Letter of Transmittal

The Annual Report, which covers the period from July 1, 2010, to June 30, 2011, 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. Robert B. Zoellick, President of IBRD and IDA, 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.

Executive Directors	**Alternates**
Ian H. Solomon	(vacant)
Nobumitsu Hayashi	Yasuo Takamura
Ingrid G. Hoven	Ruediger Von Kleist
Susanna Moorehead	Stewart James
Ambroise Fayolle	Anne Touret-Blondy
Konstantin Huber	Gino Alzetta
Rudolf Treffers	Tamara Solyanyk
Marta Garcia	Juan Jose Bravo Moises
Marie-Lucie Morin	Kelvin Dalrymple
Rogerio Studart	Vishnu Dhanpaul
Piero Cipollone	Nuno Mota Pinto
James Hagan	In-Kang Cho
Pulok Chatterji	Kazi M. Aminul Islam
Anna Brandt	Jens Haarlov
Jorg Frieden	Michal Krupinski
Javed Talat	Sid Ahmed Dib
Merza H. Hasan	Ayman Alkaffas
Yang Shaolin	Zou Ciyong
Abdulrahman M. Almofadhi	Ibrahim Alturki
Vadim Grishin	Eugene Miagkov
Hekinus Manao	Dyg Sadiah Binti Abg Bohan
Felix Alberto Camarasa	Varinia Cecilia Daza
Renosi Mokate	Mansur Muhtar
Agapito Mendes Dias	Mohamed Sikieh Kayad
Hassan Ahmed Taha	Denny H. Kalyalya

As of June 30, 2011

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

List of Boxes, Tables, Figures and Charts

Throughout Management's Discussion and Analysis, terms in **boldface** type are defined in the Glossary of Terms on page 36.

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

SECTION 1. OVERVIEW OF IBRD'S FINANCIAL RESULTS

Introduction

The International Bank for Reconstruction and Development (IBRD) is an international organization established in 1945 and is owned by its member countries. IBRD's main goals are promoting sustainable economic development and reducing poverty in its developing member countries. It pursues these goals primarily by providing loans, guarantees and related technical assistance for projects and programs for economic reform. IBRD's ability to intermediate funds from international capital markets for lending to its developing member countries is an important element in achieving its development goals. IBRD's financial objective is not to maximize profit, but to earn adequate income to ensure its financial strength and to sustain its development activities. **Box 1** presents selected financial data for the last five fiscal years.

The financial strength of IBRD is based on the support it has received from its shareholders and on its financial policies and practices. Shareholder support for IBRD is reflected in the capital subscriptions it has received from its members and in the record of its borrowing members in meeting their debt-service obligations to it. IBRD's financial policies and practices have led it to build reserves, diversify its funding sources, hold a large portfolio of liquid investments, and limit a variety of risks, including credit, market and liquidity risks.

Basis of Reporting

IBRD 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". Under the reported basis, all instruments in the investment and borrowing portfolios are carried at fair value with changes in fair value reported in the income statement. However, the loan portfolio is reported at amortized cost (with the exception of loans with embedded derivatives, which are reported at fair value). Management believes that the fair value financial statements, which include the loan portfolio at fair value, are a better measure of the financial strength of the institution.

When making decisions on income allocation and distribution, management monitors the fair value balance sheet, the results from the stress test, and the equity-to-loans and long-term investment asset ratio **(equity-to-loans ratio),** as indicators of IBRD's financial health within an overall **Strategic Capital Adequacy Framework**. (Discussed further in **Section 5**)

Fair Value Basis Results

Condensed Fair Value Statements of Income

In millions of U.S. dollars

For the fiscal years ended June 30,	2011	2010	Variance
Interest income, net of funding cost			
Interest margin on debt funded loans	$ 556	$ 433	$ 123
Equity-funded loans	196	324	(128)
Equity duration extension strategy	1,139	994	145
Investments	112	95	17
Net Interest Income	2,003	1,846	157
Release of provision for losses on loans and other exposures	45	32	13
Other income, net	204	170	34
Net non-interest expense	(1,229)	(1,248)	19
Reported Basis Operating Income	1,023	800	223
Board of Governors-Approved Transfers	(513)	(839)	326
Fair value adjustments on non-trading portfolios, net	420	(1,038)	1,458
Reported Basis Net Income (Loss)	$ 930	$(1,077)	$2,007
Fair value adjustment on loans, net	(807)	1,562	(2,369)
Changes in accumulated other comprehensive income (loss)	1,581	(1,355)	2,936
Fair Value Net Income (Loss)	$1,704	$ (870)	$2,574

Operating Income (Discussed in Section 7)

The primary drivers of IBRD's reported operating income are interest earned (net of funding cost) on the loan and investment portfolios, equity duration extension strategy, administrative expenses, and the provision for losses on loans and other exposures.

Operating income was higher in FY 2011 by $223 million as compared to FY 2010, primarily due to higher net interest income of $157 million due to an increase in loan volume. Details of the net interest income are discussed on page 3.

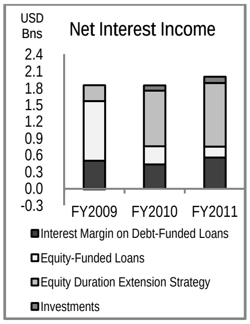
Fair Value Net Income (Discussed in Section 6)

The primary drivers of IBRD's fair value adjustments are the movements of the yield curves, the impact of IBRD's own credit, and the credit quality of IBRD's loan portfolio as measured by Credit Default Swap (**CDS**) spreads.

Fair value net income on a comprehensive basis comprises net income on a reported basis, additional fair value adjustment on the loan portfolio, and changes in accumulated other comprehensive income (AOCI), which are related to currency translation adjustments and the fair value of pensions.

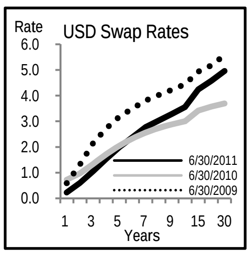
Fair value net income was higher in FY 2011 by $2,574 million primarily due to the positive effect of the changes relating to AOCI of $2,936 million. These changes in AOCI related to positive currency translation adjustments, consistent with the appreciation of the euro against the U.S. dollar, and the fair value adjustment on pensions primarily due to higher asset returns (See **Table 15**). The impact of the AOCI was partially offset by $911 million due to the fair value adjustment on the borrowing, loan and asset/liability management portfolios, as discussed on page 3.

Interest income, net of funding cost (Discussed in Section 7)



- The shift by IBRD's borrowers to variable rate loans over the recent years (89% of loan commitments in FY 2011 carried variable term loans), has reduced IBRD's income from **equity-funded loans**, due to the sensitivity to short-term interest rates. In order to reduce this sensitivity, IBRD implemented the equity duration extension strategy in FY 2008. Through this strategy, IBRD increased the duration of its equity from three months to approximately four years. This was achieved by entering into interest rate swaps with a 10-year ladder re-pricing profile. This strategy resulted in an increase in interest income from the swaps (where IBRD is a variable interest rate payer and a fixed interest rate receiver) of $145 million over the prior year, offsetting the $128 million decline in interest income from **equity-funded loans** (where IBRD is primarily a variable interest rate receiver).
- IBRD uses derivatives to manage the re-pricing risks between loans and borrowings by converting both the loan and borrowing portfolios to variable interest rates. Although the basis spread from debt funded loans has remained relatively stable, the **interest margin on debt funded loans** increased by $123 million reflecting an increase in the loan balance.

Effect of Yield Curve (Discussed in Section 6)



See table below on interest rate movements and the corresponding effect on IBRD's fair value income statement.

- During FY 2011, the yield curve steepened for all major currencies. This was the primary driver of the positive fair value adjustment on borrowings and the negative fair value adjustment on the loans and equity duration extension derivatives.
- In contrast, during FY 2010, the downward shift in the yield curves resulted in a negative fair value adjustment on borrowings and a positive fair value adjustment on the loans and equity duration extension derivatives.

Portfolio	General Portfolio Characteristics	Interest Rate Movement	Unrealized Mark-to-Market/Model Gain/Loss on the Fair Value Income Statement	
Borrowing Portfolio				
Borrowings (excluding derivatives)	IBRD is a fixed interest rate payer	↑ / ↓	Gain	Loss
Borrowing-related derivatives	IBRD is a variable interest rate payer	↑ / ↓	Loss	Gain
Overall effect on the borrowing portfolio		↑ / ↓	Marginal	Marginal
Loan Portfolio				
Loans (excluding derivatives)	IBRD is 78% variable interest rate receiver and 22% fixed interest rate receiver	↑ / ↓	Loss	Gain
Loan-related derivatives (reported with borrowings derivatives)	IBRD is a fixed interest rate payer	↑ / ↓	Gain	Loss
Overall effect on the loan portfolio		↑ / ↓	Marginal	Marginal
Asset/Liabilities Management				
Equity duration extension derivatives (included in other derivatives)	IBRD is a fixed interest rate receiver	↑ / ↓	Loss	Gain

Effect of Credit (Discussed in Section 6)

Fair Value Adjustment on the Borrowing Portfolio

- IBRD's credit spreads remained largely unchanged for debt outstanding in FY 2011 and therefore had a negligible impact on the fair value adjustment. This is in contrast to FY 2010, where the improvements in IBRD's credit spreads as a result of improved market conditions, resulted in an estimated negative fair value adjustment of $994 million on IBRD's borrowings.

Fair Value Adjustment on the Loan Portfolio

- The tightening of **CDS** spreads, as a result of improved market conditions during FY 2011, was offset by the credit impact of the loan disbursements which had a negative effect on the fair value adjustment on the loan portfolio. During FY 2010, the positive fair value adjustment on IBRD's loans was due to the downward shift in the yield curves as well as the tightening of **CDS** spreads.

Fair Value Basis Balance Sheet

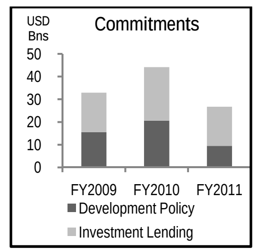
Fair Value Condensed Balance Sheets
In millions of U.S. dollars

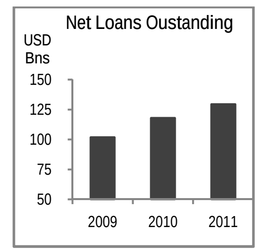
As of June 30,	2011	2010	Variance
Investments and due from banks	$ 35,107	$ 38,052	$(2,945)
Net loans outstanding	129,447	117,936	11,511
Receivable from derivatives	144,711	121,823	22,888
Other assets	3,583	3,856	(273)
Total Assets	$312,848	$281,667	$31,181
Borrowings	$135,223	$128,563	$6,660
Payable for derivatives	130,429	110,615	19,814
Other liabilities	8,517	6,382	2,135
Equity	38,679	36,107	2,572
Total Liabilities and Equity	$312,848	$281,667	$31,181

Lending Activities (Discussed in Section 2)

IBRD's principal assets are its loans to borrowing member countries.

- Since July 1, 2008 (FY 2009), in response to the global financial crisis, IBRD's commitments totaled $103,845 million.
- As of June 30, 2011, on a fair value basis, IBRD's loan portfolio totaled $129,447 million, an increase of $11,511 million over June 30, 2010, primarily due to $7,994 million in **net loan disbursements** made in FY 2011. Commitments decreased by $17,460 million from FY 2010, when IBRD experienced a record level of loan commitments associated with the global financial crisis. Despite the decrease in commitments in FY 2011, demand for IBRD's loan products still remains strong and substantially above pre-FY 2008 levels.

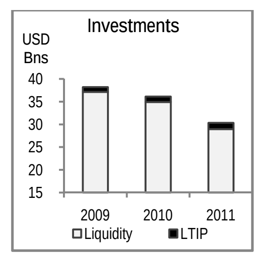




Investment Activities (Discussed in Section 3)

IBRD manages its investments in two portfolios: a liquid asset portfolio and a Long-Term Investment Portfolio (LTIP).

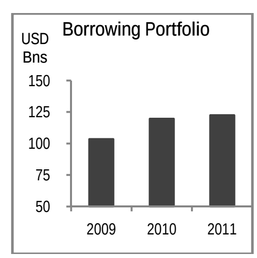
- *Liquid asset portfolio:* The objective of this portfolio is to ensure the availability of sufficient cash flows to meet all of IBRD's financial commitments. Funds awaiting disbursement, as well as minimum liquidity balances, are held in the liquidity portfolio and managed using conservative guidelines. As of June 30, 2011, the liquid asset portfolio was $28,445 million, a decrease of $6,009 million from June 30, 2010. IBRD is gradually returning to lower levels of liquidity in the post-crisis period. In line with this, a significant portion of IBRD's $7,994 million of **net loan disbursements** for FY 2011 was funded by available liquidity.
- *LTIP:* The objective of this portfolio is to increase IBRD's income over the long-term by investing part of its equity in a diversified portfolio of risk assets, including listed equity securities. As of June 30, 2011, LTIP totaled $1,348 million, an increase of $169 million over June 30, 2010. This increase primarily reflects unrealized mark-to-market gains in FY 2011.



Funding Activities (Discussed in Section 4)

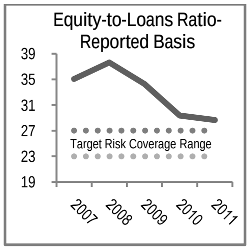
IBRD's lending and investment activities, as well as general operations, are funded by equity and proceeds from debt issuances.

- *Borrowings:* To raise funds, IBRD issues debt securities in a variety of currencies to both institutional and retail investors. During FY 2011, IBRD raised medium- and long-term debt of $28,790 million in 26 different currencies, a decrease of $5,249 million from FY 2010, reflecting lower loan disbursements in FY 2011, as compared to FY 2010.
- *Equity:* IBRD's equity is primarily comprised of paid-in capital and retained earnings. On March 16, 2011, three resolutions increasing IBRD's authorized capital were approved by the Board of Governors. The total increase in authorized capital was $87.6 billion. Under the terms of the resolutions, subscribed capital is expected to increase by $86.2 billion over the next five years, of which $5.1 billion will be paid-in. As of June 30, 2011, $228 million has been paid in.



Risk-Bearing Capacity and Income Allocation

Risk-Bearing Capacity (Discussed in Section 5)



- IBRD uses its **risk-bearing capacity** as a key indicator for financial risk management. The Executive Directors monitor IBRD's risk-bearing capacity based on a variety of metrics, including a framework of stress testing and the equity-to-loans ratio.
- IBRD's equity-to-loans ratio decreased during FY 2011 from 29.37% at June 30, 2010 to 28.68% at June 30, 2011. This decrease was primarily due to the increase in the loan portfolio. The ratio, however, remained above the target risk coverage range of 23 to 27 percent.
- IBRD periodically undertakes currency conversions to align the currency composition of its loan portfolio with that of its equity. As a result, while the appreciation of the euro and Japanese yen against the U.S. dollar during FY 2011 impacted the individual portfolios, there was no material impact on the overall equity-to-loans ratio.
- One element of equity is usable capital. In an effort to increase usable capital, IBRD continues to work with members to reach agreements on the release of their paid in capital that is currently restricted as to its usage. Since October 2009, 15 members have agreed to release $0.8 billion, of which $0.6 billion is currently usable.

Income Allocation

It is management's practice to recommend each year the allocation of net income to augment reserves and support developmental activities.

On August 4, 2011, the Executive Directors approved allocations (outlined in the table below), as well as the addition of $401 million of FY 2011 net income to the General Reserve. In addition, the Executive Directors recommended to IBRD’s Board of Governors, the following transfers from FY 2011 unallocated income: $520 million to the International Development Association (IDA) and $75 million to Surplus.

Income allocation and distribution decisions are based on allocable income. Management makes the following adjustments to reported net income to arrive at allocable income, with the approval of IBRD’s Executive Directors:

Income Allocation
In millions of U.S. dollars

For the year ended June 30,	2011	2010
Reported net (loss) income	$ 930	$(1,077)
Board of Governors Approved Transfers	513	839
Fair value adjustment on non-trading portfolios, net	(420)	1,038
Reported operating income	1,023	800
Allocations:		
Pension reserve	86	32
Restricted retained earnings	(4)	12
LTIP reserve	(109)	(80)
Allocable Net Income	$ 996	$ 764

- *Board of Governors-Approved Transfers* are excluded as they represent distributions from Surplus or prior year’s income.
- *Fair value adjustment on non-trading portfolios* is excluded since not all instruments are carried at fair value.
- *Pension adjustment* reflects the difference between IBRD’s pension contributions and the accounting expense, as well as investment income earned on the Post-Employment Benefit Plan (PEBP) assets. Management believes the allocation decision should be based on actual cash contributions to the pension plans, as IBRD’s contributions are irrevocable and the assets are held in trust. In addition, management believes that the PEBP investment income should be excluded from the allocation decision, since this income is only available to meet the PEBP liabilities.
- *Temporarily restricted income* is excluded as IBRD has no discretion on the use of such funds.
- *LTIP adjustment* reflects the difference between the actual portfolio return and the fixed draw amount. Since LTIP is a long-term portfolio, management believes that the draw amount, reflecting the long-term expected average return of the LTIP, should be used.

Box 1: Five-Year Summary of Selected Financial Data

As of or for the fiscal years ended June 30

In millions of U.S. dollars, except ratio and return data which are in percentages

Lending (Discussed in Section 2)	2011	*2010*	*2009*	*2008*	*2007*
Commitments [a]	26,737	44,197	32,911	13,468	12,829
Gross disbursements [b]	21,879	28,855	18,565	10,490	11,055
Net disbursements [b]	7,994	17,230	8,345	(2,129)	(6,193)
Reported Basis					
Income statement *(Discussed in Section 7)*					
Operating income [c]	1,023	800	572	2,271	1,659
Board of Governors-Approved Transfers	(513)	(839)	(738)	(740)	(957)
Net income (loss)	930	(1,077)	3,114	1,491	(140)
Balance sheet *(Discussed in Section 7)*					
Total assets	313,871	281,835	276,745	231,736	205,986
Unrestricted cash and investments	30,684	36,513	38,284	23,103	22,258
Net loans outstanding	130,470	118,104	103,657	97,268	95,433
Borrowing portfolio [d]	122,501	119,775	103,568	88,284	87,506
Total equity	39,683	36,261	38,659	39,973	38,181
Performance Ratios *(Discussed in Section 5)*					
Net return on average earning assets					
Based on operating income	0.64	0.54	0.45	1.87	1.34
Based on net income (loss)	0.58	(0.73)	2.38	1.23	(0.11)
Return on equity					
Based on operating income	2.79	2.21	1.53	5.96	4.64
Based on net income (loss)	2.47	(2.88)	8.01	3.73	(0.37)
Equity-to-Loans ratio [e]	28.68	29.37	34.28	37.62	35.05
Fair Value Basis					
Income statement *(Discussed in Section 6)*					
Net income (loss) [f]	1,704	(870)	(225)	1,135	900
Net income (loss) excluding Board of Governors-Approved Transfers	2,217	(31)	513	1,875	1,857
Balance sheet *(Discussed in Section 6)*					
Total assets	312,848	281,667	275,006	232,860	206,697
Unrestricted cash and investments	30,684	36,513	38,284	23,103	22,258
Net loans outstanding	129,447	117,936	101,918	98,392	96,144
Borrowing portfolio [d]	122,482	119,761	103,550	90,828	89,530
Total equity	38,679	36,107	36,938	38,553	36,868
Performance Ratios *(Discussed in Section 5)*					
Net return on average earning assets [g]	1.39	(0.02)	0.40	1.52	1.49
Return on equity [g]	5.94	(0.08)	1.41	4.93	5.21
Equity-to-Loans ratio [e]	29.08	29.97	35.00	36.71	34.47

a. Commitments include guarantee commitments and guarantee facilities.
b. Amounts include transactions with the International Finance Corporation (IFC) and capitalized front-end fees.
c. Operating income is defined as Income before fair value adjustment on non-trading portfolios, net and Board of Governors-Approved Transfers.
d. Net of derivatives.
e. As defined in Table 10: Equity used in Equity-to-Loans Ratio.
f. Fair value net income on a comprehensive basis comprises net income on a reported basis, additional fair value adjustment on the loan portfolio, and changes in AOCI.
g. Ratios exclude Board of Governors-Approved transfers.

SECTION 2. LENDING AND OTHER DEVELOPMENT ACTIVITIES

Lending

All of IBRD's loans are made to, or guaranteed by, countries that are members of IBRD. In addition, IBRD may also make loans to IFC, an affiliated organization, without any guarantee. IBRD does not currently sell its loans, nor does management believe there is a market for loans comparable to those made by IBRD.

From its establishment through June 30, 2011, IBRD's approved loans, net of cancellations, totaled $486,480 million to 137 borrowing member countries. A summary of cumulative lending is presented in **Table 1** below.

Table1: Lending Status at June 30, 2011 and 2010

In millions of U.S. dollars

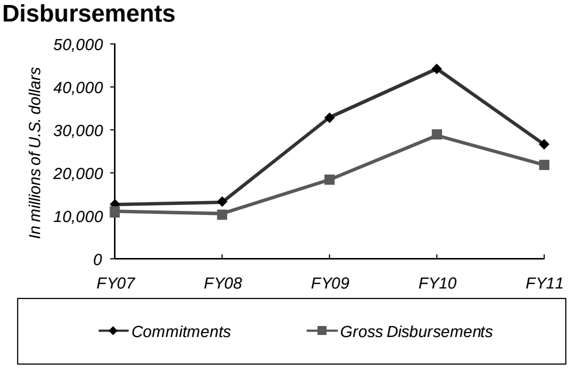
	2011	2010
Cumulative approvals [a]	$486,480	$464,923
Cumulative repayments [b]	296,082	282,426
Loans outstanding	132,459	120,103
Undisbursed amounts	64,435	63,574

a. Net of cumulative cancellations of $70,724 million, as of June 30, 2011 ($65,944 million – June 30, 2010). Cumulative amount excludes guarantees.

b. Multicurrency pool loan repayments are included at exchange rates in effect on the date of original disbursement. All other amounts are based on U.S. dollar equivalents at the time of repayment by borrowers.

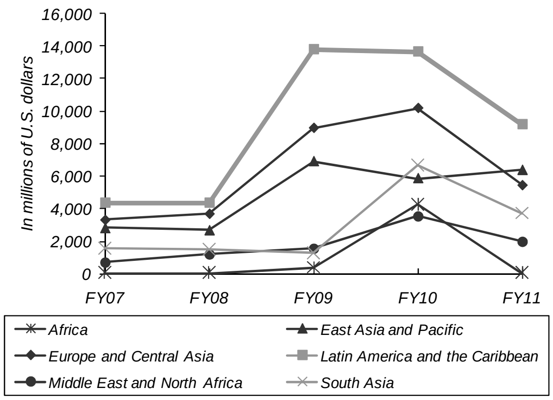
During FY 2011, new loan commitments were $26,737 million (includes guarantees of $400 million), as compared to $44,197 million in FY 2010 (includes guarantees of $243 million), a decrease of $17,460 million. **Figure 1** presents the commitments and gross disbursements from FY 2007 to FY 2011. Since FY 2009, IBRD's commitments have totaled $103,845 million and reflect IBRD's significant response to the recent global financial crisis. Although, IBRD's annual commitments have declined from the peak of $44,197 million in FY 2010, IBRD's commitments remain high and substantially above pre-FY 2008 levels.

Figure 1: Commitments and Gross Disbursements



During the five-year period from FY 2007 to FY 2011, the Latin America and the Caribbean region accounted for the largest share of commitments (See **Figure 2**).

Figure 2: Commitments by Region



Under IBRD's Articles of Agreement (the Articles), as applied, the total amount outstanding of loans made by IBRD, including participation in loans and callable guarantees, may not exceed the **statutory lending limit**. At June 30, 2011, outstanding loans and callable guarantees totaled $132,459 million, equal to 60% of the **statutory lending limit** of $220,201 million.

Lending Cycle

The process of identifying and appraising a project, and approving and disbursing a loan, often extends over several years. However, on numerous occasions, IBRD has shortened the preparation and approval cycle in response to emergency situations (such as natural disasters) and crises (such as food, fuel and global economic crises). IBRD acts prudently and pays due regard to the prospects of repayment on its loans. IBRD's decisions to make loans are based upon, among other things, studies of a member country's economic structure, including assessments of its resources and ability to generate sufficient foreign exchange to meet debt-service obligations. With certain exceptions[1], each loan must be approved by IBRD's Executive Directors.

Loan disbursements are subject to the fulfillment of requirements set out in the loan agreement. The loan agreement requires borrowers to: (a) submit documentation establishing, to IBRD's satisfaction, that the expenditures financed with the proceeds of loans are made in conformity with the applicable lending agreements and (b) maximize competition in

[1] For Adaptable Program Loans (APLs), the Executive Directors approve all first-phase APLs and delegate to Management the approval of subsequent phases subject to agreed procedures. Learning and Innovation Loans are loans of $5 million or less and are approved by Management.

the procurement of goods and services by using, wherever possible, international competitive bidding or, when it is not appropriate, other procedures that ensure maximum economy and efficiency. In addition, under pilot programs approved by the Executive Directors, IBRD considers the use of borrower country procurement, and environmental and social safeguard systems in selected operations where these systems are assessed by IBRD as being equivalent to IBRD's systems and where the borrower's policies and procedures, implementation practices, track record, fiduciary and safeguard risks and capacity are considered acceptable to IBRD.

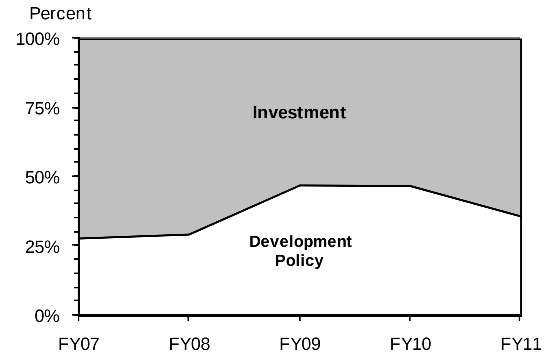
During implementation of IBRD-supported operations, IBRD staff review progress, monitor compliance with IBRD policies and assist in resolving any problems that may arise. The Independent Evaluation Group, an IBRD unit whose director reports to the Executive Directors rather than to the President, evaluates the extent to which operations have met their major objectives.

Lending Instruments

IBRD lending generally falls into one of two categories: investment lending or development policy operations (previously referred to as adjustment lending). Investment lending[2] is generally used to finance goods, works, and services in support of economic and social development projects and programs in a broad range of sectors. In contrast, development policy operations are generally provided in exchange for commitments by borrowers to implement social, structural, and institutional reforms. The majority of IBRD's loans are for investment projects or programs. **Figure 3** shows the percentage of IBRD loans approved for investment lending and development policy operations over the past five years.

In FY 2011, new IBRD commitments to investment lending and development policy operations were 64% (FY 2010 – 53%) and 36% (FY 2010 – 47%), respectively.

Figure 3: IBRD Lending Commitments



Currently Available Loan Products

IBRD does not differentiate between the credit quality of member countries eligible for loans, with all member countries eligible for IBRD lending subject to the same pricing. As of June 30, 2011, 79 member countries are eligible to borrow from IBRD.

As of June 30, 2011, 53% of the loans in IBRD's loan portfolio carried variable-spread terms and 42% carried fixed-spread terms, as illustrated by **Figure 4a**.

For IBRD's outstanding loans as of June 30, 2011, 78% carried variable interest rates and 22% carried fixed interest rates. IBRD uses derivatives to manage the re-pricing risks between loans and borrowings. After considering the effects of these derivatives, virtually the entire loan portfolio carried variable interest rates, as illustrated by **Figure 4d**.

IBRD Flexible Loans

IBRD Flexible Loans (IFL) allow borrowers to customize the repayment terms (i.e., grace period, repayment period and amortization profile) to meet their debt management or project needs, and also include options to manage the currency and/or interest rate risk over the life of the loan. Final maturity of an IFL can be up to 30 years, provided that its weighted average maturity does not exceed 18 years.

[2] *Investment lending loans include enclave loans which are made in exceptional cases to IDA qualifying member countries (who are not also eligible for IBRD financing) for projects generating foreign exchange and projects with appropriate foreign exchange-related credit enhancements. These loans carry the same terms and conditions as IBRD loans. As of June 30, 2011 and June 30, 2010, IBRD's enclave loans totaled $23 million and $29 million, respectively.*

Table 2: Currently Available Terms
As of June 30, 2011
Basis points, unless otherwise noted

	IBRD Flexible Loan (IFL)		*Special Development Policy Loans (SDPL)*
	Fixed-spread Terms	*Variable-spread Terms*	
Final maturity	30 years	30 years	5 to 10 years
Maximum weighted average maturity	18 years	18 years	7.5 years
Reference market rate	Six-month floating rate index	Six-month floating rate index	Six-month floating rate index
Spread			
Contractual lending spread	50	50	200 [f]
Maturity premium	0-20[a]	0-20[a]	-
Market risk premium	10-15[b]	-	-
Funding cost margin	Projected funding spread to six-month floating rate index [c]	Actual funding spread to floating rate index of IBRD borrowings in the previous six-month period	-
Charges			
Front-end fee[d]	25	25	100
Late service charge on principal payments received after 30 days of due date[e]	50	50	-
	Development Policy Loan Deferred Drawdown Option		*Catastrophe Risk Deferred Drawdown Option*
Reference market rate	Six-month floating rate index		Six-month floating rate index
Contractual lending spread	IFL variable or fixed-spread in effect at the time of withdrawal		
Front-end fee	75		50
Renewal fee	50		25
Pricing for IBRD Partial Risk, Partial Credit, and Policy-Based Guarantees			
Front-end fee		25	
Guarantee fee		50-70 [g]	

a. A maturity premium of nil is charged for loans with an average maturity less than 12 years, 10 basis points is charged for loans with an average maturity greater than 12 years and up to 15 years, and 20 basis points for loans with an average maturity greater than 15 years.
b. A market risk premium of 10 basis points is charged for loans with an average maturity of up to15 years ,and 15 basis points for loans with an average maturity greater than 15 years.
c. Projected funding spread to floating rate index (e.g. ***LIBOR****) is based on the average repayment maturity of the loan*
d. There are no waivers on interest and front-end fee under the current pricing terms.
e. See Box 2 in Section 5 for treatment of overdue payments.
f. Minimum of 200 basis points.
g. A guarantee fee of 50 basis points is charged for guarantees with an average maturity less than 12 years, 60 basis points for guarantees with an average maturity of greater than 12 years and up to15 years, and 70 basis points for guarantees with an average maturity greater than 15 years.

The IFL has the following two basic types of loan terms: variable-spread terms and fixed-spread terms. The spread on IBRD's IFLs has four components: contractual lending spread, a maturity premium, a market risk premium, and a funding cost margin. The contractual lending spread and maturity premium, which apply to all IFLs, are subject to the Executive Directors' annual pricing review. For fixed-spread IFLs, the projected funding cost and the market risk premium are reviewed and set by management based on market conditions and are communicated quarterly to the Executive Directors.

For FY 2011, IBRD introduced a new pricing structure for fixed and variable IFLs and also realigned the average maturity terms for IFLs with a fixed spread. IBRD restored the average loan maturity limits for new loans and guarantees from 18 years to the pre-2008 level of 12 years. Borrowing members have the option to extend the average loan maturity from 12 years to 18 years by paying a maturity premium of 10 to 20 basis points. The maturity premium is a new component of the spread charge over the floating rate index (e.g. **LIBOR**), and accounts for the cost of the incremental capital needed for the longer maturities. During FY 2011, less than 64% of the new loans approved had average loan maturities greater than 15 years; this was in contrast to over 90% during FY 2010 and FY 2009.

Each type of loan may be denominated in the currency or currencies chosen by the borrower provided that IBRD can efficiently intermediate in that currency. Variable-spread terms have a variable-spread over a floating rate index (e.g. **LIBOR)** that is adjusted every six months and fixed-spread terms have a fixed-spread over a floating rate index (e.g. **LIBOR)** that is fixed for the life of the loan.

Table 2 summarizes the currently available loan terms as of June 30, 2011.

Loans with a Deferred Drawdown Option

The Development Policy Loan Deferred Drawdown Option (DPL DDO) provides the borrower with the flexibility to rapidly fund its financing requirements, for example, following a shortfall in resources due to adverse economic events such as downturns in economic growth or unfavorable changes in commodity prices or terms of trade. The Catastrophe Risk DDO (Cat DDO) enables the borrower to access an immediate source of funding to respond rapidly in the aftermath of a natural disaster. Under the DPL DDO, the borrower may defer disbursement for up to three years, renewable for an additional three years. The Cat DDO has a revolving feature. The three-year drawdown period may be renewed up to four times, for a total maximum drawdown period of 15 years. See **Table 2** for currently available loan terms as of June 30, 2011.

There were two new Cat DDOs committed during FY 2011 totaling $150 million (FY 2010 – $nil million). As of June 30, 2011, the amount of DDOs disbursed and outstanding were $2,732 million ($2,050 million – June 30, 2010).

Special Development Policy Loans (SDPL)

SDPLs support structural and social reforms by credit worthy borrowers that are approaching a possible global financial crisis, or are already in a crisis and have extraordinary and urgent external financial needs. Borrowers seeking SDPLs must have a disbursing International Monetary Fund-supported program in place, and be seeking IBRD lending as part of a coordinated international support package.

In FY 2011, IBRD made one new SDPL commitment for $142 million, compared to three SDPLs committed in FY 2010 for $1,840 million.

Local Currency Loan Facility Agreement with IFC

IBRD has a Local Currency Loan Facility Agreement with IFC, which is capped at $300 million, aimed at increasing the usability of local currency paid-in capital. Under this agreement, IBRD lends local currencies of its member countries, funded from paid-in capital, to IFC. These currencies are subsequently used by IFC to finance projects in those member countries. Loan commitments under this facility are subject to the consent of the respective IBRD member countries whose currency is involved. At June 30, 2011, loans outstanding under this facility was $50 million.

IBRD Discontinued Loan Products

IBRD's discontinued loan products currently consist of eight loan products: (i) Pre-pool Fixed Rate loans, (ii) Fixed Rate Currency Pool Loans, (iii) B-loans, (iv) Variable Rate Currency Pool Loans (v) Single Currency Pool loans, (vi) Fixed Rate Single Currency Loans, (vii) Variable-spread Loans, and (viii) Fixed-spread Loans.

Waivers

Waivers applicable to the previously available loan products 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, and are approved annually by the Executive Directors of IBRD. For FY 2011, the approved waiver rates were: interest charges 5 basis points for loans for which the invitation to negotiate was issued prior to July 31, 1998 and 25 basis points on loans issued thereafter but signed prior to the effectiveness of new loan pricing introduced in September 2007; and 50 basis points for commitment charges. For FY 2012, the Executive Directors have approved the same waiver rates as FY 2011 for all eligible borrowers with eligible loans.

Figure 4 presents a breakdown of IBRD's loan portfolio by loan product, undisbursed balances, currency composition, and interest rate structure. See the Notes to the Financial Statements-Note D-Loans and Other Exposures for more information.

Other Development Activities

IBRD offers derivatives, guarantees, and/or grants to its borrowing member countries, as well as affiliated and non-affiliated organizations, to help meet their development needs or to carry out their development mandates. IBRD also provides technical assistance, advisory and other services to support poverty reduction. The section below discusses these products in more detail.

Derivatives

IBRD offers derivative products to its borrowing member countries, as well as affiliated and non-affiliated organizations as part of its financial intermediation services.

Borrowers: IBRD is able to respond to borrowers' needs for access to better risk management tools, by offering them derivative instruments; these include **currency** and **interest rate swaps,** and interest rate caps and collars. IBRD passes through its market cost of the instrument to the borrower, and charges a transaction fee comparable to the conversion fee charged on the fixed-spread loans. These instruments may be executed either under a master derivatives agreement, which substantially conforms to industry standards, or under individually negotiated transactions.

Figure 4 Loan Portfolio

In millions of U.S. dollars

Figure 4a: Loans Outstanding by Loan Product

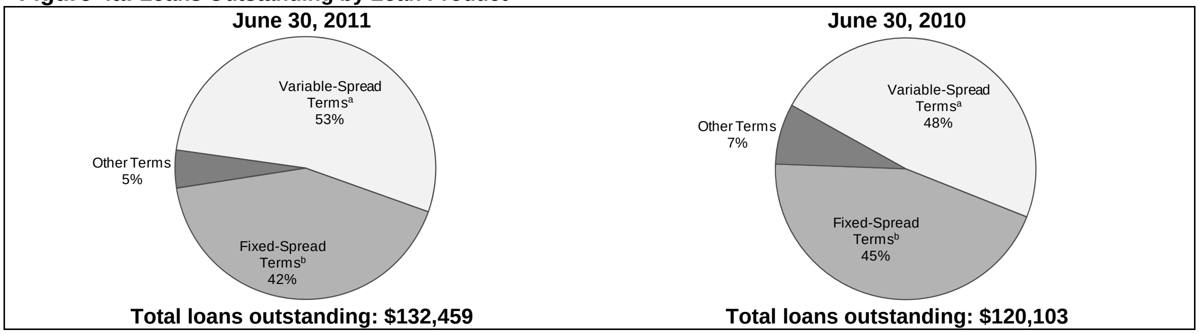


Figure 4b: Undisbursed Balances by Loan Product

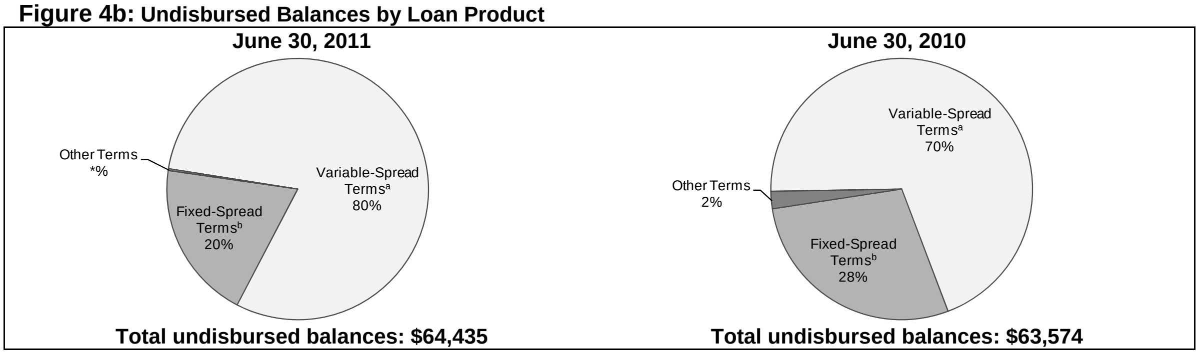


Figure 4c: Loans Outstanding by Currency

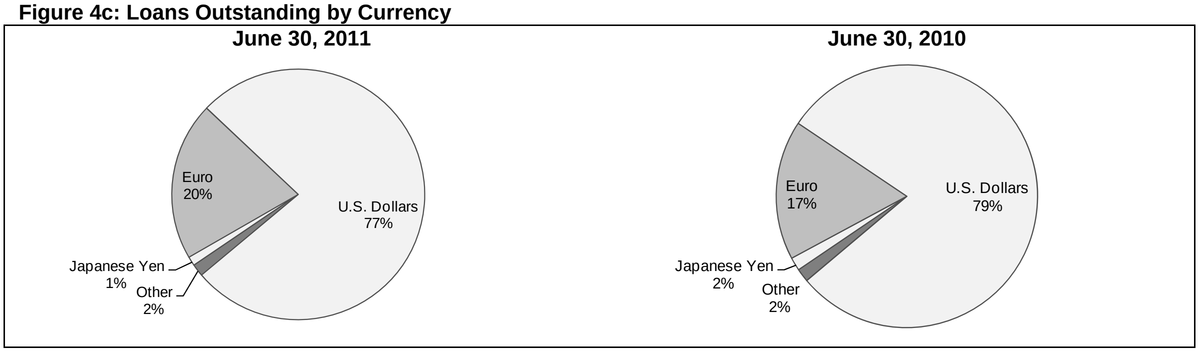
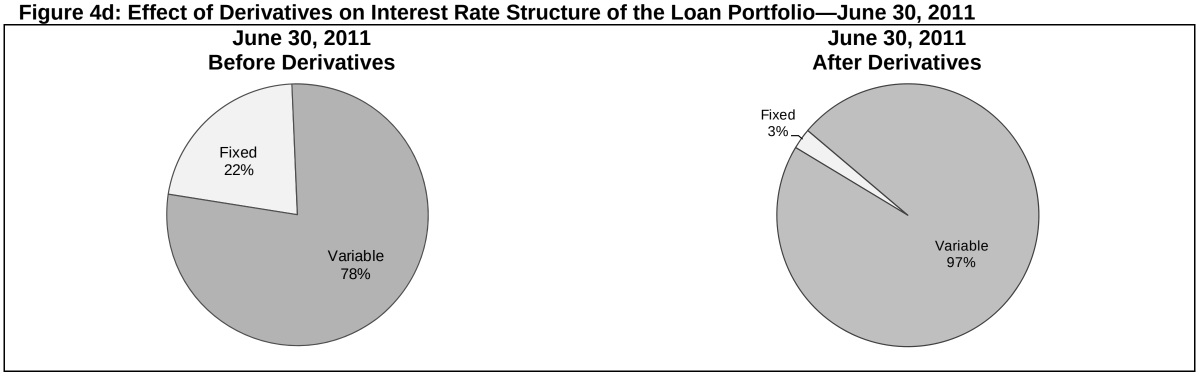


Figure 4d: Effect of Derivatives on Interest Rate Structure of the Loan Portfolio—June 30, 2011



a. Includes IFL variable-spread loans.
b. Includes IFL fixed-spread loans.
** Denotes percentage less than 0.5%*

In addition, IBRD also offers its borrowers products to convert their IBRD loans into their domestic currencies to reduce their foreign currency exposure with respect to projects or programs that do not generate foreign currency revenues. These local currency loans carry fixed-spread terms. The balance of such loans outstanding at June 30, 2011 was $1,794 million ($1,611 million – June 30, 2010).

Affiliated Organizations: To assist IDA with its asset/liability management strategy, IBRD executed a number of currency forward transactions with IDA. Concurrently, IBRD entered into offsetting transactions with market counterparties. IBRD charges an intermediation fee for these currency forward transactions.

Non-affiliated Organizations: IBRD and the International Finance Facility for Immunisation (IFFIm), a AAA-rated non-affiliated organization, with whom IBRD has a master derivatives agreement and a treasury management contract, have entered into a number of **currency swaps** and **interest rate swaps.** Concurrently, IBRD entered into offsetting swap transactions with market counterparties**.** IBRD charges an intermediation fee for these **interest rate swaps** and **currency swaps**. IBRD has applied all its normal commercial credit risk policies to these transactions.

Further details on derivatives for clients are provided in the Notes to Financial Statements- Note F-Derivative Instruments.

Guarantees

IBRD offers guarantees on loans from private investors for projects in countries eligible to borrow from IBRD. These guarantees can also be offered on securities issued by entities eligible for IBRD loans, and in exceptional cases offered in countries only eligible to borrow from IDA. IBRD applies the same country creditworthiness and project evaluation criteria to guarantees as it applies to loans. Each guarantee requires the counter-guarantee of the member government.

IBRD generally provides the following types of guarantees:

Partial risk guarantees: These cover private lenders against the risk of a public entity or a government failing to perform its obligations with respect to a private project.

Partial credit guarantees: These cover private lenders against nonpayment of the loans provided for public investments. Such guarantees allow public sector projects to raise financing, extend maturities and lower spreads.

Policy-based guarantees: These extend the partial credit guarantee instrument beyond public investment projects to sovereign borrowings from private foreign creditors, in support of agreed structural, institutional, and social policies and reforms.

Enclave guarantees: These partial risk guarantees are offered in exceptional cases to IDA qualifying member countries (who are not also eligible for IBRD financing) for projects generating foreign exchange and projects with appropriate foreign exchange-related credit enhancements. Fees and charges pertaining to enclave guarantees are higher than those charged for non-enclave guarantees.

Other Instruments: As discussed in Other Activities below, IBRD has also committed to pay donor shortfalls associated with the Advance Market Commitment (AMC) for Vaccines against Pneumococcal Diseases.

IBRD's exposure at June 30, 2011 on its guarantees (measured by discounting each guaranteed amount from its first call date) is detailed in **Table 3**. **Table 2** summarizes the guarantee pricing terms. For additional information see the Notes to Financial Statements-Note D-Loans and Other Exposures.

Table 3: Guarantee Exposure
In millions of U.S. dollars

	At June 30,	
	2011	*2010*
Partial risk [a]	$ 213	$ 202
Partial credit	141	143
Policy based	359	50
Other instruments	986	1,214
Total	$1,699	$1,609

a. *Includes enclave guarantees totaling $12 million (June 30, 2010: $13 million).*

Grants

IBRD also supports development activities by making grants to various recipients through the Development Grant Facility and through mechanisms such as Board of Governors-approved transfers.

Other Activities

In addition to its financial operations, IBRD is also involved in the following other activities:

Consultation: IBRD 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.

Research and Training: To assist its developing member countries, IBRD through the World Bank Institute and its partners, provides courses and other training activities related to economic policy development and administration for governments and organizations that work closely with IBRD.

Trust Fund Administration: 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 are not included in the assets of IBRD. **Table 4** summarizes the cash and investment assets held in trust by IBRD as administrator and trustee. IBRD's contribution to these fiduciary assets was $204 million for the year-end June 30, 2011 ($168 million—June 30, 2010).

Table 4: Cash and Investment Assets held in Trust
In millions of U.S dollars

Total fiduciary assets	*At June 30,* 2011	2010
IBRD-executed	$ 197	$ 171
Jointly executed with affiliated organizations	548	520
Recipient-executed	2,659	2,301
Financial intermediary funds	13,812	11,832
Execution not yet assigned [a]	3,206	3,036
Total	$20,422	$17,860

a. These represent assets held in trust for which the agreement as to the type of execution is to be finalized jointly by the donors and IBRD.

During the fiscal year ended June 30, 2011, IBRD, as an executing agency, disbursed $300 million ($269 million—June 30, 2010) of trust fund program funds. For additional information, see the Notes to Financial Statements-Note I-Management of External Funds and Other Services.

Investment Management: IBRD offers investment management services to several types of external institutions, including central banks of member countries. One objective of providing the services to central banks is to assist them in developing portfolio management skills.

At June 30, 2011, the assets managed under these agreements had a value of $21,324 million ($20,418 million—June 30, 2010). These funds are not included in the assets of IBRD. For additional information, see the 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 IBRD's projects and programs. Contributions received must be utilized for the purposes specified by the donors and are therefore considered restricted until utilized by IBRD for the donor-specified purposes.

Global Public Goods: AMC is a multi-lateral initiative to accelerate the creation of a market and sustainable production capacity for pneumococcal vaccines for developing countries. IBRD is providing a financial platform for the AMC by holding donor-pledged assets as an intermediary agent and passing them on to the Global Alliance for Vaccines and Immunization when the conditions of the AMC are met. In addition, should a donor fail to pay or delay in paying any amounts coming due, IBRD has committed to paying from its own funds any amounts due and payable by the donor, to the extent there is a shortfall in total donor funds received. For further details on AMC, see the Notes to Financial Statements-Note I-Management of External Funds and Other Services.

SECTION 3. INVESTMENT ACTIVITIES

IBRD manages its investments in two portfolios: a liquid asset portfolio and LTIP, both of which are designated as trading portfolios. **Box 3** in **Section 5** - Financial Risk Management, summarizes the eligibility criteria for IBRD's investment securities.

The financial returns and average balances of IBRD's investment portfolios in FY 2011 compared with FY 2010 are presented in **Table 5**. These returns exclude investment assets funding certain other postretirement benefit plans. The higher returns in FY 2011 are primarily due to higher unrealized gains from equity securities.

Table 5: Liquid Asset Portfolio and LTIP Returns and Average Balances
In millions of U.S. dollars

	Average Balances FY 2011	FY 2010	*Financial Returns (%)* FY 2011	FY 2010
IBRD overall portfolio	$30,552	$33,746	1.17%	1.04%
Liquid asset portfolio				
Stable	21,164	20,139	0.78	0.93
Operational	8,101	12,432	0.29	0.37
LTIP	1,287	1,175	13.15	10.01

Liquid Asset Portfolio

The objective of the liquid asset portfolio is to protect the principal amount of these investments and in doing so ensuring the availability of sufficient cash flows to meet all of IBRD's financial commitments. In addition, IBRD seeks to achieve a reasonable return on the liquid asset portfolio using prudent asset and risk management techniques. The General Investment Authorization for IBRD approved by the Executive Directors provides the basic authority under which the liquid assets of IBRD 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 Chief Financial Officer (CFO) and implemented by the Treasurer. These Investment Guidelines set out detailed trading and operational rules, including providing criteria for eligible instruments for investment, establishing risk parameters relative to benchmarks, such as an overall stop-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.

IBRD's liquid assets are held principally in highly-rated fixed income securities. These securities include **government and agency obligations**, **time deposits** and other unconditional obligations of banks and financial institutions. Additionally, IBRD holds **currency** and **interest rate swaps** (including currency forward contracts), **asset-backed securities** (including mortgage-backed securities), and **futures**, **options** and **swaption** contracts. For options, IBRD only invests in exchange-traded options.

Under IBRD's liquidity management guidelines, aggregate liquid asset holdings are kept at or above a specified prudential minimum in order to safeguard against cash flow interruptions. This minimum is equal to the highest consecutive six months of expected debt service obligations plus one-half of approved **net loan disbursements** (if positive) as projected for the relevant fiscal year. The FY 2012 prudential minimum liquidity level has been set at $21 billion and remains unchanged from FY 2011. In general, the size of the liquid asset portfolio should not exceed 150% of the prudential minimum liquidity level. From time to time, IBRD may, however, hold liquid assets over the specified maximum level to provide flexibility in timing its borrowing transactions and to meet working capital needs. At June 30, 2011 the liquid asset portfolio was 135% of the prudential minimum liquidity level. The liquid assets were held in two sub-portfolios: stable and operational, each with different risk profiles and performance guidelines.

Stable Portfolio is principally an investment portfolio holding the prudential minimum level of liquidity, which is set at the beginning of each fiscal year.

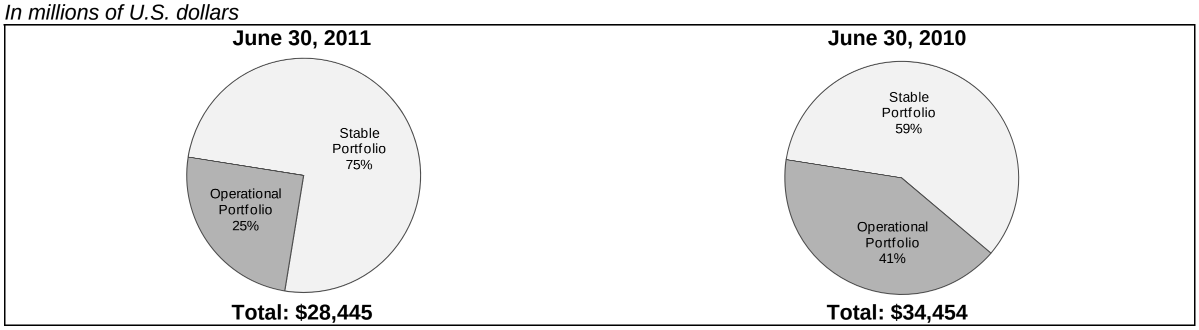
Operational Portfolio provides working capital for IBRD's day-to-day cash flow requirements.

Figure 5 represents IBRD's liquid asset portfolio size and structure at the end of FY 2011 and FY 2010, excluding investment assets associated with certain postretirement benefit plans.

At June 30, 2011, the aggregate size of IBRD's liquid asset portfolio was $28,445 million, reflecting a decrease of $6,009 million from June 30, 2010. IBRD is gradually returning to normal levels of liquidity in the post-crisis period. In line with this, a significant portion of IBRD's **net loan disbursements** for FY 2011 was funded by available liquidity.

IBRD's liquid asset portfolio is largely composed of assets denominated in or hedged into U.S. dollars, with net exposure to short-term interest rates. The debt funding these liquid assets has similar currency and **duration** profiles. This is a direct result of IBRD's exchange rate and interest rate risk management policies, discussed further in **Section 5**-Financial Risk Management, combined with appropriate investment guidelines. In addition to monitoring gross investment returns compared to their benchmarks, IBRD also monitors overall investment earnings net of funding costs, discussed further in **Section 7**-Reported Basis Analysis.

Figure 5: Liquid Asset Portfolio Composition
In millions of U.S. dollars



Long-Term Income Portfolio (LTIP)

IBRD funded LTIP with an initial investment of $1 billion during FY 2009. The objective of the LTIP program is to increase IBRD's income over the long-term by investing part of its equity in a diversified portfolio of risk assets, including listed equity securities. LTIP is intended to be a long-term multicurrency portfolio, swapped back into U.S. dollars. As of June 30, 2011, the market value of the portfolio was $1,348 million, reflecting an increase of $169 million from June 30, 2010. This increase was primarily due to unrealized gains from equities.

SECTION 4. FUNDING ACTIVITIES

IBRD's lending and investment activities, as well as general operations, are funded by equity and proceeds from debt issuance.

Equity: IBRD's equity is primarily comprised of paid-in capital and retained earnings.

Borrowings: IBRD issues securities to institutional and retail investors around the world, both through global offerings and by way of bond issues designed to meet the needs of specific markets or types of investors. These funds are then used for lending to member countries.

Equity

IBRD's equity base plays a critical role in securing its financial objectives. It enables IBRD to absorb risk through the use of its own resources and thereby protects shareholders from a possible call on callable capital. The adequacy of IBRD's equity capital is judged on the basis of its ability to generate future net income sufficient to absorb potential risks and support normal loan growth, without reliance on additional shareholder capital.

On March 16, 2011, in order to enhance IBRD's financial capacity following its response to the global economic crisis, three resolutions increasing IBRD's authorized capital were approved by the Board of Governors, namely; a general capital increase, a selective capital increase, and additional shares to be held for new members. The selective capital increase enhances the voice and participation of developing and transition countries (DTC). Under the terms of the resolutions, subscribed capital is expected to increase by $86.2 billion, of which $5.1 billion will be paid-in over a five year period.

The $86.2 billion expected capital increase comprises the following:

1. A general capital increase of $58.4 billion, of which $3.5 billion will be paid-in.
2. A selective capital increase of $27.8 billion, of which $1.6 billion will be paid-in. The selective capital increase will result in a shift of the voting power to DTCs by 3.13%, bringing their share to 47.19% of total voting power.

The above capital increases, including $1.4 billion of additional shares to be held for new members, increased IBRD's authorized capital to $278.4 billion. Total capital subscriptions received as of June 30, 2011 relating to these increases were $228 million (See Note B-Capital Stock, Maintenance of Value and Membership).

Subscribed Capital

At June 30, 2011, the authorized capital of IBRD was $278,377 million, of which $193,732 million had been subscribed. Of the subscribed capital, $11,720 million had been paid-in and $182,012 million was callable, as described in **Table 6** below. Of the paid-in capital, $1,273 million was subject to restrictions and not available for lending.

Table 6: Subscribed Capital

In millions of U.S. dollars

	FY 2011
Paid in U.S dollars	$ 3,723
Paid in national currencies	7,997
Total paid-in capital	11,720
Callable capital	182,012
Total subscribed capital	$193,732

The terms of payment of IBRD's capital and the restrictions on its use that are derived from the Articles and from resolutions of IBRD's Board of Governors are as follows:

Paid-in Capital

(i) $3,723 million of IBRD's capital was initially paid in gold or U.S. dollars, or was converted from the currency of the subscribing members into U.S. dollars or U.S. dollar-denominated notes. With the exception of $2 million in U.S. dollar-denominated notes, which may be encashed for administrative expenses only, this amount may, under the Articles, be freely used by IBRD in its operations.

(ii) $7,997 million of IBRD's capital was paid in the national currencies of the subscribing members. Under the Articles this amount is subject to **maintenance of value** obligations and may be used for funding loans only with the consent of the member whose currency is involved, or used for administrative expenses without the need for consent of the member whose currency is involved. In addition, these national currencies may be used by IBRD following a decision by the Executive Directors to invest or lend in that currency, or swap the national currency into another currency for investment or lending purposes, provided it has the consent of the member whose currency is involved. At June

30, 2011, $6,395 million of this amount was being used in IBRD's lending and investment operations, including $50 million under the local currency loan facility agreement with IFC. Under the Board of Governors resolutions relating to the General and Selective Capital Increases, each subscription to shares is conditioned upon the free and immediate use of national currency paid-in capital. IBRD will accomplish this by converting members' paid-in capital in national currencies into U.S. dollars. By subscribing to shares, members will provide their irrevocable consent for the use of their national currencies.

Callable Capital

(iii) $154,985 million of IBRD's capital may, under the Articles, 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. Payment on any such call may be made, at the option of the particular member, either in gold, in U.S. dollars or in the currency required to discharge the obligations of IBRD for which the call is made.

(iv) $27,027 million of IBRD's capital is to be called only when required to meet obligations of IBRD for funds borrowed or on loans guaranteed by it, pursuant to resolutions of IBRD's Board of Governors (though such conditions are not required by the Articles). Of this amount, 10% would be payable in gold or U.S. dollars and 90% in the national currencies of the subscribing members. 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 callable capital. Any calls on unpaid subscriptions are required to be uniform, but the obligations of the members of IBRD to make payment on such calls are independent of each other. 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 and is bound to make further calls until the amounts received are sufficient to meet such obligations. However, no member may be required on any such call or calls to pay more than the unpaid balance of its capital subscription.

At June 30, 2011, $108,957 million (60%) of the uncalled capital was callable from the member countries of IBRD that are also members of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). **Table 7** sets out the capital subscriptions of those countries and the callable amounts.

Table 7: Capital Subscriptions of DAC Members of OECD Countries — June 30, 2011
In millions of U.S. dollars

Member Country [a]	*Total Capital Subscription*	*Uncalled Portion of Subscription*
United States	$ 31,965	$ 29,966
Japan	19,109	17,938
Germany	8,734	8,191
France	8,372	7,851
United Kingdom	8,372	7,832
Canada	5,404	5,069
Italy	5,404	5,069
Netherlands	4,283	4,018
Belgium	3,496	3,281
Spain	3,377	3,171
Switzerland	3,210	3,012
Australia	2,951	2,769
Korea, Rep.	1,908	1,794
Sweden	1,806	1,696
Denmark	1,623	1,525
Austria	1,335	1,254
Norway	1,204	1,132
Finland	1,033	971
New Zealand	873	821
Portugal	659	620
Ireland	636	599
Greece	203	189
Luxembourg	199	189
Total	$116,156	$108,957

a. See details regarding the capital subscriptions of all members of IBRD at June 30, 2011 in the Financial Statements-Statement of Subscriptions to Capital Stock and Voting Power.

The United States is IBRD's largest shareholder. Under the Bretton Woods Agreements Act and other U.S. legislation, the Secretary of the U.S. Treasury is permitted to pay up to $7,663 million of the uncalled portion of the subscription of the United States, if it were called by IBRD, without any requirement of further congressional action. The balance of the uncalled portion of the U.S. subscription, $22,303 million, has been authorized by the U.S. Congress but not appropriated. Further action by the U.S. Congress would be 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 United States, notwithstanding that congressional appropriations have not been obtained with respect to certain portions of the subscription. For a further discussion of capital stock, restricted currencies, **maintenance of value** and membership refer to the Notes to Financial Statements-Note A-Summary of Significant Accounting and Related Policies and Note B—Capital Stock, Maintenance of Value and Membership.

Borrowings

Funding

IBRD raises funds by offering its securities to institutional and retail investors around the world. Under its Articles, as applied, IBRD may borrow only with the approval of the member in whose markets the funds are raised and the member in whose currency the borrowing is denominated, and only if each such member agrees that the proceeds may be exchanged for the currency of any other member without restriction.

Short-term funding

IBRD's short-term funding consists primarily of discount notes issued in U.S. dollars, as shown below in **Table 8**.

Discount notes: As of June 30, 2011, discount notes totaled $9,614 million, a decrease of $8,072 million from June 30, 2010. The decrease in the outstanding balance in FY 2011 was due to a return to normal historical averages, in response to stable and predictable loan disbursements. The average balance for the year was $11,374 million, with average maturities of approximately three months.

Securities lent or sold under repurchase agreements: These instruments are secured predominantly by high quality securities collateral, including government issued debt. As of June 30, 2011, securities lent or sold under repurchase agreements totaled $232 million, an increase of $68 million over June 30, 2010.

Other short-term borrowings: These instruments consist of borrowings with maturities of one year or less. As of June 30, 2011, these borrowings totaled $572 million, a decrease of $725 million over June 30, 2010. The average and year-end balances have decreased over the years mainly due to changes in investor demand and the increased use of discount notes.

Table 8: Short-term Funding

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

	June 30, 2011	*June 30, 2010*	*June 30, 2009*
Discount notes			
Balance at year-end	9,614	17,686	3,778
Average daily balance during the year	11,374	9,512	6,646
Maximum month-end balance	15,642	18,156	10,586
Weighted-average rate at the end of FY	0.12	0.34	0.32
Weighted-average rate during the year	0.28	0.24	1.14
Securities lent or sold under repurchase agreements [a]			
Balance at year-end	232	164	-
Average monthly balance during the year	198	236	68
Maximum month-end balance	232	564	206
Weighted-average rate at the end of FY	0.60	0.17	-
Weighted-average rate during the year	0.48	0.22	1.30
Other short-term borrowings			
Balance at year-end	572	1,297	7,666
Average daily balance during the year	1,277	4,012	6,522
Maximum month-end balance	1,422	7,720	7,998
Weighted-average rate at the end of FY	2.01	1.47	1.89
Weighted-average rate during the year	0.98	2.16	2.34

a. Excludes PEBP liabilities.

Medium- and Long-term funding

In FY 2011, medium- and long-term debt raised directly in financial markets by IBRD amounted to $28,790 million compared to $34,039 million in FY 2010, as described below.

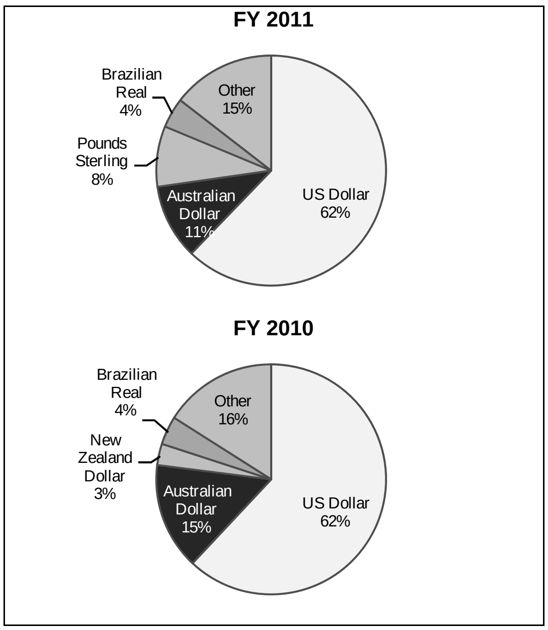
Table 9: Funding Operations Indicators

	FY 2011	*FY 2010*
Medium- and long-term funding raised (USD million)	$28,790	$34,039
Average maturity [a] (years)	3.87	3.71
Number of transactions	329	385
Number of currencies	26	28

a. Average maturity to first call date.

Medium- and long-term funding raised excluding derivatives by currency for FY 2011 and FY 2010 is shown in **Figure 6**.

Figure 6: Medium- and Long-term Funding Raised Excluding Derivatives by Currency



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

IBRD strategically repurchases or calls its debt to reduce the cost of borrowings, reduce exposure to re-funding needs in a particular year, or to meet other operational or strategic needs. During FY 2011, IBRD repurchased or called $6,644 million of its outstanding borrowings (FY 2010: $5,483 million) for a realized gain of $34 million (FY 2010: $66 million).

Use of Derivatives

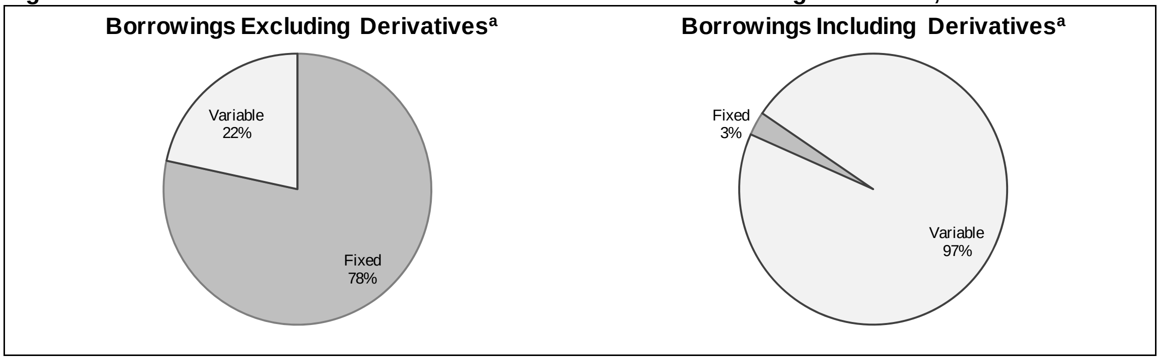
Generally, new medium- and long- term funding is initially swapped into variable-rate U.S. dollars, with conversion to other currencies being carried out subsequently, in accordance with loan funding requirements, as illustrated by **Figure 7**. In addition, IBRD uses derivatives to manage the re-pricing risks between loans and borrowings. After considering the effects of these derivatives, virtually the entire loan and borrowing portfolios are carried at variable interest rates.

Figure 8 illustrates the effect of derivatives on the currency composition of IBRD's borrowings portfolio at June 30, 2011.

The weighted average cost of IBRD's borrowing portfolio, excluding the effects of derivatives, was 3.44% and 3.46% as of June 30, 2011 and June 30, 2010, respectively. After the effect of borrowing-related derivatives, the weighted average cost of the borrowing portfolio was 0.63% and 0.66% as of June 30, 2011, and June 30, 2010, respectively. A more detailed analysis of borrowings outstanding is provided in the Notes to Financial Statements–Note E—Borrowings.

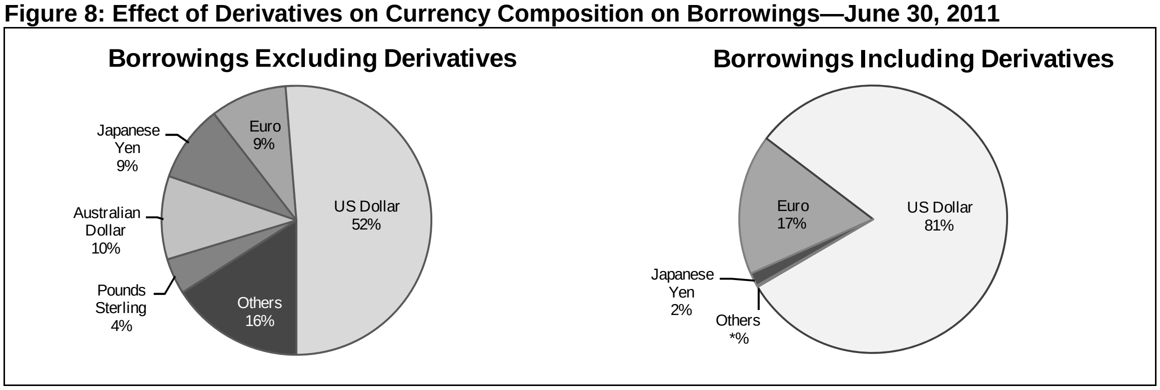
Interest rate swaps and **currency swaps** are also used for asset/liability management purposes to match the pool of liabilities as closely as possible to the interest rate and currency characteristics of liquid assets and loans. In addition, as part of its strategy to reduce the sensitivity of its income to short-term interest rates, IBRD uses derivatives to extend the duration of its equity. IBRD does not enter into derivatives for speculative purposes. A more detailed analysis of derivatives used by IBRD is provided in the Notes to Financial Statements-Note F-Derivative Instruments.

Figure 7: Effect of Derivatives on Interest Rate Structure on Borrowings—June 30, 2011



a. Excludes discount notes.

Figure 8: Effect of Derivatives on Currency Composition on Borrowings—June 30, 2011



** Denotes percentage less than 0.5%*

SECTION 5. FINANCIAL RISK MANAGEMENT

The processes and procedures by which IBRD manages its risk profile continually evolve as its activities change in response to market, credit, product, operational and other developments. The Executive Directors, particularly the Audit Committee members, periodically review trends in IBRD's risk profiles and performance, as well as any significant developments in risk management policies and controls. In addition, on an annual basis, management prepares an integrated risk monitoring report for the Executive Directors to provide a holistic picture of risk management activities within IBRD. A Risk Council comprised of World Bank Group (WBG) senior management provides a platform to look holistically at risk management across the WBG.

During FY 2011, a Chief Risk Officer (CRO) for the WBG was appointed reporting to the CFO. The CRO is responsible for: (i) assessing risks across the WBG, (ii) benchmarking existing risk management practices against major financial institutions; (iii) ensuring consistency of WBG risk management activities with best practice; and (iv) considering unique risks that are specific to multilateral development banks and international financial institutions.

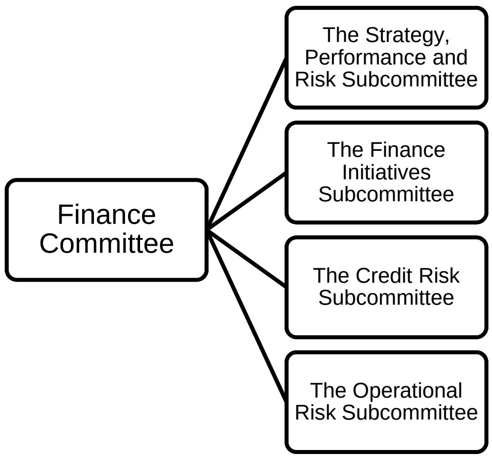
Governance Structure

The risk management governance structure supports senior management in their oversight function, particularly in the coordination of different aspects of risk management and in connection with risks that run across functional areas.

The Finance Committee, which is chaired by the CFO, reviews, evaluates and decides on matters related to IBRD’s finances to ensure that these are aligned with corporate financial and risk tolerance objectives set by the Executive Directors. The topics covered by the Finance Committee include the following: IBRD’s financial policies and guidelines, new financial initiatives, setting of risk, tolerances, and financial risk exposures. The Finance Committee makes recommendations and, where appropriate, makes decisions in the areas of financial policy, the adequacy and allocation of risk capital, and oversight of financial reporting.

There are four subcommittees that report to the Finance Committee (See **Chart 1**). These subcommittees provide technical expertise and guidance on strategy, policy, risk management and new initiative issues presented to the Finance Committee, enabling the group to make the decisions necessary to conduct appropriate oversight of IBRD's financial issues.

Chart 1: Finance Committee Governance Structure



- *The Strategy, Performance and Risk Subcommittee* develops, approves and monitors the management policies under which market and commercial credit risks faced by IBRD are measured, reported and managed. Such policies are ratified by the CFO. The subcommittee also monitors compliance with policies governing commercial credit exposure and currency management. Specific areas of activity include reviewing and endorsing guidelines for limiting balance sheet and market risks, the use of derivative instruments, investing activities, and monitoring matches between assets and their funding. In addition, the subcommittee periodically reviews loan pricing and approves the projected funding cost and market risk premium of IBRD's IFLs with fixed-spread terms. The subcommittee meets quarterly to formally review current and proposed business strategy and risk limits/policies, along with business results and financial risk profiles to facilitate alignment between business and risk management.

- *The Finance Initiatives Subcommittee* reviews the financial and organizational implications of implementing new initiatives that may impact IBRD. The subcommittee reviews all financial management, legal, reputational, financial operations and reporting aspects including risk/reward parameters and whether capital deployment is required. The subcommittee meets as needed.

- *The Credit Risk Subcommittee* monitors the measurement and reporting of country credit risk and reviews the impact on the provision for losses on loans and other exposures[3], risk ratings of borrowing member countries, or movements between the accrual and nonaccrual portfolios, at least quarterly and, if necessary, adjustments are made to the provision. In addition, the Audit Committee receives a report from management at least twice a year on the accumulated provision for losses on loans and other exposures. The subcommittee meets at least quarterly.

- *The Operational Risk Subcommittee* provides oversight on operational risks for financial operations. The subcommittee meets on a quarterly basis to ensure key operational risks relating to financial operations are monitored and managed appropriately, recognizing that primary responsibility for the management of operational risk resides with business units.

In addition to the Finance Committee, the Corporate Finance Department and the Credit Risk Department play key roles in financial risk management. The Corporate Finance Department identifies, measures, and monitors market, liquidity and counterparty credit risk in IBRD's financial operations, in addition to managing IBRD's overall capital and income adequacy. The Credit Risk Department identifies, measures, monitors and manages country credit risk faced by IBRD. Both departments are independent from IBRD's operational business units and report directly to the Vice-President, Corporate Finance and Risk Management.

Corporate Finance Department: This department assesses and manages the adequacy of IBRD's risk capital and income-generating capacity, and seeks to ensure that the Bank's financial management decisions are informed and guided by IBRD's medium-term outlook for income and capital adequacy. In addition, it works with IBRD's financial managers, who are responsible for the day-to-day management of market and counterparty credit risks, to establish and document processes that facilitate, control and monitor these risks. These processes are built on a foundation of initial identification and measurement of risks by each of the business units. Under the direction of the Finance Committee, policies and procedures for measuring and managing such risks are formulated, approved and communicated throughout IBRD. Senior managers represented on the committee are

[3] *Provision for loans and other exposures is defined as "loans outstanding plus the present value of guarantees, effective and undisbursed DDOs, irrevocable commitments, exposures to member countries' derivatives and repaying project preparation facilities."*

responsible for maintaining sound credit assessments, addressing transaction and product risk issues, providing an independent review function and monitoring the loan, investment and borrowing portfolios.

Credit Risk Department: Country credit risk is the primary risk faced by IBRD. This department reviews and rates the creditworthiness of IBRD's borrowers. To protect the independence of the unit, the individual country credit risk ratings are not shared with the Executive Directors and are not made public. In addition, this unit is responsible for assessing loan portfolio risk, determining the adequacy of provisions for losses on loans and other exposures, and monitoring borrowers that are vulnerable to crises in the near term. These reviews are taken into account in determining IBRD's overall country programs and lending operations and are used to assess the adequacy of IBRD's income-generating capacity and **risk-bearing capacity**.

Risk-Bearing Capacity

IBRD uses its **risk-bearing capacity** as a key indicator for financial risk management. The **risk-bearing capacity** is the degree to which IBRD's risk capital can absorb credit shocks from its loan portfolio and still be able to lend for development purposes without the need for additional shareholder support. This is intended both to protect shareholders and IBRD's credit rating, and reduce borrowing costs and corresponding lending rates for borrowers. The Executive Directors monitor the adequacy of IBRD's **risk-bearing capacity** based on a variety of metrics, including a framework of stress testing and the **equity-to-loans ratio**.

The framework of stress testing provides a basis for evaluating whether IBRD has sufficient financial capacity to be able to (i) absorb the income loss due to a credit shock, and (ii) generate sufficient income to support loan growth in the following years. One of the credit shock events used in the stress testing framework is an estimate of the amount of the loan portfolio that could enter nonaccrual status in the next three years at an appropriate confidence level.

The **equity-to-loans ratio** is guided by the **Strategic Capital Adequacy Framework** with a target risk coverage range of 23 to 27 percent. As presented in **Figure 9**, IBRD's **equity-to-loans ratio** decreased during FY 2011, on both a reported basis and a fair value basis, but remains above the target risk coverage range. The decrease in the **equity-to-loans ratio** on a reported basis to 28.68% at June 30, 2011 from 29.37% at June 30, 2010 was primarily due to the increase in the loan portfolio.

Figure 9: Equity-to-Loans Ratio

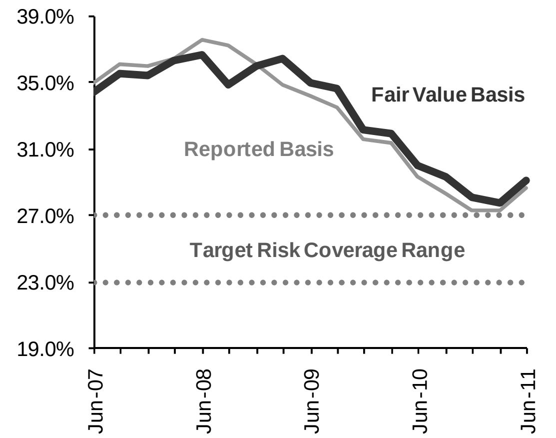


Table 10 presents the composition of this measure at June 30, 2011 and 2010, respectively. The $999 million increase in usable capital was in part due to an increase in the net payable for maintenance of value of $712 million reflecting the weakening of the U.S. dollar as compared to members national currency paid-in capital amounts, and the $228 million subscription to general and selective capital increase shares by one member country. The increase was also in part due to the impact of the release by members of their paid-in capital that was previously restricted of approximately $207 million, (FY 2010 - $430 million). Refer to **Section 4—** Funding for more details.

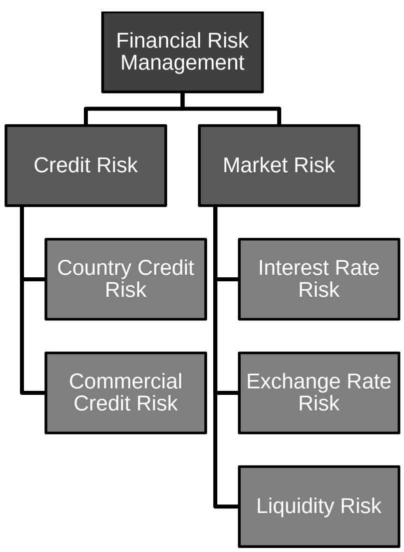
Table 10: Equity used in Equity-to-Loans Ratio
In millions of U.S. dollars

	June 30, 2011	*June 30, 2010*
Usable capital		
Paid-in capital	$11,720	$11,492
Restricted paid-in capital	(1,273)	(1,332)
Net payable for maintenance of value	862	150
Total usable capital	**11,309**	**10,310**
Special reserve	293	293
General reserve [a]	26,352	25,951
Cumulative translation adjustment [b]	611	(189)
Other adjustments [c]	124	(259)
Equity used in Equity-to-Loans Ratio (usable equity)[d]	**$38,689**	**$36,106**
Fair value adjustments	236	685
Equity used in Equity-to-Loans Ratio-fair value basis	**$38,925**	**$36,791**
Loans outstanding, present value of guarantees, effective but undisbursed DDOs and LTIP assets, net of relevant accumulated provisions and deferred loan income	**$134,907**	**$122,943**
Fair value of loans outstanding, present value of guarantees, effective but undisbursed DDOs and LTIP assets	**$133,876**	**$122,773**
Equity-to-Loans Ratio—reported basis	**28.68%**	**29.37%**
Equity-to-Loans Ratio—fair value basis	**29.08%**	**29.97%**

a. The June 30, 2011 amount includes proposed transfers to the General Reserve out of FY 2011 net income.
b. Excluding cumulative translation amounts associated with the fair value adjustment on non-trading portfolios, net.
c. Other adjustments comprise the net underfunded status of IBRD's pension plans, the cumulative income earned on LTIP assets adjusted by the fixed draw down amount, and cumulative PEBP income prior to FY 2011.
d. Excludes the effects of fair value adjustment on non-trading portfolios, net.

IBRD undertakes specific risk management activities for credit and market risk, which are discussed below (See **Chart 2**). The major financial risk to IBRD is the country credit risk inherent in the loan portfolio.

Chart 2: IBRD's Specific Risk Categories



Credit Risk

IBRD faces 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.

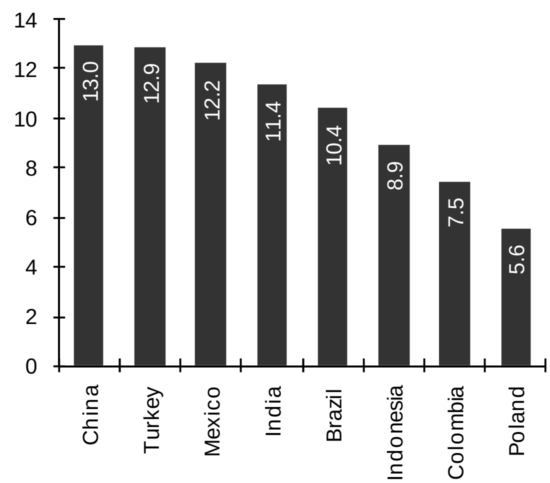
Country Credit Risk

This risk includes potential losses arising from protracted arrears on payments from borrowers on loans and other exposures. IBRD manages country credit risk through the use of individual country exposure limits. These exposure limits take into account creditworthiness and performance.

In keeping with standard practice, probable losses inherent in the loan portfolio due to country credit risk are covered by the accumulated provision for losses on loans and other exposures, while unexpected losses due to country credit risk are covered by equity.

Portfolio concentration risk, which arises when a small group of borrowers account for a large share of loans outstanding, is a key concern for IBRD and is carefully managed, in part, through an exposure limit for loans outstanding plus the present value of guarantees and the undisbursed portion of DDOs that have become effective to a single borrowing country. Under the 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. The Equitable Access Limit is equal to 10% of IBRD's subscribed capital, reserves and unallocated surplus. The Single Borrower Limit is established, in part, by assessing its impact on the overall portfolio risk relative to **risk-bearing capacity**, as measured by the level of usable equity. The Single Borrower Limit is determined by the Executive Directors each year at the time they consider the adequacy of IBRD's reserves and the allocation of its net income. For FY 2011 and FY 2012, the Single Borrower Limit was $17.5 billion for India and $16.5 billion for all other qualifying borrowers. The Equitable Access Limit at June 30, 2011 was $22 billion. As depicted in **Figure 10**, IBRD's largest exposure (including the present value of guarantees and other exposures) to a single borrowing country was $13 billion at June 30, 2011.

Figure 10: Top Eight Country Exposures at June 30, 2011
In billions of U.S. dollars



Since the current exposure data presented are at a point in time, evaluating these exposures relative to the limit requires consideration of the repayment profiles of existing loans, as well as disbursement profiles and projected new loans and guarantees.

Under certain circumstances, IBRD would be able to continue to lend to a borrower that was reaching the single borrower exposure limit by entering into an arrangement that would prevent its net exposure from exceeding the limit. Any such arrangement would need to be approved in advance by IBRD's Executive Directors. Currently, IBRD has entered into one such arrangement with China. To date, China has not reached the single borrower exposure limit and therefore, activation of this arrangement has not been required.

Overdue and Non-performing Loans

When a borrower fails to make payment on any principal, interest or other charges due to IBRD, IBRD has an option to suspend disbursements immediately on all loans. IBRD's current policy however, is to exercise this option through a graduated approach as summarized in **Box 2**. These policies also apply to those member countries who are eligible to borrow from both IBRD and IDA, and whose payments on IDA credits may become overdue.

See Notes to Financial Statements-Note D-Loans and Other Exposures for a summary of countries with loans or guarantees in nonaccrual status at June 30, 2011.

Box 2: 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 Executive Directors 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 shall 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 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 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 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.

Treatment of Protracted Arrears

In 1991, the Executive Directors adopted a policy to assist members with protracted arrears to IBRD to mobilize sufficient resources to clear their arrears and to support a sustainable growth-oriented adjustment program over the medium term. This policy is conditional on members agreeing to implement certain requirements including an acceptable structural adjustment program, adopting a financing plan to clear all arrears to IBRD and other multilateral creditors, and continuing to service their obligations to IBRD and other multilateral creditors on time.

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. During FY 1996 and FY 2002, exceptions were made to that practice with regard to Bosnia and Herzegovina (BiH) and Serbia and Montenegro, formerly the Federal Republic of Yugoslavia, based on criteria approved by the Executive Directors in connection with the financial assistance package for BiH in 1996. See the Notes to Financial Statements-Note A-Summary of Significant Accounting and Related Policies, for additional information.

Commercial Credit Risk

The effective management of credit risk is vital to the success of IBRD's funding, investment and asset/ liability management activities. The monitoring and managing of these risks is a continuous process due to changing market environments.

In the normal course of its business, IBRD utilizes various derivatives and foreign exchange financial instruments to meet the financial needs of its borrowers and to manage its exposure to fluctuations in interest and currency rates.

IBRD mitigates the counterparty credit risk arising from investments and derivatives through its credit approval process, the use of collateral agreements and risk limits, and monitoring procedures. The credit approval process involves evaluating counterparty and security-specific creditworthiness, assigning credit limits, and determining the risk profile of specific transactions. Credit limits are calculated and monitored taking into consideration current market values, 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, IBRD uses the estimated replacement cost of the derivative as the measure of credit risk exposure. While the contractual principal amount of derivatives is the most commonly used volume measure in derivative markets, it is not a measure of credit or market risk.

For all securities, IBRD limits trading to a list of authorized dealers and counterparties. Credit risk is controlled through application of eligibility criteria (as summarized in **Box 3**), volume limits for transactions with individual counterparties and through the use of mark-to-market collateral arrangements for swap transactions. As a result of these mark-to-market collateral arrangements, IBRD's residual commercial credit risk is concentrated in investments in debt instruments issued by sovereign governments, agencies, time deposits and corporate entities.

With respect to futures and options, IBRD generally closes out most open positions prior to expiration. Futures are settled on a daily basis.

Box 3: Eligibility Criteria for IBRD's Investment Securities

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, if government obligations are denominated in the national currency of the issuer, no rating is required.
Agencies	IBRD 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	IBRD may only invest in securities with a AAA credit rating.
Time deposits[a]	IBRD may only invest in time deposits issued or guaranteed by financial institutions, whose senior debt securities are rated at least A-.
Equity securities in the LTIP portfolio	IBRD may invest in any marketable equity security provided that the security is included in the Russell 3000 Index or MSCI World, ex-US Index, or similar indices, as well as any other securities or financial instruments (including commingled or mutual funds and Exchange Traded Funds) that are typically used by asset management firms or other financial institutions in portfolios that seek to track all or part of these indices.

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

Table 11: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating[a]
In millions of U.S. dollars

	At June 30, 2011					At June 30, 2010	
	Investments						
Counterparty Rating	Sovereigns	Agencies, ABS, Corporates and Time Deposits	Net Swap Exposure	Total Exposure on Investments and Swaps	% of Total	Total Exposure on Investments and Swaps	% of Total
AAA	$4,379	$ 6,698	$ -	$11,077	34%	$13,814	38%
AA	4,671	11,814	989	17,474	54	16,443	46
A	488	3,313	190	3,991	12	5,805	16
BBB	-	4		4	*	4	*
BB or lower	-	11		11	*	7	*
Total	$9,538	$21,840	$1,179	$32,557	100%	$36,073	100%

a. Excludes externally managed portfolios including LTIP equities and PEBP and swap exposures executed with borrowing member countries and IDA.
** Indicates amounts less than 0.5%.*

Under the mark-to-market collateral arrangements, when IBRD is in a net receivable position higher than the agreed upon collateral threshold allocated to the counterparty, counterparties are required to post collateral with IBRD.

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

Table 11 provides details of IBRD's estimated credit exposure on its investment and swap portfolios, net of collateral held, by counterparty rating category.

The decrease in commercial credit exposure reflects a decrease in the size of the IBRD investment portfolio. IBRD is gradually returning to normal levels of liquidity in the post-crisis period. In line with this, a significant portion of IBRD’s **net loan disbursements** for FY 2011 were funded by available liquidity as opposed to new debt issuances. Decreases in the investment portfolio are reflected largely in the decrease in holdings of time deposits. The credit quality of IBRD’s portfolio is concentrated in the upper end of the credit spectrum due to a continued preference for highly rated securities and counterparties across all categories of investments.

Market Risk

IBRD is exposed to changes in interest and exchange rates and uses various strategies to keep its exposure to market risk at a minimal level.

Interest Rate Risk

There are four main sources of interest rate risk to IBRD. The first is the interest rate sensitivity of the income earned from funding a portion of IBRD assets with equity. The second is refinancing risk for fixed-spread loans. The third is the interest rate lag associated with the net spread between the rate IBRD earns on its assets and the cost of borrowings, which fund those assets. The fourth area of risk is debt overhang in borrowings funding multicurrency loan pools.

Equity Earnings Risk

The increase in the volume of loans with interest rates linked to floating rate indexes (e.g. **LIBOR)** has increased the sensitivity of IBRD's operating income to changes in market interest rates.

As of June 30, 2011, 77% of the loan portfolio was linked to floating rate indexes (e.g. **LIBOR)**; therefore, income from equity invested in these variable interest rate loans is very sensitive to nominal interest rates. As a result, operating income has become more vulnerable to short-term interest rates. As part of IBRD’s risk management strategy to economically hedge this risk, IBRD has engaged in an equity duration extension strategy which employs interest rate swaps to increase the duration of equity from three months to approximately four years. This strategy seeks to increase the stability of operating income by taking a greater exposure to long-term interest rates.

Refinancing Risk

Refinancing risk for the funding of fixed-spread loans relates to the potential impact of any future deterioration in the Bank's funding spread, since loans are not funded to their final maturities. IBRD charges an associated risk premium and management carries out periodic reviews of the adequacy of the risk premium given future expectations about IBRD’s funding levels. See **Table 2**, for currently available terms.

Interest Rate Lag Risk

The borrowing cost-pass-through formulation incorporated in the lending rates charged on IBRD's cost pass-through pool loan products (currency pool loans) poses an additional interest rate lag risk. This risk exists as the cost pass-through formulation is done with a six-month lag. Since IBRD is unable to economically hedge this risk, this product has been unavailable since FY 2001. As of June 30, 2011, these loans accounted for approximately 1% of the portfolio.

Debt Overhang Risk

This risk arises because the cost pass-through currency pool products have traditionally been funded with a large share of medium- and long-term fixed-rate debt, to provide the borrowers with a reasonably stable interest basis. As the outstanding balance in this closed pool product declines, the amount of debt allocated to the multicurrency debt pool is expected to exceed the balance of the multicurrency loan pool by the end of FY 2012. To manage this risk, IBRD executed **forward-starting swaps** from FY 2000 to change the interest rate characteristics of the overfunded debt from fixed to variable.

As of June 30, 2011, the debt overhang was within management's expected parameters. Should the amount of debt overhang remain at the currently projected levels, IBRD does not anticipate executing additional forward-starting swaps.

Other Interest Rate Risks

Interest rate risk also arises from a variety of other factors, including differences in the timing between the contractual maturities or re-pricing of IBRD's assets, liabilities and derivative financial 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 45% of the loan portfolio at June 30, 2011 (50% at June 30, 2010), 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 affected by IBRD's equity duration extension strategy.

The interest rate risk on IBRD's liquid asset portfolio—which includes the risk that the value of assets in the liquid portfolio will fluctuate due to changes in market interest rates—is managed within specified **duration**-mismatch limits and is further limited by stop-loss limits. The stop-loss limits are levels of mark-to-market losses against the benchmark, at which management will revert to passive management of the portfolio. Effective FY 2012, management further enhanced the process in place to monitor these stop-loss limits.

Exchange Rate Risk

IBRD holds its assets and liabilities primarily in U.S. dollars, euro and Japanese yen. 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 compared to IBRD's reporting currency, the U.S. dollar.

In order to minimize exchange rate risk in a multicurrency environment, IBRD matches its borrowing obligations in any one currency (after swap activities) with assets in the same currency, as prescribed by the Articles. In addition, IBRD's policy is to minimize the exchange rate sensitivity of its **equity-to-loans ratio**. It carries out this policy by undertaking currency conversions periodically to align the currency composition of its equity to that of its outstanding loans. This policy is 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 of loan repayments regardless of the market environment.

Liquidity Risk

Liquidity risk arises in the general funding of IBRD's activities and in the management of its financial positions. It includes the risk of 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. For a discussion on how liquidity is managed, see **Section 3** - Investment Activities.

SECTION 6. FAIR VALUE ANALYSIS

Basis of Reporting

As previously discussed, IBRD prepares its financial statements in conformity with U.S. GAAP. However, management believes the reported basis net income does not capture IBRD's true economic income. Therefore, management believes that the fair value financial statements, which include the loan portfolio at fair value, are a better measure of the financial strength of the institution.

The Condensed Fair Value Balance Sheets in **Table 12** present IBRD's estimates of the fair value of its financial assets and liabilities, taking into account interest rate, currency and credit risks. As non-financial assets and liabilities are not reflected at fair value, IBRD's equity is not intended to reflect fair value. The Condensed Fair Value Balance Sheets are presented with a reconciliation to the reported basis.

Table 12: Condensed Balance Sheets at June 30, 2011 and 2010
In millions of U.S. dollars

	June 30, 2011			June 30, 2010		
	Reported Basis	Adjustments	Fair Value Basis	Reported Basis	Adjustments	Fair Value Basis
Due from banks	$ 2,462		$ 2,462	$ 1,803		$ 1,803
Investments	32,645		32,645	36,249		36,249
Receivable from derivatives	144,711		144,711	121,823		121,823
Net loans outstanding	130,470	$(1,023)	129,447	118,104	$(168)	117,936
Other assets	3,583		3,583	3,856		3,856
Total assets	$313,871	$(1,023)	$312,848	$281,835	$(168)	$281,667
Borrowings	$135,242	$ (19)[a]	$135,223	$128,577	$ (14)[a]	$128,563
Payable for derivatives	130,429		130,429	110,615		110,615
Other liabilities	8,517		8,517	6,382		6,382
Total liabilities	274,188	(19)	274,169	245,574	(14)	245,560
Paid in capital stock	11,720		11,720	11,492		11,492
Retained earnings and other equity	27,963	(1,004)	26,959	24,769	(154)	24,615
Total equity	39,683	(1,004)	38,679	36,261		36,107
Total liabilities and equity	$313,871	$(1,023)	$312,848	$281,835	$(168)	$281,667

a. Includes transition adjustment on adoption of a new U.S. GAAP guidance on derivatives and hedging on July 1, 2000.

Fair value net income on a comprehensive basis comprises net income on a reported basis, the additional fair value adjustment on the loan portfolio and changes in AOCI, which are related to currency translation adjustments and fair value of pensions. **Table 13** provides a reconciliation from net income on a reported basis to net income on a fair value basis.

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

Fair Value Balance Sheet

IBRD's total assets on a fair value basis increased by $31,181 million during the fiscal year. Most of this increase was attributable to the loan portfolio's growth in FY 2011.

Loan Portfolio

In FY 2011, borrowing member countries exhibited a preference for IFLs with variable-spread terms versus those with fixed-spread terms, since the spreads for the latter were higher. As a result, for FY 2011, 89% (FY 2010 - 82%) of the loan commitments carried variable spreads and the remainder carried fixed spreads.

At June 30, 2011, 78% of the loans outstanding carried variable interest rates and the remaining carried fixed interest rates. To manage the re-pricing risks between loans and borrowings, IBRD uses derivatives to convert virtually all of the fixed interest rate loans into variable interest rate loans. See **Figure 4d** for the interest rate structure of IBRD's loan portfolio.

IBRD's fair value model is based on a discounted cash flow method. This model incorporates **CDS** spreads as an indicator of the credit risk for each borrower. Recovery levels are modified to incorporate IBRD's recovery levels.

On a fair value basis, the loan portfolio increased by $11,511 million compared with June 30, 2010, primarily reflecting the increase in demand for IBRD's loan products. This increase comprises **net loan disbursements** of $7,994 million consistent with the higher loan demand, and currency translation gains of $4,256 million, as shown in **Table 15**, primarily due to the appreciation of the euro against the U.S. dollar in FY 2011.

Investment Portfolio

As part of IBRD's financial risk management, IBRD primarily holds short-term U.S. dollar fixed-income securities, as well as other securities swapped into U.S. dollars. The portfolio has an average **duration** of less than three months.

At June 30, 2011, on a fair value basis, the net asset value of the investment portfolio decreased by $5,790 million as compared to June 30, 2010 (See Notes to Financial Statements-Note C-Investments). IBRD is gradually returning to lower levels of liquidity in the post-crisis period. In line with this, a significant portion of IBRD's $7,994 million of **net loan disbursements** for FY 2011 was funded by available liquidity.

Table 13: Condensed Statements of Income for the years ended June 30, 2011 and 2010
In millions of U.S. dollars

	June 30, 2011			June 30, 2010		
	Reported Basis	Adjustments	Fair Value Comprehensive Basis[a]	Reported Basis	Adjustments	Fair Value Comprehensive Basis[a]
Income from loans	$2,472		$2,472	$ 2,493		$ 2,493
Income from investments, net[b]	367		367	367		367
Equity duration extension swaps, net	1,139		1,139	994		994
Other income	292		292	254		254
Total income	4,270		4,270	4,108		4,108
Borrowing expenses	1,687		1,687	1,750		1,750
Administrative expenses including contributions to special programs	1,604		1,604	1,589		1,589
Release of provision for losses on loans and other exposures	(45)	$ 45	-	(32)	$ 32	-
Other Expenses	1		1	1		1
Total expenses	3,247	45	3,292	3,308	32	3,340
Operating income	1,023	(45)	978	800	(32)	768
Board of Governors-Approved Transfers	(513)		(513)	(839)		(839)
Fair value adjustment on non-trading portfolios, net[c]	420		420	(1,038)		(1,038)
Fair value adjustment on loans[d]		(762)	(762)		1,594	1,594
Changes to accumulated other comprehensive income		1,581	1,581		(1,355)	(1,355)
Net (Loss) Income	$ 930	$ 774	$1,704	$(1,077)	$ 207	$ (870)

a. *Fair value comprehensive basis comprises net income on a reported basis, the components of other comprehensive income as reported in the financial statements and the fair value adjustments.*
b. *Unrealized gains (losses) on derivatives in the investments trading portfolio are included in income from investments, net.*
c. *Excludes the fair value adjustment on loans which are not carried at fair value for reporting purposes.*
d. *Excludes the reversal of the provision for losses on loans and other exposures.*

Borrowing Portfolio

As of June 30, 2011, after the effects of derivatives, virtually all of IBRD's borrowing portfolio (excluding discount notes) carried variable interest rates (See **Figure 7**). As mentioned previously, derivatives are used to manage the re-pricing risk between IBRD's loan and borrowing portfolios.

The borrowing portfolio, net of derivatives, increased by $2,726 million, as compared to June 30, 2010 (See Notes to Financial Statements-Note E-Borrowings). This was primarily due to currency translation losses of $3,497 million, as shown in **Table 15**, consistent with the appreciation of the euro against the U.S. dollar in FY 2011. This was partially offset by unrealized gains of $663 million primarily resulting from the steepening of the major yield curves, including the U.S. dollar yield curve as illustrated by **Figure 11**.

Fair Value Net Income

The net income on a fair value basis was $1,704 million, compared to a net loss of $870 million in FY 2010. This was primarily due to the following factors:

Board of Governors Approved Transfers

Board of Governors-Approved Transfers were lower by $326 million over the same period last year primarily due to lower transfers to IDA. During FY 2011, IBRD made the third and final transfer to IDA of $383 million in accordance with its commitment under the Fifteenth Replenishment of IDA's resources totaling $1,750 million.

Fair Value Adjustment on Non-Trading Portfolios, net

The fair value adjustment on non-trading portfolios, net, consists of the fair value adjustments on the borrowing portfolio (including derivatives), all other derivatives other than those in the investment portfolio, and the fair value adjustment on loans with embedded derivatives.

During FY 2011, there were net unrealized gains of $420 million, compared with net unrealized losses of $1,038 million in FY 2010. See **Table 14** for details.

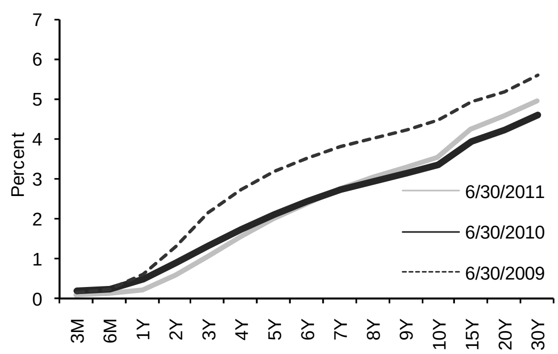
Table 14: Summary of Fair Value Adjustment on Non-Trading Portfolios, net
In millions of U.S. dollars

Unrealized gains/(losses)	*June 30, 2011*	*June 30, 2010*
Borrowing Portfolio	$663	$(2,156)
Derivatives held in the asset/liability management portfolio	(248)	1,097
Derivatives held in the client operations portfolio	1	6
A loan with an embedded derivative	4	15
	$420	$(1,038)

During FY 2011, consistent with the steepening of major yield curves, IBRD experienced net unrealized gains on the borrowing portfolio, partially offset by net unrealized losses on the derivatives held in the asset/liability management portfolio[4], where IBRD is a fixed interest rate receiver.

During FY 2010, there were net unrealized losses in the borrowing portfolio and net unrealized gains in the asset/liability management portfolio primarily due to the decline in the interest rate as shown in **Figure 11.** Of the $2,156 million of unrealized losses in the borrowing portfolio in FY 2010, the estimated unrealized losses due to improvements in IBRD's credit spreads were $994 million.

Figure 11: IBRD's U.S. Dollar Funding Curve



Fair Value Adjustment on Loans

The fair value adjustment on loans for FY 2011 was a negative $807 million (including the reversal of the release of provision for losses on loans and other exposures of $45 million), compared to positive $1,562 million (including the reversal of the release of provision for losses on loans and other exposures of $32 million) during FY 2010. This adjustment reflects changes in both interest rates and credit risk. The negative fair value adjustment for FY 2011 was primarily driven by the steepening of the yield curves of all major currencies. In addition, loan disbursements also resulted in unrealized credit losses, as determined by **CDS** spread levels, due to IBRD's policy of not differentiating between the credit quality of member countries.

In contrast, the fair value adjustment on loans for FY 2010 was primarily driven by the downward shift in the yield curves of all major currencies.

Changes to Accumulated Other Comprehensive Income (AOCI)

During FY 2011, IBRD experienced a gain of $1,581 million primarily due to the following factors:

Unrecognized net actuarial gains on benefits plans: $834 million of unrecognized net actuarial gains, primarily due to higher actual returns on plan assets compared to expected returns.

Currency translation adjustments: $757 million net positive currency translation adjustments, primarily due to the 18% appreciation of the euro against the U.S. dollar in FY 2011. **Table 15** provides a summary of currency translation adjustments by portfolio. The loan portfolio contributed positive $4,256 million. The total percentage of loans denominated in currencies other than the U.S. dollar at June 30, 2011 was 23%, of which the euro and the Japanese yen accounted for approximately 87% and 4%, respectively, as illustrated by **Figure 4c**. The borrowing portfolio accounted for a negative adjustment of $3,497 million. The total percentage of the borrowing portfolio denominated in currencies other than the U.S. dollar at June 30, 2011 was 19%, of which the euro and the Japanese yen accounted for approximately 89% and 11%, respectively, as illustrated by **Figure 8.**

Table 15: Summary of Changes to AOCI (Fair Value Basis)
In millions of U.S. dollars

	FY 2011	*FY 2010*	*Variance*
Unrecognized net actuarial gains (losses) on benefit plans	$834	$ (724)	$1,558
Unrecognized prior Service credit on benefit plans, net	8	6	2
Derivatives and hedging transition adjustment [a]	(18)	(1)	(17)
Currency translation adjustments	757	(636)	1,393
Of which:			
Loans	*4,256*	*(2,807)*	
Borrowings	*(3,497)*	*2,114*	
Net other assets and liabilities	*(2)*	*57*	
Total	$1,581	$(1,355)	$2,936

a. Transition adjustment on adoption of a new U.S. GAAP guidance on derivatives and hedging on July 1, 2000.

[4] *The derivatives held in the asset/liability management portfolio are presented in IBRD's balance sheet under* Derivative Assets –Other assets/liabilities *and* Derivative Liabilities–Other assets/liabilities.

During FY 2010, IBRD experienced a loss of $1,355 million primarily due to the following factors:

Unrecognized net actuarial losses on benefits plans: $724 million unrecognized net actuarial losses, primarily due to the decrease in the discount rates used to determine the projected benefit obligation, partially offset by higher actual returns on plan assets compared to expected returns.

Currency translation adjustments: $636 million negative currency translation adjustments, primarily due to the 13% depreciation of the euro against the U.S. dollar in FY 2010.

SECTION 7. REPORTED BASIS ANALYSIS

Basis of Reporting

In IBRD's balance sheet on a reported basis, the borrowing and investment portfolios are carried at fair value, while the loan portfolio is carried at amortized cost (except for loans with an embedded derivative which are reported at fair value). See **Table 12** for IBRD's condensed reported basis balance sheet with a reconciliation to fair value basis.

IBRD's operating income on a reported basis is broadly comprised of income from interest-earning assets (net of funding cost) and the equity duration extension swap portfolio, less the provision for losses on loans and other exposures, and administrative expenses. **Table 16** shows a breakdown of operating income, net of funding costs, on a reported basis.

Reported Basis Balance Sheet

Net loans outstanding on a reported basis increased by $12,366 million in FY 2011. This was primarily due to net disbursements of $7,994 million which were driven by the increase in demand for IBRD's loans, as well as currency translation gains of $4,347 million.

Table 16: Reported Basis Operating Income
In millions of U.S. dollars

	FY 2011	*FY 2010*	*FY 2009*	*FY 2011 vs. FY 2010*	*FY 2010 vs. FY 2009*
Interest income, net of funding costs					
Interest margin on debt-funded loans	$ 556	$ 433	$ 501	$ 123	$ (68)
Equity-funded loans	196	324	1,066	(128)	(742)
Equity extension duration strategy	1,139	994	283	145	711
Investments	112	95	(14)	17	109
Net interest income	2,003	1,846	1,836	157	10
Provision for losses on loans and other exposures–decrease (increase)	45	32	(284)	13	316
LTIP Income	169	118	61	51	57
Other net income	35	52	45	(17)	7
Net non-interest expense	(1,229)	(1,248)	(1,086)	19	(162)
Reported Basis Operating Income	$ 1,023	$ 800	$ 572	$ 223	$ 228

Table 17: Net Noninterest Expense
In millions of U.S. dollars

	FY 2011	*FY 2010*	*FY 2009*	*FY 2011 vs FY 2010*	*FY 2010 vs FY 2009*
Administrative expenses					
Staff costs	$ 664	$ 647	$ 589	$ 17	$ 58
Operational travel	97	116	108	(19)	8
Consultant fees	131	143	131	(12)	12
Pension and other postretirement benefits	220	158	65	62	93
Communications and IT	87	84	82	3	2
Contractual services	90	94	94	(4)	-
Equipment and buildings	163	161	149	2	12
Other Expenses	5	18	26	(13)	(8)
Total administrative expenses	1,457	1,421	1,244	36	177
Contribution to special programs	147	168	197	(21)	(29)
Service fee revenues	(331)	(311)	(295)	(20)	(16)
Externally funded outputs income	(36)	(24)	(28)	(12)	4
Net other income	(8)	(6)	(32)	(2)	26
Total Net Noninterest Expense	$1,229	$1,248	$1,086	$(19)	$162

The accumulated provision for loan losses improved during the year. As of June 30, 2011, only 0.4% of IBRD's loans were in nonaccrual status and were all related to one country. IBRD's total provision for losses on accrual and nonaccrual loans accounted for 1.2% of the total loan portfolio.

Reported Basis Operating Income

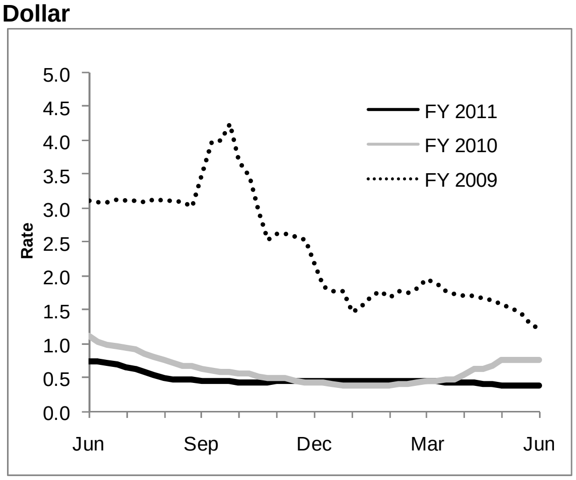
In FY 2011, IBRD's operating income was higher primarily due to the $157 million increase in net interest income, as shown on **Table 16**. The major variances from year-to-year are explained below.

FY 2011 versus FY 2010

The increase of $223 million in operating income is explained by the following factors:

Net Interest income: The $157 million increase in net interest income was primarily due to an increase of $123 million in **interest margin on debt funded loans** due to an increase in the loan balance. In addition, the lower short-term interest rate environment, in particular U.S. dollar six month **LIBOR**, (**Figure 12),** resulted in higher interest income from the equity duration extension swaps (where IBRD is a variable interest rate payer and a fixed interest rate receiver) of $145 million. This was offset by the $128 million decline in interest income from **equity-funded loans** (where IBRD is primarily a variable interest rate receiver).

Figure 12: Six-Month LIBOR Interest Rates U.S. Dollar



LTIP income: The $51 million increase in income from LTIP was due primarily to unrealized mark-to-market gains from the equity portfolio.

Net noninterest expense: There was a $19 million decrease in net noninterest expense primarily due to higher administrative expenses of $36 million. This increase in FY 2011 was primarily due to an increase in pension and other post retirement benefit costs, resulting from the increase in service cost and actuarial losses from the decline in interest rates. This was partially offset by lower contributions to special programs of $21 million, as shown on **Table 17.**

FY 2010 versus FY 2009

The increase of $228 million, as shown on **Table 16,** in operating income is explained by the following factors.

Provision for losses on loans and other exposures on loans: The $316 million decrease in the provision for losses on loans and other exposures on loans, was as a result of the improvements in the credit quality of the loan portfolio over the prior year.

LTIP income: There was a $57 million increase in income from LTIP. IBRD implemented LTIP during the second quarter of FY 2009.

These were partially offset by:

Net noninterest expense: The $162 million increase in net noninterest expense was primarily due higher administrative expenses of $177 million. This increase in FY 2010 was primarily due to a $93 million increase in pension and other post retirement benefits resulting from lower gains from pension assets and a $58 million increase in staff costs, consistent with inflation, as shown on **Table 17**.

Net Interest income: The $10 million reduction in net interest income, was consistent with the lower short-term interest rates, in particular U.S. dollar six month **LIBOR** (**Figure 12),** which resulted in higher interest income from the equity duration extension swaps of $711 million, which partially offset the $742 million decline in interest income from **equity-funded loans**. In addition, investment income decreased by $109 million primarily due to mark-to-market gains from the tightening of credit spreads.

Table 18: Contractual Obligations
In millions of U.S. dollars

	As of June 30, 2011				
	Due in 1 year or Less	*Due after 1 Year through 3 Years*	*Due after 3 Year through 5 Years*	*Due After 5 years*	*Total*
Borrowings (at fair value)	$26,552	$33,628	$35,700	$39,362	$135,242
Operating leases	64	107	78	258	507
Contractual purchases and capital expenditures	44	24	-	-	68
Other long-term liabilities	84	120	98	215	517
Total	$26,744	$33,879	$35,876	$39,835	$136,334

SECTION 8. CONTRACTUAL OBLIGATIONS

In the normal course of business, IBRD enters into various contractual obligations that may require future payments. **Table 18** summarizes IBRD's significant contractual obligations, by remaining maturity, at June 30, 2011.

Debt includes all borrowings (excluding derivatives) at fair value. See Notes to Financial Statements-Note E- Borrowings for additional information on the borrowing portfolio.

Operating lease expenditures primarily represent future cash payments for real estate-related obligations and equipment. Other long-term liabilities include accrued liabilities for staff compensation and benefits. Operating leases, contractual purchases and capital expenditures, and other long term obligations include amounts which will be shared with IDA, IFC and The Multilateral Investment Guarantee Agency (MIGA) in accordance with cost sharing and service arrangements (additional information can be found in the Notes to Financial Statements-Note H – Transactions with Affiliated Organizations).

Table 18 excludes the following obligations presented in IBRD's balance sheet: undisbursed loans; payable for **currency** and **interest rate swaps**; payable for investment securities purchased, cash received under agency arrangements, and payable for transfers approved by the Board of Governors.

SECTION 9. CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

Note A of IBRD’s financial statements contains a summary of IBRD’s significant accounting policies. These policies, as well as estimates made by management, are integral to the presentation of IBRD’s financial condition. 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.

Provision for Losses on Loans and Other Exposures

IBRD's accumulated provision for losses on loans and other exposures reflects the probable losses inherent in its accrual and nonaccrual portfolios. There are several steps required to determine the appropriate level of provisions for each portfolio. First, the total loan portfolio is segregated into the accrual and nonaccrual portfolios. In both portfolios, the loans and other exposures for each country is then assigned a credit risk rating. With respect to loans in the accrual portfolio, these loans are grouped according to the assigned risk rating. Loans in the non-accrual portfolio are individually assigned the highest risk rating. Each risk rating is mapped to an expected default frequency using IBRD's credit migration matrix. The provision required is calculated by multiplying the outstanding exposure by the expected default frequency (probability of default to IBRD) and by the assumed severity of the loss given default. For loans that are carried at fair value, the credit risk assessment is incorporated in the determination of fair value.

The determination of a borrower's risk rating is based on both quantitative and qualitative analyses of various factors, which include 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. IBRD periodically reviews such factors and reassesses the adequacy of the accumulated provision, accordingly. Actual losses may differ from expected losses due to unforeseen changes in any of the factors that affect borrowers' creditworthiness.

The accumulated provision for loan losses is separately reported in the balance sheet as a deduction from IBRD's total loans. The accumulated provision for losses on guarantees and DDOs is included in other liabilities. Increases or decreases in the accumulated provision for losses on loans and other exposures is reported in the Statement of Income as provision for losses on loans and other exposures.

Additional information on IBRD'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 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 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.

The majority of IBRD’s financial instruments are classified as level 1 and level 2. As of June 30, 2011, the fair value instruments classified as level 3 represented approximately 9% and 10% of financial assets and liabilities, respectively.

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 IBRD's financial statements are subject to both internal and periodic external verification and review by qualified personnel.

Pension and Other Postretirement Benefits

IBRD participates, along with IFC and MIGA, in pension and postretirement benefit plans that cover substantially all of their staff members. All costs, assets and liabilities associated with the plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the plans. Costs allocated to IBRD are subsequently shared between IBRD and IDA based on an agreed cost sharing ratio. The underlying actuarial assumptions used to determine the projected benefit obligations, accumulated benefit obligations and funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. For further details, refer to Notes to Financial Statements-Note J -Pension and Other Postretirement Benefits.

SECTION 10. GOVERNANCE AND CONTROL

General Governance

IBRD's decision-making structure consists of the Board of Governors, the Executive Directors (the Board) and the President 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, with the exception of certain powers enumerated in IBRD's Articles.

Board Membership

In accordance with its Articles, members of the Board are appointed or elected every two years by their member governments. Currently the Board is composed of 25 Executive Directors. These Executive Directors are neither officers nor staff of IBRD. The President is the only management member of the Board, serving as a non-voting member and as Chairman of the Board.

The Executive Directors have established several Committees including:

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

The Executive Directors and their Committees function in continuous session at the principal offices of IBRD, 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 Executive Directors are required to consider proposals made by the President on IBRD’s loans and guarantees, and other policies that impact IBRD's general operations. The Executive Directors are 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 as well as other matters.

Senior Management Changes

Effective October 4, 2010, Mahmoud Mohieldin joined IBRD as a Managing Director.

Effective August 15, 2011, Ngozi Okonjo-Iweala will retire as Managing Director of IBRD.

Audit Committee

Membership

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

Key Responsibilities

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

Executive Sessions

Under the Committee's terms of reference, members of the Committee may convene in executive session at any time, without management present. It meets separately in executive session with the external and internal auditors.

Access to Resources and to Management

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

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

Business Conduct

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

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

The **World Bank** has both an Ethics HelpLine and a Fraud and Corruption hotline. A third-party service offers numerous methods of worldwide communication. Reporting channels include: phone, mail, email, or through confidential submission through a website.

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

The **World Bank’s** Staff Rules clarify and codify the obligations of staff in reporting suspected fraud, corruption or other misconduct that may threaten the operations or governance of the **World Bank**. Additionally, these rules offer protection from retaliation. Strengthened whistleblower protections have also been implemented recently.

Auditor Independence

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

- Prohibition of the external auditor from the provision of all non audit-related services.
- All audit-related services must be pre-approved on a case-by-case basis by the Executive Directors, upon recommendation of the Audit Committee.
- Mandatory rebidding of the external audit contract every five years, with a limitation of two consecutive terms and mandatory rotation thereafter.

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

Communication between the external auditor and the Audit Committee is ongoing, as frequently as is 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. IBRD's auditors also follow the communication requirements with audit committees set out under generally accepted auditing standards accepted in the United States of America and International Standards of Auditing.

Internal Control

Internal Control Over Financial Reporting

Management makes an annual assertion whether, as of June 30 of each fiscal year, its system of internal control over its external financial reporting has met the criteria for effective internal control over external financial reporting as described in **Committee of Sponsoring Organizations of the Treadway Commission (COSO)**. Concurrently, IBRD's external auditor provides an attestation report on whether management's assertion regarding the effectiveness of internal control over external financial reporting is fairly stated in all material respects.

For each fiscal year, management performs an evaluation of internal control over external financial reporting for the purpose of determining if there are any changes made in internal control during the fiscal year covered by the report that materially affect, or would be reasonably likely to materially affect IBRD's internal control over external financial reporting. As of June 30, 2011 no such changes had occurred.

Disclosure Control and Procedures

Disclosure control and procedures are those processes which are designed to ensure that information required to be disclosed is accumulated and communicated to management as appropriate, to allow timely decisions regarding required disclosure by IBRD. Management has undertaken an evaluation of the effectiveness of such controls and procedures. Based on that evaluation, the President and the CFO have concluded that these controls and procedures were effective as of June 30, 2011.

GLOSSARY OF TERMS

Asset-backed Securities: Asset-backed securities are instruments whose cash flow is based on the cash flows of a pool of underlying assets managed by a trust.

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.

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

Currency Swaps (including Currency Forward Contracts): Currency swaps are agreements between two parties to exchange cash flows denominated in different currencies at one or more certain times in the future. The cash flows are based on a predetermined formula reflecting rates of interest and an exchange of principal.

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

Equity-to-Loans Ratio: This ratio is the sum of usable capital plus the special and general reserves, cumulative translation adjustment (excluding amounts associated with fair value adjustment on non-trading portfolios, net), the proposed transfer from unallocated net income to general reserves (where there are firm estimates available), net underfunded status of IBRD's pension plans and the cumulative income earned on LTIP assets adjusted by the fixed draw down amount divided by the sum of loans outstanding, the present value of guarantees, effective but undisbursed DDOs, net of the accumulated provision for losses on loans and other exposures, deferred loan income and LTIP assets.

Equity-funded loans: Interest cost saved by deploying equity instead of debt to fund loans.

Forward Starting Swaps: A forward starting swap is an agreement under which the cash flow exchanges of the underlying interest rate swaps would begin to take effect from a specified future date.

Futures: Futures are contracts for delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Futures contracts are traded on U.S. and international regulated exchanges.

Government and Agency Obligations: These obligations include marketable bonds, notes and other obligations issued by governments.

Interest Margin on debt-funded loans: The spread between loan returns and debt cost.

Interest Rate Swaps: Interest rate swaps are agreements involving the exchange of periodic interest payments of differing character, based on an underlying notional principal amount for a specified time.

LIBOR: London interbank offered rate.

Maintenance of Value: Agreements with members provide for the maintenance of the value, from the time of subscription, of certain restricted currencies. Additional payments to (or from) IBRD are required in the event the par value of the currency is reduced (or increased) to a significant extent.

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

Options: Options are contracts that allow the holder of the option the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified period of time from or to the seller of the option. The purchaser of an option pays a premium at the outset to the seller of the option, who then bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Return on Equity: This return is computed as net income divided by the average equity balance during the year.

Risk-bearing Capacity: The ability to absorb risks in the balance sheet while continuing normal operations without having to call on callable capital.

Strategic Capital Adequacy Framework: Evaluates IBRD's capital adequacy as measured by stress test and appropriate long term equity-to-loan target range. This target equity-to-loans range 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 capital adequacy framework has been approved by the Executive Directors.

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

Swaptions: A swaption is an option which gives the holder the right to enter into an Interest Rate Swap or Currency Swap at a future date.

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

World Bank: Refers collectively to IBRD and IDA in this document.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS
JUNE 30, 2011

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, 2011

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 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, 2011. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that 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, 2011. 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.

Robert B. Zoellick
President

Vincenzo La Via
Chief Financial Officer

Charles A. McDonough
Vice President and Controller

Independent Auditors' Report on Management's Assertion Regarding Effectiveness of Internal Control Over Financial Reporting

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

President and Board of 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, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Commission 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 external 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 U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection 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 its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that IBRD maintained effective internal control over external financial reporting as of June 30, 2011 is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Commission of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the accompanying balance sheet of IBRD as of June 30, 2011 and 2010, including the summary statement of loans and the statement of subscriptions to capital stock and voting power as of June 30, 2011, and the related statements of income, comprehensive income, changes in retained earnings and cash flows for each of the fiscal years in the three-year period ended June 30, 2011, and our report dated August 4, 2011 expressed an unqualified opinion on those financial statements.

KPMG LLP

August 4, 2011

KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

President and Board of Executive Directors
International Bank for Reconstruction and Development:

We have audited the accompanying balance sheet of the International Bank for Reconstruction and Development (IBRD) as of June 30, 2011 and 2010, including the summary statement of loans and the statement of subscriptions to capital stock and voting power as of June 30, 2011, and the related statements of income, comprehensive income, changes in retained earnings and cash flows for each of the fiscal years in the three-year period ended June 30, 2011. These financial statements are the responsibility of IBRD's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IBRD as of June 30, 2011 and 2010, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended June 30, 2011 in conformity with U.S. generally accepted accounting principles.

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 external financial reporting as of June 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 4, 2011 expressed an unqualified opinion on management's assertion.

KPMG LLP

August 4, 2011

BALANCE SHEET
June 30, 2011 and June 30, 2010

Expressed in millions of U.S. dollars

	2011	*2010*
Assets		
Due from Banks		
Unrestricted currencies	$ 2,312	$ 1,581
Currencies subject to restrictions	150	222
	2,462	1,803
Investments-Trading (including securities transferred under repurchase or securities lending agreements of $151 million—June 30, 2011; $204 million—June 30, 2010)—Note C	32,598	35,960
Securities Purchased Under Resale Agreements—Note C	47	289
Derivative Assets		
Investments—Notes C and F	12,423	13,446
Client operations—Notes F and H	31,978	17,633
Borrowings—Notes E and F	97,199	87,457
Others—Note F	3,111	3,287
	144,711	121,823
Other Receivables		
Receivable from investment securities traded—Note C	83	21
Accrued income on loans	827	764
	910	785
Loans Outstanding (Summary Statement of Loans, Notes D and H)		
Total loans	196,894	183,677
Less undisbursed balance	64,435	63,574
Loans outstanding (including loans at fair value of $139 million—June 30, 2011; $109 million—June 30, 2010)	132,459	120,103
Less:		
Accumulated provision for loan losses	1,549	1,553
Deferred loan income	440	446
Net loans outstanding	130,470	118,104
Other Assets		
Assets under retirement benefits plans—Note J	328	—
Premises and equipment (net)	885	635
Miscellaneous—Note H	1,460	2,436
	2,673	3,071
Total assets	$313,871	$281,835

	2011	2010
Liabilities		
Borrowings—Note E	$135,242	$128,577
Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received—Note C	2,184	998
Derivative Liabilities		
Investments—Notes C and F	13,275	13,557
Client operations—Notes F and H	31,964	17,623
Borrowings—Notes E and F	84,458	78,655
Others—Note F	732	780
	130,429	110,615
Payable to Maintain Value of Currency Holdings on Account of Subscribed Capital	66	8
Other Liabilities		
Payable for investment securities purchased—Note C	1,320	229
Accrued charges on borrowings	1,227	1,190
Liabilities under retirement benefits plans—Note J	866	1,164
Accounts payable and miscellaneous liabilities—Notes D and H	2,854	2,793
	6,267	5,376
Total liabilities	274,188	245,574
Equity		
Capital Stock (Statement of Subscriptions to Capital Stock and Voting Power, Note B)		
Authorized capital (2,307,600 shares—June 30, 2011, and 1,581,724 shares— June 30, 2010)		
Subscribed capital (1,605,930 shares—June 30, 2011, and 1,574,526 shares— June 30, 2010)	193,732	189,943
Less uncalled portion of subscriptions	182,012	178,451
Paid-in capital	11,720	11,492
Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital	(1,137)	(1,123)
Receivable Amounts to Maintain Value of Currency Holdings—Note B	(52)	(171)
Deferred Amounts to Maintain Value of Currency Holdings—Note B	848	313
Retained Earnings (Statement of Changes in Retained Earnings, Note G)	29,723	28,793
Accumulated Other Comprehensive Loss—Note K	(1,419)	(3,043)
Total equity	39,683	36,261
Total liabilities and equity	$313,871	$281,835

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

STATEMENT OF INCOME

For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Income			
Loans—Note D			
Interest	$2,451	$ 2,460	$3,789
Commitment charges	21	33	46
Investments, net—Trading—Notes C and F	367	367	603
Interest on equity duration extension swaps, net—Note F	1,139	994	283
Other—Notes H and I	292	254	316
Total income	4,270	4,108	5,037
Expenses			
Borrowings—Note E			
Interest	1,687	1,750	2,739
Administrative—Notes H, I, and J	1,457	1,421	1,244
Contributions to special programs	147	168	197
Provision for losses on loans and other exposures (decrease) increase—Note D	(45)	(32)	284
Other	1	1	1
Total expenses	3,247	3,308	4,465
Income before fair value adjustment on non-trading portfolios, net and Board of Governors-approved transfers	1,023	800	572
Fair value adjustment on non-trading portfolios, net—Notes D, E, F and L	420	(1,038)	3,280
Board of Governors-approved transfers—Note G	(513)	(839)	(738)
Net income (loss)	$ 930	$(1,077)	$3,114

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

STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Net income (loss)	$ 930	$(1,077)	$3,114
Other comprehensive income (loss)—Note K			
Reclassification to net income:			
Derivatives and hedging transition adjustment	(11)	(5)	11
Net actuarial gains (losses) on benefit plans	834	(724)	(1,581)
Prior service credit on benefit plans, net	8	6	—
Currency translation adjustments	793	(637)	(366)
Total other comprehensive income (loss)	1,624	(1,360)	(1,936)
Comprehensive income (loss)	$2,554	$(2,437)	$1,178

STATEMENT OF CHANGES IN RETAINED EARNINGS

For the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Retained earnings at beginning of the fiscal year	$28,793	$29,870	$29,322
Adjustments to beginning balance: Cumulative effect of adoption of Fair Value Option—Note E	—	—	(2,566)
Net income (loss) for the fiscal year	930	(1,077)	3,114
Retained earnings at end of the fiscal year	$29,723	$28,793	$29,870

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

STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Cash flows from investing activities			
Loans			
Disbursements	$(21,839)	$(28,775)	$(18,529)
Principal repayments	10,769	10,488	9,988
Principal prepayments	3,116	1,137	232
Loan origination fees received	26	32	24
Other investing activities, net	(312)	(73)	(74)
Net cash used in investing activities	(8,240)	(17,191)	(8,359)
Cash flows from financing activities			
Medium and long-term borrowings			
New issues	29,722	31,696	39,092
Retirements	(21,047)	(26,703)	(18,653)
Net short-term borrowings	(8,841)	8,880	1,543
Net derivatives-Borrowings	301	102	133
Net derivatives-Other assets/liabilities	—	17	(1)
Capital subscriptions	228	1	5
Net capital transactions	235	554	77
Net cash provided by financing activities	598	14,547	22,196
Cash flows from operating activities			
Net income (loss)	930	(1,077)	3,114
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities			
Fair value adjustment on non-trading portfolios, net	(420)	1,038	(3,280)
Depreciation, amortization and other non-cash items	815	879	920
Provision for losses on loans and other exposures, (decrease) increase	(45)	(32)	284
Changes in:			
Investments-Trading	5,709	4,431	(16,358)
Net investment securities traded/purchased-Trading	1,028	(2,193)	2,283
Net derivatives-Investments	(1,274)	283	826
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	1,420	(1,580)	561
Accrued income on loans	(48)	101	143
Miscellaneous assets	(401)	426	837
Accrued charges on borrowings	27	(285)	(227)
Accounts payable and miscellaneous liabilities	608	(152)	(675)
Net cash provided by (used in) operating activities	8,349	1,839	(11,572)
Effect of exchange rate changes on unrestricted cash	24	6	(7)
Net increase (decrease) in unrestricted cash	731	(799)	2,258
Unrestricted cash at beginning of the fiscal year	1,581	2,380	122
Unrestricted cash at end of the fiscal year	$ 2,312	$ 1,581	$ 2,380

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Supplemental disclosure			
Increase (decrease) in ending balances resulting from exchange rate fluctuations			
Loans outstanding	$4,347	$(2,846)	$(1,689)
Investment portfolio	323	(29)	198
Borrowing portfolio	3,430	(2,072)	(711)
Capitalized loan origination fees included in total loans	40	80	36
Interest paid on borrowings	499	1,148	2,493

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

SUMMARY STATEMENT OF LOANS

June 30, 2011

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total loans*	*Loans approved but not yet effective* [a]	*Undisbursed balance of effective loans* [b]	*Loans outstanding*	*Percentage of total loans outstanding*
Albania	$ 84	$ 26	$ 28	$ 30	0.02 %
Algeria	9	-	-	9	0.01
Argentina	10,227	2,446	2,403	5,378	4.06
Armenia	266	58	92	116	0.09
Azerbaijan	1,841	39	1,428	374	0.28
Barbados	45	-	27	18	0.01
Belarus	693	150	240	303	0.23
Belize	25	-	14	11	0.01
Bolivia	*	-	-	*	*
Bosnia & Herzegovina	564	-	109	455	0.34
Botswana	372	-	316	56	0.04
Brazil	15,632	945	4,285	10,402	7.85
Bulgaria	1,711	-	307	1,404	1.06
Cameroon	21	-	-	21	0.02
Chile	182	-	25	157	0.12
China	19,802	1,280	5,530	12,992	9.81
Colombia	8,171	250	463	7,458	5.63
Costa Rica	723	-	150	573	0.43
Cote d'Ivoire	7	-	-	7	0.01
Croatia	2,379	-	559	1,820	1.37
Dominica	1	-	-	1	*
Dominican Republic	1,050	-	200	850	0.64
Ecuador	415	-	10	405	0.31
Egypt, Arab Republic of	5,944	1,330	1,993	2,621	1.98
El Salvador	1,142	100	154	888	0.67
Estonia	11	-	-	11	0.01
Gabon	44	-	18	26	0.02
Georgia	319	-	111	208	0.16
Grenada	13	-	*	13	0.01
Guatemala	1,647	132	153	1,362	1.03
Hungary	20	-	-	20	0.02
India	21,688	3,099	7,217	11,372	8.59
Indonesia	11,871	1,317	1,607	8,947	6.75
Iran, Islamic Republic of	927	-	131	796	0.60
Iraq	250	-	-	250	0.19
Jamaica	663	15	73	575	0.43
Jordan	1,109	-	136	973	0.73
Kazakhstan	3,997	49	2,071	1,877	1.42
Korea, Republic of	675	-	-	675	0.51
Kosovo	337	-	-	337	0.25
Latvia	595	145	-	450	0.34
Lebanon	616	240	54	322	0.24
Lesotho	1	-	-	1	*
Lithuania	19	-	-	19	0.01
Macedonia, Former Yugoslav Republic	527	25	142	360	0.27
Malaysia	*	-	-	*	*
Mauritius	332	-	81	251	0.19
Mexico	15,776	1,603	1,941	12,232	9.23
Moldova	86	-	-	86	0.06
Montenegro	297	-	46	251	0.19
Morocco	3,765	362	740	2,663	2.01
Nigeria	16	-	-	16	0.01
Pakistan	2,083	116	326	1,641	1.24
Panama	686	195	85	406	0.31
Papua New Guinea	133	-	-	133	0.10
Paraguay	505	100	158	247	0.19
Peru	4,347	130	1,372	2,845	2.15
Philippines	3,820	260	961	2,599	1.96
Poland	6,837	1,086	196	5,555	4.19
Romania	4,556	724	533	3,299	2.49
Russian Federation	2,861	25	523	2,313	1.75
Serbia	2,614	105	565	1,944	1.47
Seychelles	19	-	-	19	0.01
Slovak Republic	171	-	-	171	0.13
Slovenia	5	-	-	5	*
South Africa	3,757	-	3,209	548	0.41

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total loans*	*Loans approved but not yet effective* [a]	*Undisbursed balance of effective loans* [b]	*Loans outstanding*	*Percentage of total loans outstanding*
St. Kitts and Nevis	$ 9	$ -	$ *	$ 9	0.01%
St. Lucia	19	-	*	19	0.01
St. Vincent and the Grenadines	9	-	2	7	0.01
Swaziland	49	47	-	2	*
Thailand	1,149	1,000	80	69	0.05
Trinidad and Tobago	18	-	-	18	0.01
Tunisia	2,309	494	348	1,467	1.11
Turkey	15,837	159	2,766	12,912	9.75
Turkmenistan	11	-	-	11	0.01
Ukraine	4,302	200	939	3,163	2.39
Uruguay	1,230	-	77	1,153	0.87
Uzbekistan	367	110	11	246	0.19
Vietnam	1,768	1,068	-	700	0.53
Zimbabwe	466	-	-	466	0.35
Subtotal [c]	$196,844	$19,430	$45,005	$132,409	99.96 %
International Finance Corporation	50	-	-	50	0.04 %
Total-June 30, 2011	$196,894	$19,430	$45,005	$132,459	100.00 %
Total-June 30, 2010	$183,677	$20,796	$42,778	$120,103	

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

NOTES

a. Loans totaling $12,614 million ($11,235 million - June 30, 2010) have been approved by IBRD, but the related agreements have not been signed. Loan agreements totaling $6,816 million ($9,561 million - June 30, 2010) have been signed, but the loans are not effective and disbursements do not start until the borrowers and guarantors, if any, take certain actions and furnish certain documents to IBRD.

b. Of the undisbursed balance, IBRD has entered into irrevocable commitments to disburse $121 million ($189 million - June 30, 2010).

c. May differ from the sum of individual figures shown due to rounding.

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

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STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

June 30, 2011

Expressed in millions of U.S. dollars

	Subscriptions					*Voting Power*	
Member	*Shares*	*Percentage of total*	*Total amounts*	*Amounts paid in* [a]	*Amounts subject to call* [a, b]	*Number of votes*	*Percentage of total*
Afghanistan	300	0.02%	$ 36.2	$ 3.6	$ 32.6	550	0.03 %
Albania	830	0.05	100.1	3.6	96.5	1,080	0.07
Algeria	9,252	0.58	1,116.1	67.1	1,049.0	9,502	0.57
Angola	2,676	0.17	322.8	17.5	305.4	2,926	0.18
Antigua and Barbuda	520	0.03	62.7	1.3	61.5	770	0.05
Argentina	17,911	1.12	2,160.7	132.2	2,028.4	18,161	1.10
Armenia	1,139	0.07	137.4	5.9	131.5	1,389	0.08
Australia	24,464	1.52	2,951.2	181.8	2,769.5	24,714	1.50
Austria	11,063	0.69	1,334.6	80.7	1,253.9	11,313	0.68
Azerbaijan	1,646	0.10	198.6	9.7	188.8	1,896	0.11
Bahamas, The	1,071	0.07	129.2	5.4	123.8	1,321	0.08
Bahrain	1,103	0.07	133.1	5.7	127.4	1,353	0.08
Bangladesh	4,854	0.30	585.6	33.9	551.6	5,104	0.31
Barbados	948	0.06	114.4	4.5	109.9	1,198	0.07
Belarus	3,323	0.21	400.9	22.3	378.5	3,573	0.22
Belgium	28,983	1.80	3,496.4	215.8	3,280.6	29,233	1.77
Belize	586	0.04	70.7	1.8	68.9	836	0.05
Benin	868	0.05	104.7	3.9	100.8	1,118	0.07
Bhutan	479	0.03	57.8	1.0	56.8	729	0.04
Bolivia, Plurinational State of	1,785	0.11	215.3	10.8	204.5	2,035	0.12
Bosnia and Herzegovina	549	0.03	66.2	5.8	60.4	799	0.05
Botswana	615	0.04	74.2	2.0	72.2	865	0.05
Brazil	33,287	2.07	4,015.6	245.5	3,770.1	33,537	2.03
Brunei Darussalam	2,373	0.15	286.3	15.2	271.1	2,623	0.16
Bulgaria	5,215	0.32	629.1	36.5	592.6	5,465	0.33
Burkina Faso	868	0.05	104.7	3.9	100.8	1,118	0.07
Burundi	716	0.04	86.4	3.0	83.4	966	0.06
Cambodia	214	0.01	25.8	2.6	23.2	464	0.03
Cameroon	1,527	0.10	184.2	9.0	175.2	1,777	0.11
Canada	44,795	2.79	5,403.8	334.9	5,068.9	45,045	2.73
Cape Verde	508	0.03	61.3	1.2	60.1	758	0.05
Central African Republic	862	0.05	104.0	3.9	100.1	1,112	0.07
Chad	862	0.05	104.0	3.9	100.1	1,112	0.07
Chile	6,931	0.43	836.1	49.6	786.6	7,181	0.43
China	44,799	2.79	5,404.3	335.0	5,069.3	45,049	2.73
Colombia	6,352	0.40	766.3	45.2	721.1	6,602	0.40
Comoros	282	0.02	34.0	0.3	33.7	532	0.03
Congo, Democratic Republic of	2,643	0.16	318.8	25.4	293.5	2,893	0.17
Congo, Republic of	927	0.06	111.8	4.3	107.5	1,177	0.07
Costa Rica	233	0.01	28.1	1.9	26.2	483	0.03
Côte d'Ivoire	2,516	0.16	303.5	16.4	287.1	2,766	0.17
Croatia	2,293	0.14	276.6	17.3	259.3	2,543	0.15
Cyprus	1,461	0.09	176.2	8.4	167.9	1,711	0.10
Czech Republic	6,308	0.39	761.0	45.9	715.0	6,558	0.40
Denmark	13,451	0.84	1,622.7	97.8	1,524.9	13,701	0.83
Djibouti	559	0.03	67.4	1.6	65.9	809	0.05
Dominica	504	0.03	60.8	1.1	59.7	754	0.05
Dominican Republic	2,092	0.13	252.4	13.1	239.3	2,342	0.14
Ecuador	2,771	0.17	334.3	18.2	316.1	3,021	0.18
Egypt, Arab Republic of	7,108	0.44	857.5	50.9	806.6	7,358	0.44

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

June 30, 2011

Expressed in millions of U.S. dollars

	Subscriptions					*Voting Power*	
Member	*Shares*	*Percentage of total*	*Total amounts*	*Amounts paid in* [a]	*Amounts subject to call* [a, b]	*Number of votes*	*Percentage of total*
El Salvador	141	0.01%	$ 17.0	$ 1.7	$ 15.3	391	0.02%
Equatorial Guinea	715	0.04	86.3	2.7	83.5	965	0.06
Eritrea	593	0.04	71.5	1.8	69.7	843	0.05
Estonia	923	0.06	111.3	4.3	107.1	1,173	0.07
Ethiopia	978	0.06	118.0	4.7	113.3	1,228	0.07
Fiji	987	0.06	119.1	4.8	114.3	1,237	0.07
Finland	8,560	0.53	1,032.6	61.9	970.8	8,810	0.53
France	69,397	4.32	8,371.7	520.4	7,851.3	69,647	4.21
Gabon	987	0.06	119.1	5.1	113.9	1,237	0.07
Gambia, The	543	0.03	65.5	1.5	64.0	793	0.05
Georgia	1,584	0.10	191.1	9.3	181.8	1,834	0.11
Germany	72,399	4.51	8,733.9	542.9	8,190.9	72,649	4.40
Ghana	1,525	0.10	184.0	12.7	171.2	1,775	0.11
Greece	1,684	0.10	203.1	14.1	189.1	1,934	0.12
Grenada	531	0.03	64.1	1.4	62.7	781	0.05
Guatemala	2,001	0.12	241.4	12.4	229.0	2,251	0.14
Guinea	1,292	0.08	155.9	7.1	148.8	1,542	0.09
Guinea-Bissau	540	0.03	65.1	1.4	63.7	790	0.05
Guyana	1,058	0.07	127.6	5.3	122.3	1,308	0.08
Haiti	1,067	0.07	128.7	5.4	123.3	1,317	0.08
Honduras	641	0.04	77.3	2.3	75.0	891	0.05
Hungary	8,050	0.50	971.1	58.0	913.1	8,300	0.50
Iceland	1,258	0.08	151.8	6.8	144.9	1,508	0.09
India	44,795	2.79	5,403.8	333.7	5,070.1	45,045	2.73
Indonesia	14,981	0.93	1,807.2	110.3	1,697.0	15,231	0.92
Iran, Islamic Republic of	23,686	1.47	2,857.4	175.8	2,681.5	23,936	1.45
Iraq	2,808	0.17	338.7	27.1	311.6	3,058	0.18
Ireland	5,271	0.33	635.9	37.1	598.8	5,521	0.33
Israel	4,750	0.30	573.0	33.2	539.8	5,000	0.30
Italy	44,795	2.79	5,403.8	334.8	5,069.0	45,045	2.73
Jamaica	2,578	0.16	311.0	16.8	294.2	2,828	0.17
Japan	158,404	9.86	19,109.1	1,171.3	17,937.8	158,654	9.60
Jordan	1,388	0.09	167.4	7.8	159.6	1,638	0.10
Kazakhstan	2,985	0.19	360.1	19.8	340.3	3,235	0.20
Kenya	2,461	0.15	296.9	15.9	281.0	2,711	0.16
Kiribati	465	0.03	56.1	0.9	55.2	715	0.04
Korea, Republic of	15,817	0.98	1,908.1	114.5	1,793.5	16,067	0.97
Kosovo, Republic of	966	0.06	116.5	5.2	111.4	1,216	0.07
Kuwait	13,280	0.83	1,602.0	97.4	1,504.6	13,530	0.82
Kyrgyz Republic	1,107	0.07	133.5	5.7	127.9	1,357	0.08
Lao People's Democratic Republic	178	0.01	21.5	1.5	20.0	428	0.03
Latvia	1,384	0.09	167.0	7.8	159.2	1,634	0.10
Lebanon	340	0.02	41.0	1.1	39.9	590	0.04
Lesotho	663	0.04	80.0	2.3	77.6	913	0.05
Liberia	463	0.03	55.9	2.6	53.3	713	0.04
Libya	7,840	0.49	945.8	57.0	888.8	8,090	0.49
Lithuania	1,507	0.09	181.8	8.7	173.1	1,757	0.11
Luxembourg	1,652	0.10	199.3	9.8	189.5	1,902	0.11
Macedonia, former Yugoslav Republic of	427	0.03	51.5	3.2	48.3	677	0.04
Madagascar	1,422	0.09	171.5	8.1	163.5	1,672	0.10
Malawi	1,094	0.07	132.0	5.6	126.4	1,344	0.08

Expressed in millions of U.S. dollars

	Subscriptions					*Voting Power*	
Member	*Shares*	*Percentage of total*	*Total amounts*	*Amounts paid in* [a]	*Amounts subject to call* [a, b]	*Number of votes*	*Percentage of total*
Malaysia	8,244	0.51%	$ 994.5	$ 59.5	$ 935.0	8,494	0.51%
Maldives	469	0.03	56.6	0.9	55.7	719	0.04
Mali	1,162	0.07	140.2	6.1	134.1	1,412	0.09
Malta	1,074	0.07	129.6	5.4	124.1	1,324	0.08
Marshall Islands	469	0.03	56.6	0.9	55.7	719	0.04
Mauritania	900	0.06	108.6	4.1	104.4	1,150	0.07
Mauritius	1,242	0.08	149.8	6.7	143.1	1,492	0.09
Mexico	18,804	1.17	2,268.4	139.0	2,129.4	19,054	1.15
Micronesia, Federated States of	479	0.03	57.8	1.0	56.8	729	0.04
Moldova	1,368	0.09	165.0	7.6	157.4	1,618	0.10
Mongolia	466	0.03	56.2	2.3	53.9	716	0.04
Montenegro	688	0.04	83.0	3.2	79.83	938	0.06
Morocco	4,973	0.31	599.9	34.8	565.1	5,223	0.32
Mozambique	930	0.06	112.2	4.8	107.4	1,180	0.07
Myanmar	2,484	0.15	299.7	16.1	283.6	2,734	0.17
Namibia	1,523	0.09	183.7	8.8	174.9	1,773	0.11
Nepal	968	0.06	116.8	4.6	112.1	1,218	0.07
Netherlands	35,503	2.21	4,282.9	264.8	4,018.1	35,753	2.16
New Zealand	7,236	0.45	872.9	51.9	821.0	7,486	0.45
Nicaragua	608	0.04	73.3	2.1	71.3	858	0.05
Niger	852	0.05	102.8	3.8	99.0	1,102	0.07
Nigeria	12,655	0.79	1,526.6	92.7	1,433.9	12,905	0.78
Norway	9,982	0.62	1,204.2	72.6	1,131.6	10,232	0.62
Oman	1,561	0.10	188.3	9.1	179.2	1,811	0.11
Pakistan	9,339	0.58	1,126.6	67.8	1,058.9	9,589	0.58
Palau	16	*	1.9	0.2	1.8	266	0.02
Panama	385	0.02	46.4	3.2	43.2	635	0.04
Papua New Guinea	1,294	0.08	156.1	7.1	149.0	1,544	0.09
Paraguay	1,229	0.08	148.3	6.6	141.6	1,479	0.09
Peru	5,331	0.33	643.1	37.5	605.6	5,581	0.34
Philippines	6,844	0.43	825.6	48.9	776.7	7,094	0.43
Poland	10,908	0.68	1,315.9	79.6	1,236.3	11,158	0.68
Portugal	5,460	0.34	658.7	38.5	620.2	5,710	0.35
Qatar	1,096	0.07	132.2	9.0	123.3	1,346	0.08
Romania	4,011	0.25	483.9	30.5	453.4	4,261	0.26
Russian Federation	44,795	2.79	5,403.8	333.9	5,070.0	45,045	2.73
Rwanda	1,046	0.07	126.2	5.2	120.9	1,296	0.08
St. Kitts and Nevis	275	0.02	33.2	0.3	32.9	525	0.03
St. Lucia	552	0.03	66.6	1.5	65.1	802	0.05
St. Vincent and the Grenadines	278	0.02	33.5	0.3	33.2	528	0.03
Samoa	531	0.03	64.1	1.4	62.7	781	0.05
San Marino	595	0.04	71.8	2.5	69.3	845	0.05
São Tomé and Principe	495	0.03	59.7	1.1	58.6	745	0.04
Saudi Arabia	44,795	2.79	5,403.8	335.0	5,068.9	45,045	2.73
Senegal	2,072	0.13	250.0	13.0	237.0	2,322	0.14
Serbia	2,846	0.18	343.3	21.5	321.9	3,096	0.19
Seychelles	263	0.02	31.7	0.2	31.6	513	0.03
Sierra Leone	718	0.04	86.6	3.0	83.6	968	0.06
Singapore	320	0.02	38.6	3.9	34.7	570	0.03
Slovak Republic	3,216	0.20	388.0	23.0	365.0	3,466	0.21

Statement of Subscriptions to Capital Stock and Voting Power *(continued)*

June 30, 2011

Expressed in millions of U.S. dollars

	Subscriptions					Voting Power	
Member	*Shares*	*Percentage of total*	*Total amounts*	*Amounts paid in* [a]	*Amounts subject to call* [a, b]	*Number of votes*	*Percentage of total*
Slovenia	1,261	0.08%	$ 152.1	$ 9.5	$ 142.6	1,511	0.09%
Solomon Islands	513	0.03	61.9	1.2	60.7	763	0.05
Somalia	552	0.03	66.6	3.3	63.3	802	0.05
South Africa	13,462	0.84	1,624.0	98.8	1,525.2	13,712	0.83
Spain	27,997	1.74	3,377.4	206.8	3,170.6	28,247	1.71
Sri Lanka	3,817	0.24	460.5	26.1	434.3	4,067	0.25
Sudan	850	0.05	102.5	7.2	95.3	1,100	0.07
Suriname	412	0.03	49.7	2.0	47.7	662	0.04
Swaziland	440	0.03	53.1	2.0	51.1	690	0.04
Sweden	14,974	0.93	1,806.4	110.2	1,696.2	15,224	0.92
Switzerland	26,606	1.66	3,209.6	197.2	3,012.4	26,856	1.62
Syrian Arab Republic	2,202	0.14	265.6	14.0	251.7	2,452	0.15
Tajikistan	1,060	0.07	127.9	5.3	122.5	1,310	0.08
Tanzania	1,295	0.08	156.2	10.0	146.2	1,545	0.09
Thailand	6,349	0.40	765.9	45.2	720.7	6,599	0.40
Timor-Leste	517	0.03	62.4	1.9	60.4	767	0.05
Togo	1,105	0.07	133.3	5.7	127.6	1,355	0.08
Tonga	494	0.03	59.6	1.1	58.5	744	0.04
Trinidad and Tobago	2,664	0.17	321.4	17.6	303.7	2,914	0.18
Tunisia	719	0.04	86.7	5.7	81.1	969	0.06
Turkey	8,328	0.52	1,004.6	59.8	944.8	8,578	0.52
Turkmenistan	526	0.03	63.5	2.9	60.5	776	0.05
Tuvalu	211	0.01	25.5	1.5	23.9	461	0.03
Uganda	617	0.04	74.4	4.4	70.1	867	0.05
Ukraine	10,908	0.68	1,315.9	79.3	1,236.6	11,158	0.68
United Arab Emirates	2,385	0.15	287.7	22.6	265.1	2,635	0.16
United Kingdom	69,397	4.32	8,371.7	539.5	7,832.2	69,647	4.21
United States	264,969	16.50	31,964.5	1,998.4	29,966.2	265,219	16.05
Uruguay	2,812	0.18	339.2	18.6	320.7	3,062	0.19
Uzbekistan	2,493	0.16	300.7	16.1	284.7	2,743	0.17
Vanuatu	586	0.04	70.7	1.8	68.9	836	0.05
Venezuela, República Bolivariana de	20,361	1.27	2,456.2	150.8	2,305.5	20,611	1.25
Vietnam	968	0.06	116.8	8.1	108.7	1,218	0.07
Yemen, Republic of	2,212	0.14	266.8	14.0	252.8	2,462	0.15
Zambia	2,810	0.18	339.0	20.0	319.0	3,060	0.18
Zimbabwe	3,325	0.21	401.1	22.4	378.7	3,575	0.22
Total-June 30, 2011[b]	1,605,930	100.00%	$193,732	$11,720	$182,012	1,652,680	100.00%
Total-June 30, 2010	1,574,526		$189,943	$11,492	$178,451	1,621,276	

** Indicates amounts less than 0.005 percent.*

NOTES

a. See Notes to Financial Statements, Note B—Capital Stock, Restricted Currencies, Maintenance of Value, and Membership.
b. May differ from the sum of individual figures shown due to rounding.

The Notes to Financial Statements are an integral part of these 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 the 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 income and expenses during the reporting period. Actual results could differ from these estimates. Significant judgments have 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 benefit obligations.

Certain reclassifications of the prior years' information have been made to conform with the current year's presentation. In particular, as permitted under U.S. GAAP, IBRD reclassified amounts relating to nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital and Receivable amounts to maintain value of currency holdings, of $1,123 million and $171 million as of June 30, 2010, respectively, from Assets to Equity. Further, IBRD previously reported the purchases and sales of Mortgage Backed Securities To-Be-Announced (TBAs) on a gross basis as part of Investments-Trading. Since these instruments meet the definition of derivative instruments, IBRD has reclassified amounts related to TBAs to derivative assets and derivative liabilities. The effect of the reclassification on the June 30, 2010 balance sheet was a $52 million decrease in Investments-Trading, $26 million decrease in Receivable from investment securities traded and $78 million decrease in Payable from investment securities purchased.These reclassifications had no effect on IBRD's income before fair value adjustment on non-trading portfolios, net and Board of Governors-approved transfers, or Net loss for the fiscal year ended June 30, 2010.

On August 4, 2011, 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 interested parties.

IBRD is an international organization which conducts its operations in the currencies of all of its members. 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. IBRD endevours 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. Income 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 the value (MOV), at the time of subscription, of restricted currencies (see Note B—Capital Stock, Maintenance of Value, and Membership). Maintenance of value amounts are determined by measuring the foreign exchange value of a member's national currency against the standard of value of IBRD capital based on the 1974 SDR. Members are required to make payments to IBRD if their currencies depreciate significantly relative to the standard of value. Furthermore, the Executive Directors have adopted a policy of reimbursing members whose national currencies appreciate significantly in terms of the standard of value.

The net receivable or payable MOV amounts relating to restricted currencies out on loan, invested, swapped, or loaned to the member by IBRD or through IFC, and amounts for those countries that have been in arrears for two years or more, are included as a component of Equity under Deferred Amounts to Maintain Value of Currency Holdings. For restricted currencies used in IBRD's lending and investing operations, these MOV amounts are shown as a component of Equity since MOV becomes effective only as such currencies are repaid to IBRD.

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, referred to as "Board of Governors-approved transfers", are reported as expenses when incurred, upon approval.

Retained Earnings: Retained Earnings consist of allocated amounts (Special Reserve, General Reserve, Pension Reserve, Surplus, Cumulative Fair Value Adjustments and 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 (SRP) and other postretirement benefits plans, and the cumulative accounting income or expense for these plans, from prior fiscal years. This Pension Reserve is reduced when pension accounting expenses exceed the actual funding of these plans.

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) derivatives and hedging guidance relating to prior 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 derivatives.

Restricted Retained Earnings consist of contributions or income from prior years which are restricted as to the purpose.

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

***Loans**:* All of IBRD's loans are made to or guaranteed by members, except loans to IFC. 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.

Any loan origination fees incorporated in a loan's terms are deferred and recognized over the life of the loan as an adjustment of 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 under Income 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 (SFRY). These exceptions were based on criteria approved by the Executive Directors in fiscal year 1996 which limit eligibility for such treatment to a country: (a) that has emerged from a current or former member of IBRD; (b) that is assuming responsibility for a share of the debt of such member; (c) that, because of a major armed conflict in its territory involving extensive destruction of physical assets, has limited creditworthiness for servicing the debt it is assuming; and (d) for which rescheduling/ refinancing would result in a significant improvement in its repayment capacity, if appropriate supporting measures are taken. This treatment was based on a precedent established in 1975 after Bangladesh became independent from Pakistan. IBRD does not believe that any borrowers with loans in nonaccrual status currently 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.

It is the policy of IBRD to place in nonaccrual status all loans made to or guaranteed by a member of IBRD if principal, interest, or other charges with respect to any such loan are overdue by more than six months, unless IBRD management determines that the overdue amount will be collected in the immediate future. In addition, if development credits made by IDA to a member government are placed in nonaccrual status, all loans made to or guaranteed by that member government will also be placed in nonaccrual status by IBRD. On the date a member's loans are placed into nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income 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 loans may not automatically emerge from nonaccrual status, even though the member's eligibility for new loans may have been restored. In such instances, a decision on the restoration to accrual status is made on a case-by-case basis after a suitable period of payment performance has passed from the time of arrears clearance.

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.

Guarantee fee income received is 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 fee income, and the unamortized balance of the obligation to stand ready, are included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

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 fees or 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 loans.

Management determines the appropriate level of accumulated provisions for losses on loans and other exposures (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. Each risk rating is mapped to an expected default frequency using IBRD's credit migration matrix. The provision required is calculated by multiplying the outstanding exposure, by the expected default frequency (probability of default to IBRD) and by the assumed 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. This methodology is also applied to countries with exposures in nonaccrual status. Generally, all exposures in nonaccrual status have the same risk rating.

The determination of borrowers' ratings is based on both quantitative and qualitative analyses of various factors. IBRD periodically reviews these factors and reassesses the adequacy of the accumulated provision for losses on loans and other exposures accordingly. Adjustments to the accumulated provision are recorded as a charge or addition to income.

For loans that are reported at fair value the provisions for losses on loans is included in the fair value amount of these loans, as the determination of the fair values 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 currencies Due from Banks.

Currencies Subject to Restrictions: A portion of capital subscriptions paid in to IBRD has been paid in the national currencies of the members. These amounts, referred to as restricted currencies, are usable by IBRD in its lending and investing operations, only with the consent of the respective members, and for administrative expenses.

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. Throughout the fiscal years ended June 30, 2011 and June 30, 2010, all investment securities were held in a trading portfolio. Investment securities and related financial instruments held in IBRD's trading portfolio are carried and reported at fair value. 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 income. Derivative instruments are used in liquidity management to manage interest rate and currency risks.

IBRD may require collateral in the form of approved liquid securities from individual counterparties or cash 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 currently 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 these derivative instruments. The presentation of IBRD's derivative instruments is consistent with the manner in which these instruments are settled.

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. 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 the repurchase and security lending arrangements and the securities transferred to IBRD 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 IBRD's Balance Sheet, and securities received under resale agreements are not recorded on IBRD's Balance Sheet.

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 worldwide capital markets offering its securities to private and governmental buyers. IBRD issues debt instruments of varying maturities denominated in various currencies with both fixed and variable interest rates.

Effective July 1, 2008, IBRD fair values all its financial instruments in the borrowing portfolio with the changes in fair values accounted for through the Statement of Income. Prior to July 1, 2008, IBRD only applied fair value measurement to certain qualifying debt instruments in its borrowings portfolio which were hybrid financial instruments, with the changes in fair value reported in Statement of Income. All other borrowings were reported on the Balance Sheet at amortized cost and issuance costs associated with a bond offering were deferred and amortized over the period during which the bond was outstanding.

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

IBRD uses derivatives in its borrowing and asset/liability management activities. In the borrowing portfolio, derivatives are used to modify the interest rate and/or currency characteristics of the borrowing portfolio, and are carried at fair value (see Note F— Derivative Instruments). The interest component of these derivatives is recognized as an adjustment to the borrowing cost over the life of the derivative contract and included in Borrowing expenses on the Statement of Income.

For presentation purposes amortization of discounts and premiums is included in Borrowing expenses on 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 IBRD's derivative instruments is consistent with the manner in which these instruments are settled.

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

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. 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. 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.

As of June 30, 2011 and June 30, 2010, 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.

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

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 income, unless the donor specifies a third party beneficiary. In those cases IBRD is deemed to be acting as an intermediary agent and assets held on behalf of the specified beneficiaries are recognized 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.

Accounting and Reporting Developments

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, became law. These Acts seek to reform the U.S. health care system and their various provisions will become effective over the next eight years. While the Acts have no impact on IBRD as of June 30, 2011, IBRD continues to evaluate the potential future implications of these Acts.

The Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives* became effective on July 1, 2010. The ASU clarifies the scope exception related to embedded credit derivatives by narrowing it to apply to those embedded credit derivatives where the transfer of credit risk is only in the form of subordination of one financial instrument to another, with all other embedded credit derivatives required to be analyzed for potential bifurcation and separate accounting. IBRD was not affected by this ASU as it does not have any embedded credit derivatives.

The FASB's ASU 2009-16, *Accounting for Transfers of Financial Assets - an Amendment of FAS 140* became effective on July 1, 2010. This guidance eliminates the concept of a "qualified special purpose entity" and addresses the information that a reporting entity provides in its financial reports about transfers of financial assets including: the effect of transfers on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred assets. The adoption of this ASU resulted in additional qualitative disclosures relating to securities lending under Note C—Investments.

ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends existing guidance for consolidation of variable interest entities, also became effective on July 1, 2010. This ASU did not have an impact on IBRD's financial statements.

In July 2010, FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* The ASU expands credit quality disclosure requirements to include more detailed information regarding financing receivables and the allowance for credit losses, as well as additional information regarding accounting policies and methodology. For IBRD, the expanded disclosures became effective for interim and annual reporting periods ending on or after December 15, 2010 (quarter ended December 31, 2010). The adoption of this ASU resulted in additional qualitative and quantitative disclosures relating to loans under Note D—Loans and Other Exposures.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law in the United States. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and interpret its requirements. Pending the development of these rules, no impact on IBRD has been determined as of June 30, 2011. IBRD continues to evaluate the potential future implications of the Act.

In April 2011, the FASB issued ASU 2011-02, *Receivables: A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* The ASU clarifies criteria to be considered in evaluating whether a restructuring of a receivable constitutes a troubled debt restructuring. For IBRD, this ASU is effective for the first interim or annual period beginning on or after June 15, 2011. As it is IBRD's practice not to restructure its loans, this ASU is not expected to have an impact on its financial statements.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.* The ASU changes the assessment of effective control by focusing on the transferor's contractual rights and obligations and removing the criterion to assess its ability to exercise those rights or honor those obligations. This ASU is effective for the first interim or annual period beginning on or after December 15, 2011. IBRD currently accounts for all transfers of securities as secured borrowings and is therefore not expected to be affected by this ASU.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).* The amendments result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. While many of the amendments relate to the harmonization of terminology and are not expected to significantly impact current practice, some of the amendments change the existing fair value measurement and disclosure requirements. For IBRD, this ASU is effective for interim and annual periods beginning after December 15, 2011. IBRD is currently evaluating the impact on its financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The ASU requires comprehensive income to be reported in either a single statement or in two consecutive statements. The ASU does not change what items are reported in other comprehensive income or existing requirements to reclassify items from other comprehensive income to net income. For IBRD, this ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. IBRD is currently evaluating the impact on its financial statements.

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

Capital Stock: On March 16, 2011, the resolutions to increase IBRD's authorized capital by 725,876 shares through a general capital increase, a selective capital increase and additional shares to be held for new members, were approved by the Board of Governors.

At June 30, 2011, IBRD's capital comprised 2,307,600 authorized shares (1,581,724 shares—June 30, 2010), of which 1,605,930 shares (1,574,526 shares—June 30, 2010) had been subscribed. Each share has a par value of 0.1 million 1974 SDRs, valued at the rate of $1.20635 per 1974 SDR. Of the subscribed capital, $11,720 million ($11,492 million—June 30, 2010) has been paid in, and the remaining $182,012 million ($178,451 million—June 30, 2010) is subject to call only when required to meet the obligations of IBRD created by borrowing or guaranteeing loans.

The following table provides a summary of the changes in subscribed capital, uncalled portion of subscriptions and paid-in capital for the fiscal years ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	Subscribed capital	*Uncalled portion of subscriptions*	*Paid-in capital*
As of June 30, 2009	$189,918	$(178,427)	$11,491
New member	25	(24)	1
As of June 30, 2010	$189,943	$(178,451)	**$11,492**
General capital increase	3,438	(3,231)	207
Selective capital increase	351	(330)	21
As of June 30, 2011	$193,732	$(182,012)	**$11,720**

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.

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:

In millions of U.S. dollars

Payable (Receivable)	2011	*2010*
MOV receivable	$ (52)	$(171)
Net Deferred MOV payable	1,111	576
MOV receivable in arrears	(133)	(133)
Deferred demand obligations	(130)	(130)
Deferred MOV	$ 848	$ 313

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. These amounts may be settled either in cash or a demand note.

Net deferred MOV payable relates to restricted currencies being used in IBRD's operations by either being invested, swapped, or loaned to members by IBRD or through IFC. These amounts are not deferred once the restricted currencies are no longer being used in operations and become payable by IBRD on the same terms as other MOV obligations.

MOV receivable in arrears represents receivables for countries that have amounts outstanding for two years or more. Although these amounts are used to reduce equity, IBRD still considers these MOV in arrears as obligations due from the members concerned.

Deferred demand obligations relate to notes that are due on demand only after IBRD's callable capital has been entirely called pursuant to Article IV, Section 2 (a) of the Articles of Agreement.

NOTE C—INVESTMENTS

IBRD manages its investments in two portfolios: a liquid asset portfolio and a long-term income portfolio (LTIP), both of which are designated as trading portfolios.

The investment securities held by IBRD are carried and reported at fair value, or at face value which approximates fair value. As of June 30, 2011, the majority of the Investments-Trading is comprised of time deposits and government and agency obligations (43% each), with almost all the instruments in the Investments-Trading being classified as Level 1 and Level 2 for the purposes of the fair value hierarchy classification.

The majority of the instruments in Investments-Trading are denominated in U.S. dollars (USD), Japanese yen (JPY) and Euro (EUR) (57%, 17% and 13%, 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 is predominantly denominated in USD (96%) with an average repricing of 0.37 years.

A summary of IBRD's Investments-Trading at June 30, 2011 and June 30, 2010, is as follows:

In millions of U.S. dollars

	2011	*2010*
	Carrying Value	*Carrying Value*
Investments—Trading		
Equity securities	$ 833	$ 665
Government and agency obligations	14,101	14,340
Time deposits	14,057	17,121
Asset-backed securities	3,607	3,834
Total	$32,598	$35,960

The following table summarizes the currency composition of IBRD's Investments-Trading, at June 30, 2011 and June 30, 2010:

In millions of U.S. dollars equivalent

	2011		*2010*	
Currency	*Carrying Value*	*Average Repricing (years)*[a]	*Carrying Value*	*Average Repricing (years)*[a]
Euro	$ 4,120	1.67	$ 7,997	1.09
Japanese yen	5,488	1.31	4,410	1.69
U.S. dollars	18,419	0.95	21,133	0.85
Others	4,571	0.61	2,420	0.86
Total	$32,598	1.06	$35,960	1.01

a. Equity securities are not subject to repricing. 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.

IBRD manages its investments on a net portfolio basis. The following table summarizes IBRD's net portfolio position as of June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	Carrying Value	
	2011	*2010*
Investments—Trading	$ 32,598	$ 35,960
Securities purchased under resale agreements	47	289
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received	(2,184)	(998)
Derivative assets		
Currency forward contracts	6,529	6,173
Currency swaps	5,823	7,187
Interest rate swaps	71	86
Other[a]	*	*
Total	12,423	13,446
Derivative liabilities		
Currency forward contracts	(6,603)	(6,140)
Currency swaps	(6,469)	(7,207)
Interest rate swaps	(202)	(210)
Other[a]	(1)	—
Total	(13,275)	(13,557)
Cash held in investment portfolio[b]	1,952	1,182
Receivable from investment securities traded	83	21
Payable for investment securities purchased	(1,320)	(229)
Net Investment Portfolio	$ 30,324	$ 36,114

a. These relate to TBA securities.
b. This amount is included in Unrestricted Currencies under Due from Banks on the Balance Sheet.
* *Indicates amount less than $0.5 million*

The following table summarizes the currency composition of IBRD's net investment portfolio at June 30, 2011 and June 30, 2010:

In millions of U.S. dollars equivalent

	2011		*2010*	
Currency	*Carrying Value*	*Average Repricing (years)[a]*	*Carrying Value*	*Average Repricing (years)[a]*
U.S. dollars	$29,182	0.37	$32,367	0.34
Others	1,142	0.80	3,747	0.51
Total	$30,324	0.41	$36,114	0.36

a. Equity securities are not subject to repricing. 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.

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, 2011, there were no short sales included in Payable for investment securities purchased on the Balance Sheet ($Nil million—June 30, 2010).

For the fiscal year ended June 30, 2011, IBRD had included $150 million of unrealized gains in income (unrealized gains of $100 million—June 30, 2010 and unrealized gains of $64 million—June 30, 2009).

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, 2011 and June 30, 2010:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments – Trading				
Equity securities	$ 833	$ —	$ —	$ 833
Government and agency obligations	1,671	12,430	—	14,101
Time deposits	2,601	11,456	—	14,057
Asset-backed securities	—	3,594	13	3,607
Total Investments – Trading	$5,105	$27,480	$13	$32,598
Securities purchased under resale agreements	14	33	—	47
Derivative assets-Investments				
Currency forward contracts	—	6,529	—	6,529
Currency swaps	—	5,823	—	5,823
Interest rate swaps	—	71	—	71
Other[a]	—	*	—	*
Total Derivative assets-Investments	—	12,423	—	12,423
Total Assets	$5,119	$39,936	13	$45,068
Liabilities:				
Securities sold under repurchase agreements and securities lent under security lending agreements[b]	$ —	$ 246	$—	$ 246
Derivative liabilities-Investments				
Currency forward contracts	—	6,603	—	6,603
Currency swaps	—	6,469	—	6,469
Interest rate swaps	—	202	—	202
Other[a]	—	1	—	1
Total Derivative liabilities-Investments	—	13,275	—	13,275
Total Liabilities	$ —	$13,521	$—	$13,521

a. These relate to TBA securities.
b. Excludes $1,938 million relating to payable for cash collateral received.
** Indicates amount less than $0.5 million*

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2010			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments – Trading				
Equity securities	$ 665	$ —	$ —	$ 665
Government and agency obligations	1,480	12,860	—	14,340
Time deposits	2,153	14,968	—	17,121
Asset-backed securities	—	3,816	18	3,834
Total Investments – Trading	$4,298	$31,644	$18	$35,960
Securities purchased under resale agreements	39	250	—	289
Derivative assets-Investments				
Currency forward contracts	—	6,173	—	6,173
Currency swaps	—	7,187	—	7,187
Interest rate swaps	—	86	—	86
Other[a]	—	*	—	*
Total Derivative assets-Investments	—	13,446	—	13,446
Total Assets	$4,337	$45,340	$18	$49,695
Liabilities:				
Securities sold under repurchase agreements and securities lent under security lending agreements[b]	$ 53	$ 151	$—	$ 204
Derivative liabilities-Investments				
Currency forward contracts	—	6,140	—	6,140
Currency swaps	—	7,207	—	7,207
Interest rate swaps	—	210	—	210
Other[a]	—	*	—	*
Total Derivative liabilities-Investments	—	13,557	—	13,557
Total Liabilities	$ 53	$13,708	$—	$13,761

a. These relate to TBA securities.
b. Excludes $794 million relating to payable for cash collateral received.
** Indicates amount less than $0.5 million.*

The following tables provide a summary of changes in the fair value of IBRD's Level 3 Investments – Trading assets during the fiscal year ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	Investments–Trading (Asset-backed Securities)	
	June 30, 2011	*June 30, 2010*
Beginning of the fiscal year	$18	$109
Total realized/unrealized gains (losses) in:		
Net income	4	10
Purchases	3	22
Sales/Settlements	(4)	(53)
Transfers out of, net	(8)	(70)
End of the fiscal year	$13	$ 18

The following table provides information on the unrealized gains or losses included in income for the fiscal years ended June 30, 2011 and June 30, 2010, relating to IBRD's Level 3 Investments – Trading still held at June 30, 2011 and June 30, 2010, as well as where those amounts are included in the Statement of Income.

In millions of U.S. dollars

	Fiscal Year Ended June 30,		
Unrealized Gains	*2011*	*2010*	*2009*
Statement of Income Line			
Investments, net – Trading	$2	$3	$5

The table below provides the details of all inter-level transfers for the fiscal year ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	June 30, 2011	
	Level 2	*Level 3*
Investments-Trading *(Asset-backed Securities)*		
Transfers (out of) into	$(16)	$ 16
Transfers into (out of)	24	(24)
	$ 8	$ (8)

In millions of U.S. dollars

	June 30, 2010	
	Level 2	*Level 3*
Investments-Trading *(Asset-backed Securities)*		
Transfers (out of) into	$(24)	$ 24
Transfers into (out of)	94	(94)
	$ 70	$(70)

Valuation Methods and Assumptions

Summarized below are the techniques applied in determining the fair values of investments.

Investment securities

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include most government and agency securities, mutual funds, futures contracts and exchange-traded equity 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 includes the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads, and prepayment speeds. Unless quoted prices are available, time deposits are reported at face value which approximates fair value.

Securities Purchased under Resale Agreements and Securities Sold under Agreements to Repurchase

Securities purchased under resale agreements and securities sold under agreements to repurchase, are reported at face value which approximates 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.

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 derivatives 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.

The following is a summary of the collateral received by IBRD as of June 30, 2011 and June 30, 2010.

In millions of U.S. dollars

	June 30, 2011	*June 30, 2010*
Collateral received		
Cash	$ 1,938	$ 794
Securities	11,841	9,764
Total collateral received	$13,779	$10,558
Collateral permitted to be repledged	$13,779	$10,558
Amount of collateral repledged	—	—

Securities Lending: IBRD may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resales) of government and agency obligations, and corporate and asset-backed securities. 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.

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

	June 30, 2011	*June 30, 2010*	*Financial Statement Presentation*
Securities transferred under repurchase or securities lending agreements	$151	$204	Included under Investments-Trading on the Balance Sheet
Liabilities relating to securities transferred under repurchase or securities lending agreements	$212	$204	Included under Securities Sold Under Repurchase Agreements, Securities Lent Under Securities Lending Agreements, and Payable for Cash Collateral Received, on the Balance Sheet.

At June 30, 2011, the liabilities relating to securities transferred under repurchase or securities lending agreements included $59 million (Nil—June 30, 2010) of repurchase agreement trades that had not settled at that date. Of this amount, $44 million (Nil—June 30, 2010) represented replacement trades entered into in anticipation of maturing trades.

IBRD receives collateral in connection with resale agreements as well as swap agreements. This collateral serves to mitigate IBRD's exposure to credit risk.

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, 2011, IBRD had received securities with a fair value of $47 million ($291 million—June 30, 2010). Of these securities $33 million had been transferred under repurchase or security lending agreements as of that date (Nil—June 30, 2010).

NOTE D—LOANS AND OTHER EXPOSURES

IBRD's loans and other 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. With the exception of one loan which is carried and reported at fair value, all loans are carried and reported at amortized cost.

IBRD's loan portfolio includes loans with multicurrency terms, single currency pool terms, variable spread terms and fixed spread terms. At June 30, 2011, loans with variable spread terms and fixed spread terms (including special development policy loans), were available for new commitments under the IBRD Flexible Loan (IFL).

As of June 30, 2011, 78% of IBRD's loans carried variable interest rates. IBRD uses derivatives to manage repricing risk between loans and borrowings. These derivatives are included under borrowing derivatives and other 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 1.2% as of June 30, 2011.

The majority of the loans in the loan portfolio are denominated in USD (77%) while the EUR and JPY account for 20% and 1% of the loan portfolio, respectively.

As of June 30, 2011, only 0.4% of IBRD's loans were in nonaccrual status and were all related to one borrower. IBRD's total provision for losses on accrual and nonaccrual loans accounted for 1.2% of the total loan portfolio.

Based on the IBRDs' internal quality indicators, the majority of loans outstanding are in the Medium risk or High risk categories.

A summary of IBRD's outstanding loans by currency and by interest rate characteristics (fixed or variable) at June 30, 2011 and June 30, 2010 follows:

In millions of U.S. dollars equivalent

	June 30, 2011										
	Euro		*Japanese yen*		*U.S. dollars*		*Others*		*Loans Outstanding*		
	Fixed	*Variable*	*Fixed*	*Variable*	*Fixed*	*Variable*	*Fixed*	*Variable*	*Fixed*	*Variable*	*Total*
Multicurrency terms[a]											
Amount	$ 386	$ 479	$ 409	$ 507	$ 288	$ 703	$ 177	$ 158	$ 1,260	$ 1,847	$ 3,107
Weighted average rate (%)[b]	3.69	6.13	3.55	6.09	4.22	6.91	3.67	6.09	3.76	6.41	5.34
Average Maturity (years)	2.30	1.64	2.34	1.67	2.12	0.77	2.59	1.67	2.31	1.32	1.72
Single currency pool terms											
Amount	$ —	$171	$ —	$ —	$ 968	$55	$ —	$ —	$ 968	$ 226	$ 1,194
Weighted average rate (%)[b]	—	3.47	—	—	3.59	3.58	—	—	3.59	3.50	3.57
Average Maturity (years)	—	1.23	—	—	1.32	1.08	—	—	1.32	1.19	1.30
Variable-spread terms											
Amount	$ 45	$ 12,701	$ —	$ 208	$ 727	$ 58,177	$ —	$ 45	$ 772	$ 71,131	$ 71,903
Weighted average rate (%)[b]	4.34	1.83	—	0.74	5.55	0.78	—	1.18	5.48	0.97	1.02
Average Maturity (years)	1.02	11.63	—	3.45	1.17	9.08	—	10.22	1.16	9.52	9.43
Fixed-spread terms											
Amount	$4,341	$ 8,892	$ 32	$ 382	$ 20,842	$ 19,968	$ 698[c]	$ 1,100	$ 25,913	$ 30,342	$ 56,255
Weighted average rate (%)[b]	4.76	2.06	2.49	0.86	4.37	0.98	7.50	4.22	4.52	1.41	2.84
Average maturity (years)	7.30	9.10	8.04	8.03	8.08	9.60	10.78	13.23	8.02	9.57	8.85
Loans Outstanding											
Amount	$4,772	$ 22,243	$ 441	$ 1,097	$ 22,825	$ 78,903	$ 875	$ 1,303	$28,913	$103,546	$132,459
Weighted average rate (%)[b]	4.67	2.03	3.47	3.26	4.37	0.89	6.72	4.34	4.48	1.20	1.92
Average Maturity (years)	6.84	10.32	2.75	4.22	7.49	9.14	9.15	11.73	7.36	9.37	8.93
Loans Outstanding											$ 132,459
Less accumulated provision for loan losses and deferred loan income											1,989
Net loans outstanding											$ 130,470

Note: For footnotes see the following page.

In millions of U.S. dollars equivalent

	June 30, 2010										
	Euro		Japanese yen		U.S. dollars		Others		Loans Outstanding		
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Total
Multicurrency terms[a]											
Amount	$ 636	$ 592	$724	$ 670	$ 539	$ 820	$221	$ 159	$ 2,120	$ 2,241	$ 4,361
Weighted average rate (%)[b]	3.36	5.67	3.28	5.64	3.65	6.40	3.44	5.64	3.42	5.93	4.71
Average Maturity (years)	2.14	1.98	2.17	2.02	2.07	1.17	2.63	2.02	2.18	1.70	1.93
Single currency pool terms											
Amount	$ —	$ 254	$ —	$ —	$ 1,546	$ 105	$ —	$ —	$ 1,546	$ 359	$ 1,905
Weighted average rate (%)[b]	—	2.93	—	—	3.50	3.46	—	—	3.50	3.08	3.42
Average Maturity (years)	—	1.46	—	—	1.62	1.33	—	—	1.62	1.42	1.59
Variable-spread terms											
Amount	$ 67	$ 7,947	$ —	$ 181	$ 1,338	$50,479	$ —	$ 42	$ 1,405	$58,649	$ 60,054
Weighted average rate (%)[b]	4.47	1.17	—	0.78	5.77	0.81	—	1.05	5.71	0.85	0.97
Average Maturity (years)	1.34	11.02	—	3.45	1.38	7.88	—	11.22	1.37	8.30	8.13
Fixed-spread terms											
Amount	$3,438	$ 7,699	$ 23	$ 354	$21,245	$19,414	$602[d]	$1,008	$25,308	$28,475	$ 53,783
Weighted average rate (%)[b]	4.85	1.56	2.28	0.97	4.43	1.01	7.71	4.31	4.56	1.28	2.82
Average maturity (years)	8.19	8.80	6.63	8.92	8.25	8.80	11.38	14.21	8.31	8.99	8.67
Loans Outstanding											
Amount	$4,141	$16,492	$747	$1,205	$24,668	$70,818	$823	$1,209	$30,379	$89,724	$120,103
Weighted average rate (%)[b]	4.61	1.54	3.25	3.54	4.42	0.93	6.56	4.38	4.48	1.12	1.97
Average Maturity (years)	7.15	9.51	2.30	4.26	7.32	8.05	9.03	12.50	7.22	8.32	8.05
Loans Outstanding											$120,103
Less accumulated provision for loan losses and deferred loan income											1,999
Net loans outstanding											$118,104

a. Includes loans issued prior to 1980, and loans to IFC, in addition to multicurrency pool loans. Variable rates for multicurrency loans are based on the weighted average cost of allocated debt.
b. Excludes effects of any waivers of loan interest.
c. Includes loans at fair value of $139 million.
d. Includes loans at fair value of $109 million.

The maturity structure of IBRD's loans at June 30, 2011 and June 30, 2010 is as follows:

In millions of U.S. dollars

	June 30, 2011				
Terms/Rate Type	*July 1, 2011 through June 30, 2012*	*July 1, 2012 through June 30, 2016*	*July 1, 2016 through June 30, 2021*	*Thereafter*	*Total*
Multicurrency terms					
Fixed	$ 551	$ 567	$ 75	$ 67	$ 1,260
Variable	898	937	12	—	1,847
Single currency pool terms					
Fixed	423	543	2	—	968
Variable	114	112	—	—	226
Variable-spread terms					
Fixed	387	385	—	—	772
Variable	5,101	18,678	16,256	31,096	71,131
Fixed-spread terms					
Fixed	1,258	8,274	8,613[a]	7,768	25,913
Variable	1,097	7,276	9,892	12,077	30,342
All Loans					
Fixed	2,619	9,769	8,690	7,835	28,913
Variable	7,210	27,003	26,160	43,173	103,546
Total loans outstanding	$9,829	$36,772	$34,850	$51,008	$132,459

a. Includes loans at fair value of $139 million.

In millions of U.S. dollars

	June 30, 2010				
Terms/Rate Type	*July 1, 2010 through June 30, 2011*	*July 1, 2011 through June 30, 2015*	*July 1, 2015 through June 30, 2020*	*Thereafter*	*Total*
Multicurrency terms					
Fixed	$ 782	$ 1,166	$ 99	$ 73	$ 2,120
Variable	920	1,262	59	—	2,241
Single currency pool terms					
Fixed	578	958	10	—	1,546
Variable	158	197	4	—	359
Variable-spread terms					
Fixed	639	765	1	—	1,405
Variable	4,860	18,762	15,114	19,913	58,649
Fixed-spread terms					
Fixed	1,421	6,897	9,190[a]	7,800	25,308
Variable	1,592	7,603	9,058	10,222	28,475
All Loans					
Fixed	3,420	9,786	9,300	7,873	30,379
Variable	7,530	27,824	24,235	30,135	89,724
Total loans outstanding	$10,950	$37,610	$33,535	$38,008	$120,103

a. Includes a loan at fair value of $109 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 analyses. 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 nonaccrual 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 at June 30, 2011:

In millions of U.S. dollars

Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$—	$—	$—	$—	$ —	$ —	$ 14,763	$ 14,763
Medium	—	—	—	—	—	—	68,737	68,737
High	6	—	—	—	—	6	48,348	48,354
Loans in accrual status[a]	6	—	—	—	—	6	131,848	131,854
Loans in nonaccrual status[a]	—	—	2	15	400	417	49	466
Loan at fair value[b]	—	—	—	—	—	—	139	139
Total	$ 6	$—	$ 2	$15	$400	$423	$132,036	$132,459

a. At amortized cost
b. For the loan that is reported at fair value, and which is in accrual status, credit risk assessment is incorporated in the determination of 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, 2011, June 30, 2010 and June 30, 2009 are summarized below:

In millions of U.S. dollars

	June 30, 2011			*June 30, 2010*			*June 30, 2009*		
	Loans	*Other*	*Total*	*Loans*	*Other*	*Total*	*Loans*	*Other*	*Total*
Accumulated provision, beginning of the fiscal year	$1,553	$23	$1,576	$1,632	$10	$1,642	$1,371	$ 5	$1,376
Net (decrease) increase in provision	(50)	5	(45)	(45)	13	(32)	279	5	284
Translation adjustment	46	1	47	(34)	—	(34)	(18)	—	(18)
Accumulated provision, end of the fiscal year	$1,549	$29	$1,578	$1,553	$23	$1,576	$1,632	$10	$1,642
Composed of accumulated provision for losses on:									
Loans in accrual status	$1,316			$1,324			$1,402		
Loans in nonaccrual status	233			229			230		
Total	$1,549			$1,553			$1,632		
Loans, end of the fiscal year:									
Loans at amortized cost in accrual status	$131,854			$119,537			$105,160		
Loans at amortized cost in nonaccrual status	466			457			460		
Loan at fair value in accrual status	139			109			78		
Total	$132,459			$120,103			$105,698		

	Reported as Follows	
	Balance Sheet	***Statement of Income***
Accumulated Provision for Losses on:		
Loans	Accumulated provision for losses on loans	Provision for losses on loans and other exposures
Other (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	Provision for losses on loans and other exposures

Overdue Amounts

It is the policy of IBRD to place in nonaccrual status all loans and other 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. 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 loans and other exposures are placed into nonaccrual status, unpaid interest and other charges accrued on exposures to the member are deducted from the income of the current period. Interest and other charges on nonaccruing exposures are included in income only to the extent that payments have been received by IBRD. If collectibility 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.

At June 30, 2011, 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, 2011, June 30, 2010 and June 30, 2009:

In millions of U.S. dollars

	2011	*2010*
Recorded investment in nonaccrual loans[a]	$466	$457
Accumulated provision for loan losses on nonaccrual loans	233	229
Average recorded investment in nonaccrual loans for the fiscal year[b]	463	462
Overdue amounts of nonaccrual loans:	701	631
Principal	417	384
Interest and charges	284	247

a. A loan loss provision has been recorded against each of the loans in the nonaccrual portfolio.
b. For the fiscal year ended June 30, 2009: $460 million

In millions of U.S. dollars

	2011	*2010*	*2009*
Interest income not recognized as a result of loans being in nonaccrual status	$36	$35	$34

During the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009 no interest income was recognized on loans in nonaccrual status.

Information relating to the sole borrowing member with loans or guarantees in nonaccrual status at June 30, 2011 follows:

In millions of U.S. dollars

Borrower	*Principal outstanding*	*Principal, Interest and Charges overdue*	*Nonaccrual since*
Zimbabwe	$466	$701	October 2000

During the fiscal years ended June 30, 2011 and June 30, 2010 there were no loans placed into nonaccrual status or restored to accrual status.

Guarantees

Guarantees of $1,969 million were outstanding at June 30, 2011 ($1,726 million—June 30, 2010). 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 2.5 and 20 years, and expire in decreasing amounts through 2029.

At June 30, 2011, liabilities related to IBRD's obligations under guarantees of $56 million ($32 million—June 30, 2010), have been included in Accounts payable and miscellaneous liabilities on the Balance Sheet. These include the accumulated provision for guarantee losses of $18 million ($3 million—June 30, 2010).

During the fiscal years ended June 30, 2011 and June 30, 2010, no guarantees provided by IBRD were called.

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, 2011, June 30, 2010 and June 30, 2009 resulting from waivers of loan charges, is summarized in the following table:

In millions of U.S. dollars

	2011	*2010*	*2009*
Interest waivers	$157	$163	$166
Commitment charge waivers	41	64	89
Front-end fee waivers	19	20	13
Total	$217	$247	$268

Segment Reporting

Based on an evaluation of IBRD’s operations, management has determined that IBRD has only one reportable segment since IBRD does not manage its operations by allocating resources based on a determination of the contribution to net income from individual borrowers.

Loan income comprises interest, commitment fees, loan origination fees and prepayment premia, net of waivers. For the fiscal year ended June 30, 2011, loans to three countries individually generated in excess of 10 percent of loan income and totaled to $783 million in aggregate.

The following table presents IBRD’s loan income and associated outstanding loan balances, by geographic region, as of and for the fiscal years ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	2011		*2010*	
Region	*Loan Income*	*Loans Outstanding*	*Loan Income*	*Loans Outstanding*
Africa	$ 8	$ 1,413	$ 11	$ 826
East Asia and Pacific	505	26,115	551	24,668
Europe and Central Asia	566	37,741	565	30,602
Latin America and the Caribbean	1,109	45,027	1,070	43,017
Middle East and North Africa	168	9,101	171	8,469
South Asia	114	13,012	123	12,471
Other[a]	2	50	2	50
Total	$2,472	$132,459	$2,493	$120,103

a. Represents loans to IFC, an affiliated organization.

Fair Value Disclosures

The only loan carried at fair value is classified as level 3. 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, 2011 and June 30, 2010:

In millions of U.S. dollars

	2011	*2010*
Beginning of the fiscal year	$109	$ 78
Total realized/unrealized gains (losses) in:		
Net income	14	23
Other comprehensive income	16	8
End of the fiscal year	$139	$109

The following table reflects the fair value adjustment on the loan and provides information on the unrealized gains or losses, relating to IBRD's Level 3 loan, included in income, for the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009.

In millions of U.S. dollars

	Fiscal Year Ended June 30,		
Unrealized Gains (Losses)	*2011*	*2010*	*2009*
Statement of Income Line			
Fair value adjustment on non-trading portfolios, net	$4	$15	$(14)

The table below presents the fair value of all IBRD's loans along with their respective carrying amounts as of June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	2011		*2010*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Net Loans Outstanding	$130,470	$129,447	$118,104	$117,936

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, 2011 and June 30, 2010, carrying value includes one loan with an embedded derivative, which is fair valued on a matrix basis against the related bond. 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. Basis adjustments are applied to market recovery levels to reflect IBRD's recovery experience.

NOTE E—BORROWINGS

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

Commencing July 1, 2008, IBRD elected to fair value all debt instruments in the borrowings portfolio, with changes in fair value reported in earnings. As a result of the initial adoption of the fair value option, IBRD recorded a transition adjustment of $2,566 million as a decrease to the opening balance of retained earnings. After the initial election, the option is exercised at the inception of a financial asset or a financial liability and is irrevocable. The objective of making this election is to report the entire portfolio on the same measurement basis, thereby eliminating the previous mixed-attribute approach and better reflecting the overall economic position and result of the portfolio.

Borrowings issued by IBRD are carried and reported at fair value. As at June 30, 2011, the majority of the instruments in the portfolio were classified as Level 2, for the purposes of the fair value hierarchy classification. In addition, most of these instruments were denominated in USD, Australian dollar (AUD) EUR and JPY (51.3%, 9,9%, 9.2% and 9.2%, respectively). IBRD uses derivatives to manage the repricing risk between loans and borrowings. These derivatives also include derivatives which convert fixed interest rate loan repayments to floating interest rate loan repayments. After the effect of these derivatives (excluding those which convert fixed interest rate loan repayments to floating interest rate loan repayments), the borrowing portfolio carried variable interest rates, with a weighted average cost of 0.63% as of June 30, 2011 (0.66% as of June 30, 2010).

The following table provides a summary of the interest rate characteristics of IBRD's borrowings at June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	June 30, 2011	*WAC[a] (%)*	*June 30, 2010*	*WAC[a] (%)*
Fixed	$104,717	3.78	$ 96,874	3.85
Variable	28,093	2.17	28,012	2.12
Borrowings [b]	$132,810	3.44%	$124,886	3.46%
Fair value adjustment	2,432		3,691	
Borrowings at fair value	$135,242		$128,577	

a. *WAC refers to weighted average cost.*
b. *At amortized cost.*

At June 30, 2011, the currency composition of debt in IBRD's borrowings portfolio before derivatives was as follows:

	June 30, 2011	June 30, 2010
U.S. dollar	51.3%	56.4%
Australian dollar	9.9	7.4
Japanese yen	9.2	9.5
Euro	9.2	8.6
Pounds sterling	4.3	2.7
South African Rand	2.8	3.8
Others	13.3	11.6
	100.0%	100.0%

The maturity structure of IBRD's borrowings outstanding at June 30, 2011 and June 30, 2010 is as follows:

In millions of U.S. dollars

Period	June 30, 2011	June 30, 2010
Less than1 year	$ 26,552	$ 33,959
Between		
1 - 2 years	17,233	17,097
2 - 3 years	16,395	12,693
3 - 4 years	20,177	10,903
4 - 5 years	15,523	11,790
Thereafter	39,362	42,135
	$135,242	$128,577

IBRD's borrowings have original maturities ranging from 15 days to 40 years, with the final maturity being in 2041.

Fair Value Disclosures

IBRD's fair value hierarchy for borrowings measured at fair value on a recurring basis as of June 30, 2011 and June 30, 2010 is as follows:

In millions of U.S. dollars

	June 30, 2011	June 30, 2010
Level 1	$ —	$ —
Level 2	122,826	116,490
Level 3	12,416	12,087
	$135,242	$128,577

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, 2011 and June 30, 2010:

In millions of U.S. dollars

	2011	2010
Beginning of the fiscal year	$12,087	$11,071
Total realized/unrealized (gains) losses in:		
Net income	(137)	393
Other comprehensive income	1,145	663
Issuances	574	1,536
Settlements	(817)	(912)
Transfers out of, net	(436)	(664)
End of the fiscal year	$12,416	$12,087

The following table provides information on the unrealized gains or losses included in income for the fiscal years ended June 30, 2011 and June 30, 2010, relating to IBRD's Level 3 borrowings still held at June 30, 2011 and June 30, 2010, as well as where those amounts are included in the Statement of Income.

In millions of U.S. dollars

	Fiscal Year Ended June 30,		
Unrealized Gains (Losses)	2011	2010	2009
Statement of Income Line			
Fair value adjustment on non-trading portfolios, net	$209	$(347)	$1,126

The following table provides information on the unrealized gains or losses included in income for the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009 relating to IBRD's borrowings held at June 30, 2011, June 30, 2010, June 30, 2009, as well as where those amounts are included in the Statement of Income.

In millions of U.S. dollars

	Fiscal Year Ended June 30,		
Unrealized Gains (Losses)	2011	2010	2009
Statement of Income Line			
Fair value adjustment on non-trading portfolios, net	$1,505	$(3,024)	$(1,068)

The table below provides the details of all inter-level transfers for the fiscal year ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	June 30, 2011	
	Level 2	Level 3
Borrowings		
Transfers into (out of)	$ 536	$(536)
Transfers (out of) into	(100)	100
	$ 436	$(436)

In millions of U.S. dollars

	June 30, 2010	
	Level 2	Level 3
Borrowings		
Transfers into (out of)	$ 778	$(778)
Transfers (out of) into	(114)	114
	$ 664	$(664)

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

In millions of U.S. dollars

	Fair Value	*Principal Amount Due Upon Maturity*	*Difference*
June 30, 2011	$135,242	$144,323	$(9,081)
June 30, 2010	$128,577	$138,074	$(9,497)

During the fiscal year ended June 30, 2011, IBRD's credit spreads remained largely unchanged.

During the fiscal year ended June 30, 2010, IBRD experienced improvements in its credit spreads as a result of improved market conditions. The estimated financial effects on the fair value of the debt issued and outstanding as of June 30, 2010 were net unrealized losses of $994 million, determined using observable changes in IBRD's credit spreads.

Valuation Methods and Assumptions

Techniques applied in determining the fair values of debt instruments are summarized below.

Discount notes and vanilla bonds

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.

Structured bonds

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, swaption volatilities, equity index volatilities and equity indices.

The following table summarizes IBRD's borrowings portfolio after derivatives as of June 30, 2011 and June 30, 2010.

In millions of U.S. dollars

	June 30, 2011	*June 30, 2010*
Borrowings	$135,242	$128,577
Currency swaps, net	(9,858)	(6,238)
Interest rate swaps, net	(2,883)	(2,564)
	$122,501	$119,775

IBRD uses derivative contracts to manage the repricing risk between its loans and borrowings. For details regarding Currency swaps and Interest rate swaps, see Note F – Derivative Instruments.

NOTE F—DERIVATIVE INSTRUMENTS

IBRD uses derivative instruments in its investment and borrowing portfolios, and for asset/liability management purposes. It also offers derivatives 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 forwards, options and futures contracts	Manage currency and interest rate risk in the portfolio
Borrowings	Currency swaps, Interest rate swaps, Structured swaps	Manage repricing risks between loans and borrowings
Other assets/liabilities	Currency swaps, Interest rate swaps	Manage currency risk as well as extend the duration of IBRD's equity
Other purposes:		
Client operations	Currency swaps, Interest rate swaps	Assist clients in managing their interest rate and currency risks

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), a AAA-rated organization, 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.

Since 2008 IBRD has engaged in an equity duration extension strategy which employs interest rate swaps to increase the duration of its equity from approximately three months to approximately four years. This strategy seeks to increase the stability of operating income by taking greater exposure to long-term interest rates.

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 have been marked to fair value and all changes in fair value have been 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.

Upon adoption of this guidance in the fiscal year 2001, $500 million was reported in other comprehensive income representing the difference between the carrying value and the fair value of those derivatives that were hedging a cash flow exposure prior to adoption. This amount is being reclassified into earnings in the same period or periods in which the hedged forecasted transactions affect earnings.

Any gains or losses on those borrowings for which a fair value exposure was being hedged prior to adoption of the guidance were recorded in income at the time of implementation, and were offset by the fair value adjustments on the related derivative instruments. The fair value adjustments on those bonds are being amortized into earnings over the remaining lives of the related bonds, through the Fair value adjustment on non-trading portfolios, net in the Statement of Income.

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, 2011 and June 30, 2010:

Fair value of derivative instruments on the Balance Sheet:

In millions of U.S. dollars

	Derivative assets			*Derivative liabilities*		
	Balance Sheet Location	*June 30, 2011*	*June 30, 2010*	*Balance Sheet Location*	*June 30, 2011*	*June 30, 2010*
Derivatives not designated as hedging instruments						
Options and Futures contracts – Investment – Trading	Receivable from investment securities traded	$ *	$ —	Receivable from investment securities traded	$ —	$ 1
Interest rate swaps	Derivative assets	7,635	7,894	Derivative liabilities	2,708	3,080
Currency swaps (including currency forward contracts and structured swaps)	Derivative assets	137,076	113,929	Derivative liabilities	127,720	107,535
Other[a]	Derivative assets	*	*	Derivative liabilities	1	*
Total Derivatives		$144,711	$121,823		$130,429	$110,616

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

Type of contract	*June 30, 2011*	*June 30, 2010*
Investments—Trading		
Interest rate swaps and swaptions		
Notional principal	$ 6,889	$ 6,641
Credit exposure	71	86
Currency swaps (including currency forward contracts)		
Credit exposure	23	427
Exchange traded Options and Futures[a]		
Notional long position	638	1,686
Notional short position	88	35
Other derivatives[b]		
Notional long position	169	48
Notional short position	4	—
Credit exposure	*	*
Client operations		
Interest rate swaps		
Notional principal	23,406	15,821
Credit exposure	499	467
Currency swaps		
Credit exposure	1,354	721
Borrowing portfolio		
Interest rate swaps		
Notional principal	130,089	115,110
Credit exposure	4,885	4,857
Currency swaps		
Credit exposure	15,758	10,494
Other derivatives		
Interest rate swaps		
Notional principal	38,032	36,296
Credit exposure	2,589	2,830
Currency swaps		
Credit exposure	214	142

a. Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All outstanding options and future contracts as of June 30, 2011 and June 30, 2010 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 on June 30, 2011 is $381 million. 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, 2011, the amount of collateral that would need to be posted would be $134 million.

Amount of gains and losses on non-trading derivatives and their location on the Statement of Income during the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009 is as follows:

In millions of U.S. dollars

	Income Statement Location	*Fiscal Year ended June 30, Gains (Losses)*		
		2011	*2010*	*2009*
Derivatives not designated as hedging instruments, and not held in a trading portfolio[a]				
Interest rate swaps	Fair value adjustment on non-trading portfolios, net	$ (139)	$1,322	$2,143
Currency swaps (including currency forward contracts and structured swaps)	Fair value adjustment on non-trading portfolios, net	(950)	649	2,219
Total		$(1,089)	$1,971	$4,362

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, listed equity securities as well as derivatives.

The following table provides information on the location and amount of gains and losses on the Investments – trading portfolio and their location on the Statement of Income during the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009:

In millions of U.S. dollars

Statement of Income Line	*Fiscal Year ended June 30,* Investments, net-trading[a], *gains (losses)*		
	2011	*2010*	*2009*
Type of instrument			
Fixed income	$ 17	$ 55	$(68)
Equity	138	71	46
	$155	$126	$(22)

a. Amounts associated with each type of instrument includes realized and unrealized gains and losses on both derivative instruments and non-derivative instruments

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, 2011 and June 30, 2010 is as follows:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative Assets:				
Investments				
Currency forward contracts	$—	$ 6,529	$ —	$ 6,529
Currency swaps	—	5,823	—	5,823
Interest rate swaps	—	71	—	71
Other[a]	—	*	—	*
	—	12,423	—	12,423
Client operations				
Currency swaps	—	31,550	—	31,550
Interest rate swaps	—	428	—	428
	—	31,978		31,978
Borrowings				
Currency swaps	—	78,254	14,152	92,406
Interest rate swaps	—	4,736	57	4,793
	—	82,990	14,209	97,199
Other assets / liabilities				
Currency swaps	—	768	—	768
Interest rate swaps	—	2,343	—	2,343
	—	3,111	—	3,111
Total derivative assets	$—	$130,502	$14,209	$144,711
Derivative Liabilities:				
Investments				
Currency forward contracts	$—	$ 6,603	$ —	$ 6,603
Currency swaps	—	6,469	—	6,469
Interest rate swaps	—	202	—	202
Other[a]	—	1	—	1
	—	13,275		13,275
Client operations				
Currency swaps	—	31,545	—	31,545
Interest rate swaps	—	419	—	419
	—	31,964	—	31,964
Borrowings				
Currency swaps	—	69,699	12,849	82,548
Interest rate swaps	—	1,893	17	1,910
	—	71,592	12,866	84,458
Other assets / liabilities				
Currency swaps	—	555	—	555
Interest rate swaps	—	177	—	177
	—	732	—	732
Total liabilities	$—	$117,563	$12,866	$130,429

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, 2010			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative Assets:				
Investments				
Currency forward contracts	$—	$ 6,173	$ —	$ 6,173
Currency swaps	—	7,187	—	7,187
Interest rate swaps	—	86	—	86
Other[a]	—	*	—	*
	—	13,446	—	13,446
Client operations				
Currency swaps	—	17,205	—	17,205
Interest rate swaps	—	428	—	428
		17,633		17,633
Borrowings				
Currency swaps	—	69,347	13,320	82,667
Interest rate swaps	—	4,781	9	4,790
		74,128	13,329	87,457
Other assets / liabilities				
Currency swaps	—	697	—	697
Interest rate swaps	—	2,590	—	2,590
	—	3,287	—	3,287
Total derivative assets	$—	$108,494	$13,329	$121,823
Derivative Liabilities:				
Investments				
Currency forward contracts	$—	$ 6,140	$ —	$ 6,140
Currency swaps	—	7,207	—	7,207
Interest rate swaps	—	210	—	210
Other[a]	—	*	—	*
	—	13,557	—	13,557
Client operations				
Currency swaps	—	17,203	—	17,203
Interest rate swaps	—	420	—	420
	—	17,623	—	17,623
Borrowings				
Currency swaps	—	63,823	12,606	76,429
Interest rate swaps	—	2,208	18	2,226
	—	66,031	12,624	78,655
Other assets / liabilities				
Currency swaps	—	556	—	556
Interest rate swaps	—	224	—	224
	—	780	—	780
Total liabilities	$—	$ 97,991	$12,624	$110,615

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, 2011 and June 30, 2010:

In millions of U.S. dollars

	Fiscal Year Ended June 30, 2011		
	Currency Swaps	*Interest Rate Swaps*	*Total*
Beginning of the fiscal year	$ 714	$(9)	$ 705
Total realized/unrealized gains (losses) in:			
Net income	(159)	49	(110)
Other comprehensive income	1,126	—	1,126
Issuances	(1)	—	(1)
Sales/Settlements	(182)	—	(182)
Transfers (out of) in, net	(195)	*	(195)
End of the fiscal year	$1,303	$40	$1,343

* Indicates amount less than $0.5 million

In millions of U.S. dollars

	Fiscal Year Ended June 30, 2010		
	Currency Swaps	*Interest Rate Swaps*	*Total*
Beginning of the fiscal year	$ 18	$(19)	$ (1)
Total realized/unrealized gains or (losses) in:			
Net income	(1)	15	14
Other comprehensive income	673	—	673
Issuances	(2)	1	(1)
Sales/Settlements	(4)	—	(4)
Transfers in (out of), net	30	(6)	24
End of the fiscal year	$714	$ (9)	$705

Unrealized gains or losses included in income for the fiscal years ended June 30, 2011 and June 30, 2010, relating to IBRD's Level 3 derivatives, net still held at June 30, 2011, and June 30, 2010 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

	Fiscal Year Ended June 30,		
Unrealized (Losses) Gains	*2011*	*2010*	*2009*
Statement of Income Line			
Fair value adjustment on non-trading portfolios, net	$(172)	$(24)	$(480)

The table below provides the details of all inter-level transfers during the fiscal year ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	June 30, 2011	
	Level 2	*Level 3*
Derivatives, net		
Transfer Into (out of)	$196	$(196)
Transfers (out of) into	(1)	1
	$195	$(195)

In millions of U.S. dollars

	June 30, 2010	
	Level 2	*Level 3*
Derivatives, net		
Transfers (out of) into	$(24)	$24

Valuation Methods and Assumptions

Derivative contracts include currency forward contracts, TBAs, 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 bonds valuation are used.

NOTE G—RETAINED EARNINGS, ALLOCATIONS AND TRANSFERS

The changes in the components of Retained Earnings for each of the fiscal periods from June 30, 2008 to June 30, 2011, are summarized below:

In millions of US dollars

	Special Reserve	*General Reserve*	*Pension Reserve*	*Surplus*	*Cumulative Fair Value Adjustments*	*LTIP Reserve*	*Unallocated Net Income (Loss)*	*Restricted Retained Earnings*	*Total*
As of June 30, 2008	**$293**	**$24,859**	**$1,138**	**$ —**	**$ 800**	**—**	**$ 2,232**	**—**	**$29,322**
Adjustment to beginning balance: Cumulative effect of adoption of Fair Value Option – Note E	—	—	—	—	(2,566)	—	—	—	(2,566)
Net income allocation[a]	—	811	117	750	(39)	—	(1,649)	$10	—
Board of Governors-approved transfers funded from Surplus[b]	—	—	—	(155)	—	—	155	—	—
Net income for the year	—	—	—	—	—	—	3,114	—	3,114
As of June 30, 2009	**$293**	**$25,670**	**$1,255**	**$595**	**$(1,805)**	**—**	**$ 3,852**	**$10**	**$29,870**
Net income allocation[a]	—	—	25	—	3,280	$36	(3,352)	11	—
Board of Governors-approved transfers funded from Surplus[b]	—	—	—	(338)	—	—	338	—	—
Net loss for the year	—	—	—	—	—	—	(1,077)	—	(1,077)
As of June 30, 2010	**$293**	**$25,670**	**$1,280**	**$257**	**$ 1,475**	**$36**	**$ (239)**	**$21**	**$28,793**
Net income allocation[a]	—	281	(32)	100	(1,038)	80	621	(12)	—
Board of Governors-approved transfers funded from Surplus[b]	—	—	—	(130)	—	—	130	—	—
Net income for the year	—	—	—	—	—	—	930	—	930
As of June 30, 2011	**$293**	**$25,951**	**$1,248**	**$227**	**$ 437**	**$116**	**$1,442**	**$ 9**	**$29,723**

a. Amounts retained as Surplus from net income allocation 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.

IBRD makes net income allocation decisions on the basis of reported net income, adjusted to exclude the fair value adjustment on non-trading portfolios, net, restricted income, LTIP adjustment, and Board of Governors-Approved Transfers, and after considering the allocation to the pension reserve.

On August 5, 2010, IBRD's Executive Directors approved the allocation of $281 million of the net income earned in the fiscal year ended June 30, 2010 to the General Reserve. In addition, the Executive Directors also approved a reduction in Pension Reserve by $32 million, a reduction in Restricted Retained Earnings by $12 million, and an increase in the LTIP Reserve by $80 million.

On August 9, 2010, IBRD's Board of Governors approved the immediate transfer of $55 million from Surplus to the Trust Fund for Gaza and West Bank, by way of grant.

On October 8, 2010, IBRD's Board of Governors approved the immediate transfer of $383 million to IDA and $100 million to Surplus, from the net income earned in the fiscal year ended June 30, 2010. The transfer to IDA was made on October 13, 2010.

On June 8, 2011, IBRD's Board of Governors approved the immediate transfer of $75 million from Surplus to the Trust Fund for Gaza and West Bank, by way of grant.

Subsequent event: On July 20, 2011, IBRD's Board of Governors approved the immediate transfer of $75 million from Surplus to the Trust Fund for South Sudan, by way of grant.

Transfers approved during the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009, are included in the following table.

In millions of U.S. dollars

Transfers funded from:	*Fiscal Years Ended June 30,* 2011	2010	2009
Unallocated Net Income:			
IDA	$383	$501	$583
Surplus:			
IDA	—	283	—
Trust Fund for Gaza and West Bank	130	55	—
Food Price Crisis Response Trust Fund	—	—	115
Kosovo Sustainable Development Trust Fund	—	—	40
	130	338	155
Total	$513	$839	$738

There were no amounts payable for the transfers approved by the Board of Governors at June 30, 2011 and June 30, 2010.

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.

At June 30, 2011 and June 30, 2010, IBRD had the following (payables to) receivables from its affiliated organizations.

In millions of U.S. dollars

	2011					
			Derivative Transactions[a]			
	Loans	*Administrative Services*	*Receivable*	*Payable*	*Pension and Other Postretirement Benefits*	*Total*
IDA	$—	$370	$9,893	$(9,886)	$ (999)	$(622)
IFC	50	32	—	—	(100)	(18)
MIGA	—	3	—	—	(5)	(2)
	$50	$405	$9,893	$(9,886)	$(1,104)	$(642)

In millions of U.S. dollars

	2010					
			Derivative Transactions[a]			
	Loans	*Administrative Services*	*Receivable*	*Payable*	*Pension and Other Postretirement Benefits*	*Total*
IDA	$—	$357	$4,144	$(4,087)	$(1,088)	$(674)
IFC	50	25	—	—	(86)	(11)
MIGA	—	3	—	—	(4)	(1)
	$50	$385	$4,144	$(4,087)	$(1,178)	$(686)

a. *For details on derivative transactions relating to the 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:

Receivables / Payables related to:	**Reported as:**
Loans	Loans outstanding
Receivable for Administrative Services	Other Assets – Miscellaneous
Receivables (payables) for Derivative Transactions	Derivative Assets/Liabilities – Client operations
Payable for Pension and Other Postretirement Benefits	Accounts payable and miscellaneous liabilities

Loans

IBRD has a Local Currency Loan Facility Agreement with IFC which is capped at $300 million. At June 30, 2011, the loan balance under this facility amounted to $50 million at an interest rate of 3.96% and weighted average maturity of 3.2 years. This loan is not eligible for interest waivers.

Administrative services

For the fiscal year ended June 30, 2011, IBRD's administrative expenses are net of the share of expenses allocated to IDA of $1,234 million ($1,150 million—June 30, 2010, and $975 million—June 30, 2009). The allocation of expenses between IBRD and IDA is based on an agreed cost sharing formula, and amounts are settled quarterly.

Other income

For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009, the amount of fee revenue associated with services provided to affiliated organizations is included in Other Income on the Statement of Income, as follows:

In millions of U.S. dollars

	2011	2010	2009
Fees charged to IFC	$76	$68	$69
Fees charged to MIGA	10	8	8

For Pension and Other Post Retirement Benefits related disclosures see Note J—Pension and Other Post Retirement Benefits.

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, neither are they included in the assets of IBRD.

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.

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 financial intermediary to provide specific administrative or financial services with a limited fiduciary or operational role. These arrangements include, for example, administration of debt service trust funds, financial intermediation and other more specialized limited funds management roles. 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.

During the fiscal year ended June 30, 2011, IBRD recognized $55 million ($56 million—June 30, 2010 and $53 million—June 30, 2009) as revenue for administration of trust funds operations. This revenue has been recorded as Other Income. Revenue collected from donor contributions but not yet earned by IBRD totaling $66 million at June 30, 2011 ($65 million—June 30, 2010) 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. Under these arrangements, IBRD is responsible for managing investment account assets on behalf of these institutions, and in return receives a quarterly fee based on the average value of the portfolios.

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.

The fee income from all of these investment management activities in the amount of $21 million ($20 million —June 30, 2010) is included in Other Income on the Statement of Income.

Other Services

Donors to the Advance Market Commitment for Pneumococcal Vaccines Initiative (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. Some of these grants are payable on specified due dates and are classified as unconditional while others are payable on demand when needed and are classified as conditional for accounting purposes. As of June 30, 2011 investments and receivables at a net carrying value comprise $ 863 million (as of June 30, 2010—$717 million). These assets along with the corresponding liabilities are included in IBRD's Balance Sheet. 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. In addition, 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. IBRD also charges an annual service fee based on the related administrative and financial management costs incurred to support the program. IBRD is entitled to collect fees charged from investment income earned on AMC - related investment assets, to the extent earnings have accumulated. Should fees charged exceed investment income earned, one donor has agreed to pay IBRD up to $13 million of any deficit, of which $4 million has been paid as of June 30, 2011.

Donor Receivables are reported in Other Assets (Miscellaneous), with the corresponding payables reflected in Accounts payable and miscellaneous liabilities. Fee income recognized from these arrangements is included in Other Income. 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 Note D—Loans and Other Exposures.

NOTE J—PENSION AND OTHER POSTRETIREMENT BENEFITS

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

The SRP provides 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 measurement date for its pension and other postretirement benefit plans.

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

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

As of June 30, 2011, the SRP had a positive funded status of $328 million and the RSBP had a negative funded status of $312 million. The funded status of the PEBP, after reflecting the $426 million of assets which are included in the investment portfolio, was negative $128 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, 2011, June 30, 2010, and June 30, 2009:

In millions of U.S. dollars

	SRP			*RSBP*			*PEBP*		
	2011	*2010*	*2009*	*2011*	*2010*	*2009*	*2011*	*2010*	*2009*
Benefit Cost									
Service cost	$ 275	$ 221	$ 264	$ 55	$ 43	$ 44	$20	$15	$15
Interest cost	631	655	697	103	99	104	25	27	28
Expected return on plan assets	(728)	(757)	(948)	(94)	(91)	(115)	—	—	—
Amortization of prior service cost	7	7	7	(*)	(2)	(2)	*	*	*
Amortization of unrecognized net loss	117	68	—	37	29	21	13	11	20
Net periodic pension cost	$ 302	$ 194	$ 20	$101	$ 78	$ 52	$58	$53	$64
of which:									
IBRD's share	$ 144	$ 94	$ 10	$ 48	$ 38	$ 25	$28	$26	$31
IDA's share	$ 158	$ 100	$ 10	$ 53	$ 40	$ 27	$30	$27	$33

* *Indicates amount less than $0.5 million*

IBRD's share of benefit cost is included in Administration Expenses. IDA's share of benefit cost 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, 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, 2011, and June 30, 2010. Since the assets for the PEBP are not held in an irrevocable trust separate from the assets of IBRD, they do not qualify for off-balance sheet accounting and are therefore included in IBRD's investment portfolio. The assets of the PEBP are invested in fixed income instruments.

In millions of U.S. dollars

	SRP		*RSBP*		*PEBP*	
	2011	*2010*	*2011*	*2010*	*2011*	*2010*
Projected Benefit Obligations						
Beginning of year	$11,249	$ 9,608	$1,741	$1,433	$ 450	$ 395
Service cost	275	221	55	43	20	15
Interest cost	631	655	103	99	25	27
Participant contributions	80	76	15	13	1	1
Federal subsidy received	n.a	n.a.	3	1	n.a	n.a.
Benefits paid	(495)	(457)	(60)	(49)	(23)	(18)
Actuarial loss	304	1,146	14	201	81	30
End of year	12,044	11,249	1,871	1,741	554	450
Fair value of plan assets						
Beginning of year	10,950	9,932	1,326	1,166		
Participant contributions	80	76	15	13		
Actual return on assets	1,686	1,254	203	140		
Employer contributions	151	145	75	56		
Benefits paid	(495)	(457)	(60)	(49)		
End of year	12,372	10,950	1,559	1,326		
Funded status[a]	$ 328	$ (299)	$ (312)	$ (415)	$(554)	$ (450)
Accumulated Benefit Obligations	$10,519	$ 9,502	$1,871	$1,741	$ 486	$ 415

a. Positive funded status is reflected in Assets under retirement benefits plans; negative funded status is included in Liabilities under retirement benefits plans, on the Balance Sheet

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, 2011:

In millions of U.S. dollars

	SRP	*RSBP*	*PEBP*	*Total*
Net actuarial loss	$1,675	$484	$226	$2,385
Prior service cost	27	—	2	29
Net amount recognized in Accumulated Other Comprehensive Loss	$1,702	$484	$228	$2,414

Amounts included in Accumulated Other Comprehensive Loss at June 30, 2010:

In millions of U.S. dollars

	SRP	*RSBP*	*PEBP*	*Total*
Net actuarial loss	$2,445	$617	$157	$3,219
Prior service cost (credit)	35	(*)	2	37
Net amount recognized in Accumulated Other Comprehensive Loss	$2,480	$617	$159	$3,256

* *Indicates amount less than $0.5 million*

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, 2012 are as follows:

In millions of U.S. dollars

	SRP	*RSBP*	*PEBP*	*Total*
Net actuarial loss	$35	$25	$19	$79
Prior service cost	7	—	*	7
Amount estimated to be amortized into net periodic benefit cost	$42	$25	$19	$86

* *Indicates amount less than $0.5 million*

Assumptions

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

The expected long-term rate of return for the SRP assets is a weighted average of the expected long-term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, and risk premium/spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end 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, 2011, June 30, 2010, and June 30, 2009:

Weighted average assumptions used to determine projected benefit obligation

In percent

	SRP			*RSBP*			*PEBP*		
	2011	*2010*	*2009*	*2011*	*2010*	*2009*	*2011*	*2010*	*2009*
Discount rate	5.30	5.75	7.00	5.50	6.00	7.00	5.20	5.75	7.00
Rate of compensation increase	5.90	6.20	6.70				5.90	6.20	6.70
Health care growth rates - at end of fiscal year				6.90	7.00	7.00			
Ultimate health care growth rate				4.00	4.25	4.75			
Year in which ultimate rate is reached				2022	2022	2017			

Weighted average assumptions used to determine net periodic pension cost

In percent

	SRP			*RSBP*			*PEBP*		
	2011	*2010*	*2009*	*2011*	*2010*	*2009*	*2011*	*2010*	*2009*
Discount rate	5.75	7.00	6.75	6.00	7.00	6.75	5.75	7.00	6.75
Expected return on plan assets	6.75	7.75	7.75	7.75	7.75	8.25			
Rate of compensation increase	6.20	6.70	7.00				6.20	6.70	7.00
Health care growth rates - at end of fiscal year				7.00	7.00	7.25			
Ultimate health care growth rate				4.25	4.75	5.50			
Year in which ultimate rate is reached				2022	2017	2016			

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	$ 38	$ (29)
Effect on postretirement benefit obligation	$365	$(284)

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., neutral mix of assets) around which the plans are invested. The SAA for the plans are reviewed in detail and reset about every three to five years, with an annual review of key assumptions.

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

The 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 desired liquidity needs of the plans. The strategic asset allocation is comprised of a diversified portfolio drawn from among fixed-income, equity, real assets and absolute return strategies.

The revised target asset allocations for the SRP and RSBP were approved in December 2010 and April 2011, respectively and the portfolio is currently in transition to the new SAA.

The following table presents the actual and target asset allocation at June 30, 2011 and June 30, 2010 by asset category for the SRP and RSBP.

In percent

	SRP			*RSBP*		
	Target Allocation	*% of Plan Assets*		*Target Allocation*	*% of Plan Assets*	
Asset Class	*Effective January 2011 (%)*	*2011*	*2010*	*Effective May 2011 (%)*	*2011*	*2010*
Fixed Income & Cash	31	33	41	24	33	36
Public Equity	27	24	15	29	27	23
Private Equity	15	20	20	20	25	26
Hedge Funds & Active Overlay	15	11	13	15	8	10
Real Assets	12	12	11	12	7	5
Total	100	100	100	100	100	100

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 Plan's overall return volatility.

Risk management practices

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

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

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 plans assets as of June 30, 2011 and June 30, 2010.

In millions of U.S. dollars

	June 30, 2011							
	SRP				RSBP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt Securities								
Time deposits	$ —	$ 225	$ —	$ 225	$ —	$ 23	$ —	$ 23
Securities purchased under resale agreements	283	—	—	283	20	—	—	20
Government and agency securities	2,478	938	—	3,416	64	280	—	344
Corporate and convertible bonds	—	247	2	249	—	123	—	123
Asset backed securities	—	115	25	140	—	6	2	8
Mortgage backed securities	—	408	14	422	—	8	1	9
Total Debt Securities	**2,761**	**1,933**	**41**	**4,735**	**84**	**440**	**3**	**527**
Equity securities								
Stocks	1,482	—	—	1,482	188	—	—	188
Mutual funds	249	—	—	249	38	—	—	38
Real estate investment trusts (REITS)	250	—	—	250	3	—	—	3
Total Equity Securities	**1,981**	—	—	**1,981**	**229**	—	—	**229**
Commingled funds	—	726	—	726	—	181	—	181
Private equity	—	—	2,504	2,504	—	—	388	388
Real estate (including infrastructure and timber)	—	309	733	1,042	—	11	101	112
Hedge funds	—	1,150	322	1,472	—	92	34	126
Derivative assets / liabilities	17	(24)	—	(7)	*	(6)	—	(6)
Other assets / liabilities[a], net	—	—	—	(81)	—	—	—	2
Total Assets	**$4,759**	**$4,094**	**$3,600**	**$12,372**	**$313**	**$718**	**$526**	**$1,559**

a. Includes receivables and payables carried at amounts that approximate fair value.
** Indicates amount less than $0.5 million*

In millions of U.S. dollars

	June 30, 2010							
	SRP				RSBP			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt Securities								
Time deposits	$ —	$ 172	$ —	$ 172	$ —	$ 18	$ —	$ 18
Securities purchased under resale agreements	227	—	—	227	34	—	—	34
Government and agency securities	2,725	209	—	2,934	120	183	—	303
Corporate and convertible bonds	—	458	4	462	—	100	*	100
Asset backed securities	—	119	50	169	—	6	2	8
Mortgage backed securities	—	682	23	705	—	17	1	18
Total Debt Securities	**2,952**	**1,640**	**77**	**4,669**	**154**	**324**	**3**	**481**
Equity securities								
Stocks	1,146	—	—	1,146	149	—	—	149
Mutual funds	49	—	—	49	6	—	—	6
Real estate investment trusts (REITS)	175	—	—	175	1	—	—	1
Total Equity Securities	**1,370**	—	—	**1,370**	**156**	—	—	**156**
Commingled funds	—	554	—	554	—	139	—	139
Private equity	—	—	2,177	2,177	—	—	340	340
Real estate (including infrastructure and timber)	—	—	729	729	—	—	74	74
Hedge funds	—	1,144	416	1,560	—	94	44	138
Derivative assets / liabilities	4	(4)	—	*	*	7	—	7
Short sales	—	(9)	—	(9)	—	—	—	—
Other assets / liabilities[a], net	—	—	—	(100)	—	—	—	(9)
Total Assets	**$4,326**	**$3,325**	**$3,399**	**$10,950**	**$310**	**$564**	**$461**	**$1,326**

a. Includes receivables and payables carried at amounts that approximate fair value.
** Indicates amount less than $0.5 million*

The following tables present a reconciliation of Level 3 assets held during the year ended June 30, 2011 and 2010. Investments in certain real estate funds that were identified as redeemable within 90 days of the period end were transferred out of Level 3 into Level 2.

In millions of US dollars

	June 30, 2011 SRP						
	Corporate and Convertible Debt	*Asset-backed Securities*	*Mortgage-backed Securities*	*Private Equity*	*Real Estate*	*Hedge Funds*	*Total*
Beginning of the fiscal year	$ 4	$50	$ 23	$2,177	$ 729	$ 416	$3,399
Actual return on plan assets:							
Relating to assets still held at the reporting date	*	5	1	53	146	41	246
Relating to assets sold during the period	—	(3)	(1)	240	17	25	278
Purchases, issuance and settlements, net	*	3	(2)	34	153	(166)	22
Transfers (out) in	(2)	(30)	(7)	—	(312)	6	(345)
Balance at end of fiscal year	$2	$25	$14	$2,504	$ 733	$ 322	$3,600

* *Indicates amount less than $0.5 million*

In millions of US dollars

	June 30, 2011 RSBP						
	Corporate and Convertible Debt	*Asset-backed Securities*	*Mortgage-backed Securities*	*Private Equity*	*Real Estate*	*Hedge Funds*	*Total*
Beginning of the fiscal year	$ *	$ 2	$ 1	$340	$ 74	$ 44	$461
Actual return on plan assets:							
Relating to assets still held at the reporting date	*	1	*	16	12	3	32
Relating to assets sold during the period	(*)	*	(*)	32	3	4	39
Purchases, issuance and settlements, net	(*)	1	*	*	22	(17)	6
Transfers (out) in	—	(2)	—	—	(10)	*	(12)
Balance at end of fiscal year	$—	$ 2	$ 1	$388	$101	$ 34	$526

* *Indicates amount less than $0.5 million*

In millions of US dollars

	June 30, 2010 SRP						
	Corporate and Convertible Debt	*Asset-backed Securities*	*Mortgage-backed Securities*	*Private Equity*	*Real Estate*	*Hedge Funds*	*Total*
Beginning of the fiscal year	$ 5	$32	$ 167	$1,715	$605	$ 1,704	$ 4,228
Actual return on plan assets:							
Relating to assets still held at the reporting date	1	6	19	268	(17)	315	592
Relating to assets sold during the period	*	4	1	124	12	44	185
Purchases, issuance and settlements, net	(1)	12	(16)	70	129	(604)	(410)
Transfers (out) in	(1)	(4)	(148)	—	—	(1,043)	(1,196)
Balance at end of fiscal year	$ 4	$50	$ 23	$2,177	$729	$ 416	$ 3,399

* *Indicates amount less than $0.5 million*

In millions of US dollars

	June 30, 2010 RSBP						
	Corporate and Convertible Debt	*Asset-backed Securities*	*Mortgage-backed Securities*	*Private Equity*	*Real Estate*	*Hedge Funds*	*Total*
Beginning of the fiscal year	$*	$ 4	$ 9	$269	$61	$159	$502
Actual return on plan assets:							
Relating to assets still held at the reporting date	—	(*)	1	42	(4)	11	50
Relating to assets sold during the period	—	1	—	15	1	4	21
Purchases, issuance and settlements, net	—	(3)	(1)	14	16	(56)	(30)
Transfers (out) in	*	*	(8)	—	—	(74)	(82)
Balance at end of fiscal year	$*	$ 2	$ 1	$340	$74	$ 44	$461

* *Indicates amount less than $0.5 million*

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

Equity securities

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

Commingled funds

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

Private equity

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

Real estate

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

Hedge fund investments

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

Investments in hedge funds and commingled funds can typically be redeemed at NAV within the near term while investments in private equity and most real estate are inherently long term and illiquid in nature with a quarter lag in reporting by the fund managers. For the June 30, 2011 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, 2011:

In millions of U.S. dollars

	SRP	*RSBP*		*PEBP*
		Before Medicare Part D Subsidy	*Medicare Part D Subsidy*	
July 1, 2011 - June 30, 2012	$597	$52	$1	$35
July 1, 2012 - June 30, 2013	630	57	1	37
July 1, 2013 - June 30, 2014	666	63	2	39
July 1, 2014 - June 30, 2015	703	69	2	41
July 1, 2015 - June 30, 2016	738	75	2	44
July 1, 2016 - June 30, 2021	4,166	475	12	253

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, 2011 is $184 million and $76 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 the cumulative effects of a change in accounting principle related to the implementation of FASB's derivatives and hedging guidance, currency translation adjustments, 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 for the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009:

In millions of U.S. dollars

	2011					
	Cumulative Translation Adjustment	*Cumulative Effect of Change in Accounting Principle*[a]	*Reclassification*[a]	*Unrecognized Net Actuarial (Losses) Gains on Benefit Plans*	*Unrecognized Prior Service (Costs) Credits on Benefit Plans*	*Total Accumulated Other Comprehensive Loss*
Balance, beginning of the fiscal year	$223	$500	$(510)	$(3,219)	$(37)	$(3,043)
Changes from period activity	793	—	(11)	834	8	1,624
Balance, end of the fiscal year	$1,016	$500	$(521)	$(2,385)	$(29)	$(1,419)

a. The Cumulative effect of change in accounting principle and subsequent reclassification to net income relates to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

In millions of U.S. dollars

	2010					
	Cumulative Translation Adjustment	*Cumulative Effect of Change in Accounting Principle*[a]	*Reclassification*[a]	*Unrecognized Net Actuarial Losses on Benefit Plans*	*Unrecognized Prior Service (Costs) Credits on Benefit Plans*	*Total Accumulated Other Comprehensive Loss*
Balance, beginning of the fiscal year	$ 860	$500	$(505)	$(2,495)	$(43)	$(1,683)
Changes from period activity	(637)	—	(5)	(724)	6	(1,360)
Balance, end of the fiscal year	$223	$500	$(510)	$(3,219)	$(37)	$(3,043)

a. The Cumulative effect of change in accounting principle and subsequent reclassification to net income relates to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

In millions of U.S. dollars

	2009					
	Cumulative Translation Adjustment	*Cumulative Effect of Change in Accounting Principle*[a]	*Reclassification*[a]	*Unrecognized Net Actuarial Losses on Benefit Plans*	*Unrecognized Prior Service Costs on Benefit Plans*	*Total Accumulated Other Comprehensive Income (Loss)*
Balance, beginning of the fiscal year	$1,226	$500	$(516)	$ (914)	$(43)	$ 253
Changes from period activity	(366)	—	11	(1,581)	(*)	(1,936)
Balance, end of the fiscal year	$ 860	$500	$(505)	$(2,495)	$(43)	$(1,683)

a. The Cumulative effect of change in accounting principle and subsequent reclassification to net income relates to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

** 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, 2011 and June 30, 2010.

In millions of U.S. dollars

	2011		2010	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Due from Banks	$ 2,462	$ 2,462	$ 1,803	$ 1,803
Investments	32,645	32,645	36,249	36,249
Net Loans Outstanding	130,470	129,447	118,104	117,936
Derivative Assets				
Investments	12,423	12,423	13,446	13,446
Client operations	31,978	31,978	17,633	17,633
Borrowings	97,199	97,199	87,457	87,457
Other Asset/Liability	3,111	3,111	3,287	3,287
Borrowings	135,242	135,223[a]	128,577	128,563[a]
Derivative Liabilities				
Investments	13,275	13,275	13,557	13,557
Client operations	31,964	31,964	17,623	17,623
Borrowings	84,458	84,458	78,655	78,655
Other Asset/Liability	732	732	780	780

a. Includes $19 million relating to transition adjustment on adoption of a new accounting standard on derivatives and hedging on July 1, 2000 ($14 million — June 30, 2010).

Valuation Methods and Assumptions

For valuation methods and assumptions of the following items see:

Investments – Notes A and C

Loans – Notes A and D

Borrowings – Notes A and E

Derivative assets and liabilities – Notes A, C, E and F

Due from Banks

The carrying amount of unrestricted and restricted currencies is considered a reasonable estimate of the fair value of these positions.

Fair Value Adjustment on Non-Trading Portfolios, Net

The following table reflects the components of the fair value adjustment on non-trading portfolios, net for the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009.

In millions of U.S. dollars

	2011	*2010*	*2009*
Fair value adjustments— gains (losses):			
Borrowings—Note E	$1,505	$(3,024)	$(1,068)
Derivatives—Note F			
Borrowing derivatives	(842)	868	2,671
Other assets/liabilities derivatives	(248)	1,097	1,687
Client operations derivatives	1	6	4
Loan—Note D	4	15	(14)
Total	$ 420	$(1,038)	$ 3,280

INTERNATIONAL DEVELOPMENT ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

LIST OF BOXES, TABLES AND CHARTS — PAGE

Throughout Management's Discussion and Analysis, terms in **boldface** type are defined in the Glossary of Terms.

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

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Section 1: Overview of Financial Results

Introduction

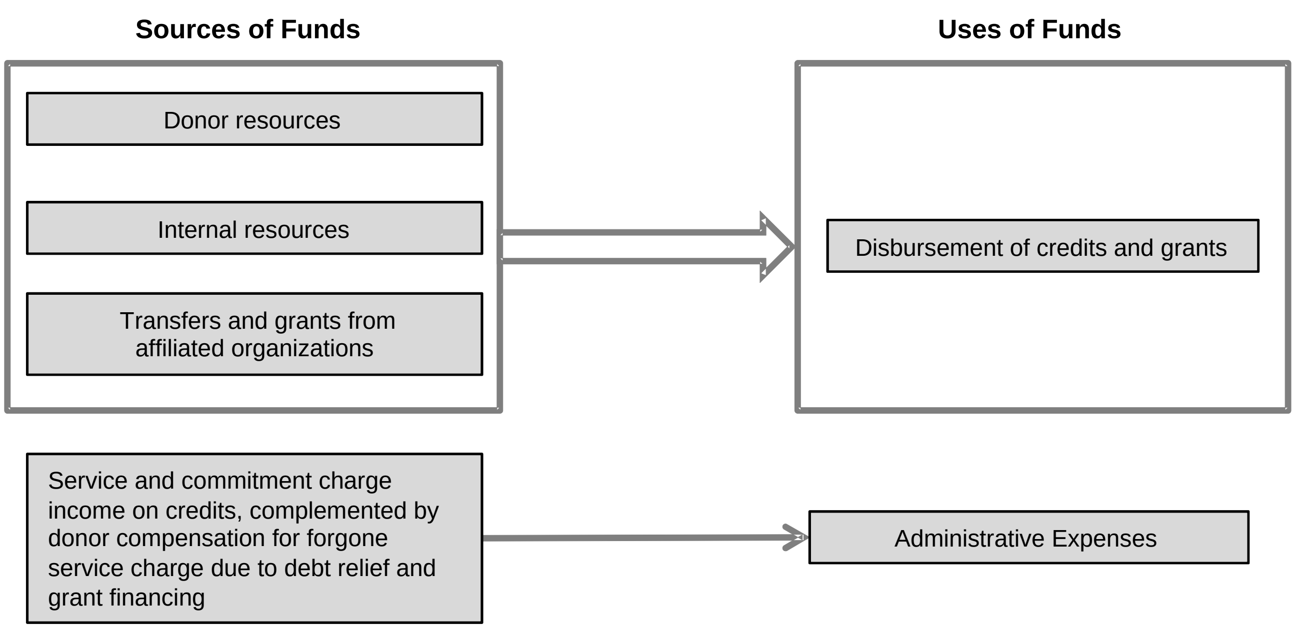
The International Development Association (IDA) is an international organization established in 1960 and is owned by its member countries. It is the largest multilateral channel for providing concessional financing to the world's poorest countries. Since its inception it has played a pivotal role in the global aid architecture and in efforts to boost economic growth, lower poverty and improve the living conditions of people. IDA pursues these goals by providing concessional development credits, grants and guarantees to its recipient member countries to help meet their development needs. It also participates in programs and initiatives including debt relief, and provides technical assistance and other advisory services to support poverty reduction. Given its poverty focus, IDA directs a large share of its resources to countries where people earn less than two dollars a day.

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

Sources and Uses of Funds

IDA's lending, grant financing and guarantee activities are funded by donor and internal resources, and transfers and grants from affiliated organizations. To compensate IDA for administrative expenses incurred, IDA charges 75 basis points as a service charge on development credits outstanding. In addition, a commitment charge of between nil and 50 basis points per annum, payable on the undisbursed amount of the development credits, may be set to cover administrative expenses. To the extent that debt relief and grant financing reduces service charge income, donors compensate IDA for the forgone service charge income. IDA's sources and uses of funds are depicted in the chart below:

Sources and Uses of Funds



Donor resources: Donors normally replenish IDA's resources every three years through a new replenishment. These resources are in the form of subscriptions and contributions with assigned voting rights. As of June 30, 2011, cumulative subscriptions and contributions paid-in stood at $167,610 million.

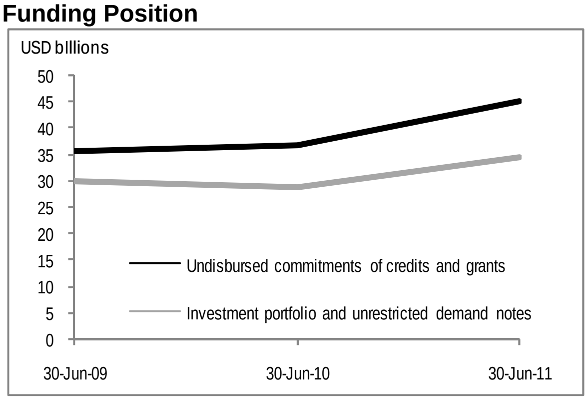
Internal resources: These comprise contractual principal repayments (including any accelerated repayments and voluntary prepayments), income from the investment portfolio, and interest income from blend and hard-term credits.

Transfers and grants from affiliated organizations: These comprise transfers from the International Bank for Reconstruction and Development's (IBRD) net income and grants from the International Finance Corporation's (IFC) retained earnings. As of June 30, 2011, cumulative amount received from such transfers and grants from IBRD and IFC was $13,495 million.

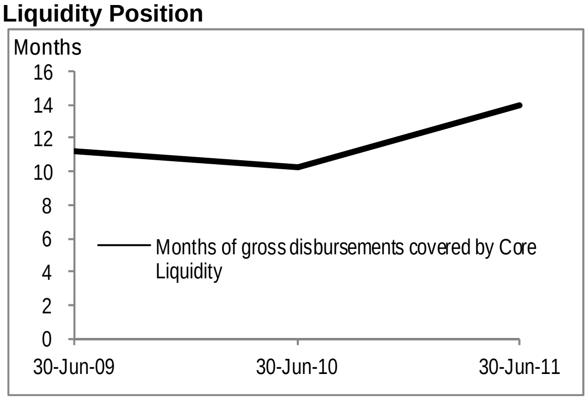
Funding and Liquidity Position

Maintaining an adequate level of funding resources and liquidity is essential for IDA's operations, since it faces timing mismatches between cash receipts from donors and the realization of internal resources, and the disbursements of new credits and grants. The fact that IDA does not borrow from the capital markets even though it is allowed to do so under its Articles of Agreement, makes it even more important that it has sufficient funding resources and liquidity to meet its contractual obligations to disburse approved development credits and grants in a timely manner.

Funding Position



Liquidity Position



As of June 30, 2011, the investment portfolio and unrestricted demand notes covered 77 percent of all undisbursed commitments of development credits and grants.

IDA's investment portfolio consists of accelerated encashment of donor contributions, lBRD transfers and IFC grants (Tranche 1) and a core liquidity component (Tranche 2 and 3), see **Section 6.5**. As of June 30, 2011, core liquidity accounted for nearly nearly $12 billion, comprising short-term and medium-term investments, and was sufficient to cover nearly 14 months of average monthly gross disbursements, based on FY 2011 volume.

Balance Sheet Analysis

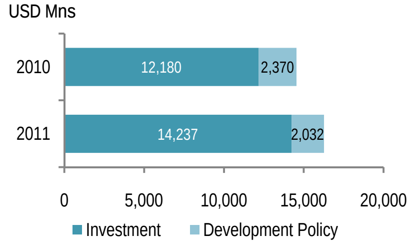
Condensed Balance Sheets
In millions of U.S. dollars

As of June 30,	2011	2010	Variance
Assets			
Investment assets including derivatives	$ 32,479	$ 27,680	$ 4,799
Receivables, cash and derivatives relating to asset/liability management	11,382	5,549	5,833
Development credits outstanding	125,287	113,474	11,813
Less accumulated provision for debt relief and losses on development credits	(6,947)	(8,948)	2,001
Total assets	$162,201	$137,755	$24,446
Liabilities and equity			
Liabilities and derivatives relating to investments	$ 7,607	$ 6,041	$ 1,566
Subscriptions and contributions paid-in	167,610	157,413	10,197
Demand obligations, payables and derivatives relating to asset/liability management	8,286	3,206	5,080
Accumulated deficit	(39,096)	(36,764)	(2,332)
Accumulated other comprehensive income	17,794	7,859	9,935
Total liabilities and equity	$162,201	$137,755	$24,446

The principal components of IDA's balance sheet are development credits outstanding, investment assets net of liabilities, and subscriptions and contributions paid-in. Movements in these components between FY2010 and FY2011 are presented on page 6.

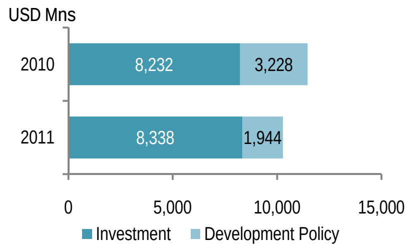
Development Operations

Commitments



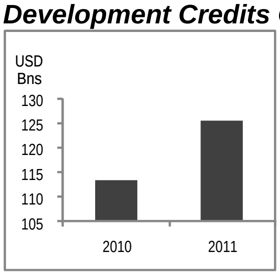
Commitments of development credits, grants and guarantees totaled $16,269 million in FY2011, an increase of $1,719 million (12%) over the FY2010 commitments. The South Asia Region accounted for most of this increase. The share of investment financing increased from 84% in FY2010 to 88% in FY2011.

Gross Disbursements



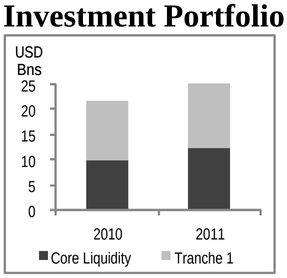
The share of the faster disbursing development policy financing in gross disbursements decreased from 28% in FY2010 to 19% in FY2011. This was reflected in the decline of gross disbursements of credits and grants by $1,178 million (10%) between FY2010 and FY2011. Africa and the East Asia and Pacific Regions primarily accounted for this decrease.

Development Credits Outstanding



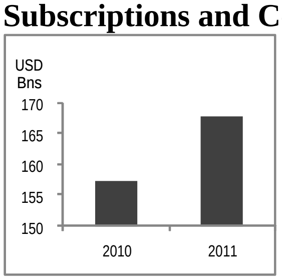
IDA's principal assets are its development credits outstanding to its borrowing member countries. Development credits outstanding increased by $11.8 billion due to positive net disbursements of $5.5 billion and positive currency translation adjustment of $8.8 billion, partially offset by development credits of $2.5 billion written off under the Heavily Indebted Poor Countries (HIPC) debt relief initiative and Multilateral Debt Relief Initiative (MDRI).

Investment Portfolio



The increase in the net asset value of the investment portfolio of $3.2 billion was made up of a $2.2 billion increase in core liquidity and a $1 billion increase in Tranche 1. The share of core liquidity has remained below 50 percent of the investment portfolio over the two years.

Subscriptions and Contributions Paid-In



Subscriptions and contributions paid-in increased by $10.2 billion primarily due to $7.5 billion of demand notes received and $1.7 billion of cash contributions.

Income Statement Analysis

Condensed Statements of Income

Expressed in millions of U.S. dollars

For the fiscal years ended June 30	2011	2010	Variance
Income			
Income from development credits and guarantees	$ 897	$ 837	$ 60
Investment income, net of interest expense	305	910	(605)
Transfers and grants from affiliated organizations and trust funds	991	990	1
Expenses			
Administrative expenses	(1,234)	(1,150)	(84)
Development grants	(2,793)	(2,583)	(210)
Release of provision for debt relief and for losses on development credits and other exposures	44	90	(46)
Other, net	14	(1)	15
Effect of exchange rate changes on non-functional currencies	(455)	(167)	(288)
Net unrealized losses on non-trading derivatives	(101)	(3)	(98)
Net Loss	$(2,332)	$(1,077)	$(1,255)

The key drivers of IDA's net loss are the volume of development grants approved, the effects of interest rates, sovereign credit risks, and exchange rates of non-**Special Drawing Rights** (**SDR**) component currencies. The impact of these factors on IDA's net results between FY2010 and FY2011 are discussed below.

Development grants

Development grants are expensed through the income statement and represent the most significant driver of IDA's net loss. The volume of development grants approved for any borrowing member country is dependent upon the results of that country's debt sustainability analysis. Most of the $210 million increase in development grants expensed between FY2010 and FY2011 was allocated to the Africa region.

Effect of interest rates

IDA's investment portfolio is sensitive to interest rates as a result of having a duration of more than two years as part of its immunization strategy. The decrease of $605 million in net investment income was primarily driven by lower effective yields, as well as lower returns on the euro holdings due to the steepening of the yield curve.

In addition, IDA also uses currency forward contracts to economically hedge those donor pledges which are denominated in non-**SDR** component currencies. The fair value of these currency forward contracts is sensitive to changes in interest rates as manifested in movements in the yield curve. The $98 million increase in the fair value loss on non-trading portfolios is primarily due to the effect of the steepening of the euro yield curve on the currency forward contracts.

Effect of sovereign credit risk

Changes to the existing provision for debt relief are primarily driven by the revision of the **Decision** and **Completion Point** dates of the HIPC eligible countries. Changes to the provision for losses on credits and other exposures are driven by changes in volumes, nonaccrual events, and the credit quality of the portfolio.

For FY2011, the net release of provision for debt relief and credit losses was due to the revision of **Decision** and **Completion Point** dates for a number of HIPC eligible countries. This was partially offset by an increase in the provision for losses on credits and other exposures due to volume changes. Similarly, during FY2010, the net release of provision was due to the revision of **Decision** and **Completion Point** dates for a number of HIPC eligible countries partially offset by an increase in the provision for losses on credits and other exposures due to volume changes.

Effect of Exchange rates of non-SDRs component currencies

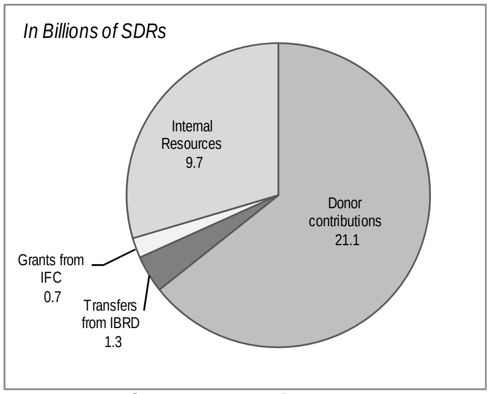
The payable leg of currency forward contracts economically **hedging** donor pledges are composed of non-**SDR** component currencies. Appreciation (depreciation) of these currencies against the U.S. dollar results in exchange rate losses (gains). The increase in exchange rate losses on non-functional currencies of $288 million was primarily due to the significant appreciation of the majority of the non-functional currencies against the U.S. dollar in FY2011 as compared to FY2010.

Other Factors

Administrative expenses: The increase of $84 million was primarily due to an increase in IDA's share of total expenses jointly incurred by IBRD and IDA, reflecting a higher proportion of IDA operations in FY2011 as compared to FY2010.

Commitment Authority

IDA is a revolving concessional financing window with regular three-year **replenishments** by donors. The resources available to IDA for funding its grant financing, lending and guarantee activities constitute its **commitment authority**, which is measured in **SDRs**. As commitments for development credits and grants are approved during the three-year **replenishment** period, the **commitment authority** is drawn down. These committed funds are then disbursed over an extended period, generally eleven years. FY2011, ending on June 30, 2011, was the last year of the fifteenth replenishment of IDA's resources.



The Sixteenth Replenishment of IDA's Resources (IDA16)
The Board of Governors adopted the resolution approving IDA16 on April 26, 2011. During the IDA16 period, which spans from July 1, 2011 to June 30, 2014, IDA is expected to provide concessional financing of **SDR** 32.8 billion ($52.5 billion[1]). The chart provides a breakdown of the sources of funds for IDA16. Donor pledges, including compensation for debt relief provided under MDRI, total **SDR** 21.1 billion ($33.7 billion), accounting for 64 percent of total IDA16 funding. The next largest component of funding is from IDA's internal resources which at **SDR** 9.7 billion ($15.5 billion) accounts for 30 percent of the total. Internal resources comprise the traditional repayments of credits as well as for the first time, voluntary prepayments and accelerated repayments from IDA graduate countries. IDA16 will become effective when IDA has received Instruments of Commitment (**IoC**) for subscriptions and contributions from donors of not less than **SDR** 10.4 billion ($16.6 billion).

Advance Commitment Scheme under IDA16
In order to avoid an interruption in committing financing to eligible recipients pending the effectiveness of IDA16, one third of **IoC**s received from participating donors will be available for new commitments starting July 1, 2011 under the Advance Commitment Scheme. In addition, in May 2011, the Executive Directors approved the use of internal resources in the amount of **SDR** 9.7 billion ($15.5 billion) for new commitments starting July 1, 2011.

Composition of IDA16 Resources

Financial Reporting of Replenishment Resources
The recognition and reporting of replenishment resources in the financial statements are described below.

Donor resources: Donor pledges not represented by **IoCs** are not recognized on the balance sheet as they do not meet the definition of an asset. The receipt of **IoCs** are reflected on IDA's balance sheet as subscriptions and contributions committed with an offsetting amount for subscriptions and contributions receivable. When **IoC**s are encashed and or substituted by demand obligations, IDA recognizes these as subscriptions and contributions paid-in.

Internal resources: To the extent that internal resources are represented by future repayments of credits, they are already reported as part of the credits outstanding and once received, become part of the investment portfolio pending future disbursement.

Transfers from IBRD and grants from IFC: These resources are recorded as income upon approval by IBRD's Board of Governors or upon execution of a grant agreement between IDA and IFC.

Investment income: The income from the investment portfolio which has been included as part of the various components of replenishment resources, is only recorded when earned.

[1] *Using the June 30, 2011 exchange rate of 1 SDR = U.S. $1.6. Throughout the document, this exchange rate is used to translate any SDR amounts relating to IDA16 to its U.S. dollar equivalent.*

Box 1: Four-Year Summary of Selected Financial Data

As of or for the fiscal years ended June 30,

In millions of US dollars, except ratios and return data in percentages

	2011	*2010*	*2009*	*2008*
Development Operations (Discussed in Section 2)				
Commitments of credits, grants and guarantees	$16,269	$14,550	$14,041[a]	$11,235
of which development grants	2,822	2,678	2,600	3,216
Gross Disbursements	10,282	11,460	9,219	9,160
of which development grants	2,261	2,124	2,208	2,626
Net Disbursements including grants	7,781	9,111	7,010	6,978
Balance Sheet (Discussed in Section 8)				
Total Assets	$162,201	$137,755	$137,418	$141,450
Net Investment portfolio	24,872	21,639	21,287	19,053
of which core liquidity	11,987	9,811	8,594	5,364
Development credits outstanding	125,287	113,474	112,894	113,542
Undisbursed development credits	38,059	30,696	29,903	27,539
Development grants payable	6,830	5,837	5,652	5,522
Unrestricted demand obligations	9,610	6,993	8,398	8,004
Subscriptions and Contributions paid-in	167,610	157,413	150,085	142,416
Income Statement (Discussed in Section 8)				
Net (Loss) Income	(2,332)	(1,077)	1,850	(283)
Income from development credits and guarantees	897	837	801	921
Investment income	320	921	1,623	1,396
Transfers and grants	991	990	1,037	1,104
Development grants	(2,793)	(2,583)	(2,575)	(3,151)
Administrative expenses	(1,234)	(1,150)	(975)	(888)
Provision for debt relief and losses on credits and other exposures, decrease	44	90	1,236	773
Non-functional currency translation adjustment, (losses)gains	(455)	(167)	859	6
Funding Position (Discussed in Section 7)				
Investment portfolio and unrestricted demand notes as a percentage of undisbursed commitments of credits and grants payable	77%	78%	83%	82%
Liquidity Position (Discussed in Section 7)				
Months of average monthly gross disbursements covered by core liquidity	14	10	11	n.a.

a. FY2009 commitments of credits and grants include HIPC grants totaling $46 million.

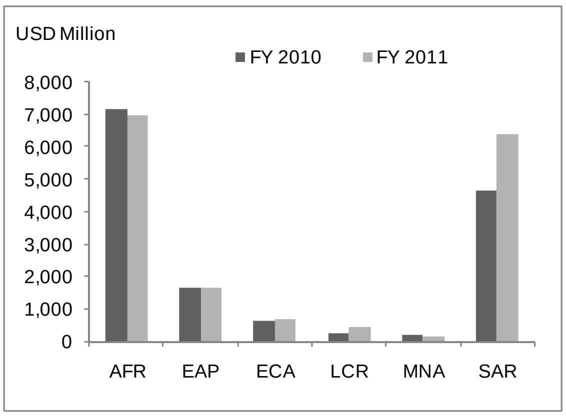
Section 2: DEVELOPMENT OPERATIONS

A summary of the development operations for the last four fiscal years is included in **Box 1**.

2.1 Commitments

Commitments of development credits and grants in FY2011 reached $16,269 million, an increase of $1,719 million (12%) over FY2010. In terms of regional focus, SAR alone registered an increase of $1,754 million. AFR and SAR together account for 82% of the FY2011 commitments (see **Chart 1**).

Chart 1: Commitments of Credits and Grants by Region

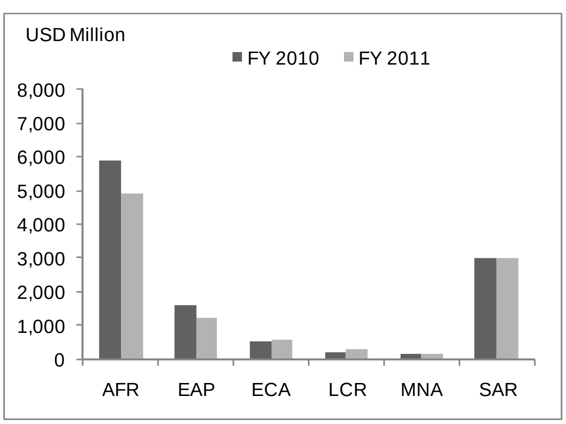


Regions:	
AFR Africa	EAP East Asia and Pacific
ECA Europe and Central Asia	LCR Latin America and the Caribbean
MNA Middle East and North Africa	SAR South Asia

2.2 Gross Disbursements

Gross disbursements of credits and grants in FY2011 were $10,282 million, a decrease of $1,178 million (10%) from FY2010. In terms of regional focus, AFR and EAP accounted for $1,343 million of the decrease, while AFR and SAR accounted for 77% of the total FY2011 gross disbursements (see **Chart 2**).

Chart 2: Gross Disbursements of Credits and Grants by Region



Section 3: DEVELOPMENT ACTIVITIES, PRODUCTS AND PROGRAMS

3.1 Introduction

IDA offers development credits, development grants, and guarantees to its recipient member countries to boost economic growth, lower poverty and improve the living conditions of its people. It also provides technical assistance, advisory and other services to support poverty reduction in these countries. In addition, IDA participates in a comprehensive approach to reduce the external debt of the world's poorest, most heavily indebted countries, by providing debt relief on their outstanding debt to IDA, and has established responses to provide assistance to low-income countries against the impact of the global financial crises.

IDA has a common framework which extends across all of its development activities. The main elements of this framework are eligibility criteria, financing principles, financing cycles and financing categories.

3.2 Eligibility Criteria

Two basic criteria govern a country's eligibility for IDA resources, namely: relative poverty defined as gross national income (GNI) per capita below an established threshold (updated annually), and lack of creditworthiness to borrow from both commercial sources and IBRD, and therefore a need for concessional resources. As of July 1, 2011, 80 countries are eligible to borrow from IDA. Of these, 65 are not considered sufficiently creditworthy to borrow from IBRD and are referred to as "IDA only" countries. The remaining 15 countries are deemed to have limited IBRD creditworthiness. These latter countries may receive both IDA and IBRD financing and are referred to as "blend" countries. With a few exceptions, IDA's eligibility cutoff for FY2012 has been set at a GNI per capita in 2010 of $1,175 (the "operational cutoff"). The operational cutoff for FY2011 was a GNI per capita in 2009 of $1,165.

3.3 Financing Principles

IDA's operations are required to conform to the general principles derived from its Articles of Agreement. These principles (which are described in **Box 2**), taken together, seek to ensure that IDA financing is made to member countries for financially and economically sound purposes to which those countries have assigned high development priority, and that the financing is utilized as intended. 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.

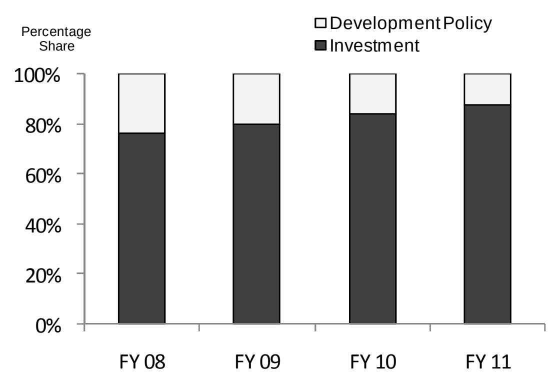
3.4 Financing Cycles

The process of identifying and appraising a project and approving and disbursing the funds often extends over several years. However, on numerous occasions, IDA has shortened the preparation and approval cycle in response to emergency situations, such as natural disasters and financial crises. After appraisal of a project by staff, with certain exceptions, IDA's Executive Directors must approve each development credit, development 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, assesses the extent to which operations have met their major objectives, and these evaluations are reported directly to the Executive Directors.

3.5 Financing Categories

IDA's financing of its development operations in the form of development credits and grants falls into one of two categories – investment financing or development policy financing. Investment financing is generally used to procure goods, works and services in support of economic and social development projects in a broad range of sectors. In contrast, development policy financing provides quick disbursing credits or grants to members with external financing needs to support structural reforms in a sector or the economy as a whole. They support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth. The share of investment financing has increased from 76 percent in FY2008 to 88 percent in FY2011 as illustrated in **Chart 3.**

Chart 3: Share of Financing Categories



Box 2: Financing Principles

(i) IDA may provide financing for its development operations in the form of development credits, development 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 macroeconomic 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 development credits 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, under pilot programs approved by the Executive Directors, 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.

3.6 IDA's Policies for Poverty Reduction

The Poverty Reduction Strategy (PRS) approach followed by IDA is an important step in the evolution of the country-based development model which recognizes recipient country governments as the most important stakeholder, brings a clearer focus on poverty reduction, emphasizes national ownership of the development effort, and creates accountability for development results. Alignment with the PRS is the cornerstone of IDA's support to the country-based development model with the Country Assistance Strategy (CAS) providing an anchor for IDA's support at the country level.

The CAS facilitates alignment with country priorities by taking into account national development programs as well as harmonization with other donors and World Bank Group (WBG) activities, thereby maximizing impact. The CAS also makes it possible for IDA's program to reconcile global concerns and national priorities at the country level. Finally, IDA provides support for the strengthening of national capacities, including those for environmental and social safeguards, as well as public financial management and procurement.

3.7 Development Credits

Currencies

Currently, all development credits approved are denominated in **SDR**s. Before August 1, 1980, development credits were denominated in U.S. dollars. Currently, principal payments and service and commitment charges are due in the currency specified in the Development Credit Agreement in an amount equivalent to the **SDR**s required under the agreement.

Charges on development credits

IDA's policy is to maintain its charges (service and commitment charges) at a level that will cover its administrative expenses. In addition, there is an interest charge based on eligibility, the details of which are provided in **Table 1**.

Service Charge. A service charge is levied on the principal amount disbursed and outstanding on all development credits, regardless of repayment terms, at the rate of 0.75% per annum.

Commitment Charge. A commitment charge between nil and 0.5% per annum is payable on the undisbursed amount of the development credit. The Executive Directors set the commitment charge at the beginning of each fiscal year. From FY2009 to FY2012, IDA's Executive Directors have maintained the commitment charge on undisbursed development credits at nil. Commitment charges are set having regard to the extent that service charges (adjusted to include income forgone from development credits forgiven under HIPC and MDRI, and from providing grant financing) cover administrative expenses.

Interest. Interest will be charged on blend credits approved under IDA16 and all hard-term credits. The interest charged is more concessional than the prevailing IBRD lending rate with the actual rate being determined on an annual basis, prior to the start of each fiscal year and applicable for all such credits approved during a fiscal year. **Table 1** shows the rates for FY2012 and FY2011.

Repayment Terms

Development credits approved through June 30, 1987 have a final maturity of 50 years, including a grace period of 10 years. IDA credits approved up to June 30, 2011 also have a grace period of 10 years but the final maturity and repayment schedule depends on the eligibility of the recipient. **Table 1** provides a summary of the repayment terms of development credits based on eligibility, effective July 1, 2011. Footnotes to **Table 1** contain the terms existing for the three year period ending June 30, 2011.

Lending Terms under IDA16

Starting in IDA16, the terms for IDA's blend credits and the hardened term credits of prior years are combined into one instrument under the blend eligibility criteria with a final maturity of 25 years with a 5-year grace period, and a 1.25 percent per annum interest rate. Hard term credits are also harmonized with a maturity of 25 years and a 5-year grace period and continue to feature an interest rate which for FY2012 has been set at 2.8%. In addition, the terms for the small island country exception are changed from blend credit terms to regular credit terms. Access to hard term credits is expanded to all blend countries in proportion to their performance-based allocation.

Development credits outstanding were at $125,287 million on June 30, 2011 ($113,474 million—June 30, 2010), an increase of $11,813 million (see **Section 8.3 Condensed Balance Sheet Analysis**).

Table 1: Summary of Repayment Terms for Development Credits, effective July 1, 2011

Eligibility	Criteria	Repayment Terms	Service Charge	Interest
IDA Only	Not considered sufficiently creditworthy to borrow from IBRD or small island nations. For FY2012, "IDA-only" recipients had a 2010 GNI per capita of $1,175 or less (the 'operational' cutoff).	40 years including a grace period of 10 years.	75 basis points	nil
Blend	Blend terms apply to both **blend borrowers** and IDA countries with GNI per capita above the operational cutoff for more than two consecutive years, known previously as "gap" or "hardened term" countries. Blend countries may receive both IDA and IBRD financing.	25 years including a grace period of 5 years.[a]	75 basis points	1.25 %[c]
Hard-terms	A **blend borrower** will be eligible for an additional window of IDA lending at hard-terms if its GNI per capita is below the operational cutoff and if it has an active IBRD lending program. Eligibility will be determined annually.	25 years including a grace period of 5 years.[b]	75 basis points	2.8%[d]

a. 35-year maturity for blend borrowers, 20 years maturity for hardened term countries, including a grace period of 10 years for credits approved during IDA15 which ended on June 30, 2011.
b. 35-year maturity including a grace period of 10 years for credits approved during IDA15 which ended on June 30, 2011.
c. Nil for credits approved during IDA15 which ended on June 30, 2011.
d. 3.20%, 3.52% and 3.20% for each of the three years FY2009 to FY2011 under IDA15.

3.8 Development Grants

Commitment Authority for Funding of Grants

Only funds that are provided with specific grant authorization may be used to finance IDA grants.[2] Beginning with the transfer out of IBRD's FY1997 net income, funds received from IBRD as net income transfers have included explicit authority that the funding could be used for grants. Recent **replenishment** resolutions have authorized the financing of grants from donor resources. In addition, all grants received from IFC's retained earnings have also included the explicit authorization that IDA could use such funding for grants.

Commitment charges on the undisbursed balances of grants are set annually by the Executive Directors of IDA. From FY2003 through FY2012, IDA's commitment charge on the undisbursed balances of grants has been set at nil.

Allocation of Grants

Grants in IDA15 were available solely for IDA-only countries. This will continue during the IDA16 period. The amount available for each country is a function of the country's performance-based IDA allocation (see **Section 5 *Allocations of Resources***), and its eligibility for grants is based on an assessment of the risk of debt distress. Countries with low risk of debt distress receive 100 percent of their IDA allocation as development credits. Countries with medium risk of debt distress receive 50 percent of their IDA allocation as development credits, and the other 50 percent as grants. Countries with high risk of debt distress will receive 100 percent of their allocation in the form of grants.

Commitments and disbursements of development grants during the last four fiscal years are provided in **Box 1.**

3.9 Guarantees

When IDA issues a guarantee, it obtains a counter-guarantee from the host government. If the guarantee is called, IDA pays the project lenders. Without limiting its rights under the counter-guarantee (indemnity) agreement, IDA takes into account all relevant circumstances in deciding whether or not to exercise its right to demand compensation from the host government under the counter-guarantee, and what form the compensation will take (for example, whether it will be a cash settlement or converted into a credit to be repaid over time). IDA currently offers partial risk guarantees.

2 IDA's Articles of Agreement (Article V, Section 2(a)) state, "financing by the Association shall take the form of loans." IDA may provide financing in different form, such as grants and guarantees, only if the funds for such financing are accompanied by express advance authorization for such other form of financing. The restriction also applies to "funds derived therefrom as principal, interest or other charges," i.e., reflows.

Instrument Type and Project Eligibility

Partial risk guarantees are offered by IDA to cover private lenders or investors through shareholder loans, against the risk of a government (or government-owned entity) failing to perform its contractual obligations with respect to a private project, and where official agencies and the private market currently offer insufficient insurance coverage. Management maintains a program ceiling on IDA guarantees for risk management purposes, which is set at $1.5 billion.

Partial risk guarantees can cover up to 100 percent of the principal and interest of a private debt tranche for defaults arising from specified sovereign risks, including but not limited to: (i) breach of contract; (ii) currency non-convertibility and non-transferability; (iii) changes in law; and (iv) expropriation and nationalization.

Partial risk guarantees are available in selective cases in IDA-only countries where an IBRD Enclave Guarantee[3] is not applicable and in blend countries which do not have access to IBRD funding due to creditworthiness constraints.

Guarantee Pricing

Standard charges consist of an annual *guarantee fee* of 0.75% on IDA's maximum exposure[4] under the guarantee and an annual *standby fee or commitment charge* which is set to match the level of commitment charges applicable for IDA credits at the time of guarantee approval (nil for both FY2011 and FY2012). The guarantee fee and the standby fee are payable either periodically in installments or in a single upfront payment, on a present-value basis. In addition, IDA charges a one-time initiation fee of 0.15 percent or $100,000 (whichever is higher) and a processing fee of up to 0.50 percent of the principal amount of the guarantee for all private sector borrowers. The processing fee is determined on a case-by-case basis and can either be waived or increased in exceptional cases.

Guarantees Exposure

IDA's exposure on its guarantees (measured by discounting each guaranteed amount from its first call date) is $240 million at June 30, 2011 ($237 million - June 30, 2010). For additional information see the Notes to Financial Statements–Note E–Development Credits and Other Exposures.

3 IBRD Enclave Guarantees are partial risk guarantees structured for export-oriented commercial projects in IDA-only countries that generate foreign exchange.

4 IDA's maximum exposure to a borrower's risk under a guarantee is defined in a manner similar to disbursed credits, i.e., as the full value of the disbursed and outstanding balance under the guarantee financing.

3.10 Heavily Indebted Poor Countries (HIPC) 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 qualify for HIPC assistance are the poorest countries that are eligible for highly concessional assistance from IDA and from the International Monetary Fund's (IMF) Poverty Reduction and Growth Facility. The list of countries potentially eligible under the Enhanced HIPC Framework has been limited, whereby no new countries are considered for eligibility unless they meet the income and indebtedness criteria as of end calendar year 2004 as specified in the Initiative.

Implementation mechanisms of the Enhanced HIPC Framework 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 by IDA resources (excluding transfers from IBRD) of outstanding IBRD debt.

A provision is initially recorded for all of the estimated probable write-offs of development credits outstanding under the HIPC Debt Initiative, based on projected Decision and Completion Point dates. This provision is included as part of the accumulated provision for debt relief and losses on development credits as reported on the balance sheet. As borrowers continue to service the eligible development credits until these projected dates are reached, changes to these initially projected dates, result in a revision to the provision estimates.

Donors compensate IDA on a "pay-as-you-go" basis to finance IDA's forgone credit reflows 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** and these are recorded in IDA's balance sheet as subscriptions and contributions.

During FY2011, $15 million of development credits and $3 million of charges were written off as debt relief under the partial forgiveness of debt service as it came due. During FY2010, the comparable amounts were $48 million and $5 million respectively. On a cumulative basis $2,077 million of development credits and $327 million of charges have been written off as of June 30, 2011.

3.11 Multilateral Debt Relief Initiative (MDRI)

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 reach 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 donor resources for development, by allocating them to low-income countries on the basis of policy performance.

A provision is initially recorded for all of the estimated probable write-offs of eligible development credits outstanding for debt relief to be delivered under the MDRI based on projected Completion Point dates. This provision is included as part of the accumulated provision for debt relief and losses on development credits as reported in the balance sheet. As borrowers continue to service the eligible development credits until the Completion Points are reached, changes to the initially projected dates, result in a revision to the provision estimates. The eligible development credits are written off when a country reaches its **Completion Point** and the related provision reduced accordingly. Donors have agreed to compensate IDA on a dollar-for-dollar basis, for forgone credit reflows due to debt cancellation under the MDRI. The value of the compensation is reassessed every three years, normally at the time of regular IDA replenishment. In this context, donors have agreed to provide IDA with additional resources of **SDR**3.5 billion ($5.6 billion) so as to cover debt relief costs due to MDRI during the IDA16 disbursement period. The donor compensation received is recorded in the balance sheet as subscriptions and contributions.

As of June 30, 2011, donor commitments to the MDRI stood at $30,238 million at the agreed **replenishment** foreign exchange reference rates, representing 85% of the total financing requirements, based on the updated cost estimates for the MDRI as of June 30, 2010.

During FY2011, $2,464 million of eligible development credits were written off as debt relief as a result of Liberia, Democratic Republic of Congo, Togo and Guinea-Bissau reaching their respective **Completion Points**. On a cumulative basis, $36,992 million of development credits have been written off under the MDRI as of June 30, 2011.

3.12 Crisis Response Window (CRW)

On December 10, 2009, IDA's Executive Directors approved a pilot CRW for the remainder of the IDA15 period, as a first phase response to recent requests by the G-20 and the **Development Committee** to explore the benefits of a new crisis response mechanism to provide assistance to low-income countries. As of June 30, 2011 a total of **SDR** 923 million ($1,477 million) has been committed under the pilot window.

For IDA16, a dedicated CRW has been established with resources capped at 5 percent of the total IDA16 replenishment resources, with donors providing **SDR** 1,335 million ($2,137 million). The CRW provides IDA with added flexibility with which to respond to crises and emergencies, and to do so in a manner that is both transparent and predictable. To meet these objectives, CRW resources should only be accessed after an exogenous shock such as a major natural disaster or a severe economic shock. Financing from the CRW would form part of a concerted international response and would only be accessed as a last resort.

3.13 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. These funds are held in trust and are not included in the assets of IDA. The cash and investment assets held in trust by IDA as administrator and trustee at June 30, 2011 and June 30, 2010 are summarized in **Table 2.** IDA's contribution to these fiduciary assets for the year ended June 30, 2011 and June 30, 2010 was nil.

Table 2: Cash and Investment Assets Held In Trust by IDA

In millions of U.S. dollars

	Total fiduciary assets	
	June 30, 2011	*June 30, 2010*
Jointly administered with affiliated organizations	$ 547	$ 520
Administered by IDA		
IDA-executed	60	51
Recipient-executed	2,409	2,169
Financial intermediary funds	1,224	1,138
Execution not yet assigned[a]	3,756	3,706
Total	$7,996	$7,584

a. These represent assets held in trust for which the agreement as to the type of execution is to be finalized jointly by the donors and IDA.

During the fiscal year ended June 30, 2011, IDA, as executing agency, disbursed $288 million ($264 million—fiscal year ended June 30, 2010) of trust fund program funds. For additional information, see the Notes to Financial Statements-Note G-Trust Funds Administration.

Section 4: FINANCIAL RESOURCES

4.1 Commitment Authority Framework

The resources available to IDA for funding its lending activities constitute its **commitment authority**. IDA finances its credit, guarantee and grant commitments primarily from contributions from donor countries. Additional funds come from IDA's internal resources, including reflows (repayments of principal on outstanding credits), investment income, transfers by IBRD out of its net income, and grants as designations out of IFC retained earnings. Since IDA's lending is highly concessional, its resources are periodically replenished. Since its inception, IDA's resources have been replenished sixteen times (including IDA16), complemented by an additional **replenishment** agreed in 2006 for financing the MDRI.

Starting from FY1989, the Executive Directors authorized IDA to make advance commitments against future reflows and other internal resources. The Advance Commitment Scheme[5] was established in recognition of the fact that credits disburse over several years and therefore cash in hand is not needed at the time of commitment.[6]

4.2 Donor Resources

Replenishment Process

Donors normally replenish IDA's resources every three years. The regular **replenishment** process has several steps:

(a) **Replenishment** Discussions. These include meetings between IDA's management and donor country representatives, called IDA **Deputies**. Issues discussed include the size of the **replenishment**, relative burden-sharing among donors, and the policy framework for the **replenishment**. Contributions are negotiated in **SDR** terms, and translated into national currencies using an average exchange rate, agreed upon early in the **replenishment** process.

(b) Advance Contribution Scheme. To avoid disruption to IDA programs at the start of a new **replenishment**, donors have the option of participating in an Advance Contribution Scheme. This scheme allows IDA to continue making new lending commitments without waiting for the new **replenishment** to become effective. The Advance Contribution Scheme lapses once the new **replenishment** becomes effective.

(c) **Replenishment** Effectiveness. The effective date of a **replenishment** occurs when IDA receives **IoCs** from donors whose aggregate contributions account for not less than the amount defined in the Replenishment Resolution. IDA16 will become effective when IDA has received **IoCs** for subscriptions and contributions from donors of not less than **SDR** 10.4 billion ($16.6 billion).

(d) **Commitment Authority**. Donor contributions become available for commitment in three equal tranches. Part of the first tranche becomes available for commitment under the advance contributions scheme and the remainder of the first tranche becomes available upon effectiveness of the **replenishment** provided that donors have submitted unqualified **IoCs**. The second and third tranches are subsequently released for commitment on the dates specified in the Replenishment Resolution.

(e) Payment of Contributions. Typically, donor contributions are made in cash or non-interest bearing demand notes, on specific dates in three equal annual installments.

(f) **Encashment**. Donor contributions which are paid by non-interest bearing demand notes are drawn down, on an approximately *pro-rata* basis among donors, in accordance with the agreed **encashment** schedule. IDA16 has a nine-year encashment schedule. A discount may be provided for cash payments based on an accelerated schedule rather than the standard **replenishment** schedule. The amount of discount is calculated so that the net present value of cash payments made according to the revised schedule is equal to the net present value of the cash payments under the **encashment** schedule agreed for in the **replenishment**.

Members' Voting Rights

IDA allocates votes to its members in two ways. **Membership votes** are allocated equally among members, and **subscription votes** are allocated in relation to a member's initial and subsequent subscriptions and contributions. The key rules governing the **voting rights** system are as follows:

5 Credits, which disburse over several years, do not have to be fully cash funded at the time of their approval by the Executive Directors. This allows donor contributions to be encashed over several years and internal resources to be committed in advance of their anticipated receipt.

6 To determine the appropriate level of internal resources during a replenishment period, long-term financial projections are used to manage IDA's cash flows on a going concern basis, under a set of underlying assumptions relating to future lending volumes and the level of future donor contributions.

- The voting power of each **Part I member** reflects its share of total cumulative financial contributions to IDA by all **Part I members**, plus its original **membership votes**;
- **Part II members** can maintain their relative voting power by making subscriptions at nominal cost[7] and in national currency; and
- **Part II members** providing IDA with additional resources "in usable form"[8] receive the same increase in voting power that **Part I members** receive for their contributions. After donor negotiations for a **replenishment** are completed, subscriptions are allocated to non-donor **Part II members** to provide them the opportunity to maintain their relative voting power.

Both **Part I and Part II members** receive additional **membership votes** when they make additional subscriptions. The distribution of **membership votes** helps smaller members and the **Part II members** as a group, to maintain their relative voting power.

Enhancing Part II Member Voting Power

Raising actual Part II voting power in IDA was one of the goals of a package of reforms, agreed by the **Development Committee** in 2008, aimed at enhancing the voice and participation of Developing and Transition Countries (DTC) in the World Bank.

To achieve this voting power increase, a number of Part II members took up to their allocated but unsubscribed IDA subscriptions. In addition, four donors contributed US$ 6.1 million through the Voice Trust Fund (VTF) to assist 49 of the poorest Part II members take a portion of their outstanding subscriptions. Including the effect of the VTF and subscriptions taken up by individual countries, Part II members' voting power as at June 30, 2011 stands at 45.89%.

Risks Associated with Donor Resources

IDA experiences foreign currency exposure due to currency mismatches between its disbursement obligations for credits and grants denominated in **SDR** and donor contributions denominated in national currencies. Exchange rate fluctuations will alter the **SDR** value of donor contributions from the time of commitment by donors until the actual **encashment** of these contributions. This currency risk is addressed in **Section 7.7 *Market Risk***.

Delays in the timing of **encashment** affect IDA's liquidity. If **encashment** delays occur, IDA may agree with the donor on a revised **encashment** schedule that yields at least an equivalent value. Another risk is the potential for delays in declaring effectiveness of a **replenishment** due to a delay in receipt of **IoCs**. It is only upon the effectiveness of a **replenishment** that donor contributions become payable to IDA.

4.3 Internal Resources

IDA's internal resources include reflows (principal repayments and prepayments), interest on blend and hard term credits, investment income, a portion of the liquidity portfolio, and residual resources from past **replenishment**s that become available to IDA during the **replenishment** period. Repayments and prepayments of outstanding credits constitute the largest component of internal resources.

Risks Associated with Internal Resources

Under the Advance Commitment Scheme, IDA makes commitments against projected levels of internal resources over the disbursement period of these commitments. The level of reflows would be affected if recipients were to fall behind in their debt service. Furthermore, the level of investment income varies with movements in market interest rates. It is therefore essential to ensure that resources are available to fund disbursements when they are needed. To monitor this risk, IDA's management reviews the level of **commitment authority** regularly and provides an annual report to IDA's Executive Directors.

4.4 IBRD Transfers

Since 1964, IDA has received regular financial support towards its replenishment resources, from IBRD in the form of direct transfers out of IBRD's net income. The IDA15 financing framework included IBRD transfers of $1,750 million, all of which has been received resulting in cumulative transfers received from IBRD of $11,595 million, as of June 30, 2011.

The IDA16 financing framework includes an indicative amount of IBRD cash transfers of $1,824 million. Depending first on IBRD fulfilling its reserve retention needs, it is expected that this amount will be allocated in three installments during fiscal years 2012, 2013 and 2014. Each installment is required to be approved annually by IBRD's Board of Governors. If approved, each installment is expected to be drawn down by IDA immediately. The proposed transfer to IDA in FY2012 would be net of the $75 million grant from IBRD to the South Sudan Transition Trust Fund.

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7 *The nominal cost of one subscription vote was set at U.S$80 (1960 gold dollars) for the third replenishment, and U.S$25 (current dollars) in the subsequent replenishments. The effective cost of a vote for Part I members has grown from about U.S$9,900 under the third replenishment to about U.S$16,600 under IDA16.*

8 *Resources are deemed to be "in usable form" if they are provided in "freely convertible currency" as defined in Article 2, Section 2(f) of IDA's Articles of Agreement or in local currency available for financing in the donor country.*

This grant was approved by IBRD's Board of Governors on July 20, 2011.

In addition, IBRD contributed $2,330 million to the Debt Relief Trust Fund which were subsequently transferred to IDA to compensate it for debt relief costs incurred under the HIPC Debt Initiative.

4.5 IFC Grants

Since 2006, IDA has received financial support towards its replenishment resources from IFC in the form of grants out of its retained earnings. The IDA15 financing framework included $1,750 million as IFC grants to IDA all of which has been received resulting in cumulative transfers of $1,900 million, as of June 30, 2011.

The IDA16 financing framework includes an indicative amount of $1,000 million in cash as designations out of IFC's retained earnings for grants to IDA. These grants are to be 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. These grants will be spread across three installments for fiscal years 2012, 2013 and 2014. The installments are subject to availability of funds and annual approval, and are recognized upon IDA and IFC signing the respective grant agreements.

4.6 Other Transfers

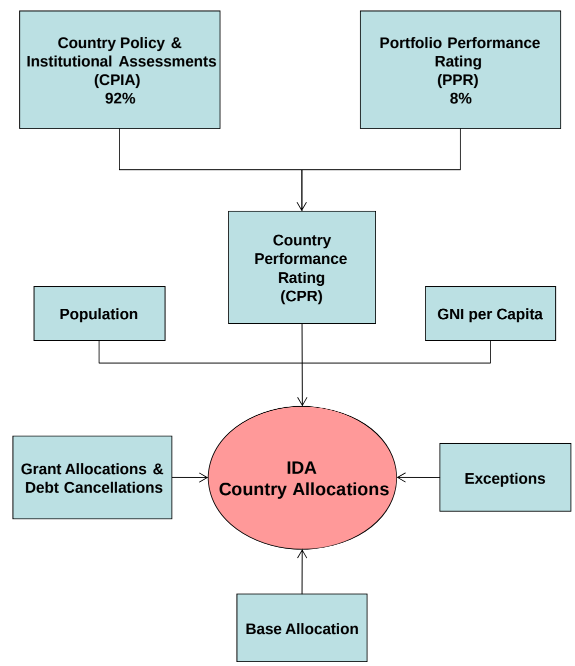
Under agreements governing the administration of certain trust funds, IDA may receive surplus assets as transfers upon the termination of these trust funds. In addition, as development credits are repaid to trust funds, in certain cases the repaid funds are transferred to IDA. Given the small size and the unpredictable timing of these transfers, they have not been included as part of any **replenishment** resources. However, these transfers as received have added to IDA's equity.

Section 5: ALLOCATION OF RESOURCES

5.1 Performance Based Allocation (PBA) System

A key concern for IDA is inequitable allocation of resources to recipients given that special priorities of poverty reduction may be in force during a particular **replenishment** period. This risk of inequitable allocation is managed by allocating the bulk of IDA's resources among eligible countries using the PBA system (see **Chart 4**). Under the PBA system, one country's gain in terms of more allocations would mean availability of fewer resources for others for a given level of the resource envelope. It has evolved over time with modifications and enhancements being incorporated at successive **replenishments** including IDA16. The PBAs for all countries included a base allocation of **SDR** 4.5 million per country (or **SDR** 1.5 million annually) for IDA15, which benefited small states in particular. Starting in IDA16, the base allocation per country has increased to **SDR** 9 million per replenishment (or **SDR** 3 million annually), in order to better meet the fixed costs of country engagement and maintain an effective country program.

Chart 4: Performance Based Allocation System



5.2 Country Performance Rating

Under the PBA system, individual country allocations are derived substantially from Country Performance Ratings (CPR), population and, to a lesser extent, GNI per capita.

The CPRs are assessed annually using a weighted combination of two elements:

(a) Country Policy and Institutional Assessments (CPIA), conducted annually by IDA to assess the quality of each country's policy and institutions for fostering sustainable growth, poverty reduction, and ability to effectively use development assistance. The CPIA assesses each country's policy and institutional framework and consists of defined criteria grouped into four equally weighted clusters: (A) economic management; (B) structural policies; (C) policies for social inclusion and equity; and (D) governance, public sector management and institutions. Clusters A to C carry a weight of 24 percent, while D carries a weight of 68 percent. These weights reflect the importance placed on governance for development and on mitigating fiduciary risks to aid funds.

(b) The Portfolio Performance Rating (PPR) which is reviewed annually, captures the effectiveness of IDA-financed projects and programs based on the percentage of actual IDA problem projects in a given country. PPR carries a weight of 8 percent in calculating the CPR.

5.3 Grant Allocations and Debt Cancellation

Before arriving at a country's final allocation, adjustments are made for any grant allocations to that country. In addition, for those countries eligible for debt cancellation under the MDRI, the debt service due in the relevant fiscal year is netted against that year's allocation.

5.4 Exceptions to the PBA system

A number of specific exceptions to the PBA system have been agreed upon. These include:

- Certain blend countries with access, or potential access to IBRD loans receive less than their allocation norms due to their broader financing options. These are known as capped-blend countries.
- Countries emerging from severe conflict can, under certain conditions, be provided with additional resources in support of their recovery and in recognition of a period of exceptional need.
- Exceptional allocations are provided for countries re-engaging with IDA after a prolonged period of inactivity on the basis of a strong transitional plan with concerted donor support.
- Exceptional allocations may also be provided to IDA countries in the aftermath of severe natural disasters or economic crises from the CRW, where the existing allocations would not allow for a sufficient response.
- Lastly, there is a special provision for selected regional integration projects, which began as a pilot program in IDA13. The IDA16 period envisages up to **SDR** 500 million per year for such projects in topping up resources.

Box 3: IDA16 Policy Framework

- The results measurement system is expanded into a four-tier system with a more extensive set of indicators, including those in the two new tiers tracking IDA's operational and organizational effectiveness (IDA Report Card).
- Four special themes will be emphasized in IDA operations: crisis response, fragile and conflict-affected countries, gender, and climate change.
- A dedicated Crisis Response Window is established to provide IDA with additional flexibility to respond to severe economic crises and major natural disasters.
- The terms of IDA's assistance will be adjusted to increase differentiation between IDA-only countries and gap and blend countries and improve IDA's long term financial sustainability.
- IDA allocations at the country level will continue to be determined by IDA's PBA system.
- The resource allocation system is largely maintained, with some fine tuning to increase support to small states and post-conflict and re-engaging countries.
- The grants framework is maintained as the basis for determining the terms of IDA assistance.

Areas of change that require focus include:

- Country Assistance Strategies will be expected to better integrate all sources of World Bank financing (including trust funds), mainstream climate change and gender, and emphasize strengthening country systems, including statistical capacity.
- Projects will need to integrate implementation arrangements into government systems**,** strengthen results framework and, where appropriate, integrate gender and climate change, incorporate poverty and social impact analysis, and ensure further progress in the implementation of the good practice principles on conditionality.

5.5 PBA System during IDA15

During the IDA15 period the PBA system has continued to balance performance with needs by allocating, consistent with performance, about 50 percent of resources to Sub-Saharan Africa, the region with the greatest need for IDA resources. 66 percent of the IDA15 resources was allocated through the core PBA system, with exceptions accounting for the remaining 34 percent.

5.6 IDA16 Policy Framework

During the IDA16 period, IDA will be guided by the policy framework outlined in **Box 3.** This policy framework was agreed upon during the IDA16 discussions and sharpens the focus on results and strengthens and fine tunes the policy framework put in place during previous replenishments.

Section 6: MANAGEMENT OF INVESTMENT PORTFOLIO HOLDINGS

6.1 Introduction

In equilibrium, cash inflows and outflows would match in any given year, leaving the balance of the investment portfolio unchanged. In practice, however, IDA faces timing mismatches between cash receipts from donors and recipients and disbursements of new credits 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:

- Donor funds are encashed over time so as to match the eleven year average disbursement profile of development credits and grants during a replenishment. For both IDA15 and IDA16, donors 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 to donors for early **encashments**, provided that the present value of their contributions remains intact.
- Expected principal repayments on disbursed and outstanding credits are committed in advance of new credits and grants, so that resulting disbursements match the time profile of credit reflows.
- Projected future investment income is committed at the beginning of each **replenishment** period.
- Through annual adjustments of the level of commitment charge on IDA's credits, total service and commitment charge income is projected to cover IDA's administrative expenses in a given year, complemented by donor compensation for forgone charge income due to debt relief and grant financing.
- Use of various **hedging** strategies to minimize currency mismatches of cash flows.

Beyond these practices, IDA needs to be able to address any unexpected demands on its core liquidity by maintaining a sufficient level of liquid assets.

6.2 Investment Policy Objectives

IDA is not a market-based financial entity, and does not access the capital markets for long-term funds. Therefore, IDA's primary objective in the management of its liquid assets 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 development credits, grants and administrative expenses. Consistent with the primary objective, IDA also seeks to maximize returns, subject to loss constraints, to generate investment income, which can be added to IDA's internal resources. See **Box 5** for the range of instruments permitted for investments under the existing General Investment Authorization for IDA.

6.3 Minimum Liquidity Levels

IDA is authorized to borrow from the capital markets under its Articles of Agreement. However, as a matter of policy IDA does not borrow long-term to fund its operations. During the IDA15 period, IDA's minimum liquidity was targeted at 33 percent of a three-year annual moving average of gross disbursements. This minimum liquidity target will continue for IDA16. The minimum liquidity is designed to meet both expected and unexpected demands. Expected demand arises due to volatility in IDA's cash inflows and outflows, and any short-term draw-down of minimum liquidity for this purpose is likely to be reversed over time through corresponding net cash inflows.

During the IDA15 period the minimum liquidity was determined to be at $3.5 billion. Based on an analysis of expected and unexpected demands, IDA's minimum liquidity requirement at the beginning of IDA16 is estimated at $3.9 billion.

6.4 General Investment Authorization

The General Investment Authorization for IDA approved by the Executive Directors provides the basic authority under which the liquid assets 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 Chief Financial Officer (CFO) and implemented by the Treasurer. These Investment Guidelines set out detailed trading and operational rules including providing criteria for eligible instruments for investment, establishing risk parameters relative to benchmarks, such as an overall stop-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.

Policy implementation is executed pursuant to the Investment Strategy, which is endorsed by the Strategy, Performance and Risk Subcommittee, approved by the Finance Committee and cleared by the CFO. In addition the Investment Strategy is submitted to the Audit Committee for information. The Investment Strategy was updated in June 2011 in advance of IDA16.

6.5 Liquidity Tranching

All of IDA's investments are held in a trading portfolio but invested in three separate tranches. The following description of these three tranches includes those changes made as a result of the update to the Investment Strategy in June 2011 and will be effective for the IDA16 period.

Tranche 1- Donor Asset and Liability Management

This tranche consists primarily of accelerated **encashment** of donor contributions, transfers and grants from IBRD and IFC and voluntary credit prepayments under IDA16. This tranche is managed under an immunization strategy, whereby the tranche **duration** benchmark is aligned to 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.

Tranche 2 - Medium-term Investment

This tranche consists of the net cash outflows which have not been included in Tranche 1, funds available for future replenishments, and 48 percent of minimum liquidity. This tranche is managed in accordance with a return maximization strategy subject to pre-specified risk constraints over a medium-term (three years) investment horizon. The **duration** and associated benchmarks of this tranche are reviewed quarterly and adjusted as needed, in line with market conditions so as to conform to the specified risk tolerance.

Tranche 3 -Short-term Investment

This tranche is used for managing the operational liquidity for IDA and includes 52 percent of minimum liquidity. 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 the form of overnight and very short-term cash investments.

Core Liquidity

Tranches 2 and 3 constitute IDA's core liquidity to meet working capital requirements and meet expected and unexpected cashflow volatility. Core liquidity as a proportion of IDA's total investments is provided in **Chart 5** below. It shows that during the last three years (IDA15) core liquidity has remained below 50 percent of total investments.

Chart 5: Core Liquidity Component of Investment Portfolio

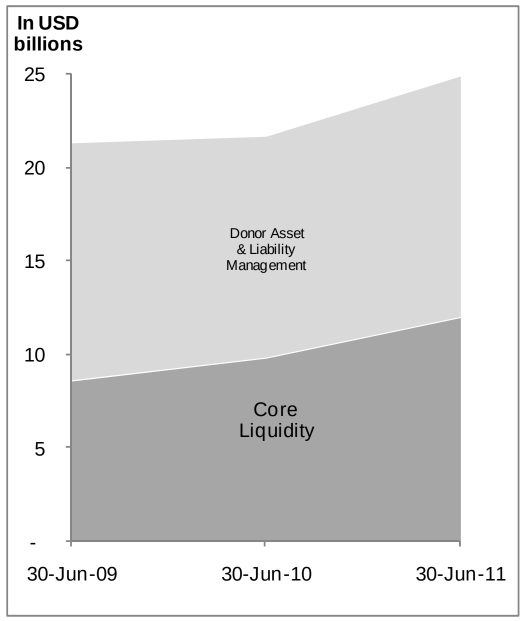


Table 3 provides a breakdown of the average balances and returns by tranches of IDA's liquidity portfolio, for FY2011and FY2010. For an explanation of the decline in financial returns of the total portfolio, refer to ***Section 8.2 Condensed Net Income (Loss) Analysis.***

Table 3: Average Balances and Returns by Tranches

In millions of U.S. dollars

	FY 2011		*FY 2010*	
Tranches	*Average Balance*	*Financial Return*	*Average Balance*	*Financial Return*
1	$12,626	1.63%	$12,266	5.45%
2	4,643	1.50%	5,036	4.80%
3	5,211	0.44%	3,402	0.36%
Total	$22,480	1.25%	$20,704	4.44%

6.6 Short-term Borrowings

IDA does not borrow long-term from the capital markets even though it is allowed to do so under its Articles. IDA's short-term borrowings consist of securities sold under repurchase agreements and securities lent under securities lending agreements. These agreements are secured predominantly by high quality securities collateral, including government issued debt, and are used both to enhance returns and for liquidity management purposes.

As of June 30, 2011, securities lent or sold under repurchase agreements totaled $6,013 million, an increase of $1,045 million over June 30, 2010.

Table 4 provides data on short-term borrowings activities.

Section 7: FINANCIAL RISK MANAGEMENT

7.1 Introduction

The processes and procedures by which IDA manages its risk profile continually evolve as its activities change in response to market, credit, product, operational and other developments. The Executive Directors, particularly the Audit Committee members, periodically review trends in IDA's risk profiles and performance, as well as any significant developments in risk management policies and controls. In addition, on an annual basis, Management prepares an integrated risk monitoring report for the Executive Directors to provide a holistic picture of risk management activities within IDA. A Risk Council comprised of WBG senior management provides a platform to look holistically at risk management across the WBG.

During FY 2011, a Chief Risk Officer (CRO) for the WBG was appointed and reports to the CFO. The CRO is responsible for: (i) assessing risks across the WBG, (ii) benchmarking existing risk management practices against major financial institutions; (iii) ensuring consistency of WBG risk management activities with best practice; and (iv) considering unique risks that are specific to multilateral development banks and international financial institutions.

7.2 Governance Structure

The governance structure supports senior management in their oversight function, particularly in the coordination of different aspects of risk management, and in connection with risks that run across functional areas.

The Finance Committee (**Chart 6**) which is chaired by the CFO, reviews, evaluates and decides on matters related to IDA finances to assure that these are aligned with corporate financial and risk tolerance objectives set by the Board. Topics covered by the Finance Committee include:

- financial policies and guidelines
- new financial initiatives
- financial risks under the CFO's purview and setting risk tolerances.

The four subcommittees that report to the Finance Committee are shown in **Chart 6**.

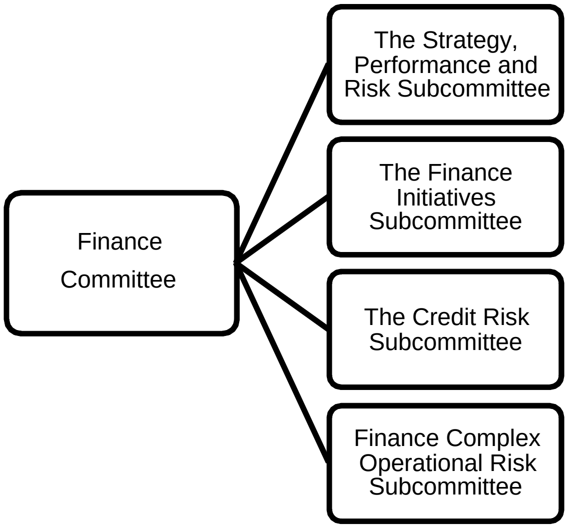
The Strategy, Performance and Risk Subcommittee develops and monitors the policies under which market and commercial credit risks faced by IDA are measured, reported and managed. Such policies are ratified by the CFO. The subcommittee also monitors compliance with policies governing commercial credit exposure and currency management. Specific areas of activity include reviewing and endorsing guidelines for limiting balance sheet and market risks, the use of derivative instruments, investing activities, and monitoring matches between assets and their funding. The subcommittee meets at least quarterly to formally review current and proposed business strategy and risk policies, along with business results and financial risk profile to facilitate alignment between IDA's financial and risk management objectives, plans and activities.

Table 4: Short-term Borrowings

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

	June 30, 2011	*June 30, 2010*	*June 30, 2009*
Securities sold under repurchase agreements and securities lent under securities lending agreements,			
Balance at year-end	$6,013	$4,968	$4,684
Average monthly balance during the year	$5,450	$4,538	$5,782
Maximum month-end balance	$7,984	$6,139	$9,104
Weighted-average rate at June, 30	0.38%	0.15%	0.45%
Weighted-average rate during the year	0.38%	0.25%	1.78%

Chart 6: Finance Committee Governance Structure



The Finance Initiatives Subcommittee provides a comprehensive review of new business initiatives related to IDA. The review covers all financial management, legal/reputational, financial operations and reporting perspectives including risk/reward parameters. This subcommittee's approval is required before a new IDA initiative may be proposed to the Finance Committee or the Board of Executive Directors. The subcommittee meets as needed.

The Credit Risk Subcommittee monitors the measurement and reporting of country credit risk. The subcommittee meets at least quarterly to review the impact on the provision for losses on development credits and other exposures of any changes in risk ratings of borrowing member countries and developments in the nonaccrual portfolio and other factors including expected default frequencies. Whenever a new financial product is being considered for introduction, it is submitted to this subcommittee for review and recommendation with respect to country credit risk issues. In addition, the Audit Committee of the Board of Executive Directors is apprised by management at least twice a year on the accumulated provision for losses on development credits and other exposures.

The Operational Risk Subcommittee provides oversight on operational risks for financial operations. The subcommittee meets on a quarterly basis to ensure key operational risks relating to financial operations are monitored and managed appropriately, recognizing that primary responsibility for the management of operational risk resides with the business units.

The IDA Resource Mobilization Department which reports to the Vice President of Concessional Finance and Global Partnerships, manages IDA **replenishments**. This department discusses policy and funding frameworks with donors, and allocates concessional resources between borrowing member countries. Responsibility for financial management, including asset-liability management and the management of liquidity, currency and interest rate risks, also lies with this department.

Country credit risk, the primary risk faced by IDA, is identified, measured and monitored by the Credit Risk Department, led by the Chief Credit Officer who reports to the Vice-President, Corporate Finance and Risk Management. This unit is independent from IDA's operational business units. Moreover, in order to further protect the independence of the unit, individual country credit risk ratings are not shared with the Executive Directors and are not made public. In addition, this department is responsible for determining the adequacy of provisions for losses on credits and other exposures, and monitoring recipients that are vulnerable to crises in the near term.

Counterparty credit risks in IDA's financial operations are identified, measured and monitored by the Corporate Finance Department, which also reports to the Vice-President, Corporate Finance and Risk Management. The Corporate Finance Department works with IDA's financial managers, who are responsible for the day-to-day management of market and counterparty risks, to establish and document processes that facilitate, control and monitor these risks. These processes are built on a foundation of initial identification and measurement of risks by each of the business units. Under the direction of the Finance Committee, policies and procedures for measuring and managing such risks are formulated, approved and communicated throughout IDA. Senior managers represented on the Finance Committee are responsible for maintaining sound credit assessments, addressing transaction and product risk issues, providing a review function and monitoring development credit and investment portfolio.

7.3 Risk Bearing Capacity

The risk bearing capacity of IDA falls under three main categories. The first is the extent to which IDA can commit to new financing of development credits, grants and guarantees given its financial position at any point in time. The second is whether there are sufficient resources to meet undisbursed commitments of credits and grants, the funding risk. The third is whether IDA has sufficient core liquidity to meet disbursements of approved credits and grants, the liquidity risk.

IDA's capacity to commit to new financing of credits, 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. The risks to this lending capacity can arise from both donor and internal resources. These risks are discussed in **Section 4: Financial Resources**.

7.4 Funding Risk

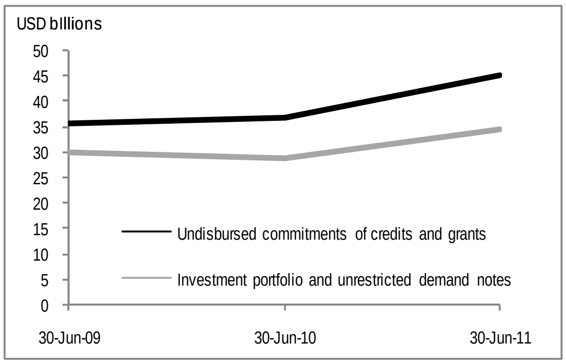
Funding risk relates to whether there are sufficient resources to meet undisbursed commitments of credits and grants. Funding risk is generally represented by:

undisbursed commitments of credits and grants
less

investment portfolio and unrestricted demand notes

Chart 7 shows this funding risk for the last three fiscal year-ends.

Chart 7: Funding Risk

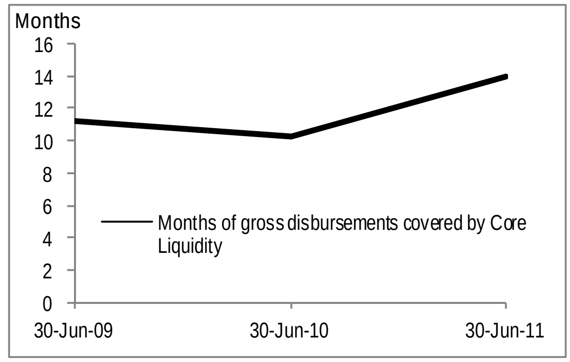


7.5 Liquidity Risk

Liquidity risk is monitored by assessing the number of months of gross disbursements (based on the average for a particular year) that can be met out of the core liquidity (tranches 2 and 3) available at a point in time. **Chart 8** shows that during the last three years core liquidity was sufficient to cover at least ten months of average monthly gross disbursements.

Details of the three tranches which comprise IDA's investment portfolio, together with a description of the General Investment Authorization and how liquidity is managed, are provided in **Section 6: Management of Investment Portfolio Holdings.**

Chart 8: Liquidity Risk



7.6 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 obligation.

Country Credit Risk

The IDA Resource Mobilization Department regularly reviews the credit risk of its recipient member countries in terms of the country's debt sustaining capacity. These reviews provide an input in the composition of development credits versus grants for new operations. **Section 3.8 *Development Grants*** describes how funds are allocated for grants based on a country's risk of debt distress.

Box 4: Treatment of Overdue Payments

Overdue by 30 days	Where the borrower is the member country, no new development credits 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 credits 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 credits 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 development credits 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 development credits or grants and signing of previously approved credits or grants, disbursements on all grants or credits 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 development credits 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 development credits 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.

Overdue and non-performing development credits

When a borrower fails to make payment on any principal, interest or other charges, IDA has the contractual right to suspend disbursements immediately on all credits and grants. IDA's current policy however, is to exercise this right through a graduated approach as summarized in **Box 4**. 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 development credits who become overdue in their debt service payments on IBRD loans, IDA also applies the treatment described in **Box 4**. For a summary of countries with credits or guarantees in nonaccrual status at June 30, 2011, see Notes to Financial Statements–Note E–Development Credits and Other Exposures.

Commercial Credit Risk

In the normal course of its business, IDA utilizes various derivatives and foreign exchange financial instruments 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.

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 5**) 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, counterparties are required to post collateral with IDA. Collateral posted is in the form of certain approved highly liquid investment securities or cash.

As of June 30, 2011 and 2010, the outstanding swap transactions with counterparties other than IBRD, did not exceed the threshold amount for either requiring counterparties to post collateral with IDA, or for IDA to post collateral with counterparties.

IDA's commercial credit risk is concentrated in investments in debt instruments issued by sovereign governments, agencies, banks and corporate entities. The majority of these investments are in AAA and AA rated instruments (see **Table 5**).

With respect to futures and options, IDA generally closes out most open positions prior to expiration. Futures are settled on a daily basis.

For the contractual value, notional amounts and related credit risk exposure amounts by instrument, see the Notes to Financial Statements-Note D-Derivative Instruments.

Table 5 provides details of IDA's estimated credit exposure on its investments by counterparty rating category. During FY2011 there was a redeployment of the investment portfolio from Sovereigns to short term bank deposits resulting in a decline in exposure with counterparty ratings of AAA from 65 percent to 59 percent, and a corresponding increase in the share of counterparty ratings of AA and A from 35 percent to 41 percent. This redeployment reflects actions that were undertaken to reduce the interest rate sensitivity of the investment portfolio and to align the currency composition of the investment portfolio with the new **SDR** weightings which became effective on January 1, 2011.

The table also confirms the continued holding of mono-line insured asset-backed securities (ABS) rated BB or below reflecting the expectation that these securities will pay off at maturity.

7.7 Market Risk

IDA faces risks which result from market movements, primarily changes in currency exchange rates and interest rates. The manner in which these market risks impact IDA's finances and the steps taken by IDA to counter them is described below.

Box 5: Eligibility Criteria for IDA's Investment Securities

Instrument Securities	*Description*
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 an AAA credit rating.
Time deposits[a]	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

Table 5: IDA Investment Credit Exposure by Counterparty Rating

In millions of U.S. dollars

	At June 30, 2011				*At June 30, 2010*	
Counterparty Rating	*Sovereigns*	*Agencies, ABS, Corporates and Time Deposits*	*Total*	*% of Total*	*Total*	*% of Total*
AAA	$15,087	$2,762	$17,849	59	$17,158	65
AA	2,149	6,814	8,963	30	7,612	29
A		3,235	3,235	11	1,538	6
BB or below		14	14	*	10	*
Total	$17,236	$12,825	$30,061	100	$26,318	100

** Denotes less than 0.5%.*

Currency Exchange Rate Risk

IDA faces currency exchange rate risk exposure as a result of the currency mismatch between its commitments for development credits and grants, which are denominated in **SDR**s; donor contributions, which are denominated in both national currencies and **SDR**s; and the portion of IDA's internal resources and expenditures that is denominated in U.S. dollars.

IDA uses currency forward contracts to convert donors' **encashments** provided in national currencies into the four currencies of the **SDR** basket. IDA's transactions are intermediated by IBRD for efficiency purposes, due to IBRD's established systems and collateral management processes.

Under this arrangement, IDA enters into foreign exchange forwards with IBRD, and IBRD simultaneously enters into off-setting foreign exchange forwards with market counterparts. For further details please see Notes to Financial Statements-Note D –Derivative Instruments.

IDA mitigates the currency exchange rate risk by rebalancing the currency composition of its liquid asset portfolio and the hedges of its non-**SDR** cash flows to the **SDR** composition on a quarterly basis.

Interest Rate Risk

IDA funds a portion of its development credits and grants with internal resources, including investment income on its liquid asset portfolio. IDA's liquid assets are invested in separate tranches each with its own set of **duration** benchmarks. Changes in interest rates have a direct impact on the mark-to-market values of the liquid assets and hence on the investment income reported by IDA.

Section 8: FINANCIAL RESULTS

8.1 Economic Environment

During FY2011, there was a steepening of the major yield curves, particularly the euro and U.S. dollar. In contrast during FY2010 there was a tightening of credit spreads and downward shifts in the major yield curves.

During FY2011, the U.S. dollar depreciated against the **SDR** by 8.2%, whereas during FY2010, it appreciated against the **SDR** by 4.7%.

8.2 Condensed Net Income (Loss) Analysis

In management's view, IDA's reported net loss does not reflect the true economic income of IDA as a result of the following asymmetries.

Under U.S. GAAP, development grants and increases in the provisions for debt relief and credit losses are recorded as charges to net income. In contrast, donor contributions which fund a significant proportion of these costs are not recorded as income but rather as equity through members' subscriptions and contributions. This asymmetry has resulted in IDA recording net losses over the years, as reflected by the accumulated deficit. However, IDA's total equity remains positive.

Additionally, IDA uses currency forward contracts to hedge its exposure to potential loss of value of contributions in national currencies vis-à-vis the **SDRs** pledged by donors at the start of each **replenishment**. The translation adjustment on the non-functional currencies of these forward contracts is reported in the income statement. However, the economic offset represented by the change in value of donor pledges is not reported in IDA's financial statements, since donor pledges do not meet the definition of assets.

IDA's financial and operational management is driven by its lending capacity as determined by the **commitment authority** of the particular **replenishment** effective at that time, and by having sufficient liquidity available for operational purposes (see **Section 4 Financial Resources**).

Table 6 Condensed Statement of Income provides a comparison of the main sources of income and expenses between FY2011 and FY2010. The net loss of $2,332 million in FY2011 reflects an increase of $1,255 million from the net loss of FY2010. The factors contributing to this increase in net loss are discussed below.

Decrease in net investment income by $605 million: This decrease was primarily driven by lower effective yields, as well as lower returns on the euro holdings due to the steepening of the yield curve. This decline is consistent with the economic environment described above and is reflected in the financial returns of the investment portfolio dropping from 4.44% in FY2010 to 1.25% in FY2011. IDA's investment portfolio is sensitive to interest rate movements as a result of having a longer duration to help it immunize interest rate risk. IDA's investment portfolio had a duration of 2.1 years as of June 30, 2011 and June 30, 2010.

Increase in exchange rate losses on non functional currencies of $288 million: This was primarily due to the continued depreciation of the U.S. dollar against the majority of the non functional currency liabilities in FY2011 as compared to FY2010. These liabilities arise out of the payable leg of currency forwards used to hedge the **SDR** value of future donor commitments.

Increase in development grants: The $210 million increase in development grants was primarily accounted for by the Africa region which made up 69 percent of the total grants committed in FY2011.

Increase in fair value loss on non-trading portfolios of $98 million: The net loss of $101 million during FY2011 was primarily due to the effect of the steepening of the euro yield curve on the currency forward contracts used to hedge donor commitments of IDA16 and prior replenishments. In FY2010, the net loss of $3 million was primarily on account of downward shifts of the U.S. dollar and euro yield curves on the same currency forward contracts. As mentioned above, the economic offset to these gains and losses as represented by the change in value of the related donor pledges is not reported in IDA's financial statements.

Increase in administrative expenses of $84 million: This increase was primarily due to an increase in IDA's share of total expenses jointly incurred by IBRD and IDA, reflecting a higher proportion of IDA operations in FY2011 as compared to FY2010.

Decrease in the release of provision for debt relief of $60 million: During FY2011, there was a release in provision of $74 million due to the postponement of the estimated **Decision** and **Completion Points** under the HIPC Debt Initiative for several countries. In comparison, during FY2010 the release was $134 million resulting in a decrease in release of provision of $60 million between the two fiscal years.

These were partially offset by:

Increase in income from development credits and guarantees of $60 million: This increase was due to the volume effect of an increase in development credits outstanding.

8.3 Condensed Balance Sheet Analysis

Variances between June 30, 2011 and June 30, 2010 balances in IDA's condensed balance sheet are shown in **Table 7**. Explanations for the major variances are provided below.

Investment assets net of liabilities represent the net investment portfolio, which increased from $21,639 million to $24,872 million. The increase of $3,233 million was primarily due to cash received of $7,580 million on account of members' subscriptions and contributions and the positive effect of exchange rate changes of $1,638 million, partially offset by net disbursements of $5,520 million for development credits.

The increase in demand obligations of $2,619 million was due to receipt of demand notes of $7,549 million, exchange rate adjustments of $926 million partially offset by **encashments** of $5,856 million.

Subscriptions and contributions paid-in increased by $10,197 million due to receipt of demand notes of $7,549 million, cash contributions of $1,724 million and exchange rate adjustments of $924 million.

Accumulated other comprehensive income increased by $9,935 million primarily due to the 8.2% depreciation of the U.S. dollar against the **SDR** during FY2011.

Table 6: Condensed Statement of Income

Expressed in millions of U.S. dollars

For the fiscal years ended June 30	*2011*	*2010*	*Variance*
Income			
Income from development credits and guarantees	$ 897	$ 837	$ 60
Net investment income	305	910	(605)
Transfers and grants from affiliated organizations and trust funds	991	990	1
Expenses			
Administrative expenses	(1,234)	(1,150)	(84)
Development grants	(2,793)	(2,583)	(210)
Provision for debt relief decrease	74	134	(60)
Provision for losses on credits and other exposures, increase	(30)	(44)	14
Other expenses	(2)	(1)	(1)
Effect of exchange rate changes on non functional currencies	(455)	(167)	(288)
Net unrealized losses on non-trading derivatives	(101)	(3)	(98)
Project preparation advances (PPA) grants	16	-	16
Net Loss	$(2,332)	$(1,077)	$(1,255)

Table 7: Condensed Balance Sheet

In millions of U.S. dollars

As of June 30	*2011*	*2010*	*Variance*
Assets			
Investment assets	$32,479	$ 27,680	$4,799
Derivatives relating to asset/liability management	9,886	4,087	5,799
Receivables and other assets including cash	1,496	1,462	34
Development credits outstanding	125,287	113,474	11,813
Less accumulated provision for debt relief and losses on development credits	(6,947)	(8,948)	2,001
Total assets	$162,201	$137,755	$24,446
Liabilities and equity			
Liabilities relating to investments	$ 7,607	$ 6,041	$1,566
Derivatives relating to asset/liability management	9,893	4,144	5,749
Payables and other liabilities including Maintenance of Value	8,056	6,106	1,950
Subscriptions and contributions paid-in	167,610	157,413	10,197
Demand obligations	(9,663)	(7,044)	(2,619)
Accumulated deficit	(39,096)	(36,764)	(2,332)
Accumulated other comprehensive income	17,794	7,859	9,935
Total liabilities and equity	$162,201	$137,755	$24,446

Derivative assets and derivative liabilities relating to asset-liabilities management increased by $5,799 million and $5,749 million respectively. This increase was due to new trades relating to the hedging of IDA16 donor pledges, maturities of existing trades and adjustments for mark-to-market and exchange rate movements.

Development credits outstanding increased by $11,813 million due to net disbursements of $5,520 million and positive translation adjustment of $8,772 million, partially offset by development credits of $2,479 million being written off under HIPC and MDRI. The positive translation adjustment was due to the 8.2% depreciation of the U.S. dollar against the **SDR** during FY2011.

The decrease of $2,001 million in the accumulated provision for debt relief and losses on development credits was due to a combination of the following factors. Development credits written off under HIPC and MDRI of $2,479 million**,** decrease of $74 million due to **Decision** and **Completion Point** dates being postponed for a number of countries partially offset by translation adjustment of $532 million and an increase of $20 million in provision for losses on credits.

Section 9: 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 condition. 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.

9.1 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 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.

The majority of IDA's financial instruments are classified as level 1 and level 2, 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.

9.2 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.

9.3 Provision for Losses on Development Credits and Other Exposures

IDA's accumulated provision for losses on credits 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. 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 credits and other exposures accordingly. Adjustments to the accumulated provision are recorded as a charge against or addition to income. Actual losses may differ from expected losses due to unforeseen changes in any of the factors that affect borrowers' creditworthiness.

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 E-Development Credits and Other Exposures.

Section 10: GOVERNANCE AND CONTROLS

10.1 General Governance

IDA's decision-making structure consists of the Board of Governors, Executive Directors (the Board) and the President 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 Board to exercise any of its powers, with the exception of certain powers enumerated in IDA's Articles of Agreement (Article VI, Section 2(c)).

The Board is responsible for IDA's general operations. It reviews and approves IDA's financial policies and practices, including:

- financial products and programs, such as the terms and conditions of development credits, grants and guarantees, and the provision and modalities of debt relief; and
- financial management policies, such as investment authority and policy, the method of apportioning administrative expenses between IDA and IBRD, and the use of IDA's internal resources.

The President is the Chairman of the Board and chief of the operating staff of IDA. Under the direction of the Board, the President conducts the ordinary business of IDA and is responsible for the organization, appointment and dismissal of its officers and staff.

Board Membership

In accordance with its Articles of Agreement, members of the Board are appointed or elected every two years by their member governments. Currently the Board is composed of 25 Executive Directors. These Executive Directors are neither officers nor staff of IDA. The President is the only management member of the Board, serving as a non-voting member and as Chairman of the Board. The Executive Directors have established several committees including:

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

The Board and its committees function in continuous session at the principal offices of IDA, 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's development credits, grants and guarantees, and other policies that impact IDA's 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 as well as other matters.

Senior Management Changes

Effective October 4, 2010, Mahmoud Mohieldin joined IDA as a Managing Director.

Effective August 15, 2011, Ngozi Okonjo-Iweala will retire as Managing Director of IDA.

10.2 Audit Committee

Membership

The Audit Committee consists of eight members drawn from the Board. Membership on the Committee is determined by the Board, based upon nominations by the Chairman of the Board, following informal consultation with the Executive Directors. In addition, membership of the Committee is expected to reflect the economic and geographic diversity of IDA's member countries and a balanced representation between recipient and non-recipient member countries. Generally, Committee members are appointed for a two year term; reappointment to a second term, when possible, is desirable for continuity. Audit Committee meetings are generally open to any member of the Board who may wish to attend, and non-Committee members of the Board may participate in the discussion. In addition, the Chairman of the Audit Committee may speak in that capacity at meetings of the Board, with respect to discussions held in the Audit Committee.

Key Responsibilities

The Audit Committee is appointed by the Board to assist it in the oversight and assessment of IDA's finances and accounting, including the effectiveness of financial policies, the integrity of financial statements, the system of internal controls regarding finance, accounting and ethics (including fraud and corruption), and financial and operational risks. The Audit Committee also has the responsibility for reviewing the performance and recommending to the Board the appointment of the external auditor, as well as monitoring the independence of the external auditor. The Audit Committee participates in oversight of the internal audit function and reviews the annual internal audit plan. In the execution of its role, the Committee discusses with management, the external auditors, and the internal auditors, financial issues and policies which have a bearing on IDA's financial position. The Committee also reviews with the external auditor IDA's annual financial statements prior to their publication and recommends them for approval to the Board. The Audit Committee monitors the evolution of developments in corporate governance and the role of audit committees on an ongoing basis and updated its terms of reference in July 2009.

Executive Sessions

Members of the Committee may convene in executive session at any time, without management present. Under the Committee's terms of reference, it meets separately in executive session with the external and internal auditors.

Access to Resources and to Management

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

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

10.3 Business Conduct

The **World Bank** promotes a positive work environment where staff members understand their ethical obligations to the institution, which are embodied in its Core Values and Principles of Staff Employment. In support of this commitment, the institution has in place a Code of Conduct, entitled *Living our Values* (the Code). The Code applies to all staff worldwide and is available on the **World Bank's** website, www.worldbank.org. Staff, including consultants, are required to complete an acknowledgment that they will abide by the tenets of the Code.

The business conduct obligations of staff are articulated in the Staff Manual (Principles of Staff Employment, Staff Rules), Administrative Manual and other guidelines. The Principles and Staff Rules require that all staff avoid or properly manage conflicts of interest. In accordance with the Staff Rules, senior managers must complete a confidential financial disclosure instrument with the Office of Ethics and Business Conduct.

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

The **World Bank** has both an Ethics Help Line and a Fraud and Corruption hotline. A third-party service offers numerous methods of worldwide communication. Other reporting channels include:

phone, mail, email or through the units' respective websites. Callers may also visit the offices in person.

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

The **World Bank's** Staff Rules clarify and codify the obligations of staff in reporting suspected fraud, corruption or other misconduct that may threaten its operations or governance. Additionally, these rules offer protection from retaliation. Strengthened whistleblower protections have also been implemented recently.

10.4 Auditor Independence

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

- Prohibition of the external auditor from the provision of all non audit-related services.
- All audit-related services must be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee.
- Mandatory rebidding of the external audit contract every five years, with a limitation of two consecutive terms and mandatory rotation thereafter.

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

Communication between the external auditor and the Audit Committee is ongoing, as frequently 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 audit committees set out under U.S. generally accepted auditing and attestation standards and International Standards on Auditing.

10.5 IDA Controls Review over Lending Operations

In FY2011, the World Bank's Independent Evaluation Group (IEG) reported that a comprehensive review of internal controls over lending operations had formally concluded with IDA's internal controls being further strengthened with monitoring and reporting processes in place, to ensure that the established standards are maintained.

10.6 Internal Control over Financial Reporting

IDA's management makes an annual assertion that, as of June 30 of each fiscal year, its system of internal control over its external financial reporting has met the criteria for effective internal control over external financial reporting as described in the **Committee of Sponsoring Organizations of the Treadway Commission (COSO)** framework. Concurrently IDA's external auditors provide an attestation report that management's assertion regarding the effectiveness of internal control over financial reporting is fairly stated in all material respects.

For each fiscal year, management performs an evaluation of internal control over external financial reporting for the purpose of determining if there were any changes made in internal control during the fiscal year covered by this report that had materially affected, or reasonably likely to materially affect, IDA's internal control over external financial reporting. As of June 30, 2011, no such changes had occurred.

Glossary of Terms

Asset-Backed Securities (ABS): Asset-Backed Securities are instruments whose cash flows are based on a pool of underlying assets managed by a trust. Mortgage-backed securities are a type of ABS whose cash flows are based on the repayments of the mortgages.

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 on the basis of limited creditworthiness. 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 'harder' sectors.

Commitment Authority: Total value of resources available during a particular **replenishment** including donor contributions, internal resources, IBRD transfers, IFC grants and other resources. The Commitment Authority level is monitored periodically to ensure that funding is available to meet commitments and to provide early warning signs of any problems in terms of resource availability.

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.

Decision Point: Decision by the Executive Directors of IDA to provide debt relief under the HIPC Initiative.

Deputies: Representatives of countries who contribute to the resources of IDA. They include representatives from both **Part I members** and those **Part II members** who contribute to IDA's replenishments.

Development Committee: The Development Committee is a forum of the World Bank and the International Monetary Fund that facilitates intergovernmental consensus building on development issues.

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 promissory note in accordance with a schedule agreed for each replenishment.

Hedging: Hedging is a risk management technique of entering into offsetting commitments to eliminate or minimize the impact of adverse movements in value or cash flow of the underlying instrument or economic condition.

Instrument of Commitment (IoC): A government's commitment to make a subscription or a subscription and contribution to IDA's resources.

Membership votes: Voting rights accorded to IDA members are based on participation in the initial subscription and subsequent replenishments. All members whether they are **Part I** or **Part II** have the same number of membership votes.

Net Disbursements: Credit disbursements net of repayments and prepayments.

Part I and Part II Members: IDA's Articles distinguish between two categories of original members - Part I and Part II - and provide for a different treatment of the initial subscription payments by each group. Part I members were originally those countries, generally developed countries that contribute to the resources of IDA, whose economic and financial situation justified making the entire amount of their subscriptions available on a freely convertible basis. Part II members are mostly developing countries who subscribe to IDA replenishments for **voting rights**. Some Part II members also contribute to the resources of IDA.

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.

Subscription votes: Voting rights accorded to IDA members are based on subscriptions. Subscription votes are calculated at a specific cost per vote for each replenishment and are dependent on each member's subscription amount. Additional subscription votes are provided to members who contribute to the replenishment.

Voting Rights: IDA's voting rights consist of a combination of membership and subscription votes.

World Bank: Refers collectively to IBRD and IDA in this document.

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INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS
JUNE 30, 2011

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, 2011

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 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, 2011. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that 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, 2011. 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.

Robert B. Zoellick
President

VLVL

Vincenzo La Via
Chief Financial Officer

Charles A. McDonough
Vice President and Controller

Independent Auditors' Report on Management's Assertion Regarding Effectiveness of Internal Control Over Financial Reporting

KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

President and Board of 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 Development Association (IDA) maintained effective internal control over external financial reporting as of June 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Commission 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 external 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 U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection 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 its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that IDA maintained effective internal control over external financial reporting as of June 30, 2011 is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Commission of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the accompanying balance sheet of IDA as of June 30, 2011 and 2010, including the summary statement of development credits and the statement of voting power and subscriptions and contributions as of June 30, 2011, and the related statements of income, comprehensive income, changes in accumulated deficit and cash flows for each of the fiscal years in the three-year period ended June 30, 2011, and our report dated August 4, 2011 expressed an unqualified opinion on those financial statements.

KPMG LLP

August 4, 2011

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

President and Board of Executive Directors
International Development Association:

We have audited the accompanying balance sheet of the International Development Association (IDA) as of June 30, 2011 and 2010, including the summary statement of development credits and the statement of voting power and subscriptions and contributions as of June 30, 2011, and the related statements of income, comprehensive income, changes in accumulated deficit and cash flows for each of the fiscal years in the three-year period ended June 30, 2011. These financial statements are the responsibility of IDA's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IDA as of June 30, 2011 and 2010, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended June 30, 2011 in conformity with U.S. generally accepted accounting principles.

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 external financial reporting as of June 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 4, 2011 expressed an unqualified opinion on management's assertion.

KPMG LLP

August 4, 2011

Balance Sheet

June 30, 2011 and June 30, 2010

Expressed in millions of U.S. dollars

	2011	2010
Assets		
Due from Banks		
Unrestricted currencies	$ 20	$ 15
Currencies subject to restrictions	30	27
	50	42
Investments—Trading (including securities transferred under repurchase or securities lending agreements of $4,375 million-June 30, 2011; $4,136 million-June 30, 2010)—Note C	29,818	26,011
Securities Purchased Under Resale Agreements—Note C	-	3
Derivative Assets		
Investments—*Notes C and D*	304	106
Asset-liability management—*Notes D and F*	9,886	4,087
	10,190	4,193
Receivable from Affiliated Organization - Unrestricted—Note F	999	1,088
Other Receivables		
Receivable from investment securities traded—*Note C*	2,355	1,558
Accrued service and commitment charges	259	214
	2,614	1,772
Development Credits Outstanding (Summary Statement of Development Credits, and Note E)		
Development credits	163,346	144,170
Less: Undisbursed balance	38,059	30,696
Development credits outstanding	125,287	113,474
Less: Accumulated provision for debt relief and losses on development credits	6,947	8,948
Plus: Deferred development credits origination costs	28	30
Net development credits outstanding	118,368	104,556
Other Assets—Note G	162	90
Total Assets	$162,201	$137,755

	2011	2010
Liabilities		
Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received—Note C	$ 6,013	$ 4,970
Derivative Liabilities		
Investments—*Notes C and D*	309	103
Asset-liability management—*Notes D and F*	9,893	4,144
	10,202	4,247
Payable for Development Grants—Note H	6,830	5,837
Payable to Affiliated Organization—Note F	370	357
Other Liabilities		
Payable for investment securities purchased—*Note C*	1,285	968
Accounts payable and miscellaneous liabilities—*Notes E and G*	1,085	145
	2,370	1,113
Total Liabilities	25,785	16,524
Equity		
Members' Subscriptions and Contributions (Statement of Voting Power and Subscriptions and Contributions, and Note B)		
Unrestricted	204,014	198,814
Restricted	318	317
Subscriptions and Contributions committed	204,332	199,131
Less:		
Subscriptions and Contributions receivable	34,510	39,725
Cumulative discounts on Subscriptions and Contributions	2,212	1,993
Subscriptions and Contributions paid-in	167,610	157,413
Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Members' Subscriptions and Contributions		
Unrestricted	(9,610)	(6,993)
Restricted	(53)	(51)
	(9,663)	(7,044)
Deferred Amounts to Maintain Value of Currency Holdings	(229)	(233)
Accumulated Deficit (Statement of Changes in Accumulated Deficit)	(39,096)	(36,764)
Accumulated Other Comprehensive Income—Note I	17,794	7,859
Total Equity	136,416	121,231
Total Liabilities and Equity	$162,201	$137,755

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

STATEMENT OF INCOME

For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Income			
Development credits and guarantees—Note E			
Service and interest charges	$ 895	$ 835	$ 794
Commitment charges and guarantee fee income	2	2	7
	897	837	801
Investments, net—Trading—Notes C and D	320	921	1,623
Transfers and grants from affiliated organizations and trust funds - Unrestricted—Notes F and G	991	990	1,037
Other income	–	–	14
Total Income	2,208	2,748	3,475
Expenses			
Administrative expenses—Notes F, G and J	1,234	1,150	975
Development grants—Note H	2,793	2,583	2,575
Interest expense on securities sold under repurchase agreements	15	11	124
Provision for debt relief and for losses on development credits and other exposures, net—(decrease)—Note E	(44)	(90)	(1,236)
Non-functional currency translation adjustment losses (gains), net	455	167	(859)
Write-off on sale of development credits—Note E	–	–	43
Fair value adjustment on non-trading portfolios, net—Note D	101	3	(14)
Project Preparation Advances (PPA) grants	(16)	-	19
Other expenses	2	1	(2)
Total Expenses	4,540	3,825	1,625
Net (Loss) Income	$(2,332)	$(1,077)	$ 1,850

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

STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Net (Loss) Income	$(2,332)	$(1,077)	$ 1,850
Other Comprehensive Income (Loss)—Note I			
Currency translation adjustments on functional currencies	9,935	(5,924)	(5,182)
Comprehensive Income (Loss)	$ 7,603	$(7,001)	$(3,332)

STATEMENT OF CHANGES IN ACCUMULATED DEFICIT

For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Accumulated Deficit at beginning of the fiscal year	$(36,764)	$(35,687)	$(37,537)
Net (loss) income for the year	(2,332)	(1,077)	1,850
Accumulated Deficit at end of the fiscal year	$(39,096)	$(36,764)	$(35,687)

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

STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009

Expressed in millions of U.S. dollars

	2011	*2010*	*2009*
Cash flows from investing activities			
Development credits			
Disbursements	$(8,021)	$(9,336)	$(7,010)
Principal repayments	2,501	2,349	2,182
Development credits sold	-	-	27
Net cash used in investing activities	(5,520)	(6,987)	(4,801)
Cash flows from financing activities			
Members' subscriptions and contributions	7,580	8,730	7,272
Cash flows from operating activities			
Net (loss) income	(2,332)	(1,077)	1,850
Adjustments to reconcile net (loss) income to net cash used in operating activities			
Provision for debt relief and for losses on development credits and other exposures, net—(decrease)	(44)	(90)	(1,236)
Non-functional currency translation adjustment losses (gains), net	455	167	(859)
Fair value adjustment on non-trading portfolios, net	101	3	(14)
Write-off on sale of development credits	-	-	43
Deferred development credits origination costs/PPA grants	(14)	-	18
Changes in:			
Investments—Trading	(1,245)	(778)	1,210
Net investment securities traded/purchased –Trading	(1,139)	(1,073)	325
Net derivatives—Investments	(59)	(10)	(50)
Net derivatives—Asset/liability management	(90)	(104)	151
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	834	548	(4,602)
Net receivable from affiliated organizations	103	62	460
Payable for development grants	532	444	366
Accrued service and commitment charges	(32)	12	(13)
Other assets	(78)	7	(153)
Accounts payable and miscellaneous liabilities	941	37	69
Net cash used in operating activities	(2,067)	(1,852)	(2,435)
Effect of exchange rate changes on unrestricted cash	12	(3)	1
Net increase (decrease) in unrestricted cash	5	(112)	37
Unrestricted cash at beginning of the fiscal year	15	127	90
Unrestricted cash at end of the fiscal year	$ 20	$ 15	$ 127
Supplemental disclosure			
Increase (decrease) in ending balances resulting from exchange rate fluctuations			
Development credits outstanding	$ 8,772	$(5,251)	$(4,680)
Investment portfolio	1,638	(939)	(909)
Derivatives - Asset/liability management	61	(533)	532
Principal repayments forgiven under Heavily Indebted Poor Countries (HIPC) Debt Initiative	(15)	(48)	(76)
Development credits written off under HIPC Debt Initiative and Multilateral Debt Relief Initiative (MDRI) upon countries reaching their Completion Points	(2,464)	(1,108)	(650)
Development credits sold – nominal value	-	-	70

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

SUMMARY STATEMENT OF DEVELOPMENT CREDITS

June 30, 2011

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total development credits*	*Undisbursed development credits* [a]	*Development credits outstanding*	*Percentage of development credits outstanding*
Afghanistan	$ 453	$ 29	$ 424	0.34%
Albania	995	99	896	0.72
Angola	834	444	390	0.31
Armenia	1,286	55	1,231	0.98
Azerbaijan	1,170	358	812	0.65
Bangladesh	15,089	3,933	11,156	8.90
Benin	692	283	409	0.33
Bhutan	158	13	145	0.12
Bolivia	683	295	388	0.31
Bosnia and Herzegovina	1,317	87	1,230	0.98
Botswana	4	-	4	*
Burkina Faso	1,023	185	838	0.67
Burundi	185	11	174	0.14
Cambodia	702	107	595	0.47
Cameroon	1,099	697	402	0.32
Cape Verde	334	21	313	0.25
Central African Republic	53	37	16	0.01
Chad	941	53	888	0.71
China	9,159	-	9,159	7.31
Comoros	118	-	118	0.09
Congo, Democratic Republic of	1,043	134	909	0.73
Congo, Republic of	135	47	88	0.07
Cote d'Ivoire	1,837	43	1,794	1.43
Djibouti	162	2	160	0.13
Dominica	30	2	28	0.02
Dominican Republic	7	-	7	0.01
Ecuador	9	-	9	0.01
Egypt, Arab Republic of	1,360	9	1,351	1.08
El Salvador	7	-	7	0.01
Equatorial Guinea	45	-	45	0.04
Eritrea	513	24	489	0.39
Ethiopia	3,841	1,736	2,105	1.68
Gambia, The	67	-	67	0.05
Georgia	1,247	16	1,231	0.98
Ghana	3,624	1,387	2,237	1.79
Grenada	67	21	46	0.04
Guinea	1,270	39	1,231	0.98
Guinea-Bissau	60	-	60	0.05
Guyana	25	15	10	0.01
Honduras	922	274	648	0.52
India	33,355	6,355	27,000	21.55
Indonesia	2,443	50	2,393	1.91
Iraq	541	414	127	0.10
Jordan	31	-	31	0.02
Kenya	5,550	2,102	3,448	2.75
Kosovo	46	46	*	*
Kyrgyz Republic	775	100	675	0.54
Lao People's Democratic Republic	675	1	674	0.54
Lesotho	364	28	336	0.27
Liberia	123	113	10	0.01
Macedonia, former Yugoslav Republic of	377	-	377	0.30
Madagascar	1,468	241	1,227	0.98
Malawi	586	316	270	0.22
Maldives	121	13	108	0.09
Mali	1,506	592	914	0.73

SUMMARY STATEMENT OF DEVELOPMENT CREDITS *(continued)*

June 30, 2011

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total development credits*	*Undisbursed development credits* [a]	*Development credits outstanding*	*Percentage of development credits outstanding*
Mauritiana	$ 455	$ 108	$ 347	0.28%
Mauritius	7	-	7	0.01
Moldova	557	133	424	0.34
Mongolia	548	93	455	0.36
Montenegro	92	8	84	0.07
Morocco	12	-	12	0.01
Mozambique	2,274	682	1,592	1.27
Myanmar	803	-	803	0.64
Nepal	2,025	538	1,487	1.19
Nicaragua	579	98	481	0.38
Niger	625	329	296	0.24
Nigeria	7,068	3,073	3,995	3.19
Pakistan	12,779	1,662	11,117	8.87
Papua New Guinea	275	182	93	0.07
Paraguay	13	-	13	0.01
Philippines	172	-	172	0.14
Rwanda	479	155	324	0.26
Samoa	122	19	103	0.08
Sao Tome and Principe	15	-	15	0.01
Senegal	1,726	579	1,147	0.92
Serbia	779	62	717	0.57
Sierra Leone	241	51	190	0.15
Solomon Islands	43	-	43	0.03
Somalia	455	-	455	0.36
Sri Lanka	3,324	611	2,713	2.17
St. Kitts and Nevis	1	-	1	*
St. Lucia	86	24	62	0.05
St. Vincent and the Grenadines	40	18	22	0.02
Sudan	1,324	-	1,324	1.06
Swaziland	2	-	2	*
Syrian Arab Republic	14	-	14	0.01
Tajikistan	398	7	391	0.31
Tanzania	5,280	1,780	3,500	2.79
Thailand	54	-	54	0.04
Tonga	24	-	24	0.02
Tunisia	17	-	17	0.01
Turkey	39	-	39	0.03
Uganda	3,008	1,203	1,805	1.44
Uzbekistan	548	413	135	0.11
Vanuatu	12	-	12	0.01
Vietnam	12,500	4,868	7,632	6.09
Yemen, Republic of	2,387	142	2,245	1.79
Zambia	838	332	506	0.40
Zimbabwe	533	-	533	0.43
Subtotal members[c]	163,100	37,997	125,103	99.85

Summary Statement of Development Credits

June 30, 2011

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total development credits*	*Undisbursed development credits* [a]	*Development credits outstanding*	*Percentage of development credits outstanding*
African Trade Insurance Agency [b]	$ 11	$ -	$ 11	0.01%
Bank Of The States Of Central Africa [b]	52	27	25	0.02
Caribbean Dev Bank [b]	22	-	22	0.02
West African Development Bank [b]	161	35	126	0.10
Subtotal regional development banks	246	62	184	0.15
Others	*	-	*	*
Total—June 30, 2011[c]	$163,346	$38,059	$125,287	100.00%
Total—June 30, 2010	$144,170	$30,696	$113,474	

** Indicates amounts less than $0.5 million or 0.005 percent.*

Notes

a. *Of the undisbursed balance at June 30, 2011, IDA has entered into irrevocable commitments to disburse $463 million ($491 million—June 30, 2010).*

b. *The development credits to these regional development banks and agencies are for the benefit of members of IDA or territories of members of IDA.*

c. *May differ from the 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, 2011

Expressed in millions of U.S. dollars

Member [a]	*Number of votes*	*Percentage of total votes*	*Subscriptions and contributions committed*
Part I Members			
Australia	237,476	1.15%	$ 3,666.57
Austria	151,598	0.74	1,962.22
Belgium	219,294	1.07	3,574.65
Canada	524,963	2.55	8,943.84
Denmark	187,722	0.91	3,211.83
Estonia	36,150	0.18	4.09
Finland	120,274	0.58	1,311.12
France	790,360	3.84	14,587.43
Germany	1,163,980	5.66	22,225.68
Greece	53,093	0.26	219.32
Iceland	46,379	0.23	49.12
Ireland	72,255	0.35	504.54
Italy	484,642	2.36	8,804.29
Japan	1,790,495	8.70	40,355.04
Kuwait	93,478	0.45	870.35
Latvia	33,956	0.17	0.92
Luxembourg	53,581	0.26	225.18
Netherlands	392,488	1.91	7,322.99
New Zealand	56,431	0.27	293.62
Norway	200,226	0.97	3270.50
Portugal	55,554	0.27	299.56
Russian Federation	60,937	0.30	410.92
Slovenia	44,339	0.22	34.24
South Africa	55,503	0.27	175.22
Spain	199,242	0.97	3,226.89
Sweden	392,816	1.91	6,434.73
Switzerland	228,751	1.11	3,461.05
United Arab Emirates	1,367	0.01	5.58
United Kingdom	1,117,538	5.43	20,268.71
United States	2,270,761	11.03	42,870.14
Subtotal Part I Members [b]	11,135,649	54.11%	$198,590.33
Part II Members			
Afghanistan	54,983	0.27%	$ 1.49
Albania	45,667	0.22	0.35
Algeria	83,313	0.40	5.51
Angola	66,866	0.32	8.30
Argentina	134,439	0.65	69.79
Armenia	47,981	0.23	0.69
Azerbaijan	51,627	0.25	1.12
Bahamas, The	46,228	0.22	1.89
Bangladesh	107,859	0.52	7.66
Barbados	46,340	0.23	1.67
Belize	13,653	0.07	0.26
Benin	48,911	0.24	0.76
Bhutan	43,467	0.21	0.08
Bolivia, Plurinational State of	55,614	0.27	1.53
Bosnia and Herzegovina	51,994	0.25	2.53
Botswana	44,980	0.22	1.63
Brazil	306,709	1.49	831.48
Burkina Faso	48,910	0.24	0.78
Burundi	52,038	0.25	1.10
Cambodia	55,249	0.27	1.48
Cameroon	54,982	0.27	1.58
Cape Verde	43,840	0.21	0.13
Central African Republic	48,910	0.24	0.78
Chad	48,910	0.24	0.78
Chile	31,782	0.15	4.47
China	421,071	2.05	112.37
Colombia	92,384	0.45	24.96
Comoros	43,840	0.21	0.13

Expressed in millions of U.S. dollars

Member [a]	*Number of votes*	*Percentage of total votes*	*Subscriptions and contributions committed*
Congo, Democratic Republic of	79,399	0.39%	$ 4.58
Congo, Republic of	48,910	0.24	0.76
Costa Rica	12,480	0.06	0.25
Côte d'Ivoire	54,982	0.27	1.55
Croatia	64,324	0.31	5.84
Cyprus	52,405	0.25	7.42
Czech Republic	89,272	0.43	95.72
Djibouti	44,816	0.22	0.26
Dominica	43,840	0.21	0.13
Dominican Republic	27,780	0.13	0.58
Ecuador	50,151	0.24	0.94
Egypt, Arab Republic of	92,365	0.45	9.09
El Salvador	46,464	0.23	0.49
Equatorial Guinea	6,167	0.03	0.41
Eritrea	43,969	0.21	0.13
Ethiopia	48,923	0.24	0.71
Fiji	19,462	0.09	0.77
Gabon	2,093	0.01	0.63
Gambia, The	46,108	0.22	0.40
Georgia	51,259	0.25	0.99
Ghana	71,336	0.35	3.13
Grenada	20,627	0.10	0.13
Guatemala	37,396	0.18	0.55
Guinea	33,987	0.17	1.32
Guinea-Bissau	44,500	0.22	0.22
Guyana	52,674	0.26	1.17
Haiti	52,038	0.25	1.11
Honduras	46,457	0.23	0.43
Hungary	139,921	0.68	109.16
India	573,783	2.79	60.84
Indonesia	176,979	0.86	15.85
Iran, Islamic Republic of	15,455	0.08	5.69
Iraq	51,576	0.25	1.04
Israel	67,473	0.33	71.93
Jordan	24,865	0.12	0.41
Kazakhstan	5,685	0.03	1.89
Kenya	63,143	0.31	2.36
Kiribati	43,592	0.21	0.10
Korea, Republic of	142,740	0.69	1,200.69
Kosovo, Republic of	48,357	0.23	0.88
Kyrgyz Republic	47,718	0.23	0.56
Lao People's Democratic Republic	48,910	0.24	0.73
Lebanon	8,562	0.04	0.56
Lesotho	44,816	0.22	0.24
Liberia	52,038	0.25	1.12
Libya	44,771	0.22	1.44
Macedonia, former Yugoslav Republic of	46,885	0.23	1.11
Madagascar	54,982	0.27	1.42
Malawi	52,038	0.25	1.02
Malaysia	73,397	0.36	5.92
Maldives	43,229	0.21	0.05
Mali	53,345	0.26	1.34
Marshall Islands	4,902	0.02	0.01
Mauritania	48,910	0.24	0.77
Mauritius	53,320	0.26	1.29
Mexico	142,236	0.69	168.71
Micronesia, Federated States of	18,424	0.09	0.03
Moldova	49,684	0.24	0.87
Mongolia	45,667	0.22	0.32
Montenegro	47,096	0.23	0.73
Morocco	85,559	0.42	5.53
Mozambique	59,370	0.29	2.05
Myanmar	67,326	0.33	3.17
Nepal	48,910	0.24	0.74
Nicaragua	46,457	0.23	0.43
Niger	48,910	0.24	0.76

STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2011

Expressed in millions of U.S. dollars

Member [a]	*Number of votes*	*Percentage of total votes*	*Subscriptions and contributions committed*
Nigeria	83,411	0.41%	$ 4.62
Oman	46,580	0.23	1.39
Pakistan	168,679	0.82	14.11
Palau	3,804	0.02	0.02
Panama	10,185	0.05	0.04
Papua New Guinea	48,346	0.23	1.26
Paraguay	29,968	0.15	0.44
Peru	64,322	0.31	2.55
Philippines	103,963	0.51	7.55
Poland	405,835	1.97	90.07
Rwanda	52,038	0.25	1.12
St. Kitts and Nevis	13,778	0.07	0.17
St. Lucia	30,532	0.15	0.23
St. Vincent and the Grenadines	34,787	0.17	0.11
Samoa	43,901	0.21	0.14
São Tomé and Principe	43,719	0.21	0.12
Saudi Arabia	652,965	3.17	2,424.65
Senegal	63,143	0.31	2.62
Serbia	69,507	0.34	7.04
Sierra Leone	52,038	0.25	1.02
Singapore	14,933	0.07	60.73
Slovak Republic	65,977	0.32	21.79
Solomon Islands	43,901	0.21	0.13
Somalia	10,506	0.05	0.95
Sri Lanka	79,436	0.39	4.30
Sudan	54,982	0.27	1.52
Swaziland	19,022	0.09	0.42
Syrian Arab Republic	11,027	0.05	1.20
Tajikistan	47,378	0.23	0.52
Tanzania	63,143	0.31	2.30
Thailand	79,436	0.39	4.74
Timor-Leste	45,123	0.22	0.44
Togo	52,038	0.25	1.14
Tonga	43,714	0.21	0.12
Trinidad and Tobago	59,184	0.29	2.00
Tunisia	2,793	0.01	1.89
Turkey	119,975	0.58	155.44
Tuvalu	504	*	0.02
Uganda	47,092	0.23	2.36
Ukraine	1,762	0.01	7.61
Uzbekistan	57,807	0.28	1.90
Vanuatu	45,152	0.22	0.30
Vietnam	61,168	0.3	2.24
Yemen, Republic of	60,415	0.29	2.16
Zambia	75,427	0.37	3.61
Zimbabwe	92,455	0.45	6.21
Subtotal Part II Members [b]	9,443,613	45.89%	$ 5,742.03
Total—June 30, 2011 [b]	20,579,262	100.00%	$204,332.36
Total—June 30, 2010	20,037,940	100.00%	$199,130.91

* *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 sum of individual figures shown due to rounding.*

The Notes to Financial Statements are an integral part of these 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 AND RELATED POLICIES

IDA's financial statements are prepared in conformity with the 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 income and expenses during the reporting period. Actual results could differ from these estimates. Significant judgments have 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 years' information have been made to conform with the current year's presentation. In particular, as permitted under U.S. GAAP, IDA reclassified amounts relating to Nonnegotiable, noninterest-bearing demand obligations on account of members' subscriptions and contributions of $7,044 million as of June 30, 2010 from Assets to Equity. In addition, IDA previously reported the purchases and sales of Mortgage Backed Securities To-Be-Announced (TBAs) on a gross basis as part of Investments-Trading. Since these instruments meet the definition of derivative instruments, IDA has reclassified amounts related to TBAs to derivative assets and derivative liabilities. The effect of the reclassification on the June 30, 2010 balance sheet was a $329 million decrease in Investments-Trading, $147 million decrease in Receivable from investment securities traded, $473 million decrease in Payable from investment securities purchased, and $3 million increase in Derivative assets-Investments. These reclassifications had no effect on IDA's Net loss for the fiscal year ended June 30, 2010.

On August 4, 2011, 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 IDA's financial position and the results of its operations for the convenience of its members and other interested parties.

IDA conducts its operations in Special Drawing Rights (SDRs) and the SDR's component currencies of U.S. dollar, euro, Japanese yen and pound sterling. These comprise the functional currencies of IDA.

Assets and liabilities are translated at market exchange rates in effect at the end of the accounting period, except Members' Subscriptions and Contributions which are translated in the manner described below. Income and expenses are translated at either the market exchange rates in effect on the dates of income 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 have had the option of paying all of their subscription and contribution amounts in cash before they become due, and thereby receiving discounts. In addition, some replenishment arrangements have incorporated an accelerated encashment schedule. In these cases, IDA and the donor agree that IDA will invest the cash and retain the income with the donor receiving voting rights for the full undiscounted amount. Subscriptions and Contributions committed are recorded at the full undiscounted amount. Subscriptions and Contributions paid-in are recorded net of discounts.

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 currencies subject to restriction 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. Correspondingly, the IoCs are also recorded as Subscriptions and Contributions Receivable and deducted from equity.

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, in the opinion of IDA, 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 are held in bank accounts which bear IDA's name. These instruments are carried and reported at face value as a reduction to equity on the Balance Sheet.

Development Credits

In fulfilling its mission, IDA makes concessional development credits to the poorest countries. These development credits 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 ($1,165 for FY2011 and $1,135 for FY2010) and the country may have only limited or no creditworthiness for 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 income as accrued.

Incremental direct costs associated with originating development credits are capitalized and amortized over the term of the credit.

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.

It is the policy of IDA to place in nonaccrual status all development credits made to, or guaranteed by, a member government or to the government of a territory of a member if principal or charges with respect to any such development credit 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 in nonaccrual status, all development credits to that member government will also be placed in nonaccrual status by IDA. On the date a member's development credits are placed in nonaccrual status, outstanding charges that had accrued on development credits that remained unpaid are deducted from the income from development credits of the current period. Income on nonaccrual development credits is included in income only to the extent that payments have actually been received by IDA. If collectibility risk is considered to be particularly high at the time of arrears clearance, the member's development credits may not automatically emerge from nonaccrual status, even though the member's eligibility for new credits may have been restored in such instances. 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 IDA's 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; the principal amounts disbursed under such development credits are to be repaid in currency amounts currently equivalent to the SDRs disbursed.

Sale of Credits Under Buy-down Mechanism

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 IDA's "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, IDA sells the related credits to the trust fund 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.

The difference between the carrying amount of the development credit sold and the amount received is recognized as an expense by way of write-off in IDA's Statement of Income.

Development Grants

Development grants are charged to income, and a liability recognized, upon approval by IDA's 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. These amounts are charged to income 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 expenses initially charged to income are reversed upon approval of the follow-on development grants, or at the effectiveness of the follow-on development credits.

Guarantees

IDA provides guarantees for credits issued in support of projects located within a member country that are undertaken by private entities. These financial guarantees are commitments issued by IDA to guarantee payment performance by a borrower 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.

Guarantee fee income received is 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 fee income, 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, which was approved by IDA's Executive Directors in FY2000, 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 by 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.

Donors compensate IDA on a "pay-as-you-go" basis to finance IDA's forgone credit reflows 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

In June 2006, the Executive Directors approved the implementation of the MDRI commencing July 1, 2006. 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. Specifically, for forgone reflows under MDRI, donors established a separate MDRI replenishment spanning four decades (FY2007-44) 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 against or addition to 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 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 by IDA.

Following the Executive Directors' approval of IDA's participation in the MDRI in June 2006, IDA provided in full 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 against income. 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 to IDA since it 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, 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 and MDRI. 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 (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.

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 and MDRI 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. Each risk rating is mapped to an expected default frequency (probability of default to IDA) based on historical experience. 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 periodically, 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. This methodology is also applied to countries with exposures in nonaccrual status. Generally, all exposures in nonaccrual status have the same risk rating.

The determination of borrowers' ratings is based on both quantitative and qualitative analyses of various factors. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision accordingly. Adjustments to the accumulated provision are recorded as a charge against or addition to income.

Statement of Cash Flows

For the purpose of IDA's Statement of Cash Flows, cash is defined as the amount of unrestricted currencies 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. At June 30, 2011 and June 30, 2010, all investment securities were held in a trading portfolio. Investment securities and related financial instruments held in IDA's trading portfolio are carried and reported at fair value. 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 income. Derivative instruments used in liquidity management are not designated as hedging 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. 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 IDA's balance sheet, and securities received under resale agreements are not recorded on IDA's Balance Sheet.

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 IDA's derivative instruments is consistent with the manner in which these instruments are settled.

Valuation of Financial Instruments

Derivative financial instruments and investment securities are recorded in IDA's 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. These models primarily use market-based or independently sourced market parameters such as yield curves, interest rates, foreign exchange rates and credit curves, and may incorporate unobservable inputs. Selection of these inputs may involve some judgment. To ensure that the valuations are appropriate where internally-developed models are used, IDA has various controls in place, which include both internal and periodic external verification and review.

As of June 30, 2011, and June 30, 2010, 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 and Grants

Transfers from IBRD's net income and grants made from the retained earnings of IFC to IDA are recorded through IDA's Statement of Income and are receivable upon approval by the Board of Governors of IBRD and 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.

Accounting and Reporting Developments

The Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives* became effective on July 1, 2010. The ASU clarifies the scope exception related to embedded credit derivatives by narrowing it to apply to those embedded credit derivatives where the transfer of credit risk is only in the form of subordination of one financial instrument to another, with all other embedded credit derivatives required to be analyzed for potential bifurcation and separate accounting. IDA was not affected by this ASU as it does not have any embedded credit derivatives.

FASB's ASU No.2009-16, *Accounting for Transfers of Financial Assets - an Amendment of FAS 140* became effective on July 1, 2010. This guidance eliminates the concept of a "qualified special purpose entity" and addresses the information that a reporting entity provides in its financial reports about transfers of financial assets including: the effect of transfers on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred assets. The adoption of this ASU resulted in additional qualitative disclosures relating to securities lending under Note C—Investments.

FASB's ASU No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends existing guidance for consolidation of variable interest entities, also became effective on July 1, 2010. This ASU did not have an impact on IDA's financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* The ASU expands credit quality disclosure requirements to include more detailed information regarding financing receivables and the allowance for credit losses, as well as additional information regarding accounting policies and methodology. Although the expanded disclosures are effective for IDA's annual reporting periods ending on or after December 15, 2011, IDA early adopted the ASU with effect from the quarter ended December 31, 2010, and provides interim and annual disclosures (see Note E—Development Credits and Other Exposures).

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law in the United States. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and interpret its requirements. Pending the development of these rules, no impact on IDA has been determined as of June 30, 2011. IDA continues to evaluate the potential future implications of the Act.

In April 2011, FASB issued ASU No. 2011-02, *Receivables: A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* The ASU clarifies criteria to be considered in evaluating whether a restructuring of a receivable constitutes a troubled debt restructuring. For IDA, this ASU is effective for annual periods ending on or after December 15, 2012, with early adoption permitted. As it is IDA's practice not to restructure its development credits, this ASU is not expected to have an impact on its financial statements.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.* The ASU changes the assessment of effective control by focusing on the transferor's contractual rights and obligations and removing the criterion to assess its ability to exercise those rights or honor those obligations. For IDA, this ASU is effective for the first interim or annual period beginning on or after December 15, 2011. IDA currently accounts for all transfers of securities as secured borrowing and is therefore not expected to be affected by this ASU.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs).* The amendments result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. While many of the amendments relate to the harmonization of terminology and are not expected to significantly impact current practice, some of the amendments change the existing fair value measurement and disclosure requirements. For IDA, this ASU is effective for annual periods beginning after December 15, 2011. IDA is currently evaluating the impact of this ASU on its financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* The ASU requires comprehensive income to be reported in either a single statement or in two consecutive statements. The ASU does not change what items are reported in other comprehensive income or existing requirements to reclassify items from other comprehensive income to net income. For IDA, this ASU is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. IDA is currently evaluating the impact of this ASU on its financial statements.

NOTE B—MEMBERS' SUBSCRIPTIONS AND CONTRIBUTIONS

The Sixteenth Replenishment of IDA's Resources (IDA16): The Board of Governors adopted the resolution approving IDA16 on April 26, 2011. During the IDA16 period, which spans from July 1, 2011 to June 30, 2014, IDA is expected to provide concessional financing of SDR 32.8 billion ($52.5 billion using June 30, 2011 exchange rates). IDA16 will become effective when IDA has received IoCs for subscriptions and contributions from donors of not less than SDR 10.4 billion ($16.6 billion).

Subscriptions and Contributions Paid-In: The movement in Subscriptions and Contributions Paid-In during the fiscal years ended June 30, 2011 and June 30, 2010 is summarized below:

In millions of U.S. dollars

	June 30, 2011	*June 30, 2010*
Beginning of the fiscal year	$157,413	$150,085
Cash contributions received	1,724	1,744
Demand obligations received	7,549	5,908
Translation adjustment	924	(324)
End of the fiscal year	$167,610	$157,413

Subscriptions and Contributions Paid-In as of June 30, 2011 include $37 million related to IDA16.

During the fiscal year ended June 30, 2011, IDA encashed demand obligations totaling $5,856 million ($6,986 million—fiscal year ended June 30, 2010).

Cumulative Discounts on Subscriptions and Contributions: At June 30, 2011, the cumulative discounts on Subscriptions and Contributions totaled $2,212 million ($1,993 million—June 30, 2010) and comprised the following:

In millions of U.S. dollars

	June 30, 2011	*June 30, 2010*
Discounts on Advance Subscriptions and Contributions	$1,700	$1,481
Allocation to Switzerland	512	512
Cumulative discounts	$2,212	$1,993

The allocation to Switzerland represents the discount given to Switzerland when they became a member of IDA. Switzerland had provided $580 million in co-financing grants to IDA borrowers before it became a member of IDA. These grant contributions were converted to IDA subscriptions and contributions upon membership at $512 million, representing the present value of the future reflows of the co-financing grants had they been made through IDA on IDA's repayment terms existing then.

Donor Financing of MDRI: As of June 30, 2011, donor commitments to the MDRI stood at $30,238 million at the agreed replenishment foreign exchange reference rates, representing 85% of the total financing requirements based on the latest cost estimates for the MDRI. Of the cumulative donor commitments, $7,237 million were unqualified and $23,001 million were qualified, with unqualified donor commitments covering 20% of the total costs.

NOTE C—INVESTMENTS

The investment securities held by IDA are designated as trading and are carried and reported at fair value, or at face value which approximates fair value. As of June 30, 2011, the majority of Investments-trading comprises government and agency obligations (63%), with almost all the instruments being classified as either Level 1 or Level 2 for the purposes of the fair value hierarchy classification.

The majority of the instruments in Investments-trading are denominated in U.S. dollars, Euro, Pounds sterling and Japanese yen (47%, 33%, 10% and 9%, respectively). 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 has an average repricing of 2.6 years and the following currency composition: U.S. dollars (48%), Euro (33%), Pounds sterling (10%) and Japanese yen (9%).

Investments – Trading

A summary of IDA's Investments-trading and the currency composition at June 30, 2011 and June 30, 2010, is as follows:

In millions of U.S. dollars

	Carrying Value	
	June 30, 2011	June 30, 2010
Investments—Trading		
Government and agency obligations	$18,683	$19,425
Time deposits	9,651	4,668
Asset-backed securities	1,484	1,918
Total	$29,818	$26,011

In millions of U.S. dollars

	June 30, 2011		June 30, 2010	
	Carrying value	Average Repricing (years)[a]	Carrying value	Average Repricing (years)[a]
Euro	$ 9,804	2.53	$ 7,722	3.08
Japanese yen	2,587	2.15	3,476	2.36
Pounds sterling	3,052	2.28	2,684	2.36
U.S. dollars	14,051	2.03	12,023	2.58
Other	324	0.06	106	0.05
Total	$29,818	2.21	$26,011	2.66

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 IDA's net portfolio position and currency composition as of June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	Carrying Value	
	June 30, 2011	June 30, 2010
Investments—Trading	$29,818	$26,011
Securities purchased under resale agreements	-	3
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received	(6,013)	(4,970)
Derivatives Assets		
Currency forward contracts	302	100
Interest rate swaps	2	3
Other[a]	*	3
Total	304	106
Derivatives Liabilities		
Currency forward contracts	(305)	(100)
Interest rate swaps	(3)	(3)
Other[a]	(1)	(*)
Total	(309)	(103)
Cash held in investment portfolio[b]	2	2
Receivable from investment securities traded	2,355	1,558
Payable for investment securities purchased	(1,285)	(968)
Net Investment Portfolio	$24,872	$21,639

a. These relate to TBA securities.
b. This amount is included in Unrestricted currencies under Due from Banks on the Balance Sheet.
** - Indicates amount less than $0.5 million.*

In millions of U.S. dollars

	June 30, 2011		June 30, 2010	
	Carrying value	Average Repricing (years)[a]	Carrying value	Average Repricing (years)[a]
Euro	$ 8,268	3.18	$ 6,475	3.54
Japanese yen	2,109	2.72	3,487	2.36
Pounds sterling	2,540	3.30	1,934	4.74
U.S. dollars	11,935	2.36	9,733	3.19
Other	20	*	10	*
Total	$24,872	2.73	$21,639	3.25

** Indicates amounts not meaningful.*

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.

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

As of June 30, 2011 there were no short sales included in Payable for investment securities purchased on the Balance Sheet ($21 million—June 30, 2010).

For the fiscal year ended June 30, 2011, IDA had included $340 million of unrealized losses in income (unrealized gains of $151 million—June 30, 2010 and unrealized gains of $450 million—June 30, 2009).

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, 2011 and June 30, 2010:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments – Trading				
Government and agency obligations	$4,936	$13,747	$ -	$18,683
Time deposits	3,170	6,481	-	9,651
Asset-backed securities	-	1,466	18	1,484
Total Investments – Trading	8,106	21,694	18	29,818
Securities purchased under resale agreements	-	-	-	-
Derivative assets-Investments				
Currency forward contracts	-	302	-	302
Interest rate swaps	-	2	-	2
Other[a]	-	*	-	*
	-	304	-	304
Total Investments assets	$8,106	$21,998	$18	$30,122
Liabilities:				
Securities sold under repurchase agreements and securities lent under security lending agreements	$ -	$ 6,013	$ -	$6,013
Derivative liabilities-Investments				
Currency forward contracts	-	305	-	305
Interest rate swaps	-	3	-	3
Other[a]	-	1	-	1
	-	309	-	309
Total Investments liabilities	$ -	$ 6,322	$ -	$6,322

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, 2010			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments – Trading				
Government and agency obligations	$5,526	$13,899	$ -	$19,425
Time deposits	2,295	2,373	-	4,668
Asset-backed securities	-	1,905	13	1,918
Total Investments – Trading	7,821	18,177	13	26,011
Securities purchased under resale agreements	-	3	-	3
Derivative assets-Investments				
Currency forward contracts	-	100	-	100
Interest rate swaps	-	3	-	3
Other[a]	-	3	-	3
	-	106	-	106
Total Investments assets	$7,821	$18,286	$13	$26,120
Liabilities:				
Securities sold under repurchase agreements and securities lent under security lending agreements[b]	$ 314	$ 4,654	$ -	$ 4,968
Derivative liabilities-Investments				
Currency forward contracts	-	100	-	100
Interest rate swaps	-	3	-	3
Other[a]		*		*
	-	103	-	103
Total Investments liabilities	$ 314	$ 4,757	-	$ 5,071

a. These relate to TBA securities.
b. Excludes $2 million relating to payable for cash collateral received.
** Indicates amount less than $0.5 million.*

The following table provide a summary of changes in the fair value of IDA's Level 3 financial instruments relating to Investments-Trading during the fiscal years ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	Level 3 Financial Instruments	
	Investments – Trading (Asset-backed securities)	
	Fiscal Year Ended June 30,	
	2011	*2010*
Beginning of the period	$13	$71
Total gains or (losses) in net income:	5	11
Purchases	2	2
Sales/Settlements	(4)	(29)
Transfers in (out), net	2	(42)
End of the period	$18	$13

The following table provides information on the unrealized gains or losses included in income for the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009, relating to IDA's Level 3 financial instruments still held as of those dates, as well as where those amounts are included in the Statement of Income.

In millions of U.S. dollars

	Level 3 Financial Instruments Still Held as of the reporting date		
Unrealized Gains (Losses)	*Investments – Trading (Asset-backed securities)*		
Statement of Income Location	*Fiscal Year Ended June 30,*		
	2011	*2010*	*2009*
Income: Investments—Trading	$5	$6	$(8)

The table below provides the details of all gross inter-level transfers during the fiscal year ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars	*Fiscal Year Ended June 30, 2011*		
	Level 1	*Level 2*	*Level 3*
Investments-Trading			
Government and Agency obligations			
Transfers (out of) into	$(404)	$404	$ -
Asset-backed securities			
Transfers into (out of)	-	10	(10)
Transfers (out of)into	-	(12)	12
	$(404)	$402	$ 2

In millions of U.S. dollars	*Fiscal Year Ended June 30, 2010*		
	Level 1	*Level 2*	*Level 3*
Investments-Trading			
Government and Agency obligations			
Transfers into (out of)	$632	$(632)	-
Asset-backed securities			
Transfers) into (out of	-	52	$(52)
Transfers (out of) into	-	(10)	10
	$632	$(590)	$(42)

During the fiscal year ended June 30, 2011, the transfer of Government and agency obligations totaling $ 404 million from Level 1 to Level 2 reflected the unavailability of quoted market prices for identical instruments, resulting from the decreased volume of trading of these instruments.

During the fiscal year ended June 30, 2010, the transfer of Government and Agency obligations totaling $632 million from Level 2 into Level 1 reflected the availability of quoted market prices for identical instruments, resulting from the increased volume of trading of these instruments.

The transfers of Asset-backed securities between Level 2 and Level 3 during the fiscal years ended June 30, 2011 and June 30, 2010 were not significant.

Valuation Methods and Assumptions

Summarized below are the techniques applied in determining the fair values of investments.

Investment securities

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include futures contracts and most government and agency securities. For instruments for which market quotations are not available, fair values are determined based on 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 prepayment speeds. Unless quoted prices are available, time deposits are reported at face value which approximates fair value.

Securities Purchased under Resale Agreements, Securities Sold under Agreements to Repurchase and Securities Lent Under Securities Lending Agreements

These securities are reported at face value which approximates fair value.

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.

IDA has entered into master derivatives agreements which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps. The reduction in exposure as a result of these netting provisions can vary as additional transactions are entered into under these agreements. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date.

Securities Lending: IDA may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resales) of government and agency obligations, and corporate and asset-backed securities. 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.

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

	June 30, 2011	*June 30, 2010*	*Financial Statement Presentation*
Securities transferred under repurchase or securities lending agreements	$4,375	$4,136	Included under Investments-Trading on the Balance Sheet
Liabilities relating to securities transferred under repurchase or securities lending agreements	$6,013	$4,968	Included under Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received on the Balance Sheet.

At June 30, 2011, the liabilities relating to securities transferred under repurchase or securities lending agreements included $1,599 million ($816 million—June 30, 2010) of repurchase agreement trades that had not settled at that date. Of this amount, $1,162 million ($712 million—June 30, 2010) represented replacement trades entered into in anticipation of maturing trades.

IDA receives collateral in connection with resale agreements. This collateral serves to mitigate IDA's exposure to credit risk. The collateral received is in the form of liquid securities and IDA 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, 2011, IDA had not received any securities (securities with a fair value $3 million—June 30, 2010) in connection with resale agreements. None of these securities ($Nil— June 30, 2010) had been transferred under repurchase or security lending agreements.

NOTE D—DERIVATIVE INSTRUMENTS

IDA uses derivative instruments in its investments portfolio and for asset/liability management purposes.

All derivative instruments are classified as Level 2 for the purposes of fair value hierarchy classification.

The following table summarizes IDA's use of authorized 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, options and futures contracts	Manage currency and interest rate risk in the portfolio.
Other assets/liabilities	Currency forward contracts and currency swaps	Manage foreign exchange risks of future cash flows in non-SDR component currencies.
Other purposes:		
Client operations	Structured swaps	Assist clients in managing commodity output 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 AAA credit rating. As of June 30, 2011, IDA had not posted any collateral with IBRD, having met the liquidity holdings requirement.

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, 2011 and June 30, 2010:

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

In millions of U.S. dollars

	Derivative assets			*Derivative liabilities*		
	Balance Sheet Location	*June 30, 2011*	*June 30, 2010*	*Balance Sheet Location*	*June 30, 2011*	*June 30, 2010*
Derivatives not designated as hedging instruments						
Options and Futures-Investments	Other assets	$ *	$ -	Other liabilities	$ 1	$ *
Interest rate swaps	Derivative assets	2	3	Derivative liabilities	3	3
Currency forward contracts	Derivative assets	10,188	4,187	Derivative liabilities	10,198	4,244
Other[a]	Derivative assets	*	3	Derivative liabilities	1	*
Total Derivatives		$10,190	$4,193		$10,203	$4,247

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

Type of contract	*June 30, 2011*	*June 30, 2010*
Investments—Trading		
Interest rate swaps		
Notional principal	$ 40	$ 40
Credit exposure	2	3
Exchange traded Options and Futures contracts[a]		
Notional long position	698	2,866
Notional short position	3,756	1,538
Other[b]		
Notional long position	246	310
Notional short position	13	-
Credit exposure	*	3
Derivatives—Asset/liability management		
Currency forward contracts		
Credit exposure	174	135

a. *Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All outstanding options and future contracts as of June 30, 2011 and June 30, 2010 are interest rate contracts*
b These relate to TBA securities.
** Indicates amount less than $0.5 million.*

Amounts of gains and losses on the non-trading derivative instruments and their location on the Statement of Income for the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009 is as follows:

Derivatives not designated as hedging instruments and not held in a trading portfolio

In millions of U.S. dollars

		Gains (Losses)		
		Fiscal Year Ended		
	Statement of Income Location	*2011*	*2010*	*2009*
Currency forward contracts	Fair value adjustment on non-trading portfolios, net	$(101)	$(3)	$14

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

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

The following table provides information on the amount of gains and losses on the Investments–trading portfolio (derivative and non-derivative instruments), and their location on the Statement of Income during fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009:

Investments—Trading portfolio
In millions of U.S. dollars

		Gains (Losses)		
		Fiscal Year Ended		
	Statement of Income Location	*2011*	*2010*	*2009*
Type of instrument				
Fixed income	*Investments—Trading*	$(167)	$392	$825

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, 2011 and June 30, 2010 is as follows:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative assets:				
Derivative assets				
Investments				
Currency forward contracts	$-	$ 302	$-	$ 302
Interest rate swaps	-	2	-	2
Other[a]	-	*	-	*
	-	304	-	304
Asset-liability management				
Currency forward contracts	-	9,886	-	9,886
Total derivative assets	$-	$10,190	$-	$10,190
Derivative liabilities:				
Derivative Liabilities				
Investments				
Currency forward contracts	$-	$ 305	$-	$ 305
Interest rate swaps	-	3	-	3
Other[a]	-	1	-	1
	-	309		309
Asset-liability management				
Currency forward contracts	-	9,893		9,893
Total derivative liabilities	$-	$10,202	$	$10,202

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, 2010			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative assets:				
Derivative assets				
Investments				
Currency forward contracts	$-	$ 100	$-	$ 100
Interest rate swaps	-	3	-	3
Other[a]	-	3	-	3
	-	106	-	106
Asset-liability management				
Currency forward contracts	-	4,087	-	4,087
Total derivative assets	$-	$4,193	$-	$4,193
Derivative liabilities:				
Derivative Liabilities				
Investments				
Currency forward contracts	$-	$ 100	$-	$ 100
Interest rate swaps	-	3	-	3
Other[a]	-	*	-	*
	-	103	-	103
Asset-liability management				
Currency forward contracts	-	4,144	-	4,144
Total derivative liabilities	$-	$4,247	$-	$4,247

a. These relate to TBA securities.
***** *Indicates amount less than $0.5 million*

During the fiscal years ended June 30, 2011 and June 30, 2010, there were no inter-level transfers in the derivatives portfolio.

Valuation Methods and Assumptions

Derivative contracts include currency forward contracts, 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.

NOTE E—DEVELOPMENT CREDITS AND OTHER EXPOSURES

IDA's development credits and other exposures (exposures) are generally made directly to or are guaranteed by member countries of IDA. Other exposures include irrevocable commitments, guarantees and repaying project preparation facilities.

Development credits are carried at amortized cost. Of the total development credits outstanding as of June 30, 2011, 88.9% 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 risk and High risk categories.

IDA's development credits are predominantly denominated in SDR (94% as of June 30, 2011), and carry original maturities greater than 35 years and a service charge of 75 basis points.

As of June 30, 2011, four borrowers with development credits outstanding totaling $3,115 million (representing about 2% of the portfolio) were in nonaccrual status.

Maturity Structure

The maturity structure of IDA's development credits outstanding at June 30, 2011 and June 30, 2010 was as follows:

In millions of U.S. dollars

June 30, 2011		*June 30, 2010*	
July 1, 2011 through June 30, 2012[a]	$ 5,280	July 1, 2010 through June 30, 2011[b]	$ 5,032
July 1, 2012 through June 30, 2016	15,872	July 1, 2011 through June 30, 2015	12,331
July 1, 2016 through June 30, 2021	25,329	July 1, 2015 through June 30, 2020	21,325
Thereafter	78,806	Thereafter	74,786
Total	$125,287	Total	$113,474

a. Includes development credits totaling $1,000 million prepaid by China on July 1, 2011. As of June 30, 2011, the funds associated with these prepaid development credits had been received and the corresponding liability included in Accounts payable and miscellaneous liabilities.

b. Includes $65 million and $1,537 million written off on July 1, 2010 and October 1, 2010, respectively, under the MDRI. These amounts were based on June 30, 2010 exchange rates.

Currency Composition

IDA's development credits outstanding by currency composition at June 30, 2011 and June 30, 2010 comprised:

In millions of U.S. dollars

	June 30, 2011	*June 30, 2010*
USD-denominated	$ 7,190	$ 7,832
SDR-denominated	118,097	105,642
	$125,287	$113,474

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 analysis. To the extent applicable, 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 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 classes, as well as exposures in nonaccrual status. IDA considers all exposures in nonaccrual status to be impaired.

IDA's borrowers' country risk ratings are key determinants in the provisions for development credit 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.

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 table provides an aging analysis of IDA's development credits as of June 30, 2011:

In millions of U.S. dollars

Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$ -	$-	$-	$ -	$ -	$ -	$ 9,239	$ 9,239
Medium	-	-	-	-	-	-	34,219	34,219
High	1	1	1	-	-	3	78,711	78,714
Credits in accrual status	1	1	1	-	-	3	122,169	122,172
Credits in nonaccrual status	12	1	4	28	1,006	1,051	2,064	3,115
Total[a]	$13	$2	$5	$28	$1,006	$1,054	$124,233	$125,287

a. At amortized cost

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 on a periodic basis and adjustments are recorded as a charge against or addition to income.

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 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, 2011 and June 30, 2010 are summarized below:

In millions of U.S. dollars

	June 30, 2011				*June 30, 2010*			
	Develop-ment credits	*Other*	*Debt relief under HIPC/MDRI*	*Total*	*Develop-ment credits*	*Other*	*Debt relief under HIPC/MDRI*	*Total*
Accumulated provision, beginning of the fiscal year	$ 1,224	$ 4	$ 7,724	$ 8,952	$ 1,240	$3	$ 9,337	$10,580
Increase (decrease) in provision, net	20	10	(74)	(44)	43	1	(134)	(90)
Development credits written off under HIPC	-	-	(15)	(15)	-	-	(48)	(48)
Development credits written off under MDRI	-	-	(2,464)	(2,464)	-	-	(1,108)	(1,108)
Translation adjustment	89	1	443	533	(59)	-	(323)	(382)
Accumulated provision, end of the fiscal year	$ 1,333	$15	$ 5,614	$ 6,962	$ 1,224	$4	$ 7,724	$ 8,952
Composed of accumulated provision for losses on:								
Development credits in accrual status	$1,135				$ 1,004			
Development credits in nonaccrual status	198				220			
Total	$1,333				$ 1,224			
Development credits, end of the fiscal year:								
Development credits in accrual status	$122,172				$109,331			
Development credits in nonaccrual status	3,115				4,143			
Total	$125,287				$113,474			

Accumulated Provision for Losses on:	Reported as Follows: Balance Sheet	Statement of Income
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
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
Other Exposures	Other Liabilities-Accounts payable and miscellaneous liabilities	Provision for debt relief and for losses on development credits and other exposures

Overdue Amounts

It is the policy of IDA to place in nonaccrual status all development credits and other exposures made to, or guaranteed by, a member of IDA if principal, service charges, or other charges with respect to any such exposures are overdue by more than six months, unless IDA's management determines that the overdue amount will be collected in the immediate future. IDA considers the exposures in nonaccrual status to be impaired. In addition, if exposures by IBRD to a member government are placed in nonaccrual status, all development credits and other exposures made to, or guaranteed by, that member government will also be placed in nonaccrual status by IDA. On the date a member's development credits and other exposures are placed into nonaccrual status, unpaid service charges and other charges accrued on development credits outstanding to the member are deducted from the income from development credits in the current period. Charge income on nonaccrual exposures is included in 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, a borrowing 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 or policy performance has passed.

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, 2011 and June 30, 2010:

In millions of U.S. dollars

Borrower	Nonaccrual Since	Recorded investment[a]	Average recorded investment[b]	Principal Outstanding	Provision for debt relief	Provision for credit losses[c]	Overdue amounts: Principal	Overdue amounts: Charges
Myanmar	September 1998	$ 803	$ 790	$ 803	$ -	$161	$ 289	$ 81
Somalia	July 1991	455	446	455	429	5	167	70
Sudan	January 1994	1,324	1,300	1,324	1,223	21	480	167
Zimbabwe	October 2000	533	519	533	-	11	115	45
Total – June 30, 2011		$3,115	$3,055	$3,115	$1,652	$198	$1,051	$363
Total – June 30, 2010		$4,143	$3,222	$4,143	$2,601	$220	$ 936	$329

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, 2009: $3,047 million.
c. Credit loss provisions are determined after taking into account accumulated provision for debt relief.

In millions of U.S. dollars

	2011	*2010*	*2009*
Service charge income not recognized as a result of development credits being in nonaccrual status	$23	$32	$21

During the fiscal year ended June 30, 2010, development credits to Guinea were placed into nonaccrual status resulting in the reduction of income from development credits by $9 million.

On April 21, 2011, Guinea cleared all of its overdue principal and charges due to IDA and the development credits to Guinea were restored to accrual status. As a result of this event, income from development credits increased by $17 million, including $9 million that would have been accrued in the previous fiscal year had these credits not been in nonaccrual status.

During the fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009 no service charge income was recognized on credits in nonaccrual status.

Development Credits written-off under MDRI

The table below summarizes the eligible development credits written off under the MDRI during the fiscal years ended June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

Country	*Completion Point Date*	*Write off amount*	*Write off date*
Development credits written off during the fiscal year ended June 30, 2011			
Liberia	June 29, 2010	$ 65	July 1, 2010
Democratic Republic of Congo	July 1, 2010	1,614	October 1, 2010
Togo	December 14, 2010	554	January 1, 2011
Guinea-Bissau	December 16, 2010	231	January 1, 2011
		$2,464	
Development credits written off during the fiscal year ended June 30, 2010			
Central African Republic	June 30, 2009	$ 375	July 1, 2009
Haiti	June 30, 2009	452	July 1, 2009
Afghanistan	January 26, 2010	72	April 1, 2010
Republic of Congo	January 27, 2010	209	April 1, 2010
		$1,108	

Guarantees

Guarantees of $258 million were outstanding at June 30, 2011 ($279 million—June 30, 2010). 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 10 and 22 years, and expire in decreasing amounts through 2026.

At June 30, 2011, liabilities related to IDA's obligations under guarantees of $18 million (June 30, 2010—$18 million), have been included in Accounts payable and miscellaneous liabilities on the Balance Sheet. These include the accumulated provision for guarantee losses of $6 million (June 30, 2010—$4 million).

During the fiscal years ended June 30, 2011 and June 30, 2010, no guarantees provided by IDA were called.

Sale of Development Credits under buy-down mechanism

During the fiscal years ended June 30, 2011 and June 30, 2010, there were no development credits sold.

During the fiscal year ended June 30, 2009, two development credits with an outstanding nominal value of $70 million were sold for a present value equivalent of $27 million under the buy-down mechanism to the Global Program to Eradicate Poliomyelitis Trust Funds, resulting in a $43 million write-off.

Segment Reporting

Based on an evaluation of its operations, management has determined that IDA has only one reportable segment.

Charge income comprises service charges and interest charges on outstanding development credit balances and guarantee fee income. For the fiscal year ended June 30, 2011, charge income from one country totaling $198 million was in excess of ten percent of total charge income.

The following table presents IDA's development credits outstanding and associated charge income as of and for the fiscal years ended June 30, 2011 and June 30, 2010, by geographic region.

In millions of U.S. dollars

	June 30, 2011		*June 30, 2010*	
	Development Credits Outstanding	*Charge Income*	*Development Credits Outstanding*	*Charge Income*
Africa	$ 34,983	$241	$ 31,794	$205
East Asia and Pacific	22,212	157	19,996	148
Europe and Central Asia	8,240	59	7,290	57
Latin America and the Caribbean	1,745	12	1,422	11
Middle East and North Africa	3,958	29	3,731	29
South Asia	54,149	399	49,241	387
Total	$125,287	$897	$113,474	$837

Fair Value Disclosures

The table below presents the fair value of IDA's development credits along with their respective carrying amounts as of June 30, 2011 and June 30, 2010:

In millions of U.S. dollars

	June 30, 2011		*June 30, 2010*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Net Development Credits Outstanding	$118,368	$73,165	$104,556	$66,624

Valuation Methods and Assumptions

The fair values of development credits are calculated using market-based methodologies which incorporate the respective borrowers' Credit Default Swap (CDS) spreads and, where applicable, proxy CDS spreads.

NOTE F—AFFILIATED ORGANIZATIONS

IDA transacts with affiliated organizations as a recipient of transfers and grants, administrative and derivative intermediation services as well as through cost sharing of IBRD's sponsored pension and other postretirement plans.

Transfers and Grants

On October 8, 2010, IBRD's Board of Governors approved an immediate transfer to IDA of $383 million. This transfer was received by IDA on October 13, 2010.

On December 13, 2010, IFC and IDA signed an agreement for IFC to provide a grant to IDA of $600 million. This grant was received by IDA on December 15, 2010.

Cumulative transfers and grants made to IDA as of June 30, 2011 were $13,660 million ($12,669 million—June 30, 2010). Details by transferor are as follows:

In millions of U.S. dollars

Transfers from	*Beginning of the fiscal year*	*Transfers during the fiscal year*	*End of the fiscal year*
Total	$12,669	$991	$13,660
Of which from:			
IBRD	11,212	383	11,595
IFC	1,300	600	1,900

Receivables and Payables

At June 30, 2011, and June 30, 2010, the total amounts receivable from or (payable to) affiliated organizations comprised:

In millions of U.S. dollars

	June 30, 2011			
	Administrative Services	*Pension and Other Postretirement Benefits*	*Derivative transactions*	*Total*
Receivable from:				
IBRD	$ -	$999	$ 9,886	$ 10,885
Payable to:				
IBRD	$(370)	$ -	$(9,893)	$(10,263)

In millions of U.S. dollars

	June 30, 2010			
	Administrative Services	*Pension and Other Postretirement Benefits*	*Derivative transactions*	*Total*
Receivable from:				
IBRD	$ -	$1,088	$4,087	$ 5,175
Payable to:				
IBRD	$(357)	$ -	$(4,144)	$(4,501)

Administrative Services: The payable to IBRD represents IDA's share of joint administrative expenses. The allocation of expenses is based upon an agreed cost sharing formula, and amounts are settled quarterly.

During the fiscal year ended June 30, 2011, IDA's share of joint administrative expenses totaled $1,234 million ($1,150 million - fiscal year ended June 30, 2010 and $975 million - fiscal year ended June 30, 2009).

Pension and Other Postretirement Benefits: The receivable from IBRD represents IDA's net share of prepaid costs for pension and other postretirement benefit plans, whose assets are held in an irrevocable trust. 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 prior replenishments of IDA's resources into the four currencies of the SDR basket.

NOTE G—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, neither are they included in the assets of IDA.

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.

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 financial intermediary to provide specific administrative or financial services with a limited fiduciary or operational role. These arrangements include, for example, administration of debt service trust funds, financial intermediation and other more specialized limited funds management roles. 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.

Revenues

During the fiscal year ended June 30, 2011, IDA recognized revenues for administration of trust funds operations totaling $61 million ($60 million-fiscal year ended June 30, 2010 and $57 million-fiscal year ended June 30, 2009). Revenues collected from donor contributions but not yet earned by IDA totaling $75 million at June 30, 2011 ($67 million—June 30, 2010) 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 they are transferred to IDA. During the fiscal year ended June 30, 2011, surplus funds received by IDA under these arrangements totaled $8 million ($6 million – fiscal year ended June 30, 2010).

NOTE H—DEVELOPMENT GRANTS

A summary of changes to the amounts payable for development grants is presented below:

In millions of U.S. dollars

	June 30, 2011	*June 30, 2010*
Balance, beginning of the fiscal year	$ 5,837	$ 5,652
Commitments	2,793	2,583
Reclassification[a]	-	(15)
Disbursements	(2,261)	(2,124)
Translation adjustment	461	(259)
Balance, end of the fiscal year	$ 6,830	$ 5,837

a. *Reflects certain reclassifications with PPA grants in Other Assets on the Balance Sheet.*

For the fiscal years ending June 30, 2011 and June 30, 2010, the commitment charge rate on the undisbursed balances of IDA grants was set at nil percent.

NOTE I—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 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, 2011 and June 30, 2010:

In millions of U.S. dollars

	June 30,	
	2011	*2010*
Balance, beginning of the fiscal year	$ 7,859	$13,783
Currency translation adjustments on functional currencies	9,935	(5,924)
Balance, end of the fiscal year	$17,794	$ 7,859

NOTE J—PENSION AND OTHER POSTRETIREMENT BENEFITS

IDA and IBRD are jointly called The World Bank. 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 defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members.

The SRP provides regular 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.

A June 30 measurement date is used 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, 2011, IDA's share of IBRD's costs relating to all the three plans totaled $ 241 million ($167 million - fiscal year ended June 30, 2010 and $70 million - fiscal year ended June 30, 2009).

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, 2011, the SRP had a positive funded status of $328 million and the RSBP had a negative funded status of $312 million. The funded status of the PEBP, after reflecting the $426 million of assets which are included in the investment portfolio, was negative $128 million.

NOTE K—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, 2011 and June 30, 2010.

In millions of U.S. dollars

	2011		*2010*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Due from Banks	$ 50	$ 50	$ 42	$ 42
Investments	29,818	29,818	26,014	26,014
Net Development Credits Outstanding	118,368	73,165	104,556	66,624
Derivative Assets				
Investments	304	304	106	106
Other Asset/Liability Management	9,886	9,886	4,087	4,087
Derivative Liabilities				
Investments	309	309	103	103
Other Asset/Liability Management	9,893	9,893	4,144	4,144

Valuation Methods and Assumptions

As of June 30, 2011 and June 30, 2010, IDA had no financial assets or liabilities measured at fair value on a non-recurring basis.

For valuation methods and assumptions of the following items refer to the respective notes as follows:

Investments: See Note C

Derivative assets and liabilities: See Note D

Development Credits Outstanding: See Note E

Due from Banks: The carrying amount of unrestricted and restricted currencies is considered a reasonable estimate of the fair value of these positions.