



*Creating Markets, Creating Opportunities*

Management's Discussion and Analysis  
and  
Consolidated Financial Statements  
June 30, 2023

## Management's Discussion and Analysis

June 30, 2023

<b>Contents</b>		<i>Page</i>
Section I:	Executive Summary .....	5
Section II:	Overview .....	8
Section III:	Client Services .....	10
Section IV:	Liquid Assets .....	25
Section V:	Funding Resources .....	26
Section VI:	Risk Management .....	29
Section VII:	Critical Accounting Policies .....	43
Section VIII:	Results of Operations .....	45
Section IX:	Governance and Control .....	52
Section X:	Appendix .....	
	Glossary of Terms .....	55
	Abbreviations and Acronyms .....	56

<b>List of Tables</b>		<i>Page</i>
Table 1:	Selected Financial Data .....	4
Table 2:	Reconciliation of Net Income or Loss to Income Available for Designations .....	8
Table 3:	Summary of Financial Results .....	9
Table 4:	Key Financial Ratios .....	10
Table 5:	Long-Term Finance Commitments and Short-Term Finance (Own Account and Core Mobilization) .....	14
Table 6:	Disbursed Investment Portfolio Distribution by Industry Sector .....	15
Table 7:	Currency Composition of the Disbursed Loan Portfolio .....	17
Table 8:	Funds Managed by AMC .....	20
Table 9:	IFC Advisory Services – Program Expenditures by Region .....	24
Table 10:	IFC Advisory Services – Program Expenditures by Business Area .....	25
Table 11:	IFC's Capital .....	28
Table 12:	IFC's Retained Earnings .....	28
Table 13:	IFC Loan Portfolio Credit Risk Indicators .....	35
Table 14:	Main Elements of Net Income and Other Comprehensive Income .....	45
Table 15:	Individual and Portfolio Provision (Release of Provision) .....	47
Table 16:	Net Unrealized Gains (Losses) on Non-Trading Financial Instruments .....	50
Table 17:	Other Comprehensive Income – Unrealized Gains and Losses on Debt Securities and Borrowings .....	50

## Management's Discussion and Analysis

June 30, 2023

<b>List of Figures</b>		<i>Page</i>
Figure 1:	Income Measures .....	6
Figure 2:	LTF and STF Commitments .....	6
Figure 3:	Disbursements .....	6
Figure 4:	Investments .....	7
Figure 5:	Liquid Assets .....	7
Figure 6:	Borrowings .....	7
Figure 7:	Capital Utilization Ratio .....	7
Figure 8:	Disbursed Investment Portfolio Distribution by Region .....	15
Figure 9:	Carrying Value of Loan Portfolio .....	16
Figure 10:	Carrying Value of Equity Investment Portfolio .....	17
Figure 11:	Carrying Value of Debt Security Portfolio .....	18
Figure 12:	IFC's Funding Resources .....	26
Figure 13:	Borrowings Portfolio .....	27
Figure 14:	IFC's Enterprise Risk Management Framework .....	30
Figure 15:	IFC's Risk Governance .....	31
Figure 16:	IFC Management Decision Making Governance .....	32
Figure 17:	Risk Responsibility within IFC .....	33
Figure 18:	IFC's Risk Taxonomy .....	34
Figure 19:	NPLs as Percentage of Disbursed Loan Portfolio .....	36
Figure 20:	ESRR Distribution FY16 – FY23 .....	41
Figure 21:	IFC's Net Income (Loss), FY21 – FY23 .....	46
Figure 22:	Change in Net Income in FY23 vs FY22 .....	46
Figure 23:	Non-performing Loans .....	47
Figure 24:	Reserve against Losses for Disbursed and Undisbursed Loans .....	48
Figure 25:	Governance Structure .....	52

## Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) discusses the financial results of the International Finance Corporation (IFC or the Corporation) for the fiscal year ended June 30, 2023 (FY23). The MD&A contains forward looking statements which may be identified by such terms as "anticipates," "believes," "expects," "intends," "plans", "aims" 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. Certain reclassifications of prior years' information have been made to conform with the current year's presentation.

**Table 1: Selected Financial Data**

(US\$ in millions)	For the year ended		
	June 30, 2023 (FY23)	June 30, 2022 (FY22)	June 30, 2021 (FY21)
<b>Investments Highlights (Section III)</b>			
Long-Term Finance (LTF) Commitments (Own Account and Core Mobilization)	\$ 31,706	\$ 23,165	\$ 23,305
Short-Term Finance (STF) Commitments (Own Account and Core Mobilization) <sup>a</sup>	12,023	10,426	8,498
Disbursements	18,689	13,198	11,438
<b>Statement of Operations</b>			
Net income (loss) (Section VIII)	\$ 672	\$ (464)	\$ 4,209
Income available for designation (Section II)	681	382	1,066
(US\$ in millions)		June 30, 2023	June 30, 2022
<b>Balance Sheet</b>			
Total assets		\$ 110,547	\$ 99,010
Liquid assets <sup>b</sup> (Section IV)		40,120	41,717
Investments (Section III)		51,502	44,093
Borrowings outstanding, including fair value adjustments (Section V)		52,443	48,269
Total capital (Section V)		35,038	32,805
<b>Capital Utilization Ratio</b>			
Capital Utilization Ratio (CUR)		60.7%	62.0%

<sup>a</sup> Starting FY23, short-term finance core mobilization commitments were included in commitments reporting. Previous years' information were updated to conform with the current year's presentation.

<sup>b</sup> Net of securities sold under repurchase agreements, payable for cash collateral received and associated derivatives

## Management's Discussion and Analysis

**SECTION I. EXECUTIVE SUMMARY**

This executive summary highlights selected information and may not contain all of the information that is important to readers of this document. For a complete description of IFC's FY23's performance, as well as the risks and critical accounting estimates affecting IFC, this MD&A should be read in its entirety.

With its many years of experience and its depth of knowledge in the international development arena, IFC plays a key role in achieving the World Bank Group's (WBG<sup>1</sup>) goal of helping countries achieve better development outcomes. IFC contributes to both the WBG's twin goals of ending extreme poverty and promoting shared prosperity, and to the Forward Look<sup>2</sup>, by providing financing and advisory services primarily to the private sector in developing countries that are members of IFC. IFC and its affiliated organizations seek to help countries achieve improvements in growth, job creation, poverty reduction, governance, the environment, climate adaptation and resilience, human capital, infrastructure and debt transparency. To further enhance these efforts, the Board and Management have been working on an Evolution Roadmap for the WBG to better address the scale of development challenges by adapting the WBG's vision and mission, strengthening its operating model, and enhancing its financial capacity and model. The roadmap puts strong emphasis on the private sector and on IFC as key partner to support coordinated efforts around global priorities. Key priorities for IFC in the Evolution Roadmap include enabling and facilitating mobilization of private capital across developing and emerging markets, leveraging the expertise from across the WBG in support of the global development agenda, and scaling blended finance. Management is in the process of advancing agreed actions and developing further proposals.

In April 2018, IFC's Board of Governors approved a capital increase package comprising a three-step capital raising process: conversion of a portion of retained earnings into paid-in capital, a Selective Capital Increase (SCI), and General Capital Increase (GCI) that would provide up to \$5.5 billion additional paid-in capital. In April 2023, the subscription deadline for SCI and GCI was extended to April 16, 2025 and April 16, 2024 respectively and the payment deadline for SCI was extended to April 16, 2025, to be aligned with the GCI payment deadline. As of June 30, 2023, 120 countries have subscribed a total of \$4.4 billion, and payment of \$3.0 billion has been received from 100 countries.

Aligned with the capital increase, IFC continued to grow its footprint in the poorest countries and fragile areas. New and ongoing challenges continue to influence the global outlook, disproportionately affecting the poor and vulnerable, and worsening global inequality. High inflation, rising interest rates, Russia's invasion of Ukraine, large macroeconomic imbalances, and shortages of energy, fertilizer, and food have caused a sharp global economic downturn. In response, IFC has been working with partners at global and country levels to support its clients in enhancing resilience and laying the groundwork for rebuilding better. In June 2022, IFC launched a \$1.0 billion African Trade and Supply Chain Finance Program (ATRI), the first of an expected series of platforms, to strengthen intra-African trade. In October 2022, IFC launched its Global Food Security Platform, a new \$6.0 billion financing facility, to strengthen the private sector's ability to respond to the global food and security crisis and help support food production. In November 2022, the Board approved the Africa and Middle East, Central Asia, and Pakistan (MCAP) Venture Capital Platform, a \$225 million envelope that will help IFC to deepen the Venture Capital markets and to grow its impact in the target regions, most importantly by providing IFC with the agility to meet market needs and more efficiently process investments in Digital Transformation companies.

**RUSSIA'S INVASION OF UKRAINE**

Russia's invasion of Ukraine that began in February 2022 has negatively impacted regional and global financial markets and economic conditions. As of June 30, 2023, IFC had investments in Ukraine, the Russian Federation, and Belarus with a total carrying value<sup>3</sup> of \$305 million, less than 1% of the total investments portfolio. Recognizing there is a heightened degree of uncertainty and judgment in incorporating the impact, especially the impact from spillovers to other countries, valuations of equity investments, debt securities and certain loans reported at fair value reflect management's best estimates as of June 30, 2023.

In evaluating the appropriateness of IFC's reserve against losses, IFC has considered the impact of Russia's invasion of Ukraine largely through its rating system that classifies its loans according to creditworthiness and risk. A number of the credit risk ratings of individual loans deteriorated since then, reflecting general credit considerations and specific considerations related to Russia's invasion of Ukraine. As the situation is still evolving, IFC expects further impacts which are not reflected in the model calculated reserve and cannot be directly attributed to any individual loan. As a result, a \$135 million qualitative overlay was applied for the estimated losses due to the invasion and its spillover macroeconomic impact in March 2022, which remained unchanged as of June 30, 2023.

**IFC's Responses**

IFC has been supporting clients in Ukraine through loan disbursements, advisory assistance, risk-sharing agreements and trade finance lines – to enable access to essential fuel and food products and facilitate exports. IFC's financing included \$81 million in portfolio disbursements and \$131 million of trade finance guarantees for imports of critical goods. In addition, in FY23, IFC committed \$65 million to support tech and export-oriented entrepreneurs in Ukraine, \$22 million to support Ukrainian small and medium-sized enterprises via financial institutions and \$69 million to finance operations of a global grain trader in Ukraine. IFC also agreed with its development

<sup>1</sup> The other institutions of the WBG are 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).

<sup>2</sup> The Forward Look: A Vision for the WBG in 2030, describes how the WBG will deliver on its twin goals and its three priorities. The Forward Look rests on four pillars: serving all clients; mobilizing resources for development; leading on global issues; and improving the business model.

<sup>3</sup> Please refer to Section III. Client Services Disbursed Investment Portfolio section for the definition of carrying value.

## Management's Discussion and Analysis

partners from the European Union to repurpose grants provided to the IFC-managed Ukraine Energy Efficiency Fund to finance housing for internally displaced people and to help restore damaged residential housing. Finally, leveraging its advisory services, IFC launched the Digital Data Corridor initiative to enable information exchange between credit bureaus in Ukraine and countries receiving refugees to facilitate their access to finance.

Going forward, IFC's interventions in Ukraine will be guided by the Economic Resilience Action (ERA) program for Ukraine discussed with the IFC Board in December 2022. IFC will mostly provide liquidity and working capital support to help preserve businesses and enable provision of important goods and services. IFC will also selectively consider investments to support provision of essential infrastructure services. In parallel, IFC will grow its advisory and upstream program to prepare for the reconstruction phase. IFC has already signed a Memorandum of Understanding with the Government of Ukraine to act as a strategic advisor for attracting private capital in reconstruction.

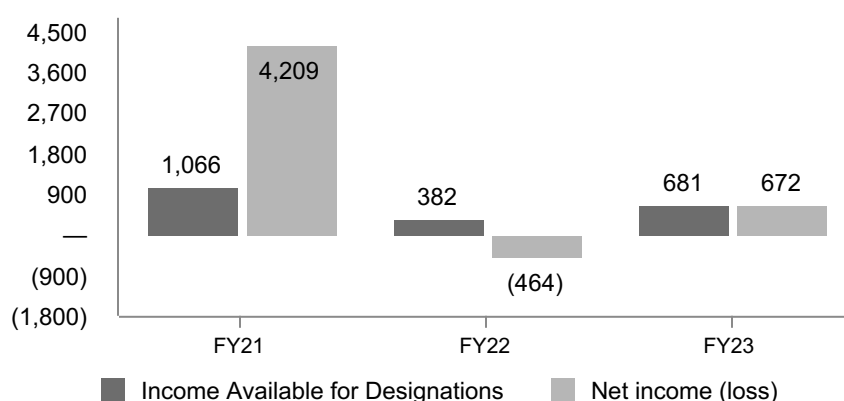
### FINANCIAL PERFORMANCE SUMMARY

The financial performance of IFC has been significantly influenced by the volatile emerging equity markets as well as changes in interest rates.

#### Net Income and Income Available for Designations

IFC's net income was \$672 million in FY23, as compared to a net loss of \$464 million in FY22, primarily resulting from reversal of previous year mark to market losses and additional interest income from Treasury and higher income from loans and debt securities.

**Figure 1: Income Measures (US\$ in millions)**

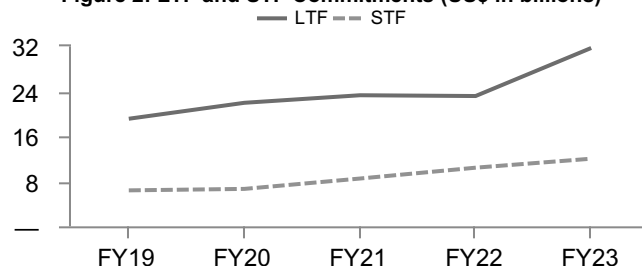


Income Available for Designations totaled \$681 million in FY23, as compared to \$382 million in FY22. On August 3, the Board of Directors approved a designation of \$60 million to Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS). This designation is expected to be noted with approval by the Board of Governors in fiscal year 2024 (FY24).

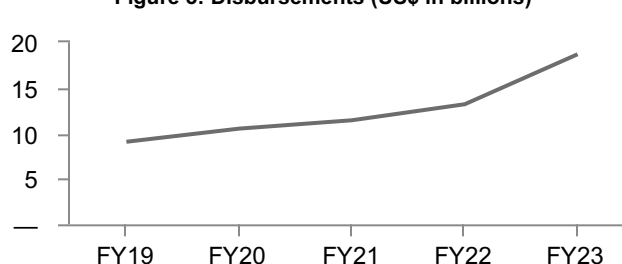
#### Investment Operations

In FY23, IFC committed \$16.7 billion in long-term investments for its Own Account and \$15.0 billion from Core Mobilization, totaling \$31.7 billion in LTF. Total LTF commitments represent a 37% increase from FY22 that supported 325 LTF projects in developing countries. In addition, IFC extended \$12.0 billion in STF in FY23, 15% higher than FY22. Overall, IFC delivered a combined total of LTF and STF of \$43.7 billion in FY23, 30% higher than FY22. Furthermore, IFC disbursed \$18.7 billion for its own account in FY23 as compared to \$13.2 billion in FY22.

**Figure 2: LTF and STF Commitments (US\$ in billions)**



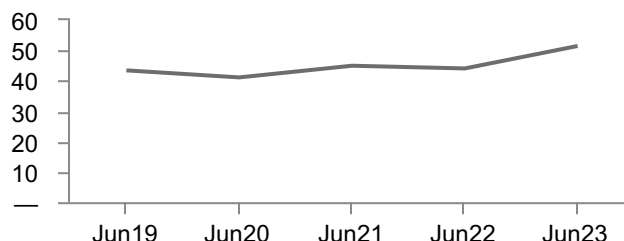
**Figure 3: Disbursements (US\$ in billions)**



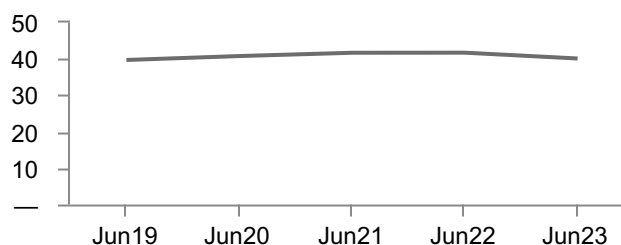
## Management's Discussion and Analysis

**Investment Portfolio**

The carrying value<sup>4</sup> of IFC's outstanding investment portfolio was \$51.5 billion at June 30, 2023, an increase of \$7.4 billion compared to June 30, 2022, primarily driven by a \$7.6 billion increase attributed to new disbursements exceeding repayments, prepayments and divestments.

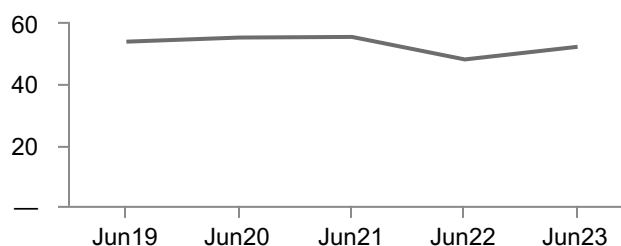
**Figure 4: Investments (US\$ in billions)****Liquid Assets**

The Net Asset Value (NAV) of the liquid assets portfolios decreased by \$1.6 billion to \$40.1 billion at June 30, 2023 from June 30, 2022. The market funded liquidity portfolio declined by \$1.9 billion as outflows from net disbursements to loans exceeded inflows from net borrowings. The net worth funded liquidity portfolio increased by \$346 million in FY23.

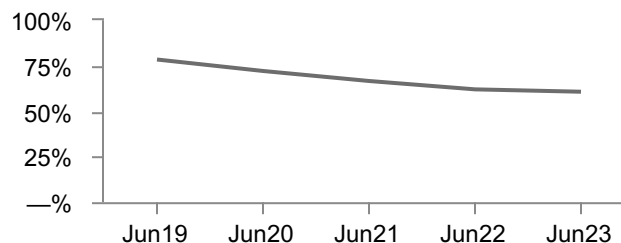
**Figure 5: Liquid Assets (US\$ in billions)****Borrowings**

Borrowings outstanding (including fair value adjustments) increased by \$4.1 billion from \$48.3 billion at June 30, 2022 to \$52.4 billion at June 30, 2023, mainly due to net new issuances of \$4.5 billion.

New borrowings under the medium and long-term borrowing program (on a funding authorization basis) in FY23 was \$13.7 billion as compared to \$9.1 billion in FY22.

**Figure 6: Borrowings (US\$ in billions)****ECONOMIC CAPITAL FRAMEWORK**

IFC's Capital Adequacy, as measured by CUR was 60.7% as of June 30, 2023, lower than 62.0% level as of June 30, 2022. The reduction (improvement) in CUR was largely attributed to an increase in Capital Available, with increases in paid-in capital, undesignated retained earnings, and accumulated other comprehensive income. There was also an increase in Capital Required, primarily due to increases in capital to support the Loan and Treasury portfolios.

**Figure 7: Capital Utilization Ratio (%)**

<sup>4</sup> Please refer to Section III. Client Services Disbursed Investment Portfolio section for the definition of carrying value.

## Management's Discussion and Analysis

**SECTION II: OVERVIEW**

IFC is the largest global development institution focused on the private sector in developing countries. Established in 1956, IFC is owned by 186 member countries, a group that collectively determines its policies. IFC is a member of the WBG 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 is not liable for the obligations of the other institutions.

**FINANCIAL BUSINESS MODEL**

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: parallel loans, loan participations, the Managed Co-lending Portfolio Program (MCP), the non-IFC portion of structured finance transactions and the non-IFC portion of commitments in funds managed by IFC Asset Management Company and advisory mobilization (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 U.S. dollars (\$) or swapped into U.S. dollars along with borrowings denominated in currencies other than U.S. 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 basis 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.

**BASIS OF PREPARATION OF IFC'S CONSOLIDATED FINANCIAL STATEMENTS**

The accounting and reporting policies of IFC conform to accounting principles generally accepted in the United States of America (U.S. GAAP). IFC's accounting policies are discussed in more detail in Section VII, Critical Accounting Policies, and in Note A to IFC's consolidated financial statements as of and for the year ended June 30, 2023 (FY23 consolidated financial statements). Certain reclassifications of prior years' information have been made to conform with the current year's presentation.

IFC uses Income Available for Designations (a non-U.S. GAAP measure) as a basis for designations of retained earnings. Income Available for Designations comprises net income excluding unrealized gains and losses on investments and borrowings<sup>5</sup> and grants to IDA in the year ended June 30, 2021.

**Table 2: Reconciliation of Net Income or Loss to Income Available for Designations**

(US\$ in millions)	For the year ended		
	June 30, 2023	June 30, 2022	June 30, 2021
<b>Net income (loss)</b>	<b>\$ 672</b>	<b>\$ (464)</b>	<b>\$ 4,209</b>
Adjustments to reconcile Net income (loss) to Income Available for Designations			
Unrealized (gains) losses on investments	(41)	740	(3,285)
Unrealized losses (gains) on borrowings	50	106	(71)
Grants to IDA	—	—	213
<b>Income Available for Designations</b>	<b>\$ 681</b>	<b>\$ 382</b>	<b>\$ 1,066</b>

<sup>5</sup> Unrealized gains and losses on investments and borrowings presented in the table includes unrealized gains and losses from associated derivatives.



## Management's Discussion and Analysis

**Table 3: Summary of Financial Results**

(US\$ in millions)	For the year ended		
	June 30, 2023	June 30, 2022	June 30, 2021
<b>Consolidated statement of operations highlights:</b>			
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$ 2,290	\$ 1,156	\$ 1,116
(Provision) release of provision for losses on loans, off-balance sheet credit exposures and other receivables	(22)	(126)	201
Income from equity investments and associated derivatives	191	208	3,201
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	518	414	340
Provision for losses on available-for-sale debt securities	(7)	(14)	(3)
Income (loss) from liquid asset trading activities	1,464	(413)	327
Charges on borrowings	(2,598)	(302)	(326)
Other income	518	419	595
Other expenses	(1,721)	(1,653)	(1,687)
Foreign currency transaction (losses) gains on non-trading activities	(86)	76	(148)
<b>Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA</b>	<b>\$ 547</b>	<b>\$ (235)</b>	<b>\$ 3,616</b>
Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value	125	(229)	806
<b>Income (loss) before grants to IDA</b>	<b>\$ 672</b>	<b>\$ (464)</b>	<b>\$ 4,422</b>
Grants to IDA	—	—	(213)
<b>Net income (loss)</b>	<b>\$ 672</b>	<b>\$ (464)</b>	<b>\$ 4,209</b>

(US\$ in millions)	June 30, 2023	June 30, 2022
<b>Consolidated balance sheets highlights:</b>		
Total assets	\$ 110,547	\$ 99,010
Liquid assets <sup>a</sup>	40,120	41,717
Investments	51,502	44,093
Borrowings outstanding, including fair value adjustments	52,443	48,269
Total capital	35,038	32,805
of which		
Undesignated retained earnings	11,589	10,840
Designated retained earnings	221	298
Accumulated other comprehensive income (loss) (AOCI)	632	(82)
Paid-in capital	22,596	21,749

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

## Management's Discussion and Analysis

**Table 4: Key Financial Ratios**

(US\$ in billions, except ratios)	As of the year ended	
	June 30, 2023	June 30, 2022
Overall liquidity ratio <sup>a</sup>	<b>104%</b>	111%
Debt to equity ratio <sup>b</sup>	<b>1.6</b>	1.6
Total reserve against losses on loans to total disbursed portfolio <sup>c</sup>	<b>3.7%</b>	4.4%
Capital measures:		
Capital Available <sup>d</sup>	<b>34.8</b>	32.5
Capital Required <sup>e</sup>	<b>21.1</b>	20.1
Capital Utilization Ratio <sup>f</sup>	<b>60.7%</b>	62.0%

a Overall Liquidity Policy states that IFC would at all times maintain a minimum level of liquidity, plus undrawn borrowing commitments from the IBRD, such that it would cover at least 45% of the next three years' estimated net cash requirements. IFC's overall liquidity as a percentage of the next three years' estimated net cash needs stood at 104% as of June 30, 2023, above the minimum requirement of the Board of 45%.

b Debt to equity (leverage) ratio is defined as outstanding borrowings plus committed guarantees divided by total capital (comprises of paid-in capital, retained earnings and Accumulated other comprehensive income (loss)). IFC's debt-to-equity ratio was 1.6 as of June 30, 2023, well within the maximum of 4 required by the policy approved by IFC's Board of Directors.

c Total reserve against losses on loans to total disbursed loan portfolio is defined as reserve against losses on loans as a percentage of the total disbursed loan portfolio.

d Capital Available: Resources available to absorb potential losses, calculated as: Balance Sheet Capital less Designated Retained Earnings.

e Capital Required: Aggregate minimum Economic Capital required to maintain IFC's AAA rating.

f CUR is defined as Capital Required divided by Capital Available.

## SECTION III: CLIENT SERVICES

### BUSINESS OVERVIEW

For all new investments, IFC articulates the expected impact on sustainable development and, as projects mature, 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. IFC's 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 – principally infrastructure, manufacturing, agribusiness, disruptive technologies and funds, services, and financial markets. Investment services product lines include: loans, equity 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 (MCP). Since the start of Coronavirus Disease 2019 (COVID-19) pandemic, IFC has been providing financing under the COVID-19 Response Facilities.

## Management's Discussion and Analysis

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IFC's investment project cycle can be divided into the following stages:

- Business Development
- Early Review
- Appraisal
- Investment Review
- Negotiations
- Public Disclosure
- Board Review and Approval
- Commitment
- Disbursement of funds
- Project Supervision, and Development Outcome Tracking
- Evaluation
- Closing

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

## INVESTMENT PRODUCTS

**Loans** – IFC finances projects and companies through loans, typically for five to ten years. IFC also makes loans to intermediary banks, leasing companies, and other financial institutions for on-lending. IFC provides long-term local-currency solutions and helps companies access local capital markets through loans from IFC denominated in local currency, derivatives which allow clients to hedge existing or new foreign currency denominated liabilities back in to the client's local currency, and structured finance which enable clients to borrow in local currency from other sources. While IFC's loans have traditionally been denominated in the major currencies, IFC has made it a priority to structure local currency products based on client demand and on IFC's ability to fund in local-currency and/or economically hedge loans in these currencies through the use of derivatives, principally currency and interest rate swaps and financial futures.

Loans generally have the following characteristics:

- **Term** – typically amortizing with final maturities generally for seven to twelve years, although some loans have been made for tenors as short as one year and as long as 20 years
- **Currency** – primarily in major convertible currencies, principally U.S. dollar, and to a lesser extent, Euro, but with a growing local-currency loan portfolio
- **Interest rate** – typically variable (or fixed and swapped into variable)
- **Pricing** – reflects such factors as market conditions and country and project risks

**Equity Investments** – Equity investments provide developmental support and long-term growth capital that private enterprises need. IFC invests directly in companies' equity, and also through private-equity funds. IFC generally invests between 5 and 20 percent of a company's equity. IFC's equity investments are typically in the form of common or preferred stock which is not mandatorily redeemable by the issuer or puttable to the issuer by IFC. Equity investments are usually denominated in the currency of the country in which the investment is made. IFC also uses put and call options, profit participation features, conversion features, warrants and other types of instruments in managing its equity investments.

**Debt Securities** – Investments typically in the form of bonds and notes issued in bearer or registered form, securitized debt obligations (e.g., asset-backed securities (ABS), mortgage-backed securities (MBS), and other collateralized debt obligations) and preferred shares that are mandatorily redeemable by the issuer or puttable to the issuer by IFC.

**Trade and Supply Chain Finance** – IFC's Global Trade Finance Program (GTFP) guarantees trade-related payment obligations of approved financial institutions. Separately, the Global Trade Liquidity Program (GTLF) and Critical Commodities Finance Program (CCFP) provides liquidity, through risk sharing, for trade in developing countries. IFC also has a number of other Trade and Supply Chain Finance related programs, including Global Trade Supplier Finance (GTSF), Global Warehouse Finance Program (GWFP), Working Capital Solutions (WCS) and Global Structured Trade Finance Program (GTST).

**Local Currency Finance** – Lending to the private sector in developing countries has traditionally been in the form of loans denominated in non-local currency such as the U.S. dollar or the Euro. But the volatility in currency markets represents a major risk for companies with revenues in local currency. IFC provides long-term local currency solutions and helps companies access local capital markets.

**Guarantees and Partial Credit Guarantees** – 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 U.S. dollar terms. A partial credit guarantee represents a promise of full and timely debt service payment up to a predetermined amount. Typically, the sum that IFC pays out under the guarantee covers creditors

## Management's Discussion and Analysis

irrespective of the cause of default. The guarantee amount may vary over the life of the transaction based on the borrower's expected cash flows and creditors' concerns regarding the stability of cash flows. The guarantee is structured to reduce the probability of default of the debt instrument and increase the recovery if default occurs.

**Portfolio Risk Sharing Facilities** – A risk sharing facility allows a client to sell a portion of the risk associated with a pool of assets. The assets typically remain on the client's balance sheet and the risk transfer comes from a partial guarantee provided by IFC.

**Securizations** – IFC invests in domestic or cross-border securizations and provides credit enhancement to transactions through funded or unfunded participations, mainly at the mezzanine level.

**Blended Finance** – In addition to providing commercial financing for IFC's own account, IFC uses a number of complementary tools to crowd in private sector financing that would otherwise not be available to projects with high development impact. IFC blends concessional funds, typically from development partners, alongside IFC's own commercial funding.

**COVID-19 Response Facilities** – In March 2020, IFC's Board of Directors approved a Fast Track COVID-19 Facility (COVID Facility, or FTCF) in the amount of \$8 billion, as part of a WBG crisis response package.

- \$2 billion from the **Real Sector Crisis Response Envelope**, which supports existing clients in the infrastructure, manufacturing, agriculture and services industries. IFC offers loans to companies in need, and if necessary, make equity investments. This instrument also helps companies in the healthcare sector that are seeing an increase in demand.
- \$2 billion from the existing **Global Trade Finance Program**, which allows financial institutions to provide trade financing to companies that import and export goods.
- \$2 billion from the **Working Capital Solutions Program**, which provides funding to emerging-market banks to extend credit to help businesses shore up their working capital and thereby maintain viable private sector firms.
- \$2 billion from the **Global Trade Liquidity Program**, and the **Critical Commodities Finance Program**, both of which offer risk-sharing support to local banks so they can continue to finance viable companies in emerging markets.

In February 2021, the Board approved an extension of the COVID Facility dedicated to the **Base of the Pyramid Program (BOP)** for \$400 million, focused on supporting financial service providers in this sector. In March 2022, the Board approved the extension of both FTCF and BOP until June 2023, as well as an increase of up to \$200 million for the BOP, making the total available for COVID facilities \$8.6 billion.

**IDA-PSW** – The IDA-PSW is a development finance tool to crowd-in more private sector investment where it is most needed. The \$2.5 billion IDA-PSW was created under the IDA18 for IFC and MIGA to rebalance the risk-reward profile for private sector projects in the poorest countries eligible to borrow from IDA and Fragile and Conflict-Affected Situations (FCS). The IDA-PSW is implemented through four facilities:

- **Risk Mitigation Facility:** Involves both MIGA and IFC, this facility is designed to provide project-based guarantees to encourage/mobilize private sector investment in infrastructure projects and public-private partnerships.
- **Local Currency Facility:** Administered by IFC, this facility is designed to provide local currency denominated loans, investments or hedges to private sector clients who operate in markets where there are limited currency hedging capabilities. In the absence of currency hedging instruments and creditworthy counterparties, IDA would enter into swaps or indemnity agreement with IFC.
- **Blended Finance Facility:** Administered by IFC, this facility blends PSW financing support with IFC investments to support SMEs, agribusiness and other pioneering investments.
- **MIGA Guarantee Facility:** Administered by MIGA, this facility is designed to expand the coverage of MIGA Political Risk Insurance (PRI) products through shared first-loss or risk participation similar to reinsurance.

**Client Risk Management Services** – IFC extends long-maturity risk management products to clients in developing countries. IFC provides derivative products to its clients to allow them to hedge their interest rate, currency, or commodity-price exposures. IFC intermediates between clients in developing countries and derivatives market makers to provide such clients with access to risk management products to bridge the credit gap between its clients and the market.

**Mobilization Products** – IFC promotes development by mobilizing financing for the private sector in its developing member countries.

**Loan Participations (B Loans):** Through its B Loan Program, IFC offers participants the opportunity to lend to IFC-financed projects. These loans are a key part of IFC's efforts to mobilize additional private sector financing in developing countries, thereby broadening the Corporation's developmental impact. When an IFC loan includes financing from the market through the B Loan Program, IFC retains a portion of the loan for its own account (the A Loan), and sells participations in the remaining portion to participants (the B Loan). The borrower signs a single Loan Agreement with IFC, and IFC signs a Participation Agreement with the participant or participants. IFC is the sole contractual lender for the borrower. While IFC is the lender of record, the participants' involvement is known to the borrower. The structure allows participants to fully benefit from IFC's status as a multilateral development institution.

**A Loan Participations:** An A Loan Participation (ALP) is an exposure management tool which IFC uses to reduce its risk exposures to a client, country or sector. An ALP is created through the partial sale of an A Loan to commercial banks or other financial institutions and is governed by a Participation Agreement, much like the agreement used for B Loans. As in a B Loan, IFC remains the lender of record

## Management's Discussion and Analysis

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for the entire A Loan and an ALP participant shares all project risks with IFC and has the same benefits of a traditional B Loan participant.

*Parallel Loans:* IFC acts as an arranger – and can also act as an administrative agent – by using its existing mobilization platform, deal-structuring expertise and global presence to identify investments, perform due diligence, and negotiate loan documents in cooperation with parallel lenders.

*MCP:* MCP creates diversified portfolios of emerging market private sector loans. MCP leverages IFC's origination capacity and deep market knowledge to source opportunities for third party investors to co-lend alongside IFC. MCP gives IFC the ability to provide larger financing packages than it could from its own account and increases the pool of financing available for achieving development goals. MCP builds a loan portfolio for an investor that mirrors the portfolio IFC is creating for its own account. MCP investors and IFC sign upfront administration agreements determining the makeup of the portfolio based on agreed eligibility. Investors pledge capital upfront and then as IFC identifies eligible deals, investor exposure is allocated alongside IFC's own per the terms of the agreement.

*Debt Securities Mobilization:* IFC helps issuers access capital markets with advisory services and supports the issuance of debt securities for entities that seek to access global capital markets and reach new investors.

*Private Equity Funds Mobilization:* Non-IFC portion of investment in PE funds (including growth equity, venture capital and mezzanine funds) raised due to IFC's role and involvement in the fund.

*Trade Mobilization:* Non-IFC portion of investment in the specific project under the Global Trade Liquidity Program, the Critical Commodities Finance Program, the Global Warehouse Finance Program, the Global Structured Trade Finance Program, and the Global Supply Chain Finance Program made available to Client due to IFC's active and direct involvement in raising resources.

*Distressed Asset Recovery Program:* This program focuses on the acquisition and resolution of distressed assets, the refinancing, and roll-over risk of viable entities, and the restructuring of small- and medium-sized enterprises.

*Short-Term Finance Core Mobilization:* Non-IFC portion of transactions guaranteed under the Global Trade Finance Program and Global Trade Supplier Finance Program made available to the clients due to IFC's active and direct involvement in guaranteeing the trade transaction or receivable.

*Mobilization by Decision:* Mobilization activities not eligible for automatic recognition by the programs above may receive recognition by decision of the Corporate Risk Committee.

## INVESTMENT PROGRAM

### Commitments

Long-Term Finance (LTF) Commitments comprise Own Account and Core Mobilization and totaled \$31.7 billion in FY23, an increase of \$8.5 billion or 37% from FY22. IFC's FY23 LTF Own Account Commitments were \$16.7 billion (\$12.6 billion in FY22) and Core Mobilization was \$15.0 billion (\$10.6 billion in FY22). Short-Term Finance (STF) Commitments Own Account were \$11.0 billion in FY23 (\$9.7 billion in FY22) and Core Mobilization was \$1.0 billion in FY23 (\$767 million in FY22). Total program delivery (LTF and STF) was \$43.7 billion in FY23 as compared to \$33.6 billion in FY22.

In direct response to the COVID-19 pandemic, IFC committed \$4.1 billion in FY23 including \$1.0 billion under its Fast Track COVID-19 Facility in support of IFC's existing clients. Outside of the facility, IFC committed an additional \$3.1 billion in financing to support clients in response to COVID-19. Since the start of the COVID-19, IFC committed \$8.4 billion under the Fast Track COVID-19 Facility and additional \$17.0 billion outside of the facility.

Committed portfolio (sum of (i) committed but undisbursed (undisbursed) balance; and (ii) disbursed and outstanding balance) increased by \$6.5 billion from \$63.0 billion at June 30, 2022 to \$69.5 billion at June 30, 2023. The committed debt (including loan and loan-like instruments) portfolio increased by \$5.7 billion from \$44.0 billion at June 30, 2022 to \$49.7 billion at June 30, 2023, mainly due to new commitments outpaced repayments, prepayments, sales and cancellations. The committed equity (including equity and equity-like instruments) portfolio of \$14.2 billion at June 30, 2023 increased by \$412 million from June 30, 2022 reflecting new investment commitments are in excess of sales and cancellations in FY23. Committed guarantees and risk management portfolio increased by \$347 million from \$5.2 billion at June 30, 2022 to \$5.6 billion at June 30, 2023 due to new commitments in excess of maturities and cancellations.

## Management's Discussion and Analysis

**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 5: Long-Term Finance and Short-Term Finance Commitments (Own Account and Core Mobilization)**

(US\$ in millions)	For the year ended	
	June 30, 2023	June 30, 2022
<b>Long-Term Finance Own Account Commitments</b>		
Loans	\$ 14,135	\$ 10,190
Equity Investments	1,761	1,622
Guarantees	704	719
Client Risk Management	77	38
<b>Total Long-Term Finance Own Account Commitments</b>	<b>\$ 16,677</b>	<b>\$ 12,569</b>
<b>Long-Term Finance Core Mobilization</b>		
<i>Syndication</i>		
Parallel Loans	\$ 2,984	\$ 1,656
Loan Participations	1,870	1,754
Managed Co-lending Portfolio Program	457	65
Debt Securities Syndication	181	—
<b>Total Syndication</b>	<b>\$ 5,492</b>	<b>\$ 3,475</b>
<i>AMC (see definitions in Table 8)</i>		
Asia Fund	\$ 13	\$ 142
MENA Fund	2	—
FIG Fund	—	59
China-Mexico Fund	—	47
<b>Total AMC Mobilization</b>	<b>\$ 15</b>	<b>\$ 248</b>
<i>Advisory Mobilization (see definitions in Section III - Advisory Services)</i>		
Public Private Partnership	\$ 3,687	\$ 3,534
Corporate Finance Service Equity Mobilization	25	28
<b>Total Advisory Mobilization</b>	<b>\$ 3,712</b>	<b>\$ 3,562</b>
<i>IFC Initiatives</i>		
Global Trade Liquidity Program, Critical Commodities Finance Program, Global Warehouse Finance Program and Global Structured Trade Finance Program	\$ 2,163	\$ 2,041
Mobilization by Decision	1,665	—
Debt Security Mobilization	1,030	1,140
Private Equity Funds Mobilization	700	—
Debt and Asset Recovery Program	252	130
<b>Total IFC Initiatives</b>	<b>\$ 5,810</b>	<b>\$ 3,311</b>
<b>Total Long-Term Finance Core Mobilization</b>	<b>\$ 15,029</b>	<b>\$ 10,596</b>
<b>Total Long-Term Finance (Own Account and Core Mobilization)</b>	<b>\$ 31,706</b>	<b>\$ 23,165</b>
<b>Short-Term Finance Own Account Commitments</b>		
Short-Term Finance Own Account	\$ 11,027	\$ 9,659
Short-Term Finance Core Mobilization <sup>a</sup>	996	767
<b>Total Short-Term Finance Commitments (Own Account and Core Mobilization)</b>	<b>\$ 12,023</b>	<b>\$ 10,426</b>
<b>Total Long-Term Finance and Short-Term Finance Commitments <sup>b</sup> (Own Account and Core Mobilization)</b>	<b>\$ 43,729</b>	<b>\$ 33,591</b>

a Starting FY23, short-term finance core mobilization commitments were included in commitments reporting. Previous years' information was updated to conform with the current year's presentation.

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

## Management's Discussion and Analysis

**INVESTMENT DISBURSEMENTS**

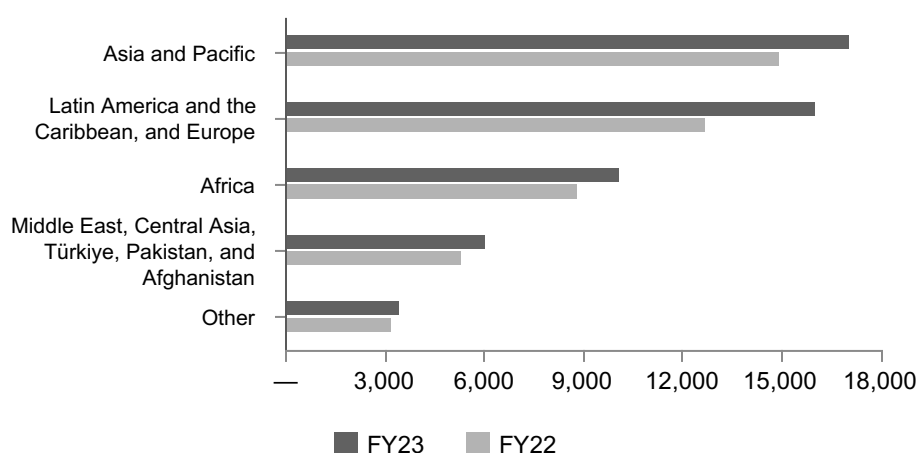
IFC disbursed \$18.7 billion for its own account in FY23 (\$13.2 billion in FY22): \$13.9 billion of loans (\$10.1 billion in FY22), \$1.0 billion of equity investments (\$1.5 billion in FY22), and \$3.8 billion of debt securities (\$1.6 billion in FY22).

**DISBURSED INVESTMENT PORTFOLIO**

IFC's total disbursed investment portfolio (a non-U.S. GAAP performance measure) was \$52.8 billion at June 30, 2023 (\$45.1 billion – June 30, 2022), comprising the disbursed loan portfolio of \$32.9 billion (\$27.7 billion – June 30, 2022), the disbursed equity portfolio of \$10.4 billion (\$10.5 billion – June 30, 2022), and the disbursed debt security portfolio of \$9.5 billion (\$6.9 billion – June 30, 2022).

IFC's disbursed investment portfolio is diversified by industry sector and geographic region. The distribution of the disbursed investment portfolio by geographical region and industry sector as of June 30, 2023 and June 30, 2022 is shown below:

**Figure 8: Disbursed Investment Portfolio Distribution by Region (US\$ in millions)**



**Table 6: Disbursed Investment Portfolio Distribution by Industry Sector**

(US\$ in millions)	Disbursed Investments		As a % of Total	
	For the year ended			
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Finance & Insurance	\$ 23,445	\$ 18,564	44%	41%
Collective Investment Vehicles	4,745	4,494	9%	10%
Electric Power	4,141	4,220	8%	9%
Chemicals	2,527	2,174	5%	5%
Transportation and Warehousing	2,076	1,934	4%	4%
Construction and Real Estate	1,978	1,588	4%	4%
Wholesale and Retail Trade	1,697	1,544	3%	3%
Agriculture and Forestry	1,622	1,660	3%	4%
Industrial & Consumer Products	1,578	1,256	3%	3%
Information	1,236	796	2%	2%
Others	7,768	6,884	15%	15%
<b>Total</b>	<b>\$ 52,813</b>	<b>\$ 45,114</b>	<b>100%</b>	<b>100%</b>

## Management's Discussion and Analysis

The carrying value of IFC's investment portfolio comprises: (i) the disbursed investment portfolio; (ii) less reserve against losses on loans and debt securities; (iii) unamortized deferred loan origination fees; (iv) less 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.

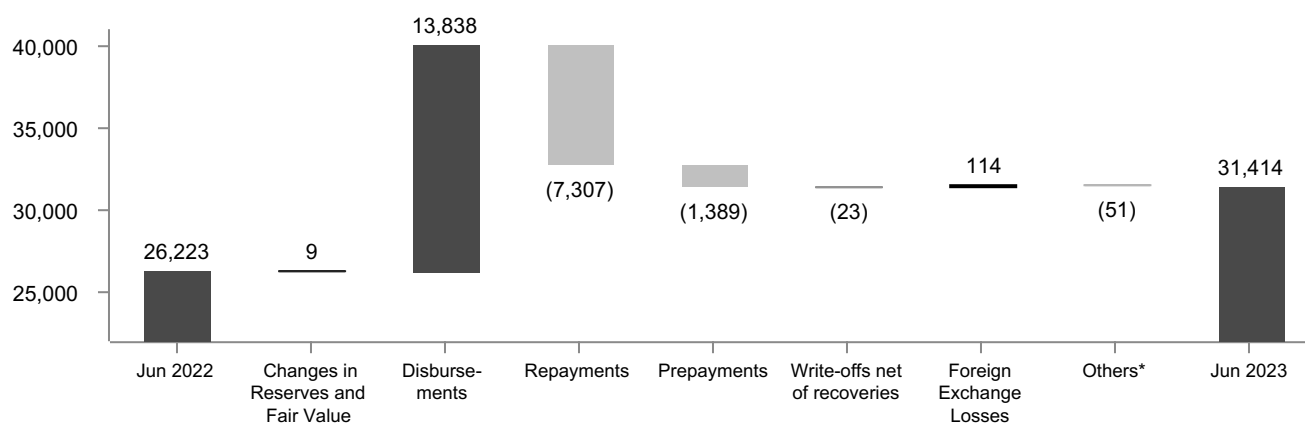
The carrying value of IFC's investment portfolio was \$51.5 billion at June 30, 2023 (\$44.1 billion – June 30, 2022), comprising the loan portfolio of \$31.4 billion (\$26.2 billion – June 30, 2022), the equity portfolio of \$10.8 billion (\$11.1 billion – June 30, 2022), and the debt securities portfolio of \$9.3 billion (\$6.7 billion – June 30, 2022).

### Loans

IFC's disbursed loan portfolio totaled \$32.9 billion at June 30, 2023 (\$27.7 billion – June 30, 2022), an increased by \$5.2 billion or 19%. Loans comprised 62% of the disbursed investment portfolio as of June 30, 2023 (62% – June 30, 2022) and 61% of the carrying amount of the investment portfolio as of June 30, 2023 (59% – June 30, 2022).

The carrying value of IFC's loan portfolio (comprising the disbursed loan portfolio, together with adjustments as detailed in Note D to IFC's FY23 consolidated financial statements), increased by \$5.2 billion (19.8%) to \$31.4 billion at June 30, 2023 from \$26.2 billion at June 30, 2022, analyzed as follows:

**Figure 9: Carrying Value of Loan Portfolio (US\$ in millions)**



\* Mainly represents loan sales, transfers and conversions to equity investments.

The increase in the carrying value of the loan portfolio was primarily driven by disbursements exceeding repayments and prepayments by \$5.1 billion.

The weighted average contractual interest rate on fixed and variable rate loans at June 30, 2023 was 7.8%, up from 5.2% at June 30, 2022.

Loans have been traditionally denominated in the major currencies, but IFC has an extensive portfolio of local currency products. IFC typically offers local currency products in other currencies where it can economically hedge the local currency loan cash flows back into U.S. dollars using swap markets or where it can fund itself in local bond markets. The outstanding local currency denominated loans were \$5.9 billion as June 30, 2023, a \$1.3 billion increase from June 30, 2022. The increase was mainly due to higher disbursements of loans denominated in Chinese renminbi, Brazilian real, Indonesian rupiah, Colombian peso and South African rand compared with FY22. IFC has also made loans in a number of frontier market currencies such as Vietnamese dong, Tanzanian shilling, Kazakhstan tenge, Bangladeshi taka, Tunisian dinar, Pakistani rupee and Sri Lankan rupee.

At June 30, 2023, 70% of IFC's disbursed loan portfolio was U.S. dollar-denominated (74% – June 30, 2022).



## Management's Discussion and Analysis

The currency composition of the disbursed loan portfolio at June 30, 2023 and June 30, 2022 is shown below:

**Table 7: Currency Composition of the Disbursed Loan Portfolio**

(US\$ in millions)	Disbursed Loans		As a % of Total	
	For the year ended			
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
U.S. dollar	\$ 22,859	\$ 20,530	70%	74%
Euro	4,134	2,612	13%	9%
Chinese renminbi	1,429	1,389	4%	5%
Brazilian real	1,081	548	3%	2%
Indonesian rupiah	837	537	3%	2%
Colombian peso	523	374	2%	1%
South African rand	406	260	1%	1%
Indian rupee	284	362	1%	1%
Mexican peso	265	324	1%	1%
Others	1,068	763	2%	4%
<b>Total</b>	<b>\$ 32,886</b>	<b>\$ 27,699</b>	<b>100%</b>	<b>100%</b>

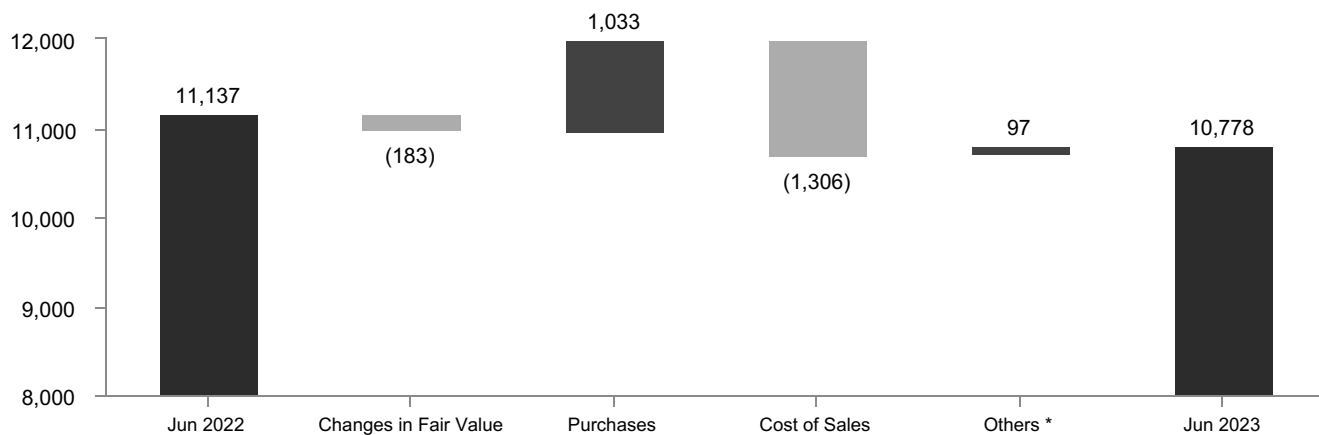
After the effect of interest rate swaps and currency swaps, IFC's loans are principally denominated in variable rate U.S. dollars.

### Equity Investments

IFC's disbursed equity portfolio totaled \$10.4 billion at June 30, 2023 (\$10.5 billion – June 30, 2022), a decrease of \$177 million or 2%. Equity investments accounted for 20% of IFC's disbursed investment portfolio at June 30, 2023 (23% – June 30, 2022), and 21% of the carrying amount of the investment portfolio at June 30, 2023 (25% – June 30, 2022).

The carrying value of IFC's equity investment portfolio (comprising the disbursed equity portfolio, together with adjustments as detailed in Note D to IFC's FY23 consolidated financial statements), declined by \$359 million (3.2%) to \$10.8 billion at June 30, 2023 (\$11.1 billion – June 30, 2022), analyzed as follows:

**Figure 10: Carrying Value of Equity Investment Portfolio (US\$ in millions)**



\* Mainly represents conversions and transfers from loans and debt securities to equity investments.

The decrease in the carrying value of equity investment portfolio was mainly due to net sales of equity investments and lower valuations.

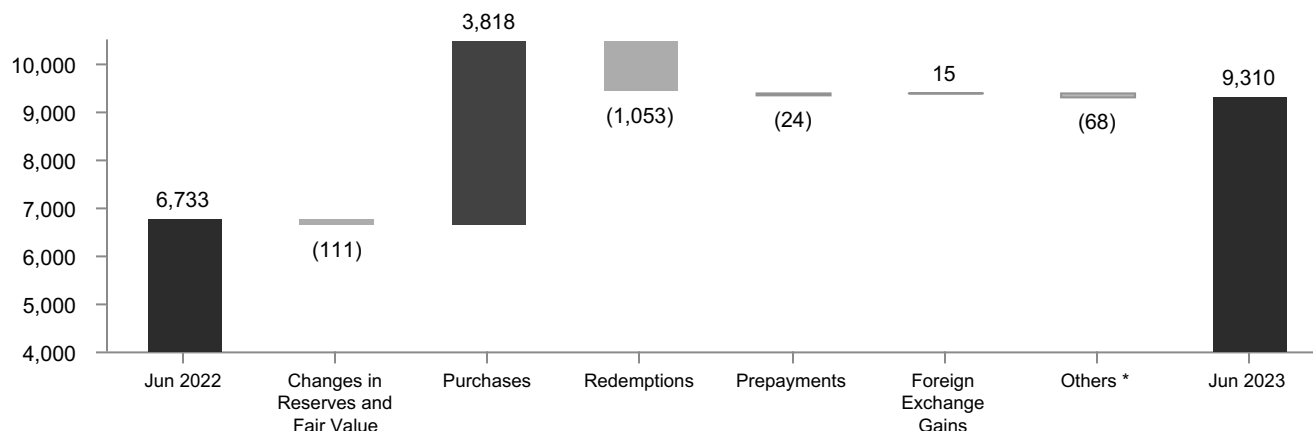
## Management's Discussion and Analysis

**Debt Securities**

IFC's disbursed debt security portfolio totaled \$9.6 billion at June 30, 2023 (\$6.9 billion – June 30, 2022), an increase of \$2.7 billion or 39%. Debt securities accounted for 18% of IFC's disbursed investment portfolio at June 30, 2023 (15% – June 30, 2022) and 18% of the carrying amount of the investment portfolio at June 30, 2023 (15% – June 30, 2022).

The carrying value of IFC's debt security portfolio (comprising the disbursed debt security portfolio, together with adjustments as detailed in Note D to IFC's FY23 consolidated financial statements), increased by \$2.6 billion (38.3%) to \$9.3 billion at June 30, 2023 (\$6.7 billion – June 30, 2022), analyzed as follows:

**Figure 11: Carrying Value of Debt Security Portfolio (US\$ in millions)**



\* Mainly represents conversions and transfers from debt securities to equity investments.

The increase in the carrying value of the debt security portfolio was primarily driven by purchases exceeding redemptions and prepayments by \$2.7 billion in FY23.

Additional information on IFC's investment portfolio as of and for the years ended June 30, 2023 and June 30, 2022, can be found in Notes D, E, F, G, H, P, R and T to IFC's FY23 consolidated financial statements.

**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 non-commercial risks. IFC provides local currency guarantees, but when a guarantee is called, the client is generally obligated to reimburse IFC in U.S. dollars terms. Guarantee fees are consistent with IFC's loan pricing policies.

Guarantees of \$4.4 billion remained outstanding (i.e., not called) as of June 30, 2023 (\$4.2 billion – June 30, 2022).

## Management's Discussion and Analysis

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**INVESTMENT PORTFOLIO MANAGEMENT**

At the core of IFC's approach to portfolio management is the aim to build and proactively manage a portfolio that produces strong financial results and development impact. IFC achieves this through a combination of strong presence on the ground and deep sector expertise, that enables IFC to stay close to its clients and markets, monitor trends and anticipate impacts of external factors.

Active portfolio management depends on timely and accurate information to drive business decisions. Regional investment teams regularly review the regional industry portfolio with Senior Management and Risk to ensure continued oversight and assess broad trends as well as performance of select projects. Additionally, quarterly reviews of IFC's portfolio results are presented to the Board, along with an in-depth analysis at the end of each fiscal year. IFC's investment and portfolio teams, largely based in field offices, complement global reviews with asset-by-asset quarterly assessments for investments.

At the corporate level, IFC combines portfolio analysis with sector and local expertise along with project knowledge and projections of global macroeconomic and market trends to inform decisions about program and strategy. IFC also regularly conducts stress tests to assess the performance of the portfolio against possible macroeconomic developments, and to identify and address risks.

At the project level, IFC's multidisciplinary teams, including investment and sector specialists with deep industry expertise, closely monitor investment performance and compliance with investment agreements. IFC does this through site visits to evaluate project implementation, and through active engagement with sponsors and government officials, where relevant, to identify potential problems early on and formulate appropriate solutions. IFC also monitors clients' environmental and social (E&S) performance in a risk-based manner and measures financial performance and development results.

IFC closely assesses its equity portfolio on an ongoing basis including proactively identifying assets ready for divestments where IFC's development role has been completed. This rebalancing of the equity portfolio is the result of an analysis that takes into account market conditions, opportunities, expected returns, and risks, and is adjusted periodically as required. To improve its governance structure, IFC has appointed Global Equity Heads, who focus on strategic business development, central oversight and management of IFC's larger and more complex equity positions throughout the investment lifecycle.

For projects in financial distress, IFC's Department of Special Operations (CSO) determines the appropriate remedial actions to optimize the Corporation's overall return on a net present value basis while minimizing reputational risk and, where possible, maximizing developmental impact. It seeks to keep the project operational to achieve the intended development impact and negotiates agreements with creditors and shareholders to share the burden of restructuring. Investors and other partners participating in IFC's operations are kept regularly informed, and IFC consults or seeks their consent as appropriate.

IFC continues to invest in information-technology systems to better support the management of its portfolio, and continuously enhance its governance, through the Portfolio Management Department, which works closely together with stakeholders both in the global industry and regional departments.

***MCP***

As of June 30, 2023, eleven global investors have pledged \$12.7 billion (\$10.0 billion – June 30, 2022) to MCP, with certain programs investing across all sectors and others focused on infrastructure or financial institutions exclusively. Investors have also approved funding for 263 projects totaling \$10.0 billion across 63 countries as of June 30, 2023 (218 projects totaling \$7.7 billion across 57 countries – June 30, 2022), of which \$8.3 billion (\$6.9 billion – June 30, 2022) has been committed. IFC will continue to deploy the remaining funds raised as IFC identifies projects that meet investors' investment criteria.

***IDA-PSW***

The IDA-IFC-MIGA Private Sector Window (PSW) was created under IDA's Eighteenth Replenishment of Resources (IDA18) to mobilize private sector investment in IDA only countries and IDA-eligible Fragile and Conflict-affected Situations (FCS). Under IDA's Twentieth Replenishment of Resources (IDA20), \$2.5 billion has been allocated to PSW, bringing the cumulative total allocation to \$5.5 billion.

As of June 30, 2023, a combined total of \$3.8 billion (\$2.9 billion – June 30, 2022) of instruments under the IDA18 through IDA20 had been approved, of which \$2.8 billion (\$2.1 billion – June 30, 2022) related to IFC. Refer to Note B to the FY23 consolidated financial statements for transaction details.

***AMC***

IFC Equity Mobilization Department (AMC), invests third-party capital and IFC capital, enabling outside investors to invest alongside IFC in developing markets. Investors in funds managed by AMC have included sovereign wealth funds, national pension funds, multilateral and bilateral development institutions, national development agencies and international financial institutions (IFIs).

Cumulatively through June 30, 2023, AMC raised total funds of \$10.1 billion (\$10.1 billion – June 30, 2022).

## Management's Discussion and Analysis

The Funds managed by AMC and their activities as of and for the year ended June 30, 2023 and 2022 are summarized as follows. As of June 30, 2023, all Funds managed by AMC are in post investment period.

**Table 8: Funds Managed by AMC**

(US\$ in millions)	Through June 30, 2023			For the year ended June 30, 2023		
	Total funds raised since inception			Cumulative investment commitments <sup>a</sup>	Investment commitments made by Fund <sup>b</sup>	Investment disbursements made by Fund
	Total	From IFC	From other investors			
<b>Post Investment Period</b>						
IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	\$ 1,275	\$ 775	\$ 500	\$ 1,214	\$ —	\$ —
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	864	—	—
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	418	75	343	363	—	8
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund) <sup>c</sup>	1,430	200	1,230	902	—	—
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	757	—	86
Women Entrepreneurs Debt Fund, LP (WED Fund)	115	30	85	110	—	—
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	86	4	8
China-Mexico Fund, LP (China-Mexico Fund)	1,200	—	1,200	362	—	10
IFC Financial Institutions Growth Fund, LP (FIG Fund)	505	150	355	344	—	3
IFC Emerging Asia Fund, LP (Asia Fund)	693	150	543	573	16	97
<b>Post Investment Period Total</b>	<b>9,323</b>	<b>2,015</b>	<b>7,308</b>	<b>7,189</b>	<b>20</b>	<b>212</b>
<b>Liquidated Funds</b>						
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	—	182	130	—	—
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)	550	250	300	82	—	—
<b>Liquidated Funds Total</b>	<b>732</b>	<b>250</b>	<b>482</b>	<b>212</b>	<b>—</b>	<b>—</b>
<b>Grand Total</b>	<b>\$ 10,055</b>	<b>\$ 2,265</b>	<b>\$ 7,790</b>	<b>\$ 7,401</b>	<b>\$ 20</b>	<b>\$ 212</b>

a Net of commitment cancellations.

b Excludes commitment cancellations from prior periods.

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

## Management's Discussion and Analysis

(US\$ in millions)	Through June 30, 2022			For the year ended June 30, 2022		
	Total funds raised since inception			Cumulative investment commitments <sup>a</sup>	Investment commitments made by Fund <sup>b</sup>	Investment disbursements made by Fund
	Total	From IFC	From other investors			
<b>Investment Period</b>						
IFC Financial Institutions Growth Fund, LP (FIG Fund)	\$ 505	\$ 150	\$ 355	\$ 347	\$ 90	\$ 138
IFC Emerging Asia Fund, LP (Asia Fund)	693	150	543	559	187	197
<b>Investment Period Total</b>	<b>1,198</b>	<b>300</b>	<b>898</b>	<b>906</b>	<b>277</b>	<b>335</b>
<b>Post Investment Period</b>						
IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	1,275	775	500	1,214	—	—
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	864	—	—
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	418	75	343	363	—	7
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund) <sup>c</sup>	1,430	200	1,230	929	—	—
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	757	—	117
Women Entrepreneurs Debt Fund, LP (WED Fund)	115	30	85	110	—	—
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	82	4	13
China-Mexico Fund, LP (China-Mexico Fund)	1,200	—	1,200	362	47	47
<b>Post Investment Period Total</b>	<b>8,125</b>	<b>1,715</b>	<b>6,410</b>	<b>6,295</b>	<b>51</b>	<b>184</b>
<b>Liquidated Funds</b>						
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	—	182	130	—	—
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)	550	250	300	82	—	—
<b>Liquidated Funds Total</b>	<b>732</b>	<b>250</b>	<b>482</b>	<b>212</b>	<b>—</b>	<b>—</b>
<b>Grand Total</b>	<b>\$ 10,055</b>	<b>\$ 2,265</b>	<b>\$ 7,790</b>	<b>\$ 7,413</b>	<b>\$ 328</b>	<b>\$ 519</b>

a Net of commitment cancellations.

b Excludes commitment cancellations from prior periods.

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

## Management's Discussion and Analysis

As of June 30, 2023, AMC managed multiple funds (collectively referred to as the AMC Funds), in its capacity as General Partner (GP)/Manager of these funds. However, none of these funds require consolidation by IFC, because the third party limited partners of these funds have a substantive ability to remove IFC as GP/Manager. 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. <sup>a</sup>	61%
IFC Capitalization (Subordinated Debt) Fund, L.P.	13%
IFC African, Latin American and Caribbean Fund, LP	20%
IFC Catalyst Funds <sup>b</sup>	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 <sup>c</sup>	19%
IFC Middle East and North Africa Fund, LP	37%
Women Entrepreneurs Debt Fund, LP	26%
IFC Emerging Asia Fund, LP	22%

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

b The ownership interest of 18% reflects IFC's ownership interest taking into consideration the overall commitments for the IFC Catalyst Funds, which comprises 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.

c 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 comprises 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.

## UPSTREAM AND ADVISORY SERVICES

Starting January 2023, upstream and advisory organizational units in IFC regional industry departments have been fully integrated to deliver holistic solutions to enable new investment opportunities for IFC and others, enhance the development impact and operational performance of existing IFC investments, and improve the enabling environment to open new markets for private sector investments.

Providing advice and engaging in early stage project development activities are critical enablers of the IFC's 3.0 strategy to create markets and mobilize private capital. Through IFC's Upstream and Advisory programs, IFC works with clients — including companies, financial institutions, industries, and governments — to transform ideas into increased private sector investment, green growth, inclusive job creation, and bankable projects. IFC helps to establish the necessary conditions that will attract capital and sustainable investments and mobilize private capital through its Public-Private Partnership (PPP) transaction advisory work. IFC works with its investment clients to improve their operations and enhance their development impact on local supply chains and communities. IFC supports the creation of bankable investment projects in challenging markets and nascent sectors through early-stage project preparation and development, de-risking activities before their financial close.

IFC's Upstream and Advisory work is informed by the joint IFC and World Bank Country Private Sector Diagnostics; the WBG's multi-year Country Partnership Frameworks; and IFC's Country Strategies and Sector Deep Dives.

Through IFC's Upstream and Advisory Services:

- IFC helps companies attract and retain private investors and partners, enter new markets, and increase their impact. IFC provides tailored market insights as well as technical advice on how to improve companies' operational performance and sustainability.
- IFC helps industries adopt good practices and standards to increase competitiveness, productivity, and sustainability.
- IFC helps governments structure public-private partnerships to improve people's access to high-quality infrastructure and basic services. IFC also advises on improving the business environment through reforms that promote investment, spur growth, and create jobs — while providing support for the implementation of these reforms.
- IFC contributes to the costs and efforts necessary to determine the feasibility of a potential project and brings its expertise to specific project development activities, at times using its resources to fund capital and/or operational expenditures by the project with the aim of proving a business model in a specific country or region.
- IFC works in collaboration with the World Bank to provide policy advice and develop activities that help create markets and support future transactions in multiple industries, especially in IDA eligible countries and FCS.

## Management's Discussion and Analysis

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- IFC works with global experts to generate ideas and analyses to address the most urgent challenges in private sector development. IFC fosters peer-to-peer learning at a global scale through its networks convening policymakers and influencers, which IFC effectively leveraged to help support its clients during the pandemic.

Particularly in the poorest and conflict-affected areas of the world, IFC works with clients to improve their environmental, social, and governance practices, including those related to gender. IFC helps developing economies realize the economic potential of clean energy and green building. IFC helps lagging private sectors transform into the digital age. IFC helps potential investment clients improve their operational performance and management practices to attract the financing they need.

**How IFC works with Companies**

**Agribusiness:** IFC helps companies improve productivity and sustainability by focusing on operational efficiency, food safety and standards, adoption of technology to the agribusiness value chain, good soil and water management, and professionalizing smallholder farmer supply chains while applying climate-smart and gender-smart practices.

**Health:** IFC supports healthcare providers in improving the quality of healthcare outcomes through deploying the new IFC IQ-Healthcare assessment tool and accompanying Advisory Services. IFC also runs a community of practice to support Women's Leadership in Healthcare, focusing on the unique challenges to women leaders in the sector.

**Education:** Through IFC's new initiative, Vitae, IFC supports higher education institutions in improving employability outcomes for their graduates, thereby minimizing the skills gap for the changing job realities of the 21st century.

**Manufacturing:** IFC works with its clients in the manufacturing sector to develop and finance their decarbonization strategies, as well as improve the productivity of their direct operations and supply chains. This includes bringing a gender-smart lens to companies' employment challenges and supporting the deployment of supply chain finance tied to improved sustainability performance.

**Tourism:** IFC helps businesses modernize their tourism offerings and maximize the potential of their natural and cultural assets. IFC works with clients to assess the impact and devise strategies to restore their tourism sectors as quickly as possible.

**Infrastructure:** IFC supports private and sub-sovereign public sector clients to become attractive destinations for infrastructure investments and helps close the infrastructure gaps. IFC works with subnational governments to strengthen institutions and regulations; improve critical infrastructure and environmental sustainability; foster skills and innovation; expand access to finance; build capacity to manage tax and royalty payments to improve community welfare and local content. IFC also works closely with private sector clients to acquire a social license to operate in tough environments by increasing benefits to local communities; mitigating social risks; and addressing obstacles to gender equality and inclusion in the workplace, across the supply chain.

**Corporate Finance Services:** IFC supports clients to identify and enter new markets and structure entry strategies. IFC helps companies attract international investors, bring in new skills, expertise, and capital. IFC supports the structuring of complex projects and offers advice on the design and execution of partnerships, joint ventures, and acquisitions.

**Green Buildings:** IFC offers tools and training to help companies construct buildings that use energy, water, and materials more efficiently. IFC also helps governments establish related policy frameworks and works with banks to launch green-finance products.

**Small and Medium Enterprises (SMEs):** IFC helps SMEs strengthen their skills and performance, improving their ability to participate in the supply and distribution networks of larger firms. IFC advises companies and governments on how to improve working conditions and boost the competitiveness of the textile sector's supply chain.

**Gender Equality and Economic Inclusion:** IFC works with companies to enhance the recruitment, retention, and promotion of women and other underserved groups. IFC also helps companies increase women's access to financial services, technology, information, and markets.

**Environment, Social & Governance (ESG):** IFC provides integrated ESG advice to help companies improve access to capital, achieve long-term success, and implement crisis management and pandemic response, by adopting corporate governance structures, in line with the IFC Corporate Governance Methodology, as well as environmental and social risk management systems in line with the IFC Performance Standards. IFC's guidance addresses holistically the management of potential or actual changes to the environment, including pollution, biodiversity impacts, carbon emissions, climate change, natural resource use; potential or actual changes on surrounding community and workers, including the incidence of gender-based violence; and improving governance structures and processes, such as board functioning, gender diversity in corporate leadership, ethical conduct, controls, disclosure, and transparency. IFC builds the capacity of industry associations and service providers to influence ESG practices market wide.

**Disruptive Technologies:** IFC works across the entrepreneurial and venture capital ecosystem supporting accelerators, seeds funds and new fund managers in frontier geographies, connects high-impact proven tech solutions globally with corporate customers to de-risk tech adoption, increases capital flow to women entrepreneurs and promotes adoption of digital training platforms for improving digital skills for employment.

## Management's Discussion and Analysis

**How IFC works with Financial Intermediaries and Funds**

**Financial Institutions:** IFC helps clients strengthen risk management and diversify product offerings to key priority areas such as SME finance, gender, housing finance, and renewable energy. Through knowledge sharing of best SME-banking practices and solutions, IFC helps build financial institutions' capacity to expand access to credit; expand their financial and non-financial services, including to women-led/owned businesses; supports sustainable supply chains; and catalyzes investment opportunities in emerging and developing market economies. IFC supports financial institutions to define and implement their digitization strategy roadmaps and accelerate their digital transformation.

**Fund Managers:** IFC helps develop the private equity industry in frontier markets and provides non-investment-related advice to fund managers. IFC helps increase ESG investment into emerging markets by providing asset managers with ESG data and artificial intelligence-powered analytics.

**How IFC works with Governments**

**Public-Private Partnerships:** IFC helps governments design and implement PPPs that are tailored to local needs, helps solve infrastructure bottlenecks, and achieves national development goals by mobilizing private technical and managerial expertise and capital.

**Financial Sector:** IFC works with governments and the private sector to promote universal access to finance, build resilient, transparent, and smooth-functioning financial systems and capital markets. This includes supporting governments to establish the key building blocks, both regulations and institutions, to increase access to finance, such as credit information, use of moveable assets to secure lending, and debt resolution. IFC works closely with the World Bank and leverage its expertise alongside IFC investment resources to jointly develop local capital markets in selected focus countries.

**ESG Landscape Initiative:** IFC helps governments, private companies, and stakeholders, assess, and mitigate risks and cumulative impacts at a multi-project level, across specific geographic areas (landscapes). Landscape initiatives enable governments to consider E&S impacts in broader sectoral planning, achieve significant efficiencies with companies implementing joint assessments and management strategies and address environmental and social bottlenecks upstream of investment and project development.

**Enabling Investment Climate:** IFC helps improve the business environment through economy-wide and increasingly more sector-specific reforms that address regulatory barriers and promote investment, spur growth through increased competitiveness and access to markets, and create jobs. This work is increasingly an entry point for IFC's upstream agenda. IFC works closely with the World Bank to leverage their expertise for private sector development.

**Cities Initiative:** IFC helps local governments, municipalities, and provinces prioritize and develop sustainable, resilient infrastructure services for their citizens.

As of June 30, 2023, the IFC Advisory Services portfolio totaled \$1.4 billion (\$1.4 billion – June 30, 2022). FY23 program expenditures were \$260 million (\$251 million in FY22) with a strong focus on IFC's strategic priority areas — IDA eligible countries at 54%, fragile and conflict-affected situations at 28%, and climate change at 27%, (compared to 51%, 21% and 25% respectively in FY22).

**Table 9: IFC Advisory Services – Program Expenditures <sup>a</sup> by Region**

(US\$ in millions)	Program Expenditure		As a % of Total	
	For the year ended			
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Africa	\$ 99	\$ 99	38%	39%
East Asia and Pacific	34	29	13%	12%
World	31	31	12%	13%
Latin America and the Caribbean	27	26	10%	10%
South Asia	23	20	9%	8%
Europe	21	20	8%	8%
Middle East	13	15	5%	6%
Central Asia and Türkiye	12	11	5%	4%
<b>Total Program Expenditures</b>	<b>\$ 260</b>	<b>\$ 251</b>	<b>100%</b>	<b>100%</b>



## Management's Discussion and Analysis

**Table 10: IFC Advisory Services – Program Expenditures by Business Area**

(US\$ in millions)	Program Expenditure		As a % of Total	
	For the year ended			
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Financial Institutions	\$ 70	\$ 62	27%	25%
Regional Advisory	55	52	21%	21%
Transaction Advisory	43	35	16%	14%
Manufacturing Agribusiness & Services	37	44	14%	18%
Infrastructure & Natural Resources	17	23	7%	9%
Environment, Social & Governance	14	13	6%	5%
Disruptive Technologies & Funds	5	6	2%	2%
Other Advisory	19	16	7%	6%
<b>Total Program Expenditures</b>	<b>\$ 260</b>	<b>\$ 251</b>	<b>100%</b>	<b>100%</b>

a The program expenditure presented herein is based on the Operational reporting methodology, which includes all project expenditures associated with an Advisory project. This does not include program expenditure associated with IFC's Upstream project development activities.

## SECTION IV: LIQUID ASSETS

All liquid assets are managed according to an investment authority approved by the Board of Directors and Liquid Asset Investment Directive 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 (the market funded liquidity portfolio) and capital (the net worth funded portfolio). Liquid assets are managed in several sub-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 asset 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, foreign exchange forward contracts, and futures and options, and it takes positions in various industry sectors and countries.

### FUNDED LIQUIDITY PORTFOLIO

IFC's primary funding source for liquid assets is market borrowings. Proceeds of borrowings from market sources not immediately disbursed for loans and loan-like debt securities are managed internally by IFC against money market benchmarks in the Funded Liquidity Portfolio. Refer to Section V. Funding Resources for additional details on borrowings.

### NET WORTH FUNDED PORTFOLIO

The second funding source of liquid assets is the portion of IFC's net worth not invested in equity and equity-like investments. These funds comprise the Net Worth Funded Portfolio which is managed internally by IFC against a U.S. Treasury benchmark.

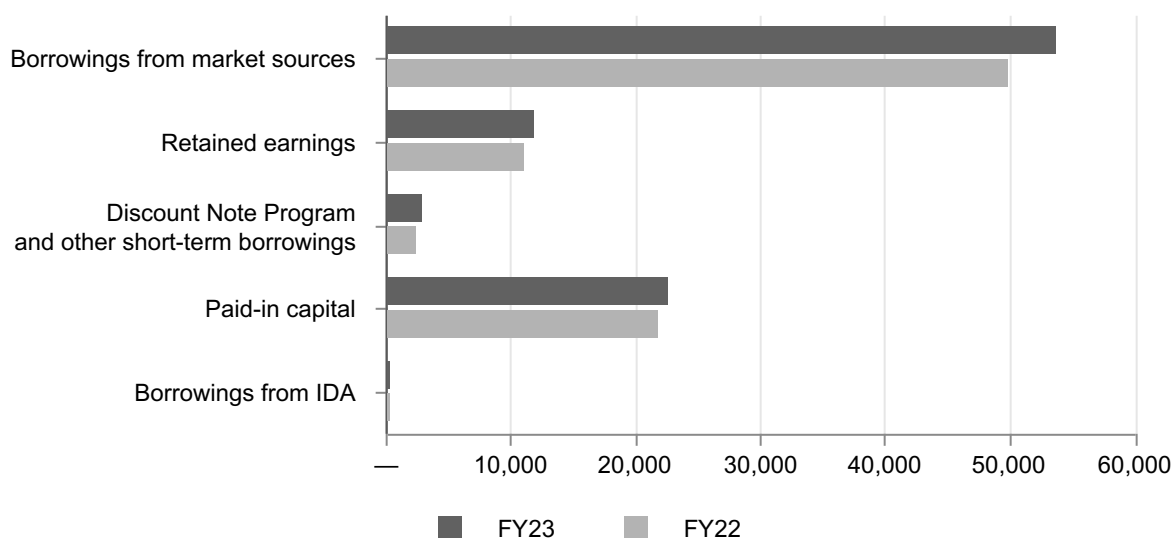
IFC's liquid assets are accounted for as trading portfolios. The NAV of the liquid asset portfolio was \$40.1 billion at June 30, 2023, a decrease of \$1.6 billion from \$41.7 billion at June 30, 2022. The liquid asset portfolio as of June 30, 2023 comprised the market funded liquidity portfolio of \$23.2 billion and the net worth funded portfolio of \$16.9 billion (\$25.1 billion and \$16.6 billion respectively – June 30, 2022). The decrease was composed of a \$1.9 billion decline in the market funded liquidity portfolio, as outflows from net disbursements to loans exceeded inflows from net borrowings, and a \$346 million increase in the net worth funded portfolio.

## Management's Discussion and Analysis

**SECTION V: FUNDING RESOURCES**

IFC's funding resources (comprising borrowings, paid-in capital and retained earnings) as of June 30, 2023 and June 30, 2022 are as follows:

**Figure 12: IFC's Funding Resources (US\$ in millions)**

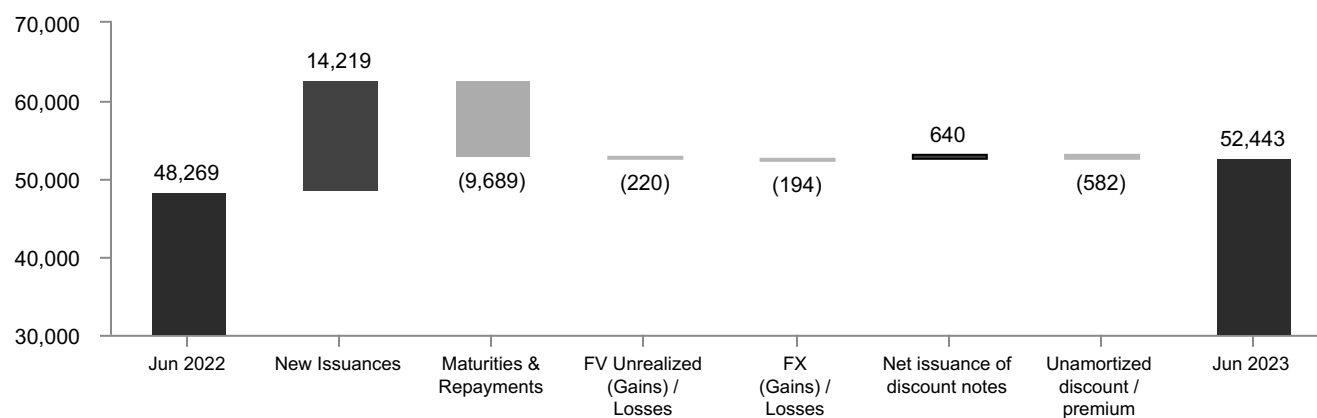
**BORROWINGS**

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.

Substantially all borrowings are carried at fair value under the Fair Value Option. 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 consolidated statements of operations. Changes in the net fair value of IFC's borrowings from market, IDA, and associated derivatives, include the impact of changes in IFC's own credit spread when measured against reference rates. 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.

The outstanding borrowings (including fair value adjustments) on IFC's consolidated balance sheets were \$52.4 billion at June 30, 2023, up from \$48.3 billion at June 30, 2022. At June 30, 2023, this comprised an outstanding balance of \$49.4 billion in medium and long-term borrowings (\$46.0 billion – June 30, 2022) and \$3.0 billion in short-term borrowings under the discount note program (\$2.3 billion – June 30, 2022). The increase in outstanding borrowings was mainly due to new issuances, net of maturities and repayments, of \$4.5 billion shown below:

## Management's Discussion and Analysis

**Figure 13: Borrowings Portfolio (US\$ in millions)**

Market borrowings are generally swapped into floating-rate obligations denominated in U.S. dollars. IFC uses its borrowings as a tool to promote capital markets development in emerging and frontier markets and this can result in raising local currency funds. Borrowings from market sources at June 30, 2023 with no associated interest rate or currency swap amounted to 2% of the total borrowings from market sources (2% – June 30, 2022). As of June 30, 2023, \$1.0 billion of such non-U.S. dollar denominated market borrowings were outstanding (\$1.2 billion – June 30, 2022). As of June 30, 2023, they were denominated in Bangladeshi taka, Chinese renminbi, Costa Rican colon, Georgian lari, Indonesian rupiah, Indian rupee, Kazakhstan tenge, new Azerbaijanian manat, new Romanian lei, Philippine peso, Sri Lankan rupee, Turkish lira and Ukrainian hryvnia.

During FY23, IFC raised \$19.8 billion in medium and long term market borrowings (\$14.1 billion in FY22), net of derivatives and including discount notes with maturities greater than three months of \$5.9 billion (\$4.8 billion in FY22). During FY23, IFC repurchased and retired \$432 million of outstanding debt (\$628 million in FY22), including debt called and bought back, generating gains on buybacks (from fees and capital gains) of \$1 million in FY23 (\$4 million in FY22).

IFC diversifies its borrowings by currency, country, source, and maturity to provide flexibility and cost-effectiveness. In FY23, IFC borrowed in 24 currencies and in final maturities ranging from 3 months to 40 years. Borrowings outstanding have a weighted average remaining contractual maturity of 5.4 years at June 30, 2023 (5.6 years – June 30, 2022). Actual maturities may differ from contractual maturities due to the existence of call features in certain of IFC's borrowings.

As of June 30, 2023, IFC had gross payables from borrowing-related currency swaps of \$34.3 billion (\$30.9 billion – June 30, 2022) and from borrowing-related interest rate swaps in the notional principal payable amount of \$22.2 billion (\$21.3 billion – June 30, 2022). After the effect of these derivative instruments is taken into consideration, 98% of IFC's market borrowings at June 30, 2023 were variable rate U.S. dollar-denominated (98% – June 30, 2022). The weighted average cost of outstanding market borrowings after currency and interest rate swap transactions was 5.2% at June 30, 2023 (1.3% – June 30, 2022). The increase in cost of borrowings compared to the prior year was due to rising interest rates.

IFC has short-term discount note programs in U.S. 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. The weighted average cost of discount note borrowing was 4.1% in FY23 (0.2% in FY22). During FY23, IFC issued \$11.4 billion of discount notes (\$7.5 billion in FY22) and \$3.0 billion were outstanding as of June 30, 2023 under the short-term discount note programs (\$2.3 billion – June 30, 2022).

## Management's Discussion and Analysis

**CAPITAL AND RETAINED EARNINGS****Table 11: IFC's Capital**

(US\$ in millions)	June 30, 2023	June 30, 2022
<b>Capital</b>		
Authorized capital	\$ 25,080	\$ 25,080
Subscribed capital	23,939	23,611
Less: unpaid portion of subscriptions	(1,343)	(1,862)
Paid-in capital	22,596	21,749
Accumulated other comprehensive income (loss)	632	(82)
Retained earnings	11,810	11,138
<b>Total Capital</b>	<b>\$ 35,038</b>	<b>\$ 32,805</b>

At June 30, 2023 and June 30, 2022, retained earnings comprises the following:

**Table 12: IFC's Retained Earnings**

(US\$ in millions)	June 30, 2023	June 30, 2022
<b>Undesignated Retained Earnings</b>	<b>\$ 11,589</b>	<b>\$ 10,840</b>
<b>Designated Retained Earnings:</b>		
Creating Markets Advisory Window	161	207
Funding Mechanism for Technical Assistance and Advisory Services	48	78
Small and Medium Enterprise (SME) Ventures	12	13
<b>Total Designated Retained Earnings</b>	<b>\$ 221</b>	<b>\$ 298</b>
<b>Total Retained Earnings</b>	<b>\$ 11,810</b>	<b>\$ 11,138</b>

Following the Spring Meetings in April 2018, a financing package, comprising: (i) a three-step capital raising process: Conversion of a portion of retained earnings into paid-in capital, a GCI and a SCI that would provide up to \$5.5 billion in additional paid-in capital; (ii) a planned suspension of grants to IDA after the conclusion of the IDA 18; and (iii) internal measures for increased efficiency was endorsed by the Board of Governors. The authorized capital stock at June 30, 2023 is 25,079,991 shares of \$1,000 par value each (unchanged from June 30, 2022).

The GCI and SCI Resolutions were adopted and became effective on April 16, 2020. \$17 billion of retained earnings were converted into paid-in-capital in April 2020. In April 2023, the subscription deadline for SCI and GCI was extended to April 16, 2025 and April 16, 2024, respectively, and the payment deadline for SCI was extended to April 16, 2025, to be aligned with the GCI payment deadline. As of June 30, 2023, 120 countries have subscribed a total of \$4.4 billion (GCI – \$3.7 billion and SCI – \$677 million) and payment of \$3.0 billion (GCI – \$2.4 billion and SCI – \$654 million) was received from 100 countries.

## Management's Discussion and Analysis

**Designations of Retained Earnings**

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

IFC uses a sliding-scale formula and the methodology for calculating the incremental rate of designation. The approach approved by IFC's Board of Directors establishes a threshold that no designations of any kind can take place if IFC's CUR is above 88%, and establishes a framework for prioritizing future designations to Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) and for transfers to IDA based on IFC's CUR and a cushion for FMTAAS. IFC has also created the Creating Markets Advisory Window (CMAW) in fiscal year 2018 to focus on market creation in eligible IDA countries and FCS.

**FY22 Designations**

Income available for designations in FY22 (a non-U.S. GAAP measure) totaled \$382 million, calculated as net income excluding unrealized gains and losses on investments and borrowings and grants to IDA. Based on the Board-approved distribution policy outlined above, the maximum amount available for designation was \$6 million. On August 4, 2022, the Board of Directors approved the entire designation of \$6 million of IFC's retained earnings for FMTAAS. This designation was noted with approval by the Board of Governors on October 14, 2022.

**FY23 Designations**

Income available for designations in FY23 (a non-U.S. GAAP measure) totaled \$681 million, calculated as net income excluding unrealized gains and losses on investments and borrowings and grants to IDA. On August 3, 2023, the Board of Directors approved a designation of \$60 million to FMTAAS. This designation is expected to be noted with approval by the Board of Governors, and subject to the above conditions, concluded in FY24.

**SECTION VI: RISK MANAGEMENT****ENTERPRISE RISK MANAGEMENT**

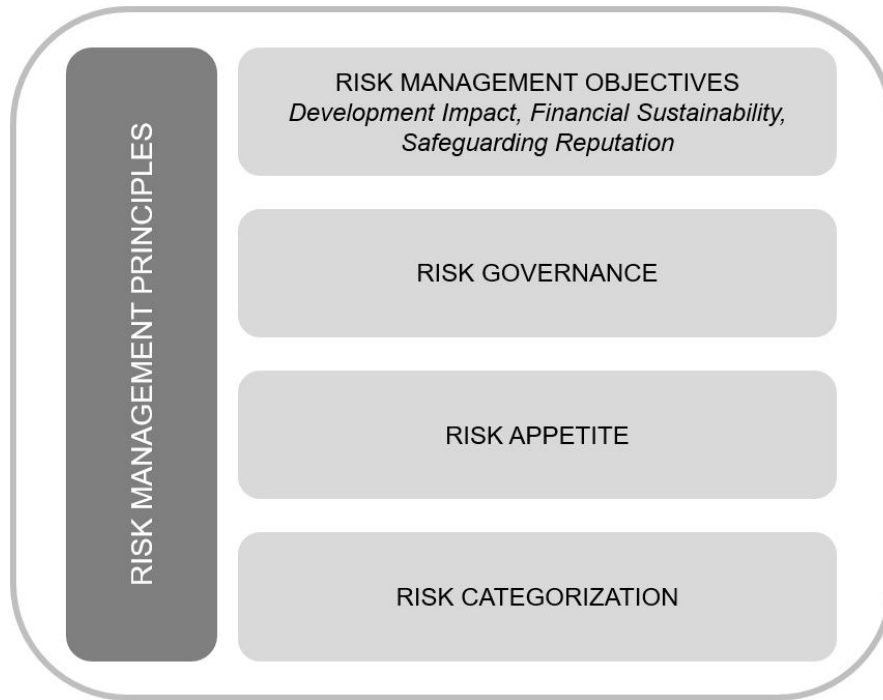
IFC provides investments and advisory services to the private sector in emerging markets and is therefore exposed to a range of potential financial and non-financial impacts. Active monitoring and sound management of evolving risks remain critical pillars in terms of fulfilling IFC's mission.

IFC's enterprise risk management framework (ERM) is designed to enable the prudent management of potential financial and reputational impacts that originate from the Corporation's business activities. In this context, IFC's risk management efforts are designed specifically to help align the Corporation's performance with its strategic direction. In FY23, IFC updated its ERM framework to reflect IFC's current risk profile and emerging risks. The framework defines:

- Key risk management objectives for managing risks.
- A standard classification of roles and responsibilities for risk management, to differentiate and thereby clarify how different parts of the Corporation contribute towards the overall management of risk through a well-defined risk governance mechanism.
- A risk appetite component to ascertain the level and type of risk that IFC is able and willing to assume in its exposure and business activities.
- An updated risk taxonomy for categorizing risks across the organization, to help ensure that risk management efforts are coordinated and aligned across the distinct parts of the organization that share responsibility for managing different aspects of risk.
- Cross-cutting risk management principles to ensure that business decisions are based on a thorough understanding of risks and that risks and rewards are balanced appropriately. Another principle is that IFC will be selective in undertaking activities that could cause significant adverse reputational impact.

IFC's risk culture is central to all aspects of IFC's risk management efforts. One of the key objectives of the framework is to embed a strong risk culture in the Corporation while ascertaining those tools and capabilities are in place to facilitate risk management and decision-making at different levels of the organization.

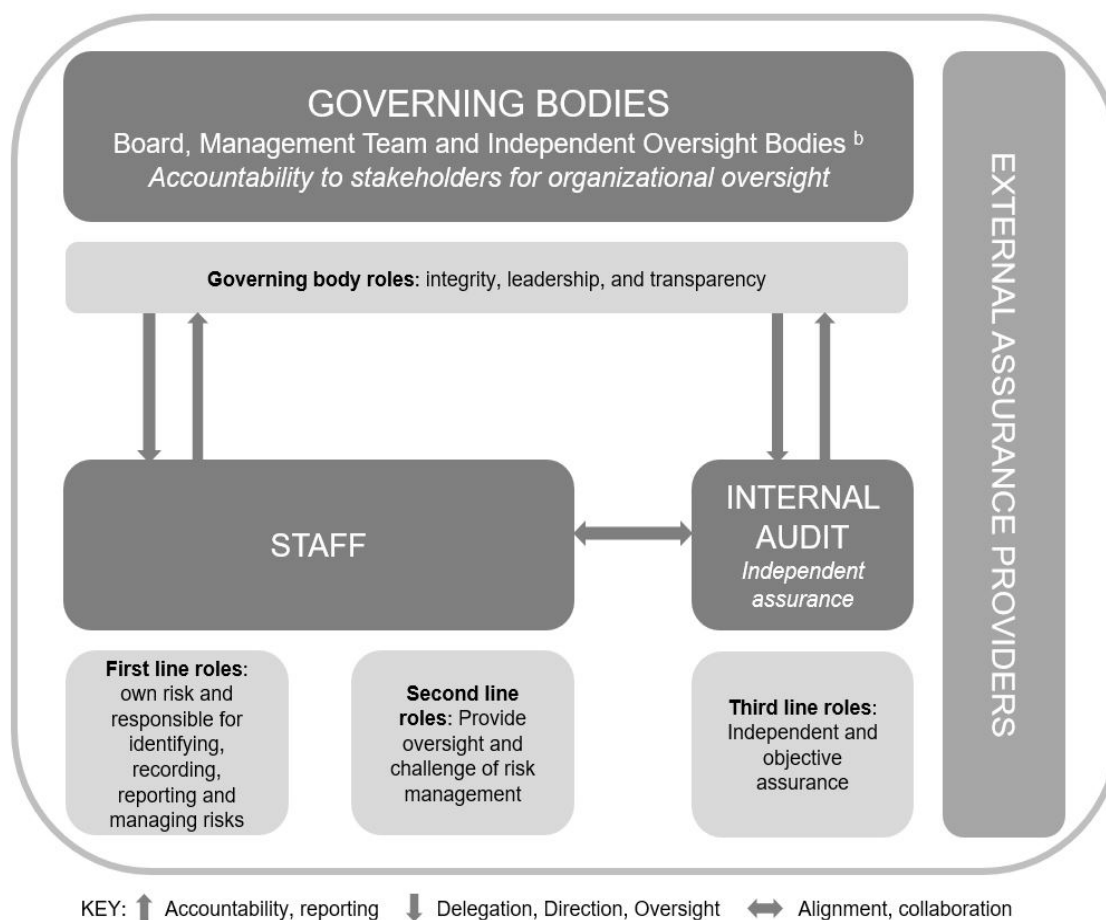
## Management's Discussion and Analysis

**Figure 14: IFC's Enterprise Risk Management Framework****Key Risk Management Objectives**

IFC has defined three explicit Risk Management Objective Statements at the corporate level which are derived from IFC's purpose, business scope, strategic objectives, and the risks that it faces.

- **Development Impact** – IFC will maximize developmental impact by focusing on the World Bank Group's twin goals of addressing extreme poverty and boosting shared prosperity, while maintaining financial sustainability and safeguarding its brand.
- **Financial Sustainability** – IFC will generate and maintain sufficient financial resources, conduct its business and manage risk consistent with standards implied by a triple-A rating.
- **Safeguarding Reputation** – In determining what engagements and activities to pursue, IFC will assess whether any potential adverse impact to its reputation is in balance with the potential development impact.

## Management's Discussion and Analysis

**Risk Governance Structure****Figure 15: IFC's Risk Governance <sup>a</sup>**

<sup>a</sup> Adapted based on the Institute of Internal Auditors three lines model.

<sup>b</sup> Oversight Bodies include the Integrity Vice Presidency (INT), the Independent Evaluation Group (IEG), the Compliance Advisor/Ombudsman (CAO) and the Ethics and Business Conduct (EBC) Department along with the Internal Audit which is listed separately in the picture above due to its role in providing independent oversight of IFC's risk management practices.

IFC's Enterprise Risk Management follows the shared-responsibility principle, and IFC's risk governance structure is built on the "three lines model" as defined below:

- **1st Line** – All staff engaged in the business origination, revenue generating and client facing areas of IFC and all associated support functions including Investment, Advisory and Treasury staff which are not risk, control or compliance monitoring functions.
- **2nd Line** – Staff in risk, controllers, legal, compliance and communication functions independent of the first line provides oversight and challenge over financial and operational risk activities.
- **3rd Line** – Internal Audit provides independent oversight.

From an organizational standpoint, three distinct groups govern the risks that IFC undertakes during its day-to-day business activities:

- **Independent Oversight Bodies:**
  - The **WBG Internal Audit Vice Presidency** provides independent oversight of IFC's risk management practices.
  - The **Integrity Vice Presidency** investigates allegations of fraud, corruption, and staff misconduct in IFC's operations and in WBG-financed operations impacting IFC.
  - The **Independent Evaluation Group** assesses the relevance, efficacy and efficiency of IFC's operational programs and activities (and their contributions to development effectiveness).
  - The **Compliance Advisor/Ombudsman** serves as an independent recourse mechanism for stakeholders in projects supported by IFC.

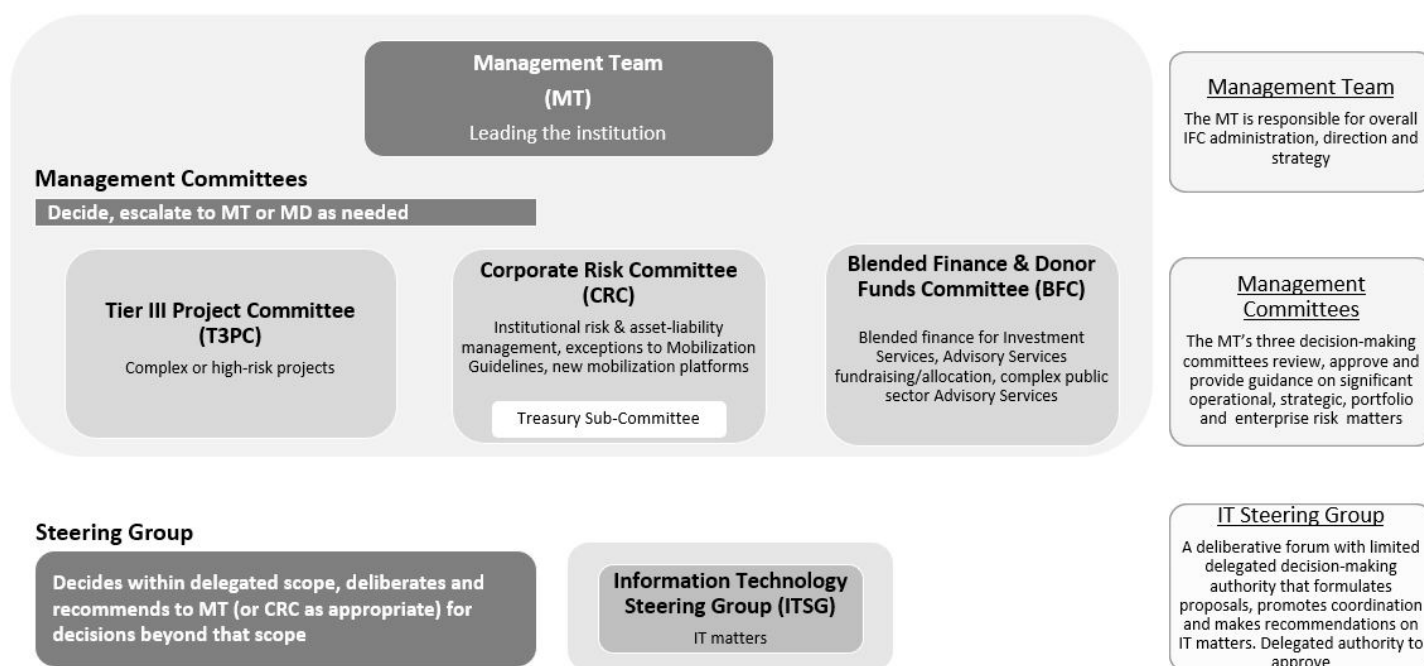
## Management's Discussion and Analysis

- The **Ethics and Business Conduct** Department promotes the development and application of the highest ethical standards by WBG staff in the performance of their duties and among other areas, focuses on addressing misconduct by reviewing concerns, recommending actions, and facilitating resolutions.
- **The Board:** IFC's Articles of Agreement outline the composition, roles and responsibilities of IFC's senior governance body, its Board of Directors. The Audit Committee of the Board of Directors plays a key role in overseeing risk management at IFC.
- **Management Team:** Under the direction of its Managing Director (MD), IFC's Management Team (MT) is responsible for the Corporation's day-to-day operations including the management of existing and potential risks. The MT carries out its responsibilities through three Management Committees:
  - The **Tier III Project Committee (T3PC)**, which is a decision-making body to review new projects (investment or advisory) that meet certain risk criteria including certain economic capital thresholds, nominal investment amounts, credit ratings and/or complex E&S and/or integrity issues. The T3PC does not set policy recommendations or directives but can approve exceptions to IFC's operational directives as appropriate, for individual projects (unless otherwise specified in that directive).
  - The **Corporate Risk Committee (CRC)**, which is primarily responsible for overseeing risks to IFC (including in relation to Shared Services<sup>6</sup>). The CRC is supported by the Treasury Sub-Committee, which reviews and makes recommendations to CRC regarding certain risks that arise within the Treasury business; acts, under delegated authority from CRC, as approval authority for Treasury-related initiatives and new Treasury products; and vets proposals from the Treasury or Risk and Finance VPU for changes in policies and procedures that impact the Treasury business.
  - The **Blended Finance and Donor Funds Committee (BFC)**, which is primarily responsible for the terms, proper allocation and utilization of donor funds, IFC's blended finance facilities, IDA/PSW funds at Concept and IRM stage and allocation and utilization of grants at or above US\$ 1 million. The BFC also reviews and approves public sector/government-facing advisory projects that meet certain criteria.

The MT is also supported by the **Information and Technology Steering Group (ITSG)**, a largely deliberative body which formulates proposals, develops new ideas, considers refinements, promotes coordination, and makes recommendations regarding IFC's IT strategy, investment plans and work programs for approval by the MT.

MT has delegated to the above Committees the authority to make certain decisions and to grant permitted exceptions to Directives and other instruments. Figure 16 below depicts IFC's management decision-making governance structure:

**Figure 16: IFC Management Decision Making Governance**



<sup>6</sup> IFC has service level agreements (SLAs) with IBRD in place for about 20+ shared services. The scope of these services includes HR services, information technology services, accounting services, procurement services, global telecom and client services, knowledge and information services, liability & insurance programs and other specialized support services. These SLAs provide risk management for common risks faced by WBG such as physical safety of staff and information security to ensure cyber resilience. Each SLA has a distinct governance process of its own with representation by both IFC and IBRD.

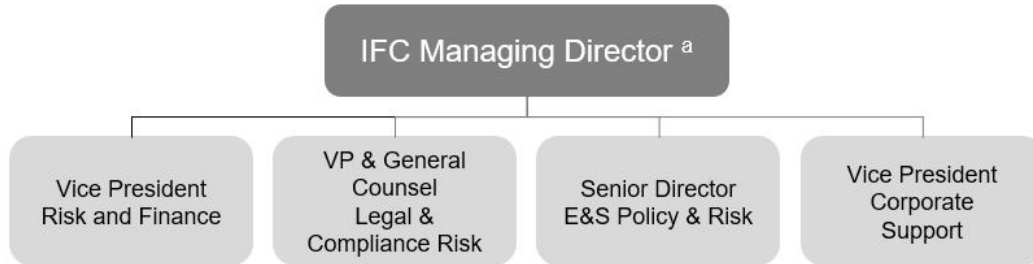


## Management's Discussion and Analysis

Within IFC, (i) all financial risks and operational risks are consolidated under the Vice President of Risk and Finance, (ii) non-financial risks are under the Vice President & General Counsel for Legal and Compliance Risk, and (iii) Environment, Social and Corporate Governance (ESG) risks are managed by two departments, the Environment and Social Policy and Risk department reporting directly to IFC's Managing Director and the ESG Sustainability Advice and Solutions Department reporting to the Vice President, Cross-Cutting Solutions.

The Corporate Support Vice Presidency supports alignment and coordination across all IFC Policies & Procedures. Strategic stakeholder communication for managing potential and actual reputational impacts are managed by IFC Corporate Support Vice Presidency. Figure 17 depicts IFC's risk responsibilities structure for financial, operational, and other non-financial risks.

**Figure 17: Risk Responsibility within IFC**



<sup>a</sup> The IFC VPUs listed under the IFC Managing Director include only those Vice Presidencies and Directors that have a second line role in the three lines model adopted by IFC.

### **Enterprise Level Risk Appetite**

IFC's Risk Appetite is the level and type of risk that IFC is able and willing to assume in its exposure and business activities. In FY21, IFC's Corporate Risk Committee approved a Risk Appetite (RA) framework for IFC. The purpose of the RA framework is to: (i) compare and contrast IFC's risk appetite against its risk exposure; (ii) communicate the target level of risks to stakeholders; (iii) provide context for the risk policies and frameworks; (iv) make informed decisions; and (v) report on risks to the Board and management.

On the financial risks faced by IFC, one of the ways in which the risk appetite is expressed by key financial policies approved by its Board of Directors as detailed below:

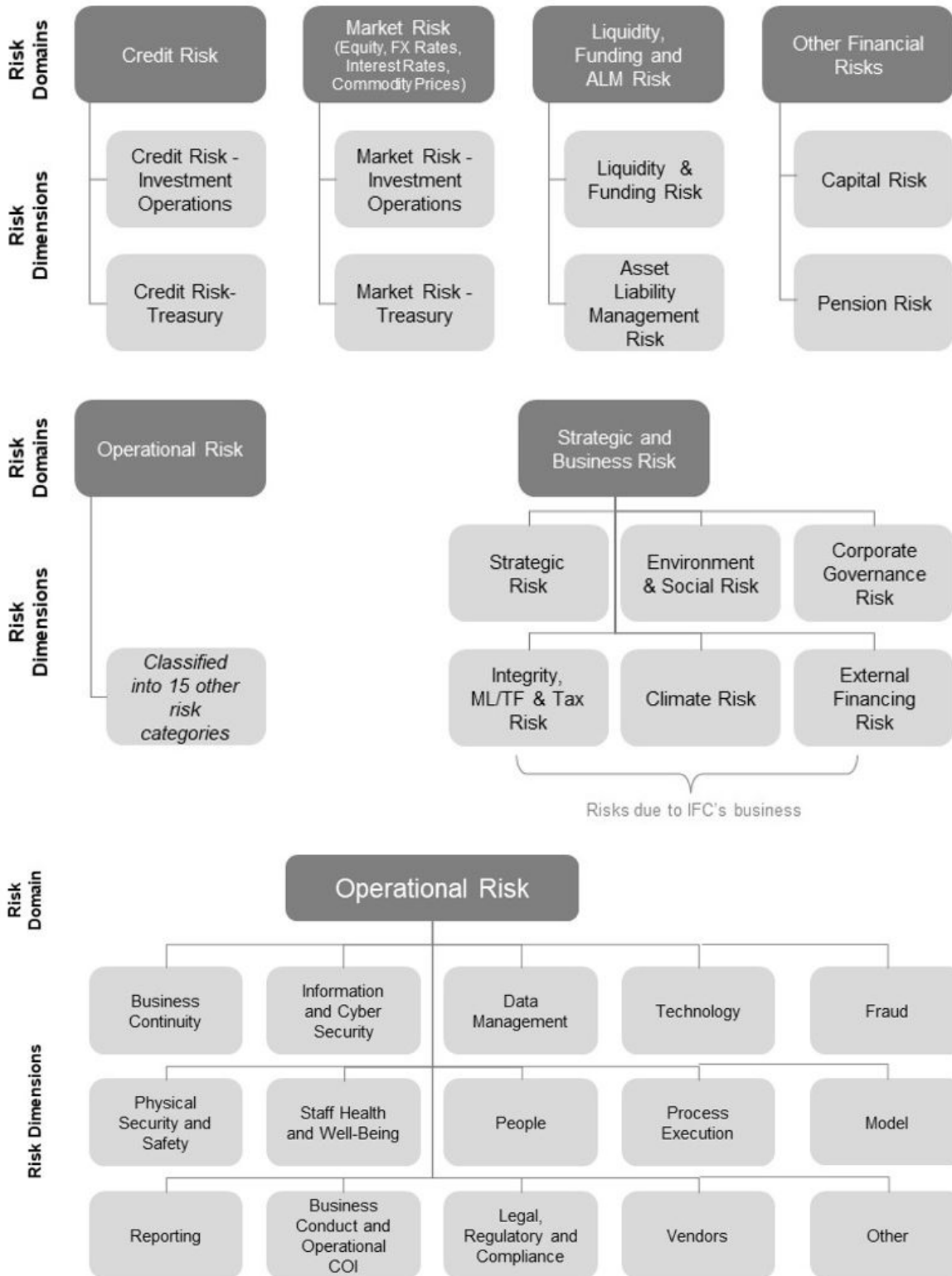
- **Capital Adequacy Policy** – IFC is required to maintain a minimum level of total resources (including paid-in capital, total loss reserve and retained earnings, net of designations) equal to total potential losses for all on- and off-balance sheet exposures estimated at levels consistent with maintaining a triple-A rating.
- **Leverage Policy** – IFC's outstanding debt plus guarantees held must not exceed four times its net worth.
- **Overall Liquidity Policy** – Minimum liquidity (liquid assets) must be sufficient at all times to cover at least 45% of IFC's estimated net cash requirements for the next three years.
- **Matched Funding Policy** – Loans are funded with liabilities that have similar characteristics in terms of interest rate basis, currency, and maturity, except for new products, approved by the Board of Directors, involving asset-liability mismatches.

### **Risk Categorization**

As part of the ERM framework update in FY23, IFC has adopted the following risk taxonomy and risk categorizations. Figure 18 below reflects the risk categorization approved in FY23 effective July 1, 2023. It should be noted that some of the risks in the taxonomy may be related and as such are not mutually exclusive or totally independent of one another. Operational Risk Dimensions are further classified into a third level called Risk Drivers. Examples of Risk Drivers include misconduct, improper business or market practices etc.

Management's Discussion and Analysis

Figure 18: IFC's Risk Taxonomy



## Management's Discussion and Analysis

**CREDIT RISK**

IFC defines credit risk as the risk of loss of principal or loss of an expected financial return due to credit events such as a default or downgrade in credit ratings or any other failure to meet a contractual obligation that results in financial loss. IFC is exposed to credit risk in its loan portfolio and to investment and counterparty credit risk in its Treasury portfolio.

**Investment Operations**

Credit risk in investment projects is actively managed throughout the project life cycle. Investment teams are responsible for gathering the necessary information from the client and other relevant stakeholders to verify the financial viability of each project, and for assigning a credit rating (CR) at defined stages in the project approval process. The CR, the investment size, the product type and other project-related risks determine the authority level required for the approval of each transaction. All projects are subject to independent credit assessment by a credit officer within the independent Risk and Finance Vice Presidency and who participates in the project approval process. Projects are approved with reference to a number of operational and prudential limits approved by the Corporate Risk Committee, including limits related to single project or client exposure, single country exposure, and sector concentration; these are detailed below:

- IFC's total exposure to a country, for the purpose of setting exposure limits, is measured as the amount of economic capital required to support its investment portfolio in that country. Exposure limits are set for each country based on the size of its economy. Sub-limits apply for certain sector exposures within a country.
- IFC's total exposure to a single client or client group may not exceed stipulated economic capital and nominal limits based on the Credit Rating for the client.
- Individual Investment Limits are applied at the individual project or client level to prevent excessive concentrations.
- Preferential debt exposure to a country is limited by reference to that country's total medium and long-term external debt.
- IFC's total equity and quasi-equity exposure (outstanding exposure net of specific reserve) shall not exceed IFC's net worth.

IFC's investment projects are actively supervised after commitment. CRs are reviewed regularly for each project, with frequency depending on the level of CR assigned, and revised if new material information is received. An independent risk management team in the Risk and Finance Vice Presidency regularly assesses IFC's portfolio, including stress testing of exposure to emerging risks. Additionally, the Corporate Portfolio Management Department, as part of the Industries Vice Presidency, regularly reports on the performance of the overall debt and equity portfolio and performs deep dives on selected top country and sector exposures, along with areas of strategic importance to IFC. When projects show signs of financial distress, immediate attention is key for improving potential outcomes. Seasoned "workout" professionals from IFC's Department of Special Operations in the Risk and Finance Vice Presidency focus on projects, to implement the restructuring, or possible recovery, of IFC's exposure.

The credit risk of loans is quantified in terms of the probability of default, loss given default and exposure at risk. These risk parameters are used in the processes to determine risk-based returns, project-based capital allocation and internal risk management purposes, as well as for establishing allowances against losses on loans under the new Current Expected Credit Losses accounting standard, and exposure limits.

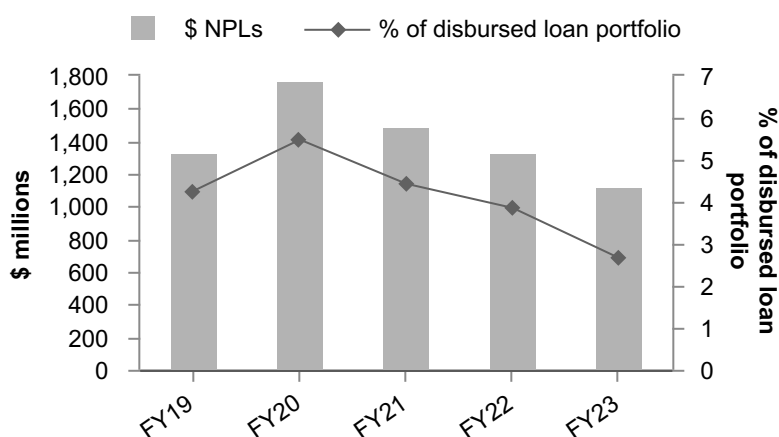
Selected indicators of credit risk exposure in IFC's loan portfolio, together with the five-year trend of non-performing loans (NPLs), are given below:

**Table 13: IFC Loan Portfolio Credit Risk Indicators**

INDICATOR	June 30, 2023	June 30, 2022	Change
NPLs as % of the loan portfolio <sup>a</sup>	2.7 %	3.9 %	Down 1.2 %
Principal amount outstanding on NPLs	\$1.1 billion	\$1.3 billion	Down \$205 million
Total reserve against losses on loans	\$1.2 billion	\$1.2 billion	No change
Total reserve against losses on loans as % of disbursed loan portfolio	3.7 %	4.4 %	Down 0.7 %
Total reserve against losses on loans as % of NPLs	107.6 %	91.0 %	Up 16.6 %
Total reserve against losses on outstanding guarantees	\$15 million	\$11 million	Up \$4 million

<sup>a</sup> NPL ratio is calculated on loan portfolio inclusive of debt security portfolio.

## Management's Discussion and Analysis

**Figure 19: NPLs as Percentage of Disbursed Loan Portfolio**

Additional details are provided in Section VIII – Results of Operations (Provision for Losses on Loans, Off-balance Sheet Credit Exposures and Other Receivables).

### **Treasury Operations**

IFC manages its exposures to investments and counterparties in its Treasury operations to mitigate potential losses from the failure by a counterparty to fulfill its contractual obligations. Counterparty eligibility criteria are set by Authorizations from the Board of Directors and by Directives approved by IFC's Corporate Risk Committee. Eligible investments and counterparties are predominantly sovereign governments, government agencies, banks, and financial institutions with high quality credit ratings issued by leading international credit rating agencies.

Details of applicable financial policies and guidelines are given below:

- Counterparties are selected based on standard eligibility criteria, with a tenor limit for deposits and repurchase agreements.
- Counterparties for derivative instruments are generally restricted to banks and financial institutions with high-quality credit ratings from leading international credit rating agencies; for the sole purpose of funding local currency loans, eligibility is extended to central banks and select local banks.
- Exposures to individual counterparties are subject to exposure limits.
- IFC signs collateral agreements with counterparties that require the posting of collateral when net mark-to-market exposures exceed certain predetermined thresholds.
- For exchange-traded instruments, credit risk is limited by restricting transactions to a list of authorized exchanges, contract types, and dealers.

Treasury operations counterparties remain well diversified by sector and geography. In accordance with its agreements with counterparties, at June 30, 2023, IFC held \$185 million in cash and \$1 million in securities as collateral for changes in mark-to-market exposures on open trades (\$730 million in cash and \$2 million in securities – June 30, 2022). In terms of Treasury's credit profile, the liquid assets remain concentrated in the upper end of the credit spectrum with an average rating of A+, reflecting IFC's objective of principal protection and its resulting preference for high-quality investments.

### **MARKET RISK**

Market risk is the risk of losses due to movement in market prices such as interest rates, credit spreads, equity, foreign exchange or commodity prices. IFC's exposure to market risk is mitigated by its matched funding policy, whereby it uses derivative instruments to convert loans funded from market borrowings, and the market borrowings themselves, into floating rate U.S. dollar assets and liabilities with similar duration. Similarly, market risk resulting from derivative transactions with clients, to facilitate clients' risk management, is typically mitigated by entering offsetting positions with highly rated market counterparties. IFC's exposure to unhedged market risk arises primarily from its listed and unlisted equity investments in emerging markets, its quasi-equity loans, and its Treasury liquid asset portfolio.

## Management's Discussion and Analysis

**LIBOR Transition**

In 2017, the Financial Conduct Authority (FCA), the regulator of LIBOR, announced that it would no longer compel panel banks to submit rates required to calculate LIBOR after December 31, 2021, with key U.S. dollar LIBOR settings (O/N, 1M, 3M, 6M & 12M) panels ceasing on June 30, 2023 (the Cut-off Date). Therefore, market participants, including IFC and its borrowers needed to move to alternative reference rates. In June 2017, the Alternative Reference Rates Committee (ARRC), announced it had selected Secured Overnight Financing Rate (SOFR) as its preferred alternative to USD LIBOR.

In April 2023, the FCA announced its decision to require the ICE Benchmark Administrator to continue publication of 1-, 3- and 6-month US dollar LIBOR settings until September 30, 2024 using an unrepresentative "synthetic" methodology (Synthetic USD LIBOR). This announcement has provided additional time for certain transactions that can continue using Synthetic USD LIBOR, effectively extending the Cut-off Date for such projects to September 30, 2024.

IFC has taken necessary steps to facilitate a smooth and orderly transition of its financial instruments affected by the regulators' requirement for use of alternative reference rates. In FY21, IFC adopted the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol (IBOR Protocol) and has been hedging the majority of its borrowings to SOFR. As of June 30, 2023, IFC's SOFR-based borrowings on an after-swap basis totaled \$55.7 billion (\$11.4 billion – June 30, 2022).

In line with global USD lending markets, IFC ceased the origination of new LIBOR-based financial instruments on December 31, 2021 (with certain limited exceptions). In FY22, IFC started offering Term SOFR and Daily Non-Cumulative Compounded SOFR-based loan products and related Client Risk Management (CRM) products. Of the new SOFR-based commitments, approximately 90% are based on Term SOFR.

IFC has made significant progress with the conversion of its existing LIBOR-based portfolios to SOFR with swap conversions substantially completed. IFC aims to complete the conversion of its remaining LIBOR-based assets and liabilities to SOFR in advance of their respective next interest reset dates following the applicable Cut-off Date (June 30, 2023 or September 30, 2024).

**Equity Investments**

The risk of loss in value of IFC's emerging markets equity investments is mitigated primarily by applying the same limits framework, decision-making process and portfolio management methods as described above for its lending operations. IFC has a multi-year horizon for its equity investments and accepts short-term price volatility of these investments, which can be significant.

US and European equity markets rose strongly during FY23, despite rapidly rising interest rates, with the US market gaining 18% (S&P500) and Europe's largest stocks gaining 27% (Euro Stoxx 50). However, emerging market equity returns were subdued at 2% (MSCI EM total return index) though with substantial gains in Latin America and Eastern Europe while a significant decline in Chinese equities. The US dollar strengthened 5% against a basket of EM currencies (JPMorgan EM currency index). IFC remains focused on strategic and selective additions on the new business front, and is actively managing its equity book, utilizing rigorous analysis of macroeconomic trends to inform its management decision-making throughout the project lifecycle.

**Liquid Asset Portfolios**

Market risk in IFC's liquid asset portfolios is managed according to the risk appetite chosen by IFC Management using derivative and other financial instruments such as over-the-counter foreign exchange forward agreements, interest rate and currency swaps, and exchange-traded interest rate futures. Overall market risk exposure is also subject to daily monitoring, based on Directives approved by the Corporate Risk Committee, which limit interest rate, credit spread, and foreign exchange risk.

FY23 witnessed continued volatility in interest rate markets. To manage risks associated with interest rate, foreign exchange, and credit spread risks, a system of limits was employed and closely monitored on a daily basis to ensure ongoing compliance throughout the fiscal year.

**LIQUIDITY, FUNDING AND ASSET LIABILITY MANAGEMENT (ALM) RISK**

IFC defines liquidity and funding risk as the risk that, over a specific horizon, IFC will be unable to meet the demand for additional funds to meet the demand for uses of funds due to either funding or liquidity issues or both. IFC faces liquidity risk in its core development finance activities because its investments are predominantly illiquid in nature due to the lack of capital flows, the infrequency of transactions, and the lack of price transparency in many emerging markets. To offset this risk, IFC maintains appropriate liquid asset portfolios funded from its net worth and market borrowings. IFC manages the risk of mismatches in foreign exchange rates, interest rates, and maturity dates between balance sheet assets and liabilities.

**Liquid Asset Portfolios**

Liquidity risk in the liquid asset portfolios is addressed by liquidity coverage ratios (LCR) and strict investment eligibility criteria defined in Directives approved by the Corporate Risk Committee. LCRs are aligned with Basel liquidity standards for regulated banks, include time horizons between 30 days and 3 years, and consider both normal and stressed cash flow requirements. Examples of eligibility criteria include minimum issuance sizes required for bond investments, limits on single bond issue concentration, and limits on the percentage of total bond issuance held by IFC. Consequently, a significant portion of the liquid asset portfolio is invested in highly liquid securities such as high-quality sovereign, sovereign-guaranteed, and supranational fixed income instruments. IFC expects to continue to be able to realize these assets as needed to meet its cash requirements, even in a liquidity crisis.

## Management's Discussion and Analysis

On June 30, 2023, IFC's liquid asset portfolios totaled \$40.1 billion (\$41.7 billion – June 30, 2022). IFC's overall Liquidity Coverage Ratios (LCR) as a percentage of next three years' estimated net cash needs stood at 104%, above the minimum requirement of 45%. During FY23, IFC raised \$19.8 billion in market borrowings, net of derivatives and including discount notes with maturities greater than three months of \$5.9 billion (\$14.1 billion in FY22). The outstanding balance under the Short-term Discount Note Program at June 30, 2023 was \$3.0 billion (\$2.3 billion – June 30, 2022).

**Funding**

IFC's funding operations ensure that IFC has the funds required for its lending operations, and that it has sufficient liquidity to safeguard its triple-A rating and fulfill IFC's counter-cyclical role. IFC can access a variety of funding markets, including the U.S. dollar market, Pounds sterling market and the Australian dollar market as well as private placement and retail markets. IFC's discount note program complements IFC's traditional funding sources by providing swift access to funded liquidity. IFC's triple-A rating is critical to the Corporation's ability to maintain its low cost of funds. Regular issuance in a variety of markets serves to sustain investor confidence and maintain a diversified investor base. In FY23, IFC's funding costs increased when compared with FY22 predominantly driven by the increase in short-term U.S dollar interest rates.

**Asset-Liability Management**

While IFC's matched-funding policy helps mitigate currency and interest rate risk, IFC is still exposed to residual market risks in the market borrowings-funded portion of the balance sheet. Residual currency risk arises from factors such as changes in the level of reserve for losses on non-U.S. dollar loans. The aggregate position in each lending currency is monitored and the risk is managed to within the limits established for each currency and the total exposure for all currencies. Residual interest rate risk may arise from differing interest rate reset dates on assets and liabilities or from assets that may become mismatched with hedges over time due to write-downs, prepayments, or rescheduling. The residual interest rate risk is managed by measuring the sensitivity of the present value of assets and liabilities in each currency to a one basis point change in interest rates and managing exposures to within the established limits for each currency and the total exposure for all currencies.

**OTHER FINANCIAL RISKS**

IFC includes Capital Risk and Pension risk as the two other financial risks that it faces. Capital risk is the risk to IFC's triple-A rating resulting from a low capital adequacy position, in which available capital falls below the level of capital required to support IFC's activities. Pension Risk is the risk that IFC's defined-benefit pension plan is underfunded, leading to the need for additional financial support by IFC.

**Capital Risk**

From a financial sustainability perspective, the capital required to maintain a triple-A rating is assessed using an economic capital framework, which is the foundation of financial risk management at IFC. Economic capital acts as a "common currency of risk" across the organization, providing IFC with an objective, quantifiable measure of risk that can be applied consistently across business lines, products, regions, and sectors. IFC holds economic capital for credit, market, and operational risks. The economic capital framework covers IFC's entire balance sheet – debt, equity, and Treasury assets- and economic capital is used for limit-setting, pricing, and risk-adjusted performance measurement. The primary measure of capital adequacy is IFC's Capital Utilization Ratio (CUR), which is the ratio of Capital Required for the current portfolio to the Capital Available to support future commitments.

Throughout FY23, IFC's CUR was well within the established threshold of < 88%.

**Pension Risk**

IFC participates, along with IBRD and MIGA, in pension and post-retirement benefit plans. The Staff Retirement Plan (SRP), Retired Staff Benefits Plan (RSBP), and Post-Employment Benefit Plan (PEBP) (collectively called the "Plans") are defined benefit plans and cover substantially all WBG employees, retirees and their beneficiaries. Costs, assets, and liabilities associated with the Plans are allocated among IBRD, IFC, and MIGA, based on their employees' respective participation in the Plans. Pension Risk is defined as the risk that IFC's defined-benefit pension plan is underfunded, leading to the need for additional financial support by IFC.

There are two committees that govern the Plans. From a governance standpoint, both committees are independent of IFC and the Board: (i) The Pension Finance Committee (PFC), which is responsible for the financial management of the Plans and is supported by the Pension Finance Administrator; and (ii) The Pension Benefits Administration Committee (PBAC), which is responsible for the administration of the benefits of the Plans.

The key policies underpinning the financial management of the Plans, including the determination of WBG contributions and the investment of Plan assets, are the funding and investment policies. The objective of these policies is to ensure that the Plans have sufficient assets to meet benefit payments over the long term. The funding policy, as approved by the PFC, establishes the rules that determine the WBG's contributions.

In FY23, the WBG's rate for contributions to the Plans was 14.61% of net salaries. More details about WBG's pension plan can be found in *Section XI: Pension and Other Post-retirement Benefits* of IBRD's MD&A statement.

## Management's Discussion and Analysis

**OPERATIONAL RISK MANAGEMENT**

Consistent with the Basel Framework, IFC defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, and holds economic capital against such risks. Given IFC's business model, both financial and non-financial potential impacts are considered in assessment of risks.

IFC's Operational Risk Management (ORM) program conforms to a Directive approved by the Corporate Risk Committee (CRC), which defines the management of, and roles and responsibilities for, operational risk management in the Corporation.

IFC identifies, assesses, monitors and reports operational risks across the following key value chains/business functions, also known as operational risk areas: Debt, Equity, Treasury, Advisory Services, Third Party Responsibilities, Business Support Functions, Corporate Functions, and Shared Services.

During FY23, IFC continued to expand its operational risk program by implementing enhanced methodologies to identify, assess, mitigate, and monitor material operational risks in its key activities. The main ORM tools that IFC utilizes include Risk and Control Self-Assessments (RCSA), recording and analysis of operational risk events, and monitoring of Key Risk Indicators (KRIs). IFC's ORM approach in FY23 focused on key RCSAs, as well as enhancing risk event reporting, and upgrading its quarterly report to the CRC and the Audit Committee. Also, during FY23, IFC started developing risk appetite statements for operational risk and started assessing the methodology to conduct focused control assessments. Finally, during FY23, through various learning and knowledge sharing events, and training initiatives, there was a noticeable improvement in awareness and understanding of operational risks in IFC.

IFC utilizes risk transfer mechanisms, including insurance, at both the project and the institutional levels for mitigation of low probability/frequency and high impact operational risks. IFC insures its corporate assets and operations against catastrophic losses and cyber-related risks where commercially viable.

IFC also continues to focus on its preparedness to react to significant events that could disrupt its normal operations through the Business Continuity Management program, which covers critical business processes across all IFC offices.

On a quarterly basis, IFC's corporate ORM function provides a consolidated ORM report to the CRC and a summarized version to the Audit Committee.

***Cybersecurity Risk Management***

IFC's operations rely on the secure processing, storage and transmission of confidential and other information in computer systems and networks. As is the case for financial institutions generally, cybersecurity risk continues to be significant for IFC due to the evolving sophistication and complexity of the cyber threat landscape. These risks are unavoidable and IFC seeks to manage them on a cost-effective basis consistent with its risk appetite.

To protect the security of its computer systems, software, networks and other technology assets, IFC has developed its cybersecurity risk management program, consisting of cybersecurity policies, procedures, compliance, and awareness programs. IFC deploys a multi-layered approach for cybersecurity risk management to help prevent and detect malicious activity, both from within the organization and from external sources. In managing emerging cyber threats such as malware including ransomware, denial of service and phishing attacks, IFC strives to adapt its technical and process-level controls and raise the level of user awareness to mitigate the risk.

IFC periodically assesses the maturity and effectiveness of its cyber defenses through risk mitigation techniques, including but not limited to, targeted testing, internal and external audits, incident response tabletop exercises and industry benchmarking.

**STRATEGIC AND BUSINESS RISK**

These are risks that are specific to IFC given its mission and strategy and include Strategic Risk, Environment & Social Risk, Climate Risk, Corporate Governance Risk, Integrity Risk, Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) Risk and External Financing Risk.

***Strategic Risk***

IFC defines strategic risk as the risk associated with initial strategy selection, execution, or modification over time, resulting in a lack of achievement of overall objectives.

IFC uses the Anticipated Impact Measurement and Monitoring (AIMM) system as an ex-ante assessment tool to enable IFC staff to measure and monitor the anticipated development impact of investment and advisory projects. The AIMM system evaluates a project's development impact along two dimensions – project outcomes and market outcomes.

- **Project outcomes** – These refer to a project's direct effects on stakeholders (including employees, customers, suppliers, and the community); the direct, indirect, and induced effects on the economy and society overall; and the effects on the environment and social sustainability.
- **Market outcomes** – These refer to a project's potential for generating systemic, sector-wide changes that enhance market competitiveness, resilience, integration, inclusiveness, and sustainability.

## Management's Discussion and Analysis

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The AIMM system is now fully integrated into IFC's operations, allowing development impact considerations to be weighed against a range of strategic objectives, including volume, financial return, risk, and thematic priorities.

**Environment, Social and Governance (ESG) Risk**

Environment and Social (E&S) risk is the risk that IFC does not effectively engage with and influence clients to fulfill the requirements of IFC's E&S Performance Standards, potentially causing harm to people or the environment. Corporate governance risk is the risk that IFC's clients have inefficient or ineffective corporate governance practices, leading to adverse reputational or financial impacts on IFC.

Two departments support IFC's ESG work:

- The E&S Policy and Risk Department (CES) serves as a regulatory function of IFC's E&S risk management and ensures systems, procedures, and capacity are in place. CES also acts as custodian of IFC's Sustainability Framework, reviews E&S aspects of all projects at origination and provides oversight, guidance, and support on E&S for high-risk projects in all stages of the project cycle.
- The ESG Sustainability, Advice and Solutions Department (CEG) works closely with investment, advisory, and upstream teams and clients to identify, evaluate, and manage ESG risks and opportunities, leveraging IFC's expertise and experience in emerging markets regarding the adoption of ESG standards.

Together these departments advise IFC management on significant ESG risks in its projects, support IFC clients in strengthening their ESG performance, and enable accountability to stakeholders.

In addition to promoting ESG standards and climate disclosure across emerging markets, IFC builds internal and external capacity to identify, assess and mitigate ESG risks. IFC continuously strengthens its ESG approach by improving its internal ESG systems and procedures; enhancing project-level grievance mechanisms; clarifying the application of IFC's E&S requirements for clients, including financial intermediaries; and mainstreaming climate ESG risk, gender, and contextual risk assessment in due diligence and supervision. IFC supports its clients in mitigating ESG risks across all regions through rolling out new tools and knowledge products to support ESG specialists and clients and updating its approach to due diligence and supervision program.

**Environment and Social (E&S) Risk**

IFC's ESG approach is anchored in its Sustainability Framework which articulates the Corporation's strategic commitment to sustainable development and is comprised of:

- The Policy on E&S Sustainability, describing IFC's commitments, roles, and responsibilities in relation to environmental and social sustainability.
- The E&S Performance Standards, guiding clients on sustainable business practices, including continually identifying and managing risks through analytical work such as environmental and social assessments; stakeholder engagement; and client disclosure obligations in relation to project-level activities.
- IFC's Access to Information Policy, reflects the Corporation's commitment to transparency and good governance and outlines institutional disclosure obligations.

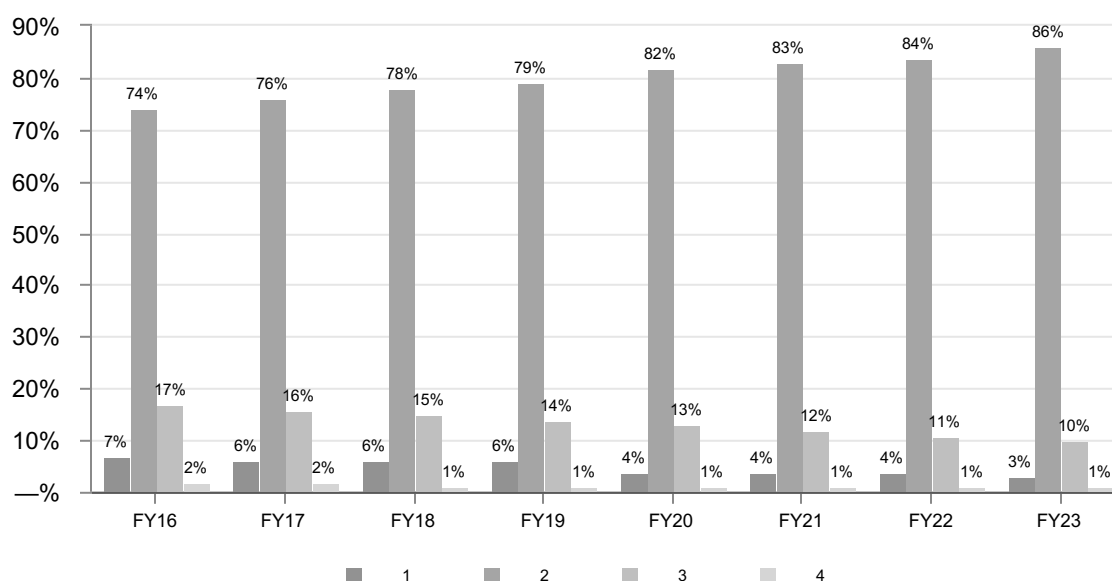
IFC uses E&S Risk Rating (ESRR) system to evaluate a client's performance in managing E&S risks including avoidance, mitigation and control of risks and adverse impacts. ESRR scale includes: 1) Excellent, 2) Satisfactory, 3) Partly Unsatisfactory, and 4) Unsatisfactory. The score is calculated at appraisal as a baseline and is then updated after each supervision activity.

Focused supervision efforts in the last eight fiscal years have improved the E&S risk profile of IFC's investment portfolio by reducing the number of poorly performing projects, defined as a historical ESRR scale of 3 and 4. In FY23, CEG reformed its approach to its supervision program, prioritizing in-person site supervision of higher-risk projects (in coordination with CES), and drawing on master framework agreements with E&S consulting firms. The supervision program is closely monitored, and helped maintain a substantively healthy E&S portfolio performance. Figure 20 below presents the ESRR distribution of IFC's investment portfolio from FY16 to FY23.



## Management's Discussion and Analysis

Figure 20: ESRR Distribution FY16 – FY23



ESRR distribution scale: 1) Excellent, 2) Satisfactory, 3) Partly Unsatisfactory, 4) Unsatisfactory.

### Client Corporate Governance Risk

IFC manages corporate governance risk primarily by conducting a structured evaluation of every new investment project, covering the following six areas:

- Effectiveness of the Board of Directors;
- Sufficiency of internal controls, audit, risk management and compliance;
- Adequacy of financial and non-financial disclosures, including ESG/sustainability reporting;
- Adequacy of shareholders' rights;
- Adequacy of governance of stakeholder engagement; and
- Demonstration of the client's commitment to implement high quality corporate governance policies and practices.

The findings from these assessments are considered in the decision on whether to proceed with the project.

### Climate Risk

Climate risk is the risk that IFC's clients may directly or indirectly experience potential adverse impacts from climate change such as extreme weather, floods or droughts, and sea level rise, leading to reputational or financial risk.

IFC has a dedicated Climate Business Department integrated with IFC's Operations that provides in-house expertise on climate. The Climate Business Department helps set corporate climate strategy, engages with stakeholders, supports investment teams to identify decarbonization and climate investment opportunities, and manages climate risk using tools such as carbon pricing and has started the assessment of transition and physical climate risk in investment projects as part of the Paris Alignment process for all new projects.

Climate risk is integrated into IFC's operations through its commitment under the capital increase and more recently to align with the goals of the Paris Agreement. As part of its efforts to align with the Adaptation & Climate Resilience component of the Paris Agreement, IFC screens its projects for exposure to physical climate risk and potential impacts on the project's financial, environmental, and social performance during project appraisal. IFC has developed tools, methodologies and approaches to help industry, E&S, and climate specialists to conduct these assessments. Similarly, the Mitigation component of Paris Alignment assessments screens projects for exposure to stranded asset risk and carbon lock-in risk.

Highlights of climate risk management measures in FY23 include:

- Development of counterparty approach for Paris Alignment for real and financial sector projects with undefined use of proceeds.
- Testing of Paris Alignment methodology for physical climate risk for financial sector projects with defined use of proceeds.
- Development of sector-specific tools and methodologies for physical climate risk assessment of projects in multiple sectors that will enable mainstreaming of climate risk assessments in these sectors.

## Management's Discussion and Analysis

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- Publication of IFC's fifth consecutive disclosure along the guidelines of the Task Force for Climate-Related Financial Disclosures (TCFD) and conducting of benchmarking exercise at the completion of the 5-year milestone.
  - Creation of cross-cutting interdepartmental Climate Risk Working Group and hiring of consultants to explore ways to integrate climate into overall risk management at IFC.

The WBG's Climate Change Action Plan for FY21 to FY25, aims to increase support to deliver climate results, with a focus on reducing the trajectory of emissions and strengthening adaptation and resilience in developing countries. As part of this plan, IFC has committed to increase its direct climate financing to at least 35 percent of total commitments on average over the five-year period. IFC is also committed to aligning its financial flows with the objectives of the Paris Agreement. Starting July 1, 2023, 85 percent of Board approved operations are expected to be aligned with the Paris Agreement's goals, and by 100 percent of these are expected to be aligned starting July 1, 2025.

***Integrity, Money Laundering and Terrorist Financing, and Tax Risk***

Group of interrelated risks that IFC's Clients may have ineffective governance structures and/or controls to manage exposure to integrity risk, money laundering and terrorist financing (ML/TF) risk and tax risk. Integrity risks are the risks of engaging with external institutions or persons whose background or activities, may have adverse reputational and, often, financial impact on IFC. ML/TF risks are the associated risks arising from inadequate controls and processes to manage money laundering or financing of terrorism when IFC invests with financial institutions or private equity funds. Tax risk is the risk that IFC's clients or projects may be structured so as to evade taxes or allow the adoption of aggressive tax strategies or practices.

IFC works with a wide range of clients and partners in Investment Operations, Upstream and Advisory Services activities, from multi-national to small companies, and from government institutions to non-governmental organizations. Thus, each transaction or service opportunity presents unique integrity risks, affected by different factors, including the type of engagement, financial instrument, structure, geography and duration of the engagement. IFC conducts integrity due diligence on clients and partners to manage these risks and to mitigate them where it reasonably can, both before engagement and on an ongoing basis during the engagement.

ML/TF Risk is the risk that IFC's financial intermediary clients may have ineffective controls to manage exposure to money laundering and terrorist financing risk, subjecting IFC to potential integrity, reputational, or financial risk. IFC conducts Anti-Money Laundering (AML) / Combating the Financing of Terrorism (CFT) due diligence on financial institution clients and funds in addition to its integrity due diligence to determine whether:

1. the client's AML/CFT procedures and controls are structured to comply with relevant AML/CFT standards;
2. the AML/CFT procedures and controls are appropriate for the client's business and operating environments;

IFC has been strengthening its AML capacity, through in-house trainings of its business teams and roll out of technical capacity building programs (e.g., to promote the countering of trade-based money laundering for financial institutions in developing markets).

Tax risk is the risk that IFC's clients or projects may be structured so as to evade taxes or to allow the adoption of aggressive tax strategies or practices. The World Bank Group Intermediate Jurisdiction and Tax Policy, which went into effect on January 23, 2023, reflects significant changes in the international tax landscape and the current global focus on tax transparency and responsible tax practices and applies tax due diligence to investment projects involving intermediate jurisdictions and material cross-border related party transactions. IFC has been raising awareness regarding the Policy and the corresponding processes through targeted trainings for regional and industry teams.

***External Financing Risk***

As well as using its own resources to invest in and provide advice to clients, IFC raises additional funds from public and private sector institutional investors, lenders, and donors through several different mechanisms. External financing risk is the risk that when entrusted with oversight of such funds, IFC does not meet its contractual obligations to the third parties involved.

To mitigate this risk, IFC works within agreed frameworks which establish IFC's responsibilities and obligations with respect to the third parties. For example, where financing to clients is mobilized through B Loans or MCPP, the specialized Syndications Department follows defined processes to identify co-financiers, advise on structuring, and monitor compliance with investment agreements. In some cases, financing from third parties, including donors, is administered through trust funds. IFC follows predefined procedures for clearing all IFC trust fund proposals and agreements and overseeing IFC's trust fund portfolio. Finally, AMC has an independent governance process to make decisions for the benefit of investors in AMC-managed funds and AMC compliance matters are subject to oversight by the Business Risk and Compliance Department (CBR).

## Management's Discussion and Analysis

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**SECTION VII: CRITICAL ACCOUNTING POLICIES**

IFC's accounting policies, as well as estimates made by Management, are integral to its financial reporting. Some of these accounting policies require Management to make highly difficult, complex, and subjective judgments as these relate to matters inherently uncertain and susceptible to change. Note A to IFC's FY23 consolidated financial statements contains a summary of IFC's significant accounting policies, including a discussion of recently adopted accounting standards and accounting and financial reporting developments. Certain of these policies are considered to be "critical" to the portrayal of IFC's financial condition and results of operations, since they require Management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain.

These policies include:

- Determining the fair value of equity investments, debt securities, loans, liquid assets, borrowings and derivatives;
- Determining the level of reserve against losses in the loan portfolio;
- Determining the level and nature of impairment for debt securities carried at fair value with changes in fair value being reported in other comprehensive income (OCI); and
- Determining the future pension and post-retirement benefit costs and obligations using actuarial assumptions based on financial market interest rates, past experience, and best estimate of future benefit cost changes and economic conditions.

Many of IFC's financial instruments are classified in accordance with the fair value hierarchy established by accounting standards for fair value measurements and disclosures which permit the fair value and/or impairment to be estimated based on internally developed models or methodologies utilizing significant inputs that are unobservable.

**VALUATION OF FINANCIAL INSTRUMENTS**

IFC reports at fair value all of its derivative instruments, liquid asset trading securities, equity investments, investments in debt securities and certain borrowings, and loans. In addition, various investment agreements contain embedded or stand-alone derivatives that, for accounting purposes, are separately accounted for as derivative assets or liabilities. IFC classifies all financial instruments accounted for at fair value based on the fair value hierarchy established by accounting standards for fair value measurements and disclosures as described in more detail in Notes A and R to IFC's FY23 consolidated financial statements.

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<sup>7</sup> 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 borrowings are fair valued by the Quantitative Analysis department in IFC's Treasury and Syndications Vice Presidency. Third party independent vendor prices are used to price the vast majority of IFC's liquid assets. The vendor prices are evaluated by IFC's independent middle office in Treasury department who maintains oversight for the pricing of liquid assets. All of IFC's financial instruments in its liquid assets portfolios 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.

The change in fair value of borrowings carried at fair value resulting from changes in instrument-specific credit risk is reported in OCI, while the remaining change in fair value is reported in Net Income.

Many of IFC's financial instruments accounted for at fair value are valued based on unadjusted quoted market prices or using models where the significant assumptions and inputs are market-observable. The fair values of financial instruments valued using models where the significant assumptions and inputs are not market-observable are generally estimated using complex pricing models of the net present value of estimated future cash flows. Management makes numerous assumptions in developing pricing models, including an assessment about the counterparty's financial position and prospects, the appropriate discount rates, interest rates, and related volatility and expected movement in foreign currency exchange rates. Changes in assumptions could have a significant impact on the amounts reported as assets and liabilities and the related unrealized gains and losses reported in the income statement and OCI. The fair value computations affect both the Investment services and Treasury segments of IFC (see Note S to the FY23 consolidated financial statements for further discussion of IFC's business segments).

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<sup>7</sup> Effective July 1, 2023, the Investment Valuation Unit moved to IFC's Investment and Credit Risk department.

## Management's Discussion and Analysis

**RESERVE AGAINST LOSSES ON LOANS AND OFF-BALANCE SHEET CREDIT ARRANGEMENTS**

In accordance with Accounting Standards Update 2016-13, *Measurement of Credit Losses on Financial Instruments and related amendments*, which is incorporated in ASC Topic 326, *Financial Instruments-Credit Losses* (ASC 326), IFC recognizes a reserve for credit losses that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on loans on the balance sheet. IFC uses a credit loss methodology that reflects an estimate of expected credit losses over the remaining contractual life of a loan, considering forward-looking information. The process for determining the reserve against credit losses is discussed in Note A to IFC's FY23 consolidated financial statements.

The determination of reserve against credit losses is based on complex inputs and assumptions, which require a high degree of judgment. In particular, the forecast of key economic variables relevant to the loan portfolio is one of the critical assumptions to IFC's estimation of expected credit losses. Information and events, with respect to the borrower and/or the economic and political environment in which it operates, that are considered in determining a loss reserve include, but are not limited to, the borrower's financial difficulties, assessing the risk of 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. The risks inherent in the portfolio that are considered in determining the portfolio reserve 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 a borrower's financial statements.

IFC recognizes a reserve against credit losses on off-balance sheet credit exposures for guarantees that are not measured at fair value and other off-balance sheet arrangements. Methodologies for estimating the reserve for credit losses on off-balance sheet credit exposures, including loans committed but not disbursed, are generally consistent with methodologies for estimating the reserve for credit losses for the disbursed loan portfolio.

IFC periodically reviews these variables and reassesses the adequacy of the reserve against credit losses accordingly. Actual losses may differ from expected losses owing to unforeseen changes in any of the variables affecting the creditworthiness or estimates inherent in the exposure measurements.

IFC's regional and industry departments are primarily responsible for individual loss reserve and for credit risk and facility ratings which are used for portfolio loss reserve. A critical component of portfolio loss reserve calculations are the quarterly and annual reevaluation of current expected credit loss (CECL) assumptions, which are a collective effort of the Investment & Credit Risk department, Corporate Risk Management department, Global Macro and Market Research unit, and Controllers department. The CECL Steering Committee is the final approving authority for these assumptions. The Portfolio Review unit in IFC's Controllers department provides oversight over the individual loss reserve process by monitoring and reviewing the individual loss reserve of IFC's debt portfolio, and collates inputs and runs the portfolio loss reserve calculations.

**IMPAIRMENT OF DEBT SECURITIES**

For all debt security investments classified as available-for-sale, IFC assesses impairment each quarter. In accordance with ASC 326, IFC established an impairment model to determine whether all or a portion of the unrealized loss is a credit loss, and recognizes a reserve for credit losses. When impairment is identified, the entire impairment is recognized in net income if certain conditions are met (as detailed in Note A to IFC's FY23 consolidated financial statements). IFC considers all relevant information including 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.

**PENSION AND OTHER POST-RETIREMENT BENEFITS**

IFC participates, along with IBRD and MIGA, in pension and post-retirement benefit plans that cover substantially all of their staff members. The underlying actuarial assumptions used to determine the projected benefit obligations, accumulated benefit obligations, and the funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit cost changes and economic conditions. All costs, assets and liabilities associated with the Plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the Plans. IFC reimburses IBRD for their proportionate share of any contributions made to these plans by IBRD. Contributions to the Plans are calculated as a percentage of salary. For further details, please refer to Note V to the FY23 consolidated financial statements.

## Management's Discussion and Analysis

**VIII: 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 other comprehensive income, and influences on the level and variability of net income and other comprehensive income from year to year are:

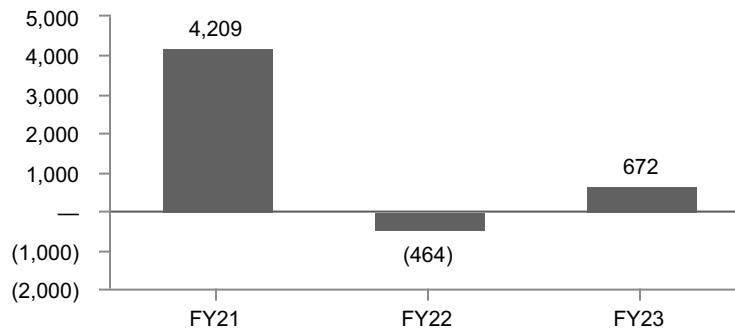
**Table 14: Main Elements of Net Income and Other Comprehensive Income**

ELEMENTS	SIGNIFICANT INFLUENCES
<b>Net income:</b>	
Yield on interest earning assets (principally loans)	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 asset 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 markets and company-specific performance for equity investments. Overall performance of the equity portfolio.
Provision for losses on loans, guarantees, and available-for-sale debt securities	Risk assessment of borrowers, probability of default, loss given default, and expected balance at default considering prepayment and disbursement assumption estimates as well as expected utilization rates.
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, 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 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.
<b>Other comprehensive income:</b>	
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 a credit loss. 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 reference rate, 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.

## Management's Discussion and Analysis

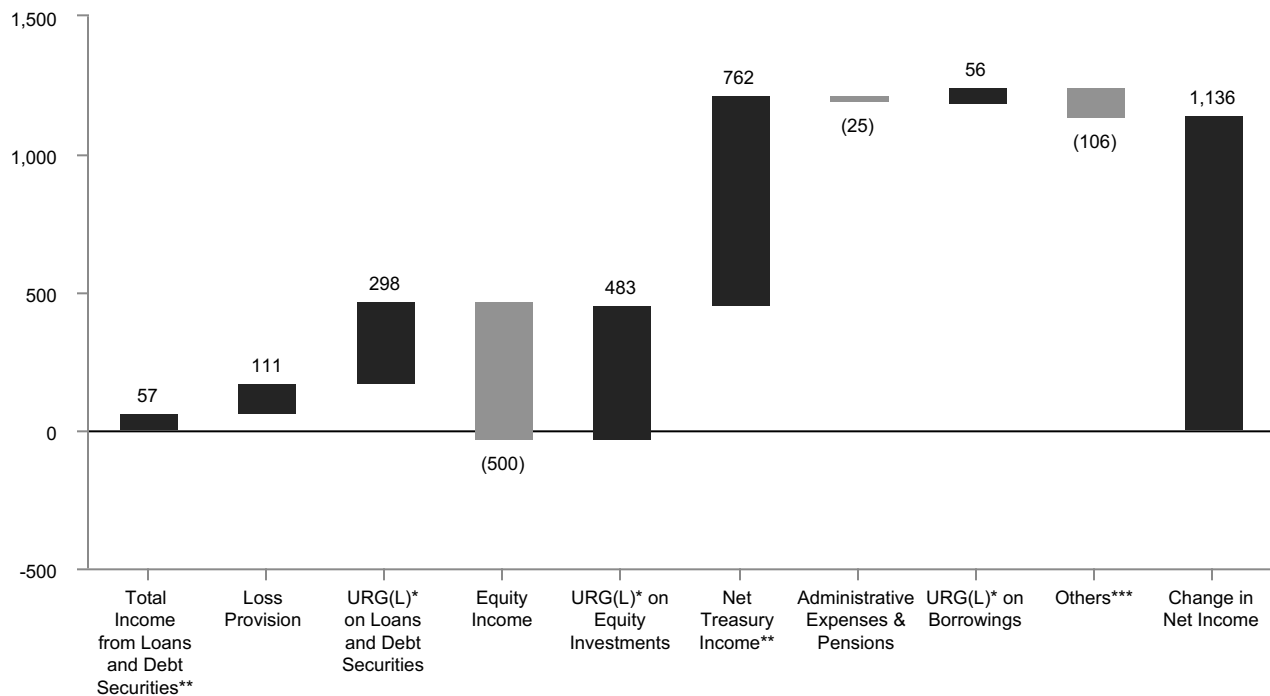
IFC's net income or loss for the past three fiscal years ended June 30, 2023 are presented below:

**Figure 21: IFC's Net Income (Loss) FY21 – FY23 (US\$ in millions)**



The following paragraphs detail significant variances between FY23 and FY22 covering the periods included in IFC FY23 consolidated financial statements. The \$1.1 billion increase in net income was principally a result of the following:

**Figure 22: Change in Net Income FY23 vs FY22 (US\$ in millions)**



\* Unrealized gains (losses).

\*\* Total income from loans and debt securities and net treasury income are net of allocated charges on borrowings.

\*\*\* Others mainly represents foreign exchange gains/losses, service fees, and net advisory service expenses.

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

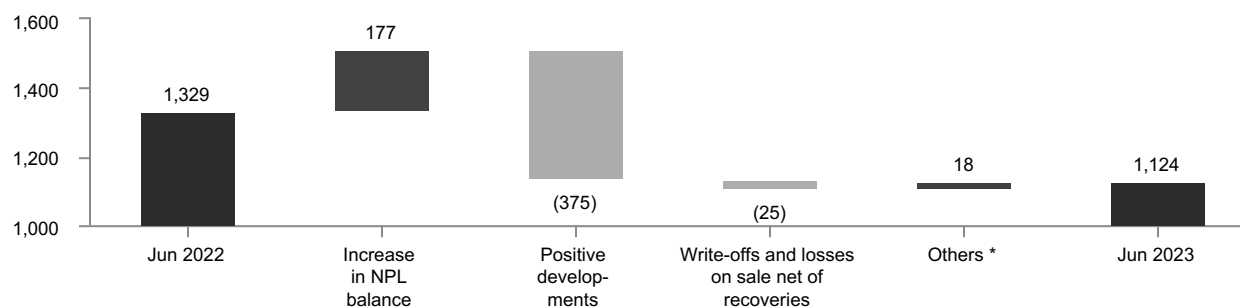
***Income from Loans and Guarantees, including Realized Gains and Losses on Loans and Associated Derivatives***

Income from loans and guarantees, including realized gains and losses on loans and associated derivatives for FY23 amounted to \$2.3 billion. This represents a significant increase of \$1.1 billion from FY22's income of \$1.2 billion, primarily attributed to higher interest rates and portfolio growth.

## Management's Discussion and Analysis

**Non-performing Loans (NPLs)**

NPLs decreased by \$205 million, from \$1.3 billion at June 30, 2022 to \$1.1 billion<sup>8</sup> at June 30, 2023. The decrease is largely due to positive developments of \$375 million, partially offset by additions of \$177 million. Included in FY23 additions were four loans individually equal to \$10 million or more with a total of \$142 million.

**Figure 23: Non-performing Loans (US\$ in millions)**

\* Mainly represents balance changes due to deferrals, restructuring, disbursements, interest capitalization, conversions and foreign exchange gains/losses.

**Provision for Losses on Loans, Off-Balance Sheet Credit Exposures and Other Receivables**

IFC recorded a net provision for losses on loans, off-balance sheet credit exposures and other receivables of \$22 million in FY23 (provision of \$126 million in FY22) analyzed as follows:

**Table 15: Individual and Portfolio Provision (Release of Provision)**

(US\$ in millions)	For the year ended	
	June 30, 2023	June 30, 2022
Portfolio provision on disbursed loans	\$ 91	\$ 41
Individual (release of provision) provision on disbursed loans	(76)	52
Portfolio (release of provision) provision on undisbursed loans	(3)	33
Release of individual provision on undisbursed loans	—	(1)
Provision on off-balance sheet credit exposures and other receivables	10	1
<b>Total</b>	<b>\$ 22</b>	<b>\$ 126</b>

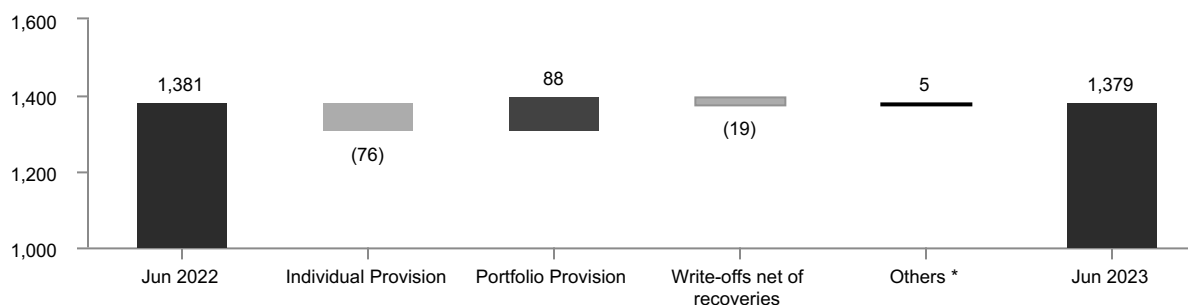
Total portfolio provision in FY23 was mainly due to new commitments and disbursements while individual portfolio release was driven by positive developments.

<sup>8</sup> Includes \$59 million reported as debt securities and \$137 million reported as loans under Fair Value Option on the Balance Sheet as of June 30, 2023 (\$60 million Debt securities and \$197 million Fair Value Option loans – June 30, 2022).

## Management's Discussion and Analysis

Total reserve against losses on loans disbursed and loans committed but not disbursed remained stable at \$1.4 billion as of June 30, 2023 analyzed as follows:

**Figure 24: Reserve against Losses for Disbursed and Undisbursed Loans (US\$ in millions)**



\* Mainly represents reserve against capitalized interest and foreign currency transaction adjustments.

At June 30, 2023, reserve against losses on disbursed loans was \$1.2 billion or 3.9% of the carrying value of disbursed loans at amortized cost, largely unchanged from June 30, 2022 (\$1.2 billion or 4.6% – June 30, 2022). Reserve against losses on undisbursed loans totaled \$170 million or 2.5% of loans committed but not disbursed (\$172 million or 2.1% – June 30, 2022), a decrease of \$2 million.

Reserve against losses as of June 30, 2023 reflected credit risk assessments as of that date. The assessment of the level of reserve against losses carried a heightened degree of uncertainty and judgment particularly in light of the impact of Russia's invasion of Ukraine. As discussed in the Executive Summary section, a qualitative overlay related to the invasion and its spillover macroeconomic impact remained at \$135 million at June 30, 2023, unchanged from June 30, 2022.

Individual reserve against losses on disbursed loans at June 30, 2023 of \$366 million (\$461 million – June 30, 2022) were held against impaired disbursed loans of \$1.2 billion (\$1.5 billion – June 30, 2022), a coverage ratio of 30.2% (31.5% – June 30, 2022).

Individual reserve against losses on undisbursed loans at June 30, 2023 of \$1 million (\$1 million – June 30, 2022) were held against undisbursed impaired loans of \$46 million (\$14 million – June 30, 2022), a coverage ratio of 2% (7% – June 30, 2022).

In FY23, the top ten largest individual provisions and top ten largest individual releases of provision account for 74% and 76% of the total individual provisions and total individual releases of provision respectively.

#### **Income from Equity Investments and Associated Derivatives**

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 comprises of both realized and unrealized gains.

Income from equity investment and associated derivatives (consisting of dividends, and net realized and unrealized gains and losses), decreased by \$17 million from \$208 million income in FY22 to \$191 million in FY23.

IFC recognized realized net gains on equity investments and associated derivatives of \$161 million in FY23, as compared to net gains of \$642 million in FY22, a decrease of \$481 million. Realized gains on equity investments and associated derivatives were concentrated in a small number of investments. In FY23, six investments generated individual realized capital gains of \$20 million or more totaling \$177 million, and five investments generated individual realized capital losses of \$20 million or more totaling \$129 million. In comparison, thirteen investments generated individual realized capital gains of \$20 million or more totaling \$668 million, and five investment generated individual realized capital losses of \$20 million or more totaling \$169 million in FY22. Dividend income in FY23 totaled \$162 million, as compared with \$180 million in FY22.

Net unrealized losses on equity investments and associated derivatives were \$134 million in FY23 compared to net unrealized losses of \$617 million in FY22. The unrealized losses in FY23 were mainly due to lower valuations, while FY22 unrealized losses reflected reclassifying gains from unrealized to realized upon sales.



## Management's Discussion and Analysis

***Income from Debt Securities and Realized Gains and Losses on Debt Securities, and Associated Derivatives***

Income from debt securities and associated derivatives increased by \$104 million from \$414 million in FY22 to \$518 million in FY23. The increase was primarily due to higher interest income which increased by \$145 million, largely driven by higher outstanding balances.

***Income (Loss) from Liquid Assets Trading Activities***

Liquid assets trading activities, gross of funding costs, generated an income of \$1.5 billion in FY23, comprising income of \$1.4 billion from the market funded liquidity portfolio, and income of \$32 million from the net worth funded portfolio.

Liquid assets trading activities, net of allocated funding costs, generated an income of \$241 million in FY23 (\$521 million loss in FY22), which comprises: (i) income of \$209 million from the market funded liquidity portfolio (\$34 million income in FY22) reflecting mainly gains from favorable movements in credit and foreign exchange basis spread movements, and (ii) income of \$32 million from the net worth funded portfolio (\$555 million loss in FY22 when U.S. Treasury yields rose rapidly).

***Charges on Borrowings***

IFC's charges on borrowings increased by \$2.3 billion, from \$302 million in FY22 to \$2.6 billion in FY23, primarily due to increases in reference rates (both SOFR and LIBOR) in FY23 compared to FY22.

The weighted average cost of IFC's outstanding borrowings from market sources, after the effects of borrowing-related derivatives, and excluding short-term borrowings from market and other sources, was 5.2% at June 30, 2023, an increase from 1.3% at June 30, 2022. The increase in cost of borrowings was predominantly due to rising interest rates. The size of the borrowings portfolio (excluding short-term borrowings), net of borrowing-related derivatives and before unamortized discounts and fair value adjustments, increased by \$3.6 billion during FY23 from \$53.1 billion at June 30, 2022, to \$56.7 billion at June 30, 2023.

***Other Income***

Other income increased by \$99 million, from \$419 million in FY22 to \$518 million in FY23 mainly driven by higher investment returns on Post-Employment Benefit Plan assets (\$55 million in FY23 compared to loss of \$17 million in FY22) and Post-retirement Contributions Reserve Fund (PCRF) income (\$15 million in FY23 compared to \$1 million in FY22).

***Other Expenses***

Administrative and pension expenses increased by \$25 million, from \$1.36 billion in FY22 to \$1.39 billion in FY23. The increase in administrative expenses by \$73 million was partially offset by the decrease in pension expenses by \$48 million. Administrative expenses increased due to higher staff costs and travel expenses. The decrease in pension expenses was driven by an increase in accretion of unrecognized actuarial gains as well as an increase in expected return on assets in Staff Retirement Plan (SRP) and Retired Staff Benefits Plan (RSBP) based on assumptions established at June 30, 2022.

***Foreign Currency Transaction Gains and Losses on Non-Trading Activities***

In FY23, IFC recorded foreign exchange related gains of \$25 million (losses of \$64 million in FY22), comprised of losses of \$86 million (gains of \$76 million in FY22) that were reported in net income, and gains of \$111 million (losses of \$140 million in FY22) that were reported in other comprehensive income. For debt securities accounted for as available-for-sale, foreign currency transaction gains or losses are recorded in other comprehensive income, while foreign currency transaction gains and losses on the derivatives economically hedging such debt securities are reported in net 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) market borrowings with associated currency or interest rate swaps; (ii) unrealized gains and losses on certain loans, debt securities and associated derivatives; and (iii) borrowings from IDA.

## Management's Discussion and Analysis

**Table 16: Net Unrealized Gains (Losses) on Non-Trading Financial Instruments**

(US\$ in millions)	For the year ended	
	June 30, 2023	June 30, 2022
Unrealized losses on the loan and debt securities portfolio carried at fair value	\$ (46)	\$ (627)
Unrealized gains on associated derivatives	221	504
<b>Unrealized gains (losses) on loans, debt securities and associated derivatives</b>	<b>175</b>	<b>(123)</b>
Unrealized gains on borrowings from market and IDA	270	3,822
Unrealized losses on associated derivatives	(320)	(3,928)
<b>Unrealized losses on borrowings from market, IDA and associated derivatives</b>	<b>(50)</b>	<b>(106)</b>
<b>Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value</b>	<b>\$ 125</b>	<b>\$ (229)</b>

IFC reported \$175 million of unrealized gains on loans, debt securities, net of associated derivatives in FY23. Unrealized losses from loans and debt securities was \$46 million in FY23 (\$627 million in FY22). Included in FY22 unrealized losses was one investment reclassified from debt security to equity investment which resulted in a reversal of unrealized gains on debt security of \$197 million. The unrealized gains on associated derivatives of \$221 million in FY23 included a \$69 million gains on lending related currency and interest rate swaps due to higher swaps rates in U.S. dollar and Euro, offset by losses on Brazilian real swaps where interest rates fell in FY23, and \$113 million gains on client risk management swaps mainly on larger Euro and U.S. dollar interest rate swaps.

IFC reported \$50 million of unrealized losses on borrowings from market sources and IDA, net of associated derivatives in FY23. This comprised \$270 million unrealized gains mainly related to market borrowings and IDA in the rising interest rate environment, and unrealized losses of \$320 million on borrowing-related derivatives. The net after-swap unrealized losses in FY23 were driven mainly by losses on Euro, and Australian dollars portfolios, offset in part by valuation gains on the Russian ruble portfolio.

**OTHER COMPREHENSIVE INCOME****Unrealized Gains and Losses on Debt Securities and Borrowings****Table 17: Other Comprehensive Income – Unrealized Gains and Losses on Debt Securities and Borrowings**

(US\$ in millions)	For the year ended	
	June 30, 2023	June 30, 2022
Net unrealized gains and losses on debt securities arising during the period:		
Unrealized gains	\$ 275	\$ 178
Unrealized losses	(155)	(432)
Reclassification adjustment for realized gains and credit related portion of impairments which were recognized in net income	(58)	(24)
<b>Net unrealized gains (losses) on debt securities</b>	<b>\$ 62</b>	<b>\$ (278)</b>
Net unrealized gains and losses attributable to instrument-specific credit risk on borrowings at fair value under the Fair Value Option:		
Unrealized gains	\$ 474	\$ 672
Unrealized losses	(536)	(433)
Reclassification adjustment for realized gains included in net income upon derecognition of borrowings	12	1
<b>Net unrealized (losses) gains on borrowings</b>	<b>\$ (50)</b>	<b>\$ 240</b>
<b>Total unrealized losses on debt securities and borrowings</b>	<b>\$ 12</b>	<b>\$ (38)</b>

Net unrealized gains on debt securities totaled \$62 million in FY23 (net unrealized losses of \$278 million in FY22) which included foreign currency gains of \$111 million on debt securities accounted for as available-for-sale. This was partially offset by a reversal of \$49 million unrealized gains for one debt security sold in FY23, which was reclassified to realized gains in net income upon sale. In FY22, the unrealized losses were primarily comprised of foreign currency losses on debt securities held in Euro (\$83 million), Turkish lira (\$88 million), and Indian rupee (\$39 million).

Net unrealized losses on borrowings of \$50 million was recognized through other comprehensive income in FY23 (net unrealized gains of \$240 million in FY22). This was driven by losses in Russian ruble and Mexican peso bond portfolios due to market price movements and in U.S. dollars due to narrowing in IFC credit spreads, offset in part by gains on Australian dollar and Euro issuance due to wider IFC credit spreads in those currencies.

## Management's Discussion and Analysis

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***Unrecognized Net Actuarial Gains and Losses and Unrecognized Prior Service Costs on Benefits Plans***

Unrecognized pension adjustments largely represent the unrecognized net actuarial gains and losses on benefit plans. Actuarial gains and losses occur when actual results differ from expected results in determining the funded status of the pension plans. Since the pension plans are long term, changes in asset returns and discount rates cause volatility in comprehensive income. Given its long-term planning horizon for pension plans, Management is focused mainly on ensuring that contributions to pension plans appropriately reflect long term assumptions about asset returns and discount rates.

During FY23, IFC recorded a gain of \$702 million (\$697 million of unrecognized net actuarial gains and a \$5 million reduction of prior service cost). The decrease in the underfunded status of the portion of the pension plans, net of PEBP assets, was primarily due to the actuarial gains in the projected benefit obligations as a result of the increase in the real discount rates. As the Plans are managed with a long-term horizon, results over shorter time periods may be impacted positively or negatively by market fluctuations.

For discussion of IFC's financial results for the year ended June 30, 2022 as compared to the year ended June 30, 2021, see Section VIII Results of Operations in IFC's Management's Discussion and Analysis and Consolidated Financial Statements for the year ended June 30, 2022.

## Management's Discussion and Analysis

**SECTION IX: GOVERNANCE AND CONTROL****SENIOR MANAGEMENT AND CHANGES**

The following is a list of the principal officers of IFC as of June 30, 2023:

President	Ajay Banga <sup>d</sup>
Managing Director	Makhtar Diop
Regional Vice President, Africa	Sérgio Pimenta
Regional Vice President, Latin America and the Caribbean, and Europe	Alfonso García Mora
Regional Vice President, Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan	Hela Cheikh Rouhou
Regional Vice President, Asia and the Pacific	Riccardo Puliti <sup>c</sup>
Vice President, Cross-Cutting Solutions	Emmanuel Nyirinkindi
Vice President, Corporate Support	Elena Bourgangskaia
Vice President, Economics and Private Sector Development	Susan M. Lund
Vice President and General Counsel, Legal and Compliance Risk	Ramit Nagpal <sup>a</sup>
Vice President, Industries	Mohamed Gouled <sup>b</sup>
Vice President, Risk and Finance	Federico Galizia <sup>b</sup>
Vice President, Treasury & Mobilization <sup>c</sup>	John Gandolfo

a On July 21, 2022, Christopher Stephens was appointed as World Bank Group Senior Vice President and General Counsel effective September 16, 2022. Leslie Sturtevant assumed the role as the acting Vice President and General Counsel, Legal and Compliance Risk, effective September 16, 2022. On October 31, 2022, Ramit Nagpal was appointed as the Vice President and General Counsel, Legal and Compliance Risk effective January 16, 2023.

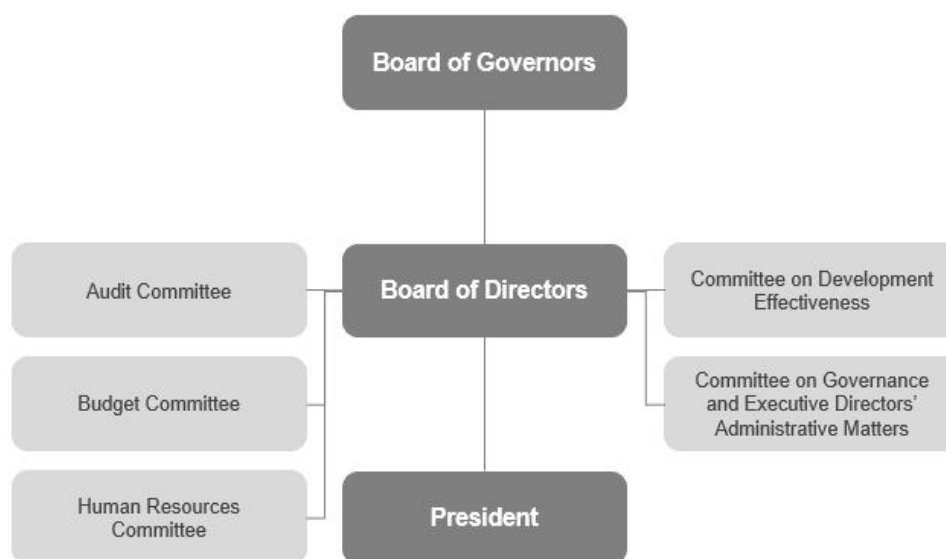
b On July 8, 2022, IFC announced the creation of a new Vice President, Industries to oversee all Global Industry Departments, as well as the Corporate Portfolio and Operations Management Departments. Mohamed Gouled was appointed as the Vice President, Industries effective July 18, 2022. Tarek S. Himmo assumed the role as the acting Vice President, Risk and Finance, effective July 18, 2022. On October 31, 2022, Federico Galizia was appointed as the Vice President, Risk and Finance effective December 23, 2022.

c On July 8, 2022, IFC announced the remapping of AMC to the Treasury & Syndications VPU and renaming it the Treasury & Mobilization VPU, effective August 1, 2022. Ruth Horowitz was appointed as the Regional Vice President for Asia and the Pacific effective August 1, 2022. On December 6, 2022, Riccardo Puliti was appointed as the Regional Vice President for Asia and the Pacific effective February 1, 2023.

d Effective June 1, 2023, David Malpass resigned as World Bank Group President. Ajay Banga was appointed as President of the World Bank Group effective June 2, 2023.

The FY23 consolidated financial statements reflect the organization structure at June 30, 2023.

**Figure 25: Governance Structure**

**BUSINESS CONDUCT**

The WBG promotes a positive work environment in which staff members understand their ethical obligations to the institutions. In support of this commitment, the institutions have in place a Code of Conduct. The WBG has both an Ethics Help Line and a Fraud and Corruption hotline. A third-party service offers many methods of worldwide communication. Reporting channels include telephone, mail, email, or confidential submission through a website.

## Management's Discussion and Analysis

IFC has procedures in place for receiving, retaining, and handling recommendations and concerns relating to business conduct identified during the accounting, internal control and auditing processes.

WBG staff rules clarify and codify the staff's obligations in reporting suspected fraud, corruption, or other misconduct that may threaten the operations or governance of the WBG. These rules also offer protection from retaliation.

**GENERAL GOVERNANCE**

IFC's decision-making structure consists of the Board of Governors, the Board of Directors (Board of Directors or Board), the President, the Managing Director, Management and staff. The Board of Governors is the highest decision-making authority. Governors are appointed by their member governments for a five-year term, which is renewable. The Board of Governors may delegate authority to the Board of Directors to exercise any of its powers, except those reserved to the Board of Governors under IFC's Articles of Agreement.

**BOARD OF DIRECTORS**

In accordance with IFC's Articles of Agreement, Directors are appointed or elected every two years by their member governments. The Board currently has 25 Directors who represent all member countries. Directors are neither officers nor staff of IFC. The President is the only member of the Board from management, and he serves as a non-voting member and as Chairman of the Board.

The Board is required to consider proposals made by the President on the use of IFC's net income: retained earnings and designation of retained earnings and on other policies that affect its general operations. The Board is also responsible for presenting to the Board of Governors, at the Annual Meetings, audited accounts, an administrative budget, and an annual report on operations and policies and on other matters.

The Board and its committees are in continuous session based in Washington DC, as business requires. Each committee's terms of reference establish its respective roles and responsibilities. As committees do not vote on issues, their role is primarily to serve the Board in discharging its responsibilities.

The committees are made up of eight members and function under their respective stipulated terms of reference. These committees are as follows:

- Audit Committee – assists the Board in overseeing IFC's finances, accounting, risk management and internal controls (*see further explanation below*).
- Budget Committee – assists the Board in approving IFC's budget and in overseeing the preparation and execution of IFC's strategy and business outlook. The committee provides guidance to management on strategic directions.
- Committee on Development Effectiveness – supports the Board in assessing IFC's development effectiveness, providing guidance on strategic directions, and monitoring the quality and results of operations.
- Committee on Governance and Executive Directors' Administrative Matters – assists the Board on issues related to governance, the Board's own effectiveness, and the administrative policy applicable to Directors' offices.
- Human Resources Committee – strengthens the efficiency and effectiveness of the Board in discharging its oversight responsibility on IFC's human resources strategy, policies and practices, and their alignment with the business needs of the organization.

**AUDIT COMMITTEE*****Membership***

The Audit Committee consists of eight Directors. Membership in the Committee is determined by the Board, based on nominations by the Chairman of the Board, following informal consultation with Directors.

***Key Responsibilities***

The Audit Committee is appointed by the Board for the primary purpose of assisting the Board in overseeing IFC's finances, accounting, risk management, internal controls and institutional integrity, specific responsibilities include:

- Oversight of the integrity of IFC's financial statements.
- Appointment, qualifications, independence and performance of the External Auditor.
- Performance of the Group Internal Audit Department.
- Adequacy and effectiveness of financial and accounting policies and internal controls and the mechanisms to deter, prevent and penalize fraud and corruption in IFC operations and corporate procurement.
- Effective management of financial, fiduciary, and compliance risks in IFC.
- Oversight of the institutional arrangements and processes for risk management across IFC.

## Management's Discussion and Analysis

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In carrying out its role, the Audit Committee discusses financial issues and policies that affect IFC's financial position and capital adequacy with Management, external auditors, and internal auditors. It recommends the annual audited financial statements for approval to the Board. The Audit Committee monitors and reviews developments in corporate governance and its own role on an ongoing basis.

### ***Executive Sessions***

Under the Audit Committee's terms of reference, it may convene in executive session at any time, without Management's presence. The Audit Committee meets separately in executive session with the external and internal auditors.

### ***Access to Resources and to Management***

Throughout the year, the Audit Committee receives a large volume of information to enable it to carry out its duties, and meets both formally and informally throughout the year to discuss relevant matters. It has complete access to Management, and reviews and discusses with Management topics considered in its terms of reference.

The Audit Committee has the authority to seek advice and assistance from outside legal, accounting, or other advisors as it deems necessary.

## **AUDITOR INDEPENDENCE**

The appointment of the external auditor for IFC is governed by a set of Board-approved principles. These include:

- Limits on the external auditor's provision of non-audit-related services
- Requiring all audit-related services to be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee, and
- Renewal of the external audit contract every five years, with a limit of two consecutive terms and mandatory rotation thereafter.

The external auditor may 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.

Communication between the external auditor and the Audit Committee is ongoing and carried out as often as deemed necessary by either party. The Audit Committee meets periodically with the external auditor and individual committee members have independent access to the external auditor. IFC's external auditors also follow the communication requirements with the Audit Committees as set out under generally accepted auditing standards in the United States.

## **EXTERNAL AUDITORS**

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.

In May 2022, IFC's Directors approved Deloitte & Touche LLP as IFC's external auditor for a second five-year term commencing in FY24.

## **INTERNAL CONTROL**

### ***Internal Control Over Financial Reporting***

Each fiscal year, Management evaluates the internal controls over financial reporting to determine whether any changes made in these controls during the fiscal year materially affect, or would be reasonably likely to materially affect IFC's internal control over financial reporting. The internal control framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Internal Control – Integrated Framework (2013)" provides guidance for designing, implementing and conducting internal control and assessing its effectiveness. IFC uses the 2013 COSO framework to assess the effectiveness of the internal control over financial reporting. As of June 30, 2023, management maintained effective internal control over financial reporting. See "Management's report regarding effectiveness of Internal Control over Financial Reporting" for additional information.

IFC's internal control over financial reporting was audited by Deloitte & Touche, LLP and their report expresses an unqualified opinion on the effectiveness of IFC's internal control over financial reporting as of June 30, 2023. See "Independent Auditor's Report" for additional information.

### ***Disclosure Controls and Procedures***

Disclosure controls and procedures are designed to ensure that information required to be disclosed is gathered and communicated to Management as appropriate, to allow timely decisions regarding required disclosure by IFC. Management conducted an evaluation of the effectiveness of such controls and procedures and the President, the Managing Director and Executive Vice President, the Vice President, Risk and Finance and the Controller have concluded that these controls and procedures were effective as of June 30, 2023.

## Management's Discussion and Analysis

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**SECTION X: APPENDIX****GLOSSARY OF TERMS**

**AMC Funds:** IFC Asset Management Company (AMC), a division of IFC effective January 31, 2020, invests third-party capital and IFC capital, enabling outside investors to invest alongside IFC in developing markets. Investors in funds managed by AMC have included sovereign wealth funds, national pension funds, multilateral and bilateral development institutions, national development agencies and international financial institutions (IFIs). These funds collectively are referred to as the AMC Funds.

**Articles:** IFC's Articles of Agreement.

**Board:** The Board of Directors as established by IFC's Articles of Agreement.

**Base of the Pyramid (BOP):** Market segment comprised of all people with income below \$8 per day in purchasing power parity or who lack access to basic goods and services.

**Capital Adequacy:** A measure of IFC's ability to withstand unexpected shocks as IFC is required to maintain a minimum level of capital available (Balance Sheet Capital less Designated Retained Earnings) equal to total potential losses for all on- and off-balance sheet exposures estimated at levels consistent with maintaining IFC's AAA rating.

**Capital Available:** Under IFC's economic capital framework, resources available to absorb potential losses, calculated as: Balance Sheet Capital less Designated Retained Earnings.

**Capital Required:** Aggregate minimum Economic Capital required to maintain IFC's AAA rating.

**Core Mobilization:** Non-IFC financing or risk sharing arranged on commercial terms due to the active and direct involvement of IFC for the benefit of a Client. A Client is a legal entity to which IFC provides Advisory Services (AS) or Investment Services (IS).

**Capital Utilization Ratio (CUR):** A ratio to measure IFC's capital adequacy expressed as Capital Required divided by Capital Available.

**Credit spread:** A credit spread is the difference in yield between two bonds of similar maturity but different credit quality.

**Economic Capital (EC):** Minimum USD amount of capital required to meet expected and unexpected losses. For Financial Product(s), calculated as Exposure at Risk (EAR) multiplied by Economic Capital Ratio for relevant product/sub-product.

**Fast Track COVID-19 Facility (COVID Facility, or FTCF):** World Bank Group package to support country and private sector clients with the health and economic impacts of COVID-19. IFC Management has allocated 40 percent of its contribution to projects in IDA/ FCS countries.

**IDA18:** IDA's Eighteenth Replenishment of Resources.

**IDA19:** IDA's Nineteenth Replenishment of Resources.

**IDA20:** IDA's Twentieth Replenishment of Resources

**IDA-eligible countries:** Countries eligible to borrow from IDA on concessional terms.

**IFC 3.0:** Creating Markets and Mobilizing Private Capital is long-term strategy that is re-orienting IFC to a more deliberate and systematic approach to market development, particularly in IDA-eligible countries and Fragile and Conflict-affected Situations, and to more proactively marshal new sources of institutional capital to support private sector solutions in pursuit of the Twin Goals.

**Income Available for Designations:** Income Available for Designations (a non-U.S. GAAP measure) is used as a basis for designations of retained earnings. Beginning in FY20, IFC uses "income excluding unrealized gains and losses on investments and borrowings" as the metric for Income Available for Designations.

**Paris Agreement:** The Paris Agreement is the universal, legally binding global climate change agreement, adopted at the Paris climate conference in December 2015. It sets out a global framework to avoid dangerous climate change by limiting global warming and aims to strengthen countries' ability to deal with the impacts of climate change and support them in their efforts.

**Spring Meetings:** The Spring Meetings of the International Monetary Fund and the Boards of Governors of the World Bank Group is a gathering that features the Development Committee and International Monetary and Financial Committee plenary session to discuss work of the institutions.

**Upstream:** Upstream activities aim to unlock and/or create new, additional investment opportunities for which IFC is both willing and likely to be a financial partner. Upstream activities comprise IFC engagements which aim to (i) Support the creation and realization of specific projects, for which IFC is a likely finance partner (Transaction Upstream); and/or have a wider market or sectoral impact to facilitate private sector investment, for which in turn IFC could be a potential financing partner (Creating Markets Upstream).

**U.S. GAAP:** Accounting principles generally accepted in the United States of America.

**UN:** United Nations.

**World Bank:** The World Bank comprises IBRD and IDA.

**World Bank Group (WBG):** The World Bank Group consists of IBRD, IDA, IFC, MIGA, and ICSID.

## Management's Discussion and Analysis

## ABBREVIATIONS AND ACRONYMS

<b>ABS</b>	: Asset-Backed Securities	<b>IFC or the Corporation</b>	: International Finance Corporation
<b>AIMM</b>	: Anticipated Impact Measurement and Monitoring	<b>IFIs</b>	: International Financial Institutions
<b>ALM</b>	: Asset Liability Management	<b>INT</b>	: Integrity Vice Presidency
<b>AML/CFT</b>	: Anti-Money Laundering/ Combating the Financing of Terrorism	<b>ISDA</b>	: International Swaps and Derivatives Association
<b>ARRC</b>	: Alternative Reference Rates Committee	<b>ITSG</b>	: Information and Technology Steering Group
<b>BFC</b>	: Blended Finance and Donor Funds Committee	<b>KRIs</b>	: key Risk Indicators
<b>CAO</b>	: Compliance Advisory/Ombudsman	<b>LCR</b>	: Liquidity Coverage Ratios
<b>CBR</b>	: Business Risk and Compliance Department	<b>LTF</b>	: Long-Term Finance
<b>CECL</b>	: Current Expected Credit Loss	<b>MBS</b>	: Mortgage-Backed Securities
<b>CEG</b>	: Sustainability and Gender Solutions Department	<b>MD</b>	: Managing Director
<b>CES</b>	: Environmental and Social Policy and Risk Department	<b>MD&amp;A</b>	: Management's Discussion and Analysis
<b>CMAW</b>	: Creating Markets Advisory Window	<b>MIGA</b>	: Multilateral Investment Guarantee Agency
<b>COSO</b>	: Committee of Sponsoring Organizations of the Treadway Commission	<b>ML/TF</b>	: Money Laundering And Terrorist Financing
<b>COVID-19</b>	: Coronavirus Disease 2019	<b>MT</b>	: IFC's Management Team
<b>CR</b>	: Credit Rating	<b>NAV</b>	: Net Asset Value
<b>CRC</b>	: Corporate Risk Committee	<b>NPLs</b>	: Non-performing Loans
<b>CRM</b>	: Client Risk Management	<b>ORM</b>	: IFC's Operational Risk Management
<b>CUR</b>	: Capital Utilization Ratio	<b>PBAC</b>	: Pension Benefits Administration Committee
<b>E&amp;S</b>	: Environmental and Social	<b>PCRF</b>	: Post-retirement Contributions Reserve Fund
<b>EBC</b>	: Ethics and Business Conduct	<b>PEBP</b>	: Post-Employment Benefit Plan
<b>ERA</b>	: Economic Resilience Action	<b>PFC</b>	: Pension Finance Committee
<b>ERM</b>	: Enterprise Risk Management Framework	<b>PPP</b>	: Public-Private Partnership
<b>ESG</b>	: Environmental, Social & Governance	<b>PRI</b>	: Political Risk Insurance
<b>ESRR</b>	: E&S Risk Rating	<b>PSW</b>	: Private Sector Window
<b>FCA</b>	: Financial Conduct Authority	<b>RA</b>	: Risk Appetite
<b>FCS</b>	: Fragile and Conflict-Affected Situations	<b>RCSA</b>	: Risk and Control Self-Assessments
<b>FMTAAS</b>	: Funding Mechanism for Technical Assistance and Advisory Services	<b>RSBP</b>	: Retired Staff Benefits Plan
<b>GCI</b>	: General Capital Increase	<b>SCI</b>	: Selective Capital Increase
<b>GP</b>	: General Partner	<b>SLAs</b>	: Service Level Agreements
<b>GTFP</b>	: Global Trade Finance Program	<b>SMEs</b>	: Small and Medium Enterprises
<b>IBOR Protocol</b>	: ISDA 2020 IBOR Fallbacks Protocol	<b>SOFR</b>	: Secured Overnight Financing Rate
<b>IBRD</b>	: International Bank for Reconstruction and Development	<b>SRP</b>	: Staff Retirement Plan
<b>ICSID</b>	: International Centre for Settlement of Investment Disputes	<b>STF</b>	: Short-Term Finance
<b>IDA</b>	: International Development Association	<b>T3PC</b>	: Tier III Project Committee
<b>IDA-PSW</b>	: IDA Private Sector Window	<b>TCFD</b>	: Task Force for Climate-Related Financial Disclosures
<b>IEG</b>	: Independent Evaluation Group	<b>VPU</b>	: Vice Presidency Unit



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# CONSOLIDATED FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS

June 30, 2023

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<b>Contents</b>	<i>Page</i>
Management's Report regarding Effectiveness of Internal Control over Financial Reporting .....	61
Independent Auditor's Report on the Effectiveness of Internal Control over Financial Reporting .....	63
Independent Auditor's Report .....	64
Consolidated Balance Sheets .....	66
Consolidated Statements of Operations .....	67
Consolidated Statements of Comprehensive Income .....	68
Consolidated Statements of Changes in Capital .....	69
Consolidated Statements of Cash Flows .....	70
Supplemental Information	
Consolidated Statement of Capital Stock and Voting Power .....	72
Notes to Consolidated Financial Statements .....	74

## Management's Report Regarding Effectiveness of Internal Control over Financial Reporting

August 4, 2023

The management of the International Finance Corporation (IFC) is responsible for the preparation, integrity, and fair presentation of its published consolidated financial statements. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and include amounts based on informed judgments and estimates made by management.

The consolidated financial statements have been audited by an independent audit firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and their Committees. Management believes that all representations made to the independent auditors during their audit of IFC's consolidated financial statements and audit of its internal control over financial reporting were valid and appropriate. The independent auditors' reports accompany the audited consolidated financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting for financial statement presentations in conformity with US GAAP. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal control over financial reporting supports the integrity and reliability of the external consolidated financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

IFC assessed its internal control over financial reporting for financial statement presentation in conformity with US GAAP as of June 30, 2023. This assessment was based on the criteria for effective internal control over financial reporting described in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IFC maintained effective internal control over financial reporting presented in conformity with US GAAP as of June 30, 2023. The independent audit firm that audited the consolidated financial statements has issued an Independent Auditors' Report which expresses an opinion on IFC's internal control over financial reporting.

The Board of Directors has appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IFC. The Audit Committee is comprised entirely of Directors who are independent of IFC's management. The Audit Committee is responsible for recommending to the Board of Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of IFC in addition to reviewing IFC's financial reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.




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Ajay Banga  
President



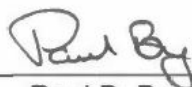
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Makhtar Diop  
Managing Director & Executive Vice President



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Federico Galizia  
Vice President, Risk and Finance



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Paul B. Bravery  
Director & Controller

## INDEPENDENT AUDITOR'S REPORT

President and Board of Directors  
International Finance Corporation

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of International Finance Corporation and its consolidated entities ("IFC") as of June 30, 2023, based on the criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, IFC maintained, in all material respects, effective internal control over financial reporting as of June 30, 2023, based on the criteria established in the *Internal Control - Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the consolidated financial statements as of and for the year ended June 30, 2023 of IFC, and our report dated August 4, 2023, expressed an unmodified opinion on those financial statements.

### Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting section of our report. We are required to be independent of IFC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for Internal Control over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report Regarding Effectiveness of Internal Control over Financial Reporting.

### Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

### Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Deloitte & Serchew*

August 4, 2023

## **INDEPENDENT AUDITOR'S REPORT**

President and Board of Directors

International Finance Corporation

### **Opinion**

We have audited the consolidated financial statements of International Finance Corporation and its consolidated entities ("IFC"), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, changes in capital and cash flows, for each of the three years in the period ended June 30, 2023, and the related notes to the consolidated financial statements (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of IFC as of June 30, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2023, in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), IFC's internal control over financial reporting as of June 30, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 4, 2023, expressed an unmodified opinion on IFC's internal control over financial reporting.

### **Basis for Opinion**

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of IFC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about IFC's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about IFC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Report on Supplemental Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated statement of capital stock and voting power as of June 30, 2023 ("supplemental information") listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This supplemental information is the responsibility of IFC's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

#### **Other Information Included in Management's Discussion and Analysis and Consolidated Financial Statements**

Management is responsible for the other information included in Management's Discussion and Analysis and Consolidated Financial Statements. The other information comprises the information included in Management's Discussion and Analysis and Consolidated Financial Statements but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Deloitte & Touche*

August 4, 2023

# CONSOLIDATED BALANCE SHEETS

as of June 30, 2023 and June 30, 2022

(US\$ in millions)	June 30, 2023	June 30, 2022
<b>Assets</b>		
Cash and due from banks – Note C	\$ 1,051	\$ 702
Time deposits – Note C	10,215	6,579
Trading securities – Notes C and R (includes \$6,446 and \$5,517 securities pledged to creditors under repurchase agreements at June 30, 2023 and June 30, 2022 respectively)	31,020	30,891
Securities purchased under resale agreements and receivable for cash collateral pledged – Notes C, R and W	5,192	8,178
Investments – Notes D, E, F, G, R and T		
Loans (includes \$1,506 and \$1,374 loans held at fair value at June 30, 2023 and June 30, 2022 respectively; net of reserve against losses of \$1,209 and \$1,209 at June 30, 2023 and June 30, 2022 respectively)		
– Notes D, E, R and T	31,414	26,223
Equity investments		
– Notes B, D, G, R and T	10,778	11,137
Debt securities – Notes D, F, R and T (includes available-for-sale securities of \$1,394 and \$1,919, with associated amortized cost of \$1,632 and \$2,219, net of reserve against credit losses of \$21 and \$14 at June 30, 2023 and June 30, 2022 respectively)	9,310	6,733
<b>Total investments</b>	<b>51,502</b>	<b>44,093</b>
Derivative assets – Notes B, C, Q, R and W	5,722	3,856
Receivables and other assets – Notes B, C, J, T and U	5,845	4,711
<b>Total assets</b>	<b>\$ 110,547</b>	<b>\$ 99,010</b>
<b>Liabilities and capital</b>		
Liabilities		
Securities sold under repurchase agreements and payable for cash collateral received – Notes C and W	\$ 6,631	\$ 6,223
Borrowings outstanding – Notes B, K and R		
From market and other sources at amortized cost	3,327	2,962
From market sources at fair value	48,873	44,963
From International Development Association at fair value	243	344
<b>Total borrowings</b>	<b>52,443</b>	<b>48,269</b>
Derivative liabilities – Notes B, C, Q, R and W	11,195	7,900
Payables and other liabilities – Notes B, C, E, L, T, U and V	5,240	3,813
<b>Total liabilities</b>	<b>75,509</b>	<b>66,205</b>
Capital		
Authorized capital, shares of \$1,000 par value each – Note M (25,079,991 shares at June 30, 2023 and June 30, 2022)		
Subscribed capital	23,939	23,611
Less: unpaid portion of subscriptions	(1,343)	(1,862)
<b>Paid-in capital</b>	<b>22,596</b>	<b>21,749</b>
Accumulated other comprehensive income (loss) – Note O	632	(82)
Retained earnings – Note O	11,810	11,138
<b>Total capital</b>	<b>35,038</b>	<b>32,805</b>
<b>Total liabilities and capital</b>	<b>\$ 110,547</b>	<b>\$ 99,010</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS

for the three years ended June 30, 2023, June 30, 2022 and June 30, 2021

(US\$ in millions)	2023	2022	2021
<b>Income from investments</b>			
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives – Note E .....	\$ 2,290	\$ 1,156	\$ 1,116
(Provision) release of provision for losses on loans, off-balance sheet credit exposures and other receivables – Note E .....	(22)	(126)	201
Income from equity investments and associated derivatives – Note G .....	191	208	3,201
Income from debt securities, including realized gains and losses on debt securities and associated derivatives – Note F .....	518	414	340
Provision for losses on available-for-sale debt securities – Note F .....	(7)	(14)	(3)
<b>Total income from investments</b> .....	<b>2,970</b>	<b>1,638</b>	<b>4,855</b>
Income (loss) from liquid asset trading activities – Note C .....	1,464	(413)	327
Charges on borrowings – Note K .....	(2,598)	(302)	(326)
<b>Income from investments and liquid asset trading activities, after charges on borrowings</b> .....	<b>1,836</b>	<b>923</b>	<b>4,856</b>
<b>Other income</b>			
Upstream and Advisory services income – Note U .....	247	233	237
Service fees .....	128	142	146
Other – Notes N .....	143	44	212
<b>Total other income</b> .....	<b>518</b>	<b>419</b>	<b>595</b>
<b>Other expenses</b>			
Administrative expenses – Note V .....	(1,430)	(1,441)	(1,355)
Upstream and Advisory services expenses – Note U .....	(317)	(287)	(277)
Other, net – Note V .....	26	75	(55)
<b>Total other expenses</b> .....	<b>(1,721)</b>	<b>(1,653)</b>	<b>(1,687)</b>
Foreign currency transaction (losses) gains on non-trading activities .....	(86)	76	(148)
<b>Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA</b> .....	<b>547</b>	<b>(235)</b>	<b>3,616</b>
Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value – Note P .....	125	(229)	806
<b>Income (loss) before grants to IDA</b> .....	<b>672</b>	<b>(464)</b>	<b>4,422</b>
Grants to IDA – Note O .....	—	—	(213)
<b>Net income (loss) – Note S</b> .....	<b>\$ 672</b>	<b>\$ (464)</b>	<b>\$ 4,209</b>



# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the three years ended June 30, 2023, June 30, 2022 and June 30, 2021

(US\$ in millions)	2023	2022	2021
<b>Net income (loss) – Note S</b>	<b>\$ 672</b>	<b>\$ (464)</b>	<b>\$ 4,209</b>
<b>Other comprehensive income</b>			
<b>Unrealized gains and losses on debt securities</b>			
Net unrealized gains (losses) on available-for-sale debt securities arising during the period	120	(254)	183
Reclassification adjustment for realized gains included in net income (income from debt securities and realized gains and losses on debt securities and associated derivatives)	(65)	(38)	(33)
Reclassification adjustment for impairments related to credit loss included in net income (Release of provision for losses on available-for-sale debt securities)	7	14	3
<b>Net unrealized gains (losses) on debt securities</b>	<b>62</b>	<b>(278)</b>	<b>153</b>
<b>Unrealized gains and losses on borrowings</b>			
Net unrealized (losses) gains arising during the period attributable to instrument-specific credit risk on borrowings at fair value under the Fair Value Option	(62)	239	(270)
Reclassification adjustment for realized gains included in net income upon derecognition of borrowings (charges on borrowings)	12	1	1
<b>Net unrealized (losses) gains on borrowings</b>	<b>(50)</b>	<b>240</b>	<b>(269)</b>
<b>Net unrecognized net actuarial gains (losses) and unrecognized prior service credits (cost) on benefit plans – Note V</b>	<b>702</b>	<b>1,074</b>	<b>982</b>
<b>Total other comprehensive income</b>	<b>714</b>	<b>1,036</b>	<b>866</b>
<b>Total comprehensive income</b>	<b>\$ 1,386</b>	<b>\$ 572</b>	<b>\$ 5,075</b>

# CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

for the three years ended June 30, 2023, June 30, 2022 and June 30, 2021

(US\$ in millions)	Undesignated retained earnings	Designated retained earnings	<b>Total retained earnings</b>	Accumulated other comprehensive income (loss) – Note O	Paid-in capital	<b>Total capital</b>
<b>At June 30, 2020</b>	<b>\$ 7,166</b>	<b>\$ 433</b>	<b>\$ 7,599</b>	<b>\$ (1,984)</b>	<b>\$ 19,567</b>	<b>\$ 25,182</b>
Cumulative effect of adoption of ASU 2016-13, effective July 1, 2020	(206)		(206)			(206)
<b>Year ended June 30, 2021</b>						
Net income	4,209		4,209			4,209
Other comprehensive income				866		866
Designation of retained earnings – Note O	(44)	44	—			—
Expenditures against designated retained earnings – Note O	270	(270)	—			—
Payments received for subscribed capital					1,193	1,193
<b>At June 30, 2021</b>	<b>\$ 11,395</b>	<b>\$ 207</b>	<b>\$ 11,602</b>	<b>\$ (1,118)</b>	<b>\$ 20,760</b>	<b>\$ 31,244</b>
<b>Year ended June 30, 2022</b>						
Net loss	(464)		(464)			(464)
Other comprehensive income				1,036		1,036
Designations of retained earnings – Note O	(161)	161	—			—
Expenditures against designated retained earnings – Note O	70	(70)	—			—
Payments received for subscribed capital					989	989
<b>At June 30, 2022</b>	<b>\$ 10,840</b>	<b>\$ 298</b>	<b>\$ 11,138</b>	<b>\$ (82)</b>	<b>\$ 21,749</b>	<b>\$ 32,805</b>
<b>Year ended June 30, 2023</b>						
Net income	672		672			672
Other comprehensive income				714		714
Designations of retained earnings – Note O	(6)	6	—			—
Expenditures against designated retained earnings – Note O	83	(83)	—			—
Payments received for subscribed capital					847	847
<b>At June 30, 2023</b>	<b>\$ 11,589</b>	<b>\$ 221</b>	<b>\$ 11,810</b>	<b>\$ 632</b>	<b>\$ 22,596</b>	<b>\$ 35,038</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

for the three years ended June 30, 2023, June 30, 2022 and June 30, 2021

(US\$ in millions)	2023	2022	2021
<b>Cash flows from investing activities</b>			
Loan disbursements	\$(13,354)	\$ (9,719)	\$ (9,277)
Investments in equity securities	(1,034)	(1,471)	(886)
Investments in debt securities	(3,818)	(1,622)	(1,117)
Loan repayments	8,209	8,286	8,282
Debt securities repayments	1,066	898	717
Proceeds from sales of loans	67	11	89
Proceeds from sales of equity investments	1,405	2,567	2,365
Proceeds from sales of debt securities	81	185	242
Loan origination fees received	65	72	54
Investment in fixed assets	(62)	(50)	(55)
<b>Net cash (used in) provided by investing activities</b>	<b>(7,375)</b>	<b>(843)</b>	<b>414</b>
<b>Cash flows from financing activities</b>			
Medium and long-term borrowings			
Issuance	19,167	14,018	18,004
Retirement	(14,393)	(15,072)	(17,329)
Change in derivatives associated with borrowings, net	(364)	(160)	(593)
Short-term borrowings, net	(308)	640	(802)
Capital subscriptions	847	1,446	734
<b>Net cash provided by financing activities</b>	<b>4,949</b>	<b>872</b>	<b>14</b>
<b>Cash flows from operating activities</b>			
Net income (loss)	672	(464)	4,209
Adjustments to reconcile net income or loss to net cash provided by (used in) operating activities:			
Realized (gains) losses on loans and associated derivatives, net	(8)	9	(14)
Realized gains on debt securities and associated derivatives, net	(75)	(112)	(57)
Gains on equity investments and related derivatives, net	(27)	(25)	(2,981)
Net realized gains on extinguishment of borrowings	(1)	(8)	(3)
Provision (release of provision)	29	140	(198)
Accretion of net discounts, premiums and loan origination fees	47	(54)	(63)
Depreciation expenses	56	71	60
Foreign currency transaction losses(gains) on non-trading activities	86	(76)	148
Net unrealized (gains) losses on non-trading financial instruments accounted for at fair value	(125)	229	(806)
Net discounts paid on retirement of borrowings	(83)	(3)	(8)
Change in accrued income on loans and debt securities (after swaps), net	(287)	(49)	69
Change in accrued expenses on borrowings (after swaps), net	498	119	(86)
Change in liquid asset trading portfolio	6,539	(9,570)	(1,114)
Change in derivatives associated with loans and client risk management, net	349	514	211
Change in payables and other liabilities	306	267	350
Change in receivables and other assets	(268)	(349)	(313)
<b>Net cash provided by (used in) operating activities</b>	<b>7,708</b>	<b>(9,361)</b>	<b>(596)</b>
Change in cash and cash equivalents	5,282	(9,332)	(168)
Effect of exchange rate changes on cash and cash equivalents	195	(368)	436
Net change in cash and cash equivalents	5,477	(9,700)	268
Beginning cash and cash equivalents	3,322	13,022	12,754
<b>Ending cash and cash equivalents</b>	<b>\$ 8,799</b>	<b>\$ 3,322</b>	<b>\$ 13,022</b>
<b>Composition of cash and cash equivalents</b>			
Cash and due from banks	1,051	702	748
Time deposits with maturities under three months	7,748	2,620	12,274
<b>Total cash and cash equivalents</b>	<b>\$ 8,799</b>	<b>\$ 3,322</b>	<b>\$ 13,022</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

for the three years ended June 30, 2023, June 30, 2022 and June 30, 2021

(US\$ in millions)	2023	2022	2021
<b>Supplemental disclosure</b>			
Change in ending balances resulting from currency exchange rate fluctuations:			
Loans outstanding .....	\$ 114	\$ (635)	\$ 383
Debt securities .....	15	(454)	106
Loan and debt security-related currency swaps .....	(115)	972	(483)
Borrowings .....	187	3,209	(1,957)
Borrowing-related currency swaps .....	(173)	(3,156)	1,940
Charges on borrowings paid, net .....	\$ 2,183	\$ 186	\$ 422
Non-cash items:			
Loan and debt security conversion to equity, net .....	\$ 101	\$ 54	\$ 36

# SUPPLEMENTAL INFORMATION: CONSOLIDATED STATEMENT OF CAPITAL STOCK AND VOTING POWER

as of June 30, 2023

(US\$ in thousands)									
Members	Capital Stock		Voting Power		Members	Capital Stock		Voting Power	
	Amount paid	Percent of total	Number of votes	Percent of total		Amount paid	Percent of total	Number of votes	Percent of total
Afghanistan	1,727	0.01	8,865	0.04	Ecuador	20,256	0.09	27,394	0.11
Albania	11,099	0.05	18,237	0.08	Egypt, Arab Republic of	102,017	0.45	109,155	0.46
Algeria	65,150	0.29	72,288	0.30	El Salvador	702	0.00	7,840	0.03
Angola	14,952	0.07	22,090	0.09	Equatorial Guinea	328	0.00	7,466	0.03
Antigua and Barbuda	99	0.00	7,237	0.03	Eritrea	7,129	0.03	14,267	0.06
Argentina	323,320	1.43	330,458	1.38	Estonia	12,176	0.05	19,314	0.08
Armenia	9,189	0.04	16,327	0.07	Eswatini	5,507	0.02	12,645	0.05
Australia	442,762	1.96	449,900	1.88	Ethiopia	2,036	0.01	9,174	0.04
Austria	182,542	0.81	189,680	0.79	Fiji	3,908	0.02	11,046	0.05
Azerbaijan	20,360	0.09	27,498	0.11	Finland	140,053	0.62	147,191	0.62
Bahamas, The	4,997	0.02	12,135	0.05	France	1,079,738	4.78	1,086,876	4.54
Bahrain	13,313	0.06	20,451	0.09	Gabon	9,668	0.04	16,806	0.07
Bangladesh	83,430	0.37	90,568	0.38	Gambia, The	717	0.00	7,855	0.03
Barbados	2,752	0.01	9,890	0.04	Georgia	12,768	0.06	19,906	0.08
Belarus	42,439	0.19	49,577	0.21	Germany	1,205,926	5.34	1,213,064	5.07
Belgium	451,559	2.00	458,697	1.92	Ghana	42,286	0.19	49,424	0.21
Belize	1,348	0.01	8,486	0.04	Greece	63,374	0.28	70,512	0.29
Benin	1,986	0.01	9,124	0.04	Grenada	1,576	0.01	8,714	0.04
Bhutan	5,490	0.02	12,628	0.05	Guatemala	8,265	0.04	15,403	0.06
Bolivia	14,502	0.06	21,640	0.09	Guinea	2,585	0.01	9,723	0.04
Bosnia and Herzegovina	7,115	0.03	14,253	0.06	Guinea-Bissau	137	0.00	7,275	0.03
Botswana	2,094	0.01	9,232	0.04	Guyana	12,119	0.05	19,257	0.08
Brazil	423,812	1.88	430,950	1.80	Haiti	6,267	0.03	13,405	0.06
Brunei Darussalam	2,503	0.01	9,641	0.04	Honduras	4,407	0.02	11,545	0.05
Bulgaria	56,666	0.25	63,804	0.27	Hungary	117,492	0.52	124,630	0.52
Burkina Faso	8,849	0.04	15,987	0.07	Iceland	2,619	0.01	9,757	0.04
Burundi	1,792	0.01	8,930	0.04	India	918,530	4.07	925,668	3.87
Cabo Verde	114	0.00	7,252	0.03	Indonesia	286,520	1.27	293,658	1.23
Cambodia	3,943	0.02	11,081	0.05	Iran, Islamic Republic of	11,010	0.05	18,148	0.08
Cameroon	6,748	0.03	13,886	0.06	Iraq	4,946	0.02	12,084	0.05
Canada	796,137	3.52	803,275	3.36	Ireland	22,493	0.10	29,631	0.12
Central African Republic	907	0.00	8,045	0.03	Israel	26,000	0.12	33,138	0.14
Chad	10,400	0.05	17,538	0.07	Italy	725,763	3.21	732,901	3.06
Chile	96,428	0.43	103,566	0.43	Jamaica	32,648	0.14	39,786	0.17
China	671,360	2.97	678,498	2.84	Japan	1,800,442	7.97	1,807,580	7.56
Colombia	126,293	0.56	133,431	0.56	Jordan	7,175	0.03	14,313	0.06
Comoros	107	0.00	7,245	0.03	Kazakhstan	35,355	0.16	42,493	0.18
Congo, Democratic Republic of	19,833	0.09	26,971	0.11	Kenya	30,811	0.14	37,949	0.16
Congo, Republic of	999	0.00	8,137	0.03	Kiribati	91	0.00	7,229	0.03
Costa Rica	9,242	0.04	16,380	0.07	Korea, Republic of	294,491	1.30	301,629	1.26
Cote d'Ivoire	39,129	0.17	46,267	0.19	Kosovo	14,231	0.06	21,369	0.09
Croatia	26,204	0.12	33,342	0.14	Kuwait	134,106	0.59	141,244	0.59
Cyprus	20,936	0.09	28,074	0.12	Kyrgyz Republic	13,114	0.06	20,252	0.08
Czechia	90,192	0.40	97,330	0.41	Lao People's Democratic Republic	2,344	0.01	9,482	0.04
Denmark	170,267	0.75	177,405	0.74	Latvia	19,183	0.08	26,321	0.11
Djibouti	160	0.00	7,298	0.03	Lebanon	1,029	0.00	8,167	0.03
Dominica	1,086	0.00	8,224	0.03	Lesotho	1,474	0.01	8,612	0.04
Dominican Republic	9,050	0.04	16,188	0.07	Liberia	633	0.00	7,771	0.03

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

# SUPPLEMENTAL INFORMATION: CONSOLIDATED STATEMENT OF CAPITAL STOCK AND VOTING POWER

as of June 30, 2023

(US\$ in thousands)									
Members	Capital Stock		Voting Power		Members	Capital Stock		Voting Power	
	Amount paid	Percent of total	Number of votes	Percent of total		Amount paid	Percent of total	Number of votes	Percent of total
Libya .....	419	0.00	7,557	0.03	Saudi Arabia .....	519,298	2.30	526,436	2.20
Lithuania .....	22,912	0.10	30,050	0.13	Senegal .....	17,986	0.08	25,124	0.11
Luxembourg .....	23,835	0.11	30,973	0.13	Serbia .....	17,306	0.08	24,444	0.10
Madagascar .....	6,834	0.03	13,972	0.06	Seychelles .....	206	0.00	7,344	0.03
Malawi .....	13,892	0.06	21,030	0.09	Sierra Leone .....	2,730	0.01	9,868	0.04
Malaysia .....	126,614	0.56	133,752	0.56	Singapore .....	8,789	0.04	15,927	0.07
Maldives .....	668	0.00	7,806	0.03	Slovak Republic .....	44,473	0.20	51,611	0.22
Mali .....	5,274	0.02	12,412	0.05	Slovenia .....	16,115	0.07	23,253	0.10
Malta .....	15,807	0.07	22,945	0.10	Solomon Islands .....	282	0.00	7,420	0.03
Marshall Islands .....	5,055	0.02	12,193	0.05	Somalia .....	633	0.00	7,771	0.03
Mauritania .....	1,632	0.01	8,770	0.04	South Africa .....	132,805	0.59	139,943	0.58
Mauritius .....	16,674	0.07	23,812	0.10	South Sudan .....	14,334	0.06	21,472	0.09
Mexico .....	232,794	1.03	239,932	1.00	Spain .....	384,897	1.70	392,035	1.64
Micronesia, Federated States of .....	5,673	0.03	12,811	0.05	Sri Lanka .....	57,116	0.25	64,254	0.27
Moldova .....	9,089	0.04	16,227	0.07	St. Kitts and Nevis .....	4,864	0.02	12,002	0.05
Mongolia .....	1,769	0.01	8,907	0.04	St. Lucia .....	564	0.00	7,702	0.03
Montenegro .....	7,891	0.03	15,029	0.06	Sudan .....	846	0.00	7,984	0.03
Morocco .....	85,967	0.38	93,105	0.39	Suriname .....	4,727	0.02	11,865	0.05
Mozambique .....	2,455	0.01	9,593	0.04	Sweden .....	234,918	1.04	242,056	1.01
Myanmar .....	5,078	0.02	12,216	0.05	Switzerland .....	386,653	1.71	393,791	1.65
Namibia .....	3,080	0.01	10,218	0.04	Syrian Arab Republic .....	1,479	0.01	8,617	0.04
Nepal .....	6,267	0.03	13,405	0.06	Tajikistan .....	9,241	0.04	16,379	0.07
Netherlands .....	497,510	2.20	504,648	2.11	Tanzania .....	8,923	0.04	16,061	0.07
New Zealand .....	47,437	0.21	54,575	0.23	Thailand .....	117,536	0.52	124,674	0.52
Nicaragua .....	6,911	0.03	14,049	0.06	Timor-Leste .....	5,924	0.03	13,062	0.05
Niger .....	1,121	0.00	8,259	0.03	Togo .....	6,161	0.03	13,299	0.06
Nigeria .....	270,840	1.20	277,978	1.16	Tonga .....	1,226	0.01	8,364	0.03
North Macedonia .....	5,932	0.03	13,070	0.05	Trinidad and Tobago .....	31,352	0.14	38,490	0.16
Norway .....	153,102	0.68	160,240	0.67	Tunisia .....	33,486	0.15	40,624	0.17
Oman .....	11,002	0.05	18,140	0.08	Türkiye .....	146,063	0.65	153,201	0.64
Pakistan .....	175,264	0.78	182,402	0.76	Turkmenistan .....	6,176	0.03	13,314	0.06
Palau .....	191	0.00	7,329	0.03	Tuvalu .....	520	0.00	7,658	0.03
Panama .....	7,678	0.03	14,816	0.06	Uganda .....	5,604	0.02	12,742	0.05
Papua New Guinea .....	8,745	0.04	15,883	0.07	Ukraine .....	77,458	0.34	84,596	0.35
Paraguay .....	3,324	0.01	10,462	0.04	United Arab Emirates .....	30,750	0.14	37,888	0.16
Peru .....	79,537	0.35	86,675	0.36	United Kingdom .....	1,079,738	4.78	1,086,876	4.54
Philippines .....	121,863	0.54	129,001	0.54	United States .....	4,341,278	19.21	4,348,416	18.18
Poland .....	74,893	0.33	82,031	0.34	Uruguay .....	27,212	0.12	34,350	0.14
Portugal .....	63,467	0.28	70,605	0.30	Uzbekistan .....	35,920	0.16	43,058	0.18
Qatar .....	12,581	0.06	19,719	0.08	Vanuatu .....	419	0.00	7,557	0.03
Romania .....	46,100	0.20	53,238	0.22	Venezuela, Republica Bolivariana de .....	210,347	0.93	217,485	0.91
Russian Federation .....	784,211	3.47	791,349	3.31	Vietnam .....	3,401	0.02	10,539	0.04
Rwanda .....	2,333	0.01	9,471	0.04	Yemen, Republic of .....	5,452	0.02	12,590	0.05
Samoa .....	1,063	0.00	8,201	0.03	Zambia .....	15,953	0.07	23,091	0.10
Sao Tome and Principe .....	3,347	0.01	10,485	0.04	Zimbabwe .....	24,513	0.11	31,651	0.13
* May differ from the sum of individual percentages shown because of rounding					Total June 30, 2023	<b>22,595,632</b>	<b>100.00*</b>	<b>23,923,300</b>	<b>100.00*</b>
					Total June 30, 2022	<b>21,749,150</b>	<b>100.00*</b>	<b>23,027,156</b>	<b>100.00*</b>

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 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, fund investments 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 POLICIES

The consolidated financial statements include the financial statements of IFC and its consolidated entities. The accounting and reporting policies of IFC conform with accounting principles generally accepted in the United States of America (U.S. GAAP). In the opinion of management, the consolidated financial statements reflect all adjustments necessary for the fair presentation of IFC's financial position and results of operations in accordance with U.S. GAAP.

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

IFC aligned the presentation of foreign currency gains and losses on borrowings with the foreign currency gains and losses on currency swaps which economically hedge those borrowings in the second quarter of the year ended June 30, 2021. This resulted in a change in classification of foreign currency gains and losses on borrowings from "Foreign currency transaction gains (losses) on non-trading activities," to "Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value". As a result of this change in classification, the impact for the year ended June 30, 2021 includes \$108 million decrease in the foreign currency loss on borrowings, and an equivalent amount of decrease in the unrealized gain on non-trading financial instruments accounted for at fair value. The change in presentation had no impact on IFC's net income and was immaterial for prior periods.

**Functional currency** – IFC's functional currency is the United States dollar (U.S. dollars, US\$ or \$).

**Use of estimates** – The preparation of the 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 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 off-balance sheet credit exposures; impairment of debt securities; estimated fair values of financial instruments accounted for at fair value (including equity investments, debt securities, loans, trading securities, borrowings and derivative instruments); projected pension 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 credit losses on loans, off-balance sheet credit exposures, and available-for-sale debt securities. 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. entities where IFC holds the majority voting rights, unless noncontrolling shareholders/limited partners have substantive participating rights or other rights that would overcome the presumption of control by the majority owner;
- 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 noncontrolling shareholders/limited partners; and
- iii. variable interest entities (VIEs) for which IFC is deemed to be the VIE's primary beneficiary (together, consolidated entities).

Significant intercompany accounts and transactions are eliminated in consolidation.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING 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** – IFC has elected the Fair Value Option under the subsections of ASC Topic 825, *Financial Instruments* (ASC 825 or the Fair Value Option) for several of its financial assets and financial liabilities. ASC 825 permits, on an instrument-by-instrument basis, the measurement of eligible financial assets, financial liabilities and firm commitments at fair value 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.

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

- i. direct equity investments which give IFC significant influence, which in the absence of FVO, would have to be accounted for under equity method and all other financial interests in the investee (e.g., guarantees, loans)
- ii. all market borrowings that are economically hedged with financial instruments accounted for at fair value with changes therein reported in income;
- iii. borrowings from IDA;

effective July 1, 2018:

- iv. substantially all investments in debt securities; and
- v. substantially all hybrid instruments in the loan investment portfolio;

All borrowings for which the FVO has been elected are economically hedged with derivative or other financial instruments accounted for at fair value with changes in fair value reported in earnings as such changes occur. Measuring at fair value those borrowings for which the FVO has been elected mitigates the earnings volatility that would otherwise occur, due to measuring the borrowings and related economic hedges differently, without having to apply ASC Topic 815, *Derivatives and Hedging* (ASC 815)'s 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 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 FVO is elected, ASC 825 requires the FVO to also be applied to all eligible financial interests in the same entity. IFC has disbursed loans and issued guarantees to some of those investees; therefore, the FVO is also applied to those loans and issued guarantees.

The FVO has been elected for substantially 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*

IFC adopted FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). 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.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and, 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 establishes 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 unobservable. 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 beginning 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** – Monetary assets and liabilities not denominated in U.S. dollars, are expressed in U.S. dollars at the exchange rates prevailing at end of each reporting period. 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 FVO as discussed above. Unrealized gains and losses on loans accounted for at fair value under the FVO are reported in Net unrealized gains and losses on non-trading financial instruments accounted for at fair value on the consolidated statement of operations.

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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 has elected to present interest income separately from other changes in the fair value of loans measured at fair value through earnings under the FVO. IFC applies cost recovery or cash method for recognizing interest income from certain debt securities and beneficial interests accounted for as debt securities whose cash flows cannot be reliably estimated.

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 consolidated balance sheet in payables and other liabilities, and credited to income only when the related principal is received. Such capitalized interest is considered in the computation of the reserve against losses on loans in the consolidated balance sheet.

Accrued interest balances are reported within receivables and other assets on the consolidated balance sheets. IFC elected not to measure expected credit losses for accrued interest receivables related to its loans and the available-for-sale securities portfolio as IFC's policy is to write-off uncollectible accrued interest receivable balances in a timely manner. Accrued interest is written off by reversing interest income during the quarter the financial asset is moved from an accrual to a nonaccrual status.

### **Reserve against losses on loans and off-balance sheet credit arrangements**

Effective July 1, 2020, pursuant to Accounting Standards Update 2016-13, *Measurement of Credit Losses on Financial Instruments and related amendments*, which is incorporated in ASC Topic 326, *Financial Instruments–Credit Losses* (ASC 326), IFC adopted ASC 326 to replace the incurred loss methodology for recognizing credit losses in place at June 30, 2020. In accordance with ASC 326, IFC recognizes a reserve for credit losses that is deducted from the amortized cost basis of the financial asset to present the net amount expected to be collected on the financial asset on the balance sheet.

In developing the estimate of expected credit losses in accordance with ASC 326, IFC introduced a credit loss methodology that reflects an estimate of expected credit losses over the remaining contractual life of a financial asset, considering forward-looking information. IFC considered the relevant inputs and assumptions required to perform the estimate. These included, but are not limited to, historical and current loan portfolio data, data relevant to current economic conditions, and data relevant to reasonable and supportable forecasts of economic conditions. Inputs and assumptions are quantitative or qualitative in nature. In particular, the forecast of key economic variables relevant to the loan portfolio is one of the critical assumptions to IFC's estimation of expected credit losses. The forecast of economic variables are credit loss drivers that produce a macro-economic response estimate of loss over the 3-year period that IFC deems to be reasonable and supportable. For periods beyond the reasonable and supportable forecast period, expected credit losses are estimated by reverting to historical loss information without adjustment for changes in economic conditions. This reversion is phased in over a one-year period on a straight-line basis. The segmentation process is based on a facility and credit rating, with certain assumptions segmented by industry. The facility rating applies to an individual investment product and provides information on the amount of loss that IFC is likely to incur on that product if the obligor defaults. IFC's forecast of expected credit losses is based on the probability of a loan defaulting associated with each credit risk rating, the expected loss percentage given a default associated with each facility risk rating, and the expected balance at the estimated date of default. The estimate of the expected balance at the time of default considers a prepayment assumption and, for loans with available credit, a disbursement assumption that estimates expected utilization rates.

The reserve against losses on loans are established through a review process undertaken on a quarterly basis and has two main components: (a) a portfolio reserve for expected losses determined from the historical loss rates, adjusted for qualitative factors, and forecasted expected losses on the segments associated with the loan class with similar risk characteristics; and (b) an individual reserve which is a separate reserve representing the reserve assigned to individually evaluated loans that do not share similar risk characteristics with other loans. IFC considers its entire loan portfolio to comprise one portfolio segment and defines the one major category of loans to be the grouping of the loan receivable based on risk characteristics and the method for monitoring and assessing credit risk. The risks inherent in the portfolio that are considered in determining the portfolio reserve 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 a borrower's financial statements.

For individual reserve, loans identified as not sharing similar risk characteristics with other assets are individually evaluated for the net amount expected to be collected and reserve is determined for them outside of the portfolio reserve computation. Information and events, with respect to the borrower and/or the economic and political environment in which it operates, that are considered in determining a loss reserve include, but are not limited to, the borrower's financial difficulties, assessing the risk of 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. Loans modified as troubled debt restructuring, as well as loans placed in nonaccrual status are individually evaluated for the net amount expected to be collected.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Individually evaluated loans are measured based on the present value of expected future cash flows to be received, or for loans that are dependent on collateral for repayment, the estimated fair value of the collateral, less the cost to sell.

IFC recognizes reserve on loans not carried at fair value in the 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. Loans are written-off along with its reserve against losses when IFC has exhausted all possible means of recovery. The reductions in the reserve are partially offset by recoveries which are considered in the reserving process, if any, associated with previously written-off loans.

In accordance with ASC 326, IFC recognizes a reserve for credit losses on off-balance sheet credit exposures for guarantees that are not measured at fair value and other off-balance sheet arrangements, primarily loans committed but not disbursed, based on expected credit losses over the contractual period in which IFC is exposed to credit risk via a present contractual obligation to extend credit, unless that obligation is unconditionally cancellable by IFC. Reserve against losses on off-balance sheet credit exposures are included within Payables and other liabilities on the consolidated balance sheets, with changes recognized through provision for losses on loans in net income. Methodologies for estimating the reserve for credit losses on off-balance sheet credit exposures, including loans committed but not disbursed, are generally consistent with methodologies for estimating the reserve for credit losses for the disbursed loan portfolio, as discussed above as applicable, but is subject to an additional parameter reflecting the likelihood that funding will occur.

**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 net income.

IFC's investments in certain private equity funds in which IFC is deemed to have a controlling financial interest, are 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 consolidated statements of operations. Realized gains on the sale or redemption of equity investments are measured against the average cost of the investments sold.

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 on 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 options, call options 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. Put options, call options and warrant 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 ASC 321 and included in "Equity investments" on the 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 consolidated statements of operations.

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

IFC has elected to present interest income separately from other changes in the fair value of debt securities measured at fair value through earnings under the FVO. Unrealized gains and losses on debt securities accounted for at fair value under the FVO are reported in "Net unrealized gains and losses on non-trading financial instruments accounted for at fair value" on the consolidated statements of operations.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 net income, these features are accounted for in accordance with ASC 815 to the extent they meet the definition of a derivative.

#### *Impairment of debt securities*

IFC adopted the guidance under ASC 326 for available-for-sale debt securities by amending the impairment model to determine whether all or a portion of the unrealized loss on such securities is a credit loss, and recognizing a reserve for credit losses, instead of recording a write-down as required by pre-ASC 326 guidance. In determining whether all or a portion of the unrealized loss on such securities is a credit loss, IFC considers all relevant information including the extent to which fair value has been less than amortized cost, whether IFC intends to sell the debt security or whether it is more likely than not that IFC will be required to sell the debt security, the payment structure of the obligation and the ability of the issuer to make scheduled interest or principal payments, any changes to the ratings of a security, and relevant adverse conditions specifically related to the security, an industry or geographic sector.

Debt securities in the investment portfolio 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 is separated into two components: (1) the credit loss component, which is recognized as a reserve for credit losses (through net income), limited to the amount by which the security's amortized cost basis exceeds the fair value, and reversal of impairment losses are allowed when the credit of the issuer improves, and (2) the noncredit related impairment losses, which are recorded in other comprehensive income.

**Guarantees** – IFC extends financial guarantee facilities to its clients to provide credit enhancement for their debt security issuances and loan 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. For guarantees that are within scope of ASC 326, the expected credit losses (the contingent liability) associated with the financial guarantee is measured and accounted for in addition to and separately from the IFC's liability recognized for the stand-ready obligation to perform. Guarantee fees are recorded in income as the stand-ready obligation to perform is fulfilled. Commitment fees on guarantees are recorded as income on an accrual basis. All liabilities associated with guarantees are included in payables and other liabilities, and the receivables are included in other assets on the consolidated balance sheet.

**Designations of retained earnings** – IFC establishes funding mechanisms for specific Board-approved purposes through designations of retained earnings. Designations of retained earnings for grants to IDA are recorded as a transfer from undesignated retained earnings to designated retained earnings when the designation is 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.

Expenditures resulting from such designations are recorded as expenses in IFC's 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.

**Liquid assets portfolios** – The liquid assets portfolios mainly 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.

Securities and related derivative instruments within IFC's liquid assets portfolios are classified as trading and, with the exception of cash equivalent securities which are carried at amortized cost, 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Cash and cash equivalents** – IFC classifies cash and due from banks as cash and time deposits with original maturities of three months or less as cash equivalents in the consolidated statement of cash flows (collectively, cash and cash equivalents) because they are generally readily convertible to known amounts of cash within three months of acquisition, generally when the original maturities for such instruments are three months or less, or six months or less when the time deposit is optionally redeemable within three months.

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

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

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

**Borrowings** – To diversify its access to funding, and reduce its borrowing costs, IFC borrows in a variety of currencies and uses a number of borrowing structures, including foreign exchange rate-linked, inverse floating rate and zero coupon notes. In managing the currency exposure inherent in borrowing in a variety of currencies, generally, IFC either simultaneously converts such borrowings into variable rate U.S. 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 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 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 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 and debt securities 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 bifurcated embedded derivatives is excluded from the carrying amount of the host contracts on the consolidated balance sheet. Changes in fair values of derivative instruments used in the liquid asset portfolio are recorded in income from liquid asset trading activities. Changes in fair values of derivative instruments other than those in the liquid asset portfolio 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 U.S. dollar or non-U.S. dollar loans into variable rate U.S. dollars. 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," in the consolidated statements of operations. Realized gains and losses associated with these activities are reported in "Income from loans and guarantees, including realized gains and losses on loans and associated derivatives.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING 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 unrealized gains and losses on non-trading financial instruments accounted for at fair value", in the consolidated statements of operations. Realized gains and losses associated with these activities are reported in "Other Income", in the consolidated statements of operations.

*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 U.S. dollar obligations, consistent with IFC's matched funding policy. IFC elects to carry at fair value, under the FVO, 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 consolidated statements of operations. Realized gains and losses associated with these activities are reported in "Charges on borrowings", in the consolidated statements 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 U.S. 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" in the consolidated statements of operations.

*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 reschedulings, 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. Changes in fair value of all derivatives associated with these activities are reported in "Net unrealized gains and losses on non-trading financial instruments accounted for at fair value," in the consolidated statements of operations. Realized gains and losses associated with these activities are reported in "Other income", in the consolidated statements of operations.

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

**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.

**Pension and other post-retirement benefits** – IBRD sponsors a Staff Retirement Plan and Trust (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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated statement of operations. The remaining components of the net periodic benefit costs allocated to IFC are included in “Other” in the consolidated statement of operations. IFC includes a receivable from IBRD in receivables and other assets, representing prepaid pension and other post-retirement benefit costs.

#### Recently adopted accounting standards

On July 1, 2020, IFC adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and related amendments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as a reserve rather than as a write-down on available-for-sale debt securities that management does not intend to sell or believes that it is more likely than not they will be required to sell.

IFC adopted ASC 326 using the modified retrospective method for financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after July 1, 2020 are presented under ASC 326. On July 1, 2020, IFC recorded the impact of adopting ASC 326 by means of a cumulative-effect adjustment to the consolidated balance sheet, and a summary of the impact is listed below:

(US\$ in millions)	Cumulative effect of adoption of ASU 2016-13, effective July 1, 2020		
	Reserve against Losses	Retained earnings	Total Capital
Increase (decrease)			
Recognizing reserve against credit losses on disbursed loans (net of release of reserve against credit losses on accrued interest of \$10 million)	\$ 58	\$ (58)	\$ (58)
Recognizing reserve against credit losses on guarantees	8	(8)	(8)
Recognizing reserve against credit losses on loans committed but not disbursed	140	(140)	(140)
<b>Total</b>	<b>\$ 206</b>	<b>\$ (206)</b>	<b>\$ (206)</b>

Reserve against credit losses on disbursed loans are reported as a contra asset, reserve against losses, to the loan balance on the consolidated balance sheets. Reserve against credit losses on guarantees and loans committed but not disbursed are reported within Payables and other liabilities on the consolidated balance sheets. Retained Earnings is included in the Capital section on the consolidated balance sheets. IFC adopted ASC 326 for available-for-sale debt securities using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to July 1, 2020.

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 by its related parties on a proportionate basis when determining if such interests could absorb more than an insignificant amount of the VIE’s variability. Previous guidance required the decision maker to consider such interests in their entirety. IFC adopted ASU 2018-17 effective July 1, 2020 with no material impact on IFC’s financial statements.

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. IFC adopted ASU 2018-15 effective July 1, 2020 with no material impact on IFC’s financial statements.

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 reasonably 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. IFC adopted ASU 2018-13 effective July 1, 2020 with no material impact on IFC’s financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In August 2018, the FASB issued ASU 2018-14, *Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* (ASU 2018-04), which amends disclosure requirements related to defined benefit pension and other post-retirement plans for annual periods. The guidance became effective for IFC's annual financial statements for the fiscal year ending June 30, 2021. The adoption of this ASU had no material impact on IFC's financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU provides temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burden of the expected market transition from LIBOR and other interbank offered rates. To be eligible for the optional expedients, modifications of contractual terms that change (or have the potential to change) the amount or timing of contractual cash flows must be related to replacement of a reference rate. The amendments in this ASU are effective upon issuance of ASU for all entities and can be implemented any time before December 31, 2022. IFC adopted the standard effective June 30, 2020 and the adoption did not have a material impact on IFC's financial statements.

In January 2021, the FASB issued ASU 2021-01 *Reference Rate Reform (Topic 848)* to amend the scope of the guidance in Topic 848 on facilitation of the effects of reference rate reform, expected market transition from LIBOR and other interbank offered rates on financial reporting. Specifically, the amendments in ASU 2021-01 clarify that "certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition." IFC adopted the standard prospectively effective March 31, 2021, as permitted by the ASU, and the adoption did not have a material impact on the financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. The amendments on the interactions between Topic 321 and Topic 323 clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. These amendments do not impact IFC because IFC has elected an FVO for direct equity investments which give IFC significant influence, which in the absence of FVO, would have to be accounted for under equity method. The amendments on the interactions between Topic 323 and Topic 815, clarify that an entity should not consider whether, upon the settlement of a nonderivative forward contract or exercise of a nonderivative purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the Fair Value Option in accordance with the financial instruments guidance in Topic 825. IFC adopted ASU 2020-01 effective July 1, 2021 with no material impact on IFC's consolidated financial statements.

In October 2020 the FASB issued ASU 2020-08 *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs*. The amendments in ASU 2020-08 affect the guidance in ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. ASU 2017-08 had shortened the required amortization period for investments in callable debt securities purchased for a premium to the earliest call date. IFC had adopted ASU 2017-08 effective July 1, 2019 and ASU 2020-08 effective July 1, 2021 with no material impact on IFC's consolidated financial statements.

In November 2021, FASB issued ASU 2021-10 *Government Assistance (Topic 832) Disclosures by Business Entities about Government Assistance*. ASU 2021-10 requires business entities to provide certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance (for example, a grant model within IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, or Subtopic 958-605, *Not-For-Profit Entities—Revenue Recognition*). ASU 2021-10 is effective for financial statements issued for annual periods beginning after December 15, 2021. Early application of the amendments is permitted. IFC adopted ASU 2021-10 effective June 30, 2023, with no material impact on IFC's consolidated financial statements.

In December 2022, FASB issued ASU 2022-06 *Reference Rate Reform (Topic 848) Deferral of the Sunset Date of Topic 848*. The amendments in this ASU defer the sunset date of ASU 848 *Reference Rate Reform* from December 31, 2022, to December 31, 2024. ASU 2022-06 is effective immediately. The ASU was effective upon issuance and the adoption did not have a material impact on IFC's financial statements.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### ***Accounting standards and regulations under evaluation***

In March 2022, the FASB issued ASU 2022-02 *Financial Instruments—Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this ASU eliminate the recognition and measurement guidance for troubled debt restructurings in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, and require reporting entities to apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. The ASU requires enhanced disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, for public business entities, the amendments in this ASU require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. IFC's adoption of ASU 2022-02, effective July 1, 2023, is not expected to have a material impact on IFC's consolidated financial statements.

In June 2022, FASB issued ASU 2022-03 *Fair Value Measurement (Topic 820) Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The amendments in this ASU clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments in this Update also require certain disclosures for equity securities subject to contractual sale restrictions. The ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. This ASU should be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. IFC is planning to early adopt ASU 2022-03 effective July 1, 2023. It is not expected to have a material impact on IFC's consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE B – RELATED PARTY TRANSACTIONS

IFC transacts with related parties including by receiving loans, participating in shared service arrangements, as well as through cost sharing of IBRD's sponsored pension and other post-retirement plans.

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

(US\$ in millions)	June 30, 2023				June 30, 2022			
	IBRD	IDA	MIGA	Total	IBRD	IDA	MIGA	Total
Services and Support Receivables (Payables)	\$ (35)	\$ —	\$ 4	\$ (31)	\$ (37)	\$ —	\$ 4	\$ (33)
PSW – Local Currency Facility <sup>a</sup>	—	50	—	50	—	11	—	11
PSW – Blended Finance Facility	—	(93)	—	(93)	—	(54)	—	(54)
Borrowings	—	(243)	—	(243)	—	(344)	—	(344)
Pension and Other Post-retirement Benefits	704	—	—	704	640	—	—	640
Post-retirement Contribution Reserve Fund <sup>b</sup>	385	—	—	385	260	—	—	260
	<b>\$ 1,054</b>	<b>\$ (286)</b>	<b>\$ 4</b>	<b>\$ 772</b>	<b>\$ 863</b>	<b>\$ (387)</b>	<b>\$ 4</b>	<b>\$ 480</b>

a Includes other payable of \$4 million related to unsettled Local Currency Facility trades that is included in other liabilities on the consolidated balance sheet as of June 30, 2023.

b 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.

#### 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 IT support services and human resource shared services. IFC makes payments for these services to IBRD based on negotiated fees and chargebacks, and allocated charges. Expenses allocated to IFC for the year ended June 30, 2023, were \$168 million (\$156 million – year ended June 30, 2022; \$144 million – year ended June 30, 2021). Other chargebacks include \$28 million for the year ended June 30, 2023 (\$26 million – year ended June 30, 2022; \$22 million – year ended June 30, 2021). These expenses are included in Administrative expenses on the consolidated statements of operations. The associated payables are included in the Payables and other liabilities on the consolidated balance sheets.

#### Fee Income from MIGA

Transactions with MIGA include marketing fees received for referral and due diligence services on jointly-developed guarantee projects. Fee income received from MIGA for the year ended June 30, 2023 were \$4 million (\$4 million – year ended June 30, 2022; \$5 million – year ended June 30, 2021) included in Other Income on the consolidated statements of operations. The associated receivables are included in Receivables and other assets on the consolidated balance sheets.

#### IDA Private Sector Window (IDA-PSW)

The Private Sector Window (PSW) was created under IDA18, to mobilize private sector investment in IDA-only countries and IDA-eligible FCS. The PSW continued under IDA's Twentieth Replenishment of Resources (IDA20), which commenced on July 1, 2022 with an initial allocation of \$2.5 billion. Under the fee arrangement for the PSW, IDA receives fee income for transactions executed under this window and reimburses IFC for the related costs incurred in administering these transactions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE B – RELATED PARTY TRANSACTIONS (continued)

#### *IDA-PSW Transactions*

(US\$ in millions)		June 30, 2023			June 30, 2022	
Facility	Description	Balance Sheet Location	USD Notional	Net Asset/ (Liability) position	USD Notional	Net Asset/ (Liability) position
Local currency	Currency swaps with IDA to support local currency denominated loans	Derivative assets/liabilities	233	54	108	11

(US\$ in millions)		June 30, 2023			June 30, 2022	
Facility	Description	Balance Sheet Location	Commitments	Carrying Value	Commitments	Carrying Value
Blended Finance	Liability for IDA-PSW synthetic equity investments	Payables and other liabilities	150	(93)	126	(54)
Blended Finance	IDA guarantees to support IFC's Guarantee Programs in IDA-PSW eligible countries	Not Applicable	1,308		655	

#### *Borrowings*

In September 2014, IFC issued an amortizing, non-interest-bearing promissory note, maturing September 15, 2039, to IDA (the Note) in exchange for \$1.2 billion. The Note requires payments totaling \$1.3 billion, 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 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. Please refer to Note K Borrowings from IDA for further details on the Note.

IFC has a Local Currency Loan Facility Agreement with IBRD, which is capped at \$300 million. As of June 30, 2023 and June 30, 2022, IFC had no borrowings outstanding under this facility.

#### *Pension and Other Post-retirement Benefits*

The receivable from IBRD represents IFC's net share of prepaid costs for pension and other post-retirement benefit plans and Post-Employment Benefits Plan (PEBP) assets included in Receivables and other assets on the consolidated balance sheets. These will be realized over the lives of the plan participants.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE B – RELATED PARTY TRANSACTIONS (continued)

#### *IFC managed AMC funds*

Asset Management Company (AMC), a division of IFC, invests third-party capital and IFC capital, enabling outside investors to invest alongside IFC in developing markets. As of June 30, 2023, AMC managed multiple funds (collectively referred to as the AMC Funds), in its capacity as General Partner (GP) / Manager of these funds, none of which require consolidation by IFC. A management fee is charged for the management services provided to the AMC funds. 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. <sup>a</sup>	61%
IFC Capitalization (Subordinated Debt) Fund, L.P.	13%
IFC African, Latin American and Caribbean Fund, LP	20%
IFC Catalyst Funds <sup>b</sup>	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 <sup>c</sup>	19%
IFC Middle East and North Africa Fund, LP	37%
Women Entrepreneurs Debt Fund, LP	26%
IFC Emerging Asia Fund, LP	22%

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

b The ownership interest of 18% reflects IFC's ownership interest taking into consideration the overall commitments for the IFC Catalyst Funds, which comprises 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.

c 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 comprises 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.

As of June 30, 2023, IFC invested \$505 million (\$531 million – June 30, 2022) as a limited partner in funds managed by AMC. These investments were included in Equity investments on the consolidated balance sheets \$23 million of management fee income was recognized in the year ended June 30, 2023 (\$29 million – year ended June 30, 2022; \$38 million – year ended June 30, 2021), which is included in other income on the consolidated statements of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE C – LIQUID ASSET PORTFOLIO

#### Composition of liquid asset portfolio

The composition of IFC's net liquid asset portfolio included in the consolidated balance sheet is as follows:

(US\$ in millions)	June 30, 2023	June 30, 2022
<b>Assets</b>		
Cash and due from banks <sup>a</sup>	\$ 43	\$ 38
Time deposits <sup>b</sup>	10,215	6,579
Trading securities	31,020	30,891
Securities purchased under resale agreements and receivable for cash collateral pledged	5,192	8,178
Derivative assets	433	1,463
Receivables and other assets:		
Receivables from sales of securities	791	940
Accrued interest income on time deposits and securities	243	102
Accrued income on derivative instruments	248	42
<b>Total assets</b>	<b>48,185</b>	<b>48,233</b>
<b>Liabilities</b>		
Securities sold under repurchase agreements and payable for cash collateral received	6,631	6,223
Derivative liabilities	241	77
Payables and other liabilities:		
Payables for purchase of securities	1,002	172
Accrued charges on derivative instruments	191	44
<b>Total liabilities</b>	<b>8,065</b>	<b>6,516</b>
<b>Total net liquid asset portfolio</b>	<b>\$ 40,120</b>	<b>\$ 41,717</b>

a Represents cash and due from banks from the liquid asset portfolio and does not include cash and due from banks from other cash accounts of \$1.0 billion and \$664 million as of June 30, 2023 and June 30, 2022 respectively.

b Includes time deposits with maturities greater than three months of \$2.5 billion and \$4.0 billion, as of June 30, 2023 and June 30, 2022 respectively.

The liquid asset portfolio is denominated primarily in U.S. dollars; investments in other currencies, net of the effect of associated derivative instruments that convert non-U.S. dollar securities into U.S. dollar securities, represent 2.1% of the portfolio at June 30, 2023 (1.0% – June 30, 2022).

#### Income (Loss) from liquid asset trading activities

Income (Loss) from liquid asset trading activities for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 comprises:

(US\$ in millions)	For the year ended June 30,		
	2023	2022	2021
Interest income, net	\$ 1,364	\$ 331	\$ 323
Net gains (losses) on asset-backed and mortgage-backed securities	21	(61)	36
Net gains (losses) on other trading securities	79	(683)	(32)
Net gains (losses) on trading activities (realized and unrealized)	100	(744)	4
<b>Total income (loss) from liquid asset trading activities</b>	<b>\$ 1,464</b>	<b>\$ (413)</b>	<b>\$ 327</b>

The annualized rate of return on the liquid asset trading portfolio, calculated as total income from the liquid asset trading activities divided by fair value average daily balance of total trading securities, during the year ended June 30, 2023, was 4.5% ((1.2)% – year ended June 30, 2022; 0.9% – year ended June 30, 2021). After the effect of associated derivative instruments, the liquid asset portfolio generally reprices within one year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE C – LIQUID ASSET PORTFOLIO (continued)

#### *Trading securities comprises*

(US\$ in millions)	Year ended June 30, 2023		At June 30, 2023		
	Fair value	average daily balance	Fair value	Weighted average contractual maturity (years)	
Government, agency and government-sponsored agency obligations	\$	21,822	\$	21,766	1.9
Asset-backed securities		6,446		5,232	22.1
Corporate securities		3,941		4,022	1.1
<b>Total trading securities</b>	<b>\$</b>	<b>32,209</b>	<b>\$</b>	<b>31,020</b>	<b>5.2</b>

(US\$ in millions)	Year ended June 30, 2022		At June 30, 2022		
	Fair value	average daily balance	Fair value	Weighted average contractual maturity (years)	
Government, agency and government-sponsored agency obligations	\$	23,948	\$	23,060	1.7
Asset-backed securities		5,049		3,825	17.9
Corporate securities		4,207		4,006	1.1
<b>Total trading securities</b>	<b>\$</b>	<b>33,204</b>	<b>\$</b>	<b>30,891</b>	<b>3.6</b>

The expected maturity of the asset-backed securities may be significantly shorter than the contractual maturity, as reported above, due to prepayment features.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE D – INVESTMENTS

The carrying value of investments at June 30, 2023 and June 30, 2022 comprises:

(US\$ in millions)	June 30, 2023	June 30, 2022
<b>Loans</b>		
Loans at amortized cost	\$ 31,117	\$ 26,058
Less: Reserve against losses on loans	(1,209)	(1,209)
Loans at amortized cost less reserve against losses	29,908	24,849
Loans accounted for at fair value under the Fair Value Option (amortized cost \$1,642 at June 30, 2023, \$1,519 at June 30, 2022)	1,506	1,374
<b>Total loans</b>	<b>31,414</b>	<b>26,223</b>
<b>Equity investments</b>		
Equity investments accounted for at fair value <sup>a b</sup> (cost \$10,331 at June 30, 2023, \$10,507 at June 30, 2022)	10,778	11,137
<b>Total equity investments</b>	<b>10,778</b>	<b>11,137</b>
<b>Debt securities</b>		
Debt securities accounted for at fair value as available-for-sale (amortized cost \$1,632 at June 30, 2023, \$2,219 at June 30, 2022)	1,394	1,919
Less: Reserve against losses on available-for sale debt securities	(21)	(14)
Debt securities, available-for-sale less reserve against losses	1,373	1,905
Debt securities accounted for at fair value under the Fair Value Option (amortized cost \$8,145 at June 30, 2023, \$4,981 at June 30, 2022)	7,937	4,828
<b>Total debt securities</b>	<b>9,310</b>	<b>6,733</b>
<b>Total carrying value of investments</b>	<b>\$ 51,502</b>	<b>\$ 44,093</b>

a Equity investments at fair value as of June 30, 2023 are comprised of investments in common or preferred shares of \$5.5 billion (\$5.8 billion – June 30, 2022), equity interests in private equity funds of \$5.2 billion (\$5.3 billion – June 30, 2022), and equity-related options and other financial instruments of \$36 million (\$11 million – June 30, 2022).

b Includes \$2 million and \$1 million for June 30, 2023 and June 30, 2022 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 CONSOLIDATED FINANCIAL STATEMENTS

### NOTE D – INVESTMENTS (continued)

The distribution of the investment portfolio by geographical region<sup>a</sup> and by industry sector and a reconciliation of total disbursed portfolio to carrying amount of investments is as follows:

Sector/Region	June 30, 2023				June 30, 2022			
	Loans	Equity investments	Debt securities	Total	Loans	Equity investments	Debt securities	Total
<b>Africa</b>								
Manufacturing, agribusiness and services	\$ 2,153	\$ 687	\$ 102	\$ 2,942	\$ 1,595	\$ 680	\$ 10	\$ 2,285
Financial markets	2,771	336	466	3,573	2,313	386	475	3,174
Infrastructure and natural resources	2,067	501	217	2,785	1,893	554	212	2,659
Disruptive technologies and funds	5	833	12	850	4	709	29	742
<b>Total Africa</b>	<b>6,996</b>	<b>2,357</b>	<b>797</b>	<b>10,150</b>	<b>5,805</b>	<b>2,329</b>	<b>726</b>	<b>8,860</b>
<b>Asia and Pacific</b>								
Manufacturing, agribusiness and services	3,176	1,141	886	5,203	3,449	1,058	764	5,271
Financial markets	4,673	687	2,170	7,530	3,526	861	1,474	5,861
Infrastructure and natural resources	1,773	202	813	2,788	1,573	334	593	2,500
Disruptive technologies and funds	5	1,558	30	1,593	6	1,291	13	1,310
<b>Total Asia and Pacific</b>	<b>9,627</b>	<b>3,588</b>	<b>3,899</b>	<b>17,114</b>	<b>8,554</b>	<b>3,544</b>	<b>2,844</b>	<b>14,942</b>
<b>Latin America and the Caribbean, and Europe</b>								
Manufacturing, agribusiness and services	3,856	311	244	4,411	2,751	312	198	3,261
Financial markets	4,568	495	2,907	7,970	4,023	579	1,784	6,386
Infrastructure and natural resources	1,906	499	364	2,769	1,748	531	69	2,348
Disruptive technologies and funds	5	834	46	885	—	754	—	754
<b>Total Latin America and the Caribbean, and Europe</b>	<b>10,335</b>	<b>2,139</b>	<b>3,561</b>	<b>16,035</b>	<b>8,522</b>	<b>2,176</b>	<b>2,051</b>	<b>12,749</b>
<b>Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan</b>								
Manufacturing, agribusiness and services	1,306	330	96	1,732	927	444	75	1,446
Financial markets	1,191	546	695	2,432	714	608	612	1,934
Infrastructure and natural resources	1,430	202	60	1,692	1,446	292	62	1,800
Disruptive technologies and funds	—	194	—	194	—	164	2	166
<b>Total Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan</b>	<b>3,927</b>	<b>1,272</b>	<b>851</b>	<b>6,050</b>	<b>3,087</b>	<b>1,508</b>	<b>751</b>	<b>5,346</b>
<b>Other</b>								
Manufacturing, agribusiness and services	467	25	—	492	723	19	—	742
Financial markets	1,534	386	440	2,360	1,008	461	495	1,964
Infrastructure and natural resources	—	21	—	21	—	50	—	50
Disruptive technologies and funds	—	583	8	591	—	461	—	461
<b>Total Other</b>	<b>2,001</b>	<b>1,015</b>	<b>448</b>	<b>3,464</b>	<b>1,731</b>	<b>991</b>	<b>495</b>	<b>3,217</b>
<b>Total disbursed investment portfolio</b>	<b>\$ 32,886</b>	<b>\$ 10,371</b>	<b>\$ 9,556</b>	<b>\$ 52,813</b>	<b>\$ 27,699</b>	<b>\$ 10,548</b>	<b>\$ 6,867</b>	<b>\$ 45,114</b>
Reserve against losses on loans and debt securities	(1,209)	—	(21)	(1,230)	(1,209)	—	(14)	(1,223)
Unamortized deferred loan origination fees, net and other	(127)	—	—	(127)	(122)	—	—	(122)
Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets	—	(36)	—	(36)	—	(37)	—	(37)
Adjustments to disbursed investment portfolio	—	—	—	—	—	—	—	—
Unrealized losses on equity investments held by consolidated VIEs	—	(4)	—	(4)	—	(4)	—	(4)
Unrealized gains on investments accounted for at fair value as available-for-sale	—	—	(17)	(17)	—	—	33	33
Unrealized (losses) gains on investments accounted for under the Fair Value Option	(136)	447	(208)	103	(145)	630	(153)	332
<b>Carrying value of investments</b>	<b>\$ 31,414</b>	<b>\$ 10,778</b>	<b>\$ 9,310</b>	<b>\$ 51,502</b>	<b>\$ 26,223</b>	<b>\$ 11,137</b>	<b>\$ 6,733</b>	<b>\$ 44,093</b>

a - Geographical regions used herein the FY23 consolidated financial statements are based on regional classifications as of June 30, 2023.

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES

#### Loans

Income from loans and guarantees, including realized gains and losses on loans and associated derivatives for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 comprise the following:

(US\$ in millions)	For the year ended June 30,		
	2023	2022	2021
Interest income	\$ 2,131	\$ 999	\$ 988
Commitment fees	56	50	40
Other financial fees	95	116	74
Realized gains (losses) on loans, guarantees and associated derivatives <sup>a</sup>	8	(9)	14
<b>Income from loans and guarantees, including realized gains and losses on loans and associated derivatives</b>	<b>\$ 2,290</b>	<b>\$ 1,156</b>	<b>\$ 1,116</b>

<sup>a</sup> Includes realized gains and losses on loans under the Fair Value Option, \$8 million realized gains for the year ended June 30, 2023; \$0 and \$2 million realized losses for the years ended June 30, 2022 and June 30, 2021, respectively.

The currency composition and weighted average contractual rate of the disbursed loan portfolio are summarized below:

(US\$ in millions, except for rates)	June 30, 2023		June 30, 2022	
	Amount	Weighted average contractual rate (%)	Amount	Weighted average contractual rate (%)
U.S. dollar	\$ 22,859	7.8	\$ 20,530	4.8
Euro	4,134	5.4	2,612	3.0
Chinese renminbi	1,429	4.6	1,389	4.8
Brazilian real	1,081	14.9	548	13.4
Indonesian rupiah	837	7.3	537	7.4
Colombian peso	523	9.2	374	7.6
South African rand	406	11.1	260	9.2
Indian rupee	284	9.2	362	8.4
Mexican peso	265	13.5	324	9.3
Thai baht	156	2.3	57	2.1
Other currencies				
OECD currencies	81	13.2	80	17.4
Non-OECD currencies	831	11.5	626	11.2
<b>Total disbursed loan portfolio</b>	<b>\$ 32,886</b>	<b>7.8</b>	<b>\$ 27,699</b>	<b>5.2</b>

After the effect of interest rate swaps and currency swaps, IFC's loans are principally denominated in variable rate U.S. dollars.

As of June 30, 2023, loans in all currencies repayable during the years ending June 30, 2024 through June 30, 2028 and thereafter, are as follows:

(US\$ in millions)	2024	2025	2026	2027	2028	Thereafter	Total
Fixed rate loans	\$ 1,472	\$ 1,908	\$ 1,580	\$ 737	\$ 665	\$ 1,571	\$ 7,933
Variable rate loans	4,586	4,836	3,924	3,430	2,919	5,258	24,953
<b>Total disbursed loan portfolio</b>	<b>\$ 6,058</b>	<b>\$ 6,744</b>	<b>\$ 5,504</b>	<b>\$ 4,167</b>	<b>\$ 3,584</b>	<b>\$ 6,829</b>	<b>\$ 32,886</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

As of June 30, 2022, loans in all currencies repayable during the years ending June 30, 2023 through June 30, 2027 and thereafter, are as follows:

(US\$ in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Fixed rate loans	\$ 1,247	\$ 927	\$ 1,599	\$ 899	\$ 531	\$ 1,666	\$ 6,869
Variable rate loans	4,246	3,491	4,034	2,623	1,861	4,575	20,830
<b>Total disbursed loan portfolio</b>	<b>\$ 5,493</b>	<b>\$ 4,418</b>	<b>\$ 5,633</b>	<b>\$ 3,522</b>	<b>\$ 2,392</b>	<b>\$ 6,241</b>	<b>\$ 27,699</b>

At June 30, 2023, 24% of the disbursed loan portfolio are fixed rate loans (25% – June 30, 2022), while the remainder are at variable rates. At June 30, 2023, the disbursed loan portfolio includes \$74 million of loans serving as collateral under secured borrowing arrangements (\$80 million – June 30, 2022).

IFC's disbursed variable rate loans generally reprice within one year.

#### **Reserve against losses on loans and provision for losses on loans**

Reserve against losses on loans as of June 30, 2023 reflects credit risk assessments as of that date. The assessment of the level of reserve against losses carried a heightened degree of judgment particularly in light of Russia's invasion of Ukraine. The impact of the invasion has been largely incorporated through IFC's rating system that classifies its loans according to creditworthiness and risk, however, as the situation is still evolving, IFC expects further impacts from the factors that have not yet been reflected in the model calculated reserve and cannot be directly attributed to any individual borrowers. As such, a qualitative overlay of \$135 million, including \$1 million on off-balance sheet guarantee exposures, was applied for estimated losses due to the invasion and its spillover macroeconomic impact in March 2022, which remained unchanged as of June 30, 2023 and June 30, 2022. The previous qualitative overlay of \$40 million related to COVID-19 was released in the year ended June 30, 2022 as IFC considered the impacts of COVID-19 were properly captured individually through its rating system.

Changes in the reserve against losses on loans disbursed and loans committed but not disbursed for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 as well as the related loans at amortized cost evaluated for impairment individually and on a pool basis (portfolio reserve) respectively, are summarized below:

(US\$ in millions)	For the year ended June 30, 2023					
	Loans Disbursed			Loans Committed but not Disbursed		
	Individual reserve	Portfolio reserve	Total reserve	Individual reserve	Portfolio reserve	Total reserve
Beginning balance	\$ 461	\$ 748	\$ 1,209	\$ 1	\$ 171	\$ 172
(Release of provision) provision for losses	(76)	91	15	—	(3)	(3)
Write-offs	(37)	—	(37)	—	—	—
Recoveries of previously written-off loans	18	—	18	—	—	—
Foreign currency transaction adjustments	(1)	6	5	—	1	1
Other adjustments <sup>a</sup>	1	(2)	(1)	—	—	—
<b>Ending balance</b>	<b>\$ 366</b>	<b>\$ 843</b>	<b>\$ 1,209</b>	<b>\$ 1</b>	<b>\$ 169</b>	<b>\$ 170</b>
Total disbursed loans at June 30, 2023	\$ 1,212	\$ 30,032	\$ 31,244			
Loans committed but not disbursed at June 30, 2023				\$ 46	\$ 6,795	\$ 6,842
Unamortized deferred loan origination fees, net and other						(127)
Loans at amortized cost						<b>\$ 31,117</b>

a Other adjustments comprise reserve against interest capitalized.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

(US\$ in millions)	For the year ended June 30, 2022					
	Loans Disbursed			Loans Committed but not Disbursed		
	Individual reserve	Portfolio reserve	Total reserve	Individual reserve	Portfolio reserve	Total reserve
Beginning balance	\$ 598	\$ 726	\$ 1,324	\$ 2	\$ 141	\$ 143
Provision (release of provision) for losses	52	41	93	(1)	33	32
Write-offs	(200)	—	(200)	—	—	—
Recoveries of previously written-off loans	3	—	3	—	—	—
Foreign currency transaction adjustments	(8)	(17)	(25)	—	(3)	(3)
Other adjustments <sup>a</sup>	16	(2)	14	—	—	—
<b>Ending balance</b>	<b>\$ 461</b>	<b>\$ 748</b>	<b>\$ 1,209</b>	<b>\$ 1</b>	<b>\$ 171</b>	<b>\$ 172</b>
Total disbursed loans at Jun 30, 2022	\$ 1,464	\$ 24,716	\$ 26,180			
Loans committed but not disbursed at June 30, 2022				\$ 14	\$ 8,158	\$ 8,172
Unamortized deferred loan origination fees, net and other			\$ (122)			
Loans at amortized cost			<u>\$ 26,058</u>			

a Other adjustments comprise reserve against interest capitalized.

(US\$ in millions)	For the year ended June 30, 2021					
	Loans Disbursed			Loans Committed but not Disbursed		
	Individual reserve	Portfolio reserve	Total reserve	Individual reserve	Portfolio reserve	Total reserve
Beginning balance	\$ 804	\$ 844	\$ 1,648	\$ —	\$ —	\$ —
Cumulative effect of adopting ASC 326	—	68	68	3	137	140
(Release of provision) provision for losses on loans, net	(2)	(193)	(195)	(1)	3	2
Write-offs	(225)	(5)	(230)	—	—	—
Foreign currency transaction adjustments	9	9	18	—	1	1
Other adjustments <sup>a</sup>	12	3	15	—	—	—
<b>Ending balance</b>	<b>\$ 598</b>	<b>\$ 726</b>	<b>\$ 1,324</b>	<b>\$ 2</b>	<b>\$ 141</b>	<b>\$ 143</b>
Total disbursed loans at Jun 30, 2021	\$ 2,242	\$ 23,510	\$ 25,752			
Loans committed but not disbursed at June 30, 2021				\$ 46	\$ 8,466	\$ 8,512
Unamortized deferred loan origination fees, net and other			\$ (114)			
Loans at amortized cost			<u>\$ 25,638</u>			

a Other adjustments comprise reserve against interest capitalized.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

#### **Reserve for losses and provision for losses on off-balance sheet guarantee exposures and other receivables**

Changes in the reserve against losses (liability) on off-balance sheet guarantee exposures for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 are summarized below :

(US\$ in millions)	For the year ended June 30,					
	2023		2022		2021	
	Outstanding Guarantees <sup>a</sup>	Issued Guarantees <sup>a</sup>	Outstanding Guarantees <sup>a</sup>	Issued Guarantees <sup>a</sup>	Outstanding Guarantees <sup>a</sup>	Issued Guarantees <sup>a</sup>
Beginning balance	\$ 11	\$ 7	\$ 11	\$ 6	\$ 29	\$ —
Cumulative effect of adopting ASC 326	—	—	—	—	—	8
Provision (Release of provision) for losses on off-balance sheet credit exposure	4	7	—	1	—	(3)
Guarantee claims paid	—	—	—	—	(18)	—
Foreign currency transaction adjustments	—	(1)	—	—	—	—
Other adjustments	—	—	—	—	—	1
<b>Ending balance</b>	<b>\$ 15</b>	<b>\$ 13</b>	<b>\$ 11</b>	<b>\$ 7</b>	<b>\$ 11</b>	<b>\$ 6</b>

a Guarantees are considered issued when IFC commits to the guarantee obligation. Guarantees are considered outstanding when the underlying financial obligation of the client is incurred.

Changes in the reserve against losses on accrued interest and other receivables for the years ended June 30, 2021, are summarized below<sup>a</sup>:

(US\$ in millions)	For the year ended June 30, 2021
Beginning balance	\$ 15
Cumulative effect of adopting ASC 326	(10)
Release of provision for losses on other receivables	(5)
<b>Ending balance</b>	<b>\$ —</b>

a The outstanding balance of other receivables is \$21 million at June 30, 2021.

There are no changes to the reserve against losses on accrued interest and other receivables for the years ended June 30, 2023 and June 30, 2022.

#### **Accrued interest**

The accrued interest balances are \$524 million and \$292 million, as of June 30, 2023 and June 30, 2022 respectively, and are reported within receivables and other assets on the consolidated balance sheets.

Accrued interest is written off by reversing interest income during the quarter the financial asset is moved from an accrual to a nonaccrual status. The amount of accrued interest receivables written off by reversing interest income is \$5 million and \$4 million for the years ended June 30, 2023 and June 30, 2022, respectively.

Accrued interest receivable is excluded from the amortized cost basis for disclosure purposes.

#### **Nonaccruing loans**

Loans at nonaccrual status without a reserve against losses at June 30, 2023 and June 30, 2022 are considered insignificant. Loans on which the accrual of interest has been discontinued amounted to \$1.1 billion at June 30, 2023 (\$1.3 billion – June 30, 2022). The interest income on such loans for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 are summarized as follows:

(US\$ in millions)	For the year ended June 30,		
	2023	2022	2021
Interest income not recognized on nonaccruing loans	\$ 139	\$ 92	\$ 188
Interest income recognized on loans in nonaccrual status related to current and prior years, on cash basis	78	65	50

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

The amortized cost in nonaccruing loans at June 30, 2023 and June 30, 2022 is summarized by geographic region and industry sector as follows:

(US\$ in millions)	June 30, 2023				
	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Disruptive technologies and funds	Total non- accruing loans at amortized cost <sup>a</sup>
Africa	\$ 196	\$ —	\$ 161	\$ 5	\$ 362
Asia and Pacific	118	7	19	—	144
Latin America and the Caribbean, and Europe	159	12	151	1	323
Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan	91	74	130	—	295
<b>Total disbursed loans<sup>b</sup></b>	<b>\$ 564</b>	<b>\$ 93</b>	<b>\$ 461</b>	<b>\$ 6</b>	<b>\$ 1,124</b>
	June 30, 2022				
(US\$ in millions)	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Disruptive technologies and funds	Total non- accruing loans at amortized cost <sup>a</sup>
Africa	\$ 221	\$ —	\$ 80	\$ 4	\$ 305
Asia and Pacific	143	10	44	—	197
Latin America and the Caribbean, and Europe	217	12	202	—	431
Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan	102	74	220	—	396
<b>Total disbursed loans<sup>b</sup></b>	<b>\$ 683</b>	<b>\$ 96</b>	<b>\$ 546</b>	<b>\$ 4</b>	<b>\$ 1,329</b>

a Includes all components of amortized cost except unamortized fees which are considered insignificant.

b Includes \$59 million reported as debt securities and \$137 million reported as loans under Fair Value Option on the Balance Sheet as of June 30, 2023 (\$60 million Debt securities and \$197 million Fair Value Option loans – June 30, 2022).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

#### Past due loans

IFC considers a loan past due when payments are more than 30 days past the contractual due date. An age analysis, based on contractual terms, of IFC's loans at amortized cost by geographic region and industry sector follows:

(US\$ in millions)	June 30, 2023					
	31-60 days past due	61-90 days past due	Greater than 90 days past due	Total past due	Current	Total loans
<b>Africa</b>						
Manufacturing, agribusiness and services	\$ —	\$ 10	\$ 90	\$ 100	\$ 1,918	\$ 2,018
Financial markets	—	1	—	1	2,736	2,737
Infrastructure and natural resources	—	—	109	109	1,710	1,819
Disruptive technologies and funds	—	—	4	4	—	4
<b>Total Africa</b>	<b>—</b>	<b>11</b>	<b>203</b>	<b>214</b>	<b>6,364</b>	<b>6,578</b>
<b>Asia and Pacific</b>						
Manufacturing, agribusiness and services	—	—	18	18	3,088	3,106
Financial markets	—	—	5	5	4,553	4,558
Infrastructure and natural resources	—	—	6	6	1,706	1,712
<b>Total Asia and Pacific</b>	<b>—</b>	<b>—</b>	<b>29</b>	<b>29</b>	<b>9,347</b>	<b>9,376</b>
<b>Latin America and the Caribbean, and Europe</b>						
Manufacturing, agribusiness and services	25	—	94	119	3,736	3,855
Financial markets	—	—	6	6	3,987	3,993
Infrastructure and natural resources	—	—	26	26	1,749	1,775
<b>Total Latin America and the Caribbean, and Europe</b>	<b>25</b>	<b>—</b>	<b>126</b>	<b>151</b>	<b>9,472</b>	<b>9,623</b>
<b>Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan</b>						
Manufacturing, agribusiness and services	—	—	12	12	1,286	1,298
Financial markets	—	23	33	56	1,019	1,075
Infrastructure and natural resources	—	—	—	—	1,305	1,305
<b>Total Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan</b>	<b>—</b>	<b>23</b>	<b>45</b>	<b>68</b>	<b>3,610</b>	<b>3,678</b>
<b>Other</b>						
Manufacturing, agribusiness and services	—	—	—	—	455	455
Financial markets	—	—	—	—	1,534	1,534
<b>Total Other</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,989</b>	<b>1,989</b>
<b>Total disbursed loans</b>	<b>\$ 25</b>	<b>\$ 34</b>	<b>\$ 403</b>	<b>\$ 462</b>	<b>\$ 30,782</b>	<b>\$ 31,244</b>
Unamortized deferred loan origination fees, net and other						(127)
<b>Loans at amortized cost</b>						<b>\$ 31,117</b>

At June 30, 2023, loans 90 days or greater past due still accruing were insignificant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

(US\$ in millions)	June 30, 2022					
	31-60 days past due	61-90 days past due	Greater than 90 days past due	Total past due	Current	Total loans
<b>Africa</b>						
Manufacturing, agribusiness and services	\$ —	\$ 18	\$ 69	\$ 87	\$ 1,358	\$ 1,445
Financial markets	—	—	—	—	2,284	2,284
Infrastructure and natural resources	—	—	5	5	1,664	1,669
Disruptive technologies and funds	—	—	4	4	—	4
<b>Total Africa</b>	<b>—</b>	<b>18</b>	<b>78</b>	<b>96</b>	<b>5,306</b>	<b>5,402</b>
<b>Asia and Pacific</b>						
Manufacturing, agribusiness and services	2	—	31	33	3,335	3,368
Financial markets	—	—	10	10	3,468	3,478
Infrastructure and natural resources	—	—	17	17	1,471	1,488
<b>Total Asia and Pacific</b>	<b>2</b>	<b>—</b>	<b>58</b>	<b>60</b>	<b>8,274</b>	<b>8,334</b>
<b>Latin America and the Caribbean, and Europe</b>						
Manufacturing, agribusiness and services	5	—	98	103	2,648	2,751
Financial markets	—	—	—	—	3,505	3,505
Infrastructure and natural resources	—	—	13	13	1,588	1,601
<b>Total Latin America and the Caribbean, and Europe</b>	<b>5</b>	<b>—</b>	<b>111</b>	<b>116</b>	<b>7,741</b>	<b>7,857</b>
<b>Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan</b>						
Manufacturing, agribusiness and services	—	—	18	18	901	919
Financial markets	—	—	33	33	642	675
Infrastructure and natural resources	—	—	52	52	1,257	1,309
<b>Total Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan</b>	<b>—</b>	<b>—</b>	<b>103</b>	<b>103</b>	<b>2,800</b>	<b>2,903</b>
<b>Other</b>						
Manufacturing, agribusiness and services	—	—	—	—	707	707
Financial markets	—	—	—	—	977	977
Infrastructure and natural resources	—	—	—	—	—	—
<b>Total Other</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,684</b>	<b>1,684</b>
<b>Total disbursed loans</b>	<b>\$ 7</b>	<b>\$ 18</b>	<b>\$ 350</b>	<b>\$ 375</b>	<b>\$ 25,805</b>	<b>\$ 26,180</b>
Unamortized deferred loan origination fees, net and other						(122)
<b>Loans at amortized cost</b>						<b>\$ 26,058</b>

At June 30, 2022, loans 90 days or greater past due still accruing were insignificant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 definition of default.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

The following tables present the loans disbursed by credit quality indicator based on risk rating and origination year at June 30, 2023 and June 30, 2022. The origination year is based on the commitment date that represents the date that the decision was made to extend credit and IFC entered into a legally binding agreement with the borrower. All subsequent loan disbursements, as well as loan modifications, extensions, and renewals for an associated loan commitment are reported based on the original commitment date:

June 30, 2023

(US\$ in millions)										
Loans at Amortized cost basis by Risk class										
Origination year	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total Contracts
FY23	\$ —	\$ 590	\$ 1,525	\$ 2,475	\$ 1,559	\$ 72	\$ 20	\$ 4	\$ —	\$ 6,245
FY22	—	470	1,186	2,255	1,471	143	—	62	—	5,587
FY21	—	66	1,456	2,608	1,409	145	21	—	10	5,715
FY20	69	—	1,129	1,196	586	257	59	91	6	3,393
FY19	—	127	295	832	782	182	18	52	52	2,340
Prior	40	222	885	1,454	2,241	427	166	189	643	6,267
<b>Total</b>	<b>\$ 109</b>	<b>\$ 1,475</b>	<b>\$ 6,476</b>	<b>\$ 10,820</b>	<b>\$ 8,048</b>	<b>\$ 1,226</b>	<b>\$ 284</b>	<b>\$ 398</b>	<b>\$ 711</b>	<b>\$ 29,547</b>
Revolving loans	—	—	—	1,569	86	—	25	—	—	1,680
Revolving contracts converted to Term contracts	—	—	7	10	—	—	—	—	—	17
<b>Total disbursed loans</b>	<b>\$ 109</b>	<b>\$ 1,475</b>	<b>\$ 6,483</b>	<b>\$ 12,399</b>	<b>\$ 8,134</b>	<b>\$ 1,226</b>	<b>\$ 309</b>	<b>\$ 398</b>	<b>\$ 711</b>	<b>\$ 31,244</b>
Unamortized deferred loan origination fees, net and other										(127)
<b>Loans at amortized cost</b>										<b>\$ 31,117</b>

June 30, 2022

(US\$ in millions)										
Loans at Amortized cost basis by Risk class										
Origination year	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total Contracts
FY22	\$ —	\$ 88	\$ 939	\$ 1,020	\$ 439	\$ 31	\$ —	\$ —	\$ 4	\$ 2,521
FY21	—	199	1,473	2,619	1,761	174	—	2	6	6,234
FY20	74	150	1,069	1,500	1,109	111	61	85	6	4,165
FY19	—	140	483	968	1,319	144	29	61	44	3,188
FY18	—	34	627	1,133	1,013	279	—	34	58	3,178
Prior	50	359	664	928	2,053	397	265	204	670	5,590
<b>Total</b>	<b>\$ 124</b>	<b>\$ 970</b>	<b>\$ 5,255</b>	<b>\$ 8,168</b>	<b>\$ 7,694</b>	<b>\$ 1,136</b>	<b>\$ 355</b>	<b>\$ 386</b>	<b>\$ 788</b>	<b>\$ 24,876</b>
Revolving loans	—	—	7	1,123	160	—	—	—	—	1,290
Revolving contracts converted to Term contracts	—	—	—	14	—	—	—	—	—	14
<b>Total disbursed loans</b>	<b>\$ 124</b>	<b>\$ 970</b>	<b>\$ 5,262</b>	<b>\$ 9,305</b>	<b>\$ 7,854</b>	<b>\$ 1,136</b>	<b>\$ 355</b>	<b>\$ 386</b>	<b>\$ 788</b>	<b>\$ 26,180</b>
Unamortized deferred loan origination fees, net and other										(122)
<b>Loans at amortized cost</b>										<b>\$ 26,058</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

Following is a summary of IFC's loans at amortized cost by credit quality indicator, geographic region, and industry sector, effective June 30, 2023 and June 30, 2022 respectively:

June 30, 2023										
(US\$ in millions)	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total
<b>Geographic Region</b>										
Africa	\$ —	\$ 25	\$ 394	\$ 1,992	\$ 3,303	\$ 313	\$ 205	\$ 137	\$ 209	\$ 6,578
Asia and Pacific	69	460	3,284	3,250	2,019	192	6	18	78	9,376
Latin America and the Caribbean, and Europe	—	517	2,515	4,255	1,497	356	98	215	170	9,623
Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan	—	—	179	1,537	1,315	365	—	28	254	3,678
Other	40	473	111	1,365	—	—	—	—	—	1,989
<b>Total geographic region</b>	<b>\$ 109</b>	<b>\$ 1,475</b>	<b>\$ 6,483</b>	<b>\$ 12,399</b>	<b>\$ 8,134</b>	<b>\$ 1,226</b>	<b>\$ 309</b>	<b>\$ 398</b>	<b>\$ 711</b>	<b>\$ 31,244</b>
Unamortized deferred loan origination fees, net and other										(127)
<b>Loans at amortized cost</b>										<b>\$ 31,117</b>

June 30, 2023										
(US\$ in millions)	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total
<b>Industry Sector</b>										
Manufacturing, agribusiness and services	\$ 109	\$ 770	\$ 2,992	\$ 4,147	\$ 1,685	\$ 339	\$ 223	\$ 145	\$ 322	\$ 10,732
Financial markets	—	638	2,626	6,676	3,686	155	28	36	52	13,897
Infrastructure and natural resources	—	67	865	1,576	2,763	732	58	217	333	6,611
Disruptive technologies and funds	—	—	—	—	—	—	—	—	4	4
<b>Total industry sector</b>	<b>\$ 109</b>	<b>\$ 1,475</b>	<b>\$ 6,483</b>	<b>\$ 12,399</b>	<b>\$ 8,134</b>	<b>\$ 1,226</b>	<b>\$ 309</b>	<b>\$ 398</b>	<b>\$ 711</b>	<b>\$ 31,244</b>
Unamortized deferred loan origination fees, net and other										(127)
<b>Loans at amortized cost</b>										<b>\$ 31,117</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE E – LOANS AND GUARANTEES (continued)

June 30, 2022											
(US\$ in millions)	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total	
<b>Geographic Region</b>											
Africa	\$ —	\$ 52	\$ 119	\$ 1,671	\$ 2,884	\$ 208	\$ 211	\$ 73	\$ 184	\$ 5,402	
Asia and Pacific	75	382	3,068	2,434	2,004	140	34	118	79	8,334	
Latin America and the Caribbean, and Europe	—	471	1,622	3,057	1,732	529	74	128	244	7,857	
Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan	—	—	175	851	1,234	259	36	67	281	2,903	
Other	49	65	278	1,292	—	—	—	—	—	1,684	
<b>Total geographic region</b>	<b>\$ 124</b>	<b>\$ 970</b>	<b>\$ 5,262</b>	<b>\$ 9,305</b>	<b>\$ 7,854</b>	<b>\$ 1,136</b>	<b>\$ 355</b>	<b>\$ 386</b>	<b>\$ 788</b>	<b>\$ 26,180</b>	
Unamortized deferred loan origination fees, net and other											(122)
<b>Loans at amortized cost</b>											<b>\$26,058</b>

June 30, 2022											
(US\$ in millions)	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak/ Special Attention	Very Weak/ Substandard	Extremely Weak/ Doubtful	Imminent Default/ Default	Total	
<b>Industry Sector</b>											
Manufacturing, agribusiness and services	\$ 124	\$ 775	\$ 2,514	\$ 2,998	\$ 1,865	\$ 283	\$ 116	\$ 94	\$ 421	\$ 9,190	
Financial markets	—	0	2,092	5,596	2,869	215	15	116	16	10,919	
Infrastructure and natural resources	—	195	656	711	3,120	638	224	176	347	6,067	
Disruptive technologies and funds	—	—	—	—	—	—	—	—	4	4	
<b>Total industry sector</b>	<b>\$ 124</b>	<b>\$ 970</b>	<b>\$ 5,262</b>	<b>\$ 9,305</b>	<b>\$ 7,854</b>	<b>\$ 1,136</b>	<b>\$ 355</b>	<b>\$ 386</b>	<b>\$ 788</b>	<b>\$ 26,180</b>	
Unamortized deferred loan origination fees, net and other											(122)
<b>Loans at amortized cost</b>											<b>\$26,058</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

Loans are modified through changes in interest rates, repayment schedules, and maturity date, in addition to reductions of loan principal and waiver of accrued interest. The following table presents information related to loan modifications, including past due amounts capitalized and written off, during the years ended June 30, 2023, June 30, 2022 and June 30, 2021 that are considered Troubled Debt Restructurings (TDRs):

(US\$ in millions)	For the year ended June 30,					
	2023		2022		2021	
	Number of TDRs	Amount	Number of TDRs	Amount	Number of TDRs	Amount
Loans modified as TDRs	20	\$ 568	31	\$ 792	46	\$ 741

Loan at amortized cost modifications considered TDRs during the years ended June 30, 2023, June 30, 2022 and June 30, 2021 is summarized by geographic region and industry sector as follows:

(US\$ in millions)	For the year ended June 30, 2023			
	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Total Loan modifications considered TDRs <sup>a</sup>
<b>Geographic Region</b>				
Africa	\$ 151	\$ —	\$ —	\$ 151
Asia and Pacific	70	9	14	93
Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan	—	—	160	160
Latin America and the Caribbean, and Europe	—	5	159	164
<b>Total geographic region</b>	<b>\$ 221</b>	<b>\$ 14</b>	<b>\$ 333</b>	<b>\$ 568</b>

(US\$ in millions)	For the year ended June 30, 2022			
	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Total Loan modifications considered TDRs <sup>a</sup>
<b>Geographic Region</b>				
Africa	\$ 112	\$ —	\$ 53	\$ 165
Asia and Pacific	106	—	24	130
Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan	—	46	240	286
Latin America and the Caribbean, and Europe	98	21	92	211
<b>Total geographic region</b>	<b>\$ 316</b>	<b>\$ 67</b>	<b>\$ 409</b>	<b>\$ 792</b>

(US\$ in millions)	For the year ended June 30, 2021			
	Manufacturing, agribusiness and services	Financial markets	Infrastructure and natural resources	Loan modifications considered TDRs <sup>a</sup>
<b>Geographic Region</b>				
Africa	\$ 152	\$ —	\$ 227	\$ 379
Asia and Pacific	158	31	—	189
Middle East, Central Asia, Türkiye, Pakistan, and Afghanistan	69	—	61	130
Latin America and the Caribbean, and Europe	36	7	—	43
<b>Total geographic region</b>	<b>\$ 415</b>	<b>\$ 38</b>	<b>\$ 288</b>	<b>\$ 741</b>

<sup>a</sup> Includes all components of amortized cost except unamortized fees which are considered insignificant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE E – LOANS AND GUARANTEES (continued)

Following is a summary of loans that defaulted during the years ended June 30, 2023, June 30, 2022 and June 30, 2021 that had been modified in a troubled debt restructuring within 12 months prior to the date of default:

(US\$ in millions, except for number of loans)	For the year ended June 30,		
	2023	2022	2021
Loan amount	\$ 137	\$ 43	\$ 70
Number of Loans	12	7	4

#### Collateral-Dependent Loans

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following tables summarize the amortized cost of collateral dependent loans<sup>a</sup> by collateral type, geographic region and industry sector as of June 30, 2023 and June 30, 2022 respectively:

(US\$ in millions)	June 30, 2023			June 30, 2022		
	Property, Land and Equipment	Others	Total	Property, Land and Equipment	Others	Total
<b>Geographic Region</b>						
Africa	\$ 2	\$ —	\$ 2	\$ 2	\$ —	\$ 2
Asia and Pacific	—	—	—	14	—	14
Latin America and the Caribbean, and Europe	3	6	9	44	—	44
<b>Total</b>	<b>\$ 5</b>	<b>\$ 6</b>	<b>\$ 11</b>	<b>\$ 60</b>	<b>\$ —</b>	<b>\$ 60</b>

(US\$ in millions)	June 30, 2023			June 30, 2022		
	Property, Land and Equipment	Others	Total	Property, Land and Equipment	Others	Total
<b>Industry Sector</b>						
Manufacturing, agribusiness and services	\$ 3	\$ —	\$ 3	\$ 8	\$ —	\$ 8
Financial markets	—	6	6	—	—	—
Infrastructure and natural resources	2	—	2	52	—	52
<b>Total</b>	<b>\$ 5</b>	<b>\$ 6</b>	<b>\$ 11</b>	<b>\$ 60</b>	<b>\$ —</b>	<b>\$ 60</b>

a Includes all components of amortized cost except unamortized fees which are considered insignificant.

#### 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 as of June 30, 2023 totaled \$5.1 billion (\$4.9 billion – June 30, 2022). Guarantees of \$4.4 billion that were outstanding (i.e., not called) at June 30, 2023 (\$4.2 billion – June 30, 2022), were not included in loans on IFC's consolidated balance sheet. The outstanding amount represents the maximum amount of undiscounted future payments that IFC could be required to make under these guarantees.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE F – DEBT SECURITIES

Income from debt securities, including realized gains on debt securities and associated derivatives for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 comprise the following:

(US\$ in millions)	For the year ended		
	June 30, 2023	June 30, 2022	June 30, 2021
Interest income	\$ 442	\$ 297	\$ 282
Dividends	1	5	1
Realized gains on debt securities and associated derivatives <sup>a</sup>	75	112	57
<b>Total income from debt securities, including realized gains on debt securities and associated derivatives</b>	<b>\$ 518</b>	<b>\$ 414</b>	<b>\$ 340</b>

<sup>a</sup> Includes realized gains on debt securities under the Fair Value Option. \$4 million, \$74 million, and \$24 million gains for the years ended June 30, 2023, June 30, 2022, and June 30, 2021, respectively.

Debt securities accounted for as available-for-sale at June 30, 2023 and June 30, 2022 comprise:

(US\$ in millions)	June 30, 2023				
	Amortized cost	Unrealized gains <sup>a</sup>	Unrealized losses <sup>a</sup>	Reserve for credit losses	Fair value
Corporate debt securities	\$ 1,304	\$ 16	\$ (194)	\$ (13)	\$ 1,113
Preferred shares	28	1	(1)	(8)	20
Asset-backed securities	300	2	(62)	—	240
<b>Total</b>	<b>\$ 1,632</b>	<b>\$ 19</b>	<b>\$ (257)</b>	<b>\$ (21)</b>	<b>\$ 1,373</b>

<sup>a</sup> Includes net foreign exchange losses of \$221 million as of June 30, 2023.

(US\$ in millions)	June 30, 2022				
	Amortized cost	Unrealized gains <sup>a</sup>	Unrealized losses <sup>a</sup>	Reserve for credit losses	Fair value
Corporate debt securities	\$ 1,722	\$ 6	\$ (293)	\$ (11)	\$ 1,424
Preferred shares	31	54	(1)	(3)	81
Asset-backed securities	466	13	(79)	—	400
<b>Total</b>	<b>\$ 2,219</b>	<b>\$ 73</b>	<b>\$ (373)</b>	<b>\$ (14)</b>	<b>\$ 1,905</b>

<sup>a</sup> Includes net foreign exchange losses of \$332 million as of June 30, 2022.

Due to non-credit related factors, reserve for credit losses were not recorded for the following available-for-sale debt securities in an unrealized loss position:

(US\$ in millions)	June 30, 2023		
	Amortized Costs	Unrealized Losses <sup>a</sup>	Fair value
Corporate debt securities	\$ 857	\$ (194)	\$ 663
Preferred shares	9	(1)	8
Asset-backed securities	225	(62)	163
<b>Total</b>	<b>\$ 1,091</b>	<b>\$ (257)</b>	<b>\$ 834</b>

<sup>a</sup> Includes net foreign exchange losses of \$217 million as of June 30, 2023.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE F – DEBT SECURITIES (continued)

(US\$ in millions)	June 30, 2022		
	Amortized Costs	Unrealized Losses <sup>a</sup>	Fair value
Corporate debt securities	\$ 1,470	\$ (293)	\$ 1,177
Preferred shares	3	(1)	2
Asset-backed securities	466	(79)	387
<b>Total</b>	<b>\$ 1,939</b>	<b>\$ (373)</b>	<b>\$ 1,566</b>

a Includes net foreign exchange losses of \$323 million as of June 30, 2022.

The following table shows the unrealized losses and fair value of debt securities at June 30, 2023 and June 30, 2022 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\$ in millions)	June 30, 2023					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debt securities	\$ —	\$ —	\$ 663	\$ (194)	\$ 663	\$ (194)
Preferred shares	7	—	1	(1)	8	(1)
Asset-backed securities	—	—	163	(62)	163	(62)
<b>Total</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 827</b>	<b>\$ (257)</b>	<b>\$ 834</b>	<b>\$ (257)</b>

(US\$ in millions)	June 30, 2022					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debt securities	\$ 400	\$ (46)	\$ 777	\$ (247)	\$ 1,177	\$ (293)
Preferred shares	2	(1)	—	—	2	(1)
Asset-backed securities	350	(7)	37	(72)	387	(79)
<b>Total</b>	<b>\$ 752</b>	<b>\$ (54)</b>	<b>\$ 814</b>	<b>\$ (319)</b>	<b>\$ 1,566</b>	<b>\$ (373)</b>

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 exchange rates. Based upon IFC's assessment of expected credit losses, a reserve for credit losses is made for securities where the issuer is not expected to make all contractual principal and interest payments.

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 expected credit losses, a reserve for credit losses is made for securities where IFC does not expect to recover the cost basis of these securities.

Asset-backed securities comprise investments in bonds and notes that are collateralized by self-liquidating financial assets that allows IFC to receive payments that depend primarily on cash flow from those assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE F – DEBT SECURITIES (continued)

The tables below present a roll-forward by major security type for the years ended June 30, 2023 and June 30, 2022 of the reserve for credit losses on debt securities held at the period end:

(US\$ in millions)	For the year ended								
	June 30, 2023			June 30, 2022			June 30, 2021		
	Corporate Debt Securities	Preferred shares	Total	Corporate Debt Securities	Preferred shares	Total	Corporate Debt Securities	Preferred shares	Total
<b>Beginning balance</b>	\$ 11	\$ 3	\$ 14	\$ —	\$ 3	\$ 3	\$ —	\$ —	\$ —
Provision for losses	2	5	7	11	3	14	—	3	3
Write-offs	—	—	—	—	(3)	(3)	—	—	—
<b>Ending balance</b>	<b>\$ 13</b>	<b>\$ 8</b>	<b>\$ 21</b>	<b>\$ 11</b>	<b>\$ 3</b>	<b>\$ 14</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 3</b>

As of June 30, 2023, debt securities with contractual maturities that are accounted for as available-for-sale have contractual maturities during the years ending June 30, 2024 through June 30, 2028 and thereafter, as follows:

(US\$ in millions)	2024	2025	2026	2027	2028	Thereafter	Total
Corporate debt securities	\$ 288	\$ 395	\$ 63	\$ 255	\$ 133	\$ 11	\$ 1,145
Asset-backed securities	144	58	21	15	—	—	238
<b>Total disbursed portfolio of debt securities with contractual maturities</b>	<b>\$ 432</b>	<b>\$ 453</b>	<b>\$ 84</b>	<b>\$ 270</b>	<b>\$ 133</b>	<b>\$ 11</b>	<b>\$ 1,383</b>

As of June 30, 2022, debt securities with contractual maturities that are accounted for as available-for-sale have contractual maturities during the years ending June 30, 2023 through June 30, 2027 and thereafter, as follows:

(US\$ in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Corporate debt securities	\$ 370	\$ 270	\$ 399	\$ 64	\$ 251	\$ 141	\$ 1,495
Asset-backed securities	110	155	58	22	15	—	360
<b>Total disbursed portfolio of debt securities with contractual maturities</b>	<b>\$ 480</b>	<b>\$ 425</b>	<b>\$ 457</b>	<b>\$ 86</b>	<b>\$ 266</b>	<b>\$ 141</b>	<b>\$ 1,855</b>

The expected maturity of asset-backed securities may differ from the contractual maturity, as reported above, due to prepayment features. In addition, IFC has \$28 million of redeemable preferred shares and other debt securities with undefined maturities (\$31 million – June 30, 2022).

The currency composition and weighted average contractual rate of debt securities with contractual maturities that are accounted for as available-for-sale are summarized below:

(US\$ in millions, except for ratios)	June 30, 2023		June 30, 2022	
	Amount	Weighted average contractual rate (%)	Amount	Weighted average contractual rate (%)
U.S. dollar	\$ 457	7.8	\$ 572	4.7
Euro	417	5.9	400	3.1
Indian rupee	275	8.0	584	7.7
Colombian peso	187	14.5	195	8.6
South African rand	22	11.3	28	11.3
Türkish lira	21	14.7	64	15.0
C.F.A. Francs BCEAO	4	6.0	5	6.0
Chilean peso	—	—	7	7.6
<b>Total disbursed portfolio of debt securities with contractual maturities</b>	<b>\$ 1,383</b>	<b>8.3</b>	<b>\$ 1,855</b>	<b>6.2</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE F – DEBT SECURITIES (continued)

After the effect of interest rate swaps and currency swaps, IFC's debt securities that are accounted for as available-for-sale are primarily denominated in variable rate U.S. dollars.

#### *Nonaccruing debt securities*

Debt securities on which the accrual of interest has been discontinued amounted to \$59 million at June 30, 2023 (\$60 million – June 30, 2022). The interest income on such debt securities for the year ended June 30, 2023, June 30, 2022 and June 30, 2021 is summarized as follows:

(US\$ in millions)	For the year ended		
	June 30, 2023	June 30, 2022	June 30, 2021
Interest income not recognized on nonaccruing debt securities	\$ 1	\$ 3	\$ 12
Interest income recognized on debt securities in nonaccrual status related to current and prior years, on a cash basis	—	1	3

### NOTE G – EQUITY INVESTMENTS AND ASSOCIATED DERIVATIVES

Income from equity investments and associated derivatives for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 comprises the following:

(US\$ in millions)	For the year ended		
	June 30, 2023	June 30, 2022	June 30, 2021
Unrealized (losses) gains on equity investments and associated derivatives <sup>a</sup>	\$ (134)	\$ (617)	\$ 2,550
Realized gains on equity investments and associated derivatives, net	161	642	431
Gains (losses) on equity investments and associated derivatives, net <sup>b</sup>	27	25	2,981
Dividends	162	180	218
Custody, fees and other	2	3	2
<b>Total income (loss) from equity investments and associated derivatives</b>	<b>\$ 191</b>	<b>\$ 208</b>	<b>\$ 3,201</b>

a Including unrealized gains and losses related to equity securities still held at June 30, 2023 – net gains of \$115 million for the year ended June 30, 2023 (net losses of \$42 million - June 30, 2022 and net gains of \$2.7 billion - June 30, 2021).

b Includes gains of \$119 million for the year ended June 30, 2023 (gains of \$234 million – June 30, 2022 and \$1.9 billion – June 30, 2021) from equity investments for which IFC has elected a Fair Value Option.

Equity investments include several private equity funds that invest primarily in emerging markets across a range of sectors and that are accounted for at fair value under the Fair Value Option. 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 \$5.2 billion as of June 30, 2023 (\$5.3 billion – June 30, 2022). These investments cannot be redeemed. Distributions will be received from these funds as the underlying assets are liquidated or distributed, the timing of which is uncertain. As of June 30, 2023, the maximum unfunded commitments subject to capital calls for these funds are \$1.6 billion (\$1.9 billion – June 30, 2022). As of June 30, 2023, IFC invested \$505 million (\$531 million – June 30, 2022) as a limited partner in funds managed by AMC. Amounts previously distributed by the AMC Funds may be callable through the life of the respective fund. The sale of IFC's limited partner interests in these funds needs prior consent from the other limited partners.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE H – INVESTMENT TRANSACTIONS COMMITTED BUT NOT DISBURSED OR UTILIZED

Loan, equity and debt security commitments signed but not yet disbursed, and guarantee and client risk management facilities signed but not yet utilized are summarized below:

(US\$ in millions)	June 30, 2023	June 30, 2022
<b>Investment transactions committed but not disbursed:</b>		
Loans, equity investments and debt securities	\$ 11,090	\$ 12,643
<b>Investment transactions committed but not utilized:</b>		
Guarantees	747	724
Client risk management facilities	202	177
<b>Total investment transactions committed but not disbursed or utilized</b>	<b>\$ 12,039</b>	<b>\$ 13,544</b>

The disbursements of investment transactions committed but not disbursed or utilized are generally subject to fulfillment of conditions of disbursement.

### NOTE I – LOAN PARTICIPATIONS

Loan participations signed as commitments for which disbursement has not yet been made and loan participations disbursed and outstanding which are serviced by IFC for participants are as follows:

(US\$ in millions)	June 30, 2023	June 30, 2022
Loan participations signed as commitments but not disbursed	\$ 785	\$ 1,314
Loan participations disbursed and outstanding which are serviced by IFC	7,784	7,297

### NOTE J – RECEIVABLES AND OTHER ASSETS

Receivables and other assets are summarized below:

(US\$ in millions)	June 30, 2023	June 30, 2022
Accrued income on derivative instruments	\$ 1,131	\$ 535
Receivables from sales of securities	791	940
Pension and other post-retirement benefits receivable from IBRD	704	640
Accrued interest income on loans	524	292
Post-retirement contribution reserve fund	385	260
Assets under retirement benefit plans	246	106
Accrued interest income on time deposits and securities	243	102
Fixed assets	1,346	1,287
Less: Accumulated depreciation	(819)	(766)
<b>Fixed assets, net</b>	<b>527</b>	<b>521</b>
Deferred charges and other assets	1,294	1,315
<b>Total receivables and other assets</b>	<b>\$ 5,845</b>	<b>\$ 4,711</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE K – BORROWINGS

#### *Market borrowings and associated derivatives*

IFC's borrowings outstanding from market sources and currency and interest rate swaps, net of unamortized issue premiums and discounts, are summarized below:

(US\$ in millions, except for ratios)	June 30, 2023							
	Market borrowings		Currency swaps payable (receivable)		Interest rate swaps notional principal payable (receivable)		Net currency obligation	
	Principal amount	Weighted average rate (%)	Notional amount	Weighted average rate (%)	Notional amount	Weighted average rate (%)	Notional amount	Weighted average rate (%)
U.S. dollar	\$ 21,639	2.4	\$ 33,864	5.2	\$ 21,935	5.1	\$ 55,684	5.2
					(21,754)	2.4		
Australian dollar	10,434	3.0	(10,434)	3.7	—	—	—	—
Pounds sterling	5,703	1.5	(5,703)	1.5	—	—	—	—
Mexican peso	5,221	7.8	(5,221)	7.9	—	—	—	—
New Zealand dollar	2,549	2.4	(2,549)	2.5	—	—	—	—
Canadian dollar	2,073	1.9	(2,073)	1.9	—	—	—	—
Swedish kronor	1,496	1.4	(1,496)	1.4	—	—	—	—
Euro	1,196	1.8	(1,196)	1.8	—	—	—	—
Brazilian real	1,064	3.1	(1,064)	2.6	—	—	—	—
Hong Kong dollar	855	3.0	(855)	3.0	—	—	—	—
Indian rupee	675	6.5	(231)	6.4	—	—	444	6.6
Chinese renminbi	658	2.5	(611)	2.5	—	—	47	2.8
South African rand	618	6.1	(618)	5.5	—	—	—	—
Norwegian kroner	488	2.0	(488)	2.0	—	—	—	—
Japanese yen	347	4.6	(347)	3.1	—	—	—	—
New Turkish lira	308	10.9	(304)	13.6	—	—	4	10.5
Hungarian forint	298	6.6	(298)	6.6	—	—	—	—
New Romanian lei	271	5.7	(56)	5.4	—	—	215	5.8
Colombian peso	243	4.5	(243)	4.1	—	—	—	—
Uzbekistan sum	191	12.9	(191)	12.9	—	—	—	—
Georgian lari	143	8.5	(67)	7.5	—	—	76	9.5
Indonesian rupiah	133	8.0	—	—	—	—	133	8.0
Chilean peso	119	3.2	(119)	3.2	—	—	—	—
Russian ruble	117	5.3	(117)	5.8	—	—	—	—
Philippine peso	60	6.3	—	—	—	—	60	6.3
Peso uruguayo	60	6.4	(60)	6.4	—	—	—	—
Kazakhstan tenge	58	10.1	(49)	10.4	—	—	9	8.4
Korean won	44	2.7	(44)	2.7	—	—	—	—
Peruvian soles nuevo	43	1.5	(43)	1.5	—	—	—	—
New Azerbaijanian manat	35	6.0	(17)	6.0	—	—	18	6.0
Dominican peso	23	7.0	(23)	7.0	—	—	—	—
Jamaican dollar	15	7.5	(15)	7.5	—	—	—	—
Czech koruna	11	4.4	(11)	4.4	—	—	—	—
Bangladeshi taka	7	7.1	—	—	—	—	7	7.1
New Serbian dinar	4	0.7	(4)	0.7	—	—	—	—
Sri Lanka rupee	3	8.0	—	—	—	—	3	8.0
Ukraine hryvnya	3	13.6	—	—	—	—	3	13.6
Costa Rican colon	1	8.4	—	—	—	—	1	8.4
<b>Principal at face value</b>	<b>\$ 57,206</b>		<b>\$ (683)</b>		<b>\$ 181</b>		<b>\$ 56,704</b>	<b>5.2</b>
Short-term borrowings from market and other sources	2,967							
	<b>60,173</b>							
Unamortized discounts, net	(3,433)							
<b>Total market borrowings</b>	<b>56,740</b>							
Fair value adjustments	(4,540)							
<b>Carrying amount of market borrowings</b>	<b>\$ 52,200</b>							

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE K – BORROWINGS (continued)

(US\$ in millions, except for ratios)	June 30, 2022							
	Market borrowings		Currency swaps payable (receivable)		Interest rate swaps notional principal payable (receivable)		Net currency obligation	
	Principal amount	Weighted average rate (%)	Notional amount	Weighted average rate (%)	Notional amount	Weighted average rate (%)	Notional amount	Weighted average rate (%)
U.S. dollar	\$ 21,264	1.6	\$ 30,497	1.3	\$ 20,978	1.1	\$ 51,911	1.2
					(20,828)	1.6		
Australian dollar	8,726	2.7	(8,726)	2.7	—	—	—	—
Pounds sterling	4,310	1.0	(4,310)	1.0	—	—	—	—
Mexican peso	4,243	7.6	(4,243)	7.6	—	—	—	—
New Zealand dollar	1,999	1.7	(1,999)	1.7	—	—	—	—
Canadian dollar	1,742	1.5	(1,742)	1.5	—	—	—	—
Swedish kronor	1,280	0.7	(1,280)	0.7	—	—	—	—
Brazilian real	1,211	3.3	(1,211)	3.3	—	—	—	—
Euro	1,121	1.8	(1,121)	1.8	—	—	—	—
Japanese yen	1,059	2.4	(1,059)	1.9	—	—	—	—
Indian rupee	954	6.3	(151)	6.3	—	—	803	6.3
Chinese renminbi	817	2.6	(817)	2.6	—	—	—	—
South African rand	699	6.1	(699)	7.0	—	—	—	—
Turkish lira	572	11.1	(566)	11.3	—	—	6	(3.1)
Russian ruble	514	5.5	(514)	5.4	—	—	—	—
Kazakhstan tenge	254	8.2	(243)	8.2	—	—	11	8.3
Norwegian kroner	226	0.9	(226)	0.9	—	—	—	—
Colombian peso	176	4.3	(176)	4.3	—	—	—	—
New Romanian lei	172	2.8	(93)	3.1	—	—	79	2.4
Hong Kong dollar	166	1.5	(166)	1.5	—	—	—	—
Georgian lari	143	8.4	(75)	7.5	—	—	68	9.5
Indonesian rupiah	133	8.0	—	—	—	—	133	8.0
Hungarian forints	131	2.7	(131)	2.7	—	—	—	—
Uzbekistan sum	112	10.5	(112)	10.5	—	—	—	—
Chilean peso	92	2.4	(92)	2.4	—	—	—	—
Uruguayan peso	76	6.2	(76)	6.2	—	—	—	—
Philippine peso	66	6.3	—	—	—	—	66	6.3
Peruvian soles nuevo	41	1.5	(41)	1.5	—	—	—	—
Ukrainian hryvnia	41	13.5	(35)	13.4	—	—	6	13.6
New Azerbaijanian manat	35	6.0	(35)	6.0	—	—	—	—
New Ghanaian cedi	23	13.4	(23)	13.4	—	—	—	—
Bangladeshi taka	17	6.7	—	—	—	—	17	6.7
Czech koruna	11	4.4	(11)	4.4	—	—	—	—
Costa Rican colon	6	7.2	(2)	5.5	—	—	4	8.1
Dominican peso	6	6.7	(5)	6.3	—	—	1	8.6
Nigerian naira	5	9.4	(5)	9.4	—	—	—	—
New Serbian dinar	4	0.7	(4)	0.7	—	—	—	—
Sri Lankan rupee	3	8.0	—	—	—	—	3	8.0
<b>Principal at face value</b>	<b>\$ 52,450</b>		<b>\$ 508</b>		<b>\$ 150</b>		<b>\$ 53,108</b>	<b>1.3</b>
Short-term borrowings from market and other sources	2,327							
	<b>54,777</b>							
Unamortized discounts, net	(2,527)							
<b>Total market borrowings</b>	<b>52,250</b>							
Fair value adjustments	(4,325)							
<b>Carrying amount of market borrowings</b>	<b>\$ 47,925</b>							

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE K – BORROWINGS (continued)

The net currency obligations not fully hedged by borrowings related swaps have generally been invested and/or on-lent to clients in such currencies. The weighted average remaining maturity of IFC's borrowings from market sources was 5.4 years at June 30, 2023 (5.6 years – June 30, 2022).

Charges on borrowings for the year ended June 30, 2023 include \$6 million of interest expense on secured borrowings (\$4 million – year ended June 30, 2022 and \$7 million – year ended June 30, 2021) and is net of \$1 million of gains on buybacks of market borrowings (\$4 million – year ended June 30, 2022; \$3 million – year ended June 30, 2021).

The net nominal amount receivable from currency swaps of \$683 million and the net notional amount payable from interest rate swaps of \$181 million at June 30, 2023 (payable of \$508 million from currency swaps and payable of \$150 million from interest rate swaps – June 30, 2022), shown in the above table, are represented by currency and interest rate swap assets at fair value of \$2.8 billion and currency and interest rate swap liabilities at fair value of \$10.0 billion (\$128 million and \$7.3 billion – June 30, 2022), included in derivative assets and derivative liabilities, respectively, on the consolidated balance sheet.

#### Short-term market borrowings

IFC's short-term Discount Note Program has maturities ranging from overnight to one year. The amount outstanding under the program at June 30, 2023 is \$3.0 billion (\$2.3 billion – June 30, 2022). Charges on borrowings for the year ended June 30, 2023, include \$109 million in respect of this program (\$5 million – June 30, 2022 and \$5 million – June 30, 2021).

#### Borrowings from IDA

Borrowings outstanding from IDA are summarized below:

(US\$ in millions, except for ratios)	June 30, 2023					
	IDA Borrowings		Interest rate swap notional principal payable (receivable)		Net currency obligation	
	Principal amount	Weighted average cost (%)	Notional amount	Weighted average cost (%)	Notional amount	Weighted average cost (%)
U.S. dollar	\$ 262	1.8	\$ 262	5.5	\$ 262	5.5
			(262)	(-1.8)		
<b>Total IDA borrowings outstanding</b>	<b>\$ 262</b>		<b>\$ —</b>		<b>\$ 262</b>	<b>5.5</b>
Fair value adjustments	(19)					
<b>Carrying amount of IDA borrowings</b>	<b>\$ 243</b>					

(US\$ in millions, except for ratios)	June 30, 2022					
	IDA Borrowings		Interest rate swap notional principal payable (receivable)		Net currency obligation	
	Principal amount	Weighted average cost (%)	Notional amount	Weighted average cost (%)	Notional amount	Weighted average cost (%)
U.S. dollar	\$ 358	1.8	\$ 358	1.8	\$ 358	1.8
			(358)	(1.8)		
<b>Total IDA borrowings outstanding</b>	<b>\$ 358</b>		<b>\$ —</b>		<b>\$ 358</b>	<b>1.8</b>
Fair value adjustments	(14)					
<b>Carrying amount of IDA borrowings</b>	<b>\$ 344</b>					

The weighted average remaining maturity of borrowings from IDA was 3.39 years at June 30, 2023 (3.3 years – June 30, 2022). Charges on borrowings for the year ended June 30, 2023, includes \$6 million (\$8 million – year ended June 30, 2022; \$10 million – year ended June 30, 2021) in respect of borrowings from IDA.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE K – BORROWINGS (continued)

#### *Maturity of borrowings*

As of June 30, 2023, the principal amounts repayable on borrowings outstanding in all currencies during the years ending June 30, 2024, through June 30, 2028, and thereafter are summarized below:

(US\$ in millions)	2024	2025	2026	2027	2028	Thereafter	Total
Borrowings from market sources	\$ 9,042	\$ 9,706	\$ 12,543	\$ 7,016	\$ 5,248	\$ 13,652	\$ 57,207
Short-term borrowings from market and other sources	2,967	—	—	—	—	—	2,967
Borrowings from IDA	77	61	34	12	11	67	262
<b>Total borrowings, gross</b>	<b>\$ 12,086</b>	<b>\$ 9,767</b>	<b>\$ 12,577</b>	<b>\$ 7,028</b>	<b>\$ 5,259</b>	<b>\$ 13,719</b>	<b>\$ 60,436</b>
Unamortized discounts, net							(3,433)
Fair value adjustments							(4,560)
<b>Carrying amount of borrowings</b>							<b>\$ 52,443</b>

As of June 30, 2022, the principal amounts repayable on borrowings outstanding in all currencies during the years ending June 30, 2023, through June 30, 2027, and thereafter are summarized below:

(US\$ in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Borrowings from market sources	\$ 9,226	\$ 7,627	\$ 9,025	\$ 6,621	\$ 5,198	\$ 14,753	\$ 52,450
Short-term borrowings from market and other sources	2,327	—	—	—	—	—	2,327
Borrowings from IDA	96	77	61	34	12	78	358
<b>Total borrowings, gross</b>	<b>\$ 11,649</b>	<b>\$ 7,704</b>	<b>\$ 9,086</b>	<b>\$ 6,655</b>	<b>\$ 5,210</b>	<b>\$ 14,831</b>	<b>\$ 55,135</b>
Unamortized discounts, net							(2,527)
Fair value adjustments							(4,339)
<b>Carrying amount of borrowings</b>							<b>\$ 48,269</b>

After the effect of interest rate and currency swaps, IFC's borrowings generally reprice within one year.

### NOTE L – PAYABLES AND OTHER LIABILITIES

Payables and other liabilities are summarized below:

(US\$ in millions)	June 30, 2023	June 30, 2022
Accounts payable, accrued expenses and other liabilities	\$ 1,378	\$ 1,318
Accrued charges on derivative instruments	1,089	303
Payables for unsettled security trades	1,002	172
Accrued charges on borrowings	785	598
Liabilities under post employment benefit plan	710	739
Liabilities under retirement benefit plans	112	500
Deferred income	91	103
Secured borrowings and short sold securities	73	80
<b>Total payables and other liabilities</b>	<b>\$ 5,240</b>	<b>\$ 3,813</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE M – CAPITAL TRANSACTIONS

Following the Spring Meetings in April 2018, a financing package was endorsed by the Board of Governors that included a three-step capital raising process: conversion of a portion of retained earnings into paid-in capital, a Selective Capital Increase (SCI) and General Capital Increase (GCI) that would provide up to \$5.5 billion in additional paid-in capital. The SCI and GCI Resolutions were adopted and became effective on April 16, 2020. In April 2023, the subscription deadline for SCI and GCI was extended to April 16, 2025 and April 16, 2024, respectively, and the payment deadline for SCI was extended to April 16, 2025, to be aligned with the GCI payment deadline.

The authorized capital stock was increased by the creation of 16,999,998 additional shares each having a par value of \$1,000 after converting a portion of the retained earnings into paid-in capital. The authorized capital stock was increased by 919,998 and 4,579,995 shares of capital stock each having a par value of \$1,000 as per the SCI and GCI respectively. The authorized capital stock as on June 30, 2023 consists of 25,079,991 shares of \$1,000 par value each (25,079,991 shares – June 30, 2022).

During the year ended June 30, 2023, 42 countries subscribed a total of \$328 million (GCI of \$228 million and SCI of \$100 million) and payment of \$847 million has been received from 82 countries. Subsequent to June 30, 2023, subscription of \$11 million was received from three countries and total payment of \$9 million was received from three countries. For the year ended June 30, 2022 and June 30, 2021, \$803 million and \$2.4 billion was subscribed and \$987 million and \$1.2 billion payment was received, respectively.

Under IFC's Articles of Agreement, in the event a member withdraws from IFC, IFC and the member may negotiate on the repurchase of the member's capital stock on such terms as may be appropriate under the circumstances. Such agreement may provide, among other things, for a final settlement of all obligations of the member to IFC. If such an agreement is not made within six months after the member withdraws or such other time as IFC and the member may agree, the repurchase price of the member's capital stock shall be the value thereof shown by the books of IFC on the day when the member withdraws. The repurchase of capital stock is subject to certain conditions including payments in installments, at such times and in such available currency or currencies as IFC reasonably determines, taking into account the financial position of IFC. IFC's Articles of Agreement also provide for the withdrawing member to repay losses on loans and equity investments in excess of reserve provided on the date of withdrawal.

### NOTE N – OTHER INCOME

Other income for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 comprise the following:

(US\$ in millions)	For the year ended		
	June 30, 2023	June 30, 2022	June 30, 2021
Investment (losses) gains on PEBP assets	\$ 55	\$ (17)	\$ 130
Fees collected from clients	16	13	14
Post-retirement Contributions Reserve Fund (PCRF) income	15	1	—
Other reimbursable arrangements	9	14	24
Others	48	33	44
<b>Total Other Income</b>	<b>\$ 143</b>	<b>\$ 44</b>	<b>\$ 212</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE O – RETAINED EARNINGS DESIGNATIONS AND RELATED EXPENDITURES AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

#### *Designated retained earnings*

The components of designated retained earnings and related expenditures are summarized below:

(US\$ in millions)	Grants to IDA	Funding Mechanism for Technical Assistance and Advisory Services	Creating Markets Advisory Window	Performance- Based Grants Initiative	Small and Medium Enterprise Ventures	Total Designated Retained Earnings
<b>At June 30, 2020</b>	<b>\$ 213</b>	<b>\$ 69</b>	<b>\$ 135</b>	<b>\$ 1</b>	<b>\$ 15</b>	<b>\$ 433</b>
<b>Year ended June 30, 2021</b>						
Designations of retained earnings	—	—	44	—	—	44
Expenditures against designated retained earnings	(213)	(27)	(28)	(1)	(1)	(270)
<b>At June 30, 2021</b>	<b>\$ —</b>	<b>\$ 42</b>	<b>\$ 151</b>	<b>\$ —</b>	<b>\$ 14</b>	<b>\$ 207</b>
<b>Year ended June 30, 2022</b>						
Designations of retained earnings	—	72	89	—	—	161
Expenditures against designated retained earnings	—	(36)	(33)	—	(1)	(70)
<b>At June 30, 2022</b>	<b>\$ —</b>	<b>\$ 78</b>	<b>\$ 207</b>	<b>\$ —</b>	<b>\$ 13</b>	<b>\$ 298</b>
<b>Year ended June 30, 2023</b>						
Designations of retained earnings	—	6	—	—	—	6
Expenditures against designated retained earnings	—	(36)	(46)	—	(1)	(83)
<b>At June 30, 2023</b>	<b>\$ —</b>	<b>\$ 48</b>	<b>\$ 161</b>	<b>\$ —</b>	<b>\$ 12</b>	<b>\$ 221</b>

On August 4, 2022, the Board of Directors approved the entire designation of \$6 million of IFC's retained earnings for Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS). This designation was approved by the Board of Governors on October 14, 2022.

#### *Accumulated other comprehensive income (loss)*

The components of accumulated other comprehensive income (loss) at June 30, 2023 and June 30, 2022 are summarized as follows:

(US\$ in millions)	June 30, 2023	June 30, 2022
Net unrealized losses on available-for-sale debt securities	\$ (238)	\$ (300)
Net unrealized gains on borrowings at fair value under the Fair Value Option due to changes in instrument-specific credit risk	340	390
Unrecognized net actuarial gains (losses) and unrecognized prior service costs on benefit plans	530	(172)
<b>Total accumulated other comprehensive income (loss)</b>	<b>\$ 632</b>	<b>\$ (82)</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE P – 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 years ended June 30, 2023, June 30, 2022 and June 30, 2021 comprise:

(US\$ in millions)	For the year ended		
	June 30, 2023	June 30, 2022	June 30, 2021
<b>Unrealized gains and losses on loans, debt securities and associated derivatives:</b>			
Unrealized gains (losses) on loans under the Fair Value Option	\$ 9	\$ (95)	\$ 108
Unrealized gains on derivatives associated with loans	172	389	233
Unrealized (losses) gains on debt securities under the Fair Value Option	(55)	(532)	325
Unrealized gains on derivatives associated with debt securities	49	115	69
<b>Total net unrealized gains (losses) on loans, debt securities and associated derivatives</b>	<b>175</b>	<b>(123)</b>	<b>735</b>
<b>Unrealized gains and losses on borrowings from market, IDA and associated derivatives:</b>			
Unrealized gains on market borrowings accounted for at fair value	265	3,795	2,016
Unrealized losses on derivatives associated with market borrowings	(320)	(3,928)	(1,957)
Unrealized gains on borrowings from IDA accounted for at fair value	5	27	12
<b>Total net unrealized (losses) gains on borrowings from market, IDA and associated derivatives</b>	<b>(50)</b>	<b>(106)</b>	<b>71</b>
<b>Net unrealized gains and losses on non-trading financial instruments accounted for at fair value</b>	<b>\$ 125</b>	<b>\$ (229)</b>	<b>\$ 806</b>

Market borrowings economically hedged with financial instruments, including derivatives, 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 movements in IFC's own credit risk spread, foreign currency exchange risk premiums and accrued interest balances. The magnitude and direction (gain or loss) can be volatile from period to period but they do not alter the timing of cash flows on market borrowings. Changes in the fair value of borrowings resulting from changes in IFC's own credit risk spread are recorded through other comprehensive income whereas changes in fair value due to other factors, and all fair value changes on hedging derivatives, are accounted for through net income (loss).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE Q – DERIVATIVES

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 accounting hedges under ASC Topic 815.

The fair value of derivative instrument assets and liabilities by risk type at June 30, 2023 and June 30, 2022 is summarized as follows:

(US\$ in millions)	June 30, 2023	June 30, 2022
<b>Derivative assets</b>		
Interest rate	\$ 843	\$ 552
Foreign exchange	225	900
Interest rate and currency	4,465	2,282
Equity	124	77
Credit and other	65	45
<b>Total derivative assets</b>	<b>\$ 5,722</b>	<b>\$ 3,856</b>
<b>Derivative liabilities</b>		
Interest rate	\$ 2,245	\$ 1,684
Foreign exchange	217	76
Interest rate and currency	8,706	6,105
Equity	10	4
Credit and other	17	31
<b>Total derivative liabilities</b>	<b>\$ 11,195</b>	<b>\$ 7,900</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE Q – DERIVATIVES (continued)

The effect of derivative instrument contracts on the consolidated statement of operations for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 is summarized as follows:

(US\$ in millions)		For the year ended		
Derivative risk category	Consolidated Statement of Operations location	June 30, 2023	June 30, 2022	June 30, 2021
Interest rate	Income (loss) from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$ 54	\$ (25)	\$ (23)
	Income (loss) from debt securities, including realized gains and losses on debt securities and associated derivatives	20	(13)	(12)
	Income (loss) from liquid asset trading activities	56	73	(71)
	Charges on borrowings	(407)	243	292
	Other income	18	17	13
	Net unrealized losses on non-trading financial instruments accounted for at fair value	(248)	(1,263)	(396)
	Foreign exchange	(Loss) income from liquid asset trading activities	(62)	2,223
Foreign currency transaction (losses) gains on non-trading activities		(12)	8	(16)
Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value		7	(3)	3
Interest rate and currency	Loss from loans and guarantees, including realized gains and losses on loans and associated derivatives	(9)	(217)	(168)
	Loss from debt securities, including realized gains and losses on debt securities and associated derivatives	(109)	(64)	(70)
	(Loss) income from liquid asset trading activities	(209)	575	107
	Charges on borrowings	(372)	781	842
	Foreign currency transaction (losses) gains on non-trading activities	(285)	(2,180)	1,468
	Other income	3	2	4
	Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value	108	(2,144)	(1,265)
Equity	Gains (losses) from equity investments and associated derivatives	43	(43)	(30)
	Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value	(1)	(13)	9
Other derivative contracts	Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value	33	(3)	(6)
<b>Total</b>		<b>\$ (1,372)</b>	<b>\$ (2,046)</b>	<b>\$ (306)</b>

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

At June 30, 2023, the outstanding volume, measured by U.S. dollar equivalent notional, of interest rate contracts was \$74.5 billion (\$49.2 billion – June 30, 2022), foreign exchange contracts was \$20.7 billion (\$17.2 billion – June 30, 2022) and interest rate and currency contracts was \$53.6 billion (\$47.0 billion – June 30, 2022).

At June 30, 2023, there were 129 equity contracts related to IFC's loan and equity investment portfolio and 27 other derivative contracts, mainly credit indexed, recognized as derivatives assets or liabilities under ASC Topic 815 (139 equity risk and 25 other contracts – June 30, 2022).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – 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. IFC categorizes its financial instruments into three levels based on the established fair value hierarchy. For more information regarding the fair value hierarchy and how IFC measures fair value, see Note A – Summary of Significant Accounting Policies. Readers are cautioned in using these data for purposes of evaluating the financial condition of IFC and the fair values of the individual financial instruments do not represent the fair value of IFC taken as a whole.

Recognizing there is a heightened degree of uncertainty and judgment in incorporating the impact of Russia's invasion of Ukraine, IFC utilized, where available, comparator, sector and country information, in addition to discounted cash flow models, in valuing its equity investment portfolio at June 30, 2023. Debt securities and loans accounted for at fair value that do not have available market prices were primarily valued using discounted cash flow approaches and reflected spreads at June 30, 2023.

For the following instruments, the significant unobservable inputs and its relationship to the fair valuation movement are listed below:

Instrument	Significant Unobservable Input	Increase in Unobservable Input Results In
IFC Local Currency Borrowings	IFC Yield Curve	Decrease in Fair Value
Interest Rate Swaps	Yield Curve Points	Decrease in Fair Value
Currency Swaps	Yield Curve and Exchange Rates	Decrease in Fair Value
Debt Securities and Loans	Discount Rates, Credit Default Spreads	Decrease in Fair Value
	Valuation Multiple, Recovery Rates	Increase in Fair Value
Equity Securities and Equity Related Derivatives	Cost of equity, discounts for lack of marketability, weighted average cost of capital	Decrease in Fair Value
	Growth rates, return on assets, perpetual growth rates, EV/EBITDA, price to book value and other valuation multiples and volatilities	Increase in Fair Value

The methodologies used and key assumptions made to estimate fair values as of June 30, 2023 and June 30, 2022, 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 U.S. Treasuries. U.S. Treasuries and U.S. 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 executable or indicative dealer quotes sourced from the market 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.

Liquid assets classified as Level 3 as of June 30, 2023 (\$0) and as of June 30, 2022 (\$179 million) were fair valued based on non-quantitative unobservable valuation inputs. The valuation techniques for these liquid assets are presented in the table below.

(US\$ in millions)	Valuation technique	June 30, 2022	
		Fair value	
Government obligations	Dealer indicative price	\$	172
Corporate debt securities	Dealer indicative price		7
Total		\$	179

**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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – FAIR VALUE MEASUREMENTS (continued)

recovery rates. The valuation techniques and significant unobservable inputs for loans and debt securities classified as Level 3 as of June 30, 2023 and as of June 30, 2022 are presented below.

June 30, 2023

(US\$ in millions)	Valuation technique	Fair value	Significant inputs	Range (%)	Weighted average (%)
Debt securities – preferred shares	Discounted cash flows	\$ 15	Discount rate	10.6 - 16.0	12.0
	Market comparables	44	Valuation multiples <sup>a</sup>		
	Recent transactions	121			
	Other techniques	28			
<b>Total preferred shares</b>		<b>208</b>			
Other debt securities	Discounted cash flows	5,886	Credit default swap spreads	0.4 - 20.2	3.3
			Expected recovery rates	0.0 - 75.0	44.7
	Recent transactions	1,825			
	Other techniques	411			
<b>Total other debt securities</b>		<b>8,122</b>			
<b>Total</b>		<b>\$ 8,330</b>			

a Includes valuation techniques with multiple significant inputs, therefore the range and weighted average are not provided.

June 30, 2022

(US\$ in millions)	Valuation technique	Fair value	Significant inputs	Range (%)	Weighted average (%)
Debt securities – preferred shares	Discounted cash flows	\$ 23	Discount rate	7.4 - 17.3	10.6
	Market comparables	37	Valuation multiples <sup>a</sup>		
	Recent transactions	56			
	Other techniques	68			
<b>Total preferred shares</b>		<b>184</b>			
Other debt securities	Discounted cash flows	4,672	Credit default swap spreads	0.6 - 13.4	4.4
			Expected recovery rates	0.0 - 75.0	42.6
	Recent transactions	1,018			
	Other techniques	500			
<b>Total other debt securities</b>		<b>6,190</b>			
<b>Total</b>		<b>\$ 6,374</b>			

a Includes valuation techniques with multiple significant inputs, therefore the range and weighted average are not provided.

**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 June 30, 2023, IFC had bond issuances with a total fair value of \$228 million classified as level 3 in Azerbaijani manat, Jamaican dollars, Uruguayan peso and Uzbekistan sum where the significant unobservable inputs were yield curve data (\$232 million – June 30, 2022). As of June 30, 2023, the weighted average effective interest rate on medium and long-term borrowings carried at amortized cost

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – FAIR VALUE MEASUREMENTS (continued)

was 7.3% (7.2% – June 30, 2022) and the effective interest rate on short-term borrowings carried at amortized cost was 4.1% (0.2% – June 30, 2022).

**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 June 30, 2023 and June 30, 2022 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.

(US\$ in millions)		June 30, 2023			
Level 3 derivatives	Type	Fair value	Significant inputs	Range (%)	Weighted average (%)
Equity related derivatives	Fixed strike price options	\$ 1	Volatilities	28.1 - 44.3	44.3
	Variable strike price options	113	Contractual strike price <sup>a</sup>		
Interest rate and currency swap assets	Vanilla swaps	74	Yield curve points, exchange rates		
Interest rate and currency swap liabilities	Vanilla swaps	(10)	Yield curve points, exchange rates		
<b>Total</b>		<b>\$ 178</b>			

a Includes valuation techniques with multiple significant inputs, therefore the range and weighted average are not provided.

(US\$ in millions)		June 30, 2022			
Level 3 derivatives	Type	Fair value	Significant inputs	Range (%)	Weighted average (%)
Equity related derivatives	Fixed strike price options	\$ 2	Volatilities	28.1 - 53.0	53.0
	Variable strike price options	71	Contractual strike price <sup>a</sup>		
Interest rate and currency swap assets	Vanilla swaps	35	Yield curve points, exchange rates		
Interest rate and currency swap liabilities	Vanilla swaps	(34)	Yield curve points, exchange rates		
<b>Total</b>		<b>\$ 74</b>			

a Includes valuation techniques with multiple significant inputs, therefore the range and weighted average are not provided.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – 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 market comparable approaches. The significant unobservable inputs include cost of equity, weighted average cost of capital, asset growth rate, return on assets, perpetual growth rate, price to book 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 measured at fair value through net income as of June 30, 2023 and June 30, 2022 are presented below.

(US\$ in millions)		June 30, 2023				
Sector	Valuation technique	Fair value	Significant inputs	Range	Weighted average (%)	
Banking and other financial Institutions	Discounted cash flows	\$ 517	Cost of equity (%)	11.0 - 26.0	13.7	
			Asset growth rate (%)	(1.5) - 56.6	8.6	
			Return on assets (%)	0.3 - 8.7	2.0	
			Perpetual growth rate (%)	2.5 - 13.0	5.2	
	Market comparables	400	Price to book value	0.3 - 1.5	1.3	
			EV/Sales	1.5 - 15.4	9.6	
			Discount for lack of marketability (%)	*	35.0	
		Listed price (adjusted)	199			
		Recent transactions	380			
		Other techniques	180			
	Associated options <sup>b</sup>	31				
Total banking and other financial institutions		<u>1,707</u>				
Funds	Recent transactions	106				
	Other techniques	53				
Total funds		<u>159</u>				
Others	Discounted cash flows	896	Weighted average cost of capital (%)	7.2 - 29.8	11.5	
			Cost of equity (%)	9.7 - 25.5	14.9	
	Market comparables	746	EV/Sales	0.7 - 20.3	4.2	
			EV/EBITDA	4.2 - 22.0	14.0	
			Price to book value	0.6 - 2.4	1.8	
	Other valuation multiples <sup>a</sup>					
		Recent transactions	521			
		Other techniques	81			
	Associated options <sup>b</sup>	91				
Total others		<u>2,335</u>				
<b>Total</b>		<b><u>\$ 4,201</u></b>				

\* 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.

<sup>a</sup> Includes price/earnings ratio and price/sales ratio, the range and weighted average are not provided due to the immaterial amounts.

<sup>b</sup> 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 CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – FAIR VALUE MEASUREMENTS (continued)

(US\$ in millions)

June 30, 2022

Sector	Valuation technique	Fair value	Significant inputs	Range	Weighted average (%)	
Banking and other financial Institutions	Discounted cash flows	\$ 535	Cost of equity (%)	9.2 - 25.4	11.7	
		Asset growth rate (%)	(26.0) - 36.2	5.4		
		Return on assets (%)	(4.1) - 6.6	1.8		
		Perpetual growth rate (%)	3.0 - 13.0	5.2		
	Market comparables	174	Price to book value	0.3 - 1.7	1.5	
			EV/Sales	1.7 - 16.5	10.0	
		Listed price (adjusted)	215	Discount for lack of marketability (%)	*	35.0
		Recent transactions	487			
		Other techniques	155			
		Associated options <sup>b</sup>	7			
Total banking and other financial institutions		1,573				
Funds	Recent transactions	30				
	Other techniques	13				
Total funds		43				
Others	Discounted cash flows	1,254	Weighted average cost of capital (%)	4.5 - 27.7	10.2	
			Cost of equity (%)	8.3 - 22.5	12.8	
	Market comparables	304	EV/Sales	1.6 - 48.7	12.2	
			EV/EBITDA	3.6 - 18.0	13.1	
			Price to book value	0.6 - 1.9	1.5	
				Other valuation multiples <sup>a</sup>		
		Recent transactions	739			
		Other techniques	63			
		Associated options <sup>b</sup>	88			
	Total others		2,448			
<b>Total</b>		<b>\$ 4,064</b>				

\* 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.

a Includes price/earnings ratio and price/sales ratio, the range and weighted average are not provided due to the immaterial amounts.

b 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 CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – 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 June 30, 2023 and June 30, 2022 are summarized below:

(US\$ in millions)	June 30, 2023		June 30, 2022	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and due from banks, time deposits, trading securities and securities purchased under resale agreements and receivable for cash collateral pledged	\$ 47,478	\$ 47,478	\$ 46,350	\$ 46,350
Investments:				
Loans at amortized cost, net of reserve against losses	29,908	30,369	24,849	24,820
Loans accounted for at fair value under the Fair Value Option	1,506	1,506	1,374	1,374
Total loans	31,414	31,875	26,223	26,194
Equity investments accounted for at fair value	10,778 <sup>a</sup>	10,776	11,137 <sup>a</sup>	11,136
Debt securities accounted for at fair value as available-for-sale	1,373	1,373	1,905	1,905
Debt securities accounted for at fair value under the Fair Value Option	7,937	7,937	4,828	4,828
Total debt securities	9,310	9,310	6,733	6,733
Total investments	51,502	51,961	44,093	44,063
Derivative assets:				
Borrowings-related	2,795	2,795	128	128
Liquid asset portfolio-related and other	433	433	1,464	1,464
Investment-related	1,977	1,977	1,927	1,927
Client risk management-related	517	517	337	337
Total derivative assets	5,722	5,722	3,856	3,856
Other investment-related financial assets	—	3	—	4
<b>Financial liabilities</b>				
Securities sold under repurchase agreements and payable for cash collateral received	\$ 6,631	\$ 6,631	\$ 6,223	\$ 6,223
Market, IBRD, IDA and other borrowings outstanding	52,443	52,433	48,269	48,277
Derivative liabilities:				
Borrowings-related	10,032	10,032	7,336	7,336
Liquid asset portfolio-related and other	241	241	77	77
Investment-related	523	523	214	214
Client risk management-related	399	399	273	273
Total derivative liabilities	11,195	11,195	7,900	7,900

<sup>a</sup> For \$2 million as of June 30, 2023 (\$1 million – June 30, 2022) 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 \$39 million at June 30, 2023 (\$40 million – June 30, 2022). Fair values of loan commitments are based on present value of loan commitment fees.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – FAIR VALUE MEASUREMENTS (continued)

#### Fair value hierarchy

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. The following tables provide information as of June 30, 2023 and June 30, 2022, about IFC's financial assets and financial liabilities measured at fair value on a recurring basis:

(US\$ in millions)	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Time deposits with maturities greater than three months <sup>a</sup>	\$ —	\$ 2,467	\$ —	\$ 2,467
Trading securities:				
Asset-backed securities	—	5,232	—	5,232
Corporate debt securities <sup>b</sup>	—	4,022	—	4,022
Government obligations	17,042	4,724	—	21,766
Total trading securities	17,042	13,978	—	31,020
Loans	—	—	1,488	1,488
Loans measured at net asset value <sup>c</sup>				18
Total Loans (outstanding principal balance \$1,642)	—	—	1,488	1,506
Equity investments:				
Banking and other financial institutions	662	17	1,707	2,386
Funds	—	16	159	175
Others	681	1	2,335	3,017
Equity investments measured at net asset value <sup>c</sup>				5,198
Total equity investments	1,343	34	4,201	10,776
Debt securities:				
Corporate debt securities	—	1,839	5,911	7,750
Preferred shares	—	—	208	208
Asset-backed securities	—	55	723	778
Debt securities measured at net asset value <sup>c</sup>				574
Total debt securities	—	1,894	6,842	9,310
Derivative assets:				
Interest rate	—	843	—	843
Foreign exchange	—	225	—	225
Interest rate and currency	—	4,391	74	4,465
Equity and other	—	—	124	124
Credit and Other derivative contracts	—	65	—	65
Total derivative assets	—	5,524	198	5,722
<b>Total assets at fair value</b>	<b>\$ 18,385</b>	<b>\$ 23,897</b>	<b>\$ 12,729</b>	<b>\$ 60,801</b>
Borrowings: <sup>d</sup>				
Structured bonds	\$ —	\$ 4,073	\$ —	\$ 4,073
Unstructured bonds	—	44,815	228	45,043
Total borrowings (outstanding principal balance \$57,108)	—	48,888	228	49,116
Derivative liabilities:				
Interest rate	—	2,245	—	2,245
Foreign exchange	—	217	—	217
Interest rate and currency	—	8,696	10	8,706
Equity and other	—	—	10	10
Credit and Other derivative contracts	—	17	—	17
Total derivative liabilities	—	11,175	20	11,195
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ 60,063</b>	<b>\$ 248</b>	<b>\$ 60,311</b>

a Time deposits with maturities greater than three months are carried at cost, which approximates fair value and are considered to be level 2.

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

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

d Includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of \$5.8 billion, with a fair value of \$1.8 billion as of June 30, 2023.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – FAIR VALUE MEASUREMENTS (continued)

(US\$ in millions)	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Time Deposits with maturities greater than three months <sup>a</sup>	\$ —	\$ 3,959	\$ —	\$ 3,959
Trading securities:				
Asset-backed securities	—	3,825	—	3,825
Corporate debt securities <sup>b</sup>	—	3,999	7	4,006
Government obligations	15,600	7,288	172	23,060
Total trading securities	15,600	15,112	179	30,891
Loans	—	54	1,303	1,357
Loans measured at net asset value <sup>c</sup>				17
Total Loans (outstanding principal balance \$1,519)	—	54	1,303	1,374
Equity investments:				
Banking and other financial institutions	774	65	1,573	2,412
Funds	—	19	43	62
Others	866	38	2,448	3,352
Equity investments measured at net asset value <sup>c</sup>				5,310
Total equity investments	1,640	122	4,064	11,136
Debt securities:				
Corporate debt securities	—	1,079	4,070	5,149
Preferred shares	—	—	184	184
Asset-backed securities	—	52	817	869
Debt securities measured at net asset value <sup>c</sup>				531
Total debt securities	—	1,131	5,071	6,733
Derivative assets:				
Interest rate	—	552	—	552
Foreign exchange	—	900	—	900
Interest rate and currency	—	2,247	35	2,282
Equity and other	—	—	77	77
Credit and Other derivative contracts	—	45	—	45
Total derivative assets	—	3,744	112	3,856
<b>Total assets at fair value</b>	<b>\$ 17,240</b>	<b>\$ 24,122</b>	<b>\$ 10,729</b>	<b>\$ 57,949</b>
Borrowings: <sup>d</sup>				
Structured bonds	\$ —	\$ 4,740	\$ —	\$ 4,740
Unstructured bonds	—	40,335	232	40,567
Total borrowings (outstanding principal balance \$52,174)	—	45,075	232	45,307
Derivative liabilities:				
Interest rate	—	1,684	—	1,684
Foreign exchange	—	76	—	76
Interest rate and currency	—	6,071	34	6,105
Equity and other	—	—	4	4
Credit and Other derivative contracts	—	31	—	31
Total derivative liabilities	—	7,862	38	7,900
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ 52,937</b>	<b>\$ 270</b>	<b>\$ 53,207</b>

a Time deposits with maturities greater than three months are carried at cost, which approximates fair value and are considered to be level 2.

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

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

d Includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of \$4.9 billion, with a fair value of \$1.5 billion as of June 30, 2022.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – 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 years ended June 30, 2023, June 30, 2022, and June 30, 2021:

For the year ended June 30, 2023

(US\$ in millions)	Balance as of July 1, 2022	Net gains (losses) (realized and unrealized) included in Net income	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 <sup>a</sup>	Transfers out of Level 3 <sup>b</sup>	Balance as of June 30, 2023	Net unrealized gains (losses) included in net income (loss) related to assets / liabilities held at year end	Net unrealized gains (losses) included in other comprehensive income (loss) related to assets / liabilities held at year end
<b>Trading securities:</b>									
Asset-backed securities	\$ —	\$ 1	\$ —	\$ 55	\$ —	\$ (56)	\$ —	\$ —	\$ —
Corporate debt securities	7	—	—	—	—	(7)	—	—	—
Government and agency obligations	172	(1)	—	97	—	(268)	—	—	—
<b>Total trading securities</b>	<b>179</b>	<b>—</b>	<b>—</b>	<b>152</b>	<b>—</b>	<b>(331)</b>	<b>—</b>	<b>—</b>	<b>—</b>
Loans	1,303	30	—	101	54	—	1,488	17	—
<b>Equity investments:</b>									
Banking and other financial institutions	1,573	28	—	68	55	(17)	1,707	12	—
Funds	43	12	—	104	—	—	159	5	—
Others	2,448	(23)	—	(137)	47	—	2,335	(145)	—
<b>Total equity investments</b>	<b>4,064</b>	<b>17</b>	<b>—</b>	<b>35</b>	<b>102</b>	<b>(17)</b>	<b>4,201</b>	<b>(128)</b>	<b>—</b>
<b>Debt securities:</b>									
Corporate debt securities	4,070	(106)	105	2,218	574	(950)	5,911	88	3
Preferred shares	184	49	(54)	29	—	—	208	(17)	(4)
Asset-backed securities	817	4	5	(103)	—	—	723	13	8
<b>Total debt securities</b>	<b>5,071</b>	<b>(53)</b>	<b>56</b>	<b>2,144</b>	<b>574</b>	<b>(950)</b>	<b>6,842</b>	<b>84</b>	<b>7</b>
<b>Derivative assets:</b>									
Interest rate and currency	35	(7)	—	55	12	(21)	74	65	—
Equity and other	77	53	—	(6)	—	—	124	58	—
<b>Total derivative assets</b>	<b>112</b>	<b>46</b>	<b>—</b>	<b>49</b>	<b>12</b>	<b>(21)</b>	<b>198</b>	<b>123</b>	<b>—</b>
<b>Total assets at fair value</b>	<b>\$ 10,729</b>	<b>\$ 40</b>	<b>\$ 56</b>	<b>\$ 2,481</b>	<b>\$ 742</b>	<b>\$ (1,319)</b>	<b>\$ 12,729</b>	<b>\$ 96</b>	<b>\$ 7</b>
<b>Borrowings:</b>									
Unstructured bonds	\$ (232)	\$ (12)	\$ 1	\$ (121)	\$ (4)	\$ 140	\$ (228)	\$ (12)	\$ 1
<b>Total borrowings</b>	<b>(232)</b>	<b>(12)</b>	<b>1</b>	<b>(121)</b>	<b>(4)</b>	<b>140</b>	<b>(228)</b>	<b>(12)</b>	<b>1</b>
<b>Derivative liabilities:</b>									
Interest rate and currency	(34)	15	—	(2)	(4)	15	(10)	(2)	—
Equity and other	(4)	(6)	—	—	—	—	(10)	(6)	—
<b>Total derivative liabilities</b>	<b>(38)</b>	<b>9</b>	<b>—</b>	<b>(2)</b>	<b>(4)</b>	<b>15</b>	<b>(20)</b>	<b>(8)</b>	<b>—</b>
<b>Total liabilities at fair value</b>	<b>\$ (270)</b>	<b>\$ (3)</b>	<b>\$ 1</b>	<b>\$ (123)</b>	<b>\$ (8)</b>	<b>\$ 155</b>	<b>\$ (248)</b>	<b>\$ (20)</b>	<b>\$ 1</b>

<sup>a</sup> Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of June 30, 2023.

<sup>b</sup> 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, 2022 beginning balance as of June 30, 2023.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE R – FAIR VALUE MEASUREMENTS (continued)

For the year ended June 30, 2022

(US\$ in millions)	Balance as of July 01, 2021	Net gains (losses) (realized and unrealized) included in Net income (loss)	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 <sup>a</sup>	Transfers out of Level 3 <sup>b</sup>	Balance as of June 30, 2022	Net unrealized gains (losses) included in net income (loss) related to assets / liabilities held at year end	Net unrealized gains (losses) included in other comprehensive income (loss) related to assets / liabilities held at year end
<b>Trading securities:</b>									
Asset-backed securities	\$ —	\$ —	\$ —	\$ 30	\$ —	\$ (30)	\$ —	\$ —	\$ —
Corporate debt securities	—	(4)	—	120	—	(109)	7	(1)	—
Government and agency obligations	271	9	—	126	—	(234)	172	(10)	—
<b>Total trading securities</b>	<b>271</b>	<b>5</b>	<b>—</b>	<b>276</b>	<b>—</b>	<b>(373)</b>	<b>179</b>	<b>(11)</b>	<b>\$ —</b>
Loans	1,313	(122)	—	171	—	(59)	1,303	(122)	—
<b>Equity investments:</b>									
Banking and other financial institutions	1,663	62	—	(152)	—	—	1,573	(65)	—
Funds	16	(4)	—	31	—	—	43	(6)	—
Others	2,989	36	—	(233)	—	(344)	2,448	(16)	—
<b>Total equity investments</b>	<b>4,668</b>	<b>94</b>	<b>—</b>	<b>(354)</b>	<b>—</b>	<b>(344)</b>	<b>4,064</b>	<b>(87)</b>	<b>—</b>
<b>Debt securities:</b>									
Corporate debt securities	3,985	(425)	(153)	318	884	(539)	4,070	(335)	(165)
Preferred shares	483	(99)	(19)	(181)	—	—	184	17	8
Asset-backed securities	892	(72)	(35)	32	—	—	817	(68)	(44)
<b>Total debt securities</b>	<b>5,360</b>	<b>(596)</b>	<b>(207)</b>	<b>169</b>	<b>884</b>	<b>(539)</b>	<b>5,071</b>	<b>(386)</b>	<b>(201)</b>
<b>Derivative assets:</b>									
Interest rate and currency	26	12	—	9	10	(22)	35	27	—
Equity and other	133	(57)	—	1	—	—	77	(57)	—
<b>Total derivative assets</b>	<b>159</b>	<b>(45)</b>	<b>—</b>	<b>10</b>	<b>10</b>	<b>(22)</b>	<b>112</b>	<b>(30)</b>	<b>—</b>
<b>Total assets at fair value</b>	<b>\$ 11,771</b>	<b>\$ (664)</b>	<b>\$ (207)</b>	<b>\$ 272</b>	<b>\$ 894</b>	<b>\$ (1,337)</b>	<b>\$ 10,729</b>	<b>\$ (636)</b>	<b>\$ (201)</b>
<b>Borrowings:</b>									
Unstructured bonds	\$ (90)	\$ 3	\$ —	\$ (214)	\$ (44)	\$ 113	\$ (232)	\$ 3	\$ —
<b>Total borrowings</b>	<b>(90)</b>	<b>3</b>	<b>—</b>	<b>(214)</b>	<b>(44)</b>	<b>113</b>	<b>(232)</b>	<b>3</b>	<b>—</b>
<b>Derivative liabilities:</b>									
Interest rate and currency	(10)	4	—	(17)	(21)	10	(34)	(23)	—
Equity and other	(5)	1	—	—	—	—	(4)	1	—
<b>Total derivative liabilities</b>	<b>(15)</b>	<b>5</b>	<b>—</b>	<b>(17)</b>	<b>(21)</b>	<b>10</b>	<b>(38)</b>	<b>(22)</b>	<b>—</b>
<b>Total liabilities at fair value</b>	<b>\$ (105)</b>	<b>\$ 8</b>	<b>\$ —</b>	<b>\$ (231)</b>	<b>\$ (65)</b>	<b>\$ 123</b>	<b>\$ (270)</b>	<b>\$ (19)</b>	<b>\$ —</b>

a Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of June 30, 2022.

b 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, 2021 beginning balance as of June 30, 2022.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE R – FAIR VALUE MEASUREMENTS (continued)

For the year ended June 30, 2021

(US\$ in millions)	Balance as of July 01, 2020	Net gains (losses) (realized and unrealized) included in Net income (loss)	Other comprehensive income	Purchases, issuances, sales, settlements and others	Transfers into Level 3 <sup>a</sup>	Transfers out of Level 3 <sup>b</sup>	Balance as of June 30, 2021	Net unrealized gains (losses) included in net income (loss) related to assets / liabilities held at year end	Net unrealized gains (losses) included in other comprehensive income (loss) related to assets / liabilities held at year end
<b>Trading securities:</b>									
Asset-backed securities	\$ 20	\$ 2	\$ —	\$ 87	\$ —	\$ (109)	\$ —	\$ —	\$ —
Corporate debt securities	—	(2)	—	282	—	(280)	—	—	—
Government and agency obligations	—	—	—	261	113	(103)	271	(1)	—
<b>Total trading securities</b>	<b>20</b>	<b>—</b>	<b>—</b>	<b>630</b>	<b>113</b>	<b>(492)</b>	<b>271</b>	<b>(1)</b>	<b>\$ —</b>
Loans	942	121	—	250	—	—	1,313	121	—
<b>Equity investments:</b>									
Banking and other financial institutions	1,765	215	—	(285)	6	(38)	1,663	273	—
Funds	115	(9)	—	(90)	—	—	16	(9)	—
Others	2,620	483	—	(71)	99	(142)	2,989	431	—
<b>Total equity investments</b>	<b>4,500</b>	<b>689</b>	<b>—</b>	<b>(446)</b>	<b>105</b>	<b>(180)</b>	<b>4,668</b>	<b>695</b>	<b>—</b>
<b>Debt securities:</b>									
Corporate debt securities	3,648	135	107	157	1,175	(1,237)	3,985	175	51
Preferred shares	390	179	(8)	(78)	—	—	483	217	8
Asset-backed securities	930	36	(17)	(57)	—	—	892	33	(27)
<b>Total debt securities</b>	<b>4,968</b>	<b>350</b>	<b>82</b>	<b>22</b>	<b>1,175</b>	<b>(1,237)</b>	<b>5,360</b>	<b>425</b>	<b>32</b>
<b>Derivative assets:</b>									
Interest rate and currency	41	(17)	—	4	—	(2)	26	10	—
Equity and other	153	(20)	—	—	—	—	133	(20)	—
<b>Total derivative assets</b>	<b>194</b>	<b>(37)</b>	<b>—</b>	<b>4</b>	<b>—</b>	<b>(2)</b>	<b>159</b>	<b>(10)</b>	<b>—</b>
<b>Total assets at fair value</b>	<b>\$ 10,624</b>	<b>\$ 1,123</b>	<b>\$ 82</b>	<b>\$ 460</b>	<b>\$ 1,393</b>	<b>\$ (1,911)</b>	<b>\$ 11,771</b>	<b>\$ 1,230</b>	<b>\$ 32</b>
<b>Borrowings:</b>									
Unstructured bonds	\$ (152)	\$ 1	\$ —	\$ (84)	\$ —	\$ 145	\$ (90)	\$ 1	\$ —
<b>Total borrowings</b>	<b>(152)</b>	<b>1</b>	<b>—</b>	<b>(84)</b>	<b>—</b>	<b>145</b>	<b>(90)</b>	<b>1</b>	<b>—</b>
<b>Derivative liabilities:</b>									
Interest rate and currency	(38)	5	—	(5)	—	28	(10)	(7)	—
Equity and other	(4)	(1)	—	—	—	—	(5)	(1)	—
<b>Total derivative liabilities</b>	<b>(42)</b>	<b>4</b>	<b>—</b>	<b>(5)</b>	<b>—</b>	<b>28</b>	<b>(15)</b>	<b>(8)</b>	<b>—</b>
<b>Total liabilities at fair value</b>	<b>\$ (194)</b>	<b>\$ 5</b>	<b>\$ —</b>	<b>\$ (89)</b>	<b>\$ —</b>	<b>\$ 173</b>	<b>\$ (105)</b>	<b>\$ (7)</b>	<b>\$ —</b>

a Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of June 30, 2021.

b 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, 2020 beginning balance as of June 30, 2021.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – 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 years ended June 30, 2023, June 30, 2022, and June 30, 2021.

(US\$ in millions)	For the year ended June 30, 2023				
	Purchases	Sales	Issuances	Settlements and others	Net
<b>Trading securities:</b>					
Asset-backed securities	\$ 67	\$ —	\$ —	\$ (12)	\$ 55
Government and agency obligations	97	—	—	—	97
<b>Total trading securities</b>	<b>164</b>	<b>—</b>	<b>—</b>	<b>(12)</b>	<b>152</b>
Loans	—	(37)	297	(159)	101
<b>Equity investments:</b>					
Banking and other financial institutions	116	(61)	—	13	68
Funds	146	(1)	—	(41)	104
Others	203	(416)	—	76	(137)
<b>Total equity investments</b>	<b>465</b>	<b>(478)</b>	<b>—</b>	<b>48</b>	<b>35</b>
<b>Debt securities:</b>					
Corporate debt securities	3,141	(2)	—	(921)	2,218
Preferred shares	112	(78)	—	(5)	29
Asset-backed securities	148	—	—	(251)	(103)
<b>Total debt securities</b>	<b>3,401</b>	<b>(80)</b>	<b>—</b>	<b>(1,177)</b>	<b>2,144</b>
<b>Derivative assets:</b>					
Interest rate and currency	—	—	53	2	55
Equity and other	—	—	—	(6)	(6)
<b>Total derivative assets</b>	<b>—</b>	<b>—</b>	<b>53</b>	<b>(4)</b>	<b>49</b>
<b>Total assets at fair value</b>	<b>\$ 4,030</b>	<b>\$ (595)</b>	<b>\$ 350</b>	<b>\$ (1,304)</b>	<b>\$ 2,481</b>
<b>Borrowings:</b>					
Unstructured bonds	\$ —	\$ —	\$ (121)	\$ —	\$ (121)
<b>Total borrowings</b>	<b>—</b>	<b>—</b>	<b>(121)</b>	<b>—</b>	<b>(121)</b>
<b>Derivative liabilities:</b>					
Interest rate and currency	—	—	(4)	2	(2)
<b>Total derivative liabilities</b>	<b>—</b>	<b>—</b>	<b>(4)</b>	<b>2</b>	<b>(2)</b>
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (125)</b>	<b>\$ 2</b>	<b>\$ (123)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – FAIR VALUE MEASUREMENTS (continued)

For the year ended June 30, 2022

(US\$ in millions)	Purchases	Sales	Issuances	Settlements and others	Net
<b>Trading securities:</b>					
Asset-backed securities	\$ 44	\$ —	\$ —	\$ (14)	\$ 30
Corporate debt securities	240	(120)	—	—	120
Government and agency obligations	220	—	—	(94)	126
<b>Total trading securities</b>	<b>504</b>	<b>(120)</b>	<b>—</b>	<b>(108)</b>	<b>276</b>
Loans	—	—	296	(125)	171
<b>Equity investments:</b>					
Banking and other financial institutions	112	(259)	—	(5)	(152)
Funds	119	(7)	—	(81)	31
Others	367	(434)	—	(166)	(233)
<b>Total equity investments</b>	<b>598</b>	<b>(700)</b>	<b>—</b>	<b>(252)</b>	<b>(354)</b>
<b>Debt securities:</b>					
Corporate debt securities	1,143	—	—	(825)	318
Preferred shares	—	(124)	—	(57)	(181)
Asset-backed securities	168	—	—	(136)	32
<b>Total debt securities</b>	<b>1,311</b>	<b>(124)</b>	<b>—</b>	<b>(1,018)</b>	<b>169</b>
<b>Derivative assets:</b>					
Interest rate and currency	—	—	6	3	9
Equity and other	—	—	—	1	1
<b>Total derivative assets</b>	<b>—</b>	<b>—</b>	<b>6</b>	<b>4</b>	<b>10</b>
<b>Total assets at fair value</b>	<b>\$ 2,413</b>	<b>\$ (944)</b>	<b>\$ 302</b>	<b>\$ (1,499)</b>	<b>\$ 272</b>
<b>Borrowings:</b>					
Unstructured bonds	\$ —	\$ —	\$ (214)	\$ —	\$ (214)
<b>Total borrowings</b>	<b>—</b>	<b>—</b>	<b>(214)</b>	<b>—</b>	<b>(214)</b>
<b>Derivative liabilities:</b>					
Interest rate and currency	—	—	(20)	3	(17)
<b>Total derivative liabilities</b>	<b>—</b>	<b>—</b>	<b>(20)</b>	<b>3</b>	<b>(17)</b>
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (234)</b>	<b>\$ 3</b>	<b>\$ (231)</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE R – FAIR VALUE MEASUREMENTS (continued)

For the year ended June 30, 2021

(US\$ in millions)	Purchases	Sales	Issuances	Settlements and others	Net
<b>Trading securities:</b>					
Asset-backed securities	\$ 109	\$ (17)	\$ —	\$ (5)	\$ 87
Corporate debt securities	282	—	—	—	282
Government and agency obligations	261	—	—	—	261
<b>Total trading securities</b>	<b>652</b>	<b>(17)</b>	<b>—</b>	<b>(5)</b>	<b>630</b>
Loans	—	(14)	373	(109)	250
<b>Equity investments:</b>					
Banking and other financial institutions	71	(368)	—	12	(285)
Funds	92	(1)	—	(181)	(90)
Others	174	(252)	—	7	(71)
<b>Total equity investments</b>	<b>337</b>	<b>(621)</b>	<b>—</b>	<b>(162)</b>	<b>(446)</b>
<b>Debt securities:</b>					
Corporate debt securities	965	(132)	—	(676)	157
Preferred shares	18	(77)	—	(19)	(78)
Asset-backed securities	89	—	—	(146)	(57)
<b>Total debt securities</b>	<b>1,072</b>	<b>(209)</b>	<b>—</b>	<b>(841)</b>	<b>22</b>
<b>Derivative assets:</b>					
Interest rate and currency	—	—	5	(1)	4
<b>Total derivative assets</b>	<b>—</b>	<b>—</b>	<b>5</b>	<b>(1)</b>	<b>4</b>
<b>Total assets at fair value</b>	<b>\$ 2,061</b>	<b>\$ (861)</b>	<b>\$ 378</b>	<b>\$ (1,118)</b>	<b>\$ 460</b>
<b>Borrowings:</b>					
Unstructured bonds	\$ —	\$ —	\$ (84)	\$ —	\$ (84)
<b>Total borrowings</b>	<b>—</b>	<b>—</b>	<b>(84)</b>	<b>—</b>	<b>(84)</b>
<b>Derivative liabilities:</b>					
Interest rate and currency	—	—	(4)	(1)	(5)
<b>Total derivative liabilities</b>	<b>—</b>	<b>—</b>	<b>(4)</b>	<b>(1)</b>	<b>(5)</b>
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (88)</b>	<b>\$ (1)</b>	<b>\$ (89)</b>

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 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 CONSOLIDATED FINANCIAL STATEMENTS

### NOTE S – SEGMENT REPORTING

For management purposes, IFC's business comprises three segments: investment services, treasury services, and upstream 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. Operationally, the treasury services segment consists of the borrowing, liquid asset management, asset and liability management and client risk management activities. Upstream and advisory services includes providing advisory services to government and private sector clients to create markets and mobilize private capital, and engages in early stage project development activities to develop bankable investment projects. 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 upstream 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. Upstream and advisory services are primarily assessed based on the level and adequacy of its funding sources (See Note U). 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 upstream and advisory services segments are detailed in Notes D, C, and U, respectively. An analysis of IFC's major components of income and expense by business segment for the years ended June 30, 2023, June 30, 2022 and June 30, 2021, is provided below:

(US\$ in millions)	For the year ended June 30, 2023			
	Investment services	Treasury services	Upstream and Advisory services	Total
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$ 2,290	\$ —	\$ —	\$ 2,290
Provision for losses on loans, off-balance sheet credit exposures and other receivables	(22)	—	—	(22)
Income from equity investments and associated derivatives	191	—	—	191
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	518	—	—	518
Provision for losses on available-for-sale debt securities	(7)	—	—	(7)
Income from liquid asset trading activities	—	1,464	—	1,464
Charges on borrowings	(1,375)	(1,223)	—	(2,598)
Upstream and Advisory services income	—	—	247	247
Service fees and other income	271	—	—	271
Administrative expenses	(1,201)	(53)	(176)	(1,430)
Upstream and Advisory services expenses	—	—	(317)	(317)
Other, net	15	3	8	26
Foreign currency transaction (losses) gains on non-trading activities	(86)	—	—	(86)
<b>Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA</b>	<b>594</b>	<b>191</b>	<b>(238)</b>	<b>547</b>
Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value	175	(50)	—	125
<b>Net income (loss)</b>	<b>\$ 769</b>	<b>\$ 141</b>	<b>\$ (238)</b>	<b>\$ 672</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5 – SEGMENT REPORTING (continued)

(US\$ in millions)	For the year ended June 30, 2022			
	Investment services	Treasury services	Upstream and Advisory services	Total
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$ 1,156	\$ —	\$ —	\$ 1,156
Provision for losses on loans, off-balance sheet credit exposures and other receivables	(126)	—	—	(126)
Income from equity investments and associated derivatives	208	—	—	208
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	414	—	—	414
Provision for losses on available-for-sale debt securities	(14)	—	—	(14)
Loss from liquid asset trading activities	—	(413)	—	(413)
Charges on borrowings	(194)	(108)	—	(302)
Upstream and Advisory services income	—	—	233	233
Service fees and other income	186	—	—	186
Administrative expenses <sup>a</sup>	(1,187)	(50)	(204)	(1,441)
Upstream and Advisory services expenses	—	—	(287)	(287)
Other, net	55	4	16	75
Foreign currency transaction gains on non-trading activities	76	—	—	76
<b>Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA</b>	<b>574</b>	<b>(567)</b>	<b>(242)</b>	<b>(235)</b>
Net unrealized losses on non-trading financial instruments accounted for at fair value	(123)	(106)	—	(229)
<b>Net income (loss)</b>	<b>\$ 451</b>	<b>\$ (673)</b>	<b>\$ (242)</b>	<b>\$ (464)</b>

a. Starting January 2023, upstream and advisory organizational units in IFC regional industry departments have been fully integrated to deliver holistic solutions to enable new investment opportunities for IFC and others, enhance the development impact and operational performance of existing IFC investments, and improve the enabling environment to open new markets for private sector investments. As a result, upstream administrative expenses of \$70 million previously reported in the Investment Services segment were reclassified to Upstream and Advisory services segment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5 – SEGMENT REPORTING (continued)

(US\$ in millions)	For the year ended June 30, 2021			
	Investment services	Treasury services	Upstream and Advisory services	Total
Income from loans and guarantees, including realized gains and losses on loans associated derivatives	\$ 1,116	\$ —	\$ —	\$ 1,116
Release of provision for losses on loans, off-balance sheet credit exposures and other receivables	201	—	—	201
Income from equity investments and associated derivatives	3,201	—	—	3,201
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	340	—	—	340
Provision for losses on available-for-sale debt securities	(3)	—	—	(3)
Income from liquid asset trading activities	—	327	—	327
Charges on borrowings	(223)	(103)	—	(326)
Upstream and Advisory services income	—	—	237	237
Service fees and other income	358	—	—	358
Administrative expenses <sup>a</sup>	(1,108)	(43)	(204)	(1,355)
Upstream and Advisory services expenses	—	—	(277)	(277)
Other, net	(40)	(3)	(12)	(55)
Foreign currency transaction losses on non-trading activities	(148)	—	—	(148)
<b>Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value</b>	<b>3,694</b>	<b>178</b>	<b>(256)</b>	<b>3,616</b>
Net unrealized gains on non-trading financial instruments accounted for at fair value	735	71	—	806
<b>Income (loss) before grants to IDA</b>	<b>4,429</b>	<b>249</b>	<b>(256)</b>	<b>4,422</b>
Grants to IDA	(213)	—	—	(213)
<b>Net income (loss)</b>	<b>\$ 4,216</b>	<b>\$ 249</b>	<b>\$ (256)</b>	<b>\$ 4,209</b>

a. Starting January 2023, upstream and advisory organizational units in IFC regional industry departments have been fully integrated to deliver holistic solutions to enable new investment opportunities for IFC and others, enhance the development impact and operational performance of existing IFC investments, and improve the enabling environment to open new markets for private sector investments. As a result, upstream administrative expenses of \$77 million reported in the Investment Services segment were reclassified to Upstream and Advisory services segment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE T – VARIABLE INTEREST ENTITIES

#### *Significant variable interests*

IFC has identified investments in 227 VIEs which are not consolidated by IFC but in which it is deemed to hold significant variable interests at June 30, 2023 (225 investments – June 30, 2022).

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 maximum exposure to loss as a result of its investments in these VIEs was \$5.3 billion at June 30, 2023 (\$5.2 billion – June 30, 2022). IFC's maximum exposure to loss is based on the unlikely event that all of the assets in the VIEs become worthless and incorporates not only potential losses associated with assets recorded on IFC's consolidated balance sheet (maximum funded exposure) but also potential losses associated with undisbursed commitments (maximum unfunded exposure). The maximum funded exposure represents the balance sheet carrying value of IFC's investment in the VIE and reflects the initial amount of cash invested in the VIE, adjusted for principal payments received, increases or declines in fair value and any impairment in value recognized in earnings. The maximum exposure of unfunded positions represents the remaining committed but undisbursed amount.

The carrying values and the maximum exposure of IFC's investment in these VIEs at June 30, 2023 and June 30, 2022 are as follows:

Nonconsolidated VIEs	June 30, 2023		June 30, 2022	
	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
(US\$ in millions)				
<b>Assets:</b>				
Investments				
Loans <sup>a</sup>	\$ 1,355	\$ 1,527	\$ 1,650	\$ 1,939
Equity Investments	1,399	2,426	1,409	2,116
Debt Securities	1,333	1,408	969	1,043
Derivative Assets <sup>b</sup>	—	—	5	5
<b>Liabilities:</b>				
Derivative Liabilities <sup>b</sup>	\$ (89)	\$ (89)	\$ (27)	\$ (27)
<b>Other Off-Balance Sheet Arrangements:</b>				
Guarantees	Not Applicable	\$ 55	Not Applicable	\$ 86

a The presented carrying value of the loans does not include the associated loan loss reserve of \$63 million and \$78 million as of June 30, 2023 and June 30, 2022, respectively.

b Represents Client Risk Management arrangements.

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 \$112 million are included in "Receivables and other assets" on IFC's consolidated balance sheet.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE U – UPSTREAM AND ADVISORY

IFC continues to address increasingly complex development challenges and is enhancing its creating markets strategy by undertaking both Upstream and Advisory activities. Specifically, IFC provides advisory services to government and private sector clients to create markets and mobilize private capital, and engages in early stage project development activities to develop bankable investment projects. IFC also works in collaboration with the World Bank to provide policy advice and develop activities that help create markets and support future transactions in multiple industries, especially in IDA eligible countries and FCS. IFC funds this business line by a combination of cash received from IFC shareholders' development agencies and other development partners, IFC's operations via retained earnings and operating budget allocations, as well as fees received from the recipients of the services.

As of June 30, 2023, other assets included undisbursed donor funds of \$574 million (\$606 million – June 30, 2022) and IFC's advisory services funding of \$327 million (\$331 million – June 30, 2022). Included in other liabilities as of June 30, 2023 is \$574 million (\$606 million – June 30, 2022) of refundable undisbursed donor funds.

Upstream and advisory services expenses in FY23 amounted to \$317 million (\$287 million and \$277 million in FY22 and FY21 respectively), including \$234 million in FY23 sourced from government and other development partners (\$217 million and \$220 million in FY22 and FY21 respectively). The funds received from government and other development partners were also recognized as advisory services income in IFC's consolidated statements of operations.

### NOTE V – PENSION AND OTHER POST-RETIREMENT BENEFITS

IBRD, IFC and MIGA participate in the defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) (collectively "the Pension Plans") that cover substantially all WBG employees, retirees and their beneficiaries.

The SRP provides pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides certain pension benefits administered outside the SRP.

IFC uses a June 30th measurement date for its pension and other post-retirement benefit plans.

All costs, assets, and liabilities associated with the Plans are allocated among IBRD, IFC, and MIGA based upon their employees' respective participation in the Pension Plans. Costs allocated to IBRD are substantially shared with IDA based on an agreed cost-sharing methodology. IDA, IFC, and MIGA reimburse IBRD for their proportionate share of any contributions made to the plans by IBRD. Contributions to the Pension Plans are calculated as a percentage of salary.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP allocated to IFC for the years ended June 30, 2023, June 30, 2022 and June 30, 2021. For the years ended June 30, 2023, June 30, 2022 and June 30, 2021, the service cost of \$255 million (\$339 million and \$300 million) are included in "Administrative expenses" respectively. The components of net periodic pension cost, other than the service cost component, are included in "Other, net" in the consolidated statement of operations.

(US\$ in millions)	For the year ended June 30,								
	SRP			RSBP			PEBP		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
<b>Pension Plan Benefit costs</b>									
Service cost	\$ 179	\$ 239	\$ 211	\$ 42	\$ 55	\$ 48	\$ 34	\$ 45	\$ 41
Other components:									
Interest cost	236	167	146	37	28	24	33	23	21
Expected return on plan assets	(290)	(270)	(203)	(56)	(52)	(37)	—	—	—
Amortization of unrecognized prior service cost	1	1	1	3	3	3	1	1	1
Amortization of unrecognized net actuarial (gains) losses	—	—	76	(6)	—	3	—	22	20
Sub total	<b>(53)</b>	<b>(102)</b>	<b>20</b>	<b>(22)</b>	<b>(21)</b>	<b>(7)</b>	<b>34</b>	<b>46</b>	<b>42</b>
<b>Net periodic pension cost</b>	<b>\$ 126</b>	<b>\$ 137</b>	<b>\$ 231</b>	<b>\$ 20</b>	<b>\$ 34</b>	<b>\$ 41</b>	<b>\$ 68</b>	<b>\$ 91</b>	<b>\$ 83</b>

The following table summarizes the Projected Benefit Obligations (PBO), fair value of plan assets, and funded status associated with the SRP, RSBP and PEBP for IFC for the years ended June 30, 2023 and June 30, 2022. Since the assets for the PEBP are not held in an irrevocable trust separate from the assets of IBRD, they do not qualify for off-balance sheet accounting and are therefore included in IBRD's investment portfolio. IFC has recognized a receivable (prepaid asset) from IBRD and a payable (liability) to IBRD equal to the amount required to support the Plan. The assets of the PEBP are mostly invested in fixed income, equity instruments and other fund investments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE V – PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)

(US\$ in millions)	SRP		RSBP		PEBP	
	2023	2022	2023	2022	2023	2022
<b>Projected benefit obligations</b>						
Beginning of year	\$ 5,426	\$ 6,239	\$ 842	\$ 990	\$ 739	\$ 849
Service cost	179	239	42	55	34	45
Interest cost	236	167	37	28	33	23
Net entity transfers	7	(29)	1	(2)	—	—
Participant contributions	58	55	5	4	3	2
Benefits paid	(171)	(199)	(16)	(15)	(13)	(13)
Actuarial (gain) loss	(458)	(1,046)	(146)	(218)	(86)	(167)
End of year	5,277	5,426	765	842	710	739
<b>Fair value of plan assets</b>						
Beginning of year	4,926	5,084	948	959	—	—
Net entity transfers	7	(29)	1	(2)	—	—
Participant contributions	58	55	5	4	—	—
Actual return on assets	298	(48)	60	(14)	—	—
Employer contributions	47	63	13	16	—	—
Benefits paid	(171)	(199)	(16)	(15)	—	—
End of year	5,165	4,926	1,011	948	—	—
<b>Funded status<sup>a</sup></b>	<b>(112)</b>	<b>(500)</b>	<b>246</b>	<b>106</b>	<b>(710)</b>	<b>(739)</b>
<b>Accumulated benefit obligations</b>	<b>\$ 4,867</b>	<b>\$ 4,981</b>	<b>\$ 765</b>	<b>\$ 842</b>	<b>\$ 647</b>	<b>\$ 655</b>

a Negative funded status is included in "Payables and other liabilities" and positive funded status is included in "Receivables and other assets" on the Balance Sheet.

As of June 30, 2023, the RSBP was overfunded by \$246 million. The SRP was underfunded by \$112 million and the PEBP, after reflecting IFC's share of assets which are included in the Pension and Other Post-retirement Benefits receivable from IBRD (\$704 million), was underfunded by \$6 million.

During the fiscal years ended June 30, 2023 and June 30, 2022, there were no amendments made to the retirement benefit plans.

The following tables present the amounts included in Accumulated Other Comprehensive Income (Loss) relating to Pension and Other Post-retirement Benefits:

#### Amounts included in Accumulated other comprehensive income at June 30, 2023:

(US\$ in millions)	SRP	RSBP	PEBP	Total
Net actuarial gain	\$ (202)	\$ (306)	\$ (30)	\$ (538)
Prior service cost	2	2	4	8
Net amount recognized in accumulated other comprehensive income	<b>\$ (200)</b>	<b>\$ (304)</b>	<b>\$ (26)</b>	<b>\$ (530)</b>

#### Amounts included in Accumulated other comprehensive loss at June 30, 2022:

(US\$ in millions)	SRP	RSBP	PEBP	Total
Net actuarial loss (gain)	\$ 264	\$ (161)	\$ 56	\$ 159
Prior service cost	3	5	5	13
Net amount recognized in accumulated other comprehensive loss	<b>\$ 267</b>	<b>\$ (156)</b>	<b>\$ 61</b>	<b>\$ 172</b>

#### Assumptions

The actuarial assumptions used are based on financial market interest rates, inflation expectations, past experience, and Management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations.

The expected long-term rate of return for the SRP assets is a weighted average of the expected long-term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE V – PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)

block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, duration-adjusted change in yields and risk premium/spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year end yield of AA corporate bonds.

Actuarial gains and losses occur when actual results are different from expected results. Amortization of these unrecognized gains and losses will be included in income if, at the beginning of the fiscal year, they exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If required, the unrecognized gains and losses are amortized over the expected average remaining service lives of the employee group.

The following tables present the weighted-average assumptions used in determining the projected benefit obligations for the years ended June 30, 2023 and June 30, 2022 and the net periodic pension costs for the years ended June 30, 2023, June 30, 2022 and June 30, 2021:

#### **Weighted average assumptions used to determine projected benefit obligations**

(In percent, except years)	SRP		RSBP		PEBP	
	2023	2022	2023	2022	2023	2022
Discount rate	4.90	4.40	4.90	4.50	4.90	4.50
Rate of compensation increase	5.10	5.30			5.10	5.30
Health care growth rates – at end of fiscal year			5.40	5.80		
Ultimate health care growth rate			4.20	4.40		
Year in which ultimate rate is reached			2031	2031		
Interest crediting rate	5.20	5.40	n.a	n.a	5.20	5.40

#### **Weighted average assumptions used to determine net periodic pension cost**

(In percent, except years)	SRP			RSBP			PEBP		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
Discount rate	4.40	2.70	2.60	4.50	2.80	2.70	4.50	2.80	2.60
Expected return on plan assets	5.90	5.40	5.10	5.90	5.40	5.10			
Rate of compensation increase	5.30	4.80	4.60				5.30	4.80	4.60
Health care growth rates – at end of fiscal year				5.80	5.40	5.40			
Ultimate health care growth rate				4.40	3.90	3.70			
Year in which ultimate rate is reached				2031	2031	2031			
Interest crediting rate	5.40	4.90	4.60	n.a	n.a	n.a	5.40	4.90	4.60

The medical cost trend rate can significantly affect the reported post-retirement benefit income or costs and benefit obligations for the RSBP. For the year ended June 30, 2023 and June 30, 2022, the actuarial gains were primarily due to an increase in the discount rates.

#### **Investment Strategy**

The investment policies establish the framework for investment of the Plan assets based on long-term investment objectives and the trade-offs inherent in seeking adequate investment returns within acceptable risk parameters. A key component of the investment policy is to establish a Strategic Asset Allocation (SAA) representing the policy portfolio (i.e., policy mix of assets) around which the SRP and RSBP (the Plans) are invested. The SAA is derived using a mix of quantitative analysis that incorporates expected returns and volatilities by asset class as well as correlations across the asset classes, and qualitative considerations such as the liquidity needs of the Plans. The SAA for the Plans is reviewed in detail and reset about every three to five years, with more frequent reviews and changes if and as needed based on market conditions.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE V – PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)

The key long-term objective is to generate asset performance that is reasonable in relation to the growth rate of the underlying liabilities and the assumed sponsor contribution rates, without taking undue risks. Given the relatively long investment horizons of the SRP and RSBP, and the relatively modest liquidity needs over the short-term to pay benefits and meet other cash requirements, the focus of the investment strategy is on generating sustainable long-term investment returns through a globally diversified set of strategies including fixed income, public and private equity and real assets. In April 2022, the Pension Finance Committee (PFC) approved a revision to the SAA band around the target allocation for private equity from +/-3 percent to +/-5 percent to accommodate the illiquid nature of this asset class and the limited ability to rebalance the allocation on a short-term basis, with the effective date of May 1, 2022. The changes do not materially alter the risk profile of the portfolio but are expected to slightly increase the efficiency of the allocation.

The following table presents the policy asset allocation at June 30, 2023 and the actual asset allocations at June 30, 2023 and June 30, 2022 by asset category for the SRP and RSBP.

Asset class	SRP			RSBP		
	Policy Allocation 2023 (%)	% of Plan Assets		Policy Allocation 2023 (%)	% of Plan Assets	
		2023	2022		2023	2022
Public equity	31	22	23	31	22	22
Fixed income & cash	20	16	17	20	16	17
Private equity	20	28	27	20	27	27
Real assets <sup>a</sup>	13	14	15	13	15	16
Market neutral hedge funds	10	11	10	10	11	10
Credit strategy	6	8	7	6	8	7
Other <sup>b</sup>	—	1	1	—	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

a Includes public and private real estate, infrastructure and timber.

b Includes authorized investments that are outside the policy allocations primarily in hedge funds.

#### Significant concentrations of risk in plan assets

The assets of the SRP and RSBP are diversified across a variety of asset classes. Investments in these asset classes are further diversified across funds, managers, strategies, geographies and sectors, to limit the impact of any individual investment. In spite of such level of diversification, equity market risk remains the primary source of the overall return volatility of the Plans. As of June 30, 2023, the largest exposure to a single counterparty was 9% and 11% of the Plan assets in SRP and RSBP, respectively (7% and 6%, respectively – June 30, 2022).

#### Risk management practices

Managing investment risk is an integral part of managing the assets of the Plans. Asset diversification is central to the overall investment strategy and risk management approach for the Plans. Absolute risk indicators such as the overall return volatility and drawdown of the Plans are the primary measures used to define the risk tolerance level and establish the overall level of investment risk. In addition, the level of active risk (defined as the annualized standard deviation of portfolio returns relative to those of the policy portfolio) is closely monitored and managed on an ongoing basis.

Market risk is regularly monitored at the absolute level, as well as at the relative levels with respect to the investment policy, manager benchmarks, and liabilities of the Plans. Stress tests are performed periodically using relevant market scenarios to assess the impact of extreme market events.

Monitoring of performance (at both manager and asset class levels) against benchmarks, and compliance with investment guidelines, are carried out on a regular basis which provides helpful information for assessing the impact on the portfolios caused by market risk factors. Risk management for different asset classes is tailored to their specific characteristics and is an integral part of the external managers' due diligence and monitoring processes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE V – PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)

Credit risk is monitored on a regular basis and assessed for possible credit event impacts. The liquidity position of the Plans is analyzed at regular intervals and periodically tested using various stress scenarios to ensure that the Plans have sufficient liquidity to meet all cash flow requirements. In addition, the long-term cash flow needs of the Plans are considered during the SAA exercise and are one of the main drivers in determining maximum allocation to the illiquid investment vehicles. The Plans mitigate operational risk by maintaining a system of internal controls along with other checks and balances at various levels.

#### *Fair value measurements and disclosures*

All plan assets are measured at fair value on a recurring basis. The following tables present the fair value hierarchy of major categories of plan assets as of June 30, 2023 and June 30, 2022:

(US\$ in millions)	June 30, 2023					
	SRP			RSBP		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Debt securities</b>						
Discount notes and time deposits	\$ 1	\$ 5	\$ 6	\$ 1	\$ 2	\$ 3
Securities purchased under resale agreements	6	—	6	3	—	3
Government and agency securities	502	71	573	118	19	137
Corporate and convertible bonds	—	65	65	—	14	14
Asset-backed securities	—	39	39	—	9	9
Mortgage-backed securities	—	63	63	—	13	13
<b>Total debt securities</b>	<b>509</b>	<b>243</b>	<b>752</b>	<b>122</b>	<b>57</b>	<b>179</b>
<b>Equity securities</b>						
US common stocks	52	—	52	16	—	16
Non-US common stocks	330	—	330	60	—	60
Real estate investment trusts	28	—	28	5	—	5
<b>Total equity securities</b>	<b>410</b>	<b>—</b>	<b>410</b>	<b>81</b>	<b>—</b>	<b>81</b>
<b>Other funds at NAV <sup>a</sup></b>						
Commingled funds	—	—	741	—	—	131
Private equity funds	—	—	1,440	—	—	275
Private credit	—	—	432	—	—	80
Hedge funds	—	—	618	—	—	112
Real estate funds (including infrastructure and timber)	—	—	700	—	—	146
<b>Total other funds</b>	<b>—</b>	<b>—</b>	<b>3,931</b>	<b>—</b>	<b>—</b>	<b>744</b>
Derivative assets/ liabilities	(2)	(1)	(3)	—	—	—
Other assets/ liabilities <sup>b</sup> , net	—	—	75	—	—	7
<b>Total Assets</b>	<b>\$ 917</b>	<b>\$ 242</b>	<b>\$ 5,165</b>	<b>\$ 203</b>	<b>\$ 57</b>	<b>\$ 1,011</b>

a Investments measured at fair value using NAV as a practical expedient have not been included under the fair value hierarchy.

b Includes receivables and payables carried at amounts that approximate fair value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE V – PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)

(US\$ in millions)	June 30, 2022					
	SRP			RSBP		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Debt securities</b>						
Discount notes and time deposits	\$ 4	\$ —	\$ 4	\$ 1	\$ —	\$ 1
Securities purchased under resale agreements	29	—	29	8	—	8
Government and agency securities	576	94	670	120	22	142
Corporate and convertible bonds	—	111	111	—	23	23
Asset-backed securities	—	43	43	—	9	9
Mortgage-backed securities	—	62	62	—	12	12
<b>Total debt securities</b>	<b>609</b>	<b>310</b>	<b>919</b>	<b>129</b>	<b>66</b>	<b>195</b>
<b>Equity securities</b>						
US common stocks	46	—	46	13	—	13
Non-US common stocks	335	—	335	61	—	61
Mutual funds	2	—	2	—	—	—
Real estate investment trusts	40	—	40	7	—	7
<b>Total equity securities</b>	<b>423</b>	<b>—</b>	<b>423</b>	<b>81</b>	<b>—</b>	<b>81</b>
<b>Other funds at NAV <sup>a</sup></b>						
Commingled funds	—	—	660	—	—	110
Private equity funds	—	—	1,313	—	—	253
Private credit	—	—	369	—	—	67
Hedge funds	—	—	545	—	—	98
Real estate funds (including infrastructure and timber)	—	—	680	—	—	140
<b>Total other funds</b>	<b>—</b>	<b>—</b>	<b>3,567</b>	<b>—</b>	<b>—</b>	<b>668</b>
Derivative assets/ liabilities	2	1	3	—	1	1
Other assets/ liabilities <sup>b</sup> , net	—	—	14	—	—	3
<b>Total Assets</b>	<b>\$ 1,034</b>	<b>\$ 311</b>	<b>\$ 4,926</b>	<b>\$ 210</b>	<b>\$ 67</b>	<b>\$ 948</b>

a Investments measured at fair value using NAV as a practical expedient have not been included under the fair value hierarchy.

b Includes receivables and payables carried at amounts that approximate fair value.

#### **Valuation methods and assumptions**

The following are general descriptions of asset categories, as well as the valuation methodologies and inputs used to determine the fair value of each major category of Plan assets. Investment amounts in the asset categories shown in the table above may be different from the asset category allocation shown in the Investment Strategy section of the note. Asset classes in the table above are grouped by the characteristics of the investments held. The asset class break-down in the Investment Strategy section is based on Management's view of the economic exposures after considering the impact of derivatives and certain trading strategies.

#### **Debt securities**

Debt securities include discount notes, securities purchased under resale agreements, U.S. treasuries and agencies, debt obligations of foreign governments, sub-sovereigns and debt obligations in corporations of domestic and foreign issuers. Debt securities also include investments in ABS such as collateralized mortgage obligations and MBS. These securities are valued by independent pricing vendors at quoted market prices for the same or similar securities, where available. If quoted market prices are not available, fair values are based on discounted cash flow models using market-based parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. Some debt securities are valued using techniques which require significant unobservable inputs. The selection of these inputs may involve some judgment. Management believes its estimates of fair value are reasonable given its processes for obtaining securities prices from multiple independent third-party vendors, ensuring that valuation models are reviewed and validated, and applying its approach consistently from period to period. Unless quoted prices are available, money market instruments and securities purchased under resale agreements are reported at face value which approximates fair value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE V – PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)

#### **Equity securities**

Equity securities (including Real Estate Investment Trusts) represent investments in entities in various industries and countries. Investments in public equity listed on securities exchanges are valued at the last reported sale price on the last business day of the fiscal year.

#### **Commingled funds**

Commingled funds are typically collective investment vehicles, such as trusts that are reported at NAV as provided by the investment manager or sponsor of the fund based on the valuation of underlying investments.

#### **Private equity funds**

Private equity funds include investments primarily in leveraged buyouts, growth capital, distressed investments and venture capital funds across North America, Europe and Asia in a variety of sectors. Many of these funds are in the investment phase of their life cycle. Private Equity investments do not have a readily determinable fair market value and are reported at NAV provided by the fund managers, taking into consideration the latest audited financial statements of the funds.

#### **Private credit funds**

Private credit funds include investments primarily in direct lending and opportunistic credit funds. Direct lending funds provide private financing to performing medium-size companies primarily owned by private equity sponsors. Opportunistic credit strategies (including distressed debt and multi-strategy funds) have flexible mandates to invest across both public and private markets globally. Private credit investments do not have a readily determinable fair value and are reported at NAV provided by the fund managers, taking into consideration the latest audited financial statements of the funds.

#### **Real estate funds (including infrastructure)**

Real estate funds include investments in core real estate, non-core real estate investments (such as debt, value add, and opportunistic equity investments) and infrastructure. Real estate investments do not have a readily determinable fair market value and are reported at NAV provided by the fund managers, taking into consideration the latest audited financial statements of the funds.

#### **Hedge funds**

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. Hedge Funds include investments in equity, event driven, fixed income, multi strategy and macro relative value strategies. These investments do not have a readily determinable fair market value and are reported at NAV provided by external managers or fund administrators (based on the valuations of underlying investments) monthly, taking into consideration the latest audited financial statements of the funds.

Investments in hedge funds and commingled funds can typically be redeemed at NAV within the near term while investments in private equity and most real estate are inherently long term and illiquid in nature with a quarter lag in reporting by the fund managers. Since the reporting of those asset classes is done with a lag, management estimates are based on the latest available information considering underlying market fundamentals and significant events through the balance sheet date.

#### **Investment in derivatives**

Investment in derivatives such as equity or bond futures, TBA securities, swaps, options and currency forwards are used to achieve a variety of objectives that include hedging interest rates and currency risks, gaining desired market exposure of a security, an index or currency exposure and rebalancing the portfolio. Over-the-counter derivatives are reported using valuations based on discounted cash flow methods incorporating observable market inputs.

#### **Estimated future benefits payments**

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation:

(US\$ in millions)	SRP	RSBP	PEBP
July 1, 2023 – June 30, 2024	\$ 207	\$ 15	\$ 24
July 1, 2024 – June 30, 2025	216	16	25
July 1, 2025 – June 30, 2026	229	18	27
July 1, 2026 – June 30, 2027	241	20	29
July 1, 2027 – June 30, 2028	259	22	32
July 1, 2028 – June 30, 2033	1,555	144	196

#### **Expected contributions**

IFC's contribution to the SRP and RSBP varies from year to year, as determined by the PFC, which bases its judgment on the results of annual actuarial valuations of the assets and liabilities of the SRP and RSBP. The best estimate of the amount of contributions expected to be paid to the SRP and RSBP by IFC during the fiscal year beginning July 1, 2023 is \$50 million and \$13 million, respectively.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

IFC does not present derivative assets and liabilities or amounts due or owed under resale, repurchase and securities lending transactions related to contracts entered into with the same counterparty under a legally enforceable netting agreement on a net basis on its consolidated balance sheet. The following table provides the gross and net positions of IFC's derivative contracts, resale, repurchase and securities lending agreements considering amounts and collateral held or pledged in accordance with enforceable counterparty credit support and netting agreements described below. The gross and net positions include derivative assets of \$258 million and derivative liabilities of \$455 million as of June 30, 2023, related to derivative 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.

(US\$ in millions)		June 30, 2023			
Assets	Gross amount of assets presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amount	
		Financial instruments	Collateral received		
Derivative assets	\$ 6,853 <sup>a</sup>	\$ 5,474	\$ 169 <sup>c</sup>	\$ 1,210	
Resale agreements	—	—	—	—	
<b>Total assets</b>	<b>\$ 6,853</b>	<b>\$ 5,474</b>	<b>\$ 169</b>	<b>\$ 1,210</b>	

(US\$ in millions)		June 30, 2023			
Liabilities	Gross amount of liabilities presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amount	
		Financial instruments	Cash Collateral pledged		
Derivative liabilities	\$ 12,283 <sup>b</sup>	\$ 5,474	\$ 5,159	\$ 1,650	
Repurchase and securities lending agreements	6,483	6,476	—	7	
<b>Total liabilities</b>	<b>\$ 18,766</b>	<b>\$ 11,950</b>	<b>\$ 5,159</b>	<b>\$ 1,657</b>	

(US\$ in millions)		June 30, 2022			
Assets	Gross amount of assets presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amount	
		Financial instruments	Collateral received		
Derivative assets	\$ 4,390 <sup>a</sup>	\$ 2,947	\$ 680 <sup>c</sup>	\$ 763	
Resale agreements	3,799	3,799	—	—	
<b>Total assets</b>	<b>\$ 8,189</b>	<b>\$ 6,746</b>	<b>\$ 680</b>	<b>\$ 763</b>	

(US\$ in millions)		June 30, 2022			
Liabilities	Gross amount of liabilities presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet		Net amount	
		Financial instruments	Cash Collateral pledged		
Derivative liabilities	\$ 8,203 <sup>b</sup>	\$ 2,947	\$ 4,324	\$ 932	
Repurchase and securities lending agreements	5,491	5,491	—	—	
<b>Total liabilities</b>	<b>\$ 13,694</b>	<b>\$ 8,438</b>	<b>\$ 4,324</b>	<b>\$ 932</b>	

<sup>a</sup> Includes accrued income of \$1.1 billion and \$534 million as of June 30, 2023 and June 30, 2022 respectively.

<sup>b</sup> Includes accrued charges of \$1.1 billion and \$303 million as of June 30, 2023 and June 30, 2022 respectively.

<sup>c</sup> Includes cash collateral of \$168 million and \$678 million as of June 30, 2023 and June 30, 2022 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 CONSOLIDATED FINANCIAL STATEMENTS

### NOTE W – 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 balance sheet. As of June 30, 2023, \$5.2 billion of cash collateral was posted under CSAs (\$4.4 billion June 30, 2022). 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 June 30, 2023, IFC had \$185 million (\$730 million – June 30, 2022) 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 June 30, 2023, all of which may be rehypothecated was \$1 million (\$2 million – June 30, 2022). As of June 30, 2023, \$0 of such collateral was rehypothecated under securities lending agreements (\$0 – June 30, 2022).

Collateral posted by IFC in connection with repurchase agreements approximates the amounts classified as Securities sold under repurchase agreements. At June 30, 2023 and June 30, 2022, no trading securities were pledged in connection with borrowings under a short-term discount note program, the carrying amount of which was \$3.0 billion at June 30, 2023 (\$2.3 billion – June 30, 2022).

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 \$93 million at June 30, 2023 (\$85 million – June 30, 2022). At June 30, 2023, 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 \$78 million would be required to be posted against net liability positions with counterparties at June 30, 2023 (\$70 million – June 30, 2022).

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 June 30, 2023 was \$0, (\$3.8 billion – June 30, 2022).

The following table presents an analysis of IFC's repurchase agreements by (1) class of collateral pledged and (2) their remaining contractual maturity as of June 30, 2023 and June 30, 2022:

(US\$ in millions)	Remaining Contractual Maturity of the Agreements – June 30, 2023					Total
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days		
<b>Repurchase agreements</b>						
U.S. Treasury securities	\$ —	\$ 1,479	\$ 3,530	\$ 1,474	\$ 6,483	
<b>Total Repurchase agreements<sup>a</sup></b>	<b>\$ —</b>	<b>\$ 1,479</b>	<b>\$ 3,530</b>	<b>\$ 1,474</b>	<b>\$ 6,483</b>	

<sup>a</sup> Includes accrued interest.

(US\$ in millions)	Remaining Contractual Maturity of the Agreements – June 30, 2022					Total
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days		
<b>Repurchase agreements</b>						
U.S. Treasury securities	\$ 38	\$ 1,503	\$ 2,814	\$ 1,144	\$ 5,499	
<b>Total Repurchase agreements<sup>a</sup></b>	<b>\$ 38</b>	<b>\$ 1,503</b>	<b>\$ 2,814</b>	<b>\$ 1,144</b>	<b>\$ 5,499</b>	

<sup>a</sup> Includes accrued interest.

As of both June 30, 2023 and June 30, 2022, IFC has no repurchase-to-maturity transactions nor securities lending transactions outstanding.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### **NOTE X – CONTINGENCIES**

In the normal course of its business, IFC is from time to time named as a defendant or co-defendant in 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.