 ($2 million - for the three months ended September 30, 2018).

Pension and Other Postretirement Benefits

The receivable from IBRD represents IFC's net share of prepaid costs for pension and other postretirement benefit plans and Post-Employment Benefits Plan (PEBP) assets. These will be realized over the lives of the plan participants.

IDA Private Sector Window (IDA-PSW)

As part of the IDA 18 Replenishment, a $2.5 billion IDA-PSW has been created to mobilize private sector investment in IDA-only and IDA-eligible fragile and conflict-affected states. Under the fee arrangement for the IDA-PSW, IDA will receive a fee for transactions executed under this window and will reimburse IFC and MIGA for the related costs incurred in administering transactions below.

IDA-PSW transactions (in US$ millions)

Facility	USD Notional	Net Asset/ (Liability) position	Description	Balance Sheet Location
Local currency	25	3	Currency swaps with IDA to support local currency denominated loans	Derivative assets/ liabilities

Facility	Commitments	Net Asset/ (Liability) position	Description	Balance Sheet Location
Blended Finance	31	(2)	Funding for IFC's IDA-PSW equity investments	Payables and other liabilities
Blended Finance	120	—	Guarantee from IDA that shares the first loss to support IFC's Small Loan Guarantee Program in IDA-PSW eligible countries	Off-balance sheet item

Borrowings

During the quarter ended September 30, 2014, 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.

IFC has investments where IFC has significant influence, direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence, and equity interests in private equity funds. However, IFC's transactions with its investment affiliates are limited to IFC's equity and debt investments and disclosed in other footnotes.

NOTE R - SUBSEQUENT EVENTS

On October 18, 2019, the Board of Governors noted with approval the designations approved by the Board of Directors. IFC recognizes designation of retained earnings for advisory services and CMAW 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.

The fair value of IFC's listed equity investments is based on market prices of such investments as of September 30, 2019. Changes in market prices subsequent to September 30, 2019 will be reported in the period in which such change occurs.

NOTE S - 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 accompanying condensed consolidated balance sheet of the International Finance Corporation and its subsidiaries ("IFC") as of September 30, 2019, and the related condensed consolidated statements of operations, comprehensive income (loss), changes in capital, and cash flows for the three-month periods ended September 30, 2019 and 2018 (the "interim financial information").

Management's Responsibility for the Interim Financial Information

IFC's management is responsible for the preparation and fair presentation of the interim 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 interim 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 Consolidated Balance Sheet as of June 30, 2019

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of IFC as of June 30, 2019, and the related consolidated statements of operations, comprehensive income (loss), 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 8, 2019. In our opinion, the accompanying condensed consolidated balance sheet of IFC as of June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

November 14, 2019