

Financial Statements

REPORT OF INDEPENDENT ACCOUNTANTS FINANCIAL STATEMENTS INCLUDING NOTES

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INDEPENDENT AUDITORS' REPORT

President and Board of Governors
International Finance Corporation

We have audited the accompanying consolidated balance sheets of the International Finance Corporation as of June 30, 2005 and 2004, including the consolidated statements of capital stock and voting power as of June 30, 2005 and the related consolidated statements of income, comprehensive income, changes in capital, and cash flows for each of the three fiscal years in the period ended June 30, 2005. These consolidated financial statements are the responsibility of the International Finance Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, such consolidated financial statements present fairly, in all material respects, the financial position of the International Finance Corporation as of June 30, 2005 and 2004, and the results of its operations and its cash flows for each of the three fiscal years in the period ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

July 28, 2005

Member of
Deloitte Touche Tohmatsu

INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED BALANCE SHEET

as of June 30, 2005 and June 30, 2004

(US\$ millions)

	<u>2005</u>	<u>2004</u>
Assets		
Due from banks	\$ 139	\$ 74
Time deposits	1,799	2,387
Trading securities – Note B	14,561	12,842
Securities purchased under resale agreements	6,282	3,094
Loans	9,973	9,753
Less: Reserve against losses on loans	(989)	(1,367)
Net loans	<u>8,984</u>	<u>8,386</u>
Equity investments	<u>2,505</u>	<u>1,893</u>
Total loans and equity investments disbursed and outstanding – Notes C and E	<u>11,489</u>	<u>10,279</u>
Derivative assets – Note P	1,516	1,092
Receivables and other assets – Note H	<u>3,774</u>	<u>2,593</u>
Total assets	<u>\$ 39,560</u>	<u>\$ 32,361</u>
Liabilities and capital		
Liabilities		
Securities sold under repurchase agreements and payable for cash collateral received	\$ 9,321	\$ 4,329
Borrowings withdrawn and outstanding – Note I		
From market sources	15,304	16,157
From International Bank for Reconstruction and Development	55	97
Total borrowings	<u>15,359</u>	<u>16,254</u>
Derivative liabilities – Note P	2,332	1,549
Payables and other liabilities – Note J	<u>2,750</u>	<u>2,447</u>
Total liabilities	<u>29,762</u>	<u>24,579</u>
Capital		
Capital stock, authorized 2,450,000 shares of \$1,000 par value each – Note K		
Subscribed	2,365	2,362
Less: Portion not yet paid	(1)	(1)
Total capital stock	<u>2,364</u>	<u>2,361</u>
Payments received on account of pending subscriptions	-	1
Accumulated other comprehensive income	1	2
Retained earnings	<u>7,433</u>	<u>5,418</u>
Total capital	<u>9,798</u>	<u>7,782</u>
Total liabilities and capital	<u>\$ 39,560</u>	<u>\$ 32,361</u>

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

INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED INCOME STATEMENT

for the three years ended June 30, 2005

(US\$ millions)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest income			
Interest and financial fees from loans – Note C	\$ 660	\$ 518	\$ 477
Interest from time deposits and securities – Note B	<u>533</u>	<u>278</u>	<u>318</u>
Total interest income	<u>1,193</u>	<u>796</u>	<u>795</u>
Interest expense			
Charges on borrowings – Note I	<u>309</u>	<u>141</u>	<u>226</u>
Total interest expense	<u>309</u>	<u>141</u>	<u>226</u>
Net interest income	884	655	569
Net (losses) gains on trading activities – Note B	(175)	(104)	157
Net income from equity investments – Note E.....	1,365	658	145
Release of (provision for) losses on loans and guarantees – Note C.....	<u>261</u>	<u>103</u>	<u>(48)</u>
Net income from loans, equity investments and trading activities	2,335	1,312	823
Noninterest income			
Service fees	41	41	51
Other income – Note L	<u>45</u>	<u>34</u>	<u>34</u>
Total noninterest income	<u>86</u>	<u>75</u>	<u>85</u>
Noninterest expense			
Administrative expenses – Notes T and U	403	360	332
Expense from pension and other postretirement benefit plans – Note S	14	19	24
Contributions to special programs – Note M	-	29	28
Net translation adjustments	7	(7)	(8)
Other expenses	<u>6</u>	<u>4</u>	<u>4</u>
Total noninterest expense	<u>430</u>	<u>405</u>	<u>380</u>
Income before expenditures for technical assistance and advisory services and net gains (losses) on other financial instruments	1,991	982	528
Expenditures for technical assistance and advisory services – Note N.....	(38)	-	-
Net gains (losses) on other financial instruments – Note O.....	<u>62</u>	<u>11</u>	<u>(41)</u>
Net income	<u>\$ 2,015</u>	<u>\$ 993</u>	<u>\$ 487</u>

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

INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the three years ended June 30, 2005

(US\$ millions)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income	\$ 2,015	\$ 993	\$ 487
Other comprehensive loss			
Reclassification to net income of net interest accruals on swaps in cash flow hedging relationships at June 30, 2000	(1)	(2)	(2)
Total comprehensive income	<u>\$ 2,014</u>	<u>\$ 991</u>	<u>\$ 485</u>

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INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL

for the three years ended June 30, 2005

(US\$ millions)

	Retained earnings				Accumulated other comprehensive income	Capital stock	Payments received on account of pending subscriptions	Total capital
	Undesignated	Designated for technical assistance and advisory services	Designated for performance-based grants	Total				
At July 1, 2002	\$ 3,938	\$ -	\$ -	\$ 3,938	\$ 6	\$ 2,360	\$ -	\$ 6,304
Year ended June 30, 2003								
Net income	487			487				487
Other comprehensive income (loss)					(2)			(2)
At June 30, 2003	\$ 4,425	\$ -	\$ -	\$ 4,425	\$ 4	\$ 2,360	\$ -	\$ 6,789
Year ended June 30, 2004								
Net income	993			993				993
Other comprehensive income (loss)					(2)			(2)
Designations for technical assistance and advisory services - Note K	(225)	225		-				-
Payments received on account of pending subscriptions							1	1
Payments received for capital stock subscribed						1		1
At June 30, 2004	\$ 5,193	\$ 225	\$ -	\$ 5,418	\$ 2	\$ 2,361	\$ 1	\$ 7,782
Year ended June 30, 2005								
Net income	2,015	-		2,015				2,015
Expenditures for technical assistance and advisory services - Note N	38	(38)		-				-
Other comprehensive income (loss)					(1)			(1)
Designations for technical assistance and advisory services - Note K	(125)	125		-				-
Designations for performance-based grants - Note K	(250)		250	-				-
Payments received on account of pending subscriptions						1	(1)	-
Payments received for capital stock subscribed						2		2
At June 30, 2005	\$ 6,871	\$ 312	\$ 250	\$ 7,433	\$ 1	\$ 2,364	\$ -	\$ 9,798

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

INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

for the three years ended June 30, 2005

(US\$ millions)

	2005	2004	2003
Cash flows from loans and equity investment activities			
Loan disbursements	\$ (2,868)	\$ (2,684)	\$ (2,646)
Equity disbursements	(588)	(468)	(313)
Loan repayments	2,283	1,935	1,402
Equity redemptions	29	4	5
Sales of loans and equity investments	1,338	975	271
Net cash provided by (used in) investing activities	194	(238)	(1,281)
Cash flows from financing activities			
Drawdown of borrowings	1,989	3,047	3,526
Repayment of borrowings	(2,497)	(3,136)	(3,796)
Capital subscriptions	2	1	-
Net cash used in financing activities	(506)	(88)	(270)
Cash flows from operating activities			
Net income	2,015	993	487
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Realized capital gains on equity sales	(723)	(381)	(52)
Unrealized income from LLPs and certain LLCs	(191)	-	-
Equity investment impairment write-downs	62	-	-
(Release of) provision for losses on loans and guarantees	(261)	(103)	48
Changes in carrying value of equity investments	(269)	(74)	50
Net translation adjustments	7	(7)	(8)
Net (gains) losses on other financial instruments	(62)	(11)	41
Change in accrued income on loans, time deposits and securities	(470)	(228)	(278)
Change in payables and other liabilities	5,808	(330)	1,917
Change in receivables and other assets	(4,446)	412	(4,322)
Net cash provided by (used in) operating activities	1,470	271	(2,117)
Change in cash and cash equivalents	1,158	(55)	(3,668)
Effect of exchange rate changes on cash and cash equivalents	38	2,400	265
Net change in cash and cash equivalents	1,196	2,345	(3,403)
Beginning cash and cash equivalents	15,303	12,958	16,361
Ending cash and cash equivalents	\$ 16,499	\$ 15,303	\$ 12,958
Composition of cash and cash equivalents			
Due from banks	\$ 139	\$ 74	\$ 93
Time deposits	1,799	2,387	2,293
Securities held in trading portfolio	14,561	12,842	10,572
Total cash and cash equivalents	\$ 16,499	\$ 15,303	\$ 12,958
Supplemental disclosure			
Change in ending balances resulting from exchange rate fluctuations:			
Loans outstanding	\$ (9)	\$ 83	\$ 145
Borrowings	(24)	(765)	(473)

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

INTERNATIONAL FINANCE CORPORATION

STATEMENT OF CAPITAL STOCK AND VOTING POWER

as of June 30, 2005

(US\$ thousands)

Members	Capital stock		Voting power		Members	Capital stock		Voting power	
	Amount paid	Percent of total	Number of votes	Percent of total		Amount paid	Percent of total	Number of votes	Percent of total
Afghanistan	\$ 111	*	361	0.02	Latvia	\$ 2,150	0.09	2,400	0.10
Albania	1,302	0.06	1,552	0.06	Lebanon	135	0.01	385	0.02
Algeria	5,621	0.24	5,871	0.24	Lesotho	71	*	321	0.01
Angola	1,481	0.06	1,731	0.07	Liberia	83	*	333	0.01
Antigua and Barbuda	13	*	263	0.01	Libya	55	*	305	0.01
Argentina	38,129	1.61	38,379	1.59	Lithuania	2,341	0.10	2,591	0.11
Armenia	992	0.04	1,242	0.05	Luxembourg	2,139	0.09	2,389	0.10
Australia	47,329	2.00	47,579	1.98	Macedonia, FYR of	536	0.02	786	0.03
Austria	19,741	0.84	19,991	0.83	Madagascar	432	0.02	682	0.03
Azerbaijan	2,367	0.10	2,617	0.11	Malawi	1,822	0.08	2,072	0.09
Bahamas, The	335	0.01	585	0.02	Malaysia	15,222	0.64	15,472	0.64
Bahrain	1,746	0.07	1,996	0.08	Maldives	16	*	266	0.01
Bangladesh	9,037	0.38	9,287	0.39	Mali	451	0.02	701	0.03
Barbados	361	0.02	611	0.03	Malta	1,615	0.07	1,865	0.08
Belarus	5,162	0.22	5,412	0.22	Marshall Islands	663	0.03	913	0.04
Belgium	50,610	2.14	50,860	2.11	Mauritania	214	0.01	464	0.02
Belize	101	*	351	0.01	Mauritius	1,665	0.07	1,915	0.08
Benin	119	0.01	369	0.02	Mexico	27,589	1.17	27,839	1.16
Bhutan	720	0.03	970	0.04	Micronesia, Fed. States of	744	0.03	994	0.04
Bolivia	1,902	0.08	2,152	0.09	Moldova	784	0.03	1,034	0.04
Bosnia and Herzegovina	620	0.03	870	0.04	Mongolia	144	0.01	394	0.02
Botswana	113	*	363	0.02	Morocco	9,037	0.38	9,287	0.39
Brazil	39,479	1.67	39,729	1.65	Mozambique	322	0.01	572	0.02
Bulgaria	4,867	0.21	5,117	0.21	Myanmar	666	0.03	916	0.04
Burkina Faso	836	0.04	1,086	0.05	Namibia	404	0.02	654	0.03
Burundi	100	*	350	0.01	Nepal	822	0.03	1,072	0.04
Cambodia	339	0.01	589	0.02	Netherlands	56,174	2.37	56,381	2.34
Cameroon	885	0.04	1,135	0.05	New Zealand	3,583	0.15	3,833	0.16
Canada	81,342	3.44	81,592	3.39	Nicaragua	715	0.03	965	0.04
Cape Verde	15	*	265	0.01	Niger	147	0.01	397	0.02
Central African Republic	119	0.01	369	0.02	Nigeria	21,643	0.92	21,893	0.91
Chad	1,364	0.06	1,614	0.07	Norway	17,599	0.74	17,849	0.74
Chile	11,710	0.50	11,960	0.50	Oman	1,187	0.05	1,437	0.06
China	24,500	1.04	24,750	1.03	Pakistan	19,380	0.82	19,630	0.82
Colombia	12,606	0.53	12,856	0.53	Palau	25	*	275	0.01
Comoros	14	*	264	0.01	Panama	1,007	0.04	1,257	0.05
Congo, Dem. Rep. of	2,159	0.09	2,409	0.10	Papua New Guinea	1,147	0.05	1,397	0.06
Congo, Republic of	131	0.01	381	0.02	Paraguay	436	0.02	686	0.03
Costa Rica	952	0.04	1,202	0.05	Peru	6,898	0.29	7,148	0.30
Côte d'Ivoire	3,544	0.15	3,794	0.16	Philippines	12,606	0.53	12,856	0.53
Croatia	2,882	0.12	3,132	0.13	Poland	7,236	0.31	7,486	0.31
Cyprus	2,139	0.09	2,389	0.10	Portugal	8,324	0.35	8,574	0.36
Czech Republic	8,913	0.38	9,163	0.38	Romania	2,661	0.11	2,911	0.12
Denmark	18,554	0.78	18,804	0.78	Russian Federation	81,342	3.44	81,592	3.39
Djibouti	21	*	271	0.01	Rwanda	306	0.01	556	0.02
Dominica	42	*	292	0.01	Saint Kitts and Nevis	632	0.03	882	0.04
Dominican Republic	1,187	0.05	1,437	0.06	St. Lucia	74	*	324	0.01
Ecuador	2,161	0.09	2,411	0.10	Samoa	35	*	285	0.01
Egypt, Arab Republic of	12,360	0.52	12,610	0.52	Saudi Arabia	30,062	1.27	30,312	1.26
El Salvador	29	*	279	0.01	Senegal	2,299	0.10	2,549	0.11
Equatorial Guinea	43	*	293	0.01	Serbia and Montenegro	1,803	0.08	2,053	0.09
Eritrea	935	0.04	1,185	0.05	Seychelles	27	*	277	0.01
Estonia	1,434	0.06	1,684	0.07	Sierra Leone	223	0.01	473	0.02
Ethiopia	127	0.01	377	0.02	Singapore	177	0.01	427	0.02
Fiji	287	0.01	537	0.02	Slovak Republic	4,457	0.19	4,707	0.20
Finland	15,697	0.66	15,947	0.66	Slovenia	1,585	0.07	1,835	0.08
France	121,015	5.12	121,265	5.04	Solomon Islands	37	*	287	0.01
Gabon	1,268	0.05	1,518	0.06	Somalia	83	*	333	0.01
Gambia, The	94	*	344	0.01	South Africa	15,948	0.67	16,198	0.67
Georgia	861	0.04	1,111	0.05	Spain	37,026	1.57	37,276	1.55
Germany	128,908	5.45	129,158	5.36	Sri Lanka	7,135	0.30	7,385	0.31
Ghana	5,071	0.21	5,321	0.22	Sudan	111	*	361	0.02
Greece	6,898	0.29	7,148	0.30	Swaziland	684	0.03	934	0.04
Grenada	74	*	324	0.01	Sweden	26,876	1.14	27,126	1.13
Guatemala	1,084	0.05	1,334	0.06	Switzerland	41,580	1.76	41,830	1.74
Guinea	339	0.01	589	0.02	Syrian Arab Republic	194	0.01	444	0.02
Guinea-Bissau	18	*	268	0.01	Tajikistan	1,212	0.05	1,462	0.06
Guyana	1,392	0.06	1,642	0.07	Tanzania	1,003	0.04	1,253	0.05
Haiti	822	0.03	1,072	0.04	Thailand	10,941	0.46	11,191	0.46
Honduras	495	0.02	745	0.03	Timor-Leste	777	0.03	1,027	0.04
Hungary	10,932	0.46	11,182	0.46	Togo	808	0.03	1,058	0.04
Iceland	42	*	292	0.01	Tonga	34	*	284	0.01
India	81,342	3.44	81,592	3.39	Trinidad and Tobago	4,112	0.17	4,362	0.18
Indonesia	28,539	1.21	28,789	1.20	Tunisia	3,566	0.15	3,816	0.16
Iran, Islamic Republic of	1,444	0.06	1,694	0.07	Turkey	14,545	0.62	14,795	0.61
Iraq	147	0.01	397	0.02	Turkmenistan	810	0.03	1,060	0.04
Ireland	1,290	0.05	1,540	0.06	Uganda	735	0.03	985	0.04
Israel	2,135	0.09	2,385	0.10	Ukraine	9,505	0.40	9,755	0.41
Italy	81,342	3.44	81,592	3.39	United Arab Emirates	4,033	0.17	4,283	0.18
Jamaica	4,282	0.18	4,532	0.19	United Kingdom	121,015	5.12	121,265	5.04
Japan	141,174	5.97	141,424	5.87	United States	569,379	24.09	569,629	23.65
Jordan	941	0.04	1,191	0.05	Uruguay	3,569	0.15	3,819	0.16
Kazakhstan	4,637	0.20	4,887	0.20	Uzbekistan	3,873	0.16	4,123	0.17
Kenya	4,041	0.17	4,291	0.18	Vanuatu	55	*	305	0.01
Kiribati	12	*	262	0.01	Venezuela, Rep. Boliv. de	27,588	1.17	27,838	1.16
Korea, Republic of	15,946	0.67	16,196	0.67	Vietnam	446	0.02	696	0.03
Kuwait	9,947	0.42	10,197	0.42	Yemen, Republic of	715	0.03	965	0.04
Kyrgyz Republic	1,720	0.07	1,970	0.08	Zambia	1,286	0.05	1,536	0.06
Lao People's Dem. Rep.	278	0.01	528	0.02	Zimbabwe	2,120	0.09	2,370	0.10
					Total June 30, 2005	\$ 2,363,891	100.00+	2,408,391	100.00+
					Total June 30, 2004	\$ 2,361,499	100.00+	2,405,499	100.00+

* Less than .005 percent.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PURPOSE

The International Finance Corporation (IFC or the Corporation), an international organization, was established in 1956 to further economic development in its member countries by encouraging the growth of private enterprise. The Corporation is a member of the World Bank Group, which also includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA). The Corporation's activities are closely coordinated with and complement the overall development objectives of the other World Bank Group institutions. The Corporation, together with private investors, assists in financing the establishment, improvement, and expansion of private sector enterprises by making loans and equity investments where sufficient private capital is not otherwise available on reasonable terms. The Corporation also plays a catalytic role in mobilizing additional project funding from other investors and lenders, either through cofinancing or through loan participations, underwritings, and guarantees. In addition to project finance and resource mobilization, the Corporation offers an array of financial and technical advisory and corporate governance 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. The Corporation'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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

The consolidated financial statements include the financial statements of the Corporation and two variable interest entities (VIE) created after December 31, 2003, in which the Corporation has been deemed to be the primary beneficiary (see Note W). The accounting and reporting policies of the Corporation conform with accounting principles generally accepted in the United States of America (US GAAP). On July 28, 2005, the Board of Directors of the Corporation (the Board) approved these financial statements for issue.

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

Use of estimates - The preparation of the 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 financial statements and the reported amounts of income and expense during the reporting periods. Actual results could differ from these estimates. A significant degree of judgment has been used in the determination of: the adequacy of the reserve against losses on loans and impairment of equity investments; estimated fair values of all derivative instruments and related financial instruments in qualifying hedging relationships; and net periodic pension income. There are inherent risks and uncertainties related to the Corporation's operations. The possibility exists that changing economic conditions could have an adverse effect on the financial position of the Corporation.

The Corporation 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. The Corporation undertakes continuous review and respecification of these models with the objective of refining its estimates, consistent with evolving best market practices. Changes in estimates resulting from refinements in the assumptions and methodologies incorporated in the models are reflected in net income in the period in which the enhanced models are first applied.

Translation of currencies - Assets and liabilities not denominated in United States dollars (US dollars or \$), other than disbursed equity investments, are expressed in US dollars at the exchange rates prevailing at June 30, 2005 and June 30, 2004. Disbursed equity investments are expressed in US dollars at the prevailing exchange rates at the time of disbursement. Income and expenses are translated at the rates of exchange prevailing at the time of the transaction. Translation gains and losses are credited or charged to income.

Loans - The Corporation originates loans to facilitate project finance, restructuring, refinancing, corporate finance, and/or developmental impact. Loans are recorded as assets when disbursed. Loans are carried at the principal amounts outstanding. Where loans are part of a designated hedging relationship employing derivative instruments, the carrying value is adjusted for changes in fair value attributable to the risk being hedged. These adjustments are reported in net gains and losses on other financial instruments in the income statement. It is the Corporation's practice to obtain collateral security such as, but not limited to, mortgages and third-party guarantees.

Revenue recognition on loans - Interest income and commitment fees on loans are recorded as income on an accrual basis. Loan origination costs are expensed as incurred. Loan origination fees are recognized in income when received. The net of loan origination fees and loan origination costs is considered insignificant. All other fees are recorded as income when received in freely convertible currencies. The Corporation does not recognize income on loans where collectibility is in doubt or payments of interest or principal are past due more than 60 days unless management anticipates that collection of interest will occur in the near future. Any interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when the actual payment is received. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income, included in the 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 and equity investments in the balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reserve against losses on loans - The Corporation recognizes portfolio impairment on loans in the balance sheet through the reserve against losses on loans, recording a provision or release of provision for losses on loans in net income on a quarterly basis, which increases or decreases the reserve against losses on loans.

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 comprise simulation techniques, internal country risk ratings and the impairment potential of the loan portfolio based on the Corporation's historical portfolio write-off and loss reserve experience on mature investments.

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

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

Equity investments - The Corporation invests for current income, capital appreciation, developmental impact, or all three; the Corporation does not take operational, controlling, or strategic equity positions within its investees. Equity investments are acquired through direct ownership of equity instruments of investees and as a limited partner in limited liability partnerships (LLPs) and limited liability companies (LLCs).

Revenue recognition on equity investments - Direct equity investments and certain investments in investment companies are carried at cost less impairment. The Corporation enters into put and call option agreements in connection with equity investments; these are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 133. The Corporation's investments in limited LLPs and LLCs that maintain specific ownership accounts are accounted for under the equity method. 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 capital gains. The cost recovery method is principally applied to the Corporation's investment in its unincorporated oil and gas joint ventures.

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

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

Guarantees - The Corporation extends financial guarantee facilities to its clients to provide credit enhancement for their debt securities and trade obligations. Beginning in the year ended June 30, 2001, the Corporation began offering partial credit guarantees to clients covering, on a risk-sharing basis, client obligations on bonds and/or loans. Under the terms of the Corporation's guarantees, the Corporation 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 the Corporation commits to the guarantee. This date is also the "inception" of the guarantee contract. Guarantees are regarded as outstanding when the underlying financial obligation of the client is incurred, and called when the Corporation's obligation under the guarantee has been invoked. There are two liabilities associated with the guarantees: (1) the stand-ready obligation to perform and (2) the contingent liability. The stand-ready obligation to perform is recognized at the commitment date unless a contingent liability exists at that time or is expected to exist in the near term. The contingent liability associated with the financial guarantees 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 balance sheet. When the guarantees are called, the amount disbursed is recorded as a new loan, and specific reserves are established, based on the estimated probable loss. These reserves are included in the reserve against losses on loans on the balance sheet. Guarantee fees are recorded in income as the stand-ready obligation to perform is fulfilled. Commitment fees on guarantees are recorded as income on an accrual basis.

Funding Mechanism for Technical Assistance and Advisory Services - In the year ended June 30, 2004, IFC established a funding mechanism for technical assistance and advisory services. The funding mechanism is used to finance the Corporation's technical assistance and advisory activities. Amounts designated for technical assistance and advisory services are determined based on the Corporation's annual operating income in excess of \$150 million, and contemplating the financial capacity and priorities of the Corporation. Expenditures for the various approved technical assistance and advisory projects are recorded as expenses in the Corporation's income statement in the year in which they occur and have the effect of reducing retained earnings designated for technical assistance and advisory services.

Performance-Based Grants Initiative - In the year ended June 30, 2005, IFC began the analysis to create a program to fund performance-based grants, targeted at specified industries in developing countries. Because the decision to proceed with this program was still under review by the Board at June 30, 2005, IFC designated \$250 million of retained earnings for the program, but has not yet allocated or disbursed any amount under the program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Liquid asset portfolio - The Corporation's liquid funds are invested in government and agency obligations, time deposits and asset-backed securities. Government and agency obligations include long and short positions in highly rated fixed rate bonds, notes, bills, and other obligations issued or unconditionally guaranteed by governments of countries or other official entities including government agencies and instrumentalities or by multilateral organizations. The liquid asset portfolio, as defined by the Corporation, 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.

Trading securities are carried at fair value with any changes in fair value reported in net gains and losses on trading activities. Interest on securities and amortization of premiums and accretion of discounts are reported in interest from time deposits and securities.

The Corporation classifies due from banks, time deposits, and securities (collectively, cash and cash equivalents) as an element of liquidity in the statement of cash flows because they are readily convertible to known amounts of cash within 90 days.

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 the Corporation'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. The Corporation also monitors its exposure with respect to securities sold under repurchase agreements and, in accordance with the terms of the agreements, requests the return of excess securities held by the counterparty when their value increases.

Repurchase and resale agreements are accounted for as collateralized financing transactions and recorded at the amount at which the securities were acquired or sold plus accrued interest. Securities purchased under resale agreements, securities sold under agreements to repurchase and securities payable for cash collateral received are recorded at fair value.

Borrowings - To diversify its access to funding and reduce its borrowing costs, the Corporation 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, the Corporation 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, the Corporation is not permitted to mortgage or allow a lien to be placed on its assets (other than purchase money security interests) without extending equivalent security to the holders of such borrowings.

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

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

All derivative instruments are recorded on the balance sheet at fair value as derivative assets or derivative liabilities. Where they are not clearly and closely related to the host contract, certain derivative instruments embedded in loans, equity investments and market borrowing transactions entered into on or after January 1, 1999, are bifurcated from the host contract and recorded at fair value as derivative assets and liabilities. The value at inception of such embedded derivatives is excluded from the carrying value of the host contracts on the balance sheet. Changes in fair values of derivative instruments used in liquid asset portfolio management activities are recorded in net gains and losses on trading activities. Changes in fair values of derivative instruments other than those used in liquid asset portfolio management activities are recorded in net gains (losses) on other financial instruments.

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

The Corporation has designated certain hedging relationships in its borrowing and lending activities as fair value hedges. The Corporation generally matches the terms of its derivatives with the terms of the specific underlying financial instruments hedged, in terms of currencies, maturity dates, reset dates, interest rates, and other features. However, the valuation methodologies applied to the derivative and the hedged financial instrument, as prescribed by SFAS No. 133, may differ. The resulting ineffectiveness calculated for such relationships is recorded in net gains and losses on other financial instruments in the income statement.

The Corporation has not designated any hedging relationships as cash flow hedges.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Lending activities The Corporation's policy is to closely match the currency, rate basis, and maturity of its loans and borrowings. Derivative instruments are used to convert the cash flows from fixed rate US dollar or non-US dollar loans into variable rate US dollars. The impact on net income of changes in fair value of interest rate swaps qualifying for the shortcut method under SFAS No. 133 is exactly offset by a corresponding adjustment to the fair value of the related loans. The Corporation has elected not to designate hedging relationships for all other lending-related derivatives that do not qualify for the shortcut method.

Client risk management activities The Corporation 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 the Corporation's loan portfolio. To hedge the market risks that arise from these transactions with clients, the Corporation enters into offsetting derivative transactions with matching terms with authorized market counterparties. Changes in fair value of all derivatives associated with these activities are reflected currently in net income. Though hedge accounting is not applicable to these activities, the matching of terms between the offsetting transactions minimizes the impact on net income. Fees and spreads charged on these transactions are recorded as income on an accrual basis.

Borrowing activities The Corporation 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. The Corporation uses derivative instruments with matching terms, primarily currency and interest rate swaps, to convert such borrowings into variable rate US dollar obligations, consistent with the Corporation's matched funding policy. The Corporation has designated the majority of derivatives associated with borrowing activities as fair value hedges of the underlying borrowings. There are a small number of cash flow-like hedging transactions for which no hedge relationship has been designated.

Liquid asset portfolio management activities The Corporation 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 the Corporation's matched funding policy. The derivative instruments used include short-term, over-the-counter foreign exchange forwards (covered forwards), interest rate and currency swaps, and exchange-traded interest rate futures and options. As the entire liquid asset portfolio is classified as a trading portfolio, all securities (including derivatives) are carried at fair value, and no hedging relationships have been designated.

Asset and liability management In addition to the risk managed in the context of its business activities detailed above, the Corporation 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 eliminating the net excess asset or liability position through spot sales or purchases. Interest rate risk due to reset date mismatches is reduced by synchronizing the reset dates on assets and liabilities and managing overall interest rate risk on an aggregate basis. Interest rate risk arising from mismatches due to writedowns, prepayments and reschedulings, and residual reset date mismatches, is monitored by measuring the sensitivity of the present value of assets and liabilities in each currency to each basis point change in interest rates.

The Corporation 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, the Corporation has entered into master agreements governing derivative transactions that contain close-out and netting provisions and collateral arrangements. Under these agreements, if the Corporation'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.

Resource mobilization - The Corporation mobilizes funds from commercial banks and other financial institutions (Participants) by facilitating loan participations, without recourse. These loan participations are administered and serviced by the Corporation on behalf of the Participants. The disbursed and outstanding balances of the loan participations are not included in the Corporation's 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 the Corporation 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, the Corporation, and MIGA based upon their employees' respective participation in the plans. In addition, the Corporation 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 the Corporation is included in expense from pension and other postretirement benefits, respectively, in the income statement. The Corporation includes a receivable from IBRD in receivables and other assets, representing prepaid pension and other postretirement benefit costs.

Accounting and financial reporting developments - In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities – an interpretation of ARB No. 51 (FIN 46)*. During December 2003, FASB replaced FIN 46 with FASB Interpretation No. 46, *Consolidation of Variable Interest Entities – an interpretation of ARB No. 51 (FIN 46R)*. FIN 46 and FIN 46R define certain "variable interest entities" (VIEs) and require parties to such entities to assess and measure variable interests in the VIEs for the purpose of determining possible consolidation of the VIEs. Variable interests can arise from financial instruments, service contracts, guarantees, leases or other arrangements with VIE. An entity that will absorb a majority of VIE's expected losses or expected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Enterprises are required to apply the provisions of FIN 46 to VIEs created after January 31, 2003. Entities with an interest in an entity that is subject to FIN 46R and that is created after December 31, 2003 are required to apply the provisions of FIN 46R and related FSPs to that entity immediately. Nonpublic entities are required to apply the provisions of FIN 46R to all entities that are subject to FIN 46R by the beginning of the first annual period beginning after December 15, 2004. IFC applied FIN 46 to entities created after January 31, 2003 and applied FIN 46R to entities created after December 31, 2003.

As a result of its analysis, the Corporation identified two VIEs in which it is deemed to be the primary beneficiary. The assets, liabilities and the results of operations of the two VIEs have been included in IFC's consolidated financial statements. In addition to the VIEs in which IFC is deemed to be the primary beneficiary, the Corporation has significant variable interest in certain other VIEs that are not consolidated because the Corporation is not the primary beneficiary.

Pursuant to the requirements for nonpublic entities (nonpublic entities as defined in SFAS No. 123, *Accounting for Stock-Based Compensation*), IFC is required to apply the provisions of FIN 46R to entities created before January 31, 2003 in its financial statements for the year ending June 30, 2006. As a result, the Corporation expects to include the assets, liabilities and results of operations of three additional VIE's in which it is deemed to be the primary beneficiary. Given the combined size of these VIEs, the impact is not expected to be material to the Corporation's results of operations, cash flow or financial position. The Corporation has also identified a number of investments in which it is not deemed to be the primary beneficiary but it is reasonably possible that IFC could be deemed to hold a significant variable interest in the VIE.

Note W provides further details regarding the Corporation's variable interests in VIEs.

Emerging Issues Task Force (EITF) Issue No. 03-16, *Accounting for Investments in Limited Liability Companies* expanded the use of the equity method to investments held in LLCs which maintain separate ownership accounts and in which the investor's investment is in excess of 3-5%. EITF 03-16 is effective for fiscal periods beginning after June 15, 2004. The Corporation does have investments in LLCs, which maintain separate ownership accounts, and has adopted the equity method of accounting for those investments.

FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No.20 and FASB Statement No.3. The Corporation has elected to early adopt SFAS No. 154 as of July 1, 2005. The adoption will have no material impact on the Corporation's results of operations, cash flows or financial position as to that date.

FASB issued SFAS No.153, *Exchange of Nonmonetary Assets*, as amendment of APB Opinion No.29, which requires nonmonetary exchanges, which have commercial substance to be accounted for at fair value. The Corporation elected to early adopt SFAS No.153 as of April 1, 2005. The adoption had no material impact on the Corporation's results of operations, cash flows or financial position.

In September 2004, FASB postponed certain paragraphs pertaining to the consensus reached by the EITF on Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*. EITF 03-1 was issued to clarify the meaning of "other-than-temporary impairment" and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (including individual securities and investments in mutual funds), and investments accounted for under the cost method. Though part of EITF 03-1 was deferred, certain sections of the guidance were adopted by IFC, specifically those sections related to disclosures.

In June 2004, FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 02-14, *Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock If the Investor Has the Ability to Exercise Significant Influence Over the Operating and Financial Policies of the Investee*. EITF 02-14 defines features of certain financial instruments which are deemed to be "in substance" common shares, and which, therefore, must be included in the investor's analysis of total investment in an investee company for purposes of determining if the investor has the ability to exercise significant influence over the investee. EITF 02-14 was effective for IFC beginning October 1, 2004. The impact of adopting EITF 02-14 was not material to the Corporation's results of operations, financial position and cash flows.

The US Accounting Standards Executive Committee issued, and FASB ratified, Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3). The Corporation will adopt SOP 03-3 as of July 1, 2005, and the adoption is not expected to have a material impact on the Corporation's results of operations, cash flows or financial position as of June 30, 2005.

In addition, during the year ended June 30, 2005, FASB issued and/or approved various FASB Staff Positions, EITF Issues Notes, and other interpretative guidance related to Statements of Financial Accounting Standards and APB Opinions. The Corporation analyzed and implemented the new guidance, as appropriate, with no material impact on either the financial position or results of operations of the Corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B – LIQUID ASSET PORTFOLIO

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

	June 30, 2005	June 30, 2004
Assets		
Due from banks	\$ 56	\$ 39
Time deposits	1,720	2,375
Trading securities	14,561	12,842
Securities purchased under resale agreements	6,282	3,094
Receivables and other assets:		
Receivables from sales of securities	1,330	813
Accrued interest income on time deposits and securities	1,116	665
Accrued income on derivative instruments	42	24
Derivative assets	151	93
Total assets	25,258	19,945
Liabilities		
Payables and other liabilities:		
Payables for purchases of securities	1,769	1,733
Accrued charges on derivative instruments	110	112
Securities sold under repurchase agreements and payable for cash collateral received	9,321	4,329
Derivative liabilities	733	716
Total liabilities	11,933	6,890
Total net liquid asset portfolio	\$ 13,325	\$ 13,055

The liquid asset portfolio is denominated primarily in US dollars; investments in other currencies, net of the effect of associated derivative instruments that convert non-US dollar securities into US dollar securities, represent less than 1% of the portfolio at June 30, 2005 (less than 1% - June 30, 2004). The annualized rate of return on the trading portfolio during the year ended June 30, 2005, was 2.6% (1.4% - year ended June 30, 2004; 3.7% - year ended June 30, 2003). After the effect of associated derivative instruments, the liquid asset portfolio generally reprices within one year.

Trading securities

The composition of trading securities is as follows:

	Year ended June 30, 2005	At June 30, 2005		
	Fair value average daily balance (US\$ millions)	Fair value (US\$ millions)	Average maturity (years)	Average yield (%)
Government and agency obligations	\$ 7,716	\$ 7,923	3.4	3.9
Asset-backed securities	3,518	4,220	24.2	3.9
Corporate securities	2,756	2,300	3.9	4.4
Money market funds	367	118	-	2.6
Total trading securities	\$ 14,357	\$ 14,561		
	Year ended June 30, 2004	At June 30, 2004		
	Fair value average daily balance (US\$ millions)	Fair value (US\$ millions)	Average maturity (years)	Average yield (%)
Government and agency obligations	\$ 5,208	\$ 6,996	4.8	3.9
Asset-backed securities	2,785	2,767	14.6	1.7
Corporate securities	3,121	2,956	3.3	4.4
Money market funds	124	123	-	1.3
Total trading securities	\$ 11,238	\$ 12,842		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Liquid asset portfolio income

Income from the liquid asset trading portfolio for the years ended June 30, 2005, 2004 and 2003 comprises (US\$ millions):

	2005	2004	2003
Interest income	\$ 533	\$ 278	\$ 318
Net (losses) gains on trading activities:			
Realized	(80)	(38)	131
Unrealized	(95)	(66)	26
Net (losses) gains on trading activities	(175)	(104)	157
Translation adjustments	-	3	-
Total income from liquid asset portfolio	\$ 358	\$ 177	\$ 475

Collateral

The estimated fair value of securities held by the Corporation at June 30, 2005 as collateral, in connection with derivatives transactions and purchase and resale agreements, that may be sold or repledged was \$6,446 million (\$3,101 million - June 30, 2004).

NOTE C – LOANS AND EQUITY INVESTMENTS AND RESERVE AGAINST LOSSES ON LOANS

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

	June 30, 2005			June 30, 2004		
	Loans	Equity investments	Total	Loans	Equity investments	Total
Finance and insurance	\$ 2,637	\$ 845	\$ 3,482	\$ 2,190	\$ 790	\$ 2,980
Utilities	1,085	198	1,283	1,188	134	1,322
Oil, gas and mining	775	167	942	684	137	821
Transportation and warehousing	757	40	797	626	117	743
Industrial and consumer products	723	66	789	637	86	723
Information	460	119	579	505	184	689
Food and beverages	512	62	574	625	67	692
Nonmetallic mineral product manufacturing	529	24	553	539	69	608
Collective investment vehicles	56	402	458	52	585	637
Chemicals	337	73	410	465	63	528
Wholesale and retail trade	336	63	399	301	40	341
Primary metals	350	27	377	524	36	560
Accommodation and tourism services	322	43	365	313	64	377
Paper and pulp	266	27	293	280	37	317
Agriculture and forestry	207	60	267	201	31	232
Textiles, apparel and leather	181	21	202	220	38	258
Construction and real estate	142	7	149	148	3	151
Plastics and rubber	93	52	145	64	41	105
Other	194	18	212	178	35	213
Total disbursed portfolio	9,962	2,314	12,276	9,740	2,557	12,297
Unrealized income from LLPs and certain LLCs	-	191	191	-	-	-
Fair value adjustments	11	-	11	13	2	15
Carrying value of loans and equity investments	\$ 9,973	\$ 2,505	\$ 12,478	\$ 9,753	\$ 2,559	\$ 12,312

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

	June 30, 2005			June 30, 2004		
	Loans	Equity investments	Total	Loans	Equity investments	Total
Latin America and Caribbean	\$ 3,681	\$ 618	\$ 4,299	\$ 3,957	\$ 741	\$ 4,698
Europe and Central Asia	2,847	540	3,387	2,560	423	2,983
Asia	1,922	737	2,659	1,724	917	2,641
Sub-Saharan Africa	677	186	863	737	292	1,029
Middle East and North Africa	672	107	779	678	140	818
Other	163	126	289	84	44	128
Total disbursed portfolio	9,962	2,314	12,276	9,740	2,557	12,297
Unrealized income from LLPs and certain LLCs	-	191	191	-	-	-
Fair value adjustments	11	-	11	13	2	15
Carrying value of loans and equity investments	\$ 9,973	\$ 2,505	\$ 12,478	\$ 9,753	\$ 2,559	\$ 12,312

At June 30, 2005, 16% (21% - June 30, 2004) of the disbursed loan portfolio consisted of fixed rate loans, while the remainder was at variable rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loan portfolio

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

	June 30, 2005		June 30, 2004	
	Amount (US \$ millions)	Average yield (%)	Amount (US \$ million)	Average yield (%)
US dollar	\$ 8,074	6.6	\$ 8,286	5.1
Euro	1,193	4.8	984	5.6
Other currencies	695	8.8	470	8.7
Total disbursed loan portfolio	9,962	6.5	9,740	5.3
Fair value adjustments	11		13	
Carrying value of loans	\$ 9,973		\$ 9,753	

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

Disbursed loans in all currencies are repayable during the years ending June 30, 2006 through June 30, 2010, and thereafter, as follows (US\$ millions):

	2006	2007	2008	2009	2010	Thereafter	Total
Fixed rate loans	\$ 430	\$ 204	\$ 212	\$ 229	\$ 200	\$ 356	\$ 1,631
Variable rate loans	1,343	1,133	1,194	1,172	980	2,509	8,331
Total disbursed loan portfolio	\$ 1,773	\$ 1,337	\$ 1,406	\$ 1,401	\$ 1,180	\$ 2,865	9,962
Fair value adjustments							11
Carrying value of loans							\$ 9,973

The Corporation's disbursed variable rate loans generally re-price within one year.

Loans on which the accrual of interest has been discontinued amounted to \$634 million at June 30, 2005 (\$1,121 million - June 30, 2004). Interest income not recognized on nonaccruing loans during the year ended June 30, 2005 totaled \$58 million (\$82 million - year ended June 30, 2004; \$82 million - year ended June 30, 2003). Interest collected on loans in nonaccrual status, related to current and prior years, during the year ended June 30, 2005 was \$36 million (\$54 million - year ended June 30, 2004; \$40 million - year ended June 30, 2003). The average recorded investment in impaired loans during the year ended June 30, 2005, was \$1,486 million (\$2,114 million - year ended June 30, 2004). The recorded investment in impaired loans at June 30, 2005 was \$1,191 million (\$1,781 million - June 30, 2004).

Reserve against losses on loans

Changes in the reserve against losses, on loans for the year ended June 30, 2005, 2004, and 2003, are summarized below (US\$ millions):

	June 30, 2005	June 30, 2004	June 30, 2003
Beginning balance	\$ 1,367	\$ 1,684	\$ 1,758
Release of provision for losses	(259)	(89)	47
Other adjustments	(119)	(228)	(121)
Ending balance	\$ 989	\$ 1,367	\$ 1,684

The release of provision for losses on loans and guarantees in the income statement for the year ended June 30, 2005 includes \$3 million release in respect of guarantees (\$14 million release - year ended June 30, 2004; \$1 million provision - year ended June 30, 2003). At June 30, 2005 the accumulated reserve for losses on guarantees, included in the balance sheet in payables and other liabilities, was \$13 million (\$16 million - June 30, 2004).

Other adjustments comprise loan write-offs and recoveries, reserves against interest capitalized as part of a debt restructuring, and translation adjustments.

Interest and financial fees from loans

Interest and financial fees from loans for the years ended June 30, 2005, 2004, and 2003 comprise the following (US\$ millions):

	2005	2004	2003
Interest income	\$ 574	\$ 449	\$ 414
Commitment fees	17	15	18
Other financial fees	69	54	45
Total interest and financial fees from loans	\$ 660	\$ 518	\$ 477

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D – GUARANTEES

Under the terms of the Corporation's guarantees, the Corporation 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 the Corporation generally have maturities consistent with those of the loan portfolio. Guarantees signed at June 30, 2005 totaled \$998 million (\$886 million – June 30, 2004). Guarantees of \$291 million that were outstanding at June 30, 2005 (\$315 million – June 30, 2004) were not included in loans on the Corporation's Balance Sheet. The outstanding amount represents the maximum amount of undiscounted future payments that the Corporation could be required to make under these guarantees.

NOTE E – NET INCOME FROM EQUITY INVESTMENTS

Net income from equity investments for the years ended June 30, 2005, 2004, and 2003 comprise the following (US\$ millions):

	2005	2004	2003
Realized capital gains on equity sales	\$ 723	\$ 381	\$ 52
Dividends and profit participations	258	207	147
Unrealized income from LLPs and certain LLCs	191	-	-
Changes in carrying value of equity investments	269	74	(50)
Equity investment impairment write-downs	(62)	-	-
Net losses on equity-related derivatives	(12)	(2)	(3)
Custody and other fees	(2)	(2)	(1)
Total income from equity investments	\$ 1,365	\$ 658	\$ 145

Dividends and profit participations include \$106 million (\$65 million - year ended June 30, 2004, and \$61 million - year ended June 30, 2003) of receipts received in freely convertible cash, net of cash disbursements, in respect of investments accounted for under the cost recovery method.

Unrealized income from LLPs and certain LLCs results from the implementation of EITF 03-16 during the year ending June 30, 2005.

The Corporation assesses all equity investments each quarter for impairment. Prior to March 31, 2005, the Corporation had carried reserves against losses on the equity investment portfolio. During the year ended June 30, 2005, the Corporation changed its process of estimating impairment on equity investments to adopt an impairment methodology based largely on fair value estimates. As a result, the Corporation recorded a change in carrying value of the equity investment portfolio. In this regard, the Corporation determined that all impairments and changes in carrying value were deemed to be other than temporary. This change in carrying value of the equity portfolio has been reflected in net income from equity investments in the income statement and in equity investments in the balance sheet.

NOTE F – PROJECTS APPROVED AND COMMITTED BUT NOT DISBURSED OR UTILIZED

Projects approved by the Board of Directors not committed, loan and equity 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, 2005	June 30, 2004
Projects approved but not committed:		
Loans	\$ 2,333	\$ 1,753
Equity investments	400	398
Guarantees	731	240
Client risk management facilities	19	26
Total projects approved but not committed	<u>3,483</u>	<u>2,417</u>
Projects committed but not disbursed:		
Loans	4,819	3,518
Equity investments	1,013	1,035
Projects committed but not utilized:		
Guarantees	707	571
Client risk management facilities	120	103
Total projects committed but not disbursed or utilized	<u>6,659</u>	<u>5,227</u>
Total projects approved but not disbursed or utilized	\$ 10,142	\$ 7,644

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – RESOURCE MOBILIZATION

Loan participations arranged to be placed with Participants in respect of loans approved by the Board of Directors, loan participations signed as commitments for which disbursement has not yet been made and loan participations disbursed and outstanding and serviced by the Corporation for the Participants are as follows (US\$ millions):

	June 30, 2005	June 30, 2004
Loan participations arranged to be placed with Participants approved but not committed	\$ 2,194	\$ 2,175
Loan participations signed as commitments but not disbursed	<u>901</u>	<u>454</u>
Loan participations arranged to be placed with Participants approved but not disbursed	<u>\$ 3,095</u>	<u>\$ 2,629</u>
Loan participations disbursed and outstanding which are serviced by the Corporation	<u>\$ 4,382</u>	<u>\$ 5,092</u>

NOTE H – RECEIVABLES AND OTHER ASSETS

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

	June 30, 2005	June 30, 2004
Receivables from sales of securities	\$ 1,330	\$ 813
Accrued interest income on time deposits and securities	1,116	665
Accrued income on derivative instruments	316	317
Accrued interest income on loans	113	94
Pre-paid pension and other postretirement benefit costs	348	290
Headquarters building:		
Land	89	89
Building	184	184
Less: Building depreciation	<u>(38)</u>	<u>(33)</u>
Headquarters building, net	<u>235</u>	<u>240</u>
Deferred charges and other assets	316	174
Total receivables and other assets	<u>\$ 3,774</u>	<u>\$ 2,593</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I – BORROWINGS

Market borrowings and associated derivatives

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

	June 30, 2005							
	Market borrowings		Currency swaps payable (receivable)		Interest rate swaps notional principal payable (receivable)		Net currency obligation	
	Amount (US \$ millions)	Weighted average cost (%)	Amount (US \$ millions)	Weighted average cost (%)	Notional amount (US \$ millions)	Weighted average cost (%)	Amount (US \$ millions)	Weighted average cost (%)
US dollar	\$ 7,029	3.9	\$ 8,872	2.7	\$ 6,350 (6,610)	3.2 (3.8)	\$ 15,641	3.3
Japanese yen	5,008	3.8	(5,008)	(3.8)	-	-	-	-
Pound sterling	1,713	5.4	(1,713)	(5.4)	-	-	-	-
Hong Kong dollar	745	6.0	(745)	(6.0)	-	-	-	-
South African rand	662	7.5	(662)	(7.5)	-	-	-	-
Euro	514	6.3	(514)	(6.3)	-	-	-	-
Australian dollar	497	4.7	(497)	(4.7)	-	-	-	-
Canadian dollar	284	1.0	(284)	(1.0)	-	-	-	-
Colombian peso	265	12.5	(265)	(12.5)	-	-	-	-
New Zealand dollar	216	5.6	(216)	(5.6)	-	-	-	-
Malaysian ringgit	132	2.9	(132)	(2.9)	-	-	-	-
Moroccan dirham	110	4.5	(110)	(4.5)	-	-	-	-
Swiss francs	78	2.7	(78)	(0.4)	78 (78)	0.4 (2.7)	-	-
Hungarian Forints	49	9.0	(49)	(9.0)	-	-	-	-
Peruvian Soles Nuevos	46	6.6	(46)	(6.6)	-	-	-	-
Principal at face value	17,348		\$ (1,447)		\$ (260)		\$ 15,641	
Less: Unamortized discounts, net	(593)							
Total market borrowings	16,755							
Fair value adjustments	(1,451)							
Carrying value of market borrowings	\$ 15,304							

	June 30, 2004							
	Market borrowings		Currency swaps payable (receivable)		Interest rate swaps notional principal payable (receivable)		Net currency obligation	
	Amount (US \$ millions)	Weighted average cost (%)	Amount (US \$ millions)	Weighted average cost (%)	Notional amount (US \$ millions)	Weighted average cost (%)	Amount (US \$ millions)	Weighted average cost (%)
US dollar	\$ 7,696	4.6	\$ 8,571	0.4	\$ 6,935 (7,253)	1.3 (4.4)	\$ 15,950	1.0
Japanese yen	4,984	4.1	(4,984)	(4.1)	-	-	-	-
Pound sterling	1,718	5.4	(1,718)	(5.4)	-	-	-	-
Hong Kong dollar	743	6.0	(743)	(6.0)	-	-	-	-
Euro	680	6.1	(680)	(6.1)	-	-	-	-
Australian dollar	535	4.8	(535)	(4.8)	-	-	-	-
South African rand	486	13.8	(486)	(13.8)	-	-	-	-
Canadian dollar	297	1.0	(297)	(1.0)	-	-	-	-
Colombian peso	230	12.5	(230)	(12.5)	-	-	-	-
New Zealand dollar	223	5.0	(223)	(5.0)	-	-	-	-
Swiss francs	80	2.5	(80)	(0.3)	80 (80)	0.3 (2.5)	-	-
Singapore dollar	58	4.3	(58)	(4.3)	-	-	-	-
Hungarian Forints	48	9.0	(48)	(9.0)	-	-	-	-
Peruvian Soles Nuevos	14	7.3	(14)	(7.3)	-	-	-	-
Principal at face value	17,792		\$ (1,525)		\$ (318)		\$ 15,950	
Less: Unamortized discounts, net	(701)							
Total market borrowings	17,091							
Fair value adjustments	(934)							
Carrying value of market borrowings	\$ 16,157							

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average cost of the Corporation's borrowings outstanding from market sources after currency and interest rate swap transactions was 3.3% at June 30, 2005 (1.0% - June 30, 2004). The weighted average remaining maturity of the Corporation's borrowings from market sources was 11.6 years at June 30, 2005 (11.9 years - June 30, 2004).

Net fair value adjustments to the carrying value of market borrowings comprises \$(1,451) million (\$934 million - June 30, 2004) representing adjustments to the carrying value of transactions in designated fair value hedging relationships.

The net nominal amount receivable from currency swaps of \$1,447 million and the net notional amount receivable from interest rate swaps of \$260 million at June 30, 2005 (\$1,525 million and \$318 million - June 30, 2004), shown in the above table, are represented by currency and interest rate swap assets at fair value of \$1,270 million and currency and interest rate swap liabilities at fair value of \$1,439 million (\$951 million and \$637 million - June 30, 2004), included in derivative assets and derivative liabilities, respectively, on the balance sheet.

Borrowings from IBRD

Borrowings outstanding from IBRD are summarized below:

	June 30, 2005		June 30, 2004	
	Principal amount (US\$ millions)	Weighted average cost (%)	Principal amount (US\$ millions)	Weighted average cost (%)
US dollar	\$ 53	6.4	\$ 77	6.4
Euro	2	8.1	7	8.4
Other currencies	-	-	13	6.2
Total borrowings outstanding from IBRD	\$ 55		\$ 97	

The weighted average remaining maturity of borrowings from IBRD was 2.6 years at June 30, 2005 (2.9 years - June 30, 2004). During fiscal year ended June 30, 2005, IFC entered into a Local Currency Borrowing Facility Agreement with IBRD, which is capped at \$300 million. At June 30, 2005, an undrawn borrowings commitment amounting to \$50 million had been entered into under this facility (\$nil - June 30, 2004). Charges on borrowings for the year ended June 30, 2005 includes \$5 million (\$8 million - year ended June 30, 2004; \$10 million - year ended June 30, 2003) in respect of IBRD borrowings.

Maturity of borrowings

The principal amounts repayable on borrowings outstanding in all currencies, gross of any premiums or discounts, during the years ending June 30, 2006 through June 30, 2010 and thereafter are summarized below (US\$ millions):

	2006	2007	2008	2009	2010	Thereafter	Total
Borrowings from market sources	\$ 1,478	\$ 1,885	\$ 1,824	\$ 1,228	\$ 1,926	\$ 9,007	\$ 17,348
Borrowings from IBRD	24	18	9	3	1	-	55
Total borrowings, gross	\$ 1,502	\$ 1,903	\$ 1,833	\$ 1,231	\$ 1,927	\$ 9,007	17,403
Less: Unamortized discounts, net							(593)
Fair value adjustments							(1,451)
Carrying value of borrowings							\$ 15,359

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

NOTE J – PAYABLES AND OTHER LIABILITIES

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

	June 30, 2005	June 30, 2004
Accrued charges on borrowings	\$ 247	\$ 269
Accrued charges on derivative instruments	268	205
Payables for purchases of securities	1,769	1,735
Accounts payable, accrued expenses and other liabilities	416	191
Deferred income	50	47
Total payables and other liabilities	\$ 2,750	\$ 2,447

NOTE K – CAPITAL TRANSACTIONS

The Corporation's authorized share capital was increased to \$2,450 million through two capital increases in 1992. The subscription and payment period for shares then allocated ended on August 1, 1999, but the Corporation has agreed to defer the payment date for certain member countries beyond this date. Pursuant to these arrangements, \$1 million of subscribed shares remained unpaid at June 30, 2005 (\$1 million - June 30, 2004).

During the year ended June 30, 2005, 1,615 shares were subscribed and paid by member countries at a par value of \$1,000 each (720 - year ended June 30, 2004). \$nil million was paid in on account of pending subscriptions in the year ended June 30, 2005 (\$1 million - year ended June 30, 2004).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On July 28, 2005, the Board of Directors approved the designation of \$125 million of the Corporation's retained earnings for the purposes of the funding mechanism for technical assistance and advisory services.

On July 28, 2005, the Board of Directors approved the designation of \$250 million of the Corporation's retained earnings for the purposes of establishing a proposed performance-based grants initiative. During the year ended June 30, 2005, no amounts have been utilized for the initiative.

NOTE L – OTHER INCOME

Other income for the year ended June 30, 2005, predominantly comprises \$16 million of fees collected from clients for expenses incurred by the Corporation on their behalf, included in administrative expenses (\$16 million - year ended June 30, 2004; \$15 million - year ended June 30, 2003) and other income under other reimbursable arrangements of \$13 million (\$10 million - year ended June 30, 2004; \$8 million - year ended June 30, 2003).

NOTE M – CONTRIBUTIONS TO SPECIAL PROGRAMS

Prior to the year ended June 30, 2005, from time to time, the Board of Directors approved recommendations under which the Corporation contributed to special programs, comprising the Corporation's Global Small and Medium Enterprise Capacity Building Facility, Technical Assistance Fund and Foreign Investment Advisory Service and other donor-funded operations. During the year ended June 30, 2004, the Corporation contributed a total of \$29 million to these facilities (\$28 million - year ended June 30, 2003), of which the largest amounts were attributable to the Global SME Capacity Building facility and the Private Enterprise Partnership.

NOTE N – TECHNICAL ASSISTANCE AND ADVISORY SERVICES

During the year ended June 30, 2004, \$225 million was designated for the funding mechanism for technical assistance and advisory services. There were no expenditures under the technical assistance and advisory services funding mechanism in the year ended June 30, 2004. During June 30, 2005, the Board of Directors approved \$160 million in respect of proposed future technical assistance and advisory activities, which were expected to be expended under the technical assistance and advisory services funding mechanism beginning in the years ending June 30, 2006 through June 30, 2010, including \$70 million projected in the year ending June 30, 2006. Actual amounts expended may differ from projected amounts, both in terms of amount and timing. During the year ended June 30, 2005, the Corporation has recorded expenditures for technical assistance and advisory services totaling \$38 million. At June 30, 2005, retained earnings designated for technical assistance and advisory services totaled \$312 million.

NOTE O – NET GAINS (LOSSES) ON OTHER FINANCIAL INSTRUMENTS

Net gains (losses) on other financial instruments for the year ended June 30, 2005, 2004, and 2003, comprises (US\$ millions):

	2005	2004	2003
Difference between changes in fair value of derivative instruments designated as a fair value hedge and change in fair value of hedged items attributable to risks being hedged	\$ (48)	\$ 65	\$ (32)
Change in fair value of derivative instruments, other than those associated with liquid asset investments, not designated as a hedge	112	(54)	(6)
Amortization of difference between fair value and carrying value of hedged items at July 1, 2000 not designated for hedge accounting under SFAS No. 133	(3)	(2)	(5)
Release from accumulated other comprehensive income of transition gain on cash flow-like hedges	1	2	2
Net gains (losses) on other financial instruments	\$ 62	\$ 11	\$ (41)

Of the total net gains (losses) on other financial instruments, unrealized gains of \$44 million (losses \$26 million - year ended June 30, 2004; \$nil million - year ended June 30, 2003) are attributable to borrowings and related derivatives transactions, unrealized gains of \$15 million (gains \$36 million - year ended June 30, 2004; losses \$40 million - year ended June 30, 2003) are attributable to loans and related derivatives transactions, and unrealized gains of \$3 million (gains \$1 million - year ended June 30, 2004; losses \$1 million - year ended June 30, 2003) are attributable to client risk management activities.

Upon the adoption of SFAS No. 133 on July 1, 2000, the Corporation recorded a gain of \$14 million to accumulated other comprehensive income to adjust the book value to fair value of cross-currency interest rate swaps in cash flow-like hedges. The Corporation elected not to seek hedge accounting for these transactions under SFAS No.133 and, accordingly, records the cross-currency interest rate swaps at fair value, with the change in fair value included in earnings. The gain recorded in accumulated other comprehensive income upon adoption of SFAS No.133 is released into earnings over the remaining original hedge term. The amounts released for the years ended June 30, 2005 and June 30, 2004 are shown above; the expected release for the year ending June 30, 2006 is \$1 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE P – DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

Many of the Corporation'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 the Corporation generally holds loans, borrowings and other financial instruments to maturity with the aim of realizing their recorded values.

The estimated fair values reflect the interest rate environments as of June 30, 2005 and June 30, 2004. In different interest rate environments, the fair value of the Corporation'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 the Corporation. The fair values of the individual financial instruments do not represent the fair value of the Corporation taken as a whole.

The methodologies used and key assumptions made to estimate fair values as of June 30, 2005 and June 30, 2004 are summarized below.

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

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2005			June 30, 2004
	Carrying amount	Fair value adjustments	Fair value	Fair value
Financial assets				
Due from banks, time deposits, securities and securities purchased under resale agreements	\$ 22,781	\$ -	\$ 22,781	\$ 18,397
Loans	9,973	423	10,396	10,222
Reserve against losses on loans	(989)	-	(989)	(1,367)
Net Loans	<u>8,984</u>	<u>423</u>	<u>9,407</u>	<u>8,855</u>
Cost method equity investments	2,095	2,654	4,749	3,178
Derivative assets:				
Liquid asset portfolio-related	151	-	151	93
Loans-related	72	-	72	15
Borrowings-related	1,270	-	1,270	951
Client risk management-related	23	-	23	33
Total derivative assets	<u>1,516</u>	<u>-</u>	<u>1,516</u>	<u>1,092</u>
Nonfinancial assets	3,774	-	3,774	2,593
Total assets	\$ 39,150	\$ 3,077	\$ 42,227	\$ 34,115
Financial liabilities				
Securities sold under repurchase agreements and payable for cash collateral received	\$ 9,321	\$ -	\$ 9,321	\$ 4,329
Market and IBRD borrowings outstanding	15,359	2	15,361	16,258
Derivative liabilities:				
Liquid asset portfolio-related	733	-	733	716
Loans-related	139	-	139	162
Borrowings-related	1,439	-	1,439	637
Client risk management-related	21	-	21	34
Total derivative liabilities	<u>2,332</u>	<u>-</u>	<u>2,332</u>	<u>1,549</u>
Nonfinancial liabilities	2,750	-	2,750	2,447
Total liabilities	\$ 29,762	\$ 2	\$ 29,764	\$ 24,583
Off-balance sheet financial instruments				
Loan commitments	\$ 4,819	\$ 12	\$ 4,831	\$ 3,527

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE Q – CURRENCY POSITION

The Corporation conducts its operations for its loans, time deposits and securities and borrowings in multiple currencies. The Corporation'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. The Corporation'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, the Corporation 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 the Corporation's exposure in major currencies at June 30, 2005, and June 30, 2004 (US\$ millions):

	June 30, 2005					Total
	US dollar	Euro	Japanese yen	Other currencies	Fair value adjustments	
Assets						
Cash and cash equivalents	\$ 14,020	\$ 2,020	\$ 199	\$ 260	\$ -	\$ 16,499
Securities purchased under resale agreements	5,436	846	-	-	-	6,282
Loans disbursed and outstanding	8,075	1,193	26	668	11	9,973
Less: Reserve against losses on loans	(795)	(127)	(3)	(64)	-	(989)
Net loans	<u>7,280</u>	<u>1,066</u>	<u>23</u>	<u>604</u>	<u>11</u>	<u>8,984</u>
Equity investments	-	-	-	2,505	-	2,505
Total loans and equity investments disbursed and outstanding	<u>7,280</u>	<u>1,066</u>	<u>23</u>	<u>3,109</u>	<u>11</u>	<u>11,489</u>
Derivative assets	2,653	1,629	5,355	4,512	(12,633)	1,516
Receivables and other assets	3,477	69	106	122	-	3,774
Total assets	\$ 32,866	\$ 5,630	\$ 5,683	\$ 8,003	\$ (12,622)	\$ 39,560
Liabilities						
Securities sold under repurchase agreements and payable for cash collateral received	\$ 7,845	\$ 1,476	\$ -	\$ -	\$ -	\$ 9,321
Borrowings	6,823	508	5,013	4,466	(1,451)	15,359
Derivative liabilities	8,749	3,487	568	887	(11,359)	2,332
Payables and other liabilities	2,414	97	100	139	-	2,750
Total liabilities	\$ 25,831	\$ 5,568	\$ 5,681	\$ 5,492	\$ (12,810)	\$ 29,762
June 30, 2004						
	US dollar	Euro	Japanese yen	Other currencies	Fair value adjustments	Total
Assets						
Cash and cash equivalents	\$ 11,859	\$ 2,831	\$ 455	\$ 158	\$ -	\$ 15,303
Securities purchased under resale agreements	2,916	178	-	-	-	3,094
Loans disbursed and outstanding	8,286	984	26	444	13	9,753
Equity investments disbursed and outstanding	-	-	-	2,557	2	2,559
Total investments	8,286	984	26	3,001	15	12,312
Reserve against losses	(1,779)	(183)	(4)	(67)	-	(2,033)
Net investments	<u>6,507</u>	<u>801</u>	<u>22</u>	<u>2,934</u>	<u>15</u>	<u>10,279</u>
Derivative assets	2,346	1,800	5,411	4,237	(12,702)	1,092
Receivables and other assets	2,260	121	116	96	-	2,593
Total assets	\$ 25,888	\$ 5,731	\$ 6,004	\$ 7,425	\$ (12,687)	\$ 32,361
Liabilities						
Securities sold under repurchase agreements and payable for cash collateral received	\$ 3,126	\$ 1,203	\$ -	\$ -	\$ -	\$ 4,329
Borrowings	7,457	677	4,993	4,061	(934)	16,254
Derivative liabilities	8,232	3,598	902	697	(11,880)	1,549
Payables and other liabilities	2,127	115	107	98	-	2,447
Total liabilities	\$ 20,942	\$ 5,593	\$ 6,002	\$ 4,856	\$ (12,814)	\$ 24,579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE R – SEGMENT REPORTING

For management purposes, the Corporation's business comprises two segments: client services and treasury services. The client services segment consists primarily of lending and equity investment activities. Operationally, the treasury services segment consists of the borrowing, liquid asset management, asset and liability management and client risk management activities. Consistent with internal reporting, net income (expense) from asset and liability management and client risk management activities in support of client services are allocated to 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. The Corporation's management reporting system and policies are used to determine revenues and expenses attributable to each segment. Consistent with internal reporting, administrative expenses are allocated to each segment based largely upon personnel costs and segment head counts. Transactions between segments are immaterial and, thus, are not a factor in reconciling to the consolidated data.

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

An analysis of the Corporation's major components of income and expense by business segment for the years ended June 30, 2005, 2004, and 2003 is given below (US\$ millions):

	2005			2004			2003		
	Client services	Treasury services	Total	Client services	Treasury services	Total	Client services	Treasury services	Total
Interest income	\$ 660	\$ 533	\$ 1,193	\$ 518	\$ 278	\$ 796	\$ 477	\$ 318	\$ 795
Charges on borrowings	(151)	(158)	(309)	(41)	(100)	(141)	(79)	(147)	(226)
Net (losses) gains on trading activities	-	(175)	(175)	-	(104)	(104)	-	157	157
Net income from equity investments	1,365	-	1,365	658	-	658	145	-	145
Release of (provision for) losses on loans and guarantees	261	-	261	103	-	103	(48)	-	(48)
Service fees	41	-	41	41	-	41	51	-	51
Administrative expenses	(397)	(6)	(403)	(354)	(6)	(360)	(326)	(6)	(332)
Other noninterest income (expense)	18	-	18	(14)	3	(11)	(14)	-	(14)
Income before expenditures for technical assistance and advisory services and net gains (losses) on other financial instruments	1,797	194	1,991	911	71	982	206	322	528
Expenditures for technical assistance and advisory services	(38)	-	(38)	-	-	-	-	-	-
Net gains (losses) on other financial instruments	18	44	62	37	(26)	11	(41)	-	(41)
Net income	\$ 1,777	\$ 238	\$ 2,015	\$ 948	\$ 45	\$ 993	\$ 165	\$ 322	\$ 487

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

NOTE S – PENSION AND OTHER POSTRETIREMENT BENEFITS

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

The SRP provides regular pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides certain pension benefits administered outside the SRP.

The Corporation uses a June 30 measurement date for its pension and other postretirement benefit plans.

The amounts presented below reflect the Corporation's respective share of the costs, assets, and liabilities of the plans.

All costs, assets, and liabilities associated with these plans are allocated between the Corporation, IBRD, and MIGA based upon their employees' respective contributions to the plans. Costs allocated to IBRD are then shared between IBRD and IDA based on an agreed cost-sharing ratio. The Corporation, IDA, 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.

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the projected benefit obligations, fair value of plan assets, and funded status associated with SRP, RSBP, and PEPB allocated to the Corporation for the years ended June 30, 2005, 2004, and 2003 (US\$ millions):

	SRP			RSBP			PEPB		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Benefit cost									
Service cost	\$ 48	\$ 43	\$ 44	\$ 6	\$ 5	\$ 5	\$ 2	\$ 2	\$ 1
Interest cost	100	84	96	7	5	6	1	1	1
Expected return on plan assets	(145)	(122)	(125)	(8)	(6)	(6)	-	-	-
Amortization of prior service cost	3	3	3	-	-	-	-	-	-
Amortization of unrecognized net loss (gain)	-	3	-	2	2	2	-	-	-
Amortization of transition asset	-	-	(3)	-	-	-	-	-	-
Net periodic pension cost	\$ 6	\$ 11	\$ 15	\$ 7	\$ 6	\$ 7	\$ 3	\$ 3	\$ 2

The expenses for the SRP, RSBP, and PEPB are included in STET expense from pension and other postretirement benefit plans.

For the fiscal years ended June 30, 2005, June 30, 2004, and June 30, 2003, expenses for these plans of \$16 million, \$20 million and \$24 million, respectively, were allocated to IFC. The Corporation's net expense for these plans reported in the income statement was \$14 million, \$19 million, and \$24 million for the fiscal years ended June 30, 2005, June 30, 2004, and June 30, 2003, respectively.

The following table summarizes the benefit obligations, plan assets and funded status associated with the SRP, RSBP, and PEPB for the Corporation for the fiscal years ended June 30, 2005, June 30, 2004, and June 30, 2003 (US\$ millions). Since the assets for the PEPB 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 PEPB are invested in fixed income instruments.

	SRP			RSBP			PEPB		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Projected Benefit Obligation									
Beginning of year	\$ 1,392	\$ 1,269	\$ 1,166	\$ 103	\$ 91	\$ 87	\$ 15	\$ 12	\$ 11
Service cost	48	43	44	6	5	5	2	2	1
Interest cost	100	84	96	7	5	6	1	1	1
Employee contributions	14	13	13	2	1	1	-	-	-
Amendments	-	-	13	-	-	3	-	-	1
Benefits paid	(68)	(56)	(53)	(6)	(5)	(4)	(2)	(1)	(1)
Actuarial loss (gain)	145	39	(10)	50	6	(7)	7	1	(1)
End of year	1,631	1,392	1,269	162	103	91	23	15	12
Fair value of plan assets									
Beginning of year	\$ 1,592	\$ 1,328	\$ 1,328	\$ 99	\$ 80	\$ 77	\$ -	\$ -	\$ -
Employee contributions	14	13	13	2	1	1	-	-	-
Actual return on assets	88	284	33	15	16	2	-	-	-
Employer contributions	44	23	7	8	7	4	-	-	-
Benefits paid	(68)	(56)	(53)	(6)	(5)	(4)	-	-	-
End of year	1,670	1,592	1,328	118	99	80	-	-	-
Funded status									
Plan assets in excess of (less than) projected benefit obligation	\$ 39	\$ 200	\$ 59	\$ (44)	\$ (4)	\$ (11)	\$ (23)	\$ (15)	\$ (12)
Unrecognized net loss (gain) from past experience different from changes in assumptions	258	57	183	62	21	26	6	(1)	(2)
Unrecognized prior service cost	11	14	17	-	-	-	-	-	-
Prepaid (accrued) pension cost	\$ 308	\$ 271	\$ 259	\$ 18	\$ 17	\$ 15	\$ (17)	\$ (16)	\$ (14)
Accumulated Benefit Obligation	\$ 1,255	\$ 1,008	\$ 930	\$ 162	\$ 103	\$ 91	\$ 20	\$ 13	\$ 10

The prepaid SRP cost was \$308 million at June 30, 2005 (\$270 million - June 30, 2004) and the prepaid RSBP cost was \$18 million at June 30, 2005 (\$17 million - June 30, 2004). These amounts are included in Receivables and other assets in the Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations.

The expected long-term rate of return for the SRP assets is a weighted average of the expected long-term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, and risk premium/spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end AAA and AA corporate bonds.

Actuarial gains and losses occur when actual results are different from expected results. Amortization of these unrecognized gains and losses will be included in income if, at the beginning of the fiscal year, they exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If required, the unrecognized gains and losses are amortized over the expected average remaining service lives of the employee group.

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the fiscal years ended June 30, 2005, June 30, 2004, and June 30, 2003:

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

	SRP			RSBP			PEPB		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Discount rate	5.25	6.25	5.75	5.25	6.25	5.75	5.25	6.25	5.75
Service cost	5.90	6.40	5.40						
Health care growth rates									
-at end of fiscal year				6.80	7.30	6.10			
Ultimate health care growth rate				4.25	4.75	3.75			
Year in which ultimate rate is reached				2012	2012	2011			

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

	SRP			RSBP			PEPB		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Discount rate	6.25	5.75	6.75	6.25	5.75	6.75	6.25	5.75	6.75
Expected return on plan assets	7.75	7.75	7.75	8.25	7.75	7.75			
Rate of compensation increase	6.40	5.40	6.40						
Health care growth rates									
-at end of fiscal year				7.30	6.10	7.10			
-to year 2011 and thereafter				4.75	3.75	4.75			

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

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	\$ 23	\$ (19)
Effect on postretirement benefit obligation	279	(222)

Investment Strategy

The investment policy for the SRP and the RSBP is to optimize the risk-return relationship as appropriate to the respective plan's needs and goals, using a global diversified portfolio of various asset classes. Specifically, the long-term asset allocation is based on an analysis that incorporates expected returns by asset class as well as volatilities and correlations across asset classes and the liability profile of the respective plans. This analysis, referred to as an asset-liability analysis, also provides estimates of potential future contributions and future asset and liability balances. Plan assets are managed by external investment managers and monitored by IBRD's pension investment department. The pension plan assets are invested in diversified portfolios of public equity, fixed income, and alternative investments. The fixed-income and public equity asset classes are rebalanced on a monthly basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the weighted-average asset allocation at June 30, 2005, and June 30, 2004, and the respective target allocation by asset category for the SRP and RSBP (%):

Asset Class	SRP			RSBP		
	Target Allocation 2005	% of Plan Assets		Target Allocation 2005	% of Plan Assets	
		2005	2004		2005	2004
Fixed Income	40%	40%	40%	30%	31%	30%
Public Equity	35	40	42	30	37	43
Alternative Investments	25	20	18	40	32	27
Total	100%	100%	100%	100%	100%	100%
Alternative Investments include:						
Private Equity	up to 12%	7.1%	7.0%	up to 28	11.2%	11.0%
Real Estate	up to 8	4.0	4.0	up to 18	3.7	3.5
Hedge Funds	up to 12	8.7	7.0	up to 23	16.8	12.5

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, 2005 (US\$ millions):

	SRP	RSBP	PEBP
July 1, 2005 - June 30, 2006	\$56	\$3	\$1
July 1, 2006 - June 30, 2007	62	4	1
July 1, 2007 - June 30, 2008	68	4	1
July 1, 2008 - June 30, 2009	74	5	1
July 1, 2009 - June 30, 2010	79	6	1
July 1, 2010 - June 30, 2015	474	36	9

Expected Contributions

The Corporation'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 the Corporation during the fiscal year beginning July 1, 2005 is \$47 million and \$12 million, respectively.

NOTE T – SERVICE AND SUPPORT PAYMENTS

The Corporation 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. The Corporation makes payments for these services to IBRD based on negotiated fees, chargebacks and allocated charges, where chargeback is not feasible. Expenses allocated to the Corporation for the year ended June 30, 2005, were \$25 million (\$21 million - year ended June 30, 2004; \$19 million - year ended June 30, 2003).

NOTE U – TRUST FUNDS

The Corporation uses the services of IBRD to administer funds on behalf of donors that are restricted for specific uses, including technical assistance, feasibility studies and project preparation, global and regional programs and research and training programs. These funds are placed in trust and are not included in the Corporation's assets. The responsibilities of the Corporation are to arrange for services generally not otherwise provided by it, including full project implementation and procurement of goods and services. The distribution of Trust Fund assets by executing agent is as follows (US\$ millions):

	June 30, 2005		June 30, 2004	
	Total fiduciary assets	Number of active funds	Total fiduciary assets	Number of active funds
Executed by the Corporation	\$ 287	612	\$ 232	578
Executed by the recipient	-	-	1	1
Total	\$ 287	612	\$ 233	579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE V – CONTINGENCIES

In the normal course of its business, the Corporation 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, the Corporation's Management does not believe the outcome of any of the various existing legal actions will have a material adverse effect on the Corporation's financial condition or results of operations.

NOTE W – VARIABLE INTEREST ENTITIES

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

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

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

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

The Corporation is required to apply the provisions of FIN 46R to entities created on or after January 1, 2004 in its financial statements for the year ended June 30, 2005, and to entities created before January 1, 2004 in its financial statements for the year ending June 30, 2006.

The Corporation has identified two VIEs, created after January 1, 2004, in which the Corporation is deemed to be the primary beneficiary.

The two entities have been consolidated into IFC's financial statements as of June 30, 2005. The two entities are securitization vehicles in the Finance and Insurance sector in the Latin America and Caribbean Region. IFC has issued a financial guarantee against the senior debt securities of the securitization vehicles. The securitization vehicles meet the definition of a VIE. Accordingly, the financial guarantees issued by IFC have been deemed to absorb the majority of the expected losses of the securitization vehicles, and IFC is, therefore, deemed to be the primary beneficiary. As a result of the consolidation, IFC has included assets of \$131 million in receivables and other assets and liabilities of \$131 million in payables and other liabilities in its balance sheet; there was no material impact on the Corporation's results of operations or cash flows associated with the consolidation.

The Corporation has also identified three VIEs, created before January 1, 2004, in which IFC is deemed to be the primary beneficiary. These three entities will be consolidated into IFC's financial statements beginning in the year ending June 30, 2006. IFC's net investment in these three entities totals \$2 million and, accordingly, consolidation of these entities beginning in the year ending June 30, 2006 is expected to have no material impact on the financial position, results of operations or cash flows of IFC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In addition, based on the exhaustive review of its loan, equity and guarantee portfolio, the Corporation has identified 34 investments in VIEs in which the Corporation is not the primary beneficiary, but in which it is reasonably possible the Corporation could be deemed to hold significant variable interests. The Corporation's total investment in these entities, comprising disbursed and committed but undisbursed balances, which correspond to the maximum exposure to loss the Corporation has as a result of its involvement, was \$195 million at June 30, 2005. The regional and sectoral analysis of the Corporation's investments in these VIEs is as follows (US\$ millions):

	June 30, 2005		
	Loans	Equity investments	Total
Latin America and Caribbean	\$ 149	\$ 13	\$ 162
Europe and Central Asia	54	19	73
Asia	27	16	43
Sub-Saharan Africa	102	11	113
Middle East and North Africa	31	-	31
Other	-	29	29
Total VIE investments	\$ 363	\$ 88	\$ 451

	June 30, 2005		
	Loans	Equity investments	Total
Finance and insurance	\$ 28	\$ 15	\$ 43
Utilities	130	3	133
Oil, gas and mining	55	4	59
Transportation and warehousing	68	12	80
Information	7	4	11
Food and beverages	7	2	9
Nonmetallic mineral product manufacturing	24	-	24
Collective investment vehicles	-	38	38
Accommodation and tourism services	4	-	4
Pulp and paper	21	2	23
Textiles, apparel and leather	1	-	1
Plastics and rubber	18	8	26
Total VIE Investments	\$ 363	\$ 88	\$ 451

Based on the most recent available data from these VIEs, the assets of these VIEs totaled \$3,997 million.