



**The International Bank For Reconstruction and Development (IBRD) and  
The International Development Association (IDA)**

# **Management's Discussion & Analysis and Financial Statements (Fiscal Year 2016)**

**June 30, 2016**

## Letter of Transmittal

The Annual Report, which covers the period from July 1, 2015, to June 30, 2016, has been prepared by the Executive Directors of both the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)—collectively known as the World Bank—in accordance with the respective bylaws of the two institutions. Dr. Jim Yong Kim, President of the World Bank Group and Chairman of the Board of Executive Directors, has submitted this report, together with the accompanying administrative budgets and audited financial statements, to the Board of Governors.

Annual Reports for the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes are published separately.

### **Board of Executive Directors and Alternates for the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)**

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Alister Smith	Peteranne Tamara Donaldson
Yingming Yang	Jinadi Ye

*As of June 30, 2016*

# International Bank for Reconstruction and Development



## Management's Discussion & Analysis and Financial Statements June 30, 2016



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## SECTION I: EXECUTIVE SUMMARY

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This document provides Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for the International Bank for Reconstruction and Development (IBRD) for the fiscal year ended June 30, 2016 (FY16). At the end of this document there is a Glossary of Terms and a list of Abbreviations and Acronyms. Key financial indicators for the past five years are provided in Box 1.

IBRD, an international organization owned by its 189<sup>1</sup> member countries, is one of the largest Multilateral Development Banks (MDB) in the world and is one of the five institutions of the World Bank Group (WBG)<sup>2</sup>. Each of these institutions is legally and financially independent, with separate assets and liabilities. IBRD is not liable for the obligations of the other institutions.

IBRD provides loans, guarantees, and knowledge for development focused projects and programs to creditworthy middle-income and low-income countries. Its main business activity is extending loans to its eligible member countries.

For FY16, IBRD's net loans outstanding grew by 8.1% to \$168 billion. The increase was mainly attributable to \$13.2 billion in net loan disbursements made during the year. Borrower demand for IBRD's lending continues to be strong, as reflected in the \$30 billion of commitments, which were the largest annual increase in 15 years (excluding the global financial crisis years of FY09-10) and 26.4% above FY15. Gross disbursements in FY16 were \$23 billion, 18.5% above FY15, see Section IV. The increase in net loan disbursements during FY16 contributed to the decrease in IBRD's equity-to-loans ratio from 25.1% as of June 30, 2015 to 22.7% as of June 30, 2016, still above the internal policy minimum level of 20%. This allowed IBRD to respond effectively to the borrowing needs of its member countries, resulting in the higher leveraging of its equity. See Risk Management Section (Section IX).

IBRD's reported net income was \$495 million for FY16, compared to a net loss of \$786 million in FY15. The reported net income in FY16, primarily reflects the unrealized mark-to-market gains of \$631 million experienced on the non-trading portfolios. The net loss in FY15 was primarily due to unrealized mark-to-market losses of \$702 million experienced on the non-trading portfolio. See Financial Results Section (Section III) and Fair Value Analysis Section (Section X).

IBRD's allocable income during the year was \$593 million, 14% lower than that for FY15. The decrease in allocable income was primarily due to the lower income from the Equity Management Framework (EMF). However, this was significantly offset by the increase in IBRD's loan and investment income, net of funding cost, during the year, and the containment of IBRD's administrative expenses despite the significant increase in lending activities. See Financial Results Section (Section III).

Management recommends allocations from allocable income at the end of each fiscal year to augment reserves and support developmental activities. On August 4, 2016, IBRD's Executive Directors (the Board) approved the addition of \$96 million to the General Reserve. In addition, the Board recommended to IBRD's Board of Governors a transfer of \$497 million to IDA. See Financial Results Section (Section III).

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<sup>1</sup> On April 12, 2016, Nauru became the 189<sup>th</sup> member country of IBRD. See *Capital Activities Section (Section VIII)*.

<sup>2</sup> The other WBG institutions are the *International Development Association (IDA)*, the *International Finance Corporation (IFC)*, the *Multilateral Investment Guarantee Agency (MIGA)*, and the *International Centre for Settlement of Investment Disputes (ICSID)*.

## Box 1: Key Financial Indicators, Fiscal Years 2012-2016

As of and for the fiscal years ended June 30

In millions of U.S. dollars, except ratios which are in percentages

	2016	2015	2014	2013	2012
<b>Lending Highlights</b> (See Section IV)					
Commitments <sup>a</sup>	\$ 29,729	\$ 23,528	\$ 18,604	\$ 15,249	\$ 20,582
Gross disbursements <sup>b</sup>	22,532	19,012	18,761	16,030	19,777
Net disbursements <sup>b</sup>	13,197	9,999	8,948	6,552	7,798
<b>Reported Basis</b>					
<b>Income Statement</b> (See Section III)					
Board of Governors-approved and other transfers	\$ (705)	\$ (715)	\$ (676)	\$ (663)	\$ (650)
Net Income/(loss)	495	(786)	(978)	218	(676)
<b>Balance Sheet</b>					
Total assets	\$ 371,260	\$ 343,225	\$ 358,883	\$ 325,601	\$ 338,178
Net investment portfolio (See Section VI)	51,760	45,105	42,708	33,391	35,119
Net loans outstanding (See Section IV)	167,643	155,040	151,978	141,692	134,209
Borrowing portfolio (See Section VII)	178,231	158,853	152,643	134,997	129,680
<b>Allocable Income</b> (See Section III)					
Allocable income	\$ 593	\$ 686	\$ 769	\$ 968	\$ 998
Allocated as follows:					
General Reserve <sup>c</sup>	96	36	-	147	390
International Development Association <sup>d</sup>	497	650	635	621	608
Surplus	-	-	134	200	-
<b>Usable Equity</b> <sup>e</sup> (See Section VIII)	\$ 39,424	\$ 40,195	\$ 40,467	\$ 39,711	\$ 37,636
<b>Capital Adequacy</b> (See Section IX)					
Equity-to-loans ratio <sup>f</sup>	22.7%	25.1%	25.7%	26.8%	27.0%
<p>a. Commitments include guarantee commitments and guarantee facilities that have been approved by the Executive Directors.</p> <p>b. Amounts include transactions with the International Finance Corporation and loan origination fees.</p> <p>c. The June 30, 2016 amount represents the proposed transfer to the General Reserve from FY16 net income, which was approved on August 4, 2016 by the Board.</p> <p>d. On August 4, 2016, the Board recommended to IBRD's Board of Governors a transfer of \$497 million to IDA.</p> <p>e. As defined in Table 23: Usable Equity</p> <p>f. As defined in Table 24: Equity-to-Loans Ratio.</p>					

At the end of this document is a Glossary of Terms and a list of Abbreviations and Acronyms. IBRD undertakes no obligation to update any forward-looking statements. Certain reclassifications of prior years' information have been made to conform to the current year's presentation. For further details see Note A: Summary of Significant Accounting and Related Policies in the Notes to the Financial Statements for the fiscal year ended June 30, 2016.

## SECTION II: OVERVIEW

### Introduction

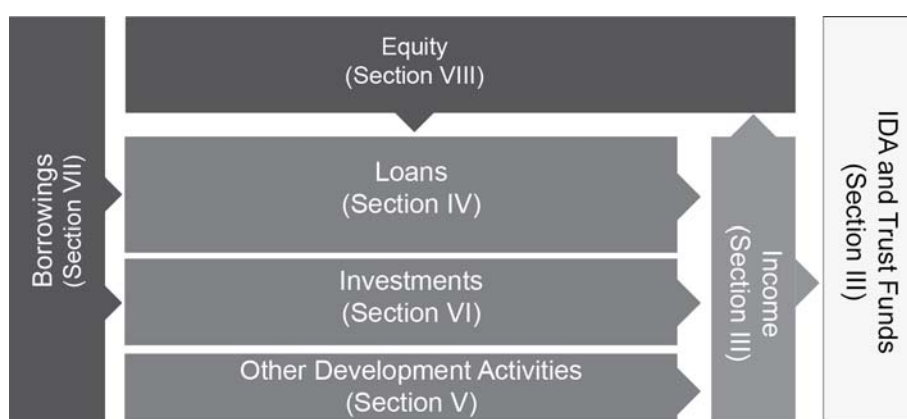
The mission of the WBG is defined by two goals: to end extreme poverty by reducing the percentage of people living on less than \$1.90 per day to no more than 3% globally by 2030; and to promote shared prosperity in a sustainable manner by fostering income growth for the bottom 40% of the population of every developing country. In FY16, IBRD, together with the international community, also agreed to support a more ambitious and broader development agenda, including the Sustainable Development Goals (SDGs), the climate change goals at the 21<sup>st</sup> Conference of Parties (COP21), and the Sendai Framework for disaster risk management.

### Business Model

IBRD's objective is not to maximize profits, but to earn adequate income to ensure its financial strength and sustain its development activities. IBRD seeks to generate sufficient revenue to conduct its operations as well as to be able to set aside funds in reserves to strengthen its financial position, and provide support to IDA and to trust funds via income transfers for other developmental purposes.

The financial strength of IBRD is based on the support it receives from its shareholders and on its array of financial policies and practices. Shareholder support for IBRD is reflected in the capital backing continues to receive from its members and in the record of its borrowing member countries borrowers in meeting their debt service obligations to IBRD. IBRD's sound financial and risk management policies and practices have enabled it to maintain its capital adequacy, diversify its funding sources, hold a portfolio of liquid investments to meet its financial commitments, and limit its risks, including credit and market risks, Figure 1 illustrates IBRD's business model.

Figure 1: IBRD's Business Model



IBRD pursues the above mentioned development goals primarily by providing loans, guarantees, and knowledge for development focused projects and programs to creditworthy middle-income and lower-income countries. IBRD's main business activity is extending loans to its eligible member countries. IBRD offers its borrowers long-term loans that can have a final maturity of up to 35 years. Borrowers may customize their repayment terms to meet their debt management or project needs. Loans are offered on both fixed and variable terms, and in multiple currencies; though borrowers have generally preferred loans denominated in U.S dollars and euros. IBRD also supports its borrowers by providing access to risk management tools such as derivative instruments, including currency and interest rate swaps and interest rate caps and collars.

In achieving these development goals, it is important for IBRD to intermediate funds for lending from international capital markets. IBRD's loans are financed through its equity, and from borrowings raised in the capital markets. IBRD is rated triple-A by the major rating agencies and its bonds are viewed as high quality securities by investors. IBRD's funding strategy is aimed at achieving the best long-term value on a sustainable basis for its borrowing members. This strategy has enabled IBRD to borrow at favorable market terms and pass the savings on to its borrowing members. Its ability to intermediate the funds it raises in international capital markets to developing member countries is important in helping it achieve its goals. IBRD issues its securities both through global offerings and bond issues tailored to the needs of specific markets or investor types. This is done by offering bonds to investors in various currencies, maturities, markets, and with fixed and variable terms, often opening up new



markets for international investors by offering new products or bonds in emerging-market currencies. IBRD's annual funding volumes vary from year to year. Funds not deployed for lending are maintained in IBRD's investment portfolio to supply liquidity for its operations.

IBRD makes extensive use of derivatives to manage its exposure to various market risks from the above activities. These are used to align the interest and currency composition of its assets (loan and investment trading portfolios) with that of its liabilities (borrowing portfolio), and to stabilize the earnings on its equity.

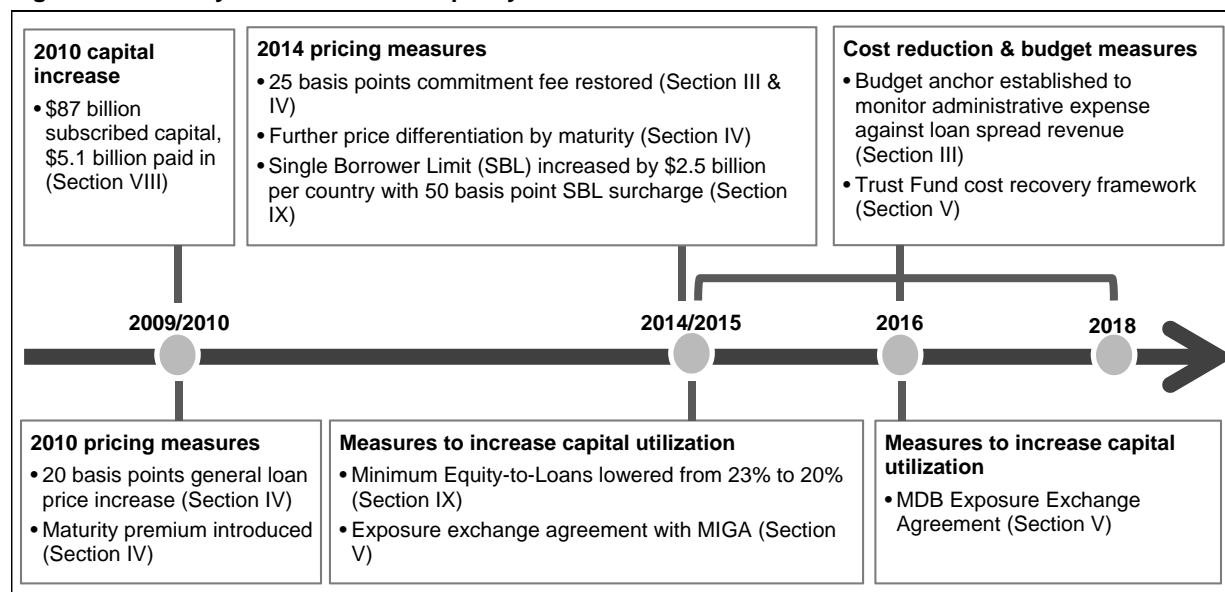
- *Alignment of Assets and Liabilities* – IBRD borrows in multiple currency and interest rate bases on a global scale. It then lends the proceeds of these borrowings to its member countries. IBRD offers its borrowers the option of converting the currency and interest rate bases on their loans where there is a liquid swap market, thereby enabling them to select loan terms which are best matched to their circumstances. In addition to meeting borrower preferences, such options are expected to help borrowers mitigate their currency and interest rate risk. In the absence of active risk management, IBRD would be exposed to substantial market risk and asset-liability management imbalances. To address such imbalances, IBRD uses derivatives to swap its payment obligations on bonds to a currency and interest rate basis that is aligned with its loan portfolio. Likewise, when a borrower exercises a conversion option on a loan to change its currency or interest rate basis, IBRD uses derivatives to covert its exposure back to an aligned currency and interest rate basis. As a result, IBRD's payment obligations on its borrowings are aligned with its loans funded by such borrowings – generally, IBRD pays U.S. dollar, short-term variable rates on its borrowings, and receives U.S. dollar, short-term variable rates on its loans. Derivatives are also used to manage market risk on IBRD's liquidity portfolio. In line with its development mandate, IBRD maintains a large liquidity balance to ensure that it can make payments on its borrowing obligations and loan disbursements, even in the event of severe market disruptions. Pending disbursement, the liquidity portfolio is invested on a global basis in multiple currencies and interest rates. Derivatives are also used to align the currency and duration of investments with the debt funding the liquidity portfolio.
- *Equity Management* – IBRD's equity is deployed to fund lending activities. Given IBRD's risk management strategy (See section IX), earnings on equity reflect short-term variable rates. If left unmanaged, the revenue from these loans would be highly sensitive to fluctuations in short-term interest rates. To manage this exposure, Management has put in place an EMF with the primary goal of providing income stability for IBRD. Under this framework, IBRD uses derivatives to convert the variable rate cash flows on loans funded by equity back to fixed rate cash flows (See Risk Management, Section IX).

Management believes that these risk management strategies, taken together, effectively manage market risk in IBRD's operations from an economic perspective. However, these strategies entail the extensive use of derivatives, which introduce volatility through unrealized mark-to-market gains and losses on the reported basis income statement (particularly given the long-term nature of some of IBRD's assets and liabilities). Accordingly, Management makes decisions on income allocation without reference to unrealized mark-to-market gains and losses on risk management instruments in the non-trading portfolio – see Basis of Reporting – Allocable Income below.

## **Financial Performance**

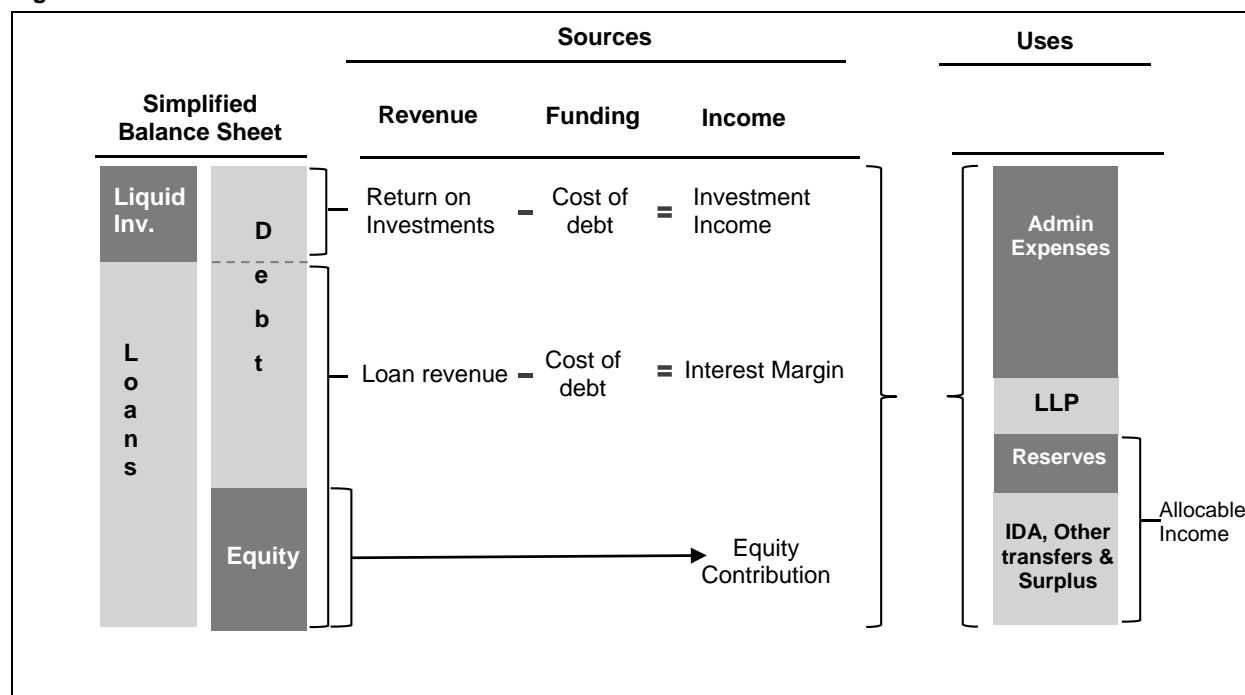
To enhance IBRD's financial position, at the start of FY09, Management, in consultation with the Board, set a goal of expanding revenue and lowering expenses. Figure 2 highlights the revenue enhancement, and cost reduction and budget measures introduced as a part of this process. Together, these new measures are intended to gradually increase IBRD's equity, lending capacity, and its ability to fund priorities that meet shareholder goals while also preserving its financial strength.

**Figure 2: Summary of Revenue and Capacity Measures**



IBRD's primary sources of revenue are the loan and investment income (both net of funding costs), and equity contribution. This revenue is used to cover IBRD's administrative expenses, and provisions for loans and other exposures<sup>3</sup> (LLP), as well as transfers to Reserves, Surplus, and for other development purposes including transfers to IDA. See Figure 3 below.

**Figure 3: Sources and Uses of Revenue**



<sup>3</sup> Other exposures include deferred drawdown options (DDO), irrevocable commitments, exposures to member countries' derivatives and guarantees.

In addition to the revenue generated from activities as shown Figure 3, IBRD also earns revenue from other development activities, in the form of non-interest revenue from externally funded activities. Mobilization of external funds from third-party partners includes trust funds, as well as reimbursable funds and fee-based services from member countries; primarily from Reimbursable Advisory Services (RAS), Externally Financed Outputs (EFO), and the Reserves Advisory Management Program (RAMP). The growth of non-interest revenue from externally funded activities remains a key goal of the WBG's financial performance framework. Growth of this revenue provides an additional means to expand capacity to support borrowing member countries. Management continues to strengthen and align this revenue source with the overall WBG strategy and priorities. See Section V for a detailed discussion on externally funded activities.

## **Basis of Reporting**

### **Audited Financial Statements**

IBRD's financial statements conform with accounting principles generally accepted in the United States of America (U.S. GAAP), referred to in this document as the "reported basis". All instruments in the investment and borrowing portfolios and all other derivatives are reported at fair value, with changes in fair value reported in the statement of income. IBRD's loans are reported at amortized cost, except for loans with embedded derivatives, which are reported at fair value. Management uses the reported net income as the basis for deriving allocable income, as discussed below.

### **Fair Value Results**

IBRD reflects all financial instruments at fair value in Section X of the MD&A. The fair value of these instruments is affected by changes in market variables such as interest rates, exchange rates, and credit risk. Management uses fair value to assess the performance of the investment-trading portfolio; to manage various market risks, including interest rate risk and commercial counterparty credit risk; and to monitor the results of the Equity Management Framework (EMF).

### **Allocable Income**

IBRD's Articles of Agreement (Articles) require that the Board of Governors determine on income allocation at the end of every fiscal year. Allocable income is an internal measure reflecting income available for allocation. Adjustments to the net income reported in the audited financial statements to arrive at allocable net income are approved by the Board at the end of every fiscal year. These adjustments relate to the following:

- Unrealized mark-to-market gains/losses on non-trading portfolios,
- Exclusion of expenses related to transfers allocated from the previous years' allocable income but expensed in the current year,
- Adjustment to reported pension expense to match the contributions made to the pension plans and the Post-Retirement Contribution Reserve Fund (PCRF),
- Exclusion of investment income on the portion of assets related to the pension plan, which is included in IBRD's investment portfolio, and
- Other adjustments including temporarily restricted income (i.e. funds received from donors/others to finance specific products or outputs and as a result not considered allocable), and income related to the Pilot Auction Facility (PAF).

See Financial Results Section (Section III) and Table 6 for a detail discussion on the adjustments made to reported net income to arrive at allocable income.

The volatility in IBRD's reported net income is primarily driven by the unrealized mark-to-market gains and losses on the derivative instruments in IBRD's non-trading portfolios (loans, borrowings, and EMF). IBRD's risk management strategy entails the extensive use of derivatives to manage market risk. These derivatives are primarily used to align the interest rate and currency bases of its assets and liabilities. IBRD has elected not to designate any hedging relationships for accounting purposes. Rather, all derivative instruments are marked to fair value on the Balance Sheet, with changes in fair values accounted for through the Statement of Income.

In line with IBRD's financial risk management policies, IBRD expects to maintain its non-trading portfolio positions. As a result, for non-trading portfolios, allocable income only includes amounts which have been realized.

For trading portfolios (investment portfolio), allocable income includes both unrealized mark-to-market gains and losses, as well as realized amounts.

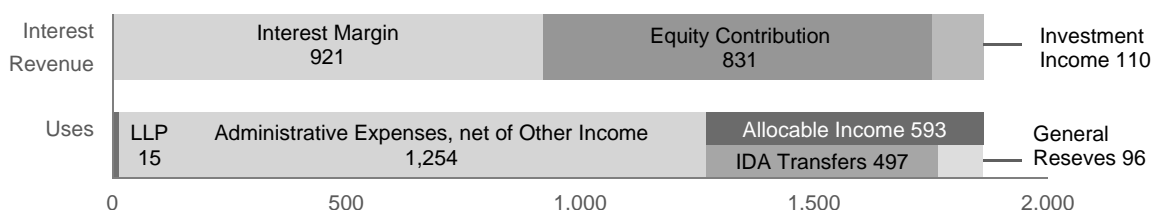
Management has consistently followed this practice of excluding unrealized mark-to-market gains and losses on its non-trading portfolios from reported net income to arrive at allocable income, since adopting FASB's guidance on derivatives and hedging in FY01. Accordingly, in years in which reported net income has been positively impacted by unrealized mark-to-market gains on the non-trading portfolios, IBRD did not take these unrealized mark-to-market gains into account in making income allocation decisions. Likewise, in the case of unrealized mark-to-market losses on the non-trading portfolios, IBRD consistently excludes these amounts from reported net income to arrive at allocable income.

## SECTION III: FINANCIAL RESULTS

On a reported basis, IBRD had net income of \$495 million for FY16. This net income primarily relates to the unrealized mark-to-market gains experienced on the non-trading portfolios (See Table 5). After adjustments IBRD had allocable income of \$593 million for FY16, lower by \$93 million as compared to the allocable income for FY15 (See Table 1). The lower allocable income in FY16 was primarily due to the lower level of gains realized from the termination of certain EMF positions (\$39 million for FY16 compared to \$750 million for FY15), in line with Management's plans to rely primarily on EMF coupon income. However, this was significantly offset by the increase in IBRD's loan and investment income, net of funding costs, during the year, and the containment of IBRD's administrative expenses despite the significant increase in lending activities.

**Figure 4: FY16 Allocable Income and Income Allocation**

In millions of U.S. dollars



The following is a discussion on the key drivers of IBRD's financial performance, including a reconciliation between IBRD's reported net income and allocable income.

**Table 1: Condensed Statement of Income**

In millions of U.S. dollars

For the fiscal year ended June 30,	2016	2015	2014	FY16 vs FY15	FY15 vs FY14
Interest Revenue, net of Funding Costs					
Interest margin	\$ 921	\$ 838	\$ 861	\$ 83	\$ (23)
Equity contribution (including EMF) <sup>a</sup>	831	1,049	1,063	(218)	(14)
Investment income	110	40	15	70	25
<b>Net Interest Revenue</b>	<b>\$ 1,862</b>	<b>\$ 1,927</b>	<b>\$ 1,939</b>	<b>\$ (65)</b>	<b>\$ (12)</b>
Provision for losses on loans and other exposures, net - (charge)/release <sup>b</sup>	(15)	10	60	(25)	(50)
Net non-interest expenses (Table 3)	(1,319)	(1,336)	(1,330)	17	(6)
Net other revenue <sup>b</sup> (Table 2)	41	30	59	11	(29)
Board of Governors-approved and other transfers	(705)	(715)	(676)	10	(39)
Unrealized mark-to-market gains/(losses) on non-trading portfolios, net <sup>a,c</sup>	631	(702)	(1,030)	1,333	328
<b>Net Income (Loss)</b>	<b>\$ 495</b>	<b>\$ (786)</b>	<b>\$ (978)</b>	<b>\$ 1,281</b>	<b>\$ 192</b>
Adjustments to reconcile net income/(loss) to allocable income:					
Pension and other adjustments	24	55	41	(31)	14
Board of Governors-approved and other transfers	705	715	676	(10)	39
Unrealized mark-to-market gains/(losses) on non-trading portfolios, net <sup>a</sup>	(631)	702	1,030	(1,333)	(328)
<b>Allocable Income</b>	<b>\$ 593</b>	<b>\$ 686</b>	<b>\$ 769</b>	<b>\$ (93)</b>	<b>\$ (83)</b>

a. This includes the reclassification of net realized mark-to-market gains of \$39 million and \$750 million for FY16 and FY15, respectively, associated with the termination of certain positions under the EMF, from unrealized mark-to-market losses on non-trading portfolios, net, to equity contribution (See Table 5).

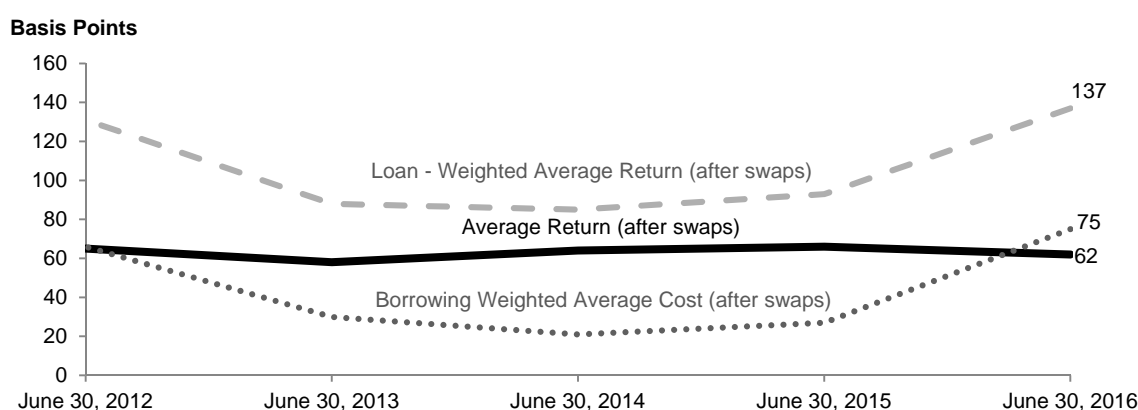
b. For 2016, amount is net of \$42 million of income relating to the recognition of the risk coverage received (recoverable assets) associated with the MDB Exposure Exchange Framework Agreement (EEA) transactions, which is included in other non-interest revenue on IBRD's statement of income.

c. See Table 5

## Interest Margin

As of June 30, 2016, IBRD's equity-to-loans ratio was 22.7%, indicating that approximately 23% of IBRD's net loans and other exposures are funded by equity, and the remainder funded by borrowings. For the portion of loans funded by borrowings, IBRD earned a net interest margin of \$921 million for FY16, compared with \$838 million and \$861 million in FY15 and FY14, respectively. The higher net interest margin earnings in FY16 compared with FY15 benefited from the increase in lending volumes in FY16 (Net disbursements: \$13.2 billion in FY16, \$10.0 billion in FY15), as well as the increased contractual spread on new loans attributable to pricing measures adopted in FY14 (See Figure 2). The benefit from the higher pricing, besides being gradual due to application only on new loans, was largely offset by the adverse effect of a six month lag in passing on IBRD's increased borrowing costs compared to U.S. dollar LIBOR through to borrowing members, thereby resulting in the weighted average lending spread remaining relevantly flat (See Figure 5). The increased borrowing costs were caused by the move in U.S. dollar swap spreads into negative territory and resulted in a revaluation of U.S. Treasuries and other triple-A sovereign, supranational and government agency bonds from their traditional U.S. dollar LIBOR minus spreads to U.S. dollar LIBOR plus spreads.

**Figure 5: Derived Spread**



## Equity Contribution

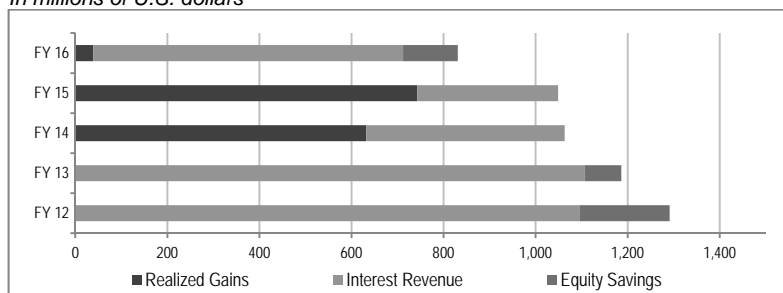
Equity contribution is the interest revenue earned from the EMF and any gains which have been realized during the year as a result of the termination of certain EMF positions. Equity contribution also includes equity savings, revenue from the proportion of loans funded by equity, and certain minor adjustments including those relating to discontinued loan products.

For FY16, equity contribution was \$831 million compared with \$1,049 million in FY15 (See Figure 6). The main driver of equity contribution is revenue from EMF. The interest revenue and realized gains from EMF over the two periods are as follows:

- **Interest revenue:** For FY16, interest revenue from EMF was \$672 million, compared with \$306 million during the same period in FY15. The increase in interest revenue was due to the increase in the volume of EMF positions.
- **Realized Gains:** For FY16, there were \$39 million of realized gains from the terminations of certain EMF positions, compared with \$750 million during the same period in FY15, in line with Management's plans to rely primarily on EMF coupon income.

**Figure 6: Equity Contribution**

*In millions of U.S. dollars*



A further discussion on the EMF strategy and how IBRD manages its exposure to short-term interest rates is included in the Risk Management Section (Section IX).

## Investment Operations

During FY16, investment income, net of funding costs, from the investment portfolio, amounted to \$110 million. This compares with \$40 million during FY15 and \$15 million during FY14. The increase in investment revenue during FY16 was primarily due to lower unrealized mark-to-market losses on the portfolio, compared with FY15, primarily due to changes in the asset value related to HETA ASSET RESOLUTION AG (See Section VI).

## Other Revenue

Table 2 below provides details on the composition of net other revenue. The commitment fee income increased during FY16 mainly due to the restoration of the 25 basis point commitment fee, which is charged on undisbursed balances of new loans approved after September 30, 2014. The decrease in Post-Employment Benefit Plan (PEBP) income is due to negative investment returns experienced during the year.

**Table 2: Net Other Revenue**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2016	2015	2014	FY16 vs FY 15	FY15 vs FY 14
Loan commitment fee income	\$ 34	\$ 16	\$ 19	\$ 18	\$ (3)
Guarantee fee income	7	7	7	*	(*)
Net earnings from PEBP and PCRFB	(6)	5	29	(11)	(24)
Pilot Auction Facility (PAF) <sup>a</sup>	6	-	-	6	-
Others	*	2	4	(2)	(2)
<b>Net other revenue (Table 1)</b>	<u>\$ 41</u>	<u>\$ 30</u>	<u>\$ 59</u>	<u>\$ 11</u>	<u>\$ (29)</u>

a. For further discussion on PAF, see "Other Adjustment" on Table 6.

\* Indicates amount less than \$0.5 million

## Net Non-Interest Expenses

As shown in Table 3, IBRD's net non-interest expenses primarily comprise administrative expenses, net of revenue from externally funded activities. IBRD/IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of administrative expenses between IBRD and IDA is based on an agreed cost sharing methodology, approved by their Boards, which is primarily driven by the relative level of lending activity between these two institutions. The increase in administrative expenses of IBRD during the period is in line with changes in the lending activities of IBRD relative to IDA over the same period. This increase was partially offset by the decline in expenses relating to grant making facilities during the year.

The staff costs and consultant and contractual services shown in the table below include costs related to IBRD executed trust funds, which are recovered through revenue from externally funded activities.

**Table 3: Net Non-Interest Expenses***In millions of U.S. dollars*

For the fiscal year ended June 30,	2016	2015	2014	FY16 vs.FY15	FY15 vs.FY14
<b>Administrative expenses</b>					
Staff costs	\$ 915	\$ 838	\$ 779	\$ 77	\$ 59
Travel	183	172	163	11	9
Consultant and contractual services	482	474	432	8	42
Pension and other post-retirement benefits	231	248	253	(17)	(5)
Communications and technology	58	53	48	5	5
Equipment and buildings	139	131	118	8	13
Other expenses	45	33	28	12	5
Total administrative expenses	\$ 2,053	\$ 1,949	\$ 1,821	\$ 104	\$ 128
Grant Making Facilities (See Section V)	67	110	162	(43)	(52)
<b>Revenue from externally funded activities (See Section V)</b>					
Reimbursable revenue – IBRD executed trust funds	(515)	(437)	(409)	(78)	(28)
Reimbursable advisory services	(51)	(53)	(39)	2	(14)
Revenue – Trust fund administration	(51)	(52)	(56)	1	4
Restricted revenue (primarily externally financed outputs)	(20)	(24)	(23)	4	(1)
Revenue – Asset management services	(27)	(27)	(26)	-	(1)
Other revenue	(137)	(130)	(100)	(7)	(30)
<b>Total Net Non-Interest Expenses (Table 1)</b>	<b>\$ 1,319</b>	<b>\$ 1,336</b>	<b>\$ 1,330</b>	<b>\$ (17)</b>	<b>\$ 6</b>

## Budget Anchor

In FY15, IBRD adopted a new budget measure with the aim of having its administrative expenses being met by its loan spread revenues. This measure, referred to as the Budget Anchor, enables IBRD to monitor its net administrative expenses as a percentage of its loan spread revenues.

**Table 4: Budget Anchor***In millions of U.S. dollars*

For the fiscal year ended June 30,	2016	2015	FY16 vs.FY15
Total net Non-Interest Expenses (From Table 3)	\$ 1,319	\$ 1,336	\$ (17)
Pension adjustment (From Table 6) <sup>a</sup>	(18)	(60)	42
EFO adjustment (From Table 6) <sup>a</sup>	(5)	(*)	(5)
<b>Net administrative expenses</b>	<b>\$ 1,296</b>	<b>\$ 1,276</b>	<b>\$ 20</b>
Loan interest margin (From Table 1)	\$ 921	\$ 838	\$ 83
Loan commitment fee income (From Table 2)	34	16	18
Guarantee income (From Table 2)	7	7	0
<b>Total loan spread revenue</b>	<b>\$ 962</b>	<b>\$ 861</b>	<b>\$ 101</b>
<b>Budget Anchor</b>	<b>135%</b>	<b>148%</b>	

*a. These adjustments are made to arrive at net administrative expenses used for allocable income purposes.*

*\* Indicates amount less than \$0.5 million*

As presented in Table 4, IBRD's budget anchor was 135%, or expenses exceeding loan spread revenues by 35% in FY16. This compares with 148% for FY15, a 13% improvement, reflecting the increase in IBRD's loan spread revenue during the year, and the containment of IBRD's administrative expenses despite the significant increase in lending activities.

## Unrealized mark-to-market gains/losses on non-trading portfolios

These mainly comprise unrealized mark-to-market gains and losses on IBRD's loan, borrowing and EMF portfolios. Since these are not trading portfolios, unrealized mark-to-market gains and losses associated with these positions, are excluded from reported net income to arrive at allocable income. As a result, from a long-term financial sustainability perspective, income allocations are made on the basis of amounts which have been realized. For FY16, \$631 million of unrealized mark-to-market gains (\$702 million unrealized mark-to-market losses in FY15) were excluded from reported net income to arrive at allocable income.



**Table 5: Unrealized Mark-to-Market gains/(losses), net***In millions of U.S. dollars*

	For the fiscal year ended June 30, 2016		
	Unrealized gains (losses), excluding realized amounts <sup>a</sup>	Realized gains (losses)	Total
Borrowing portfolio <sup>b</sup>	\$ 479	\$ 28	\$ 507
Loan portfolio <sup>b</sup>	(1,234)	-	(1,234)
EMF	1,418	39	1,457
Asset-liability management portfolio <sup>c</sup>	(4)	-	(4)
Client operations portfolio	(28)	-	(28)
<b>Total</b>	<b>\$ 631</b>	<b>\$ 67</b>	<b>\$ 698</b>

	For the fiscal year ended June 30, 2015		
	Unrealized gains (losses), excluding realized amounts <sup>a</sup>	Realized gains (losses)	Total
Borrowing portfolio <sup>b</sup>	\$ 14	\$ 10	\$ 24
Loan portfolio <sup>b</sup>	(41)	(1)	(42)
EMF	(659)	750	91
Asset-liability management portfolio <sup>c</sup>	(*)	-	(*)
Client operations portfolio	(16)	-	(16)
<b>Total</b>	<b>\$ (702)</b>	<b>\$ 759</b>	<b>\$ 57</b>

a. Adjusted to exclude realized gains (losses), which have been reclassified to the related interest income and expense lines for allocable income purposes.

b. Includes related derivatives.

c. Included in other derivatives on the Balance Sheet.

\* Indicates amounts less than \$0.5 million.

## Loan Portfolio

On a reported basis, while the derivatives which convert IBRD's loans to variable rates are reported at fair value, all loans are reported at amortized cost, with the exception of one loan with an embedded derivative, which is reported at fair value. As a result, while from an economic perspective, IBRD's loans after the effect of derivatives carry variable interest rates and therefore have a low sensitivity to interest rates, this is not evident in IBRD's reported net income. In order to show the effect of its risk management policies, IBRD reflects its loans at fair value in the MD&A. See Section X for more details.

## Borrowing Portfolio

On a reported basis, all of the derivatives and the related underlying borrowings are at fair value, and therefore, unrealized mark-to-market gains and losses on the borrowing related derivatives are correspondingly offset by unrealized mark-to-market gains and losses on the underlying borrowings. As a result, since IBRD does not hedge its own credit, the main component of the net unrealized mark-to-market gains and losses relates to the impact of the change in IBRD's own credit. See Section X for more details.

## EMF

During FY16, IBRD had unrealized mark-to-market gains, primarily as a result of the decline in the U.S. interest rates. See Sections IX and X for more details on the activity and the underlying strategy.

## Reconciliation of reported net income to allocable income

Net income allocation decisions are based on allocable income. As illustrated in Table 6, the key differences between allocable income and reported net income relate to unrealized mark-to-market gains and losses on IBRD's non-trading portfolios, and expenses related to Board of Governors-approved and other transfers. Management recommends to the Board allocations out of net income at the end of each fiscal year to augment reserves and support developmental activities.

**Table 6: Income Allocation***In millions of U.S. dollars*

For the fiscal years ended June 30,	2016	2015
<b>Net Income (Loss)</b>	\$ 495	\$ (786)
<b>Adjustments to Net Income to Arrive at Allocable Income:</b>		
Board of Governors-approved and other transfers	705	715
Unrealized mark-to-market (gains)/losses on non-trading portfolios, net	(631)	702
Pension	18	60
PEBP and PCRF loss/(income)	6	(5)
Other Adjustments	(*)	*
<b>Allocable Income</b>	<b>\$ 593</b>	<b>\$ 686</b>
<b>Recommended Allocations</b>		
General Reserve	96	36
Transfer to IDA	497	650
<b>Total Allocations</b>	<b>\$ 593</b>	<b>\$ 686</b>

\* Indicates amounts less than \$0.5 million.

### Unrealized mark-to-market gains/losses on non-trading portfolios

These mainly comprise unrealized mark-to-market gains and losses on IBRD's loan, borrowing, and EMF portfolios as discussed previously. For FY16, Management recommended and the Board approved the exclusion of \$631 million of unrealized mark-to-market gains from reported net income to arrive to allocable income.

### Board of Governors approved and other transfers

Board of Governors-approved and other transfers refers to the allocations recommended by the Board and approved by the Board of Governors as part of the prior year's net income allocation process and subsequent decisions on uses of surplus, as well as on payments from restricted retained earnings.

For FY16, IBRD recorded expenses of \$705 million relating to Board of Governors-approved and other transfers, of which \$650 million was to IDA and \$55 million to the Trust Fund for Gaza and the West Bank (see Note G: Retained Earnings, Allocations and Transfers in the Notes to the Financial Statements). Since these amounts primarily relate to allocations out of IBRD's FY15 allocable income, Surplus, or restricted retained earnings, they are excluded from the FY16 reported net income to arrive at the FY16 allocable income.

### Pension and PEBP adjustments

The Pension adjustment reflects the difference between IBRD's contributions to the pension plans and the accounting expense, as well as investment income earned on those assets related to the PEBP and Post-Retirement Contribution Reserve Fund (PCRF), the latter being established by the Board to stabilize contributions to the pension and post-retirement benefits plans. Management believes the allocation decision should be based on IBRD's contributions to the pension plans and PCRF rather than pension expenses. In addition, Management has designated the income from these assets to meet the needs of the pension plans. As a result, PEBP and PCRF investment income/(losses) are excluded from allocable income. In FY16, Management recommended and the Board approved that the exclusion of \$24 million to arrive at allocable income.

### Other Adjustments:

- Under certain arrangements (such as EFO), IBRD enters into agreements with donors under which IBRD receives funds to be used to finance specified IBRD outputs or services. These funds may be utilized only for the purposes specified in the agreements and are therefore considered restricted until applied by IBRD for these purposes. Management believes that income attributable to these arrangements should be excluded from allocable income since there is no discretion about the use of such funds. In line with this, these amounts are transferred to restricted retained earnings. In FY16, the net balance of these restricted funds decreased by \$5 million.

In FY16, Management recommended and the Board approved that the reported net income be increased by \$5 million to arrive at allocable income.

- The income recognized for the right to receive reimbursement from the Financial Intermediary Fund (FIF) for the Pilot Auction Facility (PAF) for Methane and Climate Change Mitigation<sup>4</sup> is excluded, as this is required for the payout for the changes in market value on put options under the PAF. Therefore it is not available for other uses. In FY16, an income of \$6 million was recognized in reported net income. In FY16, Management recommended and the Board approved that the reported net income be decreased by \$6 million to arrive at allocable income. The change in the market value of the put option is also excluded from reported net income to arrive at allocable income, as part of the unrealized mark-to market gains/(losses) on non-trading portfolios.

### **Recommended Allocations**

Allocable income in FY16 was \$593 million. Of this amount, on August 4, 2016, the Board approved the allocation of \$96 million to the General Reserve. In addition, the Board recommended to IBRD's Board of Governors a transfer of \$497 million to IDA. The original indicative amount of IBRD's transfer to IDA under the Seventeenth Replenishment of resources (IDA17) for FY16 was \$665 million. However, in light of a supplemental contribution during FY16 by Austria to IDA for IDA17 of \$189 million, payable over nine years, the Board recommended a reduced IBRD net income transfer of \$497 million.

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<sup>4</sup> In FY16, IBRD issued put options for methane and climate change mitigation. The PAF is a climate finance model developed by IBRD to stimulate investment in projects that reduce greenhouse gas emissions in developing countries. The PAF is a pay-for-performance mechanism which uses auctions to allocate public funds and attract private sector investment to projects that reduce methane emissions by providing a medium-term guaranteed floor price on emission rights. The notional amount of options issued during FY16 was \$42 million.

## SECTION IV: LENDING ACTIVITIES

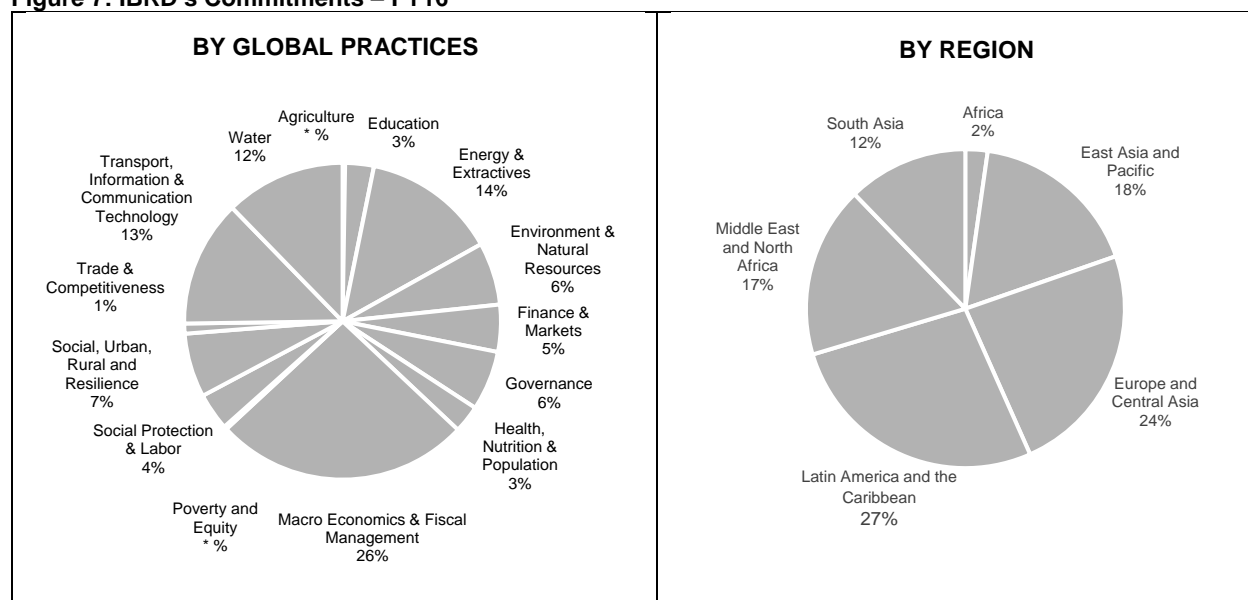
IBRD provides financing and knowledge services to middle-income and creditworthy lower-income countries to reduce poverty and promote shared prosperity, while ensuring that social, environmental, and governance considerations are taken into account. Demand for IBRD's loans remains strong, driven by the financing needs of borrowers combined with the value placed on the technical assistance offered with the financing. Country teams with a deep understanding of each country's circumstances work with clients to tailor and manage the most appropriate mix of instruments, products, and services.

All IBRD loans are made to, or guaranteed by, member countries. IBRD may also make loans to IFC without any guarantee. All loans are approved by the Board. Effective July 1, 2016, eligible countries with 2015 per capita Gross National Income of \$1,185 or more are eligible to borrow from IBRD. Low-income countries are also eligible for concessional loans and grants from IDA. Since 1946, IBRD has extended, net of cumulative cancellations, about \$589.7 billion in loans. IBRD does not currently sell its loans, nor does Management believe there is a market for such loans.

Over the past decades, considerable advancements in poverty reduction have been made globally. The World Bank estimates suggest that, for the first time in history, the number of people living in extreme poverty has fallen below 10 percent of the global population. Despite this achievement, hundreds of millions of people still live on less than \$1.90 a day, the current benchmark for extreme poverty. A continuation of these advancements offers an opportunity to end extreme poverty.

IBRD has both a country based focus and a global approach. To facilitate this, IBRD has established the Global Practice and Cross Cutting Solution Areas, to assemble the world's best experts and knowledge, and make it more accessible to member countries. The Global Practices enhance the sharing of global technical expertise to deliver client solutions across 14 specialized areas of development that integrate public and private sectors; capture and leverage knowledge; and build global leadership.

**Figure 7: IBRD's Commitments – FY16**



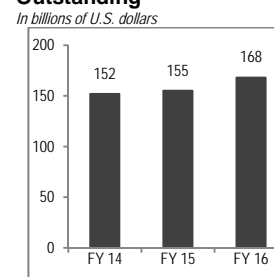
\* Indicates amounts less than 0.5%.

IBRD's projects undergo a rigorous review and approval process that includes early screening to identify environmental and social impacts and designing mitigation actions. Identifying and appraising a project, and approving and disbursing a loan, can often take several years. However IBRD has shortened the preparation and approval cycle for countries in emergency situations (e.g., natural disasters) and in crises (e.g., food, fuel, and global economic crises).

Loan disbursements must meet the requirements set out in loan agreements. During implementation of IBRD-supported operations, IBRD's staff review progress, monitor compliance with IBRD policies, and help resolve any problems that may arise. The Independent Evaluation Group, an IBRD unit, whose director reports to the Board, evaluates the extent to which operations have met their major objectives.

At June 30, 2016, IBRD's net loans outstanding amounted to \$167.6 billion, 8.1% above a year earlier (Figure 8). The increase was mainly attributable to \$13.2 billion in net loan disbursements made in FY16, the highest level of net disbursements since FY10.

**Figure 8: Net Loans Outstanding**

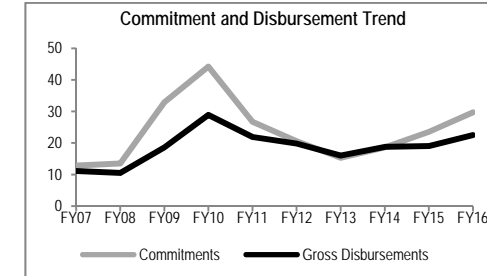


## Lending Commitments and Disbursements

In FY16, IBRD committed \$29.7 billion through 118 projects to help developing countries find solutions to the toughest global and local development challenges.

Lending commitments and guarantees increased in FY16 relative to a year earlier by 26.4% (Table 7), the largest annual increase in 15 years (excluding the global financial crisis years of FY09-10). Annual commitments averaged \$13.5 billion in the three years preceding the global financial crisis, peaked in FY10 at \$44.2 billion, and have now started to increase since bottoming out at \$15.2 billion in FY13. As shown in Table 7, 27% of FY16 commitments were for the Latin America and Caribbean region, as compared to 24% during FY15. In terms of volume, this represented an increase of \$2.3 billion from the prior year. With regard to individual countries, Peru had the highest volume of commitments, representing 10% of the total commitments in FY16 (see Table 9).

**Figure 9: Commitments/ Disbursements Trends**



**Table 7: Commitments by Region**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2016	% of total	2015	% of total
Africa	\$ 669	2%	\$ 1,209	5%
East Asia and Pacific	5,176	18	4,539	19
Europe and Central Asia	7,039	24	6,679	29
Latin America and the Caribbean	8,035	27	5,709	24
Middle East and North Africa	5,170	17	3,294	14
South Asia	3,640	12	2,098	9
<b>Total</b>	<b>\$ 29,729</b>	<b>100%</b>	<b>\$ 23,528</b>	<b>100%</b>

**Table 8: Gross Disbursements by Region**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2016	% of total	2015	% of total
Africa	\$ 874	4%	\$ 816	4%
East Asia and Pacific	5,205	23	3,596	19
Europe and Central Asia	5,167	23	5,829	31
Latin America and the Caribbean	5,236	23	5,726	30
Middle East and North Africa	4,427	20	1,779	9
South Asia	1,623	7	1,266	7
<b>Total</b>	<b>\$ 22,532</b>	<b>100%</b>	<b>\$ 19,012</b>	<b>100%</b>

**Table 9: Top 10 Commitments to Borrowing Member Countries***In millions of U.S. dollars*

For the fiscal year ended June 30,	2016	% of total		2015	% of total
Peru	\$ 2,850	10%	India	\$ 2,098	9%
India	2,820	9	China	1,822	8
Kazakhstan	2,058	7	Colombia	1,400	6
China	1,982	7	Egypt, Republic of Arab	1,400	6
Indonesia	1,700	6	Ukraine	1,345	6
Ukraine	1,560	5	Argentina	1,337	6
Egypt, Arab Republic of	1,550	5	Turkey	1,150	5
Iraq	1,550	5	Morocco	1,055	4
Poland	1,504	5	Indonesia	1,000	4
Colombia	1,400	5	Poland	966	4
Other	10,755	36	Other	9,955	42
Total	\$ 29,729	100%	Total	\$ 23,528	100%

## Lending Categories

IBRD's lending is classified in three categories: investment project financing, development policy financing, and program-for-results (Figure 10).

### Investment Project Financing (IPF)

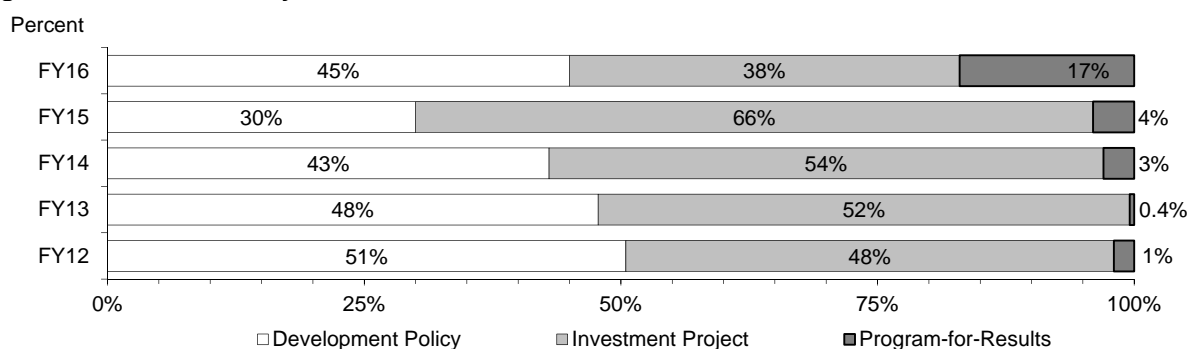
IPF provides financing for a wide range of activities aimed at creating the physical and social infrastructure necessary to reduce poverty and create sustainable development. IPF is usually disbursed over the long-term (5 to 10 year horizon). FY16 commitments under this lending category amounted to \$11.4 billion, compared with \$15.4 billion in FY15.

### Development Policy Financing (DPF)

DPF aims to support borrowers in achieving sustainable development through a program of policy and institutional actions. Examples of DPF include strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy. DPF supports reforms through non-earmarked general budget financing. DPF provides fast-disbursing financing (1 to 3 years) to help borrowers address actual or anticipated development financing requirements. FY16 commitments under this lending category totaled \$13.2 billion, compared with \$7.2 billion in FY15.

### Program-for-Results (PforR)

PforR helps countries improve the design and implementation of their development programs and achieve *specific* results by strengthening institutions and building capacity. PforR disburses when agreed results are achieved and verified. Results are identified and agreed upon during the loan preparation stage. FY16 commitments under this lending category totaled \$5.1 billion compared with \$0.9 billion in FY15.

**Figure 10: Commitments by Instrument**

## Currently Available Lending Products

IBRD does not differentiate between the credit quality of member countries eligible for loans; loans for all eligible members are subject to the same pricing. As of June 30, 2016, 85 member countries were eligible to borrow from IBRD.

### IBRD Flexible Loans (IFLs)

IFLs allow borrowers to customize their repayment terms (i.e., grace period, repayment period, and amortization profile) to meet their debt management or project needs. The IFL offers two types of loan terms: variable-spread terms and fixed-spread terms. During FY16, 86% of loans selected by borrowers had variable-spread terms and the remaining loans had fixed-spread terms. See Table 11 for details of loan terms for IFL loans.

IFLs include options to manage the currency and/or interest rate risk over the life of the loan. The outstanding balance of loans, for which currency or interest rate conversions have been exercised as of June 30, 2016, was \$25 billion (versus \$29 billion on June 30, 2015). IFLs may be denominated in the currency or currencies chosen by the borrower, as long as IBRD can efficiently intermediate in that currency. Through the use of currency conversions, some borrowing member countries have converted their IBRD loans into domestic currencies to reduce their foreign currency exposure for projects or programs that do not generate foreign currency revenue. These local currency loans may carry fixed or variable-spread terms. The balance of such loans outstanding as of June 30, 2016, was \$3.0 billion, compared with \$3.2 billion on June 30, 2015.

The spread on IBRD's IFLs has four components: the contractual lending spread, maturity premium, market risk premium, and funding cost margin. The contractual lending spread and maturity premium, which apply to all IFLs, are subject to the Board's periodic pricing review. For fixed-spread IFLs, the projected funding cost margin and the market risk premium are set by Management to ensure that they reflect the underlying market conditions that are constantly evolving. These are communicated to the Board at least quarterly.

The ability to offer long-term financing distinguishes development banks from other sources of funding for member countries. Since IBRD introduced maturity-based pricing in 2010, most countries continue to choose loans with the longest maturities despite a higher maturity premium, highlighting the value of longer maturities to member countries.

**Table 10: Commitment Analysis by Maturity**

*In millions of U.S. dollars*

Maturity Bucket	For the fiscal year ended June 30, 2016			For the fiscal year ended June 30, 2015		
	Fixed Spread	Variable Spread	Total	Fixed Spread	Variable Spread	Total
< 8 years	\$ -	\$ 309	\$ 309	\$ -	\$ 589	\$ 589
8-10 years	327	450	777	115	344	459
10-12 years	422	5,688	6,110	295	3,368	3,663
12-15 years	624	9,587	10,211	572	2,811	3,383
15-18 years	260	1,792	2,052	1,095	7,570	8,665
>18 years	2,484	7,166	9,650	945	5,397	6,342
Guarantee Commitments			620			427
Total Commitments	<u>\$ 4,117</u>	<u>\$ 24,992</u>	<u>\$ 29,729</u>	<u>\$ 3,022</u>	<u>\$ 20,079</u>	<u>\$ 23,528</u>

### Other Lending Products Currently Available

In addition to IFLs, IBRD offers loans with a deferred drawdown option, Special Development Policy Loans (SDPLs), loan-related derivatives, and loans to IFC (See Box 2).

**Box 2: Other Lending Products Currently Available**

Lending Product	Description
<b>Loans with a Deferred Drawdown Option</b>	The Development Policy Loan Deferred Drawdown Option (DPL DDO) gives borrowers the flexibility to rapidly obtain the financing they require. For example, such funds could be needed owing to a shortfall in resources caused by unfavorable economic events, such as declines in growth or unfavorable shifts in commodity prices or terms of trade. The Catastrophe Risk DDO (CAT DDO) enables borrowers to access immediate funding to respond rapidly in the wake of a natural disaster. Under the DPL DDO, borrowers may defer disbursement for up to three years, renewable for an additional three years. The CAT DDO has a revolving feature and the three-year drawdown period may be renewed up to four times, for a total maximum drawdown period of 15 years (Table 11). As of June 30, 2016, the amount of DDOs disbursed and outstanding was \$7.5 billion (compared to \$4.8 billion on June 30, 2015), and the undisbursed amount of effective DDOs totaled \$4.5 billion, compared to \$4.1 billion a year earlier.
<b>Special Development Policy Loans (SDPLs)</b>	SDPLs support structural and social reforms by creditworthy borrowers that face a possible global financial crisis, or are already in a crisis and have extraordinary and urgent external financial needs. As of June 30, 2016, the outstanding balance of such loans was \$334 million (compared to \$414 million a year earlier). IBRD made no new SDPL commitments in either FY16 or FY15.
<b>Loan-Related Derivatives</b>	IBRD assists its borrowers with access to better risk management tools by offering derivative instruments, including currency and interest rate swaps and interest rate caps and collars, associated with their loans. These instruments may be executed either under a master derivatives agreement, which substantially conforms to industry standards, or under individually negotiated agreements. Under these arrangements, IBRD passes through the market cost of these instruments to its borrowers. The balance of loans outstanding for which borrowers had entered into currency or interest rate derivative transactions under a master derivatives agreement with IBRD was \$11.0 billion on June 30, 2016 and June 30, 2015.
<b>Loans with IFC</b>	IBRD provides loans to IFC in connection with the release of a member's National Currency Paid-In Capital (NCPIC) to IBRD. (See Section VIII for explanation of NCPIC.) As of June 30, 2016, the amount outstanding was \$205 million, compared with \$213 million a year earlier.

**Table 11: Loan Terms Available Through June 30, 2016**

Basis points, unless otherwise noted

	IBRD Flexible Loan (IFL) <sup>a</sup>		Special Development Policy Loans (SDPL)
	Fixed-spread Terms	Variable-spread Terms	
<b>Final maturity</b>	35 years	35 years	5 to 10 years
<b>Maximum weighted average maturity</b>	20 years	20 years	7.5 years
<b>Reference market rate</b>	Six-month variable rate index	Six-month variable rate index	Six-month variable rate index
<b>Spread</b>			
Contractual lending spread	50	50	200
Maturity premium	0-50 <sup>b</sup>	0-50 <sup>b</sup>	–
Market risk premium	10-15 <sup>b</sup>	–	–
Funding cost margin	Projected funding spread to six-month variable rate index <sup>c</sup>	Actual funding spread to variable rate index of IBRD borrowings in the previous six-month period	–
<b>Charges</b>			
Front-end fee	25	25	100
Late service charge on principal payments received after 30 days of due date <sup>d</sup>	50	50	–
Commitment Fee	25	25	–
	<b>Development Policy Loan Deferred Drawdown Option</b>	<b>Catastrophe Risk Deferred Drawdown Option</b>	
Reference market rate	Six-month variable rate index	Six-month variable rate index	
Contractual lending spread	IFL variable or fixed-spread in effect at the time of withdrawal		
Front-end fee	25		50
Renewal fee	–		25
Stand-by fee	50		–

a. There is a fixed floor of zero on the overall interest rate in IBRD's loans.

b. Based on the weighted average maturity of the loan.

c. Projected funding spread to variable rate index (e.g., London Interbank Offered Rate (LIBOR)) is based on the weighted average maturity of the loan.

d. See Box 5 in Section IX for a discussion of overdue payments.



## Discontinued Lending Products

IBRD's loan portfolio includes a number of lending products whose terms are no longer available for new commitments. These products include currency pool loans and fixed-rate single-currency loans. As of June 30, 2016, loans outstanding of about \$0.6 billion carried terms no longer offered.

## Waivers

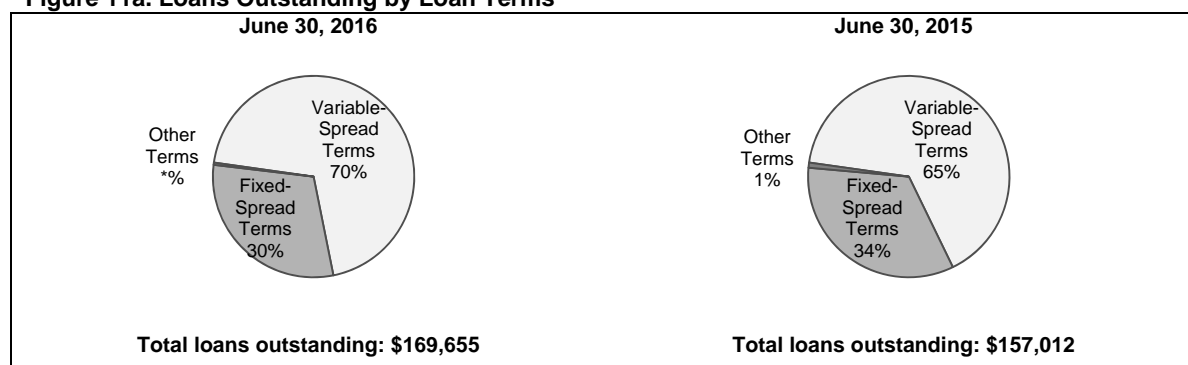
Loan terms offered prior to September 28, 2007, included a partial waiver of interest and commitment charges on eligible loans. Such waivers are approved annually by the Board. For FY17, the Board has approved the same waiver rates as in FY16 for all eligible borrowers with eligible loans. The reduction in net income due to such waivers in FY16 was \$100 million (FY15: \$120 million).

Figure 11 illustrates a breakdown of IBRD's loans outstanding and undisbursed balances by loan terms, as well as loans outstanding by currency composition. The loans outstanding after the use of derivatives for risk management purposes is discussed under Market Risk in Section IX.

**Figure 11: Loan Portfolio**

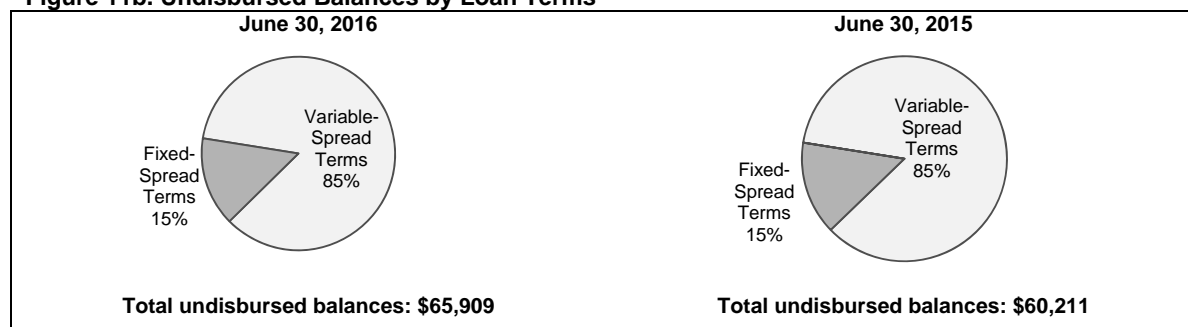
*In millions of U.S. dollars*

**Figure 11a. Loans Outstanding by Loan Terms**

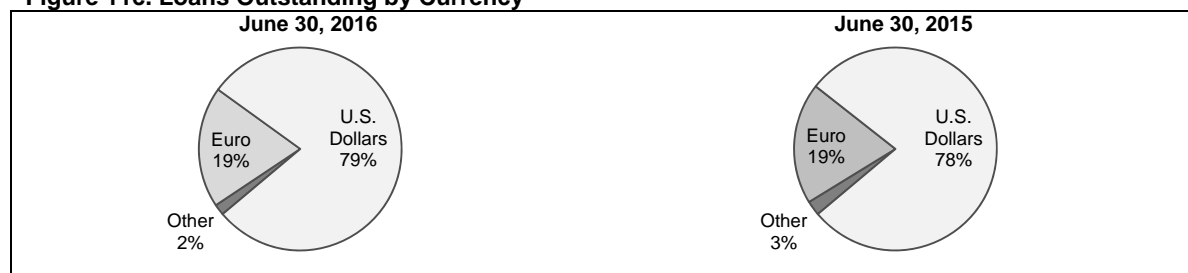


\* Denotes percentage less than 0.5%

**Figure 11b. Undisbursed Balances by Loan Terms**



**Figure 11c. Loans Outstanding by Currency**



## SECTION V: OTHER DEVELOPMENT ACTIVITIES

IBRD offers non-lending products and services to its borrowing member countries, and to affiliated and non-affiliated organizations, to help them meet their development goals. These include financial guarantees, grants, and externally-funded activities.

### Guarantees

IBRD's exposure on its guarantees, measured by discounting each guaranteed amount from its next call date, was \$5.2 billion as of June 30, 2016 compared to \$1.4 billion as of June 30, 2015 (Table 12). The increase in the exposure was due to the new EEA entered into during FY16.

**Table 12: Guarantee Exposure**

*In million U.S. dollars*

As of June 30,	2016	2015
Guarantees (project, policy and enclave)	\$ 1,224	\$ 894
Advance Market Commitment	282	379
Exposure Exchange Agreements	3,692	94
<b>Total</b>	<b>\$ 5,198</b>	<b>\$ 1,367</b>

IBRD offers project-based and policy-based guarantees for priority projects and programs in member countries to help mobilize private financing for development purposes. Project-based guarantees are provided to mobilize private financing for a project and/or mitigate payment and/or performance related risks of a project. Policy-based guarantees are provided to mobilize private financing for sovereign or sub-sovereign projects. IBRD's guarantees are partial in nature as they cover risks only to the extent necessary to obtain the required private financing, taking into account country, market and, if appropriate, project circumstances. All guarantees require a sovereign counter-guarantee and indemnity, comparable to the requirement of a sovereign guarantee for IBRD lending to sub-sovereign and non-sovereign borrowers (Box 3).

**Box 3: Types of Guarantees Provided by IBRD**

Guarantee	Description
<b>Project-based guarantees</b>	Two types of project-based guarantees are offered: <ol style="list-style-type: none"> <li>1. Loan guarantees: these cover loan-related debt service defaults caused by the government's failure to meet specific payment and/or performance obligations arising from contract, law or regulation, in relation to a project. Loan guarantees include coverage for debt service defaults on: (i) commercial debt, normally for a private sector project where the cause of debt service default is specifically covered by IBRD's guarantee; and, (ii) a specific portion of commercial debt irrespective of the cause of such default, normally for a public sector project.</li> <li>2. Payment guarantees: These cover payment default on non-loan related government payment obligations to private entities and foreign public entities arising from contract, law or regulation.</li> </ol>
<b>Policy-based guarantees</b>	These cover debt service default, irrespective of the cause of such default, on a specific portion of commercial debt owed by national or sub national government and associated with the supported government's program of policy and institutional actions.
<b>Guarantees for enclave operations</b>	IBRD extends guarantees for projects in IDA-only member countries that (i) are expected to generate large economic benefits with significant developmental impact in the member country; and (ii) cannot be fully financed out of the country's own resources, IDA resources, and other concessional financing. Those projects are known as enclave operations. The provision of IBRD support to enclave operations is subject to credit enhancement features that adequately mitigate IBRD's credit risk.

**Table 13: Pricing for IBRD Project-Based and Policy-Based Guarantees**

Charges	Basis Points
Front-end fee	25
Processing fee	50 <sup>a</sup>
Initiation fee	15 <sup>b</sup>
Standby fees	25
Guarantee fee	50-100 <sup>c</sup>

a. The processing fee is determined on a case-by-case basis.

b. The initiation fee is 15 basis points of the guaranteed amount or \$100,000, whichever is greater.

c. Based on the weighted average maturity of the guarantee.

In addition, IBRD has entered into the following arrangements, which are treated as financial guarantees under U.S. GAAP:

- *Advance Market Commitment (AMC)*: AMC is a multilateral initiative to accelerate the creation of a market and sustainable production capacity for pneumococcal vaccines for developing countries. IBRD provides a financial platform for AMC by holding donor-pledged assets as an intermediary agent and passing them on to the Global Alliance for Vaccines and Immunization (GAVI) when appropriate conditions are met. Moreover, should a donor fail to pay, or delay paying any amounts due, IBRD has committed to pay from its own funds any amounts due and payable by the donor, to the extent there is a shortfall in total donor funds received. The amount of the exposure is discussed under the guarantee program (see Notes to Financial Statements: Note I-Management of External Funds and Other Services).
- *Exposure Exchange Agreements (EEA)*: IBRD has an exposure exchange agreement outstanding with MIGA under which IBRD and MIGA exchange selected exposures, with each divesting itself of exposure in countries where their lending capacities are limited, in return for exposure in countries where they have excess lending capacity. Under the agreement, during FY14, IBRD and MIGA have each exchanged \$120 million of notional exposure as follows: MIGA assumes IBRD's loan principal and interest exposure in exchange for IBRD's assumption of the principal and interest exposure of MIGA under its Non-Honoring of Sovereign Financial Obligation agreement.

Following approval by the Board, IBRD signed, together with the African Development Bank (AfDB) and the Inter-American Development Bank (IADB), an MDB EEA on December 15, 2015. Under the EEA, each MDB exchanges credit risk exposure of a reference portfolio supported by underlying loans to borrowing member countries. For each MDB, EEAs through diversification benefits, help reduce credit risk at the portfolio level; improve the risk-weighted capital ratios especially by addressing exposure concentration concerns; and create lending headroom for individual borrowing countries where MDBs may be constrained. The EEA involves the receipt of a guarantee and the provision of a guarantee for nonpayment in the reference portfolio by each MDB to the other. The guarantee received and the guarantee provided are two separate transactions: (a) a receipt of an asset for the right to be indemnified, and receive risk coverage (recoverable asset) and (b) the provision of a financial guarantee, respectively (see Note D: Loans and Other Exposures to the in the Notes to the Financial Statements).

**Table 14: Exposure Exchange Agreements by Notional**

*In millions of U.S. dollars*

As of	June 30, 2016		June 30, 2015	
	Guarantee Received	Guarantee Provided	Guarantee Received	Guarantee Provided
Exposure Exchange Agreement				
MIGA	\$ 85	\$ 83	\$ 96	\$ 94
IADB	2,021	2,021	-	-
AfDB	1,588	1,588	-	-
Total notional	<u>\$ 3,694</u>	<u>\$ 3,692</u>	<u>\$ 96</u>	<u>\$ 94</u>

## Grants

Grant-Making Facilities (GMFs) are complementary to IBRD's work. These activities are increasingly being integrated into IBRD's overall operations, and most of these facilities as a separate funding mechanism, will be phased out over the next three years. In FY16, IBRD deployed \$67 million under this program, compared with \$110 million in FY15. These amounts are reflected in contributions to special programs on IBRD's Statement of Income.

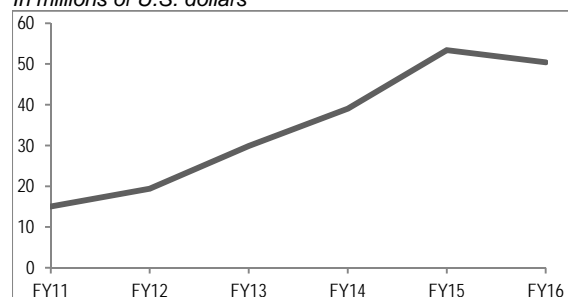
## Externally Funded Activities

These funds have become an integral part of IBRD's activities. Mobilization of external funds from third-party partners includes trust funds. Additional external funds include reimbursable funds and fee based services from member countries, which are related to RAS, EFO, and RAMP.

## Reimbursable Advisory Services (RAS)

While most of IBRD's advisory and analytical work is financed by its own budget or donor contributions (e.g., trust funds), clients may also pay for services. IBRD offers technical assistance and other advisory services to its member countries, in connection with, and independent of, lending operations. Available services include assigning qualified professionals to survey developmental opportunities in member countries; analyzing member countries fiscal, economic, and developmental environments; helping members devise coordinated development programs; and improving their asset and liability management techniques.

**Figure 12: Trend in RAS Revenues, FY11 - FY16**  
In millions of U.S. dollars



In FY16, IBRD had revenues of \$51 million (\$53 million in FY15) from RAS (See Table 3). Annual revenues of RAS have gone up by about 240% since FY11 (Figure 12).

## Trust Fund Activity

Trust Funds are an integral part of IBRD's resource envelope, providing IBRD with resources and added flexibility in providing development solutions that serve member recipients and donors alike. The partnerships funded by trust funds often serve as a platform from which IBRD and its partners can draw on the WBG's diverse technical and financial resources to achieve development goals that cannot be addressed effectively by any single partner, given their complexity, scale, and scope. IBRD's roles and responsibilities in managing trust funds depend on the type of fund, outlined as follows:

- *IBRD-Executed Trust Funds (BETF's)*: IBRD, alone or jointly with one or more of its affiliated organizations, manages the funds and implements or supervises the activities financed. These trust funds support IBRD's work program.
- *Recipient-Executed Trust Funds (RETF's)*: Funds are provided to a third party, normally in the form of project grant financing, and are supervised by IBRD.
- *Financial Intermediary Funds (FIFs)*: IBRD, as trustee, administrator, or treasury manager, offers an agreed set of financial and administrative services, including managing donor contributions.

Effective July 1, 2015, IBRD implemented a new cost recovery framework for all new trust funds. Key features of the new framework include the following measures:

- Ensuring IBRD recovers all overhead costs incurred associated with trust fund activities.
- Simplifying the fee structure and types of trust funds that can be created.

In FY16, IBRD recorded \$51 million (\$52 million in FY15) as fee revenue for the administration of its trust fund portfolio (See Table 3). IBRD, as an executing agency, disbursed \$515 million in FY16 (\$437 million in FY15) of trust fund program funds (see Notes to Financial Statements: Note I-Management of External Funds and Other Services).

## Externally Financed Outputs (EFOs)

IBRD offers donors the ability to contribute to specific projects and programs. Contributions for EFOs are recorded as restricted income when received because they are for contractually specified purposes. The restriction is released once the funds are used for the purposes specified by donors. In FY16, IBRD had \$20 million of income, compared with \$24 million in FY15.

## Other Financial Products and Services

IBRD plays an active role in designing financial products and structuring transactions to help clients mobilize resources for development projects and mitigate the financial effects of market volatility and disasters. IBRD also provides financial and advisory services in debt, asset, and commodity risk management to help governments,

official sector institutions, and development organizations, build institutional capacity to protect and expand financial resources.

### Managing Financial Risks for Clients.

IBRD helps member countries build resilience to shocks by facilitating access to risk management solutions to mitigate the financial effects of currency, interest rate, and commodity price volatility; disasters; and extreme weather events. Financial solutions can include currency, interest rate, and commodity-price hedging transactions and disaster risk financing through catastrophe derivatives and bonds, insurance and reinsurance contracts, and regional pooling facilities. IBRD's disaster risk financing products can also cover other risks such as those related to epidemics and pandemics. In FY16, IBRD executed hedging transactions with a notional value of \$863 million, including \$533 million in currency conversions to assist borrowers in managing currency risks over the life of their IBRD loans. In addition, IBRD helped Uruguay limit its exposure to future oil price increases with the execution of \$330 million in hedge transactions, the first time that the IBRD has entered into a derivative contract with a member country to manage exposure to commodity prices.

During FY16, IBRD intermediated the following risk management transactions for clients:

- *Affiliated Organization:* To assist IDA with its asset/liability management, during FY16, IBRD executed \$1.5 billion in currency derivatives.
- *Unaffiliated Organization:* To assist the International Finance Facility for Immunization (IFFIm) with its asset/liability management strategy, IBRD executes currency and interest rate swaps on its behalf. During FY16, IBRD executed \$200 million of interest rate derivatives under this agreement. IBRD, as Treasury Manager, is IFFIm's sole counterparty and enters into offsetting swaps with market counterparties.

(See Risk Management, Section IX, for a detailed discussion of IBRD's risk mitigation of these derivative transactions.)

### Asset Management

The Reserves Advisory and Management Program (RAMP) provides capacity building to support the sound management of official sector assets. Clients include central banks, sovereign wealth funds, national pension funds, and supranational organizations. The main goal of RAMP is to help clients upgrade their asset management capabilities, including portfolio and risk management, operational infrastructure, and human resources capacity. Under most of these arrangements, IBRD is responsible for managing a portion of the assets of these institutions and, in return, it receives a fee based on the average value of the portfolios. The fees are used to provide training and capacity-building services. On June 30, 2016, the assets managed for RAMP under these agreements were valued at \$30.6 billion (\$28.4 billion a year earlier). In addition to RAMP, IBRD also invests and manages investments on behalf of IDA, MIGA, and trust funds. These funds are not included in the assets of IBRD. During FY16, IBRD recorded \$27 million (FY15: \$27 million) as revenue from these asset management services.

As noted in the discussion of Trust Fund Activities above, IBRD, alone or jointly with one or more of its affiliated organizations, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses, in accordance with administration agreements with donors. These funds are held in trust and, except for undisbursed third-party contributions made to IBRD-executed trust funds, are not included on IBRD's balance sheet. The cash and investment assets held in trust by IBRD as administrator and trustee in FY16 totaled \$25.1 billion, of which \$108 million (compared to \$142 million in FY15) relates to IBRD contributions to these trust funds (Table 15).

**Table 15: Cash and Investment Assets Held in Trust**

*In millions of U.S dollars*

As of June 30,	2016	2015
IBRD-executed	\$ 252	\$ 248
Jointly executed with affiliated organizations	845	787
Recipient-executed	2,767	3,388
Financial intermediary funds	16,760	14,756
Execution not yet assigned <sup>a</sup>	4,443	4,035
Total fiduciary assets	\$ 25,067	\$ 23,214

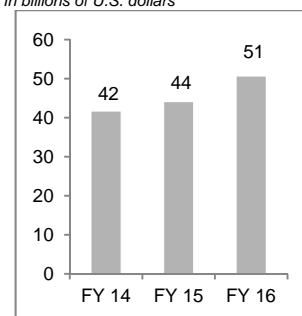
*a. These represent assets held in trust for which the determination as to the type of execution is yet to be finalized.*

## SECTION VI: INVESTMENT ACTIVITIES

IBRD's investment portfolio consists mainly of the liquid asset portfolio. As of June 30, 2016, the net investment portfolio totaled \$51.8 billion (Figure 13), with \$50.5 billion representing the liquid asset portfolio. This compares with \$45.1 billion a year earlier, of which \$44 billion represented the liquid asset portfolio (see Note C: Investments in the Notes to the Financial Statements). The increased level of liquidity reflects higher projected debt service and loan disbursements for the coming fiscal year.

**Figure 13: Net Investment Portfolio**

In billions of U.S. dollars



### Liquid Asset Portfolio

Funds raised through IBRD's borrowing activity which have not yet been deployed for lending, are held in IBRD's liquid asset portfolio to provide liquidity for its operations. This portfolio is managed with the goal of prioritizing principal protection and thus ensuring sufficient cash flow to meet all of IBRD's financial commitments. IBRD seeks a reasonable return on this portfolio. IBRD restricts its liquid assets to high-quality investments as its investment objective prioritizes principal protection over yield. Liquid assets are managed conservatively, and are primarily held for disruptions in IBRD's access to capital markets.

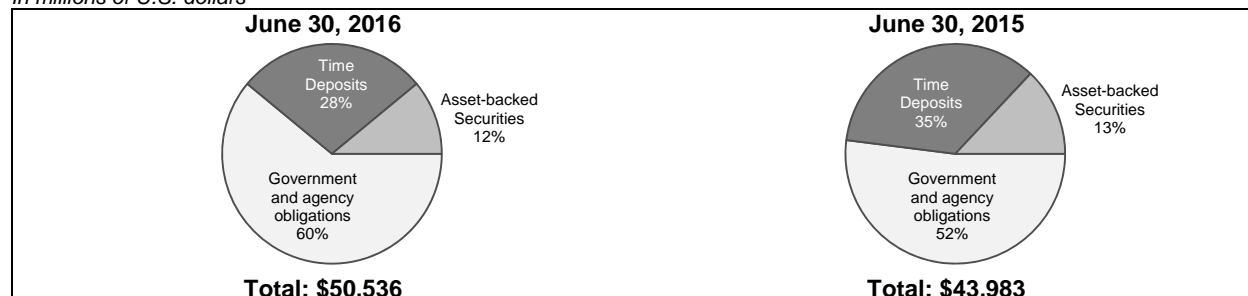
IBRD keeps liquidity volumes above a prudential minimum equal to the highest six months of projected debt-service obligations plus one-half of projected net disbursements on approved loans for the upcoming fiscal year. The prudential minimum is held in the Stable portfolio (see Section IX for details of how IBRD manages liquidity risk).

IBRD's liquid assets are held mainly in highly rated, fixed-income instruments (See Box 6 for eligibility criteria for investments). These include government and agency obligations, time deposits, and other unconditional obligations of banks and financial institutions. IBRD also holds currency and interest rate derivatives (including currency forward contracts), asset-backed securities (including mortgage-backed securities), swaption contracts, and exchange-traded options and futures

This portfolio is composed largely of assets denominated in, or swapped into, U.S. dollars, with net exposure to short-term interest rates after derivatives. The portfolio has an average duration of less than three months, and the debt funding these liquid assets has a similar currency and duration profile. This is a direct result of IBRD's exchange-rate and interest-rate-risk-management policies (Section IX), combined with appropriate investment guidelines (Figure 14).

**Figure 14: Liquid Asset Portfolio by Asset Class**

In millions of U.S. dollars



The maturity profile of IBRD's liquid asset portfolio reflects a high degree of liquidity. As of June 30, 2016, with \$31 billion (approximately 62% of total volume) is due to mature within six months, of which \$17 billion is expected to mature within one month.

The liquid asset portfolio is held in three sub-portfolios: Stable, Operational, and Discretionary, each with different risk profiles and performance guidelines (Table 16).

- *Stable portfolio* is mainly an investment portfolio holding the prudential minimum level of liquidity, set at the start of each fiscal year.
- *Operational portfolio* is used to meet IBRD's day-to-day cash flow requirements.
- *Discretionary portfolio* gives IBRD the flexibility to execute its borrowing program and can be used to tap attractive market opportunities.

**Table 16: Liquid Asset Portfolio Composition***In millions of U.S. dollars, except ratios which are in percentages*

As of June 30,	2016	%	2015	%
<b>Liquid asset portfolio:</b>				
Stable	\$ 27,764	55%	\$ 26,082	59%
Operational	15,207	30	10,386	24
Discretionary	7,565	15	7,515	17
	<u>\$ 50,536</u>	<u>100%</u>	<u>\$ 43,983</u>	<u>100%</u>

In addition to monitoring gross investment returns relative to their benchmarks, IBRD also monitors overall investment earnings net of funding costs. In FY16, IBRD earned \$110 million of investment income, net of funding cost, as discussed in Section III.

**Table 17: Liquid Asset Portfolio - Average Balances and Returns***In millions of U.S. dollars, except rates which are in percentages*

	Average Balances		Returns %	
	2016	2015	2016	2015
<b>Liquid asset portfolio:</b>				
Stable	\$ 27,585	\$ 26,101	0.77% <sup>a</sup>	0.18% <sup>a</sup>
Operational	11,398	10,320	0.41	0.18
Discretionary	7,537	4,941	0.66	0.37
	<u>\$ 46,520</u>	<u>\$ 41,362</u>	<u>0.66%</u>	<u>0.20%</u>

a. Excluding the effect of the unrealized mark-to-market gains/losses on assets held by HETA ASSET RESOLUTION AG, the returns on the stable portfolio would have been 0.64% for FY16 (0.41% for FY15).

During FY16 IBRD earned a return of 0.66% on its liquid asset portfolio, compared to 0.20% in the same period last year. The higher return in FY16 was primarily due to lower unrealized mark-to-market losses on the portfolio, compared with FY15, primarily due to the changes in asset value related to HETA ASSET RESOLUTION AG.

In FY07, IBRD purchased for \$191 million, a debt security issued by an Austrian bank, Hypo Alpe-Adria, which was fully guaranteed by the state of Carinthia. As of June 30, 2016, this debt security had a carrying value of \$44 million. The original loss in the value of the security was effected by the result of legislation passed in FY14 to cancel the underlying debt and the related guarantee, as well as subsequent declines in the market value of assets held by HETA ASSET RESOLUTION AG, the successor to Hypo Alpe-Adria. As a result of these factors, the investment had a carrying value of \$13 million as of June 30, 2015 (\$88 million as of June 30, 2014). In July 2015, the legislation at issue was ruled unconstitutional and overturned by the Austrian Constitutional Court, and the security and the related guarantee were reinstated. While the Court decision removed the legal impediment to recovery, the price of the security only partially recovered, due to continuing concerns about the underlying asset value, resulting in unrealized mark-to-market gains of \$30 million during FY16. IBRD will continue to monitor the value of this investment and related market developments.

## Other Investments

In addition to the liquid asset portfolio, the investment portfolio also includes holdings related to AMC, PCRFB and PEBP.

As of June 30, 2016, investments relating to AMC had a net carrying value of \$153 million, compared with \$156 million a year earlier (Notes to Financial Statements, Note I: Management of External Funds and Other Services).

The PCRFB had a net carrying value of \$120 million on June 30, 2016, compared with \$60 million a year earlier (Section III), while the PEBP had a net carrying value of \$951 million as of June 30, 2016, compared with \$906 million on June 30, 2015. PEBP assets are included in IBRD's investment portfolio. These assets are invested mainly in fixed-income, equity instruments, and alternative investments.

## SECTION VII: BORROWING ACTIVITIES

IBRD issues securities in the international capital markets to raise funds for its development activities. It borrows at attractive rates underpinned by its strong financial profile and shareholder support that together are the basis for its triple-A credit rating.

IBRD issues its securities both through global offerings and bond issues tailored to the needs of specific markets or investor types. Under its Articles, IBRD may borrow only with the approval of the member in whose market the funds are raised and the approval of the member in whose currency the borrowing is denominated and only if the member agrees that the proceeds may be exchanged for the currency of any other member without restriction.

As a result of its financial strength and triple-A credit rating, IBRD is generally recognized as a premier borrower and its bonds and notes are viewed as a high credit quality investment in the global capital markets. IBRD uses the proceeds to finance development activities in creditworthy middle-income and low-income countries eligible to borrow from IBRD at market-based rates. IBRD has offered bonds and notes in more than 31 currencies and has opened up new markets for international investors by issuing in emerging-market currencies. In FY16, IBRD raised \$63 billion of debt in 21 different currencies (Table 19).

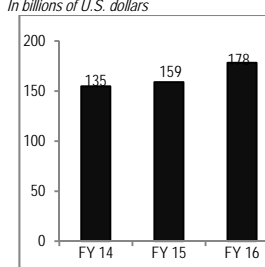
IBRD issues short-term debt (maturing in one year or less), and medium- and long-term debt (with a maturity greater than one year). IBRD strategically calls its debt to reduce the cost of borrowings; it may also repurchase its debt to meet such other operational or strategic needs as providing liquidity to its investors (Table 19).

Funding raised in any given year is used for IBRD's general operations, including loan disbursements, replacement of maturing debt, and prefunding for lending activities. IBRD determines its funding requirements based on a three-year rolling horizon and funds about one-third of the projected amount in the current fiscal year.

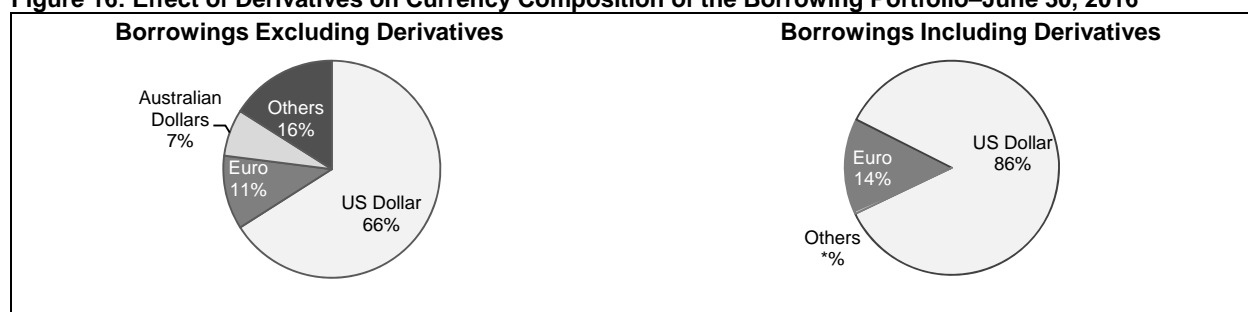
As of June 30, 2016, the borrowing portfolio totaled \$178.2 billion, \$19.4 billion above June 30, 2015 (see Note E: Borrowings in the Notes to the Financial Statements). This increase was mainly due to net new borrowing issuances of \$19 billion during the year.

IBRD uses currency and interest rate derivatives in connection with its borrowings to diversify funding sources and offer a wide range of debt products to investors. New medium- and long-term funding is swapped into variable-rate U.S. dollar instruments, with conversion to other currencies carried out subsequently, in accordance with loan funding requirements. IBRD also uses derivatives to manage the re-pricing risks between loans and borrowings. A further discussion on how IBRD manages this risk is included in the Risk Management, Section IX.

**Figure 15: Borrowing Portfolio**  
In billions of U.S. dollars



**Figure 16: Effect of Derivatives on Currency Composition of the Borrowing Portfolio—June 30, 2016**



\* Denotes percentage less than 0.5%

As of June 30, 2016, IBRD's total borrowing portfolio, after the effects of derivatives, carried variable rates, with a weighted average cost of 0.8% (0.3% as of June 30, 2015). The increase in the weighted average cost from the prior year reflects the increase in the short-term interest rates during the year. The latter also resulted in an increase in IBRD's loan returns. IBRD's lending spread was therefore not negatively impacted by the increase in short-term interest rates (See Figure 5).



## Short-Term Borrowings

Table 18 summarizes IBRD's short-term borrowings.

### Discount Notes

IBRD's short-term borrowings consist mainly of discount notes issued in U.S. dollars. These borrowings have a weighted average maturity of approximately 90 days. The outstanding balance of discount notes as of June 30, 2016 was lower than a year earlier, as IBRD extended the duration of the borrowing program through medium and long-term debt issuance.

### Securities Lent or Sold under Repurchase Agreements

These short-term borrowings are secured mainly by highly-rated collateral in the form of securities, including government-issued debt, and have an average maturity of less than 30 days.

### Other Short-Term Borrowings

Other short-term borrowings have maturities of one year or less. The outstanding balance as of June 30, 2016 was lower than a year earlier largely because of changes in investor demand.

**Table 18: Short-Term Borrowings**

*In millions of U.S. dollars, except rates which are in percentages*

As of June 30,	2016	2015	2014
<b>Discount notes<sup>a</sup></b>			
Balance at year-end	\$ 3,665	\$ 4,308	\$ 8,729
Average daily balance during the fiscal year	\$ 9,493	\$ 6,136	\$ 15,188
Maximum month-end balance	\$ 14,870	\$ 8,207	\$ 19,969
Weighted-average rate at the end of fiscal year	0.36%	0.10%	0.11%
Weighted-average rate during the fiscal year	0.28%	0.10%	0.12%
<b>Securities lent or sold under repurchase agreements<sup>b</sup></b>			
Balance at year-end	\$ -	\$ 822	\$ 150
Average monthly balance during the fiscal year	\$ 126	\$ 773	\$ 409
Maximum month-end balance	\$ 676	\$ 2,071	\$ 2,515
Weighted-average rate at the end of fiscal year	-	0.30%	0.08%
Weighted-average rate during the fiscal year	0.38%	0.17%	0.09%
<b>Other short-term borrowings<sup>a,c</sup></b>			
Balance at year-end	\$ 569	\$ 772	\$ 608
Average daily balance during the fiscal year	\$ 446	\$ 803	\$ 1,298
Maximum month-end balance	\$ 772	\$ 1,191	\$ 1,703
Weighted-average rate at the end of the fiscal year	0.45%	0.15%	0.10%
Weighted-average rate during the fiscal year	0.28%	0.16%	0.10%

a. After swaps.

b. Excludes securities related to PEBP.

c. At amortized cost.

## Medium- and Long-Term Borrowings

In FY16, medium- and long-term debt raised directly by IBRD in the capital markets amounted to \$63 billion with an average maturity to first call of four years (Table 19). The increase in debt issuances in FY16 is primarily a result of increased debt maturing during the year, partial replacement of short-term debt, and loan disbursements for FY16.

**Table 19: Funding Operations Indicator**

For the fiscal year ended June 30,	2016	2015
<b>Issuances<sup>a</sup></b>		
Medium- and long-term funding raised (In millions of U.S. dollars)	\$ 63,058	\$ 57,142
Average maturity to first call date (years)	4.4	4.0
Average maturity to contractual final maturity (years)	5.5	5.1
<b>Maturities</b>		
Medium- and long-term funding matured (In millions of U.S. dollars)	\$ 31,492	\$ 28,269
Average maturity of debt matured (years)	6.4	4.5
<b>Called/Repurchased</b>		
Medium- and long-term funding called/repurchased (In millions of U.S. dollars)	\$ 11,982	\$ 15,513

a. Expected life of IBRD's bonds are generally between first call date and the contractual final maturity.

Table 20 illustrates the maturity profile of medium- and long-term debt as of June 30, 2016.

**Table 20: Maturity Profile**

In millions of U.S. dollars

	As of June 30, 2016						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Due After 5 years	
Non-Structured borrowings \$	28,820	\$ 26,071	\$ 26,486	\$ 18,857	\$ 25,335	\$ 33,428	\$ 158,997
Structured borrowings	1,549	2,132	3,099	2,054	1,927	7,730	18,491
Total	<u>\$ 30,369</u>	<u>\$ 28,203</u>	<u>\$ 29,585</u>	<u>\$ 20,911</u>	<u>\$ 27,262</u>	<u>\$ 41,158</u>	<u>\$ 177,488</u>

82% of IBRD's medium- and long-term borrowings issued during the year are in U.S. dollars (Figure 17).

**Figure 17: Medium- and Long-Term Borrowings Raised by Currency, Excluding Derivatives**



## SECTION VIII: CAPITAL ACTIVITIES

### Capital Structure

#### Principal Shareholders and Voting Power

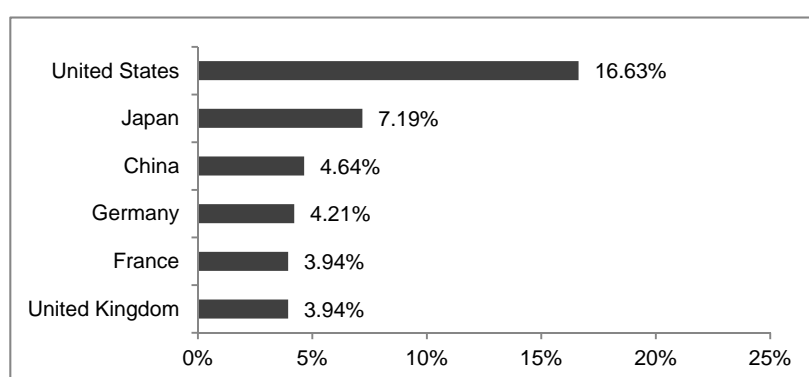
As of June 30, 2016, IBRD had 189 member countries, with the top five accounting for 41% of the total voting power (Figure 18). The percentage of shares held by members with credit ratings of AA and above was 43% (Figure 19).

The United States is IBRD's largest shareholder, with 16.63% of total voting power. Accordingly, it also has the largest share of IBRD's uncalled capital, \$43.4 billion, or 17.54% of total uncalled capital. Under the Bretton Woods Agreements Act and other U.S. legislation, the Secretary of the U.S. Treasury is permitted to pay approximately \$7.7 billion of the uncalled portion of the subscription of the United States, if called for use by IBRD, without need for further congressional action.

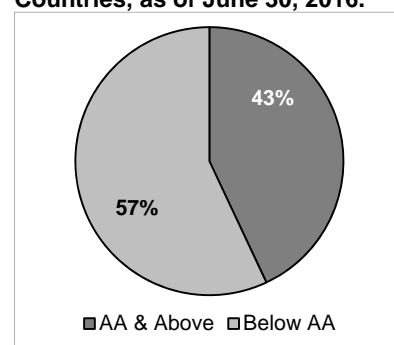
The balance of the uncalled portion of the U.S. subscription, \$35.7 billion, has been authorized but not appropriated by the U.S. Congress. Further action by the U.S. Congress is required to enable the Secretary of the Treasury to pay any portion of this balance. The General Counsel of the U.S. Treasury has rendered an opinion that the entire uncalled portion of the U.S. subscription is an obligation backed by the full faith and credit of the U.S., notwithstanding that congressional appropriations have not been obtained with respect to certain portions of the subscription.

As part of the "Voice reforms" aimed at enhancing the voice and participation of Developing and Transitional Countries (DTCs) in IBRD, shareholders agreed to two Selective Capital Increases (SCI), one of which was for allocating fully callable shares to certain DTCs. As a result of these capital increases, the voting power of DTCs increased to 45.2% as of June 30, 2016, from 42.6% as of June 30, 2008.

**Figure 18: Voting Power of Top Five Members as of June 30, 2016**



**Figure 19: Credit Ratings Composition of Member Countries, as of June 30, 2016.**



#### Subscribed Capital

Total subscribed Capital is comprised of paid-in Capital and Uncalled subscribed capital. See Statement of Subscriptions to Capital Stock and Voting Power in IBRD's Financial Statements for balances by country.

The \$11 billion increase in IBRD's subscribed capital was primarily due to subscriptions by members in connection with the GCI and SCIs. On April 12, 2016, Nauru became the 189th member country of IBRD with subscribed capital of \$71 million, of which \$2 million was paid-in (See Table 21).

**Table 21: Breakdown of IBRD Subscribed Capital**

*In millions of U.S. dollars, except ratios which are in percentages*

As of June 30,	%	2016	2015	Variance
Subscribed capital				
Uncalled Subscribed capital	94%	\$ 247,524	\$ 237,629	\$ 9,895
Paid-in capital	6	15,805	15,192	613
Total subscribed capital	100%	\$ 263,329	\$ 252,821	\$ 10,508

## Uncalled Subscribed Capital

As of June 30, 2016, the total uncalled portion of subscriptions was \$247,524 million. Of this amount, \$210,663 million may be called only when required to meet obligations of IBRD for funds borrowed or on loans guaranteed by it. This amount is thus not available for use by IBRD in making loans. The remaining uncalled portion of subscriptions of \$36,861 million is to be called only when required to meet obligations for funds borrowed or on loans guaranteed by IBRD, pursuant to resolutions of the Board of Governors (though such conditions are not required by IBRD's Articles). While these resolutions are not legally binding on future Boards of Governors, they do record an understanding among members that this amount will not be called for use by IBRD in its lending activities or for administrative purposes.

No call has ever been made on IBRD's capital. Any such calls are required to be uniform, but the obligations of IBRD's members to make payment on such calls are independent of one another. If the amount received on a call is insufficient to meet the obligations of IBRD for which the call is made, IBRD has the right to make further calls until the amounts received are sufficient to meet such obligations. On any such call or calls, however, no member is required to pay more than the unpaid balance of its capital subscription.

## Paid-In Capital

Paid-in capital has two components:

- The U.S. dollar portion, which is freely available for use by IBRD.
- NCPIC portion, usage of which is subject to certain restrictions under IBRD's Articles. This paid-in component is also subject to Maintenance-Of-Value (MOV) requirements. For additional details see the Notes to the Financial Statements—Note A: Summary of Significant Accounting and Related Policies.

## Capital Increases

In 2010, to enhance IBRD's financial capacity following its response to the global economic crisis, IBRD's shareholders agreed to an increase in IBRD's authorized capital and a General Capital Increase (GCI), which became effective in FY11. On April 8, 2016, the Board approved the extension of the subscription period for eligible individual members up to March 16, 2018 for the GCI; and up to March 16, 2017 for the SCI.

As a result of the GCI and SCIs, IBRD is expected to receive \$87 billion of subscribed capital, of which \$5.1 billion will be paid in, as follows:

- GCI of \$58.4 billion, of which \$3.5 billion will be paid in. As of June 30, 2016, \$48.0 billion has been subscribed and \$2.9 billion paid in, \$0.5 billion of which was paid during FY 16.
- SCI of \$27.8 billion, of which \$1.6 billion will be paid in. As of June 30, 2016, \$24.3 billion has been subscribed and \$1.4 billion paid in, \$0.1 billion of which was paid during FY 16.
- SCI of \$0.9 billion which represented the allocation of fully callable shares to certain DTCs and for which a paid-in amount was not required. As of June 30, 2016, \$0.8 billion was subscribed.

**Figure 20: Status of FY11 GCI/SCI Subscriptions as of June 30, 2016**



## Usable Paid-in Capital

Usable paid-in capital represents the portion of paid-in capital that is available to support IBRD's risk bearing capacity and includes all U.S. dollar paid-in capital, as well as NCPIC for which restrictions for use have been lifted (referred to as released NCPIC). The adjustments made to paid-in capital to arrive at usable capital are provided in table below.

**Table 22: Usable Paid-In Capital**

*In millions of U.S. dollars*

As of June 30,	2016	2015	Variance
Paid-in Capital	\$ 15,805	\$ 15,192	\$ 613
Adjustments for deferred MOV on released NCPIC			
Net deferred MOV (receivable) payable <sup>a</sup>	56	(174)	230
Adjustments for unreleased NCPIC comprising			
Restricted cash	(76)	(58)	(18)
Demand notes	(320)	(304)	(16)
MOV receivable	(348)	(365)	17
MOV payable	4	6	(2)
	<u>(740)</u>	<u>(721)</u>	<u>(19)</u>
<b>Usable paid-in capital</b>	<b>\$ 15,121</b>	<b>\$ 14,297</b>	<b>\$ 824</b>

a. The MOV on released NCPIC is considered to be deferred.

The \$824 million increase in usable capital between FY16 and FY15 was primarily due to the following:

- *Paid-in Capital*: The increase of \$613 million primary reflects subscriptions by members in connection with the GCI and SCI.
- *Changes in released NCPIC*: The movement in net deferred MOV of \$230 million was mainly due to exchange rate movements in euro and Japanese yen on account of the annual MOV assessment.

## Usable Equity

Usable equity is taken into account by management to determine how much equity is available to support IBRD's operations. Usable equity forms the foundation of the three frameworks used by IBRD to manage its capital adequacy, credit risk and equity earnings. These frameworks, described in Section IX, are:

- Strategic Capital Adequacy Framework
- Credit Risk and LLP Framework
- Equity Management Framework

Usable equity is comprised of usable paid-in capital, and elements of retained earnings and reserves (See Table 23). The decrease in usable equity in FY16, primarily reflects the impact of the increase in the underfunded status of IBRD's pension plans, as discussed in Section XII, partially offset by the increase in usable paid-in capital, as discussed above.

**Table 23: Usable Equity**

*In millions of U.S. dollars*

As of June 30,	2016	2015	Variance	Variance	
				Due to Activities	Due to Translation Adjustment
Usable paid-in capital	\$ 15,121	\$ 14,297	\$ 824	\$ 607	\$ 217
Special reserve	293	293	-	-	-
General reserve <sup>a</sup>	27,021	26,925	96	96	-
Cumulative translation adjustment	(753)	(593)	(160)	-	(160)
<i>Underfunded status of pension plans and other adjustments</i>	<i>(2,258)</i>	<i>(727)</i>	<i>(1,531)</i>	<i>(1,531)</i>	<i>-</i>
<b>Usable equity</b>	<b>\$ 39,424</b>	<b>\$ 40,195</b>	<b>\$ (771)</b>	<b>\$ (828)</b>	<b>\$ 57</b>

a. The June 30, 2016 amount includes the proposed transfer of \$96 million to the General Reserve from FY16 net income, which was approved on August 4, 2016 by the Board.

The components of retained earnings and reserves which are included in usable equity are as follows:

- *Special Reserve:* Amount set aside in pursuant of IBRD's Articles, held in liquid form and to be used only for the purpose of meeting liabilities of IBRD on its borrowings and guarantees.
- *General Reserve:* Consists of earnings from prior fiscal years which the Board has approved to be retained in IBRD's equity. On August, 4 2016, the Board approved the addition of \$96 million to the General Reserve from FY16 net income.
- *Cumulative Translation Adjustments:* These adjustments comprise translation adjustments on revaluing currency balances to U.S. dollars for reporting purposes. For usable equity purposes, these amounts exclude cumulative translation adjustments associated with unrealized mark-to-market gains/losses on non-trading portfolios.
- *Underfunded Status of Pension Plans and Other Adjustments:* These adjustments relate to the net underfunded status of IBRD's pension plans (See Table 33), and income earned on PEBP assets prior to FY11.

## SECTION IX: RISK MANAGEMENT

IBRD assumes financial risks in order to achieve its development and strategic objectives. IBRD's financial risk management framework is designed to enable and support the institution in achieving its goals in a financially sustainable manner. IBRD manages credit, market and operational risks for its financial activities which include lending, borrowing and investing (Box 4). The primary financial risk to IBRD is the country credit risk inherent in its loan portfolio. IBRD is also exposed to financial risks in its liquid asset and derivative portfolios, where the major risks are market, liquidity, and counterparty risks. The Board, particularly the Audit Committee, periodically reviews trends in IBRD's risk profiles and performance, as well as any major developments in risk management policies and controls.

**Box 4: Summary of IBRD's Specific Risk Categories**

Types of Financial Risk	How the Risk is Managed
<b>Credit Risk</b> Country Credit Risk Counterparty Commercial Credit Risk	IBRD's credit-risk-bearing capacity and individual country exposure limits Counterparty credit limits and collateral
<b>Market Risk</b> Interest Rate Risk Exchange Rate Risk	Interest rate derivatives to match the sensitivity of assets and liabilities Currency derivatives to match the currency composition of assets and liabilities
<b>Liquidity Risk</b>	Prudential minimum liquidity level
<b>Operational Risk</b>	Risk assessment and monitoring of key risk indicators and events

### Governance

Management believes that effective financial risk management is critical for its overall operations. Accordingly, the risk management governance structure is designed to manage the principal risks IBRD assumes in its activities, and supports Management in its oversight function, particularly in coordinating different aspects of risk management and in connection with risks that are common across functional areas.

### Organizational Structure

The CRO provides oversight of financial risks for IBRD and IDA. These risks include (i) liquidity, market and counterparty risks, (ii) country credit risks in the core sovereign lending business and (iii) operational risks relating to people, processes and systems. In addition, the CRO works closely with IFC, MIGA, and IDA's Management to review, measure, aggregate, and report on risks and share best practices. The CRO also helps enhance cooperation between the entities and facilitates knowledge sharing in the risk management function. The following three departments report directly to the CRO:

- The *Market and Counterparty Risk Department* is responsible for market, liquidity, and counterparty credit risk oversight, assessment, and reporting. It does these in coordination with IBRD's financial managers who are responsible for the day-to-day execution of trades for the liquid asset and derivatives portfolios within applicable policy and guideline limits. The department's responsibilities include establishing and maintaining guidelines, volume limits, and risk oversight processes to facilitate effective monitoring and control; it also provides reports to the Audit Committee and the Board on the extent and nature of risks, risk management, and oversight. The department is also responsible for ensuring effective oversight, which includes: i) maintaining sound credit assessments, ii) addressing transaction and product risk issues, iii) providing an independent review function, iv) monitoring market and counterparty risk in the investment, borrowing and client operation portfolios, and v) implementing the model risk governance framework.

- The *Credit Risk Department* identifies, measures, monitors, and manages country credit risk faced by IBRD. By agreement with the Board, the individual country credit risk ratings are not shared with the Board and are not made public. In addition, this department assesses loan portfolio risk, determines the adequacy of provisions for losses on loans and other exposures, and monitors borrowers that are vulnerable to crises in the near term. These reviews are taken into account in determining the overall country programs and lending operations, and they are included in the assessment of IBRD's capital adequacy. Furthermore, whenever a new financial product is being considered for introduction, this department reviews any implications for country credit risk.
- The *Operational Risk Department* provides direction and oversight for operational risk activities by business function. The department's key operational risk management responsibilities include (i) administering the Operational Risk Committee (ORC) for IBRD, (ii) implementing the operational risk management framework which is aligned with Basel principles and providing direction to business unit partners to ensure consistent application, (iii) assisting and guiding business unit partners in identifying and prioritizing significant operational risks and enabling monitoring and reporting of risks through suitable metrics (or risk indicators), and (iv) helping identify emerging risks and trends through monitoring of internal and external risk events. The department is also responsible for business continuity management and enterprise risk management functions, and prepares a corporate Operational Risk Report for review and discussion by the Operational Risk Committee (ORC).

## Risk Committees

The Finance and Risk Committee (FRC), provides a high level governance structure for decisions that may have financial risks. The FRC was created under the authority of the Managing Director and WBG Chief Financial Officer (MDCFO) to approve, clear, or discuss: (a) risk policy and procedure documents related to financial integrity, income sustainability and balance sheet strength, and (b) issues and new business initiatives with policy implications related to IBRD's financial risks in the areas of finance, which include country credit, market, counterparty, liquidity and model risks. The FRC helps to integrate individual components of finance and risk management activities by building on mechanisms and processes already in place, and provides a forum for discussing and communicating significant risk related issues. The FRC meets regularly to discuss the financial performance, new products and services, and risk management of IBRD.

In addition to the FRC, several risk-related committees work under the authority of the MDCFO and the CRO, which provide technical expertise and guidance on new initiatives and operational risk issues:

- *New Business Committee (NBC)*: is a standing committee of the FRC under the authority of the MDCFO. The NBC provides advice, guidance and recommendations to the FRC, by performing due diligence over new financial products or services to ensure that Management has a full understanding of the rationale, costs, risks and rewards of the product or service being considered.
- *Operational Risk Committee (ORC)*: is the main governance committee for operational risk and provides a mechanism for integrated review and response across IBRD units on operational risks associated with people, processes, and systems including business continuity and recognizing that business units remain responsible for managing operational risks. The Committee's key responsibilities include monitoring significant operational risk matters and events on a quarterly basis to ensure that appropriate risk-response measures are taken, and reviewing and concluding on IBRD's overall operational risk profile. The ORC escalates significant risks/decisions to the FRC and Enterprise Risk Committee (ERC)<sup>5</sup>.

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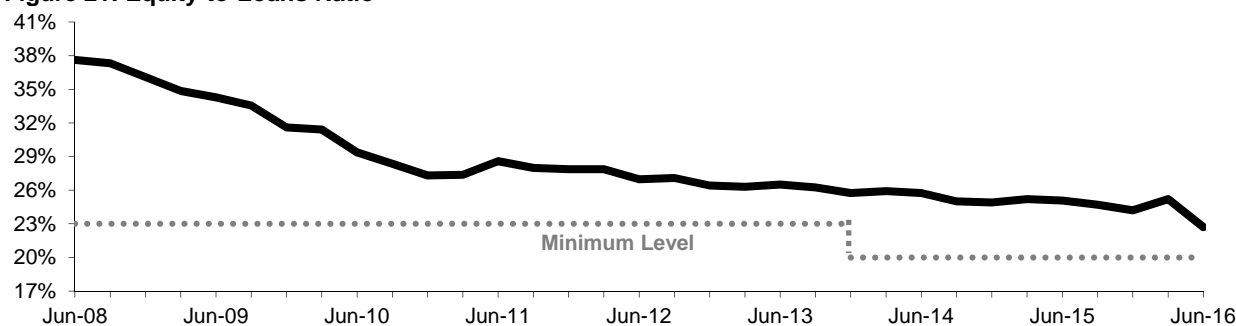
<sup>5</sup> The ERC is chaired by the Managing Director and Chief Administrative Officer (MDCAO) and was established in June 2016 to address non-financial risks with the exception of risk related to IBRD's lending operations. The latter will continue to be managed and overseen by the Managing Director and Chief Operating Officer (MDCOO).



## Capital Adequacy

IBRD's capital adequacy is the degree to which its equity is sufficient to withstand unexpected shocks. The Board monitors IBRD's capital adequacy within a Strategic Capital Adequacy Framework, using the equity-to-loans ratio as a key indicator of IBRD's capital adequacy. The framework seeks to ensure that IBRD's capital is aligned with the financial risk associated with its loan portfolio as well as other exposures over a medium-term capital-planning horizon. Under this framework, IBRD evaluates its capital adequacy as measured by stress tests and an appropriate minimum level for the long term equity-to-loans ratio. For FY16, the outcome of the stress tests was satisfactory.

**Figure 21: Equity-to-Loans Ratio**



At the beginning of the global financial crisis, the equity-to-loans ratio stood at 38% as of June 30, 2008, significantly exceeding the then minimum of 23%. This allowed IBRD to respond effectively to the borrowing needs of its member countries, resulting in the higher leveraging of its equity and a corresponding decline in the ratio. The capital adequacy framework was reviewed in FY14 and the minimum equity-to-loans ratio was reduced to 20% to reflect the significant long-term improvement in IBRD's loan portfolio credit quality. The lowering of the minimum equity-to-loans ratio allows IBRD to use its equity more effectively to support a larger volume of development lending and thus enhance IBRD's commitment capacity, including for responding to potential crises (Figure 21). This is part of a strategy to maximize the use of capital for lending operations.

**Table 24: Equity-to-Loans Ratio**

*In millions of U.S. dollars*

As of	June 30, 2016	June 30, 2015	Variance	Variance	
				Due to Activities	Due to Translation Adjustment
<b>Equity (usable equity)<sup>a</sup></b>	<b>\$ 39,424</b>	<b>\$ 40,195</b>	<b>\$ (771)</b>	<b>\$ (828)</b>	<b>\$ 57</b>
Loans exposure	\$ 169,452	\$ 156,802	\$ 12,650	\$ 13,216	\$ (566)
Present value of guarantees	1,225	894	331	333	(2)
Effective but undisbursed DDOs	4,514	4,095	419	419	-
Relevant accumulated provisions	(1,607)	(1,593)	(14)	(15)	*
Deferred loan income	(441)	(418)	(23)	(24)	1
Other exposures	452	551	(99)	(98)	*
<b>Loans (total exposure)</b>	<b>\$ 173,595</b>	<b>\$ 160,331</b>	<b>\$ 13,264</b>	<b>\$ 13,831</b>	<b>\$ (567)</b>
<b>Equity-to-Loans Ratio</b>	<b>22.7%</b>	<b>25.1%</b>			

a. From Table 23

IBRD's equity-to-loans ratio decreased to 22.7% as of June 30, 2016, from 25.1% as of June 30, 2015 and remained above the minimum level of 20% (Table 24). This decrease is primarily due to the increase in loan exposures, driven by the \$13.2 billion of net loan disbursements. An additional contribution to the decline in usable equity was the increase in the underfunded status of the pension plans, as discussed in Section VIII and XII. Under IBRD's currency management policy, to minimize exchange rate risk in a multicurrency environment, IBRD matches its borrowing obligations in any one currency (after derivatives activities) with assets in the same currency. In addition, IBRD's policy is to minimize the exchange rate sensitivity of its capital adequacy as measured by the equity-to-

loans ratio. It implements this policy by periodically undertaking currency conversions to align the currency composition of its equity with that of its outstanding loans, across major currencies. As a result, the exchange rate movements during the year did not have an impact on IBRD's equity-to-loans ratio.

## **Credit Risk**

IBRD faces two types of credit risk: country credit risk and counterparty credit risk. Country credit risk is the risk of loss due to a country not meeting its contractual obligations, and counterparty credit risk is the risk of loss attributable to a counterparty not honoring its contractual obligations. IBRD is exposed to commercial as well as non-commercial counterparty credit risk.

### **Country Credit Risk**

IBRD's mandate is to take only sovereign credit risk in its lending activities. Within country credit risk, three distinct types of risks can be identified: idiosyncratic risk, correlation risk, and concentration risk. Idiosyncratic risk is the risk of an individual borrowing country's exposure falling into nonaccrual status for country-specific reasons (such as policy slippage or political instability). Correlation risk is the risk that exposure to two or more borrowing countries will fall into non-accrual in response to common global or regional economic, political, or financial developments. Concentration risk is the risk resulting from having a large portion of exposure outstanding which, if the exposure fell into non-accrual, would result in IBRD's financial health being excessively impaired.

Concentration risk needs to be evaluated both on a stand-alone basis (exposure of one borrowing country) and when taking into account correlation when more than one borrowing country is affected by a common event, such that when combined, IBRD's exposure to a common risk is elevated.

To estimate idiosyncratic risk and stand-alone concentration risk, the Credit Risk Department looks at IBRD's exposure to each borrowing country and each borrowing country's expected default to IBRD as captured in its credit rating. For correlation risk, the Credit Risk Department models the potential common factors that could impact borrowing countries simultaneously. The existence of correlation increases the likelihood of large non-accrual events, as most of these nonaccrual events involve the joint default of two or more obligors in the portfolio.

IBRD manages country credit risk by using individual country exposure limits, and takes into account factors such as population size and the economic situation of the country. In addition, IBRD conducts stress tests of the effects of changes in market variables and of potential geopolitical events on its portfolio to complement its capital adequacy framework.

### **Portfolio Concentration Risk**

Portfolio concentration risk, which arises when a small group of borrowing countries account for a large share of loans outstanding, is a key concern for IBRD. It is carefully managed for each borrowing country, in part, through an exposure limit for the aggregate balance of loans outstanding, the present value of guarantees, and the undisbursed portion of DDOs that have become effective, among other potential exposures. Under current guidelines, IBRD's exposure to a single borrowing country is restricted to the lower of an Equitable Access Limit or the Single Borrower Limit.

#### *Equitable Access Limit (EAL)*

The EAL is equal to 10% of IBRD's Statutory Lending Limit (SLL). Under IBRD's Articles, as applied, total IBRD loans outstanding, including participation in loans and callable guarantees, may not exceed the sum of unimpaired subscribed capital, reserves and surplus, referred to as the SLL. The SLL seeks to ensure that sufficient resources are available to meet IBRD's obligations to bondholders in the highly unlikely event of substantial and historically unprecedented losses on IBRD's loans. At June 30, 2016, the SLL totaled \$290.8 billion, of which the outstanding loans and callable guarantees totaled \$169.7 billion, or 58.3% of the SLL. The EAL was \$29 billion, as of June 30, 2016.

#### *Single Borrower Limit (SBL)*

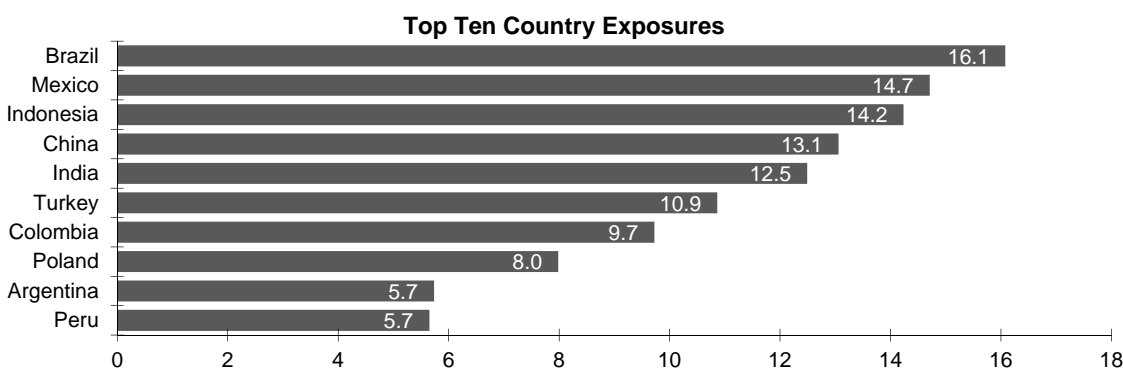
The SBL is established, in part, by assessing its impact on overall portfolio risk relative to equity. The SBL caps the maximum exposure to IBRD's most creditworthy and largest borrowing countries in terms of population and economic size. For all other countries, the individual country exposure limits are set below the SBL. The SBL is \$20 billion for India and \$19 billion for the other four SBL borrowing countries (Brazil, China, Indonesia, and Mexico)

for FY17, and has remained unchanged since FY15<sup>6</sup>. A surcharge of 50 basis points a year was introduced on loans and other exposures for the incremental exposure above the previous SBL (\$17.5 billion for India and \$16.5 billion for the other four SBL borrowing countries), to help support the increase in the SBL. The surcharge is designed to help fund the increase and acknowledges that added concentration heightens the risk for IBRD. The SBL increase allows for additional engagement in countries with large, poor populations. As of June 30, 2016, no surcharge was applicable to any of the five countries, since they were all below their previous SBL.

Under certain circumstances, IBRD would be able to continue to lend to a borrower above the single-borrower exposure limit by entering into an arrangement that would prevent its net exposure from exceeding the limit. Any such arrangement must be approved in advance by IBRD’s Board. Previously, IBRD entered into separate arrangements with China for managing its exposure in the event that it exceeded the SBL. As of June 30, 2016, the exposure to China remains below the SBL and the agreement has not been utilized.

As of June 30, 2016, the ten countries with the highest exposures accounted for about 63% of IBRD’s total exposure (Figure 22). IBRD’s largest exposure to a single borrowing country—Brazil, was \$16.1 billion on June 30, 2016. The current exposure data presented is at a point in time. Monitoring these exposures relative to the limit, however, requires consideration of the repayment profiles of existing loans, as well as disbursement profiles and projected new loans and guarantees.

**Figure 22: Country Exposures as of June 30, 2016**  
In billions of U.S. dollars



### Credit-Risk-Bearing Capacity

Management uses risk models to estimate the size of a potential non-accrual shock that IBRD could face over the next three years at a given confidence level. The model-estimated non-accrual shock is a single measure of the credit quality of the portfolio that combines the following:

- IBRD’s country-credit-risk ratings and their associated expected risk of default;
- Covariance risks;
- The loan portfolio’s distribution across risk rating categories; and
- The exposure concentration.

The shock estimated by this risk model is used in IBRD’s capital adequacy testing to determine the impact of potential non-accrual events on equity and income earning capacity.

### Probable Losses, Overdue Payments, and Non-Performing Loans

The loan-loss provision is calculated by taking into account IBRD’s exposure, the expected default frequency (EDF), or probability of default, and the assumed loss in the event of default. Probable losses inherent in the loan

<sup>6</sup> When a borrowing country that is eligible for one of the limits set under the SBL framework arrangements is downgraded to the high risk category, the country may continue to be eligible for borrowing at the currently applicable limit. However, the borrowing country would not be eligible for any future increases in the SBL approved by the Board while in the high risk category.

portfolio attributable to country credit risk are covered by the accumulated provision for losses on loans and other exposures, while unexpected losses owing to country credit risk are covered by equity.

When a borrower fails to make payments on any principal, interest, or other charge due to IBRD, IBRD may suspend disbursements immediately on all loans to that borrower. IBRD's current practice is to exercise this option using a graduated approach (Box 5). These practices also apply to member countries eligible to borrow from both IBRD and IDA, and whose payments on IDA credits may become overdue. It is IBRD's practice not to reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. As of June 30, 2016, no IBRD borrowing countries in the accrual portfolio had overdue payments beyond 30 days.

**Box 5: Treatment of Overdue Payments**

Overdue by 30 days	Where the borrower is the member country, no new loans to the member country, or to any other borrower in the country, will be presented to the Board for approval, nor will any previously approved loan be signed, until payments for all amounts 30 days overdue or longer have been received. Where the borrower is not the member country, no new loans to that borrower will be signed or approved. In either case, the borrower will lose its eligibility for any waiver of interest charges in effect at that time for loans signed before May 16, 2007, and those loans signed between May 16, 2007, and September 27, 2007, if the borrowers elected not to convert the terms of their loans to the pricing terms effective September 27, 2007. For loans with the pricing terms applicable from May 16, 2007, an overdue interest penalty will be charged at a rate of 50 basis points on the overdue principal. In addition, if an overdue amount remains unpaid for a period of 30 days, then the borrower will pay a higher interest rate (LIBOR + fixed spread) plus 50 basis points on the overdue principal amount until the overdue amount is fully paid.
Overdue by 45 days	In addition to the provisions cited above for payments overdue by 30 days, to avoid proceeding further on the notification process leading to suspension of disbursements, the country as borrower or guarantor and all borrowers in the country must pay not only all payments overdue by 30 days or more, but also all payments due regardless of the number of days since they have fallen due. Where the borrower is not the member country, no new loans to, or guaranteed by, the member country, will be signed or approved. Additionally, all borrowers in the country will lose eligibility for any waivers of interest in effect at the time.
Overdue by 60 days	In addition to the suspension of approval for new loans and signing of previously approved loans, disbursements on all loans to, or guaranteed by, the member country are suspended until all overdue amounts are paid. This policy applies even when the borrower is not the member country. Under exceptional circumstances, disbursements can be made to a member country upon the Board's approval.
Overdue by more than six months	All loans made to, or guaranteed by, a member of IBRD are placed in nonaccrual status, unless IBRD determines that the overdue amount will be collected in the immediate future. Unpaid interest and other charges not yet paid on loans outstanding are deducted from the income for the current period. To the extent that these payments are received, they are included in income. At the time of arrears clearance, a decision is made on the restoration of accrual status on a case-by-case basis; in certain cases, this decision may be deferred until after a suitable period of payment performance has passed.

Zimbabwe is the only country in IBRD's portfolio in non-accrual status. The value of exposures to Zimbabwe decreased in nominal terms from \$452 million as of June 30, 2015 to \$444 million as of June 30, 2016. The decrease reflects mostly the principal payments of \$9 million received from Zimbabwe (FY15: \$7 million).

**Implications for Loan Loss Provisions and Other Exposures**

In FY16, IBRD recorded a provision of \$15 million for losses on loans and other exposures, compared with a release of \$10 million during the same period in FY15. The main driver of the increase in the provisioning requirement was the increase in IBRD's lending exposures from \$162.5 billion as of June 30, 2015 to \$176.8 billion as of June 30, 2016. Despite the LLP charge in FY16, the accumulated provision for losses on loans and other exposures of \$1,650 million as of June 30, 2016 (\$1,593 million as of June 30, 2015), was largely unchanged compared with the prior year, at less than 1% of these exposures. This reflects the favorable impact of the annual update of IBRD's EDF and severity assumptions. (See Notes to Financial Statements, Note D: Loans and Other Exposures).

## Counterparty Credit Risk

IBRD is exposed to commercial and non-commercial counterparty credit risk. Commercial counterparty credit risk is concentrated in IBRD's investment portfolio and in debt instruments issued by sovereign governments, agencies, banks, and corporate entities. Most of these investments are in AAA- and AA-rated instruments.

### Commercial Counterparty Credit Risk

This is the risk that counterparties fail to meet their payment obligations under the terms of the contract or other financial instruments. Effective management of counterparty credit risk is vital to the success of IBRD's funding, investment, and asset/liability management activities. The monitoring and management of these risks is continuous as the market environment evolves.

IBRD mitigates the counterparty credit risk from its investment and derivative holdings through the credit approval process, the use of collateral agreements and risk limits, and other monitoring procedures. The credit approval process involves evaluating counterparty and security-specific creditworthiness, assigning internal credit ratings and limits, and determining the risk profile of specific transactions. Credit limits are calculated and monitored, taking into account current market values, estimates of potential future movements in those values, and counterparty collateral agreements. If a collateral agreement exists, the amount of collateral obtained is based on the credit rating of the counterparty. Collateral held includes cash and highly liquid investment securities.

### *Derivative Instruments*

In the normal course of its business, IBRD enters into various derivative and foreign exchange financial instrument transactions. These are used mainly to meet the financial needs of IBRD's borrowers and to manage the institution's exposure to fluctuations in interest and exchange rates. These transactions are conducted with other financial institutions and, by their nature, entail commercial counterparty credit risk.

For derivative products, IBRD uses the estimated replacement cost of the derivative to measure credit risk exposure. While the contractual principal amount of derivatives is the most commonly used volume measure in derivative markets, it does not measure credit or market risk.

Under mark-to-market collateral arrangements, when IBRD is in a net receivable position higher than the agreed upon collateral threshold allocated to a counterparty, counterparties are required to post collateral with IBRD. As of June 30, 2016, IBRD had received collateral of cash and securities totaling \$3.8 billion.

IBRD is not required to post collateral under its derivative agreements as long as it maintains a triple-A credit rating. (For the contractual value, notional amounts, related credit risk exposure amounts, and the amount IBRD would be required to post in the event of a downgrade, see Notes to Financial Statements: Note F—Derivative Instruments.)

### *Investment Securities*

The General Investment Authorization for IBRD, approved by the Board, grants the basic authority for IBRD to invest its liquid assets. Furthermore, all investment activities are conducted in accordance with a more detailed set of Investment Guidelines. The Investment Guidelines are approved by the MDCFO and implemented by the Treasurer. These Investment Guidelines set out detailed trading and operational rules, including which instruments are eligible for investment, and establish risk parameters relative to benchmarks. These include an overall consultative loss limit and duration deviation, specifying concentration limits on counterparties and instrument classes, as well as clear lines of responsibility for risk monitoring and compliance. Credit risk is controlled by applying eligibility criteria (Box 6).

The overall market risk of the investment portfolio is subject to a consultative loss limit to reflect a level of tolerance for the risk of underperforming the benchmark in any fiscal year. IBRD has procedures in place to monitor performance against this limit and potential risks, and it takes appropriate actions if the limit is reached.

### Box 6: Eligibility Criteria for IBRD's Investments

Instrument Securities	Description
Sovereigns	IBRD may only invest in obligations issued or unconditionally guaranteed by governments of member countries with a minimum credit rating of AA-. However, no rating is required if government obligations are denominated in the national currency of the issuer.
Agencies	IBRD may invest only in obligations issued by an agency or instrumentality of a government of a member country, a multilateral organization, or any other official entity other than the government of a member country, with a minimum credit rating of AA-.
Corporates and asset-backed securities	IBRD may only invest in securities with a AAA credit rating.
Time deposits <sup>a</sup>	IBRD may only invest in time deposits issued or guaranteed by financial institutions, whose senior debt securities are rated at least A-.
Commercial Paper	IBRD may only invest in short-term borrowings (less than 190 days) from commercial banks, corporates, and financial institutions.
Securities lending, and borrowing, repurchases, resales, and reverse repurchases	IBRD may engage in repurchases and reverse repurchases, against adequate margin protection, of the securities described under the sovereigns, agencies, and corporates and asset-backed security categories.
Collateral Assets	IBRD may engage in collateralized forward transactions, such as swap, repurchase, resale, securities lending, or equivalent transactions that involve certain underlying assets not independently eligible for investment. In each case, adequate margin protection needs to be received.

a. Time deposits include certificates of deposit, bankers' acceptances, and other obligations issued or unconditionally guaranteed by banks or other financial institutions.

IBRD's exposure to futures and options and resale agreements is marginal. For futures and options, IBRD generally closes out open positions prior to expiration. Futures are settled on a daily basis. In addition, IBRD monitors the fair value of resale securities received and, if necessary, closes out transactions and enters into new repriced transactions.

Management has broadened its universe of investment assets in an effort to achieve greater diversification in the portfolio and better risk-adjusted investment performance. This exposure is monitored by the Market and Counterparty Risk Department.

#### *Commercial Counterparty Credit Risk Exposure*

As a result of IBRD's use of mark-to-market collateral arrangements for swap transactions, its residual commercial counterparty credit risk is concentrated in the investment portfolio; in debt instruments issued by sovereign governments, agencies, commercial paper, time deposits, and corporate entities (Table 25).

IBRD's overall commercial counterparty credit exposure increased by \$4 billion during FY16, to \$51.5 billion as of June 30, 2016. As shown on Table 25, the credit quality of IBRD's portfolio remains concentrated in the upper end of the credit spectrum, with 64% of the portfolio rated AA or above and the remaining portfolio primarily rated A. The A rated counterparties primarily consisted of financial institutions (limited to short-term deposits and swaps) and sovereigns. Most of the BB or lower rated exposure relates to IBRD's investment in a debt security issued by the Hypo Alpe-Adria Bank, as discussed in Section VI.

**Table 25: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating***In millions of U.S. dollars*

Counterparty Rating <sup>a</sup>	As of June 30, 2016					
	Investments			Net Swap Exposure	Total Exposure	% of Total
	Sovereigns	Agencies, Commercial paper, Asset-Backed Securities, Corporates and Time Deposits				
AAA	\$ 10,954	\$ 10,521	\$ -	\$ 21,475	42%	
AA	2,988	8,259	133	11,380	22	
A	12,159	6,336	128	18,623	36	
BBB	*	12	*	12	*	
BB or lower/unrated	-	50	*	50	*	
Total	<u>\$ 26,101</u>	<u>\$ 25,178</u>	<u>\$ 261</u>	<u>\$ 51,540</u>	<u>100%</u>	

Counterparty Rating <sup>a</sup>	As of June 30, 2015					
	Investments			Net Swap Exposure	Total Exposure	% of Total
	Sovereigns	Agencies, Commercial paper, Asset-Backed Securities, Corporates and Time Deposits				
AAA	\$ 10,451	\$ 9,571	\$ -	\$ 20,022	42%	
AA	4,385	9,375	78	13,838	29	
A	7,336	5,997	107	13,440	28	
BBB	223	8	2	233	*	
BB or lower/unrated	-	18	5	23	*	
Total	<u>\$ 22,395</u>	<u>\$ 24,969</u>	<u>\$ 192</u>	<u>\$ 47,556</u>	<u>100%</u>	

a. Average rating is calculated using available ratings from the three major rating agencies; however, if ratings are not available from each of the three rating agencies, IBRD uses the average of the ratings available from any of such rating agencies or a single rating to the extent that an instrument or issuer (as applicable) is rated by only one rating agency.

\* Indicates amount less than \$0.5 million or percentage less than 0.5%.

### Non-Commercial Counterparty Credit Risk

In addition to the derivative transactions with commercial counterparties, IBRD also offers derivative-intermediation services to borrowing member countries, as well as to affiliated and non-affiliated organizations, to help meet their development needs or to carry out their development mandates.

- *Borrowing Member Countries:* Currency and interest rate swap transactions are executed between IBRD and its borrowers under master derivative agreements. As of June 30, 2016, the notional amounts and net fair value exposures under these agreements were \$10.8 billion and \$1.9 billion, respectively. Probable losses inherent in these exposures due to country credit risk are incorporated in the fair value of these instruments.
- *Affiliated Organizations:* Derivative contracts are executed between IBRD and IDA, under an agreement allowing IBRD to intermediate derivative contracts on behalf of IDA. As of June 30, 2016, the notional amount under this agreement was \$9.1 billion. As of June 30, 2016, IBRD had no exposure to IDA. Under its derivative agreement with IBRD, IDA is not required to post collateral as long as it maintains liquidity holdings at pre-determined levels that are a proxy for an AAA credit rating. As of June 30, 2016, IDA was not required to post any collateral with IBRD.
- *Non-Affiliated Organizations:* IBRD has a master derivatives agreement with IFFIm, under which several transactions have been executed. As of June 30, 2016, the notional amounts and net fair value exposures under this agreement were \$5.1 billion and \$0.9 billion, respectively. IBRD has the right to call for

collateral above an agreed specified threshold. As of June 30, 2016, IBRD had not exercised this right, but it reserves the right under the existing terms of the agreement. Rather than calling for collateral, IBRD and IFFIm have agreed to manage IBRD's exposure by applying a risk management buffer to the gearing ratio limit. The gearing ratio limit represents the maximum amount of net financial obligations of IFFIm less cash and liquid assets, as a percent of the net present value of IFFIm's financial assets.

### Credit and Debit Valuation Adjustments

Most outstanding derivative positions are transacted over-the-counter and therefore valued using internally developed valuation models. For commercial and non-commercial counterparties where IBRD has a net exposure (net receivable position), IBRD calculates a Credit Value Adjustment (CVA) to reflect credit risk. (IBRD's non-commercial counterparty exposure mainly arises from derivative-intermediation activities on behalf of IFFIm and IDA, as discussed earlier). For net derivative positions with commercial and non-commercial counterparties where IBRD is in a net payable position, IBRD calculates a Debit Valuation Adjustment (DVA) to reflect its own credit risk.

The CVA is calculated using the fair value of the derivative contracts, net of collateral received under credit support agreements, and the probability of counterparty default based on the Credit Default Swaps (CDS) spread and, where applicable, proxy CDS spreads. IBRD does not currently hedge this exposure. The DVA calculation is generally consistent with the CVA methodology and incorporates IBRD's own credit spread as observed through the CDS market. As of June 30, 2016, IBRD recorded a CVA adjustment on its balance sheet of \$41 million, and a DVA of \$27 million.

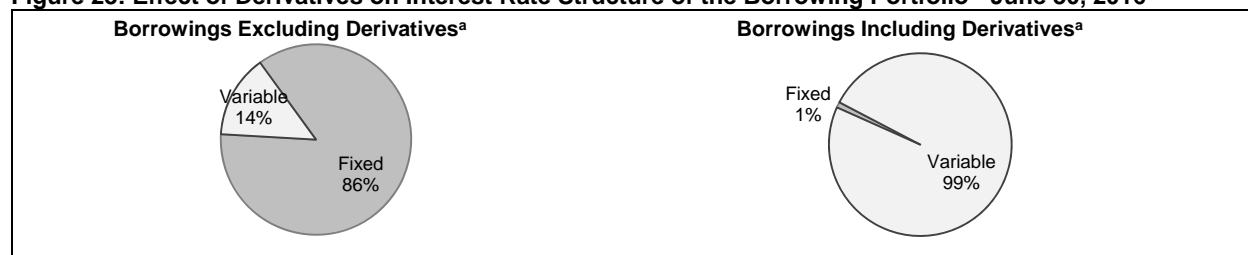
### Market Risk

IBRD is exposed to changes in interest and exchange rates, and uses various strategies to minimize its exposure to market risk.

### Interest Rate Risk

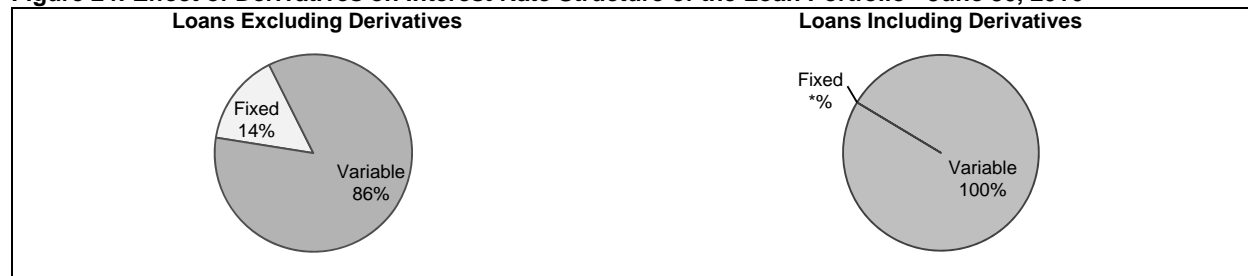
Under its current interest rate risk management strategy, IBRD seeks to match the interest rate sensitivity of its assets (loan and investment trading portfolios) with those of its liabilities (borrowing portfolio) by using derivatives, such as interest rate swaps. These derivatives effectively convert IBRD's financial assets and liabilities into variable-rate instruments. After considering the effects of these derivatives, virtually the entire loan and borrowing portfolios are carried at variable interest rates (Figures 23-24).

**Figure 23: Effect of Derivatives on Interest Rate Structure of the Borrowing Portfolio - June 30, 2016**



a. Excludes discount notes.

**Figure 24: Effect of Derivatives on Interest Rate Structure of the Loan Portfolio - June 30, 2016**



\* Denotes percentage less than 0.5%.



IBRD faces three main sources of interest rate risk: the sensitivity of the income earned to a low interest rate environment, fixed-spread loans refinancing risk, and interest rate risk on the liquid asset portfolio.

### Low Interest Rate Environment

#### *Income from IBRD's equity:*

Income from loans funded by IBRD's equity is sensitive to changes in short-term interest rates, as IBRD's loans, net of derivatives, predominantly earn variable interest linked to variable rate indices (e.g., LIBOR) as illustrated in Figure 24.

Approximately 23% of IBRD's net loans and other exposures are funded by equity, as indicated by the equity-to-loans ratio of 22.7%. The interest revenue on the loans funded by equity, if left unmanaged, would be highly sensitive to fluctuations in short-term interest rates. To manage this exposure, IBRD uses the EMF, which allows the flexibility of managing the duration of IBRD's equity within a range of zero to five years based on market and macroeconomic conditions. It also allows IBRD to realize some of the unrealized mark-to-market gains from the EMF positions.

FY16 was characterized by a persistent low interest rate environment for the major currencies. The EMF strategy was fully deployed for the U.S. dollar component in FY16, with equity invested in derivatives earning interest rates that are considerably higher than if equity remained invested in short-term interest rates. As measured by duration, the interest rate sensitivity of IBRD's equity was 4.4 years as of June 30, 2016 (4.8 years as of June 30, 2015). As a result, IBRD's interest revenue has been protected from the persistent low interest rate environment.

The interest revenue and realized gains from EMF in FY16 was \$711 million, compared to \$1,056 million in FY15, as discussed in Section III. The market value of the EMF position as of June 30, 2016 was \$2.2 billion, compared with \$0.7 billion as of June 30, 2015. The increase was primarily as a result of the unrealized mark-to-market gains of \$1.5 billion due to the downward movement of U.S. dollar interest rates experienced during the year (See Section X).

#### *Loans to borrowing countries:*

Under IBRD's loan agreements, interest is required to be paid by borrowers to IBRD, and not vice versa. As a result, in the event that an interest rate formula yields a negative rate, the interest rate is fixed at zero, thereby protecting IBRD's revenue.

#### *Liquid Asset Portfolio:*

IBRD's existing guidelines allow for the investment in a wide variety of credit spread products in both developed and emerging market economies (see investment eligibility criteria in Box 6). Low and negative fixed interest rates present a challenge for the investment of the liquid asset portfolio. However, even markets with negative rates can provide positive spread returns once the investment is swapped back into a U.S. dollar floating basis. In FY16, despite the low interest rate environment, IBRD was able to generate a positive return, net of funding cost on its liquid asset portfolio (See Table 1).

### Fixed Spread Loan Refinancing Risk

Refinancing risk for funding fixed-spread loans relates to the potential impact of any future deterioration in the IBRD's funding spread. IBRD does not match the maturity of its funding with that of its fixed spread loans as this would result in significantly higher financing costs for all loans. Instead, IBRD targets a shorter average funding maturity and manages the refinancing risk through two technical components of the fixed spread loans pricing, both of which can be changed at Management's discretion (Table 11):

- *Projected funding cost:* Management's best estimate of average funding costs over the life of the loan.
- *Risk premium:* A charge for the risk that actual funding costs are higher than projected.

### Liquid Asset Portfolio Spread Exposure

The interest rate risk on IBRD's liquid asset portfolio, including the risk that the value of assets in the portfolio will fluctuate in response to changes in market interest rates, is managed within specified duration-mismatch limits. The liquid asset portfolio has spread exposure because IBRD holds instruments other than the short-term bank deposits represented by the portfolios' London Interbank Bid Rate (LIBID) benchmark. These investments generally yield

positive returns over the benchmark, but can generate mark-to-market losses if their spreads relative to LIBOR widen.

### Other Interest Rate Risks

Interest rate risk also arises from other variables, including differences in timing between the contractual maturities or re-pricing of IBRD's assets, liabilities, and derivative instruments. On variable-rate assets and liabilities, IBRD is exposed to timing mismatches between the re-set dates on its variable-rate receivables and payables. To mitigate its exposure to these timing mismatches, IBRD has executed some overlay interest rate swaps.

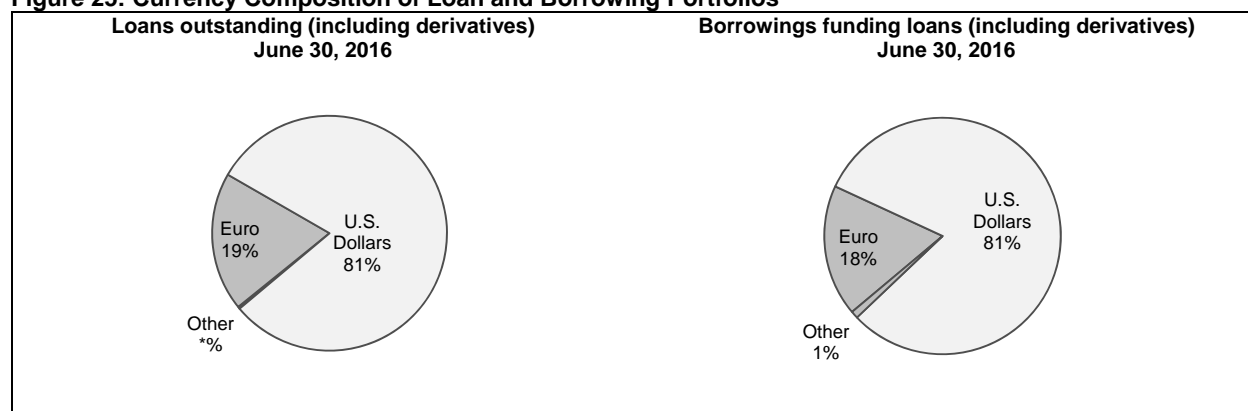
Interest rate risk on non-cost pass-through products, which accounted for 30% of the loan portfolio as of June 30, 2016 (34% as of June 30, 2015), is managed by using interest rate swaps to closely align the rate sensitivity characteristics of the loan portfolio with those of their underlying funding, except for the component of the loan portfolio funded by equity and therefore subject to the EMF.

### Exchange Rate Risk

IBRD holds its assets and liabilities mainly in U.S. dollars and euro. However, the reported levels of its assets, liabilities, income, and expenses in the financial statements are affected by exchange rate movements in all the currencies in which IBRD transacts, relative to its reporting currency, the U.S. dollar. These movements are shown as currency translation adjustments in other comprehensive income, in equity, given IBRD's multifunctional currency paradigm (see Note A: Summary of Significant Accounting and Related Policies in the Notes to the Financial Statements). While IBRD's equity could be affected by exchange rate movements, IBRD's risk management policies work to minimize the exchange rate risk in its capital adequacy, by immunizing the equity-to-loans ratio against exchange rate movements.

To minimize exchange risk, IBRD matches its borrowing obligations in any one currency (after derivatives activities) with assets in the same currency (Figure 25). In addition, IBRD undertakes periodic currency conversions to align the currency composition of its equity to that of its outstanding loans across major currencies. Together, these policies are designed to minimize the impact of exchange rate fluctuations on the equity-to-loans ratio; thereby preserving IBRD's ability to better absorb unexpected losses from arrears on loan repayments, regardless of exchange movements. As a result, the exchange rate movements during the year did not have an impact on the overall equity-to-loans ratio.

**Figure 25: Currency Composition of Loan and Borrowing Portfolios**



\* Denotes percentage less than 0.5%.

### Liquidity Risk

Liquidity risk arises in the general funding of IBRD's activities and in managing its financial position. It includes the risk of IBRD being unable to fund its portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

Under IBRD's liquidity management guidelines, aggregate liquid asset holdings are kept at or above a specified prudential minimum to safeguard against cash flow interruptions. This minimum is equal to the highest consecutive six months of projected debt service obligations, plus one-half of projected net loan disbursements on approved

loans (if positive) for the relevant fiscal year. The FY17 prudential minimum liquidity level remains unchanged from FY16, at \$27.5 billion.

Historically, IBRD has operated at liquidity levels ranging between 100% and 150% of the prudential minimum. In FY15, the range was raised to about 140% to 175%, reflecting Management's desire to hold sufficient liquidity to cover 12 months of projected debt service obligations and net loan disbursements. From time to time, however, IBRD may hold liquid assets over the top end of this range to give it flexibility in timing its borrowing transactions and to meet working capital needs. As of June 30, 2016, the liquid asset portfolio was 184% of the prudential minimum liquidity level in effect for FY16. The increased level of liquidity reflects higher projected debt service and loan disbursements for the coming fiscal year.

## **Operational Risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Management also considers adverse reputational impact an operational risk which can be more significant for IBRD than any potential financial loss. IBRD's operational risk management framework is built on the "three lines of defense" principle, where: i) business units are responsible for directly managing operational risks in their respective functional areas, (ii) a dedicated central operational risk function provides business units with direction and oversight over operational risk activities, and (iii) oversight is provided by the ORC and independent control functions.

IBRD recognizes the importance of operational risk management activities, which are embedded in its financial operations. IBRD's approach to managing operational risk includes assessing and prioritizing operational risks, monitoring and reporting relevant key risk indicators, aggregating and analyzing internal and external events, and identifying emerging risks that may affect business units. The operational risk in IBRD's lending operations is managed by the Operations Policy and Country Services. This covers risk of non-compliance with IBRD's policies, safeguards as well as risk of mis-procurement on behalf of clients, and fraud and corruption in its financed projects.

IBRD's operational risk management framework is based upon a structured and uniform approach to identify, assess and monitor key operational risks across business units. A number of tools are used as part of this framework including risk assessments, key risk indicators, database of external events and scenario analysis. The framework also facilitates aggregation of operational risks across IBRD finance and corporate units and promotes communication of those risks to the ORC and the Audit Committee.

## SECTION X: FAIR VALUE ANALYSIS

An important element in achieving IBRD's financial goals is its ability to minimize the cost of borrowing from capital markets for lending to member countries by using financial instruments, including derivatives. The fair value of these financial instruments is affected by changes in the market environment such as interest rates, exchange rates and credit risk. Fair value is used mainly to assess the performance of the investment trading portfolio, to monitor the results of the EMF, and to manage certain market risks, including interest rate and commercial credit risk for derivative counterparties.

Fair value adjustments are recorded on IBRD's fair value income statement, and reflect the sensitivity of each portfolio to the effect of interest rates and credit movements (Table 26).

**Table 26: Summary of Fair Value Adjustments on Non-Trading Portfolios<sup>a</sup>**

*In millions of U.S. dollars*

For the fiscal year ended June 30,	2016	2015
Borrowing portfolio	\$ 503	\$ 23
Loan portfolio	2,843	2,862
EMF	1,457	91
Total	<u>\$ 4,803</u>	<u>\$ 2,976</u>

a. See Table 30 for reconciliation to the fair value comprehensive basis net income.

**Borrowing Portfolio:** For FY16, IBRD experienced \$503 million of unrealized mark-to-market gains, which was mainly comprised of \$1.4 billion unrealized mark-to-market gains due to the widening of IBRD's credit spreads, partially offset by \$0.8 billion of mark-to-market losses due to the decline in interest rates. IBRD's credit spread is defined as its funding cost relative to LIBOR.

**Loan Portfolio:** For FY16, IBRD experienced a \$2.8 billion increase in the fair value of its loans. This was mainly driven by the increase in the value of the interest rate floor on IBRD's loans, due to the increasingly negative interest rate environment. In addition, the upward revision of IBRD's recovery levels arising from IBRD's annual review, also had an impact.

**Table 27: Effect of Interest Rates and Credit on IBRD's Fair Value Income**

*In millions of U.S. dollars*

As of June 30, 2016	Interest rate Effect on Fair Value Income Sensitivity <sup>a c</sup>	Credit Effect on Fair Value Income Sensitivity <sup>b c</sup>
Borrowing portfolio	\$ 4	\$ 61
Loan portfolio	(11)	(34)
EMF	(18)	*
Investment portfolio	(1)	(4)
Total (loss)/gains	<u>\$ (26)</u>	<u>\$ 23</u>

a. After the effects of derivatives.

b. Excludes CVA/DVA adjustment on derivatives.

c. Amount represents dollar change in fair value corresponding to a one basis-point parallel upward shift in interest rates.

\* Sensitivity is de minimus.

### Effect of Interest Rates

On a fair value basis, if interest rates increase by one basis point, IBRD would experience an unrealized mark-to-market loss of approximately \$26 million as of June 30, 2016 (Table 26).

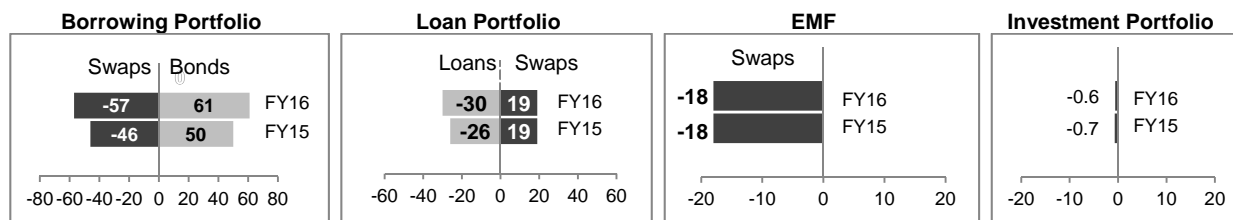
- **Investment Trading Portfolio:** After the effects of derivatives, the duration of the investment trading portfolio is less than three months. As a result, the portfolio has a low sensitivity to changes in interest rates, resulting in small fair value adjustments to income.

- *Loan and Borrowing Portfolios:* In line with IBRD's financial risk management strategies, the sensitivity of IBRD's loan and borrowing portfolios to changes in interest rates is relatively small (Figure 26). As noted earlier, IBRD intends to maintain its positions for these portfolios and thus manages these instruments on a cash flow basis. The resulting net unrealized mark-to-market gains and losses on these portfolios, associated with the small sensitivity to interest rates, are therefore not expected to be realized.
- *EMF:* A one basis point decrease in interest rates would result in unrealized mark-to-market gains of \$18 million on the EMF. For FY16, the \$1.5 billion of unrealized mark-to-market gains on the EMF position, were primarily due to the decrease in U.S. interest rates.

Figure 26 below provides a further breakdown of how the use of derivatives affects the overall sensitivity of the borrowing, loan, EMF and investment portfolios. For example, for the borrowing portfolio, for FY16 a one basis point increase in interest rates would result in net unrealized mark-to-market gains of \$61 million on the bonds. These would be significantly offset by the \$57 million of net unrealized mark-to-market losses on the related swaps, resulting in net unrealized mark-to-market gains of \$4 million for the portfolio.

**Figure 26: Sensitivity to Interest Rates**

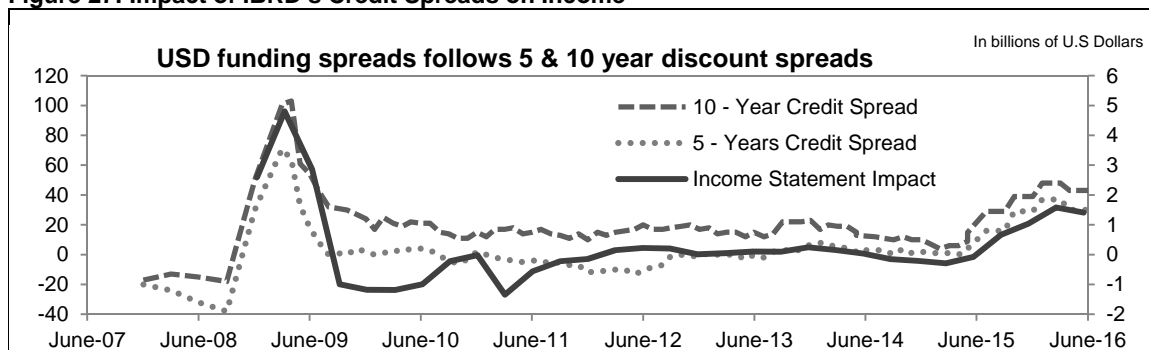
Dollar change in fair value corresponding to a one-basis-point upward parallel shift in interest rates. In millions of U.S. dollars



## Effect of Credit

- *Investments.* IBRD purchases investment-grade securities for its liquid asset portfolio. Credit risk is controlled through appropriate eligibility criteria (Box 6). The overall risk of the investment portfolio is also constrained by a consultative loss limit. In line with these risk management strategies, the potential effect of default risk on IBRD's investment portfolio is therefore small. The effect of credit changes on the market value of the investment portfolio is also relatively limited; a one-basis-point change in the credit spreads of the investment assets would have an estimated impact of about \$4 million on the market value of the portfolio.
- *Borrowings.* IBRD does not hedge its own credit. The dollar value change corresponding to a one-basis-point upward parallel shift in interest rates on IBRD's own credit relative to LIBOR is about \$61 million of unrealized mark-to-market gains. IBRD's income is positively correlated to its credit spreads (Figure 27). The tightening of IBRD's own credit spreads has a negative effect on IBRD's income statement. For FY16, the widening of IBRD's credit spread resulted in unrealized mark-to-market gains of \$1.4 billion compared to unrealized mark-to-market losses of \$78 million in FY15 due to the tightening of its credit spreads.

**Figure 27: Impact of IBRD's Credit Spreads on Income**



- *Loans.* IBRD's fair value model represents a hypothetical exit price of the loan portfolio. It incorporates CDS spreads as an indicator of the credit risk for each borrower, after adjusting recovery levels to incorporate IBRD's institutional experience and assumptions. These assumptions are reviewed annually. For FY16, the effect of changes due to credit was marginal. The dollar value change corresponding to a one-basis-point parallel rise in CDS rates on the loan portfolio is about \$34 million of unrealized mark-to-market losses. IBRD does not hedge its sovereign credit exposure but Management assesses its credit risk through a proprietary loan-loss provisioning model. Loan-loss provision represents the probable losses inherent in its accrual and nonaccrual portfolios. As discussed earlier, IBRD's country credit risk is managed by using individual country exposure limits and by monitoring its credit-risk-bearing capacity.
- *Derivatives.* IBRD uses derivatives to manage exposures to currency and interest rate risks in its investment, loan, and borrowing portfolios, and EMF. It is therefore exposed to commercial counterparty credit risk on these instruments. This risk is managed through:
  - Stringent selection of commercial derivative counterparties,
  - Daily marking-to-market of derivative positions, and
  - Use of collateral and collateral thresholds for all commercial counterparties.

The fair value of IBRD's commercial counterparty credit risk is reflected in the CVA and IBRD's own credit is reflected in the DVA. The net effect of the CVA and DVA adjustments to IBRD's balance sheet was positive \$14 million on June 30, 2016, as discussed in Section IX.

## Changes in Accumulated Other Comprehensive Income

In addition to fair value adjustments on the loan, borrowing, and asset/liability management portfolios, IBRD's fair value adjustment on the income statement also reflects changes in Accumulated Other Comprehensive Income (AOCI):

- *Currency Translation Adjustments* mainly represent the translation adjustment on the loan and borrowing portfolios. The net negative currency translation adjustment in FY16 is mainly due to the less than 1% depreciation of the euro against the U.S. dollar in FY16, compared to the 18% depreciation of the euro during same period last year (Table 28).
- *Unrecognized Pension Adjustments* largely represent the unrecognized net actuarial gains and losses on benefit plans. Actuarial gains and losses occur when actual results differ from expected results in determining the funded status of the pension plans. Since the pension plans are long term, changes in asset returns and discount rates cause volatility in fair value income. There was an increase in the underfunded status of the pension plans from \$1.3 billion in June 30, 2015 to \$4.3 billion, net of PEBP assets, reflecting the decline in interest rates used to discount the pension liabilities and to a lesser extent the lower asset returns compared with the long-term projection. Given its long term planning horizon for pension plans, Management is focused mainly on ensuring that contributions to pension plans appropriately reflect long-term assumptions about asset returns and discount rates. See Section XII for further discussion on the pension plans.

**Table 28: Summary of Changes to AOCI (Fair Value Basis)**

*In millions U.S. dollars*

For the fiscal year ended June 30,	2016	2015	Variance
Unrecognized net actuarial (losses) gains on benefit plans, net	\$ (2,778)	\$ 840	\$ (3,618)
Unrecognized net prior service (cost) credit on benefit plans, net	(1)	23	(24)
Derivatives and hedging transition adjustment <sup>a</sup>	(4)	(1)	(3)
Currency translation adjustments	(147)	(1,032)	885
<i>Of which:</i>			
<i>Loan portfolio</i>	(68)	(6,244)	6,176
<i>Borrowing portfolio</i>	(7)	5,045	(5,052)
<i>Net other assets and liabilities</i>	(72)	167	(239)
<b>Total</b>	<b>\$ (2,930)</b>	<b>\$ (170)</b>	<b>\$ (2,760)</b>

*a. Amount represents amortization of transition adjustment relating to the adoption of Financial Accounting Standards Board's (FASB's) guidance on derivatives and hedging on July 1, 2000.*

## Fair Value Results

As non-financial assets and liabilities are not reflected at fair value, IBRD's equity is not intended to reflect fair value. Under the fair value basis, in addition to the instruments in the investment and borrowing portfolios, and all other derivatives, loans are reported at fair value and all changes in AOCI are also included in fair value net income. Tables 29-31 provide a reconciliation from the reported basis to the fair value basis for both the balance sheet and income statement; Table 31 provides a reconciliation of all fair value adjustments.

**Table 29: Condensed Balance Sheet on a Fair Value Basis**

*In millions U.S. dollars*

	As of June 30, 2016			As of June 30, 2015		
	Reported Basis	Adjustments	Fair Value Basis	Reported Basis	Adjustments	Fair Value Basis
Due from banks	\$ 1,284	\$ -	\$ 1,284	\$ 388	\$ -	\$ 388
Investments	53,522	-	53,522	49,951	-	49,951
Net loans outstanding	167,643	4,934	172,577	155,040	870	155,910
Receivable from derivatives	144,488	-	144,488	134,325	-	134,325
Other assets	4,323	-	4,323	3,521	-	3,521
Total assets	<u>\$ 371,260</u>	<u>\$ 4,934</u>	<u>\$ 376,194</u>	<u>\$ 343,225</u>	<u>\$ 870</u>	<u>\$ 344,095</u>
Borrowings	\$ 181,723	\$ 13 <sup>a</sup>	\$ 181,736	\$ 160,980	\$ 8 <sup>a</sup>	\$ 160,988
Payable for derivatives	141,741	-	141,741	132,324	-	132,324
Other liabilities	10,733	-	10,733	11,284	-	11,284
Total liabilities	334,197	13	334,210	304,588	8	304,596
Paid-in capital stock	15,805	-	15,805	15,192	-	15,192
Retained earnings and other equity	21,258	4,921	26,179	23,445	862	24,307
Total equity	37,063	4,921	41,984	38,637	862	39,499
Total liabilities and equity	<u>\$ 371,260</u>	<u>\$ 4,934</u>	<u>\$ 376,194</u>	<u>\$ 343,225</u>	<u>\$ 870</u>	<u>\$ 344,095</u>

a. Amount represents amortization of transition adjustment relating to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

**Table 30: Reconciliation from Net Income to Income on a Fair Value Comprehensive Basis**

*In millions U.S. dollars*

For the fiscal year ended June 30,	2016	2015	Variance
Net income (loss) from Table 1	\$ 495	\$ (786)	\$ 1,281
Fair value adjustment on loans <sup>a</sup>	4,077	2,904	1,173
Changes to AOCI	(2,930)	(170)	(2,760)
Net (loss) Income on fair value comprehensive basis	<u>\$ 1,642</u>	<u>\$ 1,948</u>	<u>\$ 306</u>

a. Amount has been adjusted to exclude the provision for losses on loans and other exposures: \$15 million charge – June 30, 2016, and \$10 million release on June 30, 2015.

**Table 31: Fair Value Adjustments, net***In millions of U.S. dollars*

	For the fiscal year ended June 30, 2016				
	Unrealized gains (losses) excluding realized amounts <sup>a</sup>	Realized gains	Fair Value Adjustment from Table 30	Other Adjustments	Total from Table 27
Borrowing portfolio <sup>c</sup>	\$ 479	\$ 28	\$ -	\$ (4) <sup>b</sup>	\$ 503
Loan portfolio <sup>c</sup>	(1,234)	-	4,077	-	2,843
EMF <sup>d</sup>	1,418	39	-	-	1,457
Asset-liability management portfolio <sup>d</sup>	(4)	-	-	4	-
Client operations portfolio	(28)	-	-	28	-
Total	\$ 631	\$ 67	\$ 4,077	\$ 28	\$ 4,803

	For the fiscal year ended June 30, 2015				
	Unrealized gains (losses) excluding realized amounts <sup>a</sup>	Realized gains	Fair Value Adjustment from Table 30	Other Adjustments	Total from Table 27
Borrowing portfolio <sup>c</sup>	\$ 14	\$ 10	\$ -	\$ (1) <sup>b</sup>	\$ 23
Loan portfolio <sup>c</sup>	(41)	(1)	2,904	-	2,862
EMF <sup>d</sup>	(659)	750	-	-	91
Asset-liability management portfolio <sup>d</sup>	(*)	-	-	*	-
Client operations portfolio	(16)	-	-	16	-
Total	\$ (702)	\$ 759	\$ 2,904	\$ 15	\$ 2,976

a. Adjusted to exclude amounts reclassified to realized gains (losses).

b. Amount represents amortization of transition adjustment relating to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000, included in AOCI.

c. Includes related derivatives.

d. Included in other derivatives on the Balance Sheet.

\* Indicates amount less than \$0.5 million.



## SECTION XI: CONTRACTUAL OBLIGATIONS

In conducting its business, IBRD enters into various contractual obligations that may require future payments. These include borrowings, operating leases, contractual purchases and capital expenditures, and other long-term liabilities. Table 32 shows IBRD's contractual obligations for the next five years and thereafter; it excludes the following obligations reflected on IBRD's balance sheet: undisbursed loans, payable for currency and interest rate swaps, payable for investment securities purchased, guarantees, and cash received under agency arrangements.

**Table 32: Contractual Obligations**

*In millions of U.S. dollars*

	As of June 30, 2016				
	Due in 1 year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due After 5 years	Total
Borrowings (at fair value)	\$ 34,604	\$ 57,788	\$ 48,173	\$ 41,158	\$ 181,723
Operating leases	69	117	85	167	438
Contractual purchases and capital expenditures	39	30	-	-	69
Other long-term liabilities	509	116	87	182	894
<b>Total</b>	<b>\$ 35,221</b>	<b>\$ 58,051</b>	<b>\$ 48,345</b>	<b>\$ 41,507</b>	<b>\$ 183,124</b>

- *Borrowings:* IBRD issues debt in the form of securities to retail and institutional investors.
- *Operating Leases:* IBRD leases real estate and equipment under lease agreements for varying periods. Operating lease expenditures represents future cash payments for real-estate-related obligations and equipment, based on contractual amounts.
- *Contractual Purchases and Capital Expenditures:* IBRD is a party to various obligations to purchase products and services mainly for its capital expenditure and utilities. These commitments are designed to ensure sources of supply, are not expected to be in excess of normal requirements, and are in line with IBRD's budget.
- *Other Long Term Liabilities:* IBRD provides a number of benefits to its employees. As some of these benefits are of a long term nature, IBRD records the associated liability on its balance sheet. The obligations payable represent expected benefit payments including contributions to the pension plans, these include future service and pay accruals for current staff but exclude future hires.

Operating leases, contractual purchases and capital expenditures, and other long-term obligations, include obligations shared with IDA, IFC, and MIGA under cost-sharing and service arrangements. These arrangements reflect the WBG strategy of maximizing synergies, to best leverage resources for development (See Notes to Financial Statements: Note-H for Transactions with Affiliated Organizations).

## **SECTION XII: PENSION AND OTHER POST-RETIREMENT BENEFITS**

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### **Governance**

IBRD participates, along with IFC and MIGA, in pension and post-retirement benefit plans. The Staff Retirement Plan and Trust (SRP), Retired Staff Benefits Plan and Trust (RSBP), and PEBP (collectively called the “Plans”) are defined benefit plans and cover substantially all of their employees, retirees and beneficiaries. All costs, assets, and liabilities associated with the Plans are allocated among IBRD, IFC, and MIGA, based on their employees' respective participation in the Plans. Costs allocated to IBRD are subsequently shared with IDA, based on an agreed cost-sharing ratio. (See Notes to Financial Statements: Note J -Pension and Other Post-Retirement Benefits).

The benefits of the Plans at retirement are determined pursuant to the Plan Documents adopted by the Board (Plan Document). The World Bank has a contractual obligation to make benefit payments to the Plans' beneficiaries. The governance mechanism of the Plans, including the funding and investment policies described here, are designed to support this objective.

There are two committees that govern the Plans. From a governance stand point, both committees are independent from IBRD and the Board.

- The Pension Finance Committee (PFC), which is responsible for the financial management of the Plans and is supported by the Pension Finance Administrator.
- The Pension Benefits Administration Committee (PBAC), which is responsible for the administration of the benefits of the Plans.

The SRP and RSBP assets are held in separate irrevocable trusts and the PEBP assets are included in IBRD's investment portfolio. IBRD acts as trustee for the Plans and the assets are used for the exclusive benefit of the participants and their beneficiaries. The objective of the Plans is to accumulate sufficient assets to meet future pension benefit obligations. As of June 30, 2016, IBRD and IDA's share of the assets amounted to \$18.2 billion (See Table 33). This represents the accumulated contributions paid into the plans net of benefit payments, together with the accumulated value of investment earnings, net of related expenses.

### **Funding and Investment Policies**

The key policies underpinning the financial management of the Plans, including the determination of WBG contributions and the investment of Plan assets, are the funding and investment policies. The objective of these policies is to ensure that the Plans have sufficient assets to meet benefit payments over the long term. The funding policy, as approved by the PFC, establishes the rules that determine the WBG's contributions. The policy seeks to fund the Plans in a consistent and timely manner, while at the same time avoiding excessive volatility in WBG contributions. The funding policy determines how much the WBG must contribute annually to sustain and ensure the accumulation of sufficient assets over time to meet the expected benefit payments. Under the Plan Document, the PFC determines the WBG contribution amount on the basis of actuarial valuations. IBRD is required to make the contribution determined by the PFC. In FY16, the WBG's contribution rate to the Plans was 29.9% of net salaries.

The Projected Benefit Obligation (PBO) is derived from AA-rated corporate bonds, as required by U.S. GAAP. The selection of this rate as the basis for the discount rate is to establish a liability equivalent to an amount that if invested in high-quality fixed income securities would match the benefit payment stream. While this measure is based on an objective, observable market rate, it does not necessarily reflect the realized or expected returns of the plan which depend on how the plans are managed and invested. The PBO for funding purposes is discounted using a 3.5% real discount rate since the funding strategy for the plans is based on a target of 3.5% real return on investments. This rate constitutes the long-term objective for the Plan's assets, referred to as the Long-Term Real Return Objective (LTRRO), which Management has followed since FY99. If the return on the pension assets is 3.5% in real terms and contributions are made at the actuarially required rates (that reflect the long-term cost of the plan benefit), the plan benefits will be funded over time.

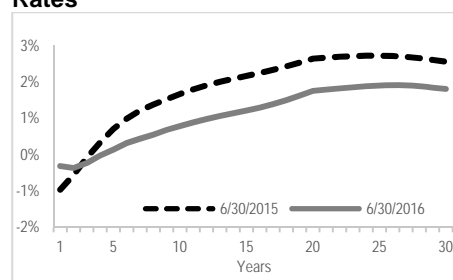
The assets of the Plans are diversified across a variety of asset classes, with the objective of achieving returns consistent with the LTRRO over the long term without taking undue risks. The returns on investments for the plans have met or exceeded the LTRRO on a consistent basis in the long term as well as in recent years. The PFC periodically reviews the realism and appropriateness for the LTRRO. See Notes to Financial Statements: Note J - Pension and Other Post-Retirement Benefits for asset allocation, expected return on plan assets and assumptions used to determine the PBO.

## Projected Benefit Obligation

Given that pension plan liabilities can be defined and measured in a number of different ways, it is possible to have different funded status measures for the same plans. The most widely used and publicly disclosed measure of pension plan liabilities is the PBO measure under GAAP. It reflects the present value of all retirement benefits earned by participants (adjusted for assumed inflation) as of a given date, including projected salary increases to retirement. Therefore, the PBO measure is an appropriate metric for assessing the ability of the Plans to cover expected benefits as of a certain date. The underlying actuarial assumptions used to determine the PBO, accumulated benefit obligations, and funded status associated with the Plans are based on financial market interest rates, past experience, and Management's best estimate of future benefit changes, economic conditions and earnings from plan assets.

The discount rate used to convert future obligations into today's dollars is derived from high-grade, AA-rated corporate bond yields as required by U.S. GAAP. The increase in the underfunded status of the pension plans from \$1.3 billion in June 30, 2015 to \$4.3 billion, net of PEBP assets, primarily reflects the increase in the PBO resulting from the decrease in the AA interest rates (See figure 28). For FY16, the weighted average implied real AA interest rates, which are used to discount the benefit cash flows, declined by approximately 0.80%, to 1.5% as of June 30, 2016. As the Plans are managed with a long-term horizon, results over shorter time periods may be impacted positively or negatively by market fluctuations.

**Figure 28: Implied Real AA Interest Rates**



**Table 33: Funded Status of the Plans**

*In millions U.S. dollars*

	As of June 30, 2016			
	SRP	RSBP	PEBP	Total
PBO	\$ (18,036)	\$ (3,009)	\$ (1,474)	\$ (22,519)
Plan assets	15,235	2,297	717	18,249
Net position	<u>\$ (2,801)</u>	<u>\$ (712)</u>	<u>\$ (757)</u>	<u>\$ (4,270)</u>
IBRD's portion				\$ (2,211)

	As of June 30, 2015			
	SRP	RSBP	PEBP	Total
PBO	\$ (15,869)	\$ (2,535)	\$ (1,140)	\$ (19,544)
Plan assets	15,236	2,236	688	18,160
Net position	<u>\$ (633)</u>	<u>\$ (299)</u>	<u>\$ (452)</u>	<u>\$ (1,384)</u>
IBRD's portion				\$ (680)

## SECTION XIII: CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

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IBRD's significant accounting policies, as well as estimates made by Management, are integral to its financial reporting. While all of these policies require a certain level of judgment and estimates, significant policies require Management to make highly difficult, complex, and subjective judgments as these relate to matters inherently uncertain and susceptible to change. Note A to the financial statements contains a summary of IBRD's significant accounting policies including a discussion of recently issued accounting pronouncements.

### Provision for Losses on Loans and Other Exposures

IBRD's accumulated provision for losses on loans and other exposures reflects probable losses inherent in its accrual and nonaccrual portfolios. Determining the appropriate level of provision for each portfolio requires several steps:

- The loan portfolio is separated into the accrual and nonaccrual portfolios. In both portfolios, the loans and other exposures for each country are then assigned a credit-risk rating. Loans in the accrual portfolio are grouped according to the assigned risk rating, while loans in the non-accrual portfolio are generally individually assigned the highest risk rating.
- Each risk rating is mapped to an expected default frequency using IBRD's credit migration matrix.
- The required provision is calculated by multiplying the outstanding exposure by the expected default frequency (the probability of default to IBRD) and by the estimated severity of the loss in the event of default. For loans carried at fair value, the credit risk assessment is a determinant of fair value.

The determination of a borrower's risk rating is based on such variables as: political risk, external debt and liquidity, fiscal policy and the public debt burden, balance of payments risks, economic structure and growth prospects, monetary and exchange rate policy, and financial sector risks and corporate sector debt and other vulnerabilities.

IBRD periodically reviews such variables and reassesses the adequacy of the accumulated provision accordingly. Actual losses may differ from expected losses owing to unforeseen changes in any of the variables affecting the creditworthiness of borrowers.

The Credit Risk Committee monitors aspects of country credit risk, in particular, reviewing the provision for losses on loans and guarantees taking into account, among other factors, any changes in exposure, risk ratings of borrowing member countries, or movements between the accrual and non-accrual portfolios.

The accumulated provision for loan losses is reported separately in the balance sheet as a deduction from IBRD's total loans outstanding. The accumulated provision for losses on other exposures is included in accounts payable and miscellaneous liabilities. Increases or decreases in the accumulated provision for losses on loans and other exposures are reported in the Statement of Income as a provision for losses on loans and other exposures (see Notes to Financial Statements: Note A-Summary of Significant Accounting and Related Policies and Note D-Loans and Other Exposures).

### Fair Value of Financial Instruments

All fair value adjustments are recognized through the income statement. The fair values of financial instruments are based on a three-level hierarchy.

For financial instruments classified as Level 1 or 2, less judgment is applied in arriving at fair value measures as the inputs are based on observable market data. For financial instruments classified as Level 3, unobservable inputs are used. These require Management to make important assumptions and judgments in determining fair value measures. Investments measured at net asset value per share (or its equivalent) are not classified in the fair value hierarchy.

Most of IBRD's financial instruments which recorded at fair value are classified as Levels 1 and 2. Table 34 presents the summary of the fair value of financial instruments recorded at fair value on a recurring basis, and the amounts measured using significant Level 3 inputs. IBRD's level 3 instruments are mainly structured bonds and related swaps held in the borrowing portfolio; they use market observable inputs and such unobservable inputs as correlations and interest rate volatilities.

**Table 34: Fair Value Level 3 Summary***In millions U.S. dollars*

For the fiscal year ended June 30,	2016		2015	
	Level 3	Total Amount at Fair Value <sup>a</sup>	Level 3	Total Amount at Fair Value <sup>a</sup>
Total Assets recorded at fair value	\$ 1,625	\$ 198,010	\$ 1,546	\$ 184,276
As a percentage of total assets at fair value	0.82%		0.84%	
Total Liabilities recorded at fair value	\$ 4,348	\$ 324,027	\$ 3,920	\$ 295,785
As a percentage of total liabilities at fair value	1.34%		1.33%	

*a. Total financial instruments recorded at fair value on a recurring basis on the face of the balance sheet.*

IBRD reviews the methodology, inputs, and assumptions on a quarterly basis to assess the appropriateness of the fair value hierarchy classification of each financial instrument.

Some financial instruments are valued using pricing models. The Valuation Group, which is independent of treasury and risk management functions, reviews all financial instrument models affecting financial reporting through fair value and assesses model appropriateness and consistency. The review looks at whether the model accurately reflects the characteristics of the transaction and its risks, the suitability and convergence properties of numerical algorithms, the reliability of data sources, the consistency of the treatment with models for similar products, and sensitivity to input parameters and assumptions that cannot be priced from the market.

Reviews are conducted of new and/or changed models, as well as previously validated models, to assess whether any changes in the product or market may have affected the model's continued validity and whether any theoretical or competitive developments may require reassessment of the model's adequacy.

The financial models used for input to IBRD's financial statements are subject to both internal and periodic external verification and review by qualified personnel.

In cases where Management relies on instrument valuations supplied by external pricing vendors, procedures are in place to validate the appropriateness of the models used, as well as the inputs applied in determining those values.

## **Pension and Other Post-Retirement Benefits**

The underlying actuarial assumptions used to determine the PBO, accumulated benefit obligations, and funded status associated with IBRD pension and other post-retirement benefit plans are based on financial market interest rates, past experience, and Management's best estimate of future benefit changes and economic conditions (see Notes to Financial Statements: Note J -Pension and Other Post-Retirement Benefits).

## **SECTION XIV: GOVERNANCE AND CONTROL**

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### **General Governance**

IBRD's decision-making structure consists of the Board of Governors, Executive Directors, and the President, Management and staff. The Board of Governors is the highest decision-making authority. Governors are appointed by their member governments for a five-year term, which is renewable. The Board of Governors may delegate authority to the Executive Directors to exercise any of its powers, except for certain powers enumerated in IBRD's Articles.

### **Board Membership**

In accordance with IBRD's Articles, Executive Directors are appointed or elected every two years by their member governments. The Board currently has 25 Executive Directors, who represent all 189 member countries. Executive Directors are neither officers nor staff of IBRD. The President is the only member of the Board from management, and he serves as a non-voting member and as Chairman of the Board.

The Board has established several committees. These include:

- Audit Committee
- Budget Committee
- Committee on Development Effectiveness
- Committee on Governance and Executive Directors' Administrative Matters
- Human Resources Committee

The Board and its committees are in continuous session at the main IBRD offices in Washington DC, as business requires. Each committee's terms of reference establishes its respective roles and responsibilities. As committees do not vote on issues, their role is primarily to serve the Board in discharging its responsibilities.

The Board is required to consider proposals made by the President on IBRD's loans and guarantees and on other policies that affect its general operations. The Board is also responsible for presenting to the Board of Governors, at the Annual Meetings, audited accounts, an administrative budget, and an annual report on operations and policies and other matters.

### **Audit Committee**

#### **Membership**

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

#### **Key Responsibilities**

The Audit Committee is appointed by the Board for the primary purpose of assisting the Board in overseeing IBRD's finances, accounting, risk management, internal controls and institutional integrity. Specific responsibilities include:

- Oversight of the integrity of IBRD's financial statements.
- Appointment, qualifications, independence and performance of the External Auditor.
- Performance of the Internal Audit Department.
- Adequacy and effectiveness of financial and accounting policies and internal controls' and the mechanisms to deter, prevent and penalize fraud and corruption in IBRD operations and corporate procurement.
- Effective management of financial, fiduciary and compliance in IBRD.
- Oversight of the institutional arrangements and processes for risk management across IBRD.

In carrying out its role, the Audit Committee discusses financial issues and policies that affect IBRD's financial position and capital adequacy with Management, external auditors, and internal auditors. It recommends the annual

audited financial statements for approval to the Board. The Audit Committee monitors and reviews developments in corporate governance and its own role on an ongoing basis.

### **Executive Sessions**

Under the Audit Committee's terms of reference, it may convene in executive session at any time, without Management's presence. The Audit Committee meets separately in executive session with the external and internal auditors.

### **Access to Resources and to Management**

Throughout the year, the Audit Committee receives a large volume of information to enable it to carry out its duties, and meets both formally and informally throughout the year to discuss relevant matters. It has complete access to Management, and reviews and discusses with Management topics considered in its terms of reference.

The Audit Committee has the authority to seek advice and assistance from outside legal, accounting, or other advisors as it deems necessary.

### **Business Conduct**

The WBG promotes a positive work environment in which staff members understand their ethical obligations to the institution. In support of this commitment, the institution has in place a Code of Conduct. The WBG has both an Ethics HelpLine and a Fraud and Corruption hotline. A third-party service offers many methods of worldwide communication. Reporting channels include telephone, mail, email, or confidential submission through a website.

IBRD has in place procedures for receiving, retaining, and handling recommendations and concerns relating to business conduct identified during the accounting, internal control, and auditing processes.

WBG staff rules clarify and codify the staff's obligations in reporting suspected fraud, corruption, or other misconduct that may threaten the operations or governance of the WBG. These rules also offer protection from retaliation.

### **Auditor Independence**

The appointment of the external auditor for IBRD is governed by a set of Board-approved principles. These include:

- Prohibiting the external auditor from providing any non-audit-related services;
- Requiring all audit-related services to be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee; and
- Mandatory rebidding of the external audit contract every five years, with a limit of two consecutive terms and mandatory rotation thereafter, provided however that the Audit Committee may exceptionally recommend that the incumbent audit firm should be allowed to participate in the re-bidding.

The external auditor is appointed to a five-year term and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board. In FY14, KPMG LLP began a second five-year term as IBRD's external auditor.

Communication between the external auditor and the Audit Committee is ongoing and carried out as often as deemed necessary by either party. The Audit Committee meets periodically with the external auditor and individual committee members have independent access to the external auditor. IBRD's external auditors also follow the communication requirements, with the Audit Committees set out under generally accepted auditing standards in the United States and in the International Standards on Auditing.

### **Internal Control**

#### **Internal Control Over External Financial Reporting**

Each fiscal year, Management evaluates the internal controls over external financial reporting to determine whether any changes made in these controls during the fiscal year materially affect, or would be reasonably likely to materially affect, IBRD's internal control over external financial reporting. The internal control framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Internal Control - Integrated Framework (2013)" provides guidance for designing, implementing and conducting internal control and assessing its effectiveness. Since FY15, IBRD has been using the 2013 COSO framework to assess the

effectiveness of the internal control over external financial reporting. As of June 30, 2016, these controls were determined to be effective. See “Management’s report regarding effectiveness of Internal Control over External Financial Reporting” on page 66.

Concurrently, IBRD’s external auditor provides a report on whether Management’s assertion regarding the effectiveness of internal control over external financial reporting is fairly stated in all material respects. See Independent Auditors Report on Management’s Assertion Regarding Effectiveness of Internal Control over External Financial Reporting” on page 66.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed is gathered and communicated to Management as appropriate, to allow timely decisions regarding required disclosure by IBRD. Management conducted an evaluation of the effectiveness of such controls and procedures and the President and the MDCFO have concluded that these controls and procedures were effective as of June 30, 2016.

### **Senior Management Changes**

On February 1, 2016, Joaquim Levy succeeded Bertrand Badré as Managing Director and World Bank Group Chief Financial Officer (MDCFO).

On February 29, 2016, Shaolin Yang became Managing Director and World Bank Group Chief Administrative Officer following the creation of this position in December 2015 (MDCAO).

On July 27, 2016, Sri Mulyani Indrawati resigned as Managing Director and Chief Operating Officer (MDCOO). In the interim Kyle Peters will be the acting MDCOO.



## APPENDIX

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### Glossary of Terms

**Articles:** IBRD's Articles of Agreement

**Board:** The Board of Executive Directors

**Capital Adequacy:** A measure of IBRD's ability to withstand unexpected shocks and is based on the amount of IBRD's usable equity expressed as a percentage of its loans and other related exposures.

**Credit Default Swaps (CDS):** A derivative contract that provides protection against deteriorating credit quality and allows one party to receive payment in the event of a default or specified credit event by a third party.

**Credit Valuation Adjustment (CVA):** The CVA represents the counterparty credit risk exposure and is reflected in the fair value of derivative instruments.

**Debit valuation adjustment (DVA):** The DVA represents the market value of IBRD's own credit risk for uncollateralized derivative instruments and is reflected in the fair value of derivative instruments.

**Duration:** Provides an indication of the interest rate sensitivity of a fixed income security to changes in its underlying yield.

**Equity-to-Loans Ratio:** The Board monitors IBRD's capital adequacy within a Strategic Capital Adequacy Framework, using the equity-to-loans ratio as a key indicator of IBRD's capital adequacy. For details on the ratio, see Table 24.

**Equity Savings:** Interest cost saved by deploying equity instead of debt to fund loans.

**Interest Margin:** The spread between loan returns and associated debt cost.

**IDA 17:** The adequacy of IDA resources are periodically reviewed every three years. IDA is currently in its Seventeenth Replenishment of resources (IDA17), which is effective from July 1, 2014 until June 30, 2017.

**Maintenance of Value (MOV):** Under IBRD's Articles, members are required to maintain the value of their subscriptions of national currency paid-in, which is subject to certain restrictions. MOV is determined by measuring the foreign exchange value of a member's national currency against the standard of value of IBRD's capital based on the 1974 SDR.

**Net Loan Disbursements:** Loan disbursements net of repayments and prepayments.

**Prudential Minimum:** The minimum amount of liquidity that IBRD is required to hold. The amount is equal to the highest consecutive six months of projected debt service obligations plus one-half of projected net disbursements on approved loans (if positive) for the relevant fiscal year. The prudential minimum is set during the fourth quarter of a fiscal year for the next fiscal year.

**Strategic Capital Adequacy Framework:** Evaluates IBRD's capital adequacy as measured by stress tests and an appropriate minimum level for the long term equity-to-loans ratio. The equity-to-loans ratio provides a background framework in the context of annual net income allocation decisions, as well as in the assessment of the initiatives for the use of capital. The framework has been approved by the Board.

**Single Borrower Limit (SBL):** The maximum authorized exposure to IBRD's most creditworthy and largest borrowing countries in terms of population and economic size.

**Statutory Lending Limit (SLL):** Under IBRD's Articles, as applied, the total amount outstanding of loans, participations in loans, and callable guarantees may not exceed the sum of unimpaired subscribed capital, reserves and surplus.

**U.S. GAAP:** Accounting principles generally accepted in the United States of America.

**World Bank:** The World Bank consists of IBRD and IDA.

**World Bank Group (WBG):** The World Bank Group consists of IBRD, IDA, IFC, MIGA, and ICSID.

## Abbreviations and Acronyms

<b>AFDB:</b> African Development Bank	<b>IPF:</b> Investment Project Financing
<b>AMC:</b> Advance Market Commitment for Vaccines against Pneumococcal Diseases	<b>LIBID:</b> London Interbank Bid Rate
<b>AOCI:</b> Accumulated Other Comprehensive Income	<b>LIBOR:</b> London Interbank Offered Rate
<b>BETF:</b> IBRD-Executed Trust Funds	<b>LLP:</b> Loan Loss Provision
<b>COSO:</b> Committee of Sponsoring Organizations of the Treadway Commission	<b>LTRRO:</b> Long-Term Real Return Objective
<b>CCSAs:</b> Cross-Cutting Solution Areas	<b>MDB:</b> Multilateral Development Bank
<b>CDS:</b> Credit Default Swaps	<b>MDCAO:</b> Managing Director and World Bank Group Chief Administrative Officer
<b>CVA:</b> Credit Value Adjustment	<b>MDCFO:</b> Managing Director and World Bank Group Chief Financial Officer
<b>CRO:</b> Vice President and WBG Chief Risk Officer	<b>MDCOO:</b> Managing Director and Chief Operating Officer
<b>DDO:</b> Deferred Drawdown Option	<b>MIGA:</b> Multilateral Investment Guarantee Agency
<b>DPF:</b> Development Project Financing	<b>MOV:</b> Maintenance-Of-Value
<b>DTCs:</b> Developing and Transitional Countries	<b>NBC:</b> New Business Committee
<b>DVA:</b> Debit Valuation Adjustment	<b>NCPIC:</b> National Currency Paid-in Capital
<b>EAL:</b> Equitable Access Limit	<b>ORC:</b> Operational Risk Committee
<b>EDF:</b> Expected default frequency	<b>PAF:</b> Pilot Auction Facility for Methane and Climate Change Mitigation
<b>EEA:</b> Exposure Exchange Agreement	<b>PBAC:</b> Pension Benefits Administration Committee
<b>EFOs:</b> Externally Financed Outputs	<b>PBO:</b> Pension Benefit Obligation
<b>EMF:</b> Equity Management Framework	<b>PCRF:</b> Post Retirement Contribution Reserve Fund
<b>FASB:</b> Financial Accounting Standards Board	<b>PEBP:</b> Post-Employment Benefit Plan
<b>FIFs:</b> Financial Intermediary Funds	<b>PFC:</b> Pension Finance Committee
<b>FRC:</b> Finance and Risk Committee	<b>PforR:</b> Program-for-Results
<b>GAVI:</b> Global Alliance for Vaccines and Immunization	<b>RAS:</b> Reimbursable Advisory Services
<b>GCI:</b> General Capital Increase	<b>RAMP:</b> Reserves Advisory Management Program
<b>GMFs:</b> Grant-Making Facilities	<b>RETF:</b> Recipient-Executed Trust Funds
<b>GPs:</b> Global Practices	<b>RSBP:</b> Retired Staff Benefits Plan
<b>IADB:</b> Inter-American Development Bank	<b>SCI:</b> Selective Capital Increase
<b>IBRD:</b> International Bank for Reconstruction and Development	<b>SDPL:</b> Special Development Policy Loans
<b>ICSID:</b> International Centre for Settlement of Investment Disputes	<b>SBL:</b> Single Borrower Limit
<b>IFC:</b> International Finance Corporation	<b>SLL:</b> Statutory Lending Limit
<b>IDA:</b> International Development Association	<b>SRP:</b> Staff Retirement Plan
<b>IFFIm:</b> International Finance Facility for Immunisation	
<b>IFLs:</b> IBRD Flexible Loans	

## Eligible Borrowing Member Countries by Region

Region	Countries
Africa	Angola, Botswana, Cabo Verde, Cameroon, Equatorial Guinea, Republic of Congo, Gabon, Mauritius, Namibia, Nigeria, Seychelles, South Africa, Swaziland, Zimbabwe
East Asia and Pacific	China, Fiji, Indonesia, Korea, Republic of, Malaysia, Mongolia, Palau, Papua New Guinea, Philippines, Thailand, Timor-Leste, Vietnam
Europe and Central Asia	Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Poland, Romania, Russian Federation, Serbia, Turkey, Turkmenistan, Ukraine, Uzbekistan
Latin America and Caribbean	Argentina, Antigua and Barbuda, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Jamaica, Mexico, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela
Middle East and North Africa	Algeria, Arab Republic of Egypt, Islamic Republic of Iran, Iraq, Jordan, Lebanon, Libya, Morocco, Syrian Arab Republic, Tunisia
South Asia	India, Pakistan, and Sri Lanka

See Summary Statement of Loans in IBRD's Financial Statements for balances by country.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS  
JUNE 30, 2016

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# MANAGEMENT'S REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER EXTERNAL FINANCIAL REPORTING

## The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

August 4, 2016

The management of the International Bank for Reconstruction and Development (IBRD) is responsible for the preparation, integrity, and fair presentation of its published financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on informed judgments and estimates made by management.

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

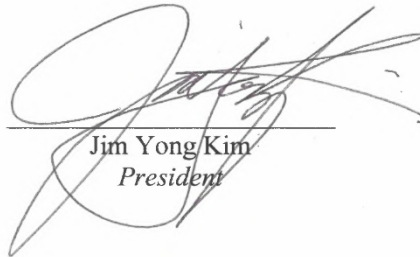
Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial statement presentations in conformity with accounting principles generally accepted in the United States of America. Management maintains a comprehensive system of controls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

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

IBRD assessed its internal control over external financial reporting for financial statement presentation in conformity with accounting principles generally accepted in the United States of America as of June 30, 2016. This assessment was based on the criteria for effective internal control over external financial reporting described in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IBRD maintained effective internal control over external financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of June 30, 2016. The independent audit firm that

audited the financial statements has issued an attestation report on management's assertion on IBRD's internal control over external financial reporting.

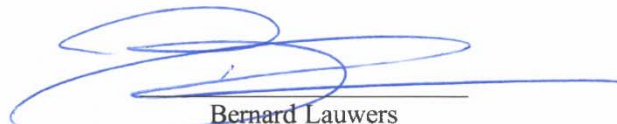
The Executive Directors of IBRD have appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IBRD. The Audit Committee is comprised entirely of Executive Directors who are independent of IBRD's management. The Audit Committee is responsible for recommending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



Jim Yong Kim  
*President*



Joaquim Vieira Ferreira Levy  
*Managing Director and World Bank Group Chief Financial Officer*



Bernard Lauwers  
*Vice President and World Bank Group Controller*

# INDEPENDENT AUDITORS' REPORT ON MANAGEMENT'S ASSERTION REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

President and Executive Directors  
International Bank for Reconstruction and Development:

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the International Bank for Reconstruction and Development (IBRD) maintained effective internal control over external financial reporting as of June 30, 2016, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). IBRD's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

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

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

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

In our opinion, management's assertion that IBRD maintained effective internal controls over financial reporting as of June 30, 2016 is fairly stated, in all material respects, based on the criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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We also have audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the accompanying financial statements of IBRD, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of income, comprehensive income, changes in retained earnings and cash flows for each of the years in the three-year period ended June 30, 2016, and our report dated August 4, 2016 expressed an unqualified opinion on those consolidated financial statements.

*KPMG LLP*

Washington, D.C.  
August 4, 2016

# INDEPENDENT AUDITORS' REPORT



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

President and Executive Directors  
International Bank for Reconstruction and Development:

We have audited the accompanying financial statements of the International Bank for Reconstruction and Development (IBRD), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of income, comprehensive income, changes in retained earnings, and cash flows for each of the years in the three-year period ended June 30, 2016, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IBRD as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years in the three-year period ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The summary statement of loans and the statement of subscriptions to capital stock and voting power as of June 30, 2016 are presented for purposes of additional analysis and are not a required part of the financial

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statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion, included in the accompanying Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting, that IBRD maintained effective internal control over financial reporting as of June 30, 2016, based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 4, 2016 expressed an unqualified opinion on management's assertion.

KPMG LLP

Washington, D.C.  
August 4, 2016

## BALANCE SHEET

June 30, 2016 and June 30, 2015

Expressed in millions of U.S. dollars

	2016	2015
<b>Assets</b>		
<b>Due from banks—Notes C and L</b>		
Unrestricted cash	\$ 1,222	\$ 311
Restricted cash	62	77
	<u>1,284</u>	<u>388</u>
<b>Investments-Trading</b> (including securities transferred under repurchase or securities lending agreements of \$14 million—June 30, 2016; \$844 million—June 30, 2015)—Notes C and L	51,830	47,823
<b>Securities purchased under resale agreements—Notes C and L</b>	1,692	2,128
<b>Derivative assets</b>		
Investments—Notes C, F and L	25,889	22,196
Loans—Notes D, F and L	4,096	3,902
Client operations—Notes D, F, H and L	27,573	28,739
Borrowings—Notes E, F and L	83,965	78,267
Others—Notes F and L	2,965	1,221
	<u>144,488</u>	<u>134,325</u>
<b>Other Receivables</b>		
Receivable from investment securities traded—Note C	42	69
Accrued income on loans	1,017	523
	<u>1,059</u>	<u>592</u>
<b>Loans outstanding (Summary Statement of Loans, Notes D, H and L)</b>		
Total loans	235,564	217,223
Less undisbursed balance	<u>65,909</u>	<u>60,211</u>
Loans outstanding (including loans at fair value of \$123 million—June 30, 2016; \$125 million—June 30, 2015)	169,655	157,012
Less:		
Accumulated provision for loan losses	1,571	1,554
Deferred loan income	441	418
Net loans outstanding	<u>167,643</u>	<u>155,040</u>
<b>Other assets</b>		
Premises and equipment, net	1,083	1,042
Miscellaneous—Notes H and I	<u>2,181</u>	<u>1,887</u>
	<u>3,264</u>	<u>2,929</u>
<b>Total assets</b>	<u>\$ 371,260</u>	<u>\$ 343,225</u>

	2016	2015
<b>Liabilities</b>		
<b><i>Borrowings—Notes E and L</i></b>	\$ 181,723	\$ 160,980
<b><i>Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received—Notes C and L</i></b>	1,685	3,575
<b><i>Derivative liabilities</i></b>		
Investments—Notes C, F and L	26,536	21,279
Loans—Notes D, F and L	6,433	5,535
Client operations—Notes D, F, H and L	27,610	28,747
Borrowings—Notes E, F and L	80,473	76,140
Others—Notes F and L	689	623
	<u>141,741</u>	<u>132,324</u>
<b><i>Payable to maintain value of currency holdings on account of subscribed capital</i></b>	4	6
<b><i>Other liabilities</i></b>		
Payable for investment securities purchased—Note C	556	2,445
Liabilities under retirement benefits plans—Notes J and K	4,987	2,072
Accounts payable and miscellaneous liabilities—Notes D, H and I	3,501	3,186
	<u>9,044</u>	<u>7,703</u>
<b>Total liabilities</b>	<u>334,197</u>	<u>304,588</u>
<b>Equity</b>		
<b><i>Capital stock (Statement of Subscriptions to Capital Stock and Voting Power, Note B)</i></b>		
Authorized capital (2,307,600 shares—June 30, 2016, and June 30, 2015)		
Subscribed capital (2,182,854 shares—June 30, 2016, and 2,095,748 shares—June 30, 2015)	263,329	252,821
Less uncalled portion of subscriptions	247,524	237,629
Paid-in capital	15,805	15,192
<b><i>Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital</i></b>	(320)	(304)
<b><i>Receivable amounts to maintain value of currency holdings—Note B</i></b>	(348)	(365)
<b><i>Deferred amounts to maintain value of currency holdings—Note B</i></b>	56	(174)
<b><i>Retained earnings (Statement of Changes in Retained Earnings; Note G)</i></b>	27,996	27,501
<b><i>Accumulated other comprehensive loss—Note K</i></b>	(6,126)	(3,213)
<b>Total equity</b>	<u>37,063</u>	<u>38,637</u>
<b>Total liabilities and equity</b>	<u>\$ 371,260</u>	<u>\$ 343,225</u>

***The Notes to Financial Statements are an integral part of these Statements.***

# STATEMENT OF INCOME

For the fiscal years ended June 30, 2016 and June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	2016	2015	2014
<b>Net interest revenue</b>			
Interest revenue			
Loans, net—Note D	\$ 1,605	\$ 1,170	\$ 1,179
Equity management, net	672	306	687
Investments - Trading, net	329	233	254
Other, net	8	3	2
Interest expenses			
Borrowings, net—Note E	(786)	(392)	(387)
Net interest revenue, before provision for losses	1,828	1,320	1,735
Provision for losses on loans and other exposures, (charge) release—Note D	(57)	10	60
Net interest revenue, after provision for losses	1,771	1,330	1,795
<b>Non interest revenue</b>			
Revenue from externally funded activities—Notes H and I	801	723	653
Commitment charges—Note D	34	16	19
Other, net—Note I	58	5	8
Total	893	744	680
<b>Non interest expenses</b>			
Administrative—Notes H and I	(1,822)	(1,701)	(1,568)
Pension—Note J	(231)	(248)	(253)
Contributions to special programs	(67)	(110)	(162)
Other	(11)	(1)	(1)
Total	(2,131)	(2,060)	(1,984)
<b>Board of Governors-approved and other transfers—Note G</b>	(705)	(715)	(676)
<b>Unrealized mark-to-market losses on Investments-Trading portfolio, net—Notes F and L</b>	(31)	(142)	(176)
<b>Unrealized mark-to-market gains (losses) on non-trading portfolios, net</b>			
Loans, net—Notes D, F and L	(1,234)	(42)	(134)
Equity management, net—Notes F and L	1,457	91	(562)
Borrowings, net—Notes E, F and L	507	24	92
Other, net—Note L	(32)	(16)	(13)
Total	698	57	(617)
<b>Net income (loss)</b>	<b>\$ 495</b>	<b>\$ (786)</b>	<b>\$ (978)</b>

*The Notes to Financial Statements are an integral part of these Statements.*

## STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Net income (loss)</b>	\$ 495	\$ (786)	\$ (978)
<b>Other comprehensive income—Note K</b>			
Reclassification to net income:			
Derivatives and hedging transition adjustment	2	2	2
Net actuarial (losses) gains on benefit plans	(2,778)	840	(424)
Prior service (cost) credit on benefit plans, net	(2)	23	(39)
Currency translation adjustment	(135)	(1,016)	320
Total other comprehensive loss	(2,913)	(151)	(141)
<b>Comprehensive loss</b>	<u>\$ (2,418)</u>	<u>\$ (937)</u>	<u>\$ (1,119)</u>

## STATEMENT OF CHANGES IN RETAINED EARNINGS

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Retained earnings at beginning of the fiscal year</b>	\$ 27,501	\$ 28,287	\$ 29,265
Net income (loss) for the fiscal year	495	(786)	(978)
<b>Retained earnings at end of the fiscal year</b>	<u>\$ 27,996</u>	<u>\$ 27,501</u>	<u>\$ 28,287</u>

*The Notes to Financial Statements are an integral part of these Statements.*

# STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	2016	2015	2014
<b>Cash flows from investing activities</b>			
Loans			
Disbursements	\$ (22,490)	\$ (18,973)	\$ (18,738)
Principal repayments	9,335	8,983	9,681
Principal prepayments	-	30	132
Loan origination fees received	27	19	23
Net derivatives-loans	21	11	(8)
Sales of Available for sale (AFS) securities	-	-	2,484
Other investing activities, net	(153)	(126)	(124)
Net cash used in investing activities	<u>(13,260)</u>	<u>(10,056)</u>	<u>(6,550)</u>
<b>Cash flows from financing activities</b>			
Medium and long-term borrowings			
New issues	63,317	58,032	50,588
Retirements	(43,265)	(41,972)	(35,532)
Net short-term borrowings	(719)	(4,434)	(1,656)
Net derivatives-borrowings	(512)	(987)	(25)
Capital subscriptions	613	1,187	571
Other capital transactions, net	27	60	83
Net cash provided by financing activities	<u>19,461</u>	<u>11,886</u>	<u>14,029</u>
<b>Cash flows from operating activities</b>			
Net income (loss)	495	(786)	(978)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Unrealized mark-to-market (gains) losses on non-trading portfolios, net	(698)	(57)	617
Change in fair value of AFS Securities sold	-	-	80
Depreciation and amortization	668	746	766
Provision for losses on loans and other exposures	57	(10)	(60)
Changes in:			
Investments-Trading, net	(2,702)	(8,271)	(9,148)
Net investment securities purchased/traded	(1,528)	(246)	2,227
Net derivatives-investments	(10)	1,573	(558)
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	(1,450)	1,115	(2,558)
Accrued income on loans	(710)	57	93
Miscellaneous assets	(20)	701	651
Payable for transfers approved by Board of Governors	-	-	(55)
Accrued interest on borrowings	221	73	(34)
Accounts payable and miscellaneous liabilities	403	86	420
Net cash used in operating activities	<u>(5,274)</u>	<u>(5,019)</u>	<u>(8,537)</u>
<b>Effect of exchange rate changes on unrestricted cash</b>	<u>(16)</u>	<u>(106)</u>	<u>109</u>
<b>Net increase (decrease) in unrestricted cash</b>	911	(3,295)	(949)
<b>Unrestricted cash at beginning of the fiscal year</b>	311	3,606	4,555
<b>Unrestricted cash at end of the fiscal year</b>	<u>\$ 1,222</u>	<u>\$ 311</u>	<u>\$ 3,606</u>



*Expressed in millions of U.S. dollars*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Supplemental disclosure</b>			
(Decrease) increase in ending balances resulting from exchange rate fluctuations			
Loans outstanding	\$ (566)	\$ (7,017)	\$ 1,294
Investment portfolio	60	(294)	61
Borrowing portfolio	24	(5,016)	930
Capitalized loan origination fees included in total loans	42	39	23
Interest paid on borrowings	436	166	244

***The Notes to Financial Statements are an integral part of these Statements.***

# SUMMARY STATEMENT OF LOANS

June 30, 2016

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total loans</i> <sup>c,d</sup>	<i>Loans approved but not yet effective</i> <sup>a</sup>	<i>Undisbursed balance of effective loans</i> <sup>b</sup>	<i>Loans Outstanding</i>	<i>Percentage of total loans outstanding</i> <sup>e</sup>	
Albania <sup>d</sup>	\$ 667	\$ -	\$ 369	\$ 298	0.18	%
Algeria	1	-	-	1	*	
Angola <sup>c</sup>	450	-	-	450	0.27	
Antigua and Barbuda	10	-	7	3	*	
Argentina	8,974	800	2,437	5,737	3.38	
Armenia <sup>d</sup>	910	85	295	530	0.31	
Azerbaijan	2,479	207	642	1,630	0.96	
Barbados	33	-	-	33	0.02	
Belarus	1,240	10	567	663	0.39	
Belize	46	-	31	15	0.01	
Bolivia, Plurinational State of <sup>c</sup>	266	166	-	100	0.06	
Bosnia and Herzegovina <sup>d</sup>	514	-	32	482	0.28	
Botswana <sup>c</sup>	295	-	135	160	0.09	
Brazil <sup>d</sup>	20,079	200	3,717	16,162	9.53	
Bulgaria	1,133	334	57	742	0.44	
Cabo Verde, Republic of	45	-	3	42	0.02	
Chile <sup>c</sup>	240	41	106	93	0.05	
China <sup>d</sup>	20,963	1,385	6,439	13,139	7.74	
Colombia <sup>c</sup>	10,037	-	959	9,078	5.35	
Congo, Republic of	125	80	41	4	*	
Costa Rica <sup>c</sup>	1,210	420	181	609	0.36	
Croatia	1,723	-	368	1,355	0.80	
Dominica	*	-	-	*	*	
Dominican Republic <sup>c</sup>	1,189	170	94	925	0.55	
Ecuador <sup>c</sup>	986	202	541	243	0.14	
Egypt, Arab Republic of	9,464	1,000	3,358	5,106	3.01	
El Salvador	1,021	-	108	913	0.54	
Fiji	100	100	-	-	-	
Gabon <sup>c</sup>	437	245	136	56	0.03	
Georgia <sup>d</sup>	1,102	89	371	642	0.38	
Grenada	12	-	-	12	0.01	
Guatemala	1,724	-	2	1,722	1.02	
India <sup>d</sup>	23,412	3,220	7,263	12,929	7.62	
Indonesia <sup>d</sup>	18,621	1,200	2,212	15,209	8.96	
Iran, Islamic Republic of	388	-	-	388	0.23	
Iraq	2,107	-	651	1,456	0.86	
Jamaica	1,007	30	160	817	0.48	
Jordan <sup>d</sup>	1,545	-	14	1,531	0.90	
Kazakhstan	6,775	1,058	1,476	4,241	2.50	
Kosovo	195	-	-	195	0.11	
Latvia	335	-	-	335	0.20	
Lebanon	927	-	688	239	0.14	
Macedonia, former Yugoslav Republic of <sup>d</sup>	602	28	190	384	0.23	
Mauritius	288	-	15	273	0.16	
Mexico	16,123	500	914	14,709	8.67	
Moldova	98	13	57	28	0.02	
Montenegro <sup>d</sup>	302	-	60	242	0.14	
Morocco	5,969	200	1,070	4,699	2.77	
Nigeria <sup>c</sup>	500	-	496	4	*	
Pakistan <sup>d</sup>	1,910	400	311	1,199	0.71	
Panama <sup>c</sup>	1,183	-	153	1,030	0.61	
Papua New Guinea	64	-	-	64	0.04	
Paraguay	699	-	229	470	0.28	
Peru	6,312	350	3,309	2,653	1.56	
Philippines	6,928	-	2,315	4,613	2.72	
Poland	8,536	-	551	7,985	4.71	
Romania <sup>d</sup>	5,261	53	879	4,329	2.55	
Russian Federation	931	-	249	682	0.40	

## SUMMARY STATEMENT OF LOANS (CONTINUED)

June 30, 2016

Expressed in millions of U.S. dollars

Borrower or guarantor	Total loans <sup>c,d</sup>	Loans approved but not yet effective <sup>a</sup>	Undisbursed balance of effective loans <sup>b</sup>	Loans Outstanding	Percentage of total loans outstanding <sup>e</sup>
Serbia <sup>d</sup>	\$ 2,484	\$ 77	\$ 355	\$ 2,052	1.21 %
Seychelles	52	-	12	40	0.02
South Africa <sup>c</sup>	3,154	-	1,101	2,053	1.21
Sri Lanka	315	-	231	84	0.05
St. Kitts and Nevis	1	-	-	1	*
St. Lucia	8	-	-	8	*
St. Vincent and the Grenadines	3	-	-	3	*
Swaziland	71	25	24	22	0.01
Thailand	1,035	-	-	1,035	0.61
Timor-Leste	15	-	15	-	-
Trinidad and Tobago <sup>c</sup>	4	-	-	4	*
Tunisia	3,017	72	494	2,451	1.44
Turkey <sup>d</sup>	12,707	-	1,332	11,375	6.70
Turkmenistan	2	-	-	2	*
Ukraine	7,774	-	2,205	5,569	3.28
Uruguay	1,754	-	793	961	0.57
Uzbekistan	714	-	527	187	0.11
Vietnam	3,312	494	1,308	1,510	0.89
Zimbabwe	444	-	-	444	0.26
<b>Subtotal</b>	<b>\$ 235,359</b>	<b>\$ 13,254</b>	<b>\$ 52,655</b>	<b>\$ 169,450</b>	<b>99.88 %</b>
International Finance Corporation	205	-	-	205	0.12 %
<b>Total-June 30, 2016</b>	<b>\$ 235,564</b>	<b>\$ 13,254</b>	<b>\$ 52,655</b>	<b>\$ 169,655</b>	<b>100.00 %</b>
<b>Total-June 30, 2015</b>	<b>\$ 217,223</b>	<b>\$ 9,522</b>	<b>\$ 50,689</b>	<b>\$ 157,012</b>	

\* Indicates amount less than \$0.5 million or 0.005 percent

### Notes

- Loans totaling \$7,580 million (\$4,216 million—June 30, 2015) have been approved, but the related agreements have not been signed. Loan agreements totaling \$5,674 million (\$5,306 million—June 30, 2015) have been signed, but the loans are not effective and disbursements do not start until the borrowers and/or guarantors take certain actions and furnish documents.
- Of the undisbursed balance, IBRD has entered into irrevocable commitments to disburse \$275 million (\$315 million—June 30, 2015).
- Guarantee provided under Exposure Exchange Agreement (EEA) with a multilateral development organization (see Note D Loans and Other Exposures).
- Guarantee received under EEA with a multilateral development organization (see Note D—Loans and Other Exposures).
- May differ from the sum of individual figures due to rounding.

**The Notes to Financial Statements are an integral part of these Statements.**

# STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

June 30, 2016

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total <sup>b</sup>	Total amounts <sup>b</sup>	Amounts paid in <sup>a,b</sup>	Amounts subject to call <sup>a,b</sup>	Number of votes	Percentage of total <sup>b</sup>
Afghanistan	506	0.02 %	\$ 61.0	\$ 5.1	\$ 55.9	1,185	0.05 %
Albania	830	0.04	100.1	3.6	96.5	1,509	0.07
Algeria	11,724	0.54	1,414.3	85.0	1,329.3	12,403	0.54
Angola	2,926	0.13	353.0	17.5	335.5	3,605	0.16
Antigua and Barbuda	520	0.02	62.7	1.3	61.5	1,199	0.05
Argentina	18,180	0.83	2,193.1	132.2	2,060.9	18,859	0.82
Armenia	1,139	0.05	137.4	5.9	131.5	1,818	0.08
Australia <sup>c</sup>	31,592	1.45	3,811.1	233.4	3,577.7	32,271	1.40
Austria <sup>c</sup>	14,611	0.67	1,762.6	106.4	1,656.2	15,290	0.66
Azerbaijan	1,871	0.09	225.7	9.7	216.0	2,550	0.11
Bahamas, The	1,071	0.05	129.2	5.4	123.8	1,750	0.08
Bahrain	1,103	0.05	133.1	5.7	127.4	1,782	0.08
Bangladesh	6,468	0.30	780.3	43.8	736.5	7,147	0.31
Barbados	948	0.04	114.4	4.5	109.9	1,627	0.07
Belarus	4,211	0.19	508.0	28.8	479.2	4,890	0.21
Belgium <sup>c</sup>	37,153	1.70	4,482.0	274.9	4,207.0	37,832	1.64
Belize	586	0.03	70.7	1.8	68.9	1,265	0.05
Benin	868	0.04	104.7	3.9	100.8	1,547	0.07
Bhutan	680	0.03	82.0	2.0	80.0	1,359	0.06
Bolivia, Plurinational State of	1,785	0.08	215.3	10.8	204.5	2,464	0.11
Bosnia and Herzegovina	549	0.03	66.2	5.8	60.4	1,228	0.05
Botswana	615	0.03	74.2	2.0	72.2	1,294	0.06
Brazil	41,963	1.92	5,062.2	303.2	4,759.0	42,642	1.85
Brunei Darussalam	2,373	0.11	286.3	15.2	271.1	3,052	0.13
Bulgaria	6,608	0.30	797.2	46.6	750.5	7,287	0.32
Burkina Faso	1,260	0.06	152.0	5.8	146.2	1,939	0.08
Burundi	1,043	0.05	125.8	4.6	121.3	1,722	0.07
Cabo Verde, Republic of	508	0.02	61.3	1.2	60.1	1,187	0.05
Cambodia	214	0.01	25.8	2.6	23.2	893	0.04
Cameroon	1,738	0.08	209.7	9.0	200.7	2,417	0.10
Canada <sup>c</sup>	58,354	2.67	7,039.5	433.1	6,606.5	59,033	2.55
Central African Republic	975	0.04	117.6	3.9	113.8	1,654	0.07
Chad	862	0.04	104.0	3.9	100.1	1,541	0.07
Chile <sup>c</sup>	10,013	0.46	1,207.9	71.9	1,136.0	10,692	0.46
China	106,594	4.88	12,859.0	774.8	12,084.1	107,273	4.64
Colombia	9,730	0.45	1,173.8	69.7	1,104.1	10,409	0.45
Comoros	282	0.01	34.0	0.3	33.7	961	0.04
Congo, Democratic Republic of	2,643	0.12	318.8	25.4	293.5	3,322	0.14
Congo, Republic of	1,051	0.05	126.8	4.3	122.4	1,730	0.07
Costa Rica	1,123	0.05	135.5	8.4	127.1	1,802	0.08
Cote d'Ivoire	3,505	0.16	422.8	21.8	401.1	4,184	0.18
Croatia	2,906	0.13	350.6	21.7	328.8	3,585	0.16
Cyprus	1,461	0.07	176.2	8.4	167.9	2,140	0.09
Czech Republic <sup>c</sup>	7,993	0.37	964.2	58.1	906.1	8,672	0.38
Denmark <sup>c</sup>	17,796	0.82	2,146.8	129.2	2,017.6	18,475	0.80
Djibouti	559	0.03	67.4	1.6	65.9	1,238	0.05
Dominica	504	0.02	60.8	1.1	59.7	1,183	0.05
Dominican Republic	2,092	0.10	252.4	13.1	239.3	2,771	0.12
Ecuador	2,771	0.13	334.3	18.2	316.1	3,450	0.15
Egypt, Arab Republic of	10,682	0.49	1,288.6	76.8	1,211.8	11,361	0.49

STATEMENT OF SUBSCRIPTIONS TO  
CAPITAL STOCK AND VOTING POWER (continued)

June 30, 2016

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total <sup>b</sup>	Total amounts <sup>b</sup>	Amounts paid in <sup>a,b</sup>	Amounts subject to call <sup>a,b</sup>	Number of votes	Percentage of total <sup>b</sup>
El Salvador	141	0.01 %	\$ 17.0	\$ 1.7	\$ 15.3	820	0.04 %
Equatorial Guinea	715	0.03	86.3	2.7	83.5	1,394	0.06
Eritrea	593	0.03	71.5	1.8	69.7	1,272	0.06
Estonia <sup>c</sup>	1,170	0.05	141.1	6.1	135.1	1,849	0.08
Ethiopia	978	0.04	118.0	4.7	113.3	1,657	0.07
Fiji	987	0.05	119.1	4.8	114.3	1,666	0.07
Finland <sup>c</sup>	11,439	0.52	1,379.9	82.7	1,297.2	12,118	0.52
France <sup>c</sup>	90,404	4.14	10,905.9	672.4	10,233.5	91,083	3.94
Gabon	987	0.05	119.1	5.1	113.9	1,666	0.07
Gambia, The	543	0.02	65.5	1.5	64.0	1,222	0.05
Georgia	1,795	0.08	216.5	9.3	207.3	2,474	0.11
Germany <sup>c</sup>	96,574	4.42	11,650.2	717.9	10,932.3	97,253	4.21
Ghana	1,738	0.08	209.7	12.7	196.9	2,417	0.10
Greece <sup>c</sup>	1,684	0.08	203.1	14.1	189.1	2,363	0.10
Grenada	531	0.02	64.1	1.4	62.7	1,210	0.05
Guatemala	2,001	0.09	241.4	12.4	229.0	2,680	0.12
Guinea	1,292	0.06	155.9	7.1	148.8	1,971	0.09
Guinea-Bissau	540	0.02	65.1	1.4	63.7	1,219	0.05
Guyana	1,526	0.07	184.1	7.7	176.4	2,205	0.10
Haiti	1,223	0.06	147.5	5.4	142.1	1,902	0.08
Honduras	641	0.03	77.3	2.3	75.0	1,320	0.06
Hungary <sup>c</sup>	10,793	0.49	1,302.0	77.9	1,224.1	11,472	0.50
Iceland <sup>c</sup>	1,621	0.07	195.5	9.5	186.1	2,300	0.10
India	69,923	3.20	8,435.2	508.1	7,927.1	70,602	3.05
Indonesia	23,031	1.06	2,778.3	167.2	2,611.1	23,710	1.03
Iran, Islamic Republic of	34,963	1.60	4,217.8	254.3	3,963.4	35,642	1.54
Iraq	2,808	0.13	338.7	27.1	311.6	3,487	0.15
Ireland <sup>c</sup>	7,380	0.34	890.3	52.3	837.9	8,059	0.35
Israel <sup>c</sup>	6,019	0.28	726.1	42.4	683.7	6,698	0.29
Italy <sup>c</sup>	57,788	2.65	6,971.3	428.9	6,542.4	58,467	2.53
Jamaica	2,831	0.13	341.5	18.6	322.9	3,510	0.15
Japan <sup>c</sup>	165,444	7.58	19,958.3	1,222.2	18,736.1	166,123	7.19
Jordan	2,009	0.09	242.4	10.9	231.5	2,688	0.12
Kazakhstan	3,949	0.18	476.4	26.8	449.6	4,628	0.20
Kenya	2,711	0.12	327.0	15.9	311.1	3,390	0.15
Kiribati	465	0.02	56.1	0.9	55.2	1,144	0.05
Korea, Republic of <sup>c</sup>	37,524	1.72	4,526.7	270.2	4,256.6	38,203	1.65
Kosovo, Republic of	966	0.04	116.5	5.2	111.4	1,645	0.07
Kuwait	15,335	0.70	1,849.9	111.3	1,738.6	16,014	0.69
Kyrgyz Republic	1,107	0.05	133.5	5.7	127.9	1,786	0.08
Lao People's Democratic Republic	272	0.01	32.8	2.2	30.6	951	0.04
Latvia <sup>c</sup>	1,754	0.08	211.6	10.4	201.2	2,433	0.11
Lebanon	340	0.02	41.0	1.1	39.9	1,019	0.04
Lesotho	663	0.03	80.0	2.3	77.6	1,342	0.06
Liberia	463	0.02	55.9	2.6	53.3	1,142	0.05
Libya	7,840	0.36	945.8	57.0	888.8	8,519	0.37
Lithuania	1,910	0.09	230.4	11.6	218.8	2,589	0.11
Luxembourg <sup>c</sup>	2,289	0.10	276.1	14.4	261.7	2,968	0.13
Macedonia, Former Yugoslav Republic of	427	0.02	51.5	3.2	48.3	1,106	0.05
Madagascar	1,422	0.07	171.5	8.1	163.5	2,101	0.09
Malawi	1,094	0.05	132.0	5.6	126.4	1,773	0.08

STATEMENT OF SUBSCRIPTIONS TO  
CAPITAL STOCK AND VOTING POWER (continued)

June 30, 2016

Expressed in millions of U.S. dollars

Member	Subscriptions					Voting Power	
	Shares	Percentage of total <sup>b</sup>	Total amounts <sup>b</sup>	Amounts paid in <sup>a,b</sup>	Amounts subject to call <sup>a,b</sup>	Number of votes	Percentage of total <sup>b</sup>
Malaysia	10,447	0.48 %	\$ 1,260.3	\$ 75.4	\$ 1,184.8	11,126	0.48 %
Maldives	469	0.02	56.6	0.9	55.7	1,148	0.05
Mali	1,162	0.05	140.2	6.1	134.1	1,841	0.08
Malta	1,074	0.05	129.6	5.4	124.1	1,753	0.08
Marshall Islands	469	0.02	56.6	0.9	55.7	1,148	0.05
Mauritania	1,032	0.05	124.5	4.1	120.4	1,711	0.07
Mauritius	1,574	0.07	189.9	9.1	180.8	2,253	0.10
Mexico <sup>c</sup>	22,188	1.02	2,676.6	161.3	2,515.3	22,867	0.99
Micronesia, Federated States of	479	0.02	57.8	1.0	56.8	1,158	0.05
Moldova	1,566	0.07	188.9	7.6	181.3	2,245	0.10
Mongolia	466	0.02	56.2	2.3	53.9	1,145	0.05
Montenegro	688	0.03	83.0	3.2	79.8	1,367	0.06
Morocco	6,619	0.30	798.5	44.9	753.5	7,298	0.32
Mozambique	1,051	0.05	126.8	4.8	122.0	1,730	0.07
Myanmar	3,465	0.16	418.0	21.4	396.6	4,144	0.18
Namibia	1,523	0.07	183.7	8.8	174.9	2,202	0.10
Nauru	586	0.03	70.7	2.4	68.3	1,265	0.05
Nepal	968	0.04	116.8	4.6	112.1	1,647	0.07
Netherlands <sup>c</sup>	45,829	2.10	5,528.6	339.5	5,189.0	46,508	2.01
New Zealand <sup>c</sup>	9,761	0.45	1,177.5	70.2	1,107.3	10,440	0.45
Nicaragua	827	0.04	99.8	3.1	96.7	1,506	0.07
Niger	975	0.04	117.6	3.8	113.8	1,654	0.07
Nigeria	12,774	0.59	1,541.0	92.7	1,448.3	13,453	0.58
Norway <sup>c</sup>	13,418	0.61	1,618.7	97.4	1,521.2	14,097	0.61
Oman	1,561	0.07	188.3	9.1	179.2	2,240	0.10
Pakistan	11,834	0.54	1,427.6	85.8	1,341.8	12,513	0.54
Palau	16	*	1.9	0.2	1.8	695	0.03
Panama	385	0.02	46.4	3.2	43.2	1,064	0.05
Papua New Guinea	1,294	0.06	156.1	7.1	149.0	1,973	0.09
Paraguay	1,229	0.06	148.3	6.6	141.6	1,908	0.08
Peru	7,691	0.35	927.8	54.6	873.2	8,370	0.36
Philippines	9,903	0.45	1,194.6	71.0	1,123.6	10,582	0.46
Poland <sup>c</sup>	17,129	0.78	2,066.4	124.1	1,942.2	17,808	0.77
Portugal <sup>c</sup>	5,460	0.25	658.7	38.5	620.2	6,139	0.27
Qatar	1,389	0.06	167.6	11.1	156.5	2,068	0.09
Romania	6,866	0.31	828.3	51.2	777.1	7,545	0.33
Russian Federation	66,505	3.05	8,022.8	483.5	7,539.3	67,184	2.91
Rwanda	1,046	0.05	126.2	5.2	120.9	1,725	0.07
St. Kitts and Nevis	275	0.01	33.2	0.3	32.9	954	0.04
St. Lucia	552	0.03	66.6	1.5	65.1	1,231	0.05
St. Vincent and the Grenadines	278	0.01	33.5	0.3	33.2	957	0.04
Samoa	777	0.04	93.7	2.5	91.2	1,456	0.06
San Marino	595	0.03	71.8	2.5	69.3	1,274	0.06
Sao Tome and Principe	495	0.02	59.7	1.1	58.6	1,174	0.05
Saudi Arabia	66,505	3.05	8,022.8	484.6	7,538.2	67,184	2.91
Senegal	2,322	0.11	280.1	13.0	267.1	3,001	0.13
Serbia	2,846	0.13	343.3	21.5	321.9	3,525	0.15
Seychelles	263	0.01	31.7	0.2	31.6	942	0.04
Sierra Leone	823	0.04	99.3	3.0	96.3	1,502	0.06
Singapore	5,569	0.26	671.8	41.9	630.0	6,248	0.27

STATEMENT OF SUBSCRIPTIONS TO  
CAPITAL STOCK AND VOTING POWER *(continued)*

June 30, 2016

Expressed in millions of U.S. dollars

Member	Subscriptions					Voting Power	
	Shares	Percentage of total <sup>b</sup>	Total amounts <sup>b</sup>	Amounts paid in <sup>a,b</sup>	Amounts subject to call <sup>a,b</sup>	Number of votes	Percentage of total <sup>b</sup>
Slovak Republic <sup>c</sup>	4,075	0.19%	\$ 491.6	\$ 29.2	\$ 462.4	4,754	0.21%
Slovenia <sup>c</sup>	1,709	0.08	206.2	12.8	193.4	2,388	0.10
Solomon Islands	513	0.02	61.9	1.2	60.7	1,192	0.05
Somalia	552	0.03	66.6	3.3	63.3	1,231	0.05
South Africa	17,379	0.80	2,096.5	126.1	1,970.4	18,058	0.78
South Sudan	1,437	0.07	173.4	8.6	164.8	2,116	0.09
Spain <sup>c</sup>	44,159	2.02	5,327.1	323.8	5,003.3	44,838	1.94
Sri Lanka	5,154	0.24	621.8	34.0	587.8	5,833	0.25
Sudan	850	0.04	102.5	7.2	95.3	1,529	0.07
Suriname	412	0.02	49.7	2.0	47.7	1,091	0.05
Swaziland	440	0.02	53.1	2.0	51.1	1,119	0.05
Sweden <sup>c</sup>	19,729	0.90	2,380.0	144.6	2,235.4	20,408	0.88
Switzerland <sup>c</sup>	34,660	1.59	4,181.2	255.5	3,925.7	35,339	1.53
Syrian Arab Republic	2,202	0.10	265.6	14.0	251.7	2,881	0.12
Tajikistan	1,060	0.05	127.9	5.3	122.5	1,739	0.08
Tanzania	1,295	0.06	156.2	10.0	146.2	1,974	0.09
Thailand	11,108	0.51	1,340.0	79.6	1,260.4	11,787	0.51
Timor-Leste	517	0.02	62.4	1.9	60.4	1,196	0.05
Togo	1,105	0.05	133.3	5.7	127.6	1,784	0.08
Tonga	494	0.02	59.6	1.1	58.5	1,173	0.05
Trinidad and Tobago	2,664	0.12	321.4	17.6	303.7	3,343	0.14
Tunisia	719	0.03	86.7	5.7	81.1	1,398	0.06
Turkey <sup>c</sup>	25,643	1.17	3,093.4	185.1	2,908.3	26,322	1.14
Turkmenistan	526	0.02	63.5	2.9	60.5	1,205	0.05
Tuvalu	461	0.02	55.6	1.5	54.1	1,140	0.05
Uganda	617	0.03	74.4	4.4	70.1	1,296	0.06
Ukraine	10,977	0.50	1,324.2	79.3	1,244.9	11,656	0.50
United Arab Emirates	5,342	0.24	644.4	44.0	600.4	6,021	0.26
United Kingdom <sup>c</sup>	90,404	4.14	10,905.9	691.6	10,214.3	91,083	3.94
United States <sup>c</sup>	383,678	17.58	46,285.0	2,857.6	43,427.4	384,357	16.63
Uruguay	3,563	0.16	429.8	24.0	405.8	4,242	0.18
Uzbekistan	2,493	0.11	300.7	16.1	284.7	3,172	0.14
Vanuatu	586	0.03	70.7	1.8	68.9	1,265	0.05
Venezuela, Republica Bolivariana de	20,361	0.93	2,456.2	150.8	2,305.5	21,040	0.91
Vietnam	4,173	0.19	503.4	31.3	472.1	4,852	0.21
Yemen, Republic of	2,212	0.10	266.8	14.0	252.8	2,891	0.13
Zambia	2,810	0.13	339.0	20.0	319.0	3,489	0.15
Zimbabwe	3,575	0.16	431.3	22.4	408.9	4,254	0.18
Total - June 30, 2016	<u>2,182,854</u>	<u>100.00%</u>	<u>\$ 263,329</u>	<u>\$ 15,805</u>	<u>\$ 247,524</u>	<u>2,311,185</u>	<u>100.00%</u>
Total - June 30, 2015	<u>2,095,748</u>		<u>\$ 252,821</u>	<u>\$ 15,192</u>	<u>\$ 237,629</u>	<u>2,218,888</u>	

\* Indicates amounts less than 0.005 percent.

**NOTES**

a. See Notes to Financial Statements, Note B—Capital Stock, Maintenance of Value, and Membership.

b. May differ from the calculated figures or sum of individual figures shown due to rounding.

c. A member of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD).

**The Notes to Financial Statements are an integral part of these Statements.**

# NOTES TO FINANCIAL STATEMENTS

## PURPOSE AND AFFILIATED ORGANIZATIONS

The International Bank for Reconstruction and Development (IBRD) is an international organization which commenced operations in 1946. The principal purpose of IBRD is to promote sustainable economic development and reduce poverty in its member countries, primarily by providing loans, guarantees and related technical assistance for specific projects and for programs of economic reform in developing member countries. The activities of IBRD are complemented by those of three affiliated organizations, the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Each of these organizations is legally and financially independent from IBRD, with separate assets and liabilities, and IBRD is not liable for their respective obligations. Transactions with these affiliated organizations are disclosed in the notes that follow. IDA's main goal is to reduce poverty through promoting sustainable economic development in the less developed countries who are members of IDA, by extending grants, development credits, guarantees and related technical assistance. IFC's purpose is to encourage the growth of productive private enterprises in its member countries through loans and equity investments in such enterprises without a member's guarantee. MIGA was established to encourage the flow of investments for productive purposes between member countries and, in particular, to developing member countries by providing guarantees against noncommercial risks for foreign investment in its developing member countries.

IBRD is immune from taxation pursuant to Article VII, Section 9, *Immunities from Taxation*, of IBRD's Articles of Agreement.

## NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

IBRD's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Due to the inherent uncertainty involved in making these estimates, actual results could differ from these estimates. Significant judgment has been used in the valuation of certain financial instruments, the determination of the adequacy of the accumulated provisions for losses on loans and other exposures (deferred drawdown options-DDOs, irrevocable commitments, exposures to member countries' derivatives and guarantees), the determination of net periodic cost from pension and other postretirement benefits plans, and the present value of projected benefit obligations.

Certain reclassifications of the prior year's information have been made to conform with the current year's presentation.

On August 4, 2016, the Executive Directors approved these financial statements for issue.

**Translation of Currencies:** IBRD's financial statements are expressed in terms of U.S. dollars for the purpose of summarizing IBRD's financial position and the results of its operations, for the convenience of its members and other users. IBRD is an international organization which conducts its operations in the currencies of all of its members and considers each of its member's currencies to be a functional currency.

IBRD's resources are derived from its capital, borrowings, and accumulated earnings in those various currencies. IBRD has a number of general policies aimed at minimizing exchange rate risk in a multicurrency environment. Under these policies, IBRD endeavours to match its borrowing obligations in any one currency (after swaps) with assets in the same currency, as prescribed by its Articles of Agreement. In addition, IBRD periodically undertakes currency conversions to more closely match the currencies underlying its equity with those of the net loans outstanding.

Assets and liabilities are translated at market exchange rates in effect at the end of the accounting period. Revenue and expenses are translated at either the market exchange rates in effect on the dates on which they are recognized or at an average of the market exchange rates in effect during each month. Translation adjustments are reflected in Accumulated Other Comprehensive Income.

**Valuation of Capital Stock:** In the Articles of Agreement, the capital stock of IBRD is expressed in terms of "U.S. dollars of the weight and fineness in effect on July 1, 1944" (1944 dollars). Following the abolition of gold as a common denominator of the monetary system and the repeal of the provision of the U.S. law defining the par value of the U.S. dollar in terms of gold, the pre-existing basis for translating 1944 dollars into current dollars or into



any other currency was eliminated. The Executive Directors of IBRD have decided, until such time as the relevant provisions of the Articles of Agreement are amended, that the words “U.S. dollars of the weight and fineness in effect on July 1, 1944” in Article II, Section 2(a) of the Articles of Agreement of IBRD are interpreted to mean the Special Drawing Right (SDR) introduced by the International Monetary Fund, as valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being \$1.20635 for one SDR (1974 SDR).

**Maintenance of Value:** Article II, Section 9 of the Articles of Agreement provides for maintenance of value (MOV), at the time of subscription, of national currencies paid-in, which are subject to certain restrictions. MOV is determined by measuring the foreign exchange value of a member’s national currency against the standard of value of IBRD’s capital based on the 1974 SDR. MOV receivable relates to amounts due from members on account of movements in exchange rates from the date of initial subscription, resulting in the reduction in the value of their paid-in capital denominated in national currencies. Members are required to make payments to IBRD if their currencies depreciate significantly relative to the standard of value. These amounts may be settled either in cash or a non-negotiable, non-interest bearing note, which is due on demand. Certain demand notes are due on demand only after IBRD’s callable subscribed capital has been entirely called pursuant to Article IV, Section 2 (a) of the Articles of Agreement. Furthermore, the Executive Directors have adopted a policy of reimbursing members whose national currencies appreciate significantly in terms of the standard of value.

MOV is deferred when the restriction of national currencies paid in is lifted and these currencies are being used in IBRD’s operations and/or are being invested, swapped, or loaned to members by IBRD or through IFC. Once these restricted currencies are no longer being used in operations, the related MOV is no longer deferred, but rather, becomes due on the same terms as other MOV obligations.

All MOV receivable balances are shown as components of Equity, under Receivable Amounts to Maintain Value of Currency Holdings. All MOV payable balances are included in Liabilities, under Payable to Maintain Value of Currency Holdings on Account of Subscribed Capital. The net receivable or payable MOV amounts relating to national currencies used in IBRD’s lending and investing operations are also included as a component of Equity under Deferred Amounts to Maintain Value of Currency Holdings.

**Withdrawal of Membership:** Under IBRD’s Articles of Agreement, in the event a member withdraws from IBRD, the withdrawing member is entitled to receive the value of its shares payable to the extent the member does not have any outstanding obligations to IBRD. IBRD’s Articles of Agreement also state that the former member has continuing obligations to IBRD after withdrawal. Specifically, the former member remains fully liable for its entire capital subscription, including both the previously paid-in portion and the callable portion, so long as any part of the loans or guarantees contracted before it ceased to be a member are outstanding.

**Transfers Approved by the Board of Governors:** In accordance with IBRD’s Articles of Agreement, as interpreted by the Executive Directors, the Board of Governors may exercise its reserved power to approve transfers to other entities for development purposes. These transfers, which are included in the Board of Governors-approved and other transfers on the Statement of Income, are reported as expenses when incurred, upon approval. The transfers are funded either from the immediately preceding fiscal year’s Net Income, Surplus, or Restricted Retained Earnings.

**Retained Earnings:** Retained Earnings consist of allocated amounts (Special Reserve, General Reserve, Pension Reserve, Surplus, Cumulative Fair Value Adjustments, Restricted Retained Earnings) and Unallocated Net Income (Loss).

The Special Reserve consists of loan commissions set aside pursuant to Article IV, Section 6 of the Articles of Agreement, which are to be held in liquid assets. These assets may be used only for the purpose of meeting liabilities of IBRD on its borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed by IBRD. The Special Reserve assets are included under Investments—Trading, and comprise obligations of the United States Government, its agencies, and other official entities. The allocation of such commissions to the Special Reserve was discontinued in 1964 with respect to subsequent loans and no further additions are being made to it.

The General Reserve consists of earnings from prior fiscal years which, in the judgment of the Executive Directors, should be retained in IBRD’s operations.

The Pension Reserve consists of the difference between the cumulative actual funding of the Staff Retirement Plan and Trust (SRP) and other postretirement benefits plans, and the cumulative accounting income or expense for these plans, from prior fiscal years. This reserve is reduced when pension accounting expenses exceed the actual funding of these plans. In addition, the pension reserve also includes investment revenue earned on the Post-Employment

Benefits Plan (PEBP) portfolio as well as Post Retirement Contribution Reserve Fund (PCRF), which is used to stabilize IBRD's contributions to the pension plan.

Surplus consists of earnings from prior fiscal years which are retained by IBRD until a further decision is made on their disposition or the conditions of transfer for specified uses have been met.

The Cumulative Fair Value Adjustments consist of the effects associated with the application of Financial Accounting Standards Board's (FASB's) fair value guidance relating to prior fiscal years. This amount includes the cumulative effect of the adoption of this guidance, the reclassification and amortization of the transition adjustments, and the unrealized gains or losses on non-trading portfolios.

Restricted Retained Earnings consists of contributions or revenue from prior years which are restricted as to their purpose.

Unallocated Net Income (Loss) consists of the current fiscal year's net income (loss) adjusted for Board of Governors-approved and other transfers.

**Loans and Other Exposures:** All of IBRD's loans are made to or guaranteed by countries that are members of IBRD, except for those loans made to IFC. IBRD does not currently sell its loans. The majority of IBRD's loans have repayment obligations based on specific currencies. IBRD also holds multicurrency loans which have repayment obligations in various currencies determined on the basis of a currency pooling system.

Loans are carried at amortized cost, except those which contain embedded derivatives that require bifurcation, which IBRD has elected to measure at fair value. The fair value of these loans is calculated using a discounted cash flow method. This method incorporates Credit Default Swaps spreads for each borrower. Basis adjustments are applied to market recovery levels to reflect IBRD's recovery experience.

Any loan origination fees incorporated in the terms of a loan are deferred and recognized over the life of the loan as an adjustment of the yield. The unamortized balance of loan origination fees is included as a reduction of Loans outstanding on the Balance Sheet, and the loan origination fee amortization is included in Interest Revenue from Loans on the Statement of Income.

It is IBRD's practice not to reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. Exceptions were made to this practice during fiscal years 1996 and 2002 with regard to Bosnia and Herzegovina (BiH) and Serbia and Montenegro (SaM), formerly the Federal Republic of Yugoslavia, respectively, in connection with their succession to membership of the former Socialist Federal Republic of Yugoslavia. These exceptions were based on criteria approved by the Executive Directors in fiscal year 1996 and also on a precedent established in 1975 after Bangladesh became independent from Pakistan. Currently, there are no borrowers with loans in nonaccrual status that meet these eligibility criteria.

When modifications are made to the terms of existing loans, IBRD performs an evaluation to determine the required accounting treatment, including whether the modifications would result in the affected loans being accounted for as new loans, or as a continuation of the existing loans.

Other exposures include: DDOs, irrevocable commitments, exposures to member countries' derivatives, and guarantees.

It is the policy of IBRD to place into nonaccrual status all loans and other exposures (exposures) made to or guaranteed by a member of IBRD if principal, interest, or other charges with respect to any such exposures are overdue by more than six months, unless IBRD's management determines that the overdue amount will be collected in the immediate future. IBRD considers all exposures in nonaccrual status to be impaired. In addition, if development credits and other exposures made by IDA to a member government are placed in nonaccrual status, all loans and other exposures made to, or guaranteed by, that member government will also be placed in nonaccrual status by IBRD. On the date a member's exposures are placed into nonaccrual status, unpaid interest and other charges accrued on exposures to the member are deducted from the revenue of the current period. Interest and other charges on nonaccruing exposures are included in revenue only to the extent that payments have been received by IBRD. If collectability risk is considered to be particularly high at the time of arrears clearance, the member's exposures may not automatically emerge from nonaccrual status. In such instances, a decision on the restoration of accrual status is made on a case-by-case basis and in certain cases that decision may be deferred until a suitable period of payment performance has passed.

**Guarantees:** Financial guarantees are commitments issued by IBRD to guarantee payment performance to a third party.

Guarantees are regarded as outstanding when the underlying financial obligation of the debtor is incurred, and called when a guaranteed party demands payment under the guarantee. IBRD would be required to perform under its guarantees if the payments guaranteed were not made by the debtor and the guaranteed party called the guarantee by demanding payment from IBRD in accordance with the terms of the guarantee. In the event that a guarantee of a member country is called, IBRD has the contractual right to require payment from the member country that has provided the counter guarantee to IBRD on demand, or as IBRD may otherwise direct.

IBRD records the fair value of the obligation to stand ready, and a corresponding asset in the financial statements.

Upfront guarantee fees received are deferred and amortized over the life of the guarantee.

IBRD records a contingent liability for the probable losses related to guarantees outstanding. This provision, as well as the unamortized balance of the deferred guarantee fees, and the unamortized balance of the obligation to stand ready, are included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

**Exposure Exchange Agreements (EEAs):** IBRD executes EEAs with various organizations. While these agreements are not legally considered guarantees, in IBRD's financial statements they are recognized as financial guarantees as they meet the accounting criteria for financial guarantees. Under an EEA, each party exchanges credit risk exposure of a portfolio supported by underlying loans to borrowers, by providing and receiving guarantees from each other, for the amounts specified. The guarantee provided and the guarantee received are two separate transactions; namely (a) the provision of a financial guarantee, and (b) the receipt of an asset, respectively. There is generally no exchange of cash between the organizations for these transactions.

For a guarantee provided under an EEA, IBRD records a liability equivalent to the fair value of the obligation to stand ready. This liability is included in Other liabilities on the Balance Sheet and is amortized over the life of the EEA. IBRD also records a liability, and corresponding expense, in recognition of the risk coverage provided (provision). The value of this liability reflects the credit quality of the underlying loans in the portfolio and changes over the life of the EEA as the credit quality of these loans changes.

For a guarantee received under an EEA, IBRD records an asset equivalent to the fair value of the right to be indemnified. This asset is included in Other assets on the Balance Sheet and is amortized over the life of the EEA. IBRD also records an asset, and corresponding income, in recognition of the risk coverage received (recoverable asset). The value of this asset reflects the credit quality of the underlying loans in the portfolio and changes over the life of the EEA contract as the credit quality of these loans changes.

**Accumulated Provision for Losses on Loans and Other Exposures:** Delays in receiving loan payments result in present value losses to IBRD since it does not charge additional interest on any overdue interest or loan charges. These present value losses are equal to the difference between the present value of payments of interest and charges made according to the related loan's contractual terms and the present value of its expected future cash flows. It is IBRD's practice not to write off its overdue loans.

Management determines the appropriate level of accumulated provisions for losses on exposures, which reflects the probable losses inherent in IBRD's exposures. There are several steps required to determine the appropriate level of provisions. First, the exposures are disaggregated into two groups: exposures in accrual status and exposures in nonaccrual status. In each group, exposures for each borrower are then assigned a credit risk rating of that borrower. With respect to countries with exposures in accrual status, these exposures are grouped according to the assigned borrower risk rating. The determination of borrower's ratings is based on various factors (see Note D—Loans and other exposures). Second, each risk rating is mapped to an expected default frequency using IBRD's credit migration matrix. Finally, the provision required is calculated by multiplying the outstanding exposure, by the expected default frequency (probability of default to IBRD) and by the estimated severity of the loss given default. The severity of loss, which is assessed periodically, is dependent on the borrower's eligibility, namely: IBRD, Blend (IBRD and IDA) and IDA, with the highest severity of loss associated with IDA. The borrower's eligibility is assessed at least annually. Management reassesses the adequacy of the accumulated provision and the reasonableness of the inputs used, on a periodic basis, at least annually, and adjustments to the accumulated provision are recorded as a charge or release of provision in the Statement of Income. This methodology is also applied to countries with exposures in nonaccrual status, however, at times, to reflect certain distinguishing circumstances of a particular nonaccrual situation, management may use different input assumptions for a particular country. Generally, all exposures in nonaccrual status have the same risk rating.

For loans that are reported at fair value, the determination of the fair value takes credit risk into consideration.

**Statement of Cash Flows:** For the purpose of IBRD's Statement of Cash Flows, cash is defined as the amount of Unrestricted cash Due from Banks.

**Restricted Cash:** This includes amounts which have been received from members as part of their capital subscriptions, as well as from donors and other sources, which are restricted for specified purposes. For capital subscriptions, a portion of these subscriptions have been paid to IBRD in the national currencies of the members. These amounts are usable by IBRD in its lending and investing operations, only with the consent of the respective members, and for administrative expenses incurred in national currencies.

**Investments:** Investment securities are classified based on management's intention on the date of purchase, their nature, and IBRD's policies governing the level and use of such investments. These securities are carried and reported at fair value, or at face value or net asset value per share (NAV), which approximates fair value. Where available, quoted market prices are used to determine the fair value of trading securities. These include most government and agency securities, futures contracts, exchange-traded equity securities, Asset-backed Securities (ABS) and Mortgage-backed Securities To-Be-Announced (TBA securities). For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads, and constant prepayment rates. Where applicable, unobservable inputs such as constant prepayment rates, probability of default and loss severity are used. Unless quoted prices are available, time deposits are reported at face value which approximates fair value, as they are short term in nature. The first-in first-out method is used to determine the cost of securities sold in computing the realized gains and losses on these instruments. Unrealized gains and losses for investment securities and related financial instruments held in the trading portfolio are included in the Statement of Income. Derivative instruments used in liquidity management are not designated as hedging instruments.

As of June 30, 2016, all of the financial instruments in IBRD's portfolio were classified as trading. Previously, IBRD also had an AFS portfolio which was established during the year ended June 30, 2013. During the fiscal year ended June 30, 2014, the AFS portfolio was liquidated.

Dividends and interest revenue, including amortization of the premium and discount arising at acquisition, are included in net income.

Unrealized gains and losses for investment securities and related financial instruments held in the trading portfolio are included in Unrealized mark-to-market gains (losses) on Investments-Trading portfolio, net in the Statement of Income.

Unrealized gains and losses relating to AFS securities are included in Accumulated Other Comprehensive income (AOCI). Realized gains and losses on trading and AFS securities are recognized in the Statement of Income when securities are sold.

IBRD may require collateral in the form of approved liquid securities from individual counterparties or cash, under legal agreements that provide for collateralization, in order to mitigate its credit exposure to these counterparties. For collateral received in the form of cash from counterparties, IBRD records the cash and a corresponding obligation to return the cash. Collateral received in the form of liquid securities is only recorded on IBRD's Balance Sheet to the extent that it has been transferred under securities lending agreements in return for cash. IBRD does not offset the fair value amounts recognized for derivative instruments that have been executed with the same counterparty under master netting agreements; as a result, the fair value amounts recognized for the obligation to return cash collateral received from counterparties are not offset with the fair value amounts recognized for the related derivative instruments.

***Securities Purchased Under Resale Agreements, Securities Lent Under Securities Lending Agreements and Securities Sold Under Repurchase Agreements and Payable for Cash Collateral Received:***

Securities purchased under resale agreements, securities lent under securities lending agreements, and securities sold under repurchase agreements are reported at face value which approximates fair value, as they are short term in nature. IBRD receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to counterparties under repurchase and security lending arrangements and the securities transferred to IBRD under resale agreements have not met the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on the Balance Sheet, and securities received under resale agreements are not recorded on the Balance Sheet. Securities lent under securities lending agreements and sold under securities repurchase agreements as well as securities purchased under resale agreements are presented on a gross basis which is consistent with the manner in which these instruments are settled.

***Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital:***

All demand obligations are held in bank accounts, which bear IBRD's name and are carried and reported at face value as a reduction to equity. Payments on some of these instruments are due to IBRD upon demand. Others are due to IBRD on demand, but only after the Bank's callable subscribed capital has been entirely called pursuant to Article IV, Section 2 (a) of the Articles of Agreement.

***Premises and Equipment:*** Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. IBRD computes depreciation and amortization using the straight-line method over the estimated useful lives of the owned assets, which range between two and fifty years. For leasehold improvements, depreciation and amortization is computed over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement.

Maintenance and repairs are charged to expense as incurred, while major improvements are capitalized and amortized over the estimated useful life.

***Borrowings:*** To ensure funds are available for lending and liquidity purposes, IBRD borrows in the international capital markets offering its securities (discount notes, vanilla and structured bonds) to private and governmental buyers. IBRD issues debt instruments of varying maturities denominated in various currencies with both fixed and variable interest rates.

IBRD fair values all the financial instruments in the borrowing portfolio with the changes in fair value recognized in the related Unrealized mark-to-market gains and losses on non-trading portfolios, net, line in the Statement of Income.

Discount notes and vanilla bonds are valued using the standard discounted cash flow method which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads. Where available, quoted market prices are used to determine the fair value of short-term notes.

Structured bonds issued by IBRD have coupon or repayment terms linked to the level or the performance of interest rates, foreign exchange rates, equity indices or commodities. The fair value of the structured bonds is derived using the discounted cash flow method based on estimated future pay-offs determined by applicable models and computation of embedded optionality such as caps, floors and calls. A wide range of industry standard models such as one factor Hull-White, Libor Market Model and Black-Scholes are used depending on the specific structure. These models incorporate market observable inputs, such as yield curves, foreign exchange rates, basis spreads, funding spreads, interest rate volatilities, equity index volatilities and equity indices. Where applicable, the models also incorporate significant unobservable inputs such as correlations and long-dated interest rate volatilities.

Interest expense relating to the debt instruments carried at fair value is measured on an effective yield basis and is reported as part of interest expenses on borrowings in the Statement of Income.

For presentation purposes, amortization of discounts and premiums is included in interest expenses on borrowings in the Statement of Income.

***Accounting for Derivatives:*** IBRD has elected not to designate any hedging relationships for accounting purposes. Rather, all derivative instruments are marked to fair value on the Balance Sheet, with changes in fair values accounted for through the Statement of Income. The presentation of derivative instruments is consistent with the manner in which these instruments are settled. Interest rate swaps are settled on a net basis, while currency swaps are settled on a gross basis.

IBRD uses derivative instruments in its investment trading portfolio to manage interest rate and currency risks. These derivatives are carried and reported at fair value. Interest revenue/expenses are reflected as part of Interest revenue, while unrealized mark-to-market gains and losses on these derivatives are reflected as part of the related Unrealized mark-to-market gains (losses) on Investments-Trading, net line in the Statement of Income.

IBRD uses derivatives in its loan, borrowing and asset/liability management activities. In the loan and borrowing portfolios, derivatives are used to modify the interest rate and/or currency characteristics of these portfolios. The interest component of these derivatives is recognized as an adjustment to the related loan revenue and borrowing costs over the life of the derivative contracts and is included in Interest revenue/expenses on the Statement of Income. Changes in fair values of these derivatives are accounted for through the Statement of Income as Unrealized mark-to-market gains and losses on non-trading portfolios, net.

For the purpose of the Statement of Cash Flows, IBRD has elected to report the cash flows associated with the derivative instruments that are used to economically hedge its loans and borrowings, in a manner consistent with the presentation of the loan and borrowing-related cash flows.

Derivative contracts include currency forward contracts, TBA securities, swaptions, exchange traded options and futures contracts, currency swaps and interest rate swaps. Currency swaps and interest rate swaps are either plain vanilla or structured. Currency forward contracts and plain vanilla currency and interest rate swaps are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads. For structured currency and interest rate swaps, which primarily consist of callable swaps linked to interest rates, foreign exchange rates, and equity indices, valuation models and inputs similar to the ones applicable to structured bond valuations are used. Where applicable, the models also incorporate significant unobservable inputs such as correlations and long-dated interest rate volatilities.

Most outstanding derivative positions are transacted over-the-counter and therefore valued using internally developed valuation models. For commercial and non-commercial counterparties where IBRD has a net exposure (net receivable position), IBRD calculates a Credit Value Adjustment (CVA) to reflect credit risk. For net derivative positions with commercial and non-commercial counterparties where IBRD is in a net payable position, IBRD calculates a Debit Valuation Adjustment (DVA) to reflect its own credit risk. The CVA is calculated using the fair value of the derivative contracts, net of collateral received under credit support agreements, and the probability of counterparty default based on the Credit Default Swaps (CDS) spread and, where applicable, proxy CDS spreads. The DVA calculation is generally consistent with the CVA methodology and incorporates IBRD's own credit spread as observed through the CDS market.

**Valuation of Financial Instruments:** IBRD has an established and documented process for determining fair values. Fair value is based upon quoted market prices for the same or similar securities, where available. Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models and other established valuation models. These models primarily use market-based or independently-sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves, and may incorporate unobservable inputs, some of which may be significant. Selection of these inputs may involve some judgment.

The fair value of certain instruments is calculated using net asset value per share (NAV) as a practical expedient.

To ensure that the valuations are appropriate where internally-developed models are used, IBRD has various controls in place, which include both internal and periodic external verification and review. In instances where management relies on valuations supplied by external pricing vendors, there are procedures in place to validate the appropriateness of the models used as well as the inputs applied in determining those values.

As of June 30, 2016 and June 30, 2015, IBRD had no financial assets or liabilities measured at fair value on a non-recurring basis.

### ***Fair Value Hierarchy***

Financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3).

Financial assets and liabilities recorded at fair value on the Balance Sheet are categorized based on the inputs to the valuation techniques as follows:

*Level 1:* Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2:* Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

*Level 3:* Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

IBRD's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Investments measured at NAV (or its equivalent) are not classified in the fair value hierarchy.

**Accounting for Grant Expenses:** IBRD recognizes an expense for grants, such as Contributions to Special Programs, and Board of Governors-approved and other transfers, when incurred.

***Donor Receivables and Donor Contributions to Trust Funds:*** To the extent that IBRD acts as an intermediary agent for certain beneficiaries or for trust funds, assets held on behalf of specified beneficiaries are recorded on IBRD's Balance Sheet, along with corresponding liabilities.

***Donor Receivables:*** Donors' conditional promises to give are not recognized until the conditions to which they are subject are substantially met and the promise to give is considered unconditional. Donors' unconditional promises to give are recognized upon receipt as revenue, unless the donor specifies a third party beneficiary. For the latter, IBRD is deemed to be acting as an intermediary agent, and assets held on behalf of the specified beneficiaries are recognized along with corresponding liabilities. If the contributions that IBRD receives can only be used for purposes specified by the donor, the proceeds are considered restricted until applied by IBRD for the donor-specified purposes.

Donor promises to give which are expected to be collected within one year are recorded at face value, while promises expected to be collected over a period greater than one year are recorded initially at fair value, with subsequent measurement on an amortized cost basis.

***Donor Contributions to Trust Funds:*** For those IBRD-executed trust funds where IBRD acts as an intermediary agent, undisbursed third party donor contributions are recorded as assets held on behalf of the specified beneficiaries, with corresponding liabilities. Amounts disbursed from these trust funds are recorded as expenses with corresponding amounts recognized as revenues. For Recipient-executed trust funds, since IBRD acts as a trustee, no assets or liabilities relating to these activities are recorded on the Balance Sheet. In some trust funds, execution is split between Recipient-executed and IBRD-executed portions. Decisions on assignment of funding resources between the two types of execution may be made on an ongoing basis; therefore the execution of a portion of these available resources may not yet be assigned.

IBRD also acts as a financial intermediary to provide specific administrative or financial services with a limited fiduciary or operational role. These arrangements, referred to as Financial Intermediary Funds, include, for example, administration of debt service trust funds, financial intermediation and other more specialized limited fund management roles. For these arrangements, funds are held and disbursed in accordance with instructions from donors or, in some cases, an external governance structure or a body operating on behalf of donors. For Financial Intermediary Funds, since IBRD acts as a trustee, no assets or liabilities relating to these activities are recorded on the Balance Sheet.

### ***Accounting and Reporting Developments***

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law. The Act reformed the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. IBRD has assessed the rules issued under the Act and has determined that none of the rules has had a material impact on its business.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The ASU defers for one year the effective date of ASU 2014-09 *Revenue from Contracts with Customers*. During the fiscal year ended June 30, 2016, the FASB also issued the following amendments that clarify different areas of the guidance in ASU 2014-09: in March 2016, ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; in April 2016, ASU 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying performance obligations and Licensing*; and in May 2016, ASU 2016-12 *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. While these ASUs clarify the guidance and implementation of certain aspects of ASU 2014-09, they do not change the core principle of the new revenue standard. For IBRD, these ASUs and ASU 2014-09 will be effective beginning from the quarter ending September 30, 2018, with early adoption permitted. IBRD is currently evaluating the impact of these ASUs on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU makes targeted amendments to existing guidance on recognition and measurement of financial instruments that primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The new guidance requires that changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk are recognized in Other Comprehensive Income (OCI). For IBRD, the ASU will be effective from the quarter ending September 30, 2018. Early adoption is permitted only for certain provisions. IBRD is currently evaluating the impact of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires that a lessee recognizes on the balance sheet the assets and liabilities that arise from all leases with a lease term of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows by the lessee will primarily depend on the classification of the lease as finance or operating. The accounting applied by a lessor remains largely unchanged from the current guidance, with some targeted improvements. For IBRD, the ASU will be effective from the quarter ending September 30, 2019, with early adoption permitted. IBRD is currently evaluating the impact of this ASU on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU introduces a new model for the accounting of credit losses of loans and other financial assets measured at amortized cost. Current U.S. GAAP requires an “incurred loss” methodology for recognizing credit losses. The new model, referred to as the current expected credit losses (CECL) model, requires an entity to estimate the credit losses expected over the life of an exposure, considering historical information, current information, and reasonable and supportable forecasts. Additionally, the ASU requires enhanced disclosures about credit quality and significant estimates and judgments used in estimating credit losses. For IBRD, the ASU will be effective beginning from the quarter ending September 30, 2020, with early adoption permitted. IBRD is currently evaluating the impact of the ASU on its financial statements.

## NOTE B—CAPITAL STOCK, MAINTENANCE OF VALUE, AND MEMBERSHIP

**Capital Stock:** The following table provides a summary of the changes in IBRD’s authorized and subscribed shares during the fiscal years ended June 30, 2016 and June 30, 2015:

	<i>Authorized shares</i>	<i>Subscribed shares</i>
As of June 30, 2014	2,307,600	1,929,711
General and Selective Capital Increase (GCI/SCI)	-	166,037
As of June 30, 2015	2,307,600	2,095,748
GCI/SCI	-	86,520
New membership	-	586
As of June 30, 2016	<u>2,307,600</u>	<u>2,182,854</u>

The following table provides a summary of the changes in subscribed capital, uncalled portion of subscriptions, and paid-in capital during the fiscal years ended June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	<i>Subscribed capital</i>	<i>Uncalled portion of subscriptions</i>	<i>Paid-in capital</i>
As of June 30, 2014	\$ 232,791	\$ (218,786)	\$ 14,005
GCI/SCI	20,030	(18,843)	1,187
As of June 30, 2015	252,821	(237,629)	15,192
GCI/SCI	10,437	(9,826)	611
New membership	71	(69)	2
As of June 30, 2016	<u>\$ 263,329</u>	<u>\$ (247,524)</u>	<u>\$ 15,805</u>

The uncalled portion of subscriptions is subject to call only when required to meet the obligations incurred by IBRD as a result of borrowings, or guaranteeing loans.

On April 12, 2016, Nauru became the 189<sup>th</sup> member country of IBRD with subscribed capital of \$71 million, of which \$2 million was paid-in.

### **Amounts To Maintain the Value of Currency Holdings**

The following table summarizes the amounts to maintain the value of currency holdings classified as components of equity at June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
MOV receivable	\$ (348)	\$ (365)
Net Deferred MOV (receivable) payable	186	(44)
Deferred demand obligations	(130)	(130)
Deferred MOV (receivable) payable	<u>\$ 56</u>	<u>\$ (174)</u>



## NOTE C—INVESTMENTS

As of June 30, 2016, IBRD's investments include the liquid asset portfolio and, holdings relating to the Advanced Market Commitment for Pneumococcal Vaccines Initiative (AMC), PEBP and PCRf.

The composition of IBRD's net investment portfolio as of June 30, 2016 and June 30, 2015 was as follows:

*In millions of U.S. dollars*

	June 30, 2016	June 30, 2015
<i>Net investment portfolio</i>		
Liquid asset portfolio	\$ 50,536	\$ 43,983
PCRf holdings	120	60
AMC holdings	153	156
PEBP holdings	951	906
<b>Total</b>	<b>\$ 51,760</b>	<b>\$ 45,105</b>

Investments held by IBRD are designated as trading and are carried and reported at fair value, or at face value, which approximate fair value. As of June 30, 2016, the majority of Investments is comprised of government and agency obligations, and time deposits (60% and 28%, respectively), with all the instruments being classified as Level 1 and Level 2 within the fair value hierarchy. As of June 30, 2016, U.S. Treasuries represented the largest holding of a single counterparty, and amounted to 14% of the Investments-Trading. Over 99% of IBRD's investments were rated A and above, as of June 30, 2016.

The majority of the instruments in the Investment-Trading are denominated in U.S. dollar (USD), Japanese yen (JPY) and euro (EUR) (48%, 22% and 14%, respectively). IBRD uses derivative instruments to manage the associated currency and interest rate risk in the portfolio. After considering the effects of these derivatives, IBRD's investment portfolio has an average repricing of 0.18 years, and is predominantly denominated in USD (98%).

A summary of IBRD's Investments - Trading at June 30, 2016 and June 30, 2015, is as follows:

*In millions of U.S. dollars*

	June 30, 2016	June 30, 2015
Equity securities <sup>a</sup>	\$ 523	\$ 504
Government and agency obligations	31,255	24,665
Time deposits	14,261	16,898
ABS	5,629	5,653
Alternative investments <sup>b</sup>	162	103
<b>Total</b>	<b>\$ 51,830</b>	<b>\$ 47,823</b>

*a. Includes \$162 million of investments in comingled funds at NAV, related to PEBP holdings (\$197 million—June 30, 2015).*

*b. Includes investments in hedge funds, private equity funds and real estate funds, related to PEBP holdings, at NAV.*

The following table summarizes the currency composition of IBRD's Investments-Trading, at June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

<i>Currency</i>	June 30, 2016		June 30, 2015	
	Carrying Value	Average repricing (years) <sup>a</sup>	Carrying Value	Average repricing (years) <sup>a</sup>
Euro	\$ 7,384	0.60	\$ 7,016	0.82
Japanese yen	11,469	0.23	6,777	0.36
U.S. dollar	25,006	0.58	26,447	0.42
Others	7,971	0.75	7,583	0.59
<b>Total</b>	<b>\$ 51,830</b>	<b>0.53</b>	<b>\$ 47,823</b>	<b>0.50</b>

*a. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed. Equity securities are not subject to repricing.*

IBRD manages its investments on a net portfolio basis. The following table summarizes IBRD's net portfolio position as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Investments - Trading</b>	\$ 51,830	\$ 47,823
<b>Securities purchased under resale agreements</b>	1,692	2,128
<b>Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received</b>	(1,685)	(3,575)
<b>Derivative assets</b>		
Currency forward contracts	9,423	4,388
Currency swaps	16,346	17,706
Interest rate swaps	116	91
Swaptions, exchange traded options and futures contracts	4	11
Other <sup>a</sup>	*	-
<b>Total</b>	<u>25,889</u>	<u>22,196</u>
<b>Derivative liabilities</b>		
Currency forward contracts	(9,598)	(4,366)
Currency swaps	(16,749)	(16,787)
Interest rate swaps	(175)	(107)
Swaptions, exchange traded options and futures contracts	(14)	(19)
Other <sup>a</sup>	-	(*)
<b>Total</b>	<u>(26,536)</u>	<u>(21,279)</u>
<b>Cash held in investment portfolio <sup>b</sup></b>	1,118	201
<b>Receivable from investment securities traded</b>	42	69
<b>Payable for investment securities purchased <sup>c</sup></b>	(590)	(2,458)
<b>Net investment portfolio</b>	<u>\$ 51,760</u>	<u>\$ 45,105</u>

a. These relate to TBA securities.

b. This amount is included in Unrestricted cash under Due from banks on the Balance Sheet.

c. This amount includes \$34 million of liabilities related to PCRF payable which is included in Accounts payable and miscellaneous liabilities on the Balance Sheet (\$13 million—June 30, 2015).

\* Indicates amount less than \$0.5 million.

The following table summarizes the currency composition of IBRD's net investment portfolio at June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

<u>Currency</u>	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Carrying Value</u>	<u>Average repricing (years) <sup>a</sup></u>	<u>Carrying Value</u>	<u>Average repricing (years) <sup>a</sup></u>
U.S. dollar	\$ 50,942	0.18	\$ 44,239	0.34
Others	818	0.67	866	0.05
<b>Total</b>	<u>\$ 51,760</u>	<u>0.18</u>	<u>\$ 45,105</u>	<u>0.35</u>

a. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed. Equity securities are not subject to repricing.

IBRD uses derivative instruments to manage currency and interest rate risk in the investment portfolio. For details regarding these instruments, see Note F—Derivative Instruments.

As of June 30, 2016, there were \$549 million of short sales included in Payable for investment securities purchased on the Balance Sheet (\$1,635 million—June 30, 2015). These are reported at fair value on a recurring basis.

During the fiscal year ended June 30, 2014, the AFS portfolio was liquidated, resulting in \$240 million of realized losses, included in Unrealized mark-to-market gains and losses on Equity management, net on the Statement of Income. The total proceeds from the sale of these securities were \$2,484 million.

## Fair Value Disclosures

The following tables present IBRD's fair value hierarchy for investment assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and June 30, 2015:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis			
	June 30, 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments – Trading				
Equity securities	\$ 361	\$ -	\$ -	\$ 523 <sup>a</sup>
Government and agency obligations	20,898	10,357	-	31,255
Time deposits	2,255	12,006	-	14,261
ABS	-	5,629	-	5,629
Alternative investments <sup>b</sup>	-	-	-	162
Total Investments – Trading	\$ 23,514	\$ 27,992	\$ -	\$ 51,830
Securities purchased under resale agreements	976	716		1,692
Derivative assets-Investments				
Currency forward contracts	-	9,423	-	9,423
Currency swaps	-	16,346	-	16,346
Interest rate swaps	-	116	-	116
Swaptions, exchange traded options and futures contracts	*	4	-	4
Other <sup>c</sup>	-	*	-	*
Total Derivative assets-Investments	*	25,889	-	25,889
Total	\$ 24,490	\$ 54,597	\$ -	\$ 79,411
<b>Liabilities:</b>				
Securities sold under repurchase agreements and securities lent under securities lending agreements <sup>d</sup>	\$ -	\$ 14	\$ -	\$ 14
Derivative liabilities-Investments				
Currency forward contracts	-	9,598	-	9,598
Currency swaps	-	16,749	-	16,749
Interest rate swaps	-	175	-	175
Swaptions, exchange traded options and futures contracts	11	3	-	14
Other <sup>c</sup>	-	-	-	-
Total Derivative liabilities-Investments	11	26,525	-	26,536
Payable for investments securities purchased <sup>e</sup>	549	-	-	549
Total	\$ 560	\$ 26,539	\$ -	\$ 27,099

a. Includes \$162 million of commingled funds at NAV, related to PEBP holdings and not included in the fair value hierarchy.

b. Investments at NAV related to PEBP holdings, not included in the fair value hierarchy.

c. These relate to TBA securities.

d. Excludes \$1,671 million relating to payable for cash collateral received.

e. This relates to short sales of investments securities.

\* Indicates amount less than \$0.5 million.

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis			
	As of June 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments – Trading				
Equity securities	\$ 307	\$ -	\$ -	\$ 504 <sup>a</sup>
Government and agency obligations	15,442	9,223	-	24,665
Time deposits	2,811	14,087	-	16,898
ABS	-	5,653	-	5,653
Alternative investments <sup>b</sup>	-	-	-	103
<b>Total Investments – Trading</b>	<b>\$ 18,560</b>	<b>\$ 28,963</b>	<b>\$ -</b>	<b>\$ 47,823</b>
Securities purchased under resale agreements	541	1,587	-	2,128
Derivative assets-Investments				
Currency forward contracts	-	4,388	-	4,388
Currency swaps	-	17,706	-	17,706
Interest rate swaps	-	91	-	91
Swaptions, exchange traded options and futures contracts	*	11	-	11
Other <sup>c</sup>	-	-	-	-
<b>Total Derivative assets-Investments</b>	<b>*</b>	<b>22,196</b>	<b>-</b>	<b>22,196</b>
<b>Total</b>	<b>\$ 19,101</b>	<b>\$ 52,746</b>	<b>\$ -</b>	<b>\$ 72,147</b>
<b>Liabilities:</b>				
Securities sold under repurchase agreements and securities lent under securities lending agreements <sup>d</sup>	\$ 309	\$ 537	\$ -	\$ 846
Derivative liabilities-Investments				
Currency forward contracts	-	4,366	-	4,366
Currency swaps	-	16,787	-	16,787
Interest rate swaps	-	107	-	107
Swaptions, exchange traded options and futures contracts	8	11	-	19
Other <sup>c</sup>	-	*	-	*
<b>Total Derivative liabilities-Investments</b>	<b>8</b>	<b>21,271</b>	<b>-</b>	<b>21,279</b>
Payable for investments securities purchased <sup>e</sup>	1,635	-	-	1,635
<b>Total</b>	<b>\$ 1,952</b>	<b>\$ 21,808</b>	<b>\$ -</b>	<b>\$ 23,760</b>

a. Includes \$197 million of commingled funds at NAV, related to PEBP holdings and not included in the fair value hierarchy.

b. Investments at NAV related to PEBP holdings, not included in the fair value hierarchy.

c. These relate to TBA securities.

d. Excludes \$2,729 million relating to payable for cash collateral received.

e. This relates to short sales of investments securities.

\* Indicates amount less than \$0.5 million.

As of June 30, 2016 there were no transfers within the fair value hierarchy. As of June 30, 2015, \$834 million of investments related to non-U.S. government obligations were transferred from Level 2 to Level 1 within the fair value hierarchy, respectively. This transfer was based on the outcome of the annual review of the inputs used to measure fair value.

### Commercial Credit Risk

For the purpose of risk management, IBRD is party to a variety of financial transactions, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. For all securities, IBRD limits trading to a list of authorized dealers and counterparties. In addition, IBRD receives collateral in connection with resale agreements as well as swap agreements. This collateral serves to mitigate IBRD's exposure to credit risk.

**Swap Agreements:** Credit risk is mitigated through the application of eligibility criteria and volume limits for transactions with individual counterparties and through the use of mark-to-market collateral arrangements for swap transactions. IBRD may require collateral in the form of cash or other approved liquid securities from individual counterparties in order to mitigate its credit exposure.

IBRD has entered into master derivative agreements which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps. Credit risk with financial assets subject to a master derivatives arrangement is further reduced under these agreements to the extent that payments and receipts with the counterparty are netted at settlement. The reduction in exposure as a result of these netting provisions can vary due to the impact of changes in market conditions on existing and new transactions. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date. For more information on netting and offsetting provisions see note F—Derivative Instruments.

The following is a summary of the collateral received by IBRD in relation to swap transactions as of June 30, 2016 and June 30, 2015.

*In millions of U.S. dollars*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Collateral received		
Cash	\$ 1,671	\$ 2,729
Securities	2,175	2,229
Total collateral received	<u>\$ 3,846</u>	<u>\$ 4,958</u>
Collateral permitted to be repledged	\$ 3,846	\$ 4,958
Amount of collateral repledged	-	-

As of June 30, 2016, IBRD received total cash collateral of \$1,671 million (\$2,729 million—June 30, 2015), of which \$739 million (\$2,714 million—June 30, 2015) was invested in highly liquid instruments.

**Securities Lending:** IBRD may engage in securities lending and repurchases against adequate collateral, as well as secured borrowing and reverse repurchases (resales) of government and agency obligations, corporate securities and ABS. These transactions have been conducted under legally enforceable master netting arrangements, which allow IBRD to reduce its gross credit exposure related to these transactions. For balance sheet presentation purposes, IBRD presents its securities lending and repurchases, as well as resales, on a gross basis. As of June 30, 2016, there was no amount which could potentially be offset as a result of legally enforceable master netting arrangements (\$822 million—June 30, 2015).

Securities lending and repurchase agreements expose IBRD to several risks, including counterparty risk, reinvestment risk, and risk of a collateral gap (increase or decrease in the fair value of collateral pledged). IBRD has procedures in place to ensure that trading activity and balances under these agreements are below predefined counterparty and maturity limits, and to actively manage net counterparty exposure, after collateral, through daily mark-to-market. Whenever the collateral pledged by IBRD related to its borrowings under repurchase agreements and securities lending agreements declines in value, the transaction is re-priced as appropriate by returning cash or pledging additional collateral.

The following is a summary of the carrying amount of the securities transferred under repurchase or securities lending agreements, and the related liabilities:

*In millions of U.S. dollars*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Financial Statement Presentation</u>
Securities transferred under repurchase or securities lending agreements	\$ 14	\$ 844	Included under Investments-Trading on the Balance Sheet.
Liabilities relating to securities transferred under repurchase or securities lending agreements	\$ 14	\$ 846	Included under Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received, on the Balance Sheet.

Transfers of securities by IBRD to counterparties are not accounted for as sales as the accounting criteria for the treatment as a sale have not been met. Counterparties are permitted to repledge these securities until the repurchase date.

At June 30, 2016, and June 30, 2015 there were no liabilities relating to securities transferred under repurchase or securities lending agreements that had not settled at that date.

The following tables present the disaggregation of the gross obligation by class of collateral pledged and the remaining contractual maturities for repurchase or securities lending agreements that are accounted for as secured borrowings as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	<i>June 30, 2016</i>		
	<i>Remaining contractual maturity of the agreements</i>		
	<i>Overnight and continuous</i>	<i>Up to 30 days</i>	<i>Total</i>
<b>Repurchase or securities lending agreements</b>			
Government and agency obligations	\$ -	\$ -	\$ -
Equity securities	14	-	14
<b>Total liabilities relating to securities transferred under repurchase or securities lending agreements</b>	<b>\$ 14</b>	<b>\$ -</b>	<b>\$ 14</b>

*In millions of U.S. dollars*

	<i>June 30, 2015</i>		
	<i>Remaining contractual maturity of the agreements</i>		
	<i>Overnight and continuous</i>	<i>Up to 30 days</i>	<i>Total</i>
<b>Repurchase or securities lending agreements</b>			
Government and agency obligations	\$ 557	\$ 277	\$ 834
Equity securities	12	-	12
<b>Total liabilities relating to securities transferred under repurchase or securities lending agreements</b>	<b>\$ 569</b>	<b>\$ 277</b>	<b>\$ 846</b>

In the case of resale agreements, IBRD receives collateral in the form of liquid securities and is permitted to repledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded on IBRD's Balance Sheet as the accounting criteria for treatment as a sale have not been met. As of June 30, 2016, there were no securities which had not settled at that date in securities purchased under resale agreements (\$252 million—June 30, 2015). For the remaining purchases, IBRD received securities with a fair value of \$1,694 million (\$1,875 million—June 30, 2015). None of these securities had been transferred under repurchase or security lending agreements as of that date (Nil—June 30, 2015).

#### **NOTE D—LOANS AND OTHER EXPOSURES**

IBRD's loans and other exposures (exposures) are generally made to, or guaranteed by, member countries of IBRD. In addition, IBRD may also make loans to the IFC, an affiliated organization without any guarantee. IBRD's loans are reported at amortized cost, with the exception of one loan which is carried and reported at fair value, because it contains an embedded derivative.

IBRD's loan portfolio includes loans with multicurrency terms, single currency pool terms, variable spread terms and fixed spread terms. At June 30, 2016, only loans with variable spread terms and fixed spread terms (including special development policy loans), were available for new commitments.

As of June 30, 2016, 87% of IBRD's loans carried variable interest rates. IBRD uses derivative contracts to manage the currency risk as well as repricing risk between its loans and borrowings. These derivatives are included under loan derivatives on the Balance Sheet. After considering the effects of these derivatives, the loan portfolio carried variable interest rates, with a weighted average interest rate of 1.37% as of June 30, 2016 (0.93%—June 30, 2015). For details regarding derivatives used in the loan portfolio see Note F—Derivative Instruments.

The majority of the loans outstanding are denominated in USD (79%) and EUR (19%).

As of June 30, 2016, only 0.3% of IBRD's loans were in nonaccrual status and all were related to one borrower. The total provision for losses on accrual and nonaccrual loans accounted for 0.9% of the total loan portfolio. Based on IBRD's internal quality indicators, the majority of loans outstanding are in the Medium risk or High risk classes.

A summary of IBRD's loans outstanding by currency and by interest rate characteristics (fixed or variable) at June 30, 2016 and June 30, 2015 is as follows:

*In millions of U.S. dollars*

	June 30, 2016											
	Euro		Japanese yen		U.S. dollars		Others		Loans Outstanding		Total	
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable		
Multicurrency terms <sup>a</sup>												
Amount	\$ 36	\$ 10	\$ 40	\$ 8	\$ 51	\$ 413	\$ 15	\$ 1	\$ 142	\$ 432	\$ 574	
Weighted average rate (%) <sup>c</sup>	2.78	7.96	2.78	7.96	6.23	7.63	3.44	7.96	4.09	7.64	6.76	
Average Maturity (years)	5.12	0.17	5.12	0.24	2.98	0.00	2.66	0.58	4.09	0.01	1.02	
Single currency pool terms												
Amount	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ 2	
Weighted average rate (%) <sup>c</sup>	-	-	-	-	3.79	-	-	-	3.79	-	3.79	
Average Maturity (years)	-	-	-	-	0.16	-	-	-	0.16	-	0.16	
Variable-spread terms												
Amount	\$ -	\$ 21,053	\$ -	\$ 69	\$ -	\$ 95,210	\$ -	\$ 1,786	\$ -	\$ 118,118	\$ 118,118	
Weighted average rate (%) <sup>c</sup>	-	0.34	-	0.60	-	1.37	-	9.24	-	1.30	1.30	
Average Maturity (years)	-	11.27	-	4.68	-	9.89	-	11.24	-	10.15	10.15	
Fixed-spread terms												
Amount	\$ 4,602	\$ 6,973	\$ 11	\$ 240	\$ 17,013	\$ 20,938 <sup>b</sup>	\$ 603 <sup>d</sup>	\$ 581	\$ 22,229	\$ 28,732	\$ 50,961	
Weighted average rate (%) <sup>c</sup>	3.80	0.60	2.28	0.51	4.07	1.51	6.92	3.40	4.09	1.32	2.53	
Average maturity (years)	9.61	8.84	3.27	4.62	6.98	8.37	8.15	10.20	7.55	8.49	8.08	
<b>Loans Outstanding</b>												
Amount	\$ 4,638	\$ 28,036	\$ 51	\$ 317	\$ 17,066	\$ 116,561	\$ 618	\$ 2,368	\$ 22,373	\$ 147,282	\$ 169,655	
Weighted average rate (%) <sup>c</sup>	3.79	0.41	2.67	0.73	4.07	1.42	6.83	7.81	4.09	1.33	1.69	
Average Maturity (years)	9.58	10.66	4.72	4.52	6.97	9.58	7.96	10.98	7.53	9.80	9.50	
<b>Loans Outstanding</b>											\$ 169,655	
Less accumulated provision for loan losses and deferred loan income											2,012	
<b>Net loans outstanding</b>											<u>\$ 167,643</u>	

*In millions of U.S. dollars*

	June 30, 2015											
	Euro		Japanese yen		U.S. dollars		Others		Loans Outstanding		Total	
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable		
Multicurrency terms <sup>a</sup>												
Amount	\$ 29	\$ 17	\$ 27	\$ 14	\$ 52	\$ 425	\$ 73	\$ 20	\$ 181	\$ 476	\$ 657	
Weighted average rate (%) <sup>c</sup>	2.96	7.72	2.96	7.68	6.94	7.54	3.19	7.59	4.20	7.55	6.63	
Average Maturity (years)	4.86	0.39	4.85	0.46	2.49	0.01	4.02	0.66	3.84	0.07	1.11	
Single currency pool terms												
Amount	\$ -	\$ 3	\$ -	\$ -	\$ 10	\$ 1	\$ -	\$ -	\$ 10	\$ 4	\$ 14	
Weighted average rate (%) <sup>c</sup>	-	0.47	-	-	4.19	3.61	-	-	4.19	0.99	3.39	
Average Maturity (years)	-	0.60	-	-	0.56	0.11	-	-	0.56	0.52	0.55	
Variable-spread terms												
Amount	\$ -	\$ 18,365	\$ -	\$ 64	\$ -	\$ 83,041	\$ -	\$ 1,894	\$ -	\$ 103,364	\$ 103,364	
Weighted average rate (%) <sup>c</sup>	-	0.46	-	0.70	-	0.82	-	9.08	-	0.91	0.91	
Average Maturity (years)	-	11.02	-	3.85	-	10.11	-	12.21	-	10.31	10.31	
Fixed-spread terms												
Amount	\$ 5,346	\$ 6,621	\$ 11	\$ 221	\$ 18,591	\$ 20,809 <sup>b</sup>	\$ 649 <sup>e</sup>	\$ 729	\$ 24,597	\$ 28,380	\$ 52,977	
Weighted average rate (%) <sup>c</sup>	3.90	0.72	2.28	0.64	4.10	0.99	6.91	2.62	4.13	0.97	2.44	
Average maturity (years)	9.23	7.89	3.76	5.17	7.22	8.37	8.42	10.59	7.69	8.29	8.01	
<b>Loans Outstanding</b>												
Amount	\$ 5,375	\$ 25,006	\$ 38	\$ 299	\$ 18,653	\$ 104,276	\$ 722	\$ 2,643	\$ 24,788	\$ 132,224	\$ 157,012	
Weighted average rate (%) <sup>c</sup>	3.90	0.53	2.77	0.98	4.11	0.88	6.54	7.29	4.12	0.94	1.45	
Average Maturity (years)	9.21	10.18	4.55	4.67	7.20	9.73	7.98	11.68	7.66	9.84	9.49	
<b>Loans Outstanding</b>											\$ 157,012	
Less accumulated provision for loan losses and deferred loan income											1,972	
<b>Net loans outstanding</b>											<u>\$ 155,040</u>	

a. Variable rates for multilateral loans are based on the weighted average cost of allocated debt.

b. Includes loans to IFC.

c. Excludes effects of any waivers of loan interest.

d. Includes loans at fair value of \$123 million.

e. Includes loans at fair value of \$125 million.

The maturity structure of IBRD's loans at June 30, 2016 and June 30, 2015 is as follows:

*In millions of U.S. dollars*

<i>Terms/Rate Type</i>	<i>June 30, 2016</i>				<i>Total</i>
	<i>July 1, 2016 through June 30, 2017</i>	<i>July 1, 2017 through June 30, 2021</i>	<i>July 1, 2021 through June 30, 2026</i>	<i>Thereafter</i>	
Multicurrency terms					
Fixed	\$ 41	\$ 45	\$ 56	\$ -	\$ 142
Variable	432	-	-	-	432
Single currency pool terms					
Fixed	2	-	-	-	2
Variable	-	-	-	-	-
Variable-spread terms					
Fixed	-	-	-	-	-
Variable	4,705	21,164	34,107	58,142	118,118
Fixed-spread terms					
Fixed	2,228 <sup>a</sup>	7,506	5,383	7,112	22,229
Variable	2,127	7,920	8,534	10,151	28,732
All Loans					
Fixed	2,271	7,551	5,439	7,112	22,373
Variable	7,264	29,084	42,641	68,293	147,282
Total loans outstanding	<u>\$ 9,535</u>	<u>\$ 36,635</u>	<u>\$ 48,080</u>	<u>\$ 75,405</u>	<u>\$ 169,655</u>

a. Includes loans at fair value of \$123 million.

*In millions of U.S. dollars*

<i>Terms/Rate Type</i>	<i>June 30, 2015</i>				<i>Total</i>
	<i>July 1, 2015 through June 30, 2016</i>	<i>July 1, 2016 through June 30, 2020</i>	<i>July 1, 2020 through June 30, 2025</i>	<i>Thereafter</i>	
Multicurrency terms					
Fixed	\$ 64	\$ 52	\$ 54	\$ 11	\$ 181
Variable	467	9	-	-	476
Single currency pool terms					
Fixed	8	2	-	-	10
Variable	4	-	-	-	4
Variable-spread terms					
Fixed	-	-	-	-	-
Variable	4,520	18,209	28,561	52,074	103,364
Fixed-spread terms					
Fixed	2,648	8,325 <sup>a</sup>	5,449	8,175	24,597
Variable	2,031	8,458	8,911	8,980	28,380
All Loans					
Fixed	2,720	8,379	5,503	8,186	24,788
Variable	7,022	26,676	37,472	61,054	132,224
Total loans outstanding	<u>\$ 9,742</u>	<u>\$ 35,055</u>	<u>\$ 42,975</u>	<u>\$ 69,240</u>	<u>\$ 157,012</u>

a. Includes loans at fair value of \$125 million.

### Credit Quality of Sovereign Exposures

Based on an evaluation of IBRD's exposures, management has determined that IBRD has one portfolio segment – Sovereign Exposures. IBRD's loans constitute the majority of the Sovereign Exposures portfolio segment.

IBRD's country risk ratings are an assessment of its borrowers' ability and willingness to repay IBRD on time and in full. These ratings are internal credit quality indicators. Individual country risk ratings are derived on the basis of both quantitative and qualitative analysis. The components considered in the analysis can be grouped broadly into eight categories: political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payments risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks, and corporate sector debt and vulnerabilities. For the purpose of analyzing the risk characteristics of IBRD's exposures, these exposures are grouped into three classes in accordance with assigned borrower risk ratings which relate to the likelihood of loss: Low, Medium and High risk classes, as well as exposures in nonaccrual status. IBRD considers all exposures in non accrual status to be impaired.

IBRD's borrowers' country risk ratings are key determinants in the provision for losses. Country risk ratings are determined in review meetings that take place several times a year. All countries are reviewed at least once a year, or more frequently, if circumstances warrant, to determine the appropriate ratings.

IBRD considers loans to be past due when a borrower fails to make payment on any principal, interest or other charges due to IBRD on the dates provided in the contractual loan agreement.



The following table provides an aging analysis of the loan portfolio as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

<i>Days past due</i>	<i>June 30, 2016</i>						<i>Current</i>	<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>	<i>Total Past Due</i>		
<b>Risk Class</b>								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,923	\$ 21,923
Medium	-	-	-	-	-	-	75,973	75,973
High	-	-	-	-	-	-	71,192	71,192
Loans in accrual status <sup>a</sup>	-	-	-	-	-	-	169,088	169,088
Loans in nonaccrual status <sup>a</sup>	-	-	-	-	444	444	-	444
Loan at fair value <sup>b</sup>	-	-	-	-	-	-	123	123
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 444</b>	<b>\$ 444</b>	<b>\$ 169,211</b>	<b>\$ 169,655</b>

*In millions of U.S. dollars*

<i>Days past due</i>	<i>June 30, 2015</i>						<i>Current</i>	<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>	<i>Total Past Due</i>		
<b>Risk Class</b>								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,574	\$ 20,574
Medium	-	-	-	-	-	-	81,233	81,233
High	-	-	-	-	-	-	54,628	54,628
Loans in accrual status <sup>a</sup>	-	-	-	-	-	-	156,435	156,435
Loans in nonaccrual status <sup>a</sup>	-	-	-	-	452	452	-	452
Loan at fair value <sup>b</sup>	-	-	-	-	-	-	125	125
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 452</b>	<b>\$ 452</b>	<b>\$ 156,560</b>	<b>\$ 157,012</b>

*a. At amortized cost.*

*b. For the loan that is reported at fair value, and which is in accrual status, the credit risk assessment is incorporated in the determination of the fair value.*

### **Accumulated Provision for Losses on Loans and Other Exposures**

Management determines the appropriate level of accumulated provisions for losses, which reflects the probable losses inherent in IBRD's exposures. Probable losses comprise estimates of potential losses arising from default and nonpayment of principal amounts due, as well as present value losses. Delays in receiving loan payments result in present value losses to IBRD since it does not charge fees or additional interest on any overdue interest or charges. These present value losses are equal to the difference between the present value of payments of interest and charges made according to the related instrument's contractual terms and the present value of its expected future cash flows. It is IBRD's practice not to write off its loans. All contractual obligations associated with exposures in nonaccrual status have eventually been cleared, thereby allowing borrowers to eventually emerge from nonaccrual status. To date, no loans have been written off.

Notwithstanding IBRD's historical experience, the risk of losses associated with nonpayment of principal amounts due is included in the accumulated provision for losses on loans and other exposures.

Changes to the Accumulated provision for losses on loans and other exposures for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014 are summarized below:

*In millions of U.S. dollars*

	June 30, 2016			June 30, 2015			June 30, 2014		
	Loans	Other <sup>a</sup>	Total	Loans	Other	Total	Loans	Other	Total
<b>Accumulated provision, beginning of the fiscal year</b>	\$ 1,554	\$ 39	\$ 1,593	\$ 1,626	\$ 41	\$ 1,667	\$ 1,659	\$ 54	\$ 1,713
Provision - charge (release)	17	40	57	(11)	1	(10)	(46)	(14)	(60)
Translation adjustment	*	*	*	(61)	(3)	(64)	13	1	14
<b>Accumulated provision, end of the fiscal year</b>	<b>\$ 1,571</b>	<b>\$ 79</b>	<b>\$ 1,650</b>	<b>\$ 1,554</b>	<b>\$ 39</b>	<b>\$ 1,593</b>	<b>\$ 1,626</b>	<b>\$ 41</b>	<b>\$ 1,667</b>
<b>Composed of accumulated provision for losses on:</b>									
Loans in accrual status	\$ 1,349			\$ 1,328			\$ 1,395		
Loans in nonaccrual status	222			226			231		
Total	<u>\$ 1,571</u>			<u>\$ 1,554</u>			<u>\$ 1,626</u>		
Loans, end of the fiscal year:									
Loans at amortized cost in accrual status	\$ 169,088			\$ 156,435			\$ 153,418		
Loans at amortized cost in nonaccrual status	444			452			462		
Loan at fair value in accrual status	123			125			141		
Total	<u>\$ 169,655</u>			<u>\$ 157,012</u>			<u>\$ 154,021</u>		

a. Provision does not include recoverable asset received under the EEAs for guarantee received (for more details see Guarantees section).

	Reported as follows	
	Balance Sheet	Statement of Income
<b>Accumulated Provision for Losses on:</b>		
Loans	Accumulated provision for losses on loans	Provision for losses on loans and other exposures
Other exposures (excluding exposures to member countries' derivatives)	Accounts payable and miscellaneous liabilities	Provision for losses on loans and other exposures
Exposures to member countries' Derivatives	Derivative Assets – Client Operations	Unrealized mark-to-market gains/losses on non-trading portfolios - Other, net

At June 30, 2016, there were no principal or interest amounts on loans in accrual status, which were overdue by more than three months. The following tables provide a summary of selected financial information related to loans in nonaccrual status as of and for the fiscal years ended June 30, 2016, and June 30, 2015:

*In millions of U.S. dollars*

	June 30, 2016	June 30, 2015
Recorded investment in nonaccrual loans <sup>a</sup>	\$ 444	\$ 452
Accumulated provision for loan losses on nonaccrual loans	222	226
Average recorded investment in nonaccrual loans for the fiscal year <sup>b</sup>	449	457
Overdue amounts of nonaccrual loans:		
Principal	444	452
Interest and charges	452	421

a. A loan loss provision has been recorded against each of the loans in nonaccrual status.

b. For the fiscal year ended June 30, 2014: \$462 million.

*In millions of U.S. dollars*

	2016	2015	2014
Interest revenue not recognized as a result of loans being in nonaccrual status	\$ 35	\$ 35	\$ 36

During the fiscal year ended June 30, 2016 and June 30, 2015 no loans were placed into nonaccrual status or restored to accrual status.

In addition, during the fiscal years ended June 30, 2016, interest revenue recognized on loans in nonaccrual status was \$4 million (\$2 million—June 30, 2015 and \$2 million—June 30, 2014).

Effective July 16, 2013, all loans made to or guaranteed by Iran were placed into nonaccrual status. Subsequently, on September 27, 2013, Iran cleared all of its overdue principal and charges due to IBRD and the loans to, or guaranteed by Iran were restored to accrual status on that date. Interest revenue for the fiscal year ended June 30, 2014, increased by \$8 million, \$7 million of which represented interest and other charges that would have been accrued as of June 30, 2013 had these loans not been placed in nonaccrual status.

Information relating to the sole borrowing member with loans or guarantees in nonaccrual status at June 30, 2016 follows:

*In millions of U.S. dollars*

<i>Borrower</i>	<i>Principal Outstanding</i>	<i>Principal, Interest and Charges Overdue</i>	<i>Nonaccrual Since</i>
Zimbabwe	\$ 444	\$ 896	October 2000

### Guarantees

Guarantees of \$5,220 million were outstanding at June 30, 2016 (\$1,432 million—June 30, 2015). This amount represents the maximum potential amount of undiscounted future payments that IBRD could be required to make under these guarantees, and is not included in the Balance Sheet. These guarantees have original maturities ranging between 5 and 20 years, and expire in decreasing amounts through 2030.

At June 30, 2016, liabilities related to IBRD's obligations under guarantees of \$387 million (\$42 million—June 30, 2015), have been included in Accounts payable and miscellaneous liabilities on the Balance Sheet. These include the accumulated provision for guarantee losses of \$62 million (\$17 million—June 30, 2015).

During the fiscal years ended June 30, 2016 and June 30, 2015, no guarantees provided by IBRD were called.

During the fiscal year ended June 30, 2014, IBRD executed an EEA with MIGA for \$120 million (see Note H—Transactions with Affiliated Organizations). In addition, on December 15, 2015, IBRD signed and executed two EEAs: one with the African Development Bank for \$1,588 million and the other with the Inter-American Development Bank for \$2,021 million. While these agreements are not legally considered guarantees, they meet the accounting criteria for financial guarantees and are therefore recognized as financial guarantees in IBRD's financial statements.

Information on the location and amounts associated with the EEAs included in the Balance Sheet and Statement of Income as of and for the fiscal year ended June 30, 2016, is presented in the following table:

*In millions of U.S. dollars*

	<i>June 30, 2016</i>					
	<i>Notional amount</i>	<i>(Stand ready obligation) Asset</i>	<i>Location on Balance Sheet</i>	<i>(Provision) Recoverable asset</i>	<i>Location on Balance Sheet</i>	<i>Location on Statement of Income</i>
Guarantee provided <sup>a</sup>	\$ 3,692	\$ (292)	Other liabilities	\$ (41)	Other liabilities	Provision for losses on loans and other exposures
Guarantee received	(3,694)	292	Other assets	42	Other assets	Other income
Total	<u>\$ (2)</u>	<u>\$ -</u>		<u>\$ 1</u>		

a. *Notional amount, stand ready obligation and provision for the guarantee provided are included in guarantees outstanding of \$5,220 million, obligations under guarantees of \$387 million and accumulated provision for guarantee losses of \$62 million, respectively.*

### Waivers of Loan Charges

IBRD provides waivers on eligible loans, which include a portion of interest on loans, a portion of the commitment charge on undisbursed balances and a portion of the front-end fee charged on all eligible loans. Waivers are approved annually by the Executive Directors of IBRD.

The reduction in net income for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014 resulting from waivers of loan charges, is summarized in the following table:

*In millions of U.S. dollars*

	<i>2016</i>	<i>2015</i>	<i>2014</i>
Interest waivers	\$ 83	\$ 99	\$ 115
Commitment charge waivers	2	4	9
Front-end fee waivers	15	17	21
Total	<u>\$ 100</u>	<u>\$ 120</u>	<u>\$ 145</u>

## Segment Reporting

Based on an evaluation of IBRD's operations, management has determined that IBRD has only one reportable segment since financial results are reviewed and resource allocation decisions are made at the entity level.

Loan revenue comprises interest, commitment fees, loan origination fees and prepayment premia, net of waivers. For the fiscal year ended June 30, 2016, loans to one country individually generated in excess of 10 percent of loan revenue; this amounted to \$279 million.

The following table presents IBRD's loan revenue and associated outstanding loan balances, by geographic region, as of and for the fiscal years ended June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

Region	2016		2015	
	Loans Outstanding	Loan Revenue <sup>b</sup>	Loans Outstanding	Loan Revenue <sup>b</sup>
Africa	\$ 3,547	\$ 183	\$ 3,061	\$ 142
East Asia and Pacific	35,569	515	32,101	411
Europe and Central Asia	43,949	434	41,898	408
Latin America and the Caribbean	56,303	1,067	53,974	967
Middle East and North Africa	15,870	174	12,128	141
South Asia	14,212	137	13,637	87
Other <sup>a</sup>	205	1	213	1
<b>Total</b>	<b>\$ 169,655</b>	<b>\$ 2,511</b>	<b>\$ 157,012</b>	<b>\$ 2,157</b>

a. Represents loans to IFC, an affiliated organization.

b. Does not include interest expenses, net of \$872 million from loan related derivatives (\$971 million—June 30, 2015). Includes commitment charges of \$34 million (\$16 million—June 30, 2015).

## Fair Value Disclosures

The only loan carried at fair value is classified as Level 3. This loan has an embedded derivative and its fair value is estimated on a matrix basis against the related bond. As IBRD's loans are not traded, the yield which is used as a key input to determining the fair value of this loan is not observable. The yield applied in determining the fair value of the loan at June 30, 2016 was 4.65%. An increase (decrease) in the yield would result in a decrease (increase) in the fair value of the loan.

The following table provides a summary of changes in the fair value of IBRD's Level 3 loan during the fiscal year ended June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	2016	2015
Beginning of the fiscal year	\$ 125	\$ 141
Total realized/unrealized mark-to-market gains (losses) in:		
Net income	13	5
Other comprehensive (loss) income	(15)	(21)
<b>End of the fiscal year</b>	<b>\$ 123</b>	<b>\$ 125</b>

Information on unrealized mark-to-market gains or losses, relating to IBRD's Level 3 loan, included in revenue, for the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014, as well as where those amounts are included in Statement of Income, is presented in the following table:

*In millions of U.S. dollars*

Unrealized mark-to-market gains (losses)	2016	2015	2014
Statement of Income line			
Unrealized mark-to-market gains (losses) on Loans, net	\$ 1	\$ (5)	\$ (2)

The table below presents the fair value of all IBRD's loans, along with their respective carrying amounts as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	June 30, 2016		June 30, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Net loans outstanding	\$ 167,643	\$ 172,577	\$ 155,040	\$ 155,910

### Valuation Methods and Assumptions

All of IBRD's loans are made to, or guaranteed by, countries that are members of IBRD, except for those loans made to IFC. IBRD does not currently sell its loans.

As of June 30, 2016 and June 30, 2015, except for the one loan which is reported at fair value, all other loans are carried at amortized cost. The fair value of these loans is calculated using a discounted cash flow method. This method incorporates Credit Default Swap spreads for each borrower and reflects the existence of an implicit interest rate floor in the terms of IBRD loans. Basis adjustments are applied to market recovery levels to reflect IBRD's recovery experience. IBRD's loans, including the one loan reported at fair value on a recurring basis, are classified as Level 3 within the fair value hierarchy.

### NOTE E—BORROWINGS

IBRD issues unsubordinated and unsecured fixed and variable rate debt in a variety of currencies. Some of these debt instruments are callable. Variable rates may be based on, for example, exchange rates, interest rates or equity indices.

Borrowings issued by IBRD are carried and reported at fair value. As of June 30, 2016, the majority of the instruments in the portfolio were classified as Level 2, within the fair value hierarchy. In addition, most of these instruments were denominated in USD, EUR, Australian dollar (AUD) and GBP (66%, 11%, 7% and 3%, respectively).

IBRD uses derivatives to manage the repricing risk between loans and borrowings. After the effect of these derivatives, the borrowing portfolio carried variable interest rates, with a weighted average cost of 0.75% as of June 30, 2016 (0.27% as of June 30, 2015).

The following table summarizes IBRD's borrowing portfolio after derivatives as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	June 30, 2016	June 30, 2015
Borrowings <sup>a</sup>	\$ 181,723	\$ 160,980
Currency swaps, net	1,279	1,433
Interest rate swaps, net	(4,771)	(3,560)
	<u>\$ 178,231</u>	<u>\$ 158,853</u>

*a. Includes \$455 million of unsettled borrowings, representing a non-cash financing activity, for which there is a related receivable included in Other assets on the Condensed Balance Sheet (\$225 million—June 30, 2015).*

For details regarding the derivatives used in the borrowing portfolio, see Note F—Derivative Instruments.

The following table provides a summary of the interest rate characteristics of IBRD's borrowings at June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	June 30, 2016	WAC <sup>a</sup> (%)	June 30, 2015	WAC <sup>a</sup> (%)
Fixed	\$ 150,728	2.27	\$ 133,821	2.39
Variable	25,036	1.83	22,784	1.97
Borrowings <sup>b</sup>	\$ 175,764	2.20 %	\$ 156,605	2.33 %
Fair Value Adjustment	5,959		4,375	
Borrowings at fair value	<u>\$ 181,723</u>		<u>\$ 160,980</u>	

*a. WAC refers to weighted average cost.*

*b. At amortized cost.*

At June 30, 2016 and June 30, 2015, the currency composition of debt in IBRD's borrowings portfolio before derivatives was as follows:

*In millions of U.S. dollars*

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
U.S. Dollar	66.0	%	64.2	%
Euro	11.1		12.4	
Australian dollar	7.1		7.0	
Pound Sterling	3.0		3.4	
New Zealand dollar	3.2		2.5	
Japanese yen	2.0		2.1	
Others	7.6		8.4	
	<u>100.0</u>	<u>%</u>	<u>100.0</u>	<u>%</u>

The maturity structure of IBRD's borrowings outstanding at June 30, 2016 and June 30, 2015 was as follows:

*In millions of U.S. dollars*

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
Less than 1 year	\$	34,604	\$	37,278
Between				
1-2 years		28,203		31,128
2-3 years		29,585		22,508
3-4 years		20,911		17,590
4-5 years		27,262		16,096
Thereafter		41,158		36,380
	\$	<u>181,723</u>	\$	<u>160,980</u>

IBRD's borrowings have original maturities ranging from 20 days to 50 years, with the final maturity in 2064.

#### **Fair Value Disclosures**

IBRD's fair value hierarchy for borrowings measured at fair value on a recurring basis as of June 30, 2016 and June 30, 2015 is as follows:

*In millions of U.S. dollars*

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
Level 1	\$	-	\$	-
Level 2		178,932		158,574
Level 3		2,791		2,406
	\$	<u>181,723</u>	\$	<u>160,980</u>

The following table provides a summary of changes in the fair value of IBRD's Level 3 borrowings during the fiscal years ended June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	<u>2016</u>		<u>2015</u>	
Beginning of the fiscal year	\$	2,406	\$	3,883
Total realized/unrealized mark-to-market (gains) losses in:				
Net income		(113)		331
Other comprehensive income		64		(521)
Issuances		369		1,251
Settlements		(450)		(1,906)
Transfers into (out of), net		515		(632)
<b>End of the fiscal year</b>	\$	<u>2,791</u>	\$	<u>2,406</u>

The following table provides information on the unrealized mark-to-market gains or losses included in the statement of income for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014, relating to IBRD's Level 3 borrowings still held at June 30, 2016, June 30, 2015 and June 30, 2014, as well as where those amounts are included in the Statement of Income.

*In millions of U.S. dollars*

<u>Unrealized mark-to-market gains (losses)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statement of Income			
Unrealized mark-to-market gains (losses) on Borrowings, net	\$ 123	\$ (178)	\$ (306)

The following table provides information on the unrealized mark-to-market gains or losses included in the statement of income for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014 relating to IBRD's borrowings held at June 30, 2016, June 30, 2015 and June 30, 2014, as well as where those amounts are included in the Statement of Income.

*In millions of U.S. dollars*

<i>Unrealized mark-to-market (losses) gains</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
Statement of Income			
Unrealized mark-to-market (losses) gains on Borrowings, net	\$ (1,735)	\$ 292	\$ 47

During the fiscal year ended June 30, 2016, IBRD's credit spreads widened. The estimated financial effects on the fair value of the debt issued and outstanding as of June 30, 2016, were unrealized mark-to-market gains of \$1,409 million. During the fiscal year ended June 30, 2015, IBRD's credit spreads tightened. The estimated financial effects on the fair value of the debt issued and outstanding as of June 30, 2015, were unrealized mark-to-market losses of \$78 million. These amounts were determined using observable changes in IBRD's credit spreads.

IBRD's Level 3 borrowings primarily relate to structured bonds. The fair value of these bonds is estimated using valuation models that incorporate model parameters, observable market inputs, and unobservable inputs. The significant unobservable inputs used in the fair value measurement of structured bonds are correlations and long-dated interest rate volatilities. Generally, the movements in correlations are considered to be independent of the movements in long-dated interest rate volatilities.

Correlation is the statistical measurement of the relationship between two variables. For contracts where the holder benefits from the convergence of the underlying index prices (e.g. interest rates and foreign exchange rates), an increase in correlation generally results in an increase in the fair value of the instrument. The magnitude and direction of the fair value adjustment will depend on whether the holder is short or long the option.

Interest rate volatility is the extent to which the level of interest rates change over time. For purchased options, an increase in volatility will generally result in an increase in the fair value. In general, the volatility used to price the option depends on the maturity of the underlying instrument and the option strike price. In the fiscal year ended June 30, 2016, the interest rate volatilities were extrapolated and thus are considered an unobservable input for the full term structure (i.e. 6 month to 40 years) for certain currencies. In the fiscal year ended June 30, 2015, the interest rate volatilities are considered an unobservable input for maturities greater than ten years for certain currencies.

The following table provides a summary of the valuation technique applied in determining fair values of these Level 3 instruments and quantitative information regarding the significant unobservable inputs used. Level 3 instruments represent 2% of IBRD's Borrowings as of June 30, 2016.

*In millions of U.S. dollars*

Portfolio	Fair Value at June 30, 2016	Fair Value at June 30, 2015	Valuation technique	Unobservable input	Range (average), June 30, 2016	Range (average), June 30, 2015
Borrowings	\$2,791	\$2,406	Discounted Cash Flow	Correlations	-37% to 83% (15%)	-50% to 72% (2%)
				Interest rate volatilities	28% to 487% (445%)	19% to 71% (36%)

The table below provides the details of all inter-level transfers for the fiscal year ended June 30, 2016 and June 30, 2015. Transfers from Level 3 to Level 2 are due to increased price transparency, and vice versa.

*In millions of U.S. dollars*

	June 30, 2016		June 30, 2015	
	Level 2	Level 3	Level 2	Level 3
<b>Borrowings</b>				
Transfer into (out of)	\$ 19	\$ (19)	\$ 634	\$ (634)
Transfer (out of) into	(534)	534	(2)	2
	<u>\$ (515)</u>	<u>\$ 515</u>	<u>\$ 632</u>	<u>\$ (632)</u>

Presented below is the difference between the aggregate fair value and aggregate contractual principal balance of borrowings:

*In millions of U.S. dollars*

	Fair Value	Principal Amount Due Upon Maturity	Difference
June 30, 2016	\$ 181,723	\$ 180,863	\$ 860
June 30, 2015	\$ 160,980	\$ 160,568	\$ 412

## NOTE F—DERIVATIVE INSTRUMENTS

IBRD uses derivative instruments in its investment, loan and borrowing portfolios, and for asset/liability management purposes (including equity management). It also offers derivative intermediation services to clients and concurrently enters into offsetting transactions with market counterparties.

The following table summarizes IBRD's use of derivatives in its various financial portfolios:

Portfolio	Derivative instruments used	Purpose / Risk being managed
Risk management purposes:		
Investments	Currency swaps, interest rate swaps, currency forward contracts, options, swaptions and futures contracts, TBA securities	Manage currency and interest rate risks in the portfolio
Loans	Currency swaps, and interest rate swaps	Manage currency risk as well as repricing risks between loans and borrowings
Borrowings	Currency swaps, and interest rate swaps	Manage currency risk as well as repricing risks between loans and borrowings
Other assets/liabilities	Currency swaps, and interest rate swaps	Manage currency risk and the duration of IBRD's equity (equity management)
Other purposes:		
Client operations	Currency swaps, and interest rate swaps	Assist clients in managing risks

IBRD engages in an equity management strategy, which employs interest rate swaps to manage the duration of its equity. As of June 30, 2016, the duration of IBRD's equity was 4.4 years (4.8 years—June 30, 2015).

Under client operations, derivative intermediation services are provided to the following:

**Borrowing Countries:** Currency and interest rate swap transactions are executed between IBRD and its borrowers under master derivatives agreements.

**Non-Affiliated Organizations:** IBRD has a master derivatives agreement with the International Finance Facility for Immunisation (IFFIm), under which several transactions have been executed.



**Affiliated Organizations:** Derivative contracts are executed between IBRD and IDA, under an agreement allowing IBRD to intermediate derivative contracts on behalf of IDA.

On July 1, 2000, IBRD adopted FASB's guidance on derivatives and hedging. This guidance requires that derivative instruments be recorded on the balance sheet at fair value. IBRD has elected not to designate any qualifying hedging relationships for accounting purposes. Rather, all derivative instruments are marked to fair value, with the changes in fair value recognized in net income. While IBRD believes that its hedging strategies achieve its objectives, the application of qualifying hedging criteria for accounting purposes would not appropriately reflect IBRD's risk management strategies.

The following tables provide information on the fair value amounts and the location of the derivative instruments on the Balance Sheet, as well as notional amounts and credit risk exposures of those derivative instruments as of June 30, 2016 and June 30, 2015:

**Fair value of derivative instruments on the Balance Sheet:**

*In millions of U.S. dollars*

	<b>Balance Sheet Location</b>			
	<i>Derivative Assets</i>		<i>Derivative Liabilities</i>	
	<i>June 30, 2016</i>	<i>June 30, 2015</i>	<i>June 30, 2016</i>	<i>June 30, 2015</i>
<b>Derivatives not designated as hedging instruments</b>				
Swaptions, exchange traded options and futures contracts – Investment-Trading	\$ 4	\$ 11	\$ 14	\$ 19
Interest rate swaps	10,405	6,510	6,791	4,450
Currency swaps <sup>a</sup>	134,079	127,804	134,936	127,855
Other <sup>b</sup>	*	-	-	*
<b>Total derivatives</b>	<b>\$ 144,488</b>	<b>\$ 134,325</b>	<b>\$ 141,741</b>	<b>\$ 132,324</b>

*a. Includes currency forward contracts and structured swaps.*

*b. These relate to TBA securities.*

*\* Indicates amount less than \$0.5 million*

## Notional amounts and credit risk exposure of the derivative instruments:

In millions of U.S. dollars

Type of contract	June 30, 2016	June 30, 2015
<b>Investments - Trading</b>		
Interest rate swaps		
Notional principal	\$ 10,997	\$ 8,755
Credit exposure	116	91
Currency swaps (including currency forward contracts)		
Credit exposure	390	1,136
Swaptions, exchange traded options and futures contracts <sup>a</sup>		
Notional long position	176	1,313
Notional short position	2,294	7,224
Credit exposure	4	11
Other derivatives <sup>b</sup>		
Notional long position	28	28
Notional short position	-	-
Credit exposure	*	-
<b>Loans</b>		
Interest rate swaps		
Notional principal	25,583	28,118
Credit exposure	69	139
Currency swaps		
Credit exposure	968	507
<b>Client operations</b>		
Interest rate swaps		
Notional principal	22,237	23,024
Credit exposure	1,992	1,221
Currency swaps		
Credit exposure	1,749	1,657
<b>Borrowings</b>		
Interest rate swaps		
Notional principal	217,961	184,491
Credit exposure	5,840	4,325
Currency swaps		
Credit exposure	7,890	8,025
<b>Other derivatives</b>		
Interest rate swaps		
Notional principal	51,938	45,647
Credit exposure	2,388	734
Currency swaps		
Credit exposure	33	-

a. Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All swaptions, options, and futures contracts are interest rate contracts.

b. These relate to TBA securities.

\* Indicates amount less than \$0.5 million.

IBRD is not required to post collateral under its derivative agreements as long as it maintains a AAA credit rating. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position as of June 30, 2016 is \$3,385 million (\$4,230 million—June 30, 2015). IBRD has not posted any collateral with these counterparties due to its AAA credit rating.

If the credit-risk related contingent features underlying these agreements were triggered to the extent that IBRD would be required to post collateral as of June 30, 2016, the amount of collateral that would need to be posted would be \$776 million (\$1,709 million—June 30, 2015). Subsequent triggers of contingent features would require posting of additional collateral, up to a maximum of \$3,385 million as of June 30, 2016 (\$4,230 million—June 30, 2015). In contrast, IBRD received collateral totaling \$3,846 million as of June 30, 2016 (\$4,958 million—June 30, 2015) in relation to swap transactions (see Note C—Investments).

The following table provides information on unrealized mark-to-market gains and losses on non-trading derivatives during the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014, and their location on the Statement of Income:

*In millions of U.S. dollars*

<i>Derivatives not designated as hedging instruments, and not held in a trading portfolio<sup>a</sup></i>	<i>Statement of Income line</i>	<i>Unrealized mark-to-market gains (losses)</i>		
		<i>2016</i>	<i>2015</i>	<i>2014</i>
Interest rate swaps	Equity management, Loans, Borrowings, and Other, net	\$ 1,974	\$ (684)	\$ (772)
Currency swaps (including currency forward contracts and structured swaps)		458	454	190
<b>Total</b>		<b>\$ 2,432</b>	<b>\$ (230)</b>	<b>\$ (582)</b>

*a. For alternative disclosures about trading derivatives, see the following table.*

All of the instruments in IBRD's investment portfolio are held for trading purposes. Within the investment portfolio, IBRD holds highly rated fixed income securities, equity securities as well as derivatives. The trading portfolio is primarily held to ensure the availability of funds to meet future cash flow requirements and for liquidity management purposes.

The following table provides information on the location and amount of unrealized mark-to-market gains and losses on the net investment-trading portfolio and their location on the Statement of Income during the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014:

*In millions of U.S. dollars*

<i>Statement of Income line</i>	<i>Unrealized mark-to-market (losses) gains<sup>a</sup></i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>
<b>Type of instrument</b>			
Fixed income (including associated derivatives)	\$ (20)	\$ (146)	\$ (202)
Equity	(11)	4	26
	<b>\$ (31)</b>	<b>\$ (142)</b>	<b>\$ (176)</b>

*a. Amounts associated with each type of instrument include gains and losses on both derivative instruments and non-derivative instruments.*

### **Offsetting assets and liabilities**

IBRD enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements with substantially all of its derivative counterparties. These legally enforceable master netting agreements give IBRD the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of default by the counterparty.

The following table summarizes information on derivative assets and liabilities (before and after netting adjustments) that are reflected on IBRD's Balance Sheet as of June 30, 2016 and June 30, 2015. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements. The net derivative asset positions have been further reduced by the cash and securities collateral received.

*In millions of U.S. dollars*

	June 30, 2016					
	Location on the Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 22,347	\$ (11,942)	\$ 10,405	\$ 19,323	\$ (12,532)	\$ 6,791
Currency swaps <sup>a</sup>	134,079	-	134,079	134,936	-	134,936
Other <sup>b</sup>	4	-	4	16	(2)	14
<b>Total</b>	<b>\$ 156,430</b>	<b>\$ (11,942)</b>	<b>\$ 144,488</b>	<b>\$ 154,275</b>	<b>\$ (12,534)</b>	<b>\$ 141,741</b>
Amounts subject to legally enforceable master netting agreements <sup>c</sup>			(138,206)			(138,206)
<b>Net derivative positions at counterparty level before collateral</b>			<b>6,282</b>			<b>3,535</b>
Less:						
Cash collateral received <sup>d</sup>			1,646			
Securities collateral received <sup>d</sup>			1,543			
<b>Net derivative exposure after collateral</b>			<b>\$ 3,093</b>			

a. Includes currency forward contracts and structured swaps.

b. These relate to swaptions, exchange traded options, futures contracts and TBA securities.

c. Not offset on the Balance Sheet.

d. Does not include excess collateral received.

*In millions of U.S. dollars*

	June 30, 2015					
	Location on the Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 24,968	\$ (18,458)	\$ 6,510	\$ 16,938	\$ (12,488)	\$ 4,450
Currency swaps <sup>a</sup>	127,804	-	127,804	127,855	-	127,855
Other <sup>b</sup>	11	-	11	22	(3)	19
<b>Total</b>	<b>\$ 152,783</b>	<b>\$ (18,458)</b>	<b>\$ 134,325</b>	<b>\$ 144,815</b>	<b>\$ (12,491)</b>	<b>\$ 132,324</b>
Amounts subject to legally enforceable master netting agreements <sup>c</sup>			(128,010)			(128,010)
<b>Net derivative positions at counterparty level before collateral</b>			<b>6,315</b>			<b>4,314</b>
Less:						
Cash collateral received <sup>d</sup>			2,284			
Securities collateral received <sup>d</sup>			1,609			
<b>Net derivative exposure after collateral</b>			<b>\$ 2,422</b>			

a. Includes currency forward contracts and structured swaps.

b. These relate to swaptions, exchange traded options, futures contracts and TBA securities.

c. Not offset on the Balance Sheet.

d. Does not include excess collateral received.

## Fair Value Disclosures

IBRD's fair value hierarchy for derivative assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and June 30, 2015 is as follows:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis			
	June 30, 2016			
	Level 1	Level 2	Level 3	Total
<b>Derivative Assets:</b>				
Investments				
Currency forward contracts	\$ -	\$ 9,423	\$ -	\$ 9,423
Currency swaps	-	16,346	-	16,346
Interest rate swaps	-	116	-	116
Swaptions, exchange traded options and futures contracts	*	4	-	4
Other <sup>a</sup>	-	*	-	*
	<u>*</u>	<u>25,889</u>	<u>-</u>	<u>25,889</u>
Loans				
Currency swaps	-	3,919	108	4,027
Interest rate swaps	-	69	-	69
	<u>-</u>	<u>3,988</u>	<u>108</u>	<u>4,096</u>
Client operations				
Currency swaps	-	25,581	-	25,581
Interest rate swaps	-	1,992	-	1,992
	<u>-</u>	<u>27,573</u>	<u>-</u>	<u>27,573</u>
Borrowings				
Currency swaps	-	76,669	1,456	78,125
Interest rate swaps	-	5,779	61	5,840
	<u>-</u>	<u>82,448</u>	<u>1,517</u>	<u>83,965</u>
Others				
Currency swaps	-	577	-	577
Interest rate swaps	-	2,388	-	2,388
	<u>-</u>	<u>2,965</u>	<u>-</u>	<u>2,965</u>
<b>Total derivative assets</b>	<u>\$ *</u>	<u>\$ 142,863</u>	<u>\$ 1,625</u>	<u>\$ 144,488</u>
<b>Derivative Liabilities:</b>				
Investments				
Currency forward contracts	\$ -	\$ 9,598	\$ -	\$ 9,598
Currency swaps	-	16,749	-	16,749
Interest rate swaps	-	175	-	175
Swaptions, exchange traded options and futures contracts	11	3	-	14
Other <sup>a</sup>	-	-	-	-
	<u>11</u>	<u>26,525</u>	<u>-</u>	<u>26,536</u>
Loans				
Currency swaps	-	2,969	94	3,063
Interest rate swaps	-	3,370	-	3,370
	<u>-</u>	<u>6,339</u>	<u>94</u>	<u>6,433</u>
Client operations				
Currency swaps	-	25,572	-	25,572
Interest rate swaps	-	2,022	16	2,038
	<u>-</u>	<u>27,594</u>	<u>16</u>	<u>27,610</u>
Borrowings				
Currency swaps	-	78,099	1,305	79,404
Interest rate swaps	-	927	142	1,069
	<u>-</u>	<u>79,026</u>	<u>1,447</u>	<u>80,473</u>
Others				
Currency swaps	-	550	-	550
Interest rate swaps	-	139	-	139
	<u>-</u>	<u>689</u>	<u>-</u>	<u>689</u>
<b>Total derivative liabilities</b>	<u>\$ 11</u>	<u>\$ 140,173</u>	<u>\$ 1,557</u>	<u>\$ 141,741</u>

a. These relate to TBA securities.

\* Indicates amount less than \$0.5 million.

In millions of U.S. dollars

Fair Value Measurements on a Recurring Basis  
June 30, 2015

	Level 1	Level 2	Level 3	Total
<b>Derivative Assets:</b>				
Investments				
Currency forward contracts	\$ -	\$ 4,388	\$ -	\$ 4,388
Currency swaps	-	17,706	-	17,706
Interest rate swaps	-	91	-	91
Swaptions, exchange traded options and futures contracts	*	11	-	11
Other <sup>a</sup>	-	-	-	-
	<u>*</u>	<u>22,196</u>	<u>-</u>	<u>22,196</u>
Loans				
Currency swaps	-	3,671	92	3,763
Interest rate swaps	-	139	-	139
	<u>-</u>	<u>3,810</u>	<u>92</u>	<u>3,902</u>
Client operations				
Currency swaps	-	27,518	-	27,518
Interest rate swaps	-	1,221	-	1,221
	<u>-</u>	<u>28,739</u>	<u>-</u>	<u>28,739</u>
Borrowings				
Currency swaps	-	72,555	1,387	73,942
Interest rate swaps	-	4,258	67	4,325
	<u>-</u>	<u>76,813</u>	<u>1,454</u>	<u>78,267</u>
Others				
Currency swaps	-	487	-	487
Interest rate swaps	-	734	-	734
	<u>-</u>	<u>1,221</u>	<u>-</u>	<u>1,221</u>
<b>Total derivative assets</b>	<u>\$ *</u>	<u>\$ 132,779</u>	<u>\$ 1,546</u>	<u>\$ 134,325</u>
<b>Derivative Liabilities:</b>				
Investments				
Currency forward contracts	\$ -	\$ 4,366	\$ -	\$ 4,366
Currency swaps	-	16,787	-	16,787
Interest rate swaps	-	107	-	107
Swaptions, exchange traded options and futures contracts	8	11	-	19
Other <sup>a</sup>	-	*	-	*
	<u>8</u>	<u>21,271</u>	<u>-</u>	<u>21,279</u>
Loans				
Currency swaps	-	3,188	77	3,265
Interest rate swaps	-	2,270	-	2,270
	<u>-</u>	<u>5,458</u>	<u>77</u>	<u>5,535</u>
Client operations				
Currency swaps	-	27,515	-	27,515
Interest rate swaps	-	1,224	8	1,232
	<u>-</u>	<u>28,739</u>	<u>8</u>	<u>28,747</u>
Borrowings				
Currency swaps	-	74,021	1,354	75,375
Interest rate swaps	-	690	75	765
	<u>-</u>	<u>74,711</u>	<u>1,429</u>	<u>76,140</u>
Others				
Currency swaps	-	547	-	547
Interest rate swaps	-	76	-	76
	<u>-</u>	<u>623</u>	<u>-</u>	<u>623</u>
<b>Total derivative liabilities</b>	<u>\$ 8</u>	<u>\$ 130,802</u>	<u>\$ 1,514</u>	<u>\$ 132,324</u>

a. These relate to TBA securities.

\* Indicates amount less than \$0.5 million.

The following tables provide a summary of changes in the fair value of IBRD's Level 3 derivatives, net during the fiscal years ended June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	June 30, 2016			June 30, 2015		
	Currency swaps	Interest rate swaps	Total	Currency swaps	Interest rate swaps	Total
Beginning of the fiscal year	\$ 48	\$ (16)	\$ 32	\$ 461	\$ 26	\$ 487
Total realized/unrealized mark-to-market gains (losses) in:						
Net income	(1)	(106)	(107)	265	(16)	249
Other comprehensive income	96	1	97	(479)	-	(479)
Issuances	-	(19)	(19)	(3)	(1)	(4)
Settlements	(26)	(9)	(35)	(181)	-	(181)
Transfers, net	48	52	100	(15)	(25)	(40)
<b>End of the fiscal year</b>	<b>\$ 165</b>	<b>\$ (97)</b>	<b>\$ 68</b>	<b>\$ 48</b>	<b>\$ (16)</b>	<b>\$ 32</b>

Unrealized mark-to-market gains or losses included in revenue for the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014 relating to IBRD's Level 3 derivatives, net, still held as at these dates as well as where those amounts are included in the Statement of Income, are presented in the following table:

*In millions of U.S. dollars*

Unrealized mark-to-market gains (losses)	2016	2015	2014
Statement of Income Location			
Unrealized mark-to-market gains on Loans, Borrowings and Other, net	\$ (89)	\$ 114	\$ 300

The table below provides the details of all inter-level transfers during the fiscal years ended June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	June 30, 2016		June 30, 2015	
	Level 2	Level 3	Level 2	Level 3
<b>Derivative assets, net</b>				
Transfer into (out of)	\$ -	\$ -	\$ -	\$ -
Transfer (out of) into	(113)	113	25	(25)
	(113)	113	25	(25)
<b>Derivative liabilities, net</b>				
Transfer (into) out of	\$ (4)	\$ 4	\$ 15	\$ (15)
Transfer out of (into)	17	(17)	-	-
	13	(13)	15	(15)
<b>Transfers, net</b>	<b>\$ (100)</b>	<b>\$ 100</b>	<b>\$ 40</b>	<b>\$ (40)</b>

Transfers from Level 3 to Level 2 are due to increased price transparency, and vice versa.

The fair value of IBRD's Level 3 borrowings related derivatives is estimated using valuation models that incorporate model parameters, observable market inputs and unobservable inputs. The significant unobservable inputs used in the fair value measurement of these derivatives are correlations and long dated interest rate volatilities. See Note E—Borrowings for details on these unobservable inputs.

The following table provides a summary of the valuation technique applied in determining fair values of these Level 3 instruments and quantitative information regarding the significant unobservable inputs used.

*In millions of U.S. dollars*

Portfolio	Fair Value at June 30, 2016	Fair Value at June 30, 2015	Valuation Technique	Unobservable input	Range (average), June 30, 2016	Range (average), June 30, 2015
Currency swaps, interest rate swaps	\$68	\$32	Discounted Cash Flow	Correlations	-37% to 83% (15%)	-50% to 72% (2%)
				Interest rate volatilities	28% to 487% (445%)	19% to 71% (36%)

## NOTE G—RETAINED EARNINGS, ALLOCATIONS AND TRANSFERS

The changes in the components of Retained Earnings for each of the fiscal years from June 30, 2013 to June 30, 2016, are summarized below:

*In millions of US dollars*

	<i>Special Reserve</i>	<i>General Reserve<sup>c</sup></i>	<i>Pension Reserve</i>	<i>Surplus</i>	<i>Cummulative Fair Value Adjustments</i>	<i>Unallocated Net Income (Loss)<sup>a</sup></i>	<i>Restricted Retained Earnings<sup>c</sup></i>	<i>Total</i>
<b>As of June 30, 2013</b>	\$ 293	\$ 26,742	\$ 1,159	\$ 117	\$ 48	\$ 881	\$ 25	\$ 29,265
Net income allocation <sup>a</sup>	-	147	(99)	200	5	(260)	7	-
Board of Governors-approved transfers funded from Surplus and other transfers <sup>b</sup>	-	-	-	(55)	-	55	-	-
Net income for the year	-	-	-	-	-	(978)	-	(978)
<b>As of June 30, 2014</b>	293	26,889	1,060	262	53	(302)	32	28,287
Net income allocation <sup>a</sup>	-	-	(43)	134	(1,030)	937	2	-
Board of Governors-approved transfers funded from Surplus and other transfers <sup>b</sup>	-	-	-	(70)	-	80	(10)	-
Net income for the year	-	-	-	-	-	(786)	-	(786)
<b>As of June 30, 2015</b>	293	26,889	1,017	326	(977)	(71)	24	27,501
Net income allocation <sup>a</sup>	-	36	(55)	-	(702)	721	(*)	-
Board of Governors-approved transfers funded from Surplus and other transfers <sup>b</sup>	-	-	-	(55)	-	55	-	-
Net income for the year	-	-	-	-	-	495	-	495
<b>As of June 30, 2016</b>	\$ 293	\$ 26,925	\$ 962	\$ 271	\$ (1,679)	\$ 1,200	\$ 24	\$ 27,996

a. Amounts retained as Surplus from the allocation of net income are approved by the Board of Governors.

b. A concurrent transfer is made from Surplus to Unallocated Net Income (Loss) for all transfers reported on the Statement of Income and authorized to be funded from Surplus.

c. May differ from the sum of individual figures due to rounding.

IBRD makes net income allocation decisions on the basis of reported net income, adjusted to exclude the unrealized mark-to-market gains and losses on non-trading portfolios, net, restricted income and Board of Governors-approved and other transfers, and after considering the allocation to the pension reserve.

On August 6, 2015, IBRD's Executive Directors approved the following adjustments and allocations relating to the net income earned in the fiscal year ended June 30, 2015, to arrive at allocable income for that fiscal year:

- \$702 million decrease in the Cumulative Fair Value Adjustments, for the Unrealized mark-to-market losses on non-trading portfolios (this excludes realized amounts).
- Add back \$715 million related to Board of Governors-approved transfers approved in the fiscal year ended June 30, 2015, to reported Net Income to arrive at allocable income. These transfers relate to income earned in prior fiscal years.
- \$55 million decrease in the Pension Reserve.
- \$36 million increase in the General Reserve.

On October 9, 2015, IBRD's Board of Governors approved an immediate transfer to the International Development Association (IDA) of \$650 million out of the net income earned in the fiscal year ended June 30, 2015. The transfer to IDA was made on October 15, 2015.

On June 24, 2016, IBRD's Board of Governors approved an immediate transfer of \$55 million from Surplus to the Trust Fund for Gaza and West Bank. The payment for this transfer was made on June 28, 2016.



Transfers approved during the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014, are included in the following table.

*In millions of U.S. dollars*

<i>Transfers funded from:</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Unallocated Net Income:</b>			
IDA	\$ 650	\$ 635	\$ 621
<b>Restricted Retained Earnings:</b>			
IDA	-	10	-
<b>Surplus:</b>			
Trust fund for Gaza and West Bank	55	55	55
Global Infrastructure Facility	-	15	-
	<u>55</u>	<u>70</u>	<u>55</u>
Total	<u>\$ 705</u>	<u>\$ 715</u>	<u>\$ 676</u>

There were no amounts payable for the transfers approved by the Board of Governors at June 30, 2016, and at June 30, 2015.

#### NOTE H—TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

IBRD transacts with affiliated organizations by providing loans, administrative and derivative intermediation services, as well as through its pension and other postretirement benefit plans.

In addition, IBRD provides transfers to IDA out of its net income, upon approval by the Board of Governors (see Note G—Retained Earnings, Allocations and Transfers).

At June 30, 2016 and June 30, 2015, IBRD had the following receivables from (payables to) its affiliated organizations.

*In millions of U.S. dollars*

	<u>June 30, 2016</u>					<u>Total</u>
	<u>Loans</u>	<u>Administrative Services</u>	<u>Derivative Transactions<sup>a</sup></u>		<u>Pension and Other Postretirement Benefits</u>	
			<u>Receivable</u>	<u>Payable</u>		
IDA	\$ -	\$ 397	\$ 7,942	\$ (8,214)	\$ (821)	\$ (696)
IFC	205	59	-	-	(226)	38
MIGA	-	5	-	-	(9)	(4)
	<u>\$ 205</u>	<u>\$ 461</u>	<u>\$ 7,942</u>	<u>\$ (8,214)</u>	<u>\$ (1,056)</u>	<u>\$ (662)</u>

*In millions of U.S. dollars*

	<u>June 30, 2015</u>					<u>Total</u>
	<u>Loans</u>	<u>Administrative Services</u>	<u>Derivative Transactions<sup>a</sup></u>		<u>Pension and Other Postretirement Benefits</u>	
			<u>Receivable</u>	<u>Payable</u>		
IDA	\$ -	\$ 364	\$ 8,962	\$ (8,914)	\$ (831)	\$ (419)
IFC	213	50	-	-	(210)	53
MIGA	-	4	-	-	(8)	(4)
	<u>\$ 213</u>	<u>\$ 418</u>	<u>\$ 8,962</u>	<u>\$ (8,914)</u>	<u>\$ (1,049)</u>	<u>\$ (370)</u>

a. For details on derivative transactions relating to swap intermediation services provided by IBRD to IDA see Note F—Derivative Instruments.

The (payables) receivables balances to (from) these affiliated organizations are reported in the Balance Sheet as follows:

<b>Receivables / Payables related to:</b>	<b>Reported as:</b>
Loans	Loans outstanding
Receivable for administrative services <sup>a</sup>	Other Assets – Miscellaneous
Receivables (payables) for derivative transactions	Derivative Assets/Liabilities – Client operations
Payable for pension and other postretirement benefits	Other Liabilities - Accounts payable and miscellaneous liabilities

a. Includes amounts payable to IDA for its share of investments associated with PCRf. This payable is included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

## Loans and other exposures

IBRD has a Local Currency Loan Facility Agreement with IFC which is capped at \$300 million. At June 30, 2016, the balance of the loan under this facility amounted to \$9 million (\$17 million—June 30, 2015) and carried a fixed interest rate of 3.96% and weighted average maturity of 0.7 years. This loan is not eligible for interest waivers.

In addition, on July 5, 2012, the Executive Directors approved for IBRD to lend up to \$197 million to IFC. At June 30, 2016, the balance of this loan was \$196 million (\$196 million—June 30, 2015). The loan is at LIBOR minus 25 basis points (0.69% as of June 30, 2016) and is not eligible for interest waivers.

During the fiscal year ended June 30, 2014, IBRD entered into an exposure exchange agreement with MIGA under which IBRD and MIGA exchange selected exposures, with each divesting itself of exposure in countries where their lending capacities are limited, in return for exposure in countries where they have excess lending capacity. Under the agreement, IBRD and MIGA have each exchanged \$120 million of notional exposure as follows: MIGA assumes IBRD's loan principal and interest exposure in exchange for IBRD's assumption of principal and interest exposure of MIGA under its Non-Honoring of Sovereign Financial Obligation agreement. As of June 30, 2016, assets related to IBRD's right to be indemnified under this agreement amounted to \$3 million (\$3 million—June 30, 2015), while liabilities related to IBRD's obligation under this agreement amounted to \$3 million (\$3 million—June 30, 2015). These include an accumulated provision for guarantee losses of \$1 million (less than \$1 million—June 30, 2015).

## Administrative Services

Expenses jointly incurred by IBRD and IDA are allocated based on an agreed cost sharing ratio, and amounts are settled quarterly. For the fiscal year ended June 30, 2016, IBRD's administrative expenses are net of the share of expenses allocated to IDA of \$1,425 million (\$1,542 million—fiscal year ended June 30, 2015, and \$1,650 million—fiscal year ended June 30, 2014).

## Other Revenue

Revenue jointly earned by IBRD and IDA is allocated based on an agreed revenue sharing ratio. Amounts are settled quarterly. For the fiscal year ended June 30, 2016, IBRD's other revenue is net of revenue allocated to IDA of \$229 million (\$248 million—fiscal year ended June 30, 2015, and \$281 million—fiscal year ended June 30, 2014).

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014, the amount of fee revenue associated with services provided to affiliated organizations is included in Revenue from externally funded activities on the Statement of Income, as follows:

*In millions of U.S. dollars*

	2016	2015	2014
Fees charged to IFC	\$ 72	\$ 73	\$ 54
Fees charged to MIGA	5	5	5

## Pension and Other Postretirement Benefits

The payable to IDA represents IDA's net share of prepaid cost for pension and other postretirement benefit plans and PEBP assets. These will be realized over the life of the plan participants.

The payables to IFC and MIGA represent their respective share of PEBP assets. The PEBP assets are managed by IBRD and are a part of the investment portfolio.

For Pension and Other Post Retirement Benefits related disclosures see Note J—Pension and Other Post Retirement Benefits.

## Derivative transactions

These relate to currency forward contracts entered into by IDA with IBRD acting as the intermediary with the market.

## NOTE I—MANAGEMENT OF EXTERNAL FUNDS AND OTHER SERVICES

### Trust Funds

IBRD, alone or jointly with one or more of its affiliated organizations, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses in accordance with administration agreements with donors. Specified uses could include, for example, co-financing of IBRD lending projects, debt reduction operations, technical assistance including feasibility studies and project preparation, global and regional

programs, and research and training programs. These funds are held in trust with IBRD and/or IDA, and are held in a separate investment portfolio which is not commingled with IBRD and/or IDA funds.

Trust fund execution may be carried out in one of two ways: Recipient-executed or IBRD-executed.

Recipient-executed trust funds involve activities carried out by a recipient third-party “executing agency”. IBRD enters into agreements with and disburses funds to those recipients, who then exercise spending authority to meet the objectives and comply with terms stipulated in the agreements.

IBRD-executed trust funds involve IBRD execution of activities as described in relevant administration agreements with donors which define the terms and conditions for use of the funds. Spending authority is exercised by IBRD, under the terms of the administration agreements. The executing agency services provided by IBRD vary and include for example, activity preparation, analytical and advisory activities and project-related activities, including procurement of goods and services.

The following table summarizes the expenses pertaining to IBRD-executed trust funds during the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014:

*In millions of U.S. dollars*

	2016	2015	2014
IBRD-executed trust fund expenses	\$ 515	\$ 437	\$ 409

These amounts are included in Administrative expenses and the corresponding revenue is included in Revenue from externally funded activities in the Statement of Income. Administrative expenses primarily relate to staff costs, travel and consultant fees.

The following table summarizes all undisbursed contributions made by third party donors to IBRD-executed trust funds, recognized on the Balance Sheet as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	2016	2015
IBRD-executed trust funds	\$ 634	\$ 572

These amounts are included in Other Assets - Miscellaneous and the corresponding liabilities are included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

## Revenues

During the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014, IBRD’s revenues for the administration of trust fund operations were as follows:

*In millions of U.S. dollars*

	2016	2015	2014
Revenues	\$ 51	\$ 52	\$ 56

These amounts are included in Revenue from externally funded activities on the Statement of Income.

Revenue collected from donor contributions but not yet earned by IBRD totaling \$69 million at June 30, 2016 (\$73 million—June 30, 2015) is included in Other Assets (Miscellaneous) and in Accounts payable and miscellaneous liabilities, correspondingly, on the Balance Sheet.

## Investment Management Services

IBRD offers treasury and investment management services to affiliated and non-affiliated organizations.

In addition, IBRD offers asset management and technical advisory services to central banks of member countries, under the Reserves Advisory and Management Program, for capacity building and other development purposes and receives a fee for these services.

During the fiscal year ended June 30, 2016, the fee revenue from all of these investment management activities in the amount of \$27 million (\$27 million—June 30, 2015 and \$26 million—June 30, 2014) is included in Revenue from externally funded activities on the Statement of Income.

## Other Services

Donors to AMC have provided IBRD with commitments to give \$1.5 billion over a ten year period, with the GAVI Alliance (GAVI) as the named beneficiary. The assets will be drawn down by GAVI in accordance with the terms of the AMC which require that the funds be used to make payments for qualifying vaccines. Should a donor fail to pay,

IBRD has committed to pay the shortfall. For this commitment, IBRD charges an annual 30 basis point premium on outstanding grant payments not yet paid by AMC donors.

As of June 30, 2016, investments and receivables from donors relating to AMC had a net carrying value of \$316 million (\$399 million—June 30, 2015). Amounts relating to investments totaled \$153 million (\$156 million—as of June 30, 2015) and are included in IBRD’s investment holdings. Receivables from donors are reported in Other Assets (Miscellaneous). The corresponding payables are reflected in Accounts payable and miscellaneous liabilities. Fee revenue recognized from these arrangements in the amount of \$2 million (\$2 million—June 30, 2015 and \$2 million—June 30, 2014) is included in Other non interest revenue. Amounts recorded for the non-contingent and contingent obligations arising from IBRD’s obligation to pay in the event of a donor default are included in IBRD’s obligations under guarantees (Note D—Loans and Other Exposures).

## NOTE J—PENSION AND OTHER POSTRETIREMENT BENEFITS

IBRD, IFC and MIGA participate in an SRP, a Retired Staff Benefits Plan and Trust (RSBP) and a PEBP that cover substantially all of their staff members, retirees and beneficiaries.

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

IBRD uses a June 30<sup>th</sup> measurement date for its pension and other postretirement benefit plans.

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

As of June 30, 2016, the SRP and RSBP were underfunded by \$2,801 million and \$712 million, respectively. The PEBP, after reflecting IBRD and IDA’s share of assets which are included in the IBRD’s investment portfolio (\$717 million), was underfunded by \$757 million.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for IBRD and IDA for the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014:

*In millions of U.S. dollars*

	SRP			RSBP			PEBP		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
<b>Benefit Cost</b>									
Service cost	\$ 393	\$ 388	\$ 353	\$ 105	\$ 112	\$ 85	\$ 59	\$ 49	\$ 33
Interest cost	662	645	621	112	121	113	49	45	33
Expected return on plan assets	(933)	(923)	(771)	(139)	(133)	(107)	-	-	-
Amortization of unrecognized prior service costs <sup>a</sup>	4	5	7	16	15	16	3	3	*
Amortization of unrecognized net actuarial losses <sup>a</sup>	75	106	109	-	27	28	40	45	29
Net periodic pension cost <sup>b</sup>	<u>\$ 201</u>	<u>\$ 221</u>	<u>\$ 319</u>	<u>\$ 94</u>	<u>\$ 142</u>	<u>\$ 135</u>	<u>\$ 151</u>	<u>\$ 142</u>	<u>\$ 95</u>
of which:									
IBRD’s share <sup>b</sup>	\$ 104	\$ 108	\$ 147	\$ 49	\$ 70	\$ 62	\$ 78	\$ 70	\$ 44
IDA’s share	\$ 97	\$ 113	\$ 172	\$ 45	\$ 72	\$ 73	\$ 73	\$ 72	\$ 51

*a. Included in Amounts reclassified into net income in Note K—Comprehensive Income.*

*b. Included in Pension expenses in the Condensed Statement of Income.*

*\* Indicates amount less than \$0.5 million.*

IBRD’s share of benefit costs is included in Pension expenses on the Statement of Income. IDA’s share of benefit costs is included as a payable to/receivable from IDA in Accounts payable and miscellaneous liabilities on the Balance Sheet (see Note H—Transactions with Affiliated Organizations).

The following table summarizes the Projected Benefit Obligations (PBO), fair value of plan assets, and funded status associated with the SRP, RSBP, and PEBP for IBRD and IDA for the fiscal years ended June 30, 2016, and June 30, 2015. The SRP and RSBP assets are held in separate irrevocable trusts and the PEBP assets are included in IBRD's investment portfolio. The assets of the PEBP are mostly invested in fixed income, equity instruments and alternative investments.

*In millions of U.S. dollars*

	<i>SRP</i>		<i>RSBP</i>		<i>PEBP</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
<b>Projected Benefit Obligation</b>						
Beginning of year	\$ 15,869	\$ 15,822	\$ 2,535	\$ 2,793	\$ 1,140	\$ 1,073
Service cost	393	388	105	112	59	49
Interest cost	662	645	112	121	49	45
Participants contributions	129	118	22	21	11	22
Federal subsidy received	n.a.	n.a.	1	2	n.a.	n.a.
Plan amendments	-	-	24	-	-	-
Benefits paid	(630)	(581)	(80)	(73)	(34)	(34)
Actuarial loss (gain)	1,613	(523)	290	(441)	249	(15)
End of year	18,036	15,869	3,009	2,535	1,474	1,140
<b>Fair value of plan assets</b>						
Beginning of year	15,236	14,848	2,236	2,093		
Participant contribution	129	118	22	21		
Actual return on assets	289	635	42	103		
Employer contributions	211	216	77	92		
Benefits paid	(630)	(581)	(80)	(73)		
End of year	15,235	15,236	2,297	2,236		
<b>Funded Status <sup>a</sup></b>	<b>\$ (2,801)</b>	<b>\$ (633)</b>	<b>\$ (712)</b>	<b>\$ (299)</b>	<b>\$ (1,474)</b>	<b>\$ (1,140)</b>
<b>Accumulated Benefit Obligations</b>	<b>\$ 16,552</b>	<b>\$ 14,595</b>	<b>\$ 3,009</b>	<b>\$ 2,535</b>	<b>\$ 1,262</b>	<b>\$ 982</b>

*a. Negative funded status is included in Liabilities under retirement benefits plans, on the Balance Sheet.*

During the fiscal year ended June 30, 2016, IBRD amended the plan to reflect the increase of the mandatory retirement age from 62 to 67 for the life insurance benefits. The effect of this change was a \$24 million increase to the projected benefit obligation at June 30, 2016. During the fiscal year ended June 30, 2015, there were no amendments made to the retirement benefit plans.

The following tables present the amounts included in Accumulated Other Comprehensive Income relating to Pension and Other Postretirement Benefits.

**Amounts included in Accumulated Other Comprehensive Loss at June 30, 2016**

*In millions of U.S. dollars*

	<i>SRP</i>	<i>RSBP</i>	<i>PEBP</i>	<i>Total</i>
Net actuarial loss	\$ 4,540	\$ 566	\$ 694	\$ 5,800
Prior service cost	28	130	26	184
Net amount recognized in Accumulated Other Comprehensive Loss	<u>\$ 4,568</u>	<u>\$ 696</u>	<u>\$ 720</u>	<u>\$ 5,984</u>

**Amounts included in Accumulated Other Comprehensive Loss at June 30, 2015**

*In millions of U.S. dollars*

	<i>SRP</i>	<i>RSBP</i>	<i>PEBP</i>	<i>Total</i>
Net actuarial loss	\$ 2,358	\$ 179	\$ 485	\$ 3,022
Prior service cost	32	121	29	182
Net amount recognized in Accumulated Other Comprehensive Loss	<u>\$ 2,390</u>	<u>\$ 300</u>	<u>\$ 514</u>	<u>\$ 3,204</u>

The estimated amounts that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in the fiscal year ending June 30, 2017 are as follows:

*In millions of U.S. dollars*

	<i>SRP</i>	<i>RSBP</i>	<i>PEBP</i>	<i>Total</i>
Net actuarial loss	\$ 261	\$ 24	\$ 61	\$ 346
Prior service cost	4	17	3	24
Net amount recognized in Accumulated Other Comprehensive Loss	<u>\$ 265</u>	<u>\$ 41</u>	<u>\$ 64</u>	<u>\$ 370</u>

## Assumptions

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

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

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

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014:

### Weighted average assumptions used to determine projected benefit obligations

*In percent, except years*

	SRP			RSBP			PEBP		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Discount rate	3.40	4.30	4.20	3.60	4.50	4.40	3.50	4.40	4.30
Rate of compensation increase	5.30	5.40	5.40				5.30	5.40	5.40
Health care growth rates									
-at end of fiscal year				5.30	4.90	5.30			
Ultimate health care growth rate				4.00	4.10	4.10			
Year in which ultimate rate is reached				2030	2030	2022			

### Weighted average assumptions used to determine net periodic pension cost

*In percent, except years*

	SRP			RSBP			PEBP		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Discount rate	4.30	4.20	4.60	4.50	4.40	4.80	4.40	4.30	4.50
Expected return on plan assets	6.20	6.30	5.90	6.20	6.30	6.00			
Rate of compensation increase	5.40	5.40	5.70				5.40	5.40	5.70
Health care growth rates									
-at end of fiscal year				4.90	5.30	5.90			
Ultimate health care growth rate				4.10	4.10	3.90			
Year in which ultimate rate is reached				2030	2022	2022			

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

*In millions of U.S. dollars*

	One percentage point increase		One percentage point decrease	
Effect on total service and interest cost	\$	67	\$	(47)
Effect on postretirement benefit obligation	\$	778	\$	(561)

## Investment Strategy

The investment policies establish the framework for investment of the plan assets based on long-term investment objectives and the trade-offs inherent in seeking adequate investment returns within acceptable risk parameters. A key component of the investment policy is to establish a Strategic Asset Allocation (SAA) representing the policy portfolio (i.e., policy mix of assets) around which the plans are invested. The SAA for the plans is reviewed in detail and reset about every three to five years, with more frequent reviews and changes if and as needed based on market conditions.

The key long-term objective is to generate asset performance that is reasonable in relation to the growth rate of the underlying liabilities and the assumed sponsor contribution rates, without taking undue risks. Given the relatively

long investment horizons of the SRP and RSBP, and the relatively modest liquidity needs over the short-term to pay benefits and meet other cash requirements, the focus of the investment strategy is on generating sustainable long-term investment returns through a globally diversified set of strategies including public and private equity and real estate.

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

The following table presents the policy asset allocation at June 30, 2016 and the actual asset allocation at June 30, 2016 and June 30, 2015 by asset category for the SRP and RSBP:

*In percent*

Asset class	SRP			RSBP		
	Policy allocation	% of plan assets		Policy allocation	% of plan assets	
	2016 (%)	2016	2015	2016 (%)	2016	2015
Fixed income and Cash	26	20	22	26	22	24
Public equity	33	34	35	33	34	35
Private equity	20	17	17	20	19	18
Market neutral hedge funds	8	11	10	8	10	9
Real assets <sup>a</sup>	13	14	13	13	12	11
Other <sup>b</sup>	-	4	3	-	3	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

a. Includes public and private real estate, infrastructure and timber.

b. Includes investments that are outside the policy allocations such as directional hedge funds and long-term private debt funds.

### Significant Concentrations of Risk in Plan Assets

The assets of the SRP and RSBP are diversified across a variety of asset classes. Investments in these asset classes are further diversified across funds, managers, strategies, geographies and sectors, to limit the impact of any individual investment. In spite of such level of diversification, equity market risk remains the primary source of the overall return volatility of the Plans. As of June 30, 2016, the largest exposure to a single counterparty was 6% and 5% of the plan assets in SRP and RSBP, respectively.

### Risk management practices

Managing investment risk is an integral part of managing the assets of the Plans. Asset diversification and consideration of the characteristics of the liabilities are central to the overall investment strategy and risk management approach for the SRP. Absolute risk indicators such as the overall return volatility and drawdown of the Plans are the primary measures used to define the risk tolerance level and establish the overall level of investment risk. In addition, the level of active risk (defined as the annualized standard deviation of portfolio returns relative to those of the policy portfolio) is closely monitored and managed on ongoing basis.

Market risk is regularly monitored at the absolute level, as well as at the relative levels with respect to the investment policy, manager benchmarks, and liabilities of the Plans. Stress tests are performed periodically using relevant market scenarios to assess the impact of extreme market events.

Monitoring of performance (at both manager and asset class levels) against benchmarks, and compliance with investment guidelines, is carried out on a regular basis as part of the risk monitoring process. Risk management for different asset classes is tailored to their specific characteristics and is an integral part of the external managers' due diligence and monitoring processes.

Credit risk is monitored on a regular basis and assessed for possible credit event impacts. The liquidity position of the Plans is analyzed at regular intervals and periodically tested using various stress scenarios to ensure that the Plans have sufficient liquidity to meet all cash flow requirements. In addition, the long-term cash flow needs of the Plans are considered during the SAA exercise and are one of the main drivers in determining maximum allocation to the illiquid investment vehicles. The plans mitigate operational risk by maintaining a system of internal controls along with other checks and balances at various levels.

## Fair Value Measurements and Disclosures

All plan assets are measured at fair value on a recurring basis. The following table presents the fair value hierarchy of major categories of plan assets as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	June 30, 2016							
	SRP				RSBP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt securities								
Time deposits	\$ 8	\$ -	\$ -	\$ 8	\$ 1	\$ -	\$ -	\$ 1
Securities purchased under resale agreements	220	-	-	220	35	-	-	35
Government and agency securities	1,793	473	-	2,266	328	83	-	411
Corporate and convertible bonds	-	264	-	264	-	42	-	42
ABS	-	118	-	118	-	17	-	17
Mortgage backed securities	-	230	-	230	-	33	-	33
Total debt securities	2,021	1,085	-	3,106	364	175	-	539
Equity securities								
Stocks	3,199	-	-	3,199	433	-	-	433
Mutual funds	240	-	-	240	35	-	-	35
Real estate investment trusts (REITs)	424	-	-	424	53	-	-	53
Total equity securities	3,863	-	-	3,863	521	-	-	521
Other funds at NAV <sup>a</sup>								
Commingled funds	-	-	-	1,678	-	-	-	265
Private equity	-	-	-	2,975	-	-	-	487
Real estate (including infrastructure and timber)	-	-	-	1,792	-	-	-	233
Hedge funds	-	-	-	1,815	-	-	-	252
Total other funds	-	-	-	8,260	-	-	-	1,237
Derivative assets/liabilities	1	4	-	5	-	1	-	1
Other assets/liabilities, net <sup>b</sup>	-	-	-	1	-	-	-	(1)
<b>Total assets</b>	<b>\$ 5,885</b>	<b>\$ 1,089</b>	<b>\$ -</b>	<b>\$ 15,235</b>	<b>\$ 885</b>	<b>\$ 176</b>	<b>\$ -</b>	<b>\$ 2,297</b>

a. Investments measured at fair value using NAV have not been included under the fair value hierarchy.

b. Includes receivables and payables carried at amounts that approximate fair value.

*In millions of U.S. dollars*

	June 30, 2015							
	SRP				RSBP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt securities								
Time deposits	\$ 10	\$ -	\$ -	\$ 10	\$ 2	\$ -	\$ -	\$ 2
Securities purchased under resale agreements	160	-	-	160	42	-	-	42
Government and agency securities	2,395	573	-	2,968	343	174	-	517
Corporate and convertible bonds	-	160	-	160	-	23	-	23
ABS	-	91	-	91	-	14	-	14
Mortgage backed securities	-	129	-	129	-	16	-	16
Total debt securities	2,565	953	-	3,518	387	227	-	614
Equity securities								
Stocks	3,135	-	-	3,135	424	-	-	424
Mutual funds	300	-	-	300	67	-	-	67
Real estate investment trusts (REITs)	403	-	-	403	46	-	-	46
Total equity securities	3,838	-	-	3,838	537	-	-	537
Other funds at NAV <sup>a</sup>								
Commingled funds	-	-	-	1,714	-	-	-	227
Private equity	-	-	-	2,733	-	-	-	436
Real estate (including infrastructure and timber)	-	-	-	1,604	-	-	-	196
Hedge funds	-	-	-	1,791	-	-	-	244
Total other funds	-	-	-	7,842	-	-	-	1,103
Derivative assets/liabilities	(1)	9	-	8	-	2	-	2
Other assets/liabilities, net <sup>b</sup>	-	-	-	30	-	-	-	(20)
<b>Total assets</b>	<b>\$ 6,402</b>	<b>\$ 962</b>	<b>\$ -</b>	<b>\$ 15,236</b>	<b>\$ 924</b>	<b>\$ 229</b>	<b>\$ -</b>	<b>\$ 2,236</b>

a. Investments measured at fair value using NAV have not been included under the fair value hierarchy.

b. Includes receivables and payables carried at amounts that approximate fair value.



## Valuation methods and assumptions

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

### *Debt securities*

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

### *Equity securities*

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

### *Commingled funds*

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

### *Private equity*

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

### *Real estate*

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

### *Hedge fund investments*

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

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

### *Investment in derivatives*

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

### **Estimated Future Benefits Payments**

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at June 30, 2016:

*In millions of U.S. dollars*

	<u>SRP</u>	<u>RSBP</u>	<u>PEBP</u>
July 1, 2016 - June 30, 2017	\$ 747	\$ 62	\$ 47
July 1, 2017 - June 30, 2018	782	67	50
July 1, 2018 - June 30, 2019	816	73	54
July 1, 2019 - June 30, 2020	848	80	57
July 1, 2020 - June 30, 2021	880	87	61
July 1, 2021 - June 30, 2026	4,878	548	368

### **Expected Contributions**

IBRD's contribution to the SRP and RSBP varies from year to year, as determined by the Pension Finance Committee, which bases its judgment on the results of annual actuarial valuations of the assets and liabilities of the SRP and RSBP. The best estimate of the amount of contributions expected to be paid to the SRP and RSBP by IBRD and IDA during the fiscal year beginning July 1, 2016 is \$210 million and \$71 million, respectively.

### **NOTE K—COMPREHENSIVE INCOME**

Comprehensive income consists of net income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. Comprehensive income (loss) comprises currency translation adjustments, the cumulative effects of a change in accounting principle related to the implementation of FASB's derivatives and hedging guidance, pension-related items, and net income. These items are presented in the Statement of Comprehensive Income.

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) for the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014:

*In millions of U.S. dollars*

	2016				
	<i>Balance, beginning of the fiscal year</i>	<i>Changes in fair value in AOCL</i>	<i>Amounts reclassified into net income</i>	<i>Net Changes during the period</i>	<i>Balance, end of the period</i>
Cumulative Translation Adjustment	\$ *	\$ (135)	\$ -	\$ (135)	\$ (135)
Cumulative Effect of Change in Accounting Principle <sup>a</sup>	500	-	-	-	500
Reclassification <sup>a</sup>	(509)	-	2 <sup>b</sup>	2	(507)
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(3,022)	(2,893)	115 <sup>c</sup>	(2,778)	(5,800)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(182)	(25)	23 <sup>c</sup>	(2)	(184)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$ (3,213)</b>	<b>\$ (3,053)</b>	<b>\$ 140</b>	<b>\$ (2,913)</b>	<b>\$ (6,126)</b>

*In millions of U.S. dollars*

	2015				
	<i>Balance, beginning of the fiscal year</i>	<i>Changes in fair value in AOCL</i>	<i>Amounts reclassified into net income</i>	<i>Net Changes during the period</i>	<i>Balance, end of the period</i>
Cumulative Translation Adjustment	\$ 1,016	\$ (1,016)	\$ -	\$ (1,016)	\$ *
Cumulative Effect of Change in Accounting Principle <sup>a</sup>	500	-	-	-	500
Reclassification <sup>a</sup>	(511)	-	2 <sup>b</sup>	2	(509)
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(3,862)	662	178 <sup>c</sup>	840	(3,022)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(205)	-	23 <sup>c</sup>	23	(182)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$ (3,062)</b>	<b>\$ (354)</b>	<b>\$ 203</b>	<b>\$ (151)</b>	<b>\$ (3,213)</b>

*In millions of U.S. dollars*

	2014				
	<i>Balance, beginning of the fiscal year</i>	<i>Changes in fair value in AOCL</i>	<i>Amounts reclassified into net income</i>	<i>Net Changes during the period</i>	<i>Balance, end of the period</i>
Cumulative Translation Adjustment	\$ 696	\$ 320	\$ -	\$ 320	\$ 1,016
Cumulative Effect of Change in Accounting Principle <sup>a</sup>	500	-	-	-	500
Reclassification <sup>a</sup>	(513)	-	2 <sup>b</sup>	2	(511)
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(3,438)	(590)	166 <sup>c</sup>	(424)	(3,862)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(166)	(62)	23 <sup>c</sup>	(39)	(205)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$ (2,921)</b>	<b>\$ (332)</b>	<b>\$ 191</b>	<b>\$ (141)</b>	<b>\$ (3,062)</b>

a. The Cumulative effect of change in accounting principle and the subsequent reclassification of this amount to net income, relate to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

b. Reclassified into Borrowings, net in the Statement of Income.

c. See Note J—Pension and Other Post Retirement Benefits.

\* Indicates amount less than \$0.5 million.

## NOTE L—OTHER FAIR VALUE DISCLOSURES

The table below presents IBRD's estimates of fair value of its financial assets and liabilities along with their respective carrying amounts as of June 30, 2016 and June 30, 2015.

*In millions of U.S. dollars*

	June 30, 2016		June 30, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Due from banks	\$ 1,284	\$ 1,284	\$ 388	\$ 388
Investments-Trading (including Securities purchased under resale agreements)	53,522	53,522	49,951	49,951
Net loans outstanding	167,643	172,577	155,040	155,910
Derivative assets				
Investments	25,889	25,889	22,196	22,196
Loans	4,096	4,096	3,902	3,902
Client operations	27,573	27,573	28,739	28,739
Borrowings	83,965	83,965	78,267	78,267
Others	2,965	2,965	1,221	1,221
<b>Liabilities</b>				
Borrowings	181,723	181,736 <sup>a</sup>	160,980	160,988 <sup>a</sup>
Securities sold/lent under repurchase agreements/securities lending agreements and payable for cash collateral received	1,685	1,685	3,575	3,575
Derivative liabilities				
Investments	26,536	26,536	21,279	21,279
Loans	6,433	6,433	5,535	5,535
Client operations	27,610	27,610	28,747	28,747
Borrowings	80,473	80,473	76,140	76,140
Others	689	689	623	623

a. Includes \$13 million (\$8 million—June 30, 2015) relating to the transition adjustment on adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

### Valuation Methods and Assumptions

As of June 30, 2016 and June 30, 2015, IBRD had no assets or liabilities measured at fair value on a non-recurring basis.

For valuation methods and assumptions of the Investments, Loans, Borrowings, and Derivative assets and liabilities, refer to Note A—Summary of Significant Accounting and Related Policies.

For additional fair value disclosures regarding Investments, Loans, Borrowings, and Derivative assets and liabilities, refer to Note C—Investments, Note D—Loans, Note E—Borrowings, and Note F—Derivative Instruments, respectively.

### Due from Banks

The carrying amount of unrestricted and restricted currencies is considered a reasonable estimate of the fair value.

## Unrealized Mark-to-Market Gains or Losses on Investments-Trading and Non-Trading Portfolios, Net

The following table reflects the components of the unrealized mark-to-market gains or losses on the Investments-Trading portfolio and non-trading portfolios, net, for the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014.

In millions of U.S. dollars

	Fiscal Year Ended June 30, 2016		
	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts <sup>a</sup>	Unrealized gains (losses)
<b>Investments-Trading</b>	\$ 122	\$ (153)	\$ (31)
<b>Non trading portfolios, net</b>			
Loans, including derivatives—Notes D and F	-	(1,234)	(1,234) <sup>b</sup>
Equity management, net	39	1,418	1,457
Borrowings, including derivatives—Notes E and F	28	479	507 <sup>c</sup>
Other assets/liabilities derivatives	-	(4)	(4)
Client operations derivatives	-	(28)	(28)
<b>Total</b>	<b>\$ 67</b>	<b>\$ 631</b>	<b>\$ 698</b>

In millions of U.S. dollars

	Fiscal Year Ended June 30, 2015		
	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts <sup>a</sup>	Unrealized gains (losses)
<b>Investments-Trading</b>	\$ (50)	\$ (92)	\$ (142)
<b>Non trading portfolios, net</b>			
Loans, including derivatives—Notes D and F	(1)	(41)	(42) <sup>b</sup>
Equity management, net	750	(659)	91
Borrowings, including derivatives—Notes E and F	10	14	24 <sup>c</sup>
Other assets/liabilities derivatives	-	(*)	(*)
Client operations derivatives	-	(16)	(16)
<b>Total</b>	<b>\$ 759</b>	<b>\$ (702)</b>	<b>\$ 57</b>

In millions of U.S. dollars

	Fiscal Year Ended June 30, 2014		
	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts <sup>a</sup>	Unrealized gains (losses)
<b>Investments-Trading</b>	\$ (67)	\$ (109)	\$ (176)
<b>Non trading portfolios, net</b>			
Loans, including derivatives—Notes D and F	-	(134)	(134) <sup>b</sup>
Equity management, net	432	(994)	(562)
Borrowings, including derivatives—Notes E and F	(19)	111	92 <sup>c</sup>
Other assets/liabilities derivatives	-	(11)	(11)
Client operations derivatives	-	(2)	(2)
<b>Total</b>	<b>\$ 413</b>	<b>\$ (1,030)</b>	<b>\$ (617)</b>

a. Adjusted to exclude amounts reclassified to realized gains (losses).

b. Includes \$1,235 million of unrealized mark-to-market losses related to derivatives associated with loans (unrealized mark-to-market losses of \$37 million—June 30, 2015 and unrealized mark-to-market losses of \$132 million—June 30, 2014).

c. Includes \$2,242 million of unrealized mark-to-market gains related to derivatives associated with borrowings (unrealized mark-to-market losses of \$268 million—June 30, 2015 and unrealized mark-to-market gains of \$45 million—June 30, 2014).

\* Indicates amount less than \$0.5 million.

## NOTE M—CONTINGENCIES

From time to time, IBRD may be named as a defendant or co-defendant in legal actions on different grounds in various jurisdictions. IBRD's Management does not believe the outcome of any existing legal action, in which IBRD has been named as a defendant or co-defendant, as of and for the fiscal year ended June 30, 2016, will have a material adverse effect on IBRD's financial position, results of operations or cash flows.

## Letter of Transmittal

The Annual Report, which covers the period from July 1, 2015, to June 30, 2016, has been prepared by the Executive Directors of both the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)—collectively known as the World Bank—in accordance with the respective bylaws of the two institutions. Dr. Jim Yong Kim, President of the World Bank Group and Chairman of the Board of Executive Directors, has submitted this report, together with the accompanying administrative budgets and audited financial statements, to the Board of Governors.

Annual Reports for the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes are published separately.

### **Board of Executive Directors and Alternates for the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)**

<u>Executive Directors</u>	<u>Alternates</u>
Khalid Alkhudairy	Turki Dhaifallah Almutairi
Heenam Choi	Jason Allford
Hervé de Villeroché	Arnaud Delaunay
Alejandro Foxley	Daniel Pierini
Jorg G. Frieden	Wieslaw Leonard Szczuka
Subhash Garg	Muhammad Musharraf Hossain Bhuiyan
Franciscus Godts	Gulsum Yazganarikan
Merza Hasan	Karim Wissa
Frank Heemskerk	Claudiu Doltu
Masahiro Kan	Daiho Fujii
Mohamed Kayad	Seydou Bouda
Nasir Mahmood Khosa	Omar Bougara
Peter Larose	Andrew Bvumbe
Ana Lourenco	Bongi Kunene
Andrei Lushin	Eugene B. Miagkov
Matthew McGuire	(Vacant)
Ursula Mueller	Claus Michael Happe
Patrizio Pagano	Nuno Mota Pinto
Melanie Robinson	Clare Roberts
Jose Rojas	Beatriz de Guindos
Satu-Leena Santala	Sanita Bajare
Rionald Silaban	Pornwasa Sirinupongs
Antonio Silveira	Rosalia de Leon
Alister Smith	Peteranne Tamara Donaldson
Yingming Yang	Jinadi Ye

*As of June 30, 2016*

# International Development Association



## Management's Discussion & Analysis and Financial Statements June 30, 2016





# INTERNATIONAL DEVELOPMENT ASSOCIATION

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## SECTION 1: EXECUTIVE SUMMARY

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This document provides Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for the International Development Association (IDA) for the fiscal year ended June 30, 2016 (FY16). At the end of this document is a Glossary of Terms. Key financial indicators for the past 5 years are provided in Box 1.

IDA is an international organization established in 1960 and is owned by its 173 member countries. It is the largest multilateral channel for providing concessional financing and knowledge services to the world's poorest countries, and is one of the five institutions of the World Bank Group (WBG).<sup>1</sup> Each of these institutions is legally and financially independent, with separate assets and liabilities. IDA is not liable for the obligations of the other institutions.

As of June 30, 2016, IDA had equity of \$154.7 billion reflecting primarily the subscriptions and contributions (equity contributions) from its member countries since its inception. For FY16, IDA reported net income of \$371 million. The net reported losses incurred by IDA during FY12 through FY15, primarily reflect the impact of grants provided to IDA's borrowers which are expensed immediately upon approval. Since the contributions from members more than offset grants provided by IDA, there is no net negative impact on IDA's equity from these grants over the longer term.

IDA currently operates as a revolving fund, taking into account long term financial sustainability considerations. With the exception of FY14, IDA had positive results from operating activities for each of the years between FY12 and FY16, ranging between \$2,081 million in FY12 and \$623 million in FY16. The FY14 net outflow of \$741 million reflects a spike related to disbursements. See Box 1 and Table 1.

IDA is currently in its Seventeenth Replenishment of resources (IDA 17), and has completed its second year of the three year replenishment cycle. See Section 2 – Overview. Of the \$57 billion of Commitment Authority under this replenishment (IDA's lending envelope), \$45 billion has been made available for commitments, and \$36 billion has already been committed as of June 30, 2016. See Section 3 – Funding and Resource Allocation. IDA16, the previous replenishment (FY12 - FY14), had a lending envelope of \$51 billion. The increase in the IDA17 lending envelope as compared to IDA16, is in response to the increase in demand for IDA's lending products. As of June 30, 2016, IDA had \$132.8 billion of net loans outstanding, a 14% increase as compared with June 30, 2012, reflecting IDA's strong lending activity.

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<sup>1</sup>The other institutions of the WBG are: the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

**Box 1: Five-Year Summary of Selected Financial Data**

As of and for the fiscal years ended June 30,

<i>In millions of U.S. dollars, except ratios and data in percentages and months</i>					
	2016	2015	2014	2013	2012
<b>Development Operations (Discussed in Section 5)</b>					
Commitments of loans, grants and guarantees	\$ 16,171	\$18,966	\$22,239	\$ 16,298	\$ 14,753
Gross disbursements of loans and grants	13,191	12,905	13,432	11,228	11,061
Net disbursements of loans and grants	8,806	8,820	9,878	7,371	7,037
<b>Balance Sheet (Discussed in Section 4)</b>					
Total assets	\$180,475	\$178,685	\$183,445	\$165,806	\$160,028
Net investment portfolio	29,908	28,418	28,300	27,487	26,333
Net loans outstanding	132,825	126,760	132,010	121,157	116,880
Borrowings	2,906	2,150	-	-	-
Payable for grants	6,099	6,637	6,983	6,436	6,161
Total equity	154,700	147,149	153,749	143,462	137,546
<b>Income Statement (Discussed in Section 9)</b>					
Revenue from loans and guarantees	\$1,154	\$1,068	\$ 1,015	\$ 1,021	\$ 914
Investment revenue, net	881	514	631	99	1,006
Transfers from affiliated organizations and others	990	993	881	964	858
Grants	(1,232)	(2,319)	(2,645)	(2,380)	(2,062)
Net income (loss)	371	(731)	(1,612)	(1,752)	(210)
<b>Statement of Activities (Discussed in Section 4)</b>					
Total sources of funds	\$13,834	\$15,469	\$12,812	\$13,590	\$13,095
Total application of funds	(13,260)	(12,941)	(13,441)	(11,215)	(11,048)
Results from operating activities	623	2,471	(741)	2,296	2,081
<b>Liquidity Position (Discussed in Section 7)</b>					
Months of average monthly gross disbursements covered by core liquidity	9	9	9	11	11

*Certain reclassifications of prior years' information have been made to conform to the current year's presentation. For further details see Note A: Summary of Significant Accounting and Related Policies in the Notes to the Financial Statements for the fiscal year ended June 30, 2016. IDA undertakes no obligation to update any forward-looking statements.*

## SECTION 2: OVERVIEW

### Introduction

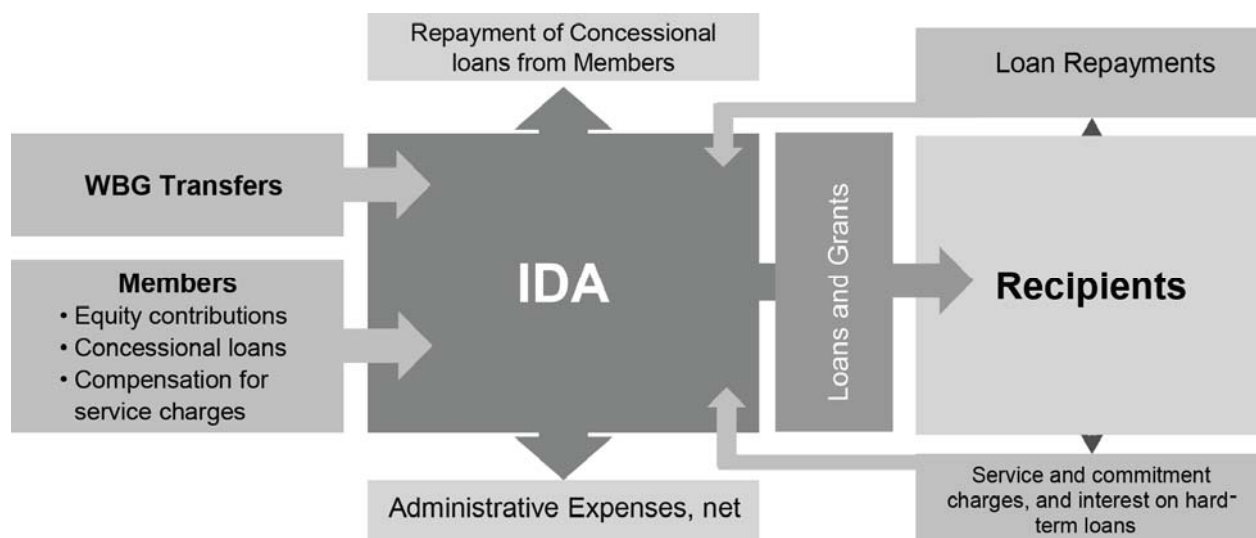
IDA plays an integral role in the WBG's efforts to fulfill its ambitious goals of ending extreme poverty by decreasing the percentage of people living on less than \$1.90 a day to no more than 3 percent by 2030 and promoting shared prosperity by improving the income growth of the bottom 40 percent of the population in each country. IDA plays a pivotal role in the global aid architecture and pursues these goals by providing concessional loans<sup>2</sup>, grants and guarantees to the world's poorest countries for programs and operations that help meet their development needs. IDA provides technical assistance through reimbursable advisory services, policy advice and global knowledge services through economic sector work and country studies. It also supports member countries with disaster risk financing and insurance to help increase their financial resilience against natural disasters. In addition, IDA provides or facilitates financing through trust fund partnerships with bilateral and multilateral donors.

### Business Model

IDA was established and has been operating as a revolving fund taking into account long-term financial sustainability considerations. Broadly, for each replenishment, representatives of IDA's members<sup>3</sup> meet every three years to determine the amount of new funds to contribute to IDA to support its lending program over the next three years, the allocation of IDA's resources, and review policy directions. The amount of resources for each replenishment is set in advance to ensure that IDA has the resources available to support the future lending program.

In FY16, IDA members, together with the international community, agreed to support a more ambitious and broader development agenda, including the Sustainable Development Goals (SDGs), the climate change goals at the 21<sup>st</sup> Conference of Parties (COP21), and the Sendai Framework for disaster risk management. The regular replenishment process requires IDA to continuously adapt and respond to meet recipients' needs, to ensure that its policies are in line with global priorities, and that its own risk management policies are updated appropriately.

Figure 1: IDA's Business Model



IDA is currently in its Seventeenth Replenishment of resources (IDA17), which is effective from July 1, 2014 until June 30, 2017. IDA's members selected "maximizing development impact" as the overarching theme for IDA17. Inclusive growth, gender equality, climate change, and fragile and conflict affected states (FCSs) were selected as the IDA17 special themes. These themes will receive extra attention during IDA17 and support the WBG's goals.

<sup>2</sup> Development credits is the term used within the WBG to describe IDA's loans, this term was originally used in order to differentiate IDA loans from IBRD loans. For the purpose of the MD&A, the term IDA loans is being used.

<sup>3</sup> IDA's members are owners and hold voting rights in IDA. Members do not however hold shares in IDA and are therefore not referred to as shareholders. Payments for subscriptions and contributions from members increase IDA's paid-in equity.

The resources available to IDA for funding its activities constitute its commitment authority. IDA’s funding is primarily from equity contributions and concessional loans from its members, internal resources which are comprised mainly of loan reflows as borrowers repay outstanding loans, investment income, as well as transfers from IBRD and IFC. Given that the disbursements of IDA’s loans and grants take place over several years, commitments do not have to be fully funded at the time of approval and this allows equity contributions from members to be encashed over several years, and internal resources to be committed in advance of their expected receipt.

IDA’s administrative expenses are broadly covered through income from IDA’s fixed service charge which is complemented by a commitment charge and interest on certain loans. The service charge has been set at 75 basis points and is payable on outstanding loan balances. The commitment charge is set annually by the Board and is payable on undisbursed loan and development grant balances. This charge is set to generate additional revenues to cover administrative expenses if necessary, and ranges between 0 and 50 basis points.

## Development framework

IDA’s support for the world’s poorest countries targets scarce concessional financing where it is most effective, based on performance-based allocations and country-driven strategies. Throughout its operational cycle – from the allocation of resources, project preparation and implementation through to completion and impact assessment – IDA uses a robust framework to maximize the development impact of the programs and activities it supports and to affirm its development framework as an effective and efficient development assistance delivery mechanism.

Figure 2: IDA’s Development Framework



For details on the key pillars of IDA’s development framework, see Section 3: Funding and Resource Allocation, Section 5: Development Activities, Products and Programs, Section 7: Risk Management and Section 11: Governance and Control.

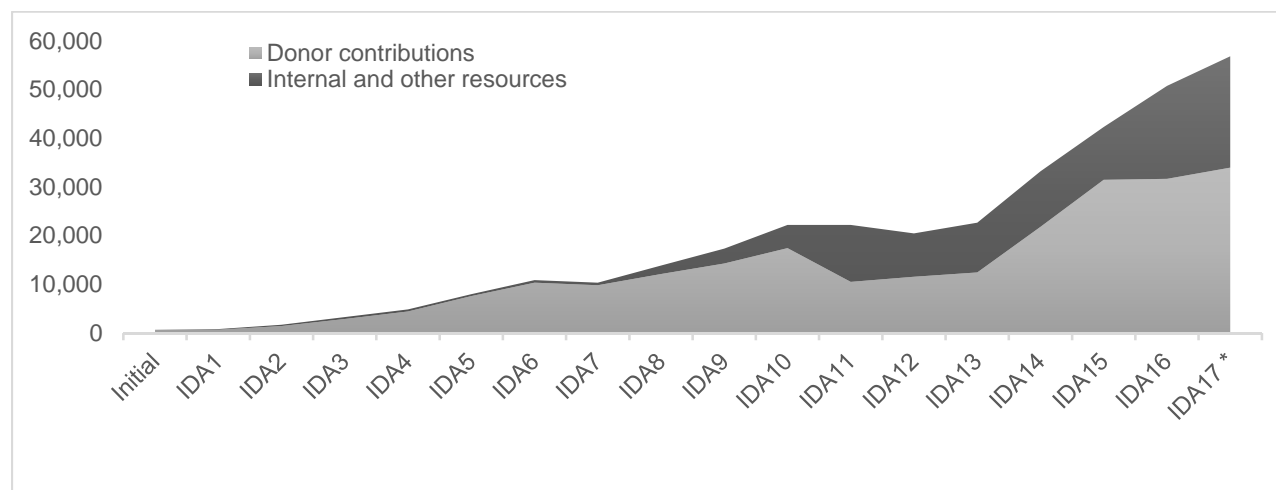
## SECTION 3: FUNDING AND RESOURCE ALLOCATION

### Funding and Application of IDA’s Resources

IDA is substantially funded by equity contributions from developed and middle income members. The number of contributing members has grown from 18 at inception to 51 members in IDA17, and IDA resources by replenishment have grown from \$690 million for the initial replenishment to \$57 billion in IDA17. Since its inception, IDA has provided \$326 billion of loans and grants in 126 countries. For the fiscal year ended June 30, 2016 (FY16), IDA’s commitments reached \$16.2 billion spread over 177 new operations. Figure 3 shows the evolution of resources by replenishment. The growth of the proportion of internal resources primarily reflects the increasing reflows, resulting from principal repayments of loans provided to borrowers in earlier replenishments. The growth in principal repayments, reflects the greater volume of lending activity over IDA’s history, as well as the impact of greater differentiation of lending terms in recent replenishments to calibrate to borrowing member capacity, including shorter grace and maturity periods, and the introduction of interest charges.

**Figure 3: IDA's Resources by Replenishment**

*In millions of U.S. dollar equivalent*



\* Contributions include concessional loans from members

### The Seventeenth Replenishment of IDA's Resources – IDA17

As of June 30, 2016, the IDA17 Commitment Authority Framework amounted to Special Drawing Rights<sup>4</sup> (SDR) 38 billion (approximately U.S. dollar equivalent 57 billion using the IDA17 foreign exchange reference rate), an increase from \$50.8 billion as of June 30, 2015. The increase includes the impact of the following:

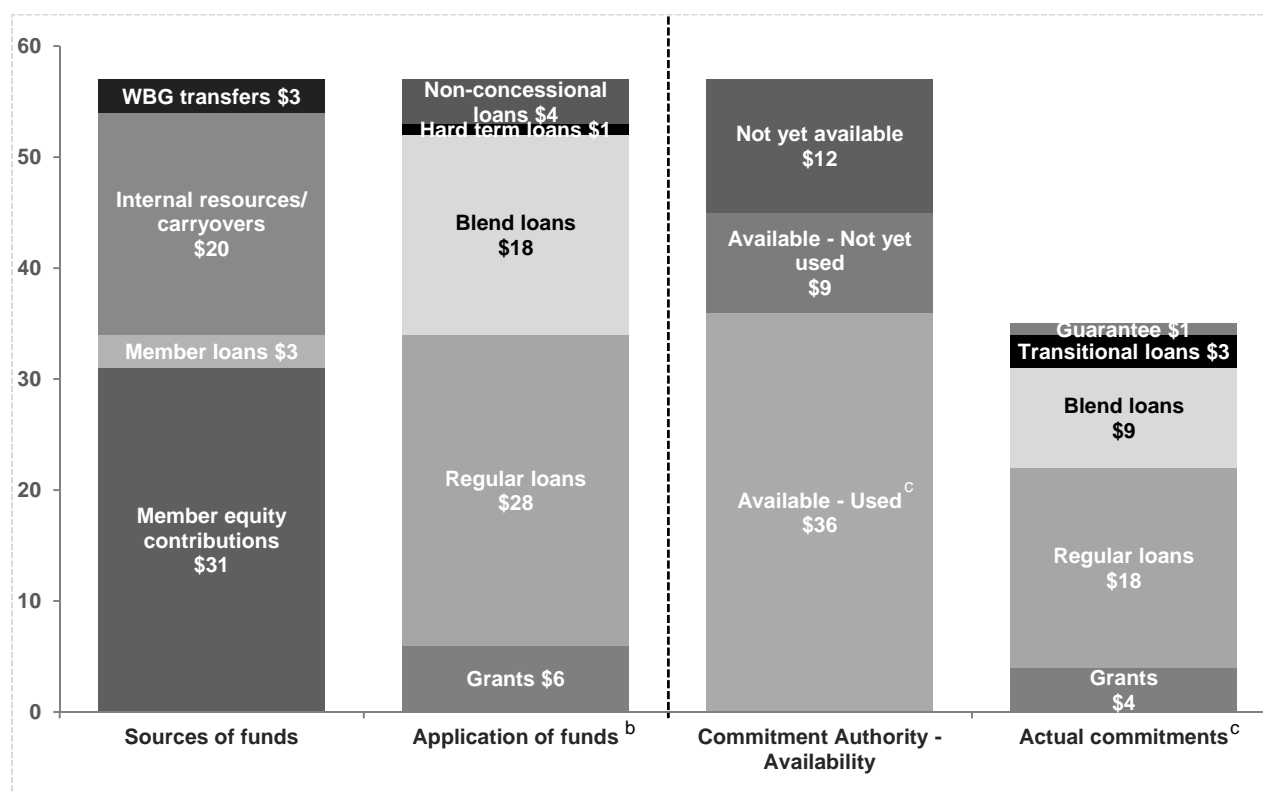
- A \$1 billion increase due to two members submitting their Instruments of Commitment (IOCs) under IDA16 contributions in FY16. Any IOC's from earlier replenishments are rolled into the replenishment in which they are received.
- A \$5 billion increase arising from a revision of IDA's liquidity management framework, approved by the Board on March 8, 2016. The \$5 billion was allocated as follows:
  - \$3.9 billion will be used to fund the IDA17 Scale-Up Facility (SUF), a non-concessional facility to scale-up IDA's financing for the remainder of the IDA17 period. It will fund lending to IDA countries on terms similar to those of IBRD for operations.
  - \$0.9 billion to replenish the Crisis Response Window (CRW), which will help IDA provide rapid financing to help countries deal with severe natural disasters, economic shocks or health emergencies and pandemics over the remainder of the IDA17 period.
  - \$0.2 billion will be allocated, on an exceptional basis to Jordan and Lebanon, as part of the World Bank Group's crisis response initiative in the Middle East and North Africa region to assist with the Syrian refugee crisis. The exceptional allocation was done on the basis that Syria would be likely to qualify as an IDA borrower. Given that IDA is not currently able to operate in Syria, the Board agreed that IDA's support would focus on helping Syrian refugees, and the local communities supporting them, in Jordan and Lebanon.
- A \$0.2 billion increase due to one member, Austria, making a supplemental contribution to IDA by submitting additional IDA17 IOCs, which will be encashed over a period of nine years.
- Given the supplemental contribution received by IDA, IBRD reduced the indicative amount of its expected transfer by \$0.2 billion.

<sup>4</sup> IDA's functional currency is the SDR and its component currencies, as its operations are primarily carried out in SDRs; however for the convenience of its members and other users, IDA's financial statements are reported in U.S. Dollars.

The IDA17 commitment authority which is used to fund IDA’s lending, grant financing and guarantee activities, is comprised of the following sources and applications of funds (Figure 4):

**Figure 4: Sources and Applications of IDA17 Funding**

*In billions of U.S. dollar equivalent<sup>a</sup>*



a. U.S. dollar amounts are based on IDA17 foreign exchange reference rate of U.S. dollar/SDR 1.50718. The U.S. dollar amounts are provided for illustrative purposes only, as IDA's commitment authority is managed in SDR.  
b. Application of funds are based on broad guidelines issued for IDA17 commitment authority lending allocations.  
c. The U.S. dollar equivalent of amounts "available-used" is based on the IDA17 replenishment reference rate and may not match with the U.S dollar equivalent of actual commitments under IDA17.

## Sources of Funds

**Equity Contributions from Members:** Equity contributions from members which convey voting rights, constitute a significant component of IDA’s financial resources. There are two main types of contributions:

- I. **Regular Contributions:** These contributions which members agree to provide in order to fund, in part, IDA’s lending envelope. They are typically made in cash or non- interest bearing demand obligations, either in SDRs or in a freely convertible currency, in three equal installments during a replenishment period. Demand obligations are encashed on a pro-rata basis in accordance with an agreed upon schedule. IDA17 has a nine-year standard encashment schedule; however, members may pay earlier and either receive discounts and pay amounts less than their contribution amount, or receive acceleration credits and pay the full contribution amount, receiving additional voting rights. At June 30, 2016, \$17 billion out of a total of \$26 billion of regular contributions from members have been made available for commitments, the remaining \$9 billion will be made available in the final year of the IDA17 replenishment.
- II. **Contributions for the Multilateral Debt Relief Initiative (MDRI):** Members have agreed to compensate IDA on a dollar for dollar basis for forgone loan reflows (principal and service charge repayments) due to debt cancellation under the MDRI, see Section 5: Development Activities, Products and Programs. The value of the compensation is reassessed every three years, normally at the time of regular IDA replenishments. . At June 30, 2016, \$4 billion out of a total of \$5 billion of MDRI contributions from members have been made available for commitments, the remaining \$1billion will be made available in the final year of the IDA17 replenishment.



**Concessional Loans from Members:** IDA17 is the first time in IDA’s history that a replenishment includes concessional loans from members as a source of funding. While underscoring that equity contributions remain at the core of IDA’s financing, IDA’s Board approved the concessional loans from members as an additional contribution mechanism for IDA17. As a result, IDA entered into concessional loan agreements with certain members with a total notional amount of \$4.4 billion. See Section 6: Investment and Borrowing Activities for further details.

**Internal Resources:** Principal repayments from borrowers (‘loan reflows’) are the largest component of internal resources. Other components include interest received on loans to blend countries (see Eligibility section below for details), investment income earned on IDA’s liquid assets, any carryover of residual resources from previous replenishments, as well as draw downs on IDA’s core liquidity balance if needed based on long-term liquidity projections. Internal resources become available at the start of the replenishment period, upon approval by the Board. The level of internal resources available for commitment authority in each replenishment is determined based on long-term financial projections of IDA’s liquidity and is reassessed on a regular basis.

**Transfers from IBRD and IFC:** IDA17, as adjusted, includes \$1.9 billion of indicative IBRD transfers (inclusive of expected investment income), this is a reduction of \$0.2 billion from the original indicative amount and reflects a decision made by IBRD’s Board to recommend to IBRD’s Board of Governors a reduction in IBRD’s transfers to IDA by \$168 million to reflect a supplemental contribution received by IDA.

Transfers from IBRD are dependent on IBRD first fulfilling its reserve retention needs. For IDA17, the indicative transfer amounts were allocated in three planned installments over fiscal years 2015, 2016 and 2017. Each installment is required to be approved annually by IBRD’s Board of Governors. As of June 30, 2016, IDA had received transfers of \$1.3 billion from IBRD under IDA17.

IDA17 also includes \$1.0 billion as indicative designations out of IFC’s retained earnings for grants to IDA. These grants are formula based and dependent on IFC’s level of earnings. The grants are used by IDA for sectors and themes that contribute significantly to private sector growth and economic development in countries that are members of both IFC and IDA. The grants are planned for three installments over fiscal years 2015, 2016 and 2017. The installments are subject to availability of funds and annual approval by the IFC Board of Governors, and are recognized upon IDA and IFC signing the grant agreement. As of June 30, 2016, IDA had received grants of \$0.7 billion from IFC under IDA17.

## **Applications of Funds**

**Eligibility** for IDA resources is determined primarily by a member’s relative poverty. Relative poverty is defined as GNI per capita below an established threshold and is updated annually. For FY17 the threshold is \$1,185 (2016: \$1,215).

As of July 1, 2016, 78 countries are eligible to borrow from IDA. These are as follows:

- 59 countries are not eligible to borrow from IBRD and are referred to as “IDA only” countries, 48 of which will be subject to regular IDA loan terms and the remaining 11 will be subject to IDA lending on blend terms. The latter are countries with a GNI per capita above the operational cut-off for more than two consecutive years but which are not eligible for IBRD financing.
- 18 countries are below the GNI per capita threshold, but are eligible to borrow from IBRD-and may receive both IDA and IBRD financing; these countries are referred to as “blend” countries. Five of these countries are eligible for the small island economy exception and receive funding under regular IDA loan terms. The remaining 13 countries are subject to IDA lending on blend terms.
- One country is classified as “IBRD only”, however, it is eligible to receive exceptional transitional support from IDA during IDA17. See Section 5: Development Activities, Products and Programs for further details on lending terms.

For each replenishment, IDA allocates its resources to eligible members, using its performance-based allocation (PBA) system. The allocation is done on the basis of recipients' needs, their policy performance and institutional capacity. This PBA system is used in order to concentrate resources where they are likely to be most helpful in reducing poverty.

**Allocation Criteria:** The main factor that determines the allocation of IDA resources among eligible countries is each country's performance in implementing policies that promote economic growth and poverty reduction. This is assessed by the IDA Resource Allocation Index (IRAI). The IRAI reflects the results of an exercise that rates eligible countries against a set of criteria including: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. The IRAI and portfolio performance together constitute the IDA Country Performance Rating (CPR). In addition to the CPR, population and per capita income also determine IDA allocations. Before arriving at a country's final allocation, reductions are made for any grant allocations to that country, as well as any debt relief provided. In the case of countries that are eligible for both IDA and IBRD funds ("blend countries"), IDA allocations must also take into account those countries' creditworthiness for and access to other sources of funds.

Following a review of IDA's resource allocation framework under IDA17, the base allocation per country was increased to SDR 12 million per replenishment or SDR 4 million annually, in order to ensure a meaningful engagement at the country level and enhanced financing for Fragile and Conflict-affected states (FCSs).

**Transitional Support for Graduating Countries:** As a result of an improvement in economic results, a member country that was once eligible to borrow from IDA may no longer be eligible, and be deemed to have "graduated" to IBRD. During the IDA17 replenishment discussions, it was noted that whilst graduation from IDA represents an important milestone of progress in a country's development path, in some cases, graduation could adversely impact a country's capacity to maintain development momentum, if it leads to a significant decline in available financing for that country. Accordingly, it was agreed that in IDA17, transitional support would be given to new graduates that met certain criteria. India, which graduated from IDA on June 30, 2014, is the only country that qualifies and transitional support is being provided to India during IDA17. As of June 30, 2016, transitional support commitments of \$2.7 billion have been made to India.

**Allocation of Grants:** Grants under IDA17 are available solely for IDA-only countries. The amount available for each country is a function of the country's performance-based IDA allocation, and its eligibility for development grants is based on an assessment of the risk of debt distress classified into traffic light categories of red, yellow and green. Countries with a high risk of debt distress (red light countries) receive 100% of their IDA allocation as grants, see Table 5: Summary of Financial Terms for IDA Lending Products. Countries with a medium risk of debt distress (yellow light countries) receive 50% of their IDA allocation as grants, and the remaining as loans. Countries with a low risk of debt distress (green light countries) receive 100% of their allocation in the form of loans.

**IDA17 Commitments - loans and grants:** Through its development operations, IDA's loans and grants benefit the poorest countries. Figure 4 above shows that of the IDA17 Commitment Authority, approximately \$51 billion is expected to be committed to fund loans and \$6 billion is expected to be committed to fund grants. As of June 30, 2016, \$30 billion, \$4 billion and \$1 billion of commitments have been made to fund loans and grants respectively. See Section 5: Development Activities, Products and Programs for further details on IDA's lending products and activities.

## SECTION 4: FINANCIAL RESULTS

### Basis of Reporting

IDA prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), referred to in this document as the “reported basis”. The financial statements provide a basis upon which users are able to analyze IDA’s sources and uses of resources. Under the reported basis, IDA’s Statement of Income alone does not fully reflect the economic results of IDA due to the nature of the underlying transactions, see Section 9: Reported Basis Results.

### Statement of Activities

The Statement of Activities (Table 1) is designed to reflect how IDA manages its sources and applications of funds in executing its operating activities. The Statement of Activities presents the flows associated with IDA’s operating activities and the impact of these activities on the net asset value of IDA’s investment portfolio. This presentation addresses the majority of the constraints embedded in IDA’s reported basis results.

**Table 1: Statement of Activities for the Fiscal Years Ended June 30, 2016 and June 30, 2015**

*In millions of U.S. dollars*

	FY16	FY15	Variance
<b>Sources of Funds</b>			
<b>Member Resources</b>			
Members' subscriptions and contributions	\$7,288	\$7,753	\$ (465)
Borrowings from members	653	2,145	(1,492)
<b>Transfers from Affiliated Organizations</b>	980	975	5
<b>Internal Resources</b>			
Principal repayments and prepayments	4,327	4,085	242
Proceeds from buy-down of loans	58	-	58
Transfers from Trust Funds and Others	10	18	(8)
Interest on loans with blend terms, regular loans with accelerated interest	146	82	64
Investment interest income, net	372	411	(39)
	4,913	4,596	317
<b>Total Sources of Funds</b>	<b>13,834</b>	<b>15,469</b>	<b>(1,635)</b>
<b>Application of Funds</b>			
<b>Disbursements</b>			
Loan disbursements	(11,461)	(10,860)	(601)
Grant disbursements (including PPA grant activity)	(1,731)	(2,040)	309
<b>Borrowings expense</b>	(68)	(41)	(27)
<b>Total Application of Funds</b>	<b>(13,260)</b>	<b>(12,941)</b>	<b>(319)</b>
<b>Administrative Activities</b>			
Administrative expenses, net	(1,196)	(1,294)	98
Service charges, interest on loans with hard terms, and guarantee income	1,008	986	22
Member compensation for forgone charges	237	251	(14)
	49	(57)	106
<b>Results from Operating Activities</b>	<b>\$ 623</b>	<b>\$2,471</b>	<b>\$(1,848)</b>
<b>Net Asset Value of Investment Portfolio, at beginning of fiscal year</b>			
Results from Operating Activities	623	2,471	
Effects of exchange rates	141	(2,292)	
Net movement in non-operating activities	726	(61)	
<b>Net Asset Value of Investment Portfolio, at end of fiscal year</b>	<b>\$29,908</b>	<b>\$28,418</b>	

### Results from Operating Activities

IDA’s operating activities resulted in a net inflow of \$623 million for FY16. This primarily reflects funds received from members for subscriptions and contributions and from borrowers for principal repayments. These receipts were significantly offset by the usage of funds to finance loan and grant disbursements.

The following are additional details of the key drivers of IDA's results from operating activities:

### Members' Subscriptions and Contributions (Equity Contributions)

During FY16, IDA received equity contributions of \$7,288 million. These represent the cash contributions received from members and the encashment of demand obligations. This excludes \$237 million of member contributions received to finance foregone charges for debt relief and development grant financing, which is reflected under administrative activities as member contributions for forgone charges. The decrease of \$465 million primarily reflects the timing of cash payment schedules agreed with members, as compared to the previous year (\$3,381 million in FY16 as against \$3,863 million in FY15). See Section 3, Funding and Resource Allocation.

### Borrowings from Members

As part of IDA17, IDA signed loan agreements with members for a total notional amount of \$4.4 billion. The \$1,492 million decrease in FY16 receipts from borrowings from members reflects the timing of the loan schedules agreed with members. See Note D in the Financial Statements for more details.

### Transfers from Affiliated Organizations

On October 9, 2015, IBRD's Board of Governors approved a transfer of \$650 million, for a total of \$1,285 million in transfers under IDA17. The transfer was received on October 15, 2015.

On January 15, 2016, IDA signed a \$330 million grant agreement with IFC, for a total of \$670 million in grants under IDA17. The grant was received on January 22, 2016.

### Principal Repayments and Prepayments

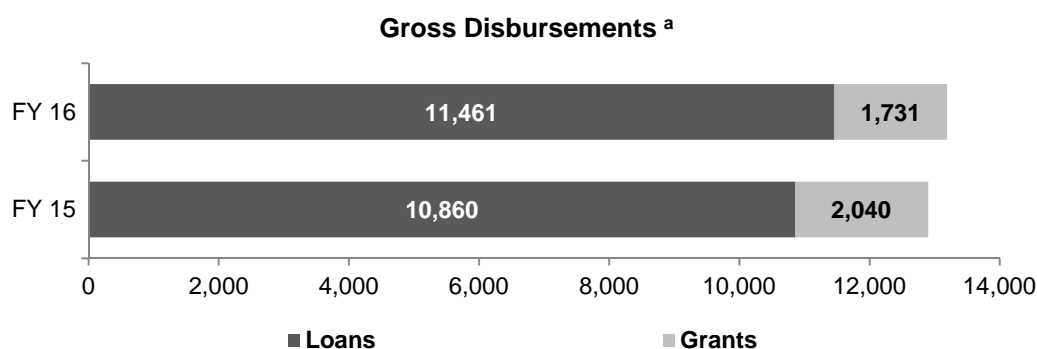
Principal repayments and prepayments in FY16 were \$4,327 million, an increase of \$242 million from FY15. In FY16, India accounted for 35% of repayments (\$1,502 million) followed by China, 18% (\$789 million) and Bangladesh, 7% (\$300 million). In addition, IDA received \$51 million (\$28 million in FY15) in voluntary prepayments by IDA graduate members. These prepayments increased the resources that IDA can redistribute to countries most in need of concessional funding.

### Loans and Grant Disbursements

Gross disbursements of loans in FY16 were \$11,461 million, an increase of \$601 million (6%) as compared to FY15. In terms of regional focus, disbursements to South Asia and Africa increased by \$587 million and \$418 million respectively. Africa and South Asia together accounted for 86% of the total gross disbursements during FY16.

Gross grant disbursements decreased by \$309 million in FY16 as compared to FY15. The decrease was attributable to the Africa and the Middle East & North Africa regions, and is in line with a \$1,087 million decrease in grant commitments in FY16 as compared to FY15.

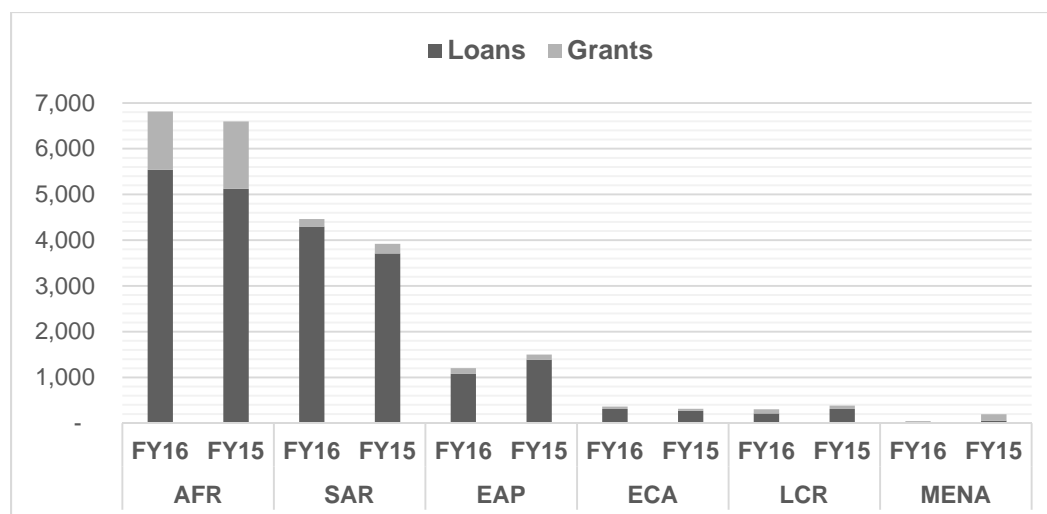
*In millions of U.S. dollars*



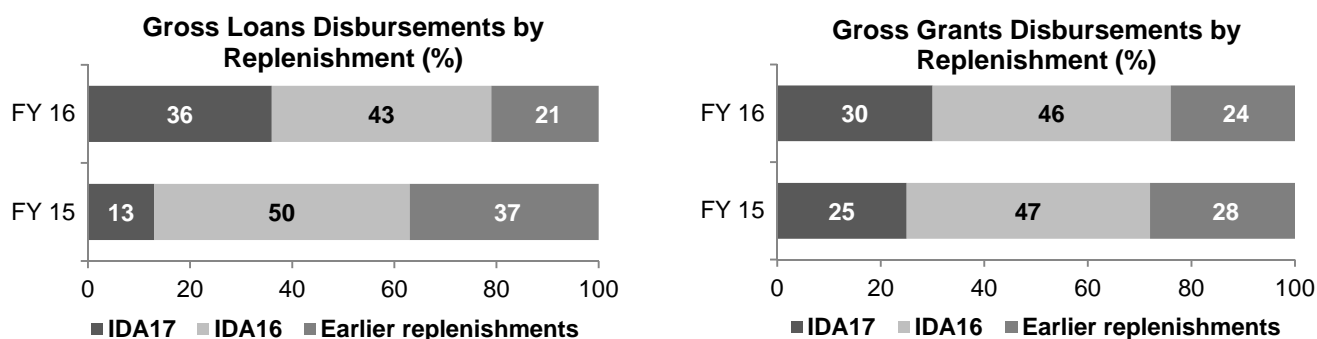
*(a. Includes adjustments for certain Project Preparation Advances (PPA) Amounts)*

**Figure 5: Gross disbursements of Loans and Grants by Region**

*In millions of U.S. dollars*



Given the lengthy disbursement period for IDA loans, five to ten years for investment project financing and one to three years for development policy financing, FY16 and FY15 disbursements also include amounts relating to commitments made under earlier replenishments. The following charts display the composition of the FY16 and FY15 loans and development grant disbursements by replenishments.



### Administrative Activities

IBRD/IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of administrative expenses between IBRD and IDA is based upon an agreed cost sharing methodology, approved by their Boards, which is driven by the relative level of lending activity between these two institutions.

For FY16, IDA's net non-interest expenses were \$1,196 million, a \$98 million decline as compared to FY15. The decline is primarily due to the changes in the lending activity of IDA relative to IBRD over the same period. See Table 16: Net Administrative Expenses for the fiscal years ended June 30, 2016 and June 30, 2015.

It is IDA's policy that administrative expenses should broadly be covered by service and commitments charges, interest on hard term loans, and member compensation for forgone charges on both grants and on debt forgiveness under HIPC and MDRI. In FY16, based on the reported administrative expenses, there was an excess of \$49 million (4.1%) (FY15 – shortfall of \$57 million (4.4%)). Any shortfall/excess is funded by/returned to IDA's liquidity balance.

In FY15, IDA introduced a new budget measure, with the broad aim of having its net administrative expenses met by its income from service charges, interest on loans with hard terms, and guarantee income. This measure, referred to as the Budget Anchor, enables IDA to monitor its net administrative expenses as a percentage of its loan revenue.

As presented in Table 2, IDA's revenue for the Budget Anchor in FY16 was \$1,245 million while its net administrative expenses were \$1,175 million, resulting in a budget anchor of 94%. The decline in the budget anchor from 100% in FY15 to 94% in FY16 reflects a combination of declining administrative expenses due to a decrease in IDA's share ratio, reflecting changes in lending activity of IDA relative to IBRD, and increasing loan revenue due primarily to increased lending volumes.

**Table 2: Budget Anchor**

*In millions of U.S. dollars, except ratios*

For the fiscal year ended June 30,	2016	2015	FY16 vs FY15
Total net Non-interest Expenses (from Table 16)	\$1,196	\$1,294	\$ (98)
Pension and Externally Financed Outputs (EFO) adjustment <sup>a</sup>	(21)	(63)	42
<b>Net administrative expenses for Budget Anchor</b>	<b>\$1,175</b>	<b>\$1,231</b>	<b>\$(56)</b>
Service charges, interest on loans with hard terms, and guarantee income (From Table 1)	1,008	986	22
Member compensation for foregone charges (From Table 1)	237	251	(14)
<b>Total revenue for Budget Anchor</b>	<b>\$1,245</b>	<b>\$1,237</b>	<b>\$ 8</b>

a. These amounts are excluded from the definition of net administrative expenses to reflect the way in which IDA is managed.

Table 3 provides a reconciliation of the results from operating activities as presented in Table 1, Statement of Activities to the reported basis, net loss. The reconciling items are presented as either (i) items in the reported basis results, but not included in the Statement of Activities, or (ii) items included in the Statement of Activities, but not in the reported basis results. These are further classified as: addressing asymmetries, adjustments to reflect cash and non-cash operating activities, and adjustments for non-operating activities.

**Table 3: Reconciliation of Results from Operating Activities to Reported Basis, Net Income (Loss)**

*In millions of U.S. dollars*

	FY 16	FY 15
<b>Results from Operating Activities (From Table 1)</b>	<b>\$623</b>	<b>\$2,471</b>
<b>(i) Items in reported basis results, not included in Statement of Activities</b>		
<i>Adjustments to reflect non-cash operating activities:</i>		
- Grant expense	(1,232)	(2,319)
- Provision for debt relief and losses on loans and other exposures, net	(380)	(372)
- PPA grants and other	14	(13)
<i>Adjustments for non-operating activities:</i>		
- Non-functional currency translation adjustment gains	208	912
- Unrealized mark-to-market losses on non-trading portfolios, net	*	(179)
- Unrealized mark-to-market gains on trading portfolio	509	103
<b>(ii) Items included in Statement of Activities, not in Reported Basis Net Income (Loss)</b>		
<i>Adjustments addressing constraints:</i>		
- Members' subscriptions and contributions	(7,288)	(7,753)
- Borrowings from members	(653)	(2,145)
- Member compensation for forgone charges	(237)	(251)
<i>Adjustments to reflect cash operating activities:</i>		
- Loan disbursements	11,461	10,860
- Grant disbursements	1,731	2,040
- Principal repayments and prepayments	(4,327)	(4,085)
- Proceeds from buy-down of loans	(58)	-
<b>Reported Basis, Net Income (Loss)</b>	<b>\$371</b>	<b>\$ (731)</b>

\*Indicates amount less than \$0.5 million.

## Liquidity and Funding Ratios

IDA's core liquidity position as of June 30, 2016 is sufficient to cover approximately 9 months of average monthly gross disbursements, which is consistent with the historical range of 9 to 11 months for FY12 through FY16. See Section 7: Risk Management for more details on IDA's core liquidity position.

IDA's funding position, the extent to which IDA's investment portfolio and unrestricted demand obligations cover any undisbursed loans and grants, stood at 70% for both June 30, 2016 and June 30, 2015. The remaining funding gap will be primarily covered by future receipts of cash and demand obligations already committed by members, as well as through repayments on existing credits. At all times, IDA enters into new commitments based on the commitment authority available. See Section 3: Funding and Resource Allocation for further details on IDA's commitment authority and See Section 7: Risk Management for more details on IDA's funding ratio.

## Balance Sheet Analysis

The principal components of IDA's balance sheet are loans outstanding, investment assets-net of related liabilities, and subscriptions and contributions paid-in. Movements in these principal components between June 30, 2016 and June 30, 2015 are discussed further below.

**Table 4: Condensed Balance Sheet**

*In millions of U.S. dollars*

As of June 30,	2016	2015	Variance
<b>Assets</b>			
Investment assets, including related derivative assets	\$ 37,618	\$ 41,174	\$(3,556)
Derivatives relating to asset-liability management	8,214	8,914	(700)
Receivables and other assets, including non-investment cash	1,840	1,863	(23)
Loans outstanding	136,735	130,878	5,857
Accumulated provision for debt relief and losses on loans	(3,932)	(4,144)	212
<b>Total assets</b>	<b>\$180,475</b>	<b>\$178,685</b>	<b>\$ 1,790</b>
<b>Liabilities</b>			
Liabilities and derivatives relating to investments	\$ 7,710	\$ 12,756	\$(5,046)
Derivatives relating to asset-liability management	7,943	8,963	(1,020)
Payables and other liabilities	7,216	7,667	(451)
Borrowings from members	2,906	2,150	756
Total liabilities	25,775	31,536	(5,761)
<b>Equity</b>			
Subscriptions and contributions paid-in	208,430	201,045	7,385
Demand obligations	(9,237)	(9,378)	141
Deferred amounts to maintain value of currency holdings	(244)	(242)	(2)
Accumulated deficit	(43,030)	(43,401)	371
Accumulated other comprehensive income	(1,219)	(875)	(344)
Total equity	154,700	147,149	7,551
<b>Total liabilities and equity</b>	<b>\$180,475</b>	<b>\$178,685</b>	<b>\$ 1,790</b>

### Assets

#### Loans Outstanding

As of June 30, 2016, loans outstanding were \$136,735 million or an increase \$5,857 million (4.5%) compared to June 30, 2015. The increase was primarily due to positive net disbursements of \$7,076 million, offset by negative translation adjustments of \$655 million resulting from the 0.5% depreciation of the SDR against the U.S. dollar, and the \$524 million MDRI write-off of loans pertaining to Chad reaching its completion point under the HIPC Debt Initiative in FY15. Additionally, a buy down was effected for one loan with an outstanding carrying value of \$85 million under the polio eradication buy-down mechanism and one IDA graduate country prepaid loans with an outstanding carrying value of \$54 million.

As of June 30, 2016, IDA's accumulated provision for debt relief and for losses on loans was \$3.9 billion, 2.9% of the total loans outstanding balance. This reflects a \$212 million decrease over June 30, 2015, which was primarily due to the write-off of loans to Chad under the MDRI. See Section 5: Development Activities, Products and Programs.

## Investment Assets-net of Related Liabilities

The net investment portfolio increased from \$28,418 million as of June 30, 2015 to \$29,908 million as of June 30, 2016. The key drivers for this increase of \$1,490 million were (i) net inflow from IDA's operating activities as reflected in the Statement of Activities (Table 1), see Section 4, Results for FY16 for variance analysis of operating activities, and (ii) the \$141 million net positive impact of exchange rate movements, reflecting the appreciation of JPY which was partially offset by depreciation of GBP, against the U.S. dollar.

## Equity

### Subscriptions and Contributions

*In millions of U.S. dollars*

As of	June 30, 2016	June 30, 2015
Subscriptions and contributions committed	\$245,430	\$244,694
Less: Subscriptions and contributions receivable	33,695	40,533
Less: Cumulative discounts/acceleration credits on subscriptions and contributions	3,305	3,116
<b>Subscriptions and contributions paid-in</b>	<b>\$208,430</b>	<b>\$201,045</b>

*Subscriptions and contributions paid-in* – At June 30, 2016, the \$7,385 million increase in equity subscriptions and contributions paid-in is primarily attributable to the receipt from members of \$4,477 million of demand obligations and \$3,381 million of cash contributions. This was partially offset by a negative translation adjustment of \$473 million as a result of the SDR depreciating against the U.S. dollar during the year.

*Subscriptions and contributions receivable* – This amount represents the balance of subscriptions and contributions committed but for which demand obligations or cash have not yet been received. As of June 30, 2016, subscriptions and contributions receivable amounted to 14% of subscriptions and contributions committed, the majority of which is expected to be received after FY17.

*In millions of U.S. dollars*

As of	June 30, 2016
<b>Subscriptions and Contributions Receivable – Unrestricted</b>	
Due to be paid between July 1, 2016 and June 30, 2017	\$ 8,515
Due to be paid between July 1, 2017 and June 30, 2018	1,365
Due to be paid July 1, 2018 and thereafter	22,329
Past due	
- Due to be paid earlier than June 30, 2014	454
- Due to be paid between July 1, 2014 and June 30, 2016	1,024
	33,687
<b>Subscriptions and Contributions Receivable – Restricted</b>	8
<b>Total</b>	<b>\$33,695</b>

### Accumulated Deficit

As of June 30, 2016, IDA's accumulated deficit was \$43,030 million. This deficit is driven primarily by the losses incurred due to IDA's debt relief initiatives and its grant activity. IDA's debt relief, which was a policy decision agreed upon by members, negatively impact its income statement when a provision for debt relief is recorded. The contributions members have agreed to make to reimburse IDA for lost reflows, are recorded as equity. Similarly, IDA's grants are expensed upon approval, the contributions from members that are received over time to compensate IDA for its grant activity which do not flow through the income statement, rather they are recorded as equity. See Section 5: Development Activities, Products and Programs for further details.



## SECTION 5: DEVELOPMENT ACTIVITIES, PRODUCTS AND PROGRAMS

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### Lending Framework

IDA has a common framework which extends across all of its development activities. The main elements of this framework are: financing principles, cycles and categories.

#### Financing Principles

IDA's operations are required to conform to the general principles derived from its Articles of Agreement. These principles are described in **Box 2**. Within the scope permitted by the Articles of Agreement, application of these financing principles must be developed and adjusted in light of experience and changing conditions.

#### Box 2: Financing Principles

- (i) IDA may provide financing for its development operations in the form of loans, grants, and guarantees directly to its members, public or private entities and regional or public international organizations.
- (ii) IDA's financing of its development operations is designed to promote economic development, increase productivity and thus raise standards of living in its member countries. Investment projects financed by IDA are required to meet IDA's standards for technical, economic, financial, institutional and environmental soundness. Specific provisions apply to development policy financing, including the treatment of the macro-economic framework, poverty and social impact, environment, forests and other natural resources.
- (iii) Decisions to approve financing are based upon, among other things, studies by IDA of a member country's economic structure, including assessments of its resources and ability to generate sufficient foreign exchange to meet debt-service obligations.
- (iv) IDA must be satisfied that in the prevailing market conditions (taking into account the member's overall external financing requirements); the recipient would be unable to obtain financing under conditions which, in the opinion of IDA, are reasonable for the recipient. This would include loans made by private sources or IBRD.
- (v) The use of funds by recipients is supervised. IDA makes arrangements intended to ensure that funds provided are used only for authorized purposes and, where relevant, with due attention to considerations of cost-effectiveness. This policy is enforced primarily by requiring recipients (a) to submit documentation establishing, to IDA's satisfaction, that the expenditures financed with the proceeds of loans or grants are made in conformity with the applicable financing agreements, and (b) to maximize competition in the procurement of goods and services by using, wherever possible, international competitive bidding procedures or, when it is not appropriate, other procedures that ensure maximum economy and efficiency. In addition, IDA considers the use of recipient country procurement, and environmental and social safeguard systems in selected operations where these systems are assessed by IDA as being equivalent to IDA's systems and where the recipient's policies and procedures, implementation practices, track record, fiduciary and safeguard risks and capacity are considered acceptable to IDA.

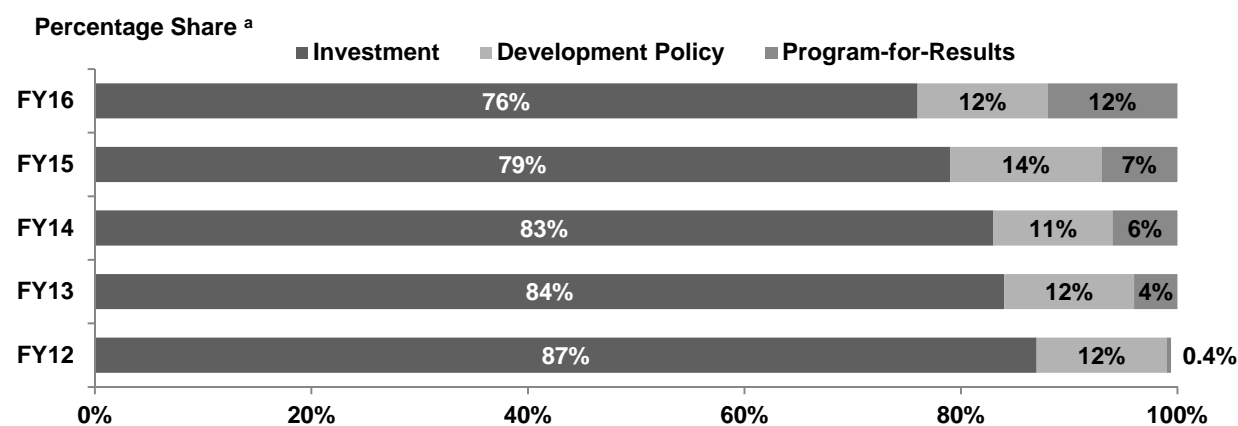
#### Financing Cycles

The process of identifying and appraising a project and approving and disbursing the funds often extends over several years. However, in response to emergency situations, such as natural disasters and financial crises, IDA is able to accelerate the preparation and approval cycle. After appraisal of a project by staff, with certain exceptions, IDA's Executive Directors must approve each loan, grant and guarantee. Disbursements are subject to the fulfillment of conditions set out in the credit or grant agreement. During implementation of IDA-supported operations, staff review progress, monitor compliance with IDA policies, and assist in resolving any problems that may arise. An independent unit, the Independent Evaluations Group, also assesses the extent to which operations have met their major objectives, and these evaluations are reported directly to the Executive Directors.

#### Financing Categories

Most of IDA's lending is of three types: investment project financing, development policy financing, and program-for-results. **Figure 6** shows the percentage of IDA loans approved for investment lending, development policy operations and Program-for-Results over the past five years.

**Figure 6: Share of Financing Categories**



a. May differ from the sum of individual figures shown due to rounding

### Investment Project Financing (IPF)

IPF is used in all sectors, with a concentration in the infrastructure, human development, agriculture, and public administration sectors. It supports a wide range of activities including capital-intensive investments, agricultural development, service delivery, credit and grant delivery, community-based development, and institution building. IPF is usually disbursed over the long-term (5 to 10 year horizon).

FY16 commitments under IPF amounted to \$12.4 billion, compared with \$15.1 billion in FY15. The share of investment financing has declined over the last five years, ranging from 87% to 76%.

### Development Policy Financing (DPF)

DPF provides rapidly-disbursing financing (1 to 3 years) to help a borrower address actual or anticipated development financing requirements. DPF aims to support the borrower in achieving sustainable development through a program of policy and institutional actions, for example, strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy. DPF supports such reforms through non-earmarked general budget financing that is subject to the borrower's own implementation processes and systems.

FY16 commitments under DPF totaled \$1.9 billion, compared with \$2.6 billion in FY15.

### Program-for-Results (PforR)

PforR helps countries improve the design and implementation of their development programs and achieve specific results by strengthening institutions and building capacity. It helps strengthen partnerships with government, development partners and other stakeholders by providing a platform to collaborate in larger country programs. PforR disburses when agreed results are achieved and verified. Results are identified and agreed upon during the preparation stage.

FY16 commitments under PforR totaled \$1.9 billion, compared with \$1.3 billion in FY15. The increase is primarily due to a \$680 million increase in commitments provided to Vietnam.

These three complementary categories support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth.

## Financial Terms

### Commitment Currency

The currency of commitment for IDA grants and loans is the SDR. However, in response to client needs to reduce currency exposure and simplify debt management, IDA has a Single Currency Lending pilot program in effect until the earlier of April 2018 or when the program limit of SDR 7 billion is reached. This pilot program, which expands borrowing options beyond the standard SDR loans, allows IDA recipients to denominate new IDA loans in any of the constituent currencies of the SDR basket. In March 2016, in order to accommodate potential demand arising from the Scale-Up Facility, IDA's Executive Directors increased the program's limit from SDR 3 billion (\$4.5 billion) to SDR 7 billion (\$10 billion). As of June 30, 2016, \$3 billion of US dollar denominated loans and U.S. dollar equivalent 0.7 billion in EUR denominated loans had been approved, of which \$589 million in U.S. dollar equivalent were outstanding.

**Table 5: Summary of Financial Terms for IDA Lending Products, Effective July 1, 2016**

Instrument type	Recipient Countries	Maturity/Grace	Principal repayment (yrs)	Current Charges	Interest rates
Grant	"Red-light" IDA-only (100%) and "Yellow-light" IDA-only (50%)	Grant	None	None	Not applicable
Regular-Term loan <sup>8/</sup>	"Green-light" IDA-only (100%) and "Yellow-light" IDA-only (50%)	38/6 yrs	3.125% p.a	75bps service charge <sup>2/</sup>	Not applicable
Regular-Small Island loan <sup>8/</sup>	Small island countries	40/10 yrs	2% p.a. yrs 11-20; 4% p.a. yrs 21-40	75bps service charge <sup>2/</sup>	Not applicable
Blend-Term loan <sup>8/</sup>	Blend countries & countries with GNI pc above IDA cut-off (US \$1,185) <sup>1/</sup> for 2 years	25/5 yrs	3.3% p.a. yrs 6-15; 6.7% p.a. yrs 16-25	75bps service charge <sup>2/</sup>	1.25%
Hard-Term loan <sup>8/</sup>	Blend countries (excl. small island blends receiving regular IDA loans)	25/5 yrs	3.3% p.a. yrs 6-15; 6.7% p.a. yrs 16-25	75bps service charge <sup>2/</sup>	1.13% <sup>3/5</sup>
Transitional support loan <sup>8/</sup>	India	25/5 yrs	5% p.a	75bps service charge <sup>2/</sup>	1.93% <sup>4/5</sup>
Scale-up Facility <sup>8/</sup>	All current IDA clients assessed as being at either low or moderate risk of debt distress with projects approved by Executive Directors before the end of IDA17 period	24/5 yrs	5% p.a. yrs 6-14; 5.5% p.a. yrs 15-24	25bps front-end fee + 25bps commitment fee <sup>6/</sup>	2.71% <sup>56</sup>
		27/8 yrs	5% p.a. yrs 9-17; 5.5% p.a. yrs 18-27	25bps front-end fee + 25bps commitment fee <sup>6/</sup>	3.01% <sup>5/6</sup>
		30/9 yrs	4.7% p.a. yrs 10-23.5; 4.9% p.a. yrs 24-30	25bps front-end fee + 25bps commitment fee <sup>6/</sup>	3.14% <sup>5/6</sup>
Guarantees	IDA-only countries	Depends on project loan	Not applicable	75bps guarantee fee <sup>2/</sup> + Initiation & processing commitment fee <sup>7/</sup>	Not applicable

Notes:

1/ Operational cut-off for FY17.

2/ The commitment charge is reset annually within a range of 0 – 50 bps, for FY17 it is nil. The guarantee stand-by fee is set at the same level as the commitment charge on loans.

3/ The interest rate for hard term loans is determined annually based on the fixed rate equivalent of IBRD interest rates less 200 basis points.

4/ The interest rate for transitional support loans is determined quarterly based on the fixed rate equivalent of IBRD interest rates less 100 basis points.

5/ Represent fixed rate available. Floating rate option is also available for these instruments.

6/ The indicative rates for the proposed Scale-up Facility loans. The rates are determined quarterly based on the fixed rate equivalent of IBRD interest rates. The Scale-up Facility loans follow IBRD pricing; they are subject a one-time front-end fee of 25 bps and a commitment fee of 25 bps.

7/ IDA guarantees for private sector borrowers are subject to an initiation fee of 15 bps or US\$100,000 (whichever is higher) and a processing fee of up to 50 bps of the principal amount. The processing fee is assessed on a case by case basis and can either be waived or increased in exceptional cases.

8/ Single currency option is available for these instruments.

## Charges on Loans and Grants

**Service Charge.** A service charge is levied on the principal amount disbursed and outstanding on all loans, regardless of repayment terms, at 0.75% per annum.

**Commitment Charge.** A commitment charge, which is payable on any undisbursed loan or grant amount, is set by the Executive Directors at the beginning of each fiscal year. From FY09 to FY16, the commitment charge on undisbursed loans had been set at nil and for grants it had been set at nil from FY03 to FY16. As noted previously, commitment charges are set at a level to ensure that service charges (adjusted to include income forgone from loans forgiven under HIPC and MDRI and from providing development grant financing) cover administrative expenses over a period of several years.

**Interest.** Interest is charged on all new loans subject to blend terms approved under IDA16 and IDA17, all hard-term loans, and transitional support lending. The interest charged is more concessional than the fixed-rate equivalent of IBRD's lending rate after taking into account the repayment terms, including the grace period and maturity. In FY16, the Scale-up Facility was established; all Scale up Facility loans have a floor of 75 basis points and are subject to interest rate ranges which are set quarterly and are currently between 2.71% and 3.14%, depending on the maturity period. Further, new loans offered under transitional, scale-up facility, and hard terms, are available at floating interest rates. All other rates are fixed. Table 5 shows the applicable rates effective July 1, 2016.

## Repayment Terms

Loans approved through June 30, 1987 have a final maturity of 50 years, including a grace period of 10 years. More recently, differentiation in IDA's lending terms has been introduced to recognize the variation in economic development of broad categories of IDA recipients. Table 5 provides a summary of the financial terms of IDA's lending products based on eligibility, effective July 1, 2016.

In addition, since 1987, IDA has included an accelerated repayment clause in the legal agreements of regular, blend and hard-term loans that allows IDA to double the principal repayments of the credit, if the borrower's GNI per capita exceeds a specific threshold and the borrower is eligible for IBRD financing. Implementation is subject to approval by IDA's Executive Directors after considering a borrower's economic development. The borrower would have a choice to either (a) shorten the credit's maturity (principal option), (b) pay interest at a rate that would result in the same net present value (interest option), or a combination of the two options. As of June 30, 2016, the acceleration clause has been implemented for the qualifying IDA loans of 15 borrowers that have graduated from IDA since the introduction of the accelerated repayment clause. Of these 15 borrowers, 10 borrowers selected the principal option, 4 borrowers selected the interest option, and 1 borrower selected a combination of the two options.

## Loans and Grants Activity

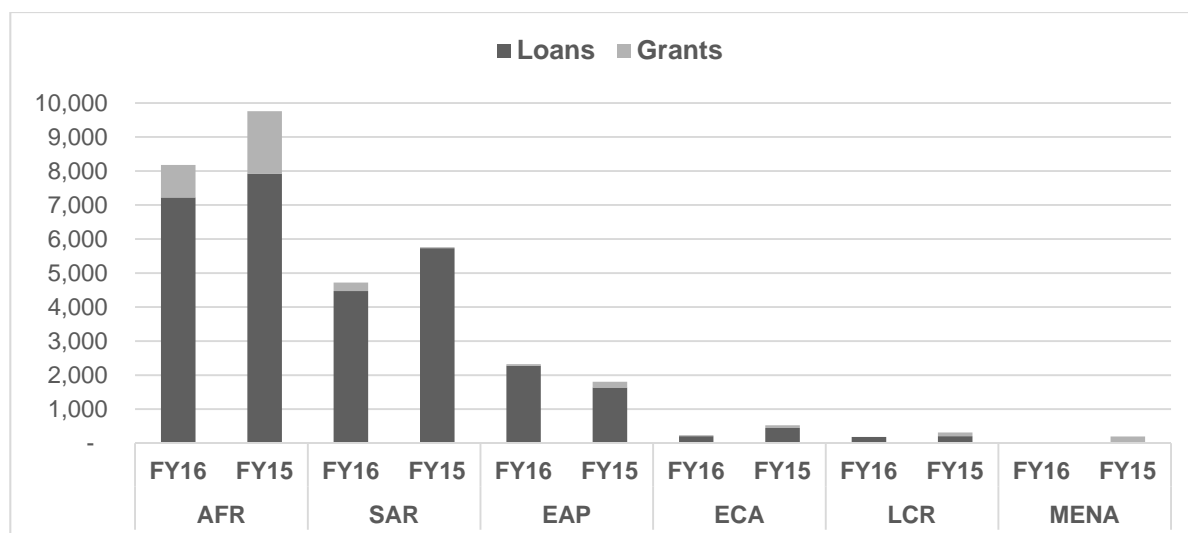
### Commitments of Loans and Grants

Commitments of loans in FY16 were \$14,398 million, a decrease of \$1,550 million (10%) over FY15. In terms of regional focus, South Asia accounted for \$1,258 million of the decrease. Africa and South Asia together accounted for 81% of the FY16 commitments (see Figure 7). The largest commitments in FY16 were made to Ethiopia (see Table 6).

Commitments of grants in FY16 were \$1,273 million, a decrease of \$1,145 million (47%) over FY15. The main drivers for the decrease were i) lower overall IDA commitments in FY16 - \$16,171 million compared to FY15 - \$18,966 million and, ii) the full usage of the \$895 million initial IDA17 Crisis Response Window (CRW) in FY15. In terms of regional focus, Africa accounted for \$882 million of the decrease. Africa and South Asia together accounted for 95% of the total FY16 commitments (see Figure 7). The largest commitments in FY16 were made to the Democratic Republic of Congo, (see Table 6).

**Figure 7: Commitments of Loans and Grants by Region**

*In millions of U.S. dollars*



Regions:  
 AFR Africa  
 LCR Latin America and Caribbean  
 EAP East Asia and Pacific  
 MENA Middle East and North Africa  
 ECA Europe and Central Asia  
 SAR South Asia

**Table 6: Top 10 Commitments of Loans and Grants to Member Countries**

*In millions of U.S. dollars, or as otherwise indicated*

Member	Loans	FY16% of total	FY15% of total	Member	Grants	FY16% of total	FY15 % of total
Ethiopia	\$ 1,862	13	9	D.R. Congo	\$ 257	20	13
Vietnam	1,670	12	5	Afghanistan	250	20	1
Bangladesh	1,557	11	12	Mozambique	157	12	8
Pakistan	1,460	10	8	Niger	93	7	4
Nigeria	1,075	7	6	Burundi	65	5	3
India	1,025	7	11	Chad	50	4	4
Tanzania	864	6	6	Sierra Leone	50	4	6
Kenya	646	4	7	South Sudan	40	3	-
Sri Lanka	412	3	1	Burkina Faso	35	3	8
Myanmar	400	3	4	Malawi	32	3	4
Other	3,427	24	31	Other	244	19	49
<b>Total</b>	<b>\$14,398</b>	<b>100</b>	<b>100</b>	<b>Total</b>	<b>\$1,273</b>	<b>100</b>	<b>100</b>

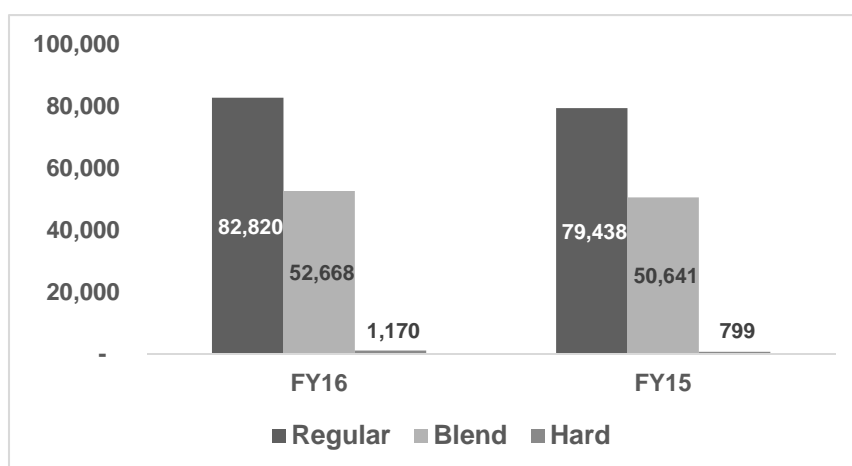
## Loans Outstanding

Loans outstanding as of June 30, 2016 were \$136,735 million. Figure 8 shows the breakdown by term. Figure 8 shows the breakdown by term. For both FY16 and FY15, 61% are on regular terms and 39% are on blend terms. Hard term and transitional loans are recently introduced products and only certain members are eligible for them. See Table 5 for details of IDA's terms.

Table 7 provides details of the top five borrowers with the largest loans outstanding balances as of June 30, 2016. These borrowers represented 50% of total loans outstanding as of that date.

**Figure 8: Loans Outstanding by Term <sup>a</sup>**

*In millions of U.S. dollars*



*a. Includes \$77 million of transitional support loans*

**Table 7: Top Five Members with the Largest Loans Outstanding Balance**

*In millions of U.S. dollars, or as otherwise indicated*

Country	India	Pakistan	Bangladesh	Vietnam	Nigeria	Others	Total
Loans Outstanding	24,765	13,381	12,147	11,714	6,763	67,965	136,735
% of Total Loans Outstanding	18%	10%	9%	8%	5%	50%	100%
Weighted Average Maturity (Years)	6.8	13.1	14.1	14.8	15.6	13.8	12.6
Loans outstanding by terms							
Regular	5,647	1,055	12,147	7,894	4,311	51,766	82,820
Blend	18,701	11,868	-	3,569	2,452	16,078	52,668
Hard	340	458	-	251	-	121	1,170
Transitional support	77	-	-	-	-	-	77
Undisbursed balance	6,640	2,315	5,696	4,803	4,219	25,803	49,476

Figure 9 shows the concentration of IDA's outstanding loan portfolio amongst its largest borrowers for the average of FY11 through FY15 and for FY16.

**Figure 9: Exposure of Largest IDA Borrowing Countries**

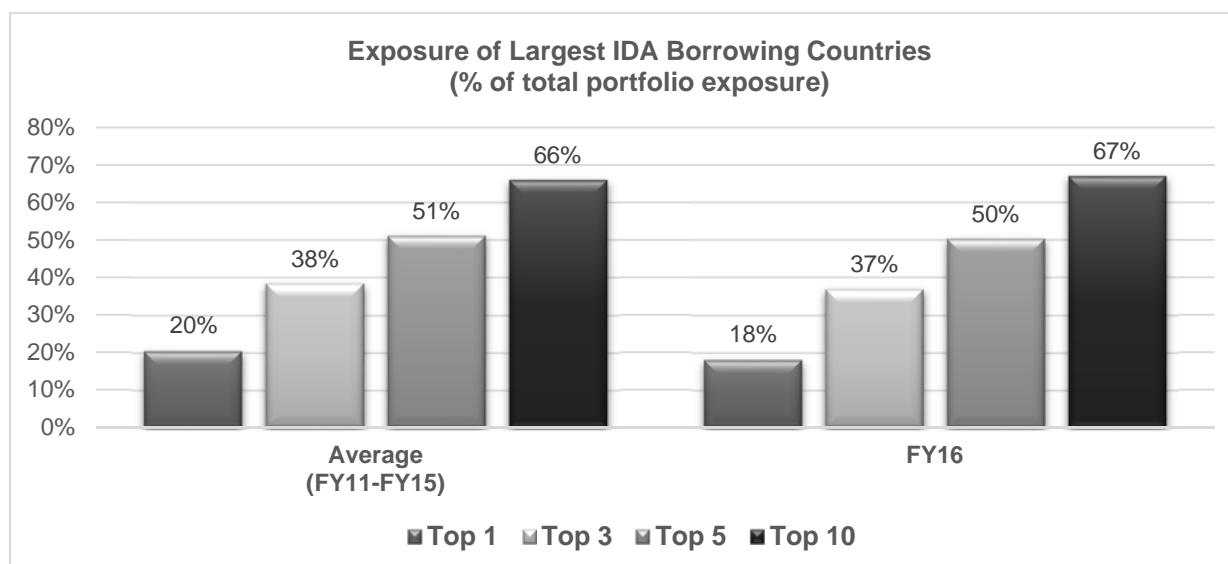


Table 8 shows the IDA's interest and service charge income by loan type. The \$66 million increase in interest income is primarily driven by the increase in interest on blend term loans, reflecting the increased volume of disbursements under interest-bearing blend term lending.

**Table 8: Interest and Service Charge Income by Loan Type**

*In millions of U.S. dollars*

IDA Loan type	Outstanding balance as of June 30,		Interest income		Service charge income	
	2016	2015	FY 16	FY 15	FY 16	FY15
Regular	\$ 82,820	\$ 79,438	\$ 15	\$ 11	\$585	\$575
Of which, subject to acceleration clause through interest payment	831	859	15	11	6	7
Blend	52,668	50,641	131	71	383	376
Of which, subject to acceleration clause through interest payment	820	845	15	12	6	7
Hard	1,170	799	28	26	7	6
Transitional support	77	-	*	-	*	-
<b>Total</b>	<b>\$136,735</b>	<b>\$130,878</b>	<b>\$174</b>	<b>\$108</b>	<b>\$975</b>	<b>\$957</b>

\* Indicates amount less than 0.5 million

### Crisis Response Window

The primary objective of the Crisis Response Window (CRW) is to provide IDA countries with additional resources that will help countries to respond to severe economic crises, major natural disasters, or health emergencies and pandemics, and return to their long-term development paths. An allocation is made to the CRW under each replenishment. The initial IDA17 allocation to the CRW was \$895 million. This initial allocation was fully utilized in FY15 in providing emergency funding to countries impacted by the Ebola crisis, for earthquake recovery assistance in Nepal and to other countries affected by natural disasters including the Solomon Islands, Malawi, Vanuatu and Tuvalu. As a result, on March 6, 2016, as part of the \$5 billion increase to IDA17's Commitment Authority, there was an additional \$900 million allocated to the CRW, which will help IDA provide rapid financing over the remainder of the IDA17 period. In FY16, \$100 million of the additional CRW funds had been utilized.

### Other Development Activities and Programs

IDA has products, services and programs, other than lending, that it offers to its borrowing member countries to help them meet their development goals. These include guarantees, debt relief, trust fund administration, and externally funded reimbursable advisory services.

#### Guarantees

In December 2013, IDA's Executive Directors approved a series of changes to IDA's guarantees that became effective from July 1, 2014. As a result of these changes, IDA now offers both Project-based and Policy-based Guarantees. These guarantees are available for projects and programs in member countries to help mobilize private financing for development purposes. IDA's guarantees are partial in nature as they cover risks only to the extent necessary to obtain the required private financing, taking into account country, market and, if appropriate, project circumstances. All guarantees require a sovereign counter-guarantee and indemnity, comparable to the requirement of a sovereign guarantee for IDA lending to sub-sovereign and non-sovereign borrowers.

See Table 9 for the types of guarantees that IDA provides.

**Table 9: Types of Guarantees**

<b>Project based guarantees</b>	<p>Project-based guarantees are provided to mobilize private financing for a project and/or mitigate payment and/or performance related risks of a project. There are two types:</p> <ol style="list-style-type: none"> <li>1. Loan guarantees: these cover loan-related debt service defaults caused by the government's failure to meet specific payment and/or performance obligations arising from contract, law or regulation. Loan guarantees include coverage for debt service defaults on: (i) commercial debt, normally for a private sector project; and, (ii) a specific portion of commercial debt irrespective of the cause of such default, normally for a public sector project.</li> <li>2. Payment guarantees: These cover payment default on non-loan related government payment obligations to private entities and foreign public entities arising from contract, law or regulation.</li> </ol>
<b>Policy-based guarantees</b>	<p>Policy-based guarantees are provided to mobilize private financing for sovereign or sub-sovereign projects. They cover debt service default, irrespective of the cause of such default, on a specific portion of commercial debt owed by government and associated with the supported government's program of policy and institutional actions.</p>

### Guarantee Exposure

IDA's exposure on its project and policy based guarantees (measured by discounting each guaranteed amount from its next call date) was \$1,024 million as of June 30, 2016 (\$393 million—June 30, 2015). The \$631 million increase in guarantee exposure is primarily due to a \$400 million guarantee to Ghana that became effective in October 2015. The maximum potential undiscounted future payments that IDA could be required to make under these guarantees is \$1,059 million as of June 30, 2016 (\$411 million—June 30, 2015). For additional information see the Notes to Financial Statements—Note F—Development Credits and Other Exposures.

### Assisting Borrowing Members Manage Risk

IDA facilitates access to risk management solutions to mitigate the financial effects of natural disasters for borrowing members. Financial solutions can include disaster risk financing through catastrophe swaps, insurance and reinsurance contracts, and regional pooling facilities. In FY16, IDA renewed coverage of the Pacific Disaster Insurance Program, a \$43 million transaction that provides protection against earthquakes, tsunamis and tropical cyclones to certain Pacific Island countries. IDA acts as the intermediary between the members and reinsurers. As an intermediary, IDA entered into swap contracts with the members as well as the insurance companies. As a result, all of the catastrophe risk was passed to the reinsurance markets through these contracts, thereby facilitating access to reinsurance markets for the members.

### Debt Relief

Except for debt relief provided under the HIPC Debt Initiative and MDRI, and the buy-down of loans, it is IDA's practice not to write off its loans. To date, no loans have been written off, other than under these debt relief initiatives outlined below. Both HIPC and MDRI were implemented as a part of a global agreement focused on heavily indebted poor countries, under which contributing members agreed to compensate IDA for forgone reflows. In addition, to avoid future build-up of unsustainable debt, countries at risk of debt distress receive assistance in the form of grants.

### Heavily Indebted Poor Countries Debt Initiative

The HIPC Debt Initiative is a comprehensive approach to reduce the external debt of the world's poorest, most heavily indebted countries, and it represented an important step forward in placing debt relief within an overall framework of poverty reduction.

The countries that qualified for HIPC assistance are the poorest countries that were eligible for highly concessional assistance from IDA and from the International Monetary Fund's (IMF) Poverty Reduction and Growth Facility.

During FY16, \$10 million of loans and \$1 million of charges were written off as debt relief under the partial forgiveness of debt service as it came due. During FY15, the comparable amounts were \$14 million and \$1 million, respectively. On a cumulative basis, \$2,119 million of loans and \$334 million of charges had been written off as of June 30, 2016.

### Multilateral Debt Relief Initiative

The MDRI provides additional debt relief through 100 percent cancellation of eligible debt owed to IDA, the African Development Bank and the IMF, by countries that reached the HIPC Completion Point.



The objectives of MDRI are twofold: deepening debt relief to HIPC countries while safeguarding the long-term financial capacity of IDA and other participating multilateral institutions; and encouraging the best use of additional member resources for development, by allocating these resources to low-income countries on the basis of policy performance.

Following the Executive Directors' approval of IDA's participation in the MDRI in June 2006, IDA fully provided for the estimated probable write-off of the principal component of debt relief to be delivered under the MDRI for the HIPC eligible countries confirmed by the Executive Directors as eligible for relief at that time. When a country reaches its Completion Point, the applicable loans are written off at the beginning of the subsequent quarterly period.

During the fiscal year ended June 30, 2016, loans eligible for relief under MDRI totaling \$524 million were written off as a result of Chad reaching the Completion Point under the HIPC Debt Initiative in FY15. On a cumulative basis, \$40,164 million of loans have been written off under the MDRI as of June 30, 2016.

### **Buy-down of Loans**

The Investment Partnership for Polio program to fund the immunization of children in high-risk polio countries has a funding mechanism that allows the purchase of oral vaccines from the proceeds of loans.

Under this program, IDA enters into an arrangement with third party donors who make payments on the borrower's service and commitment charges through a trust fund until the borrower reaches agreed performance goals. The trust fund then buys down the related loans for an amount equivalent to the present value of the remaining cash flows of the related loans, ensuring IDA incurs no economic loss. The trust fund subsequently cancels the purchased loans, converting them to grant terms. During FY16, one loan, with a carrying value of \$85 million was purchased under the Polio buy-down mechanism, for the present value equivalent of \$58 million. During FY15, no loans were purchased under the buy-down mechanism;

### **Trust Funds Administration**

Trust Funds are an integral part of the WBG's development activities, providing resources and added flexibility in providing development solutions that serve member recipients and donors alike. The partnerships funded by trust funds often serve as a platform from which IDA and its members can draw on the WBG's diverse technical and financial resources to achieve development goals that cannot be addressed effectively by any single member, given their complexity, scale, and scope. IDA's roles and responsibilities in managing trust funds depend on the type of fund, outlined as follows:

#### **IDA's Trust Funds:**

- IDA-Executed Trust Funds (BETFs): IDA, alone or jointly with one or more of its affiliated organizations, implements or supervises the activities financed by trust funds. These trust funds support IDA's work program.
- Recipient-Executed Trust Funds (RETFs) are provided to a third party, normally in the form of project financing, and are supervised by IDA.
- Financial Intermediary Funds (FIFs): IDA, as a trustee, provides financial management services such as receiving, holding and transferring funds to multiple implementing entities.

During FY16, IDA recorded \$41 million (versus \$45 million in FY15) as revenue for the administration of its trust fund portfolio. IDA, as an executing agency, disbursed \$340 million (\$326 million in FY15) of trust fund program funds.

Effective July 1, 2015, IDA implemented a new cost recovery framework for all new trust funds. The new framework was approved as part of a broader suite of measures aimed at increasing lending capacity. Key features of the new framework include:

- i) Measures to ensure that IDA recovers indirect overhead costs incurred associated with trust fund activities.
- ii) The simplification of the fee structure and types of trust funds that can be created.

The cash and investment assets held in trust by IDA as administrator and trustee as of June 30, 2016 and June 30, 2015 are summarized in Table 10. IDA's contribution to these trust funds for the year ended June 30, 2016 and June 30, 2015 was nil. For additional information, see the Notes to Financial Statements-Note H-Trust Funds Administration.

**Table 10: Cash and Investment Assets Held in Trust by IDA**

*In millions of U.S. dollars*

	<i>Total fiduciary assets</i>	
	<i>June 30, 2016</i>	<i>June 30, 2015</i>
IDA-executed	\$ 49	\$ 53
Jointly administered with affiliated organizations	840	783
Recipient-executed	2,020	2,210
Financial intermediary funds	284	356
Execution not yet assigned <sup>a</sup>	3,094	3,226
<b>Total</b>	<b>\$6,287</b>	<b>\$6,628</b>

*a. These represent assets held in trust for which the determination as to the type of execution is yet to be finalized.*

### **Externally funded Reimbursable Advisory Services (RAS)**

IDA provides technical assistance to its member countries, both in connection with, and independent of, lending operations. There is a growing demand from borrowers for strategic advice, knowledge transfer, and capacity building. Such assistance includes assigning qualified professionals to survey developmental opportunities in member countries, analyzing their fiscal, economic and developmental environment, assisting member countries in devising coordinated development programs, appraising projects suitable for investment, and assisting member countries in improving their asset and liability management techniques.

While most of IDA's advisory services and analytical work is financed by its own budget or donor contributions (Trust Funds), clients may also pay for such services. RAS allow IDA to provide advisory services that the clients demand, but that IDA cannot fund in full within the existing budget envelope. In FY16, income relating to reimbursable advisory services was \$41 million (FY15 - \$47 million).

## **SECTION 6: INVESTMENT AND BORROWING ACTIVITIES**

### **Investment Activities**

IDA's primary objective in the management of its investment portfolio is to ensure that funds will be available on a timely basis in the amount needed to meet future cash flow requirements, including disbursements for loans, grants and administrative expenses. Consistent with the primary objective, IDA also seeks to maximize returns on investments, subject to loss constraints, which can be added to IDA's internal resources.

IDA faces timing mismatches between cash receipts from members and recipients and disbursements of new loans and grants. To manage these timing mismatches between cash inflows and outflows, and to ensure optimal use of development resources, IDA employs a number of financial practices, namely:

- Use of hedging strategies to minimize currency mismatches of cash flows.
- Encashment of member equity contributions over time so as to match the eleven year average disbursement profile of loans and grants during a given replenishment. For IDA15, IDA16 and IDA17, members have agreed to a nine year standard encashment period, which is an acceleration of the 11-year disbursement profile in order for IDA to generate additional investment income.
- Provision of incentives in the form of discounts or acceleration credits to members for early encashments, provided that the present value of their equity contributions remains intact.
- A portion of expected principal repayments on disbursed and outstanding loans are committed in advance so that resulting disbursements match the time profile of credit reflows.

Beyond these practices, IDA needs to be able to address any unexpected demands on its liquidity by maintaining a sufficient level of liquid assets.

## Minimum Liquidity

Minimum liquidity represents the liquidity that IDA holds against cash flow volatility. It serves the dual purpose of cushioning against expected future cash flow volatility and meeting unexpected liquidity demands. On March 8, 2016, the Board approved an adjustment to IDA’s liquidity management framework. Specifically, Tranche 1 assets may now serve as additional temporary, emergency liquidity. As a result of this change, \$5 billion of assets which were previously set aside and uncommitted in Tranches 2 and 3 for minimum liquidity requirements will now be used to fund an increase in the IDA17 commitment authority, see Section 3. Minimum liquidity is held in IDA’s core liquidity component.

For FY16, IDA’s minimum liquidity was targeted at 33 percent of a three-year annual moving average of gross disbursements. At June 30, 2016, IDA’s investment portfolio had a value of \$29.9 billion and the minimum liquidity was targeted at \$4.4 billion.

## Investment Portfolios

IDA’s investments are held in both a non-trading portfolio and a trading portfolio.

### Non-Trading Portfolio

During FY15, with the proceeds of a concessional loan from a member, IDA purchased a debt security issued by the IFC. While IDA expects to hold the security to maturity, IDA elected to measure the security at fair value, so that the measurement method (fair value) could be consistently applied to all its investments. The changes in fair value for this security are reflected in the Statement of Income. As of June 30, 2016, the non-trading portfolio had a fair value of \$1,105 million (FY15-\$1,142 million). See Notes to Financial Statements–Note C–Investments.

### Trading Portfolio

The trading portfolio is invested in three separate tranches, which allows for better tailoring of investment objectives, risk tolerances and investment horizon, to the purpose of holding the investments. See Figure 10 for the breakup of investments held by tranche.

## Asset and Liability Management

Tranche 1 – This tranche primarily consists of accelerated encashments of equity contributions from members, transfers from IBRD and IFC, and voluntary credit prepayments. It is managed under an immunization strategy, whereby the tranche duration benchmark is aligned with the weighted average duration of future net cash outflows, such that the variation in investment earnings is largely matched by equivalent changes in the present value of future net cash outflows. The duration is periodically reviewed and reset at least annually to reflect prevailing conditions.

### Core Liquidity

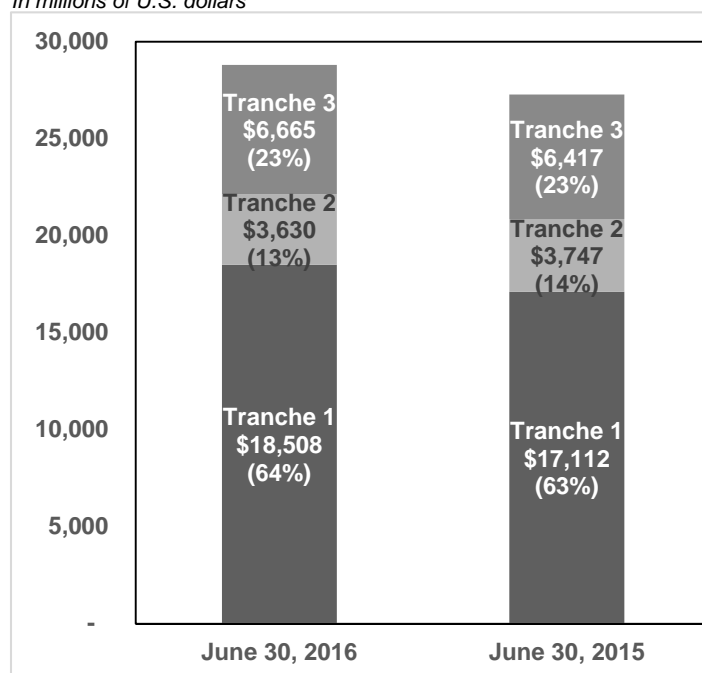
Tranches 2 and 3 constitute IDA’s core liquidity to meet working capital requirements, as well as expected and unexpected cash flow volatility. Core liquidity as a proportion of IDA’s total liquidity holding at June 30, 2016 was 36% (June 30, 2015 – 37%).

Tranche 2 – Medium-term Investment tranche. This tranche includes the core liquidity of IDA which is expected to be available over at least a three year horizon. The tranche is managed in accordance with a return maximization strategy subject to pre-specified risk constraints over a medium-term (three years) investment horizon.

Tranche 3 – Short-term Investment tranche. This tranche is used for managing the operational liquidity for IDA. The investment objective of this tranche is to ensure liquidity and timely availability of the investment balances when needed, with investment returns being a secondary consideration. The tranche is invested in overnight and very short-term cash instruments.

**Figure 10: Investments by Tranche – Trading Portfolio**

*In millions of U.S. dollars*



## Performance of the Investment Portfolio.

IDA's investment portfolio has a relatively long duration, this leads to lower (higher) portfolio returns in years when market interest rates are rising (declining), given the inverse relationship between fixed income asset prices and market interest rates. IDA's return for FY16 was 3.13% reflecting continued low levels of global interest rates. Management closely monitors the investment portfolio of IDA, so as to maintain compliance with applicable risk parameters and investment guidelines.

Table 11 provides a breakdown of the average balances of IDA's liquidity portfolio for FY16 and FY15 by tranche. For an explanation of the increase in returns of the total portfolio, refer to Section 9: Reported Basis Results.

**Table 11: Average Balances and Returns by Tranche**

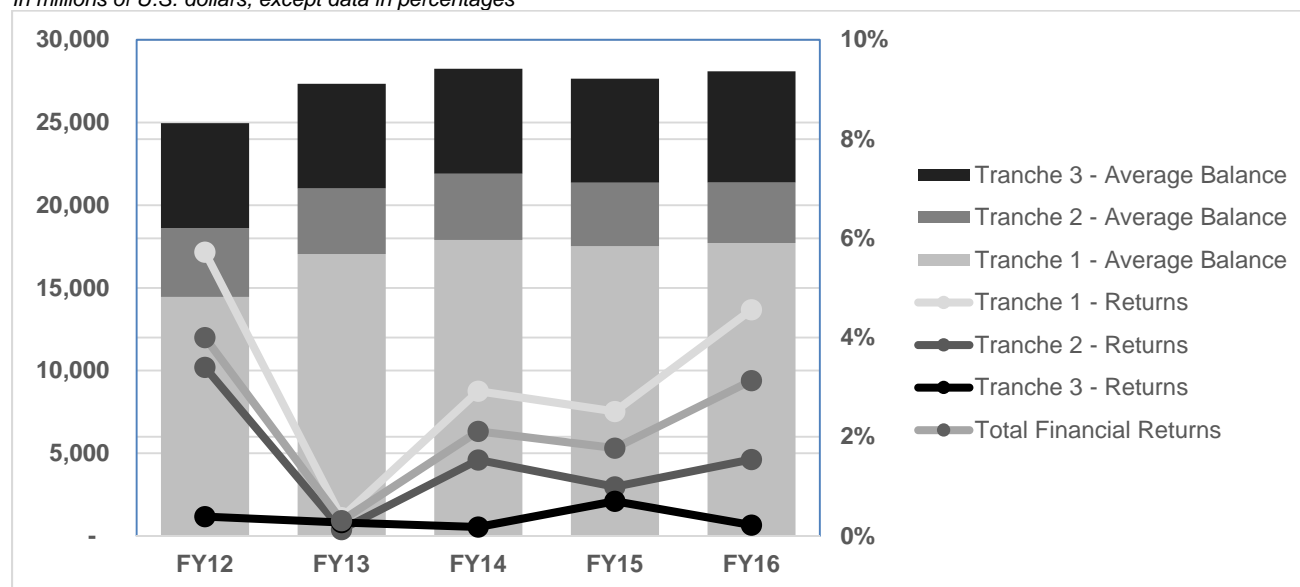
*In millions of U.S. dollars, except rates in percentages*

Tranches	FY 16		FY 15	
	Average Balance	Return	Average Balance	Return
1	\$17,715	4.56%	\$17,523	2.51%
2	3,658	1.54%	3,837	0.99%
3	6,728	0.22%	6,292	0.17%
Total	\$28,101	3.13%	\$27,652	1.77%

Figure 11 shows the historical breakdown of the average balances and returns of IDA's liquidity portfolio by tranche. For an explanation of the increase in returns of the total portfolio, refer to Section 9: Reported Basis Results.

**Figure 11: Investment Portfolio Average Balances and Returns**

*In millions of U.S. dollars, except data in percentages*



## Borrowing Activities

### Long Term Borrowings

IDA has not yet utilized long-term borrowings from capital markets, but it is allowed to do so under its Articles. For IDA17, IDA's Executive Directors approved the use of concessional debt funding from members.

### IDA17 Concessional Loans from Members

In order for debt funding to be sustainably incorporated into IDA17's financing framework, the borrowing terms of the concessional loans from members aim to match the concessional features of IDA's loans. The IDA17 debt limit for concessional loans from members has been set at SDR6.1 billion (\$9.2 billion) and was based on the overall concessional nature of IDA's lending terms during IDA17 and the terms on which IDA borrows. Liquidity and currency risks are being managed within the existing risk management framework.

The maturities of the loans are either 25 or 40 years to match the terms of IDA's loans, with a grace period of 5 years for a 25 year loan and 10 years for a 40 year loan. The loans have an all-in SDR equivalent coupon of up to one percent.

Voting rights are allocated to providers of the concessional loans from members following the drawdowns by IDA. They are based on the cash paid, computed as the derived grant element of the loan. The grant element, which is recorded as equity is a function of the terms of the loan and the discount rate agreed upon during the replenishment discussions - (2.65% SDR equivalent for IDA17).

As of June 30, 2016, the borrowings outstanding balance was \$2,906 million, an increase of \$756 million as compared to June 30, 2015. The increase is primarily due to additional loan proceeds received during the current fiscal year. Interest expense associated with these loans was \$43 million in FY16 (FY15 - \$33 million).

### Short Term Borrowings

Under its Investment Guidelines, IDA is allowed to enter into short term borrowings in the form of securities sold under repurchase agreements and securities lent under securities lending agreements. These agreements are secured predominantly by high quality collateral, including government issued debt, and are used both to enhance returns and for liquidity management purposes.

As of June 30, 2016, securities lent or sold under repurchase agreements totaled \$1,968 million, a decrease of \$2,892 million over June 30, 2015. Table 12 provides data on short-term borrowing activities.

**Table 12: Short-Term Borrowings**

*In millions of U.S. dollars, except rates in percentages*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>	<i>June 30, 2014</i>
Securities sold under repurchase agreements and securities lent under securities lending agreements,			
Balance at year-end	\$1,968	\$4,860	\$5,011
Average monthly balance during the year	\$3,636	\$4,544	\$4,265
Maximum month-end balance	\$4,985	\$5,621	\$5,257
Weighted-average rate at end of fiscal year	0.51%	0.20%	0.14%
Weighted-average rate during the fiscal year	0.26%	0.14%	0.10%

## SECTION 7: RISK MANAGEMENT

IDA's risk management processes and practices continually evolve to reflect changes in activities in response to market, credit, product, operational, and other developments. The Board, particularly Audit Committee members, periodically reviews trends in IDA's risk profiles and performance, and any major developments in risk management policies and controls.

### Governance Structure

Management believes that effective financial risk management is critical for its overall operations. Accordingly, the risk management governance structure is designed to manage the principal risks IDA assumes in its activities, and supports Management in its oversight function, particularly in coordinating different aspects of risk management and in connection with risks that are common across functional areas.

### Organizational Structure

The CRO provides oversight of financial risks for IBRD and IDA. These risks include (i) liquidity, market and counterparty risks, (ii) country credit risks in the core sovereign lending business and (iii) operational risks relating to people, processes and systems. In addition, the CRO works closely with IFC, MIGA, and IBRD's Management to review, measure, aggregate, and report on risks and share best practices. The CRO also helps enhance cooperation between the institutions and facilitates knowledge sharing in the risk management function. The following three departments report directly to the CRO:

- The *Market and Counterparty Risk Department* is responsible for market, liquidity, and counterparty credit risk oversight, assessment, and reporting. It does these in coordination with IDA's financial managers who are responsible for the day-to-day execution of trades for the liquid asset and derivatives portfolios within applicable policy and guideline limits. The department's responsibilities include establishing and maintaining guidelines, volume limits, and risk oversight processes to facilitate effective monitoring and control; it also provides reports to the Audit Committee and the Board on the extent and nature of risks, risk management, and oversight. The department is also responsible for ensuring effective oversight, which includes: i) maintaining sound credit assessments, ii) addressing transaction and product risk issues, iii) providing an independent review function, iv) monitoring market and counterparty risk in the investment portfolios, and v) implementing the model risk governance framework.

- The *Credit Risk Department* determines the adequacy of provisions for losses on loans and other exposures, and monitors borrowers that are vulnerable to crises in the near term.
- The *Operational Risk Department* provides direction and oversight for operational risk activities by business functions. The department's key operational risk management responsibilities include (i) administering the Operational Risk Committee (ORC) for IDA, (ii) implementing the operational risk management framework which is aligned with Basel principles and providing direction to business unit partners to ensure consistent application (iii) assisting and guiding business unit partners in identifying and prioritizing significant operational risks and enabling monitoring and reporting of risks through suitable metrics (or risk indicators) and (iv) helping identify emerging risks and trends through monitoring of internal and external risk events. The department is also responsible for business continuity management, and enterprise risk management functions, prepares a corporate Operational Risk Report for review and discussion by the Operational Risk Committee.

## Risk Committees

The Finance and Risk Committee (FRC), provides a high level governance structure for decisions that may have financial risks. The FRC was created under the authority of the Managing Director and WBG Chief Financial Officer (MDCFO) to approve, clear, or discuss: (a) risk policy and procedure documents related to financial integrity, income sustainability and balance sheet strength, and (b) issues and new business initiatives with policy implications related to IDA's financial risks in the areas of finance, which include country credit, market, counterparty, liquidity and model risks. The FRC helps to integrate individual components of finance and risk management activities by building on mechanisms and processes already in place, and provides a forum for discussing and communicating significant risk related issues. The FRC meets regularly to discuss the financial performance, new products and services, and risk management of IDA.

In addition to the FRC, several risk-related committees work under the authority of the MDCFO and the CRO, which provide technical expertise and guidance on new initiatives and operational risk issues:

- *New Business Committee (NBC)*: is a standing committee of the FRC under the authority of the MDCFO. The NBC provides advice, guidance and recommendations to the FRC, by performing due diligence over new financial products or services to ensure that Management has a full understanding of the rationale, costs, risks and rewards of the product or service being considered.
- *Operational Risk Committee (ORC)*: is the main governance committee for operational risk and provides a mechanism for integrated review and response across IDA units on operational risks associated with people, processes, and systems including business continuity and recognizing that business units remain responsible for managing operational risks. The Committee's key responsibilities include monitoring significant operational risk matters and events on a quarterly basis to ensure that appropriate risk-response measures are taken, and reviewing and concluding on IDA's overall operational risk profile. The ORC escalates significant risks/decisions to the FRC and Enterprise Risk Committee (ERC)<sup>5</sup>.

## Risk-Bearing Capacity

The risk in IDA's lending operations is managed by Operations Policy and Country Services. This covers risk of non-compliance with its policies, safeguards as well as risk of mis-procurement on behalf of clients, and fraud and corruption in its financed projects.

The Development Finance Resource Mobilization Department which reports to the Vice President of Development Finance, manages IDA's replenishments. This department discusses policy and funding frameworks with members, and allocates concessional resources between borrowing member countries based on the agreed performance based allocation system. Responsibility for financial management, including asset-liability management and the management of funding, liquidity, currency, interest rate and credit risk, also lies with this department. The risk bearing capacity of IDA falls under four main categories.

- Funding risk - the extent to which IDA can commit to new financing of loans, grants and guarantees given its financial position at any point in time and whether there are sufficient resources to meet undisbursed commitments of loans and grants.
- Liquidity risk - whether IDA has sufficient core liquidity to meet disbursements of approved loans and grants.

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<sup>5</sup> The ERC is chaired by the Managing Director and Chief Administrative Officer (MDCAO) and was established in June 2016 to address non-financial risks with the exception of risks relating to IDA's lending operations. The latter will continue to be managed and overseen by the Managing Director and Chief Operating Officer (MDCOO).

- (iii) Credit risk - the risk of default by recipient countries and market counterparties.
- (iv) Market risk - the exposure to currency and interest rate risks.

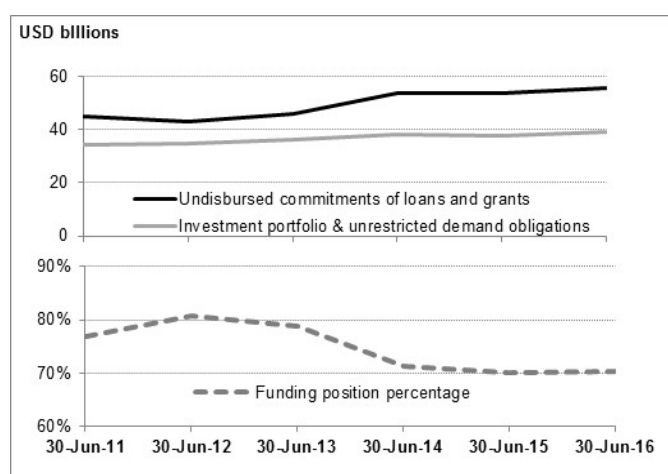
## Funding Risk

IDA's capacity to commit to new financing of loans, grants and guarantees at any point in time is defined by the Commitment Authority Framework of the particular replenishment which is effective at that time. See Section 3: Funding and Resource Allocation for further details. IDA's funding risk relates to whether there are sufficient resources (investment portfolio and demand obligations) to meet undisbursed commitments of loans and grants.

Management monitors IDA's funding position as a key indicator to assess IDA's ability to conduct its operations. IDA's funding position is determined as the total of its investment portfolio and unrestricted demand obligations as a percentage of undisbursed commitments of loans and grants payable. Any remaining funding gap will primarily be covered by future receipts of cash, demand obligations already committed by members, and repayments on outstanding loans by recipient countries. At all times, IDA enters into new commitments based on the commitment authority available.

Further details on IDA's funding risk management, including details of the three tranches which comprise IDA's investment portfolio are provided in Section 6: Investment and Borrowing Activities.

**Figure 12: Funding Position**



As of June 30, 2016, the investment portfolio and unrestricted demand obligations covered 70% of all undisbursed commitments of loans and grants, compared with 70% as of June 30, 2015. The gap in funding will be met by future inflows.

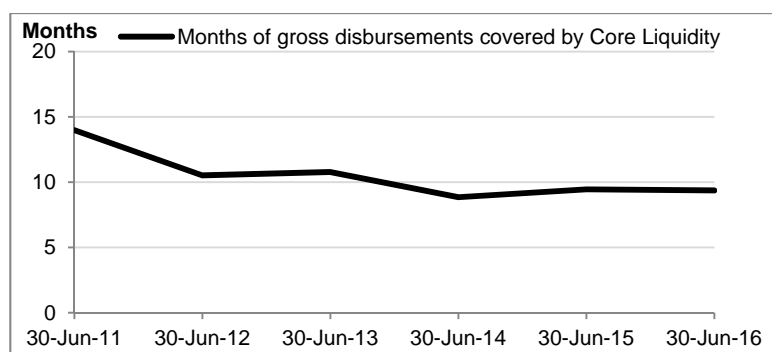
In the last 5 years IDA's funding position has ranged from 70% to 81%.

## Liquidity Risk

Liquidity risk is also a key risk to IDA's operations. It is managed through a combination of IDA's daily cash flow monitoring and management, timing of member equity contributions, and prudent investment policies under an established financial framework. A key indicator of liquidity management is the core liquidity position which reflects the number of months of gross disbursements (based on the average disbursements over a three year period) that can be met out of the core liquidity (Tranches 2 and 3) available at a point in time.

Further details on IDA's liquidity risk management, including details of the three tranches which comprise IDA's investment portfolio, together with a description of the General Investment Authorization, are provided in Section 6: Investment and Funding Activities

**Figure 13: Liquidity Position**



As of June 30, 2016, core liquidity amounted to \$10,295 million (June 30, 2015 - \$10,164 million), comprising short-term and medium-term investments. IDA's liquidity position was sufficient to cover approximately 9 months of average monthly gross disbursements based on FY16 volume (9 months in FY15).

In the last 5 years IDA's liquidity position has ranged from 9 to 11 months of average monthly gross disbursements.

## Credit Risk

IDA has two types of credit risk: country credit risk and commercial credit risk. Country credit risk is the risk of loss due to a country not meeting its contractual obligations and commercial credit risk is the risk of loss due to a counterparty not honoring its contractual obligations.

### Country Credit Risk

Country credit risk is managed through regular country debt sustainability assessments. These reviews provide an input into the composition of loans versus grants for new operations. Section 5: Development Activities, Products and Programs describes how funds are allocated for grants based on a country's risk of debt distress. Reviews are also performed to determine the adequacy of provisions for losses on loans and other exposures.

### Overdue and Non-Performing Loans

When a borrower fails to make a payment on any principal, interest or other charges, IDA has the contractual right to suspend disbursements immediately on all loans and grants. IDA's current policy however, is to exercise this right through a graduated approach as summarized in Box 3. These policies also apply to those member countries who are eligible to borrow from both IBRD and IDA, and whose payments on IBRD loans may become overdue. For borrowers with IDA loans who become overdue in their debt service payments on IBRD loans, IDA also applies the treatment described in Box 3.

#### Box 3: Treatment of Overdue Payments

Overdue by 30 days	Where the borrower is the member country, no new loans or grants to the member country, or to any other borrower in the country, will be presented to the Executive Directors for approval; nor will any previously approved loans or grants be signed, until payments for all amounts 30 days overdue or longer have been received. Where the borrower is not the member country, no new loans or grants to that borrower will be signed or approved.
Overdue by 45 days	In addition to the provisions cited above for payments overdue by 30 days, to avoid proceeding further on the notification process leading to suspension of disbursements, the country as borrower or guarantor and all borrowers in the country must pay not only all payments overdue by 30 days or more, but also all payments due regardless of the number of days since they have fallen due. Where the borrower is not the member country, no new loans or grants to, or guaranteed by, the member country, will be signed or approved.
Overdue by 60 days	In addition to the suspension of approval for new loans or grants and signing of previously approved loans or grants, disbursements on all grants or loans to or guaranteed by the member country are suspended until all overdue amounts have been paid. This policy applies even when the borrower is not the member country. Under exceptional circumstances, disbursements could be made to a member country upon approval by the Executive Directors.
Overdue by more than six months	All loans made to or guaranteed by a member of IDA are placed in nonaccrual status, unless IDA determines that the overdue amount will be collected in the immediate future. Unpaid service charges and other charges not yet paid on loans outstanding are deducted from the income of the current period. To the extent that these payments are received, they are included in income. At the time of arrears clearance, a decision is made on the restoration of accrual status on a case-by-case basis; in certain cases that decision may be deferred until after a suitable period of payment performance has passed.

A key determinant in the provision for losses on loans and other exposures is IDA's borrowers' country risk ratings, which are internal credit quality indicators. These ratings are an assessment of the borrowers' ability and willingness to repay IDA on time and in full and are grouped into three risk classes which relate to the likelihood of loss: Low, Medium and High risk classes.



At June 30, 2016 the percentage of the loan portfolio in Low, Medium and High risk categories was 3%, 20% and, 77% respectively. For additional information see the Notes to Financial Statements—Note F—Development Credits and Other Exposures.

As of June 30, 2016, IDA had \$136,735 million of loans outstanding, of which loans in non-accrual status represent 2%. IDA's total provision for losses on loans was \$1,932 million (excluding accumulated provision for losses on debt relief) which represents a provisioning rate of 1.4%. IDA's provisioning rate on loans for FY08 through FY16 has been between 1.0% and 1.4%. With the exception of the HIPC Debt Initiative and MDRI, as well as the buy-down mechanism, IDA does not write-off its loans and arrears must be fully cleared before disbursements can resume. For a summary of countries with loans or guarantees in nonaccrual status at June 30, 2016, see Notes to Financial Statements—Note F—Development Credits and Other Exposures.

### ***Commercial Credit Risk***

In the normal course of its business, IDA utilizes various derivatives to manage its exposure to fluctuations in interest and currency rates. Derivative and foreign exchange transactions also involve credit risk. The effective management of credit risk is vital to the success of IDA's investment and asset/liability management activities. The monitoring and managing of these risks is a continuous process due to changing market environments.

IDA mitigates the counterparty credit risk arising from investments, derivatives and asset/liability management activities through its credit approval process and monitoring procedures. The credit approval process involves evaluating counterparty creditworthiness, assigning credit limits and determining the risk profile of specific transactions. Credit limits are calculated and monitored on the basis of potential exposures taking into consideration current market values and estimates of potential future movements in those values, and collateral agreements with counterparties. If there is a collateral agreement with the counterparty to reduce credit risk, then the amount of collateral obtained is based on the credit rating of the counterparty. Collateral held includes cash and highly liquid investment securities.

For derivative products, IDA uses the estimated replacement cost of the derivative as the measure of credit exposure. While the contractual principal amount of derivatives is the most commonly used volume measure in the derivative markets, it is not a measure of credit or market risk. For all securities, IDA limits trading to a list of authorized dealers and counterparties. With the exception of transactions with IBRD, credit risk is managed through application of eligibility criteria, (see Box 4) volume limits and through the use of mark-to-market collateral arrangements for swap transactions. Under the mark-to-market collateral arrangements, when IDA is in a net receivable position higher than the agreed upon collateral threshold allocated to the counterparty, counterparties are required to post collateral with IDA. During FY16, IDA did not receive any cash collateral.

With respect to futures and options, IDA generally closes out most open positions prior to expiration. Futures are settled on a daily basis.

The General Investment Authorization for IDA, approved by the Executive Directors, provides the basic authority under which the investment portfolio of IDA can be invested. Further, all investment activities are conducted in accordance with a more detailed set of Investment Guidelines. The Investment Guidelines are approved by the Managing Director and Chief Financial Officer (MDCFO) and implemented by the Treasurer. These Investment Guidelines provide detailed trading and operational rules including: criteria for eligible instruments for investment, establishing risk parameters relative to benchmarks, such as an overall consultative loss limit and duration deviation, specifying concentration limits on counterparties and instrument classes, as well as establishing clear lines of responsibility for risk monitoring and compliance.

See Box 4 for the range of instruments permitted for investments under the existing General Investment Authorization for IDA.

The overall market risk of the investment portfolio is constrained by a consultative loss limit, which is intended to reflect a level of tolerance for risk of underperforming the benchmark in any fiscal year. IDA has procedures in place to monitor performance against this limit and potential risks, and to take appropriate actions if the limit is reached.

#### Box 4: Eligibility Criteria for IDA's Investment Securities

<i>Instrument Securities</i>	<i>Description</i>
Sovereigns	IDA may only invest in obligations issued or unconditionally guaranteed by governments of member countries with a minimum credit rating of AA-. However, if government obligations are denominated in the national currency of the issuer, no rating is required.
Agencies	IDA may only invest in obligations issued by an agency or instrumentality of a government of a member country, a multilateral organization or any other official entity other than the government of a member country, with a minimum credit rating of AA-.
Corporates and Asset-Backed Securities (ABS)	IDA may only invest in securities with a AAA credit rating.
Commercial Paper	IDA may only invest in short-term borrowings (less than 190 days) from commercial banks, corporates and financial institutions.
Time deposits <sup>a</sup>	IDA may only invest in time deposits issued or guaranteed by financial institutions, whose senior debt securities are rated at least A-.

a. Time deposits include certificates of deposit, bankers' acceptances and other obligations issued or unconditionally guaranteed by banks or other financial institutions

IDA's commercial counterparty credit risk exposure is concentrated in investments in debt instruments issued by sovereign governments, agencies, corporate entities and banks, as shown in Table 13.

The credit quality of IDA's investment portfolio remains concentrated in the upper end of the credit spectrum with 81 % of the portfolio rated AA or above as of June 30, 2016, reflecting IDA's continued preference for highly rated securities and counterparties across all categories of financial instruments. Total commercial counterparty credit exposure, net of collateral held, was \$30,951 million as of June 30, 2016.

**Table 13: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating**

*In millions of U.S. dollars*

<i>Counterparty Rating</i>	<i>At June 30, 2016</i>				<i>At June 30, 2015</i>	
	<i>Sovereigns</i>	<i>Agencies, ABS, Commercial paper, Swaps, Corporate and Time Deposits</i>	<i>Total</i>	<i>% of Total</i>	<i>Total</i>	<i>% of Total</i>
AAA	\$10,897	\$5,117	\$16,014	52	\$15,534	49
AA	5,959	2,942	8,901	29	10,167	32
A	4,865	1,167	6,032	19	5,842	18
BBB or below	-	4	4	*	161	1
Total	<u>\$21,721</u>	<u>\$9,230</u>	<u>\$30,951</u>	<u>100</u>	<u>\$31,704</u>	<u>100</u>

\* Denotes less than 0.5%.

For the contractual value, notional amounts and related credit risk exposure amounts by instrument see the Notes to Financial Statements-Note E- Derivative Instruments.

### Market Risk

IDA faces foreign exchange risk with respect to its future member equity contributions, which it manages using currency forwards and by rebalancing the currency composition of its investment portfolio, and interest rate risk on its investment portfolio, which is managed by aligning the duration of the investment portfolio with that of the projected net cash requirements. The impact of these strategies is shown on IDA's Statement of Income; however, the economic offset is not reflected since it relates to changes in future net cash outflows. Further details can be seen in Section 9: Reported Basis Results. The analysis below discusses the impact of these activities on IDA's Statement of Income and the corresponding economic offset.

### Foreign Exchange Risk

IDA faces foreign exchange rate risk exposure as a result of the currency mismatch between its commitments for loans and grants, which are denominated in SDRs; equity contributions from members, which are typically denominated in national currencies; and the portion of IDA's internal resources and expenditures that is denominated in U.S. dollars.

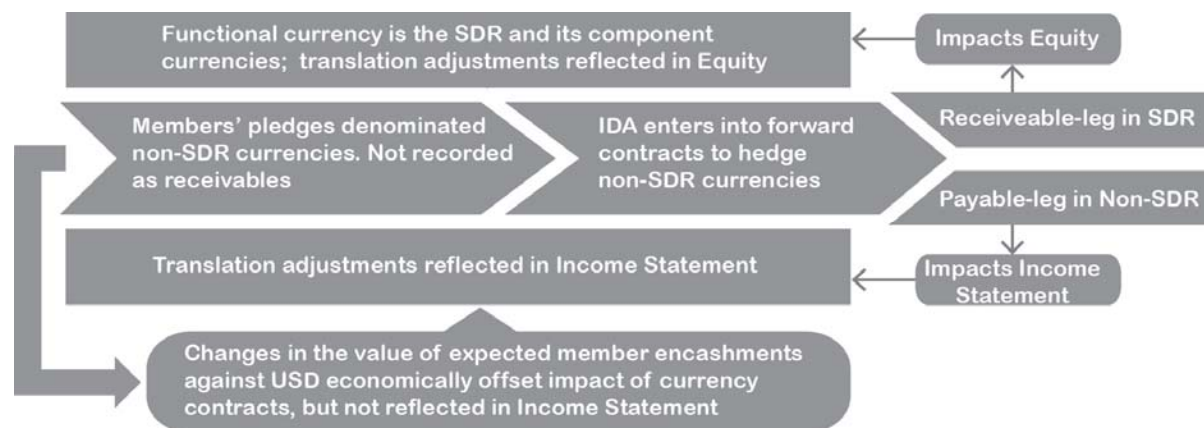
IDA uses currency forward contracts to convert members' encashments provided in national currencies into the four currencies of the SDR basket. These transactions are intermediated by IBRD for efficiency purposes.

Under this arrangement, IDA enters into foreign exchange forwards with IBRD, and IBRD simultaneously enters into off-setting foreign exchange forwards with market counterparties. For further details, see Notes to Financial Statements-Note E-Derivative Instruments.

The SDR and its component currencies, constitute the functional currencies of IDA, all other currencies are considered non-functional currencies<sup>6</sup>. Any translation adjustments due to exchange rate movements against the U.S. dollar for non-functional currencies and functional currencies are reflected in the Statement of Income and Accumulated Other Comprehensive Income in the Equity section of the Balance Sheet, respectively. For further details, see Notes to Financial Statements – Note A –Summary of Significant Accounting and Related Policies.

The payable leg of the currency forward contracts economically hedging member equity contribution pledges are denominated in non-functional currencies. Accordingly, appreciation (depreciation) of these currencies against the U.S. dollar results in exchange rate losses (gains), which are reported in the Statement of Income. The translation adjustment on future inflows from members is the economic offset to the translation adjustment on non-functional currencies of currency forward contracts.

**Figure 14: Foreign Exchange Risk Hedging Strategy**



The translation adjustment gain on non-functional currencies of \$208 million in FY16 was due to the depreciation of the non-functional currencies against the U.S. dollar. This was offset by the effect of foreign exchange on the future inflows from members, which was a loss of \$158 million in FY16. In contrast, the translation adjustment gain on non-functional currencies of \$912 million in FY15 was due to the depreciation of the non-functional currencies against the U.S. dollar. This was offset by the effect of foreign exchange movements on the future inflows from members, which was a loss of \$981 million in FY15. The difference between the reported translation adjustments and the effect of foreign exchange movements on the economic offsets, primarily represent the effect of foreign exchange movements on the member equity contributions in non-functional currencies that are not economically hedged through forward contracts due to their relatively small contribution amount or the unpredictability of the expected payment date. These residual equity contributions are hedged using a currency correlation methodology under the overall currency management framework.

In addition, IDA also mitigates the currency exchange rate risk by aligning the currency composition of its liquid asset portfolio and the hedges of its non-SDR cash flows with the SDR composition.

### Interest Rate Risk

The primary objective in the management of IDA’s investment portfolio is to provide a ready source of liquidity when needed by IDA to meet projected net cash requirements. Accordingly, IDA’s assets are invested so that their duration closely matches the duration of these projected net cash requirements. Given IDA’s lengthy disbursement profile, the duration for IDA’s investment portfolio is therefore relatively long. This long duration, combined with volatility in market interest rates, results in significant year-on-year variability in unrealized mark-to-market gains/losses on the portfolio. The economic offset to the unrealized mark-to-market gains/losses on the investment portfolio would be the change in the present value of the projected net cash outflows.

IDA’s overall investment portfolio had a duration of approximately three years as of June 30, 2016. During FY16, the trading portfolio experienced unrealized mark-to-market gains of \$509 million as compared to unrealized mark-to-market gains of \$103 million in FY15, as a result of the more significant tightening of the yield curves for the major currencies in FY16.

<sup>6</sup> Effective October 1, 2016, the Chinese renminbi (RMB) will be added to the SDR as one of its component currencies.

There were no net unrealized mark-to-market gains (losses) on the non-trading portfolio during FY16. The unrealized mark-to-market gains of \$35 million on investments with IFC was offset by mark-to-market losses of \$35 million on currency forward contracts.

This is compared to unrealized mark-to-market losses of \$179 million in FY15, comprised of unrealized mark-to-market losses of \$160 million on the currency forward contracts resulting from the more pronounced downward movement of yield curves of the majority of the payable currencies during FY15 and unrealized mark-to-market losses of \$19 million on investment with IFC, see Section 6: Investment and Borrowing Activities.

## Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Management also considers adverse reputational impact an operational risk which can be more significant for IDA than any potential financial loss. IDA's operational risk management framework is built on the "three lines of defense" principle where: (i) business units are responsible for directly managing operational risks in their respective functional areas, (ii) a dedicated central operational risk function provides business units with direction, challenge, and oversight over operational risk activities, and (iii) oversight is provided by the ORC and independent control functions.

IDA recognizes the importance of operational risk management activities, which are embedded in its financial operations. IDA's approach to managing operational risk includes assessing and prioritizing operational risks, monitoring and reporting relevant key risk indicators, aggregating and analyzing internal and external events, and identifying emerging risks that may affect business units. The operational risk in IDA's lending operations is managed by the Operations Policy and Country Services. This covers risk of non-compliance with IDA's policies, safeguards as well as risk of mis-procurement on behalf of clients, and fraud and corruption in its financed projects.

IDA's operational risk management framework is based upon a structured and uniform approach to identify, assess and monitor key operational risks across business units. A number of tools are used as part of this framework including risk assessments, key risk indicators, database of external events and scenario analysis. The framework also facilitates aggregation of operational risks across IDA finance and corporate units and promotes communication of those risks to the ORC and the Audit Committee.

## SECTION 8: FAIR VALUE ANALYSIS

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Fair value reflects the most current and complete expectation and estimation of the value of assets and liabilities. It aids comparability, and can be useful in decision-making. On a reported basis, IDA's loans and borrowings are carried at amortized cost, while all instruments in its investment portfolio (trading and non-trading) are carried at fair value. Whilst IDA intends to hold its loans and borrowings to maturity, a fair value estimate of IDA's assets and liabilities along with their respective carrying values is presented in Table 14. Table 14 shows that IDA's equity on a fair value basis (\$133.5 billion) is less than on a carrying value basis (\$154.7 billion) primarily due to the \$20,549 million negative fair value adjustment on IDA's net loans outstanding. This negative fair value adjustment arises due to the concessional nature of IDA's loans; IDA's interest rates are below market rates for the given maturity of its loans and risk profile of the borrowers (concessional). The fair value of loans is calculated using market-based methodologies - see Notes to Financial Statements—Note F—Development Credits and Other Exposures. For details on valuation methods and assumptions relating to other fair value disclosures, see Notes to Financial Statements—Note L—Other Fair Value Disclosures.

The \$18 billion increase in the fair value of net loans outstanding between June 30, 2015 and June 30, 2016, is mainly due to the \$14 billion increase in unrealized gains due to the decline in SDR interest rates, the \$6 billion increase the loan portfolio volume, partially offset by risk rating changes during the year.

As of June 30, 2016, the fair value of borrowings was \$3,585 million (\$2,332 million as of June 30, 2015). The increase of \$1,253 million is primarily due to \$747 million of unrealized mark-to-market losses due to the decline in interest rates and \$653 million in additional borrowings during FY16.

**Table 14: Fair Value Estimates and their Carrying Value for the Fiscal Years Ended June 30, 2016 and June 30, 2015**

*In millions of U.S.dollars*

As of June 30,	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Due from Banks	\$ 672	\$ 672	\$ 356	\$ 356
Investments (including securities purchased under resale agreements)	31,493	31,493	33,173	33,173
Net Loans Outstanding	132,825	112,276	126,760	94,276
<b>Derivative Assets</b>				
Investments	4,624	4,624	6,619	6,619
Other Asset-Liability Management	8,214	8,214	8,914	8,914
Receivable from affiliated organization	882	882	863	863
Other assets	1,765	1,765	2,000	2,000
<b>Total</b>	<b>\$180,475</b>	<b>\$159,926</b>	<b>\$178,685</b>	<b>\$146,201</b>
<b>Liabilities</b>				
Borrowings	\$ 2,906	\$ 3,585	\$ 2,150	\$ 2,332
Securities sold/lent under repurchase agreements/ securities lending agreements, and payable for cash collateral received	1,968	1,968	4,904	4,904
<b>Derivate Liabilities</b>				
Investments	4,794	4,794	6,507	6,507
Other Asset-Liability Management	7,943	7,943	8,963	8,963
Payable for grants	6,099	6,099	6,637	6,637
Payable to affiliated organization	458	458	396	396
Other liabilities	1,607	1,607	1,979	1,979
<b>Total</b>	<b>\$ 25,775</b>	<b>\$ 26,454</b>	<b>\$ 31,536</b>	<b>\$ 31,718</b>
<b>Equity</b>	<b>\$154,700</b>	<b>\$133,472</b>	<b>\$147,149</b>	<b>\$114,483</b>
<b>Total Liabilities and Equity</b>	<b>\$180,475</b>	<b>\$159,926</b>	<b>\$178,685</b>	<b>\$146,201</b>

## SECTION 9: REPORTED BASIS RESULTS

As a result of a number of constraints arising from the application of U.S. GAAP discussed below, the reported basis results shown in IDA's Statement of Income are limited in their ability to reflect the true economic results of IDA.

**Grants:** Grants are expensed upon Board approval and reflected in the income statement. The inflows of resources from IDA's members which fund these grant expenses, constitute IDA's equity as a result of the voting rights conveyed, and are reported as part of members' subscriptions and contributions.

**Currency forward contracts:** As part of its currency risk management strategy, IDA uses currency forward contracts at the start of each replenishment to hedge its exposure to potential changes in the value of member equity contributions. The translation adjustment on the non-functional currency forward contracts, together with the related unrealized mark-to-market gains/losses, is reported in the income statement. However, the economic offset relates to the change in value of the related equity contributions from members which are to be paid-in in the future.

**Investment Income:** The investment portfolio is primarily managed whereby its duration is aligned with the average duration of the future net cash outflows. Accordingly, it has a relatively long duration and is sensitive to interest rate movements. An asymmetry arises due to the fact that the significant unrealized mark-to-market gains or losses are reported in the Statement of Income; however, the economic offset, represented by the change in the present value of the associated future net cash outflows is not reported in IDA's financial statements.

**Administrative expenses:** IDA's administrative expenses are expected to be covered by service and interest charge income and the member equity contributions as compensation for forgone charges on written-off loans under the HIPC Debt Initiative and MDRI. The asymmetry arises due to the fact that the additional contributions from members for forgone charges are recorded as equity, whereas IDA's administrative expenses and service and interest charge income are included in the Statement of Income.

The Statement of Activities addresses the constraints associated with the grants and administrative expenses, see Section 4: Results for FY16. The asymmetry related to the currency forward contracts and the economic offset is shown in Section 7: Risk Management.

## Condensed Statement of Income Analysis

Table 15: Condensed Statement of Income provides a comparison of the income and expenses between FY16 and FY15. The net income of \$371 million in FY16 is a \$1,102 million increase over the net loss of \$731 million in FY15. The primary factors contributing to the \$1,102 million increase are detailed below:

**Table 15: Condensed Statement of Income for the Fiscal Years Ended June 30, 2016 and June 30, 2015**

*Expressed in millions of U.S. dollars*

	<u>FY16</u>	<u>FY15</u>	<u>Variance</u>
<b>Revenue</b>			
Loans and guarantees	\$1,154	\$1,068	\$ 86
Investments, net	881	514	367
Transfers and grants from affiliated organizations and others	990	993	(3)
Other (see Table 16)	569	574	(5)
<b>Expenses</b>			
Administrative expenses (see Table 16)	(1,765)	(1,868)	103
Grants	(1,232)	(2,319)	1,087
Borrowings	(68)	(41)	(27)
Provision for debt relief and losses on loans and other exposures, net	(380)	(372)	(8)
Non-functional currency translation adjustment gains, net	208	912	(704)
Unrealized mark-to-market losses on non-trading portfolios, net	-	(179)	179
Project preparation advances (PPA) grants and other expenses	14	(13)	27
<b>Net Income (Loss)</b>	<u>\$ 371</u>	<u>\$ (731)</u>	<u>\$1,102</u>

Table 16 provides a comparison of the main sources of Administrative expenses and Other income and between FY16 and FY15.

**Table 16: Net Administrative Expenses for the Fiscal Years Ended June 30, 2016 and June 30, 2015**

*Expressed in millions of U.S. dollars*

	<u>FY16</u>	<u>FY15</u>	<u>Variance</u>
<b>Administrative expenses:</b>			
Staff costs	\$ 776	\$ 799	\$ (23)
Operational travel	149	158	(9)
Consultant fees	291	320	(29)
Pension and other post-retirement benefits	215	257	(42)
Communications and IT	52	53	(1)
Contractual services	126	142	(16)
Equipment and buildings	129	134	(5)
Other expenses	27	5	22
Total administrative expenses	<u>\$1,765</u>	<u>\$1,868</u>	<u>\$(103)</u>
<b>Revenue from externally funded activities:</b>			
Reimbursable advisory services	\$ (41)	\$ (47)	\$ 6
Reimbursable revenue - IDA executed trust funds	(340)	(326)	(14)
Revenue – trust funds administration	(42)	(45)	3
Restricted revenue	(17)	(21)	4
Other revenue	(129)	(135)	6
Total revenue	<u>\$ (569)</u>	<u>\$ (574)</u>	<u>\$ 5</u>
<b>Net Administrative Expenses</b>	<u>\$1,196</u>	<u>\$1,294</u>	<u>\$ (98)</u>

**Investment revenue, net:** The \$367 million increase was primarily due to higher unrealized mark-to-market gains experienced in FY16, as compared to FY15. During FY16, IDA's investment revenue included \$509 million of net unrealized gains, resulting from the more pronounced downward shift of yield curves experiences during FY16, as compared to \$103 million of unrealized gains in FY15. IDA's investment portfolio is sensitive to interest rate movements as it has a long duration, which was approximately three years as of June 30, 2016. – See Section 7: Risk Management.

**Grants:** In FY16, the grants expenditure amounted to \$1,232 million, a decrease of \$1,087 million (47%) over FY15. The main drivers for the decrease were i) lower overall IDA commitments in FY16 - \$16,171 million compared to FY15 - \$18,966 million and, ii) the full usage of the \$895 million initial IDA17 Crisis Response Window (CRW) in FY15.

**Administrative expenses:** IBRD/IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of administrative expenses between IBRD and IDA is based upon an agreed cost sharing methodology, approved by their Boards, which is driven by the relative level of lending activity between these two institutions. The \$98 million decrease in administrative expenses of IDA during FY16 as compared to FY15 is in line with changes in the lending activities of IDA relative to IBRD over the same period.

**Unrealized mark-to-market losses on non-trading portfolios:** In FY16, the mark-to-market gains of \$35 million from the non-trading portfolio were offset by mark-to-market losses of \$35 million from currency forward contracts. In FY15, the negative fair value adjustment of \$179 million was primarily due to the effect of the downward shift in the yield curve of the currencies constituting the payable leg of the currency forward contracts used to hedge member equity commitments of IDA17 and prior replenishments.

The above were partially offset by:

**Translation adjustment on the non-functional currencies:** The translation adjustment gain on non-functional currencies of \$208 million in FY16 was due to the depreciation of the non-functional currencies against the U.S. dollar. The majority of these translation adjustments arise out of the payable leg of currency forwards used to hedge the SDR value of future member equity contributions. In FY15, the translation adjustment gain was \$912 million.

## **SECTION 10: CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES**

---

Note A of IDA's financial statements contains a summary of IDA's significant accounting policies. These policies, as well as significant estimates made by management, are integral to the presentation of IDA's financial position. While all of these policies require a certain level of management judgment and estimates, this section discusses the significant accounting policies that require management to make judgments that are difficult, complex or subjective and relate to matters that are inherently uncertain.

### **Fair Value of Financial Instruments**

All fair value adjustments, which are recorded at fair value, are recognized through the income statement. The fair values of financial instruments are based on a three level hierarchy.

For financial instruments classified as Level 1 and 2, inputs are based on observable market data and less judgment is applied in arriving at a fair value measurement. For financial instruments classified as Level 3, significant unobservable inputs are used. These inputs require management to make significant assumptions and judgments in arriving at a fair value measurement.

Derivative contracts include currency forward contracts, swaptions, plain vanilla swaps, and structured swaps, and are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates and basis spreads.

In instances where management relies on instrument valuations supplied by external pricing vendors, there are procedures in place to validate the appropriateness of the models used as well as the inputs applied in determining those values.

All of IDA's financial instruments which are recorded at fair value are classified as Level 1 and Level 2 as of June 30, 2016, as the inputs are based on observable market data and less judgment is applied in arriving at fair value measures.

On a quarterly basis, the methodology, inputs and assumptions are reviewed to assess the appropriateness of the fair value hierarchy classification of each financial instrument. All the financial models used for input to IDA's financial statements are subject to both internal and periodic external verification and review by qualified personnel.

### **Provision for Losses on Loans and Other Exposures**

IDA's accumulated provision for losses on loans and other exposures reflects the probable losses inherent in its nonaccrual and accrual portfolios after taking into consideration the expected relief under the HIPC Debt Initiative and MDRI and any provision for losses on the buy-down of loans. The provision required is a function of the expected default frequency and the assumed severity of the loss given default for each of the borrowers.

The expected default frequency is based on the borrower's assigned risk rating. The determination of a borrower's risk rating is based on a quantitative framework which relies primarily on considerations of political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payments risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks and corporate sector debt and other vulnerabilities. IDA periodically reassesses the adequacy of the accumulated provision for losses on loans and other exposures.

Adjustments to the accumulated provision are recorded as a charge or a release of provision in the Statement of Income. Actual losses may differ from expected losses due to unforeseen changes in any of the factors that affect borrowers' creditworthiness.

The Credit Risk Committee monitors aspects of country credit risk, in particular, reviewing the provision for losses on loans and guarantees taking into account, among other factors, any changes in exposure, risk ratings of borrowing member countries, or movements between the accrual and non-accrual portfolios.

Additional information on IDA's provisioning policy and the status of nonaccrual loans can be found in the Notes to Financial Statements-Note A-Summary of Significant Accounting and Related Policies and Note F-Development Credits and Other Exposures.

### **Provision for HIPC Debt Initiative and MDRI**

The adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI is based on both quantitative and qualitative analyses of various factors, including estimates of Decision and Completion Point dates. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI. Adjustments to the accumulated provision are recorded as a charge against or addition to income.

### **Provision for Losses on Buy-Down of Loans**

The provision for losses on the buy-down of loans is equivalent to the difference between the carrying amount of the loans to be bought down and the estimated amount to be received, when all performance goals as well as conditions necessary to effect the buy-down have been completed. The estimated amount to be received is based on quantitative factors including the discount rate.

## **SECTION 11: GOVERNANCE AND CONTROL**

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### **General Governance**

IDA's decision-making structure consists of the Board of Governors, the Executive Directors, the President, Management and staff. The Board of Governors is the highest decision-making authority. Governors are appointed by their member governments for a five-year term, which is renewable. The Board of Governors may delegate authority to the Executive Directors to exercise any of its powers, except for certain powers enumerated in the IDA Articles.

### **Board Membership**

In accordance with the Articles, Executive Directors are appointed or elected every two years by their member governments. The Board currently has 25 Executive Directors who represent all 173 member countries. Executive Directors are neither officers nor staff of IDA. The President is the only member of the Board from management, and he serves as a non-voting member and as Chairman of the Board.

The Board has established several committees, including:

- Audit Committee
- Budget Committee
- Committee on Development Effectiveness
- Committee on Governance and Executive Directors' Administrative Matters
- Human Resources Committee

The Board and its committees are in continuous session at the main offices of IDA in Washington DC, as business requires. Each committee's terms of reference establishes its respective roles and responsibilities. As committees do not vote on issues, their role is primarily to serve the Board in discharging its responsibilities.

The Board is required to consider proposals made by the President on IDA loans, grants and guarantees and on other policies that affect its general operations. The Board is also responsible for presenting to the Board of Governors, at the Annual Meetings, audited accounts, an administrative budget, and an annual report on operations and policies and other matters.

### **Audit Committee**

#### **Membership**

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



## **Key Responsibilities**

The Audit Committee is appointed by the Board for the primary purpose of assisting the Board in overseeing IDA's finances, accounting, risk management, internal controls and institutional integrity. Specific responsibilities include:

- Oversight of the integrity of IDA's financial statements.
- Appointment, qualifications, independence and performance of the External Auditor.
- Performance of the Internal Audit Department.
- Adequacy and effectiveness of financial and accounting policies and internal controls and the mechanisms to deter, prevent and penalize fraud and corruption in IDA operations and corporate procurement.
- Effective management of financial, fiduciary and compliance risks in IDA.
- Oversight of the institutional arrangements and processes for risk management across IDA.

In carrying out its role, the Audit Committee discusses financial issues and policies that affect IDA's financial position and capital adequacy, with management, external auditors, and internal auditors. It also recommends the annual audited financial statements for approval to the Board. The Audit Committee monitors and reviews developments in corporate governance and its own role on an ongoing basis.

## **Executive Sessions**

Under the Audit Committee's terms of reference, it may convene in executive session at any time, without Management's presence. The Audit Committee meets separately in executive session with the external and internal auditors.

## **Access to Resources and to Management**

Throughout the year, the Audit Committee receives a large volume of information to enable it to carry out its duties, and meets both formally and informally throughout the year to discuss relevant matters. It has complete access to Management, and reviews and discusses with Management topics considered in its terms of reference.

The Audit Committee has the authority to seek advice and assistance from outside legal, accounting, or other advisors as it deems necessary.

## **Business Conduct**

The WBG promotes a positive work environment in which staff members understand their ethical obligations to the institution. In support of this commitment, the institution has in place a Code of Conduct. The WBG has both an Ethics HelpLine and a Fraud and Corruption hotline. A third-party service offers many methods of worldwide communication. Reporting channels include telephone, mail, email, or confidential submission through a website.

IDA has in place procedures for receiving, retaining, and handling recommendations and concerns relating to business conduct identified during the accounting, internal control, and auditing processes.

WBG staff rules clarify and codify the staff's obligations in reporting suspected fraud, corruption, or other misconduct that may threaten the operations or governance of the WBG. These rules also offer protection from retaliation.

## **Auditor Independence**

The appointment of the external auditor for IDA is governed by a set of Board-approved principles. These include:

- Prohibition of the external auditor from the provision of all non-audit-related services.
- All audit-related services must be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee; and
- Mandatory rebidding of the external audit contract every five years, with a limitation of two consecutive terms and mandatory rotation thereafter, provided however that the Audit Committee may exceptionally recommend that circumstances are such that the incumbent audit firm should be allowed to participate in the re-bidding.

The external auditor is appointed to a five year term and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board. In FY14, KPMG LLP began a second five-year term as IDA's external auditor.

Communication between the external auditor and the Audit Committee is ongoing, and carried out as often as deemed necessary by either party.

The Audit Committee meets periodically with the external auditor and individual members of the Audit Committee have independent access to the external auditor. IDA's external auditors follow the communication requirements, with the Audit Committees set out under generally accepted auditing standards in the United States and in the International Standards on Auditing.

## **Internal Controls**

### **Internal Control over External Financial Reporting**

Each fiscal year, Management evaluates the internal controls over external financial reporting to determine whether any changes made in these controls during the fiscal year materially affect, or would be reasonably likely to materially affect, IDA's internal control over external financial reporting. The internal control framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Internal Control - Integrated Framework (2013)" provides guidance for designing, implementing and conducting internal control and assessing its effectiveness. Since FY15, IDA has been using the 2013 COSO framework to assess the effectiveness of the internal control over external financial reporting. As of June 30, 2016, these controls were determined to be effective. See "Management's report regarding effectiveness of Internal Control over External Financial Reporting" on page [46].

Concurrently, IDA's external auditor provides a report on whether Management's assertion statement regarding the effectiveness of internal control over external financial reporting is fairly stated in all material respects. See Independent Auditors Report on Management's Assertion Regarding Effectiveness of Internal Control External over Financial Reporting" on page [48].

### **Disclosure Control and Procedures**

Disclosure control and procedures are designed to ensure that information required to be disclosed is gathered and communicated to Management as appropriate, to allow timely decisions regarding required disclosure by IDA. Management conducted an evaluation of the effectiveness of such controls and procedures and the President and the MDCFO have concluded that these controls and procedures were effective as of June 30, 2016.

## **SECTION 12: SENIOR MANAGEMENT CHANGES**

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On February 1, 2016, Joaquim Levy succeeded Bertrand Badré as Managing Director and World Bank Group Chief Financial Officer (MDCFO).

On February 29, 2016, Shaolin Yang became Managing Director and World Bank Group Chief Administrative Officer (MDCAO).

On July 27, 2016, Sri Mulyani Indrawati resigned as Managing Director and Chief Operating Officer (MDCOO). In the interim, Kyle Peters will be the acting MDCOO.

## GLOSSARY OF TERMS

**Blend Borrower:** IDA Member that is eligible to borrow from IDA on the basis of per capita income and is also eligible to borrow from IBRD. Given the access to both sources of funds, blend borrowers are expected to limit IDA funding to social sector projects and to use IBRD resources for projects in the other sectors.

**Board:** The Board of Executive Directors

**Commitment Authority:** Total value of resources available during a particular **replenishment** including member equity contributions, internal resources, IBRD transfers, IFC grants and other resources.

**Completion Point:** When conditions specified in the legal notification sent to a country are met and the country's other creditors have confirmed their full participation in the HIPC debt relief initiative. When a country reaches its Completion Point, IDA's commitment to provide the total debt relief for which the country is eligible, becomes irrevocable.

**Committee of Sponsoring Organizations of the Treadway Commission (COSO):** Committee of Sponsoring Organizations of the Treadway Commission. COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private-sector initiative which studied the causal factors that can lead to fraudulent financial reporting. In 1992, COSO issued its Internal Control-Integrated Framework, which provided a common definition of internal control and guidance on judging its effectiveness.

**Consultative Loss Limit:** Reflects a level of IDA tolerance for risk of underperforming the benchmark in any fiscal year.

**Duration:** Duration provides an indication of the interest rate sensitivity of a fixed income security to changes in its underlying yield.

**Encashment:** Draw down (payment in cash) of a demand note in accordance with a schedule agreed for each replenishment.

**Externally Financed Output (EFO):** An instrument for receiving external contributions to support the Bank's work program, typically, for amounts under \$1 million, however larger amounts can also be received.

**Graduate Member:** A member country that was once only eligible to borrow from IDA, however due to improvements in the member's economic results is no longer eligible to borrow from IDA, and is deemed to have "graduated" to IBRD.

**Instrument of Commitment (IoC):** The instrument through which a government commits to make a subscription or a subscription and contribution to IDA's resources.

**Net Disbursements:** Loans and grant disbursements net of repayments and prepayments.

**Replenishment:** The process of periodic review of the adequacy of IDA resources and authorization of additional subscriptions. Under IDA's Articles, replenishments are required to be approved by IDA's Board of Governors by a two-thirds majority of the total voting power.

**Special Drawing Rights (SDR):** The SDR is an international reserve asset, created by the International Monetary Fund in 1969 to supplement the existing official reserves of member countries. The SDR is defined as a basket of currencies, consisting of the euro, Japanese yen, pound sterling, and U.S. dollar. The basket composition is reviewed every five years to ensure that it reflects the relative importance of currencies in the world's trading and financial systems.

**Voting Rights:** IDA's voting rights consist of a combination of membership and subscription votes.

**World Bank Group (WBG):** The World Bank Group consists of the IBRD, IDA, IFC, MIGA and ICSID.

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INTERNATIONAL DEVELOPMENT ASSOCIATION  
FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS  
JUNE 30, 2016

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# MANAGEMENT'S REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER EXTERNAL FINANCIAL REPORTING

**The World Bank**  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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

August 4, 2016

The management of the International Development Association (IDA) is responsible for the preparation, integrity, and fair presentation of its published financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on informed judgments and estimates made by management.

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

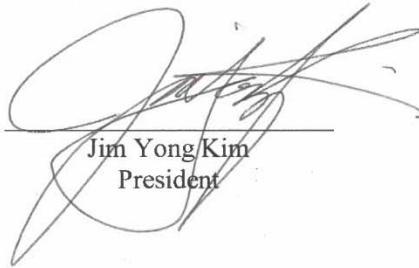
Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial statement presentations in conformity with accounting principles generally accepted in the United States of America. Management maintains a comprehensive system of controls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

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

IDA assessed its internal control over external financial reporting for financial statement presentation in conformity with accounting principles generally accepted in the United States of America as of June 30, 2016. This assessment was based on the criteria for effective internal control over external financial reporting described in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IDA maintained effective internal control over external financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of June 30, 2016. The independent audit firm that

audited the financial statements has issued an attestation report on management's assertion on IDA's internal control over external financial reporting.

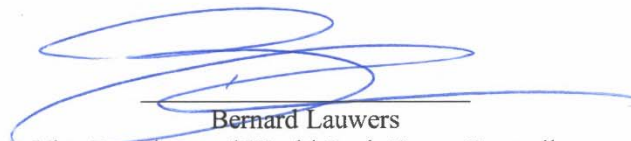
The Executive Directors of IDA have appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IDA. The Audit Committee is comprised entirely of Executive Directors who are independent of IDA's management. The Audit Committee is responsible for recommending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



Jim Yong Kim  
President



Joaquim Vieira Ferreira Levy  
Managing Director and World Bank Group Chief Financial Officer



Bernard Lauwers  
Vice President and World Bank Group Controller

# INDEPENDENT AUDITORS' REPORT ON MANAGEMENT'S ASSERTION REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

President and Executive Directors  
International Development Association:

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the International Development Association (IDA) maintained effective internal control over external financial reporting as of June 30, 2016, based on criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). IDA's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

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

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

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

In our opinion, management's assertion that IDA maintained effective internal controls over financial reporting as of June 30, 2016 is fairly stated, in all material respects, based on the criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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We also have audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the accompanying financial statements of IDA, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of income, comprehensive income, changes in accumulated deficit and cash flows for each of the years in the three-year period ended June 30, 2016, and our report dated August 4, 2016 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Washington, D.C.  
August 4, 2016

# INDEPENDENT AUDITORS' REPORT



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

President and Executive Directors  
International Development Association:

We have audited the accompanying financial statements of the International Development Association (IDA), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of income, changes in accumulated deficit and cash flows for each of the years in the three-year period ended June 30, 2016, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IDA as of June 30, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The summary statement of development credits and the statement of voting power and subscriptions and contributions as of June 30, 2016 are presented for purposes of additional analysis and are not a required part

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of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion, included in the accompanying Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting, that IDA maintained effective internal control over financial reporting as of June 30, 2016, based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 4, 2016 expressed an unqualified opinion on management's assertion.

KPMG LLP

Washington, D.C.  
August 4, 2016

# BALANCE SHEET

June 30, 2016 and June 30, 2015

Expressed in millions of U.S. dollars

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Due from Banks</b>		
Unrestricted cash — Note C	\$ 645	\$ 328
Restricted cash	<u>27</u>	<u>28</u>
	<u>672</u>	<u>356</u>
<b>Investments (including securities transferred under repurchase or securities lending agreements of \$1,691 million—June 30, 2016; \$4,013 million—June 30, 2015)—Notes C and G</b>	31,413	32,574
<b>Securities Purchased Under Resale Agreements—Note C</b>	80	599
<b>Derivative Assets</b>		
Investments—Notes C and E	4,624	6,619
Asset-liability management—Notes E and G	<u>8,214</u>	<u>8,914</u>
	<u>12,838</u>	<u>15,533</u>
<b>Receivable from Affiliated Organization—Note G</b>	882	863
<b>Other Receivables</b>		
Receivable from investment securities traded—Note C	861	1,142
Accrued service and commitment charges	<u>327</u>	<u>292</u>
	<u>1,188</u>	<u>1,434</u>
<b>Development Credits Outstanding (Summary Statement of Development Credits, Notes F and L)</b>		
Development credits	186,211	178,166
Less: Undisbursed balance	<u>49,476</u>	<u>47,288</u>
Development credits outstanding	136,735	130,878
Less: Accumulated provision for debt relief and losses on development credits	3,932	4,144
Add: Deferred development credits origination costs	<u>22</u>	<u>26</u>
Net development credits outstanding	<u>132,825</u>	<u>126,760</u>
<b>Other Assets—Note H</b>	577	566
<b>Total Assets</b>	<u>\$ 180,475</u>	<u>\$ 178,685</u>

	<u>2016</u>	<u>2015</u>
<b>Liabilities</b>		
<b><i>Borrowings—Note D</i></b>	\$ 2,906	\$ 2,150
<b><i>Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received—Note C</i></b>	1,968	4,904
<b><i>Derivative Liabilities</i></b>		
Investments—Notes C and E	4,794	6,507
Asset-liability management—Notes E and G	7,943	8,963
	<u>12,737</u>	<u>15,470</u>
<b><i>Payable for Development Grants—Note I</i></b>	6,099	6,637
<b><i>Payable to Affiliated Organization—Note G</i></b>	458	396
<b><i>Other Liabilities</i></b>		
Payable for investment securities purchased —Note C	948	1,345
Accounts payable and miscellaneous liabilities—Notes F and H	659	634
	<u>1,607</u>	<u>1,979</u>
<b>Total Liabilities</b>	<u>25,775</u>	<u>31,536</u>
<b>Equity</b>		
<b><i>Members' Subscriptions and Contributions (Statement of Voting Power and Subscriptions and Contributions, and Note B)</i></b>		
Unrestricted	245,103	244,368
Restricted	327	326
Subscriptions and contributions committed	245,430	244,694
Less:		
Subscriptions and contributions receivable	33,695	40,533
Cumulative discounts/acceleration credits on subscriptions and contributions	3,305	3,116
Subscriptions and contributions paid-in	208,430	201,045
<b><i>Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Members' Subscriptions and Contributions</i></b>		
Unrestricted	(9,189)	(9,329)
Restricted	(48)	(49)
	<u>(9,237)</u>	<u>(9,378)</u>
<b><i>Deferred Amounts to Maintain Value of Currency Holdings</i></b>	(244)	(242)
<b><i>Accumulated Deficit (Statement of Changes in Accumulated Deficit)</i></b>	(43,030)	(43,401)
<b><i>Accumulated Other Comprehensive Income—Note J</i></b>	(1,219)	(875)
<b>Total Equity</b>	<u>154,700</u>	<u>147,149</u>
<b>Total Liabilities and Equity</b>	<u>\$ 180,475</u>	<u>\$ 178,685</u>

***The Notes to Financial Statements are an integral part of these Statements.***

# STATEMENT OF INCOME

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	2016	2015	2014
<b>Revenue</b>			
Development credits and guarantees—Note F			
Service and interest charges	\$ 1,149	\$ 1,065	\$ 1,012
Guarantee fee revenue	5	3	3
	<u>1,154</u>	<u>1,068</u>	<u>1,015</u>
Investments, net—Notes C, E, G and L	893	522	634
Transfers from affiliated organizations and others —Notes G and H	990	993	881
Other—Notes G and H	569	574	635
<b>Total Revenue</b>	<u>3,606</u>	<u>3,157</u>	<u>3,165</u>
<b>Expenses</b>			
Administrative expenses—Notes G, H and K	1,765	1,868	2,004
Development grants—Note I	1,232	2,319	2,645
Borrowings—Notes C and D	80	49	3
Provision for debt relief and for losses on development credits and other exposures, net charge—Note F	380	372	39
Non-functional currency translation adjustment (gains) losses, net	(208)	(912)	51
Unrealized mark-to-market losses on non-trading portfolios, net —Notes C, E and L	-	179	35
Project Preparation Advances (PPA) grants and other Expenses	(14)	13	-
<b>Total Expenses</b>	<u>3,235</u>	<u>3,888</u>	<u>4,777</u>
<b>Net Income (Loss)</b>	<u>\$ 371</u>	<u>\$ (731)</u>	<u>\$ (1,612)</u>

*The Notes to Financial Statements are an integral part of these Statements.*

## STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Net Income (Loss)</b>	\$ 371	\$ (731)	\$ (1,612)
<b>Other Comprehensive (Loss) Income—Note J</b>			
Currency translation adjustments on functional Currencies	(344)	(13,872)	3,739
<b>Comprehensive Income (Loss)</b>	<u>\$ 27</u>	<u>\$ (14,603)</u>	<u>\$ 2,127</u>

## STATEMENT OF CHANGES IN ACCUMULATED DEFICIT

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Accumulated Deficit at beginning of the fiscal year</b>	\$ (43,401)	\$ (42,670)	\$ (41,058)
Net income (loss) for the year	371	(731)	(1,612)
<b>Accumulated Deficit at end of the fiscal year</b>	<u>\$ (43,030)</u>	<u>\$ (43,401)</u>	<u>\$ (42,670)</u>

***The Notes to Financial Statements are an integral part of these Statements.***

# STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	2016	2015	2014
<b>Cash flows from investing activities</b>			
Development credits			
Disbursements	\$ (11,461)	\$ (10,860)	\$ (11,168)
Principal repayments	4,276	4,057	3,462
Principal prepayments	51	28	-
Proceeds from buy-down of development credits	58	-	92
Non-trading securities—Investments			
Purchases	-	(1,179)	-
Repayments	72	25	-
Net cash used in investing activities	<u>(7,004)</u>	<u>(7,929)</u>	<u>(7,614)</u>
<b>Cash flows from financing activities</b>			
Members' subscriptions and contributions	7,525	8,004	8,161
Borrowings	653	2,145	-
Net cash provided by financing activities	<u>8,178</u>	<u>10,149</u>	<u>8,161</u>
<b>Cash flows from operating activities</b>			
Net income (loss)	371	(731)	(1,612)
Adjustments to reconcile net loss to net cash used in operating activities			
Provision for debt relief and for losses on development credits and other exposures, net charge	380	372	39
Non-functional currency translation adjustment (gains) losses, net	(208)	(912)	51
Unrealized mark-to-market losses on non-trading portfolios, net	-	179	35
PPA grants and other expenses	(14)	13	-
Amortization of discount on Borrowings	25	8	-
Changes in:			
Investments — Trading, net	1,483	(1,924)	(1,155)
Net investment securities traded/purchased	(10)	(724)	1,193
Net derivatives — Investments	(45)	227	(47)
Net derivatives — Asset-liability management	66	140	88
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	(2,408)	1,303	(139)
Net receivable from affiliated organizations	45	(36)	45
Payable for development grants	(499)	279	372
Accrued service and commitment charges	(36)	(38)	(26)
Other assets	(35)	8	(132)
Accounts payable and miscellaneous liabilities	34	(151)	288
Net cash used in operating activities	<u>(851)</u>	<u>(1,987)</u>	<u>(1,000)</u>
<b>Effect of exchange rate changes on unrestricted cash</b>	<u>(6)</u>	<u>(25)</u>	<u>8</u>
<b>Net increase (decrease) in unrestricted cash</b>	317	208	(445)
<b>Unrestricted cash at beginning of the fiscal year</b>	328	120	565
<b>Unrestricted cash at end of the fiscal year</b>	<u>\$ 645</u>	<u>\$ 328</u>	<u>\$ 120</u>



# STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014

Expressed in millions of U.S. dollars

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Supplemental disclosure</b>			
(Decrease) increase in ending balances resulting from exchange rate fluctuations:			
Development credits outstanding	\$ (655)	\$ (11,891)	\$ 3,351
Investment portfolio	141	(2,292)	668
Derivatives — Asset-liability management	421	372	(62)
Borrowings	78	(3)	-
Principal repayments written off under Heavily Indebted Poor Countries (HIPC) Debt Initiative	10	14	7
Development credits written off under Multilateral Debt Relief Initiative (MDRI)	524	-	-
Development credits prepaid — carrying value	54	30	-
Buy-down of development credits — carrying value	85	-	174
Interest paid on borrowings	42	21	-

***The Notes to Financial Statements are an integral part of these Statements.***

# SUMMARY STATEMENT OF DEVELOPMENT CREDITS

June 30, 2016

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits<sup>a</sup></i>	<i>Development credits outstanding</i>	<i>Percentage of development credits Outstanding<sup>c</sup></i>
Afghanistan	\$ 369	\$ -	\$ 369	0.27%
Albania	751	4	747	0.54
Angola	671	169	502	0.37
Armenia	1,205	60	1,145	0.84
Azerbaijan	582	76	506	0.37
Bangladesh	17,843	5,696	12,147	8.88
Benin	988	228	760	0.55
Bhutan	205	20	185	0.14
Bolivia	966	302	664	0.49
Bosnia and Herzegovina	1,241	152	1,089	0.80
Botswana	2	-	2	*
Burkina Faso	1,522	430	1,092	0.80
Burundi	150	-	150	0.11
Cabo Verde, Republic of	327	8	319	0.23
Cambodia	676	133	543	0.40
Cameroon	1,527	644	883	0.65
Central African Republic	168	108	60	0.04
Chad	205	17	188	0.14
China	3,562	-	3,562	2.61
Comoros	14	-	14	0.01
Congo, Democratic Republic of	1,442	594	848	0.62
Congo, Republic of	197	79	118	0.09
Côte d'Ivoire	584	170	414	0.30
Djibouti	180	48	132	0.10
Dominica	39	14	25	0.02
Dominican Republic	4	-	4	*
Ecuador	4	-	4	*
Egypt, Arab Republic of	880	-	880	0.64
El Salvador	4	-	4	*
Equatorial Guinea	29	-	29	0.02
Eritrea	437	-	437	0.32
Ethiopia	9,808	4,235	5,573	4.08
Gambia, The	124	66	58	0.04
Georgia	1,267	43	1,224	0.89
Ghana	4,024	587	3,437	2.51
Grenada	91	13	78	0.06
Guinea	344	155	189	0.14
Guinea-Bissau	151	96	55	0.04
Guyana	44	20	24	0.02
Honduras	1,042	72	970	0.71
India	31,405	6,640	24,765	18.11
Indonesia	1,581	-	1,581	1.16
Iraq	401	57	344	0.25
Jordan	18	-	18	0.01
Kenya	8,085	3,461	4,624	3.38
Kosovo	106	72	34	0.03
Kyrgyz Republic	779	127	652	0.48
Lao People's Democratic Republic	645	131	514	0.38
Lesotho	394	104	290	0.21
Liberia	505	296	209	0.15
Macedonia, former Yugoslav Republic of	273	-	273	0.20
Madagascar	1,759	308	1,451	1.06
Malawi	916	289	627	0.46
Maldives	92	-	92	0.07
Mali	1,798	399	1,399	1.02
Mauritania	461	83	378	0.28

# SUMMARY STATEMENT OF DEVELOPMENT CREDITS (continued)

June 30, 2016

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total development Credits</i>	<i>Undisbursed development credits<sup>a</sup></i>	<i>Development credits outstanding</i>	<i>Percentage of development credits Outstanding<sup>c</sup></i>
Mauritius	\$ 4	\$ -	\$ 4	*%
Moldova	716	154	562	0.41
Mongolia	539	101	438	0.32
Montenegro	63	-	63	0.05
Morocco	6	-	6	*
Mozambique	3,285	688	2,597	1.90
Myanmar	2,074	1,208	866	0.63
Nepal	2,423	708	1,715	1.25
Nicaragua	603	54	549	0.40
Niger	1,417	654	763	0.56
Nigeria	10,982	4,219	6,763	4.95
Pakistan	15,696	2,315	13,381	9.79
Papua New Guinea	370	178	192	0.14
Paraguay	7	-	7	0.01
Philippines	109	-	109	0.08
Rwanda	1,375	467	908	0.66
Samoa	119	22	97	0.07
São Tomé and Príncipe	12	-	12	0.01
Senegal	2,322	626	1,696	1.24
Serbia	487	-	487	0.36
Sierra Leone	346	115	231	0.17
Solomon Islands	51	20	31	0.02
Somalia	415	-	415	0.30
South Sudan	156	118	38	0.03
Sri Lanka	3,816	1,029	2,787	2.04
St. Kitts and Nevis	1	-	1	*
St. Lucia	112	37	75	0.05
St. Vincent and the Grenadines	70	41	29	0.02
Sudan	1,210	-	1,210	0.88
Swaziland	1	-	1	*
Syrian Arab Republic	14	-	14	0.01
Tajikistan	403	83	320	0.23
Tanzania	7,965	2,327	5,638	4.12
Timor-Leste	25	13	12	0.01
Togo	87	50	37	0.03
Tonga	48	19	29	0.02
Tunisia	7	-	7	0.01
Turkey	16	-	16	0.01
Uganda	4,252	1,652	2,600	1.90
Uzbekistan	1,350	882	468	0.34
Vanuatu	93	82	11	0.01
Vietnam	16,517	4,803	11,714	8.57
Yemen, Republic of	1,791	26	1,765	1.29
Zambia	1,312	571	741	0.54
Zimbabwe	465	-	465	0.34
Subtotal – Members <sup>c</sup>	186,019	49,468	136,551	99.86

# SUMMARY STATEMENT OF DEVELOPMENT CREDITS

June 30, 2016

*Expressed in millions of U.S. dollars*

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits<sup>a</sup></i>	<i>Development credits outstanding</i>	<i>Percentage of development credits Outstanding<sup>c</sup></i>
African Trade Insurance Agency <sup>b</sup>	\$ 9	\$ -	\$ 9	0.01%
Bank Of The States Of Central Africa <sup>b</sup>	44	8	36	0.03
Caribbean Development Bank <sup>b</sup>	15	-	15	0.01
West African Development Bank <sup>b</sup>	124	-	124	0.09
Subtotal— Regional development banks	192	8	184	0.14
Total—June 30, 2016 <sup>c</sup>	<u>\$ 186,211</u>	<u>\$ 49,476</u>	<u>\$ 136,735</u>	<u>100.00%</u>
Total—June 30, 2015	<u>\$ 178,166</u>	<u>\$ 47,288</u>	<u>\$ 130,878</u>	

\* Indicates amounts less than 0.005 percent.

## NOTES

- Of the undisbursed balance at June 30, 2016, IDA has entered into irrevocable commitments to disburse \$334 million (\$364 million —June 30, 2015).
- The development credits to these regional development banks and agencies are for the benefit of members of IDA or territories of members of IDA.
- May differ from the calculated amounts or sum of individual figures shown due to rounding.

***The Notes to Financial Statements are an integral part of these Statements.***

# STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2016

Expressed in millions of U.S. dollars

Member <sup>a</sup>	Number of votes	Percentage of total votes	Subscriptions and contributions committed <sup>b</sup>
<b>Part I Members</b>			
Australia	325,111	1.25%	\$ 4,504.70
Austria	217,726	0.84	3,099.72
Belgium	277,473	1.06	4,466.08
Canada	689,934	2.65	11,079.30
Denmark	241,046	0.92	3,605.06
Estonia	48,217	0.18	12.82
Finland	167,098	0.64	1,922.73
France	993,516	3.81	17,257.95
Germany	1,420,639	5.45	25,579.03
Greece	53,171	0.20	195.40
Iceland	59,056	0.23	81.02
Ireland	95,736	0.37	708.19
Italy	574,099	2.20	9,252.16
Japan	2,199,092	8.44	44,063.68
Kuwait	112,624	0.43	999.27
Latvia	54,796	0.21	12.79
Lithuania	48,133	0.18	10.95
Luxembourg	71,934	0.28	329.43
Netherlands	512,178	1.96	8,745.39
New Zealand	73,004	0.28	349.82
Norway	261,781	1.00	3,854.61
Portugal	56,123	0.22	275.99
Russian Federation	86,771	0.33	751.09
Slovenia	56,739	0.22	39.46
South Africa	70,298	0.27	223.88
Spain	296,617	1.14	4,269.06
Sweden	520,860	2.00	7,948.61
Switzerland	307,539	1.18	5,023.79
United Arab Emirates	1,367	0.01	5.58
United Kingdom	1,616,445	6.20	28,484.30
United States	2,707,023	10.39	50,411.44
Subtotal Part I Members <sup>b</sup>	14,216,146	54.54%	\$ 237,563.28
<b>Part II Members</b>			
Afghanistan	54,983	0.21%	\$ 1.48
Albania	58,331	0.22	0.35
Algeria	102,493	0.39	5.61
Angola	153,438	0.59	8.71
Argentina	208,113	0.80	141.10
Armenia	54,878	0.21	0.67
Azerbaijan	65,915	0.25	1.13
Bahamas, The	59,379	0.23	8.54
Bangladesh	142,091	0.55	8.07
Barbados	59,280	0.23	2.36
Belize	19,834	0.08	0.27
Benin	60,820	0.23	0.77
Bhutan	43,510	0.17	0.07
Bolivia, Plurinational State of	71,726	0.28	1.63
Bosnia and Herzegovina	52,455	0.20	2.48
Botswana	51,149	0.20	1.63
Brazil	395,580	1.52	851.23
Burkina Faso	60,510	0.23	0.78
Burundi	52,501	0.20	1.09
Cabo Verde, Republic of	43,840	0.17	0.13
Cambodia	66,849	0.26	1.58
Cameroon	60,782	0.23	1.61
Central African Republic	48,910	0.19	0.77
Chad	48,910	0.19	0.77
Chile	58,505	0.22	39.12
China	571,811	2.20	536.03
Colombia	94,824	0.36	24.91
Comoros	43,840	0.17	0.13
Congo, Democratic Republic of	79,399	0.30	4.59
Congo, Republic of	48,910	0.19	0.73

# STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2016

Expressed in millions of U.S. dollars

<i>Member<sup>a</sup></i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed<sup>b</sup></i>
Costa Rica	24,489	0.09%	\$ 0.27
Côte d'Ivoire	63,156	0.24	1.53
Croatia	83,458	0.32	5.88
Cyprus	66,273	0.25	18.85
Czech Republic	116,169	0.45	120.64
Djibouti	44,816	0.17	0.26
Dominica	55,500	0.21	0.14
Dominican Republic	27,780	0.11	0.58
Ecuador	50,151	0.19	0.94
Egypt, Arab Republic of	108,081	0.41	11.19
El Salvador	46,516	0.18	0.49
Equatorial Guinea	6,167	0.02	0.41
Eritrea	43,969	0.17	0.14
Ethiopia	49,232	0.19	0.70
Fiji	19,809	0.08	0.76
Gabon	2,093	0.01	0.63
Gambia, The	51,908	0.20	0.42
Georgia	58,826	0.23	0.98
Ghana	81,240	0.31	3.12
Grenada	26,427	0.10	0.13
Guatemala	37,396	0.14	0.55
Guinea	33,987	0.13	1.31
Guinea-Bissau	44,500	0.17	0.22
Guyana	67,274	0.26	1.24
Haiti	52,038	0.20	1.10
Honduras	52,855	0.20	0.43
Hungary	181,182	0.70	132.97
India	769,591	2.95	259.37
Indonesia	229,403	0.88	33.72
Iran, Islamic Republic of	113,176	0.43	24.26
Iraq	66,912	0.26	1.11
Israel	77,179	0.30	94.41
Jordan	24,865	0.10	0.41
Kazakhstan	23,093	0.09	8.42
Kenya	72,127	0.28	2.39
Kiribati	43,592	0.17	0.10
Korea, Republic of	225,617	0.87	1,942.02
Kosovo, Republic of	48,357	0.19	0.84
Kyrgyz Republic	60,842	0.23	0.57
Lao People's Democratic Republic	48,910	0.19	0.73
Lebanon	8,562	0.03	0.56
Lesotho	51,040	0.20	0.23
Liberia	52,038	0.20	1.12
Libya	44,771	0.17	1.41
Macedonia, former Yugoslav Republic of	47,095	0.18	1.09
Madagascar	63,156	0.24	1.38
Malawi	52,038	0.20	0.97
Malaysia	95,289	0.37	32.82
Maldives	55,046	0.21	0.05
Mali	59,145	0.23	1.34
Marshall Islands	4,902	0.02	0.01
Mauritania	48,910	0.19	0.77
Mauritius	68,639	0.26	1.33
Mexico	142,236	0.55	168.34
Micronesia, Federated States of	18,424	0.07	0.03
Moldova	56,582	0.22	0.88
Mongolia	45,818	0.18	0.31
Montenegro	53,123	0.20	0.74
Morocco	100,122	0.38	5.46
Mozambique	59,370	0.23	2.03
Myanmar	76,958	0.30	2.54
Nepal	54,710	0.21	0.73
Nicaragua	46,646	0.18	0.42
Niger	48,910	0.19	0.75
Nigeria	97,535	0.37	4.52

# STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2016

Expressed in millions of U.S. dollars

Member <sup>a</sup>	Number of votes	Percentage of total votes	Subscriptions and contributions committed <sup>b</sup>
Oman	53,192	0.20%	\$ 1.41
Pakistan	224,684	0.86	26.47
Palau	3,804	0.01	0.03
Panama	10,185	0.04	0.03
Papua New Guinea	63,658	0.24	1.27
Paraguay	30,157	0.12	0.42
Peru	84,502	0.32	18.05
Philippines	137,593	0.53	23.81
Poland	519,250	1.99	106.62
Romania	96,010	0.37	5.22
Rwanda	52,038	0.20	1.12
St. Kitts and Nevis	13,868	0.05	0.17
St. Lucia	30,532	0.12	0.23
St. Vincent and the Grenadines	46,546	0.18	0.12
Samoa	43,901	0.17	0.14
São Tomé and Príncipe	49,519	0.19	0.12
Saudi Arabia	849,303	3.26	2,634.57
Senegal	68,943	0.26	2.6
Serbia	80,795	0.31	7.03
Sierra Leone	63,638	0.24	1.07
Singapore	41,503	0.16	209.17
Slovak Republic	84,573	0.32	28.16
Solomon Islands	43,901	0.17	0.13
Somalia	10,506	0.04	0.95
South Sudan	52,447	0.20	0.46
Sri Lanka	98,100	0.38	4.41
Sudan	60,782	0.23	1.54
Swaziland	19,022	0.07	0.41
Syrian Arab Republic	11,027	0.04	1.19
Tajikistan	53,918	0.21	0.54
Tanzania	68,943	0.26	2.32
Thailand	102,250	0.39	9.02
Timor-Leste	45,123	0.17	0.44
Togo	57,838	0.22	1.17
Tonga	49,514	0.19	0.11
Trinidad and Tobago	76,534	0.29	2.11
Tunisia	2,793	0.01	1.89
Turkey	156,334	0.60	192.81
Tuvalu	6,338	0.02	0.02
Uganda	47,092	0.18	2.29
Ukraine	115,569	0.44	8.06
Uzbekistan	73,936	0.28	1.97
Vanuatu	50,952	0.20	0.31
Vietnam	61,168	0.23	2.23
Yemen, Republic of	68,976	0.26	2.2
Zambia	81,227	0.31	3.64
Zimbabwe	105,982	0.41	6.41
Subtotal Part II Members <sup>b</sup>	<u>11,852,053</u>	<u>45.46%</u>	<u>\$ 7,866.86</u>
Total—June 30, 2016 <sup>b</sup>	<u>26,068,199</u>	<u>100.00%</u>	<u>\$ 245,430</u>
Total—June 30, 2015	<u>25,120,295</u>		<u>\$ 244,694</u>

\* Indicates less than 0.005 percent.

## NOTES

- a. See Notes to Financial Statements—Note A for an explanation of the two categories of membership.  
b. May differ from the calculated amounts or sum of individual figures shown due to rounding.

**The Notes to Financial Statements are an integral part of these Statements.**

# NOTES TO FINANCIAL STATEMENTS

## PURPOSE AND AFFILIATED ORGANIZATIONS

The International Development Association (IDA) is an international organization established in 1960. IDA's main goal is reducing poverty through promoting sustainable economic development in the less developed countries of the world that are members of IDA, by extending concessionary financing in the form of grants, development credits and guarantees, and by providing related technical assistance. The activities of IDA are complemented by those of three affiliated organizations, the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Each of these organizations is legally and financially independent from IDA, with separate assets and liabilities, and IDA is not liable for their respective obligations. Transactions with these affiliates are disclosed in the notes that follow. The principal purpose of IBRD is to promote sustainable economic development and reduce poverty in its member countries, primarily by providing loans, guarantees and related technical assistance for specific projects and for programs of economic reform in developing member countries. IFC's purpose is to encourage the growth of productive private enterprises in its member countries through loans and equity investments in such enterprises without a member's guarantee. MIGA's purpose is to encourage the flow of investments for productive purposes between member countries and, in particular, to developing member countries by providing guarantees against noncommercial risks for foreign investment in its developing member countries.

IDA is immune from taxation pursuant to Article VIII, Section 9, *Immunities from Taxation*, of IDA's Articles of Agreement.

## NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

IDA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Due to the inherent uncertainty involved in making those estimates, actual results could differ from these estimates. Significant judgment has been used in the valuation of certain financial instruments and the determination of the adequacy of the accumulated provisions for debt relief and losses on development credits and other exposures (irrevocable commitments, guarantees and repaying project preparation facilities).

Certain reclassifications of the prior year's information have been made to conform with the current year's presentation.

On August [ ], 2016, the Executive Directors approved these financial statements for issue, which was also the date through which IDA's Management evaluated subsequent events.

### Translation of Currencies

IDA's financial statements are expressed in terms of U.S. dollars for the purpose of summarizing its financial position and the results of its operations for the convenience of its members and other users.

IDA conducts its operations in Special Drawing Rights (SDR) and its component currencies of U.S. dollar, euro, Japanese yen and pound sterling. These constitute the functional currencies of IDA. Effective October 1, 2016, the Chinese renminbi (RMB) will be added to the SDR basket as one of its component currencies. In line with this, the RMB will be considered as a functional currency for IDA from the beginning of the fiscal year ending June 30, 2017.

Assets and liabilities are translated at market exchange rates in effect at the end of the accounting period. Revenue and expenses are translated at either the market exchange rates in effect on the dates of revenue and expense recognition, or at an average of the exchange rates in effect during each month. Translation adjustments relating to the revaluation of development credits, development grants payable and all other assets and liabilities denominated in either SDR or the component currencies of SDR, are reflected in Accumulated Other Comprehensive Income. Translation adjustments relating to non-functional currencies are reported in the Statement of Income.



## Members' Subscriptions and Contributions

### *Recognition*

Members' Subscriptions and contributions committed for each IDA replenishment are initially recorded both as Subscriptions and contributions committed and, correspondingly, as Subscriptions and contributions receivable. Prior to effectiveness, only a portion of the value of Instruments of Commitment (IoCs) received as specified in the replenishment resolution is recorded as Subscriptions and contributions committed. Upon effectiveness, the remainder of the value of IoCs received is subsequently recorded as Subscriptions and contributions committed.

IoCs can contain unqualified or qualified commitments. Under an unqualified commitment, a contributing member agrees to pay a specified amount of its subscription and contribution without requiring appropriation legislation. A qualified commitment is subject to the contributing member obtaining the necessary appropriation legislation. Subscriptions and contributions made under IoCs become available for commitment for development credits, grants, and guarantees by IDA for a particular replenishment in accordance with the IDA commitment authority framework as approved by the Executive Directors.

A replenishment becomes effective when IDA receives IoCs from members whose subscriptions and contributions aggregate to a specified portion of the full replenishment. Amounts not yet paid in at the date of effectiveness, are recorded as Subscriptions and contributions receivable and shown as a reduction of Subscriptions and contributions committed. These receivables become due throughout the replenishment period, generally three years, in accordance with an agreed payment schedule. The actual payment of receivables when they become due may be subject to the budgetary appropriation processes for certain members.

The Subscriptions and contributions receivable are settled through payment of cash or deposit of nonnegotiable, noninterest-bearing demand notes. The notes are encashed by IDA on an approximately *pro rata* basis either as provided in the relevant replenishment resolution over the disbursement period of the development credits and grants committed under the replenishment, or as needed.

In certain replenishments, donors receive discounts when they pay their contribution amount before the due date, and receive acceleration credits when they pay their full contribution amount before the due date. IDA retains the related revenue on these early payments, with subscriptions and contributions committed being recorded at contribution amounts received grossed up for discounts and acceleration credits. The discounts and acceleration credits are deducted in arriving at the subscriptions and contributions paid-in.

Under the Seventeenth Replenishment of IDA's Resources (IDA17), IDA's Executive Directors approved the use of a limited amount of concessional debt funding, referred to as concessional partner loans. The borrowing terms of this concessional debt funding aim to match the concessional features of IDA's development credits. Proceeds received under this arrangement have two separate components: (1) a borrowing component and (2) a grant component, for which voting rights are allocated to providers of the concessional partner loans. The borrowing component of the concessional partner loans is recognized and reported at amortized cost (see borrowings section for more details). The grant component is a function of the terms of the loan and the discount rate agreed upon during the replenishment discussions. This grant component is recorded as equity based on the proceeds received.

For the purposes of its financial resources, the membership of IDA is divided into two categories: (1) Part I members, which make payments of subscriptions and contributions provided to IDA in convertible currencies that may be freely used or exchanged by IDA in its operations and (2) Part II members, which make payments of ten percent of their initial subscriptions in freely convertible currencies, and the remaining 90 percent of their initial subscriptions, and all additional subscriptions and contributions in their own currencies or in freely convertible currencies. Certain Part II members provide a portion of their subscriptions and contributions in the same manner as mentioned in (1) above. IDA's Articles of Agreement and subsequent replenishment resolutions provide that the currency of any Part II member paid in by it may not be used by IDA for projects financed by IDA and located outside the territory of the member except by agreement between the member and IDA. The national currency portion of subscriptions of Part II members is recorded as restricted under Members' subscriptions and contributions unless released under an agreement between the member and IDA or used for administrative expenses. The cash paid and notes deposited in nonconvertible local currencies for the subscriptions of Part II members are recorded either as Restricted cash under Due from Banks, or as restricted notes included under Non-negotiable, Noninterest-bearing Demand Obligations on Account of Member Subscriptions and Contributions.

Following adoption by the Board of Governors on April 21, 2006 of a resolution authorizing additions to IDA's resources to finance the MDRI, pledges received in the form of IoCs for financing the MDRI are recorded and accounted for in their entirety. Therefore, the full value of all IoCs received is recorded as Subscriptions and

contributions committed. Correspondingly, the IoCs are recorded as Subscriptions and contributions Receivable and deducted from equity.

### ***Withdrawal of membership***

Under IDA's Articles of Agreement, a member may withdraw from membership in IDA at any time. When a government ceases to be a member, it remains liable for all financial obligations undertaken by it to IDA, whether as a member, borrower, guarantor or otherwise. The Articles provide that upon withdrawal, IDA and the government shall proceed to a settlement of accounts. If agreement is not reached within six months, standard arrangements are provided. Under these arrangements, IDA would pay to the government the lower of the member's total paid-in subscriptions and contributions or the member's proportionate share of IDA's net assets. These funds would be paid as a proportionate share of all principal repayments received by IDA on development credits made during the period of the government's membership.

### ***Valuation of Subscriptions and contributions***

The subscriptions and contributions provided through the Third Replenishment are expressed in terms of "U.S. dollars of the weight and fineness in effect on January 1, 1960" (1960 dollars). Following the abolition of gold as a common denominator of the monetary system and the repeal of the provision of the U.S. law defining the par value of the U.S. dollar in terms of gold, the pre-existing basis for translating 1960 dollars into current dollars or any other currency disappeared. The Executive Directors of IDA decided, that until such time as the relevant provisions of the Articles of Agreement are amended, the words "U.S. dollars of the weight and fineness in effect on January 1, 1960" in Article II, Section 2(b) of the Articles of Agreement of IDA are interpreted to mean the SDR introduced by the International Monetary Fund as the SDR was valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being equal to \$1.20635 for one SDR (the 1974 SDR). The Executive Directors also decided to apply the same standard of value to amounts expressed in 1960 dollars in the relevant resolutions of the Board of Governors.

The subscriptions and contributions provided through the Third Replenishment are expressed on the basis of the 1974 SDR. Prior to the decision of the Executive Directors, IDA had valued these subscriptions and contributions on the basis of the SDR at the current market value of the SDR.

The subscriptions and contributions provided under the Fourth Replenishment and thereafter are expressed in members' currencies or SDRs and are payable in members' currencies. Subscriptions and contributions made available for disbursement in cash to IDA are translated at market exchange rates in effect on the dates they were made available. Subscriptions and contributions not yet available for disbursements are translated at market exchange rates in effect at the end of the accounting period.

### ***Maintenance of Value***

Article IV, Section 2(a) and (b) of IDA's Articles of Agreement provides for maintenance of value payments on account of the local currency portion of the initial subscription whenever the par value of the member's currency or its foreign exchange value has depreciated or appreciated to a significant extent, so long as, and to the extent that, such currency shall not have been initially disbursed or exchanged for the currency of another member. The provisions of Article IV, Section 2(a) and (b) have by agreement been extended to cover additional subscriptions and contributions of IDA through the Third Replenishment, but are not applicable to those of the Fourth and subsequent replenishments.

The Executive Directors decided on June 30, 1987 that settlements of maintenance of value, which would result from the resolution of the valuation issue on the basis of the 1974 SDR, would be deferred until the Executive Directors decide to resume such settlements. These amounts are shown as Deferred Amounts to Maintain Value of Currency Holdings and deducted from equity; any changes relate solely to translation adjustments.

### ***Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Members' Subscriptions and contributions***

Payments on these instruments are due to IDA upon demand and these instruments are held in bank accounts in IDA's name. These instruments are carried and reported at face value as a reduction to equity on the Balance Sheet.

### ***Development Credits and Other Exposures***

In fulfilling its mission, IDA makes concessional development credits to the poorest countries. These development credits and other exposures (exposures) are made to, or guaranteed by, member governments or to the government of a territory of a member (except for development credits, which have been made to regional development institutions for the benefit of members or territories of members of IDA). In order to qualify for lending on IDA

terms, a country's per capita income must be below a certain cut-off level (\$1,215 for both the fiscal years ended June 30, 2016 and 2015) and the country may have only limited or no access to IBRD lending.

Development credits are carried in the financial statements at amortized cost, less an accumulated provision for debt relief and development credit losses, plus the deferred development credits origination costs.

Commitment charges on the undisbursed balance of development credits, when applicable, are recognized in revenue as accrued.

Incremental direct costs associated with originating development credits are capitalized and amortized over the life of the development credits.

It is IDA's practice not to reschedule service charge, interest or principal payments on its development credits or participate in debt rescheduling agreements with respect to its development credits.

IDA considers all exposures in nonaccrual status to be impaired. It is the policy of IDA to place into nonaccrual status all development credits and other exposures made to, or guaranteed by, a member or to the territory of a member if principal or charges with respect to any such development credit and other exposures are overdue by more than six months, unless IDA's Management determines that the overdue amount will be collected in the immediate future. In addition, if loans by IBRD to a member government are placed into nonaccrual status, all development credits and other exposures to that member will also be placed into nonaccrual status by IDA. On the date a member's development credits and other exposures are placed into nonaccrual status, unpaid charges that had been accrued on development credits are deducted from the revenue from development credits of the current period. Revenue on nonaccrual development credits is included in the Statement of Income only to the extent that payments have actually been received by IDA. If collectability risk is considered to be particularly high at the time of arrears clearance, the member's development credits and other exposures may not automatically emerge from nonaccrual status, even though the member's eligibility for new credits may have been restored. In such instances, a decision on the restoration of accrual status is made on a case-by-case basis after a suitable period of payment or policy performance has passed from the time of arrears clearance.

The repayment obligations of development credits funded from resources through the Fifth Replenishment are expressed in the development credit agreements in terms of 1960 dollars. In June 1987, the Executive Directors decided to value those development credits at the rate of \$1.20635 per 1960 dollar on a permanent basis. Development credits funded from resources provided under the Sixth Replenishment and thereafter are denominated in SDRs, with the exception of development credits provided under the Single Currency Lending pilot program.

During the fiscal year-ended June 30, 2012, IDA introduced a Single Currency Lending pilot program. This pilot program, which expands borrowing options beyond the standard SDR credits, has allowed IDA recipients to denominate new IDA credits in one of the four constituent currencies of the SDR basket. In March 2016, IDA's Executive Directors increased the program's limit from SDR3 billion to SDR7 billion.

### **Buy-down of Development Credits**

The Investment Partnership for Polio program to fund the immunization of children in high-risk polio countries has a funding mechanism that allows the purchase of oral vaccines from the proceeds of development credits, which are subsequently converted to grant terms under the "buy-down mechanism", upon attainment of agreed performance goals.

Pursuant to the applicable buy-down terms, IDA enters into an arrangement with third party donors who make payments on the borrower's service and commitment charges through a trust fund, until the borrower reaches agreed performance goals. At that time, the trust fund buys down the related credits for an amount equivalent to the present value of the remaining cash flows of the related credits, based on appropriate discount rates. The trust fund subsequently cancels the purchased credits, thereby converting them to grant terms.

IDA records a provision for losses on development credits equivalent to the difference between the carrying amount of the development credits to be bought down and the estimated amount to be received, when all performance goals as well as conditions necessary to effect the buy-down have been completed. The provision is recorded as a reduction of disbursed and outstanding development credits under the accumulated provision for losses on development credits and other exposures, and as a corresponding expense. Upon purchase of the development credits, the applicable portion of the development credits will be written-off and the related accumulated provision for losses on credits and other exposures will be reduced accordingly.

## **Development Grants**

Development grants are recorded as an expense, and a liability is recognized, upon approval by the Executive Directors.

## **Project Preparation Advances**

Project Preparation Advances (PPAs) are advances made to borrowers to finance project preparation costs pending the approval of follow-on development operations. If approved under grant terms, these amounts are charged to expenses upon approval by Management. To the extent there are follow-on development credits or grants, these PPAs are refinanced out of the proceeds of the development credits and grants. Accordingly, the PPA grant amounts initially charged to expense are reversed upon approval of the follow-on development grants or development credits.

## **Guarantees**

Financial guarantees are commitments issued by IDA to guarantee payment performance by a borrowing member country to a third party in the event that a member government (or government-owned entity) fails to perform its contractual obligations with respect to a private project.

Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred, and called when a guaranteed party demands payment under the guarantee. IDA would be required to perform under its guarantees if the payments guaranteed are not made by the borrower and the guaranteed party called the guarantee by demanding payment from IDA in accordance with the terms of the guarantee.

At inception of the guarantees, IDA records the fair value of the obligation to stand ready and a corresponding asset, included in Accounts payable and miscellaneous liabilities and Other Assets, respectively, on the Balance Sheet.

In the event that a guarantee is called, IDA has the contractual right to require payment from the member country that has provided the counter guarantee to IDA, on demand, or as IDA may otherwise direct.

Up front guarantee fees received are deferred and amortized over the life of the guarantee.

IDA records a contingent liability for the probable losses related to guarantees outstanding. This provision, as well as the unamortized balance of the deferred guarantee fees, and the unamortized balance of the obligation to stand ready, are included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

## **HIPC Debt Initiative**

The HIPC Debt Initiative was launched in 1996 as a joint effort by bilateral and multilateral creditors to ensure that reform efforts of HIPCs would not be put at risk by unsustainable external debt burdens.

Under the Enhanced HIPC Framework, implementation mechanisms include: (i) partial forgiveness of IDA debt service as it comes due, and ii) in the case of countries with a substantial amount of outstanding IBRD debt, partial refinancing with IDA resources (excluding transfers from IBRD) of outstanding IBRD debt.

Upon signature by IDA of the country specific legal notification, immediately following the decision by the Executive Directors of IDA to provide debt relief to the country (the Decision Point), the country becomes eligible for debt relief up to the nominal value equivalent of one third of the net present value of the total HIPC debt relief committed to the specific country. A Completion Point is reached when the conditions specified in the legal notification are met and the country's other creditors have confirmed their full participation in the debt relief initiative. When the country reaches its Completion Point, IDA's commitment to provide the total debt relief for which the country is eligible, becomes irrevocable. IDA's provisioning policy for the HIPC Debt Initiative is discussed below.

Donors compensate IDA on a "pay-as-you-go" basis to finance IDA's forgone credit reflows (principal and service charge repayments) under the HIPC Debt Initiative. This means that for the debt relief provided by writing off the principal and charges during a replenishment, the donors compensate IDA for the forgone reflows through additional contributions in the relevant replenishment.

## **MDRI**

Debt relief provided under the MDRI, which is characterized by the write-off of eligible development credits upon qualifying borrowers reaching the HIPC Completion Point date, is in addition to existing debt relief commitments provided by IDA and other creditors under the HIPC Debt Initiative. When a country reaches Completion Point, the applicable development credits are written off. This write off occurs at the beginning of the quarterly period following the date on which the country reaches Completion Point. For forgone repayments under MDRI, donors established a separate MDRI replenishment spanning fiscal years 2007 through 2044 and pledged to compensate

IDA for the costs of providing debt relief under MDRI on a “dollar-for-dollar” basis. These additional resources are accounted for as subscriptions and contributions.

### **Accumulated Provision for Debt Relief and Losses on Development Credits and Other Exposures**

#### ***Accumulated Provision for HIPC Debt Initiative and MDRI***

The adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI is based on both quantitative and qualitative analyses of various factors, including estimates of decision and completion point dates. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI. Adjustments to the accumulated provision are recorded as a charge to or release of provision in the Statement of Income.

Upon approval by the Executive Directors of IDA of debt relief for a country under the Enhanced HIPC Initiative, the principal component of the estimated debt relief costs is recorded as a reduction of the disbursed and outstanding development credits under the accumulated provision for debt relief, and as a charge to the Statement of Income. This estimate is subject to periodic revision. The accumulated provision for HIPC Debt Initiative is written off as and when debt relief is provided.

Following the Executive Directors' approval of IDA's participation in the MDRI in June 2006, IDA fully provided for the estimated probable write-off of the principal component of debt relief to be delivered under the MDRI for the HIPC eligible countries confirmed by the Executive Directors as eligible for relief at that time.

The provision is recorded as a reduction of the disbursed and outstanding development credits under the accumulated provision for debt relief and as a charge to expenses. The applicable development credits are written off when the country reaches the Completion Point and the related provision reduced accordingly.

#### ***Accumulated Provision for Losses on Development Credits and Other Exposures***

Delays in receiving development credit payments result in present value losses since IDA does not charge fees or additional interest on any overdue service charges or interest. These present value losses are equal to the difference between the present value of payments of service charges, interest and other charges made according to the related development credit's contractual terms and the present value of its expected future cash flows. Except for debt relief provided under the HIPC Debt Initiative and MDRI, and any provision for losses under the mechanism to buy-down development credits, it is IDA's practice not to write off its development credits. To date, no development credits have been written off, other than under the HIPC Debt Initiative, MDRI and the buy-down mechanism. Notwithstanding IDA's historical experience, the risk of losses associated with nonpayment of principal amounts due is included in the accumulated provision for losses on development credits and other exposures. Other exposures include irrevocable commitments, guarantees and repaying project preparation facilities.

Management determines the appropriate level of the accumulated provision for losses, which reflects the probable losses inherent in IDA's exposures. Probable losses comprise estimates of losses arising from default and nonpayment of principal amounts due, as well as present value losses due to delay in receiving payments when compared to the schedule of payments.

Several steps are taken to determine the appropriate level of provision. First, the exposures are disaggregated into two groups: exposures in accrual status and exposures in nonaccrual status. In each group, the net exposures for each borrower (defined as the nominal amount of development credits disbursed and outstanding less the accumulated provision for debt relief under the HIPC Debt Relief Initiative, MDRI and the buy-down mechanism, plus other applicable exposures) are then assigned the credit risk rating of that borrower. With respect to countries with exposures in accrual status, these exposures are grouped according to the assigned borrower risk rating. The determination of borrowers' ratings is based on both quantitative and qualitative factors. Second, each risk rating is mapped to an expected default frequency (probability of default) based on historical experience. Finally, the provision required is calculated by multiplying the net exposures by the expected default frequency and by the assumed severity of loss given default. The severity of loss given default, which is assessed annually, is dependent on the borrower's eligibility, namely: IDA, Blend (IBRD and IDA) and IBRD, with the highest severity associated with IDA. Borrower's eligibility is assessed at least annually. IDA reassesses the adequacy of the accumulated provision and the reasonableness of the inputs used, on a periodic basis, at least annually, and adjustments to the accumulated provision are recorded as a charge to or release of provision in the Statement of Income. This methodology is also applied to countries with exposures in nonaccrual status, however, at times, to reflect certain distinguishing circumstances of a particular nonaccrual situation, Management may use different input assumptions for a particular country. Generally, all exposures in nonaccrual status have the same risk rating.

When a member country prepays its outstanding development credits, it may receive a discount equivalent to the difference between the outstanding carrying amount and the present value of the remaining cash flows. In such instances, IDA records a provision for losses on development credits equivalent to the discount provided, at the time when the prepayment terms are agreed between IDA and the member country.

### **Statement of Cash Flows**

For the purpose of IDA's Statement of Cash Flows, cash is defined as the amount of unrestricted cash Due from Banks.

### **Investments**

Investment securities are classified based on Management's intention on the date of purchase, their nature, and IDA's policies governing the level and use of such investments. Until June 30, 2014, all investment securities were held in a trading portfolio. During the year ended June 30, 2015, IDA also purchased a security from IFC which is held in a non-trading portfolio. While IDA does not plan to sell the security, IDA elected to measure it at fair value, so that all its investment securities would be measured on the same basis. All investment securities and related financial instruments held by IDA are carried and reported at fair value, or at face value which approximates fair value. Where available, quoted market prices are used to determine the fair value of trading securities. Examples include most government and agency securities, Asset-backed Securities (ABS), Mortgage-backed Securities To-Be-Announced (TBA securities) and futures contracts. For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads, and constant prepayment rates. Where applicable, unobservable inputs such as constant prepayment rates, probability of default and loss severity are used. Unless quoted prices are available, time deposits are reported at face value, which approximates fair value, as they are short term in nature. The first-in first-out method is used to determine the cost of securities sold in computing the realized gains and losses on these instruments. Unrealized mark-to-market gains and losses for investment securities and related financial instruments held in the investment portfolio are included in the Statement of Income. Interest revenue, including amortization of the premium and discount arising at acquisition, are included in the Statement of Income.

IDA may require collateral in the form of approved liquid securities from individual counterparties or cash, under legal agreements that provide for collateralization, in order to mitigate its credit exposure to these counterparties. For collateral received in the form of cash from counterparties, IDA records the cash and a corresponding obligation to return the cash. Collateral received in the form of liquid securities is only recorded on IDA's Balance Sheet to the extent that it has been transferred under securities lending agreements in return for cash. IDA does not offset the fair value amounts recognized for derivative instruments that have been executed with the same counterparty under master netting agreements; as a result, the fair value amounts recognized for the obligation to return cash collateral received from counterparties are not offset with the fair value amounts recognized for the related derivative instruments.

### **Securities Purchased Under Resale Agreements, Securities Lent Under Securities Lending Agreements and Securities Sold Under Repurchase Agreements and Payable for Cash Collateral Received**

Securities purchased under resale agreements, securities lent under securities lending agreements, and securities sold under repurchase agreements are recorded at face value, which approximates fair value, as they are short term in nature. IDA receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to counterparties under the repurchase and security lending arrangements and the securities transferred to IDA under the resale agreements have not met the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on the Balance Sheet, and securities received under resale agreements are not recorded on the Balance Sheet. Securities lent under securities lending agreements and sold under securities repurchase agreements as well as securities purchased under resale agreements are presented on a gross basis, which is consistent with the manner in which these instruments are settled.

### **Borrowings**

IDA introduced long term borrowings through concessional partner loans for the first time under IDA17, which commenced on July 1, 2014. The borrowing terms of the concessional partner loans aim to match the concessional features of IDA's credits. These borrowings are unsecured and unsubordinated fixed rate debt in SDR component currencies. IDA may prepay some or the entire outstanding amounts without penalty. These borrowings are carried and reported at amortized cost.

Interest expense and amortization of discounts and premiums relating to borrowings are reported as part of Borrowing expenses in the Statement of Income.

### **Accounting for Derivatives**

IDA has elected not to designate any hedging relationships for accounting purposes. Rather, all derivative instruments are marked to fair value on the Balance Sheet, with changes in fair value accounted for through the Statement of Income. The presentation of derivative instruments is consistent with the manner in which these instruments are settled. Currency swaps are settled on a gross basis, while interest rate swaps are settled on a net basis.

Derivative contracts include currency forward contracts, TBA securities, swaptions, exchange traded options and futures contracts, currency swaps and interest rate swaps. Currency swaps and interest rate swaps are primarily plain vanilla instruments. Currency forward contracts and currency and interest rate swaps are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

### **Valuation of Financial Instruments**

Derivative financial instruments and investment securities are recorded in the financial statements at fair value.

IDA has an established and documented process for determining fair values. Fair value is based upon quoted market prices for the same or similar securities, where available.

Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models and other established valuation models. These models primarily use market-based or independently sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves, and may incorporate unobservable inputs. Selection of these inputs may involve some judgment. In instances where Management relies on instrument valuations supplied by external pricing vendors, there are procedures in place to validate the appropriateness of the models used as well as the inputs applied in determining those values.

To ensure that the valuations are appropriate where internally-developed models are used, IDA has various internal controls in place.

As of June 30, 2016 and June 30, 2015, IDA had no financial assets or liabilities measured at fair value on a non-recurring basis.

### **Fair Value Hierarchy**

Financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3).

Financial assets and liabilities recorded at fair value on the Balance Sheet are categorized based on the inputs to the valuation techniques as follows:

*Level 1:* Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2:* Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

*Level 3:* Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

IDA's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

### **Transfers**

Transfers from IBRD's net income and grants made from the retained earnings of IFC to IDA are recorded through the Statement of Income and are recorded as a receivable upon approval by the Board of Governors of IBRD and upon execution of a grant agreement between IFC and IDA, respectively. In addition, IDA periodically receives transfers from trust funds and private institutions. IDA does not assign any voting rights for these transfers and grants.

Temporary restrictions relating to these transfers may arise from the timing of receipt of cash, or donor imposed restrictions as to use. When the cash is received and any other restrictions on the transfers and grants are complied with, the temporary restrictions are removed.

### **Donor Contributions to Trust Funds:**

For those IDA-executed trust funds where IDA acts as an intermediary agent, undisbursed third party donor contributions are recorded as assets held on behalf of the specified beneficiaries, with corresponding liabilities. Amounts disbursed from these trust funds are recorded as expenses with the corresponding amounts recognized as revenue. For Recipient-executed trust funds, since IDA acts as a trustee, no assets or liabilities relating to these activities are recorded on the Balance Sheet.

In some trust funds, execution is split between Recipient-executed and IDA-executed portions. Decisions on assignment of funding resources between the two types of execution may be made on an ongoing basis; therefore the execution of a portion of these available resources may not yet be assigned.

IDA also acts as a financial intermediary to provide specific administrative or financial services with a limited fiduciary or operational role. These arrangements, referred to as Financial Intermediary Funds, include, for example, administration of debt service trust funds, financial intermediation and other more specialized limited fund management roles. For these arrangements, funds are held and disbursed in accordance with instructions from donors or, in some cases, an external governance structure or a body operating on behalf of donors. For Financial Intermediary Funds, since IDA acts as a trustee, no assets or liabilities relating to these activities are recorded on IDA's Balance Sheet.

### **Accounting and Reporting Developments**

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law. The Act reformed the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities and activities. IDA has assessed the rules issued under the Act and has determined that none of the rules has had a material impact on its business.

In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The ASU defers for one year the effective date of ASU 2014-09 *Revenue from Contracts with Customers*. During the fiscal year ended June 30, 2016, the FASB also issued the following amendments that clarify different areas of the guidance in ASU 2014-09: in March 2016, ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; in April 2016, ASU 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying performance obligations and Licensing*; and in May 2016, ASU 2016-12 *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. While these ASUs clarify the guidance and implementation of certain aspects of ASU 2014-09, they do not change the core principle of the new revenue standard. For IDA, these ASUs and ASU 2014-09 will be effective beginning from the year ending June 30, 2020, with early adoption permitted. IDA is currently evaluating the impact of these ASUs on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU makes targeted amendments to existing guidance on recognition and measurement of financial instruments that primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. For IDA, the ASU will be effective from the fiscal year ending June 30, 2020, with early adoption permitted. IDA is currently evaluating the impact of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires that a lessee recognizes on the balance sheet the assets and liabilities that arise from all leases with a lease term of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows by the lessee will primarily depend on the classification of the lease as finance or operating. The accounting applied by a lessor remains largely unchanged from the current guidance, with some targeted improvements. For IDA, the ASU will be effective from the fiscal year ending June 30, 2021, with early adoption permitted. IDA is currently evaluating the impact of this ASU on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU introduces a new model for the accounting of credit losses of loans and other financial assets measured at amortized cost. Current U.S. GAAP requires an “incurred loss” methodology for recognizing credit losses. The new model, referred to as the current expected credit losses (CECL) model, requires an entity to estimate the credit losses expected over the life of an exposure, considering historical information, current information, and reasonable and supportable forecasts. Additionally, the ASU requires



enhanced disclosures about credit quality and significant estimates and judgments used in estimating credit losses. For IDA, the ASU will be effective beginning from the fiscal year ending June 30, 2022, with early adoption permitted. IDA is currently evaluating the impact of the ASU on its financial statements.

## NOTE B—MEMBERS' SUBSCRIPTIONS AND CONTRIBUTIONS

**Subscriptions and Contributions Paid-In:** The movement in Subscriptions and contributions paid-in during the fiscal years ended June 30, 2016 and June 30, 2015 is summarized below:

*In millions of U.S dollars*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
<b>Beginning of the fiscal year</b>	\$ 201,045	\$ 193,747
Cash contributions received <sup>a</sup>	3,381	3,863
Demand obligations received	4,477	4,702
Translation adjustment	(473)	(1,267)
<b>End of the fiscal year</b>	<b>\$ 208.430</b>	<b>\$ 201,045</b>

a. Includes restricted cash subscriptions of \$1 million at June 30, 2015.

During the fiscal year ended June 30, 2016, IDA encashed demand obligations totaling \$4,144 million (\$4,142 million—fiscal year ended June 30, 2015).

## NOTE C—INVESTMENTS

### Overview

The investment securities held by IDA are designated as either trading or non-trading. These securities are carried and reported at fair value, or at face value which approximates fair value.

As of June 30, 2016, the majority of IDA's Investments comprised government and agency obligations (85%), with all the instruments being classified as either Level 1 or Level 2 within the fair value hierarchy.

In addition, as of June 30, 2016, the majority of the instruments were denominated in U.S. dollars (44%), Euro (29%), Japanese yen (13%) and Pounds sterling (8%). IDA uses derivative instruments to align the currency composition of the investment portfolio to the SDR basket of currencies and to manage other currency and interest rate risks in the portfolio. After considering the effects of these derivatives, the investment portfolio had an average repricing of 4.4 years and the following currency composition: U.S. dollars (54%), Euro (25%), Japanese yen (13%) and Pounds sterling (8%). The credit quality of IDA's investment portfolio remains concentrated in the upper end of the credit spectrum with 81% of the portfolio rated AA or above as of June 30, 2016, reflecting IDA's continued preference for highly rated securities and counterparties across all categories of financial instruments.

### Investments

A summary of IDA's Investments and the currency composition as of June 30, 2016 and June 30, 2015 is as follows:

*In millions of U.S.dollars*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
<b>Trading</b>		
Government and agency obligations	\$ 26,628	\$ 27,604
Time deposits	2,550	2,519
Asset-backed securities (ABS)	1,130	1,309
	<u>30,308</u>	<u>31,432</u>
<b>Non-trading (at fair value)</b>		
Debt securities	1,105	1,142
<b>Total</b>	<b>\$ 31,413</b>	<b>\$ 32,574</b>

The following table summarizes the currency composition of IDA's Investment as of June 30, 2016 and June 30, 2015.

*In millions of U.S.dollars*

	June 30, 2016		June 30, 2015	
	Carrying value	Average Repricing (years) <sup>a</sup>	Carrying value	Average Repricing (years) <sup>a</sup>
Euro	\$ 9,136	3.47	\$ 8,716	3.25
Japanese yen	4,133	2.05	4,513	1.63
Pounds sterling	2,537	3.81	2,939	3.39
U.S. dollar	13,771	6.37	14,210	5.91
Other	1,836	2.36	2,196	2.13
<b>Total</b>	<b>\$ 31,413</b>	<b>4.37</b>	<b>\$ 32,574</b>	<b>3.97</b>

a. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed.

### Net Investment Portfolio

IDA manages its investments on a net portfolio basis. The following tables summarize the net portfolio position and currency composition as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	June 30, 2016	June 30, 2015
<b>Investments</b>		
Trading	\$ 30,308	\$ 31,432
Non-trading (at fair value)	1,105	1,142
Total	31,413	32,574
<b>Securities purchased under resale agreements</b>	80	599
<b>Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received</b>	(1,968)	(4,904)
<b>Derivatives Assets</b>		
Currency forward contracts	689	1,603
Currency swaps	3,929	5,004
Interest rate swaps	3	5
Swaptions, exchange traded options and futures contracts	2	6
Other <sup>a</sup>	1	1
Total	4,624	6,619
<b>Derivatives Liabilities</b>		
Currency forward contracts	(681)	(1,588)
Currency swaps	(4,073)	(4,903)
Interest rate swaps	(20)	(5)
Swaptions, exchange traded options and futures contracts	(20)	(11)
Other <sup>a</sup>	(*)	(*)
Total	(4,794)	(6,507)
<b>Cash held in investment portfolio<sup>b</sup></b>	640	240
<b>Receivable from investment securities traded</b>	861	1,142
<b>Payable for investment securities purchased</b>	(948)	(1,345)
<b>Net Investment Portfolio</b>	<b>\$ 29,908</b>	<b>\$ 28,418</b>

a. These relate to TBA securities.

b. This amount is included in Unrestricted cash under Due from Banks on the Balance Sheet.

\* Indicates amount less than \$0.5 million

The following table summarizes the currency composition of IDA's net Investment Portfolio as of June 30, 2016 and June 30, 2015.

*In millions of U.S. dollars*

	June 30, 2016		June 30, 2015	
	Carrying value	Average Repricing (years) <sup>a</sup>	Carrying value	Average Repricing (years) <sup>a</sup>
Euro	\$ 7,453	4.20	\$ 7,842	3.56
Japanese yen	3,815	2.62	2,512	2.53
Pounds sterling	2,494	3.83	2,781	4.16
U.S. dollar	16,146	5.11	15,413	5.14
Other	*	†	(130)	3.60
<b>Total</b>	<b>\$ 29,908</b>	<b>4.35</b>	<b>\$ 28,418</b>	<b>4.25</b>

a. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed.

\* Indicates amount less than \$0.5 million.

† Indicates amount not meaningful.

IDA uses derivative instruments to manage currency and interest rate risk in the investment portfolio. For details regarding these instruments, see Note E—Derivative Instruments.

As of June 30, 2016, there were short sales totaling \$138 million (\$395 million—June 30, 2015) included in Payable for investment securities purchased on the Balance Sheet. These are reported at fair value on a recurring basis.

### Fair Value Disclosures

The following tables present IDA's fair value hierarchy for investment assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis As of June 30, 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments—Trading				
Government and agency obligations	\$ 16,316	\$ 10,312	\$ -	\$ 26,628
Time deposits	213	2,337	-	2,550
ABS	-	1,130	-	1,130
<b>Total Investments—Trading</b>	<b>16,529</b>	<b>13,779</b>	<b>-</b>	<b>30,308</b>
Investments—Non-trading (at fair value)	-	1,105	-	1,105
Securities purchased under resale agreements	20	60	-	80
Derivative assets				
Currency forward contracts	-	689	-	689
Currency swaps	-	3,929	-	3,929
Interest rate swaps	-	3	-	3
Swaptions, exchange traded options and futures contracts	-	2	-	2
Other <sup>a</sup>	-	1	-	1
<b>Total Derivative assets – Investments</b>	<b>-</b>	<b>4,624</b>	<b>-</b>	<b>4,624</b>
<b>Total</b>	<b>\$ 16,549</b>	<b>\$ 19,568</b>	<b>\$ -</b>	<b>\$ 36,117</b>
<b>Liabilities:</b>				
Securities sold under repurchase agreements and securities lent under security lending agreements <sup>b</sup>	\$ 28	\$ 1,939	\$ -	\$ 1,967
Derivative liabilities				
Currency forward contracts	-	681	-	681
Currency swaps	-	4,073	-	4,073
Interest rate swaps	-	20	-	20
Swaptions, exchange traded options and futures contracts	18	2	-	20
Other <sup>a</sup>	-	*	-	*
<b>Total Derivative liabilities – Investments</b>	<b>18</b>	<b>4,776</b>	<b>-</b>	<b>4,794</b>
Payable for investment securities purchased <sup>c</sup>	81	57	-	138
<b>Total</b>	<b>\$ 127</b>	<b>\$ 6,772</b>	<b>\$ -</b>	<b>\$ 6,899</b>

a. These relate to TBA securities.

b. Excludes \$1 million relating to payable for cash collateral received

c. These relate to short sales of investment securities.

\* Indicates amount less than \$0.5 million.

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments – Trading				
Government and agency obligations	\$ 15,642	\$ 11,962	\$ -	\$ 27,604
Time deposits	202	2,317	-	2,519
ABS	-	1,309	-	1,309
Total Investments – Trading	15,844	15,588	-	31,432
Investments – Non-trading (at fair value)	-	1,142	-	1,142
Securities purchased under resale agreements	19	580	-	599
Derivative assets				
Currency forward contracts	-	1,603	-	1,603
Currency swaps	-	5,004	-	5,004
Interest rate swaps	-	5	-	5
Swaptions, exchange traded options and futures contracts	-	6	-	6
Other <sup>a</sup>	-	1	-	1
Total Derivative assets – Investments	-	6,619	-	6,619
Total	\$ 15,863	\$ 23,929	\$ -	\$ 39,792
<b>Liabilities:</b>				
Securities sold under repurchase agreements and securities lent under security lending agreements <sup>b</sup>	\$ 20	\$ 4,840	\$ -	\$ 4,860
Derivative liabilities				
Currency forward contracts	-	1,588	-	1,588
Currency swaps	-	4,903	-	4,903
Interest rate swaps	-	5	-	5
Swaptions, exchange traded options and futures contracts	5	6	-	11
Other <sup>a</sup>	-	*	-	*
Total Derivative liabilities – Investments	5	6,502	-	6,507
Payable for investment securities purchased <sup>c</sup>	337	58	-	395
Total	\$ 362	\$ 11,400	\$ -	\$ 11,762

a. These relate to TBA securities.

b. Excludes \$44 million relating to payable for cash collateral received.

c. These relate to short sales of investment securities

\* Indicates amount less than \$0.5 million.

As of June 30, 2016, there were no investments transferred from Level 2 to Level 1 within the fair value hierarchy.

As of June 30, 2015, \$3,499 million of investments related to non-U.S. government securities were transferred from Level 2 to Level 1 within the fair value hierarchy. This reclassification was based on the annual review of the inputs used to measure fair value.

Presented below is the difference between the aggregate fair value and aggregate contractual principal balance of non-trading securities in the investment portfolio:

	Fair value	Principal amount due	Difference
June 30, 2016	\$ 1,105	\$ 1,082	\$ 23
June 30, 2015	1,142	1,154	(12)

The maturity structure of IDA's non trading investment portfolio as of June 30, 2016 and June 30, 2015 was as follows:

*In millions of U.S dollars*

<i>Period</i>	<i>June 30, 2016</i>	<i>June 30, 2015</i>
Less than 1 year	\$ 113	\$ 72
Between		
1 - 2 years	126	113
2 - 3 years	122	127
3 - 4 years	124	122
4 - 5 years	125	124
Thereafter	472	596
	<u>\$ 1,082</u>	<u>\$ 1,154</u>

## Commercial Credit Risk

For the purpose of risk management, IDA is party to a variety of financial transactions, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. For all securities, IDA limits trading to a list of authorized dealers and counterparties. In addition, credit limits have been established for counterparties by type of instrument and maturity category.

**Swap Agreements:** Credit risk is mitigated through a credit approval process, volume limits, monitoring procedures and the use of mark-to-market collateral arrangements. IDA may require collateral in the form of cash or other approved liquid securities from individual counterparties to mitigate its credit exposure. As of June 30, 2016, IDA had not received any cash collateral related to swap agreements (\$44 million – June 30, 2015).

IDA has entered into master derivative agreements, which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps. Credit risk with financial assets subject to a master derivative arrangement is further reduced under these agreements to the extent that payments and receipts with the counterparty are netted at settlement. The reduction in exposure as a result of these netting provisions can vary due to the impact of changes in market conditions on existing and new transactions. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date. For more information on netting and offsetting provisions, see Note E – Derivative Instruments.

The following is a summary of the collateral received by IDA in relation to swap transactions as of June 30, 2016 and June 30, 2015.

*In millions of U.S. dollars*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
Collateral received		
Cash	\$ -	\$ 44
Securities	2	-
Total collateral received	<u>\$ 2</u>	<u>\$ 44</u>
Collateral permitted to be repledged	\$ 2	\$ 44
Amount of collateral repledged	-	-

**Securities Lending:** IDA may engage in securities lending and repurchases, against adequate collateral, as well as secured borrowing and reverse repurchases (resales) of government and agency obligations, and ABS.

These transactions have been conducted under legally enforceable master netting agreements, which allow IDA to reduce its gross credit exposure related to these transactions. As of June 30, 2016, amounts which could potentially be offset as a result of legally enforceable master netting arrangements were \$80 million (\$457 million – June 30, 2015).

Transfers of securities by IDA to counterparties are not accounted for as sales as the accounting criteria for the treatment as a sale have not been met. Counterparties are permitted to repledge these securities until the repurchase date.

Securities lending agreements and repurchase agreements expose IDA to several risks, including counterparty risk, reinvestment risk, and risk of a collateral gap (increase or decrease in the fair value of collateral pledged). IDA has procedures in place to ensure that trading activity and balances under these agreements are below predefined counterparty and maturity limits, and to actively monitor net counterparty exposure, after collateral, through daily mark-to-market. Whenever the collateral pledged by IDA related to its borrowings under securities lending agreements and repurchase agreements declines in value, the transaction is re-priced as appropriate by returning cash or pledging additional collateral.

The following is a summary of the carrying amount of the securities transferred under repurchase or securities lending agreements, and the related liabilities:

*In millions of U.S. dollars*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Financial Statement Presentation</u>
Securities transferred under repurchase or securities lending agreements	\$1,691	\$4,013	Included under Investments—Trading on the Balance Sheet
Liabilities relating to securities transferred under repurchase or securities lending agreements	\$1,967	\$4,779	Included under Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received on the Balance Sheet.

As of June 30, 2016, the liabilities relating to securities transferred under repurchase or securities lending agreements included \$287 million (\$765 million—June 30, 2015) of repurchase agreement trades that had not settled at that date. Of this amount, none represented replacement trades entered into in anticipation of maturing trades of a similar amount (\$168 million—June 30, 2015).

The following table presents the disaggregation of the gross obligation by class of collateral pledged and the remaining contractual maturities for repurchase agreements or securities lending transactions that are accounted for as secured borrowings:

*In millions of U.S. dollars*

	<u>June 30, 2016</u>		
	<u>Remaining contractual maturity of the agreements</u>		
	<u>Overnight and continuous</u>	<u>Up to 30 days</u>	<u>Total</u>
<b>Repurchase or Securities Lending agreements</b>			
Government and agency obligations	\$ 1,653	\$ 314	\$ 1,967
<b>Total liabilities for Securities sold under repurchase agreements and Securities Lent under Securities Lending Agreements</b>	<b>\$ 1,653</b>	<b>\$ 314</b>	<b>\$ 1,967</b>

*In millions of U.S. dollars*

	<u>June 30, 2015</u>		
	<u>Remaining contractual maturity of the agreements</u>		
	<u>Overnight and continuous</u>	<u>Up to 30 days</u>	<u>Total</u>
<b>Repurchase or Securities Lending agreements</b>			
Government and agency obligations	\$ 3,261	\$ 1,599	\$ 4,860
<b>Total liabilities for Securities sold under repurchase agreements and Securities Lent under Securities Lending Agreements</b>	<b>\$ 3,261</b>	<b>\$ 1,599</b>	<b>\$ 4,860</b>

In the case of resale agreements, IDA received collateral in the form of liquid securities and is permitted to repledge these securities. While these transactions are legally considered to be true purchases and sales, the securities

received are not recorded on IDA's balance sheet as the accounting criteria for treatment as a sale have not been met. As of June 30, 2016, none of the securities purchased under resale agreements remained unsettled on that date (\$181 million – June 30, 2015). For the remaining purchases, IDA received securities with a fair value of \$81 million (\$418 million – June 30, 2015). Out of this amount, no securities had been transferred under repurchase or securities lending agreements (\$81 million – June 30, 2015).

## NOTE D—BORROWINGS

IDA's borrowings comprise concessional partner loans. These borrowings are unsecured and unsubordinated fixed rate debt in SDR component currencies. IDA may prepay some or the entire outstanding amounts without penalty. These borrowings are carried and reported at amortized cost.

As of June 30, 2016, IDA's borrowings outstanding were \$2,906 million (\$2,150 million- June 30, 2015). The following table summarizes IDA's borrowings as of June 30, 2016. These borrowings have original maturities of 25 and 40 years, with the final maturity being 2054. The weighted average effective interest rate for these borrowings was 2.55% as of June 30, 2016. This does not include the effect of the amounts relating to proceeds received under the grant component of the concessional partner loan agreements, for which voting rights have been received. These amounts are reflected in equity.

*In millions of U.S dollars*

	Borrowings outstanding		
	Principal at face value	Net unamortized premium (discount)	Total
June 30, 2016	\$ 3,448	\$ (542)	\$ 2,906
June 30, 2015	\$ 2,548	\$ (398)	\$ 2,150

### Fair Value Disclosures

The table below presents the fair value of IDA's borrowings for disclosure purposes, along with their respective carrying amounts as of June 30, 2016 and June 30, 2015:

*In millions of U.S dollars*

	June 30, 2016		June 30, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Borrowings outstanding	\$ 2,906	\$ 3,585	\$ 2,150	\$ 2,332

As of June 30, 2016, IDA's borrowings were classified as Level 2 within the fair value hierarchy.

The maturity structure of IDA's borrowings outstanding as of June 30, 2016 and June 30, 2015 was as follows:

*In millions of U.S dollars*

Period	June 30, 2016	June 30, 2015
3 - 4 years	\$ 43	\$ -
4 - 5 years	111	39
Thereafter	3,294	2,509
Principal at face value	\$ 3,448	\$ 2,548

### Valuation Methods and Assumptions

The fair value of IDA's borrowings is calculated using a discounted cash flow method which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and proxy funding spreads.

## NOTE E—DERIVATIVE INSTRUMENTS

### Overview

IDA uses derivative instruments in its investment portfolio to manage currency and interest rate risks, for asset-liability management purposes, and to assist clients in managing risks.

The following table summarizes IDA's use of derivatives in its various financial portfolios:

Portfolio	Derivative instruments used	Purpose/Risk being managed
Risk management purposes:		
Investments—Trading	Interest rate swaps, currency forward contracts, currency swaps, options, swaptions, futures contracts, and TBA securities	Manage currency and interest rate risk in the portfolio.
Asset-liability management	Currency forward contracts and currency swaps	Manage foreign exchange risks.
Other purposes:		
Client operations	Structured swaps	Assist clients in managing risks.

Under its derivative agreement with IBRD, IDA is not required to post collateral as long as it maintains liquidity holdings at pre-determined levels that are a proxy for a AAA credit rating. During the fiscal year ended June 30, 2016, IDA was not required to post any collateral with IBRD in accordance with the agreement.

The following tables provide information on the fair value amounts and the location of the derivative instruments on the Balance Sheet, as well as the notional amounts and credit risk exposures of those derivative instruments, as of June 30, 2016 and June 30, 2015:

#### Fair Value amounts of the derivative instruments on the Balance Sheet:

*In millions of U.S.dollars*

	Balance Sheet Location			
	Derivative assets		Derivative liabilities	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b>Derivatives not designated as hedging instruments</b>				
Currency forward contracts	\$ 8,903	\$ 10,517	\$ 8,624	\$ 10,551
Currency swaps	3,929	5,004	4,073	4,903
Swaptions, exchange traded options and futures contracts	2	6	20	11
Interest rate swaps	3	5	20	5
Other <sup>a</sup>	1	1	*	*
<b>Total Derivatives</b>	<b>\$ 12,838</b>	<b>\$ 15,533</b>	<b>\$ 12,737</b>	<b>\$ 15,470</b>

a. These relate to TBA securities.

\* Indicates amount less than \$0.5 million.



**Notional amounts and credit risk exposure of the derivative instruments:**

*In millions of U.S. dollars*

<i>Type of contract</i>	<i>June 30, 2016</i>	<i>June 30, 2015</i>
<b>Investments - Trading</b>		
Interest rate swaps		
Notional principal	\$ 1,543	\$ 1,333
Credit exposure	3	5
Currency swaps (including currency forward contracts)		
Credit exposure	61	197
Swaptions, exchange traded options, and futures contracts <sup>a</sup>		
Notional long position	978	19,527
Notional short position	13,879	32,184
Credit exposure	2	6
Other <sup>b</sup>		
Notional long position	186	274
Notional short position	15	4
Credit exposure	1	1
<b>Asset-liability management</b>		
Currency forward contracts		
Credit exposure	489	251
<b>Client Operations</b>		
Structured swaps		
Notional principal	86	86
Credit exposure	-	-

a. Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All options and futures contracts are interest rate contracts.

b. These relate to TBA securities.

Amounts of gains and losses on the Asset-liability management derivative instruments and their location on the Statement of Income for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014 are as follows:

*In millions of U.S. dollars*

	<i>Statement of Income Location</i>	<i>Gains (Losses)</i>		
		<i>Fiscal Year Ended June 30,</i>		
		<i>2016</i>	<i>2015</i>	<i>2014</i>
<b>Derivatives not designated as hedging instruments and not held in a trading portfolio<sup>a</sup></b>				
Currency forwards contracts and currency swaps	Unrealized mark-to-market losses on non-trading portfolios, net	\$ (35)	\$ (160)	\$ (35)

a. For alternative disclosures about trading derivatives, see the following table

The majority of instruments in IDA's investment portfolio are held for trading purposes. Within the trading portfolio, IDA holds highly rated fixed income instruments as well as derivatives. The trading portfolio is primarily held to ensure the availability of funds to meet future cash flow requirements and for liquidity management purposes.

The following table provides information on the amount of gains and losses on IDA's investment trading portfolio (derivative and non-derivative instruments), and their location on the Statement of Income for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014:

*In millions of U.S. dollars*

Statement of Income Location	Investments, Net Gains		
	Fiscal Year Ended June 30,		
	2016	2015	2014
<b>Type of instrument</b>			
Fixed income (including related derivatives)	\$ 509	\$ 103	\$ 173

### Offsetting assets and liabilities

IDA enters into International Swaps and Derivatives Association, Inc. master netting agreements with substantially all of its derivative counterparties. These legally enforceable master netting agreements give IDA the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of default by the counterparty.

The following tables summarize information on derivative assets and liabilities (before and after netting adjustments) that are reflected on IDA's Balance Sheet as of June 30, 2016 and June 30, 2015. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements. The net derivative asset positions have been further reduced by the cash and securities collateral received.

*In millions of U.S. dollars*

	June 30, 2016					
	Located on the Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 150	\$ (147)	\$ 3	\$ 395	\$ (375)	\$ 20
Currency swaps <sup>a</sup>	12,832	-	12,832	12,698	(1)	12,697
Other <sup>b</sup>	3	-	3	23	(3)	20
<b>Total</b>	<b>\$ 12,985</b>	<b>\$ (147)</b>	<b>\$ 12,838</b>	<b>\$ 13,116</b>	<b>(379)</b>	<b>\$ 12,737</b>
Amounts subject to legally enforceable master netting agreements <sup>c</sup>			\$ (12,489)			\$ (12,489)
<b>Net derivatives positions at counterparty level before collateral</b>			<b>349</b>			<b>248</b>
Less:						
Cash collateral received <sup>d</sup>			1			
Securities collateral received			-			
<b>Net derivative exposure after collateral</b>			<b>\$ 348</b>			

a. Includes currency forward contracts.

b. These include swaptions, exchange traded options, futures contracts and TBA securities.

c. Not offset on the Balance Sheet.

d. Does not include excess collateral received.

In millions of U.S. dollars

	June 30, 2015					
	Located on the Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 180	\$ (175)	\$ 5	\$ 254	\$ (249)	\$ 5
Currency swaps <sup>a</sup>	15,521	-	15,521	15,454	-	15,454
Other <sup>b</sup>	7	-	7	16	(5)	11
<b>Total</b>	<b>\$ 15,708</b>	<b>\$ (175)</b>	<b>\$ 15,533</b>	<b>\$ 15,724</b>	<b>\$ (254)</b>	<b>\$ 15,470</b>
Amounts subject to legally enforceable master netting agreements <sup>c</sup>			\$ (15,407)			\$ (15,407)
<b>Net derivative positions at counterparty level before collateral</b>			<u>126</u>			<u>63</u>
Less:						
Cash collateral received <sup>d</sup>			44			
Securities collateral received			-			
<b>Net derivative exposure after collateral</b>			<u>\$ 82</u>			

a. Includes currency forward contracts.

b. These include swaptions, exchange traded options, futures contracts and TBA securities.

c. Not offset on the Balance Sheet.

d. Does not include excess collateral received.

## Fair Value Disclosures

IDA's fair value hierarchy for derivative assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and June 30, 2015 is as follows:

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis			
	As of June 30, 2016			
	Level 1	Level 2	Level 3	Total
<b>Derivative assets:</b>				
Investments				
Currency forward contracts	\$ -	\$ 689	\$ -	\$ 689
Currency swaps	-	3,929	-	3,929
Interest rate swaps	-	3	-	3
Swaptions, exchange traded options and futures contracts	-	2	-	2
Other <sup>a</sup>	-	1	-	1
	-	4,624	-	4,624
Asset-liability management				
Currency forward contracts	-	8,214	-	8,214
<b>Total derivative assets</b>	<b>\$ -</b>	<b>\$ 12,838</b>	<b>\$ -</b>	<b>\$ 12,838</b>
<b>Derivative liabilities:</b>				
Investments				
Currency forward contracts	\$ -	\$ 681	\$ -	\$ 681
Currency swaps	-	4,073	-	4,073
Interest rate swaps	-	20	-	20
Swaptions, exchange traded options and futures contracts	18	2	-	20
Other <sup>a</sup>	-	*	-	*
	18	4,776	-	4,794
Asset-liability management				
Currency forward contracts	-	7,943	-	7,943
<b>Total derivative liabilities</b>	<b>\$ 18</b>	<b>\$ 12,719</b>	<b>\$ -</b>	<b>\$ 12,737</b>

*a. These relate to TBA securities.*

*\* Indicates amount less than \$0.5 million.*

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis			
	As of June 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>Derivative assets:</b>				
Investments				
Currency forward contracts	\$ -	\$ 1,603	\$ -	\$ 1,603
Currency swaps	-	5,004	-	5,004
Interest rate swaps	-	5	-	5
Swaptions, exchange traded options and futures contracts	-	6	-	6
Other <sup>a</sup>	-	1	-	1
	-	6,619	-	6,619
Asset-liability management				
Currency forward contracts	-	8,914	-	8,914
<b>Total derivative assets</b>	<b>\$ -</b>	<b>\$ 15,533</b>	<b>\$ -</b>	<b>\$ 15,533</b>
<b>Derivative liabilities:</b>				
Investments				
Currency forward contracts	\$ -	\$ 1,588	\$ -	\$ 1,588
Currency swaps	-	4,903	-	4,903
Interest rate swaps	-	5	-	5
Swaptions, exchange traded options and futures contracts	5	6	-	11
Other <sup>a</sup>	-	*	-	*
	5	6,502	-	6,507
Asset-liability management				
Currency forward contracts	-	8,963	-	8,963
<b>Total derivative liabilities</b>	<b>\$ 5</b>	<b>\$ 15,465</b>	<b>\$ -</b>	<b>\$ 15,470</b>

*a. These relate to TBA securities.*

*\* Indicates amount less than \$0.5 million.*

## Inter-level transfers

During the fiscal years ended June 30, 2016 and June 30, 2015, there were no inter-level transfers in the derivatives portfolio.

## NOTE F—DEVELOPMENT CREDITS AND OTHER EXPOSURES

### Overview

Development credits and other exposures are generally made directly to member countries of IDA. Other exposures include irrevocable commitments, guarantees and repaying project preparation facilities.

Development credits are carried and reported at amortized cost. Of the total development credits outstanding as of June 30, 2016, 90% were to the South Asia, Africa, and East Asia and Pacific regions, combined.

Based on IDA's internal credit quality indicators, the majority of the development credits outstanding are in the Medium and High risk classes.

As of June 30, 2016, IDA's development credits are predominantly denominated in SDR (representing about 96% of the portfolio) and carry a service charge of 75 basis points.

As of June 30, 2016, development credits outstanding totaling \$2,541 million (representing about 2% of the portfolio) from 5 borrowers were in nonaccrual status.

### Maturity Structure

The maturity structure of development credits outstanding as of June 30, 2016 and June 30, 2015 was as follows:

*In millions of U.S dollars*

<i>June 30, 2016</i>		<i>June 30, 2015</i>	
July 01, 2016 through June 30, 2017	\$ 5,807	July 01, 2015 through June 30, 2016	\$ 5,413
July 01, 2017 through June 30, 2021	22,598	July 01, 2016 through June 30, 2020	20,928
July 01, 2021 through June 30, 2026	32,619	July 01, 2020 through June 30, 2025	30,539
Thereafter	75,711	Thereafter	73,473
Total	<u>\$ 136,735</u>	Total <sup>a</sup>	<u>\$ 130,353</u>

a. Excludes \$525 million written off effective July 01, 2015 under the MDRI.

### Currency Composition

Development credits outstanding had the following currency composition as of June 30, 2016 and June 30, 2015:

*In millions of U.S dollars*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
EUR	\$ 337	\$ -
USD	4,972	5,277
SDR	131,426	125,601
	<u>\$ 136,735</u>	<u>\$ 130,878</u>

### Credit Quality of Sovereign Development Credits

Based on an evaluation of IDA's development credits, Management has determined that IDA has one portfolio segment – Sovereign Exposures. Development credits constitute the majority of sovereign exposures.

IDA's country risk ratings are an assessment of its borrowers' ability and willingness to repay IDA on time and in full. These ratings are internal credit quality indicators. Individual country risk ratings are derived on the basis of both quantitative and qualitative factors. For the purpose of analyzing the risk characteristics of IDA's exposures, exposures are grouped into three classes in accordance with assigned borrower risk ratings which relate to the likelihood of loss: Low, Medium and High risk classes, as well as exposures in nonaccrual status.

IDA's borrowers' country risk ratings are key determinants in the provisions for development credit losses.

IDA considers a development credit to be past due when a borrower fails to make payment on any principal, service, interest or other charges due to IDA, on the dates provided in the contractual development credit agreements.

The following tables provide an aging analysis of development credits outstanding as of June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

<i>Days past due</i>	<i>June 30, 2016</i>							<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>	<i>Total Past Due</i>	<i>Current</i>	
<b>Risk Class</b>								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,579	\$ 3,579
Medium	-	-	-	-	-	-	26,978	26,978
High	1	*	-	-	-	1	103,636	103,637
Credits in accrual status	1	*	-	-	-	1	134,193	134,194
Credits in nonaccrual status	12	1	5	21	1,067	1,106	1,435	2,541
<b>Total</b>	<b>\$ 13</b>	<b>\$ 1</b>	<b>\$ 5</b>	<b>\$ 21</b>	<b>\$ 1,067</b>	<b>\$ 1,107</b>	<b>\$ 135,628</b>	<b>\$ 136,735</b>

\* Indicates amount less than \$0.5 million.

*In millions of U.S. dollars*

<i>Days past due</i>	<i>June 30, 2015</i>							<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>	<i>Total Past Due</i>	<i>Current</i>	
<b>Risk Class</b>								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,393	\$ 4,393
Medium	-	-	-	-	-	-	27,270	27,270
High	1	*	-	-	-	1	96,662	96,663
Credits in accrual status	1	*	-	-	-	1	128,325	128,326
Credits in nonaccrual status	12	1	5	21	986	1,025	1,527	2,552
<b>Total</b>	<b>\$ 13</b>	<b>\$ 1</b>	<b>\$ 5</b>	<b>\$ 21</b>	<b>\$ 986</b>	<b>\$ 1,026</b>	<b>\$ 129,852</b>	<b>\$ 130,878</b>

\* Indicates amount less than \$0.5 million.

### **Accumulated Provision for Losses on Development Credits, Debt Relief (HIPC Debt Initiative and MDRI) and Other Exposures**

#### *Provision for Losses on Development Credits and Other Exposures*

Management determines the appropriate level of accumulated provision for losses, which reflects the probable losses inherent in IDA's exposures. Probable losses comprise estimates of losses arising from default and nonpayment of principal amounts due, as well as present value losses. Management reassesses the adequacy of the accumulated provision and the reasonableness of the inputs used, on a periodic basis, at least annually, and adjustments are recorded as a charge against or addition to revenue.

#### *Provision for Debt Relief*

HIPC Debt Initiative and MDRI provisions are based on quantitative and qualitative analyses of various factors, including estimates of Decision Point and Completion Point dates. These factors are reviewed periodically as part of the reassessment of the adequacy of the accumulated provision for debt relief. Provisions are released as qualifying debt service becomes due and is forgiven under the HIPC Debt Initiative, and are reduced by the amount of the eligible development credits written off when the country reaches Completion Point, and becomes eligible for MDRI debt relief.

Changes to the accumulated provision for losses on development credits and other exposures, as well as the debt relief under HIPC Debt Initiative and MDRI for the fiscal years ended June 30, 2016 and June 30, 2015 are summarized below:

*In millions of U.S. dollars*

	June 30, 2016				June 30, 2015			
	Develop- ment credits	Debt relief under HIPC/MDRI	Other	Total	Develop- ment credits	Debt relief under HIPC/MDRI	Other	Total
<b>Accumulated provision, beginning of the fiscal year</b>	\$ 1,585	\$ 2,559	\$ 11	\$ 4,155	\$ 1,295	\$ 2,732	\$ 15	\$ 4,042
Provision, net - charge (release) <sup>a</sup>	386	(20)	14	380	409	(34)	(3)	372
Development credits written off under:								
Buy-down mechanism	(27)	-	-	(27)	-	-	-	-
Prepayments	(3)	-	-	(3)	(2)	-	-	(2)
HIPC/MDRI	-	(534)	-	(534)	-	(14)	-	(14)
Translation adjustment	(9)	(5)	(*)	(14)	(117)	(125)	(1)	(243)
<b>Accumulated provision, end of the period</b>	<u>\$ 1,932</u>	<u>\$ 2,000</u>	<u>\$ 25</u>	<u>\$ 3,957</u>	<u>\$ 1,585</u>	<u>\$ 2,559</u>	<u>\$ 11</u>	<u>\$ 4,155</u>
Composed of accumulated provision for losses on:								
Development credits in accrual status	\$ 1,667	\$ 136		\$ 1,803	\$ 1,323	\$ 673		\$ 1,996
Development credits in nonaccrual status	265	1,864		2,129	262	1,886		2,148
<b>Total</b>	<u>\$ 1,932</u>	<u>\$ 2,000</u>		<u>\$ 3,932</u>	<u>\$ 1,585</u>	<u>\$ 2,559</u>		<u>\$ 4,144</u>
Development credits:								
Development credits in accrual status				\$134,194				\$128,326
Development credits in nonaccrual status				2,541				2,552
<b>Total</b>				<u>\$136,735</u>				<u>\$130,878</u>

a. For the fiscal year ended June 30, 2016, the provision includes \$27 million for development credits bought down (June 30, 2015 - Nil) and \$3 million for the discount on prepayment of development credits (June 30, 2015 - \$2 million).

\* Indicates amount less than \$0.5 million.

	Reported as Follows	
	Balance Sheet	Statement of Income
<b>Accumulated Provision for Losses on:</b>		
Development Credits	Accumulated provision for debt relief and losses on development credits	Provision for debt relief and for losses on development credits and other exposures, net
Debt Relief under HIPC/MDRI	Accumulated provision for debt relief and losses on development credits	Provision for debt relief and for losses on development credits and other exposures, net
Other Exposures	Other liabilities	Provision for debt relief and for losses on development credits and other exposures, net

### Development credits written off under MDRI

During the fiscal year ended June 30, 2016, development credits eligible for relief under MDRI totaling to \$524 million were written off as a result of Chad reaching Completion Point under the HIPC Debt Initiative.

During the fiscal year ended June 30, 2015, there were no eligible development credits written off under the MDRI.

## Overdue Amounts

As of June 30, 2016, there were no principal or charges under development credits in accrual status which were overdue by more than three months.

The following tables provide a summary of selected financial information related to development credits in nonaccrual status as of and for the fiscal years ended June 30, 2016 and June 30, 2015:

*In millions of U.S dollars*

<i>Borrower</i>	<i>Nonaccrual since</i>	<i>Recorded investment<sup>a</sup></i>	<i>Average recorded investment<sup>b</sup></i>	<i>Principal Outstanding</i>	<i>Provision for debt relief</i>	<i>Provision for credit losses<sup>c</sup></i>	<i>Overdue amounts</i>	
							<i>Principal</i>	<i>Charges</i>
Eritrea	March 2012	\$ 437	\$ 436	\$ 437	\$ 309	\$ 20	\$ 43	\$ 16
Somalia	July 1991	415	414	415	396	3	221	79
Sudan	January 1994	1,210	1,209	1,210	1,159	9	646	198
Syrian Arab Republic	June 2012	14	14	14	-	*	6	1
Zimbabwe	October 2000	465	464	465	-	233	190	52
Total - June 30, 2016		<u>\$ 2,541</u>	<u>\$ 2,537</u>	<u>\$ 2,541</u>	<u>\$ 1,864</u>	<u>\$ 265</u>	<u>\$ 1,106</u>	<u>\$ 346</u>
Total - June 30, 2015		<u>\$ 2,552</u>	<u>\$ 2,616</u>	<u>\$ 2,552</u>	<u>\$ 1,886</u>	<u>\$ 262</u>	<u>\$ 1,025</u>	<u>\$ 331</u>

a. A credit loss provision has been recorded against each of the credits in nonaccrual status.

b. Represents the average for the fiscal years. For the fiscal year ended June 30, 2014: \$2,733 million.

c. Credit loss provisions are determined after taking into account accumulated provision for debt relief.

\* Indicates amount less than \$0.5 million.

*In millions of U.S dollars*

	<i>Fiscal Year Ended June 30,</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>
Service charge revenue not recognized as a result of development credits being in nonaccrual status	\$ 19	\$ 18	\$ 20

During the fiscal years ended June 30, 2016 and June 30, 2015, no development credits were placed into nonaccrual status.

During the fiscal year ended June 30, 2016, service charge revenue recognized on development credits in nonaccrual status was \$3 million (\$2 million - fiscal year ended June 30, 2015 and less than \$1 million - fiscal year ended June 30, 2014).

## Guarantees

Guarantees of \$1,059 million were outstanding at June 30, 2016 (\$411 million—June 30, 2015). This amount represents the maximum potential undiscounted future payments that IDA could be required to make under these guarantees, and is not included on the Balance Sheet. The guarantees issued by IDA have original maturities ranging between 9 and 23 years, and expire in decreasing amounts through 2035.

At June 30, 2016, liabilities related to IDA's obligations under guarantees of \$97 million (June 30, 2015—\$33 million), have been included in Accounts payable and miscellaneous liabilities on the Balance Sheet. These include the accumulated provision for guarantee losses of \$19 million (\$6 million—June 30, 2015).

During the fiscal years ended June 30, 2016 and June 30, 2015, no guarantees provided by IDA were called.

## Segment Reporting

Based on an evaluation of its operations, Management has determined that IDA has one reportable segment.

Charge revenue comprises service charges and interest charges on outstanding development credit balances and guarantee fee revenue. For the fiscal year ended June 30, 2016, charge revenue from three countries was in excess of ten percent of total charge revenue. The charge revenue totaled \$211 million, \$142 million and \$115 million for the three countries in the current year.



The following table presents IDA's development credits outstanding and associated charge revenue as of and for the fiscal years ended June 30, 2016 and June 30, 2015, by geographic region.

*In millions of U.S. dollars*

<i>Region</i>	<i>June 30, 2016</i>		<i>June 30, 2015</i>	
	<i>Development Credits Outstanding</i>	<i>Service and Interest Charges</i>	<i>Development Credits Outstanding</i>	<i>Service and Interest Charges</i>
Africa	\$ 48,393	\$ 340	\$ 44,140	\$ 308
East Asia and Pacific	19,699	178	19,888	176
Europe and Central Asia	7,587	103	7,622	86
Latin America and the Caribbean	2,449	23	2,297	19
Middle East and North Africa	3,166	24	3,331	26
South Asia	55,441	481	53,600	450
<b>Total</b>	<b>\$ 136,735</b>	<b>\$ 1,149</b>	<b>\$ 130,878</b>	<b>\$ 1,065</b>

### **Buy-down of Development Credits**

During the fiscal year ended June 30, 2016, one development credit with an outstanding carrying value of \$85 million was purchased for a present value equivalent of \$58 million under the buy-down mechanism by the Global Program to Eradicate Poliomyelitis Trust Funds (buy-down mechanism), resulting in a \$27 million write-off through provision as an expense in the Statement of Income.

During the fiscal year ended June 30, 2015, there were no development credits purchased under the buy-down mechanism by the Global Program to Eradicate Poliomyelitis Trust Fund.

### **Discount on Development Credits Prepaid under the Seventeenth Replenishment of IDA's Resources (IDA17)**

During the fiscal year ended June 30, 2016, as part of IDA17, one IDA graduate country prepaid development credits with an outstanding carrying value of \$54 million. The total amount prepaid of \$51 million reflected the present value of the development credits as on the date of prepayment, resulting in an aggregate discount of \$3 million charge through provision as an expense in the Statement of Income.

During the fiscal year ended June 30, 2015, one IDA graduate country prepaid development credits with an outstanding carrying value totaling \$30 million. The total amount prepaid of \$28 million reflected the present value of the development credits as of the date of prepayment, resulting in an aggregate discount of \$2 million charge through provision as an expense in the Statement of Income.

### **Fair Value Disclosures**

IDA's development credits are carried and reported at amortized cost. The table below presents the fair value of development credits for disclosure purposes, along with their respective carrying amounts as of June 30, 2016 and June 30, 2015. As of June 30, 2016, IDA's development credits would be classified as Level 3 within the fair value hierarchy.

*In millions of U.S dollars*

	<i>June 30, 2016</i>		<i>June 30, 2015</i>	
	<i>Carrying Value</i>	<i>Fair Value</i>	<i>Carrying Value</i>	<i>Fair Value</i>
Net Development Credits Outstanding	\$ 132,825	\$112,276	\$ 126,760	\$ 94,276

### **Valuation Methods and Assumptions**

The fair value of development credits is calculated using market-based methodologies which incorporate the respective borrowers' Credit Default Swap (CDS) spreads and, where applicable, proxy CDS spreads. Basis adjustments are applied to market recovery levels to reflect IDA's recovery experience.

## NOTE G—AFFILIATED ORGANIZATIONS

IDA transacts with affiliated organizations as a recipient of transfers, administrative and derivative intermediation services as well as through cost sharing of IBRD's sponsored pension and other postretirement plans.

### Transfers

Cumulative transfers made to IDA as of June 30, 2016 were \$18,346 million (\$17,356 million—June 30, 2015). Details by transferor are as follows:

*In millions of U.S dollars*

<i>Transfers from</i>	<i>Beginning of the fiscal year</i>	<i>Transfers during the fiscal year</i>	<i>End of the fiscal year</i>
Total	\$ 17,356	\$ 990	\$ 18,346
Of which from:			
IBRD	13,979	650	14,629
IFC	3,161	330	3,491

### Receivables and Payables

As of June 30, 2016, and June 30, 2015, the total amounts receivable from or (payable to) affiliated organizations comprised:

*In millions of U.S dollars*

	<i>Receivable From (Payable To) IBRD</i>				
	<i>Administrative Services<sup>a</sup></i>	<i>Pension and Other Postretirement Benefits</i>	<i>Derivative transactions</i>		<i>Total</i>
			<i>Receivable</i>	<i>Payable</i>	
June 30, 2016	\$ (397)	\$ 821	\$ 8,214	\$ (7,942)	\$ 696
June 30, 2015	\$ (364)	\$ 831	\$ 8,914	\$ (8,962)	\$ 419

*a. Includes \$61 million for the fiscal year ended June 30, 2016 (\$32 million - June 30, 2015) receivable from IBRD for IDA's share of investments associated with Post-Retirement Contribution Reserve Fund (PCRF), which is a fund established to stabilize contributions made to the pension plans.*

The receivables from (payables to) these affiliated organizations are reported in the Balance Sheet as follows:

<b>Receivables / Payables related to:</b>	<b>Reported as:</b>
Receivable for pension and other postretirement benefits	Receivable from affiliated organization
Receivables (payables) for derivative transactions	Derivative assets/liabilities – Asset-liability management
Payable for administrative services <sup>a</sup>	Payable to affiliated organization

*a. Includes amounts receivable from IBRD for IDA's share of investments associated with PCRF. This receivable is included in Receivable from affiliated organization on the Balance Sheet.*

*Administrative Services:* The payable to IBRD represents IDA's share of joint administrative expenses, net of other revenue jointly earned. The allocation of expenses is based upon an agreed cost sharing formula, and amounts are settled quarterly.

During the fiscal year ended June 30, 2016, IDA's share of joint administrative expenses totaled \$1,425 million (\$1,542 million - fiscal year ended June 30, 2015 and \$1,650 million - fiscal year ended June 30, 2014).

*Other revenue:* Includes IDA's share of other revenue jointly earned with IBRD during the fiscal year ended June 30, 2016 totaling \$229 million (fiscal year ended June 30, 2015—\$248 million and fiscal year ended June 30, 2014—\$281 million). The allocation of revenue is based upon an agreed revenue sharing formula, and amounts are settled quarterly.

For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014, the amount of fee revenue associated with services provided to other affiliated organizations is included in Other revenue on the Statement of Income, as follows:

*In millions of U.S dollars*

	<i>Fiscal Year Ended June 30,</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>
Fees charged to IFC	\$ 59	\$ 64	\$ 64
Fees charged to MIGA	4	5	6

*Pension and Other Postretirement Benefits:* The receivable from IBRD represents IDA’s net share of prepaid costs for pension and other postretirement benefit plans and Post-Employment Benefits Plan (PEBP) assets. These will be realized over the life of the plan participants.

*Derivative transactions:* These relate to currency forward contracts entered into by IDA with IBRD acting as the intermediary with the market and primarily convert donors’ expected contributions in national currencies under the Sixteenth and Seventeenth replenishments of IDA’s resources into the four currencies of the SDR basket.

### **Investments**

During the fiscal year ended June 30, 2015, IDA purchased a debt security issued by the IFC for a principal amount of \$1,179 million, amortizing over a period of 25 years. The investment carries a fixed interest rate of 1.84% and has a weighted average maturity of 6 years. As of June 30, 2016, the principal amount due on the debt security was \$1,082 million and it had a fair value of \$1,105 million. The investment is reported under Investments in the Balance Sheet. During the fiscal year ended June 30, 2016, IDA recognized interest income of \$21 million on this debt security (\$18 million- fiscal year ended June 30, 2015).

### **NOTE H—TRUST FUNDS ADMINISTRATION**

IDA, alone or jointly with one or more of its affiliated organizations, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses in accordance with administration agreements with donors. Specified uses include, for example, co-financing of IDA lending projects, debt reduction operations for IDA members, technical assistance for borrowers including feasibility studies and project preparation, global and regional programs, and research and training programs. These funds are held in trust by IDA and/or IBRD, and are held in a separate investment portfolio which is not commingled with IDA and/or IBRD funds.

Trust fund execution may be carried out in one of two ways: Recipient-executed or IDA-executed.

Recipient-executed trust funds involve activities carried out by a recipient third-party “executing agency”. IDA enters into agreements with and disburses funds to such recipients, who then exercise spending authority to meet the objectives and comply with terms stipulated in the agreements.

IDA-executed trust funds involve execution of activities by IDA as described in relevant administration agreements with donors, which define the terms and conditions for use of the funds. Spending authority is exercised by IDA, under the terms of the administration agreements. The executing agency services provided by IDA vary and include for example, activity preparation, analytical and advisory activities and project-related activities, including procurement of goods and services. The following table summarizes the expenses pertaining to IDA-executed trust funds during the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014:

*In millions of U.S dollars*

	<i>Fiscal Year Ended June 30,</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>
IDA-executed trust funds expenses	\$ 340	\$ 326	\$ 354

These amounts are included in Administrative expenses and the corresponding revenue is included in Other revenue in the Statement of Income. Administrative expenses primarily relate to staff cost, travel and consultant fees.

The following table summarizes undisbursed contributions made by third party donors to IDA-executed trust funds, recognized on the Balance Sheet as of June 30, 2016 and June 30, 2015:

*In millions of U.S dollars*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
IDA-executed trust funds	\$ 439	\$446

These amounts are included in Other Assets and the corresponding liabilities are included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

### Revenues

During the fiscal year ended June 30, 2016, June 30, 2015 and June 30, 2014, IDA's revenues for the administration of trust fund operations were as follows:

*In millions of U.S dollars*

	<u>Fiscal Year Ended June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues	\$ 42	\$ 45	\$ 65

These amounts are included in Other revenue in the Statement of Income.

Amounts collected from donor contributions but not yet earned totaling \$62 million at June 30, 2016 (\$67 million—June 30, 2015) are included in Other Assets and in Accounts payable and miscellaneous liabilities, correspondingly, on the Balance Sheet.

### Transfers Received

Under the agreements governing the administration of certain trust funds, IDA may receive any surplus assets as transfers upon the termination of these trust funds. In addition, as development credits are repaid to trust funds, in certain cases the repayments are transferred to IDA. During the fiscal year ended June 30, 2016, funds recorded as Other revenue under these arrangements totaled \$9 million (\$7 million – fiscal year ended June 30, 2015 and \$9 million –fiscal year ended June 30, 2014).

### NOTE I—DEVELOPMENT GRANTS

A summary of changes to the amounts payable for development grants is presented below:

*In millions of U.S dollars*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Balance, beginning of the fiscal year	\$ 6,637	\$ 6,983
Commitments	1,232	2,319
Disbursements (including PPA grant activity)	(1,731)	(2,040)
Translation adjustment	(39)	(625)
Balance, end of the fiscal year	<u>\$ 6,099</u>	<u>\$ 6,637</u>

For the fiscal years ended June 30, 2016 and June 30, 2015, the commitment charge rate on the undisbursed balances of IDA's grants was set at nil percent.

### NOTE J—ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For IDA, comprehensive income (loss) is comprised of net income (loss) and currency translation adjustments on functional currencies. These items are presented in the Statement of Comprehensive Income.

The following table presents the changes in Accumulated Other Comprehensive Income balances for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014:

*In millions of U.S dollars*

	<i>Fiscal Year Ended June 30,</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>
Balance, beginning of the fiscal year	\$ (875)	\$ 12,997	\$ 9,258
Currency translation adjustments on functional currencies	(344)	(13,872)	3,739
Balance, end of the fiscal year	<u>\$ (1,219)</u>	<u>\$ (875)</u>	<u>\$ 12,997</u>

## NOTE K—PENSION AND OTHER POSTRETIREMENT BENEFITS

The staff of IBRD perform functions for both IBRD and IDA, but all staff compensation is paid directly by IBRD. Accordingly, a portion of IBRD's staff and associated administrative costs is allocated to IDA based on an agreed cost sharing ratio computed every year using various indicators. The methodology for computing this share ratio is approved by the Executive Directors for both institutions.

IBRD, along with IFC and MIGA sponsor a Staff Retirement Plan and Trust (SRP), a Retired Staff Benefits Plan and Trust (RSBP) and a PEBP that cover substantially all of their staff members.

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

June 30 is used as the measurement date for these pension and other postretirement benefit plans. All costs, assets and liabilities associated with these plans are allocated between IBRD, IFC, and MIGA based upon their employees' respective participation in the plans.

While IDA is not a participating entity to these benefit plans, IDA shares in the costs and reimburses IBRD for its proportionate share of any contributions made to these plans by IBRD, as part of IBRD's allocation of staff and associated administrative costs to IDA based on an agreed cost sharing ratio. During the fiscal year ended June 30, 2016, IDA's share of IBRD's costs relating to all the three plans totaled \$215 million (\$257 million - fiscal year ended June 30, 2015 and \$296 million - fiscal year ended June 30, 2014).

The cost of any potential future liability arising from these plans would be shared by IBRD and IDA using the applicable share ratio. As of June 30, 2016, the SRP and the RSBP were underfunded by \$2,801 million and \$712 million, respectively. The PEBP, after reflecting IBRD and IDA's share of assets which are included in IBRD's investment portfolio of \$717 million, was underfunded by \$757 million.

## NOTE L—OTHER FAIR VALUE DISCLOSURES

The table below presents IDA's estimates of fair value of its financial assets and liabilities along with their respective carrying amounts as of June 30, 2016, and June 30, 2015.

*In millions of U.S dollars*

	<i>June 30, 2016</i>		<i>June 30, 2015</i>	
	<i>Carrying Value</i>	<i>Fair Value</i>	<i>Carrying Value</i>	<i>Fair Value</i>
<b>Assets</b>				
Due from Banks	\$ 672	\$ 672	\$ 356	\$ 356
Investments (including securities purchased under resale agreements)	31,493	31,493	33,173	33,173
Net Development Credits Outstanding	132,825	112,276	126,760	94,276
<b>Derivative Assets</b>				
Investments	4,624	4,624	6,619	6,619
Asset-Liability Management	8,214	8,214	8,914	8,914
<b>Liabilities</b>				
<b>Borrowings</b>				
Securities sold/lent under repurchase agreements/ securities lending agreements and payable for cash collateral received	1,968	1,968	4,904	4,904
<b>Derivative Liabilities</b>				
Investments	4,794	4,794	6,507	6,507
Asset-Liability Management	7,943	7,943	8,963	8,963

## Valuation Methods and Assumptions

As of June 30, 2016 and June 30, 2015, IDA had no financial assets or liabilities measured at fair value on a non-recurring basis.

For additional fair value disclosures regarding Investments, Credits, Borrowings and Derivative assets and liabilities, refer to Note C—Investments, Note D—Borrowings, Note E—Derivative Instruments and Note F—Development credits and other exposures, respectively.

Due from Banks: The carrying amount of unrestricted and restricted cash is considered a reasonable estimate of the fair value of these positions.

## Unrealized Mark-to-Market Gains (Losses) on Trading and Non-Trading Portfolios, Net

The following table reflects the components of the unrealized mark-to-market gains or losses on IDA's trading and non-trading portfolios, net, for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014.

*In millions of U.S dollars*

	Unrealized mark-to-market Gains (Losses)		
	Fiscal Year Ended June 30,		
	2016	2015	2014
Investments-Trading- Note E	\$ 509	\$ 103	\$ 173
Non-trading portfolios, net			
Investment portfolio - Note C	\$ 35	\$ (19)	\$ -
Asset-liability management - Note E	(35)	(160)	(35)
Total	\$ *	\$ (179)	\$ (35)

\* Indicates amount less than \$0.5 million.

## NOTE M—CONTINGENCIES

From time to time, IDA may be named as a defendant or co-defendant in legal actions on different grounds in various jurisdictions. IDA's Management does not believe the outcome of any existing legal action, in which IDA has been named as a defendant or co-defendant, as of and for the fiscal year ended June 30, 2016, will have a material adverse effect on IDA's financial position, results of operations or cash flows.