

INTERNATIONAL FINANCE CORPORATION



Consolidated Financial Statements June 30, 2008

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

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INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED BALANCE SHEETS

as of June 30, 2008 and June 30, 2007

(US\$ millions)

	<u>2008</u>	<u>2007</u> (As restated)
Assets		
Cash and due from banks	\$ 344	\$ 382
Time deposits	8,418	4,979
Trading securities - Note B	12,346	14,297
Securities purchased under resale agreements	35	230
Investments - Notes C, D and E		
Loans (\$248 - June 30, 2008 and \$0 - June 30, 2007 at fair value) (net of reserves against losses of \$848 - June 30, 2008 and \$832 - June 30, 2007) - Notes C and D	14,381	11,818
Equity investments (\$4,702 - June 30, 2008 and \$0 - June 30, 2007 at fair value) - Note C	7,318	3,245
Debt securities - Notes C and E	<u>1,620</u>	<u>733</u>
Total investments	<u>23,319</u>	<u>15,796</u>
Derivative assets - Note P	1,630	1,151
Receivables and other assets - Note I	<u>3,379</u>	<u>3,764</u>
Total assets	<u>\$ 49,471</u>	<u>\$ 40,599</u>
Liabilities and capital		
Liabilities		
Securities sold under repurchase agreements and payable for cash collateral received	\$ 6,018	\$ 4,973
Borrowings outstanding - Note J		
From market sources (\$19,785 - June 30, 2008 and \$0 - June 30, 2007 at fair value)	20,207	15,817
From International Bank for Reconstruction and Development	<u>54</u>	<u>62</u>
Total borrowings	<u>20,261</u>	<u>15,879</u>
Derivative liabilities - Note P	1,408	1,285
Payables and other liabilities - Note K	<u>3,523</u>	<u>4,445</u>
Total liabilities	<u>31,210</u>	<u>26,582</u>
Capital		
Capital stock, authorized 2,450,000 shares of \$1,000 par value each - Note L		
Subscribed	2,366	2,366
Less: Portion not yet paid	<u>-</u>	<u>(1)</u>
Total capital stock	2,366	2,365
Accumulated other comprehensive income	2,703	442
Retained earnings	<u>13,192</u>	<u>11,210</u>
Total capital	<u>18,261</u>	<u>14,017</u>
Total liabilities and capital	<u>\$ 49,471</u>	<u>\$ 40,599</u>

INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED INCOME STATEMENTS

for each of the three years ended June 30, 2008

(US\$ millions)

	<u>2008</u>	<u>2007</u> (As restated)	<u>2006</u> (As restated)
Income from loans and guarantees - Note D	\$ 1,065	\$ 1,062	\$ 804
Income from equity investments - Note F	1,688	2,292	1,224
Income from debt securities - Note E	163	27	7
(Provision for) release of provision for losses on loans and guarantees - Note D	(38)	43	(15)
Income from liquid asset trading activities - Note B	473	618	444
Charges on borrowings - Note J	<u>(782)</u>	<u>(801)</u>	<u>(603)</u>
Income from loans and guarantees, equity investments, debt securities and liquid asset trading activities, after (provision for) release of provision for losses on loans and guarantees	2,569	3,241	1,861
Other income			
Service fees	58	53	52
Other - Note M	<u>55</u>	<u>46</u>	<u>57</u>
Total other income	<u>113</u>	<u>99</u>	<u>109</u>
Other expenses			
Administrative expenses - Notes T and U	549	482	436
Expense from pension and other postretirement benefit plans - Note S	3	15	28
Other	<u>3</u>	<u>3</u>	<u>13</u>
Total other expenses	<u>555</u>	<u>500</u>	<u>477</u>
Foreign currency transaction (losses) gains on non-trading activities	(39)	(5)	6
Income before expenditures for advisory services, expenditures for performance-based grants, grants to IDA and net unrealized gains (losses) on other non-trading financial instruments accounted for at fair value	2,088	2,835	1,499
Expenditures for advisory services - Note N	(123)	(96)	(55)
Expenditures for performance-based grants - Note N	(27)	-	(35)
Grants to IDA - Note N	<u>(500)</u>	<u>(150)</u>	<u>-</u>
Income before net unrealized gains (losses) on other non-trading financial instruments accounted for at fair value	1,438	2,589	1,409
Net unrealized gains (losses) on other non-trading financial instruments accounted for at fair value - Note O	<u>109</u>	<u>(99)</u>	<u>(145)</u>
Net income	<u>\$ 1,547</u>	<u>\$ 2,490</u>	<u>\$ 1,264</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for each of the three years ended June 30, 2008

(US\$ millions)

	<u>2008</u>	<u>2007</u> (As restated)	<u>2006</u> (As restated)
Net income	\$ 1,547	\$ 2,490	\$ 1,264
Other comprehensive income (loss)			
Net unrealized gains on debt securities arising during the year	126	138	56
Less: reclassification adjustment for realized gains included in net income	(104)	(1)	-
Net unrealized gains on debt securities	<u>22</u>	<u>137</u>	<u>56</u>
Net unrealized gains on equity investments arising during the year	92	-	-
Less: reclassification adjustment for realized gains included in net income	(570)	-	-
Net unrealized losses on equity investments	<u>(478)</u>	<u>-</u>	<u>-</u>
Unrecognized net actuarial losses and unrecognized prior service costs on benefit plans	(206)	-	-
Translation adjustments on investments accounted for under the equity method	<u>-</u>	<u>2</u>	<u>-</u>
Total comprehensive income	<u>\$ 885</u>	<u>\$ 2,629</u>	<u>\$ 1,320</u>

INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

for each of the three years ended June 30, 2008

(US\$ millions)

	Retained earnings			Accumulated other comprehensive income (As restated)	Capital stock [†] (As restated)	Total capital (As restated)
	Undesignated (As restated)	Designated (As restated)	Total (As restated)			
At July 1, 2005	\$ 6,894	\$ 562	\$ 7,456	\$ 1	\$ 2,364	\$ 9,821
Year ended June 30, 2006						
Net income	1,264		1,264			1,264
Other comprehensive income.....				56		56
Expenditures against designated retained earnings - Note N.....	90	(90)	-			-
Designations of retained earnings - Note N	(380)	380	-			-
At June 30, 2006	\$ 7,868	\$ 852	\$ 8,720	\$ 57	\$ 2,364	\$ 11,141
Year ended June 30, 2007						
Net income	2,490		2,490			2,490
Other comprehensive income.....				139		139
Expenditures against designated retained earnings - Note N.....	246	(246)	-			-
Adjustments to initially apply SFAS No. 158 - Note S.....				246		246
Payments received for capital stock subscribed.....					1	1
At June 30, 2007	\$ 10,604	\$ 606	\$ 11,210	\$ 442	\$ 2,365	\$ 14,017
Cumulative effect of adoption of SFAS No. 157 - Note X.....				2,925		2,925
Cumulative effect of adoption of SFAS No. 159 - Note X.....	435		435	(2)		433
At June 30, 2007 after cumulative effect adjustments	\$ 11,039	\$ 606	\$ 11,645	\$ 3,365	\$ 2,365	\$ 17,375
Year ended June 30, 2008						
Net income.....	1,547		1,547			1,547
Other comprehensive income (loss).....				(662)		(662)
Expenditures against designated retained earnings - Note N.....	650	(650)	-			-
Designations of retained earnings - Note N.....	(870)	870	-			-
Payments received for capital stock subscribed.....					1	1
At June 30, 2008	\$ 12,366	\$ 826	\$ 13,192	\$ 2,703	\$ 2,366	\$ 18,261

[†] Capital stock includes payments received on account of pending subscriptions.

INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

for each of the three years ended June 30, 2008

(US\$ millions)

	2008	2007 (As restated)	2006 (As restated)
Cash flows from investment activities			
Loan disbursements	\$ (5,076)	\$ (4,490)	\$ (3,647)
Equity disbursements	(1,622)	(1,057)	(665)
Investments in debt securities	(952)	(294)	(116)
Loan repayments	2,658	2,558	2,746
Equity redemptions	29	1	2
Debt securities repayments	15	4	6
Sales of loans	59	-	-
Sales of equity investments	1,590	2,515	1,451
Sales of debt securities	155	2	5
Net cash used in investing activities	(3,144)	(761)	(218)
Cash flows from financing activities			
Drawdown of borrowings	6,294	2,843	1,816
Repayment of borrowings	(2,425)	(2,326)	(2,611)
Capital subscriptions	1	1	-
Net cash provided by (used in) financing activities	3,870	518	(795)
Cash flows from operating activities			
Net income	1,547	2,490	1,264
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized gains on equity investments	(1,396)	(1,941)	(928)
Realized gains on debt securities	(104)	(1)	-
Unrealized gains on equity investments accounted for under the Fair Value Option	(12)	-	-
Income from investments accounted for under the equity method	-	(19)	(56)
Equity investment impairment write-downs	140	40	57
Provision (release of provisions) for losses on loans and guarantees	38	(43)	15
Foreign currency transaction losses (gains) on non-trading activities	39	5	(6)
Net (gains) losses on other non-trading financial instruments accounted for at fair value	(109)	99	145
Change in accrued income on loans, time deposits and securities	(38)	1,100	(150)
Change in payables and other liabilities	(1,649)	2,460	(375)
Change in receivables and other assets	1,146	(855)	(224)
Change in trading securities and securities purchased and sold under resale and repurchase agreements	2,990	(832)	2,416
Net cash provided by operating activities	2,592	2,503	2,158
Change in cash and cash equivalents	3,318	2,260	1,145
Effect of exchange rate changes on cash and cash equivalents	83	(17)	35
Net change in cash and cash equivalents	3,401	2,243	1,180
Beginning cash and cash equivalents	5,361	3,118	1,938
Ending cash and cash equivalents	\$ 8,762	\$ 5,361	\$ 3,118
Composition of cash and cash equivalents			
Cash and due from banks	\$ 344	\$ 382	\$ 159
Time deposits	8,418	4,979	2,959
Total cash and cash equivalents	\$ 8,762	\$ 5,361	\$ 3,118
Supplemental disclosure			
Change in ending balances resulting from exchange rate fluctuations:			
Loans outstanding	\$ (421)	\$ (211)	\$ (49)
Borrowings	725	201	(355)
Currency swaps	-	-	(1)
Charges on borrowings paid, net	827	790	555
Non-cash item:			
Loan and debt securities conversion to equity, net	109	72	98

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

INTERNATIONAL FINANCE CORPORATION

STATEMENT OF CAPITAL STOCK AND VOTING POWER

as of June 30, 2008

(US\$ 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	\$ 111	*	361	0.02	Lebanon	\$ 135	0.01	385	0.02
Albania	1,302	0.06	1,552	0.06	Lesotho	71	*	321	0.01
Algeria	5,621	0.24	5,871	0.24	Liberia	83	*	333	0.01
Angola	1,481	0.06	1,731	0.07	Libya	55	*	305	0.01
Antigua and Barbuda	13	*	263	0.01	Lithuania	2,341	0.10	2,591	0.11
Argentina	38,129	1.61	38,379	1.59	Luxembourg	2,139	0.09	2,389	0.10
Armenia	992	0.04	1,242	0.05	Macedonia, FYR of	536	0.02	786	0.03
Australia	47,329	2.00	47,579	1.97	Madagascar	432	0.02	682	0.03
Austria	19,741	0.83	19,991	0.83	Malawi	1,822	0.08	2,072	0.09
Azerbaijan	2,367	0.10	2,617	0.11	Malaysia	15,222	0.64	15,472	0.64
Bahamas, The	335	0.01	585	0.02	Maldives	16	*	266	0.01
Bahrain	1,746	0.07	1,996	0.08	Mali	451	0.02	701	0.03
Bangladesh	9,037	0.38	9,287	0.39	Malta	1,615	0.07	1,865	0.08
Barbados	361	0.02	611	0.03	Marshall Islands	663	0.03	913	0.04
Belarus	5,162	0.22	5,412	0.22	Mauritania	214	0.01	464	0.02
Belgium	50,610	2.14	50,860	2.11	Mauritius	1,665	0.07	1,915	0.08
Belize	101	*	351	0.01	Mexico	27,589	1.17	27,839	1.16
Benin	119	0.01	369	0.02	Micronesia, Fed. States of	744	0.03	994	0.04
Bhutan	720	0.03	970	0.04	Moldova	1,192	0.05	1,442	0.06
Bolivia	1,902	0.08	2,152	0.09	Mongolia	144	0.01	394	0.02
Bosnia and Herzegovina	620	0.03	870	0.04	Montenegro	1,035	0.04	1,285	0.05
Botswana	113	*	363	0.02	Morocco	9,037	0.38	9,287	0.39
Brazil	39,479	1.67	39,729	1.65	Mozambique	322	0.01	572	0.02
Bulgaria	4,867	0.21	5,117	0.21	Myanmar	666	0.03	916	0.04
Burkina Faso	836	0.04	1,086	0.05	Namibia	404	0.02	654	0.03
Burundi	100	*	350	0.01	Nepal	822	0.03	1,072	0.04
Cambodia	339	0.01	589	0.02	Netherlands	56,131	2.37	56,381	2.34
Cameroon	885	0.04	1,135	0.05	New Zealand	3,583	0.15	3,833	0.16
Canada	81,342	3.44	81,592	3.39	Nicaragua	715	0.03	965	0.04
Cape Verde	15	*	265	0.01	Niger	147	0.01	397	0.02
Central African Republic	119	0.01	369	0.02	Nigeria	21,643	0.91	21,893	0.91
Chad	1,364	0.06	1,614	0.07	Norway	17,599	0.74	17,849	0.74
Chile	11,710	0.50	11,960	0.50	Oman	1,187	0.05	1,437	0.06
China	24,500	1.04	24,750	1.03	Pakistan	19,380	0.82	19,630	0.81
Colombia	12,606	0.53	12,856	0.53	Palau	25	*	275	0.01
Comoros	14	*	264	0.01	Panama	1,007	0.04	1,257	0.05
Congo, Dem. Rep. of	2,159	0.09	2,409	0.10	Papua New Guinea	1,147	0.05	1,397	0.06
Congo, Republic of	131	0.01	381	0.02	Paraguay	436	0.02	686	0.03
Costa Rica	952	0.04	1,202	0.05	Peru	6,898	0.29	7,148	0.30
Côte d'Ivoire	3,544	0.15	3,794	0.16	Philippines	12,606	0.53	12,856	0.53
Croatia	2,882	0.12	3,132	0.13	Poland	7,236	0.31	7,486	0.31
Cyprus	2,139	0.09	2,389	0.10	Portugal	8,324	0.35	8,574	0.36
Czech Republic	8,913	0.38	9,163	0.38	Romania	2,661	0.11	2,911	0.12
Denmark	18,554	0.78	18,804	0.78	Russian Federation	81,342	3.44	81,592	3.39
Djibouti	21	*	271	0.01	Rwanda	306	0.01	556	0.02
Dominica	42	*	292	0.01	Saint Kitts and Nevis	638	0.03	888	0.04
Dominican Republic	1,187	0.05	1,437	0.06	St. Lucia	74	*	324	0.01
Ecuador	2,161	0.09	2,411	0.10	Samoa	35	*	285	0.01
Egypt, Arab Republic of	12,360	0.52	12,610	0.52	Saudi Arabia	30,062	1.27	30,312	1.26
El Salvador	29	*	279	0.01	Senegal	2,299	0.10	2,549	0.11
Equatorial Guinea	43	*	293	0.01	Serbia	1,803	0.08	2,053	0.09
Eritrea	935	0.04	1,185	0.05	Seychelles	27	*	277	0.01
Estonia	1,434	0.06	1,684	0.07	Sierra Leone	223	0.01	473	0.02
Ethiopia	127	0.01	377	0.02	Singapore	177	0.01	427	0.02
Fiji	287	0.01	537	0.02	Slovak Republic	4,457	0.19	4,707	0.20
Finland	15,697	0.66	15,947	0.66	Slovenia	1,585	0.07	1,835	0.08
France	121,015	5.12	121,265	5.03	Solomon Islands	37	*	287	0.01
Gabon	1,268	0.05	1,518	0.06	Somalia	83	*	333	0.01
Gambia, The	94	*	344	0.01	South Africa	15,948	0.67	16,198	0.67
Georgia	1,161	0.05	1,411	0.06	Spain	37,026	1.57	37,276	1.55
Germany	128,908	5.45	129,158	5.36	Sri Lanka	7,135	0.30	7,385	0.31
Ghana	5,071	0.21	5,321	0.22	Sudan	111	*	361	0.02
Greece	6,898	0.29	7,148	0.30	Swaziland	684	0.03	934	0.04
Grenada	74	*	324	0.01	Sweden	26,876	1.14	27,126	1.13
Guatemala	1,084	0.05	1,334	0.06	Switzerland	41,580	1.76	41,830	1.74
Guinea	339	0.01	589	0.02	Syrian Arab Republic	194	0.01	444	0.02
Guinea-Bissau	18	*	268	0.01	Tajikistan	1,212	0.05	1,462	0.06
Guyana	1,392	0.06	1,642	0.07	Tanzania	1,003	0.04	1,253	0.05
Haiti	822	0.03	1,072	0.04	Thailand	10,941	0.46	11,191	0.46
Honduras	495	0.02	745	0.03	Timor-Leste	777	0.03	1,027	0.04
Hungary	10,932	0.46	11,182	0.46	Togo	808	0.03	1,058	0.04
Iceland	42	*	292	0.01	Tonga	34	*	284	0.01
India	81,342	3.44	81,592	3.39	Trinidad and Tobago	4,112	0.17	4,362	0.18
Indonesia	28,539	1.21	28,789	1.19	Tunisia	3,566	0.15	3,816	0.16
Iran, Islamic Republic of	1,444	0.06	1,694	0.07	Turkey	14,545	0.61	14,795	0.61
Iraq	147	0.01	397	0.02	Turkmenistan	810	0.03	1,060	0.04
Ireland	1,290	0.05	1,540	0.06	Uganda	735	0.03	985	0.04
Israel	2,135	0.09	2,385	0.10	Ukraine	9,505	0.40	9,755	0.40
Italy	81,342	3.44	81,592	3.39	United Arab Emirates	4,033	0.17	4,283	0.18
Jamaica	4,282	0.18	4,532	0.19	United Kingdom	121,015	5.12	121,265	5.03
Japan	141,174	5.97	141,424	5.87	United States	569,379	24.07	569,629	23.63
Jordan	941	0.04	1,191	0.05	Uruguay	3,569	0.15	3,819	0.16
Kazakhstan	4,637	0.20	4,887	0.20	Uzbekistan	3,873	0.16	4,123	0.17
Kenya	4,041	0.17	4,291	0.18	Vanuatu	55	*	305	0.01
Kiribati	12	*	262	0.01	Venezuela, Rep. Boliv. de	27,588	1.17	27,838	1.15
Korea, Republic of	15,946	0.67	16,196	0.67	Vietnam	446	0.02	696	0.03
Kuwait	9,947	0.42	10,197	0.42	Yemen, Republic of	715	0.03	965	0.04
Kyrgyz Republic	1,720	0.07	1,970	0.08	Zambia	1,286	0.05	1,536	0.06
Lao People's Dem. Rep.	278	0.01	528	0.02	Zimbabwe	2,120	0.09	2,370	0.10
Latvia	2,150	0.09	2,400	0.10					
					Total June 30, 2008	\$ 2,365,634	100.00+	2,410,384	100.00+
					Total June 30, 2007	\$ 2,365,102	100.00+	2,409,852	100.00+

* Less than .005 percent.

+ May differ from the sum of the individual percentages shown because of rounding.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, which also includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA). 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 and equity investments 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 project funding from other investors and lenders, either through cofinancing or through loan participations, underwritings and guarantees. In addition to project finance and resource mobilization, IFC offers an array of financial and technical advisory services to private businesses in the developing world to increase their chances of success. It also advises governments on how to create an environment hospitable to the growth of private enterprise and foreign investment.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

The consolidated financial statements include the financial statements of IFC and two variable interest entities (VIEs) (see Note W). The accounting and reporting policies of IFC conform with accounting principles generally accepted in the United States of America (US GAAP). On August 7, 2008, the Board of Directors of IFC (the Board) approved these consolidated financial statements for issue.

Consolidated financial statements presentation - Certain amounts in the prior years have been reclassified to conform to the current year's presentation.

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 adequacy of the reserve against losses on loans and impairment of equity investments; estimated fair values of financial instruments accounted for at fair value (including equity investments, debt securities, loans, trading securities and derivative instruments) 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 accounted for at fair value and the aggregate level of the reserve against losses on loans and impairment of equity investments. IFC undertakes continuous review and respecification 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. See Note X for more information on IFC's use of fair value measurements.

Fair Value Option and Fair Value Measurements – IFC adopted the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option of Financial Assets and Financial Liabilities* (SFAS No. 159 or the Fair Value Option) as of July 1, 2007 and elected to apply the Fair Value Option to the following financial assets and financial liabilities existing at the time of adoption and entered into during the year ended June 30, 2008:

- (i) direct equity investments in which IFC has significant influence and loans to such investees;
- (ii) direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence and certain investments in Limited Liability Partnerships (LLPs) and Limited Liability Corporations (LLCs) that maintain specific ownership accounts and loans or guarantees to such investees; and
- (iii) all market borrowings, except for such borrowings having no associated derivative instruments.

The reasons for electing the Fair Value Option for these financial assets and financial liabilities and more information about the adoption of SFAS No. 159 are discussed in more detail in Note X.

IFC also adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) effective July 1, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. Pursuant to the adoption of SFAS No. 157, IFC now reports equity investments that are listed in markets that provide readily determinable fair values at fair value, with unrealized gains and losses being reported in other comprehensive income. Further disclosures of fair value measurements are provided in Note X.

Translation of currencies – Assets and liabilities not denominated in United States dollars (US dollars or \$), other than disbursed equity investments, are expressed in US dollars at the exchange rates prevailing at June 30, 2008 and June 30, 2007. Disbursed equity investments, other than those accounted for at fair value, are expressed in US dollars at the prevailing exchange rates at the time of disbursement. Income and expenses are recorded based on the rates of exchange prevailing at the time of the transaction. Transaction gains and losses are credited or charged to income.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Effective July 1, 2007, certain loans are carried at fair value in accordance with the Fair Value Option as noted above and as discussed in more detail in Note X. Unrealized gains and losses on loans accounted for at fair value under the Fair Value Option are reported in income from loans and guarantees on the consolidated income statement.

IFC enters into loans with income participation, prepayment and conversion features; these features are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended to the extent they meet the definition of a derivative and are not considered to be clearly and closely related to their host loan contracts.

Revenue recognition on loans – Interest income and commitment fees on loans are recorded as income on an accrual basis. Net loan origination costs and fees are amortized over the estimated life of the originated loan to which the fees relate. Prepayment fees are recorded as income when received in freely convertible currencies.

IFC does not recognize income on loans where collectibility 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.

Reserve against losses on loans – IFC recognizes impairment 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. Individually impaired loans are measured based on the present value of expected future cash flows to be received, observable market prices, or for loans that are dependent on collateral for repayment, the estimated fair value of the collateral.

Management determines the aggregate level of the reserve against losses on loans, taking into account established guidelines and its assessment of recent portfolio quality trends. The guidelines include internal country and loan risk ratings, and the impairment potential of the loan portfolio based on IFC's historical portfolio loss experience on mature loans.

The reserve against losses on loans reflects estimates of both probable losses already identified and probable losses inherent in the portfolio but not specifically identifiable. The determination of identified probable losses represents management's judgment of the creditworthiness of the borrower. Reserves against losses are established through a review of individual loans undertaken on a quarterly basis. IFC considers a loan as impaired when, based on current information and events, it is probable that IFC will be unable to collect all amounts due according to the loan's contractual terms. Unidentified probable losses are the expected losses over a three-year risk horizon, in excess of identified probable losses. The risks inherent in the portfolio that are considered in determining unidentified probable losses are those proven to exist by past experience and include: country systemic risk; the risk of correlation or contagion of losses between markets; uninsured and uninsurable risks; nonperformance under guarantees and support agreements; and opacity of, or misrepresentation in, financial statements.

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

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

Revenue recognition on equity investments – Effective July 1, 2007, equity investments which are listed in markets that provide readily determinable fair values are accounted for as available-for-sale securities at fair value with unrealized gains and losses being reported in other comprehensive income in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. As noted above under "Fair Value Option and Fair Value Measurements", also effective July 1, 2007, direct equity investments in which IFC has significant influence, direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence and certain investments in LLPs and LLCs that maintain specific ownership accounts are accounted for at fair value under the Fair Value Option. Direct equity investments in which IFC does not have significant influence (and prior to July 1, 2007 certain investments representing more than 20% ownership) and which are not listed in markets that provide readily determinable fair values are carried at cost less impairment.

Prior to July 1, 2007, IFC's investments in companies where it had significant influence and certain investments in LLPs and LLCs that maintain specific ownership accounts were accounted for under the equity method.

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

Unrealized gains and losses on equity investments accounted for at fair value under the Fair Value Option are reported in income from equity investments on the consolidated income statement. Unrealized gains and losses on equity investments listed in markets that provide readily determinable fair values are reported in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dividends and profit participations received on equity investments are generally recorded as income when received in freely convertible currencies. Realized gains on the sale or redemption of equity investments are measured against the average cost of the investments sold and are generally recorded as income in income from equity investments when received in freely convertible currencies. Capital losses are recognized when incurred.

IFC enters into put and call option and warrant agreements in connection with equity investments; these are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended to the extent they meet the definition of a derivative.

Impairment of equity investments – Equity investments accounted for at cost less impairment are assessed for impairment each quarter. When impairment is identified and is deemed to be other than temporary, the equity investment is written down to the impaired value, which becomes the new cost basis in the equity investment. Impairment losses are not reversed for subsequent recoveries in value of the equity investment until it is sold.

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

IFC invests in certain debt securities with conversion features; these features are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended to the extent they meet the definition of a derivative.

Guarantees – IFC extends financial guarantee facilities to its clients to provide credit enhancement for their debt securities and trade obligations. IFC offers partial credit guarantees to clients covering, on a risk-sharing basis, client obligations on bonds and/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: (1) the stand-ready obligation to perform and (2) the contingent liability. The fair value of the stand-ready obligation to perform is recognized at the inception of the guarantee unless a contingent liability exists at that time or is expected to exist in the near term. The contingent liability associated with the financial guarantee is recognized when it is probable the guarantee will be called and when the amount of guarantee called can be reasonably estimated. 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. When the guarantees are called, the amount disbursed is recorded as a new loan, and specific reserves against losses are established, based on the estimated probable loss. Guarantee fees are recorded in income as the stand-ready obligation to perform is fulfilled. Commitment fees on guarantees are recorded as income on an accrual basis.

Designations of retained earnings – IFC establishes funding mechanisms for specific Board approved purposes through designations of retained earnings. Total designations of retained earnings are determined based on IFC's annual income before expenditures against designated retained earnings and net gains and losses on other non-trading financial instruments accounted for at fair value in excess of \$150 million, and contemplating the financial capacity and strategic priorities of IFC.

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

Liquid asset portfolio – 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 long and short positions in highly rated 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. The liquid asset portfolio, as defined by IFC, consists of: time deposits and securities; related derivative instruments; securities purchased under resale agreements, securities sold under repurchase agreements and payable for cash collateral received; receivables from sales of securities and payables for purchases of securities; and related accrued income and charges.

Securities and related derivative instruments within IFC's liquid asset portfolio are classified as trading and are carried at fair value with any changes in fair value reported in income from liquid asset trading activities. Interest on securities and amortization of premiums and accretion of discounts are also reported in income from liquid asset trading activities.

IFC classifies cash and due from banks and time deposits (collectively, cash and cash equivalents) as cash and cash equivalents in the consolidated statement of cash flows because they are generally readily convertible to known amounts of cash within 90 days of acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Repurchase and resale 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.

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 and resale 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. Generally, IFC simultaneously converts such borrowings into variable rate US dollar borrowings through the use of currency and interest rate swap transactions. 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.

Effective July 1, 2007, substantially all borrowings are carried at fair value under the Fair Value Option with changes in fair value reported in net unrealized gains and losses on other non-trading financial instruments accounted for at fair value on the consolidated income statement.

Prior to July 1, 2007, where borrowings were part of a designated hedging relationship employing derivative instruments, the carrying amount was adjusted for changes in fair value attributable to the risk being hedged. Adjustments for changes in fair value attributable to hedged risks were reported in net unrealized gains and losses on other non-trading financial instruments accounted for at fair value in the consolidated income statement. All other borrowings were recorded at the amount repayable at maturity, adjusted for unamortized premiums and unaccreted discounts.

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

Risk management and use of derivative instruments – IFC enters into transactions in various derivative instruments 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.

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, debt securities and equity investments are bifurcated from the host contract and recorded at fair value as derivative assets and liabilities. The value at inception of such embedded derivatives is excluded from the carrying value 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 other non-trading financial instruments accounted for at fair value.

Prior to July 1, 2007, IFC designated certain hedging relationships in its borrowing activities as fair value hedges. For a derivative instrument qualifying as a fair value hedge, fair value gains or losses on the derivative instrument were reported in net unrealized gains and losses on other non-trading financial instruments accounted for at fair value, together with offsetting fair value gains or losses on the hedged item that were attributable to the risk being hedged. IFC generally matches the terms of its derivatives with the terms of the specific underlying borrowing hedged, in terms of currencies, maturity dates, reset dates, interest rates, and other features. However, the valuation methodologies applied to the derivative and the hedged financial instrument differed. The resulting ineffectiveness calculated for such relationships was recorded in net gains and losses on other non-trading financial instruments accounted for at fair value in the consolidated income statement. Fair value gains and losses on derivative instruments not in the liquid asset portfolio and not qualifying as a hedge were reported in the net unrealized gains and losses on other non-trading financial instruments accounted for at fair value.

IFC has not designated any hedging relationships as cash flow hedges and subsequent to June 30, 2007, IFC has not designated any hedging relationships as fair value hedges.

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, rate basis, and maturity of its loans and borrowings. Derivative instruments are used to convert the cash flows from fixed rate US dollar or non-US dollar loans into variable rate US dollars. IFC has elected not to designate any hedging relationships for all lending-related derivatives.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 uses derivative instruments with matching terms, primarily currency and interest rate swaps, to convert such borrowings into variable rate US dollar obligations, consistent with IFC's matched funding policy. Prior to July 1, 2007 IFC designated the majority of derivatives associated with borrowing activities as fair value hedges of the underlying borrowings. There were a small number of fair value-like and cash flow-like hedging transactions for which no hedge relationships were designated. Effective July 1, 2007, IFC elected to carry at fair value, under the Fair Value Option, all market borrowings for which a derivative instrument is used to create a fair value-like or cash flow-like hedge relationship. Changes in the fair value of such borrowings and the associated derivatives are reported in net unrealized gains and losses on other non-trading financial instruments accounted for at fair value in the consolidated income statement. Subsequent to June 30, 2007, these items are no longer designated as hedges.

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

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. Interest rate risk arising from mismatches due to writedowns, 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 governing derivative transactions that contain close-out and netting provisions and collateral arrangements. Under these agreements, if IFC's credit exposure to a counterparty, on a mark-to-market basis, exceeds a specified level, the counterparty must post collateral to cover the excess, generally in the form of liquid government securities.

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

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

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

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

Variable Interest Entities – In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51 (FIN 46)*. During December 2003, FASB replaced FIN 46 with FASB Interpretation No. 46, *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51 (FIN 46R)*. FIN 46 and FIN 46R define certain VIEs and require parties to such entities to assess and measure variable interests in the VIEs for the purposes of determining possible consolidation of the VIEs. Variable interests can arise from financial instruments, service contracts, guarantees, leases or other arrangements with a VIE. An entity that will absorb a majority of a VIE's expected losses or expected residual returns is deemed to be the primary beneficiary of the VIE and must include the assets, liabilities, and results of operations of the VIE in its consolidated financial statements.

IFC has a number of investments in VIEs which it manages and supervises in a manner consistent with other portfolio investments. Note W provides further details regarding IFC's variable interests in VIEs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting and financial reporting developments – During the year ended June 30, 2006, IFC changed its accounting principle with respect to the amortization of loan origination fees and loan origination costs. Prior to the year ended June 30, 2006, the net of loan origination fees and costs was considered to be insignificant. Beginning in year ended June 30, 2006, IFC began amortizing loan origination fees and costs on an effective yield basis.

During the year ended June 30, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Instruments - an amendment of FASB Statements Nos. 133 and 140* (SFAS No. 155) and SFAS No. 156, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140* (SFAS No. 156). Both SFAS No. 155 and SFAS No. 156 are effective for fiscal years beginning after September 15, 2006, which would be the year ended June 30, 2008 for IFC. The adoption of SFAS No. 155 and SFAS No. 156 did not have a material impact on the financial position, results of operations or cash flow of IFC.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). SFAS No. 158 requires employers to recognize on their balance sheet the funded status of their defined benefit postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligations, and to recognize as part of Other Comprehensive Income the gains and losses and prior service costs or credits that arise during the period to the extent they are not recognized as components of the net periodic benefit cost. Additionally, upon adoption, SFAS No. 158 requires the unrecognized net actuarial gain or loss and the unrecognized prior service cost to be recognized in Accumulated Other Comprehensive Income and that these amounts be adjusted as they are subsequently recognized as components of net periodic benefit cost, based upon the current amortization and recognition requirements of SFAS No. 87, *Employers' Accounting for Pensions* (SFAS No. 87) and SFAS No. 106, *Employers' Accounting for Postretirement Benefits* (SFAS No. 106). SFAS No. 158 was adopted in IFC's consolidated financial statements as of June 30, 2007. The impact of the adoption of SFAS No. 158 is described in more detail in Note S.

In November 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 06-9, *Reporting a Change in (or the Elimination of) a Previously Existing Difference Between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or Between the Reporting Period of an Investor and That of an Equity Method Investee* (EITF 06-9). EITF 06-9 was effective for IFC beginning on January 31, 2007. The adoption of EITF No. 06-9 did not have a material impact on the financial position, results of operations or cash flow of IFC.

In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position No. 07-1 (SOP No 07-1), *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. SOP No. 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide for Investment Companies (the Guide). Investment Companies that are within the scope of the Guide report investments at fair value. Effective December 15, 2007, FASB deferred indefinitely the effective date of SOP No. 07-1. IFC continues to evaluate the provisions of SOP No. 07-1.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141, *Business Combination*, but retains its fundamental requirement that the acquisition method of accounting (formerly referred to as the purchase method) be used for all business combinations and for the acquirer to be identified for each business combination. Among other things, SFAS No. 141(R) requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest in the acquiree at the acquisition date measured at their fair values, with limited exceptions. SFAS No. 141(R) requires acquisition related costs to be recognized separately from the acquisition. Acquirers in a step acquisition must recognize the identifiable assets and liabilities, as well as the full amount of the non-controlling interests in the acquiree, at the full amounts of their fair value under SFAS No. 141(R). SFAS No. 141(R) is effective prospectively to business combinations/acquisitions on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (which would be the year ending June 30, 2010 for IFC) and is not expected to have a material impact on IFC's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 151* (SFAS No. 160). SFAS No. 160 clarifies that non-controlling interests in a consolidated entity should be reported as equity in the consolidated financial statements. It requires consolidated net income to be reported at amounts attributable to both the parent and the non-controlling interest and disclosure on the consolidated statement of income of the amounts of income attributable to the parent and to the non-controlling interest. SFAS No. 160 clarifies that all changes in a parent's ownership interest that do not result in loss of control are equity transactions and requires that a parent recognize gain or loss when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 (which would be the year ending June 30, 2010 for IFC) and is not expected to have a material impact on IFC's financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about derivatives and hedging activities to enable a better understanding of their effects on the reporting entity's financial position, financial performance, and cash flows. It is effective for the first set of financial statements for a reporting period, annual or interim, that begins after November 15, 2008, which would be the quarter ending March 31, 2009 for IFC.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in accordance with US GAAP. SFAS No. 162 will be effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. Adoption of SFAS No. 162 is not expected to have a material impact on IFC's financial position, results of operations or cash flows when it becomes effective.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance contracts – an interpretation of FASB Statement No. 60*. SFAS No. 163 requires insurance enterprises that issue financial guarantee contracts to initially recognize the premium received as unearned premium revenue and to recognize that premium revenue over the period in which the protection is provided and in proportion to it. It also requires recognition of a claim liability before an event of default if there is evidence that credit deterioration of the guaranteed obligation has occurred. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS No. 163 is not expected to apply to IFC.

In addition, during the year ended June 30, 2008, the FASB issued and/or approved various FASB Staff Positions (FSP), EITF Issues Notes, and other interpretative guidance related to Statements of Financial Accounting Standards and Accounting Principles Board (APB) Opinions. IFC analyzed and implemented the new guidance, as appropriate, with no material impact on either the financial position, results of operations or cash flows of IFC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B – LIQUID ASSET PORTFOLIO

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

	June 30, 2008	June 30, 2007
Assets		
Cash and due from banks	\$ 31	\$ 11
Time deposits	8,411	4,958
Trading securities	12,346	14,297
Securities purchased under resale agreements	35	230
Receivables and other assets:		
Receivables from sales of securities	1,647	2,001
Accrued interest income on time deposits and securities	104	87
Accrued income on derivative instruments	2	18
Derivative assets	13	90
Total assets	<u>22,589</u>	<u>21,692</u>
Liabilities		
Payables and other liabilities:		
Payables for purchases of securities	1,872	3,278
Accrued charges on derivative instruments	(1)	15
Securities sold under repurchase agreements and payable for cash collateral received	6,018	4,973
Derivative liabilities	78	157
Total liabilities	<u>7,967</u>	<u>8,423</u>
Total net liquid asset portfolio	<u>\$ 14,622</u>	<u>\$ 13,269</u>

The liquid asset portfolio is denominated primarily in US dollars; investments in other currencies, net of the effect of associated derivative instruments that convert non-US dollar securities into US dollar securities, represent less than 4.8% of the portfolio at June 30, 2008 (less than 1% - June 30, 2007). Effective July 1, 2007, the liquid asset portfolio includes assets and liabilities denominated in Brazilian real, Russian ruble and Mexican peso. These holdings comprised 3.8% of the liquid asset portfolio at June 30, 2008 (0% - June 30, 2007).

The annualized rate of return on the trading portfolio during the year ended June 30, 2008, was 3.4% (4.8% - year ended June 30, 2007; 3.6% - year ended June 30, 2006). After the effect of associated derivative instruments, the liquid asset portfolio generally reprices within one year.

Trading securities

The composition of trading securities is as follows:

	Year ended June 30, 2008	At June 30, 2008		
	Fair value average daily balance (US\$ millions)	Fair value (US\$ millions)	Contractual maturity (years)	Average yield (%)
Government, agency and government-sponsored agency obligations	\$ 6,147	\$ 6,334	4.1	4.2
Asset-backed securities	5,930	5,439	26.3	3.6
Corporate securities	338	250	1.6	4.5
Money market funds	953	323	1.0	2.9
Total trading securities	<u>\$ 13,368</u>	<u>\$ 12,346</u>		

	Year ended June 30, 2007	At June 30, 2007		
	Fair value average daily balance (US\$ millions)	Fair value (US\$ millions)	Contractual maturity (years)	Average yield (%)
Government, agency and government-sponsored agency obligations	\$ 8,062	\$ 5,838	4.1	4.4
Asset-backed securities	6,280	7,487	28.4	5.6
Corporate securities	837	431	2.0	5.3
Money market funds	882	541	-	5.4
Total trading securities	<u>\$ 16,061</u>	<u>\$ 14,297</u>		

The expected maturity of the asset-backed securities may differ from the contractual maturity, as reported above, due to prepayment features.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income from liquid asset trading portfolio

Income from liquid asset trading portfolio for the years ended June 30, 2008, June 30, 2007 and June 30, 2006 comprises (US\$ millions):

	2008	2007	2006
Interest income	\$ 662	\$ 674	\$ 673
Net (losses) gains on trading activities:			
Realized	80	(3)	72
Unrealized	(276)	(55)	(302)
Net (losses) gains on trading activities	(196)	(58)	(230)
Foreign currency transaction gains	7	2	1
Total income from liquid asset trading portfolio	\$ 473	\$ 618	\$ 444

Net (losses) gains on trading activities comprises net losses on asset-backed and mortgage-backed securities of \$474 million in the year ended June 30, 2008 (\$34 million - year ended June 30, 2007; \$56 million - year ended June 30, 2006) and net gains on other trading securities of \$278 million in the year ended June 30, 2008 (\$24 million losses - year ended June 30, 2007; \$174 million losses - year ended June 30, 2006).

Collateral

The estimated fair value of securities held by IFC at June 30, 2008 as collateral, in connection with derivatives transactions and purchase and resale agreements, that may be sold or repledged was \$318 million (\$291 million - June 30, 2007).

Collateral given by IFC to a counterparty in connection with repurchase agreements that may be sold or repledged by the counterparty approximates the amounts classified as Securities sold under repurchase agreements and payable for cash collateral received.

NOTE C – INVESTMENTS

Investments at June 30, 2008 and June 30, 2007 comprise of the following (US\$ millions):

	June 30, 2008	June 30, 2007
Loans		
Loans at amortized cost	\$ 14,981	\$ 12,650
Less: Reserve against losses on loans	(848)	(832)
Net loans	14,133	11,818
Loans at fair value (outstanding principal balance \$266 - June 30, 2008, \$0 - June 30, 2007)	248	-
Total Loans	14,381	11,818
Equity investments		
Equity investments at cost less impairment	2,616	2,699
Equity method investments (cost \$0 - June 30, 2008, \$268 - June 30, 2007)	-	546
Equity investments accounted for at fair value as available-for-sale (cost \$1,146 - June 30, 2008, \$0 - June 30, 2007)	3,573	-
Equity investments accounted for at fair value in accordance with the Fair Value Option (cost \$555 - June 30, 2008, \$0 - June 30, 2007)	1,129	-
Total equity investments	7,318	3,245
Debt securities		
Debt securities at fair value (amortized cost \$1,514 - June 30, 2008, \$562 - June 30, 2007)	1,620	733
Total investments	\$ 23,319	\$ 15,796

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The distribution of the investment portfolio by sector is as follows (US\$ millions):

	June 30, 2008				June 30, 2007			
	Loans	Equity investments	Debt securities	Total	Loans	Equity investments	Debt securities	Total
Finance and insurance	\$ 5,793	\$ 2,167	\$ 1,215	\$ 9,175	\$ 4,716	\$ 1,424	\$ 382	\$ 6,522
Utilities	1,146	398	85	1,629	1,005	304	-	1,309
Oil, gas and mining	1,023	359	15	1,397	779	234	-	1,013
Transportation and warehousing	1,057	32	6	1,095	860	20	-	880
Food and beverages	1,002	64	-	1,066	746	49	-	795
Nonmetallic mineral product manufacturing	823	80	2	905	803	60	-	863
Chemicals	696	136	8	840	595	53	26	674
Information	547	98	56	701	439	123	12	574
Agriculture and forestry	485	123	11	619	361	23	11	395
Industrial and consumer products	514	46	24	584	509	25	45	579
Primary metals	534	8	-	542	483	14	2	499
Collective investment vehicles	29	513	-	542	31	402	53	486
Wholesale and retail trade	438	58	5	501	406	48	5	459
Pulp and paper	423	59	-	482	296	69	-	365
Accommodation and tourism services	325	44	16	385	213	28	16	257
Health care	172	35	65	272	174	10	2	186
Construction and real estate	125	38	-	163	30	-	-	30
Textiles, apparel and leather	123	5	5	133	161	11	6	178
Plastics and rubber	32	18	-	50	42	34	-	76
Education services	44	2	-	46	54	2	-	56
Professional, scientific and technical services	5	14	1	20	5	18	2	25
Total disbursed portfolio	15,336	4,297	1,514	21,147	12,708	2,951	562	16,221
Unrealized gains on equity investments held by consolidated VIEs		20		20		12		12
Unrealized gains on equity investments accounted for as available-for-sale		2,427		2,427				-
Unrealized gains on equity investments accounted for under the Fair Value Option		574		574				-
Adjustments to investments accounted for under the equity method				-		282		282
Unrealized gains on debt securities accounted for as available-for-sale			106	106			171	171
Reserves against losses on loans	(848)			(848)	(832)			(832)
Unrealized gains on loans accounted for under the Fair Value Option	(18)			(18)				-
Unamortized deferred loan origination fees, net	(90)			(90)	(64)			(64)
Unamortized SFAS No. 133 transition adjustment	1			1	6			6
Carrying value of investments	\$ 14,381	\$ 7,318	\$ 1,620	\$ 23,319	\$ 11,818	\$ 3,245	\$ 733	\$ 15,796

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The distribution of the investment portfolio by geographical region is as follows (US\$ millions):

	June 30, 2008				June 30, 2007			
	Loans	Equity investments	Debt securities	Total	Loans	Equity investments	Debt securities	Total
Europe and Central Asia	\$ 4,924	\$ 1,249	\$ 251	\$ 6,424	\$ 4,390	\$ 749	\$ 130	\$ 5,269
Latin America and Caribbean	4,240	1,017	714	5,971	3,603	803	212	4,618
Asia	3,699	1,218	315	5,232	2,724	947	146	3,817
Middle East and North Africa	1,240	386	40	1,666	999	187	20	1,206
Sub-Saharan Africa	1,017	358	129	1,504	982	189	-	1,171
Other	216	69	65	350	10	76	54	140
Total disbursed portfolio	15,336	4,297	1,514	21,147	12,708	2,951	562	16,221
Unrealized gains on equity investments held by consolidated VIEs		20		20		12		12
Unrealized gains on equity investments accounted for as available-for-sale		2,427		2,427				-
Unrealized gains on equity investments accounted for under the Fair Value Option		574		574				-
Adjustments to investments accounted for under the equity method				-		282		282
Unrealized gains on debt securities accounted for as available-for-sale			106	106			171	171
Reserves against losses on loans	(848)			(848)	(832)			(832)
Unrealized gains on loans accounted for under the Fair Value Option	(18)			(18)				-
Unamortized deferred loan origination fees, net	(90)			(90)	(64)			(64)
Unamortized SFAS No. 133 transition adjustment	1	-	-	1	6	-	-	6
Carrying value of investments	\$ 14,381	\$ 7,318	\$ 1,620	\$ 23,319	\$ 11,818	\$ 3,245	\$ 733	\$ 15,796

The carrying value of equity investments accounted for under the equity method was \$0 at June 30, 2008 (\$546 million - June 30 2007).

Unrealized gains on equity investments accounted for as available-for-sale are reported net of unrealized losses of \$11 million at June 30, 2008 (\$0 - June 30, 2007).

NOTE D – LOANS AND GUARANTEES

Loans

The currency composition and average yield of the loan portfolio are summarized below:

	June 30, 2008		June 30, 2007	
	Amount (US \$ millions)	Average yield (%)	Amount (US \$ millions)	Average yield (%)
US dollar	\$ 10,602	5.9	\$ 9,296	8.1
Euro	2,082	6.8	1,681	6.2
Russian ruble	507	8.9	367	8.3
Chinese renminbi	290	5.2	261	5.2
Indian rupee	273	8.3	265	8.1
Indonesian rupiah	258	10.2	175	10.7
Brazilian real	213	12.1	42	1.9
Mexican peso	195	9.4	93	10.0
New Turkish lira	4	14.7	5	14.7
Other currencies:				
OECD currencies	68	3.9	63	4.1
Non-OECD currencies	844	10.3	460	9.5
Total disbursed loan portfolio	15,336	6.6	12,708	7.9
Reserves against losses on loans	(848)		(832)	
Unamortized deferred loan origination fees, net	(90)		(64)	
Unrealized gains on loans accounted for at fair value	(18)		-	
Unamortized SFAS No. 133 transition adjustment	1		6	
Carrying value of loans	\$ 14,381		\$ 11,818	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans in all currencies are repayable during the years ending June 30, 2009 through June 30, 2013 and thereafter, as follows (US\$ millions):

	2009	2010	2011	2012	2013	Thereafter	Total
Fixed rate loans	\$ 583	\$ 565	\$ 563	\$ 393	\$ 339	\$ 1,330	\$ 3,773
Variable rate loans	1,594	1,545	1,560	1,728	1,453	3,683	11,563
Total disbursed loan portfolio	\$ 2,177	\$ 2,110	\$ 2,123	\$ 2,121	\$ 1,792	\$ 5,013	15,336
Reserves against losses on loans							(848)
Unamortized deferred loan origination fees, net							(90)
Unrealized gains on loans accounted for under FVO							(18)
Unamortized SFAS No. 133 transition adjustment							1
Carrying value of loans							\$ 14,381

At June 30, 2008, 25% of the disbursed loan portfolio consisted of fixed rate loans (23% - June 30, 2007), while the remainder was at variable rates. At June 30, 2008, the disbursed loan portfolio included \$170 million of loans serving as collateral under secured borrowing arrangements (\$159 million - June 30, 2007). IFC's disbursed variable rate loans generally reprice within one year.

Income from loans and guarantees for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, comprise the following (US\$ millions):

	2008	2007	2006
Interest income	\$ 1,015	\$ 1,010	\$ 740
Commitment fees	28	23	21
Other financial fees	22	29	43
Income from loans and guarantees	\$ 1,065	\$ 1,062	\$ 804

Reserves against losses on loans

Changes in the reserve against losses on loans for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, are summarized below (US\$ millions):

	2008	2007	2006
Beginning balance	\$ 832	\$ 898	\$ 989
Provision for (release of provision for) losses on loans	37	(41)	10
Write offs	(47)	(39)	(111)
Recoveries of previously written off loans	8	3	9
Foreign currency transaction adjustments	22	13	4
Other adjustments	(4)	(2)	(3)
Ending balance	\$ 848	\$ 832	\$ 898

The provision for losses on loans and guarantees in the consolidated income statement for the year ended June 30, 2008 includes \$1 million provision in respect of guarantees (\$2 million release - year ended June 30, 2007; \$5 million provision - year ended June 30, 2006). At June 30, 2008 the accumulated reserve for losses on guarantees, included in the consolidated balance sheet in payables and other liabilities, was \$17 million (\$16 million - June 30, 2007). Other adjustments comprise reserves against interest capitalized as part of a debt restructuring.

Loans on which the accrual of interest has been discontinued amounted to \$369 million at June 30, 2008 (\$378 million - June 30, 2007). Interest income not recognized on nonaccruing loans during the year ended June 30, 2008 totaled \$78 million (\$70 million - year ended June 30, 2007; \$68 million - year ended June 30, 2006). Interest income recognized on loans in nonaccrual status, related to current and prior years, during the year ended June 30, 2008 was \$19 million (\$21 million - year ended June 30, 2007; \$21 million - year ended June 30, 2006). The average recorded investment in impaired loans during the year ended June 30, 2008, was \$390 million (\$552 million - year ended June 30, 2007). The recorded investment in impaired loans at June 30, 2008 was \$347 million (\$433 million - June 30, 2007).

Guarantees

Under the terms of IFC's guarantees, IFC agrees to assume responsibility for the client's financial obligations in the event of default by the client, where default is defined as failure to pay when payment is due. Guarantees entered into by IFC generally have maturities consistent with those of the loan portfolio. Guarantees signed at June 30, 2008, totaled \$1,924 million (\$1,414 million - June 30, 2007). Guarantees of \$1,141 million that were outstanding (i.e., not called) at June 30, 2008 (\$808 million - June 30, 2007), were not included in loans on the 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 E – DEBT SECURITIES

Debt securities accounted for as available-for-sale comprise (US\$ millions):

	June 30, 2008			June 30, 2007		
	Cost	Unrealized gains (losses)	Fair value	Cost	Unrealized gains	Fair value
Preferred shares	\$ 145	\$ 121	\$ 266	\$ 153	\$ 140	\$ 293
Corporate debt securities	1,180	2	1,182	279	26	305
Asset-backed securities	106	-	106	90	-	90
Other debt securities	83	(17)	66	40	5	45
Total	\$ 1,514	\$ 106	\$ 1,620	\$ 562	\$ 171	\$ 733

Accumulated other comprehensive income includes \$145 million of unrealized gains on debt securities accounted for as available-for-sale (\$171 million - June 30, 2007) and \$39 million of unrealized losses on debt securities accounted for as available-for-sale (\$0 - June 30, 2007)

Debt securities have contractual maturities during years ending June 30, 2009, through June 30, 2013 and thereafter, as follows (US\$ millions):

	2009	2010	2011	2012	2013	Thereafter	Total
Corporate debt securities	\$ 4	\$ 7	\$ 56	\$ 38	\$ 243	\$ 832	\$ 1,180
Asset-backed securities	-	-	-	31	-	75	106
Total	\$ 4	\$ 7	\$ 56	\$ 69	\$ 243	\$ 907	1,286
Unrealized gains on debt securities accounted for as available-for-sale							<u>2</u>
Carrying value of debt securities with contractual maturities							\$ 1,288

The expected maturity of the asset-backed securities may differ from the contractual maturity, as reported above, due to prepayment features. In addition, IFC has \$332 million of redeemable preferred shares and other debt securities with undefined maturities (\$338 million - June 30, 2007).

The currency composition and average yield of the debt securities with contractual maturities are summarized below:

	June 30, 2008		June 30, 2007	
	Amount (US \$ millions)	Average yield (%)	Amount (US \$ millions)	Average yield (%)
Brazilian real	\$ 709	10.7	\$ 205	12.5
US dollar	297	5.5	107	7.8
Euro	63	7.6	54	7.2
Other non-OECD currencies	217	9.8	3	8.6
Total disbursed debt securities	1,286	9.2	369	10.4
Unrealized gains on debt securities accounted for as available-for-sale	<u>2</u>		<u>26</u>	
Carrying value of debt securities	\$ 1,288		\$ 395	

After the effect of interest rate swaps and currency swaps, IFC's debt securities with contractual maturities are principally denominated in variable rate US dollars.

Income from debt securities accounted for as available-for-sale for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, comprise the following (US\$ millions):

	2008	2007	2006
Interest income	\$ 49	\$ 13	\$ 3
Realized gains on debt securities	104	1	-
Dividends	10	13	4
Total income from debt securities	\$ 163	\$ 27	\$ 7

Realized gains on debt securities include gains on non-monetary exchanges and recoveries, and are net of losses on sales of debt securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – EQUITY INVESTMENTS

Income from equity investments for the years ended June 30, 2008, June 30, 2007 and June 30, 2006 comprise the following (US\$ millions):

	2008	2007	2006
Realized gains on equity investments	\$ 1,396	\$ 1,941	\$ 928
Unrealized gains on equity investments accounted for under the Fair Value Option	12	-	-
Dividends and profit participations	428	385	323
Amortization of UJVs conditional asset retirement obligations	(1)	(2)	(8)
Income from investments accounted for under the equity method	-	19	56
Equity investment impairment write-downs	(140)	(40)	(57)
Net losses on equity-related derivatives	(4)	(9)	(15)
Custody and other fees	(3)	(2)	(3)
Total income from equity investments	\$ 1,688	\$ 2,292	\$ 1,224

Realized gains on equity investments include gains on non-monetary exchanges and recoveries, and are net of losses on sales of equity investments.

Realized gains on equity investments for the year ended June 30, 2008 includes \$0 (\$95 million - year ended June 30, 2007; \$0 - year ended June 30, 2006) related to settlements regarding loan to equity conversion options received in lieu of exercise.

Dividends and profit participations include \$59 million (\$64 million - year ended June 30, 2007; \$86 million - year ended June 30, 2006) of receipts received in freely convertible cash, net of cash disbursements, in respect of investments accounted for under the cost recovery method.

NOTE G – INVESTMENT TRANSACTIONS APPROVED BUT NOT COMMITTED AND COMMITTED BUT NOT DISBURSED OR UTILIZED

Investment transactions approved by the Board of Directors but not committed, 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\$ millions):

	June 30, 2008	June 30, 2007
Investment transactions approved but not committed:		
Loans, equity investments and debt securities	\$ 5,878	\$ 3,785
Guarantees	1,366	1,212
Client risk management facilities	90	122
Total investment transactions approved but not committed	<u>7,334</u>	<u>5,119</u>
Investment transactions committed but not disbursed:		
Loans, equity investments and debt securities	9,132	7,654
Investment transactions committed but not utilized:		
Guarantees	783	606
Client risk management facilities	120	93
Total investment transactions committed but not disbursed or utilized	<u>10,035</u>	<u>8,353</u>
Total investment transactions approved but not disbursed or utilized	\$ 17,369	\$ 13,472

NOTE H – LOAN PARTICIPATIONS

Loan participations arranged to be placed with Participants in respect of loans approved by the Board of Directors, 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 the Participants are as follows (US\$ millions):

	June 30, 2008	June 30, 2007
Loan participations arranged to be placed with Participants approved but not committed	\$ 3,644	\$ 1,803
Loan participations signed as commitments but not disbursed	<u>1,952</u>	<u>1,069</u>
Loan participations arranged to be placed with Participants approved but not disbursed	\$ 5,596	\$ 2,872
Loan participations disbursed and outstanding which are serviced by IFC	\$ 5,541	\$ 4,407

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I – RECEIVABLES AND OTHER ASSETS

Receivables and other assets are summarized below (US\$ millions):

	June 30, 2008	June 30, 2007
Receivables from sales of securities	\$ 1,647	\$ 2,001
Accrued interest income on time deposits and securities	104	87
Accrued income on derivative instruments	359	341
Accrued interest income on loans	237	196
Prepaid pension and other postretirement benefit costs	571	686
Headquarters building:		
Land	89	89
Building	211	202
Less: Building depreciation	(52)	(48)
Headquarters building, net	248	243
Deferred charges and other assets	213	210
Total receivables and other assets	\$ 3,379	\$ 3,764

NOTE J – 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:

June 30, 2008								
	Market borrowings		Currency swaps payable (receivable)		Interest rate swaps notional principal payable (receivable)		Net currency obligation	
	Amount (US \$ millions)	Weighted average cost (%)	Amount (US \$ millions)	Weighted average cost (%)	Notional amount (US \$ millions)	Weighted average cost (%)	Amount (US \$ millions)	Weighted average cost (%)
US dollar	\$ 7,818	3.9	\$ 11,853	2.6	\$ 7,154 (7,616)	2.8 (3.9)	\$ 19,209	2.7
Japanese yen	4,416	4.4	(4,416)	(4.4)	-	-	-	-
Australian dollar	2,626	6.4	(2,626)	(6.4)	-	-	-	-
Pound sterling	1,805	5.5	(1,805)	(5.5)	-	-	-	-
South African rand	1,418	8.3	(1,418)	(8.3)	-	-	-	-
New Zealand dollar	974	7.0	(974)	(7.0)	-	-	-	-
Canadian dollar	805	3.3	(805)	(3.3)	-	-	-	-
Euro	463	4.9	(463)	(4.9)	-	-	-	-
Chinese renminbi	291	3.3	-	-	-	-	291	3.3
Hong Kong dollar	242	5.2	(242)	(5.2)	-	-	-	-
New Turkish lira	203	6.7	(203)	(6.7)	-	-	-	-
Moroccan dirham	137	4.5	(137)	(4.5)	-	-	-	-
Brazilian real	126	12.0	-	-	-	-	126	12.0
Swiss franc	110	2.1	(110)	(2.5)	97 (97)	2.7 (2.2)	-	-
C.F.A. franc	53	4.8	(48)	(4.8)	-	-	5	4.8
Mexican peso	19	7.0	(19)	(7.0)	-	-	-	-
Principal at face value	21,506		\$ (1,413)		\$ (462)		\$ 19,631	2.8
Less: Unamortized discounts, net	(639)							
Total market borrowings	20,867							
Fair value adjustments	(660)							
Carrying value of market borrowings	\$ 20,207							

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007								
	Market borrowings		Currency swaps payable (receivable)		Interest rate swaps notional principal payable (receivable)		Net currency obligation	
	Amount (US \$ millions)	Weighted average cost (%)	Amount (US \$ millions)	Weighted average cost (%)	Notional amount (US \$ millions)	Weighted average cost (%)	Amount (US \$ millions)	Weighted average cost (%)
US dollar	\$ 7,122	4.0	\$ 8,535	4.9	\$ 6,579 (6,887)	5.2 (3.8)	\$ 15,349	5.1
Japanese yen	3,969	5.0	(3,969)	(5.0)	-	-	-	-
Pound sterling	1,816	5.5	(1,816)	(5.5)	-	-	-	-
South African rand	1,237	7.1	(1,237)	(7.1)	-	-	-	-
Australian dollar	506	4.7	(506)	(4.7)	-	-	-	-
Euro	474	5.5	(474)	(5.5)	-	-	-	-
Hong Kong dollar	370	6.2	(370)	(6.2)	-	-	-	-
New Zealand dollar	366	6.1	(366)	(6.1)	-	-	-	-
Canadian dollar	291	1.0	(291)	(1.0)	-	-	-	-
Chinese renminbi	263	3.3	-	-	-	-	263	3.3
Malaysian ringgit	144	2.9	(144)	(2.9)	-	-	-	-
Moroccan dirham	120	4.5	(120)	(4.5)	-	-	-	-
Swiss franc	92	2.8	(92)	(2.2)	81 (81)	2.3 (3.0)	-	-
C.F.A. franc	45	4.8	(41)	(4.8)	-	-	4	4.8
New Turkish lira	38	18.3	(38)	(18.3)	-	-	-	-
Peruvian sol nuevo	32	6.3	(32)	(6.3)	-	-	-	-
Mexican peso	18	7.0	(18)	(7.0)	-	-	-	-
Principal at face value	16,903		\$ (979)		\$ (308)		\$ 15,616	5.0
Less: Unamortized discounts, net	(591)							
Total market borrowings	16,312							
Fair value adjustments	(495)							
Carrying value of market borrowings	\$ 15,817							

The net currency obligation in Chinese renminbi, Brazilian real and C.F.A. franc at June 30, 2008 has funded on-balance sheet loans with similar characteristics in such currencies.

The weighted average cost of IFC's borrowings outstanding from market sources after currency and interest rate swap transactions was 2.8% at June 30, 2008 (5.0% - June 30, 2007). The weighted average remaining maturity of IFC's borrowings from market sources was 8.7 years at June 30, 2008 (9.8 years - June 30, 2007). Charges on borrowings for the year ended June 30, 2008 include \$11 million of interest expense on secured borrowings (\$8 million - June 30, 2007).

The net nominal amount receivable from currency swaps of \$1,413 million and the net notional amount receivable from interest rate swaps of \$462 million at June 30, 2008 (\$979 million and \$308 million - June 30, 2007), shown in the above table, are represented by currency and interest rate swap assets at fair value of \$1,313 million and currency and interest rate swap liabilities at fair value of \$575 million (\$896 million and \$699 million - June 30, 2007), included in derivative assets and derivative liabilities, respectively, on the consolidated balance sheet.

Borrowings from IBRD

Borrowings outstanding from IBRD are summarized below:

	June 30, 2008		June 30, 2007	
	Principal amount (US\$ millions)	Weighted average cost (%)	Principal amount (US\$ millions)	Weighted average cost (%)
Saudi Arabian riyal	\$ 50	4.5	\$ 50	4.5
US dollar	4	7.7	12	6.7
Total borrowings outstanding from IBRD	\$ 54		\$ 62	

The weighted average remaining maturity of borrowings from IBRD was 8.4 years at June 30, 2008 (8.2 years - June 30, 2007). Charges on borrowings for the year ended June 30, 2008, includes \$3 million (\$3 million - year ended June 30, 2007; \$5 million - year ended June 30, 2006) in respect of IBRD borrowings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Maturity of borrowings

The principal amounts repayable on borrowings outstanding in all currencies, gross of any premiums or discounts, during the years ending June 30, 2009, through June 30, 2013, and thereafter are summarized below (US\$ millions):

	2009	2010	2011	2012	2013	Thereafter	Total
Borrowings from market sources	\$ 1,760	\$ 4,193	\$ 2,491	\$ 1,438	\$ 3,496	\$ 8,128	\$ 21,506
Borrowings from IBRD	3	1	-	8	8	34	54
Total borrowings, gross	\$ 1,763	\$ 4,194	\$ 2,491	\$ 1,446	\$ 3,504	\$ 8,162	21,560
Less: Unamortized discounts, net							(639)
Fair value adjustments							(660)
Carrying value of borrowings							\$ 20,261

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

NOTE K – PAYABLES AND OTHER LIABILITIES

Payables and other liabilities are summarized below (US\$ millions):

	June 30, 2008	June 30, 2007
Accrued charges on borrowings	\$ 324	\$ 267
Accrued charges on derivative instruments	240	267
Payables for purchases of securities	1,872	3,278
Secured borrowings	170	159
Accounts payable, accrued expenses and other liabilities	870	406
Deferred income	47	68
Total payables and other liabilities	\$ 3,523	\$ 4,445

NOTE L – CAPITAL TRANSACTIONS

IFC's authorized share capital was increased to \$2,450 million through two capital increases in 1992. The subscription and payment period for shares then allocated ended on August 1, 1999, but IFC has agreed to defer the payment date for certain member countries beyond this date. Pursuant to these arrangements, less than \$1 million of subscribed shares remained unpaid at June 30, 2008 (\$1 million - June 30, 2007).

During the year ended June 30, 2008, 532 shares were subscribed and paid by member countries at a par value of \$1,000 each (100 - year ended June 30, 2007; 0 - year ended June 30, 2006).

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 reserves provided on the date of withdrawal.

NOTE M – OTHER INCOME

Other income for the year ended June 30, 2008, predominantly comprises \$23 million of fees collected from clients for expenses incurred by IFC, included in administrative expenses (\$20 million - year ended June 30, 2007; \$20 million - year ended June 30, 2006), \$7 million of income from consolidated entities (\$7 million - year ended June 30, 2007; \$17 million - year ended June 30, 2006) and income under other reimbursable arrangements of \$6 million (\$7 million - year ended June 30, 2007; \$10 million - year ended June 30, 2006).

NOTE N – RETAINED EARNINGS DESIGNATIONS AND RELATED EXPENDITURES

As of June 30, 2007, IFC had designated retained earnings in the cumulative amount of \$580 million for advisory services. IFC had recognized cumulative expenditures of \$189 million through June 30, 2007. At June 30, 2007, retained earnings designated for advisory services totaled \$391 million. IFC has recorded expenditures for advisory services totaling \$123 million for the year ended June 30, 2008 (\$96 million - year ended June 30, 2007).

As of June 30, 2007, IFC had designated retained earnings in the cumulative amount of \$250 million for performance-based grants. IFC has recognized cumulative expenditures of \$35 million through June 30, 2007. At June 30, 2007, retained earnings designated for performance-based grants totaled \$215 million. IFC has recorded expenditures for performance-based grants totaling \$27 million for the year ended June 30, 2008 (\$0 - year ended June 30, 2007).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2007, IFC had designated retained earnings in the cumulative amount of \$150 million for grants to IDA. IFC recorded a grant to IDA of \$150 million in the year ended June 30, 2007. At June 30, 2007, retained earnings designated for grants to IDA totaled \$0.

On September 27, 2007, IFC's Board of Directors approved the designations of \$170 million of IFC's retained earnings for advisory services, \$100 million for a Global Infrastructure Project Development Fund, \$100 million for micro equity funds for Small and Medium Enterprise development in IDA countries to be concluded in the three months ended September 30, 2007, and \$500 million for a Private Sector Development Grant program for the IDA15 replenishment to be concluded in the year ending June 30, 2008.

On October 22, 2007, IFC's Board of Governors noted with approval the designations of retained earnings approved by IFC's Board of Directors on September 27, 2007.

On March 18, 2008, IFC and IDA signed an agreement whereby IFC agreed to provide a grant to IDA of \$500 million for IDA to use in providing financing in the form of grants in addition to loans, all in furtherance of IFC's purpose as stated in its Articles of Agreement. Accordingly, IFC recorded a grant expense of \$500 million in year ended June 30, 2008.

Designated retained earnings at June 30, 2008 and June 30, 2007 may be summarized as follows (US\$ millions):

	June 30, 2008	June 30, 2007
Advisory services	\$ 438	\$ 391
Performance-based grants	188	215
Global Infrastructure Project Development Fund	100	-
Micro equity funds for Small and Medium Enterprise development in IDA countries	100	-
Total designated retained earnings	\$ 826	\$ 606

NOTE O – NET UNREALIZED GAINS (LOSSES) ON OTHER NON-TRADING FINANCIAL INSTRUMENTS ACCOUNTED FOR AT FAIR VALUE

Net unrealized gains (losses) on other non-trading financial instruments accounted for at fair value for the years ended June 30, 2008, June 30, 2007 and June 30, 2006, comprises (US\$ millions):

	2008	2007	2006
Unrealized gains (losses) on market borrowings	\$ 14	\$ (173)	\$ 429
Unrealized gains (losses) on derivatives associated with market borrowings	3	180	(611)
Unrealized (losses) gains on derivatives associated with loans	(18)	(10)	30
Unrealized gains (losses) on derivatives associated with equity investments	110	(96)	7
Net unrealized gains (losses) on other non-trading financial instruments accounted for at fair value	\$ 109	\$ (99)	\$ (145)

NOTE P – DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

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

The estimated fair values reflect the interest rate environments as of June 30, 2008 and June 30, 2007. In different interest rate environments, the fair value of IFC's financial assets and liabilities could differ significantly, especially the fair value of certain fixed rate financial instruments. Reasonable comparability of fair values among financial institutions is not likely, because of the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices. This lack of objective pricing standards introduces a greater degree of subjectivity and volatility to these derived or estimated fair values. Therefore, while disclosure of estimated fair values of financial instruments is required, readers are cautioned in using these data for purposes of evaluating the financial condition of IFC. The fair values of the individual financial instruments do not represent the fair value of IFC taken as a whole.

The methodologies used and key assumptions made to estimate fair values as of June 30, 2008, and June 30, 2007, are summarized below.

Liquid assets - The primary pricing source for the liquid assets is valuations obtained from independent commercial pricing services. The most liquid securities in the liquid asset portfolio are exchange traded futures and options and US treasuries. For exchange traded futures and options, exchange quoted prices are obtained and these are classified as Level 1 in accordance with SFAS No. 157. Liquid assets valued using quoted market prices are also classified as Level 1. US Treasuries are valued using index prices and also classified Level 1. The remaining liquid assets valued using vendor prices are classified as Level 2 or Level 3 depending on whether the vendor's pricing methodologies have already been evaluated by IFC. Where vendor prices are not available, liquid assets are valued using model prices; liquid assets valued using model prices are classified as Level 2 or Level 3 depending on the degree that model inputs are observable in the market place.

Derivative instruments - Fair values for covered forwards were derived by using quoted market forward exchange rates. Fair values for other derivative instruments were derived by determining the present value of estimated future cash flows using appropriate discount rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans and loan commitments - IFC generally has not sold its loans from the portfolio, and there is no comparable secondary market. Fair values for fixed rate loans and loan commitments were determined using a discounted cash flow model based on a discount rate comprising the fixed rate loan spread plus the year-end estimated cost of funds. Since rates on variable rate loans and loan commitments are generally reset on a quarterly or semiannual basis, the carrying value adjusted for credit risk was determined to be the best estimate of fair value. IFC also holds options to convert loans into equity of certain of its investee companies. Fair values of these conversion options are based on quoted market prices or other calculated values of the underlying equity investment.

Equity investments - Fair values of equity investments were determined using market prices where available. Equity investments without available market prices were valued using valuation techniques appropriate to the investment such as recent transactions, discounted cash flows, relative valuation through the use of comparables, net asset values or book values. Where market prices were not available or appropriate valuation techniques were not practical, cost was determined to be the best estimate of fair value.

Borrowings - Fair values were derived by determining the present value of estimated future cash flows using appropriate discount rates.

Estimated fair values of IFC's financial assets and liabilities and off-balance sheet financial instruments are summarized below (US\$ millions). IFC's credit exposure is represented by the estimated fair values of its financial assets.

	June 30, 2008			June 30, 2007
	Carrying amount	Fair value adjustments	Fair value	Fair value
Financial assets				
Cash and due from banks, time deposits, securities and securities purchased under resale agreements	\$ 21,143	\$ -	\$ 21,143	\$ 19,888
Investments:				
Net loans	14,381	620	15,001	12,304
Cost method equity investments	2,616	3,661	6,277	8,955
Equity investments accounted for at fair value in accordance with the Fair Value Option	1,129	-	1,129	709
Equity investments accounted for at fair value as available-for-sale	3,573	-	3,573	-
Total equity investments	7,318	3,661	10,979	9,664
Debt securities	1,620	-	1,620	733
Total investments	23,319	4,281	27,600	22,701
Derivative assets:				
Liquid asset portfolio-related	8	-	8	90
Loans-related	60	-	60	25
Borrowings-related	1,313	-	1,313	896
Client risk management-related	38	-	38	22
Equity-related	211	-	211	118
Total derivative assets	1,630	-	1,630	1,151
Other financial assets	-	30	30	-
Nonfinancial assets	3,379	-	3,379	3,764
Total assets	\$ 49,471	\$ 4,311	\$ 53,782	\$ 47,504
Financial liabilities				
Securities sold under repurchase agreements and payable for cash collateral received	\$ 6,018	\$ -	\$ 6,018	\$ 4,973
Market and IBRD borrowings outstanding	20,261	(16)	20,245	15,780
Derivative liabilities:				
Liquid asset portfolio-related	74	-	74	157
Loans-related	708	-	708	243
Borrowings-related	575	-	575	699
Client risk management-related	38	-	38	22
Equity-related	13	-	13	164
Total derivative liabilities	1,408	-	1,408	1,285
Nonfinancial liabilities	3,523	-	3,523	4,445
Total liabilities	\$ 31,210	\$ (16)	\$ 31,194	\$ 26,483

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

The fair value of loan commitments amounted to \$19 million at June 30, 2008 (\$17 million - June 30, 2007).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE Q – CURRENCY POSITION

IFC conducts its operations for loans, debt securities, equity investments, time deposits, trading securities, and borrowings in multiple currencies. IFC's policy is to minimize the level of currency risk by closely matching the currency of its assets (other than equity investments and quasi-equity investments) and liabilities by using hedging instruments. IFC's equity investments in enterprises located in its developing member countries are typically made in the local currency of the country. As a matter of policy, IFC carries the currency risk of equity investments and quasi-equity investments and funds these investments from its capital and retained earnings.

The following table summarizes IFC's exposure in major currencies at June 30, 2008, and June 30, 2007 (US\$ millions):

	June 30, 2008					
	US dollar	Euro	Japanese yen	Other currencies	Fair value adjustments	Total
Assets						
Cash and cash equivalents	\$ 7,962	\$ 54	\$ 7	\$ 739	\$ -	\$ 8,762
Trading securities	12,188	131	19	8	-	12,346
Securities purchased under resale agreements	35	-	-	-	-	35
Investments:						
Loans	10,515	2,070	39	2,605	-	15,229
Less: Reserve against losses on loans	(631)	(108)	(2)	(107)	-	(848)
Net loans	9,884	1,962	37	2,498	-	14,381
Equity investments	-	-	-	7,318	-	7,318
Debt securities	631	63	-	926	-	1,620
Total investments	10,515	2,025	37	10,742	-	23,319
Derivative assets	5,118	460	4,414	8,201	(16,563)	1,630
Receivables and other assets	2,657	349	76	297	-	3,379
Total assets	\$ 38,475	\$ 3,019	\$ 4,553	\$ 19,987	\$ (16,563)	\$ 49,471
Liabilities						
Securities sold under repurchase agreements and payable for cash collateral received	\$ 6,018	\$ -	\$ -	\$ -	\$ -	\$ 6,018
Borrowings	6,714	460	4,419	8,668	-	20,261
Derivative liabilities	12,877	1,797	41	3,542	(16,849)	1,408
Payables and other liabilities	2,831	340	71	281	-	3,523
Total liabilities	\$ 28,440	\$ 2,597	\$ 4,531	\$ 12,491	\$ (16,849)	\$ 31,210
June 30, 2007						
	US dollar	Euro	Japanese yen	Other currencies	Fair value adjustments	Total
Assets						
Cash and cash equivalents	\$ 5,112	\$ 33	\$ 1	\$ 215	\$ -	\$ 5,361
Trading securities	13,921	283	61	32	-	14,297
Securities purchased under resale agreements	230	-	-	-	-	230
Investments:						
Loans	9,232	1,681	38	1,693	6	12,650
Less: Reserve against losses on loans	(644)	(103)	(3)	(82)	-	(832)
Net loans	8,588	1,578	35	1,611	6	11,818
Equity investments	-	-	-	3,245	-	3,245
Debt securities	471	54	-	208	-	733
Total investments	9,059	1,632	35	5,064	6	15,796
Derivative assets	3,590	557	4,195	4,823	(12,014)	1,151
Receivables and other assets	3,483	34	91	156	-	3,764
Total assets	\$ 35,395	\$ 2,539	\$ 4,383	\$ 10,290	\$ (12,008)	\$ 40,599
Liabilities						
Securities sold under repurchase agreements and payable for cash collateral received	\$ 4,973	\$ -	\$ -	\$ -	\$ -	\$ 4,973
Borrowings	6,835	469	3,971	5,099	(495)	15,879
Derivative liabilities	8,969	1,870	319	1,607	(11,480)	1,285
Payables and other liabilities	4,060	27	87	271	-	4,445
Total liabilities	\$ 24,837	\$ 2,366	\$ 4,377	\$ 6,977	\$ (11,975)	\$ 26,582

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE R – SEGMENT REPORTING

For management purposes, IFC's business comprises two segments: client services and treasury services. The client services segment consists primarily of lending, investing in debt and equity securities, and advisory services activities. Operationally, the treasury services segment consists of the borrowing, liquid asset management, asset and liability management and client risk management activities. Consistent with internal reporting, net income (expense) from asset and liability management and client risk management activities in support of client services are allocated to the client services segment.

The assessment of segment performance by senior management includes net income for each segment, return on assets, and return on capital employed. 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 head counts. Transactions between segments are immaterial and, thus, are not a factor in reconciling to the consolidated data.

The accounting policies of IFC's segments are, in all material respects, consistent with those described in Note A, "Summary of Significant Accounting and Related Policies."

An analysis of IFC's major components of income and expense by business segment for the years ended June 30, 2008, June 30, 2007, and June 30, 2006, is given below (US\$ millions):

	2008			2007			2006		
	Client services	Treasury services	Total	Client services	Treasury services	Total	Client services	Treasury services	Total
Income from loans and guarantees	\$ 1,054	\$ 11	\$ 1,065	\$ 1,062	\$ -	\$ 1,062	\$ 804	\$ -	\$ 804
Income from equity investments	1,688	-	1,688	2,292	-	2,292	1,224	-	1,224
Income from debt securities	163	-	163	27	-	27	7	-	7
(Provision for) release of provision for losses on loans and guarantees	(38)	-	(38)	43	-	43	(15)	-	(15)
Income from liquid asset trading activities	-	473	473	-	618	618	-	444	444
Charges on borrowings	(528)	(254)	(782)	(510)	(291)	(801)	(343)	(260)	(603)
Income from loans and guarantees, equity investments, debt securities and liquid asset trading activities, after (provision for) release of provision for on loans and guarantees	2,339	230	2,569	2,914	327	3,241	1,677	184	1,861
Other income	113	-	113	99	-	99	109	-	109
Other expenses	(547)	(8)	(555)	(493)	(7)	(500)	(471)	(6)	(477)
Foreign currency transaction (losses) gains on non-trading activities	(39)	-	(39)	(5)	-	(5)	6	-	6
Expenditures for advisory services	(123)	-	(123)	(96)	-	(96)	(55)	-	(55)
Expenditures for performance-based grant	(27)	-	(27)	-	-	-	(35)	-	(35)
Grants to IDA	(500)	-	(500)	(150)	-	(150)	-	-	-
Net unrealized gains (losses) on other non-trading financial instruments	92	17	109	(106)	7	(99)	35	(180)	(145)
Net income	\$ 1,308	\$ 239	\$ 1,547	\$ 2,163	\$ 327	\$ 2,490	\$ 1,266	\$ (2)	\$ 1,264

Geographical segment data in respect of client services are disclosed in Note C, and are not relevant in respect of treasury services.

NOTE S – PENSION AND OTHER POSTRETIREMENT BENEFITS

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

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 certain pension benefits administered outside the SRP.

The United States Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) established a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to qualifying sponsors of retiree health care benefit. The effects of the subsidy and the related disclosures have been reflected in the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IFC uses a June 30 measurement date for its pension and other postretirement benefit plans. The amounts presented below reflect IFC's respective share of the costs, assets and liabilities of the plans.

All costs, assets and liabilities associated with these plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the plans. Costs allocated to IBRD are then shared between IBRD and IDA based on an agreed cost sharing ratio. IDA, IFC and MIGA reimburse IBRD for their proportionate share of any contributions made to these plans by IBRD. Contributions to these 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, 2008, June 30, 2007, and June 30 2006 (US\$ millions):

	SRP			RSBP			PEBP		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Benefit cost									
Service cost	\$ 64	\$ 59	\$ 59	\$ 10	\$ 9	\$ 9	\$ 4	\$ 4	\$ 2
Interest cost	92	86	101	11	10	8	3	2	2
Expected return on plan assets	(169)	(146)	(157)	(15)	(12)	(10)	-	-	-
Amortization of prior service cost	2	2	1	-	-	-	-	-	-
Amortization of unrecognized net loss	-	-	9	1	2	4	-	-	-
Net periodic pension cost (income)	\$ (11)	\$ 1	\$ 13	\$ 7	\$ 9	\$ 11	\$ 7	\$ 6	\$ 4

The expenses for the SRP, RSBP, and PEBP are included in expense from pension and other postretirement benefit plans. For the years ended June 30, 2008, June 30, 2007, and June 30, 2006, expenses for these plans of \$3 million, \$16 million and \$28 million, respectively, were allocated to IFC.

The following table summarizes the projected benefit obligation, fair value of plan assets, and funded status associated with the SRP, RSBP, and PEBP for IFC for the years ended June 30, 2008, and June 30, 2007 (US\$ millions). 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 invested in fixed income instruments.

	SRP		RSBP		PEBP	
	2008	2007	2008	2007	2008	2007
Projected benefit obligation						
Beginning of year	\$ 1,504	\$ 1,352	\$ 179	\$ 161	\$ 38	\$ 34
Service cost	64	59	10	9	4	4
Interest cost	92	86	11	10	3	2
Participant contributions	21	17	2	2	-	-
Plan amendment	1	-	-	-	-	-
Benefits paid	(66)	(77)	(5)	(4)	(8)	(5)
Actuarial loss	33	67	20	1	40	3
End of year	1,649	1,504	217	179	77	38
Fair value of plan assets						
Beginning of year	2,188	1,892	181	142	-	-
Participant contributions	21	17	2	2	-	-
Actual return on assets	64	314	3	23	-	-
Employer contributions	32	42	17	18	-	-
Benefits paid	(66)	(77)	(5)	(4)	-	-
End of year	2,239	2,188	198	181	-	-
Funded status	590	684	(19)	2	(77)	(38)
Accumulated benefit obligations	\$ 1,149	\$ 1,032	\$ 217	\$ 179	\$ 69	\$ 34

The \$590 million relating to SRP at June 30, 2008 (\$684 million - June 30, 2007), is included in receivables and other assets on the consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the amounts included in accumulated other comprehensive income relating to SFAS No.158 (US\$ millions):

Amounts included in accumulated other comprehensive income in the year ended June 30, 2008:

	SRP	RSBP	PEBP	Total
Net actuarial (gain) loss	\$ (166)	\$ 61	\$ 57	\$ (48)
Prior service cost	8	-	-	8
Net amount recognized in accumulated other comprehensive (income) loss	<u>\$ (158)</u>	<u>\$ 61</u>	<u>\$ 57</u>	<u>\$ (40)</u>

Amounts recognized in accumulated other comprehensive income in the year ended June 30, 2007:

	SRP	RSBP	PEBP	Total
Net actuarial (gain) loss	\$ (303)	\$ 30	\$ 18	\$ (255)
Prior service cost	8	1	-	9
Net amount recognized in accumulated other comprehensive (income) loss	<u>\$ (295)</u>	<u>\$ 31</u>	<u>\$ 18</u>	<u>\$ (246)</u>

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in the year ending June 30, 2009 are as follows (US\$ millions):

	SRP	RSBP	PEBP	Total
Net actuarial loss	\$ -	\$ 3	\$ 3	\$ 6
Prior service cost	2	-	-	2
Amount estimated to be amortized into net periodic benefit cost	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 8</u>

Assumptions

The actuarial assumptions used are based on financial market interest rates, 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 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, 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 AAA and 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 and the net periodic pension costs for the years ended June 30, 2008, June 30, 2007, and June 30, 2006:

Weighted average assumptions used to determine projected benefit obligation (%)

	SRP			RSBP			PEBP		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Discount rate	6.75	6.25	6.50	6.75	6.25	6.50	6.75	6.25	6.50
Rate of compensation increase	7.00	6.50	6.80						
Health care growth rates									
-at end of the year				7.25	6.80	7.60			
Ultimate health care growth rate				5.50	4.75	5.00			
Year in which ultimate rate is reached				2016	2012	2012			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Weighted average assumptions used to determine net periodic pension cost (%)

	SRP			RSBP			PEBP		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Discount rate	6.25	6.50	5.25	6.25	6.50	5.25	6.25	6.50	5.25
Expected return on plan assets	7.75	7.75	7.75	8.25	8.25	8.25			
Rate of compensation increase	6.50	6.80	5.90						
Health care growth rates									
-at end of the year				6.80	7.60	6.80			
-to year 2012 and thereafter				4.75	5.00	4.25			

The medical cost trend rate can significantly affect the reported postretirement benefit income or costs and benefit obligations for the RSBP. The following table shows the effects of a one-percentage-point change in the assumed healthcare cost trend rate (US\$ millions):

	One-percentage-point increase		One-percentage-point decrease	
Effect on total service and interest cost	\$	6	\$	(4)
Effect on postretirement benefit obligation		44		(34)

Investment strategy

The investment policy for the SRP and the RSBP is to optimize the risk-return relationship as appropriate to the respective plan's needs and goals, using a global diversified portfolio of various asset classes. Specifically, the long-term asset allocation is based on an analysis that incorporates expected returns by asset class as well as volatilities and correlations across asset classes and the liability profile of the respective plans. This analysis, referred to as an asset-liability analysis, also provides estimates of potential future contributions and future asset and liability balances. In October 2007, a new strategic asset allocation was approved by the Pension Finance Committee. This resulted in a change to the allocation of fixed income, public equity and alternatives. In addition, three new alternative asset classes were introduced: timber, infrastructure, and commodities. The new investment policy is reflected in the table below. Plan assets are managed by external investment managers and monitored by IBRD's pension investment department. The pension plan assets are invested in diversified portfolios of public equity, fixed income, and alternative investments.

The following table presents the asset allocation at June 30, 2008, and June 30, 2007, and the respective target allocation by asset category for the SRP and RSBP (%):

Asset class	SRP			RSBP		
	Target Allocation	% of Plan Assets		Target Allocation	% of Plan Assets	
	2008	2008	2007	2008	2008	2007
Fixed income	26	33	40%	30	30	30%
Public equity	14	23	32	30	27	32
Alternative investments	60	44	28	40	43	38
Total	100	100	100	100	100	100
Alternative investments include:						
Private equity	15%	14.8%	10.5%	28%	20%	14.3%
Real estate	12.5	7.3	5.7	18%	6.1	5.0
Hedge funds and active overlay	25	18.5	11.2	23%	16.9	18.3
Timber	2.5	0.2	-	-	-	-
Infrastructure	2.5	0.5	-	-	-	-
Commodities	2.5	2.6	-	-	-	-

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 at June 30, 2008 (US\$ millions):

	SRP		RSBP		PEBP	
			Before Medicare Part D subsidy	Medicare Part D subsidy		
July 1, 2008 - June 30, 2009	\$	63	\$	4	\$	5
July 1, 2009 - June 30, 2010		71		4		6
July 1, 2010 - June 30, 2011		78		5		6
July 1, 2011 - June 30, 2012		85		6		7
July 1, 2012 - June 30, 2013		93		6		7
July 1, 2013 - June 30, 2018		584		47		42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Expected contributions

IFC's contribution to the SRP and RSBP varies from year to year, as determined by the Pension Finance Committee, 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 for IFC during the year beginning July 1, 2008, is \$16 million and \$8 million, respectively.

NOTE T – SERVICE AND SUPPORT PAYMENTS

IFC obtains certain administrative and overhead services from IBRD in those areas where common services can be efficiently provided by IBRD. This includes shared costs of the Boards of Governors and Directors, and other services such as communications, internal auditing, administrative support, supplies, and insurance. IFC makes payments for these services to IBRD based on negotiated fees, chargebacks and allocated charges, where chargeback is not feasible. Expenses allocated to IFC for the year ended June 30, 2008, were \$34 million (\$28 million - year ended June 30, 2007; \$23 million - year ended June 30, 2006).

NOTE U – MANAGEMENT OF TRUST FUNDS

IFC administers funds received from and on behalf of donors and/or partners (Trust Funds) that are restricted for specific uses in accordance with applicable administration agreements and/or fiscal agency agreements. Specified uses could include, for example, Advisory Services work including feasibility studies, project preparation, implementation of global and regional programs, and research and training programs. IFC may also make contributions to these specific uses of funds in accordance with terms approved by IFC's Board. The IFC contributions can be commingled with donor funds under administration in accordance with administration agreements with donors or fiscal agency agreements, where applicable. The IFC contributions and donor funds are placed in trust and are held in a separate investment portfolio, managed by IBRD, which is not commingled with IFC's liquid assets. IFC funding is included in the consolidated balance sheet of IFC until such time as IFC cedes control of the funds to the recipient.

Execution may be carried out through: a recipient-executed trust fund, an IFC-executed trust fund or a financial intermediary fund.

IFC-executed Trust Funds involve IFC execution of activities as described in relevant administration agreements or IFC Board documents, which define the terms and conditions for use of the funds. Spending authority is exercised by IFC, subject to any restrictions contained in the administration agreements.

Recipient-executed Trust Funds involve activities carried out by a recipient third-party "executing agency." IFC enters into agreements with and disburses funds to these recipients, who then exercise spending authority to meet the objectives and comply with terms stipulated in the agreements.

IFC also enters into financial intermediary fund arrangements under which IFC's services are limited to the role of fiscal agent pursuant to a fiscal agency agreement. Funds are held and disbursed in accordance with the fiscal agency agreement. Trust Fund assets at June 30, 2008, and June 30, 2007, including \$176 million (both June 30, 2008 and June 30, 2007) of funds provided by IFC in its capacity as a donor, are summarized below (US\$ millions):

	Total fiduciary assets	
	June 30, 2008	June 30, 2007
Executed by IFC	\$ 616	\$ 553
Recipient-executed	1	1
Financial intermediary fund	5	18
Total	\$ 622	\$ 572

NOTE V – CONTINGENCIES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE W – VARIABLE INTEREST ENTITIES AND OTHER CONSOLIDATED INVESTMENTS

An entity is subject to FIN 46R and is called a variable interest entity (VIE) if it lacks: (1) equity that is sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (2) equity investors who have decision-making rights about the entity's operations or who do not absorb the expected losses or receive the expected returns of the entity proportionally to their voting rights.

A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that absorbs a majority of the expected losses or receives a majority of the expected residual returns or both. The primary beneficiary is required to initially measure the assets, liabilities and noncontrolling interests of the VIE at their carrying amounts at the date on which it first became the primary beneficiary. Because certain VIEs were created prior to the issuance of FIN 46R, it may not be practicable to determine the carrying amounts of the assets, liabilities and noncontrolling interests at the initial date, and in such cases, the primary beneficiary must measure the assets, liabilities and noncontrolling interests at their fair values on the date FIN 46R is first applied. The primary beneficiary is also required to disclose information about the nature, purpose, size, and activities of the VIE, and collateral and recourse creditors may have against the VIE.

An enterprise may hold significant variable interests in VIEs which are not consolidated because the enterprise is not the primary beneficiary. In such cases, the enterprise is required to disclose information about its involvement with and exposure to the VIE, and about the nature, purpose, size, and activities of the VIE.

An enterprise is not required to apply FIN 46R to certain entities if, after making an exhaustive effort, it is unable to obtain the information necessary to: (1) determine whether the entity is a VIE; (2) determine if the enterprise is the primary beneficiary of the possible VIE; or (3) perform the accounting required to consolidate a possible VIE. In such cases, the enterprise is required to disclose the number of entities to which FIN 46R is not being applied, why the information required to apply FIN 46R is not available, the nature, purpose and activities of the entities to which FIN 46R is not being applied, and the enterprise's maximum exposure to the entities to which FIN 46R is not being applied.

Primary beneficiary

IFC has identified five VIEs in which IFC is deemed to be the primary beneficiary at June 30, 2008 (six entities - June 30, 2007). Two of the VIEs in which IFC is deemed to be the primary beneficiary have been consolidated into IFC's consolidated financial statements as of June 30, 2008 (three entities - June 30, 2007). All consolidated VIEs are in the Collective investment vehicles sector in the Latin America and Caribbean region.

As a result of the consolidation of the two investments described above, IFC's consolidated balance sheet at June 30, 2008 includes additional assets of \$20 million in equity investments (\$12 million - June 30, 2007), \$1 million in receivables and other assets (\$3 million - June 30, 2007), and additional liabilities of \$4 million in payables and other liabilities (\$4 million - June 30, 2007).

Other income for the year ended June 30, 2008 includes \$7 million of income from consolidated entities (\$7 million - year ended June 30, 2007; \$17 million - year ended June 30, 2006) and other expense includes \$1 million of expenses from consolidated entities (\$2 million - year ended June 30, 2007; \$10 million - year ended June 30, 2006).

The remaining three VIEs in which IFC is deemed to be the primary beneficiary have not been consolidated into IFC's consolidated financial statements, as they are significantly impaired and information required to apply the provisions of FIN 46R is not available. Based on the most recent financial data available, total net assets of the three entities is \$6 million. IFC's net investment in these three entities totals \$2 million, virtually all in the primary metals sector in the Asia region.

Significant variable interests

IFC has identified 49 investments in VIEs in which IFC is not the primary beneficiary but in which it is deemed to hold significant variable interests at June 30, 2008 (27 - June 30, 2007). Based on the most recent available data from these VIEs, the size including committed funding of the VIEs in which IFC is deemed to hold significant variable interests totaled \$5,136 million at June 30, 2008 (\$1,639 million - June 30, 2007). IFC's total investment in and maximum exposure to loss to these investments in VIEs in which IFC is deemed to hold significant variable interests, comprising both disbursed amounts and amounts committed but not yet disbursed, was \$1,201 million at June 30, 2008 (\$367 million - June 30, 2007).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The regional and sectoral analysis of IFC's investments in these VIEs at June 30, 2008, is as follows (US\$ millions):

	June 30, 2008				
	Loans	Equity investments	Debt securities	Guarantees	Total
Asia	\$ 387	\$ 59	\$ -	\$ -	\$ 446
Latin America and Caribbean	224	50	6	-	280
Middle East and North Africa	223	4	-	-	227
Europe and Central Asia	140	33	-	-	173
Sub-Saharan Africa	29	20	-	4	53
Other	6	-	16	-	22
Total VIE investments	\$ 1,009	\$ 166	\$ 22	\$ 4	\$ 1,201

	June 30, 2008				
	Loans	Equity investments	Debt securities	Guarantees	Total
Utilities, oil and gas and mining	\$ 322	\$ 48	\$ -	\$ -	\$ 370
Transportation and warehousing	307	2	6	-	315
Finance and insurance	222	24	16	4	266
Collective investment vehicles	-	69	-	-	69
Industrial and consumer products	64	4	-	-	68
Chemicals	26	13	-	-	39
Accommodation and tourism services	21	2	-	-	23
Textiles, apparel and leather	20	2	-	-	22
Agriculture and forestry	11	-	-	-	11
Air transportation	8	-	-	-	8
Other	8	2	-	-	10
Total VIE Investments	\$ 1,009	\$ 166	\$ 22	\$ 4	\$ 1,201

NOTE X – THE FAIR VALUE OPTION AND FAIR VALUE MEASUREMENTS

Effective July 1, 2007, IFC adopted the SFAS No. 157 and SFAS No. 159. SFAS No. 157 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. SFAS No. 159 permits the measurement of eligible financial assets, financial liabilities and firm commitments at fair value on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at fair value under other accounting standards. The election to use the Fair Value Option is available when an entity first recognizes a financial asset or liability or upon entering into a firm commitment. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption. SFAS No. 157 and SFAS No. 159 are to be applied prospectively. The cumulative effect of remeasuring items for which the Fair Value Option has been elected effective July 1, 2007 has been reported as an adjustment to the July 1, 2007 balance of retained earnings.

The Fair Value Option

Effective July 1, 2007, IFC elected the Fair Value Option for certain borrowings, investments in equity instruments that would otherwise require equity method accounting, investments in equity investments with more than 20% ownership where IFC does not have significant influence and all other financial interests (loans and guarantees) in the entities in which IFC has an equity investment that would otherwise require equity method accounting.

All borrowings for which the Fair Value Option has been elected are associated with existing derivative instruments used to create a fair value-like or cash flow-like hedge relationship, a substantial amount of which were designated as accounting hedges in accordance with SFAS No. 133. Measuring at fair value those borrowings for which the Fair Value Option has been elected at fair value will mitigate the earnings volatility caused by measuring the borrowings and related derivative differently (in the absence of a designated accounting hedge) without having to apply SFAS No. 133's complex hedge accounting requirements. The Fair Value Option was not elected for all borrowings from IBRD and all other market borrowings because earnings volatility is not a concern in those cases.

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 superior to equity method accounting. For the investments that otherwise would require equity method accounting for which the Fair Value Option is elected, SFAS No. 159 requires the Fair Value Option to also be applied to all eligible financial interests in the same entity. IFC has disbursed loans to certain of such investees, therefore, the Fair Value Option was also applied to those loans effective July 1, 2007. IFC elected the Fair Value Option for equity investments with 20% or more ownership where it does not have significant influence so that the same measurement method (fair value) will be applied to all equity investments with more than 20% ownership.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

SFAS No. 157 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 the highest and best use for the asset by market participants. The highest and best use of the IFC assets and liabilities measured at fair value is considered to be in exchange, therefore, their fair values are determined based on a transaction to sell or transfer the asset or liability on a standalone basis. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs.

The fair value hierarchy established by SFAS No. 157 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 primarily consists of financial instruments whose values are based on unadjusted quoted market prices. It includes IFC's equity investments which are listed in markets that provide readily determinable fair values, government issues, money market funds and borrowings that are listed on exchanges.

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

Level 3 consists of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are generally less observable. It also includes financial instruments whose fair value is estimated based on price information from independent sources that cannot be corroborated by observable market data. Included in Level 3 are the majority of equity investments for which IFC has elected the Fair Value Option.

The following table provides the carrying amounts immediately before and after applying the Fair Value Option and SFAS No. 157 and the cumulative adjustment to retained earnings and accumulated other comprehensive income as of July 1, 2007 (US \$ millions):

	July 1, 2007		
	Carrying amount prior to adoption	Carrying amount after adoption	Net gain (loss) on adoption
Loans	\$ 11,818	\$ 11,817	\$ (1)
Equity investments accounted for at fair value in accordance with the Fair Value Option	654	938	284
Transfer of amounts previously reported in accumulated other comprehensive income related to equity investments previously accounted for under the equity method now accounted for in accordance with the Fair Value Option			2
Borrowings from market sources	(15,817)	(15,667)	150
Cumulative effect of adoption of SFAS No. 159 on retained earnings			\$ 435
Equity investments accounted for at fair value as available-for-sale	\$ 837	\$ 3,762	\$ 2,925
Transfer of amounts previously reported in accumulated other comprehensive income related to equity investments previously accounted for under the equity method now accounted for in accordance with the Fair Value Option			(2)
Cumulative effect of adoption of SFAS No. 157 on accumulated other comprehensive income			\$ 2,923

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables provide information as of June 30, 2008 about IFC's financial assets and financial liabilities measured at fair value on a recurring basis. As required by SFAS No. 157, financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement (US\$ millions):

	At June 30, 2008			
	Level 1	Level 2	Level 3	Total
Trading securities	\$ 6,171*	\$ 5,856	\$ 319	\$ 12,346
Loans (outstanding principal balance \$266)	-	-	248	248
Equity investments	3,315	-	1,387	4,702
Debt securities	-	-	1,620	1,620
Derivative assets	-	1,520	110	1,630
Total assets at fair value	\$ 9,486	\$ 7,376	\$ 3,684	\$ 20,546

	At June 30, 2008			
	Level 1	Level 2	Level 3	Total
Borrowings (outstanding principal balance \$20,445)**	\$ 7,415	\$ 12,370	\$ -	\$ 19,785
Derivative liabilities	-	1,395	13	1,408
Total liabilities at fair value	\$ 7,415	\$ 13,765	\$ 13	\$ 21,193

* includes securities priced at par plus accrued interest, which approximates fair value, with a fair value of \$387 million at June 30, 2008.

** includes discount notes with principal due at maturity of \$1,783 million with a fair value of \$1,215 million as of June 30, 2008.

The following table presents the changes in the carrying value of IFC's Level 3 financial assets and financial liabilities for the year ended June 30, 2008 (US \$ millions):

	Level 3 financial assets and financial liabilities year ended June 30, 2008					
	Trading securities	Loans	Equity investments	Debt securities	Derivative assets	Derivative liabilities
Balance as of July 1, 2007	\$ 6,747	\$ 28	\$ 1,824	\$ 733	\$ 60	\$ 3
Total gains (losses) (realized and unrealized) for the year ended June 30, 2008 in:						
Net income (loss)	(113)	(17)	177	50	50	10
Other comprehensive income	-	-	544	75	-	-
Purchases, issuances and settlements	(1,592)	237	142	762	-	-
Transfers in (out) of Level 3	(4,723)	-	(1,300)	-	-	-
Balance as of June 30, 2008	\$ 319	\$ 248	\$ 1,387	\$ 1,620	\$ 110	\$ 13

For the year ended June 30, 2008:

Unrealized gains (losses) included in net income	\$ 95	\$ (18)	\$ 42	\$ (3)	\$ (50)	\$ 10
Unrealized gains included in other comprehensive income	\$ -	\$ -	\$ 136	\$ 109	\$ -	\$ -

Gains (losses) realized and unrealized, from trading securities, loans, debt securities and equity instruments included in net income for the period are reported on the consolidated income statement in income from liquid asset trading activities, income from loans and guarantees, income from debt securities and income from equity investments, respectively.

As of June 30, 2008, equity investments, accounted for at cost, less impairment, with a carrying amount of \$105 million were written down to their fair value of \$70 million pursuant to FSP SFAS No. 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*, resulting in a loss of \$35 million, which was included in income from equity investments in the consolidated income statement during the year ended June 30, 2008. The amount of the write down is based on a Level 3 measure of fair value.

NOTE Y – RESTATEMENT OF PRIOR PERIOD CONSOLIDATED FINANCIAL STATEMENTS

Historically, IFC had not bifurcated certain embedded derivatives or accounted for certain derivatives associated with its loans, debt securities and equity investments. These comprise put options, call options, income participation features, prepayments, warrants and loan conversion features. IFC has determined that, in accordance with SFAS No. 133, certain of these should have been accounted for as derivatives, resulting in the recording of derivative assets and liabilities, measured at fair value. This application of SFAS No. 133 resulted in a restatement of previously reported results. This restatement, necessary to correct the historical application, resulted in an increase in reported retained earnings at July 1, 2004 of \$24 million, and the following changes in reported net income for the periods presented in the restated consolidated financial statements as of and for the year ended June 30, 2007:

- a decrease in net income of \$106 million for the year ended June 30, 2007;
- a decrease in net income of \$14 million for the year ended June 30, 2006; and
- a decrease in net income of \$1 million for the year ended June 30, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

IFC also determined that, in accordance with SFAS No 115, certain loans in the amount of \$94 million at June 30, 2007 should have been reclassified as debt securities. IFC further determined that the carrying value of debt securities should have been decreased by \$16 million at June 30, 2007 (increased by \$56 million - June 30, 2006) to reflect fair value at the respective dates. These applications of SFAS No. 115 resulted in a restatement, necessary to correct the historical application, of previously reported net income and other comprehensive income for the periods presented in the restated consolidated financial statements as of and for the year ended June 30, 2007:

- a decrease in net income of \$22 million for the year ended June 30, 2007;
- a decrease in other comprehensive income of \$50 million for the year ended June 30, 2007; and
- an increase in other comprehensive income of \$56 million for the year ended June 30, 2006.

The following tables summarize the effect of the restatement on IFC's consolidated income statement and consolidated statement of cash flows for the years ended June 30, 2007, June 30, 2006 and June 30, 2005 (US \$ millions):

	Year ended June 30, 2007		
	As previously reported	Adjustments	As Restated
Income Statement:			
Other income			
Foreign currency transaction (losses) gains on non-trading activities	\$ 17	\$ (17)	\$ -
Total other income	116	(17)	99
Other expenses			
Foreign currency transaction losses (gains) on non-trading activities	-	5	5
Total other expenses	500	5	505
Income before expenditures for advisory services, expenditures for performance-based grants, grants to IDA and net (losses) gains on other non-trading financial instruments	2,857	(22)	2,835
Income after expenditures for advisory services, expenditures for performance-based grants, grants to IDA and before net (losses) gains on other non-trading financial instruments	2,611	(22)	2,589
Net (losses) gains on other non-trading financial instruments	7	(106)	(99)
Net income	2,618	(128)	2,490
Statement of Cash Flows:			
Cash flows from investment activities			
Loan disbursements	(4,574)	84	(4,490)
Investments in debt securities	(210)	(84)	(294)
Cash flows from operating activities			
Net income	2,618	(128)	2,490
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Foreign currency transaction losses (gains) on non-trading activities	(17)	22	5
Net losses (gains) on other non-trading financial instruments	(7)	106	99
Change in payables and other liabilities	2,531	(71)	2,460
Change in receivables and other assets	(926)	71	(855)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year ended June 30, 2006		
	As previously reported	Adjustments	As Restated
Income Statement:			
Other income			
Foreign currency transaction (losses) gains on non-trading activities	\$ 6	\$ (6)	\$ -
Total other income	115	(6)	109
Other expenses			
Foreign currency transaction losses (gains) on non-trading activities	-	(6)	(6)
Total other expenses	477	(6)	471
Net (losses) gains on other non-trading financial instruments	(131)	(14)	(145)
Net income	1,278	(14)	1,264
Statement of Cash Flows:			
Cash flows from operating activities			
Net income	1,278	(14)	1,264
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net losses (gains) on other non-trading financial instruments	131	14	145
Change in payables and other liabilities	(431)	56	(375)
Change in receivables and other assets	(168)	(56)	(224)

	Year ended June 30, 2005		
	As previously reported	Adjustments	As Restated
Income Statement:			
Other income			
Foreign currency transaction (losses) gains on non-trading activities	\$ (7)	\$ 7	\$ -
Total other income	79	7	86
Other expenses			
Foreign currency transaction losses (gains) on non-trading activities	-	7	7
Total other expenses	423	7	430
Net (losses) gains on other non-trading financial instruments	62	(1)	61
Net income	2,015	(1)	2,014
Statement of Cash Flows:			
Cash flows from operating activities			
Net income	2,015	(1)	2,014
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net losses (gains) on other non-trading financial instruments	(62)	1	(61)

The following tables summarize the effect of the restatement on IFC's consolidated balance sheet for the years ended June 30, 2007 and June 30, 2006 presented in these consolidated financial statements (US \$ millions):

	As of June 30, 2007		
	As previously reported	Adjustments	As Restated
Balance Sheet:			
Assets			
Loans	\$ 12,744	\$ (94)	\$ 12,650
Net loans	11,912	(94)	11,818
Debt securities	655	78	733
Total investments	15,812	(16)	15,796
Derivative assets	1,086	65	1,151
Total assets	40,550	49	40,599
Liabilities			
Derivative liabilities	1,123	162	1,285
Total liabilities	26,420	162	26,582
Capital			
Accumulated other comprehensive income	436	6	442
Retained earnings	11,329	(119)	11,210
Total capital	14,130	(113)	14,017
Total liabilities and capital	40,550	49	40,599

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	As of June 30, 2006		
	As previously reported	Adjustments	As Restated
Balance Sheet:			
Assets			
Debt securities	\$ 206	\$ 56	\$ 262
Total investments	12,731	56	12,787
Derivative assets	1,128	71	1,199
Total assets	38,420	127	38,547
Liabilities			
Derivative liabilities	1,288	62	1,350
Total liabilities	27,344	62	27,406
Capital			
Accumulated other comprehensive income	1	56	57
Retained earnings	8,711	9	8,720
Total capital	11,076	65	11,141
Total liabilities and capital	38,420	127	38,547

INTERNATIONAL FINANCE CORPORATION

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

President and Board of Governors
International Finance Corporation

We have audited the accompanying consolidated balance sheets of the International Finance Corporation as of June 30, 2008 and 2007, including the consolidated statement of capital stock and voting power as of June 30, 2008 and the related consolidated statements of income, comprehensive income, changes in capital, and cash flows for each of the three fiscal years in the period ended June 30, 2008. These consolidated financial statements are the responsibility of the International Finance Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the International Finance Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the International Finance Corporation as of June 30, 2008 and 2007, and the results of its operations and its cash flows for each of the three fiscal years in the period ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the consolidated financial statements, during the year ended June 30, 2007, the International Finance Corporation adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

As discussed in Note X to the consolidated financial statements, effective July 1, 2007, IFC adopted SFAS No. 157, "Fair Value Measurement" and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

As discussed in Note Y to the consolidated financial statements, the consolidated financial statements for the year ended June 30, 2007 have been restated.

A handwritten signature in blue ink that reads "Deloitte & Touche LLP".

August 7, 2008