INTERNATIONAL FINANCE CORPORATION

Management's Discussion and Analysis
And Consolidated Financial Statements
June 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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I. OVERVIEW

International Finance Corporation (IFC or the Corporation) is an international organization, established in 1956, to further economic growth in its developing member countries by promoting private sector development. IFC is a member of the World Bank Group, which also comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). It is a legal entity separate and distinct from IBRD, IDA, MIGA, and ICSID, with its own Articles of Agreement, share capital, financial structure, management, and staff. Membership in IFC is open only to member countries of IBRD. As of June 30, 2010, IFC's entire share capital was held by 182 member countries.

IFC's principal investment products are loans and equity investments, with smaller debt securities and guarantee portfolios. 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 advisory services to private businesses in the developing world with a view to fulfilling its developmental mission. It also advises member governments on how to create an environment hospitable to the growth of private enterprise and foreign investment. Unlike most other multilateral institutions, IFC does not accept host government guarantees of its exposures. IFC raises virtually all of the funds for its lending activities through the issuance of debt obligations in the international capital markets, while maintaining a small borrowing window with IBRD. Equity investments are funded from net worth. During the year ended June 30, 2010 (FY10), IFC had an authorized borrowing program of up to $9.5 billion, and up to $2.0 billion to allow for possible prefunding during FY10 of the funding program for the year ending June 30, 2011 (FY11).

IFC's capital base and its assets and liabilities, other than its equity investments, are primarily denominated in US dollars. IFC seeks to minimize foreign exchange and interest rate risks by closely matching the currency and rate bases of its liabilities in various currencies with assets having the same characteristics. IFC manages any non-equity investment related residual currency and interest rate risks by utilizing currency and interest rate swaps and other derivative instruments.

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

II. FINANCIAL SUMMARY

BASIS OF PREPARATION OF IFC'S CONSOLIDATED FINANCIAL STATEMENTS

The accounting and reporting policies of IFC conform to accounting principles generally accepted in the United States (US GAAP).

Up to and including the year ended June 30, 1999, IFC prepared one set of financial statements and footnotes, complying with both US GAAP and International Financial Reporting Standards (IFRS). However, principally due to material differences between US Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging* (Topic 815) (formerly FASB Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*), and its counterpart in IFRS, IAS No. 39, Financial Instruments Recognition and Measurement, it has not been possible for IFC to satisfy the requirements of both US GAAP and IFRS via one set of financial statements since the year ended June 30, 2000.

IFC is actively monitoring developments related to accounting standards and the primary basis for preparation of its consolidated financial statements, all with a view to the necessary systems and controls to manage its various lines of business. IFC will present its consolidated financial statements for FY10 in accordance with US GAAP. IFC continues to plan to transition from US GAAP to IFRS and will continue to re-evaluate the timetable for this transition during FY11. During FY10, IFC has continued to use accounting pronouncements that expand the use of fair values in its FY10 consolidated financial statements, broadly consistent with its planned overall approach to the transition to IFRS. These accounting policies are discussed in more detail in Note A to IFC's FY10 consolidated financial statements.

FINANCIAL PERFORMANCE SUMMARY

From year to year, IFC's net income is affected by a number of factors, principally income generated from its equity investment portfolio (principally dividends, realized capital gains on equity sales and unrealized gains and losses on equity investments); the magnitude of provisions for losses against its loans and guarantees; impairment of equity investments; loans in nonaccrual status; recoveries of interest on loans formerly in nonaccrual status; and income from liquid assets.

A significant part of IFC's liquid assets trading portfolio is invested in fixed income securities, including asset-backed securities (ABS) and mortgage-backed securities (MBS) which are also subject to external market factors that significantly affect the value of such securities, adding variability to income.

Net income also includes net gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA.

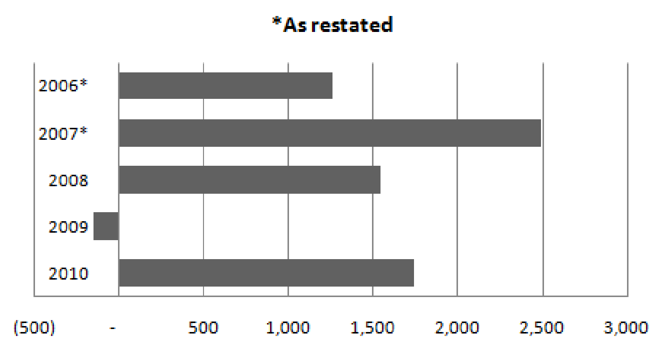
IFC reported income before net losses on non-trading financial instruments and grants to IDA of $2,285 million in FY10, as compared to a loss of $153 million in the year ended June 30, 2009 (FY09) and income of $1,938 million in the year ended June 30, 2008 (FY08).

The significant improvement in income before net losses on other non-trading financial instruments and grants to IDA in FY10 when compared to FY09 was principally as a result of a generally improved operating environment for IFC's investment and liquid asset portfolios in FY10 as compared with that experienced in FY09. This improved financial performance in FY10 when compared to FY09 resulted from: (i) lower impairment write-downs on equity investments; (ii) higher realized capital gains on equity sales and unrealized gains on equity investments accounted for at fair value in net income; (iii) lower provisions for losses on loans and guarantees; (iv) higher income from liquid asset trading activities; and (v) lower charges on borrowings.

IFC reported net losses on non-trading financial instruments of $339 million in FY10 as compared with a net gain of $452 million in FY09 and a net gain of $109 million in FY08, resulting in income before grants to IDA of $1,946 million in FY10, as compared to $299 million in FY09 and $2,047 million in FY08.

Grants to IDA totaled $200 million in FY10, as compared to $450 million in FY09 and $500 million in FY08. Accordingly, net income (in accordance with US GAAP) totaled $1,746 million in FY10, as compared with a net loss of $151 million in FY09, and net income of $1,547 million in FY08.

IFC's net income (loss) for the past five fiscal years ended June 30, is presented below (US$ millions):



INTERNATIONAL FINANCE CORPORATION

The table below presents selected financial data for the last five fiscal years (in millions of US dollars, except where otherwise stated):

AS OF AND FOR THE YEARS ENDED JUNE 30	2010	2009	2008	2007	2006
Net income highlights:					
Income from loans and guarantees	**$ 801**	$ 871	$ 1,065	$ 1,062	$ 804
(Provision) release of provision for losses on loans & guarantees	**(155)**	(438)	(38)	43	(15)
Income (loss) from equity investments	**1,638**	(42)	1,688	2,292	1,224
Of which:					
Realized capital gains on equity sales	**1,290**	990	1,219	1,941	928
Dividends and profit participations	**285**	311	428	385	323
Unrealized gains (losses) on equity investments	**240**	(299)	12	–	–
Non-monetary gains on equity investments	**28**	14	177	–	–
Equity investment impairment write-downs	**(203)**	(1,058)	(140)	(40)	(57)
Other, net	**(2)**	–	(8)	6	30
Income from debt securities	**108**	71	163	27	7
Income from liquid asset trading activities	**815**	474	473	618	444
Charges on borrowings	**(163)**	(488)	(782)	(801)	(603)
Other income	**176**	153	113	99	109
Other expenses	**(743)**	(629)	(555)	(500)	(477)
Foreign currency transaction (losses) gains on non-trading activities	**(82)**	10	(39)	(5)	6
Expenditures for advisory services	**(101)**	(129)	(123)	(96)	(55)
Expenditures for PBG and IFC SME Ventures for IDA countries	**(9)**	(6)	(27)	–	(35)
Income (loss) before net gains and losses on other non-trading financial instruments accounted for at fair value and grants to IDA	**2,285**	(153)	1,938	2,739	1,409
Net (losses) gains on other non-trading financial instruments	**(339)**	452	109	(99)	(145)
Income before grants to IDA	**1,946**	299	2,047	2,640	1,264
Grants to IDA	**(200)**	(450)	(500)	(150)	–
Net income (loss)	**$ 1,746**	**$ (151)**	**$ 1,547**	**$ 2,490**	**$ 1,264**
Consolidated balance sheet highlights:					
Total assets	**$ 61,075**	$ 51,483	$ 49,471	$ 40,599	$ 38,547
Liquid assets, net of associated derivatives	**21,001**	17,864	14,622	13,269	12,730
Loans, equity investments, and debt securities, net	**25,944**	22,214	23,319	15,796	12,787
Borrowings drawn-down and outstanding, including fair value adjustments	**31,106**	25,711	20,261	15,879	14,967
Total capital	**$ 18,359**	$ 16,122	$ 18,261	$ 14,017	11,141
Of which:					
Undesignated retained earnings	**$ 14,307**	$ 12,251	$ 12,366	$ 10,604	$ 7,868
Designated retained earnings	**481**	791	826	606	852
Capital stock	**2,369**	2,369	2,366	2,365	2,364
Accumulated other comprehensive income (AOCI)	**1,202**	711	2,703	442	57

AS OF AND FOR THE YEARS ENDED JUNE 30	2010	2009	2008	2007	2006
Financial ratios:[1]					
Return on average assets (GAAP basis)[2]	**3.1%**	(0.3)%	3.4%	6.3%	3.2%
Return on average assets (non-GAAP basis)[3]	**3.8%**	(1.1)%	3.7%	8.6%	4.7%
Return on average capital (GAAP basis)[4]	**10.1%**	(0.9)%	9.6%	19.8%	12.1%
Return on average capital (non-GAAP basis)[5]	**11.8%**	(3.0)%	9.0%	21.1%	13.3%
Cash and liquid investments as a percentage of next three years' estimated net cash requirements	**71%**	75%	62%	85%	112%
External funding liquidity level[6]	**190%**	163%	96%	95%	n/a
Debt to equity ratio[7]	**2.2:1**	2.1:1	1.6:1	1.4:1	1.6:1
Total reserves against losses on loans to total disbursed portfolio[8]	**7.4%**	7.4%	5.5%	6.5%	8.3%
Capital measures:					
Capital to risk-weighted assets ratio[9]	**n/a**	44%	48%	57%	54%
Total Resources Required ($ billions)[10]	**12.8**	10.9	10.4	8.0	n/a
Total Resources Available ($ billions)[11]	**16.8**	14.8	15.0	13.8	n/a
Strategic capital[12]	**4.0**	3.9	4.6	5.8	n/a
Deployable strategic capital[13]	**2.3**	2.3	3.1	4.4	n/a
Deployable Strategic Capital as a percentage of Total Resources Available	**14%**	16%	21%	32%	n/a

1 Certain financial ratios as described below are calculated excluding the effects of unrealized gains and losses on investments, other non-trading financial instruments, AOCI, and impacts from consolidated Variable Interest Entities (VIEs).
2 Net income for the fiscal year as a percentage of the average of total assets at the end of such fiscal year and the previous fiscal year.
3 Net income excluding unrealized gains and losses on certain investments accounted for at fair value, income from consolidated VIEs, and net gains and losses on non-trading financial instruments accounted for at fair value, as a percentage of total disbursed loan and equity investments (net of reserves) at cost, liquid assets net of repos, and other assets averaged for the current period and previous fiscal year.
4 Net income for the fiscal year as a percentage of the average of total capital (excluding payments on account of pending subscriptions) at the end of such fiscal year and the previous fiscal year.
5 Net income excluding unrealized gains and losses on certain investments accounted for at fair value, income from consolidated VIEs, and net gains and losses on non-trading financial instruments accounted for at fair value, as a percentage of paid in share capital and retained earnings (before certain unrealized gains and losses and excluding cumulative designations not yet expensed) averaged for the current period and previous fiscal year.
6 Beginning June 30, 2007, IFC's liquidity policy was revised so that IFC is to maintain a minimum level of liquidity, consisting of proceeds from external funding to cover at least 65% of the sum of (i) 100% of committed but undisbursed straight senior loans; (ii) 30% of committed guarantees; and (iii) 30% of committed client risk management products.
7 The ratio of outstanding borrowings plus outstanding guarantees to subscribed capital plus undesignated retained earnings (less cumulative unrealized gains and losses on loans, equity investments, and other non-trading financial instruments accounted for at fair value in net income) at the end of the fiscal year.
8 Total reserves against losses on loans to total disbursed loan portfolio is defined as reserve against losses on loans as a percentage of the total disbursed loan portfolio at the end of the fiscal year.
9 The ratio of capital (including paid-in capital, retained earnings, and portfolio (general) loan loss reserves) to risk-weighted assets, both on- and off-balance sheet. The ratio does not include designated retained earnings reported in total capital on IFC's consolidated balance sheet. IFC's Board of Directors has approved the use of a risk-based economic capital framework beginning in FY08. Parallel use of the capital to risk-weighted assets ratio has now been discontinued.
10 The minimum capital required consistent with the maintenance of IFC's AAA rating. It is computed as the aggregation of risk-based economic capital requirements for each asset class across the Corporation.
11 Paid in capital plus retained earnings net of designated retained earnings plus general and specific reserves against losses on loans. This is the level of available resources under IFC's risk-based economic capital adequacy framework.
12 Total resources available less total resources required.
13 90% of total resources available less total resources required.

III. CLIENT SERVICES

BUSINESS OVERVIEW

In partnership with private investors, IFC assists in financing the establishment, improvement, and expansion of private sector enterprises by making investments where sufficient private capital is not otherwise available on reasonable terms. IFC seeks to bring together domestic and foreign private capital and experienced management and thereby create conditions conducive to the flow of private capital (domestic and foreign) into productive investments in its developing member countries. In this way, IFC plays a catalytic role in mobilizing additional funding from other investors and lenders through parallel loans, loan participations, partial credit guarantees, securitizations, loan sales, and risk sharing facilities (core resource mobilization). In addition to project finance, corporate lending and resource mobilization, IFC offers an array of financial products and advisory services to private businesses in the developing world with a view to fulfilling its developmental mission. IFC also advises member governments on how to create an environment hospitable to the growth of private enterprise and foreign investment.

IFC's activities are guided by five strategic pillars: (i) strengthening the focus on frontier markets; (ii) building enduring partnerships with clients in emerging markets; (iii) addressing climate change and ensuring social and environmental sustainability; (iv) promoting private sector growth in infrastructure, health, education, and the food supply chain; and (v) developing local financial markets. IFC's strategic priorities are aligned with the World Bank Group's strategic directions.

INVESTMENTS

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

IFC's main investment activity is project and corporate financing. This encompasses "greenfield" projects, expansions, and modernizations. IFC also provides financing to selected companies for ongoing investment programs. In addition, IFC facilitates financing through financial intermediaries, covering project and general purpose lending and specialized lending products such as leasing, trade, and mortgage finance. These financial intermediaries function either as IFC's borrower, on-lending to private sector companies at their own risk, or as IFC's agent, identifying companies for direct loans from IFC.

IFC applies stringent tests of enterprise soundness, project viability, additionality, and developmental impact in determining the eligibility of projects for its investments.

IFC's investment cycle can be divided into twelve main stages:

- Business development
- Early review
- Appraisal (due diligence)
- Investment review
- Negotiations
- Public notification
- Board of Directors' review and approval
- Commitment
- Disbursement
- Project supervision
- Evaluation
- Closing

IFC carefully supervises its projects to monitor project performance and compliance with contractual obligations and with IFC's internal policies and procedures. IFC's Board of Directors (Board or Board of Directors) is informed of such matters and of recommended courses of action at regular intervals.

ADVISORY SERVICES

Advisory services have become a more substantial and important part of IFC's business and a critical tool for extending IFC's reach and impact. IFC's advisory services cycle can be divided into six main stages:

- Business development
- Early review
- Appraisal
- Implementation/Supervision
- Project completion
- Evaluation

IFC ASSET MANAGEMENT COMPANY

IFC Asset Management Company LLP (AMC), a wholly-owned subsidiary of IFC, mobilizes capital from outside IFC's traditional investor pool. AMC serves as a fund manager and mobilizes third-party capital to invest in its funds. IFC is a co-investor in such funds.

At June 30, 2010 (FY10-end) AMC has assets under management[1] of $3.9 billion, $1,275 million in the IFC Capitalization (Equity Fund, LP (the Equity Capitalization Fund); $1,725 million in the IFC Capitalization (Subordinated Debt) Fund, L.P. (the Sub-Debt Capitalization Fund); and $900 million in the IFC African, Latin American and Caribbean Fund, L.P. (the ALAC Fund). The Equity Capitalization Fund and the Sub-Debt Capitalization Fund are collectively referred to as the Capitalization Funds.

The Capitalization Funds, established in FY09, are jointly funded by $1 billion from IFC and $2 billion from a third-party investor: the IFC Capitalization (Equity) Fund, L.P. (the Equity Capitalization Fund); and the IFC Capitalization (Subordinated Debt) Fund, L.P. (the Sub-Debt Fund).

[1] Assets under management are generally based upon how investment advisory and administrative fees are calculated (including total assets, committed assets, or other measures).

The Equity Capitalization Fund and the Sub-Debt Capitalization Fund are designed to support banks considered vital to the financial system of an emerging market country.

As of June 30, 2010, IFC had disbursed $128 million and other investors have disbursed $82 million to the Equity Capitalization Fund (IFC: $13 million – June 30, 2009; other investors: $8 million June 30, 2009). As of June 30, 2010, the fund has disbursed $208 million to three investees ($20 million to one investee as of June 30, 2009).

As of June 30, 2010, IFC and other investors have disbursed $2 million to the Sub-Debt Capitalization Fund and no amounts have been disbursed by the fund to investees.

The ALAC Fund was established in FY10 to make investments in companies or other entities located in the Sub-Saharan Africa, Latin America and/or the Caribbean. The ALAC Fund is currently a $900 million fund, $180 million from IFC and $720 million from five other third party investors.

As of June 30, 2010, IFC has disbursed $3 million and other investors have disbursed $13 million to the ALAC Fund. As of June 30, 2010, no amounts have been disbursed by the fund to investees.

OTHER INITIATIVES

IFC has launched a series of initiatives to assist the private sector address the challenges introduced by the global financial crisis that began in FY09. These initiatives are expected to combine IFC funds with contributions mobilized from various sources, including governments and other international financial institutions. IFC's initiatives are designed to address both the immediate and long-term needs of IFC's clients.

IFC's initiatives include:

TRADE FINANCE

Launched in FY05, the Global Trade Finance Program (GTFP) provides guarantees for trade transactions in emerging markets, primarily supporting small and medium enterprises. In addition, IFC has launched a global trade liquidity program (GTLP), an initiative that brings together governments, development finance institutions, and commercial banks to provide funding for trade finance in emerging markets. The GTLP commenced operations in the fourth quarter of FY09.

IFC's FY10 commitments include $3.5 billion ($2.4 billion – FY09) relating to GTFP. IFC's FY10 commitments include $0.3 billion ($0.5 billion – FY09), and FY10 resources mobilized include $1.6 billion ($1.4 billion – FY09), relating to GTLP.

INFRASTRUCTURE

The Infrastructure Crisis Facility is a facility that includes debt and equity components and provides short- to medium-term financing for infrastructure projects. It also includes advisory services to help governments design or redesign public-private-partnership projects.

MICROFINANCE

The Microfinance Enhancement Facility (MEF) is designed to address the challenge of restricted availability of micro-finance services. As of June 30, 2010, IFC has approval to provide $150 million to MEF and anticipates other investors would provide an additional $332 million.

MANAGING TROUBLED ASSETS

IFC has created a Debt and Asset Recovery Program to make direct investments in entities with good fundamentals that require debt restructuring as a result of the global financial crisis. The program is to invest in nonperforming loan pools, select servicers, and distressed asset funds, targeted in East Asia and the Pacific, Latin America and the Caribbean, and Europe and Central Asia.

INVESTMENT PROGRAM SUMMARY

COMMITMENTS

In FY10, IFC entered into new commitments totaling $12.7 billion, compared with $10.5 billion in FY09. In addition, IFC mobilized resources totaling $5.4 billion, compared with $4.0 billion in FY09. FY10 and FY09 commitments and core resources mobilized (as described in more detail in "Investment Products") comprised the following:

	FY10	FY09
Commitments[2]		
Loans	$ 5,721	$ 5,959
Equity investments	2,974	2,069
Guarantees:		
GTFP	3,464	2,380
Other	468	99
Client risk management	37	40
Total commitments	$ 12,664	$ 10,547
B-loans	$ 1,247	$ 1,858
Structured finance	797	169
Parallel loans	734	374
Sales of loans and other mobilization	379	–
Total B-loans, structured finance, parallel loans and other mobilization	$ 3,157	$ 2,401
AMC:		
IFC Capitalization Equity Fund	$ 118	$ 8
IFC Capitalization Sub-debt Fund	65	–
IFC African, Latin American and Caribbean Fund	53	–
Total AMC	$ 236	$ 8
Other initiatives:		
Global Trade Liquidity Program	1,580	1,400
Debt and Asset Recovery Program	237	-
Microfinance Enhancement Facility	123	155
Infrastructure Crisis Facility	45	-
Total other initiatives	$ 1,985	$ 1,555
Total core resource mobilization	$ 5,378	$ 3,964
Core resource mobilization ratio	**0.42**	**0.38**

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

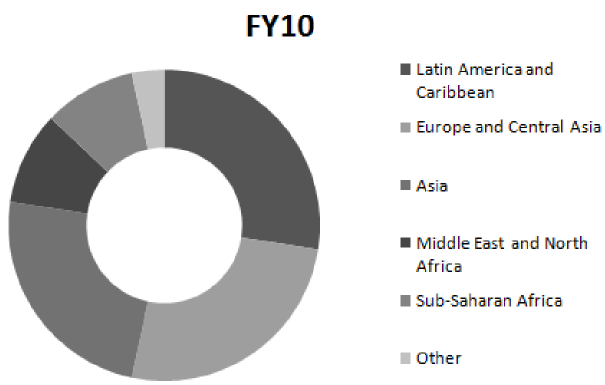
DISBURSEMENTS
IFC disbursed $6.8 billion for its own account in FY10 ($5.6 billion in FY09): $4.9 billion of loans ($4.4 billion in FY09), $1.6 billion of equity investments ($1.1 billion in FY09), and $0.3 billion of debt securities ($0.1 billion in FY09).

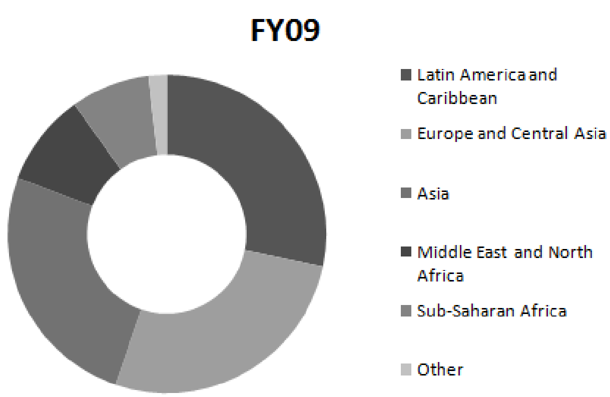
DISBURSED INVESTMENT PORTFOLIO
IFC's total disbursed investment portfolio (a non-US GAAP performance measure) was $25.4 billion at June 30, 2010 ($22.4 billion at June 30, 2009), comprising the disbursed loan portfolio of $18.2 billion ($16.8 billion at June 30, 2009), the disbursed equity portfolio of $5.4 billion ($4.1 billion at June 30, 2009), and the disbursed debt security portfolio of $1.8 billion ($1.5 billion at June 30, 2009).

IFC's disbursed investment portfolio is diversified by sector and geographic region with a focus on strategic high development impact sectors such as financial markets and infrastructure.

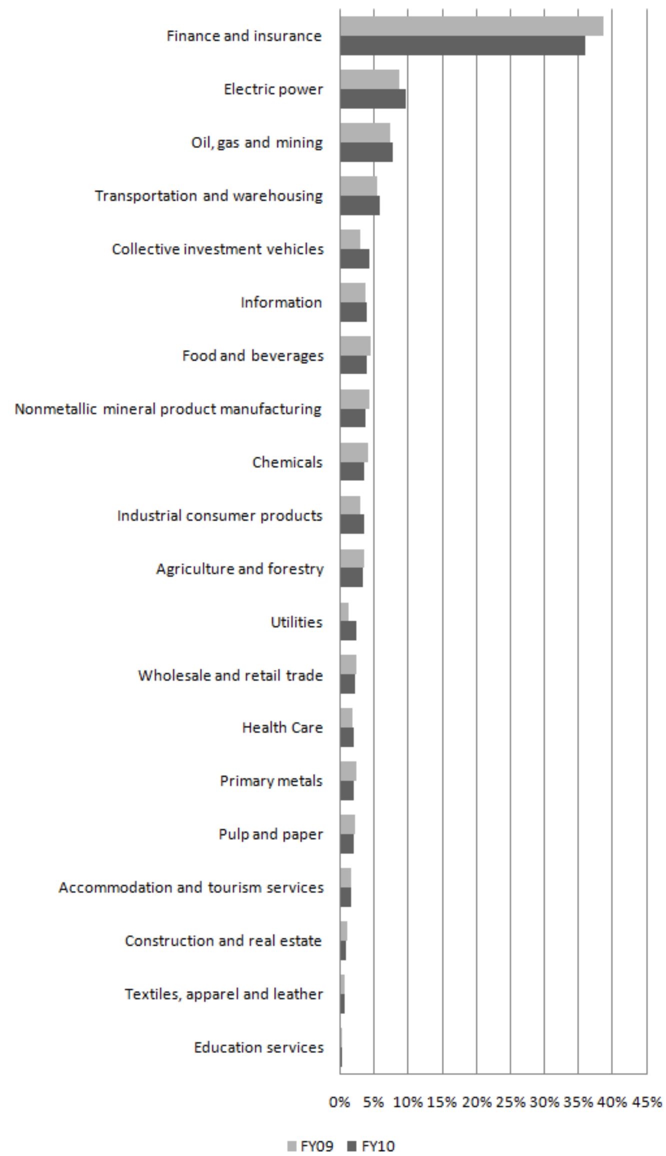
The following charts show the distribution of the disbursed investment portfolio by geographical region and sector as of June 30, 2010, and June 30, 2009:

DISTRIBUTION BY REGION





DISTRIBUTION BY SECTOR



DISBURSED B-LOANS
The portfolio of disbursed and outstanding B-loans which are serviced by IFC at June 30, 2010, totaled $6.3 billion, as compared with $6.7 billion at June 30, 2009.

Additional information on IFC's investment portfolio as of and for the years ended June 30, 2010, and June 30, 2009, can be found in Notes B, D, E, F, G, H and I to IFC's FY10 consolidated financial statements.

INVESTMENT PRODUCTS

LOANS

Loans generally have the following characteristics:

- Term: typically amortizing with final maturities generally for seven to 12 years, although some loans have been extended for tenors as long as 20 years.
- Currency: primarily in major convertible currencies, principally US dollar, and to a lesser extent, Euro, Swiss franc, and Japanese yen, but with a growing local currency loan portfolio.
- Interest rate: typically variable (or fixed and swapped into variable).
- Pricing: reflects such factors as market conditions and country and project risks.

IFC's loans traditionally have been made in major currencies, based on client demand and on IFC's ability to hedge loans in these currencies through the use of mechanisms such as cross-currency swaps or forward contracts. Fixed-rate loans and loans in currencies other than US dollars are normally economically hedged, using currency and/or interest rate swaps, into US dollar variable rate assets.

There has been a growing demand for IFC to offer local currency products. IFC typically offers local currency products in other currencies where it can hedge the local currency loan cash flows back into US dollars using swap markets. IFC's disbursed loan portfolio at June 30, 2010 includes $2.1 billion of currency products denominated in Russian rubles, Indian rupees, Chinese renminbi, Philippine pesos, Colombian pesos, Indonesian rupiah, South African rand, Brazilian reais, Mexican pesos, and New Turkish lira ($1.9 billion at June 30, 2009).

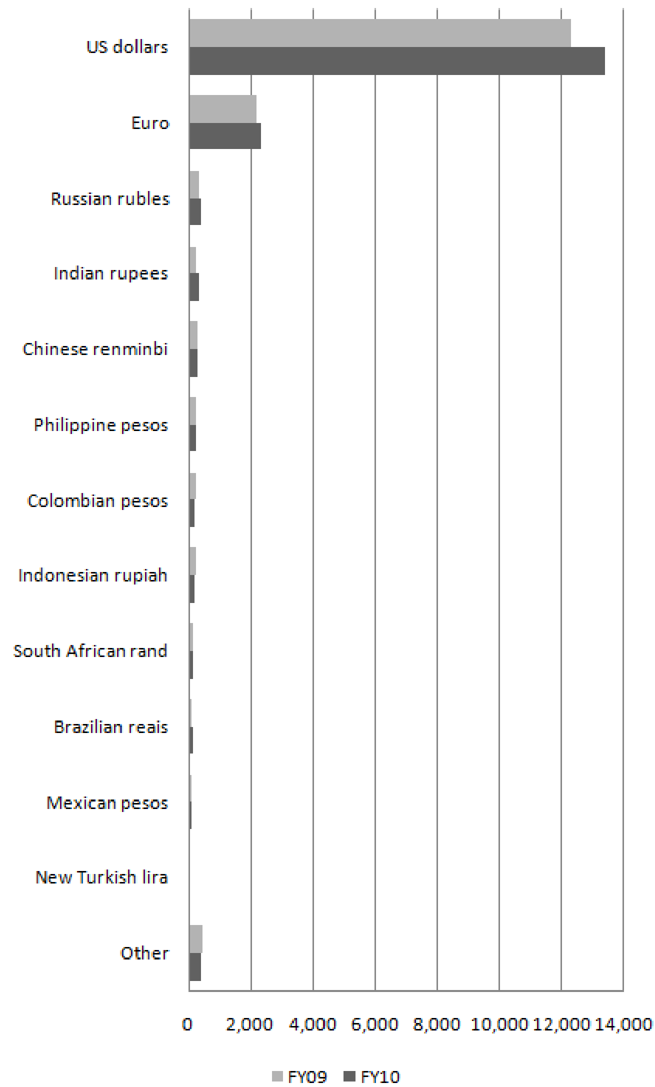
IFC's disbursed loan portfolio totaled $18.2 billion at June 30, 2010 ($16.8 billion at June 30, 2009). The carrying value of IFC's loan portfolio on IFC's consolidated balance sheet (comprising the disbursed loan portfolio together with adjustments as detailed in Note D to IFC's FY10 Consolidated Financial Statements) grew 9% to $16.7 billion at June 30, 2010 ($15.3 billion at June 30, 2009).

Loans comprise 72% of the disbursed investment portfolio as of June 30, 2010 (75% at June 30, 2009) and 64% of the carrying value of the investment portfolio as of June 30, 2010 (69% at June 30, 2009).

At June 30, 2010, 74% (74% at June 30, 2009) of IFC's disbursed loan portfolio was US dollar-denominated.

The currency composition of the disbursed loan portfolio at June 30, 2010, and June 30, 2009, is shown below:

CURRENCIES



EQUITY INVESTMENTS

IFC's equity investments are typically in the form of common or preferred stock which is not mandatorily redeemable by the issuer or puttable to the issuer by IFC and are usually denominated in the currency of the country in which the investment is made.

IFC's disbursed equity portfolio totaled $5.4 billion at June 30, 2010 ($4.1 billion at June 30, 2009), an increase of 32%.

The carrying value of IFC's equity investment portfolio (comprising the disbursed equity portfolio together with adjustments as detailed in Note D to IFC's FY10 Consolidated Financial Statements) grew 42% to $7.5 billion at June 30, 2010 ($5.3 billion at June 30, 2009).

The fair value of IFC's equity portfolio[3] was $11.0 billion at June 30, 2010 ($8.5 billion at June 30, 2009).

Equity investments accounted for 21% of IFC's disbursed investment portfolio at June 30, 2010, compared with 18% at June 30, 2009 and 29% of the carrying value of the investment portfolio at June 30, 2010 (24% at June 30, 2009).

DEBT SECURITIES

Debt securities are typically in the form of bonds and notes issued in bearer or registered form, securitized debt obligations (e.g., ABS, MBS, and other collateralized debt obligations) and preferred shares, which are mandatorily redeemable by the issuer or puttable to the issuer by IFC.

IFC's disbursed debt security portfolio totaled $1.8 billion at June 30, 2010 ($1.5 billion at June 30, 2009).

The carrying value of IFC's debt securities portfolio (comprising the disbursed debt security portfolio together with adjustments as detailed in Note D to IFC's FY10 Consolidated Financial Statements) was $1.8 billion at June 30, 2010 ($1.5 billion at June 30, 2009).

Debt securities accounted for 7% of IFC's disbursed investment portfolio at June 30, 2010 (7% at June 30, 2009) and 7% of the carrying value of the investment portfolio at June 30, 2010 (7% at June 30, 2009).

GUARANTEES AND PARTIAL CREDIT GUARANTEES

IFC offers partial credit guarantees to clients covering, on a risk-sharing basis, client obligations on bonds and/or loans. IFC's guarantee is available for debt instruments and trade obligations of clients and covers commercial as well as noncommercial risks. IFC will provide local currency guarantees, but when a guarantee is called, the client will generally be obligated to reimburse IFC in US dollar terms. Guarantee fees are consistent with IFC's loan pricing policies. During FY10, IFC signed $2.7 billion of guarantees, $2.1 billion in FY09.

CORE RESOURCE MOBILIZATION

Core Resource mobilization is defined as financing from entities other than IFC that becomes available to clients due to IFC's direct involvement in raising resources. IFC finances only a portion, usually not more than 25%, of the cost of any project. All IFC-financed projects, therefore, require other financial partners. IFC mobilizes such private sector finance from other entities through loan participations, parallel loans, partial credit guarantees, securitizations, loan sales, and risk sharing facilities. In FY09, IFC launched AMC and a number of other initiatives, each with a core resource mobilization component, and revised its resource mobilization definition accordingly to include these in the measure. The components of core resource mobilization are as follows:

B-LOANS

The principal direct means by which IFC mobilizes such private sector finance is through the sale of participations in its loans (B-loans), known as the B-loan program. Through the B-loan program, IFC has worked primarily with commercial banks but also with nonbank financial institutions in financing projects since the early 1960s.

Whenever it participates a loan, IFC will always make a loan for its own account (an A-loan), thereby sharing the risk alongside its loan participants. IFC acts as the lender of record and is responsible for the administration of the entire loan, including the B-loan. IFC charges fees to the borrower at prevailing market rates to cover the cost of the B-loan.

B-loan commitments were $1,247 million in FY10 ($1,858 million in FY09).

STRUCTURED FINANCE

Structured finance comprises partial credit guarantees, securitizations and risk sharing facilities. Structured finance commitments, net, defined as the amount of financing with a risk position equal to, or senior to, that of IFC's risk participation in the transaction, totaled $797 million in FY10 ($169 million in FY09).

PARALLEL LOANS

Loans from other financial institutions that IFC helped raise for clients and received a fee, but for which IFC is not the lender of record, arranged by IFC in FY10 were $734 million ($374 million in FY09).

SALES OF LOANS AND OTHER MOBILIZATION

Loans originally disbursed and reported on IFC's balance sheet that were subsequently sold and other mobilization totaled $379 million in FY10 ($0 in FY09).

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[3] Including "equity-like securities classified as debt securities in IFC's consolidated balance sheet and equity-related options.

AMC

Amounts committed by investors other than IFC through Funds managed by AMC totaled $236 million in FY10 ($8 million – FY09), comprising $118 million in respect of the Equity Capitalization Fund ($8 million – FY09), $65 million in respect of the Subordinated Debt Capitalization Fund ($0 – FY09), and $53 million in respect of ALAC Fund ($0 – FY09).

OTHER INITIATIVES

Amounts committed by entities other than IFC to IFC's other initiatives totaled $1,985 million in FY10, comprising: $1,580 million in respect of GTLP ($1,400 million - FY09); $237 million in respect of the Debt and Asset Recovery Program ($0 – FY09); $123 million in respect of the Microfinance Enhancement Facility ($155 million - FY09); and $45 million in respect of the Infrastructure Crisis Facility ($0 – FY09).

CORE RESOURCE MOBILIZATION RATIO

The core resource mobilization ratio is defined as:

$$\frac{\text{Loan participations + parallel loans + sales of loans + non-IFC investment part of structured finance + non-IFC commitments in initiatives + non-IFC investments committed in funds managed by AMC}}{\text{Commitments (IFC investments + IFC portion of structured finance + IFC commitments in new initiatives + IFC investments committed in funds managed by AMC)}}$$

For each dollar that IFC committed, IFC mobilized (in the form of B-loans, parallel loans, sales of loans, the non-IFC portion of structured finance and the non-IFC commitments in initiatives, and the non-IFC investments committed in funds managed by AMC) $.42 in FY10 ($0.38 in FY09).

CLIENT RISK MANAGEMENT PRODUCTS

IFC provides derivative products to its clients to allow them to hedge their interest rate, currency or commodity price exposures. IFC intermediates between its developing country clients and derivatives market makers in order to provide IFC's clients with full market access to risk management products.

ADVISORY SERVICES

Advisory services have become a more substantial and important part of IFC's business and a critical tool for extending IFC's reach and expanding IFC's impact. Advisory services contribute significantly to IFC's additionality by improving the business enabling environment for the private sector as well as the capabilities of private firms and service providers. IFC provides such services to promote sustainable private sector investment in developing countries. Through this work, which is funded in partnership with governments and other donors, IFC contributes to development where opportunities for development may be limited.

Through June 30, 2010, IFC's advisory services were organized into five business lines.

- **Investment Climate:** to help governments of developing and transitional countries improve the operating environment for businesses.
- **Access to Finance:** to help increase the availability and affordability of financial services, focusing particularly on micro, small, and medium enterprises.
- **Corporate Advice:** to offer corporate advice to existing and potential investment clients.
- **Environment and Social Sustainability:** to promote the large-scale adoption of business models that are both profitable and good for the environment and social development.
- **Infrastructure Advice:** to help generate investment opportunities that result in long-term economic growth and better living standards for IFC's client countries.

To strengthen client and strategic focus, beginning July 1, 2010, IFC's advisory services business lines were reorganized as follows:

- The former Corporate Advice and Environmental and Social Sustainability business lines were consolidated into a **Sustainable Business Advisory** business line, providing a one-stop-shop for AS with real sector clients.
- The former Infrastructure Advice business line was re-positioned into the **Public-Private Partnership (PPP) Transaction Advisory** business line, recognizing its focus on support to governments in designing and implementing PPP transactions in sectors that went beyond infrastructure.
- The **Investment Climate** and **Access to Finance** business lines remained substantially unchanged, focusing on support to governments and to financial intermediary clients, respectively.

Donor funds mobilized (new signed commitments) for advisory services in FY10 totaled $181 million.

The advisory services portfolio at June 30, 2010 included 736 projects with an approved value of $859 million. 226 new projects were approved in FY10, with an approved value of $206 million.

Assets held in Trust Funds pending utilization in advisory services business at June 30, 2010, and June 30, 2009, including $191 million at June 30, 2010 ($187 million at June 30, 2009) of funds provided by IFC in its capacity as a donor are summarized below (US$ millions):

	June 30, 2010	June 30, 2009
Executed by IFC(*)	$ 904	$ 662
Recipient-executed(*)	8	12
Financial intermediary fund	-	3
Total	**$** 912	**$** 677

(*) includes donor funds for investments

IV. TREASURY SERVICES

LIQUID ASSETS

IFC invests its liquid assets portfolio in highly rated fixed and floating rate instruments issued by, or unconditionally guaranteed by, governments, government agencies and instrumentalities, multilateral organizations, and high quality corporate issuers; these include ABS and MBS, time deposits, and other unconditional obligations of banks and financial institutions. Diversification in multiple dimensions ensures a favorable risk return profile. IFC manages the market risk associated with these investments through a variety of hedging techniques including derivatives, principally currency and interest rate swaps and financial futures.

IFC's liquid assets portfolio can be summarized as follows:

PORTFOLIO	FAIR VALUE ($ BILLIONS) *	COMPRISING	MANAGED BY	INVESTED IN	BENCHMARK
P0	$0.5 ($0.8)	Proceeds from discount note program and cash inflows from investment operations	IFC's Treasury Department	Money market instruments	Overnight US dollar LIBID
P1	$13.1 ($10.4)	Proceeds from market borrowings invested pending disbursement of operational loans	IFC's Treasury Department	Principally global government bonds, ABS, bank deposits, and high quality corporate bonds generally swapped into 3-month US dollar LIBOR	Custom-created index of a series of six, equally weighted 6-month LIBID deposits that mature on the 15th of each month – average life of 3 months**
P2	$6.1 ($5.7)	Primarily IFC's paid-in capital and accumulated earnings that have not been invested in equity and quasi-equity investments or fixed-rate loans	IFC's Treasury Department	US Treasuries, ABS, and other sovereign and agency issues	Lehman Brothers US 1–3 year maturity Treasury Index***
P3	$0.7 ($0.5)	An outsourced portion of the P1 portfolio	External managers appointed by IFC	Global government bonds and other high quality corporate bonds as well as mortgage-backed securities	Same as for P1
P4	$0.6 ($0.5)	An outsourced portion of the P2 portfolio	External managers appointed by IFC	Global government bonds, and other high quality corporate bonds as well as mortgage-backed securities	Same as for P2
Total	$21.0 bn ($17.9 bn)				

* at June 30, 2010 (June 30, 2009)

** The net duration of the P1 and P3 benchmarks is approximately 0.25 years.

*** The net duration of the P2 and P4 benchmark is 1.9 years. The benchmark was changed on March 31, 2009 from the Lehman Intermediate Treasury index, which had a duration of approximately 3.8 years.

IFC's liquid assets are invested in five separate portfolios, internally named P0 through P4. All five portfolios are accounted for as trading portfolios.

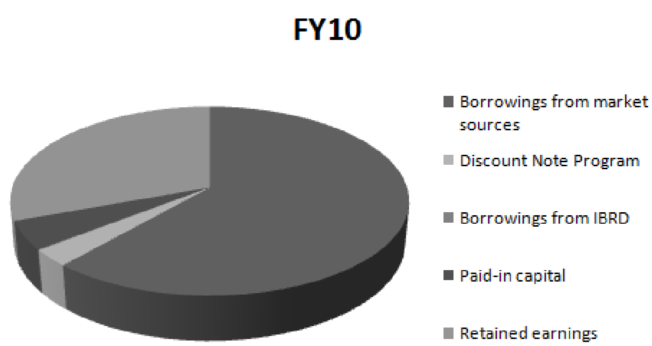
IFC has a flexible approach to managing the liquid assets portfolios by making investments on an aggregate portfolio basis against its benchmark within specified risk parameters. In implementing these portfolio management strategies, IFC utilizes derivative instruments, including futures and options, and takes positions in various sectors and countries. All positions are swapped back into US dollars.

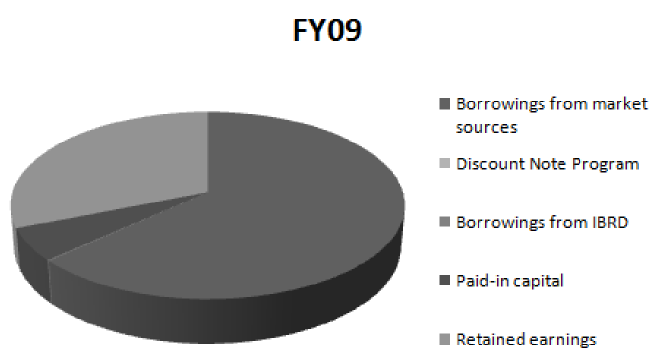
All liquid assets are managed according to an investment authority approved by IFC's Board of Directors and investment guidelines approved by IFC's Corporate Risk Committee, a subcommittee of IFC's Management Team.

A P6 portfolio was created in FY08 in support of IFC's local currency lending capabilities. The P6 portfolio contains the proceeds of liquidity raised in local currency prior to disbursement and is managed by IFC's Treasury Department against local interbank rate indices. At June 30, 2010 this portfolio contained short-term money market instruments denominated in Brazilian reais, Russian rubles and Mexican pesos. The P6 portfolio totaled $0.3 billion at June 30, 2010 ($0.4 billion at June 30, 2009). A P7 portfolio was created in FY10, which contains the after-swap proceeds from variable-rate borrowings denominated and invested in Euros. The P7 portfolio was less than $10 million at June 30, 2010.

FUNDING RESOURCES

IFC's funding resources (comprising borrowings, capital and retained earnings) as of June 30, 2010 and June 30, 2009 are as follows:





BORROWINGS

The major source of IFC's borrowings is the international capital markets. Under the Articles of Agreement, IFC may borrow in the public markets of a member country only with approvals from that member and also the member in whose currency the borrowing is denominated. IFC borrowed (after the effect of borrowing-related derivatives) $8.8 billion during FY10 ($9.1 billion in FY09 and $6.2 billion in FY08). In addition, IFC's Board of Directors has authorized the repurchase and/or redemption of debt obligations issued by IFC, which enhances the liquidity of IFC's borrowings. During FY10, IFC repurchased and retired $0.9 billion of outstanding debt ($1.05 billion in FY09; $43 million in FY08), generating gains on buybacks of $62 million in FY10 ($61 million – FY09; $2 million – FY08).

IFC diversifies its borrowings by currency, country, source, and maturity to provide flexibility and cost-effectiveness. IFC also has a developmental role in helping open up new domestic markets to foreign issuers in its member countries. In FY10 IFC borrowed in eleven currencies and in final maturities ranging from 1 to 30 years. Outstanding market borrowings have remaining maturities ranging from less than one year to approximately 30 years, with a weighted average remaining contractual maturity of 6.5 years at June 30, 2010 (7.3 years at June 30, 2009). Actual maturities may differ from contractual maturities due to the existence of call features in certain of IFC's borrowings.

Market borrowings are generally swapped into floating-rate obligations denominated in US dollars. As of June 30, 2010, IFC had gross payables from borrowing-related currency swaps of $13.7 billion ($12.7 billion at June 30, 2009) and from borrowing-related interest rate swaps in the notional principal payable amount of $23.1 billion ($16.5 billion at June 30, 2009). After the effect of these derivative instruments is taken into consideration, 98% of IFC's market borrowings at June 30, 2010 were variable rate US dollar-denominated, substantially unchanged from June 30, 2009.

IFC's mandate to help develop domestic capital markets can result in providing local currency funds for onlending to its clients rather than being swapped into US dollars. At June 30, 2010, $0.3 billion of non-US dollar-denominated market borrowings in Chinese renminbi and C.F.A. francs were used for such purposes. In addition, the $0.1 billion Brazilian reais borrowing funded a non-investment portfolio loan as opposed to being swapped into US dollars.

The weighted average cost of market borrowings after currency and interest rate swap transactions was 0.5% at June 30, 2010 (1.4% at June 30, 2009).

In the fourth quarter of FY09, IFC launched a short term discount note program to provide an additional liquidity management tool for IFC and to support certain of IFC's crisis response initiatives. The discount note program provides for issuances with maturities ranging from overnight to one year. At June 30, 2010, $1.4 billion was outstanding under this program ($0 – June 30, 2009).

CAPITAL AND RETAINED EARNINGS

As of June 30, 2010, IFC's total capital as reported in IFC's consolidated balance sheet amounted to $18.4 billion, up from the June 30, 2009 level of $16.1 billion. At June 30, 2010, total capital comprised $2.4 billion of paid-in capital, substantially unchanged from June 30, 2009, $14.8 billion of retained earnings ($13.0 billion at June 30, 2009), and $1.2 billion of accumulated other comprehensive income ($0.7 billion at June 30, 2009).

As of June 30, 2010 and 2009, IFC's authorized capital was $2.45 billion, of which $2.37 billion was subscribed and paid in.

SPECIAL CAPITAL INCREASE

On July 20, 2010, the Board of Directors recommended that the Board of Governors approve an increase in the authorized share capital of IFC of $130 million, to $2,580 million, and the issuance of $200 million of shares (including $70 million of unallocated shares).

The Board of Governors also recommended that the Board of Governors approve an increase in Basic Votes aimed at enhancing the voice and participation of developing and transition countries (DTCs) and requiring an amendment to IFC's Articles of Agreement. Currently the voting power of each IFC member is the sum of its Basic Votes, fixed at 250 votes per member, and its share votes, with one vote for each share of IFC stock held. At present, Basic Votes represent 1.88% of total IFC voting power. Once the amendment to the Articles of Agreement becomes effective, the Basic Votes of each member shall be the number of votes that results from an equal distribution among all members of 5.55% of the aggregate sum of the voting power of all members.

The above is expected to result in a shift of the voting power to DTCs by 6.07% to 39.48%.

DESIGNATIONS OF RETAINED EARNINGS

Beginning in the year ended June 30, 2004 (FY04), IFC began a process of designating retained earnings to increase its support of advisory services and, subsequently, for performance-based grants (year ended June 30, 2005 (FY05)), grants to IDA (year ended June 30, 2006 (FY06)), the Global Infrastructure Project Development Fund (FY08), and IFC SME Ventures for IDA Countries (FY08). The levels and purposes of retained earnings designations are set based on Board-approved principles, which are applied each year to assess IFC's financial capacity and to determine the maximum levels of retained earnings designations.

Amounts available to be designated are determined based on a Board-approved income-based formula and, beginning in FY08, on a principles-based Board-approved financial distribution policy, and are approved by IFC's Board of Directors. Expenditures for the various approved designations are recorded as expenses in IFC's consolidated income statement in the year in which they occur, and have the effect of reducing retained earnings designated for this specific purpose.

On August 5, 2009, IFC's Board of Directors approved a designation of $200 million of IFC's retained earnings for grants to IDA and concurrently reallocated $70 million of the unutilized balances of prior year designations relating to performance-based grants, $70 million of the unutilized balances of prior year designations relating to the Global Infrastructure Project Development Fund and $60 million of the unutilized balances relating to IFC SME Ventures for IDA countries. On October 7, 2009, IFC's Board of Governors noted with approval the designations and reallocations approved by IFC's Board of Directors on August 5, 2009. Accordingly, IFC recorded $200 million as an expense for grants to IDA in IFC's FY10 consolidated income statement, leaving a remaining indicative program for Grants to IDA for the IDA 15 replenishment of up to $600 million.

On June 23, 2010, IFC's Board of Directors approved a transfer of $5 million of the unutilized balance of prior period designations relating to performance-based grants to advisory services.

At June 30, 2010, retained earnings comprised $14.3 billion of undesignated retained earnings ($12.3 billion at June 30, 2009; and $12.4 billion at June 30, 2008), $0.3 billion of retained earnings designated for advisory services ($0.4 billion at June 30, 2009; and $0.4 billion at June 30, 2008), $0.1 billion of retained earnings designated for PBG ($0.2 billion at June 30, 2009; 0.2 billion at June30, 2008), less than $0.05 billion of retained earnings designated for the Global Infrastructure Project Development Fund ($0.1 billion at June 30, 2009; $0.1 billion at June 30, 2008), and less than $0.05 billion of retained earnings designated for IFC SME Ventures for IDA countries ($0.2 billion at June 30, 2009; and $0.2 billion at June 30, 2008).

FY10 DESIGNATIONS

On August 5, 2010, IFC's Board of Directors approved a designation of $600 million of IFC's retained earnings for grants to IDA and $10 million of IFC's retained earnings for advisory services. These designations are expected to be noted with approval by the Board of Governors, and thereby concluded in FY11.

V. ENTERPRISE RISK MANAGEMENT

In executing its sustainable private sector development business, IFC assumes various kinds of risks. IFC's management has defined a comprehensive enterprise risk management framework, within which it recognizes six main risk groupings: strategic and reputational risk, credit risk, financial risk, operational risk, environmental and social risk, and legal risk. The Risk Management Vice Presidency has oversight responsibility for credit, financial and operational risk. Environmental and social risk is managed by the Advisory Services Vice Presidency while legal risk is overseen by the General Counsel Vice Presidency. The Corporation proactively manages all aforementioned risk categories through a Corporate Risk Committee, a subset of the Management Team, which reviews all risk policies and sets risk standards for the Corporation. The Corporate Operations Committee, a subset of the Management Group, has oversight for strategic and reputational risk in both investment and advisory activities.

Active management of these risks is a key determinant of IFC's success and its ability to maintain a stable capital and earnings base, and is an essential part of its operations. As part of its enterprise risk management framework, IFC has adopted several key financial and exposure policies.

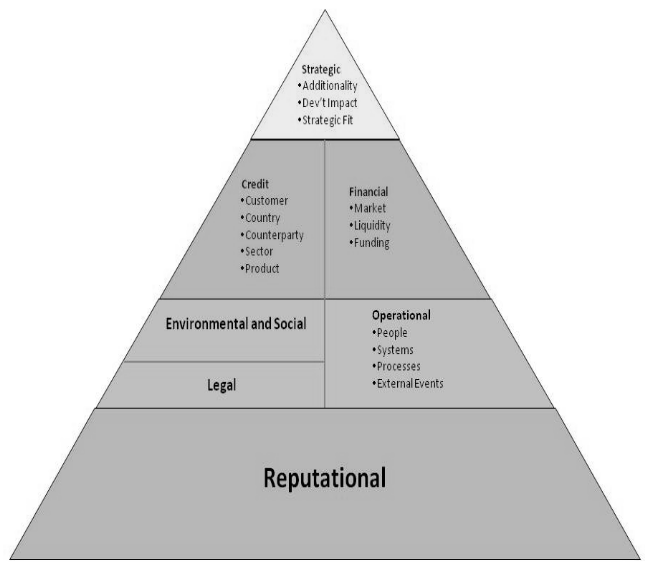
FY10 ENTERPRISE RISK HIGHLIGHTS

After the stand-alone Risk Management Vice Presidency was established in FY07, the risk management function in IFC have continued to be enhanced in FY10 through integration and expansion of existing functions and in some cases, establishing new capacity for additional functions.

The global financial crisis has highlighted the critical importance of ensuring a sound financial structure and the urgent need for more proactive risk management practices. Through FY10, IFC continued to dedicate significant additional resources to all areas of risk management.

The principal measures IFC has taken in this regard include:

- Improving and developing the tools and models needed for measuring risk and developing a forward-looking framework to allow for better management of capital adequacy, liquidity and resource utilization through the Integrated Risk Management Department which is mandated to work closely with Investment Departments and the Treasury Department on assessing and managing credit, market and liquidity risk on an enterprise-wide basis.
- Continuing to expand IFC's operational risk assessment and management capabilities, including the roll out of Risk and Control Self Assessment for all significant business processes.
- Continuing to streamline and strengthen operating processes and enhancing reporting effectiveness and accountability through an ongoing Business Process Improvement initiative.
- Continuing to strengthen internal controls especially around accounting and financial reporting, advisory service activities, and information technology expenditures.
- Enhancing the existing framework for economic capital, risk adjusted return on capital and asset allocation to allow for a forward-looking management of capital adequacy.
- Developing and/or implementing important risk management tools including enhanced risk rating systems for early risk identification and heightened portfolio supervision. These tools allow for greater decentralization and more accountability for pricing, performance measurement and portfolio management.



IFC has been experiencing strong growth in all its businesses and is focused on implementing its strategic objective of becoming a client-driven organization, providing global knowledge and local expertise with decentralized decision-making. In parallel, IFC has stepped up its efforts to maintain asset quality, enhance the independence of its risk management function, and reaffirm the enterprise-wide nature of its mandate.

In line with IFC's decentralization strategy, there is an increased shift of risk functions to key field offices and a mapping of Washington, DC-based risk specialists to regions. During FY10, IFC increased risk management staffing and placed credit risk and special operations officers and other risk disciplines in the Hong Kong, Istanbul and Johannesburg regional hubs in order to improve the timeliness and quality of the risk decisions process. At the same time, risk standards and controls are continuing to be centrally managed.

During FY10, IFC increased its focus on proactive portfolio management by continuing to reach out to clients to help them assess their vulnerabilities in light of the global economic crisis. Throughout the year, a number of stress tests were performed to review risks in IFC's investment portfolio.

The comprehensiveness of the risk process at IFC necessitates reviews of economic and social risks, corporate governance standards, and integrity risk of clients, in addition to the more traditional credit quality and operational concerns.

IFC's risk management framework has allowed the Corporation to respond quickly and effectively to the global economic crisis.

In FY10, the Integrated Risk Management Department prepared an integrated risk management framework report for the Board to provide an integrated and holistic picture of risk management activities within IFC and is working towards aligning this report with the annual integrated risk monitoring report prepared by IBRD starting in FY11.

STRATEGIC AND REPUTATIONAL RISK

IFC defines strategic risk as the potential reputation, financial, and other consequences of a failure to achieve its strategic mission and, in particular, its sustainable development mandate.

The overall management of strategic risk is effected through the definition and implementation of an annual strategy for meeting IFC's mission and guidelines for its investment operations, advisory services, and treasury activities. The strategy is developed with Senior Management by the Corporate Strategy Department, and is approved by the Board of Directors. The Independent Evaluation Group conducts ex post evaluations of the implementation of IFC's strategy on an ongoing basis.

IFC's commitment to quality enterprise risk management, particularly on the environment and social front, continues to gain acceptance with our strategic partners, as the "Equator Principles" announced in FY05 have now become an established standard for financial institutions engaged in finance in the emerging markets. Responsibility for managing these economic and social risk principles, both internally and in liaison with other financial institutions rests with the Environment and Social Development Department.

In addition, IFC addresses corporate governance risks by assessing its clients' commitment to, and implementation of, good corporate governance regimes as part of the investment process. IFC is focused on ensuring that the evolving principles of corporate governance are accepted and practiced by our clients, and great emphasis is placed on leading in the development of these standards in this area. The Development Financial Institution (DFI) Statement on corporate governance of FY09 has led to an effort to develop a common set of tools, based on IFC's corporate governance methodology, for assessing corporate governance for adoption by DFIs. Responsibility for managing corporate governance (both internally and within the operations of our clients' operations) rests with the Corporate Governance unit of the Department of Corporate Advice.

More broadly, the responsibility for management of the integrity and reputational risks associated with the selection of clients and partners rests with the operational departments. Support and knowledge sharing are provided by the Business Risk Department.

Communication activities related to reputational risk are managed by the Corporate Relations Department, which provides advice on strategic and crisis communications to mitigate and manage the potential and actual reputation risk both at the corporate and the project level throughout the investment cycle.

Given the nature and scope of products and services that IFC provides its clients in furtherance of its development mandate, operational or business conflicts of interest can arise in the normal course of its activities. IFC recognizes that adverse reputational, client-relationship and other implications can arise if such conflicts are not properly managed. In order to properly manage operational or business conflicts, IFC has implemented processes directed at (i) the identification of such conflicts as and when they arise (ii) the application of mitigation measures specifically tailored to the circumstances pertaining to the identified conflicts.

The key guiding principles and policies established as part of the framework for managing strategic risk are as follows:

GUIDING PRINCIPLES FOR IFC'S OPERATIONS

Catalytic role: IFC will seek above all to be a catalyst in facilitating productive investments in the private sector of its developing member countries. It does so by mobilizing financing from both foreign and domestic investors from the private and public sectors.

Business partnership: IFC functions like a business in partnership with the private sector. Thus, IFC takes the same commercial risks as do private institutions, investing its funds under the discipline of the marketplace.

Additionality: IFC participates in an investment only when it can make a special contribution not offered or brought to the deal by other investors.

IFC SANCTIONS PROCEDURES

In FY07, IFC established a set of procedures to sanction parties involved in IFC projects committing corrupt, fraudulent, collusive, coercive or obstructive practices. In April 2010 the World Bank Group concluded an agreement with other multilateral development banks (MDBs) whereby entities debarred by one MDB may be sanctioned for the same misconduct by the other participating development banks. The enhanced emphasis on combating fraud and corruption does not change the high expectations IFC has always held for its staff, clients and projects, including due diligence and commitment to good corporate governance.

FY10 STRATEGIC RISK HIGHLIGHTS

IFC's Environmental and Social Policies have become widely recognized as best practice with 10 further international commercial banks adopting them in the form of the Equator Principles. To date and as of August 5, 2010, 68 leading international financial institutions have adopted these principles, including 17 from emerging markets.

IFC defines environment and social risk as the risk that IFC's sustainability policy and performance standards are not achieving their objectives.

IFC integrates environment and social risk management throughout its investment cycle and helps companies (primarily in IFC's loan and equity portfolios, but also in advisory services) proactively identify, avoid and address risks in the following key ways:

- Environment and social due diligence (including risk analysis)
- Project-specific advice to meet IFC environmental and social standards.
- Project-specific business risk management services.
- Guidance and training for commercial banks, private equity funds and other financial intermediaries.
- Annual monitoring and continuous improvement of environmental, social and business performance.
- Assurance to shareholders and stakeholders.

IFC's Environment and Social Department develops environmental and social standards and assesses risk for all projects and for IFC as a whole in addition to maintaining a quantitative and qualitative methodology of risk rating IFC's investment portfolio through the Environmental and Social Risk Rating score. In 2006, IFC introduced an internal Environment and Social Management System, to ensure that IFC's Performance Standards and Disclosure Policy are applied correctly and systematically by IFC in every investment project, with quality in implementation and a focus on the outcome that the clients must achieve.

In light of the financial crisis, IFC has increased environmental and social supervision visits and interactions with clients based upon portfolio stress testing. IFC's Performance Standards are a global good adopted by other commercial banks through the Equator Principles. IFC periodically updates its Sustainability Policy and Performance Standards to ensure IFC continues to play a leadership role in setting global environmental and social practice and to ensure the Performance Standards remain consistent with the evolving sustainability agenda.

CREDIT RISK

IFC defines credit risk as the potential reduction in value of on- and off-balance sheet assets due to a deteriorating credit profile of its clients, the countries in which it invests, or a financial counterparty. Credit risk is incurred in two areas of IFC's operations: (i) investment operations, where IFC provides loans, invests in debt securities and equity investments, provides guarantees and acts as a derivatives counterparty for clients in its developing member countries; and (ii) treasury, where credit risk is incurred with counterparties in IFC's liquid asset, borrowing and asset-liability management. As part of its mandate, IFC is prohibited from accepting sovereign government guarantees of repayment on its investments and, therefore, incurs commercial and sovereign risk on its investments.

Until June 30, 2008, IFC's Risk Management and Financial Policy Department had oversight responsibility for overall financial risk management and, in addition, monitored and controlled credit risk arising in IFC's treasury activities. Effective July 1, 2008, this responsibility was assumed by a combination of the Integrated Risk Management and Credit Review Departments. The Credit Review Department plays a key role with respect to IFC's credit risk exposures to clients in developing countries. At origination of new investments, the Credit Review Department analyzes information obtained from the investment departments and provides an independent review of the credit risk of the transaction. After commitment, the quality of IFC's investment portfolio is monitored according to supervision principles and procedures defined in the Operational Policies and Procedures. Responsibility for the day-to-day monitoring and management of credit risk in the portfolio rests with the portfolio management units of individual investment departments. Their assessments are subject to quarterly review, on a sample basis, by the Loss Provisioning Division of the Accounting and Financial Operations Department and by the Credit Review Department.

IFC's investment portfolio is subject to a number of operational and prudential limits, including limitations on single project/client exposure, single country exposure, and segment concentration. Similarly, credit policies and guidelines have been formulated covering treasury operations; these are subject to annual review and approval by the Corporate Risk Committee.

Credit risk across IFC's investment portfolio is monitored and managed by the Corporate Portfolio Management Department through the review of equity valuations, proactive identification of emerging risks and portfolio stress testing in focus sub-portfolios.

For jeopardy investments, the Department of Special Operations provides rapid response and focused attention on portfolio projects that require more sophisticated workout and restructuring. Early involvement is the key to recovery when projects get into difficulty. To help enable early involvement, seasoned professionals from Special Operations Department are part of the regional crisis response teams looking at potential issues with IFC's investments. IFC instituted objective criteria for the Department of Special Operations involvement in troubled projects three years ago and in FY10, strengthened that criterion to ensure earlier intervention given the ongoing effects of the financial crisis.

The credit risk of loans is quantified in terms of the probability of default, loss given default and exposure at risk. These risk parameters are used to determine risk based economic capital for capital adequacy, capital allocation and internal risk management purposes as well as for setting general loan loss reserves and limits.

While top-down economic capital measures are well integrated into IFC's risk management framework, IFC Management recognizes the need to enhance the Corporation's use of economic capital in making investment-level decisions. To this end, several enhancements were made to IFC's economic capital framework during FY10. These enhancements include the introduction of additional risk differentiation into the required economic capital ratios; translation of country limits from the existing notional exposure limits into economic capital-based limits; and a process for allocating capital by department being developed for implementation in FY11.

Treasury counterparty credit risk is managed by the Integrated Risk Management Department to mitigate potential losses from the failure of a trading counterparty to fulfill its contractual obligations. General counterparty eligibility criteria are set by IFC's Board-approved Asset-Liability Management and Derivative Products Authorization and Liquid Asset Management General Investment Authorization. IFC Counterparties are subject to conservative eligibility criteria and are currently restricted to banks and financial institutions with high quality credit ratings by leading international credit rating agencies.

The eligibility criteria and limits of Treasury counterparties are stipulated by Liquid Asset Investment Guidelines and Treasury Counterparty Credit Limits Guidelines, both of which are approved by the Corporate Risk Committee.

Specifically, IFC has adopted the following key financial policies and guidelines:

INVESTMENT OPERATIONS

1. IFC does not normally finance for its own account more than 25% of a project's cost.
2. Total exposure to a single obligor may not exceed an economic capital limit of $75 million (economic capital required is dependent upon the product mix, as different products have different risks and therefore require different levels of capital support) and a nominal limit of $300 million based on disbursed/ outstanding exposures.
3. Total exposure to an economic group of obligors may not exceed an economic capital limit of $200 million and a nominal limit of $800 million based on disbursed outstanding exposures.

PORTFOLIO MANAGEMENT

1. The maximum economic capital exposure in a country cannot exceed 7% of IFC's total resources available (total resources available is defined as the sum of (i) paid-in-capital (ii) retained earnings net of designations and certain unrealized gains/losses; and (iii) total loan loss reserves and economic capital exposure is calculated as a percentage of exposures at risk (100% of outstanding + 75% of undisbursed portfolio), based on required economic capital ratios determined by product).
2. Economic capital exposure limits ranging from 3% to 7% of total resources available are set for each country, based on the size of its economy and risk rating.
3. IFC lender of record exposure in a country (outstanding) may not exceed 10% of a country's total long-term external debt for Heavily Indebted Poor Countries and 5% for all other countries. Exceptions for countries with low levels of external debt may be made by the Corporate Risk Committee. Lower trigger levels are set for certain countries.
4. IFC's total exposure (outstanding net of specific reserves on loans) to a single risk sector (i.e., business sectors that are heavily influenced by a single, identifiable, world price index) may not exceed 12% of net worth plus general reserves on loans. Lower review trigger levels are set for single sectors, and individually for the finance and insurance sector, based on IFC's net worth plus general reserves on loans and the country exposure level.
5. IFC's committed exposure in guarantees that are subrogated in local currency is limited to $300 million for currencies for which there are no adequate currency and interest rate risk hedging instruments as determined by IFC's Treasury Department at the time of commitment. There is a sublimit of $100 million for an individual currency under this limit.

TREASURY OPERATIONS

1. Counterparties are subject to conservative eligibility criteria. For derivative instruments IFC's counterparties are currently restricted to banks and financial institutions with a high quality credit rating (with a mark-to-market agreement) by leading international credit rating agencies.
2. Exposures to individual counterparties are subject to concentration limits. For derivatives, exposure is measured in terms of replacement cost for measuring total potential exposure. Institution-specific limits are updated at least quarterly based on changes in the total size of IFC derivatives portfolio or as needed according to changes in counterparty's fundamental situation or credit status.
3. To limit exposure, IFC signs collateral agreements with counterparties that require the posting of collateral when net mark-to-market exposure exceeds certain predetermined thresholds, which decrease as a counterparty's credit rating deteriorates. IFC also requires that low quality counterparties should not have more than 30% of total net-of-collateral exposures.
4. Because counterparties can be downgraded during the life of a transaction, the agreements provide an option for IFC to terminate all swaps if the counterparty is downgraded below investment grade or if other early termination events occur that are standard in the market.
5. For exchange-traded instruments, IFC limits credit risk by restricting transactions to a list of authorized exchanges, contracts and dealers, and by placing limits on the Corporation's position in each contract.

FY10 CREDIT RISK HIGHLIGHTS

The global credit cycle rebounded to positive in FY10 fueled by accommodative fiscal policy and high levels of liquidity, characterized by low spreads and low yields. In contrast, FY08 and FY09 have been characterized by significant volatility in credit markets. The quality of IFC's investment portfolio, as measured by the aggregate risk rating improved as recovery took root in emerging markets.

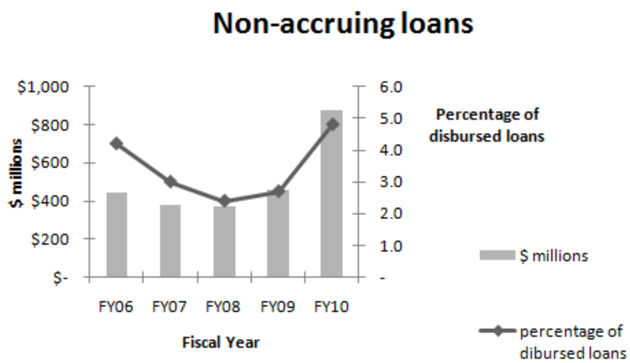
IFC does not recognize income on loans where collectibility is in doubt or payments of interest or principal are past due more than 60 days unless management anticipates that collection of interest is expected in the near future.

The amount of nonaccruing loans as a percentage of the disbursed loan portfolio[4], a key indicator of loan portfolio performance, increased to 4.8% at June 30, 2010 (2.7% at June 30, 2009). The principal amount outstanding on nonaccrual loans totaled $877 million at June 30, 2010, an increase of $420 million (92%) from the June 30, 2009, level of $457 million.

Total reserves against losses on loans at June 30, 2010, increased to $1,349 million ($1,238 million at June 30, 2009), driven by an increase in specific loan loss reserves of $132 million. General loan loss reserves decreased by $21 million during FY10, due to improved credit risk ratings on unimpaired loans. Total reserves against losses on loans are equivalent to 7.4% of the disbursed loan portfolio, unchanged from June 30, 2009.

[4] Excluding "loan-like" debt securities.

The five-year trend of nonaccruing loans is presented below:



IFC operates under the assumption that the guarantee portfolio is exposed to the same idiosyncratic and systematic risks as IFC's loan portfolio and the inherent, probable losses in the guarantee portfolio need to be covered by an allowance for loss. The allowance at June 30, 2010, was $24 million ($14 million at June 30, 2009), based on the year-end portfolio, and is included in payables and other liabilities on IFC's consolidated balance sheet. The increase in allowance for the year, $10 million for FY10 ($3 million decrease for FY09), is included in the (provision) release of provision for losses on loans and guarantees in the consolidated income statement.

During FY10, IFC suffered no losses (FY09 - $3 million) due to rehedging costs related to terminating existing swap exposures.

In accordance with IFC's key financial policies and guidelines noted above, IFC holds collateral in the amount of $1,476 million at June 30, 2010 ($1,139 million – June 30, 2009).

FINANCIAL RISK

IFC defines financial risk in three components: (a) the potential inability to realize asset values in its portfolio sufficient to meet obligations to disburse funds as they arise (liquidity risk); (b) the potential inability to access funding at reasonable cost (funding risk); and (c) a deterioration in values of financial instruments or positions due to changes in market variables such as interest and exchange rates and the volatility thereof (market risk).

KEY FINANCIAL POLICIES AND GUIDELINES

IFC operates under a number of key financial policies and guidelines as detailed below, which have been approved by its Board of Directors:

1. Disbursed equity plus quasi-equity investments (net of impairment write-downs) may not exceed 100% of net worth.
2. Minimum liquidity (liquid assets plus undrawn borrowing commitments from IBRD) must be sufficient at all times to cover at least 45% of IFC's estimated net cash requirements for the next three years.
3. Matched-funding policy: Loans are funded with liabilities having the same characteristics in terms of interest rate basis and currency and, for fixed rate loans, duration except for Board-approved new products involving asset-liability mismatches. IFC maintains a minimum level of liquidity, consisting of proceeds from external funding, that covers at least 65% of the sum of: (i) 100% of committed but undisbursed straight senior loans; (ii) 30% of committed guarantees; and (iii) 30% of committed client risk management products.
4. IFC is required to maintain a minimum level of total resources (including paid-in capital, total loss reserves and retained earnings, net of designations) equal to total potential losses for all on- and off-balance sheet exposures estimated at levels consistent with the maintenance of a AAA rating.

In addition, under IFC's Articles of Agreement, as long as IFC has outstanding borrowings from IBRD, IFC's leverage, as measured by the ratio of IFC's outstanding debt (borrowings plus outstanding guarantees) to IFC's net worth (using subscribed capital), may not exceed 4.0 to 1.

The impact of the global financial crisis, though subsiding in some regions, continues to be severe for many vulnerable countries. IFC has taken great strides in addressing the needs of the private sector in emerging markets, while proactively managing its own capital position and financial risk. The overall financial risk for IFC is defined by the adequacy of its financial resources to meet potential future financial needs. The Corporation's future financial strength is dependent on many factors including: the economic environment; equity returns; future designations; and the rate of growth and capital usage for IFC's portfolio.

LIQUIDITY RISK

The primary instruments for maintaining sufficient liquidity are IFC's liquid asset portfolios, including the P6 portfolio and, beginning in FY10, the P7 portfolio:

- P0, which is generally invested in short-dated deposits, money market funds, fixed certificates of deposits, one-month floater securities and repos, reflecting its use for short-term funding requirements.
- P1 and P2, which are generally invested in: (a) high quality foreign sovereign, sovereign-guaranteed and supranational fixed income instruments; (b) US Treasury or agency instruments; (c) high quality ABS rated by at least two rating agencies and/or other high quality notes issued by corporations; (d) MBS; (e) interest rate futures and swaps to manage currency risk in the portfolio, as well as its duration relative to benchmark; and (f) cash deposits and repos.
- P3, which is an outsourced portion of the P1 portfolio (managed by external managers).
- P4, which is an outsourced portion of the P2 portfolio (managed by external managers).
- P6, which is invested in short-term local currency money market instruments and local government securities.
- P7, which consists of after-swap proceeds from variable-rate borrowings denominated and invested in Euros.

FY10 LIQUIDITY RISK HIGHLIGHTS

On June 30, 2010, IFC's liquidity level stood at $21.0 billion ($17.9 billion on June 30, 2009). Current levels of liquid assets also represented 190% of the sum of (i) 100% of committed but undisbursed straight senior loans; (ii) 30% of committed guarantees; and (iii) 30% of committed client risk management products (163% on June 30, 2009).

FUNDING RISK

IFC's primary objective with respect to managing funding risk is, through the adoption of the key financial policies described above, to maintain its triple-A credit ratings and, thereby, maintain access to market funding as needed at the lowest possible cost.

The risk of higher funding costs is also reduced by IFC's annual funding targets, the US$ billion-dollar benchmark bonds, and the Discount Note Program. Accessing the capital markets for financing establishes investor confidence, liquidity, price transparency, and a diversified investor base, all of which help to reduce financing cost. IFC's Discount Note Program was launched in June 2009 to provide swift access to funded liquidity, to complement traditional funding sources, and to provide a natural funding source for GTFP.

FY10 FUNDING RISK HIGHLIGHTS

During FY10, IFC raised $8.8 billion, net of derivatives ($9.1 billion in FY09 and $6.2 billion in FY08). The outstanding balance under the Discount Note Program at June 30, 2010 was $1.4 billion. Funding costs compared to US$ LIBOR for IFC increased significantly during FY09 as credit spreads for IFC widened. During FY10, credit spreads for IFC narrowed somewhat but remained wider than those generally experienced by IFC in FY09 and prior.

MARKET RISK

IFC's exposure to market risk is minimized by adopting the matched-funding policy noted above and by using derivative instruments to convert assets and liabilities into floating rate US dollar assets and liabilities with similar duration.

INVESTMENT OPERATIONS

Interest rate and currency exchange risk associated with fixed rate and/or non-US dollar lending is hedged via currency and interest rate swaps that convert cash flows into variable rate US dollar flows.

Exposures to market risk resulting from derivative transactions with clients, which are intended to facilitate clients' risk management, are minimized by entering into offsetting positions with highly rated market counterparties.

LIQUID ASSET PORTFOLIOS

The P0, P1 and P3 portfolios are managed to variable rate US dollar benchmarks, on a portfolio basis. To this end, a variety of derivative instruments are used, including short-term, over-the-counter foreign exchange forwards (covered forwards), interest rate and currency swaps, and exchange-traded interest rate futures and options. IFC also takes both long and short positions in securities in the management of these portfolios to their respective benchmarks.

The primary source of market risk in the liquid asset portfolios is the P2 and P4 portfolios, which are managed to Barclay's 1-3 year US Treasury Index benchmark. P2 represents the portion of IFC's capital not disbursed as equity investments, and the benchmark reflects the chosen risk profile for this un-invested capital (Paid-in capital and retained earnings). P4 represents an outsourced portion of the P2 portfolio. In addition, the P1 and P3 portfolios contain a degree of market risk (e.g., spread risk).

The P6 portfolio consists of foreign currency proceeds raised locally through swaps and other funding instruments to provide more flexible local currency loan products to clients.

The P7 portfolio is managed to six equal-weighted EURIBID deposits maturing at the next six monthly reset dates of outstanding liabilities, rebalanced at each calendar month-end.

BORROWING ACTIVITIES

Access to funding is maximized, and cost is minimized, by issuing debt securities in various capital markets in a variety of currencies, 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 reference interest rate, or one or more foreign exchange rates.

Market risk associated with fixed rate obligations and structured instruments entered into as part of IFC's funding program is generally mitigated by using derivative instruments to convert them into variable rate US dollar obligations, consistent with the matched-funding policy.

ASSET-LIABILITY MANAGEMENT

While IFC's matched-funding policy provides a significant level of protection against currency and interest rate risk, IFC can be exposed to residual market risk in its overall asset and liability management of the funded balance sheet. This residual market risk is monitored by the Asset-Liability Management group within the Treasury and Integrated Risk Management Departments.

Residual currency risk arises from events such as changes in the level of non-US dollar loan loss reserves. This risk is managed by monitoring the aggregate position in each lending currency and hedging the exposure when the net asset or liability position exceeds $5 million equivalent.

Residual interest rate risk may arise from two main sources:

- Assets that are fully match-funded at inception, which can become mismatched over time due to write-downs, prepayments, or rescheduling; and
- Differing interest rate reset dates on assets and liabilities.

This residual risk is managed by measuring the sensitivity of the present value of assets and liabilities in each currency to each basis point change in interest rates, with an action trigger of $50,000 for a one basis point parallel move in the yield curve.

FY10 MARKET RISK HIGHLIGHTS

Total liquid asset returns (comprising interest, realized and unrealized gains and losses, and foreign currency transaction (losses) gains) were $815 million in FY10 ($474 million in FY09 and $473 million in FY08), of which $393 million was attributable to the P0, P1 and P3 portfolios ($156 million in FY09 and $93 million in FY08), $422 million was attributable to the P2 and P4 portfolios ($318 million in FY09 and $345 million in FY08)[5]. The overall market environment in FY10 and the resulting impact on the performance of IFC's liquid assets portfolios are discussed in more detail in "Results of Operations".

Foreign currency transaction losses on non-trading activities for FY10 included in net income were $82 million ($10 million gains in FY09 and $39 million losses in FY08). Foreign currency transaction gains on investments in debt securities accounted for as available-for-sale for FY10 included in Other Comprehensive Income (OCI) were $53 million ($69 million losses in FY09 and $85 million gains in FY08).

OPERATIONAL RISK

Consistent with *"Internal Convergence of Capital Measurement and Capital Standards, A Revised Framework"* issued by the Basel Committee on Banking Supervision in June 2004, IFC defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

During FY10, the Corporate Risk Committee approved an Operational Risk Management (ORM) directive that establishes the approach and roles and responsibilities for ORM in the Corporation. Responsibility for the implementation of the directive and procedures for managing and monitoring operational risk rests with the Business Risk Department.

IFC's ORM approach is designed to ensure that operational risks are identified, assessed, and managed so as to minimize potential adverse impacts, thus enabling a determination, for each area (people, systems, processes and external events), which risks IFC will: (i) manage internally, as part of its ongoing business; (ii) mitigate through contingency planning; or (iii) transfer to third parties, whether by subcontracting, outsourcing, or insurance.

IFC seeks to mitigate the risks it manages internally by maintaining a comprehensive system of internal controls that is designed not only to identify the parameters of various risks but also to monitor and control those areas of particular concern.

IFC utilizes risk transfer, including insurance, at both the project and the institutional levels for mitigation of low frequency and high severity operational risks. At both levels, IFC identifies and evaluates risks, determines available contractual transfer and insurance options, implements the optimal structure, and tracks its effectiveness over time. IFC also insures its corporate assets and operations against catastrophic losses where commercially viable.

[5] In addition, FY08 income from liquid assets included $35 million from the P6 portfolio. Beginning in FY09, income from the P6 portfolio ($27 million in FY10; $42 million in FY09) is reported in other income.

Other key components of IFC's operational risk management approach include:

- Operational risk assessment and measurement based on market practices and tools.
- Adoption of the COSO[6] control framework as the basis for its evaluation of the effectiveness of its internal controls over financial reporting.
- Ongoing independent review of the effectiveness of IFC's internal controls in selected key areas and functions performed by the Internal Audit Vice Presidency of the World Bank Group.
- Promoting data integrity in the Corporation based on its Data Management Policy, overseen by the Information Quality Group within the Accounting and Financial Operations department and through a network of Departmental Data Stewards.
- Ensuring that processes and controls are in place to manage the risks in new products and initiatives before they are executed, through a New Products/Initiatives Assessment Group with representation from key business and support functions.

FY10 OPERATIONAL RISK MANAGEMENT HIGHLIGHTS

IFC is continuing a multiyear effort to analyze and develop enhanced methodologies for identifying, measuring, monitoring and managing operational risk in its key activities. During FY10, IFC:

- Implemented a corporate-wide roll-out of its Risk and Control Self Assessment methodology.
- Developed and piloted other operational risk management methodologies and tools, including risk events tracking, root cause analysis and scenario analysis.
- Undertook studies of selected processes to analyze operational risks therein and formulate actions to improve operational risk management.
- Conducted events to promote and raise awareness of operational risk management, including inviting experts from external organizations to share experiences and market practices on operational risk-related topics.

IFC also continues to focus on its preparedness to react to an emergency situation that could disrupt its normal operations.

During FY10 IFC:

- In collaboration with IBRD, successfully completed a change in roles of its data centers. The out-of-town, lower risk, facility shared with IBRD has become IFC's primary data center and the downtown, higher risk, facility now serves as the secondary data center. As part of this project IFC also implemented an "active-active" environment for virtually all critical corporate applications, increasing the resiliency of its systems.
- Developed business continuity plans for all departments based in Washington, and updated plans for country offices where needed.
- Conducted home-based working exercises in Washington departments and other key locations to test IFC's ability to maintain essential operations through remote access. These exercises proved to be excellent preparation for the winter storms in the Washington, DC area.
- Maintained Emergency Management Teams in all regions; conducted emergency simulation exercises, in cooperation with IBRD, in its Washington, DC offices and in the regional hub offices; and held emergency management workshops in the larger country offices in each region.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

In FY10, IFC continued its practice of conducting an annual assessment of its internal controls over external financial reporting based on the criteria for effective internal control described by the COSO framework. Between FY06 and FY09, management had not sought the attestation to its published assertion on internal controls previously provided by IFC's external auditors. In FY10, IFC's external auditors have provided an attestation report that management's assertion regarding the effectiveness of internal control over external financial reporting is fairly stated in all material respects.

Management has carried out an evaluation of internal control over external financial reporting for the purpose of determining if there were any changes made in internal controls during the fiscal year covered by this report, that had materially affected, or would be reasonably likely to materially affect IFC's internal control over external financial reporting. As of June 30, 2010 no such significant changes had occurred.

Disclosure controls and procedures are those processes which are designed to ensure that information required to be disclosed is accumulated and communicated to management, as appropriate to allow timely decisions regarding required disclosure by IFC. Management has undertaken an evaluation of the effectiveness of such controls and procedures. Based on that evaluation, management has concluded that these controls and procedures were effective as of June 30, 2010.

[6] COSO refers to the Internal Control - Integrated Framework formulated by the Committee of Sponsoring Organizations of the Treadway Commission, which was convened by the US Congress in response to the well-publicized irregularities that occurred in the financial sector in the United States during the late 1980s.

VI. CRITICAL ACCOUNTING POLICIES

The Notes to IFC's FY10 consolidated financial statements contain a summary of IFC's significant accounting policies, including a discussion of recently adopted accounting standards and accounting and financial reporting developments. Certain of these policies are considered to be "critical" to the portrayal of IFC's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain.

These policies include:

(i) Determining the level of reserves against losses in the loan portfolio;
(ii) Determining the level and nature of impairment for equity investments and debt securities carried at fair value with changes in fair value being reported in OCI and for equity investments accounted for at cost less impairment (where impairment is determined with reference to fair value);
(iii) Determining the fair value of certain equity investments, debt securities, loans, liquid assets, borrowings and derivatives, which are accounted for at fair value with changes in fair value being reported in net income and OCI; and
(iv) Determining the future pension and postretirement benefit costs and obligations using actuarial assumptions based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions.

Many of IFC's financial instruments are classified in accordance with the fair value hierarchy established by accounting standards for fair value measurements and disclosures where the fair value and/or impairment is estimated based on internally developed models or methodologies utilizing significant inputs that are non-observable.

RESERVE AGAINST LOSSES ON LOANS

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. The reserve against losses for impaired loans reflects management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate. The reserve against losses for loans includes an estimate of probable losses on loans inherent in the portfolio but not specifically identifiable. The reserve is established through periodic charges to income in the form of a provision for losses on loans. Loans written off, as well as any subsequent recoveries, are recorded through the reserve.

The assessment of the adequacy of reserves against losses for loans is highly dependent on management's judgment about factors such as its assessment of the financial capacity of borrowers, geographical concentration, industry, regional and macroeconomic conditions, and historical trends. Due to the inherent limitation of any particular estimation technique, management utilizes a capital pricing and risk framework to estimate the probable losses on loans inherent in the portfolio but not specifically identifiable. This Board-approved framework uses actual loan loss history and aligns the loan loss provisioning framework with IFC's capital adequacy framework.

The reserve against losses on loans is separately reported in the consolidated balance sheet as a reduction of IFC's total loans. Increases or decreases in the reserve level are reported in the income statement as provision for losses or release of provision for losses on loans, and guarantees. The reserve against losses on loans relates only to the Client Services segment of IFC (see Note T to the FY10 consolidated financial statements for further discussion of IFC's business segments).

EQUITY AND DEBT SECURITY IMPAIRMENT

IFC assesses all equity investments accounted for at fair value through OCI and all equity investments accounted for at cost less impairment for impairment each quarter. When impairment is identified and is deemed to be other than temporary, the equity investment is written down to its impaired value, which becomes the new cost basis in the equity investment. IFC generally presumes that all equity impairments are deemed to be other than temporary. Impairment losses on equity investments accounted for at cost less impairment are not reversed for subsequent recoveries in value of the equity investment until it is sold. Recoveries in value on equity investments accounted for at fair value through OCI that have been the subject of an other-than-temporary impairment write-down are reported in OCI until sold.

IFC assesses all debt security investments accounted for at fair value through OCI for impairment each quarter. When impairment is identified, the entire impairment is recognized in net income if certain conditions are met (as detailed in Note A to IFC's FY10 consolidated financial statements). However, if IFC does not intend to sell the debt security and it is not more likely than not that IFC will be required to sell the security, but the security has suffered a credit loss, the credit-related impairment loss is recognized in net income and the non-credit related loss is recognized in OCI.

VALUATION OF FINANCIAL INSTRUMENTS WITH NO QUOTED MARKET PRICES

IFC reports at fair value all of its derivative instruments, all of its liquid asset trading securities and certain borrowings, loans, equity investments and debt securities. In addition, certain features in various investment agreements contain embedded or stand-alone derivatives that, for accounting purposes, are separately accounted as either derivative assets or liabilities, including puts, caps, floors, and forwards. IFC classifies all financial instruments accounted for at fair value based on the fair value hierarchy established by accounting standards for fair value measurements and disclosures as described in more detail in Notes A and R to IFC's FY10 consolidated financial statements.

Many of IFC's financial instruments accounted for at fair value have fair values that are based on unadjusted quoted market prices or using models where the significant assumptions and inputs are market-observable. The fair values of financial instruments valued using models where the significant assumptions and inputs are not market-observable are generally estimated using complex pricing models of the net present value of estimated future cash flows. Management makes numerous assumptions in developing pricing models, including an assessment about the counterparty's financial position and prospects, the appropriate discount rates, interest rates, and related volatility and expected movement in foreign currency exchange rates. Changes in assumptions could have a significant impact on the amounts reported as assets and liabilities and the related unrealized gains and losses reported in the income statement and statement of OCI. The fair value computations affect both the Client Services and Treasury segments of IFC (see Note T to the FY10 consolidated financial statements for further discussion of IFC's business segments).

PENSION AND OTHER POSTRETIREMENT BENEFITS

IFC participates, along with IBRD and MIGA, in pension and postretirement benefit plans that cover substantially all of their staff members. All costs, assets and liabilities associated with the plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the plans. The underlying actuarial assumptions used to determine the projected benefit obligations, fair value of plan assets and funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. For further details, please refer to Note V to the FY10 consolidated financial statements.

VII. RESULTS OF OPERATIONS

OVERVIEW

The overall market environment has a significant influence on IFC's financial performance.

The main elements of IFC's net income and comprehensive income and influences on the level and variability of net income and comprehensive income from year to year are:

ELEMENTS	SIGNIFICANT INFLUENCES
Net income:	
Yield on interest earning assets	Market conditions including spread levels, and degree of competition. Nonaccruals and recoveries of interest on loans formerly in nonaccrual status and income from participation notes on individual loans are also included in income from loans.
Liquid asset income	Realized and unrealized gains and losses on the liquid asset portfolios, which are driven by external factors such as: the interest rate environment; and liquidity of certain asset classes within the liquid asset portfolio.
Income from the equity investment portfolio	Performance of the equity portfolio (principally realized capital gains, dividends, equity impairment write-downs and unrealized gains and losses on equity investments).
Provisions for losses on loans and guarantees	Risk assessment of borrowers and actual and forecasted levels of default.
Noninterest income and expense	Level of advisory services provided by IFC to its clients, the level of expense from the staff retirement and other benefits plans, and the approved administrative and other budgets.
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	Principally, differences between changes in fair values of borrowings, including IFC's credit spread, and associated derivative instruments and unrealized gains associated with the investment portfolio including puts, warrants and stock options which in part are dependent on the global climate for emerging markets.
Grants to IDA	Level of Board of Governors-approved grants to IDA.
Other comprehensive income:	
Unrealized gains and losses on listed equity investments and debt securities accounted for as available-for-sale	Global climate for emerging markets equities and company-specific performance. Such equity investments are valued using unadjusted quoted market prices and debt securities are valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable.
Unrecognized net actuarial gains and losses and unrecognized prior service costs on benefit plans	Returns on pension plan assets and the key assumptions that underlie projected benefit obligations, including financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions.

The following paragraphs detail significant variances between FY10 and FY09, and FY09 and FY08, covering the periods included in IFC's FY10 consolidated financial statements. Certain amounts in FY09 and FY08 have been reclassified to conform to the current year's presentation. Where applicable, the following paragraphs reflect reclassified prior year comparative information. Such reclassifications had no effect on net income or total assets.

FY10 Versus FY09

IFC has reported income before net losses on other non-trading financial instruments accounted for at fair value and grants to IDA of $2,285 million, $2,438 million higher than the loss before net gains and losses on other non-trading financial instruments accounted for at fair value and grants to IDA of $153 million in FY09.

The significant improvement in income before net losses on non-trading financial instruments and grants to IDA in FY10 when compared to FY09 was principally as a result of a generally improved operating environment for IFC's investment and liquid asset portfolios in FY10 as compared with that experienced in FY09. This resulted in: (i) lower impairment write-downs on equity investments; (ii) higher realized capital gains on equity sales and unrealized gains on equity investments accounted for at fair value in net income; (iii) lower provisions for losses on loans and guarantees; (iv) higher income from liquid asset trading activities; and (v) lower charges on borrowings.

IFC reported net losses on non-trading financial instruments of $339 million in FY10 as compared with a net gain of $452 million in FY09, resulting in income before grants to IDA of $1,946 million in FY10, as compared to $299 million in FY09.

Grants to IDA totaled $200 million in FY10, as compared to $450 million in FY09. Accordingly, net income (in accordance with US GAAP) totaled $1,746 million in FY10, as compared with a net loss of $151 million in FY09.

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

INCOME FROM LOANS AND GUARANTEES

IFC's primary interest earning asset is its loan portfolio. Income from loans and guarantees for FY10 totaled $801 million, compared with $871 million in FY09, a decrease of $70 million.

The disbursed loan portfolio grew by $1,449 million, from $16,748 million at June 30, 2009 to $18,197 million at June 30, 2010. The overall interest rate environment was lower in FY10 than in FY09.

The weighted average contractual interest rate on loans at June 30, 2010 was 4.6%, versus 5.0% at June 30, 2009, reflecting the lower overall interest rate environment existing at June 30, 2010 as compared with June 30, 2009. These factors combined resulted in $203 million lower interest income than in FY09. Commitment and financial fees were $29 million higher than in FY09. Recoveries of interest on loans being removed from non-accrual status, net of reversals of income on loans being placed in nonaccrual status, were $3 million higher in FY10 as compared to FY09. Income from IFC's participation notes, over and above minimum contractual interest, was $3 million lower in FY10 than in FY09. Unrealized gains on loans accounted for at fair value were $104 million higher than in FY09.

INCOME FROM EQUITY INVESTMENTS

Income from the equity investment portfolio increased by $1,680 million from a loss of $42 million in FY09 to income of $1,638 million in FY10.

IFC generated realized gains on equity investments, including recoveries of previously written-off equity investments and net of losses on sales of equity investments, for FY10 of $1,290 million, as compared with $990 million for FY09, an increase of $300 million. IFC sells equity investments where IFC's developmental role was complete, and where pre-determined sales trigger levels had been met and, where applicable, expiration of lock ups.

Total realized gains on equity investments are concentrated – in FY10, 9 investments generated individual capital gains in excess of $20 million for a total of $867 million, or 67%, of the FY10 gains, compared to 9 investments that generated individual capital gains in excess of $20 million for a total of $723 million, or 73%, of the FY09 gains. A significant amount of gains ($885 million) were realized during the last three months of FY09, principally driven by the sale of one investment in the Oil, Gas and Mining sector that generated a gain of $592 million.

Dividend income totaled $285 million, as compared with $311 million in FY09. Consistent with FY09, a significant amount of IFC's dividend income in FY10 was due to returns on IFC's joint ventures in the oil, gas and mining sectors accounted for under the cost recovery method, which totaled $60 million in FY10, as compared with $56 million in FY09.

Unrealized gains on equity investments that are accounted for at fair value through net income in FY10 totaled $240 million, as compared with losses of $299 million in FY09.

INCOME FROM DEBT SECURITIES

Income from debt securities increased to $108 million in FY10 from $71 million in FY09, an increase of $37 million. The majority of the increase was attributable to higher unrealized gains on debt securities accounted for at fair value and higher non-monetary gains on debt securities, resulting from conversions to equity investments, in FY10 when compared with FY09. Unrealized gains on debt securities accounted for at fair value were $23 million higher in FY10 as compared to FY09.

PROVISION FOR LOSSES ON LOANS AND GUARANTEES

The quality of IFC's loan portfolio, as measured by country risk ratings and credit risk ratings was substantially unchanged during FY10. Non-performing loans as a percentage of the disbursed loan portfolio increased from 2.7% of the disbursed loan portfolio at June 30, 2009 to 4.8% of the disbursed loan portfolio at June 30, 2010. The increase in non-performing loans was largely due to two loans each with principal outstanding in excess of $100 million being placed in non-performing status during FY10. IFC recorded a provision for losses on loans and guarantees of $155 million in FY10 ($153 million in specific provisions, $8 million release in portfolio provisions, and $10 million provision in respect of guarantees) as compared to $438 million in FY09 ($109 million in specific provisions, $332 million in portfolio provisions, and $(3) million in respect of guarantees). On June 30, 2010, IFC's total reserves against losses on loans were 7.4% of the disbursed loan portfolio (7.4% at June 30, 2009).

Specific reserves against losses at June 30, 2010 of $432 million ($300 million at June 30, 2009) are held against impaired loans of $984 million ($552 million), a coverage ratio of 44% (55%).

INCOME FROM LIQUID ASSET TRADING ACTIVITIES

Income from liquid asset trading activities comprises interest from time deposits and securities, net gains and losses on trading activities, and a small currency translation effect. The liquid assets portfolio, net of derivatives and securities lending activities, increased from $17.9 billion at June 30, 2009, to $21.0 billion at June 30, 2010.

Income from liquid asset trading activities totaled $815 million in FY10 ($474 million in FY09). In FY10, all liquid asset portfolios outperformed their respective benchmarks. In FY09, the P1, P2, P3 and P4 portfolios underperformed their respective benchmarks and the P0 portfolio outperformed its benchmark. The main cause of the underperformances when compared to benchmark in FY09 was the poor performance of the holdings of ABS and MBS.

In addition to interest income of $358 million, the portfolio of ABS and MBS showed fair value gains totaling $419 million in FY10. Holdings in other products, including US Treasuries, global government bonds, high quality corporate bonds and derivatives generated $36 million of gains in FY10 and substantially all holdings in the liquid asset portfolio paid on schedule in FY10.

At June 30, 2010, trading securities with a fair value of $177 million are classified as Level 3 securities ($856 million on June 30, 2009).

The P1 portfolio generated a return[7] of $376 million in FY10, a return of 3.44%. In FY09, the P1 portfolio generated a return of $130 million, or 0.53%. The externally managed P3 portfolio, managed against the same variable rate benchmark as the P1 portfolio, returned $14 million in FY10, or 2.81%, $16 million higher than the $(2) million, or 0.65%, return in FY09.

The P2 and externally-managed P4 portfolios returned $404 million (7.28%) and $18 million (3.68%) in FY10, respectively, as compared to $293 million (5.87%) and $25 million (6.40%) in FY09.

IFC's P0 portfolio earned $3 million in FY10, a total return of 0.36%, as compared to $28 million (1.70%) in FY09.

CHARGES ON BORROWINGS

IFC's charges on borrowings decreased by $325 million, from $488 million in FY09 to $163 million in FY10, largely reflecting the lower US dollar interest rate environment, when comparing FY10 and FY09. During FY10, IFC bought back $0.9 billion of its market borrowings ($1.05 billion in FY09). Charges on borrowings of $163 million in FY10 ($488 million in FY09) are reported net of gains on buybacks of $62 million ($61 million in FY09).

The weighted average rate of IFC's borrowings outstanding from market sources, after the effects of borrowing-related derivatives, and excluding short-term borrowings issued under the Discount Note Program, fell during the year from 1.4% at June 30, 2009 to 0.5% at June 30, 2010. The size of the borrowings portfolio (excluding the short-term Discount Note Program), net of borrowing-related derivatives and before fair value adjustments, increased by $3.0 billion during FY10 from $25.8 billion at June 30, 2009, to $28.8 billion at June 30, 2010.

OTHER INCOME

Other income of $176 million for FY10 was $23 million higher than in FY09 ($153 million). Other income in FY10 includes income from the P6 local currency liquidity portfolio of $27 million ($42 million in FY09).

OTHER EXPENSES

Administrative expenses (the principal component of other expenses) increased by $82 million (14%) from $582 million in FY09 to $664 million in FY10. The increase in administrative expenses was largely due to increases in the following categories: (i) salary and related benefits; (ii) reinstatement of variable pay programs in FY10; and (iii) information technology and security. Administrative expenses include the grossing-up effect of certain revenues and expenses attributable to IFC's reimbursable program and jeopardy projects ($36 million in FY10, as compared with $31 million in FY09). IFC recorded an expense from pension and other postretirement benefit plans in FY10 of $69 million, as compared with $34 million in FY09.

EXPENDITURES FOR ADVISORY SERVICES

Expenditures for advisory services in FY10 totaled $101 million, $28 million or 22% lower than expenditures for advisory services of $129 million in FY09.

PERFORMANCE-BASED GRANTS AND IFC SME VENTURES FOR IDA COUNTRIES

Expenditures were $9 million in FY10 ($6 million in FY09).

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[7] Return percentages are reported gross of fees.

NET GAINS AND LOSSES ON OTHER NON-TRADING FINANCIAL INSTRUMENTS

As discussed in more detail in Note A to IFC's FY10 consolidated financial statements, IFC accounts for certain financial instruments at fair value with unrealized gains and losses on such financial instruments being reported in net income, namely: (i) all swapped market borrowings; and (ii) all equity investments in which IFC has greater than 20% holdings and/or equity and fund investments which, in the absence of the Fair Value Option, would be required to be accounted for under the equity method. All other non-trading derivatives, including stand-alone and embedded derivatives in the loan, equity and debt security portfolios continue to be accounted for at fair value.

The resulting effects of fair value accounting for these non-trading financial instruments on net income in FY10 and FY09 can be summarized as follows (US$ millions):

		FY10		FY09
Unrealized (losses) gains on market borrowings and associated derivatives, net	**$**	**(226)**	$	381
Unrealized losses on derivatives associated with loans		**(98)**		(65)
Unrealized gains on derivatives associated with debt securities		**28**		25
Net (losses) gains on derivatives associated with equity investments		**(43)**		111
Net (losses) gains on other non-trading financial instruments accounted for at fair value	**$**	**(339)**	**$**	**452**

The largest component of net gains and losses on other non-trading financial instruments in FY10 was on market borrowings and associated derivatives. Changes in fair value of IFC's market borrowings and associated derivatives, net includes the impact of changes in IFC's own credit spread when measured against US$ LIBOR. As credit spreads widen, unrealized gains are recorded and when credit spreads narrow, unrealized losses are recorded (notwithstanding the impact of other factors, such as changes in risk-free interest and foreign currency exchange rates). The magnitude and direction (gain or loss) can be volatile from period to period but do not alter the cash flows. IFC's policy is to generally match currency, amount and timing of cash flows on market borrowings with cash flows on associated derivatives entered into contemporaneously.

Prior to FY09, IFC's own credit spread had been relatively stable at sub-LIBOR rates – as such, there was no significant reported volatility associated with fair valuing IFC's market borrowings and associated derivatives. Beginning in the second quarter of FY09 and extending into the third quarter of FY09 as the global financial crisis worsened, IFC's own credit spreads, consistent with all supranationals and other triple-A rated institutions widened considerably but narrowed somewhat during the fourth quarter, although remaining LIBOR-plus at June 30, 2009. In FY10, as appetite for risk in international capital markets slowly recovered, reverted partially but credit spreads remained elevated relative to the levels that prevailed before FY09. As a result, IFC reported an unrealized loss for FY10 of $226 million, as compared to an unrealized gain of $381 million in FY09.

IFC reported a net loss on derivatives associated with equity investments (principally put options, stock options, conversion features and warrants) of $43 million in FY10. As emerging markets equities decline, IFC's put options, stock warrants, and conversion features entered into in part as an exit strategy became more valuable, resulting in unrealized net gains, and vice-versa. Gains/Losses are highly concentrated, with five derivatives accounting for $56 million of gains and five derivatives accounting for $84 million of losses in FY10 (five derivatives accounting for $105 million of gains and five derivatives accounting for $55 million of losses in FY09).

GRANTS TO IDA

During FY10, IFC recorded a grant to IDA of $200 million, as compared with $450 million in FY09.

OTHER COMPREHENSIVE INCOME

UNREALIZED GAINS AND LOSSES ON EQUITY INVESTMENTS AND DEBT SECURITIES

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

The net change in unrealized gains and losses on equity investments and debt securities in OCI can be summarized as follows:

		FY10		FY09
Net unrealized gains and losses on equity investments arising during the year:				
Unrealized gains	**$**	**1,117**	$	180
Unrealized losses		**(198)**		(1,294)
Reclassification adjustment for realized gains and impairment write-downs included in net income		**(313)**		(357)
Net unrealized gains (losses) on equity investments	**$**	**606**	$	(1,471)
Net unrealized gains and losses on debt securities arising during the year				
Unrealized gains	**$**	**181**	$	57
Unrealized losses		**(61)**		(294)
Reclassification adjustment for realized gains, non credit-related portion of impairment write-downs which were recognized in net income and impairment write-downs included in net income		**(43)**		63
Net unrealized gains (losses) on debt securities	**$**	**77**	$	(174)
Total unrealized gains (losses) on equity investments and debt securities	**$**	**683**	$	(1,645)

UNRECOGNIZED NET ACTUARIAL GAINS AND LOSSES AND UNRECOGNIZED PRIOR SERVICE COSTS ON BENEFIT PLANS

Changes in the funded status of pension and other postretirement benefit plans are recognized in OCI, to the extent they are not recognized in net income under periodic benefit cost for the year. During FY10, IFC experienced a decrease in the current value adjustment for unrecognized net periodic pension cost of $192 million, primarily reflecting a lower increase in the fair value of plan assets as compared to the increase in the projected benefit obligation.

FY09 VERSUS FY08

IFC has reported a loss before net gains and losses on other non-trading financial instruments accounted for at fair value and grants to IDA of $153 million, $2,091 million lower than income before net gains and losses on other non-trading financial instruments accounted for at fair value of $1,938 million in FY08. Income before grants to IDA totaled $299 million in FY09, as compared with $2,047 million in FY08. Grants to IDA were $450 million in FY09 as compared to $500 million in FY08, resulting in an overall net loss (in accordance with US GAAP) of $151 million in FY09 as compared to net income of $1,547 million in FY08.

FY09 results were significantly negatively impacted by the global financial crisis, which resulted in significantly higher impairment write-downs on equity investments and higher provisions for losses on loans, both specific provisions and portfolio provisions[8]. Income from liquid asset trading activities was substantially unchanged between FY08 and FY09 with a significant improvement in performance occurring in the latter months of FY09 relating to IFC's holdings of ABS and MBS. Net income in FY09 benefited by significant unrealized gains on IFC's swapped market borrowings accounted for at fair value as credit spreads for IFC widened considerably, particularly in the first nine months of FY09. As credit spreads began to narrow in the fourth quarter of FY09, there was a partial reversal of unrealized gains recorded in the first nine months of FY09.

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

INCOME FROM LOANS AND GUARANTEES

IFC's primary interest earning asset is its loan portfolio. Income from loans and guarantees for FY09 totaled $871 million, compared with $1,065 million in FY08, a decrease of $194 million.

The disbursed loan portfolio grew by $1,412 million, from $15,336 million at June 30, 2008 to $16,748 million at June 30, 2009. However, the interest rate environment was lower in FY09 than in FY08. The weighted average contractual interest rate on loans at June 30, 2009 was 5.0%, versus 6.6% at June 30, 2008. These factors combined resulted in $135 million lower income than in FY08. Commitment and financial fees were $14 million lower than in FY08. Recoveries of interest on loans being removed from non-accrual status, net of reversals of income on loans being placed in nonaccrual status, were $2 million higher in FY09 as compared to FY08. Income from IFC's participation notes, over and above minimum contractual interest, was $3 million lower in FY09 than in FY08. Unrealized losses on loans accounted for at fair value were $44 million higher than in FY08.

INCOME FROM EQUITY INVESTMENTS

Income from the equity investment portfolio decreased by $1,730 million from income of $1,688 million in FY08 to a loss of $42 million in FY09.

IFC generated realized gains on equity investments, including recoveries of previously written-off equity investments and net of losses on sales of equity investments, for FY09 of $990 million, as compared with $1,219 million for FY08, a decrease of $229 million. IFC sells equity investments where IFC's developmental role was complete, and where pre-determined sales trigger levels had been met and, where applicable, expiration of lock ups.

[8] Also referred to as general provisions.

A significant portion of these gains ($381 million) were realized during the last three months of FY09 as IFC took advantage of the overall recovery in emerging markets during the fourth quarter of FY09.

Total realized gains on equity investments are concentrated – in FY09, 9 investments generated individual capital gains in excess of $20 million for a total of $723 million, or 73%, of the FY09 gains, compared to 15 investments that generated individual capital gains in excess of $20 million for a total of $863 million, or 62%, of the FY08 gains.

Dividend income totaled $311 million, as compared with $428 million in FY08. Consistent with FY08, a significant amount of IFC's dividend income in FY09 was due to returns on IFC's joint ventures in the oil, gas and mining sectors accounted for under the cost recovery method, which totaled $56 million in FY09, as compared with $59 million in FY08.

Unrealized losses on equity investments that are accounted for at fair value through net income in FY09 totaled $299 million, as compared with gains of $12 million in FY08. Consistent with overall trends in emerging markets, IFC reported unrealized losses in the first nine months of FY09 of $353 million and unrealized gains in the last three months of FY09 of $54 million.

INCOME FROM DEBT SECURITIES

Income from debt securities decreased to $71 million in FY09 from $163 million in FY08, a decrease of $92 million. The majority of the decrease was attributable to lower realized gains on sales of debt securities in FY09 when compared with FY08. Realized gains on debt securities were $96 million lower in FY09 as compared to FY08. There was one individually significant realized gain in FY08 that did not recur in FY09.

PROVISION FOR LOSSES ON LOANS AND GUARANTEES

As noted above, the quality of IFC's loan portfolio, as measured by country risk ratings and credit risk ratings deteriorated during FY09 as a result of worsening economic conditions. Loan performance, however, remained solid with non-performing loans as a percentage of the disbursed loan portfolio increasing marginally from 2.4% of the disbursed loan portfolio at June 30, 2008 to 2.7% of the disbursed loan portfolio at June 30, 2009. As a result, IFC recorded a provision for losses on loans and guarantees of $438 million in FY09 ($109 million in specific provisions, $332 million in portfolio provisions, and $(3) million in respect of guarantees) as compared to $38 million in FY08 ($(34) million in specific provisions, $71 million of portfolio provisions and $1 million in respect of guarantees). On June 30, 2009, IFC's total reserves against losses on loans were 7.4% of the disbursed loan portfolio (5.5% at June 30, 2008).

INCOME FROM LIQUID ASSET TRADING ACTIVITIES

Income from liquid asset trading activities comprises interest from time deposits and securities, net gains and losses on trading activities, and a small currency translation effect. The liquid assets portfolio, net of derivatives and securities lending activities, increased from $14.6 billion at June 30, 2008, to $17.9 billion at June 30, 2009.

Income from liquid asset trading activities totaled $474 million in FY09 ($473 million in FY08). In both FY09 and FY08, the P1, P2, P3 and P4 portfolios underperformed their respective benchmarks and the P0 portfolio outperformed its benchmark. As in FY08, the main cause of the underperformances when compared to benchmark in FY09 was the poor performance of the holdings of ABS and MBS.

Negative income on the ABS and MBS portfolio in FY09 was more than offset by positive income from the cash and treasury security portfolio. Increased risk aversion led to lower treasury yields and price appreciation on the treasury portfolio. In addition to interest income of $510 million, holdings of treasury securities showed $334 million of gains in FY09 and the portfolio of ABS and MBS suffered further mark-to-market declines in the first nine months of FY09 but rebounded during FY09 Q4 and after seven consecutive quarters of losses, the Corporation recorded gains of $177 million in the fourth quarter of FY09. Overall, fair value losses on ABS and MBS totaled $368 million in FY09. All holdings in the liquid asset portfolio paid on schedule in FY09. At June 30, 2009, trading securities with a fair value of $856 million are classified as Level 3 ($319 million on June 30, 2008).

The P1 portfolio generated a return of $130 million in FY09, a return of 0.53%. In FY08, the P1 portfolio generated a return of $(10) million, or (0.06)%. The externally managed P3 portfolio, managed against the same variable rate benchmark as the P1 portfolio, returned $(2) million in FY09, or 0.65%, $32 million lower than the $30 million, or 3.13%, return in FY08.

The P2 and externally-managed P4 portfolios returned $293 million (5.87%) and $25 million (6.40%) in FY09, respectively, as compared to $332 million (5.71%) and $13 million (2.90%) in FY08.

IFC's P0 portfolio earned $28 million in FY09, a total return of 1.70%, as compared to $73 million (4.44%) in FY08.

Income from IFC's P6 local currency liquidity portfolio totaled $42 million in FY09 ($35 million in FY08).

CHARGES ON BORROWINGS

IFC's charges on borrowings decreased by $294 million, from $782 million in FY08 to $488 million in FY09, largely reflecting the decreased US dollar interest rate environment, when comparing FY09 and FY08. During FY09, IFC bought back $1.05 billion of its market borrowings. Charges on borrowings of $488 million in FY09 ($782 million in FY08) are reported net of gains on buybacks of $61 million ($2 million in FY08). The weighted average cost of IFC's borrowings outstanding from market sources, after the effects of borrowing-related derivatives, fell during the year from 2.8% at June 30, 2008 to 1.4% at June 30, 2009. The size of the borrowings portfolio, net of borrowing-related derivatives and before fair value adjustments, increased by $6.2 billion in FY09 from $19.6 billion at June 30, 2008, to $25.8 billion at June 30, 2008.

OTHER INCOME

Other income of $153 million for FY09 was $40 million higher than in FY08 ($113 million). Other income in FY09 includes income from the P6 local currency liquidity portfolio of $42 million, which, in FY08, was reported in income from liquid assets trading activities.

OTHER EXPENSES

Administrative expenses (the principal component of other expenses) increased by $33 million (6%) from $549 million in FY08 to $582 million in FY09, principally reflecting the significant increase in business volumes anticipated at the beginning of FY09 and associated Board-approved administrative budget increases, which were offset in part by cost controls put in place by IFC as the global financial crisis worsened. Administrative expenses include the grossing-up effect of certain revenues and expenses attributable to IFC's reimbursable program and jeopardy projects ($31 million in FY09, as compared with $33 million in FY08). IFC recorded an expense from pension and other postretirement benefit plans in FY09 of $34 million, as compared with $3 million in FY08.

EXPENDITURES FOR ADVISORY SERVICES

Expenditures for advisory services in FY09 totaled $129 million, $6 million or 5% higher than expenditures for advisory services of $123 million in FY08. The increase reflects the continued growth in demand for IFC's advisory services.

PERFORMANCE-BASED GRANTS AND IFC SME VENTURES FOR IDA COUNTRIES

Expenditures were $6 million in FY09 ($27 million in FY08).

NET GAINS AND LOSSES ON OTHER NON-TRADING FINANCIAL INSTRUMENTS

As discussed in more detail in Note A to IFC's FY09 consolidated financial statements, IFC accounts for certain financial instruments at fair value with unrealized gains and losses on such financial instruments being reported in net income, namely: (i) all swapped market borrowings; and (ii) all equity investments in which IFC has greater than 20% holdings and/or equity and fund investments which, in the absence of an election of fair value accounting, would be required to be accounted for under the equity method. All other non-trading derivatives, including stand-alone and embedded derivatives in the loan, equity and debt security portfolios continue to be accounted for at fair value.

The resulting effects of fair value accounting for these non-trading financial instruments on net income in FY09 and FY08 can be summarized as follows (US$ millions):

	FY09	FY08
Unrealized gains on market borrowings and associated derivatives, net	**$ 381**	$ 17
Unrealized (losses) gains on derivatives associated with loans	**(83)**	8
Unrealized gains (losses) on derivatives associated with debt securities	**1**	(2)
Net gains on derivatives associated with equity investments	**153**	86
Net gains on other non-trading financial instruments accounted for at fair value	**$ 452**	**$ 109**

The largest component of net gains and losses on other financial instruments in FY09 was on market borrowings and associated derivatives. Changes in fair value of IFC's market borrowings and associated derivatives, net includes the impact of changes in IFC's own credit spread when measured against US$ LIBOR. As credit spreads widen, unrealized gains are recorded and when credit spreads narrow, unrealized losses are recorded (notwithstanding the impact of other factors, such as changes in risk-free interest and foreign currency exchange rates). The magnitude and direction (gain or loss) can be volatile from period to period but do not alter the cash flows. IFC's policy is to generally match currency, amount and timing of cash flows on market borrowings with cash flows on associated derivatives entered into contemporaneously.

Prior to FY09, IFC's own credit spread had been relatively stable at sub-LIBOR rates – as such, there was no significant reported volatility associated with fair valuing IFC's market borrowings and associated derivatives. Beginning in the second quarter of FY09 and extending into the third quarter of FY09 as the global financial crisis worsened, IFC's own credit spreads, consistent with all supranationals and other triple-A rated institutions widened considerably but narrowed somewhat during the fourth quarter, although remaining LIBOR-plus at June 30, 2009. As a result, IFC reported a credit to net income for FY09 of $381 million, as compared to $17 million in FY08.

IFC reported a net gain on derivatives associated with equity investments (principally put options, stock options, conversion features and warrants) of $153 million in FY09. As emerging markets equities declined in FY09, IFC's put options, stock warrants, and conversion features entered into in part as an exit strategy became more valuable, resulting in unrealized net gains. Such gains are highly concentrated, with five derivatives accounting for $105 million of gains and five derivatives accounting for $55 million of losses in FY09 (five derivatives accounting for $103 million, or 94%, of the gains in FY08).

GRANTS TO IDA

During FY09, IFC recorded a grant to IDA of $450 million, as compared with $500 million in FY08.

OTHER COMPREHENSIVE INCOME

UNREALIZED GAINS AND LOSSES ON EQUITY INVESTMENTS AND DEBT SECURITIES

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

During the first nine months of FY09, IFC recorded a charge to OCI in the amount of $2,077 million relating to equity investments and debt securities as global emerging markets experienced significant declines. In the fourth quarter of FY09, as emerging markets rallied, IFC recorded a credit to OCI in the amount of $432 million, resulting in a full year charge to OCI in the amount of $1,645 million in respect of equity investments and debt securities.

The net change in unrealized gains and losses on equity investments and debt securities in OCI can be summarized as follows:

	FY09	FY08
Net unrealized losses on equity investments arising during the year:		
Unrealized gains	**$ 180**	$ 694
Unrealized losses	**(1,294)**	(602)
Reclassification adjustment for realized gains and impairment write-downs included in net income	**(357)**	(570)
Net unrealized losses on equity investments	**$ (1,471)**	$ (478)
Net unrealized (losses) gains on debt securities arising during the year		
Unrealized gains	**$ 57**	$ 232
Unrealized losses	**(294)**	(106)
Reclassification adjustment for realized gains, non credit-related portion of impairment write-downs which were recognized in net income and impairment write-downs included in net income	**63**	(104)
Net unrealized (losses) gains on debt securities	**$ (174)**	$ 22
Total unrealized (losses) gains on equity investments and debt securities	**$ (1,645)**	$ 456

UNRECOGNIZED NET ACTUARIAL GAINS AND LOSSES AND UNRECOGNIZED PRIOR SERVICE COSTS ON BENEFIT PLANS

Changes in the funded status of pension and other postretirement benefit plans are recognized in OCI, to the extent they are not recognized in net income under periodic benefit cost for the year. During FY09, IFC experienced a decrease in the current value adjustment for unrecognized net periodic pension cost of $346 million, primarily reflecting lower fair value of plan assets, with a lower relative decline in projected benefit obligation.

VIII. GOVERNANCE

MANAGEMENT CHANGES
During FY10, the following changes occurred in the senior management of IFC:

Mr. Gavin E.R. Wilson was appointed CEO, IFC Asset Management Company LLC, effective July 1, 2009 and became a part of IFC's Management Team effective September 30, 2009.

Mr. Janamitra Devan was appointed Vice President, Financial and Private Sector Development, effective October 19, 2009.

Mr. Rashad Kaldany's title became Vice President, Asia, Eastern Europe, Middle East and North Africa, effective February 1, 2010.

Mr. Jyrki Koskelo's title became Vice President, Global Industries, effective February 1, 2010.

Mr. Thierry Tanoh's title became Vice President, Sub-Saharan Africa, Latin America and the Caribbean, and Western Europe, effective February 1, 2010.

Subsequent to June 30, 2010, the following changes are expected to occur, in the senior management of IFC:

Ms. Nina Shapiro has announced her intention to retire as Vice President, Finance and Treasurer, effective September 30, 2010.

Mr. Michel G. Maila has announced his intention to step down from his duties as Vice President, Risk Management, effective September 15, 2010.

GENERAL GOVERNANCE
IFC's decision-making structure is comprised of the Board of Governors, the Board of Directors, the President, the Executive Vice President and CEO, other Officers and Staff. The Board of Governors is the highest decision-making authority. The Board of Governors has delegated to the Board of Directors authority to exercise all of the powers of IFC except those reserved to the Governors under the Articles of Agreement.

BOARD MEMBERSHIP
In accordance with its Articles of Agreement, members of IFC's Board are appointed or elected by their member governments. These Directors are neither officers nor staff of IFC. The President is the only management member of the Board, serving as a non-voting member and as Chairman of the Board.

The Board has established several Committees including:

- Committee on Development Effectiveness
- Audit Committee
- Budget Committee
- Personnel Committee
- Ethics Committee
- Committee on Governance and Administrative Matters

The Board and its Committees function in continuous session at the principal offices of the World Bank Group, as business requires. Each Committee's terms of reference establishes its respective roles and responsibilities. As Committees do not vote on issues, their role is primarily to serve the full Board in discharging its responsibilities.

The Board of Directors is responsible for the conduct of the general operations of IFC. The Directors are also responsible for presenting to the Board of Governors, at the Annual meetings, an audit of accounts, an administrative budget, and an annual report on operations and policies as well as other matters.

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

KEY RESPONSIBILITIES
The Audit Committee is appointed by the Board to assist it in the oversight and assessment of IFC's finances and accounting, including the effectiveness of financial policies, the integrity of financial statements, the system of internal controls regarding finance, accounting and ethics (including fraud and corruption), and financial and operational risks. The Audit Committee also has the responsibility for reviewing the performance and recommending to the Board the appointment of the external auditor, as well as monitoring the independence of the external auditor. The Audit Committee participates in oversight of the internal audit function and reviews the annual internal audit plan and meets with the Auditor General in executive session. In the execution of its role, the Audit Committee discusses with management, the external auditors, and the internal auditors, financial issues and policies, which have a bearing on IFC's financial position and risk-bearing capacity. The Committee also reviews with the external auditor the financial statements prior to their publication and recommends them for approval of the Board of Directors. The Audit Committee updated its terms of reference in July 2009.

EXECUTIVE SESSIONS
Under the Committee's Terms of Reference, members of the Committee may convene in executive session at any time, without management present. The Committee meets separately in executive session with the external and internal auditors.

ACCESS TO RESOURCES AND TO MANAGEMENT

Throughout the year, the Audit Committee receives a large volume of information, which supports the preparation of the financial statements. The Audit Committee meets both formally and informally throughout the year to discuss relevant matters. Directors have complete access to management. The Audit Committee reviews and discusses with management topics contemplated in their Terms of Reference.

The Audit Committee has the capacity, under exceptional circumstances, to obtain advice and assistance from outside legal, accounting or other advisors as deemed appropriate.

Staff members' ethical obligations to the institution are embodied in its core values and principles of staff employment. In support of this commitment, the institution has in place a code of conduct, entitled Living our Values (the Code). The Code applies to all staff worldwide and is available on IBRD's Web site, www.worldbank.org.

In addition to the Code, Staff and Administrative Manuals, guidance for staff is also provided through programs, training materials, and other resources. Managers are responsible for ensuring that internal systems, policies, and procedures are consistently aligned with the World Bank Group's business conduct framework.

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

The World Bank Group has both an Ethics HelpLine and a Fraud and Corruption hotllne. A third-party service offers numerous methods of world wide communication. Other reporting channels include phone, email, anonymously, or through confidential submission through a website.

The World Bank Group's Staff Rules clarify and codify the obligations of staff in reporting suspected fraud, corruption or other misconduct that may threaten operations or governance of the World Bank Group. Additionally, these rules offer protection from retaliation.

AUDITOR INDEPENDENCE

The appointment of the external auditor of IFC is governed by a set of Board-approved principles. Key features of those principles include:

- Prohibition of the external auditor from the provision of all non audit-related services;
- All audit-related services must be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee;
- Mandatory rebidding of the external audit contract every five years;

External auditors are appointed to a five-year term of service. This is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board.

CONSOLIDATED FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS

June 30, 2010

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International Finance Corporation
World Bank Group

August 5, 2010

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

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

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

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

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

IFC assessed its internal control over external financial reporting for financial statement presentation in conformity with US GAAP as of June 30, 2010. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IFC maintained effective internal control over external financial reporting presented in conformity with US

GAAP, as of June 30, 2010. The independent audit firm that audited the consolidated financial statements has issued an attestation report on management's assertion on IFC's internal control over external financial reporting.

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

Robert B. Zoellick
President

Lars H. Thunell
Executive Vice President and CEO

Michel G. Maila
Vice President, Risk Management

Bernard Lauwers
Controller and Director

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

President and Board of Directors
International Finance Corporation:

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the International Finance Corporation (IFC) maintained effective internal control over financial reporting as of June 30, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Commission of Sponsoring Organizations of the Treadway Commission (COSO). IFC's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

In our opinion, management's assertion that IFC maintained effective internal control over financial reporting as of June 30, 2010 is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Commission of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying consolidated balance sheets of IFC as of June 30 2010 and 2009, including the consolidated statement of capital stock and voting power as of June 30, 2010, and the related consolidated income statements and statements of comprehensive income, changes in capital, and cash flows for each of the years in the two-year period ended June 30, 2010, and our report dated August 5, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

August 5, 2010

CONSOLIDATED BALANCE SHEETS

as of June 30, 2010 and June 30, 2009

(US$ millions)

	2010	2009
Assets		
Cash and due from banks	$ 528	$ 380
Time deposits	5,435	3,877
Trading securities - Notes C and R	23,428	20,243
Securities purchased under resale agreements	539	544
Investments - Notes B, D, E, F, R and U		
Loans ($450 - June 30, 2010 and $386 - June 30, 2009 at fair value) (net of reserves against losses of $1,349 - June 30, 2010 and $1,238 - June 30, 2009) - Notes D, E and R	16,660	15,328
Equity investments ($4,918 - June 30, 2010 and $3,243 - June 30, 2009 at fair value) - Notes B, D and R	7,469	5,344
Debt securities - Notes D, F and R	1,815	1,542
Total investments	25,944	22,214
Derivative assets - Notes Q and R	2,688	2,195
Receivables and other assets - Note J	2,513	2,030
Total assets	**$ 61,075**	**$ 51,483**
Liabilities and capital		
Liabilities		
Securities sold under repurchase agreements and payable for cash collateral received	$ 8,393	$ 6,388
Borrowings outstanding - Notes K and R		
From market sources at amortized cost	1,851	399
From market sources at fair value	29,205	25,261
From International Bank for Reconstruction and Development at amortized cost	50	51
Total borrowings	31,106	25,711
Derivative liabilities - Notes Q and R	1,140	1,553
Payables and other liabilities - Note L	2,077	1,709
Total liabilities	42,716	35,361
Capital		
Capital stock, authorized 2,450,000 shares of $1,000 par value each - Note M		
Subscribed and paid-in	2,369	2,369
Accumulated other comprehensive income - Note O	1,202	711
Retained earnings - Note O	14,788	13,042
Total capital	18,359	16,122
Total liabilities and capital	**$ 61,075**	**$ 51,483**

CONSOLIDATED INCOME STATEMENTS

for each of the three years ended June 30, 2010

(US$ millions)

	2010	2009	2008
Income from investments			
Income from loans and guarantees - Note E	$ 801	$ 871	$ 1,065
Provision for losses on loans and guarantees - Note E	(155)	(438)	(38)
Income (loss) from equity investments - Note G	1,638	(42)	1,688
Income from debt securities - Note F	108	71	163
Income from investments	**2,392**	**462**	**2,878**
Income from liquid asset trading activities - Note C	815	474	473
Charges on borrowings - Note K	(163)	(488)	(782)
Income from investments and liquid asset trading activities, after charges on borrowings	**3,044**	**448**	**2,569**
Other income			
Service fees	70	39	58
Other – Notes B and N	106	114	55
Total other income	**176**	**153**	**113**
Other expenses			
Administrative expenses - Note W	(664)	(582)	(549)
Expense from pension and other postretirement benefit plans - Note V	(69)	(34)	(3)
Other – Note B	(10)	(13)	(3)
Total other expenses	**(743)**	**(629)**	**(555)**
Foreign currency transaction (losses) gains on non-trading activities	(82)	10	(39)
Expenditures for advisory services - Note O	(101)	(129)	(123)
Expenditures for performance-based grants and for IFC SME Ventures for IDA countries - Note O	(9)	(6)	(27)
Income (loss) before net (losses) gains on other non-trading financial instruments accounted for at fair value and grants to IDA	**2,285**	**(153)**	**1,938**
Net (losses) gains on other non-trading financial instruments accounted for at fair value - Note P	(339)	452	109
Income before grants to IDA	**1,946**	**299**	**2,047**
Grants to IDA - Note O	(200)	(450)	(500)
Net income (loss)	**$ 1,746**	**$ (151)**	**$ 1,547**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for each of the three years ended June 30, 2010

(US$ millions)

	2010	2009	2008
Net income (loss)	**$ 1,746**	**$ (151)**	**$ 1,547**
Other comprehensive income (loss)			
Net unrealized gains (losses) on debt securities arising during the year	120	(237)	126
Less: reclassification adjustment for realized gains included in net income	(14)	(6)	(81)
Less: reclassification adjustment for non-monetary exchanges included in net income	(32)	(2)	(23)
Less: reclassification adjustment for non credit-related portion of impairment write-downs which were recognized in net income	-	(34)	-
Add: reclassification adjustment for impairment write-downs included in net income	3	105	-
Net unrealized gains (losses) on debt securities	77	(174)	22
Net unrealized gains (losses) on equity investments arising during the year	919	(1,114)	92
Less: reclassification adjustment for realized gains included in net income	(390)	(810)	(570)
Add: reclassification adjustment for impairment write-downs included in net income	77	453	-
Net unrealized gains (losses) on equity investments	606	(1,471)	(478)
Unrecognized net actuarial gains (losses) and unrecognized prior service credits (costs) on benefit plans	(192)	(346)	(206)
Total other comprehensive income (loss)	**491**	**(1,991)**	**(662)**
Total comprehensive income (loss)	**$ 2,237**	**$ (2,142)**	**$ 885**

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

for each of the three years ended June 30, 2010

(US$ millions)

	Retained earnings					
	Undesignated	Designated	Total	Accumulated other comprehensive income - Note O	Capital stock †	Total capital
At July 1, 2007 …………………………..	$ **11,039**	$ **606**	$ **11,645**	$ **3,365**	$ **2,365**	$ **17,375**
Year ended June 30, 2008						
Net income……………………………..	1,547		1,547			1,547
Other comprehensive loss.................				(662)		(662)
Expenditures against designated retained earnings - Note O………..	650	(650)	-			-
Designations of retained earnings - Note O………..	(870)	870	-			-
Payments received for capital stock subscribed…………..			-		1	1
At June 30, 2008………………………….$	**12,366**	$ **826**	$ **13,192**	$ **2,703**	$ **2,366**	$ **18,261**
Cumulative effect of adoption of FSP FAS 115-2 - Note O…..	1		1	(1)		-
At June 30, 2008 after cumulative effect adjustments……………………$	**12,367**	$ **826**	$ **13,193**	$ **2,702**	$ **2,366**	$ **18,261**
Year ended June 30, 2009						
Net loss…………………………………	(151)		(151)			(151)
Other comprehensive loss.................				(1,991)		(1,991)
Expenditures against designated retained earnings - Note O………..	585	(585)	-			-
Designations of retained earnings - Note O………..	(550)	550	-			-
Payments received for capital stock subscribed…………..			-		3	3
At June 30, 2009………………………..	$ **12,251**	$ **791**	$ **13,042**	$ **711**	$ **2,369**	$ **16,122**
Year ended June 30, 2010						
Net income…………………………….	1,746		1,746			1,746
Other comprehensive income...........				491		491
Expenditures against designated retained earnings - Note O………..	310	(310)	-			-
At June 30, 2010………………………..	$ **14,307**	$ **481**	$ **14,788**	$ **1,202**	$ **2,369**	$ **18,359**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

for each of the three years ended June 30, 2010

(US$ millions)

	2010	2009	2008
Cash flows from investing activities			
Loan disbursements	$ (4,907)	$ (4,356)	$ (5,076)
Investments in equity securities	(1,617)	(1,153)	(1,622)
Investments in debt securities	(269)	(131)	(952)
Loan repayments	3,016	2,274	2,658
Equity redemptions	1	4	29
Debt securities repayments	92	31	15
Sales of loans	11	-	59
Sales of equity investments	1,633	1,382	1,590
Sales of debt securities	13	8	155
Net cash used in investing activities	**(2,027)**	**(1,941)**	**(3,144)**
Cash flows from financing activities			
Medium and long-term borrowings			
New issues	8,566	8,980	6,024
Retirement	(5,819)	(3,017)	(2,210)
Medium and long-term borrowings related derivatives, net	261	117	154
Short-term borrowings, net	1,404	-	-
Capital subscriptions	-	3	1
Net cash provided by financing activities	**4,412**	**6,083**	**3,969**
Cash flows from operating activities			
Net income (loss)	1,746	(151)	1,547
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Realized gains on debt securities and gains on non-monetary exchanges	(46)	(8)	(104)
Realized gains on equity investments and gains on non-monetary exchanges	(1,318)	(1,004)	(1,396)
Unrealized (gains) losses on loans accounted for at fair value under the Fair Value Option	(42)	62	18
Unrealized gains on debt securities accounted for at fair value under the Fair Value Option	(23)	-	-
Unrealized (gains) losses on equity investments accounted for at fair value under the Fair Value Option	(240)	299	(12)
Provision for losses on loans and guarantees	155	438	38
Impairment losses on debt securities	3	8	-
Equity investment impairment write-downs	203	1,058	140
Net discounts paid on retirement of borrowings	(7)	(17)	(5)
Net realized gains on extinguishment of borrowings	(62)	(61)	(2)
Foreign currency transaction losses (gains) on non-trading activities	82	(10)	39
Net losses (gains) on other non-trading financial instruments accounted for at fair value	339	(452)	(109)
Change in accrued income on loans, time deposits and securities	(37)	(21)	(38)
Change in payables and other liabilities	634	(3,210)	(1,742)
Change in receivables and other assets	(162)	2,705	1,129
Change in trading securities and securities purchased and sold under resale and repurchase agreements	(2,085)	(8,156)	2,990
Net cash (used in) provided by operating activities	**(860)**	**(8,520)**	**2,493**
Change in cash and cash equivalents	1,525	(4,378)	3,318
Effect of exchange rate changes on cash and cash equivalents	181	(127)	83
Net change in cash and cash equivalents	1,706	(4,505)	3,401
Beginning cash and cash equivalents	4,257	8,762	5,361
Ending cash and cash equivalents	**$ 5,963**	**$ 4,257**	**$ 8,762**
Composition of cash and cash equivalents			
Cash and due from banks	$ 528	$ 380	$ 344
Time deposits	5,435	3,877	8,418
Total cash and cash equivalents	**$ 5,963**	**$ 4,257**	**$ 8,762**

CONSOLIDATED STATEMENTS OF CASH FLOWS

for each of the three years ended June 30, 2010

(US$ millions)

	2010	2009	2008
Supplemental disclosure			
Change in ending balances resulting from currency exchange rate fluctuations:			
Loans outstanding	$ (267)	$ (535)	$ 421
Debt securities	59	(131)	85
Borrowings	(411)	414	(725)
Borrowing-related currency swaps	410	(391)	679
Loan and debt security-related currency swaps	128	702	(494)
Client risk management-related currency swaps	(1)	2	-
Charges on borrowings paid, net	$ 209	$ 527	$ 827
Non-cash item:			
Loan and debt securities conversion to equity, net	$ 172	$ 41	$ 109

CONSOLIDATED STATEMENT OF CAPITAL STOCK AND VOTING POWER

as of June 30, 2010

(US$ thousands)

	Capital stock		Voting power	
Members	Amount paid	Percent of total	Number of votes	Percent of total
Afghanistan	$ 111	*	361	0.01
Albania	1,302	0.05	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	0.38
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	0.04
Burundi	100	*	350	0.01
Cambodia	339	0.01	589	0.02
Cameroon	885	0.04	1,135	0.05
Canada	81,342	3.43	81,592	3.38
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	0.49	11,960	0.50
China	24,500	1.03	24,750	1.02
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	5.11	121,265	5.02
Gabon	1,268	0.05	1,518	0.06
Gambia, The	94	*	344	0.01
Georgia	1,380	0.06	1,630	0.07
Germany	128,908	5.44	129,158	5.35
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	3.43	81,592	3.38
Indonesia	28,539	1.20	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	3.43	81,592	3.38
Jamaica	4,282	0.18	4,532	0.19
Japan	141,174	5.96	141,424	5.86
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
Kosovo	1,454	0.06	1,704	0.07
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

	Capital stock		Voting power	
Members	Amount paid	Percent of total	Number of votes	Percent of total
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	1.16	27,839	1.15
Micronesia, Fed. States of	744	0.03	994	0.04
Moldova	1,192	0.05	1,442	0.06
Mongolia	144	0.01	394	0.02
Montenegro	1,035	0.04	1,285	0.05
Morocco	9,037	0.38	9,287	0.38
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	2.33
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	0.91	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
Qatar	1,650	0.07	1,900	0.08
Romania	2,661	0.11	2,911	0.12
Russian Federation	81,342	3.43	81,592	3.38
Rwanda	306	0.01	556	0.02
Samoa	35	*	285	0.01
Sao Tome and Principe	439	0.02	689	0.03
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	0.19
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	1.56	37,276	1.54
Sri Lanka	7,135	0.30	7,385	0.31
St. Kitts and Nevis	638	0.03	888	0.04
St. Lucia	74	*	324	0.01
Sudan	111	*	361	0.01
Swaziland	684	0.03	934	0.04
Sweden	26,876	1.13	27,126	1.12
Switzerland	41,580	1.75	41,830	1.73
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	0.61	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	5.11	121,265	5.02
United States	569,379	24.03	569,629	23.59
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	1.16	27,838	1.15
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, 2010	$ 2,369,396	100.00+	2,414,896	100.00+
Total June 30, 2009	$ 2,369,396	100.00+	2,414,896	100.00+

* Less than .005 percent.
+ May differ from the sum of the individual percentages shown because of rounding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PURPOSE

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

The consolidated financial statements include the financial statements of IFC, three subsidiaries, and three variable interest entities (VIEs) (see Notes B and U). The accounting and reporting policies of IFC conform with accounting principles generally accepted in the United States of America (US GAAP). On August 5, 2010, 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.

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

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

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

Fair Value Option and Fair Value Measurements – IFC has adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC 820) (formerly Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements)* and the Fair Value Option subsections of ASC Topic 825, *Financial Instruments* (ASC 825 or the Fair Value Option) (formerly SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities)*. ASC 820 defines fair value, establishes a framework for measuring fair value and a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels and applies to all items measured at fair value, including items for which impairment measures are based on fair value. ASC 825 permits the measurement of eligible financial assets, financial liabilities and firm commitments at fair value on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at fair value under other accounting standards. The election to use the Fair Value Option is available when an entity first recognizes a financial asset or liability or upon entering into a firm commitment.

The Fair Value Option

IFC has elected the Fair Value Option for the following financial assets and financial liabilities existing at the time of adoption of ASC 820 and subsequently entered into:

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

All borrowings for which the Fair Value Option has been elected are associated with existing derivative instruments used to create a fair value-like or cash flow-like hedge relationship. Measuring at fair value those borrowings for which the Fair Value Option has been elected at fair value mitigates the earnings volatility caused by measuring the borrowings and related derivative differently (in the absence of a designated accounting hedge) without having to apply ASC 815's complex hedge accounting requirements. The Fair Value Option was not elected for all borrowings from IBRD and all other market borrowings because such borrowings fund assets with similar characteristics.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In addition, IFC has elected the Fair Value Option for certain hybrid instruments in the investment portfolio.

Fair Value Measurements

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

Upon the adoption of ASC 820, and pursuant to ASC 830, IFC now reports equity investments that are listed in markets that provide readily determinable fair values at fair value, with unrealized gains and losses being reported in other comprehensive income.

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

Level 1 primarily consists of financial instruments whose values are based on unadjusted quoted market prices. It includes IFC's equity investments which are listed in markets that provide readily determinable fair values, government issues and money market funds in the liquid assets portfolio, and market borrowings that are listed on exchanges.

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

Level 3 consists of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are non-observable. It also includes financial instruments whose fair value is estimated based on price information from independent sources that cannot be corroborated by observable market data. Level 3 includes equity investments that are not listed in markets that provide readily determinable fair values, all loans for which IFC has elected the Fair Value Option, all of IFC's debt securities in the investment portfolio, and certain hard-to-price securities in the liquid assets portfolio.

Translation of currencies – Assets and liabilities not denominated in US dollars, other than disbursed equity investments, are expressed in US dollars at the exchange rates prevailing at June 30, 2010 and June 30, 2009. Disbursed equity investments, other than those accounted for at fair value, are expressed in US dollars at the prevailing exchange rates at the time of disbursement. Income and expenses are recorded based on the rates of exchange prevailing at the time of the transaction. Transaction gains and losses are credited or charged to income.

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

Certain loans are carried at fair value in accordance with the Fair Value Option as discussed above. Unrealized gains and losses on loans accounted for at fair value under the Fair Value Option are reported in income from loans and guarantees on the consolidated income statement.

IFC enters into loans with income participation, prepayment and conversion features; these features are bifurcated and separately accounted for in accordance with ASC 815 if they meet the definition of a derivative, are not considered to be clearly and closely related to their host loan contracts and their host loan contracts are not accounted for at fair value through net income. Otherwise, these features are accounted for as part of their host loan contracts in accordance with IFC's accounting policies for loans as indicated herein.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Revenue recognition on equity investments – Equity investments which are listed in markets that provide readily determinable fair values are accounted for as available-for-sale securities at fair value with unrealized gains and losses being reported in other comprehensive income in accordance with ASC Topic 320, *Investments - Debt and Equity Securities* (ASC 320) (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). As noted above under "Fair Value Option and Fair Value Measurements", direct equity investments in which IFC has significant influence, direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence and certain investments in LLPs and LLCs that maintain specific ownership accounts are accounted for at fair value under the Fair Value Option. Direct equity investments in which IFC does not have significant influence and which are not listed in markets that provide readily determinable fair values are carried at cost less impairment.

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Certain debt securities are carried at fair value in accordance with the Fair Value Option as discussed above. Unrealized gains and losses on debt securities accounted for at fair value under the Fair Value Option are reported in income from debt securities on the consolidated income statement.

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

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

Debt securities in the investment portfolio are assessed for impairment each quarter. Beginning April 1, 2009, when impairment is identified, the entire impairment is recognized in net income if (1) IFC intends to sell the security, (2) it is more likely than not that IFC will be required to sell the security before recovery, or (3) IFC does not expect to recover the entire amortized cost basis of the security. However, if IFC does not intend to sell the security and it is not more likely than not that IFC will be required to sell the security but the security has suffered a credit loss, the impairment charge will be separated into the credit loss component, which is recognized in net income, and the remainder which is recorded in other comprehensive income. The impaired value becomes the new amortized cost basis of the debt security. Subsequent increases and decreases - if not an additional other-than-temporary impairment - in the fair value of debt securities are included in other comprehensive income.

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

Prior to April 1, 2009, an identified impairment was generally deemed to be other-than-temporary unless IFC was able to demonstrate it had the ability and intent to hold the debt security for the period for which recovery was anticipated. Debt securities that were impaired and for which the impairment was deemed to be other than temporary were written down to the impaired value, which became the new cost basis in the debt security. Other-than-temporary impairments were recognized in net income.

Guarantees – IFC extends financial guarantee facilities to its clients to provide credit enhancement for their debt securities and trade obligations. IFC offers partial credit guarantees to clients covering, on a risk-sharing basis, client obligations on bonds and/or loans. Under the terms of IFC's guarantees, IFC agrees to assume responsibility for the client's financial obligations in the event of default by the client (i.e., failure to pay when payment is due). Guarantees are regarded as issued when IFC commits to the guarantee. Guarantees are regarded as outstanding when the underlying financial obligation of the client is incurred, and this date is considered to be the "inception" of the guarantee. Guarantees are regarded as called when IFC's obligation under the guarantee has been invoked. There are two liabilities associated with the guarantees: (1) the stand-ready obligation to perform and (2) the contingent liability. The fair value of the stand-ready obligation to perform is recognized at the inception of the guarantee unless a contingent liability exists at that time or is expected to exist in the near term. The contingent liability associated with the financial guarantee is recognized when it is probable the guarantee will be called and when the amount of guarantee called can be reasonably estimated. All liabilities associated with guarantees are included in payables and other liabilities, and the receivables are included in other assets on the consolidated balance sheet. When the guarantees are called, the amount disbursed is recorded as a new loan, and specific reserves against losses are established, based on the estimated probable loss. Guarantee fees are recorded in income as the stand-ready obligation to perform is fulfilled. Commitment fees on guarantees are recorded as income on an accrual basis.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Repurchase and resale agreements – Repurchase agreements are contracts under which a party sells securities and simultaneously agrees to repurchase the same securities at a specified future date at a fixed price. Resale agreements are contracts under which a party purchases securities and simultaneously agrees to resell the same securities at a specified future date at a fixed price.

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

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

Borrowings – To diversify its access to funding, and reduce its borrowing costs, IFC borrows in a variety of currencies and uses a number of borrowing structures, including foreign exchange rate-linked, inverse floating rate and zero coupon notes. Generally, IFC simultaneously converts such borrowings into variable rate US dollar borrowings through the use of currency and interest rate swap transactions. Under certain outstanding borrowing agreements, IFC is not permitted to mortgage or allow a lien to be placed on its assets (other than purchase money security interests) without extending equivalent security to the holders of such borrowings.

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

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

Risk management and use of derivative instruments – IFC enters into transactions in various derivative instruments for financial risk management purposes in connection with its principal business activities, including lending, investing in debt securities and equity investments, client risk management, borrowing, liquid asset portfolio management and asset and liability management.

All derivative instruments are recorded on the consolidated balance sheet at fair value as derivative assets or derivative liabilities. Where they are not clearly and closely related to the host contract, certain derivative instruments embedded in loans, debt securities and equity investments are bifurcated from the host contract and recorded at fair value as derivative assets and liabilities. The fair value at inception of such embedded derivatives is excluded from the carrying value of the host contracts on the consolidated balance sheet. Changes in fair values of derivative instruments used in the liquid asset portfolio are recorded in income from liquid asset trading activities. Changes in fair values of derivative instruments other than those in the liquid asset portfolio are recorded in net gains and losses on other non-trading financial instruments accounted for at fair value.

The risk management policy for each of IFC's principal business activities and the accounting policies particular to them are described below.

Lending activities IFC's policy is to closely match the currency, interest rate basis, and maturity of its loans and borrowings. Derivative instruments are used to convert the cash flows from fixed rate US dollar or non-US dollar loans into variable rate US dollars. IFC has elected not to designate any hedging relationships for 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 reported in net income in net gains and losses on other non-trading financial instruments accounted for at fair value. Fees and spreads charged on these transactions are recorded in other income in the consolidated income statement on an accrual basis.

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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 elected to carry at fair value, under the Fair Value Option, all market borrowings for which a derivative instrument is used to create a fair value-like or cash flow-like hedge relationship. Changes in the fair value of such borrowings and the associated derivatives are reported in net gains and losses on other non-trading financial instruments accounted for at fair value in the consolidated income statement.

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

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

IFC monitors the credit risk associated with these activities by careful assessment and monitoring of prospective and actual clients and counterparties. In respect of liquid assets and derivatives transactions, credit risk is managed by establishing exposure limits based on the credit rating and size of the individual counterparty. In addition, IFC has entered into master agreements 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 or cash. IFC does not offset the fair value amounts of derivatives and obligations to return cash collateral associated with these master netting agreements. As of June 30, 2010, IFC had no outstanding obligations to return cash collateral under master netting agreements.

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

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

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

The net periodic pension and other postretirement benefit income or expense allocated to IFC is included in income or expense from pension and other postretirement benefit plans in the 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 – The Variable Interest Entities Subsections of ASC Topic 810, *Consolidation* (the ASC 810 VIE Subsections), (formerly FASB Interpretation No. 46, *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51*, which was amended in December 2003, by FASB Interpretation No. 46, (revised December 2003) *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51*) defines certain variable interest entities (VIEs) and require parties to such entities to assess and measure variable interests in the VIEs for the purposes of determining possible consolidation of the VIEs. Variable interests can arise from financial instruments, service contracts, guarantees, leases or other arrangements with a VIE. An entity that will absorb a majority of a VIE's expected losses or expected residual returns is deemed to be the primary beneficiary of the VIE and must include the assets, liabilities, and results of operations of the VIE in its consolidated financial statements.

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

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Recently adopted accounting standards – In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) replaced SFAS No. 141, *Business Combinations*, but retained its fundamental requirement that the acquisition method of accounting (formerly referred to as the purchase method) be used for all business combinations and for the acquirer to be identified for each business combination. Among other things, SFAS No. 141(R) requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest in the acquiree at the acquisition date measured at their fair values, with limited exceptions. SFAS No. 141(R) requires acquisition related costs to be recognized separately from the acquisition. Acquirers in a step acquisition must recognize the identifiable assets and liabilities, as well as the full amount of the non-controlling interests in the acquiree, at the full amounts of their fair value under SFAS No. 141(R). SFAS No. 141(R) is effective prospectively to business combinations/acquisitions on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (which is the year ended June 30, 2010 for IFC) and did not have a material impact on IFC's financial position, results of operations or cash flows. Effective July 1, 2009, SFAS No. 141(R) is ASC Topic 805, *Business Combinations*.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 151* (SFAS No. 160). SFAS No. 160 clarifies that non-controlling interests in a consolidated entity should be reported as equity in the consolidated financial statements. It requires consolidated net income to be reported at amounts attributable to both the parent and the non-controlling interest and disclosure on the consolidated statement of income of the amounts of income attributable to the parent and to the non-controlling interest. SFAS No. 160 clarifies that all changes in a parent's ownership interest that do not result in loss of control are equity transactions and requires that a parent recognize gain or loss when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (which is the year ended June 30, 2010 for IFC) and did not have a material impact on IFC's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of SFAS No. 160 are included in ASC 810.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161, requires enhanced disclosures about derivatives and hedging activities to enable a better understanding of their effects on the reporting entity's financial position, financial performance, and cash flows. It is effective for the first set of financial statements for a reporting period, annual or interim, that begins after November 15, 2008, which was the three months ended March 31, 2009 for IFC. Effective July 1, 2009, the provisions of SFAS No. 161 are included in ASC 815.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in accordance with US GAAP. SFAS No. 162 was effective November 15, 2008. Adoption of SFAS No. 162 did not have a material impact on IFC's financial position, results of operations or cash flows.

On October 10, 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-3, *Determining the Fair Value of a Financial Asset When a Market for That Asset Is Not Active* (FSP FAS 157-3). FSP FAS 157-3 was effective upon its release and clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that asset is not active. FSP FAS 157-3 did not have a material impact on IFC's financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of FSP FAS 157-3 are included in ASC 820.

On September 12, 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective date of FASB Statement No. 161* (FSP FAS 133-1 and FIN 45-4). FSP FAS 133-1 and FIN 45-4 amends SFAS No. 133 to require a seller of credit derivatives, including credit derivatives embedded in hybrid instruments, to provide disclosures for each credit derivative (or group of similar credit derivatives) for each statement of financial position presented and clarifies the effective date for SFAS No. 161 (see third preceding paragraph above for effective date of SFAS No. 161). FSP FAS 133-1 and FIN 45-4 was effective for annual or interim reporting periods ending after November 15, 2008 (which was the three months ended December 31, 2008 for IFC). Effective July 1, 2009, the provisions of FSP FAS 133-1 and FIN 45-4 are included in ASC 815.

In December 2008, FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, now included in ASC 715-20, which requires additional disclosures about employer's plan assets of a defined benefit pension or other postretirement plan. This FSP is first applicable to IFC's consolidated financial statements for the year ended June 30, 2010 and has resulted in additional disclosures being made in Note V to IFC's consolidated financial statements.

On December 11, 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (FSP FAS 140-4 and FIN 46(R)-8). FSP 140-4 and FIN 46(R)-8 requires additional disclosures about transfers of financial assets and an enterprise's involvement with VIEs, including Qualifying Special Purpose Entities (QSPEs). Transferors of financial assets must disclose (1) the terms of any arrangements that could require them to provide financial or other support to a transferee (including VIEs and non-transferor QSPEs for which the transferor is the primary beneficiary, sponsor or servicer or in which the transferor has a significant variable interest) and (2) the type and amount of financial or other support provided during the period to those transferees that was not contractually required and the reasons for providing it. FSP FAS 140-4 and FIN 46(R)-8 also requires disclosure of (1) the details of any Special Purpose Entities (SPEs) involved in a transfer, including the nature, purpose, size, and activities of the SPE, and how it was financed, (2) with respect to VIEs (a) the method of determining whether an enterprise is the primary beneficiary of a VIE, including significant judgments and assumptions made, and (b) whether the consolidation conclusion has changed in the most recent financial statements, (3) with respect to QSPEs for which the enterprise is the sponsor or the servicer (a) details about the QSPE including the nature, purpose, size, and activities of the QSPE, and how it is financed, and (b) the enterprise's maximum exposure to loss as a result of its involvement with the QSPE, and (4) how servicing assets and liabilities are reported under FAS 140. FSP FAS 140-4 and FIN 46(R)-8 were effective for the first interim or fiscal reporting period ending after December 15, 2008 (which was the three months ended December 31, 2008 for IFC). Effective July 1, 2009, the provisions of FSP FAS 140-4 and FIN 46(R) are included in ASC Topic 860, *Transfers and Servicing*.

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On January 12, 2009, the FASB issued FSP EITF 99-20-1, *Amendments to Impairment Guidance of EITF Issue No. 99-20* (FSP EITF 99-20-1). FSP EITF 99-20-1 amends the impairment model in EITF 99-20 for certain investments in securitized financial assets to remove its exclusive reliance on “market participant” estimates of future cash flows used in determining fair value, thus allowing the reporting entity to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred with respect to those investments. FSP EITF 99-20-1 was effective for interim and annual reporting periods ending after December 15, 2008 (which was the three months ended December 31, 2008 for IFC) and did not have a material impact on IFC’s financial position, results of operations or cash flows. Effective July 1, 2009, FSP EITF 99-20-1 is included in ASC 325, *Investments-Other*: Subtopic 40*, Beneficial Interests in Securitized Financial Assets.*

In June 2009, the FASB Issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It sets forth the period after the balance sheet date during which events or transactions must be evaluated for recognition or disclosure, the circumstances under which events or transactions occurring after balance date should be recognized in the financial statements, and the related disclosures that should be made. SFAS No. 165 was effective for interim and annual financial statements ending after June 15, 2009 (which was the year ended June 30, 2009 for IFC). The adoption of SFAS No. 165 had no material impact on IFC’s financial position, results of operations or cash flows. Effective July 1, 2009, SFAS No. 165 is ASC Topic 855, *Subsequent Events*.

On April 9, 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Level of Activity for an Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in inactive markets and for distressed transactions. Under FSP FAS157-4, reporting entities are required to determine whether there has been a significant decrease in market activity for an asset or liability, in which case further analysis of transactions and quoted prices is needed to determine if significant adjustment is necessary to arrive at an estimate of fair value in accordance with SFAS No. 157. Reporting entities are also required to evaluate whether a transaction was orderly based on the weight of the evidence. If the transaction was orderly or the reporting entity does not have sufficient information to conclude whether the transaction was orderly, the reporting entity must consider that transaction price when estimating fair value - the amount of weight placed on that transaction price will depend on the facts and circumstance with less weight being placed on transactions where there is not sufficient information to conclude whether the transaction was orderly. If the transaction was not orderly, the reporting entity must place little, if any weight, on that transaction price. Regardless of the valuation techniques used, companies must include appropriate risk adjustments that reflect an orderly transaction between market participants under current market conditions. FSP FAS 157-4 also requires additional disclosures of the inputs and valuation techniques used to measure fair value and a discussion of any changes in those techniques. FSP FAS 157-4 was effective for the first interim or annual reporting period ending after June 15, 2009 (which was the three months ended June 30, 2009 for IFC) and must be prospectively applied. The adoption of FSP FAS 157-4 had no material impact on IFC’s financial position, results of operations or cash flows. Effective July 1, 2009, the provisions of FSP FAS 157-4 are included in ASC 820.

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* (FSP FAS 115-2 and 124-2). FSP 115-2 and 124-2 modifies the indicator of other-than-temporary impairment (OTTI) for debt securities and incorporates factors currently included in other authoritative literature into the model for determining whether a debt security is other-than-temporarily impaired. Among other things, FSP FAS115-2 and 124-2 changes the amount of OTTI recognized in net income when there is a credit loss component to an impairment of a debt security which the reporting entity does not intend to sell and is not more likely than not to be required to sell prior to recovery of its amortized cost basis. In those situations the OTTI representing credit losses must be recognized in net income - the noncredit-related portion must be recognized in other comprehensive income. In addition, FSP FAS 115-2 and 124-2 requires disclosures regarding the types of debt and equity securities held, unrealized loss positions for which OTTI has not been recognized, the reasons that a portion of an OTTI was not recognized in net income and the methodology and significant inputs used to determine the portion of OTTI recognized in net income. FSP FAS 115-2 and 124-2 was effective for interim and annual reporting periods ending after June 15, 2009 (which was the three months ended June 30, 2009 for IFC) and must be applied to existing and new investments held as of the beginning of the interim period of adoption. IFC adopted FSP FAS 115-2 and 124-2 effective April 1, 2009. The adoption of FSP FAS 115-2 and 124-2 resulted in the reclassification of non-credit-related OTTI on debt securities to other comprehensive income of $34 million in the year ended June 30, 2009. Effective July 1, 2009, the provisions of FSP FAS 115-2 and 124-2 are included in ASC 320, Section 35, *Subsequent Measurement*.

On April 9, 2009, the FASB issued FSP 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 requires disclosure about the fair value of financial instruments for interim reporting periods that were previously required only for annual reporting periods. FSP FAS 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009 (which was the three months ended September 30, 2009 for IFC). Effective July 1, 2009, the provisions of FSP FAS 107-1 and APB 28-1 are included in ASC 825.

In June 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-01, [ASC] Topic 105, *Generally Accepted Accounting Standards amendments based on SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105). ASC 105 establishes the FASB Accounting Standards Codification™ (Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. On July 1, 2009, the Codification superseded all then-existing non-SEC accounting and reporting standards. Following ASC 105, the FASB will not issue new standards in the form of SFASs, FINs, FSPs or EITF abstracts. Instead, it will issue Accounting Standards Updates, which will serve only to update the Codification. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 (which was the three months ended September 30, 2009 for IFC). The Codification’s content carries the same level of authority effectively superseding SFAS No. 162. ASC 105 did not have a material impact on IFC’s financial position, results of operations or cash flows.

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In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair value* (ASU 2009-05). ASU 2009-05 reaffirms that the fair value of a liability assumes the transfer of a liability to a market participant as of the measurement date; that is the liability is presumed to continue and is not settled with the counterparty. ASU 2009-05 emphasizes that a fair value measurement of a liability includes non-performance risk and that such risk does not change after transfer of the liability. ASU 2009-05 precludes the separate adjustment of the fair value measurement for the impact of a restriction on the transfer of a liability. ASU 2009-05 is effective for the first interim or annual reporting period beginning after its issuance (which was the three months ended December 31, 2009 for IFC) and did not have a material impact on IFC's financial position, results of operations or cash flows.

In September 2009, the FASB issued ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12). ASU 2009-12 provides guidance on measuring the fair value of certain alternative investments and offers a practical expedient (net asset value) for measuring the fair value of investments in certain entities that calculate net asset value per share. ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009 (which was the three months ended December 31, 2009 for IFC) and did not have a material impact on IFC's financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06)*. ASU 2010-06 amends ASC 820 to add new disclosures requirements for transfers in and out of Level 1 and 2 measurements and separate disclosures about gross purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosure requirements about the level of disaggregation and about inputs and valuation techniques used to measure fair value. ASU 2010-06 is effective for the first interim or annual period beginning after December 31, 2009 (which is the three months ended March 31, 2010 for IFC) except for the requirement to provide the Level 3 activity of gross purchases, sales, issuances and settlements, which will be effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years (which will be the year ending June 30, 2012 and three months ending September 30, 2011 for IFC). IFC adopted the requirements of ASC 2010-06 for the three months ended March 31, 2010 (except for the requirements which will be effective for periods beginning after June 30, 2010) without a material impact on IFC's financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification* (ASU 2010-02) and ASU No. 2010-03, *Extractive Industries - Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (ASU 2010-03) .

ASU 2010-02 affects entities that experience a decrease in ownership in a subsidiary or that exchange a group of assets that constitutes a business for an equity interest in another entity and clarifies that the scope of the decrease in ownership provisions of Subtopic 810-10. ASU 2010-02 is affective beginning in the period that an entity adopts SFAS No. 160 (which is the year ended June 30, 2010 for IFC). ASU 2010-02 did not have a material impact on IFC's financial position, results of operations or cash flows.

ASU 2010-03 affects entities that engage in oil- and gas-producing activities and, among other things, expands the definition of *oil- and gas-producing activities* to include the extraction of saleable hydrocarbons and other non-renewable natural resources that are intended to be upgraded into synthetic oil and gas, amends the definition of *proved oil and gas reserves* to indicate what prices must be used when estimating whether reserves are economical to produce and clarifies that an entity's equity method investments must be considered in determining whether it has significant oil- and gas- producing activities. ASU is effective for annual reporting periods ending on or after December 31, 2009 (which is the year ended June 30, 2010 for IFC). ASU 2010-03 did not have a material impact on IFC's financial position, results of operations or cash flows.

Accounting and financial reporting developments – In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS No. 166 removes the concept of a qualifying special-purpose entity (QSPE) from Statement 140 and removes the exception from applying FIN 46 to QSPEs. It clarifies Statement 140's objective of determining whether a transferor has surrendered control over transferred financial assets, and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the entire financial asset has not been transferred and/or when the transferor has continuing involvement with the transferred financial asset. SFAS No. 166 defines the term *participating interest* to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. If the transfer does not meet those conditions, a transferor must account for the transfer as a sale only if it transfers an entire financial asset and surrenders control over the entire transferred assets in accordance with the conditions in Statement 140, as amended. SFAS No. 166 requires that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of a financial asset. SFAS No. 166 also requires enhanced financial statement disclosures about transfers of financial assets and a transferor's continuing involvement in transferred financial assets. SFAS No. 166 is effective as of the beginning of the reporting entity's first annual reporting period that begins after November 15, 2009 (which is the year ending June 30, 2011 for IFC) and for interim periods within that first annual reporting period. IFC is evaluating the provisions of SFAS No. 166. Once effective, SFAS No. 166 will be ASC Topic 860, *Transfers and Servicing*.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 amends FIN 46(R) to require the analysis of whether the reporting entity's variable interests give it a controlling financial interest in a VIE. If so, the reporting entity is considered to be the primary beneficiary and must consolidate the VIE. SFAS No. 167 defines a controlling interest as an interest having both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially be significant to the VIE. SFAS No. 167 requires on-going assessments of whether the reporting entity is the primary beneficiary of a VIE and eliminates the quantitative approach previously required for determining the primary beneficiary of a VIE. SFAS No. 167 also amends FIN 46(R) to require a troubled debt restructuring to be considered an event that requires reconsideration of whether an entity is a VIE and whether a reporting entity is the primary beneficiary of a VIE. SFAS No. 167 requires enhanced disclosures aimed at providing more transparent information about an enterprise's involvement in VIE's and nullifies FASB FSP 140-4 and FIN 46(R)-8. However, the content of the enhanced disclosures is generally consistent with that previously required by FSP FAS 140-4 and FIN 46(R)-8. SFAS No. 167 is effective as of the beginning of the reporting entity's first annual reporting period that begins after November 15, 2009 (which is the year ending June 30, 2011 for IFC) and for interim periods within that first annual reporting period. IFC is evaluating the provisions of SFAS No. 167. Once effective, the provisions of SFAS No. 167 will be included in the VIE Subsections of ASC 810.

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In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). ASU 2009-13 addresses the unit of accounting for arrangements involving multiple deliverables and how arrangement consideration should be allocated to the separate units of accounting, when applicable, and applies to all deliverables in contractual arrangements in all industries in which a vendor will perform multiple revenue generation activities. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010 (which is the year ending June 30, 2011 for IFC). ASU 2009-13 is not expected to have a material impact on IFC's financial position, results of operations or cash flows.

In December 2009, the FASB issued ASU No. 2009-17, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets* (ASU 2009-16) and ASU No. 2009-17, Consolidations (Topic 810): *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-16 and ASU 2009-17 formally update the ASC for the provisions of SFAS No. 166 and SFAS No. 167, respectively.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09) and ASU No. 2010-10, *Consolidation (Topic 810): Amendments for Certain Investment Funds* (ASU 2010-10), and in March 2010 issued ASU 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives* (ASU 2010-11).

ASU 2010-09 adds the term "SEC filer" to the ASC Master Glossary; requires (1) SEC filers and (2) certain other entities to evaluate subsequent events through the date the financial statements are issued; requires all other entities to evaluate subsequent events through the date the financial statements are available to be issued; and exempts SEC filers from disclosing the date through which subsequent events have been evaluated. ASU 2010-09 was effective upon issuance and had no material impact on IFC's financial position, results of operations or cash flows.

ASU 2010-10 defers application of SFAS No. 167 for a reporting enterprise's interest in certain entities if (1) the entity either has all the attributes of an investment company as specified in the ASC or is an entity for which it is industry practice to account for its assets at fair value through earnings, (2) the reporting enterprise does not have an explicit or implicit obligation to fund losses of the entity that could be potentially significant to that entity, and (3) the entity is not a securitization entity, an asset-backed financing entity, or an entity that was formerly considered a qualifying special purpose entity, as well as interests in entities that are required to comply with or operate in accordance with requirements that are similar to those included in Rule 2a-7 of the Investment Company Act of 1940. ASU 2010-10 is effective beginning as of the first annual reporting period that begins after November 15, 2009 (which is the year ending June 30, 2011 for IFC). IFC is evaluating the provisions of ASU 2010-10.

ASU 2010-11 addresses application of the scope exception for certain embedded credit derivatives contained in ASC 815-15-15-8 and 15-9 (formerly paragraph 14B of FAS No. 133) and is effective on the first day of the first fiscal quarter beginning after June 15, 2010 (which is the three months ending September 30, 2010 for IFC). ASU 2010-11 is not expected to have a material impact on IFC's financial position, results of operations or cash flows.

In April 2010, the FASB issued ASU No. 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset* (ASU 2010-18), and in May, 2010, the FASB issued ASU No. 2010-19, *Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Currency exchange rates - An announcement made by the staff of the U.S. Securities and Exchange Commission* (ASU 2010-19).

ASU 2010-18 clarifies that modifications of loans that are accounted for within a pool under ASC Subtopic 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality* (Subtopic 310-30*),* do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring; that is the reporting entity must continue to consider whether the pool itself is impaired if the expected cash flows of the pool change. ASU 2010 is effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010 (which is the three months ending September 30, 2010 for IFC) and is not expected to have a material impact on IFC's financial position, results of operations or cash flows.

In March 2010, the Patient Protection and Affordable Care Act (the PPACA) and the Health Care Education Reconciliation Act of 2010 (HCERA), became law (collectively, the "Act"). The Act seeks to reform the U.S. health care system and its various provisions will become effective over the next eight years. IFC is currently evaluating the impact of the Act.

In addition, during the year ended June 30, 2010, the FASB issued and/or approved various other ASUs. IFC analyzed and implemented the new guidance, as appropriate, with no material impact on either the financial position, results of operations or cash flows of IFC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B – SCOPE OF CONSOLIDATION

IFC Asset Management Company, LLC (AMC)

IFC has established a wholly owned subsidiary, AMC, to mobilize capital from outside IFC's traditional investor pool and to manage third party capital. AMC is consolidated into IFC's financial statements. At June 30, 2010, IFC has provided $2 million of capital to AMC.

At June 30, 2010, AMC manages three Funds - IFC Capitalization (Equity) Fund, L.P. (the Equity Capitalization Fund); IFC Capitalization (Subordinated Debt) Fund, L.P. (the Sub-Debt Capitalization Fund); and IFC African, Latin American and Caribbean Fund, L.P. (the ALAC Fund) (collectively, the AMC Funds).

The Equity Capitalization Fund

The purpose of the Equity Capitalization Fund is to make investments in eligible banks. IFC, as a limited partner, intends to invest $775 million in the Equity Capitalization Fund, subject to IFC Board of Directors approval of IFC's pro rata share of investments to be made by the Equity Capitalization Fund.

IFC is a limited partner of the Equity Capitalization Fund and accounts for this interest under the Fair Value Option. Until June 30, 2010, IFC Capitalization (Equity) Fund (GP), LLC, a wholly-owned subsidiary of IFC, was the general partner of the Equity Capitalization Fund. On June 30, 2010, IFC's general partnership interest in IFC Capitalization (Equity) Fund (GP), LLC was transferred to AMC.

At June 30, 2010, IFC has provided $128 million of capital to the Equity Capitalization Fund ($13 million - June 30, 2009).

The Sub-Debt Capitalization Fund

The purpose of the Sub-Debt Capitalization Fund is to make investments in eligible banks. IFC, as a limited partner, intends to invest $225 million in the Sub-Debt Capitalization Fund, subject to IFC Board of Directors approval of IFC's pro rata share of investments to be made by the Sub-Debt Capitalization Fund.

IFC is a limited partner of the Sub-Debt Capitalization Fund and accounts for this interest under the Fair Value Option. Until June 30, 2010, IFC Capitalization (Subordinated Debt) Fund (GP), LLC, a wholly-owned subsidiary of IFC, was the general partner of the Sub-Debt Capitalization Fund. On June 30, 2010, IFC's general partnership interest in IFC Capitalization (Subordinated Debt) Fund (GP) LLC was transferred to AMC.

At June 30, 2010, IFC has provided less than $0.5 million of capital to the Sub-Debt Capitalization Fund.

The ALAC Fund

The purpose of the ALAC Fund is to make investments in companies located in Sub-Saharan Africa, Latin America and the Caribbean. IFC intends to invest $180 million in the ALAC Fund, subject to IFC Board of Directors approval of IFC's pro rata share of investments to be made by the ALAC Fund.

IFC Founder Partner LLC, a wholly owned subsidiary of IFC, is a limited partner of the ALAC Fund and accounts for this interest under the Fair Value Option. IFC African, Latin American and Caribbean Fund (GP) LLC (ALAC Fund GP), a wholly-owned subsidiary of AMC, is the general partner of the ALAC Fund. ALAC Fund GP is ultimately consolidated into IFC's consolidated financial statements.

At June 30, 2010, IFC has provided $3 million of capital to the ALAC Fund ($0 - June 30, 2009).

Impact of Consolidation

As a result of the consolidation of AMC, IFC Capitalization (Subordinated Debt) Fund (GP), LLC, IFC Capitalization (Equity) Fund (GP), LLC, and IFC African, Latin American and Caribbean Fund (GP), LLC, IFC's consolidated balance sheet at June 30, 2010 includes $6 million in receivables and other assets (less than $0.5 million - June 30, 2009), less than $0.5 million in equity investments ($0 - June 30, 2009) and less than $0.5 million in payables and other liabilities ($0 - June 30, 2009). Other income in IFC's consolidated income statement includes $7 million during the year ended June 30, 2010 (less than $0.5 million - year ended June 30, 2009 and $0 - year ended June 30, 2008) and other expenses includes $2 million during the year ended June 30, 2010 ($0 - years ended June 30, 2009 and 2008).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C – LIQUID ASSET PORTFOLIO

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

	June 30, 2010	June 30, 2009
Assets		
Cash and due from banks	$ 74	$ 11
Time deposits	5,060	3,429
Trading securities	23,428	20,243
Securities purchased under resale agreements	539	544
Receivables and other assets:		
Receivables from unsettled security trades	1,075	604
Accrued interest income on time deposits and securities	130	108
Accrued income on derivative instruments	9	9
Derivative assets	153	105
Total assets	**30,468**	**25,053**
Liabilities		
Payables and other liabilities:		
Payables for unsettled security trades	857	619
Accrued charges on derivative instruments	36	25
Securities sold under repurchase agreements and payable for cash collateral received	8,393	6,388
Derivative liabilities	181	157
Total liabilities	**9,467**	**7,189**
Total net liquid asset portfolio	**$ 21,001**	**$ 17,864**

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 2.2% of the portfolio at June 30, 2010 (2.6% - June 30, 2009).

Trading securities

Trading securities comprises:

	Year ended June 30, 2010	At June 30, 2010	
	Fair value average daily balance (US$ millions)	Fair value (US$ millions)	Weighted average contractual maturity (years)
Government, agency and government-sponsored agency obligations	$ 7,910	$ 8,207	2.4
Asset-backed securities	6,172	5,757	19.2
Corporate securities	8,097	9,008	2.6
Money market funds	1,077	456	1.0
Total trading securities	**$ 23,256**	**$ 23,428**	

	Year ended June 30, 2009	At June 30, 2009	
	Fair value average daily balance (US$ millions)	Fair value (US$ millions)	Weighted average contractual maturity (years)
Government, agency and government-sponsored agency obligations	$ 6,231	$ 8,160	2.5
Asset-backed securities	4,886	4,964	19.6
Corporate securities	2,603	6,427	2.5
Money market funds	1,090	692	1.0
Total trading securities	**$ 14,810**	**$ 20,243**	

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

Trading securities at June 30, 2010 includes securities with a fair value of $1,009 million, which are rated less than triple-A by one or more Rating Agency ($872 million - June 30, 2009).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income from liquid asset trading portfolio

Income from the liquid asset trading portfolio for the years ended June 30, 2010, June 30, 2009 and June 30, 2008 comprises (US$ millions):

	2010	2009	2008
Interest income	$ 358	$ 510	$ 662
Net gains (losses) on trading activities:			
Realized gains	127	334	80
Unrealized gains (losses)	328	(368)	(276)
Net gains (losses) on trading activities	455	(34)	(196)
Foreign currency transaction gains (losses)	2	(2)	7
Total income from liquid asset trading portfolio	**$ 815**	**$ 474**	**$ 473**

Net gains (losses) on trading activities comprises net gains on asset-backed and mortgage-backed securities of $419 million in the year ended June 30, 2010 ($368 million losses - year ended June 30, 2009; $474 million losses - year ended June 30, 2008) and net gains on other trading securities of $36 million in the year ended June 30, 2010 ($334 million gains - year ended June 30, 2009; $278 million gains - year ended June 30, 2008).

The annualized rate of return on the trading liquid asset portfolio, calculated as total income from liquid asset trading portfolio divided by fair value average daily balance, during the year ended June 30, 2010, was 3.5% (3.2% - year ended June 30, 2009; 3.5% - year ended June 30, 2008). After the effect of associated derivative instruments, the liquid asset portfolio generally reprices within one year.

Collateral

The estimated fair value of securities held by IFC at June 30, 2010 as collateral, in connection with derivatives transactions and purchase and resale agreements, that may be sold or repledged was $1,476 million ($1,139 million - June 30, 2009).

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 D – INVESTMENTS

The carrying value of investments at June 30, 2010 and June 30, 2009 comprises (US$ millions):

	June 30, 2010	June 30, 2009
Loans		
Loans at amortized cost	$ 17,559	$ 16,180
Less: Reserve against losses on loans	(1,349)	(1,238)
Net loans	16,210	14,942
Loans accounted for at fair value under the Fair Value Option (outstanding principal balance $488 - June 30, 2010, $466 - June 30, 2009)	450	386
Total Loans	**16,660**	**15,328**
Equity investments		
Equity investments at cost less impairment	2,551	2,101
Equity investments accounted for at fair value as available-for-sale* (cost $1,450 - June 30, 2010, $963 - June 30, 2009)	3,012	1,927
Equity investments accounted for at fair value under the Fair Value Option (cost $1,391 - June 30, 2010, $1,041 - June 30, 2009)	1,906	1,316
Total equity investments	**7,469**	**5,344**
Debt securities		
Debt securities accounted for at fair value as available-for-sale (amortized cost $1,490 - June 30, 2010, $1,500 - June 30, 2009)	1,609	1,542
Debt securities accounted for at fair value under the Fair Value Option (amortized cost $183 - June 30, 2010, $0 - June 30, 2009)	206	-
Total debt securities	**1,815**	**1,542**
Total carrying value of investments	**$ 25,944**	**$ 22,214**

* Unrealized gains on equity investments accounted for at fair value as available-for-sale at June 30, 2010 excludes $20 million ($12 million at June 30, 2009) in respect of equity investments that were previously listed in markets that provided readily determinable fair values that currently do not provide readily determinable fair values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The distribution of the investment portfolio by sector and by geographical region and a reconciliation of total disbursed portfolio to carrying value of investments is as follows (US$ millions):

	June 30, 2010				June 30, 2009			
Sector	Loans	Equity investments	Debt securities	Total	Loans	Equity investments	Debt securities	Total
Finance and insurance	$ 5,392	$ 2,452	$ 1,320	$ 9,164	$ 5,525	$ 1,871	$ 1,252	$ 8,648
Electric power	2,205	166	73	2,444	1,689	199	69	1,957
Oil, gas and mining	1,625	323	25	1,973	1,350	282	15	1,647
Transportation and warehousing	1,381	111	5	1,497	1,192	37	5	1,234
Collective investment vehicles	65	1,013	1	1,079	17	639	-	656
Information	841	106	62	1,009	722	71	57	850
Food and beverages	964	5	35	1,004	957	43	-	1,000
Nonmetallic mineral product manufacturing	881	79	2	962	885	94	3	982
Chemicals	759	126	15	900	761	152	13	926
Industrial and consumer products	660	160	55	875	527	93	22	642
Agriculture and forestry	670	161	11	842	642	140	11	793
Utilities	315	269	22	606	106	151	-	257
Wholesale and retail trade	511	62	5	578	485	60	5	550
Health care	235	212	79	526	207	112	65	384
Primary metals	480	40	-	520	520	3	-	523
Pulp and paper	412	85	-	497	437	49	-	486
Accommodation and tourism services	406	5	21	432	336	28	16	380
Construction and real estate	180	23	15	218	196	49	-	245
Textiles, apparel and leather	143	3	5	151	138	3	6	147
Education services	47	7	-	54	30	-	-	30
Other	25	23	21	69	26	27	6	59
Total disbursed portfolio	**$ 18,197**	**$ 5,431**	**$ 1,772**	**$ 25,400**	**$ 16,748**	**$ 4,103**	**$ 1,545**	**$ 22,396**

	June 30, 2010				June 30, 2009			
Geographical Region	Loans	Equity investments	Debt securities	Total	Loans	Equity investments	Debt securities	Total
Latin America and Caribbean	$ 4,839	$ 1,270	$ 866	$ 6,975	$ 4,598	$ 995	$ 736	$ 6,329
Europe and Central Asia	5,030	1,322	221	6,573	4,728	1,064	247	6,039
Asia	4,401	1,320	398	6,119	4,278	1,113	322	5,713
Middle East and North Africa	1,656	745	45	2,446	1,504	565	38	2,107
Sub-Saharan Africa	1,744	564	131	2,439	1,361	297	131	1,789
Other	527	210	111	848	279	69	71	419
Total disbursed portfolio	**$ 18,197**	**$ 5,431**	**$ 1,772**	**$ 25,400**	**$ 16,748**	**$ 4,103**	**$ 1,545**	**$ 22,396**

	June 30, 2010				June 30, 2009			
	Loans	Equity investments	Debt securities	Total	Loans	Equity investments	Debt securities	Total
Total disbursed portfolio	$ 18,197	$ 5,431	$ 1,772	$ 25,400	$ 16,748	$ 4,103	$ 1,545	$ 22,396
Reserves against losses on loans	(1,349)			(1,349)	(1,238)			(1,238)
Unrealized losses on loans accounted for at fair value under the Fair Value Option	(38)			(38)	(80)			(80)
Unamortized deferred loan origination fees, net and other	(108)			(108)	(102)			(102)
Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets	(42)	(53)	(7)	(102)		(8)	(6)	(14)
Unrealized gains on equity investments held by consolidated VIEs		14		14		10		10
Unrealized gains on equity investments accounted for at fair value as available-for-sale		1,562		1,562		964		964
Unrealized gains on equity investments accounted for at fair value under the Fair Value Option		515		515		275		275
Unrealized gains on debt securities accounted for at fair value as available-for-sale			27	27			3	3
Unrealized gains on debt securities accounted for at fair value under the Fair Value Option			23	23			-	-
Carrying value of investments	**$ 16,660**	**$ 7,469**	**$ 1,815**	**$ 25,944**	**$ 15,328**	**$ 5,344**	**$ 1,542**	**$ 22,214**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – LOANS AND GUARANTEES

Loans

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

	June 30, 2010		June 30, 2009	
	Amount (US $ millions)	Average contractual rate (%)	Amount (US $ millions)	Average contractual rate (%)
US dollar	$ 13,409	3.9	$ 12,312	4.4
Euro	2,311	3.9	2,170	4.2
Russian ruble	362	11.6	314	11.4
Indian rupee	340	8.5	233	8.2
Chinese renminbi	294	5.2	291	5.2
Philippine pesos	247	8.6	242	8.4
Colombian pesos	207	10.4	214	11.2
Indonesian rupiah	194	11.2	250	11.7
South African rand	156	10.1	128	11.1
Brazilian real	135	10.1	102	12.7
Mexican peso	80	5.7	75	5.7
New Turkish lira	51	13.2	2	14.7
Other currencies:				
OECD currencies	180	4.6	201	5.7
Non-OECD currencies	231	7.6	214	8.2
Total disbursed loan portfolio	**$ 18,197**	**4.6**	**$ 16,748**	**5.0**

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, 2011 through June 30, 2015 and thereafter, as follows (US$ millions):

	2011	2012	2013	2014	2015	Thereafter	Total
Fixed rate loans	$ 572	$ 665	$ 518	$ 612	$ 302	$ 1,381	$ 4,050
Variable rate loans	2,503	2,232	1,977	1,942	1,506	3,987	14,147
Total disbursed loan portfolio	**$ 3,075**	**$ 2,897**	**$ 2,495**	**$ 2,554**	**$ 1,808**	**$ 5,368**	**$ 18,197**

At June 30, 2010, 22% of the disbursed loan portfolio consisted of fixed rate loans (21% - June 30, 2009), while the remainder was at variable rates. At June 30, 2010, the disbursed loan portfolio included $130 million of loans serving as collateral under secured borrowing arrangements ($148 million - June 30, 2009). IFC's disbursed variable rate loans generally reprice within one year.

Income from loans and guarantees for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, comprise the following (US$ millions):

	2010	2009	2008
Interest income	$ 676	$ 879	$ 1,015
Commitment fees	33	29	28
Other financial fees	50	25	40
Unrealized gains (losses) on loans accounted for at fair value under the Fair Value Option	42	(62)	(18)
Income from loans and guarantees	**$ 801**	**$ 871**	**$ 1,065**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reserves against losses on loans

Changes in the reserve against losses on loans for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, are summarized below (US$ millions):

	Year ended June 30, 2010		
	Specific reserves	Portfolio reserves	Total reserves
Beginning balance	$ 300	$ 938	$ 1,238
Provision for (release of provision for) losses on loans	153	(8)	145
Write offs	(18)	-	(18)
Recoveries of previously written off loans	5	-	5
Foreign currency transaction adjustments	(9)	(13)	(22)
Other adjustments	1	-	1
Ending balance	**$ 432**	**$ 917**	**$ 1,349**

	Year ended June 30, 2009		
	Specific reserves	Portfolio reserves	Total reserves
Beginning balance	$ 219	$ 629	$ 848
Provision for losses on loans	109	332	441
Write offs	(41)	-	(41)
Recoveries of previously written off loans	15	-	15
Foreign currency transaction adjustments	(1)	(23)	(24)
Other adjustments	(1)	-	(1)
Ending balance	**$ 300**	**$ 938**	**$ 1,238**

	Year ended June 30, 2008		
	Specific reserves	Portfolio reserves	Total reserves
Beginning balance	$ 291	$ 541	$ 832
Provision for (release of provision for) losses on loans	(34)	71	37
Write offs	(47)	-	(47)
Recoveries of previously written off loans	8	-	8
Foreign currency transaction adjustments	5	17	22
Other adjustments	(4)	-	(4)
Ending balance	**$ 219**	**$ 629**	**$ 848**

The provision for losses on loans and guarantees in the consolidated income statement for the year ended June 30, 2010 includes $10 million in respect of guarantees ($3 million release of provision - year ended June 30, 2009; $1 million provision - year ended June 30, 2008). At June 30, 2010 the accumulated reserve for losses on guarantees, included in the consolidated balance sheet in payables and other liabilities, was $24 million ($14 million - June 30, 2009). Other adjustments comprise reserves against interest capitalized as part of a debt restructuring.

Loans on which the accrual of interest has been discontinued amounted to $877 million at June 30, 2010 ($457 million - June 30, 2009). Interest income not recognized on nonaccruing loans during the year ended June 30, 2010 totaled $59 million ($47 million - year ended June 30, 2009; $78 million - year ended June 30, 2008). Interest income recognized on loans in nonaccrual status, related to current and prior years, during the year ended June 30, 2010 was $22 million ($18 million - year ended June 30, 2009; $19 million - year ended June 30, 2008) on a cash basis. The average recorded investment in impaired loans during the year ended June 30, 2010, was $768 million ($450 million - year ended June 30, 2009; $390 million - year ended June 30, 2008). The recorded investment in impaired loans at June 30, 2010 was $984 million ($552 million - June 30, 2009).

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, 2010, totaled $2,721 million ($2,055 million - June 30, 2009). Guarantees of $1,889 million that were outstanding (i.e., not called) at June 30, 2010 ($1,365 million - June 30, 2009), were not included in loans on the IFC's consolidated balance sheet. The outstanding amount represents the maximum amount of undiscounted future payments that IFC could be required to make under these guarantees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – DEBT SECURITIES

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

	June 30, 2010				June 30, 2009			
		Unrealized		Fair		Unrealized		Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Corporate debt securities:								
Amortized cost	1,150				1,169			
Foreign currency transaction gains	91				39			
Total Corporate debt securities	$ 1,241	$ 16	$ (64)	$ 1,193	$ 1,208	$ 17	$ (54)	$ 1,171
Preferred shares	309	102	(26)	385	196	65	(3)	258
Asset-backed securities at amortized cost	29	-	-	29	67	-	-	67
Other debt securities	3	-	(1)	2	68	-	(22)	46
Total	**$ 1,582**	**$ 118**	**$ (91)**	**$ 1,609**	**$ 1,539**	**$ 82**	**$ (79)**	**$ 1,542**

Unrealized losses on debt securities accounted for as available-for-sale at June 30, 2010 are summarized below (US$ millions):

	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debt securities	$ 380	$ (14)	$ 615	$ (50)	$ 995	$ (64)
Preferred shares	76	(16)	53	(10)	129	(26)
Other debt securities	2	(1)	-	-	2	(1)
Total	**$ 458**	**$ (31)**	**$ 668**	**$ (60)**	**$ 1,126**	**$ (91)**

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

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

Debt securities with contractual maturities that are accounted for as available-for-sale have contractual maturities during the years ending June 30, 2011 through June 30, 2015 and thereafter, as follows (US$ millions):

	2011	2012	2013	2014	2015	Thereafter	Total
Corporate debt securities*	$ 62	$ 72	$ 169	$ 285	$ 256	$ 404	$ 1,248
Asset-backed securities	-	-	-	-	-	29	29
Total disbursed portfolio of debt securities with contractual maturities	**$ 62**	**$ 72**	**$ 169**	**$ 285**	**$ 256**	**$ 433**	**$ 1,277**

* excluding $7 million disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets.

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

In addition, IFC has $387 million of redeemable preferred shares and other debt securities with undefined maturities ($304 million - June 30, 2009).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2010		June 30, 2009	
	Amount (US $ millions)	Average contractual rate (%)	Amount (US $ millions)	Average contractual rate (%)
Brazilian real	$ 806	9.0	$ 734	12.7
US dollar	205	3.7	302	3.9
Euro	6	3.5	33	4.1
Other non-OECD currencies	260	6.4	212	10.0
Total disbursed portfolio of debt securities with contractual maturities*	**$ 1,277**	**7.6**	**$ 1,281**	**9.9**

After the effect of interest rate swaps and currency swaps, IFC's debt securities with contractual maturities that are accounted for as available-for-sale are principally denominated in variable rate US dollars.

Income from debt securities for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, comprise the following (US$ millions):

	2010	2009	2008
Interest income	$ 35	$ 64	$ 49
Realized gains on debt securities	14	6	81
Unrealized gains (losses) on debt securities accounted for at fair value under the Fair Value Option	23	-	-
Gains on non-monetary exchanges	32	2	23
Impairment losses on debt securities:			
Total other-than-temporary impairment losses	(3)	(42)	-
Portion of losses recognized in other comprehensive income	-	34	-
Net impairment losses recognized in net income	(3)	(8)	-
Dividends	7	7	10
Total income from debt securities	**$ 108**	**$ 71**	**$ 163**

NOTE G – EQUITY INVESTMENTS

Income (loss) from equity investments for the years ended June 30, 2010, June 30, 2009 and June 30, 2008 comprises the following (US$ millions):

	2010	2009	2008
Realized gains on equity investments	$ 1,290	$ 990	$ 1,219
Unrealized gains (losses) on equity investments accounted for at fair value under the Fair Value Option	240	(299)	12
Gains on non-monetary exchanges	28	14	177
Dividends and profit participations	285	311	428
Release (amortization) of UJVs conditional asset retirement obligations	3	(2)	(1)
Other-than-temporary impairment losses:			
Equity investments at cost less impairment	(126)	(605)	(140)
Equity investments available-for-sale	(77)	(453)	-
Total other- than-temporary impairment losses on equity investments	(203)	(1,058)	(140)
Custody, fees and other	(5)	2	(7)
Total income (loss) from equity investments	**$ 1,638**	**$ (42)**	**$ 1,688**

Dividends and profit participations include $60 million ($56 million - year ended June 30, 2009; $59 million - year ended June 30, 2008) of receipts received in freely convertible currency, net of cash disbursements, in respect of investments accounted for under the cost recovery method, for which cost has been fully recovered.

Equity investments include several private equity funds that invest primarily in emerging markets across a range of sectors and that are accounted for at fair value under the Fair Value Option. These investments cannot be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the funds. IFC estimates that the underlying assets of the funds would be liquidated over five to eight years. The fair values of all these funds have been determined using the net asset value of IFC's ownership interest in partners' capital and totaled $1,175 million as of June 30, 2010 ($716 million as of June 30, 2009). The unfunded commitment obligations related to these funds totaled $1,006 million as of June 30, 2010 ($648 million as of June 30, 2009).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE H – INVESTMENT TRANSACTIONS COMMITTED BUT NOT DISBURSED OR UTILIZED

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

	June 30, 2010	June 30, 2009
Investment transactions committed but not disbursed:		
Loans, equity investments and debt securities	$ 10,491	$ 9,870
Investment transactions committed but not utilized:		
Guarantees	832	690
Client risk management facilities	124	104
Total investment transactions committed but not disbursed or utilized	**$ 11,447**	**$ 10,664**

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

NOTE I – LOAN PARTICIPATIONS

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

	June 30, 2010	June 30, 2009
Loan participations signed as commitments but not disbursed	$ 759	$ 1,318
Loan participations disbursed and outstanding which are serviced by IFC	$ 6,336	$ 6,669

NOTE J – RECEIVABLES AND OTHER ASSETS

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

	June 30, 2010	June 30, 2009
Receivables from unsettled security trades	$ 1,075	$ 604
Accrued interest income on time deposits and securities	135	111
Accrued income on derivative instruments	400	379
Accrued interest income on loans	238	225
Prepaid pension and other postretirement benefit costs	59	228
Headquarters building:		
Land	89	89
Building	218	214
Less: Building depreciation	(73)	(57)
Headquarters building, net	234	246
Deferred charges and other assets	372	237
Total receivables and other assets	**$ 2,513**	**$ 2,030**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE K – BORROWINGS

Market borrowings and associated derivatives

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

	June 30, 2010							
	Market borrowings		Currency swaps payable (receivable)		Interest rate swaps notional principal payable (receivable)		Net currency obligation	
	Amount (US $ millions)	Weighted average rate (%)	Amount (US $ millions)	Weighted average rate (%)	Notional amount (US $ millions)	Weighted average rate (%)	Amount (US $ millions)	Weighted average rate (%)
US dollar	$ 15,227	3.6	$ 13,380	(0.2)	$ 22,998	0.6	$ 28,291	0.4
					(23,314)	(2.6)		
Australian dollar	4,691	5.7	(4,691)	(5.7)	-	-	-	-
Japanese yen	4,139	2.6	(4,139)	(2.6)	-	-	-	-
New Turkish lira	1,553	11.7	(1,553)	(11.7)	-	-	-	-
Brazilian real	1,077	9.4	(967)	(9.1)	-	-	110	12.0
New Zealand dollar	822	6.5	(822)	(6.5)	-	-	-	-
South African rand	780	8.3	(780)	(8.3)	-	-	-	-
Canadian dollar	762	4.6	(762)	(4.6)	-	-	-	-
Chinese renminbi	295	3.3	-	-	-	-	295	3.3
Euro	288	6.8	(281)	(6.9)	7	1.0	7	1.0
					(7)	(0.8)		
Pound sterling	195	5.4	(195)	(5.4)	-	-	-	-
Singapore dollar	143	1.1	(143)	(1.1)				
Hong Kong dollar	127	5.1	(127)	(5.1)	-	-	-	-
Moroccan dirham	111	4.5	(111)	(4.5)	-	-	-	-
Swiss franc	93	4.8	(93)	0.2	92	(0.2)	-	-
					(92)	(4.8)		
C.F.A. franc	79	4.5	(38)	(4.8)	-	-	41	4.3
Mexican peso	9	6.1	(9)	(6.1)	-	-	-	-
Principal at face value	**30,391**		**$ (1,331)**		**$ (316)**		**$ 28,744**	**0.5**
Borrowings under the short-term Discount Note Program	1,404							
	31,795							
Unamortized discounts, net	(639)							
Total market borrowings	**31,156**							
Fair value adjustments	(100)							
Carrying value of market borrowings	**$ 31,056**							

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	June 30, 2009							
	Market borrowings		Currency swaps payable (receivable)		Interest rate swaps notional principal payable (receivable)		Net currency obligation	
	Amount (US $ millions)	Weighted average rate (%)	Amount (US $ millions)	Weighted average rate (%)	Notional amount (US $ millions)	Weighted average rate (%)	Amount (US $ millions)	Weighted average rate (%)
US dollar	$ 13,319	3.6	$ 12,413	(1.2)	$ 16,379	1.6	$ 25,401	1.4
					(16,710)	(3.3)		
Japanese yen	4,757	2.6	(4,757)	(2.6)	-	-	-	-
Australian dollar	2,964	6.0	(2,964)	(6.0)	-	-	-	-
South African rand	1,492	9.1	(1,492)	(9.1)	-	-	-	-
New Turkish lira	927	12.6	(927)	(12.6)	-	-	-	-
New Zealand dollar	824	7.1	(824)	(7.1)	-	-	-	-
Pound sterling	800	5.6	(800)	(5.6)	-	-	-	-
Canadian dollar	702	4.6	(702)	(4.6)	-	-	-	-
Euro	358	6.0	(358)	(6.0)	-	-	-	-
Chinese renminbi	293	3.3	-	-	-	-	293	3.3
Brazilian real	250	10.6	(148)	(9.7)	-	-	102	12.0
Hong Kong dollar	244	5.1	(244)	(5.1)	-	-	-	-
Moroccan dirham	125	4.5	(125)	(4.5)	-	-	-	-
Swiss franc	94	4.8	(94)	(0.2)	93	0.2	-	-
					(93)	(4.8)		
C.F.A. franc	48	4.8	(44)	(4.8)	-	-	4	4.8
Mexican peso	15	7.0	(15)	(7.0)	-	-	-	-
Principal at face value	**27,212**		**$ (1,081)**		**$ (331)**		**$ 25,800**	**1.4**
Unamortized discounts, net	(677)							
Total market borrowings	**26,535**							
Fair value adjustments	(875)							
Carrying value of market borrowings	**$ 25,660**							

The net currency obligations in Chinese renminbi, Brazilian real and C.F.A. franc at June 30, 2010 have funded on-balance sheet loans with similar characteristics in such currencies.

The weighted average rate of IFC's borrowings outstanding from market sources after currency and interest rate swap transactions was 0.5% at June 30, 2010 (1.4% - June 30, 2009). The weighted average remaining maturity of IFC's borrowings from market sources was 6.5 years at June 30, 2010 (7.3 years - June 30, 2009).

Charges on borrowings for the year ended June 30, 2010 include $4 million of interest expense on secured borrowings ($7 million - year ended June 30, 2009; $11 million - year ended June 30, 2008) and is net of $62 million of gains on buybacks of market borrowings ($61 million - June 30, 2009; $2 million - year ended June 30, 2008).

The net nominal amount receivable from currency swaps of $1,331 million and the net notional amount receivable from interest rate swaps of $316 million at June 30, 2010 ($1,081 million and $331 million - June 30, 2009), shown in the above table, are represented by currency and interest rate swap assets at fair value of $1,798 million and currency and interest rate swap liabilities at fair value of $575 million ($1,300 million and $896 million - June 30, 2009), included in derivative assets and derivative liabilities, respectively, on the consolidated balance sheet.

Short term market borrowings

IFC's short-term Discount Note Program has maturities ranging from overnight to one year. The amount outstanding under the program at June 30, 2010 is $1,404 million ($0 at June 30, 2009). Charges on borrowings for the year ended June 30, 2010, includes $2 million in respect of this program.

Borrowings from IBRD

Borrowings outstanding from IBRD are summarized below:

	June 30, 2010		June 30, 2009	
	Principal amount (US$ millions)	Weighted average cost (%)	Principal amount (US$ millions)	Weighted average cost (%)
Saudi Arabian riyal	$ 50	4.0	$ 50	4.0
US dollar	-	-	1	8.0
Total borrowings outstanding from IBRD	**$ 50**		**$ 51**	

The weighted average remaining maturity of borrowings from IBRD was 4.2 years at June 30, 2010 (7.8 years - June 30, 2009). Charges on borrowings for the year ended June 30, 2010, includes $2 million ($2 million - year ended June 30, 2009; $3 million - year ended June 30, 2008) in respect of borrowings from IBRD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Maturity of borrowings

The principal amounts repayable on borrowings outstanding in all currencies, gross of any premiums or discounts, during the years ending June 30, 2011, through June 30, 2015, and thereafter are summarized below (US$ millions):

	2011	2012	2013	2014	2015	Thereafter	Total
Borrowings from market sources	$ 3,840	$ 2,199	$ 5,326	$ 7,368	$ 4,190	$ 7,468	$ 30,391
Borrowings under the short-term Discount Note Program	1,404	-	-	-	-	-	1,404
Borrowings from IBRD	-	8	8	8	9	17	50
Total borrowings, gross	**$ 5,244**	**$ 2,207**	**$ 5,334**	**$ 7,376**	**$ 4,199**	**$ 7,485**	**31,845**
Unamortized discounts, net							(639)
Fair value adjustments							(100)
Carrying value of borrowings							**$ 31,106**

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

NOTE L – PAYABLES AND OTHER LIABILITIES

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

	June 30, 2010	June 30, 2009
Accrued charges on borrowings	$ 421	$ 357
Accrued charges on derivative instruments	138	207
Payables for unsettled security trades	857	619
Secured borrowings	130	148
Accounts payable, accrued expenses and other liabilities	442	345
Deferred income	89	33
Total payables and other liabilities	**$ 2,077**	**$ 1,709**

NOTE M – CAPITAL TRANSACTIONS

IFC's authorized share capital was increased to $2,450 million through two capital increases in 1992. No subscribed shares remain unpaid at June 30, 2010.

During the year ended June 30, 2010, no shares, at a par value of $1,000 each, were subscribed and paid by member countries (3,104 shares at a par value of $1,000 each - year ended June 30, 2009; 532 shares at a par value of $1,000 each - year ended June 30, 2008).

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 N – OTHER INCOME

Other income for the year ended June 30, 2010, predominantly comprises $26 million of fees collected from clients for expenses incurred by IFC, included in administrative expenses ($22 million - year ended June 30, 2009; $23 million - year ended June 30, 2008), $17 million of income from consolidated entities after eliminations ($3 million - year ended June 30, 2009; $7 million - year ended June 30, 2008) and income under other reimbursable arrangements of $7 million ($5 million - year ended June 30, 2009; $6 million - year ended June 30, 2008).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Designated retained earnings

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

	Grants to IDA	Advisory services	Performance-based grants	SME Ventures for IDA countries	Global Infrastructure Project Development Fund	Total designated retained earnings
At July 1, 2007	**$ -**	**$ 391**	**$ 215**	**$ -**	**$ -**	**$ 606**
Year ended June 30, 2008						
Expenditures against designated retained earnings	(500)	(123)	(27)			(650)
Designations of retained earnings	500	170		100	100	870
At June 30, 2008	**$ -**	**$ 438**	**$ 188**	**$ 100**	**$ 100**	**$ 826**
Year ended June 30, 2009						
Expenditures against designated retained earnings	(450)	(129)	(5)	(1)		(585)
Designations of retained earnings	450	100				550
At June 30, 2009	**$ -**	**$ 409**	**$ 183**	**$ 99**	**$ 100**	**$ 791**
Year ended June 30, 2010						
Expenditures against designated retained earnings	(200)	(101)	(7)	(2)		(310)
Designations/Reallocations of retained earnings	200		(70)	(60)	(70)	-
Transfers		5	(5)			-
At June 30, 2010	**$ -**	**$ 313**	**$ 101**	**$ 37**	**$ 30**	**$ 481**

On August 5, 2009, IFC's Board of Directors approved a designation of $200 million of IFC's retained earnings for grants to IDA and concurrently reallocated $70 million of the unutilized balances of prior year designations relating to performance-based grants, $70 million of the unutilized balances of prior year designations relating to the Global Infrastructure Project Development Fund and $60 million of the unutilized balances relating to IFC SME Ventures for IDA countries. On October 7, 2009, IFC's Board of Governors noted with approval the designations and reallocations approved by IFC's Board of Directors on August 5, 2009.

On June 23, 2010, IFC's Board of Directors approved a transfer of $5 million of the unutilized balances of prior period designations relating to performance-based grants to advisory services.

Accumulated other comprehensive income

The components of accumulated other comprehensive income at June 30, 2010 and June 30, 2009 are summarized as follows (US$ millions):

	June 30, 2010	June 30, 2009
Net unrealized gains on debt securities	$ 118	$ 41
Net unrealized gains on equity investments	1,582	976
Unrecognized net actuarial (losses) gains and unrecognized prior service costs on benefit plans	(498)	(306)
Total accumulated other comprehensive income	**$ 1,202**	**$ 711**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Net (losses) gains on other non-trading financial instruments accounted for at fair value for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, comprises (US$ millions):

	2010	2009	2008
Unrealized (losses) gains on market borrowings accounted for at fair value:			
Credit spread component	$ (324)	$ 668	$ (34)
Interest rate, foreign exchange and other components	(451)	(452)	48
Total unrealized (losses) gains on market borrowings	(775)	216	14
Unrealized gains on derivatives associated with market borrowings	549	165	3
Net unrealized (losses) gains on market borrowings and associated derivatives	(226)	381	17
Unrealized losses on derivatives associated with loans	(98)	(65)	(4)
Unrealized gains (losses) on derivatives associated with debt securities	28	25	(2)
Net (losses) gains on derivatives associated with equity investments	(43)	111	98
Net (losses) gains on other non-trading financial instruments accounted for at fair value	**$ (339)**	**$ 452**	**$ 109**

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

NOTE Q – DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

As discussed in Note A, "Summary of significant accounting and related policies", IFC enters into transactions in various derivative instruments for financial risk management purposes in connection with its principal business activities, including lending, investing in debt securities, equity investments, client risk management, borrowing, liquid asset management and asset and liability management. None of these derivative instruments are designated as hedging instruments under ASC Topic 815. Note A describes how and why IFC uses derivative instruments. The fair value of derivative instrument assets and liabilities by risk type at June 30, 2010 and June 30, 2009 is summarized as follows (US$ millions):

Consolidated balance sheet location	June 30, 2010 Fair value	June 30, 2009 Fair value
Derivative assets		
Interest rate	$ 647	$ 361
Foreign exchange	50	200
Interest rate and currency	1,653	1,299
Equity	337	327
Other derivative	1	8
Total derivative assets	**$ 2,688**	**$ 2,195**
Derivative liabilities		
Interest rate	$ 327	$ 314
Foreign exchange	36	202
Interest rate and currency	777	1,037
Total derivative liabilities	**$ 1,140**	**$ 1,553**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The effect of derivative instruments contracts on the consolidated income statement for the years ended June 30, 2010 and June 30, 2009 is summarized as follows (US$ millions):

Derivative instrument category	Consolidated income statement location	June 30, 2010	June 30, 2009
Interest rate	Income from loans and guarantees	(44)	$ (17)
	Income from liquid asset trading activities	(298)	(67)
	Charges on borrowings	403	150
	Other income	5	19
	Net (losses) gains on other non-trading financial instruments accounted for at fair value	331	54
Foreign exchange	Foreign currency transaction (losses) gains on non-trading activities	4	(68)
	Income from liquid asset trading activities	88	-
	Net (losses) gains on other non-trading financial instruments accounted for at fair value	(5)	(4)
Interest rate and currency	Income from loans and guarantees	(173)	(140)
	Income from debt securities	(65)	(63)
	Income from liquid asset trading activities	(11)	(6)
	Charges on borrowings	715	450
	Foreign currency transaction (losses) gains on non-trading activities	539	322
	Net (losses) gains on other non-trading financial instruments accounted for at fair value	146	19
	Service fees	7	-
Equity	Net (losses) gains on other non-trading financial instruments accounted for at fair value	(30)	158
Other derivative instruments	Income (loss) from equity investments	-	6
	Net (losses) gains on other non-trading financial instruments accounted for at fair value	(6)	7
Total		$ 1,606	$ 820

The income related to each derivative instrument category includes realized and unrealized gains and losses on both derivative instruments and nonderivative instruments.

At June 30, 2010, the outstanding volume, measured by US$ equivalent notional, of interest rate contracts was $36,446 million, foreign exchange contracts was $3,201 million and interest rate and currency contracts was $20,356 million. At June 30, 2010, there were 138 equity contracts and 2 other derivative contracts related to IFC's loan and equity investment portfolio recognized as derivatives assets or liabilities under ASC Topic 815.

IFC enters into interest rate and currency derivative instruments under standard industry contracts that contain credit risk-linked contingent features with respect to collateral requirements. Should IFC's credit rating be downgraded from the current AAA, the credit support annexes of these standard swap agreements detail, by swap counterparty, the collateral requirements IFC must satisfy in this event. The aggregate fair value of derivatives containing a credit risk-linked contingent feature in a net liability position was $157 million at June 30, 2010. At June 30, 2010 IFC had no collateral posted under these agreements. If IFC was downgraded from the current AAA to AA+, then collateral in the amount of less than $1 million would be required to be posted against net liability positions with counterparties at June 30, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE R – FAIR VALUE MEASUREMENTS

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

The estimated fair values reflect the interest rate environments as of June 30, 2010 and June 30, 2009. 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, 2010, and June 30, 2009, are summarized below.

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

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

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

Classes	Significant Inputs
Interest rate contracts	Inter-bank yield curves, foreign exchange basis curve and yield curves specified to index floating rates.
Foreign exchange	Foreign exchange rate, inter-bank yield curves and foreign exchange basis curve.
Interest rate and currency rates	Foreign exchange rate, inter-bank yield curves, foreign exchange basis curve and yield curves specified to index floating rates.
Equity	Equity spot price, volatility, risk free rate, dividend yield, expiry date, discount rate, strike price, discount rate and option period.
Other derivative contracts	Foreign exchange rate, inter-bank yield curves, foreign exchange basis curve, yield curves specified to index, floating rates and inflation curve, swaption volatility matrix, equity spot price, volatility and dividend yield.

Loans and loan commitments - Fair values of loans were determined on the basis of discounted cash flows, incorporating credit default swap spreads and expected recovery rates, risk free rate, amortization schedule and investment risk rating and were classified as Level 3. Certain loans contain embedded conversion and/or income participation features. If not bifurcated as standalone derivatives, these features were considered in determining the loans' fair value based on the quoted market prices or other calculated values of the equity investments into which the loans are convertible and the discounted cash flows of the income participation features.

Equity investments - Equity investments valued using quoted prices in active markets are classified as Level 1. Investments in funds were valued using net asset values and classified under Level 3 . Equity investments, other than investments in funds, without available market prices were valued using valuation techniques appropriate to the investment such as recent transactions (IFC's purchase price, price that is in the process of negotiation, or recent trade price from third party transactions), discounted cash flows, and relative valuation through the use of comparables. Such equity investments were classified as Level 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The below table presents the significant inputs for the discounted cash flow model and the relative valuation through use of comparables approach:

Valuation techniques	Banking and non-banking financial institutions	Insurance companies	Others
Discounted cash flow model	Asset growth rate, discount rate, terminal value multiple or perpetual growth rate, cost of equity, return on assets, target leverage and recovery rate.		
Relative valuations through the use of comparables	Price/Book Value, and Price/Earnings.	Price/Book Value, Price/Embedded Value, and Appraisal Value	Enterprise Value/EBITDA, Enterprise Value/Sales, Price /Book Value, Price/Earnings, Price/EBITDA, and Price/Sales.

Debt securities - Debt securities in IFC's investment portfolio do not have available market prices and are valued using discounted cash flow approaches . All debt securities are classified as Level 3. Significant inputs used for valuations of significant classes of debt securities are presented below:

Classes	Significant Inputs
Corporate debt securities	Risk free rate, amortization schedule, investment risk rating, Credit Default Swap (CDS) spreads and recovery rate.
Asset Backed Securities	Risk free rate, asset risk rating, CDS spreads, recovery rate and correlation parameter, CDS spread, ratings of class notes, index rates, default rate, prepayment rate, recovery rate, recovery lag, delinquency rate and optional redemption option.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value of assets and liabilities

Estimated fair values of IFC's financial assets and liabilities and off-balance sheet financial instruments at June 30, 2010 and June 30, 2009 are summarized below (US$ millions). IFC's credit exposure is represented by the estimated fair values of its financial assets. Note A provides a summary of IFC's significant accounting policies.

	June 30, 2010		June 30, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from banks, time deposits, securities and securities purchased under resale agreements	$ 29,930	$ 29,930	$ 25,044	$ 25,044
Investments:				
Loans, net	16,660	17,172	15,328	15,238
Cost method equity investments	2,551	5,228	2,101	4,689
Equity investments accounted for at fair value as available-for-sale	3,012	3,012	1,927	1,927
Equity investments accounted for at fair value under the Fair Value Option	1,906	1,906	1,316	1,316
Total equity investments	7,469	10,146	5,344	7,932
Debt securities accounted for at fair value as available-for-sale	1,609	1,609	1,542	1,542
Debt securities accounted for at fair value under the Fair Value Option	206	206	-	-
Total debt securities	1,815	1,815	1,542	1,542
Total investments	25,944	29,133	22,214	24,712
Derivative assets:				
Borrowings-related	1,798	1,798	1,300	1,300
Liquid asset portfolio-related and other	154	154	231	231
Investment-related	658	658	629	629
Client risk management-related	78	78	35	35
Total derivative assets	2,688	2,688	2,195	2,195
Other investment-related financial assets	33	244	-	25
Financial liabilities				
Securities sold under repurchase agreements and payable for cash collateral received	8,393	8,393	6,388	6,388
Market and IBRD borrowings outstanding	31,106	31,117	25,711	25,718
Derivative liabilities:				
Borrowings-related	575	575	896	896
Liquid asset portfolio-related and other	181	181	280	280
Investment-related	306	306	342	342
Client risk management-related	78	78	35	35
Total derivative liabilities	1,140	1,140	1,553	1,553

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

The fair value of loan commitments amounted to $20 million at June 30, 2010 ($20 million - June 30, 2009). Fair values of loan commitments were based on discounted cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value hierarchy

The following tables provide information as of June 30, 2010 and June 30, 2009, about IFC's financial assets and financial liabilities measured at fair value on a recurring basis. As required by ASC 820, financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement (US$ millions):

	At June 30, 2010			
	Level 1	Level 2	Level 3	Total
Trading securities:				
Money market funds	$ 456	$ -	$ -	$ 456
Treasury securities	7,052	173	-	7,225
Foreign government bonds	131	273	-	404
Government guaranteed bonds	314	6,252	-	6,566
Supranational bonds	-	150	14	164
Foreign municipal bonds	-	480	-	480
Agency bonds	3	26	-	29
Foreign agency bonds	-	932	-	932
Agency residential mortgage-backed securities	-	657	-	657
Asset-backed securities	-	2,625	55	2,680
Foreign asset-backed securities	-	86	-	86
Corporate bonds	-	1,359	-	1,359
Commercial mortgage-backed securities	-	750	-	750
Foreign residential mortgage-backed securities	-	570	-	570
Non-agency residential mortgage-backed securities	-	822	-	822
Collateralized debt and collateralized loan obligations	-	106	108	214
Other	34	-	-	34
Total trading securities	7,990*	15,261	177	23,428
Loans (outstanding principal balance $488)	-	-	450	450
Equity investments:				
Banking and non-banking financial institutions	1,201	-	835	2,036
Insurance companies	-	-	33	33
Funds	2	-	1,177	1,179
Others	1,226	-	444	1,670
Total equity investments	2,429	-	2,489	4,918
Debt securities:				
Corporate debt securities	-	-	1,316	1,316
Preferred shares	-	-	464	464
Asset-backed securities	-	-	29	29
Other debt securities	-	-	6	6
Total debt securities	-	-	1,815	1,815
Derivative assets:				
Interest rate contracts	-	647	-	647
Foreign exchange	-	50	-	50
Interest rate and currency rates	-	1,653	-	1,653
Equity	-	-	337	337
Other derivative contracts	-	-	1	1
Total derivative assets	-	2,350	338	2,688
Total assets at fair value	**$ 10,419**	**$ 17,611**	**$ 5,269**	**$ 33,299**
Borrowings:				
Structured bonds	$ -	$ 4,439	$ -	$ 4,439
Unstructured bonds	12,020	12,746	-	24,766
Total borrowings (outstanding principal balance $29,944**)	12,020	17,185	-	29,205
Derivative liabilities:				
Interest rate contracts	-	327	-	327
Foreign exchange	-	36	-	36
Interest rate and currency rates	-	777	-	777
Total derivative liabilities	-	1,140	-	1,140
Total liabilities at fair value	**$ 12,020**	**$ 18,325**	**$ -**	**$ 30,345**

* includes securities priced at par plus accrued interest, which approximates fair value, with a fair value of $561 million at June 30, 2010.
** includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of $2,499 million, with a fair value of $1,958 million as of June 30, 2010.
Note: For the year ended June 30, 2010 there were no transfers between Level 1 and Level 2 or vice versa.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	At June 30, 2009			
	Level 1	Level 2	Level 3	Total
Trading securities:				
Money market funds	$ 692	$ -	$ -	$ 692
Treasury securities	5,911	1,311	-	7,222
Foreign government bonds	-	101	-	101
Government guaranteed bonds	-	4,237	-	4,237
Supranational bonds	-	267	-	267
Municipal bonds	-	562	-	562
Agency bonds	4	378	-	382
Foreign agency bonds	-	99	-	99
Agency residential mortgage-backed securities	-	2,785	-	2,785
Asset-backed securities	-	1,449	283	1,732
Foreign asset-backed securities	-	49	10	59
Corporate bonds	-	101	-	101
Commercial mortgage-backed securities	-	491	1	492
Foreign residential mortgage-backed securities	-	45	53	98
Non-agency residential mortgage-backed securities	-	754	328	1,082
Collateralized debt and collateralized loan obligations	-	151	181	332
Total trading securities	6,607*	12,780	856	20,243
Loans (outstanding principal balance $466)	-	-	386	386
Equity investments	1,667	-	1,576	3,243
Debt securities:				
Corporate debt securities	-	-	1,171	1,171
Preferred shares	-	-	258	258
Asset-backed securities	-	-	67	67
Other debt securities	-	-	46	46
Total debt securities	-	-	1,542	1,542
Derivative assets	-	1,860	335	2,195
Total assets at fair value	**$ 8,274**	**$ 14,640**	**$ 4,695**	**$ 27,609**
Borrowings (outstanding principal balance $26,813**)	$ 8,533	$ 16,728	$ -	$ 25,261
Derivative liabilities	-	1,553	-	1,553
Total liabilities at fair value	**$ 8,533**	**$ 18,281**	**$ -**	**$ 26,814**

* includes securities priced at par plus accrued interest, which approximates fair value, with a fair value of $711 million at June 30, 2009.
** includes discount notes, with original maturities greater than one year, with principal due at maturity of $2,132 million, with a fair value of $1,494 million as of June 30, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the changes in the carrying value of IFC's Level 3 financial assets and financial liabilities for the years ended June 30, 2010 and June 30, 2009 (US$ millions):

Level 3 trading securities for the year ended June 30, 2010

	Asset backed securities	Mortgage backed securities	Supranational bonds	Collateralized loan and debt obligations	Total
Balance as of July 1, 2009	$ 293	$ 382	$	$ 181	$ 856
Transfers into Level 3 (***)	-	-	17	-	17
Transfers out of Level 3 (****)	(293)	(382)	-	(55)	(730)
Net gains (losses) (realized and unrealized) for the year ended June 30, 2010 in:					
Net income (loss)	-	-	(3)	2	(1)
Purchases, issuances, sales and settlements:					
Purchases	55	-	-	-	55
Settlements and others	-	-	-	(20)	(20)
Balance as of June 30, 2010	**$ 55**	**$ -**	**$ 14**	**$ 108**	**$ 177**
For the year ended June 30, 2010:					
Net unrealized (losses) gains included in net income	$ -	$ -	$ (4)	$ 2	$ (2)

Level 3 loans and debt securities for the year ended June 30, 2010

	Loans	Debt securities				
		Corporate securities	Preferred shares	Asset backed securities	Others	Total
Balance as of July 1, 2009	$ 386	$ 1,171	$ 258	$ 67	$ 46	$ 1,542
Net gains (realized and unrealized) for the year ended June 30, 2010 in:						
Net income (loss)	37	34	31	6	-	71
Other comprehensive income (loss)	-	27	22	(4)	-	45
Purchases, issuances, sales and settlements:						
Purchases	-	150	115	-	4	269
Issuances	106	-	-	-	-	-
Sales	-	-	(13)	-	-	(13)
Settlements and others	(79)	(66)	51	(40)	(44)	(99)
Balance as of June 30, 2010	**$ 450**	**$ 1,316**	**$ 464**	**$ 29**	**$ 6**	**$ 1,815**
For the year ended June 30, 2010:						
Net unrealized gains included in net income	$ 36	$ 13	$ 6	$ -	$ -	$ 19
Net unrealized gains included in other comprehensive income	$ -	$ 37	$ 39	$ -	$ -	$ 76

(***) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of June 30, 2010.
(****) Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities as of June 30, 2010.
Note: IFC's policy is to recognize transfers in and transfers out at the beginning of the reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 3 equity investments for the year ended June 30, 2010

	Banking and non-banking institutions	Insurance companies	Funds	Others	Total
Balance as of July 1, 2009	$ 555	$ 3	$ 719	$ 299	$ 1,576
Transfers into Level 3 (***)	-	-	-	-	-
Transfers out of Level 3 (****)	(226)	-	-	(30)	(256)
Net gains (losses) (realized and unrealized) for the year ended June 30, 2010 in:					
Net income (loss)	56	-	186	93	335
Other comprehensive income (loss)	372	27	-	(9)	390
Purchases, issuances, sales and settlements:					
Purchases	25	-	373	110	508
Sales	(7)	-	(101)	(11)	(119)
Settlements and others	60	3	-	(8)	55
Balance as of June 30, 2010	**$ 835**	**$ 33**	**$ 1,177**	**$ 444**	**$ 2,489**
For the year ended June 30, 2010:					
Net unrealized gains included in net income	$ 49	$ -	$ 122	$ 74	$ 245
Net unrealized gains (losses) included in other comprehensive income	$ 379	$ 27	$ -	$ (9)	$ 397

Level 3 derivative assets for year ended June 30, 2010

	Derivative assets		
	Equity	Others	Total
Balance as of July 1, 2009	$ 328	$ 7	$ 335
Net gains (losses) (realized and unrealized) for the year ended June 30, 2010 in:			
Net income (loss)	(29)	(6)	(35)
Purchases, issuances, sales and settlements:			
Purchases	66	-	66
Settlements and others	(28)	-	(28)
Balance as of June 30, 2010	**$ 337**	**$ 1**	**$ 338**
For the year ended June 30, 2010:			
Net unrealized gains included in net income	$ 3	$ 1	$ 4

Level 3 financial assets and financial liabilities for the year ended June 30, 2009

	Trading securities	Loans	Equity investments	Debt securities	Derivative assets	Derivative liabilities
Balance as of July 1, 2008	$ 319	$ 248	$ 1,387	$ 1,620	$ 110	$ (13)
Net gains (losses) (realized and unrealized) for the year ended June 30, 2009 in:						
Net income (loss)	(199)	(74)	(191)	(55)	200	13
Other comprehensive income (loss)	-	-	1	(180)	-	-
Purchases, issuances and settlements, net	(159)	212	593	157	(29)	-
Transfers in (out) of Level 3	895	-	(214)	-	54	-
Balance as of June 30, 2009	**$ 856**	**$ 386**	**$ 1,576**	**$ 1,542**	**$ 335**	**$ -**
For the year ended June 30, 2009:						
Net unrealized gains (losses) included in net loss	$ (199)	$ (75)	$ (204)	$ 2	$ 155	$ -
Net unrealized gains (losses) included in other comprehensive loss	$ -	$ -	$ 29	$ (149)	$ -	$ -

(***) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of June 30, 2010.
(****) Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities as of June 30, 2010.
Note: IFC's policy is to recognize transfers in and transfers out at the beginning of the reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As of June 30, 2010, equity investments, accounted for at cost less impairment, with a carrying amount of $607 million were written down to their fair value of $469 million ($1,661 million and $1,038 million - June 30, 2009) pursuant to ASC 320, Section 10-35, *Overall, Subsequent Measurements*, paragraph 17 et al thereof (formerly FSP SFAS No. 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*), resulting in a loss of $138 million, which was included in income from equity investments in the consolidated income statement during the year ended June 30, 2010 (loss of $623 million - year ended June 30, 2009). The amount of the write down was based on a Level 3 measure of fair value.

NOTE S – CURRENCY POSITION

IFC conducts its operations for loans, debt securities, equity investments, time deposits, trading securities, and borrowings in multiple currencies. IFC's policy is to minimize the level of currency risk by closely matching the currency of its assets (other than equity investments and quasi-equity investments) and liabilities by using hedging instruments. IFC's equity investments in enterprises located in its developing member countries are typically made in the local currency of the country. As a matter of policy, IFC carries the currency risk of equity investments and quasi-equity investments and funds these investments from its capital and retained earnings. The following table summarizes IFC's exposure in major currencies at June 30, 2010 and June 30, 2009 (US$ millions):

	June 30, 2010					
	US dollar	Euro	Japanese yen	Other currencies	Fair value and other adjustments	Total
Assets						
Cash and cash equivalents	$ 2,600	$ 2,007	$ 3	$ 1,353	$ -	$ 5,963
Trading securities	21,332	1,484	-	612	-	23,428
Securities purchased under resale agreements	448	-	-	91	-	539
Investments:						
Loans	13,258	2,284	38	2,429	-	18,009
Less: Reserve against losses on loans	(1,013)	(173)	(2)	(161)	-	(1,349)
Net loans	12,245	2,111	36	2,268	-	16,660
Equity investments	-	-	-	7,469	-	7,469
Debt securities	677	79	-	1,059	-	1,815
Total investments	12,922	2,190	36	10,796	-	25,944
Derivative assets	5,691	316	4,137	10,061	(17,517)	2,688
Receivables and other assets	1,546	306	59	602	-	2,513
Total assets	$ 44,539	$ 6,303	$ 4,235	$ 23,515	$ (17,517)	$ 61,075
Liabilities						
Securities sold under repurchase agreements and payable for cash collateral received	$ 7,754	$ 550	$ -	$ 89	$ -	$ 8,393
Borrowings	16,235	288	4,141	10,442	-	31,106
Derivative liabilities	10,759	4,077	36	4,048	(17,780)	1,140
Payables and other liabilities	1,367	90	55	565	-	2,077
Total liabilities	$ 36,115	$ 5,005	$ 4,232	$ 15,144	$ (17,780)	$ 42,716

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	June 30, 2009					
	US dollar	Euro	Japanese yen	Other currencies	Fair value and other adjustments	Total
Assets						
Cash and cash equivalents	$ 3,717	$ 97	$ 3	$ 440	$ -	$ 4,257
Trading securities	19,897	338	-	8	-	20,243
Securities purchased under resale agreements	544	-	-	-	-	544
Investments:						
Loans	12,157	2,149	39	2,221	-	16,566
Less: Reserve against losses on loans	(984)	(156)	(2)	(96)	-	(1,238)
Net loans	11,173	1,993	37	2,125	-	15,328
Equity investments	-	-	-	5,344	-	5,344
Debt securities	563	33	-	946	-	1,542
Total investments	11,736	2,026	37	8,415	-	22,214
Derivative assets	5,383	363	4,755	8,163	(16,469)	2,195
Receivables and other assets	1,582	111	53	284	-	2,030
Total assets	**$ 42,859**	**$ 2,935**	**$ 4,848**	**$ 17,310**	**$ (16,469)**	**$ 51,483**
Liabilities						
Securities sold under repurchase agreements and payable for cash collateral received	$ 6,116	$ 272	$ -	$ -	$ -	$ 6,388
Borrowings	12,117	356	4,759	8,479	-	25,711
Derivative liabilities	13,778	1,884	39	3,021	(17,169)	1,553
Payables and other liabilities	1,393	29	48	239	-	1,709
Total liabilities	**$ 33,404**	**$ 2,541**	**$ 4,846**	**$ 11,739**	**$ (17,169)**	**$ 35,361**

NOTE T – SEGMENT REPORTING

For management purposes, IFC's business comprises two segments: client services and treasury services. The client services segment consists primarily of lending, investing in debt and equity securities, and advisory services activities. Operationally, the treasury services segment consists of the borrowing, liquid asset management, asset and liability management and client risk management activities. Consistent with internal reporting, net income or expense from asset and liability management and client risk management activities in support of client services is 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 headcounts. Transactions between segments are immaterial and, thus, are not a factor in reconciling to the consolidated data.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

An analysis of IFC's major components of income and expense by business segment for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, is given below (US$ millions):

	2010			2009			2008		
	Client services	Treasury services	Total	Client services	Treasury services	Total	Client services	Treasury services	Total
Income from loans and guarantees	$ 786	$ 15	$ 801	$ 857	$ 14	$ 871	$ 1,054	$ 11	$ 1,065
Provision for losses on loans and guarantees	(155)	-	(155)	(438)	-	(438)	(38)	-	(38)
Income (loss) from equity investments	1,638	-	1,638	(42)	-	(42)	1,688	-	1,688
Income from debt securities	108	-	108	71	-	71	163	-	163
Income from liquid asset trading activities	-	815	815	-	474	474	-	473	473
Charges on borrowings	(117)	(46)	(163)	(303)	(185)	(488)	(528)	(254)	(782)
Other income	176	-	176	153	-	153	113	-	113
Other expenses	(730)	(13)	(743)	(617)	(12)	(629)	(547)	(8)	(555)
Foreign currency transaction (losses) gains on non-trading activities	(82)	-	(82)	10	-	10	(39)	-	(39)
Expenditures for advisory services	(101)	-	(101)	(129)	-	(129)	(123)	-	(123)
Expenditures for performance -based grants and for IFC SME Ventures for IDA countries	(9)	-	(9)	(6)	-	(6)	(27)	-	(27)
Net (losses) gains on other non-trading financial instruments accounted for at fair value	(113)	(226)	(339)	71	381	452	92	17	109
Grants to IDA	(200)	-	(200)	(450)	-	(450)	(500)	-	(500)
Net income (loss)	**$ 1,201**	**$ 545**	**$ 1,746**	**$ (823)**	**$ 672**	**$ (151)**	**$ 1,308**	**$ 239**	**$ 1,547**

Geographical segment data in respect of client services is disclosed in Note D, and the composition of Liquid Assets is provided in Note C.

NOTE U – VARIABLE INTEREST ENTITIES

An entity is subject to the ASC 810 VIE Subsections 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 if it has equity investors 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. An enterprise may hold significant variable interests in VIEs, which are not consolidated because the enterprise is not the primary beneficiary.

Primary beneficiary

IFC has identified three VIEs in which IFC is deemed to be the primary beneficiary at June 30, 2010, and which have been consolidated into these consolidated financial statements.

In October 2009, IFC created a special purpose vehicle, Hilal Sukuk Company, to facilitate a $100 million Sukuk under IFC's borrowings program. Hilal Sukuk Company is a variable interest entity of which IFC is deemed to be primary beneficiary. Accordingly, it has been consolidated into these consolidated financial statements. The consolidation of Hilal Sukuk Company had no material impact on these consolidated financial statements.

The other two consolidated VIEs are in the Collective investment vehicles sector in the Latin America and Caribbean region. As a result of the consolidation of the two investments described above, IFC's consolidated balance sheet at June 30, 2010 includes additional assets of $14 million in equity investments ($10 million - June 30, 2009), $1 million in receivables and other assets ($0 - June 30, 2009), and additional liabilities of $4 million in payables and other liabilities ($3 million - June 30, 2009).

Related to the consolidation of these VIEs, other income includes$10 million during the year ended June 30, 2010 ($2 million - year ended June 30, 2009 and $7 million - year ended June 30, 2008) and other expenses includes $6 million during the year ended June 30, 2010 ($12 million - year ended June 30, 2009 and $1 million - year ended June 30, 2008).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant variable interests

IFC has identified 104 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, 2010 (83 investments - June 30, 2009).

The majority of these VIEs do not involve securitizations or other types of structured financing. IFC is usually the minority investor in these VIEs. These VIEs are mainly: (a) investment funds, where the general partner or fund manager does not have substantive equity at risk; (b) operating entities where the total equity investment is considered insufficient to permit such entity to finance its activities without additional subordinated financial support; and (c) entities where the operating activities are so narrowly defined by contracts (e.g. concession contracts) that equity investors are considered to lack decision making ability.

IFC's involvement with these VIEs includes investments in equity interests and senior or subordinated interests, guarantees and risk management arrangements. These VIEs are recorded on IFC's consolidated balance sheet primarily in equity investments, loans, debt securities, and other liabilities, as appropriate.

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 $12,424 million at June 30, 2010 ($9,552 million - June 30, 2009). 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 $3,260 million at June 30, 2010 ($2,817 million - June 30, 2009).

The sector and geographical regional analysis of IFC's investments in and arrangements with these VIEs at June 30, 2010 is as follows (US$ millions):

	June 30, 2010					
Sector	Loans	Equity investments	Debt securities	Guarantees	Risk management	Total
Transportation and warehousing	$ 505	$ 41	$ 5	$ -	$ 8	$ 559
Utilities, oil, gas and mining	460	70	10	7	-	547
Electric power	465	5	4	-	-	474
Finance and insurance	216	29	113	3	14	375
Collective investment vehicles	31	250	-	-	-	281
Information	203	12	8	-	-	223
Food and beverages	138	10	5	-	-	153
Primary metals	95	-	-	-	-	95
Construction and real estate	91	2	-	-	-	93
Agriculture and forestry	82	3	-	-	-	85
Nonmetallic mineral product manufacturing	41	43	-	-	-	84
Industrial and consumer products	72	4	-	-	-	76
Wholesale and retail trade	54	15	5	-	-	74
Health care	20	20	-	-	-	40
Accommodation and tourism services	34	3	-	-	-	37
Pulp and paper	31	-	-	-	-	31
Textiles, apparel and leather	20	2	-	-	-	22
Other	11	-	-	-	-	11
Total VIE investments	**$ 2,569**	**$ 509**	**$ 150**	**$ 10**	**$ 22**	**$ 3,260**

	June 30, 2010					
Geographical Region	Loans	Equity investments	Debt securities	Guarantees	Risk management	Total
Asia	$ 1,086	$ 99	$ 63	$ -	$ -	$ 1,248
Europe and Central Asia	444	90	11	-	-	545
Latin America and Caribbean	397	104	14	7	6	528
Middle East and North Africa	327	62	-	-	2	391
Sub-Saharan Africa	204	59	-	3	-	266
Other	111	95	62	-	14	282
Total VIE investments	**$ 2,569**	**$ 509**	**$ 150**	**$ 10**	**$ 22**	**$ 3,260**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE V – 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 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 plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the plans. Costs allocated to IBRD are then shared between IBRD and IDA based on an agreed cost sharing ratio. IDA, IFC and MIGA reimburse IBRD for their proportionate share of any contributions made to these plans by IBRD. Contributions to these plans are calculated as a percentage of salary.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP allocated to IFC for the fiscal years ended June 30, 2010, June 30, 2009 and June 30 2008 (US$ millions):

	SRP			RSBP			PEBP		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Benefit cost									
Service cost	$ 60	$ 69	$ 64	$ 12	$ 12	$ 10	$ 6	$ 5	$ 4
Interest cost	107	109	92	14	14	11	5	5	3
Expected return on plan assets	(141)	(172)	(169)	(14)	(16)	(15)	-	-	-
Amortization of prior service cost	2	2	2	*	*	-	*	*	-
Amortization of unrecognized net loss	11	-	-	5	3	1	2	3	-
Net periodic pension cost (income)	**$ 39**	**$ 8**	**$ (11)**	**$ 17**	**$ 13**	**$ 7**	**$ 13**	**$ 13**	**$ 7**

* Less than $0.5 million

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, 2010, June 30, 2009 and June 30, 2008, expenses for these plans of $69 million, $34 million and $3 million, respectively, were allocated to IFC.

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, 2010 and June 30, 2009 (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	
	2010	2009	2010	2009	2010	2009
Projected benefit obligations						
Beginning of year	$ 1,555	$ 1,649	$ 208	$ 217	$ 77	$ 77
Service cost	60	69	12	12	6	5
Interest cost	107	109	14	14	5	5
Participant contributions	24	23	2	2	-	-
Plan amendment	-	3	-	-	-	-
Benefits paid	(78)	(71)	(5)	(5)	(4)	(4)
Actuarial loss (gain)	259	(227)	36	(32)	16	(6)
End of year	1,927	1,555	267	208	100	77
Fair value of plan assets						
Beginning of year	1,815	2,239	176	198	-	-
Participant contributions	24	23	2	2	-	-
Actual return on assets	232	(392)	21	(36)	-	-
Employer contributions	48	16	18	17	-	-
Benefits paid	(78)	(71)	(5)	(5)	-	-
End of year	2,041	1,815	212	176	-	-
Funded status	**114**	**260**	**(55)**	**(32)**	**(100)**	**(77)**
Accumulated benefit obligations	**$ 1,388**	**$ 1,099**	**$ 267**	**$ 208**	**$ 91**	**$ 67**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The $114 million overfunded status relating to SRP at June 30, 2010 ($260 million - June 30, 2009), is included in receivables and other assets on the consolidated balance sheet.

The following tables present the amounts included in accumulated other comprehensive income relating to Pension and Other Postretirement Benefits (US$ millions):

Amounts included in accumulated other comprehensive income in fiscal year ended June 30, 2010:

	SRP	RSBP	PEBP	Total
Net actuarial loss	$ 329	$ 102	$ 60	$ 490
Prior service cost	7	-	1	8
Net amount recognized in accumulated other comprehensive income	$ 336	$ 102	$ 61	$ 498

Amounts recognized in accumulated other comprehensive income in fiscal year ended June 30, 2009:

	SRP	RSBP	PEBP	Total
Net actuarial loss	$ 172	$ 78	$ 46	$ 296
Prior service cost	9	-	1	10
Net amount recognized in accumulated other comprehensive income	$ 181	$ 78	$ 47	$ 306

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in the fiscal year ending June 30, 2010 are as follows (US$ millions):

	SRP	RSBP	PEBP	Total
Net actuarial loss	$ 20	$ 6	$ 3	$ 29
Prior service cost	2	-	-	2
Amount estimated to be amortized into net periodic benefit cost	$ 22	$ 6	$ 3	$ 31

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, 2010, June 30, 2009 and June 30, 2008:

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

	SRP			RSBP			PEBP		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Discount rate	5.75	7.00	6.75	6.00	7.00	6.75	5.75	7.00	6.75
Rate of compensation increase	6.20	6.70	7.00				6.20	6.70	7.00
Health care growth rates - at end of fiscal year				7.00	7.00	7.25			
Ultimate health care growth rate				4.25	4.75	5.50			
Year in which ultimate rate is reached				2022	2017	2016			

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

	SRP			RSBP			PEBP		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Discount rate	7.00	6.75	6.25	7.00	6.75	6.25	7.00	6.75	6.25
Expected return on plan assets	7.75	7.75	7.75	7.75	8.25	8.25			
Rate of compensation increase	6.70	7.00	6.50				6.70	7.30	6.50
Health care growth rates: -at end of fiscal year				7.00	7.25	6.80			
Ultimate health care growth rate				4.75	5.50	4.75			
Year in which ultimate rate Is reached				2017	2016	2012			

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	$ 7	$ (5)
Effect on postretirement benefit obligation	52	(41)

Investment strategy

The investment policies establish the framework for investment of the plan assets based on long-term investment objectives and the trade-offs inherent in seeking higher investment returns while also managing risk. A key component of the investment policy is to establish a strategic asset allocation representing the policy portfolio (neutral mix of assets) around which the plans are invested. The strategic asset allocations for the plans are reviewed in detail and reset about every three to five years, with an annual review of key assumptions.

The key long-term objective is to target and secure asset performance that is reasonable in relation to the growth rate of the underlying liabilities and the assumed sponsor contribution rates. This is particularly so in the case of the SRP, which has liabilities that can be projected with a reasonable level of confidence based on the actuarial assumptions. Portion of the SRP portfolio is dedicated to partially hedging the real interest rate risk inherent in the plan liabilities using US Treasury inflation-protected securities (TIPS). Given the relatively long investment horizons of the SRP and RSBP of approximately 10 years, and the relatively modest liquidity needs over the short-term to pay benefits and meet other cash requirements, the focus of the investment strategy is on generating sustainable long-term investment returns through various assets classes and strategies including equity, quasi-equity, private equity and real estate.

The strategic asset allocation is derived using a mix of quantitative analysis that incorporates expected returns and volatilities by asset class as well as correlations across the asset classes, and qualitative considerations such as desired liquidity needs of the plans. The strategic asset allocation is comprised of a diversified portfolio drawn from among fixed-income, equity, real return and absolute return strategies.

The target asset allocations for the SRP and RSBP were approved in October 2007 and February 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the actual and target asset allocation at June 30, 2010 and June 30, 2009 by asset category for the SRP and RSRP (%).

	SRP			RSBP		
	Target allocation	% of Plan assets		Target allocation	% of Plan assets	
	2010	2010	2009	2010	2010	2009
Asset class						
Fixed income	26.0	40.6	37.0	31.5	35.7	34.0
Listed equity	14.0	15.5	16.0	24.0	22.6	23.0
Private equity	15.0	19.8	17.3	22.0	25.6	23.0
Real estate	12.5	7.4	7.5	6.0	5.7	6.0
Hedge funds and active overlay	25.0	13.3	18.4	16.5	10.4	14.0
Timber	2.5	0.6	0.4	-	-	-
Infrastructure	2.5	1.0	0.7	-	-	-
Commodities	2.5	1.8	2.7	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

Concentrations of Risk in Plan Assets

The assets of the SRP and RSBP are diversified across a variety of asset classes. Investments in these asset classes are further diversified across funds, managers, strategies, geographies and sectors to limit the impact of any individual investment. Despite such level of diversification, equity market risk remains the primary source of the plan overall return volatility.

Risk management practices

Risk management is an integral part of managing the assets of the plans. Liability driven management and asset diversification are central to the overall investment strategy and risk management approach for the SRP. The surplus volatility risk (defined as annualized deviation of asset returns relative to that of liabilities) is considered the primary indicator of the SRP overall investment risk in the asset allocation process. The investment risk is regularly monitored at the absolute level, as well as at the relative levels with respect to policy benchmarks and in the case of the SRP, to the liabilities. Credit risk is initiated through the application of the eligibility criteria and concentration limits for transactions with individual issues. Counterparty risk exposure on over-the-counter derivatives is mitigated through the use of master netting arrangements and collateral. The Plan manages its liquidity risk primarily by investing a portion of the asset base in securities that are either very liquid or can be liquidated at a fairly short notice and at a reasonable price. The level of illiquid asset classes appropriate in the portfolio also takes into account projected liquidity requirements.

Risk management for different asset classes is tailored to their specific characteristics and is an integral part of external manager due diligence. In addition, monitoring of performance (both manager and asset class) against benchmarks and compliance with investment guidelines are carried out as part of the risk monitoring process.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value measurements

All plan assets are measured at fair value on recurring basis. The following table presents the fair value hierarchy of major categories of plans assets as of June 30, 2010 (US$ millions):

	Fair value measurements on a recurring basis							
	SRP				RSBP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt securities								
Time Deposits	$ -	$ 32	$ -	$ 32	$ -	$ 3	$ -	$ 3
Securities purchased under resale agreements	42	-	-	42	6	-	-	6
Government and agency securities	508	39	-	547	19	29	-	48
Corporate and convertible bonds	-	86	1	87	-	16	-	16
Asset-backed securities	-	22	9	31	-	1	*	1
Mortgage-backed securities	-	127	4	131	-	3	*	3
Total Debt securities	550	306	14	870	25	52	*	77
Equity securities								
US common stocks	51	-	-	51	5	-	-	5
Non-US common stocks	162	-	-	162	19	-	-	19
Mutual funds	9	-	-	9	1	-	-	1
Real estate investment trusts (REITS)	33	-	-	33	*	-	-	*
Total Equity securities	255	-	-	255	25	-	-	25
Commingled funds	-	104	-	104	-	22	-	22
Private equity	-	-	406	406	-	-	55	55
Hedge funds	-	213	78	291	-	15	7	22
Derivative assets /liabilities	1	(1)	-	-	-	1	-	1
Short sales	-	(2)	-	(2)	-	-	-	-
Real estate (including Infrastructure and timber	-	-	136	136	-	-	12	12
Other assets /liabilities**, net	-	-	-	(19)	-	-	-	(1)
Total Assets	**$ 806**	**$ 620**	**$ 634**	**$ 2,041**	**$ 50**	**$ 90**	**$ 74**	**$ 213**

* Less than $0.5 million.
** Includes receivables and payables carried at amounts that approximate fair value.

Valuation methods and assumptions

In December 2009, FASB issued ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. The ASU reduces complexity and improves consistency and comparability in the application of Fair Value Measurement and Disclosure guidance. The ASU is applicable for investors who report investments that utilize net asset value (NAV) for fair value and is therefore applicable for IBRD’s pension plans.

The following are general descriptions of asset categories, as well as the valuation methodologies and inputs used to determine the fair value of each major category of plan assets. It is important to note that the investment amounts in the asset categories shown in the table above may be different from the asset category allocation shown in the Investment Strategy section of the note. Asset classes in the table above are grouped by the characteristics of the investments held. The asset class break-down in the Investment Strategy section is based on management’s view of the economic exposures after considering the impact of derivatives and certain trading strategies.

Debt securities

Debt securities include time deposits, U.S. treasuries and agencies, debt obligations of foreign governments and debt obligations in corporations of domestic and foreign issuers. Fixed income also includes investments in asset backed securities such as collateralized mortgage obligations and mortgage backed securities. These securities are valued by independent pricing vendors at quoted market prices for the same or similar securities, where available. If quoted market prices are not available, fair values are based on discounted cash flow models using market-based parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. Some debt securities are valued using techniques which require significant unobservable inputs. The selection of these inputs may involve some judgment. Plan management believes its estimates of fair value are reasonable given its processes for obtaining securities prices from multiple independent third-party vendors, ensuring that valuation models are reviewed and validated, and applying its approach consistently from period to period. Unless quoted prices are available, money market instruments and securities purchased under resale agreements are reported at face value which approximates fair value.

Equity securities

Equity securities (including REITS) are invested in companies in various industries and countries. Investments in public equity listed on securities exchanges are valued at the last reported sale price on the last business day of the fiscal year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commingled funds

Commingled funds are typically common or collective trusts reported at NAV as provided by the investment manager or sponsor of the fund based on valuation of underlying investments, and reviewed by management.

Private equity

Private equity includes investments primarily in leveraged buyouts, distressed investments and venture capital funds across North America, Europe and Asia in a variety of sectors. A large number of these funds are in the investment phase of their life cycle. Private Equity investments do not have a readily determinable fair market value and are reported at NAV provided by the fund managers, and reviewed by management, taking into consideration the latest audited financial statements of the funds. The underlying investments are valued using inputs such as cost, operating results, discounted future cash flows and trading multiples of comparable public securities.

Real estate

Real estate includes several funds which invest in core real estate as well as non-core type of real estate investments such as debt, value add, and opportunistic equity investments. Real estate investments do not have a readily determinable fair market value and are reported at NAV provided by the fund managers, and reviewed by management, taking into consideration the latest audited financial statements of the funds. The valuations of underlying investments are based on income and/or cost approaches or comparable sales approach, and taking into account discount and capitalization rates, financial conditions, local market conditions among others.

Hedge fund investments

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. Hedge Funds include investments in equity, event driven, fixed income, multi strategy and macro relative value strategies. These investments do not have a readily determinable fair market value and are reported at NAVs provided by external managers or fund administrators (based on the valuations of underlying investments) on a monthly basis, and reviewed by management, taking into consideration the latest audited financial statements of the funds.

Investments in hedge funds and commingled funds can typically be redeemed at NAV within the near term while investments in private equity and real estate are inherently long term and illiquid in nature with a quarter lag in reporting by the fund managers. For the June 30, 2010 reporting of those asset classes with a reporting lag, management estimates are based on the latest available information taking into account underlying market fundamentals and significant events through the balance sheet date.

Investment in derivatives

Investment in derivatives such as equity or bond futures, swaps, options and currency forwards are used to achieve a variety of objectives that include hedging interest rates and currency risks, gaining desired market exposure of a security, an index or currency exposure and rebalancing the portfolio. Over-the-counter derivatives are reported using valuations based on discounted cash flow methods incorporating market observable inputs.

The following tables present a reconciliation of Level 3 assets held during the year ended June 30, 2010. A large number of hedge fund investments that are redeemable within 90 days of the period end were transferred out of Level 3 into Level 2 following new additional guidance provided by the accounting standard setters (US$ millions):

SRP: Fair value measurements using significant unobservable inputs

	Corporate and convertible debt	Asset-backed securities	Mortgage-backed securities	Private equity	Real estate	Hedge funds	Total
Beginning of the fiscal year	$ 1	$ 6	$ 31	$ 320	$ 113	$ 318	$ 789
Actual return on plan assets:							
Relating to assets still held at the reporting date	*	1	4	50	(3)	59	111
Relating to assets sold during the period	*	1	*	23	2	8	34
Purchase, issuance and settlements, net	*	2	(3)	13	24	(113)	(77)
Transfers in (out)	*	(1)	(28)	-	-	(194)	(223)
Balance at end of fiscal year	$ 1	$ 9	$ 4	$ 406	$ 136	$ 78	$ 634

* Less than $0.5 million

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	RSBP: Fair value measurements using significant unobservable inputs						
	Corporate And Convertible Debt	Asset-backed Securities	Mortgage-backed Securities	Private Equity	Real Estate	Hedge Funds	Total
Beginning of the fiscal year	$ *	$ 1	$ 1	$ 43	$ 10	$ 25	$ 80
Actual return on plan assets:							
Relating to assets still held at the reporting date	-	-	*	7	(1)	2	8
Relating to assets sold during the period	-	-	-	3	*	1	4
Purchase, issuance and settlements, net	-	(1)	*	2	3	(9)	(5)
Transfers in (out)	-	*	(1)	-	-	(12)	(13)
Balance at end of fiscal year	$ *	$ *	$ *	$ 55	$ 12	$ 7	$ 74

* Less than $0.5 million

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, 2010 (US$ millions):

	SRP	RSBP		PEBP
		Before Medicare Part D subsidy	Medicare Part D subsidy	
July 1, 2010 - June 30, 2011	$ 75	$ 5	$ -	$ 6
July 1, 2011 - June 30, 2012	81	5	-	6
July 1, 2012 - June 30, 2013	88	6	-	7
July 1, 2013 - June 30, 2014	94	7	-	7
July 1, 2014 - June 30, 2015	100	8	-	8
July 1, 2015 - June 30, 2020	597	57	1	48

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, 2010 is $50 million and $22 million, respectively.

NOTE W – 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, 2010, were $39 million ($41 million - year ended June 30, 2009; $34 million - year ended June 30, 2008).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE X – MANAGEMENT OF TRUST FUNDS

Donor funds for Advisory Services and Other Initiatives

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

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

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

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

IFC also enters into financial intermediary fund arrangements under which IFC's services are limited to the role of fiscal agent pursuant to a fiscal agency agreement. Such funds are to be held and disbursed in accordance with the fiscal agency agreement.

Donor funds for investment purposes

IFC also administers donor funds received for investment purposes through Trust Funds. Investments with donor funds are made by IFC as a trustee or implementing entity for the account of donors, and thus IFC does not bear the financial risk nor is entitled to the financial benefits of these donor-funded investments. Therefore, funds received from donors and investments made by IFC for the account of donors are not recognized on IFC's consolidated balance sheet. Funds received from donors for investment purposes amounted to $1,042 million at June 30, 2010 ($122 million at June 30, 2009). Disbursements from such donor funds amounted to $785 million at June 30, 2010 ($37 million at June 30, 2009). Guarantees committed by donors amounted to $44 million at June 30, 2010 ($38 million at June 30, 2009).

NOTE Y – CONTINGENCIES

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

INDEPENDENT AUDITORS' REPORT

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

President and Board of Directors
International Finance Corporation:

We have audited the accompanying consolidated balance sheets of the International Finance Corporation (IFC) as of June 30, 2010 and 2009, including the consolidated statement of capital stock and voting power as of June 30, 2010, and the related consolidated income statements and statements of comprehensive income, changes in capital, and cash flows for each of the years in the two-year period ended June 30, 2010. These consolidated financial statements are the responsibility of IFC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated financial statements of the IFC for the year ended June 30, 2008 were audited by other auditors whose report dated August 7, 2008, expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IFC as of June 30, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the two-year period ended June 30, 2010 in conformity with U.S. generally accepted accounting principles.

We have also examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that IFC maintained effective internal control over financial reporting as of June 30, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 5, 2010 expressed an unqualified opinion on management's assertion.

KPMG LLP

August 5, 2010

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.