

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS

JUNE 30, 2009

<i>Management's Report Regarding Effectiveness of Internal Controls Over External Financial Reporting</i>	<b>42</b>
<i>Independent Auditors' Report on Management's Assertion Regarding Effectiveness of Internal Controls Over External Financial Reporting</i>	<b>44</b>
<i>Independent Auditors' Report</i>	<b>45</b>
<i>Balance Sheet</i>	<b>46</b>
<i>Statement of Income</i>	<b>48</b>
<i>Statement of Comprehensive Income</i>	<b>49</b>
<i>Statement of Changes in Retained Earnings</i>	<b>49</b>
<i>Statement of Cash Flows</i>	<b>50</b>
<i>Summary Statement of Loans</i>	<b>52</b>
<i>Statement of Subscriptions to Capital Stock and Voting Power</i>	<b>55</b>
<i>Notes to Financial Statements</i>	<b>59</b>

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

**The World Bank**  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

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

August 5, 2009

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

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

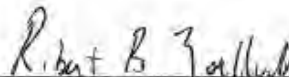
Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial statement presentations in conformity with accounting principles generally accepted in the United States of America. Management maintains a comprehensive system of controls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

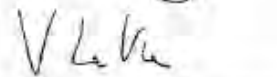
There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further,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


IBRD assessed its internal control over external financial reporting for financial statement presentation in conformity with accounting principles generally accepted in the United States of America as of June 30, 2009. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IBRD maintained effective internal control over external financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of June 30, 2009. The independent audit firm that

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

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

  
Robert B. Zoellick  
President

  
Vincenzo La Via  
Chief Financial Officer

  
Charles A. McDonough  
Acting Vice President and Controller

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



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

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

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the International Bank for Reconstruction and Development (IBRD) maintained effective internal control over financial reporting as of June 30, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Commission of Sponsoring Organizations of the Treadway Commission (COSO). IBRD's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

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

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

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

In our opinion, management's assertion that IBRD maintained effective internal control over financial reporting as of June 30, 2009 is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the accompanying financial statements of IBRD as of and for the fiscal year ended June 30, 2009, and our report dated August 5, 2009 expressed an unqualified opinion.

**KPMG LLP**

August 5, 2009

# INDEPENDENT AUDITOR'S REPORT



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

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

We have audited the accompanying balance sheet of the International Bank for Reconstruction and Development (IBRD) as of June 30, 2009, including the summary statement of loans and the statement of subscriptions to capital stock and voting power as of June 30, 2009, and the related statements of income, comprehensive income, changes in retained earnings and cash flows for the fiscal year then ended (2009 financial statements). These financial statements are the responsibility of IBRD's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of IBRD as of and for each of the years in the two-year period ended June 30, 2008, were audited by other auditors whose report dated August 7, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of IBRD as of June 30, 2009, and the results of its operations and its cash flows for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

We have also examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that IBRD maintained effective internal control over financial reporting as of June 30, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 5, 2009 expressed an unqualified opinion.

**KPMG LLP**

August 5, 2009

# BALANCE SHEET

June 30, 2009 and June 30, 2008

Expressed in millions of U.S. dollars

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
<b>Due from Banks</b>		
Unrestricted currencies	\$2,380	\$ 122
Currencies subject to restrictions—Note B	664	768
	<u>3,044</u>	<u>890</u>
<b>Investments-Trading (including securities transferred under repurchase or securities lending agreements of \$30 million-June 30, 2009; \$203 million—June 30, 2008)—Notes C and G</b>	41,012	25,213
<b>Securities Purchased Under Resale Agreements—Note C</b>	33	1,385
<b>Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital</b>	1,202	1,554
<b>Derivative Assets</b>		
Investments—Notes C, F, G, and O	18,467	5,857
Client operations—Notes F, G and O	19,559	20,269
Borrowings—Notes E, F, G and O	82,793	76,098
Others—Notes F, G, and O	2,246	609
	<u>123,065</u>	<u>102,833</u>
<b>Receivable to Maintain Value of Currency Holdings on Account of Subscribed Capital</b>	176	22
<b>Other Receivables</b>		
Receivable from investment securities traded—Note C	95	11
Accrued income on loans	889	1,073
	<u>984</u>	<u>1,084</u>
<b>Loans Outstanding (Summary Statement of Loans, Notes D, G and O)</b>		
Total loans	156,823	137,226
Less undisbursed balance	51,125	38,176
Loans outstanding (including loans at fair value of \$78—June 30, 2009; \$102 million—June 30, 2008)	105,698	99,050
Less:		
Accumulated provision for loan losses	1,632	1,370
Deferred loan income	409	412
Net loans outstanding	<u>103,657</u>	<u>97,268</u>
<b>Other Assets</b>		
Assets under retirement benefits plans—Note K	325	1,853
Premises and equipment (net)	625	608
Miscellaneous—Note I	1,297	601
	<u>2,247</u>	<u>3,062</u>
<b>Total assets</b>	<u><u>\$275,420</u></u>	<u><u>\$233,311</u></u>

	<u>2009</u>	<u>2008</u>
<b>Liabilities</b>		
<b><i>Borrowings—Notes E, G, and O</i></b>		
Borrowings at fair value	\$110,040	\$ 13,208
Borrowings at amortized cost	—	74,194
	<u>110,040</u>	<u>87,402</u>
<b><i>Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received—Note C</i></b>	2,323	3,147
<b><i>Derivative Liabilities</i></b>		
Investments—Notes C, F, G and O	18,923	6,309
Client operations—Notes F, G and O	19,551	20,263
Borrowings—Notes E, F, G and O	76,321	69,152
Others—Notes F, G and O	847	1,007
	<u>115,642</u>	<u>96,731</u>
<b><i>Payable to Maintain Value of Currency Holdings on Account of Subscribed Capital</i></b>	57	257
<b><i>Other Liabilities</i></b>		
Payable for investment securities purchased—Note C	2,457	30
Accrued charges on borrowings	1,495	1,739
Liabilities under retirement benefits plans—Note K	662	598
Accounts payable and miscellaneous liabilities—Notes D and I	2,707	1,859
	<u>7,321</u>	<u>4,226</u>
<b>Total liabilities</b>	<u>235,383</u>	<u>191,763</u>
<b>Equity</b>		
<b><i>Capital Stock (Statement of Subscriptions to Capital Stock and Voting Power, Note B)</i></b>		
Authorized capital 1,581,724 shares—June 30, 2009, and June 30, 2008)		
Subscribed capital (1,574,315 shares—June 30, 2009, 1,573,349 shares—June 30, 2008)	189,918	189,801
Less uncalled portion of subscriptions	178,427	178,315
Paid-in capital	11,491	11,486
<b><i>Deferred Amounts to Maintain Value of Currency Holdings—Note B</i></b>	359	487
<b><i>Retained Earnings (Statement of Changes in Retained Earnings, Note H)</i></b>	29,870	29,322
<b><i>Accumulated Other Comprehensive Income Note—M</i></b>	(1,683)	253
<b>Total equity</b>	<u>40,037</u>	<u>41,548</u>
<b>Total liabilities and equity</b>	<u>\$275,420</u>	<u>\$233,311</u>

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

## STATEMENT OF INCOME

For the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007

Expressed in millions of U.S. dollars

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Income</b>			
Loans—Notes D and L			
Interest	\$3,789	\$5,426	\$5,391
Commitment charges	46	71	76
Investments, net—Trading—Notes C, F and O			
Interest	625	1,140	1,259
Net (losses) gains	(22)	(74)	22
Other—Notes I and J	599	300	264
Total income	<u>5,037</u>	<u>6,863</u>	<u>7,012</u>
<b>Expenses</b>			
Borrowings—Note E			
Interest	2,664	3,934	4,427
Amortization of issuance and other borrowing costs	75	83	92
Administrative—Notes I, J, and K	1,244	1,082	1,066
Contributions to special programs—Note I	197	176	171
Provision for losses on loans and guarantees, increase (decrease)—Note D	284	(684)	(405)
Other	1	1	2
Total expenses	<u>4,465</u>	<u>4,592</u>	<u>5,353</u>
<b>Income before fair value adjustment on non-trading portfolios, net and Board of Governors-approved transfers</b>	572	2,271	1,659
Fair value adjustment on non-trading portfolios, net—Notes F, N, and O	3,280	(40)	(842)
Board of Governors-approved transfers—Note H	<u>(738)</u>	<u>(740)</u>	<u>(957)</u>
<b>Net income (loss)</b>	<u><u>\$3,114</u></u>	<u><u>\$1,491</u></u>	<u><u>\$ (140)</u></u>

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

## STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007

Expressed in millions of U.S. dollars

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Net income (loss)</b>	\$3,114	\$ 1,491	\$(140)
<b>Other comprehensive (loss) income—Note M</b>			
Reclassification to net income:			
FAS 133 transition adjustment	11	(20)	(32)
Net actuarial losses on benefit plans	(1,581)	(1,021)	—
Prior service credit on benefit plans, net	—	1	—
Currency translation adjustments	(366)	792	313
Total other comprehensive (loss) income	<u>(1,936)</u>	<u>(248)</u>	<u>281</u>
<b>Comprehensive income</b>	<u>\$1,178</u>	<u>\$ 1,243</u>	<u>\$ 141</u>

## STATEMENT OF CHANGES IN RETAINED EARNINGS

For the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007

Expressed in millions of U.S. dollars

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Retained earnings at beginning of the fiscal year</b>	\$29,322	\$27,831	\$24,782
Adjustments to beginning balance:			
Cumulative effect of adoption of FAS 159—Note O	(2,566)	—	—
Cumulative effect of adoption of FAS 155	—	—	3,189
Net income (loss) for the fiscal year	<u>3,114</u>	<u>1,491</u>	<u>(140)</u>
<b>Retained earnings at end of the fiscal year</b>	<u>\$29,870</u>	<u>\$29,322</u>	<u>\$27,831</u>

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

# STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007

Expressed in millions of U.S. dollars

	2009	2008	2007
<b>Cash flows from investing activities</b>			
Loans			
Disbursements	\$(18,529)	\$(10,478)	\$(11,040)
Principal repayments	9,988	10,960	10,894
Principal prepayments	232	1,659	6,354
Loan origination fees received	24	6	6
Net cash (used in) provided by investing activities	<u>(8,285)</u>	<u>2,147</u>	<u>6,214</u>
<b>Cash flows from financing activities</b>			
Medium and long-term borrowings			
New issues	39,092	15,526	10,209
Retirements	(18,653)	(23,799)	(18,546)
Net short-term borrowings	1,543	3,229	(2,709)
Net derivatives-Borrowings	133	1,767	1,263
Net derivatives-Other assets / liabilities	(1)	51	(145)
New capital subscriptions	5	—	—
Net maintenance of value settlements	77	94	79
Net cash provided by (used in) financing activities	<u>22,196</u>	<u>(3,132)</u>	<u>(9,849)</u>
<b>Cash flows from operating activities</b>			
Net income (loss)	3,114	1,491	(140)
Adjustment to reconcile net income (loss) to net cash provided by operating activities			
Fair value adjustment on non-trading portfolios, net	(3,280)	40	842
Depreciation and amortization	920	1,046	1,017
Provision for losses on loans and guarantees, increase (decrease)	284	(684)	(405)
Changes in:			
Investments-Trading	(16,367)	(1,339)	2,943
Net investment securities traded/purchased-Trading	2,286	(567)	7
Net derivatives-Investments	832	(556)	(340)
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	561	1,851	61
Accrued income on loans	138	312	(58)
Miscellaneous assets	794	587	(198)
Payable for Board of Governors-approved transfers	—	(70)	(206)
Accrued charges on borrowings	(227)	(410)	(6)
Accounts payable and miscellaneous liabilities	(701)	(689)	91
Net cash (used in) provided by operating activities	<u>(11,646)</u>	<u>1,012</u>	<u>3,608</u>
<b>Effect of exchange rate changes on unrestricted cash</b>	<u>(7)</u>	<u>9</u>	<u>6</u>
<b>Net increase (decrease) in unrestricted cash</b>	2,258	36	(21)
<b>Unrestricted cash at beginning of the fiscal year</b>	122	86	107
<b>Unrestricted cash at end of the fiscal year</b>	<u>\$2,380</u>	<u>\$ 122</u>	<u>\$ 86</u>

Expressed in millions of U.S. dollars

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Supplemental disclosure</b>			
(Decrease) increase in ending balances resulting from exchange rate fluctuations			
Loans outstanding	\$(1,689)	\$ 3,374	\$ 994
Investments-Trading	(569)	821	325
Borrowings	(3,611)	5,090	4,096
Derivatives-Investments	828	(619)	(294)
Derivatives-Borrowings	(2,900)	(2,891)	(3,473)
Capitalized loan origination fees included in total loans	36	12	15
Interest paid on borrowings	2,528	4,025	3,648

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

# SUMMARY STATEMENT OF LOANS

June 30, 2009

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total loans</i>	<i>Loans approved but not yet effective<sup>a</sup></i>	<i>Undisbursed balance of effective loans<sup>b</sup></i>	<i>Loans outstanding</i>	<i>Percentage of total loans outstanding</i>
Albania	\$58	\$8	\$29	\$21	0.02%
Algeria	21	-	11	10	0.01
Argentina	8,913	1,070	2,642	5,201	4.92
Armenia	54	-	25	29	0.03
Azerbaijan	1,765	957	694	114	0.11
Barbados	48	-	33	15	0.01
Belarus	272	125	103	44	0.04
Belize	18	-	-	18	0.02
Bolivia	*	-	-	*	*
Bosnia and Herzegovina	449	24	-	425	0.40
Botswana	236	236	-	-	-
Brazil	15,459	2,211	2,598	10,650	10.08
Bulgaria	1,747	56	173	1,518	1.44
Cameroon	32	-	-	32	0.03
Chile	311	30	71	210	0.20
China	18,850	2,448	3,771	12,631	11.95
Colombia	7,380	150	1,308	5,922	5.60
Costa Rica	741	573	129	39	0.04
Côte d'Ivoire	77	-	-	77	0.07
Croatia	1,957	119	614	1,224	1.16
Dominica	1	-	-	1	*
Dominican Republic	659	28	197	434	0.41
Ecuador	599	-	24	575	0.54
Egypt, Arab Republic of	3,342	1,135	382	1,825	1.73
El Salvador	869	-	280	589	0.56
Estonia	21	-	-	21	0.02
Fiji	1	-	-	1	*
Gabon	49	-	31	18	0.02
Georgia	70	-	52	18	0.02
Grenada	16	-	4	12	0.01
Guatemala	1,323	85	257	981	0.93
Hungary	65	-	-	65	0.06
India	12,702	580	4,254	7,868	7.44
Indonesia	10,514	2,675	1,245	6,594	6.24
Iran, Islamic Republic of	1,274	-	505	769	0.73
Jamaica	500	-	87	413	0.39
Jordan	1,028	85	135	808	0.76
Kazakhstan	2,903	2,125	302	476	0.45
Korea, Republic of	1,481	-	-	1,481	1.40
Latvia	49	-	-	49	0.05
Lebanon	434	70	46	318	0.30
Lesotho	3	-	-	3	*
Lithuania	25	-	-	25	0.02
Macedonia, former Yugoslav Republic of	478	54	180	244	0.23
Malaysia	60	-	-	60	0.06
Mauritius	225	-	17	208	0.20
Mexico	8,505	1,726	284	6,495	6.14
Moldova	118	-	-	118	0.11
Montenegro	300	16	25	259	0.25
Morocco	2,867	141	287	2,439	2.31
Namibia	15	7	-	8	0.01
Nigeria	157	-	-	157	0.15
Pakistan	2,160	-	324	1,836	1.74
Panama	613	80	174	359	0.34

Expressed in millions of U.S. dollars

Borrower or guarantor	Total loans	Loans approved but not yet effective <sup>a</sup>	Undisbursed balance of effective loans <sup>b</sup>	Loans outstanding	Percentage of total loans outstanding
Papua New Guinea	\$155	\$-	\$2	\$153	0.14%
Paraguay	478	211	72	195	0.18
Peru	4,133	675	831	2,627	2.49
Philippines	3,497	118	789	2,590	2.45
Poland	4,730	1,412	246	3,072	2.91
Romania	3,632	-	1,176	2,456	2.32
Russian Federation	4,250	200	550	3,500	3.31
Serbia	2,515	15	265	2,235	2.11
Slovak Republic	234	-	3	231	0.22
Slovenia	16	-	-	16	0.02
South Africa	24	-	-	24	0.02
St. Kitts and Nevis	14	-	1	13	0.01
St. Lucia	22	-	2	20	0.02
St. Vincent and the Grenadines	10	-	7	3	*
Swaziland	11	-	-	11	0.01
Thailand	84	-	19	65	0.06
Trinidad and Tobago	29	-	5	24	0.02
Tunisia	1,927	342	319	1,266	1.20
Turkey	12,998	1,371	3,003	8,624	8.16
Turkmenistan	14	-	-	14	0.01
Ukraine	4,196	400	833	2,963	2.80
Uruguay	1,213	-	130	1,083	1.02
Uzbekistan	316	-	21	295	0.28
Zimbabwe	460	-	*	460	0.44
Subtotal <sup>c</sup>	\$156,772	\$21,558	\$29,567	\$105,647	99.95
International Finance Corporation <sup>d</sup>	51	-	-	51	0.05
Total-June 30, 2009	<u>\$156,823</u>	<u>\$21,558</u>	<u>\$29,567</u>	<u>\$105,698</u>	<u>100%</u>
Total-June 30, 2008	<u>\$137,226</u>	<u>\$11,779</u>	<u>\$26,397</u>	<u>\$99,050</u>	

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

#### NOTES

- Loans totaling \$8,567 million (\$6,985—June 30, 2008) have been approved by IBRD, but the related agreements have not been signed. Loan agreements totaling \$12,991 million (\$4,794 million—June 30, 2008) have been signed, but the loans do not become effective and disbursements thereunder do not start until the borrowers and guarantors, if any, take certain actions and furnish certain documents to IBRD.
- Of the undisbursed balance, IBRD has entered into irrevocable commitments to disburse \$362 million (\$517 million—June 30, 2008).
- May differ from the sum of individual figures shown due to rounding.
- Loans outstanding to the International Finance Corporation have a weighted average interest rate of 4.05% and a weighted average maturity of 5.09 years. These loans are not eligible for IBRD's interest waivers.

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



# STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

June 30, 2009

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total	Total amounts	Amounts paid in <sup>a</sup>	Amounts subject to call <sup>a,b</sup>	Number of votes	Percentage of total
Afghanistan	300	0.02%	\$36.2	\$3.6	\$32.6	550	0.03%
Albania	830	0.05	100.1	3.6	96.5	1,080	0.07
Algeria	9,252	0.59	1,116.1	67.1	1,049.0	9,502	0.59
Angola	2,676	0.17	322.8	17.5	305.4	2,926	0.18
Antigua and Barbuda	520	0.03	62.7	1.3	61.5	770	0.05
Argentina	17,911	1.14	2,160.7	132.2	2,028.4	18,161	1.12
Armenia	1,139	0.07	137.4	5.9	131.5	1,389	0.09
Australia	24,464	1.55	2,951.2	181.8	2,769.5	24,714	1.52
Austria	11,063	0.70	1,334.6	80.7	1,253.9	11,313	0.70
Azerbaijan	1,646	0.10	198.6	9.7	188.8	1,896	0.12
Bahamas, The	1,071	0.07	129.2	5.4	123.8	1,321	0.08
Bahrain	1,103	0.07	133.1	5.7	127.4	1,353	0.08
Bangladesh	4,854	0.31	585.6	33.9	551.6	5,104	0.31
Barbados	948	0.06	114.4	4.5	109.9	1,198	0.07
Belarus	3,323	0.21	400.9	22.3	378.5	3,573	0.22
Belgium	28,983	1.84	3,496.4	215.8	3,280.6	29,233	1.80
Belize	586	0.04	70.7	1.8	68.9	836	0.05
Benin	868	0.06	104.7	3.9	100.8	1,118	0.07
Bhutan	479	0.03	57.8	1.0	56.8	729	0.04
Bolivia	1,785	0.11	215.3	10.8	204.5	2,035	0.13
Bosnia and Herzegovina	549	0.04	66.2	5.8	60.4	799	0.05
Botswana	615	0.04	74.2	2.0	72.2	865	0.05
Brazil	33,287	2.11	4,015.6	245.5	3,770.1	33,537	2.07
Brunei Darussalam	2,373	0.15	286.3	15.2	271.1	2,623	0.16
Bulgaria	5,215	0.33	629.1	36.5	592.6	5,465	0.34
Burkina Faso	868	0.06	104.7	3.9	100.8	1,118	0.07
Burundi	716	0.05	86.4	3.0	83.4	966	0.06
Cambodia	214	0.01	25.8	2.6	23.2	464	0.03
Cameroon	1,527	0.10	184.2	9.0	175.2	1,777	0.11
Canada	44,795	2.85	5,403.8	334.9	5,068.9	45,045	2.78
Cape Verde	508	0.03	61.3	1.2	60.1	758	0.05
Central African Republic	862	0.05	104.0	3.9	100.1	1,112	0.07
Chad	862	0.05	104.0	3.9	100.1	1,112	0.07
Chile	6,931	0.44	836.1	49.6	786.6	7,181	0.44
China	44,799	2.85	5,404.3	335.0	5,069.3	45,049	2.78
Colombia	6,352	0.40	766.3	45.2	721.1	6,602	0.41
Comoros	282	0.02	34.0	0.3	33.7	532	0.03
Congo, Democratic Republic of	2,643	0.17	318.8	25.4	293.5	2,893	0.18
Congo, Republic of	927	0.06	111.8	4.3	107.5	1,177	0.07
Costa Rica	233	0.01	28.1	1.9	26.2	483	0.03
Côte d'Ivoire	2,516	0.16	303.5	16.4	287.1	2,766	0.17
Croatia	2,293	0.15	276.6	17.3	259.3	2,543	0.16
Cyprus	1,461	0.09	176.2	8.4	167.9	1,711	0.11
Czech Republic	6,308	0.40	761.0	45.9	715.0	6,558	0.40
Denmark	13,451	0.85	1,622.7	97.8	1,524.9	13,701	0.85
Djibouti	559	0.04	67.4	1.6	65.9	809	0.05
Dominica	504	0.03	60.8	1.1	59.7	754	0.05
Dominican Republic	2,092	0.13	252.4	13.1	239.3	2,342	0.14
Ecuador	2,771	0.18	334.3	18.2	316.1	3,021	0.19
Egypt, Arab Republic of	7,108	0.45	857.5	50.9	806.6	7,358	0.45

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

June 30, 2009

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total	Total amounts	Amounts paid in <sup>a</sup>	Amounts subject to call <sup>a, b</sup>	Number of votes	Percentage of total
El Salvador	141	0.01%	\$17.0	\$1.7	\$15.3	391	0.02%
Equatorial Guinea	715	0.05	86.3	2.7	83.5	965	0.06
Eritrea	593	0.04	71.5	1.8	69.7	843	0.05
Estonia	923	0.06	111.3	4.3	107.1	1,173	0.07
Ethiopia	978	0.06	118.0	4.7	113.3	1,228	0.08
Fiji	987	0.06	119.1	4.8	114.3	1,237	0.08
Finland	8,560	0.54	1,032.6	61.9	970.8	8,810	0.54
France	69,397	4.41	8,371.7	520.4	7,851.3	69,647	4.30
Gabon	987	0.06	119.1	5.1	113.9	1,237	0.08
Gambia, The	543	0.03	65.5	1.5	64.0	793	0.05
Georgia	1,584	0.10	191.1	9.3	181.8	1,834	0.11
Germany	72,399	4.60	8,733.9	542.9	8,190.9	72,649	4.48
Ghana	1,525	0.10	184.0	12.7	171.2	1,775	0.11
Greece	1,684	0.11	203.1	14.1	189.1	1,934	0.12
Grenada	531	0.03	64.1	1.4	62.7	781	0.05
Guatemala	2,001	0.13	241.4	12.4	229.0	2,251	0.14
Guinea	1,292	0.08	155.9	7.1	148.8	1,542	0.10
Guinea-Bissau	540	0.03	65.1	1.4	63.7	790	0.05
Guyana	1,058	0.07	127.6	5.3	122.3	1,308	0.08
Haiti	1,067	0.07	128.7	5.4	123.3	1,317	0.08
Honduras	641	0.04	77.3	2.3	75.0	891	0.05
Hungary	8,050	0.51	971.1	58.0	913.1	8,300	0.51
Iceland	1,258	0.08	151.8	6.8	144.9	1,508	0.09
India	44,795	2.85	5,403.8	333.7	5,070.1	45,045	2.78
Indonesia	14,981	0.95	1,807.2	110.3	1,697.0	15,231	0.94
Iran, Islamic Republic of	23,686	1.50	2,857.4	175.8	2,681.5	23,936	1.48
Iraq	2,808	0.18	338.7	27.1	311.6	3,058	0.19
Ireland	5,271	0.33	635.9	37.1	598.8	5,521	0.34
Israel	4,750	0.30	573.0	33.2	539.8	5,000	0.31
Italy	44,795	2.85	5,403.8	334.8	5,069.0	45,045	2.78
Jamaica	2,578	0.16	311.0	16.8	294.2	2,828	0.17
Japan	127,000	8.07	15,320.6	944.0	14,376.7	127,250	7.85
Jordan	1,388	0.09	167.4	7.8	159.6	1,638	0.10
Kazakhstan	2,985	0.19	360.1	19.8	340.3	3,235	0.20
Kenya	2,461	0.16	296.9	15.9	281.0	2,711	0.17
Kiribati	465	0.03	56.1	0.9	55.2	715	0.04
Korea, Republic of	15,817	1.00	1,908.1	114.5	1,793.5	16,067	0.99
Kosovo, Republic of <sup>c</sup>	966	0.06	116.5	5.2	111.4	1,216	0.08
Kuwait	13,280	0.84	1,602.0	97.4	1,504.6	13,530	0.83
Kyrgyz Republic	1,107	0.07	133.5	5.7	127.9	1,357	0.08
Lao People's Democratic Republic	178	0.01	21.5	1.5	20.0	428	0.03
Latvia	1,384	0.09	167.0	7.8	159.2	1,634	0.10
Lebanon	340	0.02	41.0	1.1	39.9	590	0.04
Lesotho	663	0.04	80.0	2.3	77.6	913	0.06
Liberia	463	0.03	55.9	2.6	53.3	713	0.04
Libya	7,840	0.50	945.8	57.0	888.8	8,090	0.50
Lithuania	1,507	0.10	181.8	8.7	173.1	1,757	0.11
Luxembourg	1,652	0.11	199.3	9.8	189.5	1,902	0.12
Macedonia, former Yugoslav Republic of	427	0.03	51.5	3.2	48.3	677	0.04
Madagascar	1,422	0.09	171.5	8.1	163.5	1,672	0.10
Malawi	1,094	0.07	132.0	5.6	126.4	1,344	0.08

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total	Total amounts	Amounts paid in <sup>a</sup>	Amounts subject to call <sup>a,b</sup>	Number of votes	Percentage of total
Malaysia	8,244	0.52%	\$994.5	\$59.5	\$935.0	8,494	0.52%
Maldives	469	0.03	56.6	0.9	55.7	719	0.04
Mali	1,162	0.07	140.2	6.1	134.1	1,412	0.09
Malta	1,074	0.07	129.6	5.4	124.1	1,324	0.08
Marshall Islands	469	0.03	56.6	0.9	55.7	719	0.04
Mauritania	900	0.06	108.6	4.1	104.4	1,150	0.07
Mauritius	1,242	0.08	149.8	6.7	143.1	1,492	0.09
Mexico	18,804	1.19	2,268.4	139.0	2,129.4	19,054	1.18
Micronesia, Federated States of	479	0.03	57.8	1.0	56.8	729	0.05
Moldova	1,368	0.09	165.0	7.6	157.4	1,618	0.10
Mongolia	466	0.03	56.2	2.3	53.9	716	0.04
Montenegro	688	0.04	83.0	3.2	79.83	938	0.06
Morocco	4,973	0.32	599.9	34.8	565.1	5,223	0.32
Mozambique	930	0.06	112.2	4.8	107.4	1,180	0.07
Myanmar	2,484	0.16	299.7	16.1	283.6	2,734	0.17
Namibia	1,523	0.10	183.7	8.8	174.9	1,773	0.11
Nepal	968	0.06	116.8	4.6	112.1	1,218	0.08
Netherlands	35,503	2.26	4,282.9	264.8	4,018.1	35,753	2.21
New Zealand	7,236	0.46	872.9	51.9	821.0	7,486	0.46
Nicaragua	608	0.04	73.3	2.1	71.3	858	0.05
Niger	852	0.05	102.8	3.8	99.0	1,102	0.07
Nigeria	12,655	0.80	1,526.6	92.7	1,433.9	12,905	0.80
Norway	9,982	0.63	1,204.2	72.6	1,131.6	10,232	0.63
Oman	1,561	0.10	188.3	9.1	179.2	1,811	0.11
Pakistan	9,339	0.59	1,126.6	67.8	1,058.9	9,589	0.59
Palau	16	*	1.9	0.2	1.8	266	0.02
Panama	385	0.02	46.4	3.2	43.2	635	0.04
Papua New Guinea	1,294	0.08	156.1	7.1	149.0	1,544	0.10
Paraguay	1,229	0.08	148.3	6.6	141.6	1,479	0.09
Peru	5,331	0.34	643.1	37.5	605.6	5,581	0.34
Philippines	6,844	0.43	825.6	48.9	776.7	7,094	0.44
Poland	10,908	0.69	1,315.9	79.6	1,236.3	11,158	0.69
Portugal	5,460	0.35	658.7	38.5	620.2	5,710	0.35
Qatar	1,096	0.07	132.2	9.0	123.3	1,346	0.08
Romania	4,011	0.25	483.9	30.5	453.4	4,261	0.26
Russian Federation	44,795	2.85	5,403.8	333.9	5,070.0	45,045	2.78
Rwanda	1,046	0.07	126.2	5.2	120.9	1,296	0.08
St. Kitts and Nevis	275	0.02	33.2	0.3	32.9	525	0.03
St. Lucia	552	0.04	66.6	1.5	65.1	802	0.05
St. Vincent and the Grenadines	278	0.02	33.5	0.3	33.2	528	0.03
Samoa	531	0.03	64.1	1.4	62.7	781	0.05
San Marino	595	0.04	71.8	2.5	69.3	845	0.05
São Tomé and Príncipe	495	0.03	59.7	1.1	58.6	745	0.05
Saudi Arabia	44,795	2.85	5,403.8	335.0	5,068.9	45,045	2.78
Senegal	2,072	0.13	250.0	13.0	237.0	2,322	0.14
Serbia	2,846	0.18	343.3	21.5	321.9	3,096	0.19
Seychelles	263	0.02	31.7	0.2	31.6	513	0.03
Sierra Leone	718	0.05	86.6	3.0	83.6	968	0.06
Singapore	320	0.02	38.6	3.9	34.7	570	0.04
Slovak Republic	3,216	0.20	388.0	23.0	365.0	3,466	0.21

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

June 30, 2009

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total	Total amounts	Amounts paid in <sup>a</sup>	Amounts subject to call <sup>a, b</sup>	Number of votes	Percentage of total
Slovenia	1,261	0.08%	\$152.1	\$9.5	\$142.6	1,511	0.09%
Solomon Islands	513	0.03	61.9	1.2	60.7	763	0.05
Somalia	552	0.04	66.6	3.3	63.3	802	0.05
South Africa	13,462	0.86	1,624.0	98.8	1,525.2	13,712	0.85
Spain	27,997	1.78	3,377.4	206.8	3,170.6	28,247	1.74
Sri Lanka	3,817	0.24	460.5	26.1	434.3	4,067	0.25
Sudan	850	0.05	102.5	7.2	95.3	1,100	0.07
Suriname	412	0.03	49.7	2.0	47.7	662	0.04
Swaziland	440	0.03	53.1	2.0	51.1	690	0.04
Sweden	14,974	0.95	1,806.4	110.2	1,696.2	15,224	0.94
Switzerland	26,606	1.69	3,209.6	197.2	3,012.4	26,856	1.66
Syrian Arab Republic	2,202	0.14	265.6	14.0	251.7	2,452	0.15
Tajikistan	1,060	0.07	127.9	5.3	122.5	1,310	0.08
Tanzania	1,295	0.08	156.2	10.0	146.2	1,545	0.10
Thailand	6,349	0.40	765.9	45.2	720.7	6,599	0.41
Timor-Leste	517	0.03	62.4	1.9	60.4	767	0.05
Togo	1,105	0.07	133.3	5.7	127.6	1,355	0.08
Tonga	494	0.03	59.6	1.1	58.5	744	0.05
Trinidad and Tobago	2,664	0.17	321.4	17.6	303.7	2,914	0.18
Tunisia	719	0.05	86.7	5.7	81.1	969	0.06
Turkey	8,328	0.53	1,004.6	59.8	944.8	8,578	0.53
Turkmenistan	526	0.03	63.5	2.9	60.5	776	0.05
Uganda	617	0.04	74.4	4.4	70.1	867	0.05
Ukraine	10,908	0.69	1,315.9	79.3	1,236.6	11,158	0.69
United Arab Emirates	2,385	0.15	287.7	22.6	265.1	2,635	0.16
United Kingdom	69,397	4.41	8,371.7	539.5	7,832.2	69,647	4.30
United States	264,969	16.83	31,964.5	1,998.4	29,966.2	265,219	16.36
Uruguay	2,812	0.18	339.2	18.6	320.7	3,062	0.19
Uzbekistan	2,493	0.16	300.7	16.1	284.7	2,743	0.17
Vanuatu	586	0.04	70.7	1.8	68.9	836	0.05
Venezuela, República Bolivariana de	20,361	1.29	2,456.2	150.8	2,305.5	20,611	1.27
Vietnam	968	0.06	116.8	8.1	108.7	1,218	0.08
Yemen, Republic of	2,212	0.14	266.8	14.0	252.8	2,462	0.15
Zambia	2,810	0.18	339.0	20.0	319.0	3,060	0.19
Zimbabwe	3,325	0.21	401.1	22.4	378.7	3,575	0.22
Total-June 30, 2009 <sup>b</sup>	<u>1,574,315</u>	<u>100.0%</u>	<u>\$189,918</u>	<u>\$11,491</u>	<u>\$178,427</u>	<u>1,620,815</u>	<u>100.00%</u>
Total-June 30, 2008 <sup>b</sup>	<u>1,573,349</u>		<u>\$189,801</u>	<u>\$11,486</u>	<u>\$178,315</u>	<u>1,619,599</u>	

\* Indicates amounts less than 0.005 percent.

## NOTES

a. See Notes to Financial Statements—Note B.

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

c. Republic of Kosovo became the 186th member of IBRD on June 29, 2009.

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

# NOTES TO FINANCIAL STATEMENTS

## PURPOSE AND AFFILIATED ORGANIZATIONS

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

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

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

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from

these estimates. Significant judgments have been used in the valuation of certain financial instruments, the determination of the adequacy of the accumulated provision for losses on loans and guarantees, the determination of net periodic cost from pension and other postretirement benefits plans, and the present value of benefit obligations.

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

On August 5, 2009, the Executive Directors approved these financial statements for issue, which was also the date through which IBRD's management evaluated subsequent events.

***Translation of Currencies:*** IBRD's financial statements are expressed in terms of U.S. dollars for the purpose of summarizing IBRD's financial position and the results of its operations for the convenience of its members and other interested parties.

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

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

***Valuation of Capital Stock:*** In the Articles of Agreement, the capital stock of IBRD is expressed in terms of "U.S. dollars of the weight and fineness in effect on July 1, 1944" (1944 dollars). Following the abolition of gold as a common denominator of the monetary system and the repeal of the provision of the U.S. law defining the par value of the U.S. dollar in terms of gold, the pre-existing basis for translating 1944 dollars into current dollars or into any other currency was eliminated. The Executive Directors of IBRD have decided, until such time as the relevant provisions of the Articles of Agreement are amended, that the words "U.S. dollars of the weight and fineness in effect on July 1, 1944" in

Article II, Section 2(a) of the Articles of Agreement of IBRD are interpreted to mean the Special Drawing Right (SDR) introduced by the International Monetary Fund, as valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being \$1.20635 for one SDR (1974 SDR).

**Maintenance of Value:** Article II, Section 9 of the Articles of Agreement provides for maintenance of the value (MOV), at the time of subscription, of restricted currencies. Maintenance of value amounts are determined by measuring the foreign exchange value of a member's currency against the standard of value of IBRD capital based on the 1974 SDR. Members are required to make payments to IBRD if their currencies depreciate significantly relative to the standard of value. Furthermore, the Executive Directors have adopted a policy of reimbursing members whose currencies appreciate significantly in terms of the standard of value.

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

**Transfers Approved by the Board of Governors:** In accordance with IBRD's Articles of Agreement, as interpreted by the Executive Directors, the Board of Governors may exercise its reserved power to approve transfers to other entities for development purposes. These transfers, referred to as "Board of Governors-approved transfers", are reported as expenses when incurred, upon approval.

**Retained Earnings:** Retained Earnings consist of allocated amounts (Special Reserve, General Reserve, Pension Reserve, Surplus, Cumulative FAS 133 Adjustments and Restricted Retained Earnings) and Unallocated Net Income.

The Special Reserve consists of loan commissions set aside pursuant to Article IV, Section 6 of the Articles of Agreement, which are to be held in liquid assets. These assets may be used only for the purpose of meeting liabilities of IBRD on its borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed by IBRD. The Special Reserve assets are included under Investments— Trading, and comprise obligations of the United States Government, its

agencies, and other official entities. The allocation of such commissions to the Special Reserve was discontinued in 1964 with respect to subsequent loans and no further additions are being made to it.

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

The Pension Reserve consists of the difference between the cumulative actual funding of the Staff Retirement Plan (SRP) and other postretirement benefits plans, and the cumulative accounting income or expense for these plans, from prior fiscal years. This Pension Reserve is reduced when pension accounting expenses exceed the actual funding of these plans.

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

The Cumulative FAS 133 Adjustments consist of the effects associated with the application of FAS 133<sup>a</sup> from prior years. This amount includes the one-time cumulative effect of the adoption of FAS 133, the reclassification and amortization of the transition adjustments, the unrealized gains or losses on non-trading derivatives, and the cumulative effect of the adoption of FAS 155.

Restricted Retained Earnings consist of contributions or income from prior years which are temporarily restricted.

Unallocated Net Income (Loss) consists of the current fiscal year's net income (loss) adjusted for Board of Governors-approved transfers, and the equivalent amount for transfers funded from Surplus.

**Loans:** All of IBRD's loans are made to or guaranteed by members, except loans to IFC. The majority of IBRD's loans have repayment obligations based on specific currencies. IBRD also holds multicurrency loans which have repayment obligations in various currencies determined on the basis of a currency pooling system.

Any loan origination fees incorporated in a loan's terms are deferred and recognized over the life of the loan as an adjustment of yield. However, incremental direct costs associated with originating loans are expensed as incurred, as such amounts are considered insignificant. The unamortized balance

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<sup>a</sup> For the purpose of this document, FAS 133 refers to the Statement of Financial Accounting Standards (FAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by subsequent Standards. FAS 155 refers to the Statement of Financial Accounting Standards (FAS) No. 155, *Accounting For Certain Hybrid Financial Instruments*.

of loan origination fees is included as a reduction of Loans Outstanding on the balance sheet, and the loan origination fee amortization is included in Interest under Income from Loans on the Statement of Income.

It is IBRD's practice not to reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans.

Exceptions were made to this practice during fiscal years 1996 and 2002 with regard to Bosnia and Herzegovina (BiH) and Serbia and Montenegro (SaM), formerly the Federal Republic of Yugoslavia, respectively, in connection with their succession to membership of the former Socialist Federal Republic of Yugoslavia (SFRY). These exceptions were based on criteria approved by the Executive Directors in fiscal year 1996 which limit eligibility for such treatment to a country: (a) that has emerged from a current or former member of IBRD; (b) that is assuming responsibility for a share of the debt of such member; (c) that, because of a major armed conflict in its territory involving extensive destruction of physical assets, has limited creditworthiness for servicing the debt it is assuming; and (d) for which rescheduling/refinancing would result in a significant improvement in its repayment capacity, if appropriate supporting measures are taken. This treatment was based on a precedent established in 1975 after Bangladesh became independent from Pakistan. IBRD does not believe that any other borrowers with loans in nonaccrual status currently meet these eligibility criteria.

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

It is the policy of IBRD to place in nonaccrual status all loans made to or guaranteed by a member of IBRD if principal, interest, or other charges with respect to any such loan are overdue by more than six months, unless IBRD management determines that the overdue amount will be collected in the immediate future. In addition, if development credits made by IDA to a member government are placed in nonaccrual status, all loans made to or guaranteed by that member government will also be placed in nonaccrual status by IBRD. On the date a member's loans are placed into nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have been received by IBRD. If collectibility risk is considered

to be particularly high at the time of arrears clearance, the member's loans may not automatically emerge from nonaccrual status, even though the member's eligibility for new loans may have been restored. In such instances, a decision on the restoration of accrual status is made on a case-by-case basis after a suitable period of payment performance has passed from the time of arrears clearance.

Loans are carried at amortized cost except those which contain embedded derivatives that require bifurcation, which IBRD has elected to measure at fair value.

**Guarantees:** IBRD generally provides guarantees of loans undertaken for, or securities issued in support of, projects located within a member country eligible for IBRD loans, as well as loans undertaken or securities issued by entities eligible for IBRD development policy lending. These financial guarantees are commitments issued by IBRD to guarantee payment performance by a borrower to a third party.

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

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

Guarantee fee income received is deferred and amortized over the life of the guarantee.

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

**Accumulated Provision for Losses on Loans and Guarantees:** Delays in receiving loan payments result in present value losses to IBRD since it does not charge fees or additional interest on any overdue interest or loan charges. These present value losses are equal to the difference between the present value of payments of interest and charges made according to the related loan's contractual

terms and the present value of its expected future cash flows. IBRD has not written off any of its loans.

Management determines the appropriate level of accumulated provisions for losses on loans and guarantees. IBRD's accumulated provision for losses on loans and guarantees reflects the probable losses inherent in its nonaccrual and accrual portfolios. There are several steps required to determine the appropriate level of provisions for each portfolio. First, the total loan portfolio is segregated into the accrual and nonaccrual portfolios. In both portfolios, the exposure for each country (defined as loans outstanding, deferred drawdown options and the present value of guarantees) is then assigned a credit risk rating. With respect to countries with loans in the accrual portfolio, these loans are grouped according to the assigned borrower risk rating. Each risk rating is mapped to an expected default frequency using IBRD's credit migration matrix. The provision required is calculated by multiplying the outstanding exposure, by the expected default frequency (probability of default to IBRD) and by the assumed severity of the loss given default.

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

For loans that are reported at fair value the provisions for losses on loans is included in the fair value amount of these loans, as the determination of the fair values takes credit risk into consideration.

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

**Investments:** Investment securities are classified based on management's intention on the date of purchase, their nature, and IBRD's policies governing the level and use of such investments. At June 30, 2009 and June 30, 2008, all investment securities were held in a trading portfolio. Investment securities and related financial instruments held in IBRD's trading portfolio are carried and reported at fair value. The first-in first-out (FIFO) method is used to determine the cost of securities sold in computing the realized gains and losses on these instruments. Unrealized gains and losses for investment securities and related financial instruments held in the trading portfolio are included in income. Derivative instruments are used in liquidity management to enhance investment returns.

These derivatives are carried at fair value. From time to time, IBRD enters into forward contracts for the sale or purchase of investment securities; these transactions are recorded at the time of commitment.

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

**Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements and Payable for Cash Collateral Received:** Securities purchased under resale agreements, securities lent under securities lending agreements, and securities sold under repurchase agreements are recorded at face value which represents fair value. IBRD receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to IBRD under the repurchase and security lending arrangements and the securities transferred to counterparties under the resale agreements have not met the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on IBRD's Balance Sheet, and securities received under resale agreements are not recorded on IBRD's Balance Sheet.

**Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital:** Payments on some of these instruments are due to IBRD upon demand and are thus carried and reported at face value as assets on the Balance Sheet. Others are due to IBRD on demand but only after the Bank's callable subscribed capital has been entirely called pursuant to Article IV, Section 2 (a) of the Articles of Agreement. These are carried and reported at face value as a reduction to equity. All demand obligations are held in bank accounts which bear IBRD's name.

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

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

**Borrowings:** To ensure funds are available for lending and liquidity purposes, IBRD borrows in the worldwide capital markets offering its securities to private and governmental buyers. IBRD issues debt instruments of varying maturities denominated in various currencies with both fixed and adjustable interest rates.

Effective July 1, 2008, IBRD fair values all its financial instruments in the borrowing portfolio with the changes in fair values accounted for through the Statement of Income. Prior to July 1, 2008, IBRD applied fair value measurement to certain qualifying debt instruments in its borrowings portfolio which were hybrid financial instruments, with the changes in fair value reported in net income, as allowed under Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments* (FAS 155). All other borrowings were reported on the Balance Sheet at amortized cost. Issuance costs associated with a bond offering were deferred and amortized over the period during which the bond was outstanding. For presentation purposes amortization of discounts and premiums is included in Interest under Borrowing Expenses on the Statement of Income.

IBRD uses derivatives in its borrowing and liability management activities. In the borrowing portfolio, derivatives are used to take advantage of cost saving opportunities in non-target currencies in various capital markets. These derivatives are used to modify the interest rate and/or currency characteristics of the borrowing portfolio, and are carried at fair value in accordance with FAS 133. The interest component of these derivatives is recognized as an adjustment to the borrowing cost over the life of the derivative contract and included in Interest under Borrowing Expenses on the Statement of Income.

**Accounting for Derivatives:** IBRD complies with the derivative accounting requirements of FAS 133. FAS 133 requires that derivative instruments, as defined by these standards, be recorded on the

Balance Sheet at fair value with changes in fair values accounted for through the Statement of Income.

**Valuation of Financial Instruments:** Effective July 1, 2008, IBRD adopted Financial Accounting Standards Board's (FASB's) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157) which defines fair value, establishes a consistent framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and expands disclosure requirements about fair value measurements.

IBRD has an established and documented process for determining fair values. Fair value is based upon quoted market prices, where available. Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models. These models primarily use market-based or independently-sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. Selection of these inputs may involve some judgment. To ensure that the valuations are appropriate where internally-developed models are used, IBRD has various controls in place, which include both internal and periodic external verification and review.

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

#### *Investment securities*

As of June 30, 2009 and June 30, 2008, all of IBRD's investment securities were held in a trading portfolio. Where available, quoted market prices are used to determine the fair value of trading securities. Examples include some government securities, mutual funds, futures and exchange-traded equity securities. For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that includes the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads, and prepayment speeds. Unless quoted prices are available, money market instruments are reported at face value which approximates fair value.

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

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

### *Discount notes and plain vanilla bonds*

Discount notes and non-structured bonds are valued using the standard discounted cash flow method which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

### *Structured bonds*

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

### *Derivative contracts*

Derivative contracts include currency forward contracts, plain vanilla swaps and callable swaps linked to interest rates, foreign exchange rates, and equity indices. Plain vanilla swaps are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates and basis spreads. For structured swaps, valuation models and inputs similar to the ones applicable to structured notes valuation apply.

### *Loans*

As of June 30, 2009 and June 30, 2008, there was only one loan with an embedded derivative, which is fair valued on a matrix basis against the related bond.

### **Fair Value Hierarchy**

FAS 157 establishes a three-level fair value hierarchy under which financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is

significant to the fair value measurement of the instrument in its entirety. Thus, a Level 3 fair value measurement of the instrument may include inputs that are observable (Levels 2) and unobservable (Level 3). Additionally, FAS 157 requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

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

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

**Donor Receivables:** Donors' conditional promises to give are not recognized until the conditions to which they are subject are substantially met and the promise to give is considered unconditional. Donors' unconditional promises to give are recognized upon receipt as income, unless the donor specifies a third party beneficiary. In those cases IBRD is deemed to be acting as an intermediary agent and assets held on behalf of the specified beneficiaries are recognized with corresponding liabilities. If the contributions that IBRD receives can only be used for purposes specified by the donor, the proceeds are considered restricted until applied by IBRD for the donor-specified purposes. Donors' promises to give which are expected to be collected within one year are recorded at face value, while promises expected to be collected over a period greater than one year are recorded initially at fair value, with subsequent measurement on an amortized cost basis.

## Accounting and Reporting Developments

On June 30, 2007, IBRD adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS158), which amended certain provisions of FAS 87, FAS 88, FAS 106 and FAS 132(R). As required by FAS 158, IBRD recognized on the Balance Sheet the funded status of its defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. Additionally, IBRD recognized actuarial gains or losses and prior service costs or credits that arose during the period as part of Other Comprehensive Income and has recognized a portion of these as components of net periodic benefit cost based upon the current amortization and recognition requirements of FAS 87 and FAS 106. FAS 158 also eliminated the provisions of FAS 87 and FAS 106 that allowed plan assets and obligations to be measured as of a date not more than three months prior to the reporting entity's balance sheet date. IBRD uses a June 30 measurement date for its pension and other post retirement benefit plans. Therefore, this change had no effect on IBRD's financial statements.

Effective July 1, 2008, IBRD adopted FAS 157. FAS 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. FAS 157 also requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

In conjunction with the adoption of FAS 157, IBRD adopted FASB's Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159) effective July 1, 2008. FAS 159 provides an option for most financial assets and financial liabilities to be reported at fair value with changes in fair value reported in earnings. Under FAS 159's transition provisions, IBRD has elected to report at fair value all financial instruments in the borrowings portfolio previously reported at amortized cost. The financial impact of IBRD's adoption of FAS 159 is discussed further in Note O—Fair Value of Financial Instruments. After the initial adoption, the election is made at the acquisition of a financial asset, or a financial liability and is irrevocable. IBRD's policy from July 1, 2008 onwards is to designate all new financial instruments in the borrowings portfolio at fair value with changes recognized in earnings. Additionally, any other new financial instruments having embedded derivatives that require bifurcation may also be designated at fair value on an instrument-by-instrument basis.

In December 2008, IBRD implemented FASB Staff Position (FSP) FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. The FSP increases disclosure requirements for public companies and is effective for reporting periods (interim and annual) that ended after December 15, 2008. The application of this FSP did not have a material impact on IBRD's June 30, 2009 financial statements.

In December 2008, FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This FSP amends FAS 132 (R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide additional guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. Among other things, this FSP requires employers to annually disclose information about fair value measurements of plan assets that are similar to the disclosures about fair value measurements required by FAS 157. This FSP is first applicable to IBRD's annual financial statements for the fiscal year ending June 30, 2010 and will result in additional disclosures being made in IBRD's financial statements.

Effective March 31, 2009, IBRD adopted FASB's Statement of Financial Accounting Standards No.161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (FAS 161). FAS 161 requires enhanced disclosures about derivative instruments and hedging activities (see Note F—Derivative Instruments).

In April 2009, the FASB issued Staff Position (FSP) FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides guidance for estimating fair value in accordance with FAS 157 when the volume and level of activity for the asset or liability have significantly decreased and on the process for identifying circumstances that a transaction is not orderly. The FSP is applicable prospectively to the financial statements for interim and annual reporting periods ending after June 15, 2009. The application of this FSP did not have a material impact on IBRD's June 30, 2009 financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (FAS 165). This standard establishes principles and requirements for evaluating and reporting subsequent events. In particular, it sets forth; the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential

recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures related to events or transactions occurring after the balance sheet date. The application of this standard resulted in additional disclosures in IBRD's June 30, 2009 financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets*—an amendment of FASB Statement No. 140 (FAS 166). This standard addresses the information that a reporting entity provides in its financial reports about transfers of financial assets including; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred assets. This standard is effective for IBRD's interim and annual reporting periods beginning July 1, 2010. IBRD is currently assessing the impact of this standard on its financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167). This standard amends certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* relating to enterprises involved with variable interest entities. This standard is effective for IBRD's interim and annual reporting periods beginning July 1, 2010. IBRD is currently assessing the impact of this standard on its financial statements.

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

**Capital Stock:** At June 30, 2009, IBRD's capital comprised 1,581,724 authorized shares (1,581,724 shares—June 30, 2008), of which 1,574,315 shares (1,573,349 shares—June 30, 2008) had been subscribed. Each share has a par value of 0.1 million 1974 SDRs, valued at the rate of \$1.20635 per 1974 SDR. Of the subscribed capital, \$11,491 million (\$11,486 million—June 30, 2008) has been paid in, and the remaining \$178,427 million (\$178,315 million—June 30, 2008) is subject to call only when required to meet the obligations of IBRD created by borrowing or guaranteeing loans.

Under IBRD's Articles of Agreement, in the event a member withdraws from IBRD, the withdrawing member is entitled to receive the value of its shares payable to the extent the member does not have any outstanding obligations to IBRD. IBRD's Articles

of Agreement also state that the former member has continuing obligations to IBRD after withdrawal. Specifically, the former member remains fully liable for its entire capital subscription, including both the previously paid-in portion and the callable portion, so long as any part of the loans or guarantees contracted before it ceased to be a member are outstanding.

On June 29, 2009 The Republic of Kosovo became the 186<sup>th</sup> member of IBRD.

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

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

The following table summarizes the deferred amounts to maintain the value of currency holdings classified as a component of equity:

<i>In millions of U.S. dollars</i>		
	<u>2009</u>	<u>2008</u>
Payable (Receivable)		
Net Deferred MOV payable	\$660	\$764
MOV receivable in arrears	(171)	(147)
Deferred demand obligations	(130)	(130)
	<u>\$359</u>	<u>\$487</u>

Net deferred MOV payable relates to restricted currencies invested, swapped, or loaned to members by IBRD or through IFC. These amounts become payable by IBRD on the same terms as other MOV obligations on cash receipt of the settlement from these instruments. MOV receivable in arrears represents receivables for countries that have amounts outstanding for two years or more. Although these amounts are used to reduce equity, IBRD still considers these MOV in arrears as obligations due from the members concerned. Deferred demand obligations relate to notes that are due on demand only after IBRD's callable capital has been entirely called pursuant to Article IV, Section 2 (a) of the Articles of Agreement.

#### **NOTE C—INVESTMENTS**

As part of its overall portfolio management strategy, IBRD invests in government and agency obligations, time deposits, corporate and asset-backed securities, repurchase agreements, securities loans, resale agreements and related financial derivatives including futures, currency swaps (including currency forward contracts), interest rate swaps, options and swaptions.

For equity securities, IBRD may invest in any marketable equity security provided that the security is included in the Russell 3000 Index or MSCI

World, ex-US Index, or similar indices, as well as any other securities or financial instruments (including commingled or mutual funds and Exchange Traded Funds) that are typically used by asset management firms or other financial institutions in portfolios that seek to track all or part of these indices.

For government and agency obligations, IBRD may only invest in obligations issued or unconditionally guaranteed by governments of countries with a minimum credit rating of AA-; however, if such obligations are denominated in the home currency of the issuer, no rating is required. IBRD may only invest in obligations issued by an agency or instrumentality of a government of a member country, a multilateral organization or any other official entity other than the government of a member country, with a minimum credit rating of AA-. For corporate and asset-backed securities, IBRD may only invest in securities with a AAA credit rating.

Time deposits include certificates of deposit, bankers' acceptances and other obligations issued or unconditionally guaranteed by banks or other financial institutions. IBRD may only invest in time deposits issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.

With respect to futures and options, IBRD generally closes out most open positions prior to expiration. Futures are settled on a daily basis. For options, IBRD only invests in exchange-traded options. IBRD does not write uncovered option contracts as part of its investment portfolio strategy.

As of June 30, 2009 there were \$2 million of short sales included in Payable for investment securities purchased on the Balance Sheet (none as of June 30, 2008).

For the fiscal year ended June 30, 2009, IBRD had included \$64 million of unrealized losses in income (unrealized gains of \$99 million—June 30, 2008 and unrealized gains of \$24 million—June 30, 2007).

A summary of IBRD's trading portfolio at June 30, 2009 and June 30, 2008, is as follows:

*In millions of U.S. dollars*

	2009	2008
	<u>Carrying Value</u>	<u>Carrying Value</u>
<b>Investments—Trading</b>		
Equity securities	\$ 640	\$ —
Government and agency obligations	21,234	10,891
Time deposits	15,201	8,866
Asset-backed securities	3,937	5,456
<b>Total</b>	<u>\$41,012</u>	<u>\$25,213</u>

The following table summarizes the currency composition of IBRD's trading portfolio at June 30, 2009 and June 30, 2008:

*In millions of U.S. dollars equivalent*

Currency	2009		2008	
	<u>Carrying Value</u>	<u>Average Repricing (years)<sup>a</sup></u>	<u>Carrying Value</u>	<u>Average Repricing (years)<sup>a</sup></u>
Euro	\$ 7,630	1.03	\$ 4,074	1.34
Japanese yen	11,905	0.69	475	7.63
U.S. dollars	18,995	0.83	18,779	0.98
Others	2,482	0.87	1,885	1.67
<b>Total</b>	<u>\$41,012</u>	<u>0.83</u>	<u>\$25,213</u>	<u>1.21</u>

a. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed.

IBRD manages its investments on a net portfolio basis. The following table summarizes IBRD's net portfolio position as of June 30, 2009 and June 30, 2008:

*In millions of U.S. dollars*

	<i>Carrying Value</i>	
	2009	2008
<b>Investments—Trading</b>	\$41,012	\$25,213
<b>Securities purchased under resale agreements</b>	33	1,385
<b>Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received</b>	(2,323)	(3,147)
<b>Derivative assets</b>		
Currency forward contracts	11,946	1,666
Currency swaps	6,438	4,174
Interest rate swaps	83	17
<b>Total</b>	<u>18,467</u>	<u>5,857</u>
<b>Derivative liabilities</b>		
Currency forward contracts	(12,096)	(1,703)
Currency swaps	(6,702)	(4,530)
Interest rate swaps	(125)	(76)
<b>Total</b>	<u>(18,923)</u>	<u>(6,309)</u>
<b>Cash held in investment portfolio<sup>a</sup></b>	2,306	28
<b>Receivable from investment securities traded</b>	95	11
<b>Payable for investment securities purchased</b>	(2,457)	(30)
<b>Net Investment Portfolio</b>	<u>\$38,210</u>	<u>\$23,008</u>

a. This amount is included in Unrestricted Currencies under Due from Banks on the Balance Sheet.

The following table summarizes the currency composition of IBRD's net investment portfolio after the impact of derivatives at June 30, 2009 and June 30 2008:

*In millions of U.S. dollars equivalent*

	2009		2008	
	<i>Carrying Value</i>	<i>Average Repricing (years)<sup>a</sup></i>	<i>Carrying Value</i>	<i>Average Repricing (years)<sup>a</sup></i>
<b>Currency</b>				
U.S. dollars	\$35,013	0.25	\$21,725	0.12
Others	3,197	0.54	1,283	0.04
<b>Total</b>	<u>\$38,210</u>	<u>0.27</u>	<u>\$23,008</u>	<u>0.11</u>

a. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed.

### Collateral Arrangements

IBRD may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resales) of government and agency obligations, and corporate and asset-backed securities. Transfers of securities by IBRD to counterparties are not

accounted for as sales as the accounting criteria for the treatment as a sale have not been met. These securities must be available to meet IBRD's obligation to counterparties. The following is a summary of the carrying amount of the securities transferred under repurchase or securities lending agreements, and the related liabilities:

*In millions of U.S. dollars*

	June 30, 2009	June 30, 2008	<i>Financial Statement Presentation</i>
Securities transferred under repurchase or securities lending agreements	\$30	\$203	Included under Investments-Trading on the Balance Sheet
Liabilities relating to securities transferred under repurchase or securities lending agreements	\$31	\$202	Included under Securities Sold Under Repurchase Agreements, Securities Lent Under Securities Lending Agreements, and Payable for Cash Collateral Received, on the 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 June 30, 2009, IBRD had received securities with a fair value of \$34 million (\$1,439 million—June 30, 2008). None of these securities had been transferred under repurchase or security lending agreements as of that date (\$107 million—June 30, 2008).

The following is a summary of the collateral received by IBRD as of June 30, 2009 and June 30, 2008.

*In millions of U.S. dollars*

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Collateral received		
Cash	\$2,292	\$ 12
Securities	5,405	5,926
Total collateral received	<u>\$7,697</u>	<u>\$5,938</u>
Collateral permitted to be repledged	\$7,697	\$5,938
Amount of collateral repledged	—	3,455

The \$3,455 million of collateral repledged by IBRD as of June 30, 2008 was transferred under securities lending agreements and IBRD received collateral in the form of liquid securities and cash. The cash collateral received was subsequently invested in money market and other liquid financial instruments, which are included under Investments—Trading and Securities Purchased Under Resale Agreements on

the Balance Sheet. The obligation to return this cash collateral received is included under Securities Sold Under Repurchase Agreements, Securities Lent Under Securities Lending Agreements, and Payable for Cash Collateral Received on the Balance Sheet.

## NOTE D—LOANS AND GUARANTEES

IBRD's loan portfolio includes loans with multicurrency terms, single currency pool terms, variable spread terms

and fixed spread terms. At June 30, 2009 loans with variable spread terms and fixed spread terms, (including special development policy loans), were available for new commitments under the IBRD Flexible Loan (IFL).

A summary of IBRD's outstanding loans by currency and by interest rate characteristics (fixed or adjustable) at June 30, 2009 and June 30, 2008 follows:

*In millions of U.S. dollars equivalent*

	2009										
	Euro		Japanese yen		U.S. dollars		Others		Loans Outstanding		Total
	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	
<b>Multicurrency terms<sup>a</sup></b>											
Amount	\$ 577	\$ 1,442	\$ 527	\$ 1,324	\$ 431	\$ 1,326	\$ 169	\$ 299	\$ 1,704	\$ 4,391	\$ 6,095
Weighted average rate (%) <sup>b</sup>	4.18	6.41	4.09	6.41	4.52	6.59	4.05	6.41	4.23	6.47	5.84
Average Maturity (years)	2.73	2.15	2.75	2.16	2.58	1.66	3.48	2.17	2.77	2.01	2.22
<b>Single currency pool terms</b>											
Amount	\$ —	\$ 481	\$ —	\$ 2	\$ 1,700	\$ 885	\$ —	\$ —	\$ 1,700	\$ 1,368	\$ 3,068
Weighted average rate (%) <sup>b</sup>	—	5.91	—	1.23	3.85	6.10	—	—	3.85	6.03	4.82
Average Maturity (years)	—	1.66	—	0.55	1.96	1.58	—	—	1.96	1.61	1.80
<b>Variable-spread terms</b>											
Amount	\$ 125	\$ 5,047	\$ —	\$ 168	\$ 2,196	\$ 40,504	\$ —	\$ 47	\$ 2,321	\$ 45,766	\$ 48,087
Weighted average rate (%) <sup>b</sup>	4.63	1.90	—	0.97	5.89	1.91	—	1.41	5.82	1.90	2.09
Average Maturity (years)	1.61	6.51	—	3.83	1.63	5.33	—	12.13	1.63	5.46	5.28
<b>Fixed-spread terms<sup>c</sup></b>											
Amount	\$ 3,464	\$ 8,171	\$ 21	\$ 300	\$ 13,339	\$ 21,693	\$ 468	\$ 992	\$ 17,292	\$ 31,156	\$ 48,448
Weighted average rate (%) <sup>b</sup>	5.04	2.44	2.29	1.30	4.35	2.04	7.58	4.98	4.58	2.23	3.07
Average maturity (years)	8.72	9.22	7.51	9.78	7.48	8.42	12.23	15.04	7.86	8.85	8.50
<b>Loans Outstanding</b>											
Amount	\$ 4,166	\$ 15,141	\$ 548	\$ 1,794	\$ 17,666	\$ 64,408	\$ 637	\$ 1,338	\$ 23,017	\$ 82,681	\$ 105,698
Weighted average rate (%) <sup>b</sup>	4.91	2.75	4.03	5.04	4.50	2.11	6.66	5.17	4.62	2.34	2.84
Average Maturity (years)	7.68	7.41	2.94	3.59	6.10	6.24	9.96	12.06	6.42	6.49	6.48
<b>Loans Outstanding</b>											\$ 105,698
Less accumulated provision for loan losses and deferred loan income											2,041
<b>Net loans outstanding</b>											<u>\$ 103,657</u>

Note: For footnotes see following page.

In millions of U.S. dollars equivalent

	2008										
	Euro		Japanese yen		U.S. dollars		Others		Loans Outstanding		Total
	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	
<b>Multicurrency terms<sup>a</sup></b>											
Amount	\$ 458	\$2,666	\$333	\$1,962	\$ 317	\$ 1,964	\$119	\$409	\$1,227	\$ 7,001	\$ 8,228
Weighted average rate (%) <sup>b</sup>	4.84	6.57	4.74	6.57	5.29	6.62	4.41	6.57	4.89	6.58	6.33
Average Maturity (years)	2.12	2.64	2.16	2.64	1.95	2.26	3.85	2.64	2.26	2.53	2.49
<b>Single currency pool terms</b>											
Amount	\$ —	\$ 845	\$ —	\$ 4	\$ 163	\$3,610	\$—	\$ —	\$ 163	\$ 4,459	\$ 4,622
Weighted average rate (%) <sup>b</sup>	—	5.41	—	1.13	4.21	7.04	—	—	4.21	6.73	6.64
Average Maturity (years)	—	1.84	—	0.92	3.04	2.04	—	—	3.04	2.00	2.04
<b>Variable-spread terms</b>											
Amount	\$ 220	\$4,381	\$ —	\$ 150	\$3,195	\$40,106	\$—	\$ 1	\$3,415	\$44,638	\$48,053
Weighted average rate (%) <sup>b</sup>	4.86	5.05	—	1.17	5.99	3.27	—	3.01	5.92	3.44	3.61
Average Maturity (years)	1.84	4.89	—	4.08	1.95	5.09	—	0.98	1.94	5.07	4.84
<b>Fixed-spread terms<sup>d</sup></b>											
Amount	\$4,515	\$6,002	\$ 15	\$ 234	\$6,179	\$20,834	\$281	\$ 87	\$10,990	\$27,157	\$38,147
Weighted average rate (%) <sup>b</sup>	5.16	5.27	2.35	1.53	5.28	3.43	7.43	8.33	5.28	3.83	4.25
Average maturity (years)	9.30	7.47	8.37	10.84	5.91	7.21	6.13	6.81	7.31	7.30	7.30
<b>Loans Outstanding</b>											
Amount	\$5,193	\$13,894	\$348	\$2,350	\$9,854	\$66,514	\$400	\$497	\$15,795	\$83,255	\$99,050
Weighted average rate (%) <sup>b</sup>	5.12	5.46	4.64	5.72	5.50	3.62	6.53	6.87	5.38	4.01	4.23
Average Maturity (years)	8.35	5.39	2.43	3.55	4.45	5.51	5.45	3.37	5.71	5.42	5.47
<b>Loans Outstanding</b>											\$99,050
Less accumulated provision for loan losses and deferred loan income											1,782
<b>Net loans outstanding</b>											<u>\$97,268</u>

a. Includes loans issued prior to 1980, and loans to IFC, in addition to multicurrency pool loans.

b. Excludes effects of any waivers of loan interest.

c. Includes loans at fair value of \$78 million

d. Includes loans at fair value of \$102 million.

The maturity structure of IBRD's loans at June 30, 2009 and June 30, 2008 is as follows:

*In millions of U.S. dollars*

<i>Terms/Rate Type</i>	<i>2009</i>				<i>Total</i>
	<i>July 1, 2009 through</i>	<i>July 1, 2010 through</i>	<i>July 1, 2014 through</i>	<i>Thereafter</i>	
	<i>June 30, 2010</i>	<i>June 30, 2014</i>	<i>June 30, 2019</i>		
Multicurrency terms					
Fixed	\$ 488	\$ 997	\$ 133	\$ 86	\$ 1,704
Adjustable	1,519	2,625	247	—	4,391
Single currency pool terms					
Fixed	582	1,037	81	—	1,700
Adjustable	544	804	20	—	1,368
Variable-spread terms					
Fixed	897	1,406	18	—	2,321
Adjustable	4,789	19,898	15,199	5,880	45,766
Fixed-spread terms <sup>a</sup>					
Fixed	1,025	4,740	7,199	4,328	17,292
Adjustable	1,092	9,148	10,293	10,623	31,156
All Loans					
Fixed	2,992	8,180	7,431	4,414	23,017
Adjustable	7,944	32,475	25,759	16,503	82,681
Total loans outstanding	<u>\$10,936</u>	<u>\$40,655</u>	<u>\$33,190</u>	<u>\$20,917</u>	<u>\$105,698</u>

*a. Includes loans at fair value of \$78 million.*

*In millions of U.S. dollars*

<i>Terms/Rate Type</i>	<i>2008</i>				<i>Total</i>
	<i>July 1, 2008 through</i>	<i>July 1, 2009 through</i>	<i>July 1, 2013 through</i>	<i>Thereafter</i>	
	<i>June 30, 2009</i>	<i>June 30, 2013</i>	<i>June 30, 2018</i>		
Multicurrency terms					
Fixed	\$ 370	\$ 742	\$ 115	\$ —	\$ 1,227
Adjustable	2,033	4,160	708	100	7,001
Single currency pool terms					
Fixed	28	99	36	—	163
Adjustable	1,479	2,747	233	—	4,459
Variable-spread terms					
Fixed	1,081	2,216	118	—	3,415
Adjustable	4,486	20,071	15,870	4,211	44,638
Fixed-spread terms <sup>a</sup>					
Fixed	330	3,351	5,124	2,185	10,990
Adjustable	790	8,542	11,275	6,550	27,157
All Loans					
Fixed	1,809	6,408	5,393	2,185	15,795
Adjustable	8,788	35,520	28,086	10,861	83,255
Total loans outstanding	<u>\$10,597</u>	<u>\$41,928</u>	<u>\$33,479</u>	<u>\$13,046</u>	<u>\$99,050</u>

*a. Includes loans at fair value of \$102 million.*

## Waivers of Loan Charges

Loans signed before May 16, 2007 are eligible for waivers of a portion of loan charges. Loans signed between May 16, 2007 and September 27, 2007 and for which the borrowers elected not to convert the loans to the terms effective September 27, 2007, are also eligible for waivers. Waivers include a portion

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

The reduction in net income for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007 resulting from waivers of loan charges, is summarized below:

*In millions of U.S. dollars*

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest waivers	\$166	\$165	\$152
Commitment charge waivers	89	122	132
Front-end fee waivers	13	9	9
Total	<u>\$268</u>	<u>\$296</u>	<u>\$293</u>

## Guarantees

IBRD has provided partial guarantees of loans syndicated by other financial institutions for projects. In addition, IBRD has provided partial guarantees of securities issued by an entity eligible for IBRD loans, or in support of programs also financed by IBRD through regular loans. IBRD's partial guarantees of such securities are included in the guarantees amount mentioned below.

Guarantees of \$1,713 million were outstanding at June 30, 2009 (\$788 million—June 30, 2008). This amount represents the maximum potential amount of undiscounted future payments that IBRD could be required to make under these guarantees, and is not included in the Balance Sheet. These guarantees have original maturities ranging between 6 months and 17 years, and expire in decreasing amounts through 2024.

At June 30, 2009, liabilities related to IBRD's obligations under guarantees of \$29 million (\$13 million—June 30, 2008), have been included in Accounts payable and miscellaneous liabilities on the Balance Sheet. These include the accumulated provision for guarantee losses of \$5 million (\$6 million—June 30, 2008).

During the fiscal years ended June 30, 2009 and June 30, 2008, no guarantees provided by IBRD were called.

## Overdue Amounts

At June 30, 2009, there were no principal or interest amounts on loans in accrual status, which were overdue by more than three months. The following tables provide a summary of selected financial information related to loans in nonaccrual status as of and for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007:

*In millions of U.S. dollars*

	<u>2009</u>	<u>2008</u>
Recorded investment in nonaccrual loans <sup>a</sup>	\$460	\$464
Accumulated provision for loan losses on nonaccrual loans	230	232
Average recorded investment in nonaccrual loans for the fiscal year <sup>b</sup>	459	875
Overdue amounts of nonaccrual loans:	565	492
Principal	352	313
Interest and charges	213	179

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

b. In the fiscal year 2007, the average recorded investment in nonaccrual loans was \$1,057 million.

*In millions of U.S. dollars*

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest income recognized on loans in nonaccrual status at end of fiscal year	\$ —	\$ —	\$ —
Interest income not recognized as a result of loans being in nonaccrual status	\$34	\$16	\$55

Information relating to the sole borrowing member with loans or guarantees in nonaccrual status at June 30, 2009 follows:

*In millions of U.S. dollars*

<i>Borrower</i>	<i>Principal outstanding</i>	<i>Principal, Interest and Charges overdue</i>	<i>Nonaccrual since</i>
Zimbabwe	\$460	\$565	October 2000

During the fiscal year ended June 30, 2009 there were no loans placed in non accrual status or restored to accrual status.

On April 2, 2008 Côte d'Ivoire cleared all of its overdue principal, interest and charges due to IBRD. The impact of this event on income from loans for the year ended June 30, 2008 was \$90 million of which \$75 million represents income that would have been accrued in previous fiscal years had these loans not been in nonaccrual status.

On December 5, 2007, Liberia cleared all of its outstanding loan principal, interest and charges due to IBRD. The impact of this event on income from loans for the fiscal year ended June 30, 2008 was \$179 million, of which \$176 million represented income that would have been accrued in previous fiscal years had these loans not been in nonaccrual status.

### **Accumulated Provision for Losses on Loans, Guarantees and Deferred Drawdown Options**

IBRD has always eventually collected all contractual principal and interest on its loans. However, IBRD suffers losses resulting from the difference between the discounted present value of payments for interest and charges according to the related loan's contractual terms and the actual cash flows. Certain borrowers have found it difficult to make timely payments for protracted periods, resulting in their loans being placed in nonaccrual status. Several borrowers have emerged from nonaccrual status after a period of time by bringing up-to-date all principal payments and all overdue service payments, including interest and other charges. To recognize the probable losses inherent in its loan and guarantee portfolio, IBRD maintains an accumulated provision for losses on loans, guarantees and deferred drawdown options.

Changes to the accumulated provision for losses on loans and guarantees for the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007 are summarized below:

*In millions of U.S. dollars*

	<i>June 30, 2009</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
<b>Accumulated provision for losses on loans, guarantees and deferred drawdown options (DDO), beginning of the fiscal year</b>	\$1,376	\$1,942	\$2,307
Net increase (decrease) in provision	284	(684)	(405)
Translation adjustment	(18)	118	40
<b>Accumulated provision for losses on loans, guarantees and DDO, end of the fiscal year</b>	<b>\$1,642</b>	<b>\$1,376</b>	<b>\$1,942</b>
<b>Composed of:</b>			
Accumulated provision for loan losses	\$1,632	\$1,370	\$1,932
Accumulated provision for guarantee losses	5	6	10
Accumulated provision for deferred drawdown options	5	—	—
<b>Total</b>	<b>\$1,642</b>	<b>\$1,376</b>	<b>\$1,942</b>

### **Reported as Follows**

	<i>Balance Sheet</i>	<i>Statement of Income</i>
<b>Allowance for Losses on:</b>		
Loans	Accumulated provision for loan losses	Provision for losses on loans and guarantees, increase (decrease)
Guarantees	Accounts payable and miscellaneous liabilities	Provision for losses on loans and guarantees, increase (decrease)
Deferred drawdown option	Accounts payable and miscellaneous liabilities	Provision for losses on loans and guarantees, increase (decrease)

IBRD has endorsed a multilateral initiative for addressing the debt problems of a group of countries, identified as heavily indebted poor countries (HIPC), to ensure that the reform efforts of these countries will not be put at risk by unsustainable external debt burdens. Under this initiative, creditors are to provide debt relief for those countries that have demonstrated good policy performance over an extended period to bring their debt burdens to sustainable levels. In addition, on March 28, 2006, the Executive Directors of IDA approved IDA's participation in the Multilateral Debt Relief Initiative (MDRI). The objective of the MDRI is to provide additional debt relief support to HIPC countries. In determining the adequacy of the accumulated provision for losses on loans and guarantees, IBRD has taken the situation of these countries into consideration, although IBRD has not entered into any commitments to provide debt relief under these initiatives.

### Local Currency Lending to IFC

IBRD has a Local Currency Loan Facility Agreement with IFC which is capped at \$300 million. At June 30, 2009, the loan balance under this facility amounted to \$50 million at an interest rate of 3.96%. This loan is not eligible for interest waivers.

### NOTE E—BORROWINGS

Providing liquidity and minimizing the cost of funds are key objectives to IBRD's overall borrowing strategy. IBRD uses swaps in its borrowing strategy to lower the overall cost of its borrowings. IBRD initiates swap transactions with a list of authorized counterparties all of which are rated single A or above. Credit limits have been established for each counterparty.

The following table summarizes IBRD's borrowings portfolio at June 30, 2009 and June 30, 2008:

*In millions of U.S. dollars*

	2009				2008			
	Principal at Face Value	Net Unamortized (Discount) Premium	Fair value adjustment, losses (gains) <sup>a</sup>	Total	Principal at Face Value	Net Unamortized (Discount) Premium	Fair value adjustment, (gains) losses <sup>a</sup>	Total
Borrowings	\$110,095	\$(955)	\$900	\$110,040	\$90,980	\$(1,071)	\$(2,219)	\$87,690
Currency Swap Agreements (Net)	(4,504)	355	(35)	(4,184)	(7,719)	539	1,719	(5,461)
Interest Rate Swap Agreements (Net) <sup>b, c</sup>	(569)	(77)	(1,643)	(2,289)	(735)	87	(837)	(1,485)
	<u>\$105,022</u>	<u>\$(677)</u>	<u>\$(778)</u>	<u>\$103,567</u>	<u>\$82,526</u>	<u>\$ (445)</u>	<u>\$(1,337)</u>	<u>\$80,744</u>

a. This refers to "Fair value adjustment on non-trading portfolios, net".

b. The negative \$569 million at June 30, 2009 (negative \$735 million-June 30, 2008) represents the net unamortized discount on zero coupon trades.

c. The net unamortized discount of \$77 million at June 30, 2009 (net unamortized premium of \$87 million at June 30, 2008), represents the unamortized premium on non zero coupon trades.

The following tables summarize IBRD's borrowings portfolio by currency and product at June 30, 2009 and June 30, 2008:

### Borrowings, Currency Swap Agreements and Interest Rate Swap Agreements at June 30, 2009

*In millions of U.S. dollars equivalent*

Currency/ Rate type	Borrowings			Currency swap agreements			Interest rate swap agreements <sup>a</sup>			Net currency obligations		
	Amount	WAC <sup>b</sup> (%)	Average maturity (years)	Amount payable (receivable)	WAC <sup>b</sup> (%)	Average maturity (years)	Notional amount payable (receivable)	WAC <sup>b</sup> (%)	Average maturity (years)	Amount payable (receivable)	WAC <sup>b</sup> (%)	Average maturity <sup>c</sup> (years)
<b>Euro</b>												
Fixed	\$ 11,399	5.08	7.13	\$ 1,824 (5,879)	7.69 5.42	5.64 4.99	\$ 2,654 (5,862)	4.89 4.21	12.17 8.34	\$ 15,877 (11,741)	5.35 4.82	7.80 6.66
Adjustable	2,390	5.85	4.60	10,901 (5,200)	1.66 4.40	3.68 6.66	5,616 (2,654)	1.83 2.00	8.47 12.17	18,907 (7,854)	2.24 3.59	5.22 8.52
<b>Japanese yen</b>												
Fixed	1,688	4.89	5.76	1,230 (1,085)	4.52 4.47	2.95 4.40	16 (436)	1.77 1.83	14.06 3.29	2,934 (1,521)	4.72 3.71	4.63 4.08
Adjustable	12,926	2.23	22.63	1,842 (14,182)	1.42 2.08	18.09 22.87	394 (16)	0.75 0.87	3.34 14.06	15,162 (14,198)	2.09 2.08	21.58 22.86
<b>U. S. dollars</b>												
Fixed	38,090	3.65	4.70	2,237 (1,743)	3.58 9.83	2.03 3.29	17,532 (35,647)	4.23 3.53	10.11 4.72	57,859 (37,390)	3.82 3.82	6.24 4.65
Adjustable	12,400	1.08	1.86	50,943 (15,783)	1.22 1.31	8.60 7.14	56,075 (38,241)	1.34 1.43	4.17 6.40	119,418 (54,024)	1.26 1.40	5.82 6.62
<b>Others</b>												
Fixed	29,494	6.51	4.08	4,351 (33,670)	6.86 6.53	5.77 4.28	152 (9)	7.44 9.49	13.31 1.24	33,997 (33,679)	6.56 6.53	4.34 4.28
Adjustable	1,708	2.82	3.51	1,417 (1,707)	5.52 2.81	24.51 3.51	9 (152)	6.44 4.77	1.24 13.31	3,134 (1,859)	4.05 2.97	13.00 4.31
<b>Total<sup>d</sup></b>												
Fixed	80,671	4.92	4.84	9,642 (42,377)	5.96 6.46	4.52 4.34	20,354 (41,954)	4.34 3.61	10.41 5.21	110,667 (84,331)	4.91 5.04	5.83 4.77
Adjustable	29,424	2.07	11.30	65,103 (36,872)	1.39 2.11	8.39 12.95	62,094 (41,063)	1.38 1.48	4.55 6.80	156,621 (77,935)	1.52 1.78	7.42 9.71
<b>Principal at face value</b>	<u>\$110,095</u>			<u>\$ (4,504)</u>			<u>\$ (569)</u>			<u>\$105,022</u>	<u>2.06</u>	<u>6.17</u>

a. Excludes forward-starting swaps (mechanism for managing debt overhang in currency pool products) of \$7,772 million and other unsettled forward trades of \$3,141 million.

b. WAC refers to weighted average cost.

c. At June 30, 2009, the average repricing period of the net currency obligations for adjustable rate borrowings was less than three months.

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

## Borrowings, Currency Swap Agreements and Interest Rate Swap Agreements at June 30, 2008

In millions of U.S. dollars equivalent

Currency/ Rate type	Borrowings			Currency swap agreements			Interest rate swap agreements <sup>a</sup>			Net currency obligations		
	Amount	WAC <sup>b</sup> (%)	Average maturity (years)	Amount payable (receivable)	WAC <sup>b</sup> (%)	Average maturity (years)	Notional amount payable (receivable)	WAC <sup>b</sup> (%)	Average maturity (years)	Amount payable (receivable)	WAC <sup>b</sup> (%)	Average maturity <sup>c</sup> (years)
<b>Euro</b>												
Fixed	\$ 8,141	5.60	6.03	\$ 1,530 (6,928)	7.64 5.28	6.66 5.45	\$ 3,249 (730)	5.02 5.18	9.85 5.21	\$ 12,920 (7,658)	5.70 5.27	7.07 5.43
Adjustable	3,939	4.44	5.77	10,467 (4,678)	4.57 4.50	4.23 5.82	688 (3,249)	4.90 5.17	5.07 9.85	15,094 (7,927)	4.55 4.77	4.67 7.47
<b>Japanese yen</b>												
Fixed	1,939	5.04	5.39	1,086 (1,383)	4.52 4.80	3.91 3.98	10 (337)	1.85 1.81	15.04 4.54	3,035 (1,720)	4.84 4.21	4.89 4.09
Adjustable	11,729	3.90	23.50	1,502 (12,711)	2.03 3.70	18.72 23.58	337 (10)	0.99 0.95	4.54 15.04	13,568 (12,721)	3.62 3.70	22.50 23.57
<b>U. S. dollars</b>												
Fixed	28,131	4.73	4.48	962 (1,535)	9.85 8.82	4.20 3.00	12,339 (26,914)	4.88 4.62	7.52 5.16	41,432 (28,449)	4.89 4.85	5.38 5.04
Adjustable	1,920	4.24	4.58	51,021 (12,297)	2.73 2.84	8.85 6.26	27,404 (13,522)	2.94 3.47	5.10 7.53	80,345 (25,819)	2.84 3.17	7.47 6.92
<b>Others</b>												
Fixed	34,503	6.91	4.37	3,920 (38,371)	6.12 6.80	6.73 4.62	10	9.50	2.24	38,433 (38,371)	6.83 6.80	4.61 4.62
Adjustable	678	9.20	9.12	273 (577)	* 9.19	* 9.11	(10)	10.47	2.24	941 (577)	6.52 9.19	6.55 9.11
<b>Total<sup>d</sup></b>												
Fixed	72,714	5.87	4.62	7,498 (48,217)	6.68 6.59	5.98 4.67	15,608 (27,981)	4.91 4.60	8.00 5.15	95,820 (76,198)	5.78 5.86	5.28 4.85
Adjustable	18,266	4.25	17.15	63,263 (30,263)	3.01 3.58	8.28 13.52	28,419 (16,781)	2.96 3.80	5.10 7.98	109,948 (47,044)	3.20 3.66	8.93 11.55
<b>Principal at face value</b>	<u>\$90,980</u>			<u>\$ (7,719)</u>			<u>\$ (735)</u>			<u>\$ 82,526</u>	<u>3.48</u>	<u>6.98</u>

a. Excludes forward-starting swaps of \$9,306 million (mechanism for managing debt overhang in currency pool products).

b. WAC refers to weighted average cost.

c. At June 30, 2008, the average repricing period of the net currency obligations for adjustable rate borrowings was less than four months.

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

\* Indicates WAC of less than 0.01% or average maturity of less than 0.01 years.

The maturity structure of IBRD's borrowings outstanding at June 30, 2009 and June 30, 2008 is as follows:

In millions of U.S. dollars		In millions of U.S. dollars	
Period	2009	Period	2008
July 1, 2009 through June 30, 2010	\$ 31,138	July 1, 2008 through June 30, 2009	\$25,573
July 1, 2010 through June 30, 2014	27,582	July 1, 2009 through June 30, 2013	29,004
July 1, 2014 through June 30, 2019	10,593	July 1, 2013 through June 30, 2018	14,750
Thereafter	40,782	Thereafter	21,653
Total	<u>\$110,095</u>	Total	<u>\$90,980</u>

## NOTE F— DERIVATIVE INSTRUMENTS

IBRD uses derivative instruments in its investments and borrowings portfolios, and for asset/liability management purposes. It also offers derivatives intermediation services to clients. In applying FAS 133 for the purposes of financial statement reporting, IBRD has elected not to designate any

qualifying hedging relationships. Rather, all derivative instruments, as defined by FAS 133, have been marked to fair value and all changes in fair value have been recognized in net income. While IBRD believes that its hedging strategies achieve its objectives, the application of FAS 133 qualifying hedge criteria would not appropriately reflect IBRD's risk management strategies

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	Enhance returns in target currencies
Borrowings	Currency swaps, Interest rate swaps, Structured swaps	Reduce borrowings costs and manage repricing risks between loans and borrowings
Other assets / liabilities	Currency swaps, Interest rate swaps	Manage currency risk as well as extend the duration of IBRD's equity
Other purposes:		
Client operations	Currency swaps, Interest rate swaps	Assist clients in managing their interest rate and currency risks

IBRD is not required to post collateral under its derivative agreements as long as it maintains a AAA credit rating. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on June 30, 2009 is \$724 million. IBRD has not posted any collateral with these counterparties due to its

AAA credit rating. If the credit-risk related contingent features underlying these agreements were triggered to the extent that IBRD would be required to post collateral on June 30, 2009, the amount of collateral that would need to be posted would be \$184 million.

The following tables provide information on the fair value amounts and the location of the derivative instruments on the Balance Sheet, as well as contract value/notional amounts of those derivative instruments as of June 30, 2009 and June 30, 2008:

### Fair value amounts of derivative instruments on the Balance Sheet

In millions of U.S. dollars

	Derivative assets at Fair Value			Derivative liabilities at Fair Value		
	Balance Sheet Location	June 30, 2009	June 30, 2008	Balance Sheet Location	June 30, 2009	June 30, 2008
<b>Derivatives not designated as hedging instruments under FAS 133</b>						
Options and Futures – Investment – Trading	Other assets	\$ 1	\$ 12	Other liabilities	\$ —	\$ —
Interest rate swaps	Derivative assets at Fair Value	5,579	2,045	Derivative liabilities at Fair Value	1,911	1,021
Currency swaps (including currency forward contracts and structured swaps)	Derivative assets at Fair Value	117,486	100,788	Derivative liabilities at Fair Value	113,731	95,710
<b>Total Derivatives</b>		<b>\$123,066</b>	<b>\$102,845</b>		<b>\$115,642</b>	<b>\$96,731</b>

## Contract value/notional amounts of the derivative instruments:

In millions of U.S. dollars

	June 30, 2009	June 30, 2008
Type of contract		
<b>Investments—Trading</b>		
Interest rate swaps		
Notional principal	\$ 9,389	\$ 6,392
Exchange traded Options and Futures		
Notional long position	636	8,610
Notional short position	65	5,000
<b>Borrowing portfolio</b>		
Interest rate swaps		
Notional principal	93,930	54,068
<b>Client operations</b>		
Interest rate swaps		
Notional principal	5,588	2,972
<b>Other derivatives</b>		
Interest rate swaps		
Notional principal	\$33,800	\$39,885

The following table provides information on the location and amount of gains and losses on non-trading derivatives and their location on the Statement of Income during the fiscal years ended June 30, 2009 and June 30, 2008:

In millions of U.S. dollars

	Income Statement Location	Fiscal Year ended June 30	
		Gains (Losses)	
		2009	2008
Derivatives not designated as hedging instruments under FAS 133, and not held in a trading portfolio <sup>a</sup>			
Interest rate swaps	Fair value adjustment on non-trading portfolios, net	\$2,143	\$424
Currency swaps (including currency forward contracts and structured swaps)	Fair value adjustment on non-trading portfolios, net	2,219	(1,506)
<b>Total</b>		<b>\$4,362</b>	<b>\$(1,082)</b>

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

All of the instruments in IBRD's investment portfolio are held for trading purposes. IBRD's investment portfolio is primarily held for liquidity management purposes, and beginning in the second quarter of the fiscal year ending June 30, 2009, a portion of the portfolio is held for long term income generation purposes. Within the liquidity portfolio, IBRD holds highly rated fixed income securities as well as derivatives. The primary objective of holding this portfolio is to protect the principal amount of these investments and thereby ensure the

availability of sufficient cashflows to meet all of IBRD's financial commitments. In addition, IBRD uses derivatives as part of its liquidity management to enhance investment returns. Within the Long Term Income Portfolio (LTIP), IBRD holds highly rated fixed income securities as well as listed equity securities and derivatives. The primary objective of holding this portfolio is to enhance returns over the long term.

The following table provides information on the location and amount of gains and losses on the Investments – trading related derivatives and their location on the Statement of Income during the fiscal years ended June 30, 2009 and June 30, 2008:

*In millions of U.S. dollars*

<i>Income Statement Location</i>	<i>Fiscal Year ended June 30</i>	
	<i>Investments, net-trading<sup>a</sup>, (losses) gains</i>	
	<i>2009</i>	<i>2008</i>
<b>Type of instrument</b>		
Fixed income	\$(68)	\$(74)
Equity	46	—
<b>Total</b>	<b>\$(22)</b>	<b>\$(74)</b>

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

### **Derivatives for Client Operations**

Included in Derivative Assets and Derivative Liabilities on the Balance Sheet are derivatives with Borrowing Countries, Non-Affiliated and Affiliated Organizations.

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

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

**Affiliated Organizations:** These are derivative contracts executed between IBRD and IDA, under a financial intermediation agreement allowing IBRD to intermediate derivative contracts on behalf of IDA.

The following table provides additional details of IBRD's Derivatives for Client Operations at June 30, 2009 and June 30, 2008 is presented below:

*In millions of U.S. dollars equivalent*

	<i>2009</i>					
	<i>Currency swap agreements</i>		<i>Interest rate swap agreements</i>		<i>Net Derivative Asset/Liability</i>	
	<i>Amount Receivable (payable)</i>	<i>Average Maturity (years)</i>	<i>Notional Amount Receivable (payable)</i>	<i>Average Maturity (years)</i>	<i>Amount Receivable (payable)</i>	<i>Average Maturity (years)</i>
U.S. dollars	\$ 5,116	5.92	\$ 5,171	3.00	\$ 10,287	4.45
	(5,136)	5.93	(5,171)	3.00	(10,307)	4.46
	(20)		—		(20)	
Other	15,720	4.15	417	4.94	16,137	4.17
	(15,696)	4.14	(417)	4.94	(16,113)	4.16
	24		—		24	
Total Receivable	20,836	4.58	5,588	3.15	26,424	4.28
(Payable)	(20,832)	4.58	(5,588)	3.15	(26,420)	4.28
Net unrealized (losses) gains <sup>a</sup>	(110)		114		4	
Total	<u>\$ (106)</u>		<u>\$ 114</u>		<u>\$ 8</u>	

*For footnotes see the table below.*

In millions of U.S. dollars equivalent

	2008					
	Currency swap agreements		Interest rate swap agreements		Net Derivative Asset/Liability	
	Amount Receivable (payable)	Average Maturity (years)	Notional Amount Receivable (payable)	Average Maturity (years)	Amount Receivable (payable)	Average Maturity (years)
U.S. dollars	\$ 4,465 (4,487) (22)	6.15 6.16	\$ 2,545 (2,545) -	3.05 3.05	\$ 7,010 (7,032) (22)	5.02 5.03
Other	18,459 (18,430) 29	4.30 4.29	427 (427) -	5.81 5.81	18,886 (18,857) 29	4.33 4.32
Total Receivable (Payable)	22,924 (22,917)	4.66 4.66	2,972 (2,972)	3.44 3.44	25,896 (25,889)	4.52 4.52
Fair value adjustment, gains (losses) <sup>a</sup>	*		(2)		(1)	
Total	\$ 8		\$ (2)		\$ 6	

a. This refers to "fair value adjustment on non-trading portfolios, net".

\* Indicates amount less than \$0.5 million.

## Other Derivatives

As part of asset/liability management, IBRD has entered into currency and interest rate swap agreements. These primarily comprise interest rate swaps executed during the fiscal year 2008 in connection with IBRD's equity duration extension

strategy, approved by the Board in December 2008, with the objective of reducing the interest rate sensitivity of IBRD's operating income, using a 10-year ladder repricing profile. The following table provides additional details of IBRD's other asset/liability derivatives at June 30, 2009 and June 30, 2008:

In millions of U.S. dollars equivalent

	2009					
	Currency swap agreements		Interest rate swap agreements		Net Derivative Asset/Liability	
	Amount Receivable (payable)	Average Maturity (years)	Notional Amount Receivable (payable)	Average Maturity (years)	Amount Receivable (payable)	Average Maturity (years)
U.S. dollars	\$ — (707)	— 6.69	\$26,124 (26,124)	5.67 5.67	\$26,124 (26,831)	5.67 5.69
Other	778 —	6.74 —	7,676 (7,676)	6.99 6.99	8,454 (7,676)	6.96 6.99
Total Receivable (Payable)	778 (707)	6.74 6.69	33,800 (33,800)	5.97 5.97	34,578 (34,507)	5.98 5.98
Fair value adjustment, gains <sup>a</sup>	21		1,307		1,328	
Total	\$ 92		\$ 1,307		\$ 1,399	

a. This refers to "fair value adjustment on non-trading portfolios, net".

In millions of U.S. dollars equivalent

	2008					
	Currency swap agreements		Interest rate swap agreements		Net Derivative Asset/Liability	
	Amount Receivable (payable)	Average Maturity (years)	Notional Amount Receivable (payable)	Average Maturity (years)	Amount Receivable (payable)	Average Maturity (years)
U.S. dollars	\$ — (561)	— 9.44	\$ 30,287 (30,287)	5.94 5.94	\$ 30,287 (30,848)	5.94 6.01
Other	558 —	9.44 —	9,598 (9,598)	8.30 8.30	10,156 (9,598)	8.37 8.30
Total Receivable (Payable)	558 (561)	9.44 9.44	39,885 (39,885)	6.51 6.51	40,443 (40,446)	6.55 6.55
Fair value adjustment, gains (losses) <sup>a</sup>	5		(400)		(395)	
Total	\$ 2		\$ (400)		\$ (398)	

a. This refers to "fair value adjustment on non-trading portfolios, net".

## NOTE G—CREDIT RISK

**Country Credit Risk:** This risk includes potential losses arising from protracted arrears on payments from borrowers for loans, guarantees or related derivatives. IBRD manages country credit risk through individual country exposure limits according to creditworthiness. These exposure limits are tied to performance on macroeconomic and structural policies. In addition, IBRD establishes absolute limits on the share of outstanding loans to any individual borrower. The country credit risk is further managed by financial incentives such as loan terms that give borrowers self-interest in IBRD's continued strong intermediation capacity. Collectability risk is covered by the accumulated provision for losses on loans and guarantees. IBRD also uses a simulation model to assess the adequacy of its equity including reserves in case a major borrower, or group of borrowers, stops servicing its loans for an extended period of time.

**Commercial Credit Risk:** For the purpose of risk management, IBRD is party to a variety of financial instruments, 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. Credit risk is controlled through 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. For details of the collateral received in connection with swap agreements see Note C—Investments.

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 shown below. 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 as additional transactions are entered into under these agreements. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date.

The credit risk exposure, as applicable, of these financial instruments at June 30, 2009 and June 30, 2008 are given below:

*In millions of U.S. dollars*

<b>CREDIT RISK EXPOSURE</b>	<u>2009</u>	<u>2008</u>
<b>INTEREST RATES SWAPS</b>		
Investments – trading portfolio <sup>a</sup>	\$ 83	\$ 25
Client operations	120	67
Borrowing portfolio	3,692	2,211
Other derivatives	1,609	81
<b>CURRENCY SWAPS</b>		
Investments – trading portfolio <sup>b</sup>	\$ 345	\$ 137
Client operations	989	361
Borrowing portfolio	9,038	10,817
Other derivatives	90	21

*a. Includes swaptions*

*b. Includes currency forward contracts*

## NOTE H—RETAINED EARNINGS, ALLOCATIONS AND TRANSFERS

The changes in the components of Retained Earnings for each of the fiscal periods from June 30, 2006 to June 30, 2009, are summarized below:

*In millions of U.S. dollars*

	<i>Special Reserve</i>	<i>General Reserve</i>	<i>Pension Reserve</i>	<i>Surplus</i>	<i>Cumulative FAS133 Adjustments</i>	<i>Unallocated Net Income (Loss)</i>	<i>Restricted Retained Earnings</i>	<i>Total</i>
<b>As of June 30, 2006</b>	<b>\$293</b>	<b>\$22,912</b>	<b>\$1,023</b>	<b>\$360</b>	<b>\$ 1,933</b>	<b>\$(1,739)</b>	<b>—</b>	<b>\$24,782</b>
Adjustment to beginning balance: Cumulative effect of adoption of FAS 155-Note N	—	—	—	—	3,189	—	—	3,189
Net income allocation <sup>a</sup>	—	1,036	64	140	(3,479)	2,239	—	—
Board of Governors-approved transfers funded from Surplus <sup>b</sup>	—	—	—	(457)	—	457	—	—
Net loss for the year	—	—	—	—	—	(140)	—	(140)
<b>As of June 30, 2007</b>	<b>\$293</b>	<b>\$23,948</b>	<b>\$1,087</b>	<b>\$ 43</b>	<b>\$ 1,643</b>	<b>\$ 817</b>	<b>—</b>	<b>\$27,831</b>
Net income allocation <sup>a</sup>	—	911	51	97	(843)	(216)	—	—
Board of Governors-approved transfers funded from Surplus <sup>b</sup>	—	—	—	(140)	—	140	—	—
Net income for the year	—	—	—	—	—	1,491	—	1,491
<b>As of June 30, 2008</b>	<b>\$293</b>	<b>\$24,859</b>	<b>\$1,138</b>	<b>\$—</b>	<b>\$800</b>	<b>\$ 2,232</b>	<b>—</b>	<b>\$29,322</b>
Adjustment to beginning balance: Cumulative effect of adoption of FAS 159-Note O	—	—	—	—	(2,566)	—	—	(2,566)
Net income allocation <sup>a</sup>	—	811	117	750	(39)	(1,649)	\$10	—
Board of Governors-approved transfers funded from Surplus <sup>b</sup>	—	—	—	(155)	—	155	—	—
Net income for the year	—	—	—	—	—	3,114	—	3,114
<b>As of June 30, 2009</b>	<b>\$293</b>	<b>\$25,670</b>	<b>\$1,255</b>	<b>\$595</b>	<b>\$(1,805)</b>	<b>\$ 3,852</b>	<b>\$10</b>	<b>\$29,870</b>

*a. Amounts retained as Surplus from net income allocation are approved by the Board of Governors.*

*b. A concurrent transfer is made from Surplus to Unallocated Net Income (Loss) for all transfers reported on the Statement of Income and authorized to be funded from Surplus.*

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

On August 7, 2008, the Executive Directors approved the allocation of \$811 million of the net income earned in the fiscal year ended June 30, 2008 to the General Reserve and \$117 million to the Pension Reserve.

On September 9, 2008, IBRD's Board of Governors approved the retention of \$115 million as Surplus from the net income earned in the fiscal year ended June 30, 2008, and the immediate transfer of that

amount to the Food Price Crisis Response Trust Fund.

On October 13, 2008, IBRD's Board of Governors approved the immediate transfer of \$583 million to IDA, an affiliated organization and the retention of \$635 million as Surplus from the net income earned in the fiscal year ended June 30, 2008. Additionally, IBRD's Board of Governors approved the transfer of \$40 million from Surplus, by way of grant, to the Kosovo Sustainable Employment Development Trust Fund.

**Subsequent event:** On July 10, 2009, IBRD's Board of Governors approved the immediate transfer of \$55 million from Surplus to the Trust Fund for Gaza and West Bank.

There were no amounts payable for the transfers approved by the Board of Governors at June 30, 2009 and June 30, 2008. Transfers approved during the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007, are included in the following table.

*In millions of U.S. dollars*

<i>Transfers funded from:</i>	<i>Fiscal Years Ended June 30,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
<b>Unallocated Net Income:</b>			
International Development Association	\$583	\$600	\$500
	<u>583</u>	<u>600</u>	<u>500</u>
<b>Surplus:</b>			
International Development Association	—	—	300
Trust Fund for Gaza and West Bank	—	55	50
Low-Income Countries Under Stress (LICUS) Implementation Trust Fund	—	—	30
Trust Fund for Lebanon	—	—	70
Caribbean Catastrophe Risk Insurance Facility Trust Fund	—	—	10
Food Price Crisis Response Trust Fund	115	85	—
Kosovo Sustainable Development Trust Fund	40	—	—
Residual amount received upon closure of the Trust Fund for the Federal Republic of Yugoslavia	—	—	(3)
	<u>155</u>	<u>140</u>	<u>457</u>
Total	<u>\$738</u>	<u>\$740</u>	<u>\$957</u>

#### **NOTE I—ADMINISTRATIVE EXPENSES, CONTRIBUTIONS TO SPECIAL PROGRAMS, AND OTHER INCOME**

Administrative expenses for the fiscal year ended June 30, 2009 are net of the share of administrative expenses allocated to IDA of \$975 million (\$888 million—June 30, 2008, and \$976 million—June 30, 2007). The administrative expenses allocated to IDA are net of fees received for joint administration of certain external funds by IBRD and IDA (Note J—Management of External Funds and Other Services). The allocation of expenses between IBRD and IDA is based on an agreed cost sharing formula that

reflects the administrative costs of service delivery to countries that are eligible for lending from IBRD and IDA.

Contributions to special programs represent grants for agricultural research, and other developmental activities.

Other income primarily consists of service fee revenue and net income from asset/liability derivatives. For the fiscal year ended June 30, 2009, net income from asset/liability derivatives totaled \$246 million (net of \$10 million—June 30, 2008).

For the fiscal years ended June 30, 2009, June 30, 2008 and June 30, 2007, the amount of fee revenue associated with administrative services is as follows:

*In millions of U.S. dollars*

	2009	2008	2007
Service fee revenue	\$295	\$272	\$261
Included in these amounts are the following:			
Fees charged to IFC	69	56	45
Fees charged to MIGA	8	8	8

At June 30, 2009 and June 30, 2008, IBRD had the following (payables to) receivables from its affiliated organizations with regard to administrative services and pension and other postretirement benefits.

*In millions of U.S. dollars*

	2009			2008		
	Administrative Services	Pension and Other Postretirement Benefits	Total	Administrative Services	Pension and Other Postretirement Benefits	Total
IDA	\$316	\$(1,109)	\$ (793)	\$ 340	\$(1,091)	\$ (751)
IFC	22	(520)	(498)	27	(493)	(466)
MIGA	3	(30)	(27)	2	(27)	(25)
	<u>\$341</u>	<u>\$(1,659)</u>	<u>\$(1,318)</u>	<u>\$369</u>	<u>\$(1,611)</u>	<u>\$(1,242)</u>

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

**Reported as:**

Receivable for Administrative Services	Other Assets – Miscellaneous
Payable for Pension and Other Postretirement Benefits	Accounts payable and miscellaneous liabilities

In addition, IBRD also had amounts receivable from and payable to IDA in connection with derivative transactions relating to the swap intermediation services provided by IBRD to IDA. See Note F—Derivative Instruments for more details.

**NOTE J—MANAGEMENT OF EXTERNAL FUNDS AND OTHER SERVICES**

**Trust Funds**

IBRD, alone or jointly with one or more of its affiliated organizations, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses in accordance with administration agreements with donors. Specified uses could include, for example, co-financing of IBRD lending projects, debt reduction operations, technical assistance including feasibility studies and project preparation, global and regional programs, and research and training programs. These funds are held in trust with IBRD and/or IDA, and are held in a separate investment portfolio which is not commingled with IBRD's funds, nor are they included in the assets of IBRD.

Trust fund execution may be carried out in one of two ways: Recipient-executed or IBRD-executed.

Recipient-executed trust funds involve activities carried out by a recipient third-party “executing agency”. IBRD enters into agreements with and disburses funds to those recipients, who then

exercise spending authority to meet the objectives and comply with terms stipulated in the agreements.

IBRD-executed trust funds involve IBRD execution of activities as described in relevant administration agreements with donors which define the terms and conditions for use of the funds. Spending authority is exercised by IBRD, subject to any restrictions contained in the administration agreements. The executing agency services provided by IBRD vary and include for example, activity preparation, analytical and advisory activities and project-related activities, including procurement of goods and services.

In some trust funds, execution is allocated between Recipient-executed and IBRD-executed portions. Decisions on assignment of funding resources between the two types of execution may be made on an ongoing basis; therefore the execution of a portion of these available resources may not yet be assigned.

IBRD also acts as intermediary to provide specific administrative or financial services with a limited fiduciary or operational role. These arrangements include, for example, administration of debt service trust funds, financial intermediation and other more specialized limited funds management roles. Funds are held and disbursed in accordance with instructions from donors or, in some cases, external governance structure or body operating on behalf of donors.

The cash and investment assets held in trust by IBRD as administrator and trustee at June 30, 2009 and June 30, 2008 are summarized below:

*In millions of U.S dollars*

	<i>Total fiduciary assets</i>	
	<i>2009</i>	<i>2008</i>
IBRD-executed	\$ 466	\$ 409
Recipient-executed	1,365	1,322
Financial intermediary funds	11,345	8,981
Execution not yet assigned <sup>a</sup>	2,634	2,510
<b>Total</b>	<b>\$15,810</b>	<b>\$13,222</b>

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

During the fiscal year ended June 30, 2009, IBRD, as an executing agency, disbursed \$209 million (\$184 million—June 30, 2008) of trust fund program funds.

During the fiscal year ended June 30, 2009, IBRD recognized \$23 million (\$21 million—June 30, 2008 and \$17 million—June 30, 2007) as fees for administering trust funds. These fees have been recorded as Other Income. Fees collected by trust funds from donor contributions but not yet earned by IBRD totaling \$61 million at June 30, 2009 (\$71 million—June 30, 2008) are included in Other Assets (Miscellaneous) and in Accounts payable and miscellaneous liabilities, correspondingly, on the Balance Sheet.

#### **Investment Management Services**

IBRD offers treasury and investment management services to affiliated and non-affiliated organizations. Under these arrangements, IBRD is responsible for managing investment account assets on behalf of these institutions, and in return receives a quarterly fee based on the average value of the portfolios.

In addition, IBRD offers asset management and technical advisory services to central banks of member countries, under the Reserves Advisory and Management Program, for capacity building and other development purposes and receives a fee for these services.

The fee income from all of these investment management activities in the amount of \$18 million (\$14 million—June 30, 2008) is included in service fee revenues described in Note I—Administrative Expenses, Contributions to Special Programs, and Other Income.

At June 30, 2009, the assets managed under these agreements had a value of \$20,054 million (\$17,767 million—June 30, 2008). These funds are not included in the assets of IBRD.

#### **Other Services**

Donors to the Advance Market Commitment for Pneumococcal Vaccines Initiative (AMC) have provided IBRD with commitments to give \$1.5 billion over a ten year period, with GAVI Alliance (GAVI) as the named beneficiary. Some of these grants are payable on specified due dates and are classified as unconditional while others are payable on demand when needed and are classified as conditional for accounting purposes. As of June 30, 2009, the unconditional assets comprise \$212 million in cash and investments, and receivables at a net carrying value of \$550 million. These assets along with the corresponding liabilities are included in the IBRD's Balance Sheet. The assets will be drawn down by GAVI in accordance with the terms of the AMC which require that the funds be used to make payments for qualifying vaccines. In addition, should a donor fail to pay, IBRD has committed to pay the shortfall. For this commitment, IBRD will charge an annual 30 basis point premium on outstanding grant payments not yet paid by AMC donors. IBRD will also charge an annual service fee based on the related administrative and financial management costs incurred to support the program. IBRD will be entitled to collect fees charged from investment income earned on AMC - related investment assets, to the extent earnings have accumulated. Should fees charged exceed investment income earned, one donor has agreed to pay IBRD up to \$13 million of any deficit.

Donor Receivables are reported in Other Assets - Miscellaneous, with the corresponding payables reflected in Accounts payable and miscellaneous liabilities. Fee income recognized from these arrangements is included in Other Income. Amounts recorded for the non-contingent and contingent obligations arising from IBRD's obligation to pay in the event of a donor default are included in Note D—Loans and Guarantees.

## NOTE K—PENSION AND OTHER POSTRETIREMENT BENEFITS

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

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

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

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

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

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for IBRD and IDA for the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007:

*In millions of U.S. dollars*

	SRP			RSBP			PEBP		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
<b>Benefit Cost</b>									
Service cost	\$ 264	\$ 258	\$ 261	\$ 44	\$ 38	\$ 36	\$15	\$14	\$13
Interest cost	697	611	596	104	82	82	28	15	15
Expected return on plan assets	(948)	(943)	(823)	(115)	(112)	(94)	—	—	—
Amortization of prior service cost (credit)	7	7	7	(2)	(2)	(2)	*	*	*
Amortization of unrecognized net loss	—	—	—	21	4	17	20	3	4
Net periodic pension cost (income)	\$ 20	\$ (67)	\$ 41	\$52	\$ 10	\$39	\$64	\$32	\$32
of which:									
IBRD's share	\$ 10	\$ (32)	\$ 18	\$ 25	\$ 5	\$17	\$31	\$15	\$14
IDA's share	\$ 10	\$ (35)	\$ 23	\$ 27	\$ 5	\$22	\$33	\$17	\$18

\*Indicates amount less than \$0.5 million

IDA's share of the net periodic pension income/cost is included as a payable to/receivable from IDA in Accounts payable and miscellaneous liabilities on the Balance Sheet.

The expenses for the SRP, RSBP and PEBP are included in Administrative Expenses. For the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007, expenses (income) for these plans of \$34 million, \$3 million and \$16 million, respectively, were allocated to IFC, and \$(1) million, \$(2) million and \$0.1 million, respectively, were allocated to MIGA.

The following table summarizes the projected benefit obligations, fair value of plan assets, and funded status associated with the SRP, RSBP, and PEBP for IBRD and IDA for the fiscal years ended June 30, 2009, and June 30, 2008. Since the assets for the PEBP are not held in an irrevocable trust separate from the assets of IBRD, they do not qualify for off-balance sheet accounting and are therefore included in IBRD's investment portfolio. The assets of the PEBP are invested in fixed income instruments.

In millions of U.S. dollars

	SRP		RSBP		PEBP	
	2009	2008	2009	2008	2009	2008
<b>Projected Benefit Obligations</b>						
Beginning of year	\$10,561	\$ 9,998	\$1,558	\$1,338	\$ 436	\$ 249
Service cost	264	258	44	38	15	14
Interest cost	697	611	104	82	28	15
Participant contributions	74	72	13	12	*	1
Retiree drug subsidy received	n.a.	n.a.	1	2	n.a.	n.a.
Plan amendment	5	3	—	—	1	*
Benefits paid	(445)	(426)	(54)	(46)	(19)	(22)
Actuarial (gain) loss	(1,549)	45	(233)	132	(66)	179
End of year	9,607	10,561	1,433	1,558	395	436
<b>Fair value of plan assets</b>						
Beginning of year	12,414	12,307	1,396	1,352		
Participant contributions	74	72	13	12		
Actual return on assets	(2,162)	360	(244)	24		
Employer contributions	51	101	55	54		
Benefits paid	(445)	(426)	(54)	(46)		
End of year	9,932	12,414	1,166	1,396		
<b>Funded status</b>	\$ 325	\$ 1,853	\$ (267)	\$ (162)	\$ (395)	\$ (436)
<b>Accumulated Benefit Obligations</b>	\$ 8,003	\$ 8,673	\$ 1,433	\$ 1,558	\$ 356	\$ 402

\*Indicates amount less than \$0.5 million

The \$325 million overfunded status relating to SRP at June 30, 2009 (\$1,853 million—June 30, 2008) is included in Assets under retirement benefits plans on the Balance Sheet. The \$267 million and \$395 million underfunded status relating to RSBP and PEBP, respectively are reported under Liabilities under retirement benefits plans on the Balance Sheet.

Pension and other postretirement benefits attributable to IDA of \$1,659 million (\$1,611 million—June 30, 2008) is included in Accounts payable and miscellaneous liabilities on the Balance Sheet (see Note I—Administrative Expenses, Contributions to Special Program, and Other Income).

The following tables present the amounts included in Accumulated Other Comprehensive Income relating to FAS 158 application:

**Amounts included in Accumulated Other Comprehensive Income in fiscal year ended June 30, 2009:**

In millions of U.S. dollars

	SRP	RSBP	PEBP	Total
Net actuarial loss	\$1,863	\$495	\$137	\$2,495
Prior service cost (credit)	42	(2)	3	43
Net amount recognized in Accumulated Other Comprehensive Income	\$1,905	\$493	\$140	\$2,538

**Amounts included in Accumulated Other Comprehensive Income in fiscal year ended June 30, 2008:**

In millions of U.S. dollars

	SRP	RSBP	PEBP	Total
Net actuarial loss	\$301	\$390	\$223	\$914
Prior service cost (credit)	44	(4)	3	43
Net amount recognized in Accumulated Other Comprehensive Income	\$345	\$386	\$226	\$957

The estimated amounts that will be amortized from Accumulated Other Comprehensive Income into net periodic benefit cost in the fiscal year ending June 30, 2010 are as follows:

*In millions of U.S. dollars*

	<i>SRP</i>	<i>RSBP</i>	<i>PEBP</i>	<i>Total</i>
Net actuarial loss	\$68	\$29	\$11	\$108
Prior service cost (credit)	7	(2)	1	6
Amount estimated to be amortized into net periodic benefit cost	<u>\$75</u>	<u>\$27</u>	<u>\$12</u>	<u>\$114</u>

### Assumptions

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

The expected long-term rate of return for the SRP assets is a weighted average of the expected long-term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real

bond yield, and risk premium/spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end AAA and AA corporate bonds.

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

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007:

### Weighted average assumptions used to determine projected benefit obligation

*In percent*

	<i>SRP</i>			<i>RSBP</i>			<i>PEBP</i>		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Discount rate	7.00	6.75	6.25	7.00	6.75	6.25	7.00	6.75	6.25
Rate of compensation increase	6.70	7.00	6.50				6.70	7.00	6.50
Health care growth rates									
- at end of fiscal year				7.00	7.25	6.80			
Ultimate health care growth rate				4.75	5.50	4.75			
Year in which ultimate rate is reached				2017	2016	2012			

### Weighted average assumptions used to determine net periodic pension cost

*In percent*

	<i>SRP</i>			<i>RSBP</i>			<i>PEBP</i>		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Discount rate	6.75	6.25	6.50	6.75	6.25	6.50	6.75	6.25	6.50
Expected return on plan assets	7.75	7.75	7.75	8.25	8.25	8.25			
Rate of compensation increase	7.00	6.50	6.80				7.00	6.50	6.80
Health care growth rates									
- at end of fiscal year				7.25	6.80	7.60			
Ultimate health care growth rate				5.50	4.75	5.00			
Year in which ultimate rate is reached				2016	2012	2012			

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

*In millions of U.S. dollars*

	<i>One percentage point increase</i>	<i>One percentage point decrease</i>
Effect on total service and interest cost	\$ 36	\$ (27)
Effect on postretirement benefit obligation	267	(211)

### Investment Strategy

The investment policy for the SRP and the RSBP is to optimize the risk-return relationship as appropriate to the respective plan's needs and goals, using a global diversified portfolio of various asset classes. Specifically, the long-term asset allocation is based on an analysis that incorporates expected returns by asset class as well as volatilities and correlations across asset classes and the liability profile of the respective plans, especially in the case of the SRP. This analysis also provides estimates of potential future contributions and future asset and liability balances. In February 2009 the Pension

Finance Committee approved an interim strategic asset allocation (reflected in the table below) for the RSBP based on the asset allocation as of December 2008, pending resumption of work on a detailed strategic asset allocation review after market conditions stabilize in the wake of the recent global financial crisis. Plan assets are managed by external investment managers and monitored by IBRD's pension and endowments department. The pension plan assets are invested in diversified portfolios of public equity, fixed income, and alternative investments.

The following table presents the asset allocation at June 30, 2009 and June 30, 2008 and the respective target allocation by asset category for the SRP and RSRP:

*In percent*

Asset Class	SRP			RSBP		
	<i>Target Allocation 2009 (%)</i>	<i>% of Plan Assets</i>		<i>Target Allocation 2009 (%)</i>	<i>% of Plan Assets</i>	
		2009	2008		2009	2008
Fixed Income	26	37	33	32	34	30
Public Equity	14	16	23	24	23	27
Alternative Investments	60	47	44	44	43	43
Total	100	100	100	100	100	100
Alternative Investments include:						
Private Equity	15%	17.3%	14.8%	22%	23%	20%
Real Estate	12.5	7.5	7.3	6	6	6.1
Hedge Funds & Active Overlay	25	18.4	18.5	16.5	14	16.9
Timber	2.5	0.4	0.2	n.a	n.a	n.a
Infrastructure	2.5	0.7	0.5	n.a	n.a	n.a
Commodities	2.5	2.7	2.6	n.a	n.a	n.a

### Estimated Future Benefits Payments

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at June 30, 2009:

*In millions of U.S. dollars*

	SRP	RSBP		PEBP
		<i>Before Medicare Part D Subsidy</i>	<i>Medicare Part D Subsidy</i>	
July 1, 2009 - June 30, 2010	\$ 505	\$ 44	\$ 1	\$ 28
July 1, 2010 - June 30, 2011	537	49	1	30
July 1, 2011 - June 30, 2012	567	54	1	32
July 1, 2012 - June 30, 2013	594	59	1	33
July 1, 2013 - June 30, 2014	624	64	1	36
July 1, 2014 - June 30, 2019	3,516	409	8	210

### Expected Contributions

IBRD's contribution to the SRP and RSBP varies from year to year, as determined by the Pension Finance Committee, which bases its judgement on the results of annual actuarial valuations of the

assets and liabilities of the SRP and RSBP. The best estimate of the amount of contributions expected to be paid to the SRP and RSBP for IBRD and IDA during the fiscal year beginning July 1, 2009 is \$149 million and \$54 million, respectively.

## NOTE L—SEGMENT REPORTING

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

For the fiscal year ended June 30, 2009, loans to two countries generated in excess of 10 percent of loan income; this amounted to \$394 million and \$398 million respectively. Loan income comprises interest, commitment fees, loan origination fees and prepayment premia, net of waivers.

The following table presents IBRD's loan outstanding balances and associated loan income, by geographic region, as of and for the fiscal years ended June 30, 2009 and June 30, 2008:

*In millions of U.S. dollars*

Region	2009		2008	
	Loan Income	Loans Outstanding	Loan Income	Loans Outstanding
Africa	\$ 25	\$ 997	\$ 317	\$ 1,169
East Asia and Pacific	855	23,574	1,296	23,447
Europe and Central Asia	1,061	28,057	1,386	26,669
Latin America and the Caribbean	1,317	35,880	1,681	31,010
Middle East and North Africa	291	7,435	373	7,509
South Asia	284	9,704	441	9,192
Other <sup>a</sup>	2	51	3	54
Total	<u>\$3,835</u>	<u>\$105,698</u>	<u>\$5,497</u>	<u>\$99,050</u>

a. Represents loans to IFC, an affiliated organization.

## NOTE M—COMPREHENSIVE INCOME

Comprehensive income consists of net income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. For IBRD, comprehensive income comprises the

cumulative effects of a change in accounting principle related to the implementation of FAS 133, currency translation adjustments, pension-related items, and net income. These items are presented in the Statement of Comprehensive Income.

The following tables present the changes in Accumulated Other Comprehensive Income for the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007:

*In millions of U.S. dollars*

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

a. The Cumulative effect of change in accounting principle and subsequent reclassification to net income relates to the adoption of FAS 133 on July 1, 2000.

\* Indicates amount less than \$0.5 million

*In millions of U.S. dollars*

	2008					Total Accumulated Other Comprehensive Income
	Cumulative Translation Adjustment	Cumulative Effect of Change in Accounting Principle <sup>a</sup>	Reclassification <sup>a</sup>	Unrecognized Net Actuarial Gain (Loss) on Benefit Plans	Unrecognized Prior Service (Costs) Credit on Benefit Plans	
Balance, beginning of the fiscal year	\$ 434	\$500	\$(496)	\$ 107	\$(44)	\$ 501
Changes from period activity	792	—	(20)	(1,021)	1	(248)
Balance, end of the fiscal year	<u>\$1,226</u>	<u>\$500</u>	<u>\$(516)</u>	<u>\$ (914)</u>	<u>\$(43)</u>	<u>\$ 253</u>

a. The Cumulative effect of change in accounting principle and subsequent reclassification to net income relates to the adoption of FAS 133 on July 1, 2000.

In millions of U.S. dollars

	2007					
	Cumulative Translation Adjustment	Cumulative Effect of Change in Accounting Principle <sup>a</sup>	Reclassification <sup>a</sup>	Unrecognized Net Actuarial Gain on Benefit Plans	Unrecognized Prior Service Costs on Benefit Plans	Total Accumulated Other Comprehensive Income
Balance, beginning of the fiscal year	\$121	\$500	\$(464)	\$ —	\$ —	\$157
Changes from period activity	313	—	(32)	—	—	281
Adjustment to initially apply FAS158-Note K	—	—	—	107	(44)	63
Balance, end of the fiscal year	<u>\$434</u>	<u>\$500</u>	<u>\$(496)</u>	<u>\$107</u>	<u>\$(44)</u>	<u>\$501</u>

a. The Cumulative effect of change in accounting principle and subsequent reclassification to net income relates to the adoption of FAS 133 on July 1, 2000.

#### NOTE N—FAIR VALUE ADJUSTMENTS ON NON-TRADING PORTFOLIOS, NET

On July 1, 2000, IBRD adopted FAS 133. This standard requires that derivative instruments, as defined by FAS 133, be recorded on the balance sheet at fair value. IBRD has not defined any qualifying hedging relationships under this standard.

Prior to the adoption of FAS 133, the derivative instruments in the borrowing portfolio were recorded using synthetic accounting. The derivative instruments in the investment portfolio were, and continue to be, recorded at fair value in accordance with the requirements of Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Upon adoption of FAS 133, \$500 million was reported in other comprehensive income representing the difference between the carrying value and the fair value of those derivatives that were hedging a cash flow exposure prior to the initial application of FAS 133. This amount is being

reclassified into earnings in the same period or periods in which the hedged forecasted transactions affect earnings.

Any gains or losses on those borrowings for which a fair value exposure was being hedged prior to adoption of FAS 133 were recorded in income at the time of implementation, and were offset by the fair value adjustments on the related derivative instruments. The fair value adjustments on those bonds are being amortized into earnings over the remaining lives of the related bonds, through the Fair value adjustment on non-trading portfolios, net in the Statement of Income.

Effective July 1, 2008, IBRD carries all financial instruments in its borrowings portfolio at fair value, with changes in fair values accounted for through earnings. Prior to this date, only qualifying hybrid debt instruments in the borrowings portfolio were carried at fair value.

The following table reflects the components of the fair value adjustment on non-trading portfolios, net for the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007.

In millions of U.S. dollars

	2009	2008	2007
Fair value adjustments – gains (losses):			
Borrowings	\$(1,068)	\$ 1,042	\$(975)
Non-trading derivatives	4,362	(1,082)	133
Loan	(14)	*	—
<b>Total</b>	<u>\$ 3,280</u>	<u>\$ (40)</u>	<u>\$(842)</u>

\* Indicates amount less than \$0.5 million

During the fiscal year ended June 30, 2009, IBRD experienced deterioration in its credit spreads as a result of the current financial crisis. The estimated financial effect of this deterioration on the fair value of

the debt issued and outstanding as of June 30, 2009 was a net gain of \$2,852 million, determined using observable changes in IBRD's credit spreads.

## NOTE O – FAIR VALUE OF FINANCIAL INSTRUMENTS

### FAS 157 Disclosures

The following table presents IBRD's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

*In millions of U.S. dollars*

	<i>Fair Value Measurements on a Recurring Basis As of June 30, 2009</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>Assets:</b>				
Investments – Trading				
Equity securities	\$ 640	\$ —	\$ —	\$ 640
Government and agency obligations	1,635	19,599	—	21,234
Time deposits	802	14,399	—	15,201
Asset-backed securities	—	3,828	109	3,937
Securities Purchased Under Resale Agreements	33	—	—	33
Loans Outstanding	—	—	78	78
Derivative Assets				
Investments	—	18,467	—	18,467
Client Operations	—	19,559	—	19,559
Borrowings	—	68,281	14,512	82,793
Other assets / liabilities	—	2,246	—	2,246
<b>Total assets at fair value</b>	<b>\$3,110</b>	<b>\$146,379</b>	<b>\$14,699</b>	<b>\$164,188</b>
<b>Liabilities:</b>				
Borrowings	\$ —	\$ 98,969	\$11,071	\$110,040
Securities Sold Under Repurchase Agreements and Securities Lent Under Security Lending Agreements <sup>a</sup>	31	—	—	31
Derivative Liabilities				
Investments	—	18,923	—	18,923
Client Operations	—	19,551	—	19,551
Borrowings	—	61,808	14,513	76,321
Other assets / liabilities	—	847	—	847
<b>Total liabilities at fair value</b>	<b>\$ 31</b>	<b>\$200,098</b>	<b>\$25,584</b>	<b>\$225,713</b>

a. Excludes \$2,292 million relating to payable for cash collateral received.

The following tables provide a summary of changes in the fair value of IBRD's Level 3 financial assets and liabilities during the fiscal year ended June 30, 2009:

*In millions of U.S. dollars*

	<i>Investments – Trading</i>			<i>Loans</i>	<i>Derivatives, net</i>	<i>Borrowings</i>
	<i>Asset backed Securities</i>	<i>Government and Agency Obligations</i>	<i>Total</i>			
Beginning of the fiscal year	\$ 14	\$ 26	\$ 40	\$102	\$(246)	\$(11,378)
Total realized/unrealized gains or (losses) in:						
Net income	(11)	5	(6)	(8)	(216)	979
Other comprehensive income	—	—	—	(16)	546	(646)
Purchases, issuance and settlements, net	(16)	—	(16)	—	240	354
Transfers in (out), net	122	(31)	91	—	(325)	(380)
<b>End of the fiscal year</b>	<b>\$109</b>	<b>\$—</b>	<b>\$109</b>	<b>\$ 78</b>	<b>\$ (1)</b>	<b>\$(11,071)</b>

The following tables provide information on the unrealized gains or losses included in income for the fiscal year ended June 30, 2009, relating to IBRD's Level 3 financial instruments still held at June 30, 2009, as well as where those amounts are included in the Statement of Income.

*In millions of U.S. dollars*

<i>Unrealized (Losses) Gains</i>	<i>Fiscal Year Ended June 30, 2009</i>			
	<i>Investments – Trading</i>	<i>Loans</i>	<i>Derivatives, net</i>	<i>Borrowings</i>
Income				
Investments, net – Trading	\$5	\$ —	\$ —	\$ —
Fair value adjustment on non-trading portfolios, net	—	14	(480)	1,126
Total	<u>\$5</u>	<u>\$14</u>	<u>\$(480)</u>	<u>\$1,126</u>

As of June 30, 2009, IBRD had no assets or liabilities measured at fair value on a non-recurring basis.

#### **Fair Value Option (FAS 159)**

On July 1, 2008, under FAS 159, IBRD elected the fair value option for all of its debt instruments in the borrowings portfolio, resulting in the reporting at fair value of all financial instruments in the borrowings portfolio previously reported at amortized cost, and a write-off of unamortized debt issuance costs. As a result of the adoption of FAS 159, IBRD recorded a transition adjustment of \$2,566 million as a decrease to the opening balance of retained earnings. After the initial adoption, the election is made at the acquisition of a financial asset, or a financial liability and it is irrevocable.

During the fiscal year ended June 30, 2009, net losses totaling \$1,068 million, relating to the borrowings measured at fair value are included in

Fair value adjustment on non-trading portfolios, net in the Statement of Income.

Prior to June 30 2008, IBRD fair valued about 18% of its borrowings portfolio and its entire derivatives portfolio. Commencing July 1, 2008, to eliminate the differences in the various measurement bases of the instruments in the borrowing portfolio, IBRD elected to fair value all the remaining debt instruments in the portfolio. The objective of this election was to report the entire portfolio on the same measurement basis, thereby eliminating the mixed-attribute approach and better reflecting the overall economic position and result of the portfolio.

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

The following table presents information about the financial instruments for which IBRD elected the fair value option and for which a transition adjustment was recorded as of July 1, 2008:

*In millions of U.S. dollars*

	<i>Carrying Value Prior to Adoption</i>	<i>Transition Adjustment to Retained Earnings (Loss)</i>	<i>Carrying Value After Adoption</i>
Borrowings - previously reported at amortized cost, net	\$(74,194)	\$(2,566)	\$(76,760)
<b>Cumulative-effect of the adoption of the Fair Value Option</b>		<u>\$(2,566)</u>	

The following table presents the difference between the aggregate fair value and aggregate contractual principal balance of long-term borrowings:

*In millions of U.S. dollars*

	<i>Fair Value at June 30, 2009</i>	<i>Principal Amount Due Upon Maturity</i>	<i>Difference</i>
Borrowings	<u>\$110,040</u>	<u>\$110,095</u>	<u>\$(55)</u>

## NOTE P—FAIR VALUE DISCLOSURES

The Balance Sheets below present IBRD's estimates of fair value of its assets and liabilities along with their respective carrying amounts as of June 30, 2009 and June 30, 2008.

*In millions of U.S. dollars*

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value*
Due from Banks	\$ 3,044	\$ 3,044	\$ 890	\$ 890
Investments	41,045	41,045	26,598	26,598
Net Loans Outstanding	103,657	101,918	97,268	98,392
Derivative Assets				
Investments	18,467	18,467	5,857	5,857
Client operations	19,559	19,559	20,269	20,269
Borrowings	82,793	82,793	76,098	76,098
Other Asset/Liability	2,246	2,246	609	609
Other Assets	4,609	4,609	5,722	5,722
Total Assets	<u>\$275,420</u>	<u>\$273,681</u>	<u>\$233,311</u>	<u>\$234,435</u>
Borrowings	\$110,040	\$110,022	\$87,402	\$89,946
Derivative Liabilities				
Investments	18,923	18,923	6,309	6,309
Client operations	19,551	19,551	20,263	20,263
Borrowings	76,321	76,321	69,152	69,152
Other Asset/Liability	847	847	1,007	1,007
Other Liabilities	9,701	9,701	7,630	7,630
Total Liabilities	235,383	235,365	191,763	194,307
Paid in Capital Stock	11,491	11,491	11,486	11,486
Retained Earnings and Other Equity	28,546	26,825	30,062	28,642
Total Equity	40,037	38,316	41,548	40,128
Total Liabilities and Equity	<u>\$275,420</u>	<u>\$273,681</u>	<u>\$233,311</u>	<u>\$234,435</u>

\* Except for loans not reported at fair value, which as at June 30, 2008 were on an estimated value (current value) basis.

### Valuation Methods and Assumptions

#### Due from Banks

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

#### Investments

IBRD's investment securities and related financial instruments held in the trading portfolio are carried and reported at fair value. Therefore, for the investment portfolio, no additional adjustment is necessary. Fair value is based on market quotations. Instruments for which market quotations are not readily available have been valued using market-based methodologies and market information. (See Note A—Summary of Significant Accounting and Related Policies).

#### Net Loans Outstanding

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

The fair value of loans is based on a discounted cash flow method. Effective July 1, 2008, IBRD modified

its valuation model for loans to incorporate Credit Default Swap spreads for each borrower. Basis adjustments are applied to market recovery levels to reflect IBRD's recovery experience.

#### Derivatives Receivable and Derivatives Payable

Certain derivatives, as defined by FAS 133, are recorded in the balance sheet at estimated fair value. The fair value is estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on that date. (See Note A—Summary of Significant Accounting and Related Policies).

#### Borrowings

The fair value of borrowings is predominantly based on discounted cash flow techniques using appropriate market yield curves.

#### Other Assets and Other Liabilities

These amounts are generally short-term in nature. Therefore, the carrying value is a reasonable estimate of fair value.