

IF Bancorp, Inc.
Form 10-K
September 28, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-35226

IF BANCORP, INC.

(Exact name of registrant as specified in its charter)

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MARYLAND
(State or other jurisdiction of
incorporation or organization)

201 East Cherry Street,
Watseka, Illinois
(Address of principal executive offices)

45-1834449
(I.R.S. Employer
Identification No.)

60970
(Zip Code)

(815) 432-2476
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of June 30, 2011 was \$0.

The number of shares outstanding of the registrant's common stock as of September 27, 2011 was 4,811,255.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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This report contains certain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather, they are statements based on IF Bancorp, Inc.'s current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are preceded by terms such as expects, believes, anticipates, intends and similar expressions.

Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the market area in which IF Bancorp, Inc. operates, as well as nationwide, IF Bancorp, Inc.'s ability to control costs and expenses, competitive products and pricing, loan delinquency rates and changes in federal and state legislation and regulation. For further discussion of factors that may affect the results, see Item 1A. Risk Factors in this Annual Report on Form 10-K (Form 10-K). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements

PART I

ITEM 1. BUSINESS

General

IF Bancorp, Inc. (IF Bancorp or the Company) is a Maryland corporation that owns 100% of the common stock of Iroquois Federal Savings and Loan Association (Iroquois Federal or the Association). IF Bancorp was incorporated in March, 2011 to become the holding company of Iroquois Federal in connection with Iroquois Federal's mutual to stock conversion. On July 7, 2011 we completed our initial public offering of common stock in connection with Iroquois Federal's mutual-to-stock conversion, selling 4,496,500 shares of common stock at \$10.00 per share, including 384,900 shares sold to Iroquois Federal's employee stock ownership plan, and raising approximately \$45.0 million of gross proceeds. In addition, we issued 314,755 shares of our common stock to the Iroquois Federal Foundation. At June 30, 2011, we had consolidated assets of \$510.8 million, consolidated deposits of \$444.1 million and consolidated equity of \$39.4 million. Other than holding the common stock of Iroquois Federal, IF Bancorp has not engaged in any significant business to date.

Iroquois Federal is a federally chartered savings association headquartered in Watseka, Illinois. The Association's business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans, multi-family mortgage loans, commercial real estate loans, home equity lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land loans. We also invest in securities, which historically have consisted primarily of securities issued by the U.S. government, U.S. government agencies and U.S. government-sponsored enterprises, as well as mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises. To a lesser extent, we also invest in municipal obligations.

We offer a variety of deposit accounts, including statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts, individual retirement accounts and health savings accounts.

In addition to our traditional banking products and services, we offer a full line of property and casualty insurance products through Iroquois Federal's wholly-owned subsidiary, L.C.I. Service Corporation, an insurance agency with offices in Watseka and Danville, Illinois. We also offer annuities, mutual funds, individual and group retirement plans, life, disability and health insurance, individual securities, managed accounts and other financial services at all of our locations through Iroquois Financial, a division of Iroquois Federal. Raymond James Financial Services, Inc. serves as the broker-dealer for Iroquois Financial.

We are dedicated to offering alternative banking delivery systems, including ATMs, online banking, remote capture and telephone banking delivery systems. In addition, we are currently in the process of establishing ACH payroll capabilities.

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Available Information

IF Bancorp Inc is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission. These respective reports are on file and a matter of public record with the Securities and Exchange Commission and may be read and copied at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (<http://www.sec.gov>).

Iroquois Bancorp's executive offices are located at 201 East Cherry Street, Watseka, Illinois 60970. Our telephone number at this address is (815) 432-2476, and our website address is www.iroquoisfed.com. Information on our website should not be considered a part of this annual report.

Market Area

We conduct our operations from our four full-service banking offices located in the municipalities of Watseka, Danville, Clifton and Hoopston, Illinois and our loan production and wealth management office in Osage Beach, Missouri. Our primary lending market includes the Illinois counties of Vermilion and Iroquois, as well as the adjacent counties in Illinois and Indiana. In December 2006, we opened our loan production and wealth management office in Osage Beach, Missouri, which serves the Missouri counties of Camden, Miller and Morgan.

In recent years our primary market area has experienced negative growth, reflecting in part, the economic downturn. Future business and growth opportunities will be influenced by economic and demographic characteristics of our primary market area and of east central Illinois. According to data from the U.S. Census Bureau, Iroquois and Vermilion Counties had populations of 30,000 and 82,000, respectively, in 2010. Iroquois County's population decreased at a 0.3% annual rate from 2000 to 2010, while Vermilion County's population decreased at a 0.5% annual rate over the same period. Comparatively, the populations of Illinois and the U.S. increased at annual rates of approximately 0.3% and 1.0%, respectively, over the past decade. According to data from SNL Financial, Iroquois and Vermilion Counties are projected to experience population reductions of approximately 1.7% and 2.2%, respectively, from 2010 to 2015. Similarly, Vermilion County and Iroquois County are projected to experience a 2.1% and a 1.5% reduction in households, respectively, from 2010 to 2015.

In comparison to Illinois and the U.S., Iroquois and Vermilion counties both showed slightly lower growth rates for household and per capita income over the past decade. However, over the next five years, growth rates for median household income and per capita income are projected to increase slightly in both counties, with Vermilion County's projected growth rate for median household income matching the comparable Illinois growth rate. According to U.S. Bureau of Labor Statistics, the May 2011 unemployment rates for Iroquois County and Vermilion County were 7.5% and 8.8%, respectively. According to data from SNL Financial, unemployment rates for Vermilion and Iroquois Counties are projected to decrease over the next five years.

The economy in our primary market is fairly diversified, with employment in services, wholesale/retail trade, and government serving as the basis of the Iroquois County and Vermilion County economies. Manufacturing jobs, which tend to be higher paying jobs, are also a large source of employment in Vermilion County, while Iroquois County is heavily influenced by agriculture and agriculture related businesses such as Incobrasa Industries Ltd., Bunge, ConAgra and Big R Stores. Hospitals and other health care providers, local schools and trucking/distribution businesses also serve as major sources of employment.

Our Osage Beach, Missouri loan production and wealth management office is located in the Lake of the Ozarks region and serves the Missouri counties of Camden, Miller and Morgan. Once known primarily as a resort area, this market is becoming an area of permanent residences and a growing retirement community, providing an excellent market for mortgage loans and our wealth management and financial services business.

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Competition

We face intense competition in our market area both in making loans and attracting deposits. We also compete with commercial banks, credit unions, savings institutions, mortgage brokerage firms, finance companies, mutual funds, insurance companies and investment banking firms. Some of our competitors have greater name recognition and market presence that benefit them in attracting customers, and offer certain services that we do not or cannot provide.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices located in Iroquois and Vermilion Counties, Illinois. As of June 30, 2010, the latest date for which FDIC data is available, we ranked first of eight bank and thrift institutions with offices in Iroquois County with a 22.3% deposit market share. As of the same date, we ranked third of 16 bank and thrift institutions with offices in Vermilion County with a 15.3% deposit market share.

Lending Activities

Our principal lending activity is the origination of one- to four-family residential mortgage loans, multi-family loans, commercial real estate loans (including farm loans), home equity loans and lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land loans.

In addition to loans originated by Iroquois Federal, our loan portfolio includes loan purchases which are secured by single family homes located primarily in the Midwest. As of June 30, 2011 and 2010, the amount of such loans equaled \$21.0 million and \$24.6 million, respectively. See Loan Originations, Purchases, Sales, Participations and Servicing.

Our loan portfolio also includes commercial loan participations which are secured by both real estate and other business assets, primarily within 100 miles of our primary lending market. As of June 30, 2011 and 2010, the amount of such loans equaled \$10.5 million and \$10.2 million, respectively. See Loan Originations, Purchases, Sales, Participations and Servicing.

In 2000, we began originating a substantial portion of our fixed-rate one- to four-family residential mortgage loans for sale to the Federal Home Loan Bank of Chicago with servicing retained. Total loans sold under this program equaled approximately \$64.5 million and \$52.3 million for the years ended June 30, 2011 and 2010, respectively. See One- to Four-Family Residential Real Estate Lending below for more information regarding the origination of loans for sale to the Federal Home Loan Bank of Chicago.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, including loans held for sale, by type of loan at the dates indicated. Amounts shown for one- to four-family loans include loans held for sale of approximately \$0, \$460,000, \$156,000, \$0 and \$0 at June 30, 2011, 2010, 2009, 2008 and 2007, respectively.

	2011		2010		At June 30, 2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real estate loans:										
One- to										
four-family(1)	\$ 148,448	60.82%	\$ 153,774	64.56%	\$ 157,109	69.48%	\$ 162,552	74.60%	\$ 164,950	78.77%
Multi-family	26,299	10.77	19,232	8.07	14,818	6.55	10,710	4.92	1,109	0.53
Commercial	27,402	11.23	24,956	10.48	23,815	10.53	21,186	9.72	21,082	10.07
Home equity lines of credit	10,043	4.11	7,853	3.30	4,581	2.03	1,812	0.83	583	0.28
Construction loans	4,039	1.65	2,112	0.89	1,915	0.85	1,567	0.72	2,551	1.22
Commercial business loans	12,068	4.94	13,410	5.63	9,252	4.09	6,390	2.93	5,047	2.41
Consumer loans	15,779	6.46	16,875	7.08	14,627	6.47	13,685	6.28	14,093	6.73
Total loans	244,078	100.00%	238,212	100.00%	226,117	100.00%	217,902	100.00%	209,415	100.00%
Other items:										
Unearned fees and discounts, net	19		(35)		(44)		(61)		(39)	
Loans in process	890		(1,197)		(896)		(1,614)		(1,625)	
Allowance for loan losses	3,149		(2,767)		(1,365)		(1,047)		(1,021)	
Total loans, net	\$ 240,020		\$ 234,213		\$ 223,812		\$ 215,180		\$ 206,730	

(1) Includes home equity loans.

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at June 30, 2011. We have no demand loans or loans having no stated repayment schedule or maturity.

	One- to four-family residential real estate (1)		Multi-family real estate		Commercial real estate		Home equity lines of credit	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(Dollars in thousands)								
Due During the Years								
<u>Ending June 30,</u>								
2012	\$ 1,636	5.92%	\$ 316	6.00%	\$ 1,697	5.95%	\$ 229	5.30%
2013	675	6.33	515	6.59	5,092	6.66	565	4.83
2014 to 2015	4,050	5.92	8,053	5.16	7,649	5.87	2,927	4.45
2016 to 2020	11,632	5.45	15,424	5.21	4,859	5.81	2,175	4.20
2021 to 2025	15,920	4.85	1,582	4.97	2,819	5.36	2,888	4.01
2026 and beyond	114,535	4.84	409	5.11	5,286	5.97	1,259	3.96
Total	\$ 148,448	4.93%	\$ 26,299	5.21%	\$ 27,402	5.98%	\$ 10,043	4.25%

	Construction loans		Commercial business loans		Consumer loans		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(Dollars in thousands)								
Due During the Years								
<u>Ending June 30,</u>								
2012	\$ 772	4.25%	\$ 2,190	5.72%	\$ 3,976	4.06%	\$ 10,816	5.07%
2013			2,013	6.40	1,348	8.32	10,208	6.70
2014 to 2015			3,646	5.24	6,365	8.57	32,690	6.03
2016 to 2020			3,032	6.04	3,636	6.68	40,758	5.49
2021 to 2025			229	4.25	185	4.77	23,623	4.81
2026 and beyond	3,267	4.51	958	6.09	269	5.50	125,983	4.88
Total	\$ 4,039	4.46%	\$ 12,068	5.77%	\$ 15,779	6.88%	\$ 244,078	5.21%

(1) Includes home equity loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at June 30, 2011 that are contractually due after June 30, 2012.

	Due After June 30, 2012		Total
	Fixed	Adjustable	
(In thousands)			
Real estate loans:			
One- to four-family (1)	\$ 51,594	\$ 95,218	\$ 146,812

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Multi-family	13,668	12,315	25,983
Commercial	22,479	3,226	25,705
Home equity lines of credit	5,854	3,960	9,814
Construction loans		3,267	3,267
Commercial business loans	8,359	1,519	9,878
Consumer loans	11,803		11,803
Total loans	\$ 113,757	\$ 119,505	\$ 233,262

(1) Includes home equity loans.

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One- to Four-Family Residential Mortgage Loans. At June 30, 2011, \$148.4 million, or 60.8% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. We generally underwrite our one- to four-family residential mortgage loans based on the applicant's employment and credit history and the appraised value of the subject property. We also offer loans through various agency programs, such as the Mortgage Partnership Finance Program of the Federal Home Loan Bank of Chicago, which are originated for sale.

We currently offer fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments. We also offer adjustable-rate mortgage loans that generally provide an initial fixed interest rate of one to seven years and annual interest rate adjustments thereafter, that amortize over a period up to 30 years. We offer one- to four-family residential mortgage loans with loan-to-value ratios up to 100%. Private mortgage insurance is required for all one- to four-family residential mortgage loans with loan-to-value ratios exceeding 90%. One- to four-family residential mortgage loans with loan-to-value ratios above 80%, but below 90%, require private mortgage insurance unless waived by management. At June 30, 2011, fixed-rate one- to four-family residential mortgage loans totaled \$53.0 million, or 35.7% of our one- to four-family residential mortgage loans, and adjustable-rate one- to four-family residential mortgage loans totaled \$95.4 million, or 64.3% of our one- to four-family residential mortgage loans.

Our one- to four-family residential mortgage loans are generally conforming loans. We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency for Fannie Mae and Freddie Mac, which is currently \$417,000 for single-family homes. At June 30, 2011, our average one- to four-family residential mortgage loan had a principal balance of \$73,000. We also originate loans above the lending limit for conforming loans, which we refer to as jumbo loans. At June 30, 2011, \$22.0 million, or 14.8%, of our total one- to four-family residential loans had principal balances in excess of \$417,000. Most of our jumbo loans are originated with a seven-year fixed-rate term and a balloon payment, with up to a 30 year amortization schedule. Occasionally we will originate fixed-rate jumbo loans with terms of up to 15 years.

We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgage loans. In recent years there has been increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, we have sold a substantial majority of our fixed-rate one- to four-family residential mortgage loans with terms of 15 years or greater. In June 2000, we began selling fixed-rate residential mortgages to the Federal Home Loan Bank of Chicago, with servicing retained, under its Mortgage Partnership Finance Program. Since December 2008, we sell loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program. Total mortgages sold under this program were approximately \$23.8 million and \$11.1 million for the years ended June 30, 2011 and 2010, respectively. Generally, however, we retain in our portfolio fixed-rate one- to four-family residential mortgage loans with terms of less than 15 years, although this has represented a small percentage of the fixed-rate loans that we have originated in recent years due to the favorable long-term rates for borrowers.

We currently offer several types of adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period of one to seven years. We offer adjustable-rate mortgage loans that are fully amortizing. After the initial fixed period, the interest rate on adjustable-rate mortgage loans generally resets every year based upon the weekly average of a one-year U.S. Treasury Securities rate plus an applicable margin, subject to periodic and lifetime limitations on interest rate changes. Our adjustable rate mortgage loans with initial rate periods lasting five or seven years have a 2% maximum annual rate change up or down, and a 6% lifetime cap up from the initial rate. Our adjustable rate mortgage loans with initial rate periods lasting one or three years have a 1% maximum annual rate change up or down and a 5% lifetime cap up from the initial rate. The floor on all adjustable rate mortgage loans is equal to the initial rate.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans, primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default and higher rates of delinquency. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Since changes in the interest rates on adjustable-rate mortgages may be limited by an initial fixed-rate period or by the contractual limits on periodic

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interest rate adjustments, adjustable-rate loans may not adjust as quickly to increases in interest rates as our interest-bearing liabilities.

In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans that are secured by a second mortgage on the borrower's primary or secondary residence. Home equity loans are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 10 years, fully amortized. At June 30, 2011, approximately \$1.8 million, or 1.2% of our one- to four-family mortgage loans were home equity loans secured by a second mortgage.

Home equity loans secured by second mortgages have greater risk than one- to four-family residential mortgage loans or home equity loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity loans, decreases in real estate values could adversely affect the value of property used as collateral for our loans.

We do not offer or purchase loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan.

We require title insurance on all of our one- to four-family residential mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. We also require flood insurance, as applicable. We do not conduct environmental testing on residential mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Commercial Real Estate and Multi-family Real Estate Loans. At June 30, 2011, \$27.4 million, or 11.2% of our loan portfolio consisted of commercial real estate loans, and \$26.3 million, or 10.8% of our loan portfolio consisted of multi-family (which we consider to be five or more units) residential real estate loans. At June 30, 2011, substantially all of our commercial real estate and multi-family real estate loans were secured by properties located in Illinois and Indiana.

Our commercial real estate mortgage loans are primarily secured by office buildings, owner-occupied businesses, strip mall centers, farm loans secured by real estate and churches. At June 30, 2011, loans secured by commercial real estate had an average loan balance of \$232,000. We originate commercial real estate loans with balloon and adjustable rates of up to seven years with amortization up to 20 to 25 years. At June 30, 2011, approximately 12.0% of our commercial real estate loans had adjustable rates. The rates on our adjustable-rate commercial real estate loans are generally based on the prime rate of interest plus an applicable margin, and generally have a specified floor.

We originate multi-family loans with balloon and adjustable rates for terms of up to seven years with amortization up to 20 to 25 years. At June 30, 2011, approximately 46.8% of our multi-family loans had adjustable rates. The rates on our adjustable-rate multi-family loans are generally tied to the prime rate of interest plus or minus an applicable margin and generally have a specified floor.

In underwriting commercial real estate and multi-family real estate loans, we consider a number of factors, which include the projected net cash flow to the loan's debt service requirement (generally requiring a minimum ratio of 120%), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Commercial real estate and multi-family real estate loans are originated in amounts up to 80% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Personal guarantees are typically obtained from commercial real estate and

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multi-family real estate borrowers. In addition, the borrower's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates.

Commercial real estate and multi-family real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate and multi-family real estate loans, however, entail greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate and multi-family real estate than for one- to four-family residential properties.

At June 30, 2011, our largest commercial real estate loan had an outstanding balance of \$1.8 million, was secured by a wholesale distributor, and was performing in accordance with its terms. At that date, our largest multi-family real estate loan had a balance of \$5.7 million, was secured by apartment buildings, and was performing in accordance with its terms.

Home Equity Lines of Credit. In addition to traditional one- to four-family residential mortgage loans and home equity loans, we offer home equity lines of credit that are secured by the borrower's primary or secondary residence. Home equity lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Our home equity lines of credit are originated with either fixed or adjustable rates and may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of an existing first mortgage loan. Fixed-rate lines of credit are generally based on the prime rate of interest plus an applicable margin and have monthly payments of 1.5% of the outstanding balance. Adjustable-rate home equity lines of credit are based on the prime rate of interest plus or minus an applicable margin and require interest paid monthly. Both fixed and adjustable rate home equity lines of credit have balloon terms of five years. At June 30, 2011 we had \$10.0 million, or 4.1% of our total loan portfolio in home equity lines of credit. At that date we had \$5.1 million of undisbursed funds related to home equity lines of credit.

Home equity lines of credit secured by second mortgages have greater risk than one- to four-family residential mortgage loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity lines of credit, decreases in real estate values could adversely affect the value of property securing the loan.

Commercial Business Loans. We also originate commercial non-mortgage business (term) loans and adjustable lines of credit. At June 30, 2011, we had \$12.1 million of commercial business loans outstanding, representing 4.9% of our total loan portfolio. At that date, we also had \$1.3 million of unfunded commitments on such loans. These loans are generally originated to small- and medium-sized companies in our primary market area. Our commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment and inventory, accounts receivable or stock. We also offer agriculture loans that are not secured by real estate.

In underwriting commercial business loans, we generally lend up to 80% of the appraised value or purchase price of the collateral securing the loan, whichever is lower. The commercial business loans that we offer have fixed interest rates or adjustable-rate indexed to the prime rate of interest plus an applicable margin, and with terms ranging from one to seven years. Our commercial business loan portfolio consists primarily of secured loans. When making commercial business loans, we consider the financial statements, lending history and debt service capabilities of the borrower (generally requiring a minimum ratio of 120%), the projected cash flows of the business and the value of the collateral, if any. Virtually all of our loans are guaranteed by the principals of the borrower.

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Commercial business loans generally have a greater credit risk than one- to four-family residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. We seek to minimize these risks through our underwriting standards.

At June 30, 2011, our largest commercial business loan outstanding was for \$1.5 million and was secured by inventory, equipment, accounts receivable and vehicles. At June 30, 2011, this loan was performing in accordance with its terms.

Construction Loans. We also originate construction loans for one- to four-family residential properties and commercial real estate properties, including multi-family properties. At June 30, 2011, \$4.0 million, or 1.7%, of our total loan portfolio, consisted of construction loans, which were secured by one- to four-family residential real estate, multi-family real estate loans and commercial real estate loans. At June 30, 2011, the unadvanced portion of these construction loans totaled \$3.7 million.

Construction loans for one- to four-family residential properties are originated with a maximum loan to value ratio of 85% and are generally interest-only loans during the construction period which typically does not exceed 12 months. After this time period, the loan converts to permanent, amortizing financing following the completion of construction. Construction loans for commercial real estate are made in accordance with a schedule reflecting the cost of construction, and are generally limited to an 80% loan-to-completed appraised value ratio. We generally require that a commitment for permanent financing be in place prior to closing the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property.

Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

At June 30, 2011, all of the construction loans that we originated were for one-to four-family residential properties, multi-family real estate loans and commercial real estate loans and the largest of such construction loans had a principal balance of \$2.1 million. This loan was performing in accordance with its terms at June 30, 2011.

Loan Originations, Purchases, Participations, Sales and Servicing. Lending activities are conducted primarily by our loan personnel operating in each office. All loans that we originate are underwritten pursuant to our standard policies and procedures. In addition, our one- to four-family residential mortgage loans generally incorporate Fannie Mae, Freddie Mac or Federal Home Loan Bank of Chicago underwriting guidelines, as applicable. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed- or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment which typically results in decreased loan demand. Most of our commercial real estate and commercial business loans are generated by our internal business development efforts and referrals from professional contacts. Most of our originations of one- to four-family residential mortgage loans, consumer loans and home equity loans and lines of credit are generated by existing customers, referrals from realtors, residential home builders, walk-in business and from our website.

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Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis a substantial majority of the conforming, fixed-rate one- to four-family residential mortgage loans with maturities of 15 years or greater that we have originated.

From time to time, we purchase loan participations in commercial loans in which we are not the lead lender secured by real estate and other business assets, primarily within 100 miles of our primary lending area. In these circumstances, we follow our customary loan underwriting and approval policies. We have sufficient capital to take advantage of these opportunities to purchase loan participations, as well as strong relationships with other community banks in our primary market area and throughout Illinois that may desire to sell participations, and we may increase our purchases of participations in the future as a growth strategy. At June 30, 2011, our loan participations totaled \$10.5 million, or 4.3% of our loan portfolio, \$6.4 million of which were outside our primary market area.

We sell a portion of our fixed-rate residential mortgage loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program. We retain servicing on all loans sold under this program. During the years ended June 30, 2011 and 2010, we sold \$23.8 million and \$11.1 million of loans to the Federal Home Loan Bank of Chicago under the program. Prior to December 2008, we also retained some credit risk associated with loans sold to the Federal Home Loan Bank of Chicago. For additional information regarding retained risk associated with these loans, see Allowance for Loan Losses Other Credit Risk.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan.

Iroquois Federal's policies and loan approval limits are established by our Board of Directors. Our loan officers generally have authority to approve one- to four-family residential mortgage loans up to \$100,000, other secured loans up to \$50,000, and unsecured loans up to \$10,000. Managing Officers (those with designated loan approval authority) generally have authority to approve one- to four-family residential mortgage loans and other secured loans up to \$300,000, and unsecured loans up to \$150,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to \$1,000,000 in aggregate loans or \$750,000 for individual loans, and unsecured loans up to \$500,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman, the President, and up to four other Board members.

We generally require appraisals by a rotating list of independent, licensed, third-party appraisers of all real property securing loans. All appraisers are approved by the Board of Directors annually.

Non-performing and Problem Assets

For all of our loans, once a loan is 15 days delinquent, a past due notice is mailed. Past due notices continue to be mailed monthly in the event the account is not brought current. Prior to the time a loan is 30 days past due, we attempt to contact the borrower by telephone. Thereafter we continue with follow-up calls. Generally, once a loan becomes 90 days delinquent, if no work-out efforts have been pursued, we commence the foreclosure or repossession process. A summary report of all loans 60 days or more past due and all criticized and classified loans is provided monthly to our Board of Directors.

Loans are evaluated for non-accrual status when payment of principal and/or interest is 90 days or more past due. Loans are also placed on non-accrual status when it is determined collection of principal or interest is in doubt or if the collateral is in jeopardy. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received and only after the loan is returned to accrual status. The loans are typically returned to accrual status if unpaid principal and interest are repaid so that the loan is current.

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Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At June 30, 2011, 2010, 2009, 2008 and 2007, we had troubled debt restructurings (loans for which a portion of interest or principal has been forgiven and loans modified at interest rates materially less than current market rates) of approximately \$1.8 million, \$782,000, \$951,000, \$128,000 and \$252,000, respectively. At the dates presented, we had no loans that were delinquent 120 days or greater and that were still accruing interest.

	2011	2010	At June 30, 2009 2008 2007 (Dollars in thousands)		
Non-accrual loans:					
Real estate loans:					
One- to four-family (1)	\$ 4,881	\$ 3,056	\$ 3,490	\$ 1,096	\$ 344
Multi-family					
Commercial	206				
Home equity lines of credit	73				
Construction loans					
Commercial business loans	4				
Consumer loans	108		14		28
Total non-accrual loans	5,272	3,056	3,504	1,096	372
Loans delinquent 90 days or greater and still accruing:					
Real estate loans:					
One- to four-family (1)		733	372	138	77
Multi-family					
Commercial				48	
Home equity line of credit		36			
Construction loans					
Commercial business loans					7
Consumer loans		8	20	3	15
Total loans delinquent 90 days or greater and still accruing		777	392	189	99
Total non-performing loans	5,272	3,833	3,896	1,285	471
Other real estate owned and foreclosed assets:					
Real estate loans:					
One- to four-family (1)	690	497	113	56	58
Multi-family					
Commercial					
Home equity lines of credit					
Construction loans					
Commercial business loans					
Consumer loans	20		13	16	1
Total other real estate owned and foreclosed assets	710	497	126	72	59
Total non-performing assets	\$ 5,982	\$ 4,330	\$ 4,022	\$ 1,357	\$ 530
Ratios:					
Non-performing loans to total loans	2.16%	1.61%	1.72%	0.59%	0.22%
Non-performing assets to total assets	1.17%	1.13%	1.07%	0.40%	0.16%

(1) Includes home equity loans.

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For the years ended June 30, 2011 and 2010, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was \$284,000 and \$214,000, respectively. We recognized interest income of \$114,000 and \$101,000 on such loans for the years ended June 30, 2011 and 2010, respectively.

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At June 30, 2011, our non-accrual loans totaled \$5.3 million. These non-accrual loans consisted primarily of 33 one- to four-family residential loans with principal balances of \$4.9 million and specific allowances of \$761,000, and three commercial real estate relationships with principal balances totaling \$206,000 and specific allowances of \$57,000. The commercial real estate loans are secured by commercial rental properties.

Other than as disclosed in the above tables, there are no other loans at June 30, 2011 that management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

Troubled Debt Restructurings. Troubled debt restructurings are defined under ASC 310-40 to include loans for which either a portion of interest or principal has been forgiven, or for loans modified at interest rates or on terms materially less favorable than current market rates. We periodically modify loans to extend the term or make other concessions to help borrowers stay current on their loans and to avoid foreclosure. At June 30, 2011 and 2010, we had \$1.8 million and \$782,000, respectively, of troubled debt restructurings. At June 30, 2011 our troubled debt restructuring of approximately \$1.6 million of residential one- to four-family mortgages, \$4,000 of commercial loans, \$102,000 of commercial real estate loans, and \$71,000 of consumer loans were impaired.

For the years ended June 30, 2011 and 2010, gross interest income that would have been recorded had our troubled debt restructurings been performing in accordance with their original terms was \$104,000 and \$40,000, respectively. We recognized interest income of \$82,000 and \$43,000 on such modified loans for the years ended June 30, 2011 and 2010, respectively.

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Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	Loans Delinquent For				Total	
	60 to 89 Days		90 Days or Greater		Number	Amount
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
At June 30, 2011						
Real estate loans:						
One- to four-family (1)	10	631	19	3,458	29	4,089
Multi-family						
Commercial			2	104	2	104
Home equity lines of credit	2	67	1	37	3	104
Construction loans						
Commercial business loans						
Consumer loans	8	80	4	25	12	105
Total loans	20	\$ 778	26	\$ 3,624	46	\$ 4,402
At June 30, 2010						
Real estate loans:						
One- to four-family (1)	6	\$ 325	21	\$ 3,789	27	\$ 4,114
Multi-family						
Commercial						
Home equity lines of credit			1	36	1	36
Construction loans						
Commercial business loans						
Consumer loans	4	41	1	8	5	49
Total loans	10	\$ 366	23	\$ 3,833	33	\$ 4,199
At June 30, 2009						
Real estate loans:						
One- to four-family (1)	13	\$ 938	27	\$ 3,862	40	\$ 4,800
Multi-family						
Commercial						
Home equity lines of credit	1	14			1	14
Construction loans						
Commercial business loans						
Consumer loans	4	23	4	34	8	57
Total loans	18	\$ 975	31	\$ 3,896	49	\$ 4,871
At June 30, 2008						
Real estate loans:						
One- to four-family (1)	17	\$ 678	15	\$ 1,234	32	\$ 1,912
Multi-family						
Commercial	1	46	1	48	2	94
Home equity lines of credit						
Construction loans						
Commercial business loans						
Consumer loans	1	9			1	9
Consumer loans	1	17	2	3	3	20
Total loans	20	\$ 750	18	\$ 1,285	38	\$ 2,035

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At June 30, 2007

Real estate loans:						
One- to four-family (1)	12	\$ 793	8	\$ 421	20	\$ 1,214
Multi-family						
Commercial	1	268			1	268
Home equity lines of credit						
Construction loans						
Commercial business loans			1	7	1	7
Consumer loans	9	47	7	43	16	90
Total loans	22	\$ 1,108	16	\$ 471	38	\$ 1,579

(1) Includes home equity loans.

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Total delinquent loans increased by \$203,000 to \$4.4 million at June 30, 2011 from \$4.2 million at June 30, 2010. The increase in delinquent loans was due primarily to an increase of \$104,000 in commercial real estate loans delinquent 90 days or more, an increase of \$67,000 in home equity lines of credit 60-89 days delinquent and an increase of \$39,000 in consumer loans 60-89 days delinquent.

Real Estate Owned and Foreclosed Assets. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. When property is acquired it is recorded at the lower of cost or estimated fair market value at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. In addition, we could repossess certain collateral, including automobiles and other titled vehicles, called other repossessed assets. At June 30, 2011, we had \$710,000 in foreclosed assets, which included \$690,000 in real estate owned and \$20,000 in other repossessed assets.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the afore-mentioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention.

When we classify assets as either substandard or doubtful, we undertake an impairment analysis which may result in allocating a portion of our general loss allowances to a specific allowance for such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. When we classify a problem asset as loss, we charge the asset off. For other classified assets, we provide a specific allowance for that portion of the asset that is considered uncollectible. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

The following table sets forth our amounts of classified assets, assets designated as special mention and criticized assets (classified assets and loans designated as special mention) as of the date indicated. Amounts shown at June 30, 2011 and 2010, include approximately \$5.3 million and \$3.8 million of nonperforming loans, respectively. The related specific valuation allowance in the allowance for loan losses for such nonperforming loans was \$903,000 and \$898,000 at June 30, 2011 and 2010, respectively. Substandard assets shown include foreclosed assets.

	At June 30,	
	2011	2010
	(In thousands)	
Classified assets:		
Substandard	\$ 8,081	\$ 5,039
Doubtful		
Loss		
Total classified assets	8,081	5,039
Special mention	1,399	2,126
Total criticized assets	\$ 9,480	\$ 7,165

At June 30, 2011, substandard assets consisted of \$5.4 million of one- to four-family residential mortgage loans, \$1.5 million in multi-family loans, \$206,000 of commercial real estate loans, \$73,000 of home equity lines of

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credit, \$4,000 of commercial business loans, \$130,000 of consumer loans, \$690,000 of real estate owned and \$20,000 of other repossessed assets. At June 30, 2011, special mention assets consisted of \$1.3 million of commercial business loans, \$71,000 of one- to four-family residential mortgage loans, and \$3,000 of consumer loans. At June 30, 2011, no assets were classified as doubtful.

Allowance for Loan Losses

The allowance for loan losses represents one of the most significant estimates within our financial statements and regulatory reporting. Because of this, we have developed, maintained, and documented a comprehensive, systematic, and consistently applied process for determining the allowance for loan losses, in accordance with GAAP, our stated policies and procedures, management's best judgment and relevant supervisory guidance.

Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis, and more frequently if warranted. We analyze the collectability of loans held for investment and maintain an allowance that is appropriate and determined in accordance with GAAP. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) specific allowances for estimated credit losses on individual loans that are determined to be impaired through our review for identified problem loans; and (2) a general allowance based on estimated credit losses inherent in the remainder of the loan portfolio.

In performing the allowance for loan loss review, we have divided our credit portfolio into several separate homogeneous and non-homogeneous categories within the following groups:

Mortgage Loans: one- to four-family residential first lien loans originated by Iroquois Federal; one- to four-family residential first lien loans purchased from a separate origination company; one- to four-family residential junior lien loans; home equity lines of credit; multi-family residential loans on properties with five or more units; non-residential real estate loans; and loans on land under current development or for future development.

Consumer Loans (unsecured or secured by other than real estate): loans secured by deposit accounts; loans for home improvement; educational loans; automobile loans; mobile home loans; loans on other security; and unsecured loans.

Commercial Loans (unsecured or secured by other than real estate): secured loans and unsecured loans.

Determination of Specific Allowances for Identified Problem Loans. We establish a specific allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows, the loan's observable market value, or, for collateral-dependant loans, the fair value of the collateral adjusted for market conditions and selling expenses. Factors used in identifying a specific problem loan include: (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency. In addition, for loans secured by real estate, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

Determination of General Allowance for Remainder of the Loan Portfolio. We establish a general allowance for loans that are not deemed impaired to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends and management's evaluation of the collectability of the loan

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portfolio. The allowance is then adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include: (1) Management's assumptions regarding the minimal level of risk for a given loan category; (2) changes in lending policies and procedures, including changes in underwriting standards, and charge-off and recovery practices not considered elsewhere in estimating credit losses; (3) changes in international, national, regional and local economics and business conditions and developments that affect the collectability of the portfolio, including the conditions of various market segments; (4) changes in the nature and volume of the portfolio and in the terms of loans; (5) changes in the experience, ability, and depth of the lending officers and other relevant staff; (6) changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependant loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.

Although our policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, we have historically evaluated every loan classified as substandard, regardless of size, for impairment as part of our review for establishing specific allowances. Our policy also allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans which are loans criticized as special mention or watch. A separate general allowance calculation is made on these loans based on historical measured weakness, and which is no less than twice the amount of general allowances calculated on our non-classified loans.

In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses. Such agency may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Other Credit Risk. We also have some credit risk associated with fixed-rate residential loans that we sold to the Federal Home Loan Bank of Chicago prior to December 2008 under its Mortgage Partnership Finance Program (MPFP). However, while we retain the servicing of these loans and receive both service fees and credit enhancement fees, they are not our assets. We continue to service approximately \$15.5 million of these loans, for which our maximum potential credit risk is approximately \$787,000. From June 2000 to June 30, 2011, we experienced only \$35,000 in actual losses under the MPFP. Loans that we have sold to the Federal Home Loan Bank of Chicago since December 2008 are sold under its Mortgage Partnership Finance Xtra Program, rather than the MPFP. Unlike loans sold under the MPFP, we do not retain any credit risk with respect to loans sold under the Mortgage Partnership Finance Xtra Program.

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The following table sets forth activity in our allowance for loan losses at and for the periods indicated.

	2011	At or For the Fiscal Years Ended June 30,			2007
		2010	2009	2008	
		(Dollars in thousands)			
Balance at beginning of period	\$ 2,767	\$ 1,365	\$ 1,052	\$ 1,021	\$ 865
Charge-offs:					
Real estate loans:					
One- to four-family (1)	(920)	(474)	(21)	(23)	(14)
Multi-family					
Commercial			(10)		
Home equity lines of credit					
Construction loans					
Commercial business loans	(30)		(6)		
Consumer loans	(54)	(35)	(69)	(44)	(18)
Total charge-offs	(1,004)	(509)	(106)	(67)	(32)
Recoveries:					
Real estate loans:					
One- to four-family (1)	16	18	1	35	2
Multi-family					
Commercial			1		150
Home equity lines of credit					
Construction loans					
Commercial business loans		1			
Consumer loans	19	17	12	10	11
Total recoveries	35	36	14	45	163
Net (charge-offs) recoveries	(969)	(473)	(92)	(22)	131
Provision for loan losses	1,351	1,875	405	53	25
Balance at end of period	\$ 3,149	\$ 2,767	\$ 1,365	\$ 1,052	\$ 1,021
Ratios:					
Net charge-offs to average loans outstanding	0.40%	0.20%	0.04%	0.01%	%
Allowance for loan losses to non-performing loans at end of period	59.73%	72.19%	35.04%	81.48%	216.77%
Allowance for loan losses to total loans at end of period	1.29%	1.16%	0.60%	0.48%	0.49%

(1) Includes home equity loans.

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Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	2011		At June 30, 2010		2009	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
(Dollars in thousands)						
Real estate loans:						
One- to four-family (1)	\$ 1,987	60.8%	\$ 1,785	64.5%	\$ 938	69.5%
Multi-family	250	10.8	202	8.1	67	6.6
Commercial	232	11.2	175	10.5	127	10.5
Home equity lines of credit	120	4.1	71	3.3	32	2.0
Construction loans	30	1.7		.9		.8
Commercial business loans	352	4.9	400	5.6	85	4.1
Consumer loans	169	6.5	127	7.1	113	6.5
Total allocated allowance	3,140		2,760		1,362	
Unallocated	9		7		3	
Total	\$ 3,149	100.00%	\$ 2,767	100.00%	\$ 1,365	100.00%

(1) Includes home equity loans.

	2008		At June 30, 2007	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
(Dollars in thousands)				
Real estate loans:				
One- to four-family (1)	\$ 733	74.6%	\$ 679	78.8%
Multi-family	48	4.9	4	.5
Commercial	97	9.7	94	10.1
Home equity lines of credit	12	.8	4	.3
Construction loans		.7		1.2
Commercial business loans	54	2.9	69	2.4
Consumer loans	84	6.3	82	6.7
Total allocated allowance	1,028		932	
Unallocated	19		89	
Total	\$ 1,047	100.00%	\$ 1,021	100.00%

(1) Includes home equity loans.

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Net charge-offs increased from \$473,000 for the year ended June 30, 2010 to \$969,000 for the year ended June 30, 2011, with most of the charge-offs during both periods involving one- to four-family residential real estate loans. In addition, non-performing loans increased by \$1.4 million during the year ended June 30, 2011, with one- to four-family residential real estate loans accounting for \$1.8 million of the increase. Despite increases in non-performing one- to four-family residential real estate loans and charge-offs of such loans, the combined general and specific allowances for one- to four-family residential real estate loans increased by \$202,000 during the year ended June 30, 2011. Management added \$264,000 to the general allowance for one-to four-family residential real estate loans due to the increases in charge-offs and non-performing loans during the year ended June 30, 2011.

The allowance for loan losses increased \$382,000, or 13.8%, to \$3.1 million at June 30, 2011 from \$2.8 million at June 30, 2010. The increase was based on the increase in charge-offs and non-performing loans. At June 30, 2011, the allowance for loan losses represented 1.3% of total loans compared to 1.2% of total loans at June 30, 2010.

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Investments

We conduct investment transactions in accordance with our Board-approved investment policy. The investment policy is reviewed at least annually by the Budget and Investment Committee of the Board, and any changes to the policy are subject to ratification by the full Board of Directors. This policy dictates that investment decisions give consideration to the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, minimizing exposure to credit risk, potential returns and consistency with our interest rate risk management strategy. Authority to make investments under approved guidelines is delegated to our Investment Committee, comprised of our President and Chief Executive Officer, our Vice President and Chief Financial Officer, our Vice President and Chief Operating Officer, and our Vice President and Chief Retail Banking Officer. All investments are reported to the Board of Directors for ratification at the next regular Board meeting.

Our current investment policy permits us to invest only in investment quality securities permitted by Office of the Comptroller of the Currency regulations, including U.S. Treasury or Government guaranteed securities, U.S. Government agency securities, securities issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, bank-qualified municipal securities, bank-qualified money market instruments, and bank-qualified corporate bonds. We do not engage in speculative trading. As of June 30, 2011, we held no asset-backed securities other than mortgage-backed securities. As a federal savings and loan association, Iroquois Federal is generally not permitted to invest in equity securities, although this general restriction will not apply to IF Bancorp, Inc., which may acquire up to 5% of voting securities of any company without regulatory approval.

ASC 320-10, Investment Debt and Equity Securities requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available for sale are reported at fair value, while securities held to maturity are reported at amortized cost. All of our securities are available for sale. We do not maintain a trading portfolio.

U.S. Government and Agency Debt Securities. While U.S. Government and federal agency securities generally provide lower yields than other investments, including mortgage-backed securities and interest-earning certificates of deposit, we maintain these investments, to the extent appropriate, for liquidity purposes and as collateral for borrowings.

Mortgage-Backed Securities. We invest in mortgage-backed securities insured or guaranteed by the U.S. Government or government sponsored enterprises. Mortgage-backed securities are created by pooling mortgages and issuing a security with an interest rate that is less than the interest rate on the underlying mortgages. Some securities pools are guaranteed as to payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Finally, mortgage-backed securities are assigned lower risk weightings for purposes of calculating our risk-based capital level. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments.

Municipal Obligations. Iroquois Federal's investment policy allows it to purchase municipal securities of credit-worthy issuers, and does not permit it to invest more than 10% of Iroquois Federal's capital in the bonds of any single issuer. At June 30, 2011, we held \$2.5 million of municipal securities primarily issued by local governments and school districts within our market area.

Federal Home Loan Bank Stock. At June 30, 2011, we held \$3.1 million of Federal Home Loan Bank of Chicago common stock in connection with our borrowing activities totaling \$22.5 million. The common stock of the Federal Home Loan Bank is carried at cost and classified as a restricted equity security.

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Bank-Owned Life Insurance. We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses. At June 30, 2011, we had invested \$7.2 million in bank-owned life insurance, which was 18.0% of our Tier 1 capital plus our allowance for loan losses.

Investment Securities Portfolio. The following table sets forth the composition of our investment securities portfolio at the dates indicated, excluding Federal Home Loan Bank of Chicago stock, federally insured interest-earning time deposits and bank-owned life insurance. As of June 30, 2011 and June 30, 2010, all of such securities were classified as available for sale.

	2011		At June 30, 2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)						
Securities available for sale:						
U.S. government, federal agency and government-sponsored enterprises	\$ 149,791	\$ 152,127	\$ 103,807	\$ 106,817	\$ 81,294	\$ 82,329
U.S. government sponsored mortgage-backed securities	34,724	35,536	15,122	16,206	16,418	17,094
State and political subdivisions	2,481	2,610	2,576	2,725		
Total	\$ 186,996	\$ 190,273	\$ 121,505	\$ 125,748	\$ 97,712	\$ 99,423

	2011		At June 30, 2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)						
Securities held to maturity:						
U.S. government sponsored mortgage-backed securities	\$	\$	\$	\$	\$ 23,322	\$ 23,720
State and political subdivisions	\$	\$			2,125	2,172
Total	\$	\$	\$	\$	\$ 25,447	\$ 25,892

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Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at June 30, 2011 are summarized in the following table. At such date, all of our securities were available for sale. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. The yields on municipal securities have not been adjusted to a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in thousands)											
U.S. government, federal agency and government-sponsored enterprises	\$		% \$ 27,434	3.60%	\$ 122,357	2.35%	\$		% \$ 149,791	\$ 152,127	2.58%
U.S. government sponsored mortgage-backed securities	1	1.65	1,204	5.32	6,141	4.68	27,576	3.82	34,724	35,536	4.01
State and political subdivisions	145	4.18	1,028	3.65	1,244	5.93	64	4.83	2,481	2,610	4.86
Total	\$ 146	4.17%	\$ 29,665	3.67%	\$ 129,741	2.50%	\$ 27,640	3.82%	\$ 186,996	\$ 190,273	2.88%

Table of Contents**Sources of Funds**

General. Deposits traditionally have been our primary source of funds for our lending and investment activities. We also borrow from the Federal Home Loan Bank of Chicago, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are the proceeds from the sale of loans originated for sale, scheduled loan payments, maturing investments, loan prepayments, retained earnings and income on other earning assets.

Deposits. We generate deposits primarily from the areas in which our branch offices are located. We rely on our competitive pricing, convenient locations and customer service to attract and retain both retail and commercial deposits.

We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts, individual retirement accounts and health savings accounts. From time to time we utilized brokered deposits. At June 30, 2011, we had \$6.0 million in brokered deposits.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies, including the cost of alternate sources of funds, and market interest rates, liquidity requirements, interest rates paid by competitors and our deposit growth goals.

The following tables set forth the distribution of our average total deposit accounts, by account type, for the periods indicated.

	For the Fiscal Year Ended June 30, 2011			For the Fiscal Year Ended June 30, 2010		
	Average Balance	Percent	Weighted Average Rate (Dollars in thousands)	Average Balance	Percent	Weighted Average Rate
Deposit type:						
Noninterest bearing demand	\$ 8,476	2.53%	%	\$ 7,866	2.45%	%
Interest-bearing checking or NOW	25,156	7.51	0.22	23,234	7.24	0.47
Savings accounts	23,679	7.06	0.49	20,363	6.35	0.87
Money market accounts	70,682	21.09	0.51	68,321	21.29	0.90
Certificates of deposit	207,167	61.81	1.72	201,074	62.67	2.37
Total deposits	\$ 335,160	100.00%	1.22%	\$ 320,858	100.00%	1.77%

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	For the Fiscal Year Ended June 30, 2009		Weighted Average Rate
	Average Balance	Percent (Dollars in thousands)	
Deposit type:			
Noninterest bearing demand	\$ 7,985	2.76%	%
Interest-bearing checking or NOW	21,003	7.25	0.65
Savings accounts	18,712	6.46	1.15
Money market accounts	46,952	16.20	1.85
Certificates of deposit	195,109	67.33	3.19
Total deposits			has an immediate family member who receives, or during any twelve-month period within the last three years has received, more than \$120,000 per year in direct compensation as an executive officer of the Company other than pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
	\$ 289,761	100.00% (iv)	

- (v) is a current partner or current employee of the independent auditors of the Company or any of its subsidiaries;
- (vi) has an immediate family member who is a current partner of the independent auditors of the Company or any of its subsidiaries, or is a current employee of such firm and personally works on the audit of the Company or any of its subsidiaries;
- (vii)

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has within the last three years (but is no longer) been a partner or employee of the independent auditors of the Company or any of its subsidiaries and personally worked on the audit of the Company or any of its subsidiaries within that time;

- (viii) has an immediate family member who was within the last three years (but is no longer) a partner or employee of the independent auditors of the Company or any of its subsidiaries and personally worked on the audit of the Company or any of its subsidiaries within that time;
- (ix) is, or within the last three years has been, employed as an executive officer of another company where any of the current executive officers of the Company serve, or within the last three years have served, on such other company's compensation committee;
- (x) has an immediate family member who is, or within the last three years has been, employed as an executive officer of another company where any of the current executive officers of the Company serve, or within the last three years have served, on such other company's compensation committee;
- (xi) is a current employee of a company that has made payments to, or received payments from, the Company or its subsidiaries for property or services in an amount which, in any single fiscal year for the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues; or

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- (xii) has an immediate family member who is a current executive officer of a company that has made payments to, or received payments from, the Company or its subsidiaries for property or services in an amount which, in any single fiscal year for the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

2. Relationships of the following types will not be considered material relationships that would impair a director's independence:

- (i) charitable donations or pledges made by the Company or its subsidiaries to a charitable organization of which a director is, or within the last three years has been, an executive officer, director, trustee or the equivalent in an amount that, in any single fiscal year, does not exceed the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues;
- (ii) commercial relationships in which a director (or a member of his or her immediate family) is a director, officer, employee or significant stockholder of an entity with which the Company has ordinary course business dealings that do not, or with which the Company has a commercial banking, investment banking or insurance brokerage relationship, in each case that does not cross the bright-line tests in Sections 1(xi) and 1(xii) above and where the director (or immediate family member) is not directly responsible for or involved in the entity's business dealings with the Company;
- (iii) membership in, or association with, the same professional association, social, educational, fraternal or religious organization, club or institution, as an executive officer or another director of the Company;
- (iv) service on the board of another company at which an executive officer or another director of the Company also serves as a board member, except as set forth in Section 1(ix) and 1(x) above; and
- (v) employment by a director at another company, or service on the board of another company by a director, where the independent auditor for such other company is also the independent auditor for the Company.

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Exhibit B

Audit Committee Charter

Philip Morris International Inc.

Membership

The Audit Committee (the *Committee*) of the Board of Directors (the *Board*) of Philip Morris International Inc. (the *Company*) shall consist of at least three directors all of whom the Board shall determine meet the independence requirements for audit committee membership of the New York Stock Exchange and any other applicable laws, rules and regulations, subject to the transition rules of the New York Stock Exchange and the Securities and Exchange Commission (*SEC*). In addition, as determined by the Board in its business judgment, all members of the Committee shall be financially literate, at least one member shall be an audit committee financial expert in accordance with the rules and regulations of the SEC, and at least one member (who may also serve as the audit committee financial expert) shall have accounting or related financial management expertise in accordance with the New York Stock Exchange listing standards. Based on the recommendation of the Nominating and Corporate Governance Committee, the Board shall elect the members and the Chair of the Committee at its organizational meeting following the Annual Meeting of Stockholders. The members of the Committee may be removed by the Board.

Purpose, Authority and Responsibilities

The Committee shall assist the Board in its oversight of (i) the integrity of the Company's financial statements and the Company's financial reporting processes and systems of internal control, (ii) the qualifications, independence and performance of the Company's independent auditors and the performance of the Company's internal auditors and internal audit function, and (iii) the Company's compliance with legal and regulatory requirements, and shall provide an avenue of communication among management, the independent auditors, the internal auditors, the chief compliance officer and the Board. In addition, the Committee shall prepare the audit committee report that SEC rules require to be included in the Company's annual proxy statement.

In the furtherance of this purpose, the Committee shall have the following authority and responsibilities:

Independent Auditors

1. The Committee shall have the sole authority for appointing, compensating, retaining and overseeing the work of the independent auditors of the Company (subject, if applicable, to stockholder ratification), and shall have the sole authority to approve all engagement fees and terms and all permissible non-audit services to be provided by the independent auditors. The Committee shall pre-approve each such audit and non-audit service to be provided by the Company's independent auditors. The Committee may, from time to time, delegate its authority to pre-approve such services to one or more Committee members, provided that such designees present any such approvals to the full Committee at the next Committee meeting;

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2. The Committee shall review and discuss with the independent auditors their audit procedures, including the audit plan and its scope with respect to the Company's consolidated financial statements;
3. The Committee shall evaluate the independent auditors' qualifications, performance and independence, and shall present its conclusions and recommendations with respect to the independent auditors to the Board on at least an annual basis. As part of such evaluation, the Committee shall:

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obtain and review a report or reports from the Company's independent auditors describing:

- the independent auditors' internal quality-control procedures;
- any material issues raised by (i) the most recent internal quality-control review or peer review of the auditing firm, or (ii) any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues; and
- all relationships between the independent auditors and the Company;

review and evaluate the lead partner and senior members of the independent auditors;

assure the regular rotation of the audit partners as required by law as well as consider whether the independent auditors should be rotated, so as to assure continuing auditor independence; and

obtain the opinion of management and the internal auditors of the independent auditors' performance;

4. The Committee shall establish policies for the Company's hiring of current or former employees of the independent auditors;

Internal Auditors

5. The Committee shall, at least annually, evaluate the performance of the Company's internal audit function and review and discuss with the internal auditors the internal audit plan, activities, responsibilities and staffing of the internal audit organization;

Chief Compliance Officer and Compliance Personnel

6. The Committee shall, at least annually, evaluate the performance of the Company's compliance function and review and discuss with the chief compliance officer, and other compliance personnel as may be appropriate, the plan, activities, responsibilities and staffing of the compliance function;

Financial Statements, Disclosure and Other Risk Management and Compliance Matters

7. The Committee shall review and discuss with the independent auditors and with management the results of the annual audit of the Company's consolidated financial statements prior to the filing or distribution thereof, including (i) the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and (ii) any appropriate matters regarding accounting principles, practices and judgments and the independent auditors' opinion as to the quality thereof and any items required to be communicated to the Committee by the independent auditors in accordance with

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standards established and amended from time to time by the Public Company Accounting Oversight Board and the American Institute of Certified Public Accountants (AICPA);

8. The Committee shall review and discuss with management and the independent auditors the Company's interim financial results to be included in the Company's quarterly reports to be filed with the SEC, including the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and any items required to be communicated to the Committee by the independent auditors in accordance with existing AICPA guidance;
9. The Committee shall review and discuss with management, the independent auditors, and the internal auditors the quality and adequacy of the Company's financial reporting processes, internal controls and disclosure controls and procedures, including whether there are any significant

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deficiencies in the design or operation of such processes, controls and procedures, material weaknesses in such processes, controls and procedures, any corrective actions taken with regard to such deficiencies and weaknesses and any fraud involving management or other employees with a significant role in such processes, controls and procedures;

10. The Committee shall review and discuss with the independent auditors any audit problems or difficulties and management's response thereto, including those matters required to be discussed with the Committee by the independent auditors pursuant to Statement on Auditing Standards No. 61;

11. The Committee shall review with management, the internal auditors and the independent auditors, in separate meetings if the Committee deems it appropriate:

any analyses or other written communications prepared by management, the internal auditors and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the consolidated financial statements, including analyses of the effects of alternative United States GAAP methods on the financial statements;

the critical accounting policies and practices of the Company;

related-party transactions and off-balance sheet transactions and structures;

any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles; and

regulatory and accounting initiatives or actions applicable to the Company (including any SEC investigations or proceedings);

12. The Committee shall recommend to the Board whether the Company's consolidated financial statements should be accepted for inclusion in the Company's annual report on Form 10-K;

13. The Committee shall discuss, in conjunction with management, the Company's earnings press releases as well as financial information and earnings guidance provided to analysts and rating agencies;

14. The Committee shall review the Company's policies and practices with respect to risk assessment and risk management, including discussing with management the Company's major financial risk exposures and the steps that management has taken to monitor and control such exposures;

15. The Committee shall approve the Company's Code of Conduct and review the implementation and effectiveness of the Company's compliance program, including violations of the Code of Conduct and responses thereto and the adequacy of resources for compliance;

16. The Committee shall review the expense reports of executive officers and directors;

17. The Committee shall establish procedures for:

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the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters;

the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; and

the Committee shall review any significant complaints regarding accounting, internal accounting controls or auditing matters received pursuant to such procedures;

18. The Committee shall prepare a report of the Audit Committee to stockholders to be included in the Company's annual proxy statement as required by the SEC, and file with the New York Stock Exchange any reports that may be required with respect to the Committee;

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Reporting to the Board; Evaluation of Performance; Other Activities

19. The Committee shall report to the Board on a regular basis, and this report shall include a review of any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditors and the performance of the internal audit and compliance functions;
20. The Committee shall, at least annually, (i) evaluate its own performance and report to the Board on such evaluation and (ii) review and assess the adequacy of this Charter; and
21. The Committee shall perform any other activities consistent with the Company's Articles of Incorporation, By-Laws and governing law as the Committee or the Board deems necessary or appropriate.

Procedures

The Committee shall meet at least four times annually or more frequently as it deems appropriate to carry out its duties. A majority of the members of the Committee shall constitute a quorum. The Chair of the Committee, in consultation with the other Committee members, shall set meeting agendas.

The Committee shall periodically meet separately in executive session with the independent auditors, the internal audit staff, the chief compliance officer, and management and as a Committee to discuss any matters that the Committee or persons with whom they meet believe should be discussed.

In fulfilling its responsibilities, the Committee shall have full access to all books, records, facilities and personnel of the Company. The Committee shall have the sole authority to retain and terminate any independent legal, accounting or other advisors to the Committee as the Committee may deem appropriate, including sole authority to approve fees and retention terms of any legal, accounting or other advisors that it retains.

The Committee may delegate its authority to subcommittees or the Chair of the Committee when it deems appropriate.

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Exhibit C

Compensation and Leadership Development Committee Charter

Philip Morris International Inc.

Membership

The Compensation and Leadership Development Committee (the **Committee**) of the Board of Directors (the **Board**) of Philip Morris International Inc. (the **Company**) shall consist entirely of directors who the Board determines (i) are independent in accordance with New York Stock Exchange listing standards, (ii) are non-employee directors for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and (iii) satisfy the requirements of an outside director for purposes of Section 162(m) of the Internal Revenue Code, subject to the transition rules of the New York Stock Exchange. Based on the recommendation of the Nominating and Corporate Governance Committee, the Board annually shall elect the members and the Chair of the Committee at its organizational meeting following the Annual Meeting of Stockholders. The members of the Committee may be removed by the Board.

Purpose, Authority and Responsibilities

The purpose of the Committee shall be to discharge the Board's responsibilities relating to executive compensation, to produce an annual compensation committee report to be included in the Company's proxy statement in accordance with applicable rules and regulations of the Securities and Exchange Commission (**SEC**), and to review the succession plans for the chief executive officer and other senior executives.

In the furtherance of this purpose, the Committee shall have the following authority and responsibilities:

to review and approve corporate goals and objectives relevant to the compensation of the chief executive officer, to evaluate the performance of the chief executive officer in light of these goals and objectives, and determine and approve the compensation of the chief executive officer based on this evaluation;

to make recommendations to the Board with respect to incentive compensation plans and equity based plans, to administer and make awards under such plans and to review the cumulative effect of its actions;

to review and approve compensation of all executive officers;

to monitor compliance by executives with the Company's stock ownership guidelines;

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to review and assist with the development of executive succession plans, to evaluate and make recommendations to the Board regarding potential candidates to become chief executive officer, and to evaluate and approve candidates to fill other senior executive positions;

to review and discuss with management the Company's disclosures to be included in the Company's annual proxy statement and annual report on Form 10-K regarding executive compensation matters, including the Company's disclosures under Compensation Discussion and Analysis (CD&A) and narrative descriptions of the Committee's procedures for determining executive compensation;

to recommend to the Board whether the Company's CD&A should be accepted for inclusion in the Company's annual proxy statement and annual report on Form 10-K;

to prepare a report of the Compensation and Leadership Development Committee to stockholders to be included in the Company's annual proxy statement as required by the SEC;

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to evaluate the Committee's performance at least annually and report to the Board on such evaluation;

to periodically review and assess the adequacy of this charter and recommend any proposed changes to the Board for approval, including changes concerning the structure and operations of the Committee; and

to perform such other duties and responsibilities as are consistent with the purpose of the Committee and as the Board or the Committee shall deem appropriate.

Procedures

The Committee shall meet as often as it deems is appropriate to carry out its responsibilities. A majority of the members of the Committee shall constitute a quorum. The Chair of the Committee, in consultation with the other Committee members, shall set meeting agendas. The Committee shall report its actions and recommendations to the Board.

The Committee shall have the sole authority to retain and terminate any compensation consultants, legal counsel and any other advisors to the Committee as the Committee may deem appropriate including sole authority to approve the fees and other retention terms of any consultants, counsel or other advisors that it retains.

The Committee may delegate its authority to subcommittees or the Chair of the Committee when it deems appropriate.

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Exhibit D

Finance Committee Charter

Philip Morris International Inc.

Membership

The Finance Committee (the Committee) of the Board of Directors (the Board) of Philip Morris International Inc. (the Company) shall consist of at least three directors chosen by the Board. Based on the recommendation of the Nominating and Corporate Governance Committee, the Board annually shall elect the members and the Chair of the Committee at its organizational meeting following the Annual Meeting of Stockholders. The members of the Committee may be removed by the Board.

Purpose, Authority and Responsibilities

The purpose of this Committee shall be to monitor the financial condition of the Company, oversee the sources and uses of cash flow, capital structure and resulting financial needs, and advise the Board with respect to dividend policy, share repurchase programs and other financial matters.

Procedures

The Committee shall meet as often as it deems is appropriate to carry out its responsibilities. A majority of the members of the Committee shall constitute a quorum. The Chair of the Committee, in consultation with the other Committee members, shall set meeting agendas. The Committee shall report its actions and recommendations to the Board.

The Committee shall have sole authority to retain and terminate legal counsel and other experts and consultants to the Committee as the Committee may deem appropriate, including sole authority to approve fees and terms of any counsel or other experts and consultants that it retains.

The Committee may delegate its authority to subcommittees or the Chair of the Committee when it deems appropriate.

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Exhibit E

Nominating and Corporate Governance Committee Charter

Philip Morris International Inc.

Membership

The Nominating and Corporate Governance Committee (the **Committee**) of the Board of Directors (the **Board**) of Philip Morris International Inc. (the **Company**) shall consist of at least three directors, all of whom the Board shall determine are independent in accordance with New York Stock Exchange listing standards, subject to the transition rules of the New York Stock Exchange. Based on the recommendation of the Committee, the Board annually shall elect the members and the Chair of the Committee at its organizational meeting following the Annual Meeting of Stockholders. The members of the Committee may be removed by the Board.

Purpose, Authority and Responsibilities

The purpose of the Committee shall be to identify individuals qualified to become Board members consistent with the criteria approved by the Board and to recommend a slate of nominees for election at each annual meeting of stockholders; to make recommendations to the Board concerning the appropriate size, function, needs and composition of the Board and its Committees; to advise the Board on corporate governance matters, including developing and recommending to the Board the Company's corporate governance principles; and to oversee the self-evaluation process for the Board and its committees.

In the furtherance of this purpose, the Committee shall have the following authority and responsibilities:

to review the qualifications of candidates for director identified by the Committee or suggested by Board members, stockholders, management and others in accordance with criteria recommended by the Committee and approved by the Board;

to consider the performance of incumbent directors and other relevant factors in determining whether to nominate them for re-election;

to recommend to the Board a slate of nominees for election or re-election to the Board at each annual meeting of stockholders;

to recommend to the Board candidates to be elected to the Board as necessary to fill vacancies and newly created directorships;

to make recommendations to the Board as to determinations of director independence;

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to recommend to the Board retirement policies for directors;

to make recommendations to the Board concerning the function, composition and structure of the Board and its committees;

to recommend to the Board directors to serve as members of and to chair each committee of the Board;

to develop guidelines and recommend to the Board a set of corporate governance guidelines and to review and recommend changes to those guidelines used in Annex A of the Corporate Governance Guidelines, as necessary;

to advise and make recommendations to the Board on corporate governance matters, to the extent these matters are not the responsibility of other committees of the Board;

to develop and recommend to the Board and oversee an annual self-evaluation process for the Board and the Audit, Compensation and Leadership Development and Nominating and Corporate Governance Committees and other Committees of the Board;

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to evaluate the Committee's performance at least annually and report to the Board on such evaluation;

to review the compensation of directors for service on the Board and its committees and recommend changes in compensation to the Board;

to periodically review and assess the adequacy of this charter and recommend any proposed changes to the Board for approval; and

to perform such other duties and responsibilities as are consistent with the purpose of the Committee and as the Board or the Committee shall deem appropriate.

Procedures

The Committee shall meet as often as it deems is appropriate to carry out its responsibilities. A majority of the members of the Committee shall constitute a quorum. The Chair of the Committee, in consultation with the other Committee members, shall set meeting agendas. The Committee shall report its actions and recommendations to the Board.

The Committee shall have the sole authority to retain and terminate any search firm assisting the Committee in identifying director candidates, legal counsel and any other advisors to the Committee as the Committee may deem appropriate, including sole authority to approve the fees and terms of any search firm, counsel or other advisors that it retains.

The Committee may delegate its authority to subcommittees or the Chair of the Committee when it deems appropriate.

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Exhibit F

Product Innovation and Regulatory Affairs Committee Charter

Philip Morris International Inc.

Membership

The Product Innovation and Regulatory Affairs Committee (the **Committee**) of the Board of Directors (the **Board**) of Philip Morris International Inc. (the **Company**) shall consist of at least three directors chosen by the Board. Based on the recommendation of the Nominating and Corporate Governance Committee, the Board annually shall elect the members and the Chair of the Committee at its organizational meeting following the Annual Meeting of Stockholders. The members of the Committee may be removed by the Board.

Purpose

The purpose of the Committee is to monitor and review the development of new product strategies, key legislative, regulatory and public policy issues and trends affecting the Company and progress on societal alignment issues.

In furtherance of this purpose, the Committee will review the Company's strategies to:

carry out internal research and support and understand the body of scientific research relevant to the Company's present and future products and their effects;

develop innovative and next generation products (i.e., those with the potential to reduce risk); and

anticipate, respond to, and challenge where appropriate, regulatory and fiscal proposals, and comply fully with regulatory requirements and fiscal regulations.

Procedures

The Committee shall meet as often as it deems appropriate to carry out its responsibilities. A majority of the members of the Committee shall constitute a quorum. The Chair of the Committee, in consultation with the other Committee members, shall set meeting agendas. The Committee shall report its actions and recommendations to the Board.

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The Committee shall have the sole authority to retain and terminate any advisors to the Committee as the Committee may deem appropriate, including sole authority to approve related fees and terms of any advisors to the Committee that it retains.

The Committee may delegate its authority to subcommittees or the Chair of the Committee when it deems appropriate.

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Exhibit G

**Policy On
Related Person Transactions
Philip Morris International Inc.**

1. Introduction

This Policy regarding Related Person Transactions has been adopted by the Board of Directors of Philip Morris International Inc. and its subsidiaries (the Company). This policy is intended to provide guidance to the executive officers and directors of the Company to help them recognize and deal with actual or apparent conflicts of interests. Conflicts may arise when an executive officer or director, or a member or the officer of director's immediate family, has or could have a direct or indirect material interest in a transaction with the Company in which such person participates. The policy also sets forth the guidelines under which certain transactions must be reviewed and approved or ratified by a committee comprised of independent members of the Board of Directors and the disclosure requirements for these transactions.

2. Definitions

For the purposes of this Policy, the following definitions apply:

- (a) Related Person means any:
 - (i) director or executive officer of the Company;
 - (ii) nominee for director;
 - (iii) immediate family member(s) of directors, executive officers, or nominees for director; or
 - (iv) a beneficial owner (other than a financial or investment institution) of more than 5% of the Company's voting securities.
- (b) Related Person Transaction means a transaction in which the Company was, or is proposed to be a participant and in which a Related Person has, had or may have a direct or indirect material interest.
- (c) Immediate Family Member means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, and any person (other than a tenant or employee) sharing the household of any director, nominee for director or executive officer of the company.

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- (d) **Transaction** means any financial contract, arrangement or relationship, (including any indebtedness or guarantee of indebtedness) or any series of similar contracts, arrangements or relationships.
- (e) **Transaction in the Ordinary Course** means any Transaction in the ordinary course of the Company's business on terms comparable to those provided to unrelated third parties.

3. Reporting Related Person Transactions

Each director, director nominee and executive officer shall promptly notify the Corporate Secretary in writing of any interest that such person or an immediate family member of such person had, has or may have, in a potential Related Person Transaction. Any such notice shall include (i) the person's interest in the Transaction; (ii) whether the Company is a party to the Transaction, and if not, the nature of the Company's participation in the Transaction; (iii) the parties to the Transaction; (iv) the purpose and timing of the Transaction; and (v) the approximate dollar value of both the Transaction and the Related Person's interest in the Transaction.

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4. Determination

- (a) The Corporate Secretary, in consultation with outside counsel, to the extent appropriate, shall determine whether a potential Transaction with a Related Person constitutes a Related Person Transaction requiring review under this Policy (including whether the Company or the Related Person has a material interest, based on review of all facts and circumstances). The Transactions set forth in Section 4(c) below have been determined not to be Related Person Transactions, and, therefore, such Transactions are not subject to this Policy.
- (b) If the Corporate Secretary determines that (i) the proposed Transaction constitutes a Related Person Transaction or (ii) it would be beneficial to further review the Transaction under this Policy, then, in either case, the Transaction will be referred to the chief executive officer (CEO) or the Nominating and Corporate Governance Committee (the Committee) of the Board of Directors for consideration as provided under Section 5 of this Policy.
- (c) The following types of transactions are deemed not to create a direct or indirect material interest for the Related Person and therefore will not be reviewed by the Committee nor require approval or ratification:
 - (i) Transactions not in the Ordinary Course, involving amounts that do not exceed \$10,000 when aggregated with all similar Transactions, with the same Related Person;
 - (ii) Transactions in the Ordinary Course, involving amounts that do not exceed \$120,000;
 - (iii) Transactions where the Related Person's interest derives solely from his or her service as a director of another corporation or organization that is a party to the Transaction;
 - (iv) Transactions where the Related Person's interest in the transaction derives solely from his or her direct or indirect ownership in another person (other than a general partnership) which is a party to the Transaction, which ownership interest (when aggregated with the ownership interests of all other Related Persons described in 2(a) (i)-(iii) above) is less than a ten percent equity interest in such other person;
 - (v) Executive officer compensation arrangements approved by the Company's Compensation and Leadership Development Committee;
 - (vi) Director compensation arrangements approved by the Committee; and
 - (vii) Transactions available to all employees generally.

5. Review, Approval or Ratification

- (a) Proposed Related Person Transactions involving executive officers (and/or their Immediate Family Members) other than the CEO or the Corporate Secretary will be referred to the CEO and the Corporate Secretary for approval or ratification, as applicable. Proposed Related Person Transactions involving the Corporate Secretary (and/or the Corporate Secretary's Immediate Family Members) will be referred to the CEO for approval. Proposed Related Person Transactions involving 5% stockholders, directors, director nominees or the CEO (and/or their Immediate Family Members) will be referred to the Committee for approval. Those reviewing proposed Related Person Transactions shall be provided with full details of the proposed Related Person Transaction. All determinations by the CEO and the Corporate Secretary under this Policy shall be

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reported to the Committee at its next regularly scheduled meeting.

- (b) When evaluating a proposed Related Person Transaction, the CEO, the Corporate Secretary or the Committee shall consider all relevant facts and circumstances, including (if applicable) without limitation:

the commercial reasonableness of the terms of the proposed Transaction;

the benefit to the Company;

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the availability and/or opportunity costs of alternate Transactions;

the materiality and character of the Company's and the Related Person's direct or indirect interest;

whether the Transaction would, or would be perceived to, present an improper conflict of interest for the Related Person, taking into account: (i) the size of the Transaction; (ii) the overall financial position of the Related Person; (iii) the direct or indirect nature of the Related Person's interest in the Transaction; (iv) whether the Transaction is of an ongoing nature; and (v) any other relevant factors; and

if the Related Person is a director (or an Immediate Family Member of a director), the impact on the director's independence as relevant.

The reviewer will not approve or ratify a Related Person Transaction unless it shall have determined that, upon consideration of all relevant information, the Transaction is not opposed to the best interests of the Company. If, after the review described above, the reviewer determines not to approve or ratify a Related Person Transaction (whether such Transaction is being reviewed for the first time or has previously been approved and is being reviewed again), the Transaction will not be entered into or continued, as the reviewer shall direct.

- (c) If a proposed Related Person Transaction involves a Related Person who is a director or an Immediate Family Member of a director, such director shall abstain from voting regarding the Transaction, but may participate, to the extent requested by the Committee Chair, in the Committee's discussions regarding such Transaction.
- (d) If it is impractical to convene a meeting of the Committee prior to consummation of a proposed Related Person Transaction for which Committee review is required under Section 5(a) of this Policy, the Committee Chair may review and approve or ratify such Transaction in accordance with the criteria set forth herein. Any such action shall be reported to the Committee at its next meeting.

6. Transactions Not Previously Approved

If the Company becomes aware of a Related Person Transaction that has not been approved under this Policy, the Related Person Transaction shall be reviewed under this Policy. A Related Person Transaction entered into without approval under this Policy shall not be deemed to violate this Policy, or to be invalid or unenforceable, so long as the Transaction is reviewed in accordance with this Policy as soon as reasonably practical after the Company becomes aware of the Transaction. When reviewing a Related Person Transaction that has not been approved under this Policy, the reviewer shall consider all the relevant facts and circumstances respecting the Transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of such Transaction, and shall take such course of action as the reviewer deems appropriate under the circumstances.

7. Coordination

In connection with administering this Policy, management and the Committee shall coordinate with such other committees of the Board of Directors as may be advisable (e.g., to ensure appropriate consideration of accounting or financial reporting implications).

8. Disclosure

All Related Person Transactions shall be disclosed in the Company's applicable filings to the extent required by the Securities Act of 1933 and the Securities Exchange Act of 1934 and related rules.

9. Questions

Any questions regarding the interpretation or application of this Policy shall be directed to the Corporate Secretary.

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Exhibit H

Philip Morris International Inc.

2008 Performance Incentive Plan

Section 1. Purpose; Definitions.

The purpose of the Plan is to support the Company's ongoing efforts to develop and retain world-class leaders and to provide the Company with the ability to provide incentives more directly linked to the profitability of the Company's businesses and increases in stockholder value.

For purposes of the Plan, the following terms are defined as set forth below:

- (a) Award means the grant under the Plan of Incentive Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Deferred Stock Units, or Other Stock-Based Awards.
- (b) Board means the Board of Directors of the Company.
- (c) Code means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
- (d) Commission means the Securities and Exchange Commission or any successor agency.
- (e) Committee means the Compensation Committee of the Board or a subcommittee thereof, any successor thereto or such other committee or subcommittee as may be designated by the Board to administer the Plan.
- (f) Common Stock or Stock means the Common Stock of the Company.
- (g) Company means Philip Morris International Inc., a corporation organized under the laws of the Commonwealth of Virginia, or any successor thereto.
- (h) Deferred Stock Unit means an Award described in Section 5(a)(v).
- (i) Economic Value Added means net after-tax operating profit less the cost of capital.

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- (j) Exchange Act means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.
- (k) Fair Market Value means, as of any given date, the mean between the highest and lowest reported sales prices of the Common Stock on the New York Stock Exchange-Composite Transactions or, if no such sale of Common Stock is reported on such date, the fair market value of the Stock as determined by the Committee in good faith; provided, however, that the Committee may in its discretion designate the actual sales price as Fair Market Value in the case of dispositions of Common Stock under the Plan.
- (l) Incentive Award means an Award made pursuant to Section 5(a)(vi).
- (m) Incentive Stock Option means any Stock Option that complies with Section 422 (or any amended or successor provision) of the Code.
- (n) Nonqualified Stock Option means any Stock Option that is not an Incentive Stock Option.
- (o) Other Stock-Based Award means an Award made pursuant to Section 5(a)(iii).
- (p) Participant means any eligible individual as set forth in Section 3 to whom an Award is granted.

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- (q) Performance Cycle means the period selected by the Committee during which the performance of the Company or any subsidiary, affiliate or unit thereof or any individual is measured for the purpose of determining the extent to which an Award subject to Performance Goals has been earned.
- (r) Performance Goals mean the objectives for the Company or any subsidiary or affiliate or any unit thereof or any individual that may be established by the Committee for a Performance Cycle with respect to any performance-based Awards contingently awarded under the Plan. The Performance Goals for Awards that are intended to constitute performance-based compensation within the meaning of Section 162(m) (or any amended or successor provision) of the Code shall be based on one or more of the following criteria: earnings per share, total shareholder return, operating income, net income, adjusted net income, cash flow, return on equity, return on capital, or Economic Value Added.
- (s) Plan means this 2008 Performance Incentive Plan, as amended from time to time.
- (t) Restricted Period means the period during which an Award may not be sold, assigned, transferred, pledged or otherwise encumbered.
- (u) Restricted Stock means an Award of shares of Common Stock pursuant to Section 5(a)(iv).
- (v) Restricted Stock Unit means an Award described in Section 5(a)(v).
- (w) Spread Value means, with respect to a share of Common Stock subject to an Award, an amount equal to the excess of the Fair Market Value, on the date such value is determined, over the Award's exercise or grant price, if any.
- (x) Stock Appreciation Right or SAR means a right granted pursuant to Section 5(a)(ii).
- (y) Stock Option means an Incentive Stock Option or a Nonqualified Stock Option granted pursuant to Section 5(a)(i).

In addition, the terms Affiliated Group, Business Combination, Change in Control, Change in Control Price, Incumbent Board, Outstanding Company Stock, Outstanding Company Voting Securities and Person have the meanings set forth in Section 6.

Section 2. Administration.

The Plan shall be administered by the Committee, which shall have the power to interpret the Plan and to adopt such rules and guidelines for carrying out the Plan as it may deem appropriate. The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the laws, regulations, compensation practices and tax and accounting principles of the countries in which the Company, a subsidiary or an affiliate may operate to assure the viability of the benefits of Awards made to individuals employed in such countries and to meet the objectives of the Plan.

Subject to the terms of the Plan, the Committee shall have the authority to determine those employees eligible to receive Awards and the amount, type and terms of each Award and to establish and administer any Performance Goals applicable to such Awards.

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The Committee may delegate its authority and power under the Plan to one or more officers of the Company, subject to guidelines prescribed by the Committee, but only with respect to Participants who are not subject to either Section 16 of the Exchange Act or Section 162(m) (or any amended or successor provision) of the Code.

Any determination made by the Committee or by one or more officers pursuant to delegated authority in accordance with the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate, and all decisions made by the Committee or any appropriately designated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Plan Participants.

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Section 3. Eligibility.

Salaried employees of the Company, its subsidiaries and affiliates, who are responsible for or contribute to the management, growth and profitability of the business of the Company, its subsidiaries or its affiliates, are eligible to be granted Awards under the Plan. Furthermore, employees and former employees of Altria Group, Inc. and its subsidiaries, employees and former employees of Kraft Foods Inc. and its subsidiaries, and employees and former employees of SABMiller plc and its subsidiaries shall be eligible to be granted Awards under the Plan in connection with an event in which the Company ceases to be a subsidiary of Altria Group, Inc.

Section 4. Common Stock Subject to the Plan.

- (a) Common Stock Available. The total number of shares of Common Stock reserved and available for distribution pursuant to the Plan shall be 70,000,000. To the extent any Award under this Plan is exercised or cashed out or terminates or expires or is forfeited without a payment being made to the Participant in the form of Common Stock, the shares subject to such Award that were not so paid, if any, shall again be available for distribution in connection with Awards under the Plan. If an SAR or similar Award based on Spread Value with respect to shares of Common Stock is exercised, only the number of shares of Common Stock issued, if any, will be deemed delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. Any shares of Common Stock that are used by a Participant as full or partial payment of withholding or other taxes or as payment for the exercise or conversion price of an Award under the Plan shall be available for distribution in connection with Awards under the Plan.
- (b) Adjustments for Certain Corporate Transactions.
- (i) In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock or any event as a result of which the Company ceases to be a subsidiary of Altria Group, Inc., in any case after adoption of the Plan by the Board, the Committee is authorized to make such adjustments or substitutions with respect to the Plan and to Awards granted thereunder as it deems appropriate to reflect the occurrence of such event, including, but not limited to, adjustments (A) to the aggregate number and kind of securities reserved for issuance under the Plan, (B) to the Award limits set forth in Section 5, (C) to the Performance Goals or Performance Cycles of any outstanding Performance-Based Awards, and (D) to the number and kind of securities subject to outstanding Awards and, if applicable, the grant or exercise price or Spread Value of outstanding Awards. In addition, the Committee may make an Award in substitution for incentive awards, stock awards, stock options or similar awards held by an individual who is, previously was, or becomes an employee of the Company, a subsidiary or an affiliate in connection with a transaction described in this Section 4(b)(i). Notwithstanding any provision of the Plan (other than the limitation set forth in Section 4(a)), the terms of such substituted Awards shall be as the Committee, in its discretion, determines is appropriate.
- (ii) In connection with any of the events described in Section 4(b)(i), the Committee shall also have authority with respect to the Plan and to Awards granted thereunder (A) to grant Awards (including Stock Options, Stock Appreciation Rights, and Other Stock-Based Awards) with a grant price that is less than Fair Market Value on the date of grant in order to preserve existing gain under any similar type of award previously granted by the Company or another entity to the extent that the existing gain would otherwise be diminished without payment of adequate compensation to the holder of the award for such diminution, and (B) except as may otherwise be required under an applicable Award agreement, to cancel or adjust the terms of an outstanding Award as appropriate to reflect the substitution for the outstanding Award of

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an award of equivalent value granted by another entity. In connection with a spin-off or similar corporate transaction, the adjustments described in this Section 4(b) may include, but are not limited to, (C) the imposition of restrictions on any distribution with respect to Restricted Stock or similar Awards and (D) the substitution of comparable Stock Options to purchase the stock of another entity or Stock Appreciation Rights, Restricted Stock Units, Deferred Stock Units or Other Stock-Based Awards denominated in the securities of another entity, which may be settled in the form of cash, Common Stock, stock of such other entity, or other securities or property, as determined by the Committee; and, in the event of such a substitution, references in this Plan and in the applicable Award agreements thereunder to Common Stock or Stock shall be deemed (except for purposes of Section 6(b) hereunder and for any similar provisions of applicable Award agreements) to also refer to the securities of the other entity where appropriate.

- (iii) In connection with any of the events described in Section 4(b)(i), with respect to the Plan and to Awards granted thereunder, the Committee is also authorized to provide for the payment of any outstanding Awards in cash, including, but not limited to, payment of cash in lieu of any fractional Awards.
- (iv) In the event of any conflict between this Section 4(b) and other provisions of the Plan, the provisions of this section shall control. Receipt of an Award under the Plan shall constitute an acknowledgement by the Participant receiving such Award of the ability of the issuer to adjust any award for which an Award under the Plan is substituted.

Section 5. Awards.

- (a) **General.** The types of Awards that may be granted under the Plan are set forth below. Awards may be granted singly, in combination or in tandem with other Awards.
 - (i) **Stock Options.** A Stock Option represents the right to purchase a share of Stock at a predetermined grant price. Stock Options granted under the Plan may be in the form of Incentive Stock Options or Nonqualified Stock Options, as specified in the Award agreement. The term of each Stock Option shall be set forth in the Award agreement, but no Stock Option shall be exercisable more than ten years after the grant date. The grant price per share of Common Stock purchasable under a Stock Option shall not be less than 100% of the Fair Market Value on the date of grant. Subject to the applicable Award agreement, Stock Options may be exercised, in whole or in part, by giving written notice of exercise specifying the number of shares to be purchased. Such notice shall be accompanied by payment in full of the purchase price by certified or bank check or such other instrument as the Company may accept (including a copy of instructions to a broker or bank acceptable to the Company to deliver promptly to the Company an amount sufficient to pay the purchase price). Unless otherwise determined by the Committee, payment in full or in part may also be made in the form of Common Stock already owned by the Participant valued at Fair Market Value.
 - (ii) **Stock Appreciation Rights.** An SAR represents the right to receive a payment, in cash, shares of Common Stock, or both (as determined by the Committee), with a value equal to the Spread Value on the date the SAR is exercised. The grant price of an SAR shall be set forth in the applicable Award agreement and shall not be less than 100% of the Fair Market Value on the date of grant. Subject to the terms of the applicable Award agreement, an SAR shall be exercisable, in whole or in part, by giving written notice of exercise.
 - (iii) **Other Stock-Based Awards.** Other Stock-Based Awards are Awards, other than Stock Options, SARs, Restricted Stock, Restricted Stock Units, or Deferred Stock Units, that are denominated in, valued in whole or in part by reference to, or otherwise based on or related to, Common Stock. The grant, purchase, exercise, exchange or conversion of Other Stock-Based Awards granted under this subsection (iii) shall be on such terms and conditions and

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by such methods as shall be specified by the Committee. Where the value of an Other Stock-Based Award is based on the Spread Value, the grant price for such an Award will not be less than 100% of the Fair Market Value on the date of grant.

- (iv) Restricted Stock. Shares of Restricted Stock are shares of Common Stock that are awarded to a Participant and that during the Restricted Period may be forfeitable to the Company upon such conditions as may be set forth in the applicable Award agreement. Except as provided in the applicable Award agreement, Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered during the Restricted Period. Except as provided in the applicable Award agreement, a Participant shall have with respect to such Restricted Stock all the rights of a holder of Common Stock during the Restricted Period.
 - (v) Restricted Stock Units and Deferred Stock Units. Restricted Stock Units and Deferred Stock Units represent the right to receive shares of Common Stock, cash, or both (as determined by the Committee) upon satisfaction of such conditions as may be set forth in the applicable Award agreement. Except as provided in the applicable Award agreement, Restricted Stock Units and Deferred Stock Units may not be sold, assigned, transferred, pledged or otherwise encumbered during the Restricted Period. Except as provided in the applicable Award agreement, a Participant shall have with respect to such Restricted Stock Units and Deferred Stock Units none of the rights of a holder of Common Stock unless and until shares of Common Stock are actually delivered in satisfaction of such Restricted Stock Units or Deferred Stock Units.
 - (vi) Incentive Awards. Incentive Awards are performance-based Awards that are expressed in U.S. or any other jurisdiction's currency or Common Stock or any combination thereof.
- (b) Maximum Awards. Subject to the exercise of the Committee's authority pursuant to Section 4:
- (i) The total number of shares of Common Stock subject to Stock Options, Stock Appreciation Rights, and Other Stock-Based Awards with values based on Spread Values awarded during any Plan year to any Participant shall not exceed 3,000,000.
 - (ii) The total amount of any Incentive Award awarded to any Participant with respect to any Performance Cycle, taking into account the cash and the Fair Market Value of any Common Stock payable with respect to such Award, shall not exceed \$12,000,000. For purposes of applying the dollar limit of this clause (ii), any Incentive Award denominated in currency other than U.S. currency shall be converted into U.S. currency in such reasonable manner as may be specified by the Committee or its delegate.
 - (iii) An amount not in excess of 1,000,000 shares of Common Stock may be issued or issuable to any Participant in a Plan Year pursuant to Restricted Stock, Restricted Stock Units, Deferred Stock Units, and Other Stock-Based Awards, except that Other Stock-Based Awards with values based on Spread Values shall not be included in this limitation.
- (c) Performance-Based Awards. Any Awards granted pursuant to the Plan may be in the form of performance-based Awards through the application of Performance Goals and Performance Cycles.

Section 6. Change in Control Provisions.

- (a) Impact of Event. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control:

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- (i) All Stock Options and Stock Appreciation Rights outstanding as of the date such Change in Control occurs shall become fully vested and exercisable.

- (ii) The restrictions and other conditions applicable to any Restricted Stock, Restricted Stock Units, Deferred Stock Units, or Other Stock-Based Awards, including vesting requirements, shall lapse, and such Awards shall become free of all restrictions and fully vested.

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- (iii) The value of all outstanding Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Deferred Stock Units, and Other Stock-Based Awards shall, unless otherwise determined by the Committee at or after grant, be cashed out on the basis of the Change in Control Price, as defined in Section 6(c), as of the date such Change in Control occurs, provided, however, that any Restricted Stock Units, Deferred Stock Units, or similar Other Stock-Based Awards that are subject to Section 409A of the Code shall be paid in a manner that complies with Section 409A as provided in the relevant Award agreement.
 - (iv) Any Incentive Awards relating to Performance Cycles prior to the Performance Cycle in which the Change in Control occurs that have been earned but not paid shall become immediately payable in cash. In addition, each Participant who has been awarded an Incentive Award for the Performance Cycle in which the Change in Control occurs shall be deemed to have earned a pro rata Incentive Award equal to the product of (A) such Participant's target award opportunity for such Performance Cycle, and (B) a fraction, the numerator of which is the number of full or partial months that have elapsed since the beginning of such Performance Cycle to the date on which the Change in Control occurs, and the denominator of which is the total number of months in such Performance Cycle.
- (b) Definition of Change in Control. A Change in Control means the happening of any of the following events.
- (i) Consummation of the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a Person)) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of Common Stock (the Outstanding Company Common Stock) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); provided, however, that the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Company or any corporation or other entity controlled by the Company (the Affiliated Group), (2) any acquisition by a member of the Affiliated Group, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by a member of the Affiliated Group or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph (iii) of this Section 6(b); or
 - (ii) Individuals who, as of the effective date of the Plan, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to such effective date whose election, or nomination for election by the stockholders of the Company, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
 - (iii) Consummation of a reorganization, merger, share exchange or consolidation (a Business Combination), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns such

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shares and voting power through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of any member of the Affiliated Group or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or at the time of the action of the Board providing for such Business Combination or were elected, appointed or nominated by the Board; or

- (iv) Consummation of a (A) complete liquidation or dissolution of the Company or (B) sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, (1) more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) less than 20% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by any Person (excluding any employee benefit plan (or related trust) of any member of the Affiliated Group or such corporation), except to the extent that such Person owned 20% or more of the outstanding Company Common Stock or Outstanding Company Voting Securities prior to the sale or disposition and (3) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or at the time of the action of the Board providing for such sale or other disposition of assets of the Company or were elected, appointed or nominated by the Board.
- (c) Definition of Change in Control Price. Unless the Committee determines otherwise, Change in Control Price means the value of the consideration paid to holders of shares of Common Stock for such Common Stock in connection with a Change in Control transaction (or, if no consideration is paid in connection with a Change in Control transaction, the Fair Market Value of a share of Common Stock immediately prior to a Change in Control), except that, in the case of Stock Options, Stock Appreciation Rights, and similar Other Stock-Based Awards, such price shall be based only on transactions reported for the date on which such Awards are cashed out.

Section 7. Plan Amendment and Termination.

The Board may amend or terminate the Plan at any time, provided that no such amendment shall be made without stockholder approval if such approval is required under applicable law, regulation, or stock exchange rule, or if such amendment would (i) decrease the grant or exercise price of any Stock Option, SAR or Other Stock-Based Award to less than the Fair Market Value on the date of grant, or (ii) increase the total number of shares of Common Stock that may be distributed under the Plan. Except as may be necessary to comply with a change in the laws, regulations or accounting principles

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of a foreign country applicable to Participants subject to the laws of such foreign country, the Committee may not, without stockholder approval, cancel any Stock Option and substitute therefor a new Stock Option with a lower grant price. Except as set forth in any Award agreement or as necessary to comply with applicable law or avoid adverse tax consequences to some or all Plan Participants, no amendment or termination of the Plan may materially and adversely affect any outstanding Award under the Plan without the Award recipient's consent. Notwithstanding anything in this Plan to the contrary, the Plan shall be construed to reflect the intent of the Company that all Awards under the Plan and any elections to defer, distributions, and other aspects of the Plan shall, to the extent subject to Section 409A of the Code, comply with Section 409A and any regulations and other guidance thereunder.

Section 8. Payments and Payment Deferrals.

Payment of Awards may be in the form of cash, Common Stock, other Awards or combinations thereof as the Committee shall determine, and with such restrictions as it may impose. The Committee, either at the time of grant or by subsequent amendment, may require or permit deferral of the payment of Awards, under such rules and procedures as it may establish, provided, however, that any Stock Options, Stock Appreciation Rights, and similar Other Stock-Based Awards that is not subject to Section 409A of the Code but would be subject to Section 409A if a deferral were permitted, shall not be subject to any deferral. The Committee may also provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in Common Stock equivalents. Any deferral and related terms and conditions shall comply with Section 409A of the Code and any regulations and other guidance thereunder.

Section 9. Dividends and Dividend Equivalents.

The Committee may provide that any Awards under the Plan earn dividends or dividend equivalents. Such dividends or dividend equivalents may be paid currently or may be credited to a Participant's Plan account. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares of Common Stock or Common Stock equivalents.

Section 10. Transferability.

Except as provided in the applicable Award agreement or otherwise required by law, Awards shall not be transferable or assignable other than by will or the laws of descent and distribution.

Section 11. Award Agreements.

Each Award under the Plan shall be evidenced by a written agreement (which need not be signed by the recipient unless otherwise specified by the Committee) that sets forth the terms, conditions and limitations for each Award. Such terms may include, but are not limited to, the term of the Award, vesting and forfeiture provisions, and the provisions applicable in the event the Participant's

employment terminates. The Committee may amend an Award agreement, provided that, except as set forth in any Award agreement or as necessary to comply with applicable law or avoid adverse tax consequences to some or all Plan Participants, no such amendment may materially and adversely affect an Award without the Participant's consent.

Section 12. Unfunded Status of Plan.

It is presently intended that the Plan constitute an unfunded plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; provided, however, that, unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

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Section 13. General Provisions.

- (a) The Committee may require each person acquiring shares of Common Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend that the Committee deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Common Stock or other securities delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Commission, any stock exchange upon which the Common Stock is then listed, and any applicable Federal, state or foreign securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

- (b) Nothing contained in the Plan shall prevent the Company, a subsidiary or an affiliate from adopting other or additional compensation arrangements for their respective employees.
- (c) Neither the adoption of the Plan nor the granting of Awards under the Plan shall confer upon any employee any right to continued employment nor shall they interfere in any way with the right of the Company, a subsidiary or an affiliate to terminate the employment of any employee at any time.
- (d) No later than the date as of which an amount first becomes includable in the gross income of the Participant for income tax purposes with respect to any Award under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind that are required by law or applicable regulation to be withheld with respect to such amount.

Unless otherwise determined by the Committee, withholding obligations arising from an Award may be settled with Common Stock, including Common Stock that is part of, or is received upon exercise or conversion of, the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company, its subsidiaries and its affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant. The Committee may establish such procedures as it deems appropriate, including the making of irrevocable elections, for the settling of withholding obligations with Common Stock.

- (e) The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in an Award, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Virginia, to resolve any and all issues that may arise out of or relate to the Plan or any related Award.
- (f) If any provision of the Plan is held invalid or unenforceable, the invalidity or unenforceability shall not affect the remaining parts of the Plan, and the Plan shall be enforced and construed as if such provision had not been included.
- (g) All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

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- (h) The Plan shall be effective on January 29, 2008. Except as otherwise provided by the Board, no Awards shall be made after January 29, 2013, provided that any Awards granted prior to that date may extend beyond it.

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**NOTICE OF
ANNUAL MEETING OF STOCKHOLDERS
TUESDAY, MAY 5, 2009
AND PROXY STATEMENT**

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This proxy when properly executed will be voted as specified. If no specification is made, this proxy will be voted **FOR** the Election of Directors, **FOR** the Ratification of the Selection of Independent Auditors and **FOR** Proposal 3 below.

The Board of Directors recommends a vote **FOR**:



1. Election of Directors:	For	Against	Abstain	For	Against	Abstain	For	Against	Abstain		
01 - Harold Brown	04 - J. Dudley Fishburn	..	..	..	07 - Lucio A. Noto	..	..	..
02 - Mathis Cabiallavetta	05 - Graham Mackay	..	..	..	08 - Carlos Slim Helú	..	..	..
03 - Louis C. Camilleri	06 - Sergio Marchionne	..	..	..	09 - Stephen M. Wolf	..	..	..
		For	Against	Abstain							
2. Ratification of the Selection of Independent Auditors								
		For	Against	Abstain							
3. Approval of Eligibility, Business Criteria for Awards and Award Limits Under the PMI 2008 Performance Incentive Plan								

Authorized Signatures This section must be completed for your vote to be counted. **Date and Sign Below**

Please sign this proxy exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, administrator, trustee or guardian, please give full title as such. The signer hereby revokes all proxies heretofore given by the signer to vote at said meeting or any adjournments thereof.

Date (mm/dd/yyyy) Please print date below. **Signature 1** Please keep signature within the box. **Signature 2** Please keep signature within the box.

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PHILIP MORRIS INTERNATIONAL INC.

2009 ANNUAL MEETING OF

STOCKHOLDERS

Tuesday, May 5, 2009

9:00 A.M., EDT

Empire State Ballroom

Grand Hyatt New York

109 East 42nd Street

New York, NY 10017

In order to attend the Meeting you must submit a written request for an admission ticket. To request an admission ticket, please follow the instructions set forth in the accompanying proxy statement in response to question 4.

It is important that your shares are represented at this Meeting, whether or not you attend the Meeting in person. To make sure your shares are represented, we urge you to complete and mail this proxy card OR vote your shares over the Internet or by telephone in accordance with the instructions provided on the reverse side.

DIRECTIONS

You may request directions by calling 1-866-713-8075.

Sign Up Today For Electronic Delivery

If you prefer to receive your future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet, sign up today at www.computershare.com/pmi.

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE AFTER COMPLETING, SIGNING AND DATING.

Philip Morris International Inc.

Proxy Solicited on Behalf of the Board of Directors

Annual Meeting - May 5, 2009

Louis C. Camilleri and Charles R. Wall, and each of them, are appointed attorneys, with power of substitution, to vote, as indicated on the matters set forth on the reverse hereof and in their discretion upon such other business as may properly come before the meeting, all shares of Common Stock held by the undersigned in Philip Morris International Inc. (the Company) at the Annual Meeting of Stockholders to be held at the Grand Hyatt New York, Empire State Ballroom, May 5, 2009, at 9:00 a.m. EDT, and at all adjournments thereof.

This card also serves to instruct the administrator of the Company's Direct Stock Purchase and Dividend Reinvestment Plan and the trustee of each defined contribution plan sponsored by the Company or any of its subsidiaries how to vote shares held for a participant in any such plan. Unless your proxy for your defined contribution plan shares is received by April 30, 2009, the trustee of such defined contribution plan will vote your plan shares in the same proportion as those plan shares for which instructions have been received.

If you have voted by Internet or telephone, please DO NOT mail back this proxy card.

THANK YOU FOR VOTING

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Using a **black ink** pen, mark your votes with an **X** as shown in

X

this example. Please do not write outside the designated areas.

Annual Meeting Proxy Card

¶ PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ¶

This proxy when properly executed will be voted as specified. If no specification is made, this proxy will be voted **FOR** the Election of Directors, **FOR** the Ratification of the Selection of Independent Auditors and **FOR** Proposal 3 below.

The Board of Directors recommends a vote **FOR**:

+

1. Election of Directors:	For	Against	Abstain	For	Against	Abstain	For	Against	Abstain		
01 - Harold Brown	04 - J. Dudley Fishburn	..	..	..	07 - Lucio A. Noto	..	..	..
02 - Mathis Cabiallavetta	05 - Graham Mackay	..	..	..	08 - Carlos Slim Helú	..	..	..
03 - Louis C. Camilleri	06 - Sergio Marchionne	..	..	..	09 - Stephen M. Wolf	..	..	..
			For	Against	Abstain						
2. Ratification of the Selection of Independent Auditors								
			For	Against	Abstain						
3. Approval of Eligibility, Business Criteria for Awards and Award Limits Under the PMI 2008 Performance Incentive Plan								

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Authorized Signatures This section must be completed for your vote to be counted. **Date and Sign Below**

Please sign this proxy exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, administrator, trustee or guardian, please give full title as such. The signer hereby revokes all proxies heretofore given by the signer to vote at said meeting or any adjournments thereof.

Date (mm/dd/yyyy) Please print date below.

/ /

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

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PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Philip Morris International Inc.

Proxy Solicited on Behalf of the Board of Directors

Annual Meeting - May 5, 2009

Louis C. Camilleri and Charles R. Wall, and each of them, are appointed attorneys, with power of substitution, to vote, as indicated on the matters set forth on the reverse hereof and in their discretion upon such other business as may properly come before the meeting, all shares of Common Stock held by the undersigned in Philip Morris International Inc. (the Company) at the Annual Meeting of Stockholders to be held at the Grand Hyatt New York, Empire State Ballroom, May 5, 2009, at 9:00 a.m. EDT, and at all adjournments thereof.

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THANK YOU FOR VOTING