International Bank for Reconstruction and Development

Financial Statements and Internal Control Reports
June 30, 2006

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

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

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

August 7, 2006

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, as such, include amounts based on informed judgments and estimates made by management.

The financial statements have been audited by an independent accounting firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Executive Directors and committees of the Board. Management believes that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditors' report accompanies the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with accounting principles generally accepted in the United States of America. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting, which are subject to scrutiny by management and the internal auditors, and are 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 control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

IBRD assessed its internal control over external financial reporting for financial presentations in conformity with accounting principles generally accepted in the United States of America as of June 30, 2006. 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, 2006. The independent accounting 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 Board of Executive Directors of IBRD has 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 Board of 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 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.

Paul Wolfowitz
President

Vincenzo La Via
Chief Financial Officer

Fayezul H. Choudhury
Vice President and Controller

Charles A. McDonough
Director, Accounting Department

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

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INDEPENDENT ACCOUNTANTS' 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 Controls over External Financial Reporting*, that the International Bank of Reconstruction and Development ("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, 2006, based on the criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO report"). Management is responsible for maintaining effective internal control over external financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations of internal control over external financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the effectiveness of the internal control over external financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that IBRD maintained effective internal control over external financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of June 30, 2006, is fairly stated, in all material respects, based on the criteria established in the COSO report.

Deloitte & Touche LLP

August 7, 2006

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the International Bank for Reconstruction and Development ("IBRD") as of June 30, 2006 and 2005, including the summary statement of loans and the statement of subscriptions to capital stock and voting power as of June 30, 2006, and the related statements of income, comprehensive income, changes in retained earnings, and cash flows for each of the three fiscal years in the period ended June 30, 2006. These financial statements are the responsibility of IBRD's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of IBRD as of June 30, 2006 and 2005, and the results of its operations and its cash flows for each of the three fiscal years in the period ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes A and P to the financial statements, in the fourth quarter of the fiscal year ended June 30, 2006, IBRD changed its method of accounting for certain Board of Governors-approved transfers. In connection with this change, IBRD early adopted Statement of Financial Accounting Standards No. 154 and applied this change retrospectively to the 2005 and 2004 financial statements.

Deloitte & Touche LLP

August 7, 2006

Member of
Deloitte Touche Tohmatsu

BALANCE SHEET

June 30, 2006 and June 30, 2005

Expressed in millions of U.S. dollars

	2006	2005
Assets		
Due from Banks		
Unrestricted currencies	$ 65	$ 505
Currencies subject to restrictions—Note B	693	672
	758	1,177
Investments—Trading—Notes C and G	25,672	26,733
Securities Purchased Under Resale Agreements—Note C	154	711
Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital	1,766	1,836
Receivable from Currency and Interest Rate Swaps		
Investments—Notes C and G	7,525	9,735
Member operations—Notes D and G	87	89
Borrowings—Notes E and G	70,036	75,187
Other Asset/Liability—Notes F and G	835	878
	78,483	85,889
Receivable to Maintain Value of Currency Holdings on Account of Subscribed Capital	40	72
Other Receivables		
Receivable from investment securities traded—Note C	282	13
Accrued income on loans	1,287	1,081
	1,569	1,094
Loans Outstanding (see Summary Statement of Loans, Notes D and G)		
Total loans	137,942	138,145
Less undisbursed balance	34,938	33,744
Loans outstanding	103,004	104,401
Less:		
Accumulated provision for loan losses	2,296	3,009
Deferred loan income	487	482
Net loans outstanding	100,221	100,910
Other Assets		
Unamortized issuance costs of borrowings	344	400
Prepaid pension cost—Note K	2,083	1,931
Premises and equipment (net)	651	719
Miscellaneous	585	536
	3,663	3,586
Total assets	$212,326	$222,008

	2006	2005
Liabilities		
Borrowings—Notes E and G		
Short-term	$ 7,280	$ 3,217
Medium- and long-term	88,555	98,080
	95,835	101,297
Payable for Currency and Interest Rate Swaps		
Investments—Notes C and G	7,960	11,215
Member operations—Notes D and G	84	89
Borrowings—Notes E and G	65,819	65,404
Other Asset/Liability—Notes F and G	1,014	1,034
	74,877	77,742
Payable to Maintain Value of Currency Holdings on Account of Subscribed Capital	90	83
Other Liabilities		
Payable for investment securities purchased—Note C	850	87
Accrued charges on borrowings	2,122	1,726
Payable for Board of Governors-approved transfers—Note H	276	805
Liabilities under other postretirement benefits plans—Note K	174	161
Accounts payable and miscellaneous liabilities—Notes D and K	1,628	1,519
	5,050	4,298
Total liabilities	175,852	183,420
Equity		
Capital Stock (see Statement of Subscriptions to Capital Stock and Voting Power, Note B)		
Authorized capital (1,581,724 shares—June 30, 2006, and June 30, 2005)		
Subscribed capital (1,572,661 shares—June 30, 2006, and June 30, 2005)	189,718	189,718
Less uncalled portion of subscriptions	178,235	178,235
	11,483	11,483
Amounts to Maintain Value of Currency Holdings—Note B	52	46
Retained Earnings (see Statement of Changes in Retained Earnings, Note H)	24,782	27,171
Accumulated Other Comprehensive Income (Loss) —Note M	157	(112)
Total equity	36,474	38,588
Total liabilities and equity	$212,326	$222,008

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

STATEMENT OF INCOME

For the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004

Expressed in millions of U.S. dollars

	2006	2005 As adjusted (Note P)	2004 As adjusted (Note P)
Income			
Loans—Note D			
Interest	$ 4,791	$4,084	$ 4,328
Commitment charges	73	71	75
Investments—Trading—Note C			
Interest	1,067	630	339
Net losses	(10)	(3)	(35)
Other—Notes I and J	267	271	235
Total income	6,188	5,053	4,942
Expenses			
Borrowings—Note E			
Interest	3,836	2,942	2,708
Amortization of issuance and other borrowing costs	105	95	81
Administrative—Notes I, J and K	1,055	1,021	934
Contributions to special programs—Note I	173	173	179
Release of provision for losses on loans and guarantees—Note D	(724)	(502)	(665)
Other	3	4	9
Total expenses	4,448	3,733	3,246
Net income before Board of Governors-approved transfers and net unrealized (losses) gains on non-trading derivative instruments, as required by FAS 133	1,740	1,320	1,696
Board of Governors-approved transfers—Notes H and P	(650)	(642)	(645)
Net unrealized (losses) gains on non-trading derivative instruments, as required by FAS 133—Note N	(3,479)	2,511	(4,100)
Net (loss) income	$ (2,389)	$ 3,189	$ (3,049)

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

Statement of Comprehensive Income

For the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004

Expressed in millions of U.S. dollars

	2006	*2005 As Adjusted (Note P)*	*2004 As Adjusted (Note P)*
Net (loss) income	$(2,389)	$3,189	$(3,049)
Other comprehensive income—Note M			
Reclassification of FAS 133 transition adjustment to net income	(4)	(44)	(2)
Currency translation adjustments	273	(139)	333
Total other comprehensive income (loss)	269	(183)	331
Comprehensive (loss) income	$(2,120)	$3,006	$(2,718)

Statement of Changes in Retained Earnings

For the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004

Expressed in millions of U.S. dollars

	2006	*2005 As Adjusted (Note P)*	*2004 As Adjusted (Note P)*
Retained earnings at beginning of the fiscal year	$27,171	$23,982	$27,031
Net (loss) income for the fiscal year	(2,389)	3,189	(3,049)
Retained earnings at end of the fiscal year	$24,782	$27,171	$23,982

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

STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004

Expressed in millions of U.S. dollars

	2006	2005 As adjusted (Note P)	2004 As adjusted (Note P)
Cash flows from investing activities			
Loans			
Disbursements	$(11,836)	$ (9,679)	$(10,024)
Principal repayments	11,556	12,171	13,903
Principal prepayments	2,068	2,682	4,614
Loan origination fees received	12	11	8
Net cash provided by investing activities	1,800	5,185	8,501
Cash flows from financing activities			
Medium- and long-term borrowings			
New issues	10,086	12,404	12,062
Retirements	(18,404)	(21,875)	(16,325)
Net short-term borrowings	3,904	13	(311)
Net currency and interest rate swaps—Borrowings	104	(698)	(1,109)
New capital subscriptions	—	—	1
Net maintenance of value settlements	98	98	83
Net cash used in financing activities	(4,212)	(10,058)	(5,599)
Cash flows from operating activities			
Net (loss) income	(2,389)	3,189	(3,049)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities			
Net unrealized losses (gains) on non-trading derivative instruments, as required by FAS 133	3,479	(2,511)	4,100
Depreciation and amortization	960	848	757
Release of provision for losses on loans and guarantees	(724)	(502)	(665)
Changes in:			
Investments—Trading	1,114	4,735	(2,459)
Net investment securities traded/purchased—Trading	482	(142)	(863)
Net currency and interest rate swaps—Investments	(1,089)	(622)	(558)
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	558	129	(781)
Accrued income on loans	(204)	(160)	343
Miscellaneous assets	(72)	(56)	(136)
Payable for Board of Governors-approved transfers	(524)	(958)	228
Accrued charges on borrowings	394	261	(181)
Accounts payable and miscellaneous liabilities	(8)	45	(14)
Net cash provided by (used in) operating activities	1,977	4,256	(3,278)
Effect of exchange rate changes on unrestricted cash	(5)	(16)	255
Net decrease in unrestricted cash	(440)	(633)	(121)
Unrestricted cash at beginning of the fiscal year	505	1,138	1,259
Unrestricted cash at end of the fiscal year	$ 65	$ 505	$ 1,138

	2006	2005 As adjusted (Note P)	2004 As adjusted (Note P)
Supplemental disclosure			
Increase (decrease) in ending balances resulting from exchange rate fluctuations			
Loans outstanding	$ 344	$ (78)	$ 1,778
Investments—Trading	53	322	771
Borrowings	(1,623)	1,378	4,095
Currency and interest rate swaps—Investments	(44)	(294)	(805)
Currency and interest rate swaps—Borrowings	1,838	(1,435)	(2,866)
Capitalized loan origination fees included in total loans	47	43	85

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

Summary Statement of Loans

June 30, 2006

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total loans*	*Loans approved but not yet effective* [a]	*Undisbursed balance of effective loans*[b]	*Loans outstanding*	*Percentage of total loans outstanding*
Algeria	$ 170	$ —	$ 49	$ 121	0.12%
Argentina	8,722	1,208	899	6,615	6.42
Armenia	6	—	—	6	0.01
Azerbaijan	248	200	48	*	*
Barbados	18	—	4	14	0.01
Belarus	114	50	10	54	0.05
Belize	33	—	—	33	0.03
Bolivia	15	—	15	*	*
Bosnia and Herzegovina	475	—	—	475	0.46
Botswana	2	—	—	2	*
Brazil	12,294	1,202	1,577	9,515	9.24
Bulgaria	1,389	—	110	1,279	1.24
Cameroon	73	—	—	73	0.07
Chad	33	—	—	33	0.03
Chile	466	—	141	325	0.32
China	16,432	974	4,237	11,221	10.89
Colombia	4,821	80	766	3,975	3.86
Costa Rica	130	60	14	56	0.05
Côte d'Ivoire	448	—	—	448	0.43
Croatia	1,450	62	386	1,002	0.97
Cyprus	1	—	—	1	*
Czech Republic	19	—	—	19	0.02
Dominica	4	—	—	4	*
Dominican Republic	667	175	96	396	0.38
Ecuador	950	150	24	776	0.75
Egypt, Arab Republic of	1,778	780	489	509	0.49
El Salvador	828	250	147	431	0.42
Estonia	37	—	—	37	0.04
Fiji	5	—	—	5	0.01
Gabon	64	40	1	23	0.02
Grenada	22	—	12	10	0.01
Guatemala	850	79	189	582	0.56
Hungary	163	—	9	154	0.15
India	9,928	616	3,660	5,652	5.49
Indonesia	8,589	—	1,038	7,551	7.33
Iran, Islamic Republic of	1,487	—	1,081	406	0.39
Jamaica	464	—	64	400	0.39
Jordan	1,048	—	140	908	0.88
Kazakhstan	881	54	260	567	0.55
Korea, Republic of	2,852	—	—	2,852	2.77
Latvia	106	—	*	106	0.1
Lebanon	558	—	193	365	0.35
Lesotho	25	—	14	11	0.01
Liberia	150	—	—	150	0.15
Lithuania	89	—	11	78	0.08
Macedonia, former Yugoslav Republic of	354	13	91	250	0.24
Malaysia	486	—	—	486	0.47
Mauritius	68	—	4	64	0.06
Mexico	10,990	766	1,051	9,173	8.91
Moldova	157	—	—	157	0.15
Morocco	2,750	187	371	2,192	2.13
Nigeria	632	—	—	632	0.61
Pakistan	2,598	—	351	2,247	2.18
Panama	249	—	53	196	0.19
Papua New Guinea	275	—	28	247	0.24

Borrower or guarantor	Total loans	Loans approved but not yet effective [a]	Undisbursed balance of effective loans[b]	Loans outstanding	Percentage of total loans outstanding
Paraguay	$ 297	$ 45	$ 29	$ 223	0.22%
Peru	3,071	75	271	2,725	2.65
Philippines	3,674	411	472	2,791	2.71
Poland	2,176	188	166	1,822	1.77
Romania	3,719	59	1,190	2,470	2.4
Russian Federation	6,187	50	1,281	4,856	4.71
St. Kitts and Nevis	22	—	8	14	0.01
St. Lucia	28	—	18	10	0.01
St. Vincent and the Grenadines	12	—	9	3	*
Serbia and Montenegro[e]	2,571	—	—	2,571	2.5
Seychelles	2	—	—	2	*
Slovak Republic	365	—	52	313	0.3
Slovenia	48	—	—	48	0.05
South Africa	37	—	7	30	0.03
Swaziland	23	—	—	23	0.02
Thailand	381	—	28	353	0.34
Trinidad and Tobago	68	—	17	51	0.05
Tunisia	2,081	77	416	1,588	1.54
Turkey	10,522	1,081	3,209	6,232	6.05
Turkmenistan	28	—	—	28	0.03
Ukraine	3,246	150	713	2,383	2.31
Uruguay	922	—	232	690	0.67
Uzbekistan	388	—	75	313	0.3
Venezuela, República Bolivariana de	88	—	30	58	0.06
Zimbabwe	443	—	*	442	0.43
Subtotal[f]	$137,862	$9,082	$25,856	$102,924	99.92
Caribbean Development Bank[c]	*	—	—	*	*
International Finance Corporation[d]	80	—	—	80	0.08
Total—June 30, 2006	$137,942	$9,082	$25,856	$103,004	100.00%
Total—June 30, 2005	$138,145	$9,822	$23,922	$104,401	

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

NOTES

a. Loans totaling $5,593 million ($7,345 million—June 30, 2005) have been approved by IBRD, but the related agreements have not been signed. Loan agreements totaling $3,489 million ($2,477 million—June 30, 2005) 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.

b. Of the undisbursed balance, IBRD has entered into irrevocable commitments to disburse $387 million ($466 million—June 30, 2005).

c. These loans are for the benefit of The Bahamas, Barbados, Grenada, Guyana, Jamaica, Trinidad and Tobago, and territories of the United Kingdom (Associated States and Dependencies) in the Caribbean Region, that are severally liable as guarantors to the extent of sub-loans made in their territories.

d. Loans outstanding to the International Finance Corporation have a weighted average interest rate of 4.89% and a weighted average maturity of 5.51 years. These loans are not eligible for IBRD's interest waivers.

e. Montenegro declared independance from Serbia on June 3, 2006 (Note B).

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

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

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

June 30, 2006

Expressed in millions of U.S. dollars

	Subscriptions					Voting Power	
Member	Shares	Percentage of total	Total amounts	Amounts paid in[a]	Amounts subject to call[a,c]	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	1.56	2,951.2	181.8	2,769.5	24,714	1.53
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	0.32
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	1.81
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	0.05
Bolivia	1,785	0.11	215.3	10.8	204.5	2,035	0.13
Bosnia and Herzegovina	549	0.03	66.2	5.8	60.4	799	0.05
Botswana	615	0.04	74.2	2.0	72.2	865	0.05
Brazil	33,287	2.12	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	0.41
Denmark	13,451	0.86	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, 2006

Expressed in millions of U.S. dollars

Member	Subscriptions					Voting Power	
	Shares	Percentage of total	Total amounts	Amounts paid in[a]	Amounts subject to call[a,c]	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	4.49
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	0.06
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	1.51	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	0.34	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	8.08	15,320.6	944.0	14,376.7	127,250	7.86
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	1.01	1,908.1	114.5	1,793.5	16,067	0.99
Kuwait	13,280	0.84	1,602.0	97.4	1,504.6	13,530	0.84
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

	Subscriptions					Voting Power	
Member	Shares	Percentage of total	Total amounts	Amounts paid in[a]	Amounts subject to call[a,c]	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	1.20	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
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	0.44	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	0.26	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 Principe	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 and Montenegro[b]	2,846	0.18	343.3	21.5	321.9	3,096	0.19

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

June 30, 2006

Expressed in millions of U.S. dollars

	Subscriptions					Voting Power	
Member	*Shares*	*Percentage of total*	*Total amounts*	*Amounts paid in*[a]	*Amounts subject to call*[a,c]	*Number of votes*	*Percentage of total*
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
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	1.75
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	16.85	31,964.5	1,998.4	29,966.2	265,219	16.39
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, 2006[c]	1,572,661	100.00%	$189,718	$11,483	$178,235	1,618,661	100.00%
Total—June 30, 2005	1,572,661		$189,718	$11,483	$178,235	1,618,661	

** Indicates amounts less than 0.005 percent.*

NOTES

a. See Notes to Financial Statements—Note B.

b. Montenegro declared independence from Serbia on June 3, 2006 (Note B).

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

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

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 affiliates are disclosed in the notes that follow. IDA's main goal is to reduce poverty through promoting sustainable economic development in the less developed areas of the world included in IDA's membership by providing a combination of grants and financing on concessionary terms. 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.

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). Effective July 1, 2005, IBRD ceased preparing financial statements in accordance with International Financial Reporting Standards (IFRS). This action was taken in order to allow IBRD to evaluate the Amendment to International Accounting Standard No. 39, *Financial Instruments: Recognition and Measurement, The Fair Value Option,* issued in June 2005, and in particular, to examine whether refinements to its loan valuation model would permit application of the fair value option to such financial assets.

The preparation of financial statements in conformity with generally accepted accounting principles 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 income 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 7, 2006, the Executive Directors approved these financial statements for issue.

Translation of Currencies: IBRD's financial statements are expressed in terms of U.S. dollars solely 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 charged or credited to 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 disappeared. The Executive Directors of IBRD have decided, until such time as the relevant provisions of the Articles of Agreement are amended, that the words "U.S. dollars of the weight and fineness in effect on July 1, 1944" in Article II, Section 2(a) of the Articles of Agreement of IBRD are interpreted to mean the Special Drawing Right (SDR) introduced by the International Monetary Fund, as valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being $1.20635 for one SDR (1974 SDR).

Maintenance of Value: Article II, Section 9 of the Articles of Agreement provides for maintenance of the value (MOV), at the time of subscription, of restricted currencies (see Note B). 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 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 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, 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 on the Statement of Income in the year of approval (See Note P). The transfers may be funded from prior year's Unallocated Net Income or Surplus. If the transfer is funded from Surplus, there is a concurrent transfer from Surplus to the current year's Unallocated Net Income (Loss) within Retained Earnings in an amount equivalent to the expense recognized.

Retained Earnings: Retained Earnings consists of allocated amounts (Special Reserve, General Reserve, Pension Reserve, Surplus and Cumulative FAS 133 Adjustments) 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[a] from prior years. At June 30, 2006, this amount includes the one-time cumulative effect of the adoption of FAS 133 on July 1, 2000, the reclassification and amortization of the transition adjustments for prior fiscal years, and the unrealized gains or losses on certain derivative instruments, as defined by FAS 133, for prior fiscal years.

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

a. 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.

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 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 income statement.

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. In exceptional cases, however, such as when implementation of a financed project has been delayed, the loan amortization schedule may be modified to avoid substantial repayments prior to project completion.

In addition, during fiscal years 1996 and 2002, exceptions were made to that practice 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). One component of the financial assistance packages for BiH and SaM was a plan for the clearance of arrears under all loans to the former SFRY for which they undertook responsibility. Under the arrears clearance plans, the accumulated arrears on loans to the former SFRY which were assumed by BiH and SaM were cleared through the issuance of new loans extended by IBRD. IBRD's treatment of BiH and SaM was based on criteria approved by the Executive Directors in connection with the financial assistance package for BiH in fiscal year 1996. These criteria 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.

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.

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.

For guarantees issued or modified after December 31, 2002, in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others*, 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 plus 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.

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, 2006 and June 30, 2005, 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 take advantage of profitable trading opportunities. 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.

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 historical cost. 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 these instruments are due to IBRD upon demand and are held in bank accounts which bear IBRD's name. Accordingly, these instruments are carried and reported at face value as assets on the balance sheet.

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 short-term and medium- and long-term debt instruments denominated in various currencies with both fixed and adjustable interest rates. Borrowings are carried on the balance sheet at their par value (face value), adjusted for any unamortized premiums or discounts, and include adjustments for embedded derivatives and fair value hedges that existed at June 30, 2000, as required by FAS 133. Issuance costs associated with a bond offering are deferred and amortized over the period during which the related indebtedness is outstanding. Amortization of discounts and premiums is included in Interest under Borrowing Expenses on the income statement.

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 income statement.

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.

IBRD uses derivative instruments in its investments, loans and borrowings portfolios and for asset/liability management purposes. In applying FAS 133 for the purposes of financial statement reporting, IBRD has elected not to define 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 make fully evident the risk management strategies that IBRD employs.

Valuation of Financial Instruments: Derivative financial instruments and investment securities are recorded in IBRD's financial statements at fair value. Disclosures related to the fair value of these, and other financial instruments are included in Note O. Fair value is based on market quotations when possible. Financial instruments for which market quotations are not readily available have been valued based on discounted cash flow models using market estimates of cash flows and discount rates. All the financial models used for valuing IBRD's financial instruments are subject to both internal and periodic external verification and review. These models use market sourced inputs such as interest rates, exchange rates, and volatilities. Selection of these inputs may involve some judgement, as does estimating prices when no external parameters exist.

Accounting for Grant Expenses: IBRD recognizes an expense for grants, such as Contributions to Special Programs, and Board of Governors-approved transfers, when the obligation has been incurred. In instances where the recipient organization is deemed, in accordance with generally accepted accounting principles, to be controlled by IBRD, only those amounts which have been expended by the recipient organization are recognized as an expense; any remainder is deferred.

Accounting and Reporting Developments: In the fourth quarter of the fiscal year ended June 30, 2006, IBRD adopted a voluntary change in accounting principle for certain Board of Governors-approved transfers on the basis of preferability. At the same time, IBRD early adopted FAS No. 154, *Accounting Changes and Error Corrections* (FAS 154), and retrospectively applied this change in accounting principle (See Note P). FAS 154 requires that, in the absence of specific transitional provisions applying to a change in accounting policy (including adoption of a new standard), any such change should be applied retrospectively.

On July 1, 2005, IBRD adopted Financial Accounting Standards Board (FASB) Interpretation No. 46 (R), *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51*

(FIN 46(R)). The adoption of FIN 46(R), together with its related final FASB Staff Positions did not have a material impact on IBRD's financial statements.

In February 2006, the FASB issued FAS No. 155, *Accounting for Certain Hybrid Financial Instruments.* This standard is effective for annual periods beginning on or after September 15, 2006. IBRD is 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, 2006, IBRD's capital comprised 1,581,724 authorized shares (1,581,724 shares—June 30, 2005), of which 1,572,661 shares (1,572,661 shares—June 30, 2005) 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, $11,483 million ($11,483 million—June 30, 2005) has been paid in, and the remaining $178,235 million ($178,235 million—June 30, 2005) 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.

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.

Maintenance of Value: As of June 30, 2006, IBRD had positive $52 million (positive $46 million—June 30, 2005) of net MOV amounts classified as a component of equity. Of this amount, IBRD had a net MOV payable of $177 million ($205 million—June 30, 2005) relating to restricted currencies out on loan, invested, swapped, or loaned to the member by IBRD or through IFC, which become payable by IBRD on the same terms as other MOV obligations only after such currencies are repaid to IBRD. The remaining amount is a net MOV receivable of $125 million ($159 million—June 30, 2005), representing receivables for countries that have amounts in arrears for two years or more. IBRD still considers these MOV receivables in arrears as obligations due from the members concerned.

Subsequent Event

On July 10, 2006, IBRD received a joint communication from both the Republic of Serbia and the Republic of Montenegro stating that the two republics had signed an agreement regarding the regulation of membership in international financial institutions and the allocation of financial assets and liabilities between the two republics. Under this agreement, the Republic of Serbia will continue the membership of SaM in IBRD, retaining SaM's present subscription and voting power, with all rights and obligations stemming from membership in IBRD. In addition, the Bank has taken note of the agreement between the two republics on their respective portions of the financial obligations formerly undertaken by SaM with IBRD.

IBRD has accepted the Republic of Serbia as the continuation of its member SaM, with all the rights and obligations arising from SaM's membership, and with no change in capital subscriptions. On July 17, 2006, the Government of the Republic of Montenegro submitted its application for membership in IBRD.

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 and options.

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, 2006 and June 30, 2005 there were no short sales included in Payable for Investment Securities Purchased on the balance sheet.

As of June 30, 2006, IBRD had received $154 million ($713 million—June 30, 2005) of securities under resale agreements. None of these securities had been transferred under repurchase or security lending agreements as of June 30, 2006 or June 30, 2005.

For the fiscal year ended June 30, 2006, IBRD had included $4 million of unrealized gains in income (unrealized gains of $3 million—June 30, 2005 and unrealized gains of $54 million—June 30, 2004).

A summary of IBRD's trading portfolio at June 30, 2006 and June 30, 2005, is as follows:

In millions of U.S. dollars

	2006	2005
	Carrying Value	Carrying Value
Investments—Trading		
Government and agency obligations	$ 8,163	$ 9,017
Time deposits	13,473	13,058
Asset-backed securities	4,036	4,658
Total	$25,672	$26,733

The following table summarizes the currency composition of IBRD's trading portfolio at June 30, 2006 and June 30, 2005:

In millions of U.S. dollars equivalent

	2006			2005		
Currency	Carrying Value	Average Yield (%)	Average Repricing (years)[a]	Carrying Value	Average Yield (%)	Average Repricing (years)[a]
Euro	$ 4,451	3.63	2.56	$ 7,971	2.21	0.76
Japanese yen	3,012	0.27	0.20	439	0.11	0.97
U.S. dollars	16,658	5.34	0.56	16,264	3.43	0.30
Others	1,551	4.62	1.18	2,059	3.95	0.12
Total	$25,672	4.40	0.90	$26,733	3.05	0.44

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, 2006 and June 30, 2005:

In millions of U.S. dollars

	Carrying Value	
	2006	*2005*
Investments—Trading	$ 25,672	$ 26,733
Securities purchased under resale agreements	154	711
Receivable from currency and interest rate swaps		
Currency forward contracts	2,934	3,039
Currency swaps	4,524	6,664
Interest rate swaps	67	32
Total	7,525	9,735
Payable for currency and interest rate swaps		
Currency forward contracts	(2,901)	(2,961)
Currency swaps	(5,045)	(8,212)
Interest rate swaps	(14)	(42)
Total	(7,960)	(11,215)
Cash held in investment portfolio[a]	31	476
Receivable from investment securities traded	282	13
Payable for investment securities traded	(850)	(87)
Net Investment Portfolio	$ 24,854	$ 26,366

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 at June 30, 2006 and June 30 2005:

In millions of U.S. dollars equivalent

	2006			*2005*		
Currency	*Carrying Value*	*Average Yield (%)*	*Average Repricing (years)[a]*	*Carrying Value*	*Average Yield (%)*	*Average Repricing (years)[a]*
U.S. dollars	$23,054	5.30	0.12	$25,040	3.37	0.17
Others	1,800	2.43	1.23	1,326	1.55	0.07
Total	$24,854	5.09	0.20	$26,366	3.27	0.17

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.*

NOTE D—LOANS, GUARANTEES AND DERIVATIVES FOR BORROWERS

IBRD's loan portfolio includes multicurrency loans, single currency pool loans, single currency loans and fixed spread loans. Single currency loans (variable spread loans and fixed-rate single currency loans), and fixed spread loans, include special development policy loans. At June 30, 2006 only variable spread loans and fixed spread loans, including special development policy loans, were available for new commitments.

Waivers of Loan Charges

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

A summary of waivers of loan charges for the fiscal years ended June 30, 2006 (FY2006) and June 30, 2005 (FY2005), is as follows:

Basis points

	Since FY	FY2006	FY2005
Interest waivers			
Old loans[a]	1992	5	5
New loans[b]	1999	25	25
Commitment charge waivers	1990	50	50
Front-end fee waivers[c]	2005	75[d]	50

a. *Loans for which the invitation to negotiate was issued prior to July 31, 1998.*

b. *Loans for which the invitation to negotiate was issued on or after July 31, 1998.*

c. *On all loans other than special development policy loans.*

d. *Applicable to loans presented to the Board between July 1, 2005 and the date on which the Board approves a front end fee waiver for the fiscal year ending June 30, 2007.*

The reduction in net income for the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004 resulting from waivers of loan charges, is summarized below:

In millions of U.S. dollars

	2006	2005	2004
Interest waivers	$138	$125	$112
Commitment charge waivers	128	125	133
Front-end fee waivers	2	1	*
Total	$268	$251	$245

* *Indicates amounts less than $0.5 million*

A summary of IBRD's outstanding loans by currency and by interest rate characteristics (fixed or adjustable) at June 30, 2006 and June 30, 2005 follows:

In millions of U.S. dollars equivalent

	2006										
	Euro		*Japanese yen*		*U.S. dollars*		*Others*		*Loans Outstanding*		
	Fixed	*Adjust.*	*Fixed*	*Adjust.*	*Fixed*	*Adjust.*	*Fixed*	*Adjust.*	*Fixed*	*Adjust.*	*Total*
Multicurrency loans[a]											
Amount	$ 40	$ 4,239	$ 32	$3,633	$ 87	$ 3,578	$ 105	$ 409	$ 264	$11,859	$ 12,123
Weighted average rate (%)[b]	9.25	5.16	7.89	5.16	9.32	5.16	6.16	5.16	7.88	5.16	5.22
Average Maturity (years)	0.01	3.15	0.01	3.15	0.36	2.97	3.94	3.15	1.68	3.09	3.06
Single currency pools											
Amount	$ —	$ 1,446	$ —	$ 12	$ —	$ 7,876	$ —	$ —	$ —	$ 9,334	$ 9,334
Weighted average rate (%)[b]	—	2.90	—	0.27	—	5.30	—	—	—	4.92	4.92
Average Maturity (years)	—	2.18	—	1.42	—	2.49	—	—	—	2.44	2.44
Single currency loans											
Amount	$ 487	$ 3,653	$ —	$ 140	$ 8,142	$40,810	$ —	$ 1	$ 8,629	$44,604	$ 53,233
Weighted average rate (%)[b]	5.28	3.17	—	0.27	6.15	5.37	—	1.56	6.10	5.17	5.32
Average Maturity (years)	2.61	5.79	—	4.92	2.59	5.36	—	1.98	2.59	5.40	4.94
Fixed-spread loans											
Amount	$2,818	$ 3,699	$ 4	$ 138	$ 5,575	$16,030	$ —	$ 50	$ 8,397	$19,917	$ 28,314
Weighted average rate (%)[b]	5.44	3.45	2.16	0.85	5.09	5.68	—	8.43	5.21	5.24	5.23
Average maturity (years)	10.87	8.49	9.95	13.44	6.64	7.56	—	7.95	8.06	7.78	7.86
Loans Outstanding											
Amount	$3,345	$13,037	$ 36	$3,923	$13,804	$68,294	$105	$ 460	$17,290	$85,714	$103,004
Weighted average rate (%)[b]	5.46	3.87	7.26	4.82	5.74	5.42	6.16	5.50	5.69	5.16	5.25
Average Maturity (years)	9.53	5.30	1.11	3.57	4.21	5.42	3.94	3.66	5.23	5.31	5.30
Loans Outstanding											$103,004
Less accumulated provision for loan losses and deferred loan income											2,783
Net loans outstanding											$100,221

Note: For footnotes see following page.

In millions of U.S. dollars equivalent

	2005										
	Euro		*Japanese yen*		*U.S. dollars*		*Others*		*Loans Outstanding*		
	Fixed	*Adjust.*	*Fixed*	*Adjust.*	*Fixed*	*Adjust.*	*Fixed*	*Adjust.*	*Fixed*	*Adjust.*	*Total*
Multicurrency loans[a]											
Amount	$ 42	$ 5,128	$ 35	$ 4,821	$ 111	$ 4,406	$ 54	$ 451	$ 242	$14,806	$ 15,048
Weighted average rate (%)[b]	9.17	4.59	7.91	4.59	8.71	4.59	8.18	4.59	8.55	4.59	4.65
Average Maturity (years)	0.07	3.50	0.04	3.50	0.69	3.36	0.04	3.50	0.34	3.46	3.41
Single currency pools											
Amount	$ —	$ 1,897	$ —	$ 19	$ —	$10,780	$ —	$ —	$ —	$12,696	$ 12,696
Weighted average rate (%)[b]	—	3.96	—	0.28	—	5.46	—	—	—	5.23	5.23
Average Maturity (years)	—	2.68	—	1.80	—	2.80	—	—	—	2.78	2.78
Single currency loans											
Amount	$ 567	$ 3,438	$ —	$ 155	$10,143	$41,058	$ —	$ 2	$10,710	$44,653	$ 55,363
Weighted average rate (%)[b]	5.35	2.43	—	0.23	6.23	3.63	—	0.95	6.18	3.52	4.04
Average Maturity (years)	2.97	6.00	—	5.58	2.94	5.54	—	2.47	2.94	5.58	5.07
Fixed-spread loans											
Amount	$2,479	$ 3,011	$ 4	$ 4	$ 4,720	$11,076	$ —	$ —	$ 7,203	$14,091	$ 21,294
Weighted average rate (%)[b]	5.66	2.69	2.17	0.56	5.06	3.87	—	—	5.26	3.62	4.17
Average maturity (years)	11.55	9.28	11.12	12.50	7.17	7.45	—	—	8.68	7.84	8.13
Loans Outstanding											
Amount	$3,088	$13,474	$ 39	$4,999	$14,974	$67,320	$ 54	$ 453	$18,155	$86,246	$104,401
Weighted average rate (%)[b]	5.65	3.53	7.42	4.44	5.87	4.02	8.18	4.58	5.85	3.97	4.30
Average Maturity (years)	9.82	5.32	0.98	3.56	4.26	5.27	0.04	3.50	5.18	5.17	5.17

Loans Outstanding	$104,401
Less accumulated provision for loan losses and deferred loan income	3,491
Net loans outstanding	$100,910

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.*

The maturity structure of IBRD's loans at June 30, 2006 and June 30, 2005 is as follows:

In millions of U.S. dollars

	2006				
Product/Rate Type	*July 1, 2006 through June 30, 2007*	*July 1, 2007 through June 30, 2011*	*July 1, 2011 through June 30, 2016*	*Thereafter*	*Total*
Multicurrency loans					
Fixed	$ 202	$ 12	$ 42	$ 8	$ 264
Adjustable	2,544	6,920	2,274	121	11,859
Single currency pools					
Fixed	—	—	—	—	—
Adjustable	2,701	5,438	1,193	2	9,334
Single currency loans					
Fixed	2,008	5,636	985	—	8,629
Adjustable	4,204	18,344	16,918	5,138	44,604
Fixed-spread loans					
Fixed	175	2,391	3,797	2,034	8,397
Adjustable	377	4,785	9,462	5,293	19,917
All Loans					
Fixed	2,385	8,039	4,824	2,042	17,290
Adjustable	9,826	35,487	29,847	10,554	85,714
Total loans outstanding	$12,211	$43,526	$34,671	$12,596	$103,004

In millions of U.S. dollars

	2005				
Product/Rate Type	*July 1, 2005 through June 30, 2006*	*July 1, 2006 through June 30, 2010*	*July 1, 2010 through June 30, 2015*	*Thereafter*	*Total*
Multicurrency loans					
Fixed	$ 209	$ 33	$ —	$ —	$ 242
Adjustable	2,763	8,306	3,533	204	14,806
Single currency pools					
Fixed	—	—	—	—	—
Adjustable	3,032	7,589	2,062	13	12,696
Single currency loans					
Fixed	2,049	6,857	1,804	—	10,710
Adjustable	4,001	17,676	17,288	5,688	44,653
Fixed-spread loans					
Fixed	110	1,602	3,508	1,983	7,203
Adjustable	208	3,153	7,273	3,457	14,091
All Loans					
Fixed	2,368	8,492	5,312	1,983	18,155
Adjustable	10,004	36,724	30,156	9,362	86,246
Total loans outstanding	$12,372	$45,216	$35,468	$11,345	$104,401

Guarantees

IBRD has provided partial guarantees of loans syndicated by other financial institutions for projects. In addition, IBRD has also 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 $995 million were outstanding at June 30, 2006 ($1,157 million—June 30, 2005). This amount represents the maximum potential amount of undiscounted future payments that IBRD could be required to make under these guarantees, and are not included in the balance sheet. Most of these guarantees have maturities ranging between 5 and 15 years, and expire in decreasing amounts through 2015.

At June 30, 2006, liabilities related to IBRD's obligations under guarantees of $22 million ($22 million—June 30, 2005), have been included in Accounts Payable and Miscellaneous Liabilities on the balance sheet. These include the accumulated provision for guarantee losses of $11 million ($13 million—June 30, 2005).

During the fiscal year ended June 30, 2006 and June 30, 2005, no guarantees provided by IBRD were called.

Derivatives for Borrowers

These are transactions executed between IBRD and its borrowers under master derivatives agreements. The net interest income associated with these transactions is included in Loan Interest income on the Statement of Income. At June 30, 2006, IBRD had one currency swap with a borrower, which matures in 2017. The balances relating to this swap are included in Member Operations under Receivable from and Payable for Currency and Interest Rate Swaps on the balance sheet.

Overdue Amounts

At June 30, 2006, 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, 2006, June 30, 2005 and June 30, 2004:

In millions of U.S. dollars

	2006	*2005*
Recorded investment in nonaccrual loans[a]	$1,038	$3,543
Accumulated provision for loan losses on nonaccrual loans	$ 816	$1,431
Average recorded investment in nonaccrual loans for the fiscal year	$2,365	$3,561
Overdue amounts of nonaccrual loans:	$1,000	$ 829
Principal	$ 577	$ 459
Interest and charges	$ 423	$ 370

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

In millions of U.S. dollars

	2006	*2005*	*2004*
Interest income recognized on loans in nonaccrual status at end of fiscal year	$ 1	$118	$112
Interest income not recognized as a result of loans being in nonaccrual status	$51	$ 65	$ 37

A summary of countries with loans or guarantees in nonaccrual status at June 30, 2006 follows:

In millions of U.S. dollars

Borrower	*Principal outstanding*	*Principal, Interest and Charges overdue*	*Nonaccrual since*
Côte d'Ivoire	$ 444	$ 241	November 2004
Liberia	150	405	June 1987
Seychelles	2	1	August 2002
Zimbabwe	442	353	October 2000
Total	$1,038	$1,000	

During the fiscal year ended June 30, 2006, all loans outstanding to Serbia and Montenegro were restored to accrual status following management's determination that a suitable period of policy and payments performance had passed subsequent to the clearance of all arrears to IBRD in January 2002. Loan income for the fiscal year increased by $19 million, representing income that would have been accrued in previous fiscal years had these loans not been in nonaccrual status.

During the fiscal year ended June 30, 2005, all loans made to, or guaranteed by, Côte d'Ivoire were placed into nonaccrual status. Loan income for the fiscal year ended June 30, 2005 would have been higher by $32 million, had these loans not been in nonaccrual status.

During the fiscal year ended June 30, 2005, Iraq cleared all of its outstanding loan principal, interest and charges due to IBRD. As a result of this event, loan income for the year ended June 30, 2005 increased by $56 million, $51 million of which represents income that would have been earned in previous years had these loans not been in nonaccrual status.

Accumulated Provision for Losses on Loans and Guarantees

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 and guarantees.

Changes to the accumulated provision for losses on loans and guarantees for the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004 are summarized below:

In millions of U.S. dollars

	June 30, 2006	*June 30, 2005*	*June 30, 2004*
Accumulated provision for losses on loans and guarantees, beginning of the fiscal year	$3,022	$3,520	$4,069
Release of provision for losses on loans and guarantees	(724)	(502)	(665)
Translation adjustment	9	4	116
Accumulated provision for losses on loans and guarantees, end of the fiscal year	$2,307	$3,022	$3,520
Composed of:			
Accumulated provision for loan losses	$2,296	$3,009	$3,505
Accumulated provision for guarantee losses	11	13	15
Total	$2,307	$3,022	$3,520

	Reported as Follows	
	Balance Sheet	***Statement of Income***
Allowance for Losses on:		
Loans	Accumulated Provision for Loan Losses	Release of Provision for Losses on Loans and Guarantees
Guarantees	Accounts Payable and Miscellaneous Liabilities	Release of Provision for Losses on Loans and Guarantees

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). 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

During the fiscal year ended June 30, 2005, IBRD entered into a Local Currency Loan Facility Agreement with IFC which is capped at $300 million. At June 30, 2006, the loan balance under this facility amounted to $50 million. This loan is at standard terms available to other borrowers but is not eligible for interest waiver.

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 for those members who benefit from IBRD loans. IBRD initiates swap transactions with a list of authorized counterparties. Credit limits have been established for each counterparty.

The following table summarizes IBRD's borrowing portfolio at June 30, 2006 and June 30, 2005:

In millions of U.S. dollars

	2006				*2005*			
	Principal at Face Value	*Net Unamortized Premium (Discount)*	*Net unrealized (gains) losses*[a]	*Total*	*Principal at Face Value*	*Net Unamortized Premium (Discount)*	*Net unrealized (gains) losses*[a]	*Total*
Short-Term	$ 7,312	$ (32)	$ —	$ 7,280	$ 3,220	$ (3)	$ —	$ 3,217
Medium-and Long-Term	88,751	(1,229)	1,033	88,555	98,495	(1,761)	1,346	98,080
Currency Swap Agreements (Net)	(4,772)	682	71	(4,019)	(7,259)	1,001	(2,488)	(8,746)
Interest Rate Swap Agreements (Net)[b,c]	(394)	(10)	206	(198)	(557)	379	(859)	(1,037)
	$90,897	$ (589)	$1,310	$91,618	$93,899	$ (384)	$(2,001)	$91,514

a. *This refers to "net unrealized (gains) losses on non-trading derivative instruments, as required by FAS 133".*

b. *The negative $394 million at June 30, 2006 (negative $557 million—June 30, 2005) represents the net unamortized discount on zero coupon trades.*

c. *The net unamortized discount of $10 million at June 30, 2006 (net unamortized premium of $379 million—June 30, 2005), represents the unamortized premium (discount) on non zero coupon trades.*

The following tables summarize IBRD's borrowing portfolio by currency and product at June 30, 2006 and June 30, 2005:

Medium- and Long-term Borrowings and Swaps at June 30, 2006

In millions of U.S. dollars

	Direct borrowings			Currency swap agreements			Interest rate swap agreements[a]			Net currency obligations*		
Currency/ Rate type	*Amount*	*WAC[b] (%)*	*Average maturity (years)*	*Amount payable (receivable)*	*WAC[b] (%)*	*Average maturity (years)*	*Notional amount payable (receivable)*	*WAC[b] (%)*	*Average maturity (years)*	*Amount payable (receivable)*	*WAC[b] (%)*	*Average maturity[c] (years)*
Euro												
Fixed	$ 7,134	6.29	6.56	$ 1,064	5.58	6.50	$ 2,131	5.32	11.44	$ 10,329	6.02	7.56
				(6,574)	6.04	5.67	(128)	6.33	7.44	(6,702)	6.04	5.70
Adjustable	3,664	6.22	6.68	9,691	2.96	3.40	102	3.22	6.91	13,457	3.85	4.32
				(4,266)	6.29	6.81	(2,131)	3.47	11.44	(6,397)	5.35	8.35
Japanese yen												
Fixed	2,917	4.16	5.11	189	4.51	11.72	2	1.77	16.81	3,108	4.18	5.52
				(1,516)	4.85	5.04	(931)	2.17	2.00	(2,447)	3.83	3.88
Adjustable	10,760	4.39	24.34	1,567	0.01	0.51	931	(0.17)	2.00	13,258	3.55	19.95
				(11,079)	4.17	23.14	(2)	0.16	16.81	(11,081)	4.17	23.14
U. S. dollars												
Fixed	29,188	5.31	5.68	1,095	10.16	5.24	13,528	5.45	7.60	43,811	5.47	6.26
				—	—	—	(28,493)	4.81	5.03	(28,493)	4.81	5.03
Adjustable	2,667	3.92	4.96	50,070	4.85	8.91	30,021	4.93	4.94	82,758	4.85	7.35
				(12,726)	4.96	3.16	(15,423)	5.14	7.37	(28,149)	5.06	5.47
Others												
Fixed	32,024	5.80	5.03	2,473	5.97	5.98	—	—	—	34,496	5.81	5.10
				(34,279)	5.76	5.10	(176)	7.42	1.44	(34,455)	5.77	5.08
Adjustable	397	5.16	13.46	50	7.53	17.00	176	5.37	1.44	622	5.41	10.33
				(530)	5.86	10.40	—	—	—	(530)	5.86	10.40
Total[d]												
Fixed	71,263	5.58	5.45	4,820			15,661			91,744	5.62	5.95
				(42,368)			(29,729)			(72,097)	5.35	5.08
Adjustable	17,488	4.72	17.43	61,377			31,230			110,095	4.57	8.51
				(28,601)			(17,556)			(46,157)	4.89	10.17
Principal at face value	$ 88,751	5.41	7.81	$ (4,772)			$ (394)			$ 83,585	4.87	7.73

a. *Excludes forward-starting swaps of $8,319 million (mechanism for managing debt overhang in currency pool products).*

b. *WAC refers to weighted average cost.*

c. *At June 30, 2006, the average repricing period of the net currency obligations for adjustable rate borrowings was three months.*

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

Medium- and Long-term Borrowings and Swaps at June 30, 2005

In millions of U.S. dollars equivalent

	Direct borrowings			Currency swap agreements			Interest rate[a] swap agreements			Net currency obligations		
Currency/ Rate type	Amount	WAC[b] (%)	Average maturity (years)	Amount payable (receivable)	WAC[b] (%)	Average maturity (years)	Notional amount payable (receivable)	WAC[b] (%)	Average maturity (years)	Amount payable (receivable)	WAC[b] %)	Average maturity[c] years)
Euro												
Fixed	$ 7,821	6.01	6.63	$ 1,083	5.86	5.13	$ 1,928	5.50	11.53	$ 10,833	5.90	7.35
				(7,227)	5.78	5.64	(182)	6.53	3.70	(7,409)	5.80	5.60
Adjustable	3,720	6.54	7.45	9,481	2.33	4.11	160	2.10	2.75	13,360	3.50	5.02
				(4,406)	6.60	7.18	(1,928)	2.58	11.53	(6,335)	5.37	8.50
Japanese yen												
Fixed	3,437	4.31	5.56	272	4.94	9.07	2	1.77	17.81	3,711	4.35	5.82
				(1,865)	5.11	5.13	(1,088)	2.25	2.76	(2,953)	4.05	4.26
Adjustable	11,488	3.51	24.92	1,731	0.21	2.40	1,088	(0.22)	2.76	14,307	2.82	20.51
				(11,989)	3.35	23.97	(2)	0.14	17.81	(11,991)	3.35	23.97
U. S. dollars												
Fixed	36,601	5.36	5.18	1,431	10.46	4.78	15,415	5.26	7.38	53,447	5.47	5.81
				—	—	—	(36,534)	4.84	4.47	(36,534)	4.84	4.47
Adjustable	2,422	3.69	6.82	49,423	3.01	9.72	38,099	3.09	4.35	89,944	3.06	7.37
				(12,287)	3.10	3.84	(17,514)	3.50	7.14	(29,801)	3.34	5.78
Others												
Fixed	32,503	5.70	5.79	2,042	5.98	6.23	—	—	—	34,545	5.71	5.81
				(34,324)	5.67	5.67	(164)	7.46	2.45	(34,488)	5.68	5.66
Adjustable	502	5.76	11.91	—	—	—	164	4.41	2.45	667	5.43	9.57
				(624)	5.88	10.04	—	—	—	(624)	5.88	10.04
Total[d]												
Fixed	80,363	5.51	5.58	4,828			17,345			102,536	5.55	5.97
				(43,415)			(37,969)			(81,384)	5.25	5.07
Adjustable	18,132	4.22	18.55	60,634			39,511			118,278	3.10	8.70
				(29,306)			(19,445)			(48,751)	3.64	10.66
Principal at face value	$ 98,495	5.27	7.97	$ (7,259)			$ (557)			$ 90,679	3.65	

a. *Excludes forward-starting swaps of $7,152 million (mechanism for managing debt overhang in currency pool products).*

b. *WAC refers to weighted average cost.*

c. *At June 30, 2005, the average repricing period of the net currency obligations for adjustable rate borrowings was three months.*

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

Short-term Borrowings at June 30, 2006 and June 30, 2005

In millions of U.S. dollars

Currency/ Rate type	2006 Principal at face value[a]	WAC (%)	Interest rate Swap Agreements Notional Receivable (payable)	WAC[b] (%)	Net Obligation	WAC[b] (%)
U. S. dollars						
Fixed	$6,653	5.21	$ —	—	$6,653	5.21
Adjustable	659	4.96	61	4.57	720	4.92
	—	—	(61)	4.97	(61)	4.97
Principal at face value	$7,312	5.19	$ —		$7,312	5.19

In millions of U.S. dollars

Currency/ Rate type	2005 Principal at face value[a]	WAC[b] (%)	Interest rate Swap Agreements Notional Receivable (payable)	WAC[b] (%)	Net Obligation	WAC[b] (%)
U. S. dollars						
Fixed	$2,576	3.07	$(13)	1.72	$2,563	3.08
Adjustable	644	3.19	13	2.41	657	3.18
Principal at face value	$3,220	3.10	$ —		$3,220	3.10

a. *At June 30, 2006, the average repricing period of the principal outstanding for short-term borrowings was less than two months (less than two months - June 30, 2005).*

b. *WAC refers to weighted average cost.*

The maturity structure of IBRD's Medium-and Long-term borrowings outstanding at June 30, 2006 and June 30, 2005 is as follows:

In millions of U.S. dollars

Period	2006
July 1, 2006 through June 30, 2007	$14,676
July 1, 2007 through June 30, 2008	16,144
July 1, 2008 through June 30, 2009	11,604
July 1, 2009 through June 30, 2010	6,849
July 1, 2010 through June 30, 2011	2,029
July 1, 2011 through June 30, 2016	13,370
Thereafter	24,079
Total	$88,751

In millions of U.S. dollars

Period	2005
July 1, 2005 through June 30, 2006	$15,617
July 1, 2006 through June 30, 2007	14,912
July 1, 2007 through June 30, 2008	13,706
July 1, 2008 through June 30, 2009	8,397
July 1, 2009 through June 30, 2010	5,909
July 1, 2010 through June 30, 2015	11,974
Thereafter	27,980
Total	$98,495

Line of credit: During the fiscal year ended June 30, 2006, IBRD maintained a line of credit with an independent financial institution. This facility was created for the benefit of both IBRD and IDA. The available line of credit to each institution is $500 million, but usage from both institutions cannot exceed $500 million in aggregate. The line of credit is used to cover any overnight overdrafts that may occur due to failed trades. At June 30, 2006 and June 30, 2005, there were no amounts outstanding under this facility.

NOTE F—OTHER ASSET/LIABILITY SWAPS

As part of asset/liability management, IBRD has entered into currency and interest rate swap agreements to better align its currency composition and duration of Equity with that of Loans Outstanding. A summary of IBRD's other asset/liability swaps at June 30, 2006 and June 30, 2005 is presented below:

In millions of U.S. dollars equivalent

	2006								
	Currency swap agreements			Interest rate swap agreements			Net Derivative Asset/Liability		
	Amount Receivable (payable)	Weighted Average Cost (%)	Average Maturity (years)	Notional Amount Receivable (payable)	Weighted Average Cost (%)	Average Maturity (years)	Amount Receivable (payable)	Weighted Average Cost (%)	Average Maturity (years)
U.S. dollars	$ 726	5.13	0.72	$ 1,250	3.68	2.31	$ 1,976	4.21	1.72
	(14)	—	3.42	(1,250)	5.27	2.31	(1,264)	5.21	2.32
Euro	(395)	2.88	0.71	—	—	—	(395)	2.88	0.71
Japanese yen	(461)	0.02	0.72	—	—	—	(461)	0.02	0.72
Other	15	—	3.42	—	—	—	15	—	3.42
Total Receivable	741	5.03	0.77	1,250	3.68	2.31	1,991	4.18	1.74
(Payable)	(870)	1.32	0.76	(1,250)	5.27	2.31	(2,120)	3.65	1.67
Net unrealized gains[a]	—			(50)			(50)		
Total	$(129)			$ (50)			$ (179)		

a. *This refers to "net unrealized (gains) losses on non-trading derivative instruments, as required by FAS 133.*

In millions of U.S. dollars equivalent

	2005								
	Currency swap agreements			Interest rate swap agreements			Net Derivative Asset/Liability		
	Amount Receivable (payable)	Weighted Average Cost (%)	Average Maturity (years)	Notional Amount Receivable (payable)	Weighted Average Cost (%)	Average Maturity (years)	Amount Receivable (payable)	Weighted Average Cost (%)	Average Maturity (years)
U.S. dollars	$ 726	3.34	1.72	$1,250	3.68	3.31	$ 1,976	3.55	2.72
	(14)	—	4.42	(1,250)	3.41	3.31	(1,264)	3.37	3.32
Euro	(381)	2.20	1.71	—	—	—	(381)	2.20	1.71
Japanese yen	(487)	(0.06)	1.72	—	—	—	(487)	(0.06)	1.72
Other	13	—	4.42	—	—	—	13	—	4.42
Total Receivable	739	3.28	1.77	1,250	3.68	3.31	1,989	3.53	2.73
(Payable)	(882)	0.92	1.76	(1,250)	3.41	3.31	(2,132)	2.38	2.67
Net unrealized losses (gains)[a]	1			(14)			(13)		
Total	$ (142)			$ (14)			$ (156)		

a. *This refers to "net unrealized (gains) losses on non-trading derivative instruments, as required by FAS 133.*

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 pricing loans using IBRD's own cost of borrowing and partial interest charge waivers conditioned on timely payment that give borrowers self-interest in IBRD's continued strong intermediation capacity. Collectibility 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. As of June 30, 2006, IBRD had received collateral of $3,655 million ($7,278 million—June 30, 2005) in connection with swap agreements, of which $2,163 million ($4,181 million—June 30, 2005) had been transferred under security lending agreements.

As the transfer of this collateral did not meet the requirements of a sale, the collateral has not been included in the assets of IBRD.

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 contract value/notional amounts and credit risk exposure, as applicable, of these financial instruments at June 30, 2006 and June 30, 2005 (prior to taking into account any master derivatives or collateral arrangements that have been entered into) are given below:

In millions of U.S. dollars

	2006	2005
INVESTMENTS - TRADING PORTFOLIO		
Exchange traded Options and Futures[a]		
• Notional Long position	$10,000	$ 6,274
• Notional Short position	670	2,495
Currency swaps (including currency forward contracts)		
• Credit exposure	82	187
Interest rate swaps		
• Notional principal	2,089	1,254
• Credit exposure	67	32
BORROWING PORTFOLIO		
Currency swaps		
• Credit exposure	8,324	10,154
Interest rate swaps		
• Notional principal	55,084	67,008
• Credit exposure	1,813	2,872
OTHER ASSET/LIABILITY		
Interest rate swaps		
• Notional principal	1,250	1,250
Currency swaps		
• Credit exposure	1	—

a. *Exchange-traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All outstanding options and futures contracts as of June 30, 2006 and June 30, 2005, are interest rate 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, 2003 to June 30, 2006, are summarized below:

In millions of US dollars

	Special Reserve	*General Reserve*	*Pension Reserve*	*Surplus*	*Cumulative FAS133 Adjustments*	*Unallocated Net Income (Loss)*	*Total*
As of June 30, 2003	$293	$19,132	$ 963	$100	$ 1,199	$ 5,344	$27,031
Net income allocation[a]	—	2,410	(29)	100	2,323	(4,804)	—
Board of Governors-approved transfers funded from Surplus[b]	—	—	—	(105)	—	105	—
Net loss for the year	—	—	—	—	—	(3,049)	(3,049)
As of June 30, 2004	**$293**	**$21,542**	**$ 934**	**$ 95**	**$ 3,522**	**$(2,404)**	**$23,982**
Net income allocation[a]	—	680	21	405	(4,100)	2,994	—
Board of Governors-approved transfers funded from Surplus[b]	—	—	—	(52)	—	52	—
Net income for the year	—	—	—	—	—	3,189	3,189
As of June 30, 2005	**$293**	**$22,222**	**$ 955**	**$448**	**$ (578)**	**$ 3,831**	**$27,171**
Net income allocation[a]	—	690	68	(48)	2,511	(3,221)	—
Board of Governors-approved transfers funded from Surplus[b]	—	—	—	(40)	—	40	—
Net loss for the year	—	—	—	—	—	(2,389)	(2,389)
As of June 30, 2006	**$293**	**$22,912**	**$1,023**	**$360**	**$ 1,933**	**$(1,739)**	**$24,782**

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, after adjustment for the effects associated with the application of FAS 133 and pension income or expense, as well as Board of Governors-approved transfers.

On August 4, 2005, IBRD's Executive Directors approved the allocation of the net income earned in the fiscal year ended June 30, 2005 to the General Reserve and the Pension Reserve.

On September 24, 2005, IBRD's Board of Governors approved the transfers out of the net income earned in the fiscal year ended June 30, 2005, to IDA, the HIPC Debt Initiative Trust Fund, and the amounts to be retained as Surplus. As disccussed in Note A, Board of Governors-approved transfers are reported as expenses on the Statement of Income in the year of approval (See Note P—Change in Accounting Principle for Certain Board of Governors-approved transfers for additional details).

Transfers approved during the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004, and amounts payable for the transfers approved by the Board of Governors at June 30, 2006 and June 30, 2005, are included in the following table:

In millions of U.S. dollars

	Fiscal Years Ended June 30,			Amount Payable at June 30,	
Transfers funded from:	*2006*	*2005*	*2004*	*2006*	*2005*
Unallocated Net Income:					
International Development Association	$400	$300	$300	$210	$740
Debt Reduction Facility for IDA-only Countries	—	50	—	66	65
Heavily Indebted Poor Countries Debt Initiative Trust Fund	210	240	240	—	—
	610	590	540	276	805
Surplus:					
Trust Fund for Gaza and West Bank	—	—	80	—	—
Trust Fund for Earthquake Recovery and Reconstruction in Pakistan	5	—	—	—	—
Low-Income Countries Under Stress (LICUS) Implementation Trust Fund	25	—	25	—	—
Trust Fund for Liberia	—	25	—	—	—
Multi-Donor Trust Fund for Aceh and North Sumatra	—	25	—	—	—
Trust Fund for Tsunami Disaster Recovery in India	—	2	—	—	—
National Multi-Donor Trust Fund for Sudan	5	—	—	—	—
Multi-Donor Trust Fund for Southern Sudan	5	—	—	—	—
	40	52	105	—	—
Total	$650	$642	$645	$276	$805

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

Administrative expenses for the fiscal year ended June 30, 2006 are net of the share of administrative expenses allocated to IDA of $954 million ($891 million—June 30, 2005, and $908 million—June 30, 2004). 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. IBRD recovers certain of its administrative expenses by billing third parties, including IFC, MIGA, and certain trust funds for services rendered.

For the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004, the amount of fee revenue associated with administrative services is as follows:

In millions of U.S. dollars

	2006	*2005*	*2004*
Service fee revenue	$243	$228	$207
Included in these amounts are the following:			
Fees charged to IFC	43	45	34
Fees charged to MIGA	8	8	6

At June 30, 2006 and June 30, 2005, 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

	2006			2005		
	Administrative Services	*Pension and Other Postretirement Benefits*	*Total*	*Administrative Services*	*Pension and Other Postretirement Benefits*	*Total*
IDA	$(364)	$903	$539	$(313)	$820	$507
IFC	(20)	21	1	(25)	21	(4)
MIGA	(3)	1	(2)	(4)	1	(3)
	$(387)	$925	$538	$(342)	$842	$500

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

	Reported as:
Receivable for Administrative Services	Miscellaneous Assets
Payable for Pension and Other Postretirement Benefits	Accounts Payable and Miscellaneous Liabilities

NOTE J—MANAGEMENT OF EXTERNAL FUNDS

Trust Funds

IBRD, alone or jointly with IDA, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses which include the cofinancing of IBRD lending projects, debt reduction operations, technical assistance for borrowers including feasibility studies and project preparation, global and regional programs and research and training programs. These funds are held in trust 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.

The trust fund assets by executing agent at June 30, 2006 and June 30, 2005 are summarized below:

	2006		2005	
	Total fiduciary assets (In millions of U.S. dollars)	*Number of trust fund accounts (unaudited)*	*Total fiduciary assets (In millions of U.S. dollars)*	*Number of trust fund accounts (unaudited)*
IBRD executed	$5,882	2,126	$2,708	1,925
Recipient executed	2,325	1,281	4,693	1,429
Total	$8,207	3,407	$7,401	3,354

The responsibilities of IBRD under these arrangements vary and range from services normally provided under its own lending projects to full project implementation including procurement of goods and services. During the fiscal year ended June 30, 2006, IBRD received $15 million ($17 million—June 30, 2005 and $14 million—June 30, 2004) as fees for administering trust funds. These fees have been recorded as Other Income.

Investment Management Services

IBRD offers investment management services to one non-affiliated organization and one affiliated organization. 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 is included in service fee revenues described in Note I.

At June 30, 2006, the assets managed under these agreements had a value of $11,301 million ($9,180 million—June 30, 2005). These funds are not included in the assets of IBRD.

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, 2006, June 30, 2005, and June 30, 2004:

In millions of U.S. dollars

	SRP			*RSBP*			*PEBP*		
	2006	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*
Benefit Cost									
Service cost	$268	$233	$213	$ 40	$31	$28	$13	$11	$ 9
Interest cost	459	482	411	66	59	49	10	8	7
Expected return on plan assets	(715)	(695)	(595)	(80)	(71)	(58)	—	—	—
Amortization of prior service cost	6	13	13	(1)	(2)	(1)	*	*	*
Amortization of unrecognized net loss (gain)	40	—	17	32	13	14	2	(1)	(1)
Net periodic pension cost	$ 58	$ 33	$ 59	$ 57	$ 30	$32	$25	$18	$15
of which:									
IBRD's share	$ 26	$ 15	$ 26	$ 26	$ 13	$14	$11	$ 8	$ 7
IDA's share	$ 32	$ 18	$ 33	$ 31	$ 17	$18	$14	$10	$ 8

** 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 Miscellaneous Assets and 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, 2006, June 30, 2005, and June 30, 2004, expenses for these plans of $28 million, $16 million and $20 million, respectively, were allocated to IFC, and $2 million, $1 million and $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, 2006, June 30, 2005, and June 30, 2004. 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*		
	2006	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*
Projected Benefit Obligation									
Beginning of year	$9,244	$8,118	$7,514	$1,283	$ 973	$881	$ 196	$143	$126
Service cost	268	233	213	40	31	28	13	11	9
Interest cost	459	482	411	66	59	49	10	8	7
Employee contributions	62	63	62	9	8	9	1	1	1
Benefits paid	(359)	(309)	(276)	(37)	(31)	(28)	(14)	(9)	(6)
Actuarial (gain) loss	(303)	657	194	(88)	243	34	28	42	6
End of year	9,371	9,244	8,118	1,273	1,283	973	234	196	143
Fair value of plan assets									
Beginning of year	9,632	9,287	8,009	954	866	755			
Employee contributions	62	63	62	9	8	8			
Actual return on assets	1,173	401	1,386	134	78	100			
Employer contributions	204	190	106	64	33	31			
Benefits paid	(359)	(309)	(276)	(37)	(31)	(28)			
End of year	10,712	9,632	9,287	1,124	954	866			
Funded status									
Plan assets in excess of (less than) projected benefit obligation	1,341	388	1,169	(149)	(329)	(107)	(234)	(196)	(143)
Unrecognized net loss (gain) from past experience different from that assumed and from changes in assumptions	530	1,331	379	315	490	267	57	31	(13)
Unrecognized prior service cost	54	60	74	(8)	(9)	(11)	3	4	4
Prepaid (accrued) pension cost	$1,925	$1,779	$1,622	$ 158	$ 152	$149	$(174)	$(161)	$(152)
Accumulated Benefit Obligation	$7,149	$7,113	$6,117	$1,273	$1,283	$973	$ 206	$ 168	$ 122

The $1,925 million prepaid SRP cost at June 30, 2006 ($1,779 million—June 30, 2005) is included in Prepaid Pension Cost on the balance sheet. Of this amount $827 million was attributable to IDA ($748 million—June 30, 2005) and is included in Accounts Payable and Miscellaneous Liabilities on the balance sheet.

The $158 million prepaid RSBP cost at June 30, 2006 ($152 million—June 30, 2005), is included in Prepaid Pension Cost on the balance sheet. Of this amount $57 million was attributable to IDA ($54 million—June 30, 2005) and is included in Accounts Payable and Miscellaneous Liabilities on the balance sheet.

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, 2006, June 30, 2005, and June 30, 2004:

Weighted average assumptions used to determine projected benefit obligation

In percent

	SRP			*RSBP*			*PEBP*		
	2006	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*
Discount rate	6.50	5.25	6.25	6.50	5.25	6.25	6.50	5.25	6.25
Rate of compensation increase	6.80	5.90	6.40						
Health care growth rates									
- at end of fiscal year				7.60	6.80	7.30			
Ultimate health care growth rate				5.00	4.25	4.75			
Year in which ultimate rate is reached				2012	2012	2012			

Weighted average assumptions used to determine net periodic pension cost

In percent

	SRP			*RSBP*			*PEBP*		
	2006	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*
Discount rate	5.25	6.25	5.75	5.25	6.25	5.75	5.25	6.25	5.75
Expected return on plan assets	7.75	7.75	7.75	8.25	8.25	7.75			
Rate of compensation increase	5.90	6.40	5.40						
Health care growth rates									
- at end of fiscal year				6.80	7.30	6.10			
- to year 2012 and thereafter				4.25	4.75	3.75			

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

In millions of U.S. dollars

	One percentage point increase	*One percentage point decrease*
Effect on total service and interest cost	$ 25	$ (20)
Effect on postretirement benefit obligation	260	(216)

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. This analysis, referred to as an asset-liability analysis, also provides estimates of potential future contributions and future asset and liability balances. Plan assets are managed by external investment managers and monitored by IBRD's pension investment department. The pension plan assets are invested in diversified portfolios of public equity, fixed income, and alternative investments. The fixed-income and public equity asset classes are rebalanced on a monthly basis. The following table presents the weighted-average asset allocation at June 30, 2006 and June 30, 2005 and the respective target allocation by asset category for the SRP and RSRP:

In percent

	SRP			*RSBP*		
	Target Allocation	*% of Plan Assets*		*Target Allocation*	*% of Plan Assets*	
Asset Class	*2006*	*2006*	*2005*	*2006*	*2006*	*2005*
Fixed Income	40%	40%	40%	30%	30%	31%
Public Equity	35	35	40	30	33	37
Alternative Investments	25	25	20	40	37	32
Total	100%	100%	100%	100%	100%	100%
Alternative Investments include:						
Private Equity	up to 12%	8.3%	7.1%	up to 28%	12.3%	11.2%
Real Estate	up to 8%	4.7	4.0	up to 18%	4.1	3.7
Hedge Funds	up to 12%	12.0	8.7	up to 23%	20.5	16.8

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, 2006:

In millions of U.S. dollars

	SRP	*RSBP*	*PEBP*
July 1, 2006 - June 30, 2007	$ 390	$ 34	$ 16
July 1, 2007 - June 30, 2008	430	38	18
July 1, 2008 - June 30, 2009	469	42	19
July 1, 2009 - June 30, 2010	506	46	20
July 1, 2010 - June 30, 2011	541	51	21
July 1, 2011 - June 30, 2016	3,250	333	126

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, 2006 is $149 million and $67 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. In addition, given the nature of IBRD, the risk and return profiles are sufficiently similar among borrowers that IBRD does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries.

For the fiscal year ended June 30, 2006, loans to one country generated in excess of 10 percent of loan income; this amounted to $502 million. 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, 2006 and June 30, 2005:

In millions of U.S. dollars

	2006		*2005*	
Region	*Loan Income*	*Loans Outstanding*	*Loan Income*	*Loans Outstanding*
Africa	$ 49	$ 1,934	$ 42	$ 2,197
East Asia and Pacific	1,295	25,506	1,147	27,139
Europe and Central Asia	1,143	25,223	926	25,735
Latin America and the Caribbean	1,734	36,273	1,470	35,123
Middle East and North Africa	289	6,089	346	6,753
South Asia	349	7,899	219	7,399
Other[a]	5	80	5	55
Total	$4,864	$103,004	$4,155	$104,401

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, and net income. These items are presented in the Statement of Comprehensive Income.

The following tables present the changes in Accumulated Other Comprehensive Income (Loss) for the fiscal years ended June 30, 2006, June 30, 2005, and June 30, 2004:

In millions of U.S. dollars

	2006			
	Cumulative Translation Adjustment	*Cumulative Effect of Change in Accounting Principle*	*Reclassification[a]*	*Total Accumulated Other Comprehensive Income*
Balance, beginning of the fiscal year	$(152)	$500	$(460)	$(112)
Changes from period activity	273	—	(4)	269
Balance, end of the fiscal year	$ 121	$500	$(464)	$ 157

a. *Reclassification of Cumulative effect of change in accounting principle to net income.*

In millions of U.S. dollars

	2005			
	Cumulative Translation Adjustment	*Cumulative Effect of Change in Accounting Principle*	*Reclassification*[a]	*Total Accumulated Other Comprehensive Loss*
Balance, beginning of the fiscal year	$ (13)	$500	$(416)	$ 71
Changes from period activity	(139)	—	(44)	(183)
Balance, end of the fiscal year	$(152)	$500	$(460)	$(112)

In millions of U.S. dollars

	2004			
	Cumulative Translation Adjustment	*Cumulative Effect of Change in Accounting Principle*	*Reclassification*[a]	*Total Accumulated Other Comprehensive Income*
Balance, beginning of the fiscal year	$ (346)	$500	$(414)	$(260)
Changes from period activity	333	—	(2)	331
Balance, end of the fiscal year	$ (13)	$500	$(416)	$ 71

a. *Reclassification of Cumulative effect of change in accounting principle to net income.*

NOTE N—NET UNREALIZED GAINS (LOSSES) ON NON-TRADING DERIVATIVE INSTRUMENTS, AS REQUIRED BY FAS 133

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, IBRD's net income was increased by $219 million, and an additional $500 million was reported in other comprehensive income. The allocation between net income and other comprehensive income was based upon the hedging relationships that existed under generally accepted accounting principles before the initial application of FAS 133.

The $500 million 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, was included in Other Comprehensive Income at the time FAS 133 was implemented. 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 mark-to-market adjustments on the related derivative instruments. The mark-to-market adjustments on the bonds are being amortized over the remaining lives of the related bonds.

The following table reflects the components of the effects of applying FAS 133 for the fiscal years ended June 30, 2006, June 30, 2005, and June 30, 2004.

In millions of U.S. dollars

	2006	2005	2004
Unrealized (losses) gains on non-trading derivative instruments, as defined by FAS 133	$(3,440)	$2,527	$(4,052)
Reclassification and amortization of transition adjustment			
Reclassification from Other Comprehensive Income—Cash Flow Hedges	4	44	2
Amortization of mark-to-market on borrowings associated with fair value hedges	(43)	(60)	(50)
Net unrealized (losses) gains on non-trading derivative instruments, as required by FAS 133	$(3,479)	$2,511	$(4,100)

NOTE O—ESTIMATED AND FAIR VALUE DISCLOSURES

The Condensed 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, 2006 and June 30, 2005.

In millions of U.S. dollars

	2006		2005	
	Carrying Value	Fair Value*	Carrying Value	Fair Value*
Due from Banks	$ 758	$ 758	$ 1,177	$ 1,177
Investments	25,826	25,826	27,444	27,444
Loans Outstanding	103,004	103,885	104,401	107,549
Less Accumulated Provision for Loan Losses and Deferred Loan Income	(2,783)	(2,783)	(3,491)	(3,491)
Net Loans Outstanding	100,221	101,102	100,910	104,058
Swaps Receivable				
Investments	7,525	7,525	9,735	9,735
Loans	87	89	89	90
Borrowings	70,036	70,036	75,187	75,187
Other Asset/Liability	835	835	878	878
Other Assets	7,038	6,694	6,588	6,188
Total Assets	$212,326	$212,865	$222,008	$224,757
Borrowings	$ 95,835	$ 95,258	$101,297	$105,691
Swaps Payable				
Investments	7,960	7,960	11,215	11,215
Loans	84	84	89	89
Borrowings	65,819	65,819	65,404	65,404
Other Asset/Liability	1,014	1,014	1,034	1,034
Other Liabilities	5,140	5,140	4,381	4,381
Total Liabilities	175,852	175,275	183,420	187,814
Paid in Capital Stock	11,483	11,483	11,483	11,483
Retained Earnings and Other Equity	24,991	26,107	27,105	25,460
Total Equity	36,474	37,590	38,588	36,943
Total Liabilities and Equity	$212,326	$212,865	$222,008	$224,757

** Except for loans, which are 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).

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, nor does it believe there is a comparable market for its loans. The current value of loans outstanding incorporates management's best estimate of the probable expected cash flows of these instruments to IBRD.

The current value of loans, including associated financial derivatives, is based on a discounted cash flow method. The estimated cash flows from principal repayments and interest are discounted using the rate at which IBRD would originate a similar loan at the reporting date. The cash flows of these instruments are based on management's best estimates taking into account market exchange rates and interest rates.

The current value of net loans outstanding also includes IBRD's assessment of the appropriate credit risk, considering its history of collections from borrowers. This is reflected in the accumulated provision for loan losses.

Swaps Receivable and Swaps 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).

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. The difference between the carrying value and fair value of other assets is due to the carrying value of debt issuance costs being included in other assets while the fair value of these costs is included as part of the fair value of borrowings.

NOTE P—CHANGE IN ACCOUNTING PRINCIPLE FOR BOARD OF GOVERNORS-APPROVED TRANSFERS

In the fourth quarter of the fiscal year ended June 30, 2006, IBRD changed its accounting for Board of Governors-approved transfers. This change is described below.

Background

IBRD is an international organization formed under its Articles of Agreement and not under the laws of any particular jurisdiction. Its legal form and distribution policy is therefore governed by the Articles, related Amendments and By-Laws, and Interpretations by the Board of Executive Directors. Generally accepted accounting principles, specifically related to equity transactions, such as dividends or distributions to shareholders, are primarily based on the legal requirements prescribed by corporate law applicable to the jurisdiction of incorporation of the reporting entity.

IBRD's distribution policy is contained in Article V, Section 14 (a) of the Articles of Agreement which states that "The Board of Governors shall determine annually what part of the Bank's net income, after making provision for reserves, shall be allocated to surplus and what part, if any shall be distributed." While the Executive Directors have been delegated the authority for the ordinary operations of IBRD, only the Board of Governors has the authority for declaring distributions or making transfers out of retained earnings under IBRD's Articles of Agreement. This is a reserved power which, under the Articles, may not be delegated.

Each year since 1964, IBRD's Board of Governors has considered and authorized, in lieu of distributions to its shareholders, transfers to other organizations for purposes congruent with IBRD's mission (See Note H). IBRD's previous accounting for Board of Governors-approved transfers placed emphasis on the role of the Governors acting on behalf of shareholders and was viewed as being constructively a transaction with owners. In effect, IBRD viewed these transactions as being equivalent to distributions, whereby the shareholders constructively received these funds and simultaneously agreed to contribute them to the designated recipient. IBRD effected the distributions via transfers to the designated recipients. Therefore, in prior periods certain of these transfers, depending on their nature, were accounted for as direct reductions in equity. This accounting reflected the shareholders' view of the substance and intent of these transfers and was applied consistently by IBRD since 1964.

Description of the change in Principle

In light of the increasing frequency of these transfers and varying nature of recipients, IBRD has re-evaluated its accounting related to these types of transactions and determined that, effective June 30, 2006, all Board of Governors-approved transfers would be reported as expenses within the Statement of Income. For the reasons discussed in the following paragraph, management believes that expensing these transactions represents a change to a preferable accounting principle, although the past accounting principle was acceptable.

The new accounting treatment provides greater transparency in IBRD's financial statements, by reflecting all of these transactions in the Statement of Income as compared to the prior method of reflecting certain of such transactions as direct charges to equity. In addition, while these transactions do not meet the criteria used by IBRD to define its principal operating activities, they are consistent with IBRD's overall mission. Therefore, the inclusion of these transactions within the Statement of Income provides greater transparency regarding the full extent of IBRD's outflows in connection with its principal operating activities as well as those activities separately authorized by the Board of Governors outside of IBRD's regular operations. This change in accounting principle also provides greater consistency with the more traditional corporate legal form and associated expense recognition policies presumed by generally accepted accounting principles.

Impact of the change in Principle

As described in Note A under *Accounting and Reporting Developments,* IBRD also elected to early adopt FAS 154, *Accounting Changes and Error Corrections*, and therefore this change to a preferable accounting principle has been applied retrospectively. Retrospective application means applying the new accounting principle as if it had always been in effect. Accordingly, all amounts in the prior periods' financial statements impacted by this change in accounting policy have been adjusted. In particular; the change in accounting policy has resulted in an increase in expenses for amounts that were previously reported as direct reductions in equity. Accordingly, amounts reported as Board of Governors-approved transfers on the Statement of Income are higher than the amounts previously reported, and the Statement of Changes in Retained Earnings no longer presents Board of Governors-approved transfers as direct reductions in retained earnings. Also, the presentation of Board of Governors-approved transfers previously presented in the Statement of Cash Flows as distributions and, therefore, a component of cash flows from financing, are now reported as a component of cash flows from operating activities.

The effect of this change on net income previously reported in fiscal years ended June 30, 2005 and June 30, 2004 is summarized in the table below:

In millions of US dollars

	Fiscal Year Ended June 30, 2005		*Fiscal Year Ended June 30, 2004*	
	As Adjusted	*As Reported*	*As Adjusted*	*As Reported*
Net Income (Loss)	$3,189	$3,831	$(3,049)	$(2,404)

There is no impact on ending retained earnings, accumulated other comprehensive income (loss) or any other component of the balance sheet from this change in accounting principle.

As this change in accounting principle was made in the fourth quarter of the fiscal year ended June 30, 2006, the tables below provide supplemental information about the effect of the change on the results of interim periods previously reported for this fiscal year ended June 30, 2006 as well as the comparative periods of fiscal year ended June 30, 2005.

Condensed Statement of Income for interim periods of the fiscal year ended June 30, 2006

In millions of US dollars

	First Quarter		*Second Quarter*		*Third Quarter*	
	As Reported	*As Adjusted*	*As Reported*	*As Adjusted*	*As Reported*	*As Adjusted*
Income						
Loans	$1,141	$ 1,141	$1,209	$1,209	$1,212	$1,212
Investments-Trading	220	220	268	268	277	277
Other	64	64	62	62	74	74
Total income	1,425	1,425	1,539	1,539	1,563	1,563
Expenses						
Borrowings	876	876	968	968	1,014	1,014
Administrative	229	229	249	249	260	260
Contributions to special programs	6	6	41	41	44	44
Board of Governors-approved special allocation grants	—	—	5	—	25	—
Release of provision for losses on loans and guarantees	(98)	(98)	(317)	(317)	(52)	(52)
Other	—	—	1	1	2	2
Total expenses	1,013	1,013	947	942	1,293	1,268
Net income before Board of Governors-approved transfers and net unrealized (losses) gains on non-trading derivative instruments, as required by FAS 133 (previously reported as Operating Income)	412	412	592	597	270	295
Board of Governors-approved transfers	—	(610)	—	(5)	—	(35)
Net unrealized (losses) gains on non-trading derivative instruments, as required by FAS 133	(921)	(921)	(13)	(13)	(1,045)	(1,045)
Net (loss) income	$ (509)	$(1,119)	$ 579	$ 579	$ (775)	$ (785)

Condensed Statement of Income for the interim periods of the fiscal year ended June 30, 2005

In millions of US dollars

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Full Year	
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	As Derived[a]	As Adjusted	As Reported	As Adjusted
Income										
Loans	$ 931	$ 931	$1,105	$1,105	$1,020	$1,020	$1,099	$1,099	$4,155	$4,155
Investments-Trading	123	123	158	158	157	157	190	189	628	627
Other	58	58	65	65	67	67	81	81	271	271
Total income	1,112	1,112	1,328	1,328	1,244	1,244	1,370	1,369	5,054	5,053
Expenses										
Borrowings	683	683	777	777	759	759	818	818	3,037	3,037
Administrative	218	218	237	237	217	217	349	349	1,021	1,021
Contributions to special programs	20	20	64	64	38	38	51	51	173	173
Release of provision for losses on loans and guarantees	(30)	(30)	(319)	(319)	(86)	(86)	(67)	(67)	(502)	(502)
Other	3	3	3	3	4	4	(5)	(6)	5	4
Total expenses	894	894	762	762	932	932	1,146	1,145	3,734	3,733
Net income before Board of Governors-approved transfers and net unrealized (losses) gains on non-trading derivative instruments, as required by FAS 133 (previously reported as Operating Income)	218	218	566	566	312	312	224	224	1,320	1,320
Board of Governors-approved transfers	—	—	—	(615)	—	—	—	(27)	—	(642)
Net unrealized (losses) gains on non-trading derivative instruments, as required by FAS 133	631	631	889	889	(801)	(801)	1,792	1,792	2,511	2,511
Net (loss) income	$ 849	$ 849	$1,455	$ 840	$ (489)	$ (489)	$2,016	$1,989	$3,831	$3,189

a. *The fourth quarter results have been derived by calculating the differences between amounts reported for the third quarter and the full year.*