FINANCIAL STATEMENTS

Deloitte.

Deloitte & Touche LLP
Suite 500
555 12th Street NW
Washington, DC 20004-1207
USA

Tel: +1 202 879 5600
Fax: +1 202 879 5309
www.deloitte.com

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, 2007 and 2006, including the consolidated statements of capital stock and voting power as of June 30, 2007 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, 2007. 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, 2007 and 2006, and the results of its operations and its cash flows for each of the three fiscal years in the period ended June 30, 2007 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.*

Deloitte & Touche LLP

August 2, 2007

CONSOLIDATED BALANCE SHEET

as of June 30, 2007 and June 30, 2006

(US$ millions)

	2007	2006
Assets		
Cash and due from banks	$ 382	$ 159
Time deposits	4,979	2,959
Trading securities – Note B	14,297	16,286
Securities purchased under resale agreements	230	1,190
Investments – Note C		
Loans	12,744	10,727
Less: Reserve against losses on loans – Note D	(832)	(898)
Net loans	11,912	9,829
Equity investments	3,245	2,696
Debt securities	655	206
Total investments	15,812	12,731
Derivative assets – Note P	1,086	1,128
Receivables and other assets – Note I	3,764	3,967
Total assets	**$ 40,550**	**$ 38,420**
Liabilities and capital		
Liabilities		
Securities sold under repurchase agreements and payable for cash collateral received	$ 4,973	$ 8,805
Borrowings withdrawn and outstanding – Note J		
From market sources	15,817	14,887
From International Bank for Reconstruction and Development	62	80
Total borrowings	15,879	14,967
Derivative liabilities – Note P	1,123	1,288
Payables and other liabilities – Note K	4,445	2,284
Total liabilities	26,420	27,344
Capital		
Capital stock, authorized 2,450,000 shares of $1,000 par value each – Note L		
Subscribed	2,366	2,365
Less: Portion not yet paid	(1)	(1)
Total capital stock	2,365	2,364
Accumulated other comprehensive income	436	1
Retained earnings	11,329	8,711
Total capital	14,130	11,076
Total liabilities and capital	**$ 40,550**	**$ 38,420**

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

CONSOLIDATED INCOME STATEMENT

for the three years ended June 30, 2007

(US$ millions)

	2007	2006	2005
Interest and financial fees from loans and debt securities – Note C	$ 1,075	$ 807	$ 660
Income from liquid asset trading activities – Note B	618	444	358
Charges on borrowings – Note J	(801)	(603)	(309)
Income from equity investments – Note F	2,306	1,228	1,365
Release of (provision for) losses on loans and guarantees – Note D	43	(15)	261
Income from loans, equity investments, debt securities, and liquid asset trading activities, after release of (provision for) losses on loans and guarantees	**3,241**	**1,861**	**2,335**
Other income			
Service fees	53	52	41
Foreign currency transaction gains (losses) on non-trading activities	17	6	(7)
Other – Note M	46	57	45
Total other income	**116**	**115**	**79**
Other expenses			
Administrative expenses – Notes T and U	482	436	403
Expense from pension and other postretirement benefit plans – Note S	15	28	14
Other	3	13	6
Total other expenses	**500**	**477**	**423**
Income before expenditures for advisory services, expenditures for performance-based grants, grants to IDA and net gains (losses) on non-trading financial instruments	**2,857**	**1,499**	**1,991**
Expenditures for advisory services – Note N	(96)	(55)	(38)
Expenditures for performance-based grants – Note N	-	(35)	-
Grants to IDA – Note N	(150)	-	-
Income after expenditures for advisory services, expenditures for performance-based grants, grants to IDA and before net gains (losses) on non-trading financial instruments	**2,611**	**1,409**	**1,953**
Net gains (losses) on non-trading financial instruments – Note O	7	(131)	62
Net income	**$ 2,618**	**$ 1,278**	**$ 2,015**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the three years ended June 30, 2007

(US$ millions)

	2007	2006	2005
Net income	**$ 2,618**	**$ 1,278**	**$ 2,015**
Other comprehensive income (loss)			
Unrealized gains on debt securities accounted for as available-for-sale	187	-	-
Reclassification to net income of net interest accruals on swaps in cash flow hedging relationships at June 30, 2000	-	-	(1)
Translation adjustments on investments accounted for under the equity method	2	-	-
Total comprehensive income	**$ 2,807**	**$ 1,278**	**$ 2,014**

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

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL

for the three years ended June 30, 2007

(US$ millions)

	Retained earnings							
	Undesignated	Designated for advisory services	Designated for performance based grants	Designated for grants to IDA	Total	Accumulated other comprehensive income	Capital stock†	Total capital
At July 1, 2004	**$ 5,193**	**$ 225**	**$ -**	**$ -**	**$ 5,418**	**$ 2**	**$ 2,362**	**$ 7,782**
Year ended June 30, 2005								
Net income	2,015				2,015			2,015
Expenditures for advisory services – Note N.........	38	(38)			-			-
Other comprehensive income (loss)						(1)		(1)
Designations for advisory services – Note N.........	(125)	125			-			-
Designations for performance-based grants – Note N..........	(250)		250		-			-
Payments received for capital stock subscribed.................							2	2
At June 30, 2005	**6,871**	**312**	**250**	**-**	**7,433**	**1**	**2,364**	**9,798**
Year ended June 30, 2006								
Net income	1,278				1,278			1,278
Expenditures for advisory services – Note N..........	55	(55)			-			-
Expenditures for performance-based grants – Note N	35		(35)		-			-
Designated for advisory services – Note N..........	(230)	230			-			-
Designated for grants to IDA – Note N..........	(150)			150	-			-
At June 30, 2006 ....**$**	**7,859**	**$ 487**	**$ 215**	**$ 150**	**$ 8,711**	**$ 1**	**$ 2,364**	**$ 11,076**
Year ended June 30, 2007								
Net income	2,618				2,618			2,618
Other comprehensive income (loss).............						189		189
Expenditures for advisory services – Note N..........	96	(96)			-			-
Grants to IDA - Note N........	150			(150)	-			-
Adjustments to initially apply SFAS No. 158 – Note S..						246		246
Payments received for capital stock subscribed							1	1
At June 30, 2007 ....**$**	**10,723**	**$ 391**	**$ 215**	**$ -**	**$ 11,329**	**$ 436**	**$ 2,365**	**$ 14,130**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the three years ended June 30, 2007

(US$ millions)

	2007	2006	2005
Cash flows from investment activities			
Loan disbursements	$ (4,574)	$ (3,647)	$ (2,848)
Equity disbursements	(1,057)	(665)	(535)
Investments in debt securities	(210)	(116)	(73)
Loan repayments	2,558	2,746	2,281
Equity redemptions	1	2	29
Debt securities repayments	4	6	2
Sales of loans and equity investments	2,515	1,451	1,337
Sales of debt securities	2	5	1
Net cash (used in) provided by investing activities	**(761)**	**(218)**	**194**
Cash flows from financing activities			
Drawdown of borrowings	2,843	1,816	1,989
Repayment of borrowings	(2,326)	(2,611)	(2,497)
Capital subscriptions	1	-	2
Net cash provided by (used in) financing activities	**518**	**(795)**	**(506)**
Cash flows from operating activities			
Net income	2,618	1,278	2,015
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Realized capital gains on equity sales	(1,942)	(928)	(723)
Income from investments accounted for under the equity method	(19)	(56)	(191)
Equity investment impairment write-downs	40	57	62
(Release of) provision for losses on loans and guarantees	(43)	15	(261)
Changes in carrying value of equity investments	-	-	(269)
Foreign currency transaction (gains) losses on non-trading activities	(17)	(6)	7
Net (gains) losses on non-trading financial instruments	(7)	131	(62)
Change in accrued income on loans, time deposits and securities	1,100	(150)	(470)
Change in payables and other liabilities	2,531	(431)	459
Change in receivables and other assets	(926)	(168)	(797)
Change in trading securities and securities purchased and sold under resale and repurchase agreements	(832)	2,416	51
Net cash provided by (used in) operating activities	**2,503**	**2,158**	**(179)**
Change in cash and cash equivalents	2,260	1,145	(491)
Effect of exchange rate changes on cash and cash equivalents	(17)	35	(32)
Net change in cash and cash equivalents	2,243	1,180	(523)
Beginning cash and cash equivalents	3,118	1,938	2,461
Ending cash and cash equivalents	**$ 5,361**	**$ 3,118**	**$ 1,938**
Composition of cash and cash equivalents			
Cash and due from banks	$ 382	$ 159	$ 139
Time deposits	4,979	2,959	1,799
Total cash and cash equivalents	**$ 5,361**	**$ 3,118**	**$ 1,938**
Supplemental disclosure			
Change in ending balances resulting from exchange rate fluctuations:			
Loans outstanding	$ (233)	$ (49)	$ (9)
Borrowings	201	(355)	(24)
Currency swaps	-	(1)	-
Charges on borrowings paid, net	790	555	241
Non-cash item:			
Loan and debt securities conversion to equity, net	72	98	111

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

STATEMENT OF CAPITAL STOCK AND VOTING POWER

as of June 30, 2007

(US$ thousands)

	Capital stock		Voting power	
Members	Amount paid	Percent of total	Number of votes	Percent of total
Afghanistan	$ 111	*	361	0.02
Albania	1,302	0.06	1,552	0.06
Algeria	5,621	0.24	5,871	0.24
Angola	1,481	0.06	1,731	0.07
Antigua and Barbuda	13	*	263	0.01
Argentina	38,129	1.61	38,379	1.59
Armenia	992	0.04	1,242	0.05
Australia	47,329	2.00	47,579	1.97
Austria	19,741	0.83	19,991	0.83
Azerbaijan	2,367	0.10	2,617	0.11
Bahamas, The	335	0.01	585	0.02
Bahrain	1,746	0.07	1,996	0.08
Bangladesh	9,037	0.38	9,287	0.39
Barbados	361	0.02	611	0.03
Belarus	5,162	0.22	5,412	0.22
Belgium	50,610	2.14	50,860	2.11
Belize	101	*	351	0.01
Benin	119	0.01	369	0.02
Bhutan	720	0.03	970	0.04
Bolivia	1,902	0.08	2,152	0.09
Bosnia and Herzegovina	620	0.03	870	0.04
Botswana	113	*	363	0.02
Brazil	39,479	1.67	39,729	1.65
Bulgaria	4,867	0.21	5,117	0.21
Burkina Faso	836	0.04	1,086	0.05
Burundi	100	*	350	0.01
Cambodia	339	0.01	589	0.02
Cameroon	885	0.04	1,135	0.05
Canada	81,342	3.44	81,592	3.39
Cape Verde	15	*	265	0.01
Central African Republic	119	0.01	369	0.02
Chad	1,364	0.06	1,614	0.07
Chile	11,710	0.50	11,960	0.50
China	24,500	1.04	24,750	1.03
Colombia	12,606	0.53	12,856	0.53
Comoros	14	*	264	0.01
Congo, Dem. Rep. of	2,159	0.09	2,409	0.10
Congo, Republic of	131	0.01	381	0.02
Costa Rica	952	0.04	1,202	0.05
Côte d'Ivoire	3,544	0.15	3,794	0.16
Croatia	2,882	0.12	3,132	0.13
Cyprus	2,139	0.09	2,389	0.10
Czech Republic	8,913	0.38	9,163	0.38
Denmark	18,554	0.78	18,804	0.78
Djibouti	21	*	271	0.01
Dominica	42	*	292	0.01
Dominican Republic	1,187	0.05	1,437	0.06
Ecuador	2,161	0.09	2,411	0.10
Egypt, Arab Republic of	12,360	0.52	12,610	0.52
El Salvador	29	*	279	0.01
Equatorial Guinea	43	*	293	0.01
Eritrea	935	0.04	1,185	0.05
Estonia	1,434	0.06	1,684	0.07
Ethiopia	127	0.01	377	0.02
Fiji	287	0.01	537	0.02
Finland	15,697	0.66	15,947	0.66
France	121,015	5.12	121,265	5.03
Gabon	1,268	0.05	1,518	0.06
Gambia, The	94	*	344	0.01
Georgia	961	0.04	1,211	0.05
Germany	128,908	5.45	129,158	5.36
Ghana	5,071	0.21	5,321	0.22
Greece	6,898	0.29	7,148	0.30
Grenada	74	*	324	0.01
Guatemala	1,084	0.05	1,334	0.06
Guinea	339	0.01	589	0.02
Guinea-Bissau	18	*	268	0.01
Guyana	1,392	0.06	1,642	0.07
Haiti	822	0.03	1,072	0.04
Honduras	495	0.02	745	0.03
Hungary	10,932	0.46	11,182	0.46
Iceland	42	*	292	0.01
India	81,342	3.44	81,592	3.39
Indonesia	28,539	1.21	28,789	1.19
Iran, Islamic Republic of	1,444	0.06	1,694	0.07
Iraq	147	0.01	397	0.02
Ireland	1,290	0.05	1,540	0.06
Israel	2,135	0.09	2,385	0.10
Italy	81,342	3.44	81,592	3.39
Jamaica	4,282	0.18	4,532	0.19
Japan	141,174	5.97	141,424	5.87
Jordan	941	0.04	1,191	0.05
Kazakhstan	4,637	0.20	4,887	0.20
Kenya	4,041	0.17	4,291	0.18
Kiribati	12	*	262	0.01
Korea, Republic of	15,946	0.67	16,196	0.67
Kuwait	9,947	0.42	10,197	0.42
Kyrgyz Republic	1,720	0.07	1,970	0.08
Lao People's Dem. Rep.	278	0.01	528	0.02
Latvia	2,150	0.09	2,400	0.10
Lebanon	$ 135	0.01	385	0.02
Lesotho	71	*	321	0.01
Liberia	83	*	333	0.01
Libya	55	*	305	0.01
Lithuania	2,341	0.10	2,591	0.11
Luxembourg	2,139	0.09	2,389	0.10
Macedonia, FYR of	536	0.02	786	0.03
Madagascar	432	0.02	682	0.03
Malawi	1,822	0.08	2,072	0.09
Malaysia	15,222	0.64	15,472	0.64
Maldives	16	*	266	0.01
Mali	451	0.02	701	0.03
Malta	1,615	0.07	1,865	0.08
Marshall Islands	663	0.03	913	0.04
Mauritania	214	0.01	464	0.02
Mauritius	1,665	0.07	1,915	0.08
Mexico	27,589	1.17	27,839	1.16
Micronesia, Fed. States of	744	0.03	994	0.04
Moldova	860	0.04	1,110	0.05
Mongolia	144	0.01	394	0.02
Montenegro	1,035	0.04	1,285	0.05
Morocco	9,037	0.38	9,287	0.39
Mozambique	322	0.01	572	0.02
Myanmar	666	0.03	916	0.04
Namibia	404	0.02	654	0.03
Nepal	822	0.03	1,072	0.04
Netherlands	56,131	2.37	56,381	2.34
New Zealand	3,583	0.15	3,833	0.16
Nicaragua	715	0.03	965	0.04
Niger	147	0.01	397	0.02
Nigeria	21,643	0.92	21,893	0.91
Norway	17,599	0.74	17,849	0.74
Oman	1,187	0.05	1,437	0.06
Pakistan	19,380	0.82	19,630	0.81
Palau	25	*	275	0.01
Panama	1,007	0.04	1,257	0.05
Papua New Guinea	1,147	0.05	1,397	0.06
Paraguay	436	0.02	686	0.03
Peru	6,898	0.29	7,148	0.30
Philippines	12,606	0.53	12,856	0.53
Poland	7,236	0.31	7,486	0.31
Portugal	8,324	0.35	8,574	0.36
Romania	2,661	0.11	2,911	0.12
Russian Federation	81,342	3.44	81,592	3.39
Rwanda	306	0.01	556	0.02
Saint Kitts and Nevis	638	0.03	888	0.04
St. Lucia	74	*	324	0.01
Samoa	35	*	285	0.01
Saudi Arabia	30,062	1.27	30,312	1.26
Senegal	2,299	0.10	2,549	0.11
Serbia	1,803	0.08	2,053	0.09
Seychelles	27	*	277	0.01
Sierra Leone	223	0.01	473	0.02
Singapore	177	0.01	427	0.02
Slovak Republic	4,457	0.19	4,707	0.20
Slovenia	1,585	0.07	1,835	0.08
Solomon Islands	37	*	287	0.01
Somalia	83	*	333	0.01
South Africa	15,948	0.67	16,198	0.67
Spain	37,026	1.57	37,276	1.55
Sri Lanka	7,135	0.30	7,385	0.31
Sudan	111	*	361	0.02
Swaziland	684	0.03	934	0.04
Sweden	26,876	1.14	27,126	1.13
Switzerland	41,580	1.76	41,830	1.74
Syrian Arab Republic	194	0.01	444	0.02
Tajikistan	1,212	0.05	1,462	0.06
Tanzania	1,003	0.04	1,253	0.05
Thailand	10,941	0.46	11,191	0.46
Timor-Leste	777	0.03	1,027	0.04
Togo	808	0.03	1,058	0.04
Tonga	34	*	284	0.01
Trinidad and Tobago	4,112	0.17	4,362	0.18
Tunisia	3,566	0.15	3,816	0.16
Turkey	14,545	0.62	14,795	0.61
Turkmenistan	810	0.03	1,060	0.04
Uganda	735	0.03	985	0.04
Ukraine	9,505	0.40	9,755	0.40
United Arab Emirates	4,033	0.17	4,283	0.18
United Kingdom	121,015	5.12	121,265	5.03
United States	569,379	24.07	569,629	23.64
Uruguay	3,569	0.15	3,819	0.16
Uzbekistan	3,873	0.16	4,123	0.17
Vanuatu	55	*	305	0.01
Venezuela, Rep. Boliv. de	27,588	1.17	27,838	1.16
Vietnam	446	0.02	696	0.03
Yemen, Republic of	715	0.03	965	0.04
Zambia	1,286	0.05	1,536	0.06
Zimbabwe	2,120	0.09	2,370	0.10
Total June 30, 2007	$ 2,365,102	100.00+	2,409,852	100.00+
Total June 30, 2006	$ 2,363,891	100.00+	2,408,391	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

THE PURPOSE

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, equity investments, and investments in debt securities where sufficient private capital is not otherwise available on reasonable terms. IFC's share capital is provided by its member countries. It raises most of the funds for its investment activities through the issuance of notes, bonds and other debt securities in the international capital markets. IFC also plays a catalytic role in mobilizing additional funding from other investors and lenders, either through cofinancing or through loan participations, underwritings and guarantees. In addition to project finance, corporate lending and resource mobilization, IFC offers an array of financial products 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 three 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 2, 2007, 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 all derivative instruments and related financial instruments in qualifying hedging relationships; and net periodic pension income or expense. There are inherent risks and uncertainties related to IFC's operations. The possibility exists that changing economic conditions could have an adverse effect on the financial position of IFC.

IFC uses internal models to determine the fair values of derivative and other financial instruments and the aggregate level of the reserve against losses on loans and impairment of equity investments. IFC undertakes continuous review and 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.

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, 2007 and June 30, 2006. Disbursed equity investments 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. Translation adjustments on equity investments that are accounted for under the equity method are recorded in other comprehensive 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 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.

Revenue recognition on loans - Interest income and commitment fees on loans are recorded as income on an accrual basis. Beginning in the year ended June 30, 2006, IFC began amortizing net loan origination costs and fees over the estimated life of the originated loan to which the fees relate. Prior to the year ended June 30, 2006, loan origination costs were expensed as incurred, and loan origination fees were recognized as income when received. The net of loan origination fees and loan origination costs was considered insignificant. All other 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 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 on a quarterly basis, 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.

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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 and is established through 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 for current income, capital appreciation, developmental impact, or all three; 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 limited liability partnerships (LLPs) and limited liability companies (LLCs), and/or as an investor in a private equity fund.

Revenue recognition on equity investments - Direct equity investments in which IFC does not have significant influence and certain investments in investment companies are carried at cost less impairment. IFC's investments in companies where it has significant influence and certain investments in LLPs and LLCs that maintain specific ownership accounts are 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). 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.

Dividends and profit participations received on cost method equity investments are generally recorded as income when received in freely convertible currencies. Realized capital 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 when received in freely convertible currencies or securities, which are readily convertible into freely convertible currencies. Capital losses are recognized when incurred.

IFC enters into put and call option agreements in connection with equity investments; these are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended.

Impairment of equity investments - Equity investments are assessed for impairment each quarter. When an 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 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. Interest on debt securities is included in interest and financial fees from loans on the consolidated income statement.

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 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. These reserves are included in the reserve against losses on loans on the consolidated balance sheet. 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.

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Designations of retained earnings - In the year ended June 30, 2004, IFC established a funding mechanism for technical assistance and advisory services through a designation of retained earnings. Beginning in the year ended June 30, 2007, technical assistance and advisory services are now referred to as advisory services. In the year ended June 30, 2005, IFC established a funding mechanism for performance-based grants (PBG) through a designation of retained earnings. Further, in the year ended June 30, 2006, IFC also designated retained earnings for grants to IDA for use by IDA in the provision of grants to further IFC's mandates in certain IDA member countries. Total designations of retained earnings for advisory services, PBG, and grants to IDA are determined based on IFC's annual income before expenditures for advisory services, expenditures for PBG, grants to IDA and net gains and losses on non-trading financial instruments in excess of $150 million, and contemplating the financial capacity and strategic priorities of IFC. Expenditures for advisory services, PBG, and grants to IDA 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.

Liquid asset portfolio - IFC's liquid funds are invested in government, agency and government-sponsored agency obligations, time deposits and asset-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 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 an element of liquidity in the consolidated statement of cash flows because they are generally readily convertible to known amounts of cash within 90 days of acquisition.

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. Securities purchased under resale agreements, securities sold under agreements to repurchase and securities payable for cash collateral received are recorded at fair value.

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.

Borrowings are recorded at the amount repayable at maturity, adjusted for unamortized premiums and unaccreted discounts. Where borrowings are part of a designated hedging relationship employing derivative instruments, the carrying amount is adjusted for changes in fair value attributable to the risk being hedged. Adjustments for changes in fair value attributable to hedged risks are reported in net gains and losses on non-trading financial instruments in the consolidated income statement. Interest on borrowings and amortization of premiums and accretion of discounts are reported in charges on borrowings.

Risk management, derivative instruments, and hedge accounting - IFC enters into transactions in various derivative instruments for financial risk management purposes in connection with its principal business activities, including lending, client risk management, borrowing, liquid asset portfolio management and asset and liability management. IFC does not use derivatives for speculative purposes.

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, equity investments, and market borrowing transactions entered into on or after January 1, 1999, 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 liquid asset portfolio management activities are recorded in income from liquid asset trading activities. Changes in fair values of derivative instruments other than those used in liquid asset portfolio management activities are recorded in net gains and losses on non-trading financial instruments.

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Subject to certain specific qualifying conditions in SFAS No. 133, as amended, a derivative instrument may be designated either as a hedge of the fair value of an asset or liability (fair value hedge), or as a hedge of the variability of cash flows of an asset or liability or forecasted transaction (cash flow hedge). For a derivative instrument qualifying as a fair value hedge, fair value gains or losses on the derivative instrument are reported in net income, together with offsetting fair value gains or losses on the hedged item that are attributable to the risk being hedged. For a derivative instrument qualifying as a cash flow hedge, fair value gains or losses associated with the risk being hedged are reported in other comprehensive income and released to net income in the period(s) in which the effect on net income of the hedged item is recorded. Fair value gains and losses on a derivative instrument not qualifying as a hedge are reported in net gains and losses on non-trading financial instruments.

IFC has designated certain hedging relationships in its borrowing activities as fair value hedges. IFC generally matches the terms of its derivatives with the terms of the specific underlying financial instruments 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 may differ. The resulting ineffectiveness calculated for such relationships is recorded in net gains and losses on non-trading financial instruments in the consolidated income statement.

IFC has not designated any hedging relationships as cash flow 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 hedging relationships for all lending-related derivatives.

Client risk management activities IFC enters into derivatives transactions with its clients to help them hedge their own currency, interest rate, or commodity risk, which, in turn, improves the overall quality of IFC's loan portfolio. To hedge the market risks that arise from these transactions with clients, IFC enters into offsetting derivative transactions with matching terms with authorized market counterparties. Changes in fair value of all derivatives associated with these activities are reflected currently in net income. Though hedge accounting is not applicable to these activities, the matching of terms between the offsetting transactions minimizes the impact on net income in net gains (losses) on non-financial instruments. Fees and spreads charged on these transactions are recorded as income 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. IFC has designated the majority of derivatives associated with borrowing activities as fair value hedges of the underlying borrowings. There are a small number of fair value-like and cash flow-like hedging transactions for which no hedge relationship has been designated.

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, and no hedging relationships have been designated.

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 spot sales or purchases. Interest rate risk due to reset date mismatches is reduced by synchronizing the reset dates on assets and liabilities and managing overall interest rate risk on an aggregate basis. 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 the IFC's consolidated balance sheet.

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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 Financial Accounting Standards Board (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 purpose 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.

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 ending June 30, 2008 for IFC. The adoption of SFAS No. 155 and SFAS No. 156 is not expected to 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 is applicable to IFC's consolidated financial statements as of June 30, 2007 and the impact of its adoption is discussed further in Note S.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a fair value hierarchy and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, which would be the year ending June 30, 2009 for IFC. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within the fiscal year of adoption. IFC is currently planning to early adopt SFAS No. 157 beginning in the year ending June 30, 2008 and is evaluating the effects of this new standard.

In February 2007, the FASB issued SFAS No. 159, *the Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS No. 159), which allows an entity the irrevocable option to elect fair value measurement for certain financial assets and financial liabilities on a contract-by-contract basis. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, which would be the year ending June 30, 2009 for IFC. Early adoption is permitted as of the beginning of the previous fiscal year (the year ending June 30, 2008 for IFC) as long as the entity also early adopts SFAS No. 157 concurrent with the adoption of SFAS No. 159. IFC is currently planning to early adopt SFAS No. 159 and to elect fair value measurement for virtually all of its market borrowings and certain equity investments. IFC is currently assessing the potential impact of any such early adoption on the financial position, results of operations or cash flow of IFC.

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 is 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.

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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. SOP No. 07-1 is effective for fiscal years beginning on or after December 15, 2007, which would be the year ending June 30, 2009 for IFC. IFC is currently evaluating the provisions of SOP No. 07-1.

In addition, during the year ended June 30, 2007, the FASB issued and/or approved various FASB Staff Positions, 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.

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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, 2007	June 30, 2006
Assets		
Cash and due from banks	$ 11	$ -
Time deposits	4,958	2,911
Trading securities	14,297	16,286
Securities purchased under resale agreements	230	1,190
Receivables and other assets:		
Receivables from sales of securities	2,001	1,466
Accrued interest income on time deposits and securities	87	1,226
Accrued income on derivative instruments	18	37
Derivative assets	90	189
Total assets	**21,692**	**23,305**
Liabilities		
Payables and other liabilities:		
Due to banks	-	12
Payables for purchases of securities	3,278	1,352
Accrued charges on derivative instruments	15	62
Securities sold under repurchase agreements and payable for cash collateral received	4,973	8,805
Derivative liabilities	157	344
Total liabilities	**8,423**	**10,575**
Total net liquid asset portfolio	**$ 13,269**	**$ 12,730**

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 1% of the portfolio at June 30, 2007 (less than 1% - June 30, 2006). The annualized rate of return on the trading portfolio during the year ended June 30, 2007, was 4.8% (3.6% - year ended June 30, 2006; 2.6% - year ended June 30, 2005). 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, 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	**$ 16,061**	**$ 14,297**		

	Year ended June 30, 2006	At June 30, 2006		
	Fair value average daily balance (US$ millions)	Fair value (US$ millions)	Contractual maturity (years)	Average yield (%)
Government, agency and government-sponsored agency obligations	$ 9,604	$ 10,182	4.8	3.9
Asset-backed securities	4,554	4,467	27.0	5.6
Corporate securities	1,819	1,318	2.7	4.8
Money market funds	307	319	-	5.2
Total trading securities	**$ 16,284**	**$ 16,286**		

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

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Income from liquid asset trading activities

Income from liquid asset trading activities for the years ended June 30, 2007, June 30, 2006 and June 30, 2005 comprises (US$ millions):

	2007	2006	2005
Interest income	$ 674	$ 673	$ 533
Net (losses) gains on trading activities:			
Realized	(3)	72	(80)
Unrealized	(55)	(302)	(95)
Net (losses) gains on trading activities	(58)	(230)	(175)
Translation adjustments	2	1	-
Total income from liquid asset trading activities	$ 618	$ 444	$ 358

Collateral

The estimated fair value of securities held by IFC at June 30, 2007 as collateral, in connection with derivatives transactions and purchase and resale agreements, that may be sold or repledged was $291 million ($1,313 million - June 30, 2006).

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 – LOANS, EQUITY INVESTMENTS, AND DEBT SECURITIES

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

	June 30, 2007				June 30, 2006			
	Loans	Equity investments	Debt securities	Total	Loans	Equity investments	Debt securities	Total
Finance and insurance	$ 4,810	$ 1,424	$ 288	$ 6,522	$ 3,439	$ 1,010	$ 80	$ 4,529
Utilities	1,005	304	-	1,309	1,013	255	-	1,268
Oil, gas and mining	779	234	-	1,013	815	173	-	988
Transportation and warehousing	860	20	-	880	758	32	-	790
Nonmetallic mineral product manufacturing	803	60	-	863	703	15	8	726
Food and beverages	746	49	-	795	478	53	10	541
Chemicals	595	53	26	674	465	22	41	528
Industrial and consumer products	509	25	45	579	671	83	-	754
Information	439	123	12	574	463	148	-	611
Primary metals	483	14	2	499	233	30	-	263
Collective investment vehicles	31	402	53	486	43	383	5	431
Wholesale and retail trade	406	48	5	459	348	48	-	396
Agriculture and forestry	361	23	11	395	354	20	53	427
Paper and pulp	296	69	-	365	237	55	-	292
Accommodation and tourism services	213	28	16	257	277	30	-	307
Health care	174	10	2	186	111	6	-	117
Textile, apparel and leather	161	11	6	178	152	11	8	171
Plastics and rubber	42	34	-	76	52	44	-	96
Construction and real estate	30	-	-	30	69	1	-	70
Other	59	20	2	81	86	16	1	103
Total disbursed portfolio	**12,802**	**2,951**	**468**	**16,221**	**10,767**	**2,435**	**206**	**13,408**
Adjustments to investments accounted for under the equity method	-	282	-	282	-	255	-	255
Unrealized gains on equity investments held by consolidated VIEs	-	12	-	12	-	6	-	6
Unrealized gains on debt securities accounted for as available-for-sale	-	-	187	187	-	-	-	-
Unamortized deferred loan origination fees, net	(64)	-	-	(64)	(46)	-	-	(46)
Unamortized SFAS No. 133 transition adjustment	6	-	-	6	6	-	-	6
Carrying value of investments	**$ 12,744**	**$ 3,245**	**$ 655**	**$ 16,644**	**$ 10,727**	**$ 2,696**	**$ 206**	**$ 13,629**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2007				June 30, 2006			
	Loans	Equity investments	Debt securities	Total	Loans	Equity investments	Debt securities	Total
Europe and Central Asia	$ 4,390	$ 749	$ 130	$ 5,269	$ 3,764	$ 612	$ 38	$ 4,414
Latin America and Caribbean	3,697	803	118	4,618	3,425	644	57	4,126
Asia	2,724	947	146	3,817	2,050	814	57	2,921
Middle East and North Africa	999	187	20	1,206	726	125	-	851
Sub-Saharan Africa	982	189	-	1,171	792	188	-	980
Other	10	76	54	140	10	52	54	116
Total disbursed portfolio	**12,802**	**2,951**	**468**	**16,221**	**10,767**	**2,435**	**206**	**13,408**
Adjustments to investments accounted for under the equity method	-	282	-	282	-	255	-	255
Unrealized gains on equity investments held by consolidated VIEs	-	12	-	12	-	6	-	6
Unrealized gains on debt securities accounted for as available-for-sale	-	-	187	187	-	-	-	-
Unamortized deferred loan origination fees, net	(64)	-	-	(64)	(46)	-	-	(46)
Unamortized SFAS No. 133 transition adjustment	6	-	-	6	6	-	-	6
Carrying value of investments	**$ 12,744**	**$ 3,245**	**$ 655**	**$ 16,644**	**$ 10,727**	**$ 2,696**	**$ 206**	**$ 13,629**

Loan portfolio

At June 30, 2007, 23% of the disbursed loan portfolio consisted of fixed rate loans (20% - June 30, 2006), while the remainder was at variable rates. At June 30, 2007, the disbursed loan portfolio included $159 million of loans serving as collateral under secured borrowing arrangements ($88 million - June 30, 2006).

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

	June 30, 2007		June 30, 2006	
	Amount (US $ millions)	Average yield (%)	Amount (US $ million)	Average yield (%)
US dollar	$ 9,296	8.1	$ 8,210	8.1
Euro	1,681	6.2	1,498	5.3
Other currencies	1,825	8.4	1,059	8.1
Total disbursed loan portfolio	**12,802**	**7.9**	**10,767**	**7.7**
Unamortized deferred loan origination fees, net	(64)		(46)	
Fair value adjustments for loans in qualifying hedge relationships	6		6	
Carrying value of loans	**$ 12,744**		**$ 10,727**	

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

Loans in all currencies are repayable during the years ending June 30, 2008 through June 30, 2012 and thereafter, as follows (US$ millions):

	2008	2009	2010	2011	2012	Thereafter	Total
Fixed rate loans	$ 530	$ 440	$ 391	$ 331	$ 275	$ 951	$ 2,918
Variable rate loans	1,341	1,402	1,352	1,275	1,284	3,230	9,884
Total disbursed loan portfolio	**$ 1,871**	**$ 1,842**	**$ 1,743**	**$ 1,606**	**$ 1,559**	**$ 4,181**	**12,802**
Unamortized deferred loan origination fees, net							(64)
Fair value adjustments for loans in qualifying hedge relationships							6
Carrying value of loans							**$ 12,744**

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

Loans on which the accrual of interest has been discontinued amounted to $378 million at June 30, 2007 ($447 million - June 30, 2006). Interest income not recognized on nonaccruing loans during the year ended June 30, 2007 totaled $70 million ($68 million - year ended June 30, 2006; $58 million - year ended June 30, 2005). Interest income recognized on loans in nonaccrual status, related to current and prior years, during the year ended June 30, 2007 was $21 million ($21 million - year ended June 30, 2006; $36 million - year ended June 30, 2005). The average recorded investment in impaired loans during the year ended June 30, 2007, was $552 million ($931 million - year ended June 30, 2006). The recorded investment in impaired loans at June 30, 2007 was $433 million ($671 million - June 30, 2006).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt securities

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

	June 30, 2007			June 30, 2006		
	Cost	Unrealized gains	Fair value	Cost	Unrealized gains	Fair value
Preferred shares	$ 153	$ 140	$ 293	$ 76	$ -	$ 76
Corporate debt securities	185	42	227	75	-	75
Asset-backed securities	90	-	90	15	-	15
Other debt securities	40	5	45	40	-	40
Total	$ 468	$ 187	$ 655	$ 206	$ -	$ 206

Accumulated other comprehensive income includes $187 million of unrealized gains on debt securities accounted for as available-for sale. There were no unrealized losses on debt securities accounted for as available-for-sale.

Debt securities have contractual maturities during years ending June 30, 2008, through June 30, 2012 and thereafter, as follows (US$ millions):

	2008	2009	2010	2011	2012	Thereafter	Total
Corporate debt securities	$ 2	$ 4	$ -	$ 20	$ 3	$ 156	$ 185
Asset-backed securities	-	-	-	-	26	64	90
Total	**$ 2**	**$ 4**	**$ -**	**$ 20**	**$ 29**	**$ 220**	**275**
Unrealized gains on debt securities accounted for as available-for-sale							42
Carrying value of debt securities							**$ 317**

In addition, IFC has $338 million of redeemable preferred shares and other debt securities with undefined maturities ($116 million - June 30, 2006).

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

Interest and financial fees from loans and debt securities

Interest and financial fees from loans and debt securities for the years ended June 30, 2007, June 30, 2006, and June 30, 2005, comprise the following (US$ millions):

	2007	2006	2005
Interest income	$ 1,023	$ 743	$ 574
Commitment fees	23	21	17
Other financial fees	29	43	69
Total interest and financial fees from loans and debt securities	**$ 1,075**	**$ 807**	**$ 660**

NOTE D - RESERVES AGAINST LOSSES ON LOANS

Changes in the reserve against losses on loans for the years ended June 30, 2007, June 30, 2006 and June 30, 2005, are summarized below (US$ millions):

	2007	2006	2005
Beginning balance	$ 898	$ 989	$ 1,367
Release of (provision for) losses on loans	(41)	10	(259)
Write offs	(39)	(111)	(136)
Recoveries of previously written off loans	3	9	16
Foreign currency transaction adjustments	13	4	4
Other adjustments	(2)	(3)	(3)
Ending balance	**$ 832**	**$ 898**	**$ 989**

The release of provision for losses on loans and guarantees in the consolidated income statement for the year ended June 30, 2007 includes $2 million release in respect of guarantees ($5 million provision - year ended June 30, 2006; $3 million release - year ended June 30, 2005). At June 30, 2007 the accumulated reserve for losses on guarantees, included in the consolidated balance sheet in payables and other liabilities, was $16 million ($18 million - June 30, 2006).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – 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, 2007, totaled $1,414 million ($1,150 million - June 30, 2006). Guarantees of $808 million that were outstanding (i.e., not called) at June 30, 2007 ($494 million - June 30, 2006), 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.

NOTE F – INCOME FROM EQUITY INVESTMENTS

Income from equity investments for the years ended June 30, 2007, June 30, 2006 and June 30, 2005 comprise the following (US$ millions):

	2007	2006	2005
Realized capital gains on equity sales	$ 1,942	$ 928	$ 723
Dividends and profit participations	398	327	258
Amortization of UJVs conditional asset retirement obligations	(2)	(8)	-
Income from investments accounted for under the equity method	19	56	191
Changes in carrying value of equity investments	-	-	269
Equity investment impairment write-downs	(40)	(57)	(62)
Net losses on equity-related derivatives	(9)	(15)	(12)
Custody and other fees	(2)	(3)	(2)
Total income from equity investments	**$ 2,306**	**$ 1,228**	**$ 1,365**

Realized capital gains include recoveries and are net of losses on sales of equity investments.

On December 21, 2005, IFC entered into an agreement to sell its shares in Banca Comerciala Romana S.A. In addition, IFC entered into an agreement which includes certain payment covenants and potential indemnifications with respect to certain conditions and valuations in case such conditions and valuations become applicable. The transaction closed during October 2006. Accordingly, IFC recognized a capital gain in the year ended June 30, 2007, in the amount of $833 million.

Realized capital gains on equity sales for the year ended June 30, 2007 includes $95 million ($0 - year ended June 30, 2006; $0 - year ended June 30, 2005) related to settlements regarding loan to equity conversion options received in lieu of exercise.

Dividends and profit participations include $64 million ($86 million - year ended June 30, 2006; $106 million - year ended June 30, 2005) 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 AND COMMITTED BUT NOT DISBURSED OR UTILIZED

Investment transactions approved by the Board of Directors 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, 2007	June 30, 2006
Investment transactions approved but not committed:		
Loans, equity investments and debt securities	$ 3,785	$ 2,860
Guarantees	1,212	679
Client risk management facilities	122	18
Total investment transactions approved but not committed	5,119	3,557
Investment transactions committed but not disbursed:		
Loans, equity investments and debt securities	7,654	6,911
Investment transactions committed but not utilized:		
Guarantees	634	656
Client risk management facilities	93	132
Total investment transactions committed but not disbursed or utilized	8,381	7,699
Total investment transactions approved but not disbursed or utilized	**$ 13,500**	**$ 11,256**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and serviced by IFC for the Participants are as follows (US$ millions):

	June 30, 2007	June 30, 2006
Loan participations arranged to be placed with Participants approved but not committed	$ 1,803	$ 2,485
Loan participations signed as commitments but not disbursed	1,069	1,136
Loan participations arranged to be placed with Participants approved but not disbursed	**$ 2,872**	**$ 3,621**
Loan participations disbursed and outstanding which are serviced by IFC	**$ 4,407**	**$ 3,878**

NOTE I – RECEIVABLES AND OTHER ASSETS

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

	June 30, 2007	June 30, 2006
Receivables from sales of securities	$ 2,001	$ 1,466
Accrued interest income on time deposits and securities	87	1,226
Accrued income on derivative instruments	341	299
Accrued interest income on loans	196	153
Prepaid pension and other postretirement benefit costs	686	393
Headquarters building:		
Land	89	89
Building	202	192
Less: Building depreciation	(48)	(43)
Headquarters building, net	243	238
Deferred charges and other assets	210	192
Total receivables and other assets	**$ 3,764**	**$ 3,967**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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	5.2	$ 15,349	5.1
					(6,887)	(3.8)		
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 francs	92	2.8	(92)	(2.2)	81	2.3	-	-
					(81)	(3.0)		
C.F.A. francs	45	4.8	(41)	(4.8)			4	4.8
New Turkish lira	38	18.3	(38)	(18.3)	-	-	-	-
Peruvian soles nuevos	32	6.3	(32)	(6.3)	-	-	-	-
Mexican pesos	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**							

	June 30, 2006							
	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	$ 6,980	3.9	$ 8,078	4.6	$ 6,334	5.1	$ 14,725	4.9
					(6,667)	(3.8)	-	-
Japanese yen	4,174	4.2	(4,174)	(4.2)	-	-	-	-
Pound sterling	1,712	5.4	(1,712)	(5.4)	-	-	-	-
South African rand	589	7.2	(589)	(7.2)	-	-	-	-
Hong Kong dollar	552	6.1	(552)	(6.1)	-	-	-	-
Euro	475	6.4	(475)	(6.4)	-	-	-	-
Australian dollar	397	4.7	(397)	(4.7)	-	-	-	-
Canadian dollar	276	1.0	(276)	(1.0)	-	-	-	-
New Zealand dollar	242	6.0	(242)	(6.0)	-	-	-	-
Colombian peso	235	12.5	(235)	(12.5)	-	-	-	-
Chinese renminbi	141	3.4	-	-	-	-	141	3.4
Malaysian ringgit	136	2.9	(136)	(2.9)	-	-	-	-
Moroccan dirham	114	4.5	(114)	(4.5)	-	-	-	-
Swiss francs	91	1.9	(91)	(1.3)	80	1.3	-	-
					(80)	(2.0)	-	-
Peruvian soles nuevos	46	6.6	(46)	(6.6)	-	-	-	-
Principal at face value	**16,160**		**$ (961)**		**$ (333)**		**$ 14,866**	**4.9**
Less: Unamortized discounts, net	(605)							
Total market borrowings	**15,555**							
Fair value adjustments	(668)							
Carrying value of market borrowings	**$ 14,887**							

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average cost of IFC's borrowings outstanding from market sources after currency and interest rate swap transactions was 5.0% at June 30, 2007 (4.9% - June 30, 2006). The weighted average remaining maturity of IFC's borrowings from market sources was 9.8 years at June 30, 2007 (10.7 years - June 30, 2006). Charges on borrowings for the year ended June 30, 2007, include $8 million of interest expense on secured borrowings ($6 million - June 30, 2006).

Net fair value adjustments to the carrying value of market borrowings comprises $(495) million at June 30, 2007 ($(668) million - June 30, 2006), representing adjustments to the carrying value of transactions in designated fair value hedging relationships.

The net nominal amount receivable from currency swaps of $979 million and the net notional amount receivable from interest rate swaps of $308 million at June 30, 2007 ($961 million and $333 million - June 30, 2006), shown in the above table, are represented by currency and interest rate swap assets at fair value of $896 million and currency and interest rate swap liabilities at fair value of $699 million ($785 million and $(779) million - June 30, 2006), 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, 2007		June 30, 2006	
	Principal amount (US$ millions)	Weighted average cost (%)	Principal amount (US$ millions)	Weighted average cost (%)
Saudi Arabian riyals	$ 50	4.5	$ 50	4.5
US dollar	12	6.7	30	6.4
Total borrowings outstanding from IBRD	**$ 62**		**$ 80**	

The weighted average remaining maturity of borrowings from IBRD was 8.2 years at June 30, 2007 (7.5 years - June 30, 2006). Charges on borrowings for the year ended June 30, 2007, includes $3 million ($5 million - year ended June 30, 2006; $5 million - year ended June 30, 2005) in respect of IBRD borrowings.

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, 2008, through June 30, 2012, and thereafter are summarized below (US$ millions):

	2008	2009	2010	2011	2012	Thereafter	Total
Borrowings from market sources	$ 1,875	$ 1,642	$ 2,629	$ 1,363	$ 1,376	$ 8,018	$ 16,903
Borrowings from IBRD	8	3	1	-	8	42	62
Total borrowings, gross	**$ 1,883**	**$ 1,645**	**$ 2,630**	**$ 1,363**	**$ 1,384**	**$ 8,060**	**16,965**
Less: Unamortized discounts, net							(591)
Fair value adjustments							(495)
Carrying value of borrowings							**$ 15,879**

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, 2007	June 30, 2006
Accrued charges on borrowings	$ 267	$ 216
Accrued charges on derivative instruments	267	282
Payables for purchases of securities	3,278	1,352
Secured borrowings	159	88
Accounts payable, accrued expenses and other liabilities	406	286
Deferred income	68	60
Total payables and other liabilities	**$ 4,445**	**$ 2,284**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, $1 million of subscribed shares remained unpaid at June 30, 2007 ($1 million - June 30, 2006).

During the year ended June 30, 2007, 100 shares were subscribed and paid by member countries at a par value of $1,000 each ($0 - year ended June 30, 2006; 1,615 - year ended June 30, 2005).

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, 2007, predominantly comprises $20 million of fees collected from clients for expenses incurred by IFC, included in administrative expenses ($20 million - year ended June 30, 2006; $16 million - year ended June 30, 2005), $7 million of income from consolidated entities ($17 million - year ended June 30, 2006; $5 million - year ended June 30, 2005) and income under other reimbursable arrangements of $7 million ($10 million - year ended June 30, 2006; $13 million - year ended June 30, 2005)

NOTE N – ADVISORY SERVICES, PERFORMANCE-BASED GRANTS, AND GRANTS TO IDA

As of June 30, 2007, IFC had designated retained earnings in the cumulative amount of $580 million for advisory services ($580 million - June 30, 2006). Of the amount approved by the Board of Directors as of June 30, 2007, IFC has recognized expenditures of $96 million in the year ended June 30, 2007 ($55 million - year ended June 30, 2006; $38 million - year ended June 30, 2005). At June 30, 2007, retained earnings designated for advisory services totaled $391 million ($487 million - June 30, 2006).

As of June 30, 2007, IFC had designated retained earnings in the cumulative amount of $250 million for performance-based grants ($250 million - June 30, 2006). Of the amount approved by the Board of Directors as of June 30, 2007, IFC has recognized expenditures of $0 in the year ended June 30, 2007 ($35 million - year ended June 30, 2006; $0 - year ended June 30, 2005). At June 30, 2007, retained earnings designated for performance-based grants totaled $215 million ($215 million - June 30, 2006).

During the year ended June 30, 2006, IFC provided $35 million to IBRD's Global Partnership for Output Based Aid under a pilot phase approved by IFC's Board of Directors in March 2006, which was recorded as an expense in the year ended June 30, 2006. Also under the pilot phase, IFC's Board of Directors has approved a further $30 million for a future performance-based small and medium sized enterprise initiative for Sub-Saharan Africa. No amounts have been expensed under this initiative in the year ended June 30, 2007.

As of June 30, 2007, IFC had designated retained earnings in the cumulative amount of $150 million for grants to IDA ($150 million - June 30, 2006). Of the amount approved by the Board of Directors as of June 30, 2007, IFC recorded a grant to IDA of $150 million in the year ended June 30, 2007 ($0 - year ended June 30, 2006; $0 - year ended June 30, 2005), for IDA grant projects that encourage the growth of private enterprise in countries that are members of both IFC and IDA. At June 30, 2007, retained earnings designated for grants to IDA totaled $0 ($150 million - June 30, 2006).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE O – NET GAINS (LOSSES) ON NON-TRADING FINANCIAL INSTRUMENTS

Net gains (losses) on non-trading financial instruments for the year ended June 30, 2007, June 30, 2006 and June 30, 2005, comprises (US$ millions):

	2007	2006	2005
Difference between changes in fair value of derivative instruments designated as a fair value hedge and change in fair value of hedged items attributable to risks being hedged	$ (3)	$ (63)	$ (48)
Change in fair value of non-trading derivative instruments not designated as a hedge	10	(65)	112
Amortization of difference between fair value and carrying value of hedged items at July 1, 2000 not designated for hedge accounting under SFAS No. 133	(1)	(3)	(3)
Release from accumulated other comprehensive income of transition gain on cash flow-like hedges	1	-	1
Net gains (losses) on non-trading financial instruments	**$ 7**	**$ (131)**	**$ 62**

Of the total net gains (losses) on non-trading financial instruments, unrealized gains of $7 million (losses of $182 million - year ended June 30, 2006; gains of $44 million - year ended June 30, 2005) are attributable to borrowings and related derivatives transactions, unrealized gains of $0 (gains $51 million - year ended June 30, 2006; gains $15 million - year ended June 30, 2005) are attributable to loans and related derivatives transactions, and unrealized gains of $0 ($0 - year ended June 30, 2006; gains $3 million - year ended June 30, 2005) are attributable to client risk management activities.

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, 2007 and June 30, 2006. 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, 2007, and June 30, 2006, are summarized below.

Liquid assets - The estimated fair value of time deposits and the trading securities portfolio are based on quoted market prices and the present value of estimated future cash flows using appropriate discount rates.

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.

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 accounted for at cost less impairment were determined using market prices where available, put option prices, book values or cost, certain of which were discounted based upon management's estimate of net realizable value. Where market prices were not available or alternate valuation techniques were not practical, cost was determined to be the best estimate of fair value. Fair values of investments in LLPs and certain LLCs, other equity method investments and equity investments held by consolidated VIEs are not included.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2007			June 30, 2006
	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	$ 19,888	$ -	$ 19,888	$ 20,594
Investments:				
Loans	12,744	486	13,230	11,168
Reserve against losses on loans	(832)	-	(832)	(898)
Net loans	11,912	486	12,398	10,270
Cost method equity investments	2,670	6,285	8,955	6,385
Equity method and consolidated investments	575	134	709	582
Total equity investments	3,245	6,419	9,664	6,967
Debt securities	655	-	655	206
Total investments	15,812	6,905	22,717	17,443
Derivative assets:				
Liquid asset portfolio-related	90	-	90	189
Loans-related	33	-	33	123
Borrowings-related	896	-	896	785
Client risk management-related	22	-	22	29
Equity-related	45	-	45	2
Total derivative assets	1,086	-	1,086	1,128
Nonfinancial assets	3,764	-	3,764	3,967
Total assets	**$ 40,550**	**$ 6,905**	**$ 47,455**	**$ 43,132**
Financial liabilities				
Securities sold under repurchase agreements and payable for cash collateral received	$ 4,973	$ -	$ 4,973	$ 8,805
Market and IBRD borrowings outstanding	15,879	(99)	15,780	14,967
Derivative liabilities:				
Liquid asset portfolio-related	157	-	157	344
Loans-related	241	-	241	135
Borrowings-related	699	-	699	779
Client risk management-related	22	-	22	28
Equity-related	4	-	4	2
Total derivative liabilities	1,123	-	1,123	1,288
Nonfinancial liabilities	4,445	-	4,445	2,284
Total liabilities	**$ 26,420**	**$ (99)**	**$ 26,321**	**$ 27,344**

The fair value of loan commitments amounted to $17 million at June 30, 2007 ($14 million – June 30, 2006).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE Q – CURRENCY POSITION

IFC conducts its operations for its loans, time deposits and 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, 2007, and June 30, 2006 (US$ millions):

	June 30, 2007					
	US dollar	Euro	Japanese yen	Other currencies	Fair value adjustments	Total
Assets						
Cash and due from banks	$ 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	1,787	6	12,744
Less: Reserve against losses on loans	(644)	(103)	(3)	(82)	-	(832)
Net loans	8,588	1,578	35	1,705	6	11,912
Equity investments	-	-	-	3,245	-	3,245
Debt securities	487	54	-	114	-	655
Total investments	9,075	1,632	35	5,064	6	15,812
Derivative assets	3,590	557	4,195	4,823	(12,079)	1,086
Receivables and other assets	3,483	34	91	156	-	3,764
Total assets	**$ 35,411**	**$ 2,539**	**$ 4,383**	**$ 10,290**	**$ (12,073)**	**$ 40,550**
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	(11,642)	1,123
Payables and other liabilities	4,060	27	87	271	-	4,445
Total liabilities	**$ 24,837**	**$ 2,366**	**$ 4,377**	**$ 6,977**	**$ (12,137)**	**$ 26,420**

	June 30, 2006					
	US dollar	Euro	Japanese yen	Other currencies	Fair value adjustments	Total
Assets						
Cash and due from banks	$ 2,960	$ 94	$ 1	$ 63	$ -	$ 3,118
Trading securities	14,758	1,319	88	121	-	16,286
Securities purchased under resale agreements	1,190	-	-	-	-	1,190
Investments:						
Loans	8,165	1,498	45	1,013	6	10,727
Less: Reserve against losses on loans	(707)	(107)	(4)	(80)	-	(898)
Net loans	7,458	1,391	41	933	6	9,829
Equity investments	-	-	-	2,696	-	2,696
Debt securities	90	-	-	116	-	206
Total investments	7,548	1,391	41	3,745	6	12,731
Derivative assets	2,725	1,276	4,472	4,147	(11,492)	1,128
Receivables and other assets	3,658	91	88	130	-	3,967
Total assets	**$ 32,839**	**$ 4,171**	**$ 4,690**	**$ 8,206**	**$ (11,486)**	**$ 38,420**
Liabilities						
Securities sold under repurchase agreements and payable for cash collateral received	$ 8,064	$ 741	$ -	$ -	$ -	$ 8,805
Borrowings	6,681	468	4,177	4,309	(668)	14,967
Derivative liabilities	7,996	2,765	425	977	(10,875)	1,288
Payables and other liabilities	1,997	64	82	141		2,284
Total liabilities	**$ 24,738**	**$ 4,038**	**$ 4,684**	**$ 5,427**	**$ (11,543)**	**$ 27,344**

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, debt securities and equity investment 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, 2007, June 30, 2006, and June 30, 2005, is given below (US$ millions):

	2007			2006			2005		
	Client services	Treasury services	Total	Client services	Treasury services	Total	Client services	Treasury services	Total
Interest and financial fees from loans and debt securities	$ 1,075	$ -	$ 1,075	$ 807	$ -	$ 807	$ 660	$ -	$ 660
Income from liquid asset trading activities		618	618	-	444	444	-	358	358
Charges on borrowings	(510)	(291)	(801)	(343)	(260)	(603)	(151)	(158)	(309)
Income from equity investments	2,306	-	2,306	1,228	-	1,228	1,365	-	1,365
Release of (provision for) losses on loans and guarantees	43	-	43	(15)	-	(15)	261	-	261
Service fees	53	-	53	52	-	52	41	-	41
Administrative expenses	(475)	(7)	(482)	(430)	(6)	(436)	(397)	(6)	(403)
Other income (expense)	45	-	45	22	-	22	18	-	18
Income before expenditures for advisory services, PBG, grants to IDA and net gains (losses) on non-trading financial instruments	**2,537**	**320**	**2,857**	**1,321**	**178**	**1,499**	**1,797**	**194**	**1,991**
Expenditures for advisory services	(96)	-	(96)	(55)	-	(55)	(38)	-	(38)
Expenditures for PBG	-	-	-	(35)	-	(35)	-	-	-
Grants to IDA	(150)	-	(150)	-	-	-	-	-	-
Net gains (losses) on non-trading financial instruments	-	7	7	49	(180)	(131)	18	44	62
Net income	**$ 2,291**	**$ 327**	**$ 2,618**	**$ 1,280**	**$ (2)**	**$ 1,278**	**$ 1,777**	**$ 238**	**$ 2,015**

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.

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 pension 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP allocated to IFC for the fiscal years ended June 30, 2007, June 30, 2006, and June 30 2005 (US$ millions):

	SRP			RSBP			PEBP		
	2007	2006	2005	2007 [1]	2006	2005	2007	2006	2005
Benefit cost									
Service cost	$ 59	$ 59	$ 48	$ 9	$ 9	$ 6	$ 4	$ 2	$ 2
Interest cost	86	101	100	10	8	7	2	2	1
Expected return on plan assets	(146)	(157)	(145)	(12)	(10)	(8)	-	-	-
Amortization of prior service cost	2	1	3	-	-	-	-	-	-
Amortization of unrecognized net loss	-	9	-	2	4	2	-	-	-
Net periodic pension cost	**$ 1**	**$ 13**	**$ 6**	**$ 9**	**$ 11**	**$ 7**	**$ 6**	**$ 4**	**$ 3**

The expenses for the SRP, RSBP, and PEBP are included in expense from pension and other postretirement benefit plans. For the fiscal years ended June 30, 2007, June 30, 2006, and June 30, 2005, expenses for these plans of $16 million, $28 million and $16 million, respectively, were allocated to IFC. IFC's net expense for these plans reported in the consolidated income statement was $15 million, $28 million, and $14 million for the fiscal years ended June 30, 2007, June 30, 2006, and June 30, 2005, respectively.

As described in Note A under *Accounting and financial reporting developments*, on June 30, 2007, IFC prospectively adopted SFAS No. 158 as required, which resulted in a credit to accumulated other comprehensive income of $246 million. Further details are provided in the disclosures below.

The following table summarizes the projected benefit obligations, fair value of plan assets, and funded status associated with the SRP, RSBP, and PEBP for IFC for the fiscal years ended June 30, 2007, and June 30, 2006 (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	
	2007	2006	2007 [2]	2006	2007	2006
Projected benefit obligation						
Beginning of year	$ 1,352	$ 1,631	$ 161	$ 162	$ 34	$ 23
Service cost	59	59	9	9	4	2
Interest cost	86	101	10	8	2	2
Employee contributions	17	15	2	1	-	-
Benefits paid	(77)	(51)	(4)	(4)	(5)	(2)
Actuarial loss (gain)	67	(403)	1	(15)	3	9
End of year	1,504	1,352	179	161	38	34
Fair value of plan assets						
Beginning of year	1,892	1,670	142	118	-	-
Employee contributions	17	15	2	1	-	-
Actual return on assets	314	205	23	11	-	-
Employer contributions	42	53	18	16	-	-
Benefits paid	(77)	(51)	(4)	(4)	-	-
End of year	2,188	1,892	181	142	-	-
Funded status	684	540	2	(19)	(38)	(34)
Unrecognized amounts:						
Net actuarial loss (gain) [3]	-	(202)	-	43	-	15
Prior service cost (credit)	-	10	-	-	-	1
Net unrecognized amount	-	(192)	-	43	-	16
Amount reported in the balance sheet [4]	$ 684	$ 348	$ 2	$ 24	$ (38)	$ (18)
Accumulated benefit obligation	$ 1,032	$ 1,024	$ 179	$ 161	$ 34	$ 28

[1] The Medicare Prescription Drug, Improvement and Modernization Act of 2003 resulted in $1 million reduction in net periodic pension cost.

[2] The Medicare Prescription Drug, Improvement and Modernization Act of 2003 resulted in $4 million reduction in RSBP's accumulated benefit obligation.

[3] Under SFAS No. 158, and as noted in the following table, amounts that were previously reported as part of prepaid pension costs or liabilities are now reported within accumulated other comprehensive income on the consolidated balance sheet.

[4] Net amount recognized is reported under receivables and other assets or payables and other liabilities on the consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The $684 million relating to SRP at June 30, 2007 ($348 million - June 30, 2006), is included in receivables and other assets on the consolidated balance sheet. The $2 million relating to RSBP at June 30, 2007 ($24 million - June 30, 2006), is also included in receivables and other assets on the consolidated balance sheet.

The following tables present the amounts recognized in accumulated other comprehensive income and the incremental effect of adopting SFAS No.158 on individual line items on the consolidated balance sheet on June 30, 2007 (US$ millions):

Amounts recognized in accumulated other comprehensive income on adoption of SFAS No. 158

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

Incremental effect of applying SFAS No. 158 on individual line items on the consolidated balance sheet

	Before application of SFAS No. 158	SFAS No. 158 adoption adjustments	After adoption of SFAS No. 158
Line item			
Receivables and other assets	$ 3,500	$ 264	$ 3,764
Total assets	40,286	264	40,550
Payables and other liabilities	4,427	18	4,445
Total liabilities	26,402	18	26,420
Accumulated other comprehensive income	190	246	436
Total capital	13,884	246	14,130
Total liabilities and capital	40,286	264	40,550

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in the fiscal year ending June 30, 2008 are as follows (US$ millions):

	SRP	RSBP	PEBP	Total
Net actuarial loss (gain)	$ -	$ 1	$ 1	$ 2
Prior service cost (credit)	1	-	-	1
Amount to be amortized into net periodic benefit cost	$ 1	$ 1	$ 1	$ 3

In December 2003, the United States Medicare Prescription Dug Improvement and Modernization Act of 2003 (the Act) was enacted. The Act established a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of retiree health care benefit plans that provided a benefit that is at least actuarially equivalent to Medicare Part D. During the fiscal year ended June 30, 2006, the U.S. Center for Medicare and Medicaid Services (CMS) approved IBRD's participation in the Medicare Retiree Drug Subsidy Program. The effects of the subsidy and the related disclosures have been reflected in the financial statements for the fiscal year ended June 30, 2007, the year in which IBRD received its first subsidy payment of $0.7 million for Medicare Part D. This payment is for the joint benefit of IBRD, IFC and MIGA.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the fiscal years ended June 30, 2007, June 30, 2006, and June 30, 2005:

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

	SRP			RSBP			PEBP		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Discount rate	6.25	6.50	5.25	6.25	6.50	5.25	6.25	6.50	5.25
Rate of compensation increase	6.50	6.80	5.90						
Health care growth rates -at end of fiscal year				6.80	7.60	6.80			
Ultimate health care growth rate				4.75	5.00	4.25			
Year in which ultimate rate is reached				2012	2012	2012			

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

	SRP			RSBP			PEBP		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Discount rate	6.50	5.25	6.25	6.50	5.25	6.25	6.50	5.25	6.25
Expected return on plan assets	7.75	7.75	7.75	8.25	8.25	8.25			
Rate of compensation increase	6.80	5.90	6.40						
Health care growth rates									
-at end of fiscal year				7.60	6.80	7.30			
-to year 2012 and thereafter				5.00	4.25	4.75			

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	$ 4	$ (3)
Effect on postretirement benefit obligation	37	(30)

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. 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 fixed-income and public equity asset classes are rebalanced on a monthly basis.

The following table presents the weighted-average asset allocation at June 30, 2007, and June 30, 2006, and the respective target allocation by asset category for the SRP and RSRP (%):

	SRP			RSBP		
	Target Allocation	% of Plan Assets		Target Allocation	% of Plan Assets	
	2007	2007	2006	2007	2007	2006
Asset class						
Fixed income	40	40	40%	30	30	30%
Public equity	35	32	35	30	32	33
Alternative investments	25	28	25	40	38	37
Total	100	100	100	100	100	100
Alternative investments include:						
Private equity	up to 12%	10.5%	8.3%	up to 28%	14.3%	12.3%
Real estate	up to 8%	5.7	4.7	up to 18%	5.0	4.1
Hedge funds	up to 12%	11.2	12.0	up to 23%	18.3	20.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2007 (US$ millions):

	SRP	RSBP		PEBP
		Before Medicare Part D subsidy	Medicare Part D subsidy	
July 1, 2007 - June 30, 2008	$ 55	$ 4	$ -	$ 3
July 1, 2008 - June 30, 2009	63	4	-	3
July 1, 2009 - June 30, 2010	69	5	-	4
July 1, 2010 - June 30, 2011	75	6	-	4
July 1, 2011 - June 30, 2012	81	6	-	4
July 1, 2012 - June 30, 2017	509	48	1	26

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 fiscal year beginning July 1, 2007, is $30 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, 2007, were $28 million ($23 million - year ended June 30, 2006; $25 million - year ended June 30, 2005).

NOTE U – MANAGEMENT OF EXTERNAL FUNDS

IFC administers funds (Trust Funds) on behalf of donors that are restricted for specific uses in accordance with administration agreements with donors. Specified uses could include, for example, Advisory Services including feasibility studies, project preparation, and implementing global and regional programs, and research and training programs. These donor funds are placed in trust and are held in a separate investment portfolio which is not commingled with IFC's funds, nor are they included in the assets of IFC.

Trust fund execution may be carried out in one of three ways: Recipient-executed, IFC-executed or Limited fiduciary arrangements.

IFC-executed Trust Funds involve IFC execution of activities as described in relevant administration agreements with donors 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 Limited fiduciary arrangements under which IFC's services are limited to the role of fiscal agent. Funds are held and disbursed in accordance with instructions from the donors or donors' external governance structure.

The distribution of Trust Fund assets at June 30, 2007, and June 30, 2006, are summarized below (US$ millions):

	Total fiduciary assets	
	June 30, 2007	June 30, 2006
Executed by IFC	$ 553	$ 463
Recipient-executed	1	1
Limited fiduciary arrangements	18	1
Total	**$ 572**	**$ 465**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 condition, results of operations or cash flows.

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 six VIEs in which IFC is deemed to be the primary beneficiary at June 30, 2007 (seven entities - June 30, 2006). Three 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, 2007 (four entities - June 30, 2006). 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 three investments described above, IFC's consolidated balance sheet at June 30, 2007 includes additional assets of $12 million in equity investments ($6 million - June 30, 2006), $3 million in receivables and other assets ($3 million - June 30, 2006), and additional liabilities of $4 million in payables and other liabilities ($2 million - June 30, 2006).

Other income for the year ended June 30, 2007 includes $7 million of income from consolidated entities ($17 million - year ended June 30, 2006; $5 million - year ended June 30, 2005) and other expense includes $2 million of expenses from consolidated entities ($10 million - year ended June 30, 2006; $5 million - year ended June 30, 2005).

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 $11 million. IFC's net investment in these three entities totals $2 million, virtually all in the primary metals sector in the Asia region.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant variable interests

IFC has identified 27 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, 2007 (14 - June 30, 2006). 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 $1,639 million at June 30, 2007 ($602 million - June 30, 2006). 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 $367 million at June 30, 2007 ($108 million - June 30, 2006). The regional and sectoral analysis of IFC's investments in these VIEs at June 30, 2007, is as follows (US$ millions):

	June 30, 2007				
	Loans	Equity investments	Debt securities	Client risk management	Total
Europe and Central Asia	$ 140	$ 22	$ -	$ -	$ 162
Latin America and Caribbean	77	31	-	-	108
Asia	13	13	2	-	28
Sub-Saharan Africa	-	12	-	-	12
Middle East and North Africa	8	-	-	-	8
Other	16	2	26	5	49
Total VIE investments	**$ 254**	**$ 80**	**$ 28**	**$ 5**	**$ 367**

	June 30, 2007				
	Loans	Equity investments	Debt securities	Client risk management	Total
Transportation and warehousing	$ 97	$ -	$ -	$ -	$ 97
Finance and insurance	46	19	-	5	70
Collective investment vehicles	-	41	26	-	67
Industrial and consumer products	56	4	-	-	60
Air transportation	15	-	-	-	15
Agriculture and forestry	10	-	-	-	10
Other	30	16	2	-	48
Total VIE Investments	**$ 254**	**$ 80**	**$ 28**	**$ 5**	**$ 367**