International Bank for Reconstruction and Development

Management's Discussion & Analysis and Condensed Quarterly Financial Statements September 30, 2012

(Unaudited)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

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September 30, 2012

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CONDENSED QUARTERLY FINANCIAL STATEMENTS

Box 1: Selected Financial Data

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

	As of and for the three months ended		*Full Year*
	September 30, 2012	*September 30, 2011*	*June 30, 2012*
Lending Activates *(Discussed in Section III)*			
Commitments [a]	$ 2,580	$ 2,519	$ 20,582
Gross disbursements [b]	3,483	4,881	19,777
Net disbursements [b]	1,283	2,551	7,798
Reported Basis			
Income Statement *(Discussed in Section IV)*			
Operating income [c]	$ 283	$ 168	$ 783
Board of Governors-approved transfers	–	(595)	(650)
Net income (loss)	892	(1,081)	(676)
Balance Sheet *(Discussed in Section III)*			
Total assets	$345,231	$321,982	$338,178
Net investment portfolio	33,970	30,482	35,119
Net loans outstanding	136,346	130,956	134,209
Borrowing portfolio [d]	133,394	126,849	133,075
Allocable Income *(Discussed in Section IV)*	$ 313	$ 293	$ 998
Usable equity *(Discussed in Section II)*	$ 38,197	$ 38,278	$ 37,636
Performance Ratios *(Discussed in Section II)*			
Return on average usable equity			
Based on operating income	2.97%	1.73%	2.04%
Equity-to-loans ratio [e]	27.09	27.99	26.98

a. Commitments include guarantee commitments.

b. Amounts include transactions with the International Finance Corporation (IFC) and capitalized front-end fees and interest.

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. Ratio is computed using usable equity and exclude the respective periods' operating income. (Full year June 30, 2012 amount includes proposed transfer to the General Reserve from FY 2012 net income and proposed reduction of Long-Term Income Portfolio (LTIP) reserve to nil.)

I. Introduction

This document should be read in conjunction with the International Bank for Reconstruction and Development's (IBRD) financial statements and Management's Discussion and Analysis (MD&A) issued for the fiscal year ended June 30, 2012 (FY 2012). IBRD undertakes no obligation to update any forward-looking statements.

Basis of Reporting

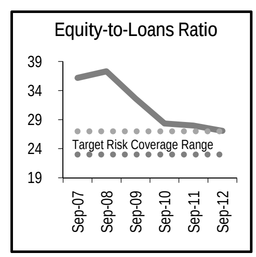
IBRD prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) referred to in this document as the "reported basis". Under the reported basis, all instruments in the investment, borrowing and asset-liability management portfolios 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). This asymmetry results in volatility in reported net income and equity, which does not fully reflect the financial results of IBRD.

II. Financial Risk Management

Under IBRD's financial risk management framework, it is Management's intention to hold the instruments in the loan, borrowing, and asset-liability management portfolios to maturity. These instruments include derivatives, which are used to manage the interest rate basis and currency composition of IBRD's loan and borrowing related cash flows. Accordingly, allocable income, which excludes unrealized mark-to-market gains and losses associated with instruments that are not held for trading purposes, as well as other adjustments for items such as Board of Governors' approved transfers and pension, provides the best representation of IBRD's financial results. See **Table 4** and the June 30, 2012 MD&A for further details. It is Management's practice to recommend at the end of each fiscal year, distributions out of allocable income to augment reserves and support development activities.

In an effort to maximize its capacity to support its mandate of providing lending to its member countries, IBRD limits its exposure to market and commercial counterparty credit risks. In addition, to ensure that the credit risks associated with its loans and other exposures[1] do not exceed its risk bearing capacity, IBRD uses a strategic capital adequacy framework as a key medium-term capital planning tool. The following sections provide details on capital adequacy and the management of market and commercial counterparty credit risks.

Capital Adequacy



The equity-to-loans ratio is a key measure of IBRD's capital adequacy and its ability to respond to client needs, and is guided by the strategic capital adequacy framework, with a target risk coverage range of 23 to 27 percent. This framework seeks to ensure IBRD's usable equity is sufficient to withstand credit shocks to its loan portfolio over the medium-term capital planning horizon.

IBRD's equity-to-loans ratio increased from 26.98% at June 30, 2012 to 27.09% at September 30, 2012 (see **Table 1**), and is slightly above the target risk coverage range. The increase in the ratio was primarily as a result of the increase in usable equity, due to the receipt of additional paid-in capital and additional national currency paid-in capital becoming usable during the period.

As a result of the 2008 global financial crisis, IBRD experienced a surge in its lending activity. In order to strengthen IBRD's capital adequacy and to ensure it remains sufficiently robust to support shareholder goals with regard to its medium-term lending plans, IBRD's shareholders agreed in 2010 to a package of financial measures with the objective of keeping the equity-to-loans ratio aligned with the strategic capital adequacy framework. The package of financial measures includes a capital increase that is effective over a five year period starting in the fiscal year ended June 30, 2011 (FY 2011), as well as efforts by Management to work with shareholders to increase the usability of their national currency paid-in capital, which is subject to certain restrictions. Under the terms of the capital increase resolutions, subscribed capital is expected to increase by $86.2 billion over the five year period, of which $5.1 billion will be paid-in. As of September 30, 2012, $16,607 million had been subscribed, resulting in additional paid-in capital of $978 million, of which $61 million was paid in during the first three months of the fiscal year ended June 30, 2013 (FY 2013). In addition, as of September 30, 2012, IBRD has entered into agreements to release $1,591 million of national currency paid-in capital for use in IBRD's operations; of which $1,106 million has been used as of September 30, 2012 ($227 million became usable during the first three months of FY2013).

[1] *Other exposures include: deferred drawdown option, irrevocable commitments, exposures to member countries' derivatives and guarantees.*

Table 1: Equity-to-Loans Ratio

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

As of	September 30, 2012	September 30, 2011	June 30, 2012
Reported Basis			
Equity-to-loans ratio	27.09%	27.99%	26.98%
Usable equity	$ 38,197	$ 38,278	$ 37,636
Loans outstanding, LTIP assets and other exposures	$140,989	$ 136,708	$ 139,488

Management of Market and Commercial Counterparty Credit Risks

As previously discussed, in an effort to maximize its capacity to support its mandate of providing lending to its eligible member countries, IBRD limits its exposure to market and commercial counterparty credit risks. Of the various types of market risk, the most significant market risk faced by IBRD is interest rate risk. IBRD's exposure to currency and liquidity risks is minimal as a result of its risk management policies. For more details on how IBRD manages these risks, as well as on the overall framework of IBRD's financial risk management, refer to the June 30, 2012 MD&A. The following sections provide additional details on how IBRD manages interest rate and commercial counterparty credit risks.

Interest Rate Risk:

To manage its interest rate risk exposure, IBRD seeks to match the interest-rate sensitivity of its assets (loan and investment portfolios) and its liabilities (borrowing portfolio) through the use of derivatives such as interest rate swaps. These derivatives effectively convert IBRD's financial assets and liabilities into variable rate instruments. While this strategy helps to manage IBRD's interest margin on debt funded loans from interest rate volatility, the interest income on loans funded by equity, if left unmanaged, would be highly sensitive to fluctuations in short-term interest rates. To manage this exposure, IBRD implemented in FY 2008, an equity duration extension strategy with the objective of reducing the sensitivity of income to fluctuations in short-term interest rates. Under this strategy, the need to reduce the sensitivity of income was balanced against the availability of instruments with sufficient liquidity to execute the strategy effectively. This balance was achieved by entering into interest rate swaps with a 10-year ladder re-pricing profile, resulting in the duration of equity increasing from three months to approximately five years.

The income from this strategy has contributed $262 million to operating income for the first three months of FY 2013, compared with $286 million for the same period in FY 2012. Since inception, this strategy has generated $3,810 million of income for IBRD.

Commercial Counterparty Credit Risk:

The effective management of commercial counterparty credit risk is vital to the success of IBRD's funding, investment and asset/liability management activities. The monitoring and managing of this risk is a continuous process due to the changing market environment. Commercial counterparty credit risk is managed through the application of eligibility criteria, volume limits for transactions with individual counterparties, and through the use of mark-to-market collateral arrangements for swap transactions.

Table 2 summarizes IBRD's commercial counterparty credit risk exposure. The overall decrease in this exposure from June 30, 2012 reflects the decline in the liquidity balance as discussed further in **Section III**. In addition, during the first three months of FY 2013, IBRD's exposure to counterparties rated A increased by approximately $2 billion, in line with efforts to reduce IBRD's concentration risk by allowing a wider universe of banking counterparties. Despite this increase in exposure, IBRD's overall commercial counterparty credit risk profile has remained largely unchanged due to the shorter maturities of instruments rated A+ and below.

As shown below, the credit quality of IBRD's portfolio still remains concentrated in the upper end of the credit spectrum with 84% of the portfolio rated AA or above, reflecting IBRD's continued preference for highly rated securities and counterparties across all categories of financial instruments. Total commercial counterparty credit exposure, net of collateral held was $34.2 billion, as of September 30, 2012. Of this amount $8.7 billion (25%) related to countries in the Euro Zone; of which $6.7 billion (77%) is rated AA or above and none were rated below A.

Table 2: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating[a]
In millions of U.S. dollars

	As of September 30, 2012				
	Investments				
Counterparty Rating	Sovereigns	Agencies, Asset-Backed Securities, Corporates and Time Deposits	Net Swap Exposure	Total Exposure	% of Total
AAA	$ 8,397	$ 8,564	$ –	$16,961	50%
AA	4,452	6,374	731	11,557	34
A	–	5,512	141	5,653	16
BBB	–	2	–	2	*
BB or lower	–	10	–	10	*
Total	$12,849	$20,462	$872	$34,183	100%

	As of June 30, 2012				
	Investments				
Counterparty Rating	Sovereigns	Agencies, Asset-Backed Securities, Corporates and Time Deposits	Net Swap Exposure	Total Exposure	% of Total
AAA	$ 8,842	$ 8,054	$ –	$16,896	48%
AA	6,086	8,030	550	14,666	42
A	–	3,457	177	3,634	10
BBB	–	4	–	4	*
BB or lower	–	8	–	8	*
Total	$14,928	$19,553	$727	$35,208	100%

a. Excludes (a) externally managed portfolios including Post-Employment Benefits Plan and (b) swap exposures executed with borrowing member countries, International Finance Facility for Immunisation and International Development Association (IDA).
** Indicates amounts less than 0.5%.*

III. Balance Sheet Analysis

The condensed IBRD's balance sheet is presented in **Table 3**.

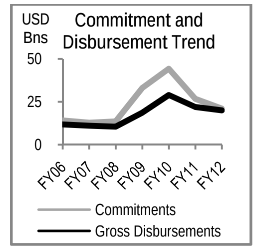
Table 3: Condensed Balance Sheet
In millions of U.S. dollars

As of	September 30, 2012	June 30, 2012	Variance
Investments and due from banks	$ 42,180	$ 39,481	$2,699
Net loans outstanding	136,346	134,209	2,137
Receivable from derivatives	162,459	160,814	1,645
Other assets	4,246	3,674	572
Total Assets	$345,231	$338,178	$7,053
Borrowings	147,020	$145,339	$1,681
Payable for derivatives	145,419	144,837	582
Other liabilities	14,537	11,317	3,220
Equity	38,255	36,685	1,570
Total Liabilities and Equity	$345,231	$338,178	$7,053

During the first three months of FY 2013, IBRD experienced an increase in the loan and borrowing portfolios and a decrease in the investment portfolio, as discussed below.

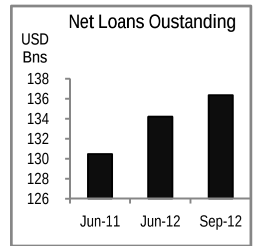
Lending Activities Highlights

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



For the first three months of FY 2013, loan commitments were $2,580 million, an increase of $61 million compared to the same period in FY 2012. Following the peak in FY 2010 of $44,197 million in new loan commitments in response to the global financial crisis, the declining commitment levels reflect the expected reversion to pre-crisis levels of approximately $15 billion annually.

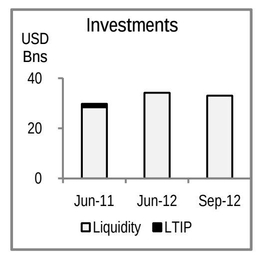
As of September 30, 2012, on a reported basis, IBRD's net loan portfolio increased by $2,137 million from June 30, 2012, primarily due to $1,283 million in net loan disbursements made in the first three months of FY 2013 and currency translation gains of $850 million, consistent with the appreciation of the euro against the U.S. dollar during the same period.



On July 5, 2012, the Executive Directors approved a proposal for IBRD to lend up to $197 million to IFC in connection with the release of a member's national currency paid-in capital to IBRD.

Investment Activities Highlights

IBRD's investments include a liquid assets portfolio and holdings related to the Advance Market Commitment for Pneumococcal Vaccines Initiative (AMC) and Post-Employment Benefits Plan (PEBP). In FY 2012, investments included the LTIP, which was fully liquidated during the fourth quarter of FY 2012 in order to maximize the capital available to support lending. As of September 30, 2012, the carrying value of the net investment portfolio was $33,970 million of which $33,069 million related to the liquid asset portfolio (see Note C—Investments in the Notes to the Condensed Quarterly Financial Statements).

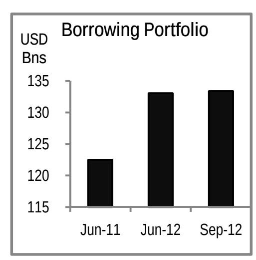


The liquid asset portfolio is comprised of three sub portfolios: stable, operational and discretionary. Its objective is to ensure the availability of sufficient cash flows to meet all of IBRD's financial commitments, as reflected in the prudential minimum liquidity level.

The prudential minimum liquidity level has been set at $22 billion for FY 2013, reflecting an increase of $1 billion from FY 2012. As of September 30, 2012, the liquid asset portfolio was approximately $33 billion or 150% of the prudential minimum liquidity level in effect for FY 2013, compared with 163% of the prudential minimum liquidity level as of June 30, 2012. The decrease is consistent with Management's decision to revert to normal liquidity levels during FY 2013. During FY 2012, high levels of liquidity were maintained in response to the uncertainty associated with the financial crisis. Management will continue to monitor the liquidity levels to allow for coverage of approximately 12 months of continued operations.

Funding Activities Highlights

To raise funds, IBRD issues debt securities in a variety of currencies to both institutional and retail investors. During the first three months of FY 2013, IBRD raised medium- and long-term debt of $4,284 million in 14 currencies.



At September 30, 2012, the borrowing portfolio totaled $133,394 million, an increase of $319 million, as compared with June 30, 2012 (see Note E—Borrowings in the Notes to the Condensed Quarterly Financial Statements). This was primarily due to $640 million of currency translation losses consistent with the appreciation of the euro against the U.S. dollar, partially offset by net unrealized mark-to-market gains of $399 million.

IV. Summary of Operating Income and Income Allocation

Operating Income

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

Table 4 summarizes IBRD's operating income and provides a reconciliation to allocable income. Operating income was higher for the first three months of FY 2013 by $115 million as compared to the same period in FY 2012, primarily as a result of the following:

LTIP:

LTIP was fully liquidated during the fourth quarter in FY 2012.

Investment income, net of funding costs:

For the first three months of FY 2013, investment income, net of funding costs was $58 million, primarily due to the unrealized mark-to-market gains resulting from the tightening of credit spreads. In contrast, during the same period in FY 2012, investment income, net of funding costs was $6 million, primarily due to a decline in yields and unrealized mark-to-market losses as a result of the widening of the credit spreads.

Table 4: Condensed Statement of Operating and Allocable Income

In millions of U.S. dollars

For the three months ended September 30,	2012	2011	Variance
Interest income, net of funding costs			
Interest margin	$ 200	$ 178	$ 22
Equity-funded loans	50	43	7
Equity duration extension strategy	262	286	(24)
Investments	58	6	52
Net Interest Income	$ 570	$ 513	$ 57
Provision for losses on loans and other exposures –(charge)	(2)	(3)	1
LTIP loss	-	(103)	103
Other income, net	14	14	–
Net non-interest expense	(299)	(253)	(46)
Operating Income [a]	$ 283	$ 168	$ 115
Adjustments:			
Pension and other adjustments	30	6	24
LTIP	–	119	(119)
Allocable Income	$ 313	$ 293	$ 20

a. *Reported net income after adjustments to exclude Board of Governors-approved transfers and fair value adjustment on non-trading portfolios, net, see* ***Table 5****.*

These factors were partially offset by:

Net non-interest expense:

The $46 million increase in net non-interest expense was primarily due to higher pension expense.

Income Allocation

On August 9, 2012, IBRD's Executive Directors approved the allocation of $390 million out of the net income earned in the fiscal year ended June 30, 2012, to the General Reserve. In addition, the Executive Directors also approved a reduction in the Pension Reserve by $3 million, an increase in Restricted Retained Earnings by $13 million and a reduction in the LTIP Reserve by $225 million, reflecting the liquidation of LTIP.

Subsequent to the reporting date, on October 12, 2012, IBRD's Board of Governors approved an immediate transfer to IDA of $608 million, out of the FY 2012 net income.

V. Summary of Fair Value Results

Movements in fair value measures reflect short-term volatility based on the market environment. Given that IBRD intends to hold its instruments to maturity (with the exception of the investment portfolio), fair value results are not used for income allocation purposes by Management. Rather, they are used for specific purposes, for example, to assess the performance of the investments portfolio, which is a trading portfolio, and to manage counterparty credit risk, including collateral management. See **Section II** for further details on commercial counterparty credit risk management.

Tables 5, 6, 7 and 8 provide information on a full fair value basis for IBRD. Under the fair value basis, in addition to the instruments in the investment, borrowing and asset-liability management portfolios, all loans are reported at fair value.

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

The fair value net income was $2,924 million for the first three months of FY 2013, compared to a net loss of $3,873 million for the same period in FY 2012 (See **Table 5**). The increase of $6,797 million in fair value net income is explained by the following factors:

Table 5: Condensed Statement of Net Income on a Comprehensive Basis (Fair Value Net Income)

In millions of U.S. dollars

For the three months ended September 30,	2012	2011	Variance
Reported Basis Operating Income	$ 283	$ 168	$ 115
Board of Governors-approved transfers	–	(595)	595
Fair value adjustments on non-trading portfolios, net	609	(654)	1,263
Reported Basis Net Income (Loss)	$ 892	$(1,081)	$1,973
Fair value adjustment on loans, net	1,814	(2,526)	4,340
Changes in accumulated other comprehensive income (loss)	218	(266)	484
Fair Value Net Income (Loss)	$2,924	$(3,873)	$6,797

Board of Governors-Approved Transfers: There were no Board of Governors-approved transfers during the first three months of FY 2013. Subsequent to the reporting date, IBRD transferred $608 million to IDA, out of the FY 2012 net income on October 16, 2012.

During the first three months of FY 2012, the Board of Governors approved a transfer of $520 million from IBRD's FY 2011 net income to IDA. In addition, the Board of Governors also approved a transfer of $75 million from Surplus to the South Sudan Transition Trust Fund.

Fair Value Adjustment on Non-Trading Portfolios, net: For the first three months of FY 2013, IBRD experienced net unrealized gains of $609 million, compared with net unrealized losses of $654 million in the same period in FY 2012 (see **Table 6**). The key factors contributing to these unrealized gains/losses are as follows:

During the first three months of FY 2013, IBRD experienced net unrealized gains on the borrowing portfolio of $399 million.

IBRD also experienced net unrealized gains of $204 million on the derivatives held in the asset-liability management portfolio, where IBRD is a fixed interest rate receiver. The net unrealized gains were primarily due to the decline in the yield curves of major currencies for maturities less than 10 years.

Table 6: Summary of Fair Value Adjustment on Non-Trading Portfolios, net

In millions of U.S. dollars

For the three months ended September 30,	2012	2011	Variance
Borrowing Portfolio (including loan-related derivatives)	$399	$(1,908)	$ 2,307
Derivatives held in the asset-liability management portfolio	204	1,264	(1,060)
Derivatives held in the client operations portfolio	(1)	1	(2)
A loan with an embedded derivative	7	(11)	18
Net unrealized gains/(losses)	$609	$ (654)	$ 1,263

During the first three months of FY 2012, IBRD experienced net unrealized losses of $654 million, primarily due to the significant decline in the interest rates across all major yield curves during the period.

Fair Value Adjustment on Loans: For the first three months of FY 2013, the fair value adjustment on loans was positive $1,814 million compared to negative $2,526 million in the same period in FY 2012 (see **Table 5**). This adjustment reflects changes in both interest rates and credit risk. The positive fair value adjustment for the first three months of FY 2013 was primarily driven by unrealized credit gains due to the tightening of sovereign CDS spreads. In contrast, during the same period in FY 2012, the negative fair value adjustment was primarily driven by unrealized credit losses due to the widening of CDS spreads, partially offset by the decline in interest rates.

Changes to Accumulated Other Comprehensive Income: The changes to AOCI for the first three months of FY 2013 resulted in an increase of $218 million, which primarily relates to the net positive currency translation adjustments resulting from the appreciation of the euro against the U.S. dollar (see **Table 5**). In contrast, during the same period in FY 2012, the change to AOCI resulted in a charge of $266 million, primarily related to the net negative currency translation adjustments resulting from the depreciation of the euro against the U.S. dollar.

Tables 7 and 8 provide a reconciliation from the reported basis to the fair value basis for both the balance sheet and income statement.

Table 7: Condensed Balance Sheet

In millions of U.S. dollars

As of	September 30, 2012			June 30, 2012		
	Reported Basis	Adjustments	Fair Value Basis	Reported Basis	Adjustments	Fair Value Basis
Due from banks	$ 8,877	–	$ 8,877	$ 5,806	–	$ 5,806
Investments	33,303	–	33,303	33,675	–	33,675
Receivable from derivatives	162,459	–	162,459	160,814		160,814
Net loans outstanding	136,346	$(208)	136,138	134,209	$(2,011)	132,198
Other assets	4,246	–	4,246	3,674		3,674
Total assets	$345,231	$(208)	$ 345,023	$338,178	$(2,011)	$336,167
Borrowings	$147,020	$ (1)[a]	$147,019	$145,339	$ (2)[a]	$145,337
Payable for derivatives	145,419	–	145,419	144,837	–	144,837
Other liabilities	14,537	–	14,537	11,317	–	11,317
Total liabilities	306,976	$ (1)	306,975	301,493	(2)	301,491
Paid in capital	12,479	–	12,479	12,418	–	12,418
Retained earnings and other equity	25,776	(207)	25,569	24,267	(2,009)	22,258
Total equity	38,255	(207)	38,048	36,685	(2,009)	34,676
Total liabilities and equity	$345,231	$(208)	$345,023	$338,178	$(2,011)	$336,167

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

Table 8: Condensed Statement of Income

In millions of U.S. dollars

For the three months ended September 30,	2012			2011		
	Reported Basis	Adjustments	Fair Value Net Income on a Comprehensive Basis[a]	Reported Basis	Adjustments	Fair Value Net Income on a Comprehensive Basis[a]
Income from loans	$ 636	–	$636	$ 629	–	$ 629
Income from investments, net[b]	106	–	106	(83)	–	(83)
Equity duration extension swaps, net	262	–	262	286	–	286
Other income	85	–	85	82	–	82
Total income	$1,089	–	$1,089	$ 914	–	$ 914
Borrowing expenses	$ 405	–	$ 405	$ 391	–	$ 391
Administrative expenses including contributions to special programs	399	–	399	352	–	352
Provision for losses on loans and other exposures – increase (decrease)	2	$ (2)	–	3	$ (3)	–
Total expenses	$ 806	$ (2)	$804	$ 746	$ (3)	$ 743
Operating income	$ 283	$ 2	$ 285	$ 168	$ 3	$ 171
Board of Governors-approved transfers	–	–	–	(595)	–	(595)
Fair value adjustment on non-trading portfolios, net[c]	609	–	609	(654)	–	(654)
Fair value adjustment on loans[d]	–	1,812	1,812	–	(2,529)	(2,529)
Changes to accumulated other comprehensive income	–	218	218	–	(266)	(266)
Net Income (Loss)	$ 892	$ 2,032	$ 2,924	$ (1,081)	$(2,792)	$(3,873)

a. Net income on a fair value comprehensive basis comprises net income on a reported basis, the additional fair value adjustment on the loan portfolio and changes to AOCI.

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 under the reported basis.

d. Excludes the reversal of the provision for losses on loans and other exposures.

VI. Senior Management Changes

Effective July 1, 2012, Jim Yong Kim became the President of IBRD.

Following the decision by Vincenzo La Via to retire as CFO of IBRD, Charles McDonough was appointed as acting CFO effective March 28, 2012. A global search for a new CFO is in progress.

CONDENSED BALANCE SHEET

Expressed in millions of U.S. dollars

	September 30, 2012 (Unaudited)	*June 30, 2012 (Unaudited)*
Assets		
Due from banks—Note C		
Unrestricted currencies	$ 8,717	$ 5,682
Currencies subject to restrictions	160	124
	8,877	5,806
Investments-Trading (including securities transferred under repurchase agreements or securities lending agreements of $2 million—September 30, 2012; $7 million—June 30, 2012)—Note C	32,291	33,466
Securities purchased under resale agreements—Note C	1,012	209
Derivative assets—Notes C, F and I		
Investments	17,013	18,554
Client operations	27,668	27,560
Borrowings	112,926	110,103
Other assets/liabilities	4,852	4,597
	162,459	160,814
Loans outstanding—Notes D and I		
Total loans	200,612	199,241
Less undisbursed balance	62,145	62,916
Loans outstanding (including a loan at fair value of $138 million—September 30, 2012; $125 million—June 30, 2012)	138,467	136,325
Less:		
Accumulated provision for losses on loans	1,698	1,690
Deferred loan income	423	426
Net loans outstanding	136,346	134,209
Other assets—Notes C and I	4,246	3,674
Total assets	$345,231	$338,178
Liabilities		
Borrowings—Note E	$147,020	$145,339
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received—Note C	6,867	3,700
Derivative liabilities—Notes C, F and I		
Investments	17,630	18,631
Client operations	27,659	27,551
Borrowings	99,300	97,839
Other assets/liabilities	830	816
	145,419	144,837
Other liabilities—Notes C, D and I	7,670	7,617
Total liabilities	306,976	301,493
Equity		
Capital stock—Note B		
Authorized (2,307,600 shares—September 30, 2012 and June 30, 2012)		
Subscribed (1,713,624 shares—September 30, 2012; 1,702,605 shares—June 30, 2012)	206,723	205,394
Less uncalled portion of subscriptions	194,244	192,976
Paid-in capital	12,479	12,418
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital	(584)	(845)
Receivable amounts to maintain value of currency holdings	(79)	(79)
Deferred amounts to maintain value of currency holdings	686	561
Retained earnings (see Condensed Statement of Changes in Retained Earnings; Note G)	29,939	29,047
Accumulated other comprehensive loss—Note J	(4,186)	(4,417)
Total equity	38,255	36,685
Total liabilities and equity	$345,231	$338,178

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

CONDENSED STATEMENT OF INCOME

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2012	*2011*
Income		
Loans—Note D	$ 636	$ 629
Investments-Trading, net—Note C	106	(83)
Interest on equity duration extension swaps, net—Note F	262	286
Other—Note I	85	82
Total income	1,089	914
Expenses		
Borrowings, net	405	391
Administrative—Notes H and I	384	337
Contributions to special programs	15	15
Provision for losses on loans and other exposures—Note D	2	3
Total expenses	806	746
Income before fair value adjustment on non-trading portfolios, net and Board of Governors-approved transfers	283	168
Fair value adjustment on non-trading portfolios, net—Notes D, E, F and K	609	(654)
Board of Governors-approved transfers—Note G	—	(595)
Net income (loss)	$ 892	$(1,081)

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

Condensed Statement of Comprehensive Income

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2012	*2011*
Net income (loss)	$ 892	$(1,081)
Other comprehensive income (loss)—Note J		
Reclassification to net income:		
Derivatives and hedging transition adjustment	1	1
Amortization of unrecognized net actuarial losses	67	19
Amortization of unrecognized prior service costs	5	2
Currency translation adjustment	158	(339)
Total other comprehensive income (loss)	231	(317)
Comprehensive income (loss)	$1,123	$(1,398)

Condensed Statement of Changes in Retained Earnings

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2012	*2011*
Retained earnings at beginning of the fiscal year	$29,047	$29,723
Net income (loss) for the period	892	(1,081)
Retained earnings at end of the period	$29,939	$28,642

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

CONDENSED STATEMENT OF CASH FLOWS

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2012	*2011*
Cash flows from investing activities		
Loans		
Disbursements	$(3,477)	$(4,868)
Principal repayments	2,200	2,322
Principal prepayments	—	8
Loan origination fees received	8	8
Other investing activities, net	(17)	(20)
Net cash used in investing activities	(1,286)	(2,550)
Cash flows from financing activities		
Medium- and long-term borrowings		
New issues	4,047	10,864
Retirements	(6,334)	(5,999)
Net short-term borrowings	1,184	(2,239)
Net derivatives—borrowings	628	303
Capital subscriptions	61	13
Other capital transactions, net	243	32
Net cash (used in) provided by financing activities	(171)	2,974
Cash flows from operating activities		
Net income (loss)	892	(1,081)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Fair value adjustment on non-trading portfolios, net	(609)	654
Depreciation and amortization	214	213
Provision for losses on loans and other exposures	2	3
Changes in:		
Investments—Trading, net	4,277	1,276
Other assets and liabilities	(286)	(85)
Net cash provided by operating activities	4,490	980
Effect of exchange rate changes on unrestricted cash	2	(7)
Net increase in unrestricted cash	3,035	1,397
Unrestricted cash at beginning of the fiscal year	5,682	2,312
Unrestricted cash at end of the period	$ 8,717	$ 3,709
Supplemental disclosure		
Increase (decrease) in ending balances resulting from exchange rate fluctuations		
Loans outstanding	$850	$(2,080)
Investment portfolio	43	13
Borrowing portfolio	640	(1,611)
Capitalized loan origination fees included in total loans	6	13
Interest paid on Borrowing portfolio	203	77

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

Basis of Preparation

These unaudited condensed quarterly financial statements should be read in conjunction with the June 30, 2012 audited financial statements and notes included therein. The condensed comparative information that has been derived from the June 30, 2012 audited financial statements has not been audited. In the opinion of management, the condensed quarterly financial statements reflect all adjustments necessary for a fair presentation of IBRD's financial position and results of operations in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed quarterly financial statements and the reported amounts of income and expenses during the reporting periods. Due to the inherent uncertainty involved in making those estimates, actual results could differ from those estimates. Areas in which significant estimates have been made include, but are not limited to, the provision for losses on loans and other exposures, valuation of certain instruments carried at fair value, and valuation of pension and other postretirement plan-related liabilities. The results of operations for the first three months of the current fiscal year are not necessarily indicative of results that may be expected for the full year.

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

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 several years. While the Acts have no impact on IBRD as of September 30, 2012, IBRD continues to evaluate the potential future implications of these Acts.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law. 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 September 30, 2012. IBRD continues to evaluate the potential future implications of the Act.

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 which items are reported in other comprehensive income or existing requirements to reclassify items out of accumulated other comprehensive income to net income. Subsequently, in December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which deferred certain reclassification provisions in ASU 2011-05. For IBRD, the ASUs were effective from the quarter ended September 30, 2012, but did not have an effect on IBRD's financial statements as these are already in compliance with one of the options allowed under ASU 2011-05.

In August 2012, the FASB issued a proposed ASU, *Comprehensive Income (Topic 220): Presentation of Items Reclassified Out of Accumulated Other Comprehensive Income*, which would require entities to present separately in the notes to the financial statements, tabular information about items that are reclassified out of each component of accumulated other comprehensive income. IBRD is currently evaluating the impact of this proposed ASU on its financial statements.

NOTE B—CAPITAL STOCK

The following table provides a summary of changes in IBRD's authorized and subscribed shares during the three months ended September 30, 2012 and the fiscal year ended June 30, 2012:

	Authorized shares	*Subscribed shares*
As of June 30, 2011	2,307,600	1,605,930
General and Selective Capital Increase (GCI/SCI)	—	95,238
New membership	—	1,437
As of June 30, 2012	2,307,600	1,702,605
GCI/SCI	—	11,019
As of September 30, 2012	2,307,600	1,713,624

The following table provides a summary of the changes in subscribed capital, uncalled portion of subscriptions and paid-in capital during the three months ended September 30, 2012 and the fiscal year ended June 30, 2012:

In millions of U.S. dollars

	Subscribed capital	*Uncalled portion of subscriptions*	*Paid-in capital*
As of June 30, 2011	$193,732	$(182,012)	$11,720
GCI/SCI	11,489	(10,800)	689
New membership	173	(164)	9
As of June 30, 2012	$205,394	$(192,976)	$12,418
GCI/SCI	1,329	(1,268)	61
As of September 30, 2012	$206,723	$(194,244)	$12,479

NOTE C—INVESTMENTS

IBRD's investments include a liquid assets portfolio, and holdings relating to the Advance Market Commitment for Pneumococcal Vaccines Initiative (AMC) and Post Employment Benefit Plan (PEBP).

The composition of IBRD's net investment portfolio as of September 30, 2012 and June 30, 2012 was as follows:

In millions of U.S. dollars

	September 30, 2012	*June 30, 2012*
Net investments portfolio		
Liquid assets portfolio	$33,069	$34,189
AMC holdings	269	326
PEBP holdings	632	604
Total	$33,970	$35,119

The investment securities held by IBRD are carried and reported at fair value, or at face value which approximates fair value. As of September 30, 2012, the majority of Investments-Trading is comprised of government and agency obligations, and time deposits (56% and 35%, respectively), with almost all the instruments classified as Level 1 or Level 2 within the fair value hierarchy.

A summary of IBRD's Investments-Trading at September 30, 2012 and June 30, 2012, is as follows:

In millions of U.S. dollars

	Carrying Value	
	September 30, 2012	*June 30, 2012*
Investments—Trading		
Equity securities	$ 195	$ 165
Government and agency obligations	18,125	19,742
Time deposits	11,243	10,811
Asset-backed securities (ABS)	2,728	2,748
Total	$32,291	$33,466

IBRD manages its investments on a net portfolio basis. The following table summarizes IBRD's net portfolio position as of September 30, 2012 and June 30, 2012:

In millions of U.S. dollars

	Carrying Value	
	September 30, 2012	*June 30, 2012*
Investments—Trading	$ 32,291	$ 33,466
Securities purchased under resale agreements	1,012	209
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received	(6,867)	(3,700)
Derivative assets		
Currency forward contracts	7,217	6,542
Currency swaps	9,653	11,876
Interest rate swaps	142	135
Other[a]	1	*
Total	17,013	18,554
Derivative liabilities		
Currency forward contracts	(7,369)	(6,448)
Currency swaps	(9,948)	(11,876)
Interest rate swaps	(313)	(307)
Total	(17,630)	(18,631)
Cash held in investment portfolio[b]	8,425	5,340
Receivable from investment securities traded[c]	22	18
Payable for investment securities purchased[d]	(296)	(137)
Net Investment Portfolio	$ 33,970	$ 35,119

a. These relate to Mortgage-Backed Securities To-Be-Announced (TBA securities).
b. This amount is included in Unrestricted Currencies under Due from Banks on the Condensed Balance Sheet.
c. This amount is included in Other assets on the Condensed Balance Sheet.
d. This amount is included in Other liabilities on the Condensed Balance Sheet.
** Indicates amount less than $0.5 million.*

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 September 30, 2012, there were no short sales included in Other liabilities on the Condensed Balance Sheet (Nil—June 30, 2012).

For the three months ended September 30, 2012, IBRD's income included $27 million of unrealized gains, (unrealized losses of $145 million—three months ended September 30, 2011).

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 September 30, 2012 and June 30, 2012:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of September 30, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments – Trading				
Equity securities	$ 178	$ 17	$—	$ 195
Government and agency obligations	2,684	15,391	50	18,125
Time deposits	793	10,450	—	11,243
ABS	—	2,719	9	2,728
Total Investments – Trading	3,655	28,577	59	32,291
Securities purchased under resale agreements	1,012	—	—	1,012
Derivative assets-Investments				
Currency forward contracts	—	7,217	—	7,217
Currency swaps	—	9,653	—	9,653
Interest rate swaps	—	142	—	142
Other[a]	—	1	—	1
Total Derivative assets-Investments	—	17,013	—	17,013
Total	$4,667	$45,590	$59	$50,316
Liabilities:				
Securities sold under repurchase agreements and securities lent under securities lending agreements[b]	$—	$ 2	$—	$ 2
Derivative liabilities-Investments				
Currency forward contracts	—	7,369	—	7,369
Currency swaps	—	9,948	—	9,948
Interest rate swaps	—	313	—	313
Total Derivative liabilities-Investments	—	17,630	—	17,630
Total	$—	$17,632	$—	$17,632

a. These relate to TBA securities.

b. Excludes $6,865 million relating to payable for cash collateral received.

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments – Trading				
Equity securities	$ 150	$ 15	$—	$ 165
Government and agency obligations	2,559	17,133	50	19,742
Time deposits	1,073	9,738	—	10,811
ABS	—	2,739	9	2,748
Total Investments – Trading	$3,782	$29,625	$59	$33,466
Securities purchased under resale agreements	9	200	—	209
Derivative assets-Investments				
Currency forward contracts	—	6,542	—	6,542
Currency swaps	—	11,876	—	11,876
Interest rate swaps	—	135	—	135
Other[a]	—	*	—	*
Total Derivative assets-Investments	—	18,554	—	18,554
Total Assets	$3,791	$48,379	$59	$52,229
Liabilities:				
Securities sold under repurchase agreements and securities lent under security lending agreements[b]	$—	$ 7	$—	$ 7
Derivative liabilities-Investments				
Currency forward contracts	—	6,448	—	6,448
Currency swaps	—	11,876	—	11,876
Interest rate swaps	—	307	—	307
Total Derivative liabilities-Investments	—	18,631	—	18,631
Total Liabilities	$—	$18,638	$—	$18,638

a. These relate to TBA securities.
b. Excludes $3,693 million relating to payable for cash collateral received.
* *Indicates amount less than $0.5 million*

The following table provides a summary of changes in the fair value of IBRD's Level 3 Investments – Trading assets during the three months ended September 30, 2012 and September 30, 2011:

Level 3 Financial Instruments

In millions of U.S. dollars

	Investments–Trading			
	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011
	ABS	*Government and Agency Obligations*	*Total*	*ABS*
Beginning of the fiscal year	$ 9	$50	$59	$13
Total realized/unrealized gains (losses) in:				
Net income	*	*	*	(*)
Purchases	*	—	*	*
Sales/Settlements	(1)	—	(1)	(*)
Transfers into (out of), net	1	—	1	(4)
End of the period	$ 9	$50	$59	$ 9

* *Indicates amount less than $0.5 million.*

The following table provides information on the unrealized gains or losses included in income for the three months ended September 30, 2012 and September 30, 2011, relating to IBRD's Level 3 Investments – Trading assets still held at the reporting dates, as well as where those amounts are included in the Condensed Statement of Income:

In millions of U.S. dollars

	Three Months Ended September 30,	
Unrealized Gains (Losses)	*2012*	*2011*
Condensed Statement of Income location		
Investments – Trading, net	$1	$(1)

* *Indicates amount less than $0.5 million.*

The fair value of Level 3 instruments in the investment portfolio is estimated using valuation models that incorporate observable market inputs and unobservable inputs. The significant unobservable inputs include constant prepayment rates, probability of default, and loss severity. The constant prepayment rate is an annualized expected rate of principal prepayment for a pool of ABS. The probability of default is an estimate of the expected likelihood of not collecting contractual amounts owed. Loss severity is the present value of lifetime losses (both interest and principal) as a percentage of the principal balance.

Significant increases (decreases) in the assumptions used for these inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for constant prepayment rates.

The following table provides a summary of the valuation technique applied in determining fair values of these Level 3 instruments as of September 30, 2012 and June 30, 2012, and quantitative information regarding the significant unobservable inputs used:

In millions of U.S. dollars

Portfolio	*Fair Value at September 30, 2012*	*Fair Value at June 30, 2012*	*Valuation Technique*	*Unobservable input*	*Range (weighted average) September 30, 2012*	*Range (weighted average) June 30, 2012*
Investments (ABS)	$9	$9	Discounted Cash Flow	Probability of default	0% to 10% (4.91%)	0% to 18% (5.77%)
				Constant prepayment rate	0% to11% (2.41%)	0.50% to 15% (4.80%)
				Loss severity	0% to100% (50.99%)	0% to 100% (76.19%)

Inter-level transfers

The table below provides the details of all gross inter-level transfers for the three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

	Investments–Trading ABS			
	Three Months Ended September 30,			
	2012		*2011*	
	Level 2	*Level 3*	*Level 2*	*Level 3*
Transfers into (out of)	$ 7	$(7)	$7	$(7)
Transfers (out of) into	(8)	8	(3)	3
	$(1)	$ 1	$ 4	$(4)

The transfers from Level 2 to Level 3 reflect the unavailability of quoted prices for similar instruments resulting from a decreased volume of trading for these instruments. Conversely, the transfers from Level 3 to Level 2 reflect the availability of quoted prices for similar instruments resulting from increased volume of trading for these instruments.

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, exchange-traded equity securities and ABS.

For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads, and constant prepayment rates. Where applicable, unobservable inputs such as constant prepayment rates, probability of default and loss severity are used. Unless quoted prices are available, time deposits are reported at face value, which approximates fair value.

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, IBRD is a 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 in relation to swap transactions as of September 30, 2012 and June 30, 2012:

In millions of U.S. dollars

	September 30, 2012	*June 30, 2012*
Collateral received		
Cash	$ 6,865	$ 3,693
Securities	7,642	10,238
Total collateral received	$14,507	$13,931
Collateral permitted to be repledged	$14,507	$13,931
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 ABS. 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

	September 30, 2012	*June 30, 2012*	*Financial Statement Presentation*
Securities transferred under repurchase or securities lending agreements	$2	$7	Included under Investments-Trading on the Condensed Balance Sheet
Liabilities relating to securities transferred under repurchase or securities lending agreements	$2	$7	Included under Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received, on the Condensed Balance Sheet.

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 September 30, 2012, IBRD had received securities with a fair value of $1,022 million ($209 million—June 30, 2012). None of these securities had been transferred under repurchase or securities lending agreements as of that date (Nil—June 30, 2012).

NOTE D—LOANS AND OTHER EXPOSURES

IBRD’s loans and other exposures (exposures) are generally made to, or guaranteed by member countries of IBRD. In addition, IBRD may also make loans to the International Finance Corporation (IFC), an affiliated organization, without any guarantee.

Other exposures include: Deferred Drawdown Options (DDOs), Irrevocable Commitments, Exposures to member Countries’ Derivatives, and Guarantees. IBRD’s loans are reported at amortized cost, with the exception of one loan which is carried and reported at fair value, because it contains an embedded derivative.

Of the total loans outstanding as of September 30, 2012, 82% were to the Latin America and the Caribbean, Europe and Central Asia, and East Asia and Pacific regions, combined.

Based on IBRD’s internal credit quality indicators, the majority of loans outstanding are in the Medium risk and High risk classes.

As of September 30, 2012, only 0.33% of IBRD’s loans were in nonaccrual status and were all related to one borrower. The total provision for losses on accrual and nonaccrual loans accounted for 1.23% of the total loans portfolio.

Credit Quality of Sovereign Exposures

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

IBRD's country risk ratings are an assessment of its borrowers' ability and willingness to repay IBRD on time and in full. These ratings are internal credit quality indicators. Individual country risk ratings are derived on the basis of both quantitative and qualitative analysis. The components considered in the analyses 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 tables provide an aging analysis of IBRD's loans as of September 30, 2012 and June 30, 2012:

In millions of U.S. dollars

	September 30, 2012							
Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$—	$—	$—	$—	$ —	$ —	$ 14,904	$ 14,904
Medium	—	—	—	—	—	—	69,591	69,591
High	1	—	—	—	—	1	53,370	53,371
Loans in accrual status[a]	1	—	—	—	—	1	137,865	137,866
Loans in nonaccrual status[a]	5	—	—	—	441	446	17	463
Loan at fair value[b]	—	—	—	—	—	—	138	138
Total	$ 6	$—	$—	$—	$441	$447	$138,020	$138,467

In millions of U.S. dollars

	June 30, 2012							
Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$—	$—	$—	$—	$ —	$ —	$ 14,799	$ 14,799
Medium	—	—	—	—	—	—	68,191	68,191
High	10	—	—	—	—	10	52,738	52,748
Loans in accrual status[a]	10	—	—	—	—	10	135,728	135,738
Loans in nonaccrual status[a]	—	—	—	13	428	441	21	462
Loan at fair value[b]	—	—	—	—	—	—	125	125
Total	$10	$—	$—	$13	$428	$451	$135,874	$136,325

a. At amortized cost

b. For the loan 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 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 three months ended September 30, 2012, and for the fiscal year ended June 30, 2012, are summarized below:

In millions of U.S. dollars

	September 30, 2012			*June 30, 2012*		
	Loans	*Other*	*Total*	*Loans*	*Other*	*Total*
Accumulated provision, beginning of the fiscal year	$1,690	$35	$1,725	$1,549	$29	$1,578
Provision – (release) charge	(1)	3	2	181	8	189
Translation adjustment	9	*	9	(40)	(2)	(42)
Accumulated provision, end of the period/fiscal year	$1,698	$38	$1,736	$1,690	$35	$1,725
Composed of accumulated provision for losses on:						
Loans in accrual status	$1,466			$1,459		
Loans in nonaccrual status	232			231		
Total	$1,698			$1,690		
Loans, end of the period/fiscal year:						
Loans at amortized cost in accrual status	$137,866			$135,738		
Loans at amortized cost in nonaccrual status	463			462		
Loan at fair value in accrual status	138			125		
Total	$138,467			$136,325		

* *Indicates amount less than $0.5 million.*

	Reported as Follows	
	Condensed Balance Sheet	***Condensed 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)	Other 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 International Development Agency (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 September 30, 2012, 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 September 30, 2012 and June 30, 2012, and for the three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

	September 30, 2012	*June 30, 2012*
Recorded investment in nonaccrual loans[a]	$463	$462
Accumulated provision for loan losses on nonaccrual loans	232	231
Average recorded investment in nonaccrual loans for the period/fiscal year	462	464
Overdue amounts of nonaccrual loans	780	761
of which:		
Principal	446	441
Interest and charges	334	320

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

In millions of U.S. dollars

	Three Months Ended September 30,	
	2012	*2011*
Interest income not recognized as a result of loans being in nonaccrual status	$9	$9

During the three months ended September 30, 2012 and September 30, 2011, no interest income was recognized on loans in nonaccrual status and there were no loans placed in nonaccrual status or restored to accrual status.

Information relating to the sole borrowing member with loans or other exposures in nonaccrual status at September 30, 2012 is as follows:

In millions of U.S. dollars

Borrower	*Principal outstanding*	*Principal, Interest and Charges overdue*	*Nonaccrual since*
Zimbabwe	$463	$780	October 2000

Guarantees

Guarantees of $1,820 million were outstanding at September 30, 2012 ($1,753 million—June 30, 2012). 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 on the Condensed Balance Sheet. These guarantees have original maturities ranging between 4 and 19 years, and expire in decreasing amounts through 2029.

At September 30, 2012, liabilities of $56 million ($50 million—June 30, 2012), related to IBRD's obligations under guarantees have been included in Other liabilities on the Condensed Balance Sheet. These include the accumulated provision for guarantee losses of $22 million ($18 million—June 30, 2012).

During the three months ended September 30, 2012, and September 30, 2011, 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 during the three months ended September 30, 2012 and September 30, 2011 resulting from waivers of loan charges is summarized below:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2012	*2011*
Interest waivers	$33	$37
Commitment charge waivers	5	8
Loan origination fee waivers	5	7
Total	$43	$52

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 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 three months ended September 30, 2012, loans to two countries generated in excess of ten percent of total loan income; this amounted to $68 million, each.

Information about IBRD's loan outstanding balances and associated loan income by geographic region, as of and for the three months ended September 30, 2012, and September 30, 2011, is presented in the following table:

In millions of U.S. dollars

	September 30, 2012		*September 30, 2011*	
Region	*Loans Outstanding*	*Loan Income*	*Loans Outstanding*	*Loan Income*
Africa	$ 1,887	$ 4	$ 1,414	$ 2
East Asia and Pacific	27,561	129	26,206	118
Europe and Central Asia	39,374	144	37,359	174
Latin America and the Caribbean	46,324	278	45,141	261
Middle East and North Africa	9,946	45	9,832	47
South Asia	13,137	35	12,919	26
Other[a]	238	1	50	1
Total	$138,467	$636	$132,921	$629

a. Represents loans to IFC, an affiliated organization.

Fair Value Disclosures

The loan carried at fair value is classified as Level 3. This loan has an embedded derivative and its fair value is estimated on a matrix basis against the related bond. As IBRD's loans are not traded, the yield which is used as a key input to determining the fair value of this loan is not observable. The yield applied in determining the fair value of the loan at September 30, 2012 was 2%. An increase (decrease) in the yield would result in a decrease (increase) in the fair value of the loan.

The following table provides a summary of changes in the fair value of IBRD's Level 3 loan for the three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2012	*2011*
Beginning of fiscal year	$125	$139
Total unrealized gains (losses) in:		
Net income	9	(9)
Other comprehensive income	4	(10)
End of the period	$138	$120

The following table reflects the fair value adjustment on the loan included in income for the three months ended September 30, 2012 and September 30, 2011, as well as where those amounts are included in the Condensed Statement of Income:

In millions of U.S. dollars

	Three Months Ended September 30,	
Unrealized Gains (Losses)	*2012*	*2011*
Condensed Statement of Income location		
Fair value adjustment on non-trading portfolios, net	$7	$(11)

The following table presents the fair value of all IBRD's loans along with their respective carrying values as of September 30, 2012 and June 30, 2012:

In millions of U.S. dollars

	September 30, 2012		*June 30, 2012*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Net Loans Outstanding	$136,346	$136,138	$134,209	$132,198

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 September 30, 2012 and June 30, 2012, except for the one loan which was reported at fair value, all other loans were 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.

Borrowings issued by IBRD are carried and reported at fair value. As of September 30, 2012, 93% of the instruments in the portfolio were classified as Level 2, within the fair value hierarchy.

The following table summarizes IBRD's borrowings portfolio after derivatives as of September 30, 2012 and June 30, 2012:

In millions of U.S. dollars

	September 30, 2012	*June 30, 2012*
Borrowings	$147,020	$145,339
Currency swaps, net	(10,813)	(9,663)
Interest rate swaps, net	(2,813)	(2,601)
	$133,394	$133,075

IBRD uses derivative contracts to modify the interest rate and/or currency characteristics of the instruments in the borrowing portfolio. For details regarding Currency swaps and Interest rate swaps, see Note F—Derivative Instruments.

Fair Value Disclosures

IBRD's fair value hierarchy for borrowings measured at fair value on a recurring basis as of September 30, 2012 and June 30, 2012 is as follows:

In millions of U.S. dollars

	September 30, 2012	*June 30, 2012*
Level 1	$ —	$ —
Level 2	136,092	134,371
Level 3	10,928	10,968
	$147,020	$145,339

A summary of changes in the fair value of IBRD's Level 3 borrowings during the three months ended September 30, 2012 and September 30, 2011 is presented in the following table:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2012	*2011*
Beginning of fiscal year	$10,968	$12,416
Total realized/ unrealized losses (gains) in:		
Net income	62	304
Other comprehensive income	255	383
Issuances	40	1
Settlements	(65)	(630)
Transfers into (out of), net	(332)	(45)
End of the period	$10,928	$12,429

Information on the unrealized gains or losses included in income for the three months ended September 30, 2012 and September 30, 2011, relating to IBRD's Level 3 borrowings still held at the reporting dates, as well as where those amounts are included in the Condensed Statement of Income, is presented in the following table:

In millions of U.S. dollars

	Three Months Ended September 30,	
Unrealized Gains (Losses)	*2012*	*2011*
Condensed Statement of Income location		
Fair value adjustment on non-trading portfolios, net	$(58)	$(288)

The following table provides information on the unrealized gains or losses included in income for the three months ended September 30, 2012 and September 30, 2011, relating to IBRD's total borrowings held at the reporting dates, as well as where those amounts are included in the Condensed Statement of Income:

In millions of U.S. dollars

	Three Months Ended September 30,	
Unrealized Gains (Losses)	*2012*	*2011*
Condensed Statement of Income location		
Fair value adjustment on non-trading portfolios, net	$(187)	$(3,626)

During the three months ended September 30, 2012, and September 30, 2011, IBRD's credit spreads remained largely unchanged.

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

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

Interest rate volatility is the extent to which the level of interest rates change over time. For purchased options, an increase in volatility will generally result in an increase in the fair value. In general, the volatility used to price the option depends on the maturity of the underlying instrument and the option strike price. For IBRD, interest rate volatilities are considered an unobservable input for maturities greater than ten years for certain currencies.

The following table provides a summary of the valuation technique applied in determining fair values of these Level 3 instruments and quantitative information regarding the significant unobservable inputs used.

In millions of U.S. dollars

Portfolio	*Fair Value at September 30, 2012*	*Fair Value at June 30, 2012*	*Valuation Technique*	*Unobservable input*	*Range (average) September 30, 2012*	*Range (average) June 30, 2012*
Borrowings	$10,928	$10,968	Discounted Cash Flow	Correlations	-40% to 84% (13%)	-44% to 83% (13%)
				Long-dated interest rate volatilities	18% to 32% (24%)	17% to 35% (26%)

The table below provides the details of all gross inter-level transfers for the three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

	Three Months Ended September 30, 2012		*Three Months Ended September 30, 2011*	
	Level 2	*Level 3*	*Level 2*	*Level 3*
Borrowings				
Transfers into (out of)	$332	$(332)	$45	$(45)

Transfers from Level 3 to Level 2 are due to increased price transparency.

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

In millions of U.S. dollars

	Fair Value	*Principal Amount Due Upon Maturity*	*Difference*
September 30, 2012	$147,020	$150,335	$(3,315)
June 30, 2012	$145,339	$149,655	$(4,316)

Valuation Methods and Assumptions

Techniques applied in determining the fair values of debt instruments are summarized as follows:

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, interest rates volatilities, equity index volatilities and equity indices. Where applicable, the models also incorporate significant unobservable inputs such as correlations and long-dated interest rate volatilities.

NOTE F—DERIVATIVE INSTRUMENTS

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

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

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

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

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 September 30, 2012 is $428 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 had been triggered to the extent that IBRD would have been required to post collateral on September 30, 2012, the amount of collateral required to be posted by IBRD would have been $91 million. In contrast, IBRD received collateral totaling $14,507 million as of September 30, 2012, in relation to swap transactions (see Note C-Investments).

The following tables provide information on the fair value amounts and the location of the derivative instruments on the Condensed Balance Sheet, as well as notional amounts and credit risk exposures of those derivative instruments as of September 30, 2012 and June 30, 2012:

Fair value of derivative instruments on the Condensed Balance Sheet:

In millions of U.S. dollars

	Derivative assets			*Derivative liabilities*		
	Condensed Balance Sheet location	*September 30, 2012*	*June 30, 2012*	*Condensed Balance Sheet location*	*September 30, 2012*	*June 30, 2012*
Derivatives not designated as hedging instruments						
Options and Futures contracts–Investments	Other assets	$ —	$ 5	Other liabilities	$ 6	$ —
Interest rate swaps	Derivative assets	12,743	12,140	Derivative liabilities	6,310	6,153
Currency swaps[a]	Derivative assets	149,715	148,673	Derivative liabilities	139,109	138,684
Other[b]	Derivative assets	1	*	Derivative liabilities	—	—
Total Derivatives		$162,459	$160,819		$145,425	$144,837

a. Includes currency forward contracts and structured swaps.
b. These relate to TBA securities.
** Indicates amount less than $0.5 million.*

Notional amounts and credit risk exposure of the derivative instruments:

In millions of U.S. dollars

Type of contract	*September 30, 2012*	*June 30, 2012*
Investment portfolio		
Interest rate swaps		
Notional principal	$ 7,361	$ 7,319
Credit exposure	142	135
Currency swaps (including currency forward contracts)		
Credit exposure	113	413
Exchange traded Options and Futures contracts[a]		
Notional long position	2,575	272
Notional short position	3,712	2,009
Other derivatives[b]		
Notional long position	95	95
Credit exposure	1	*
Client operations		
Interest rate swaps		
Notional principal	18,264	18,215
Credit exposure	1,801	1,720
Currency swaps		
Credit exposure	1,777	1,446
Borrowing portfolio		
Interest rate swaps		
Notional principal	146,814	147,872
Credit exposure	6,977	6,647
Currency swaps		
Credit exposure	16,656	15,506
Other derivatives		
Interest rate swaps		
Notional principal	38,799	38,563
Credit exposure	4,371	4,021
Currency swaps		
Credit exposure	237	229

a. Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All options and futures contracts are interest rate contracts.
b. These relate to TBA securities.
** Indicates amount less than $0.5 million.*

The following table provides information on the location and amount of gains and losses on the non-trading derivatives during the three months ended September 30, 2012 and September 30, 2011, and their location on the Condensed Statement of Income:

In millions of U.S. dollars

	Condensed Statement of Income location	*Three Months Ended September 30, Gains (Losses)*	
		2012	*2011*
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	$376	$1,233
Currency swaps (including currency forward contracts and structured swaps)	Fair value adjustment on non-trading portfolios, net	413	1,750
Total		$789	$2,983

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 instruments, equity securities as well as derivatives.

The following table provides information on the location and amount of gains and losses on the net investment portfolio and their location on the Condensed Statement of Income during the three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

Condensed Statement of Income Location	*Three Months Ended September 30, Investments-Trading, net Gains (Losses)*	
	2012	*2011*
Type of instrument		
Fixed income	$45	$ (8)
Equity	5	(125)
Total	$50	$(133)

Fair Value Disclosures

IBRD's fair value hierarchy for derivative assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and June 30, 2012 is as follows:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of September 30, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative Assets:				
Investments				
Currency forward contracts	$—	$ 7,217	$ —	$ 7,217
Currency swaps	—	9,653	—	9,653
Interest rate swaps	—	142	—	142
Other[a]	—	1	—	1
	—	17,013	—	17,013
Client operations				
Currency swaps	—	25,958	—	25,958
Interest rate swaps	—	1,710	—	1,710
	—	27,668	—	27,668
Borrowings				
Currency swaps	—	92,081	14,011	106,092
Interest rate swaps	—	6,822	12	6,834
	—	98,903	14,023	112,926
Other assets/liabilities				
Currency swaps	—	795	—	795
Interest rate swaps	—	4,057	—	4,057
	—	4,852	—	4,852
Total derivative assets	$—	$148,436	$14,023	$162,459
Derivative Liabilities:				
Investments				
Currency forward contracts	$—	$ 7,369	$ —	$ 7,369
Currency swaps	—	9,948	—	9,948
Interest rate swaps	—	313	—	313
	—	17,630	—	17,630
Client operations				
Currency swaps	—	25,955	—	25,955
Interest rate swaps	—	1,704	—	1,704
	—	27,659	—	27,659
Borrowings				
Currency swaps	—	83,471	11,808	95,279
Interest rate swaps	—	4,006	15	4,021
	—	87,477	11,823	99,300
Other assets/liabilities				
Currency swaps	—	558	—	558
Interest rate swaps	—	272	—	272
	—	830	—	830
Total derivative liabilities	$—	$133,596	$11,823	$145,419

a. These relate to TBA securities.

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Derivative Assets:				
Investments				
Currency forward contracts	$—	$ 6,542	$ —	$ 6,542
Currency swaps	—	11,876	—	11,876
Interest rate swaps	—	135	—	135
Other[a]	—	*	—	*
	—	18,554	—	18,554
Client operations				
Currency swaps	—	25,891	—	25,891
Interest rate swaps	—	1,669	—	1,669
	—	27,560	—	27,560
Borrowings				
Currency swaps	—	89,614	13,962	103,576
Interest rate swaps	—	6,520	7	6,527
	—	96,134	13,969	110,103
Other assets/liabilities				
Currency swaps	—	788	—	788
Interest rate swaps	—	3,809	—	3,809
	—	4,597	—	4,597
Total derivative assets	$—	$146,845	$13,969	$160,814
Derivative Liabilities:				
Investments				
Currency forward contracts	$—	$ 6,448	$ —	$ 6,448
Currency swaps	—	11,876	—	11,876
Interest rate swaps	—	307	—	307
	—	18,631	—	18,631
Client operations				
Currency swaps	—	25,889	—	25,889
Interest rate swaps	—	1,662	—	1,662
	—	27,551	—	27,551
Borrowings				
Currency swaps	—	81,915	11,998	93,913
Interest rate swaps	—	3,903	23	3,926
	—	85,818	12,021	97,839
Other assets/liabilities				
Currency swaps	—	558	—	558
Interest rate swaps	—	258	—	258
	—	816	—	816
Total derivative liabilities	$—	$132,816	$12,021	$144,837

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 three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

	Three Months Ended September 30,2012			Three Months Ended September 30,2011		
	Currency Swaps	Interest Rate Swaps	Total	Currency Swaps	Interest Rate Swaps	Total
Beginning of the fiscal year	$1,964	$(16)	$1,948	$1,303	$ 40	$1,343
Total realized/unrealized gains or (losses) in:						
Net income	90	13	103	439	(37)	402
Other comprehensive income	246	—	246	429	—	429
Issuances	(4)	—	(4)	(5)	—	(5)
Settlements	(15)	—	(15)	(199)	—	(199)
Transfers (out of) into, net	(78)	—	(78)	(17)	—	(17)
End of the period	$2,203	$ (3)	$2,200	$1,950	$ 3	$1,953

Unrealized gains or losses included in income for the three months ended September 30, 2012 and September 30, 2011, relating to IBRD's Level 3 derivatives, net still held at the reporting dates as well as where those amounts are included in the Condensed Statement of Income, are presented in the following table:

In millions of U.S. dollars

Unrealized Gains (Losses)	Three Months Ended September 30, 2012	2011
Condensed Statement of Income Location		
Fair value adjustment on non-trading portfolios, net	$105	$377

The following table provides the details of all inter-level transfers during the three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	Level 2	Level 3	Level 2	Level 3
Derivatives, net				
Transfers into (out of)	$78	$(78)	$17	$(17)

Transfers from Level 3 to Level 2 are due to increased price transparency.

The fair value of IBRD's Level 3 borrowings related derivatives is estimated using valuation models that incorporate model parameters, observable market inputs and unobservable inputs. The significant unobservable inputs used in the fair value measurement of these derivatives are correlations and long dated interest rate volatilities. See Note E – Borrowings for details on these unobservable inputs.

The following table provides a summary of the valuation technique applied in determining fair values of these Level 3 instruments and quantitative information regarding the significant unobservable inputs used.

In millions of U.S. dollars

Portfolio	Fair Value at September 30, 2012	Fair Value at June 30, 2012	Valuation Technique	Unobservable input	Range (average) September 30, 2012	Range (average) June 30, 2012
Currency swaps, interest rates swaps	$2,200	$1,948	Discounted Cash Flow	Correlations	-40% to 84% (13%)	-44% to 83% (13%)
				Long-dated interest rate volatilities	18 % to 32 % (24%)	17% to 35% (26%)

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. Where applicable, the models also incorporate significant unobservable inputs such as correlations and long-dated interest rate volatilities.

NOTE G—RETAINED EARNINGS, ALLOCATIONS AND TRANSFERS

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 9, 2012, IBRD's Executive Directors approved the allocation of $390 million out of the net income earned in the fiscal year ended June 30, 2012 to the General Reserve. In addition, the Executive Directors also approved a reduction in the Pension Reserve by $3 million, an increase in Restricted Retained Earnings by $13 million, and a reduction in the LTIP Reserve by $225 million.

Subsequent event: On October 12, 2012, IBRD's Board of Governors approved an immediate transfer to IDA of $608 million. This transfer was made on October 16, 2012.

Retained earnings comprise the following components at September 30, 2012 and June 30, 2012:

In millions of U.S. dollars

	September 30, 2012	June 30, 2012
Special Reserve	$ 293	$ 293
General Reserve	26,742	26,351
Pension Reserve	1,159	1,162
Surplus	172	172
LTIP Reserve	—	225
Cumulative fair value adjustments[a]	48	857
Unallocated Net Income (Loss)	1,500	(26)
Restricted Retained Earnings	25	13
Total	$29,939	$29,047

a. Applicable to non-trading portfolios reported at fair value.

NOTE H—PENSION AND OTHER POST RETIREMENT BENEFITS

IBRD, IFC and the Multilateral Investment Guarantee Agency (MIGA) participate in a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and PEBP that cover substantially all of their staff members.

All costs, assets and liabilities associated with these pension 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. The net periodic pension cost (credit) for the SRP, RSBP and PEBP is included in Administrative expenses, in the Condensed Statement of Income.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for IBRD and IDA for the three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

	Three Months Ended September 30, 2012			*Three Months Ended September 30, 2011*		
	SRP	*RSBP*	*PEBP*	*SRP*	*RSBP*	*PEBP*
Benefit Costs						
Service cost	$ 92	$ 21	$ 8	$ 76	$ 16	$ 5
Interest cost	133	25	6	154	25	7
Expected return on plan assets	(180)	(25)	—	(194)	(26)	—
Amortization of prior service cost	2	3	*	2	—	*
Amortization of unrecognized loss	48	11	8	8	6	5
Net periodic pension cost	$ 95	$ 35	$22	$ 46	$ 21	$17
of which:						
IBRD's Share	$ 46	$ 17	$11	$ 22	$ 10	$ 8
IDA's Share	$ 49	$ 18	$11	$ 24	$ 11	$ 9

** Indicates amount less than $0.5 million.*

NOTE I—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 September 30, 2012 and June 30, 2012, IBRD had the following receivables from (payables to) its affiliated organizations:

In millions of U.S. dollars

	September 30, 2012					
			Derivative Transactions[a]			
	Loans	*Administrative Services*	*Receivable*	*Payable*	*Pension and Other Postretirement Benefits*	*Total*
IDA	$ —	$314	$7,664	$(7,107)	$ (980)	$(109)
IFC	238	33	—	—	(124)	147
MIGA	—	3	—	—	(6)	(3)
	$238	$350	$7,664	$(7,107)	$(1,110)	$ 35

In millions of U.S. dollars

	June 30, 2012					
			Derivative Transactions[a]			
	Loans	*Administrative Services*	*Receivable*	*Payable*	*Pension and Other Postretirement Benefits*	*Total*
IDA	$—	$375	$7,714	$(7,327)	$(1,006)	$(244)
IFC	42	48	—	—	(120)	(30)
MIGA	—	1	—	—	(5)	(4)
	$42	$424	$7,714	$(7,327)	$(1,131)	$(278)

a. For details on derivative transactions relating to the client operations, see Note F—Derivative Instruments.

The receivables from (payables to) these affiliated organizations are reported in the Condensed Balance Sheet as follows:

Receivables / Payables related to:	**Reported as:**
Loans	Loans outstanding
Receivable for administrative services	Other assets
Receivables (payables) for derivative transactions	Derivative assets/liabilities – Client operations
Payable for pension and other postretirement benefits	Other liabilities

Loans

IBRD has a Local Currency Loan Facility Agreement with IFC which is capped at $300 million. At September 30, 2012, the balance of the loan under this facility amounted to $42 million ($42 million—June 30, 2012) and carried a fixed interest rate of 3.96%. This loan is not eligible for interest waivers.

In addition, on July 5, 2012, the Board of Executive Directors approved for IBRD to lend up to $197 million to IFC. This loan is at LIBOR less 25 basis points (0.32% as of September 30, 2012) and is not eligible for interest waivers. At September 30, 2012, the balance of this loan was $196 million.

Administrative expenses

Expenses jointly incurred by IBRD and IDA are allocated based on an agreed cost sharing ratio, and amounts are settled quarterly. For the three months ended September 30, 2012, IBRD's administrative expenses are net of the share of expenses allocated to IDA of $343 million ($301 million—three months ended September 30, 2011).

Other income

Income jointly earned by IBRD and IDA is allocated based on the same agreed cost sharing ratio that is used to allocate administrative expenses. Amounts are settled quarterly. For the three months ended September 30, 2012, IBRD's other income is net of income allocated to IDA of $35 million ($37 million—three months ended September 30, 2011).

For the three months ended September 30, 2012 and September 30, 2011, the amount of fee revenue associated with services provided to other affiliated organizations is included in Other Income on the Condensed Statement of Income, as follows:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2012	*2011*
Fees charged to IFC	$7	$7
Fees charged to MIGA	1	1

Pension and Other Postretirement Benefits

The payable to IDA represents IDA's net share of prepaid costs for pension and other postretirement benefit plans and PEBP assets. These will be realized over the life of the plan participants.

The payables to IFC and MIGA represent their respective share of PEBP assets. The PEBP assets are managed by IBRD and are a part of the investment portfolio.

Derivative transactions

These relate to currency forward contracts entered into by IDA with IBRD acting as the intermediary with the market.

NOTE J—COMPREHENSIVE INCOME

Comprehensive income / loss comprises the effects of the transition adjustment on adoption of an accounting standard on derivatives and hedging on July 1, 2000, currency translation adjustments, pension-related items and net income. These items are presented in the Condensed Statement of Comprehensive Income.

The following tables present the changes in Accumulated Other Comprehensive Income balances for the three months ended September 30, 2012 and September 30, 2011:

In millions of U.S. dollars

	Three Months Ended September 30, 2012					
	Cumulative Translation Adjustment	*Cumulative Effect of Change in Accounting Principle, Net*[a]	*Reclassification*[a]	*Unrecognized Net Actuarial (Loss) Gain on Benefit Plans*	*Unrecognized Net Prior Service (Cost) Credit on Benefit Plans*	*Total Accumulated Other Comprehensive Loss*
Balance, beginning of the fiscal year	$313	$500	$(516)	$(4,544)	$(170)	$(4,417)
Changes from period activity	158	—	1	67	5	231
Balance, end of the period	$471	$500	$(515)	$(4,477)	$(165)	$(4,186)

In millions of U.S. dollars

	Three Months Ended September 30, 2011					
	Cumulative Translation Adjustment	*Cumulative Effect of Change in Accounting Principle, Net*[a]	*Reclassification*[a]	*Unrecognized Net Actuarial (Loss) Gain on Benefit Plans*	*Unrecognized Net Prior Service (Cost) Credit on Benefit Plans*	*Total Accumulated Other Comprehensive Loss*
Balance, beginning of the fiscal year	$1,016	$500	$(521)	$(2,385)	$(29)	$(1,419)
Changes from period activity	(339)	—	1	19	2	(317)
Balance, end of the period	$ 677	$500	$(520)	$(2,366)	$(27)	$(1,736)

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.

NOTE K—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 September 30, 2012 and June 30, 2012:

In millions of U.S. dollars

	September 30, 2012		*June 30, 2012*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Due from Banks	$ 8,877	$ 8,877	$ 5,806	$ 5,806
Investments (including Securities purchased under resale agreements)	33,303	33,303	33,675	33,675
Net Loans Outstanding	136,346	136,138	134,209	132,198
Derivative Assets				
Investments	17,013	17,013	18,554	18,554
Client operations	27,668	27,668	27,560	27,560
Borrowings	112,926	112,926	110,103	110,103
Other assets/liabilities	4,582	4,582	4,597	4,597
Borrowings	147,020	147,019[a]	145,339	145,337[a]
Securities sold/lent under repurchase agreements/securities lending agreements and payable for cash collateral received	6,867	6,867	3,700	3,700
Derivative Liabilities				
Investments	17,630	17,630	18,631	18,631
Client operations	27,659	27,659	27,551	27,551
Borrowings	99,300	99,300	97,839	97,839
Other assets/liabilities	830	830	816	816

a. Includes $1 million ($2 million—June 30, 2012) relating to transition adjustment on adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

As of September 30, 2012, IBRD's loans, including the one loan reported at fair value on a recurring basis, are classified as Level 3 within the fair value hierarchy.

Valuation Methods and Assumptions

As of September 30, 2012 and June 30, 2012, IBRD had no 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

Loans and other exposures: See Note D

Borrowings: See Note E

Derivative instruments: See Notes C 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 three months ended September 30, 2012 and September 30, 2011.

In millions of U.S. dollars

	Three months Ended September 30,	
	2012	*2011*
Fair value adjustments, net— gains (losses):		
Borrowings—Note E	$(187)	$(3,626)
Derivatives—Note F		
Borrowings derivatives[a]	586	1,718
Other assets/liabilities derivatives	204	1,264
Client operations derivatives	(1)	1
Loan—Note D	7	(11)
Total	$ 609	$ (654)

a. Includes derivatives associated with loan portfolio which are used to manage the repricing risks between loans and borrowings.

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Independent Accountants' Report

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

We have reviewed the accompanying condensed balance sheet of the International Bank for Reconstruction and Development (IBRD) as of September 30, 2012, and the related condensed statements of income, comprehensive income, changes in retained earnings and cash flows for the three-month periods ended September 30, 2012 and 2011. These condensed quarterly financial statements are the responsibility of IBRD's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed quarterly financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the balance sheet, including the summary statement of loans and the statement of subscriptions to capital stock and voting power, of IBRD as of June 30, 2012, and the related statements of income, comprehensive income, changes in retained earnings and cash flows for the fiscal year then ended (not presented herein); and in our report dated August 9, 2012, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of June 30, 2012, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG LLP

Washington, DC
November 13, 2012