

**SPECIAL PURPOSE FINANCIAL STATEMENTS AND INTERNAL CONTROL
REPORTS OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION**

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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 Development Association (IDA) is responsible for the preparation, integrity, and fair presentation of its published special purpose financial statements. The special purpose financial statements have been prepared in accordance with accounting principles described in Note A to IDA's special purpose financial statements and, as such, include amounts based on informed judgments and estimates made by management.

The special purpose 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 special purpose financial statements.

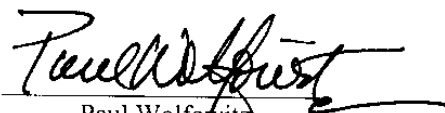
Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with accounting principles described in Note A to IDA's special purpose financial statements. The system of internal control contains monitoring 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.

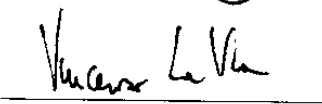
There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further,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

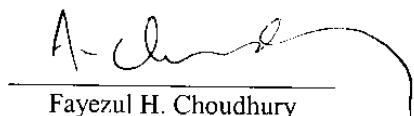
IDA assessed its internal control over external financial reporting for financial presentations in conformity with accounting principles described in Note A to IDA's special purpose financial statements as of June 30, 2006. This assessment was based on the criteria for effective internal control over 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 IDA maintained effective internal control over external financial reporting presented in conformity with accounting principles described in Note A to IDA's special purpose financial statements, as of June 30, 2006. The independent


accounting firm that audited the special purpose financial statements has issued an attestation report on management's assessment of IDA's internal control over external financial reporting.

The Board of Executive Directors of IDA has appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IDA. The Audit Committee is comprised entirely of Executive Directors who are independent of IDA's management. The Audit Committee is responsible for recommending to the 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 IDA in addition to reviewing IDA'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 Development Association

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 Development Association ("IDA") maintained effective internal control over external financial reporting presented in conformity with the accounting principles described in Note A to IDA's special purpose financial statements 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 IDA maintained effective internal control over external financial reporting presented in conformity with the accounting principles described in Note A to IDA's special purpose financial statements as of June 30, 2006, is fairly stated, in all material respects, based on the criteria established in the COSO report.



August 7, 2006

REPORT OF INDEPENDENT ACCOUNTANTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

President and Board of Executive Directors
International Development Association

We have audited the accompanying special purpose statement of sources and applications of development resources of the International Development Association as of June 30, 2006 and 2005, including the summary statement of development credits and statement of voting power and subscriptions and contributions as of June 30, 2006 and the related special purpose statements of income, comprehensive income, changes in accumulated deficit, and cash flows for each of the three fiscal years in the period ended June 30, 2006. These special purpose financial statements are the responsibility of the International Development Association's management. Our responsibility is to express an opinion on these special purpose 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 special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special purpose financial statements were prepared to reflect the sources and applications of development resources, operations, and cash flows of the International Development Association to comply with Article VI, Section 11 (a) of the Articles of Agreement of the International Development Association, as discussed in Note A to the special purpose financial statements, and are not intended to be a presentation in conformity with the accounting principles generally accepted in the United States of America or International Financial Reporting Standards.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the sources and applications of development resources of the International Development Association 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 the accounting principles described in Note A to the special purpose financial statements.

This report is intended solely for the information and use of the Board of Governors, management, and members of the International Development Association. However, under the International Development Association's Articles of Agreement, this report is a matter of public record and its distribution is not limited.



August 7, 2006

Member of
Deloitte Touche Tohmatsu

STATEMENT OF SOURCES AND APPLICATIONS OF DEVELOPMENT RESOURCES

June 30, 2006 and June 30, 2005

Expressed in millions of U.S. dollars

	2006	2005
Applications of Development Resources		
Net Resources Available for Development Activities		
Due from banks		
Unrestricted currencies	\$ 838	\$ 915
Currencies subject to restriction	23	22
	861	937
Investments—Notes B and F		
Investments—Trading (including securities transferred under repurchase or security lending agreements of \$9,601 million—June 30, 2006; \$5,259 million—June 30, 2005)	16,336	14,674
Net payable on investment securities transactions	(483)	(527)
	15,853	14,147
Nonnegotiable, noninterest-bearing demand obligations on account of member subscriptions and contributions	6,932	7,294
Receivable from the International Bank for Reconstruction and Development—Note D	210	740
Receivable from the HIPC Debt Initiative Trust Fund—Note E	—	173
Payable for development grants—Note I	(3,630)	(2,898)
Other resources, net	750	797
Total net resources available for development activities	20,976	21,190
Resources Used for Development Credits (see Summary Statement of Development Credits, Notes E and F)		
Total development credits	149,054	143,237
Less undisbursed balance	22,026	22,330
Development credits outstanding	127,028	120,907
Less accumulated provision for debt relief	45,133	11,719
Total resources used for development credits outstanding	81,895	109,188
Total Applications of Development Resources	\$102,871	\$130,378

	<u>2006</u>	<u>2005</u>
Sources of Development Resources		
<i>Member subscriptions and contributions</i> (see Statement of Voting Power and Subscriptions and Contributions, and Note C)		
Unrestricted	\$139,935	\$123,541
Restricted	<u>305</u>	<u>300</u>
Subscriptions and contributions committed	140,240	123,841
Less subscriptions and contributions receivable—Note C	10,048	824
Less unamortized discounts on advance subscriptions and contributions	<u>166</u>	<u>110</u>
Subscriptions and contributions paid in	130,026	122,907
<i>Deferred amounts receivable to maintain value of currency holdings</i>	<u>(232)</u>	<u>(233)</u>
	129,794	122,674
<i>Transfers—Note D</i>	8,585	8,189
<i>Accumulated other comprehensive income—Note J</i>	8,014	8,371
<i>Accumulated deficit</i>	<u>(43,522)</u>	<u>(8,856)</u>
<i>Total Sources of Development Resources</i>	<u><u>\$102,871</u></u>	<u><u>\$130,378</u></u>

The Notes to Special Purpose 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	2004
Income			
Development credits—Note E			
Service charges	\$ 800	\$ 872	\$ 806
Commitment charges	62	82	76
Investments, net—Note B	24	1,011	54
Total income	<u>886</u>	<u>1,965</u>	<u>936</u>
Expenses			
Development grants—Note I	1,939	2,035	1,697
Administrative—Notes G and H	954	891	908
Amortization of discount on advance subscriptions and contributions	36	25	15
Total expenses	<u>2,929</u>	<u>2,951</u>	<u>2,620</u>
Operating Loss	(2,043)	(986)	(1,684)
Effect of exchange rate changes on accumulated income before HIPC Debt Initiative and Multilateral Debt Relief Initiative (MDRI)	161	(187)	522
Net Loss before HIPC Debt Initiative and MDRI	(1,882)	(1,173)	(1,162)
HIPC Debt Initiative and MDRI—Income (Expenses)—Note E			
Provision for debt relief	(32,960)	(1,325)	(727)
Contribution from the HIPC Debt Initiative Trust Fund	176	200	202
Total net expenses for HIPC Debt Initiative and MDRI	<u>(32,784)</u>	<u>(1,125)</u>	<u>(525)</u>
Net Loss after HIPC Debt Initiative and MDRI	<u><u>\$(34,666)</u></u>	<u><u>\$(2,298)</u></u>	<u><u>\$(1,687)</u></u>

The Notes to Special Purpose 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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net Loss after HIPC Debt Initiative and MDRI	\$(34,666)	\$(2,298)	\$(1,687)
Other comprehensive (loss) income—Note J			
Currency translation adjustment on development credits, payable for development grants and MDRI	<u>(357)</u>	<u>(549)</u>	<u>4,212</u>
Comprehensive (loss) income	<u><u>\$(35,023)</u></u>	<u><u>\$(2,847)</u></u>	<u><u>\$2,525</u></u>

STATEMENT OF CHANGES IN ACCUMULATED DEFICIT

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

Expressed in millions of U.S. dollars

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Accumulated deficit at beginning of the fiscal year	\$ (8,856)	\$(6,558)	\$(4,871)
Net loss after HIPC Debt Initiative and MDRI for the fiscal year	<u>(34,666)</u>	<u>(2,298)</u>	<u>(1,687)</u>
Accumulated deficit at end of the fiscal year	<u><u>\$(43,522)</u></u>	<u><u>\$(8,856)</u></u>	<u><u>\$(6,558)</u></u>

The Notes to Special Purpose 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	2004
Cash Flows from development activities			
Development credits			
Disbursements	\$ (7,682)	\$(7,750)	\$ (6,185)
Principal repayments	1,680	1,620	1,398
Reimbursements received from the HIPC Debt Initiative Trust Fund for principal repayments forgiven	349	393	334
Net cash used in development credit activities	(5,653)	(5,737)	(4,453)
Grant activities			
Development grant disbursements	(1,228)	(1,200)	(751)
Net cash used in development activities	(6,881)	(6,937)	(5,204)
Cash Flows from Member subscriptions and contributions	7,394	5,667	5,341
Transfers from the International Bank for Reconstruction and Development	926	1,155	55
Transfers from trust funds	1	4	11
Cash Flows from operating activities			
Operating loss	(2,043)	(986)	(1,684)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Development grants	1,939	2,035	1,695
Amortization of discount on subscription advances	36	25	15
Net changes in other development resources	88	(137)	52
Net cash provided by operating activities	20	937	78
Effect of exchange rate changes on unrestricted cash and liquid investments	169	(185)	515
Net Increase in unrestricted cash and liquid investments	1,629	641	796
Unrestricted cash and liquid investments at beginning of the fiscal year	15,062	14,421	13,625
Unrestricted cash and liquid investments at end of the fiscal year	<u>\$16,691</u>	<u>\$15,062</u>	<u>\$14,421</u>
Composed of:			
Due from banks—Unrestricted currencies	\$ 838	\$ 915	\$ 1,334
Investments	15,853	14,147	13,087
	<u>\$16,691</u>	<u>\$15,062</u>	<u>\$14,421</u>
Supplemental Disclosure			
Increase/(Decrease) in ending balances of development credits outstanding, resulting from exchange rate fluctuations	\$ 577	\$ (574)	\$ 4,291
Principal repayments forgiven under HIPC Debt Initiative	(458)	(391)	(337)
Development credits transferred from the Trust Fund for Bosnia and Herzegovina	—	—	124

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

SUMMARY STATEMENT OF DEVELOPMENT CREDITS

June 30, 2006

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits^a</i>	<i>Development credits outstanding^h</i>	<i>Percentage of development credits outstanding</i>
Afghanistan	\$ 497	\$ 179	\$ 318	0.25%
Albania	870	183	687	0.54
Angola	377	46	331	0.26
Armenia	950	150	800	0.63
Azerbaijan	795	246	549	0.43
Bangladesh	10,244	1,214	9,030	7.11
Benin	934	138	796	0.63
Bhutan	103	34	69	0.05
Bolivia	1,848	123	1,725	1.36
Bosnia and Herzegovina	1,232	281	951	0.75
Botswana	7	—	7	0.01
Burkina Faso	1,451	365	1,086	0.86
Burundi	861	85	776	0.61
Cambodia	599	115	484	0.38
Cameroon	1,161	100	1,061	0.83
Cape Verde	247	32	215	0.17
Central African Republic	452	20	432	0.34
Chad	975	74	901	0.71
Chile	3	—	3	*
China	9,928	49	9,879	7.78
Colombia	4	—	4	*
Comoros	122	9	113	0.09
Congo, Democratic Republic of	2,648	483	2,165	1.70
Congo, Republic of	317	29	288	0.23
Costa Rica	1	—	1	*
Côte d'Ivoire	1,911	105	1,806	1.42
Djibouti	158	31	127	0.10
Dominica	23	1	22	0.02
Dominican Republic	10	—	10	0.01
Ecuador	15	—	15	0.01
Egypt, Arab Republic of	1,530	76	1,454	1.14
El Salvador	12	—	12	0.01
Equatorial Guinea	49	—	49	0.04
Eritrea	503	99	404	0.32
Ethiopia	4,485	992	3,493	2.75
Gambia, The	274	19	255	0.20
Georgia	855	133	722	0.57
Ghana	5,006	495	4,511	3.55
Grenada	36	10	26	0.02
Guinea	1,327	94	1,233	0.97
Guinea-Bissau	310	19	291	0.23
Guyana	232	2	230	0.18
Haiti	514	1	513	0.40
Honduras	1,631	221	1,410	1.11
India	26,829	3,031	23,798	18.73
Indonesia	1,735	570	1,165	0.92

SUMMARY STATEMENT OF DEVELOPMENT CREDITS

(continued)

June 30, 2006

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits^a</i>	<i>Development credits outstanding^h</i>	<i>Percentage of development credits outstanding</i>
Iraq	\$ 239	\$ 239	\$ —	—%
Jordan	43	—	43	0.03
Kenya	3,300	582	2,718	2.14
Korea, Republic of	46	—	46	0.04
Kyrgyz Republic	664	78	586	0.46
Lao People's Democratic Republic	689	67	622	0.49
Lesotho	304	38	266	0.21
Liberia	107	—	107	0.08
Macedonia, former Yugoslav Republic of	377	2	375	0.29
Madagascar	2,828	421	2,407	1.90
Malawi	2,060	52	2,008	1.58
Maldives	83	18	65	0.05
Mali	1,809	292	1,517	1.19
Mauritania	955	246	709	0.56
Mauritius	10	—	10	0.01
Moldova	314	90	224	0.18
Mongolia	362	74	288	0.23
Morocco	19	—	19	0.02
Mozambique	2,160	411	1,749	1.38
Myanmar	762	—	762	0.60
Nepal	1,598	161	1,437	1.13
Nicaragua	1,358	154	1,204	0.95
Niger	1,240	129	1,111	0.87
Nigeria	2,701	1,381	1,320	1.04
Pakistan	8,357	730	7,627	6.00
Papua New Guinea	77	—	77	0.06
Paraguay	20	—	20	0.02
Philippines	197	—	197	0.15
Rwanda	1,126	117	1,009	0.79
St. Kitts and Nevis	1	—	1	*
St. Lucia	42	8	34	0.03
St. Vincent and the Grenadines	21	5	16	0.01
Samoa	81	15	66	0.05
São Tomé and Príncipe	81	7	74	0.06
Senegal	2,610	467	2,143	1.69
Serbia and Montenegro ⁱ	777	225	552	0.43
Sierra Leone	627	51	576	0.45
Solomon Islands	45	1	44	0.03
Somalia	429	—	429	0.34
Sri Lanka	2,501	324	2,177	1.71
Sudan	1,253	—	1,253	0.99
Swaziland	3	—	3	*
Syrian Arab Republic	21	—	21	0.02
Tajikistan	362	40	322	0.25
Tanzania	5,269	1,224	4,045	3.18
Thailand	71	—	71	0.06
Togo	682	—	682	0.54

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits^a</i>	<i>Development credits outstanding^h</i>	<i>Percentage of development credits outstanding</i>
Tonga	\$ 24	\$ 10	\$ 14	0.01 %
Tunisia	27	—	27	0.02
Turkey	68	—	68	0.05
Uganda	3,917	638	3,279	2.58
Uzbekistan	90	73	17	0.01
Vanuatu	13	—	13	0.01
Vietnam	6,433	3,000	3,433	2.70
Yemen, Republic of	2,320	536	1,784	1.40
Zambia	2,712	156	2,556	2.01
Zimbabwe	490	—	490	0.39
Subtotal members ^b	<u>148,843</u>	<u>21,915</u>	<u>126,928</u>	<u>99.92</u>
Bank of the States of Central Africa ^d	17	8	9	0.01
Caribbean Development Bank ^e	24	—	24	0.02
West African Development Bank ^c	<u>156</u>	<u>98</u>	<u>58</u>	<u>0.05</u>
Subtotal regional development banks	197	106	91	0.08
African Trade Insurance Agency ^f	11	5	6	*
Other ^g	<u>3</u>	<u>—</u>	<u>3</u>	<u>*</u>
Total—June 30, 2006 ^b	<u>\$149,054</u>	<u>\$22,026</u>	<u>\$127,028</u>	<u>100.00 %</u>
Total—June 30, 2005	<u>\$143,237</u>	<u>\$22,330</u>	<u>\$120,907</u>	

* Indicates amounts less than \$0.05 million or less than 0.005 percent.

NOTES

- Of the undisbursed balance at June 30, 2006, IDA has entered into irrevocable commitments to disburse \$239 million (\$211 million—June 30, 2005).
- May differ from the sum of individual figures shown due to rounding.
- These development credits are for the benefit of Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo.
- These development credits are for the benefit of Cameroon, Chad, Central African Republic, Republic of Congo, Gabon and Equatorial Guinea.
- These development credits are for the benefit of Grenada and territories of the United Kingdom (Associated States and Dependencies) in the Caribbean region.
- Represents development credit extended to the African Trade Insurance Agency (ATI) as implementing agency for the benefit of Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia.
- Represents development credits made at a time when the authorities on Taiwan represented China in IDA (prior to May 15, 1980).
- See note E - Subsequent Event.
- Montenegro declared independence from Serbia on June 3, 2006 (Note C).

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

STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2006

Expressed in millions of U.S. dollars

<i>Member^a</i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed</i>
Part I Members			
Australia	195,130	1.24%	\$ 2,417.33
Austria	108,386	0.69	1,368.44
Belgium	172,388	1.10	2,081.59
Canada	442,902	2.82	6,219.97
Denmark	158,811	1.01	2,020.66
Finland	94,474	0.60	942.12
France	654,788	4.17	10,166.45
Germany	1,043,130	6.64	15,936.56
Greece	39,635	0.25	88.31
Iceland	36,795	0.23	39.95
Ireland	44,943	0.29	207.18
Italy	426,350	2.71	5,183.77
Japan	1,626,574	10.35	28,803.37
Kuwait	84,679	0.54	755.74
Luxembourg	36,541	0.23	122.00
Netherlands	330,811	2.11	5,162.09
New Zealand	45,489	0.29	180.28
Norway	161,004	1.02	2,086.89
Portugal	42,015	0.27	140.89
Russian Federation	44,455	0.28	262.78
Slovenia	34,947	0.22	9.28
South Africa	43,501	0.28	120.65
Spain	113,072	0.72	1,480.97
Sweden	304,694	1.94	4,168.64
Switzerland ^b	173,112	1.10	2,395.80
United Arab Emirates	1,367	0.01	5.58
United Kingdom	794,820	5.06	12,373.54
United States	2,102,894	13.38	31,541.78
Subtotal Part I Members ^{b,c}	9,357,707	59.55%	\$ 136,282.59
Part II Members			
Afghanistan	17,896	0.11	1.29
Albania	36,599	0.23	0.33
Algeria	27,720	0.18	5.10
Angola	48,362	0.31	7.91
Argentina	134,439	0.86	69.84
Armenia	9,068	0.06	0.54
Azerbaijan	7,860	0.05	0.90
Bangladesh	91,317	0.58	7.38
Barbados	33,126	0.21	1.04
Belize	8,077	0.05	0.25
Benin	16,996	0.11	0.66
Bhutan	34,663	0.22	0.07
Bolivia	45,350	0.29	1.43
Bosnia and Herzegovina	38,077	0.24	2.43
Botswana	32,495	0.21	1.62
Brazil	271,410	1.73	557.19
Burkina Faso	35,623	0.23	0.71

<i>Member^a</i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed</i>
Burundi	25,706	0.16%	\$ 0.97
Cambodia	17,283	0.11	1.34
Cameroon	29,622	0.19	1.42
Cape Verde	8,320	0.05	0.10
Central African Republic	17,449	0.11	0.67
Chad	17,419	0.11	0.67
Chile	31,782	0.20	4.47
China	308,144	1.96	42.28
Colombia	77,701	0.49	24.66
Comoros	13,141	0.08	0.11
Congo, Democratic Republic of	52,250	0.33	4.25
Congo, Republic of	39,452	0.25	0.72
Costa Rica	12,480	0.08	0.25
Côte d'Ivoire	40,456	0.26	1.42
Croatia	53,014	0.34	5.67
Cyprus	42,204	0.27	1.15
Czech Republic	72,449	0.46	54.59
Djibouti	532	*	0.19
Dominica	20,153	0.13	0.11
Dominican Republic	27,780	0.18	0.58
Ecuador	40,872	0.26	0.89
Egypt, Arab Republic of	67,384	0.43	6.88
El Salvador	6,244	0.04	0.40
Equatorial Guinea	6,167	0.04	0.41
Eritrea	25,295	0.16	0.12
Ethiopia	33,419	0.21	0.71
Fiji	13,316	0.08	0.74
Gabon	2,093	0.01	0.63
Gambia, The	19,444	0.12	0.34
Georgia	41,519	0.26	0.94
Ghana	59,183	0.38	3.08
Grenada	20,627	0.13	0.13
Guatemala	37,397	0.24	0.55
Guinea	30,687	0.20	1.32
Guinea-Bissau	6,790	0.04	0.17
Guyana	23,460	0.15	1.04
Haiti	24,871	0.16	0.98
Honduras	37,293	0.24	0.41
Hungary	109,301	0.70	54.63
India	501,248	3.19	57.89
Indonesia	141,344	0.90	14.89
Iran, Islamic Republic of	15,455	0.10	5.69
Iraq	9,407	0.06	0.98
Israel	52,387	0.33	41.03
Jordan	24,865	0.16	0.41
Kazakhstan	5,685	0.04	1.89
Kenya	51,974	0.33	2.30
Kiribati	11,777	0.07	0.08

STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS *(continued)*

June 30, 2006

Expressed in millions of U.S. dollars

<i>Member^a</i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed</i>
Korea, Republic of	\$ 94,639	0.60%	\$ 690.80
Kyrgyz Republic	2,700	0.02	0.49
Lao People's Democratic Republic	23,396	0.15	0.65
Latvia	36,322	0.23	0.90
Lebanon	8,562	0.05	0.56
Lesotho	32,364	0.21	0.22
Liberia	22,467	0.14	0.95
Libya	12,109	0.08	1.30
Macedonia, former Yugoslav Republic of	34,011	0.22	1.07
Madagascar	44,794	0.29	1.33
Malawi	38,112	0.24	0.97
Malaysia	53,427	0.34	3.56
Maldives	34,453	0.22	0.05
Mali	29,009	0.18	1.20
Marshall Islands	4,902	0.03	0.01
Mauritania	35,623	0.23	0.67
Mauritius	43,332	0.28	1.23
Mexico	102,666	0.65	138.32
Micronesia, Federated States of	18,424	0.12	0.03
Moldova	612	*	0.68
Mongolia	24,389	0.16	0.29
Morocco	71,697	0.46	5.18
Mozambique	14,817	0.09	1.70
Myanmar	55,655	0.35	3.04
Nepal	35,300	0.22	0.68
Nicaragua	37,293	0.24	0.42
Niger	19,302	0.12	0.67
Nigeria	69,806	0.44	4.47
Oman	37,402	0.24	1.37
Pakistan	144,828	0.92	13.99
Palau	3,839	0.02	0.03
Panama	10,185	0.06	0.03
Papua New Guinea	39,121	0.25	1.16
Paraguay	20,581	0.13	0.40
Peru	24,372	0.16	2.24
Philippines	16,583	0.11	6.43
Poland	344,305	2.19	69.08
Rwanda	24,404	0.16	1.00
St. Kitts and Nevis	7,888	0.05	0.16
St. Lucia	30,705	0.20	0.23
St. Vincent and the Grenadines	34,880	0.22	0.11
Samoa	21,850	0.14	0.12
São Tomé and Príncipe	9,808	0.06	0.09
Saudi Arabia	538,047	3.42	2,258.21
Senegal	44,118	0.28	2.37
Serbia and Montenegro ^d	52,017	0.33	6.86
Sierra Leone	38,112	0.24	0.98
Singapore	10,182	0.06	36.41
Slovak Republic	46,958	0.30	17.34
Solomon Islands	518	*	0.11
Somalia	10,506	0.07	0.95

<i>Member</i> ^a	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed</i>
Sri Lanka	64,584	0.41%	\$ 4.10
Sudan	26,822	0.17	1.31
Swaziland	19,022	0.12	0.42
Syrian Arab Republic	10,351	0.07	1.20
Tajikistan	20,568	0.13	0.46
Tanzania	46,951	0.30	2.18
Thailand	64,584	0.41	4.34
Timor-Leste	558	*	0.35
Togo	23,243	0.15	1.02
Tonga	20,206	0.13	0.10
Trinidad and Tobago	9,087	0.06	1.69
Tunisia	2,793	0.02	1.89
Turkey	104,730	0.67	141.81
Uganda	43,015	0.27	2.37
Ukraine	1,762	0.01	7.61
Uzbekistan	746	*	1.48
Vanuatu	13,821	0.09	0.25
Vietnam	19,203	0.12	1.96
Yemen, Republic of	49,574	0.32	2.11
Zambia	62,783	0.40	3.57
Zimbabwe	25,138	0.16	4.98
Subtotal Part II Members ^c	<u>6,356,852</u>	<u>40.45%</u>	<u>\$ 4,470.16</u>
Total—June 30, 2006 ^{b,c}	<u>15,714,559</u>	<u>100.00%</u>	<u>\$140,752.74</u>
Total—June 30, 2005 ^b	<u>14,840,318</u>	<u>100.00%</u>	<u>\$124,353.08</u>

* Indicates amounts less than \$0.05 million or less than 0.005 percent.

NOTES

- See Notes to Special Purpose Financial Statements—Note A for an explanation of the two categories of membership.
- \$512.3 million of Switzerland's subscription and contributions have not been included in the Statement of Sources and Applications of Development Resources at June 30, 2006 and June 30, 2005 since this represents the difference between the total cofinancing grants of \$580.1 million provided by Switzerland directly to IDA borrowers as cofinancing grants between the fourth and the ninth replenishments of IDA resources, and the July 1992 contribution by Switzerland of \$67.8 million.
- May differ from the sum of individual figures shown due to rounding.
- Montenegro declared independence from Serbia on June 3, 2006 (Note C).

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

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

NOTE A—ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING AND RELATED POLICIES

Purpose and Affiliated Organizations

The International Development Association (IDA) is an international organization that was established on September 24, 1960. IDA's main goal is reducing poverty through promoting sustainable economic development in the less developed areas of the world included in IDA's membership, by extending concessionary financing in the form of grants, development credits and guarantees. IDA has three affiliated organizations, the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Each of these other organizations is legally and financially independent from IDA, with separate assets and liabilities, and IDA is not liable for their respective obligations. Transactions with these affiliates are disclosed in the notes that follow. The principal purpose of IBRD is to promote sustainable economic development and reduce poverty in its member countries, primarily by providing loans, guarantees and related technical assistance for specific projects and for programs of economic reform in developing member countries. IFC's purpose is to encourage the growth of productive private enterprises in its member countries through loans and equity investments in such enterprises without a member's guarantee. MIGA 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.

Summary of Significant Accounting and Related Policies

Due to the nature and organization of IDA, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of member subscriptions and contributions and other development resources. These financial statements are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America or with International Financial Reporting Standards. These special purpose financial statements have been prepared to comply with Article VI, Section 11(a) of the Articles of Agreement of IDA, and are prepared in accordance with the accounting policies outlined below.

The preparation of these special purpose financial statements requires management to make estimates

and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant judgments have been used in the computation of estimated fair values of development credits and accumulated provision for the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI).

On August 7, 2006 the Executive Directors approved these financial statements for issue.

Reclassifications

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

Basis of Accounting

IDA's special purpose financial statements are prepared on the accrual basis of accounting. That is, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

IDA follows a special basis of accounting for member subscriptions and contributions and for development credits as described under the discussion on significant accounting policies below.

Translation of Currencies

IDA's special purpose financial statements are expressed in terms of U.S. dollars solely for the purpose of summarizing IDA's financial position and the results of its operations for the convenience of its members and other interested parties.

IDA is an international organization which conducts its operations in Special Drawing Rights (SDRs) and U.S. dollars. Applications of development resources and sources of development resources are translated at market exchange rates in effect at the end of the accounting period, except Member Subscriptions and Contributions which are translated in the manner described below. Income and expenses are translated at either the market exchange rates in effect on the dates of income and expense recognition, or at an average of the exchange rates in effect during each month. Translation adjustments relating to the revaluation of development credits and development grants denominated in SDRs are charged or credited to Accumulated Other Comprehensive Income. Other translation adjustments are shown in the Statement of Income.

Member Subscriptions and Contributions

Recognition

Member Subscriptions and Contributions committed for each IDA replenishment are recorded based upon the full amount of Instruments of Commitment received from members upon effectiveness of the relevant replenishment. Prior to effectiveness, only a portion of the Instruments of Commitment received are recorded as Subscriptions and Contributions committed. A replenishment becomes effective when IDA receives Instruments of Commitment from members for subscriptions and contributions of a specified portion of the full replenishment. Amounts not yet paid in, at the date of effectiveness, are recorded as Subscriptions and Contributions Receivable and shown as a reduction of Subscriptions and Contributions Committed. These receivables become due throughout the replenishment period (generally three years) in accordance with an agreed maturity schedule. The actual payment of receivables when they become due from certain members is conditional upon the respective member's budgetary appropriation processes.

The Subscriptions and Contributions Receivable are settled through payment of cash or deposit of nonnegotiable, noninterest-bearing demand notes. The notes are encashed by IDA as provided in the relevant replenishment resolution over the disbursement period of the credits committed under the replenishment.

In certain replenishments, donors have had the option of paying all of their subscription and contribution amounts in cash before they become due, and thereby receiving discounts. In addition, some replenishment arrangements have incorporated an accelerated encashment schedule. In these cases, IDA and the donor agree that IDA will invest the cash and retain the income. The related subscription and contribution are recorded at the full undiscounted amount. The discount is recorded as unamortized discount on contributions (a reduction of Subscriptions and Contributions Committed) and amortized over the projected encashment period.

Under the provisions governing replenishments, IDA must encash the notes or similar obligations of contributing members on an approximately *pro rata* basis. As discussed in the previous paragraph, donors sometimes contribute resources on an advanced or an accelerated basis. IDA holds these resources until they become available for disbursement on a *pro rata* basis.

Transfers to IDA from IBRD are recorded under Sources of Development Resources and are receivable upon approval by IBRD's Board of Governors.

For the purposes of its financial resources, the membership of IDA is divided into two categories: (1) Part I members, which make payments of subscriptions and contributions provided to IDA in convertible currencies which may be freely used or exchanged by IDA in its operations and (2) Part II members, which make payments of ten percent of their initial subscriptions in freely convertible currencies, and the remaining 90 percent of their initial subscriptions, and all additional subscriptions and contributions in their own currencies or in freely convertible currencies. Certain Part II members provide a portion of their subscriptions and contributions in the same manner as mentioned in (1) above. IDA's Articles of Agreement and subsequent replenishment agreements provide that the currency of any Part II member paid in by it may not be used by IDA for projects financed by IDA and located outside the territory of the member except by agreement between the member and IDA. The local currency portion of subscriptions of Part II members are recorded as restricted under Member Subscriptions and Contributions unless released under an agreement between the member and IDA or used for administrative expenses. The cash paid and notes deposited in nonconvertible local currencies for the subscriptions of Part II members are recorded either as currencies subject to restriction under Due from Banks, or as restricted notes included under Nonnegotiable, noninterest-bearing demand obligations on account of member subscriptions and contributions.

Following adoption by the Board of Governors on April 21, 2006 of a resolution authorizing additions to IDA's resources to finance the Multilateral Debt Relief Initiative (MDRI), any pledges received in the form of Instruments of Commitments will be recorded and accounted for in their entirety. Therefore, the full value of all Instruments of Commitments received will be recorded as subscriptions and contributions upon effectiveness of the replenishment. In addition, these Instruments of Commitments will also be recorded as subscriptions and contributions receivable in the Statement of Sources and Application of Development Resources.

Under IDA's Articles of Agreement, a member may withdraw from membership in IDA at any time. When a government ceases to be a member, it remains liable for all financial obligations undertaken by it to IDA, whether as a member, borrower, guarantor or

otherwise. The Articles provide that upon withdrawal, IDA and the government shall proceed to a settlement of accounts. If agreement is not reached within six months, standard arrangements are provided. Under these arrangements, IDA would pay to the government the lower of the member's total paid-in subscriptions and contributions or the member's proportionate share of IDA's net assets. These funds would be paid as a proportionate share of all principal repayments received by IDA on loans made during the government's membership.

Valuation

The subscriptions and contributions provided through the Third Replenishment are expressed in terms of "U.S. dollars of the weight and fineness in effect on January 1, 1960" (1960 dollars). Following the abolition of gold as a common denominator of the monetary system and the repeal of the provision of the U.S. law defining the par value of the U.S. dollar in terms of gold, the pre-existing basis for translating 1960 dollars into current dollars or any other currency disappeared. The Executive Directors of IDA decided, with effect from that date and 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 January 1, 1960" in Article II, Section 2(b) of the Articles of Agreement of IDA are interpreted to mean the SDR introduced by the International Monetary Fund as the SDR was valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being equal to \$1.20635 for one SDR (the 1974 SDR), and have also decided to apply the same standard of value to amounts expressed in 1960 dollars in the relevant resolutions of the Board of Governors.

The subscriptions and contributions provided through the Third Replenishment are expressed on the basis of the 1974 SDR. Prior to the decision of the Executive Directors, IDA had valued these subscriptions and contributions on the basis of the SDR at the current market value of the SDR.

The subscriptions and contributions provided under the Fourth Replenishment and thereafter are expressed in members' currencies or SDRs and are payable in members' currencies. Beginning July 1, 1986, subscriptions and contributions made available for disbursement in cash to IDA are translated at market exchange rates in effect on the dates they were made available. Prior to that date, subscriptions and contributions which had been disbursed or converted into other currencies were translated at market

exchange rates in effect on dates of disbursement or conversion. Subscriptions and contributions not yet available for disbursements are translated at market exchange rates in effect at the end of the accounting period.

Article IV, Section 2(a) and (b) of IDA's Articles of Agreement provides for maintenance of value payments on account of the local currency portion of the initial subscription whenever the par value of the member's currency or its foreign exchange value has, in the opinion of IDA, depreciated or appreciated to a significant extent within the member's territories, so long as, and to the extent that, such currency shall not have been initially disbursed or exchanged for the currency of another member. The provisions of Article IV, Section 2(a) and (b) have by agreement been extended to cover additional subscriptions and contributions of IDA through the Third Replenishment, but are not applicable to those of the Fourth and subsequent replenishments.

The Executive Directors decided on June 30, 1987 that settlements of maintenance of value, which would result from the resolution of the valuation issue on the basis of the 1974 SDR, would be deferred until the Executive Directors decide to resume such settlements. These amounts are shown as Deferred Amounts Receivable to Maintain Value of Currency Holdings.

Development Credits

All development credits are made to or guaranteed by member governments or to the government of a territory of a member (except for development credits which have been made to regional development institutions for the benefit of members or territories of members of IDA). In order to qualify for lending on IDA terms, a country's per capita income must be below a certain level and the country may have only limited or no creditworthiness for IBRD lending. Development credits carry a service charge of 0.75 percent and generally have 35- or 40-year final maturities and a 10-year grace period for principal payments. A new hard-term lending window was established in the IDA Fourteenth Replenishment. Eligibility for this window is restricted to creditworthy IBRD/IDA blend countries with per capita incomes below the IDA operational cut-off and an active IBRD lending program. Lending terms include a 35-year maturity, including 10 years of grace, and an interest charge in addition to standard IDA charges. The interest rate is set for each fiscal year and is derived from the fixed-rate equivalent of IBRD's lending rate reduced by 200 basis points.

Commitment charges on the undisbursed balances of IDA credits are set annually by the Board of Executive Directors of IDA. Development credits are carried in the Special Purpose Financial Statements at the full face amount of the borrowers' outstanding obligations.

It is the practice of IDA to place in nonaccrual status all development credits made to or guaranteed by a member government or to the government of a territory of a member if principal or charges with respect to any such development credit are overdue by more than six months, unless IDA's management determines that the overdue amount will be collected in the immediate future. In addition, if loans by IBRD to a member government are placed in nonaccrual status, all development credits to that member government will also be placed in nonaccrual status by IDA. On the date a member's development credits are placed in nonaccrual status, charges that had been accrued on development credits outstanding to the member which remained unpaid are deducted from the income from development credits of the current period. Charges on nonaccruing development credits are included in income only to the extent that payments have actually been received by IDA. If collectibility risk is considered to be particularly high at the time of arrears clearance, the member's credits may not automatically emerge from nonaccrual status, even though the member's eligibility for new credits may have been restored. A decision on the restoration of accrual status is made on a case-by-case basis.

In fulfilling its mission, IDA makes concessional loans to the poorest countries. Therefore, there is significant credit risk in the portfolio of development credits. Management continually monitors this credit risk. No provision for credit losses, other than accumulated provision for the HIPC Debt Initiative and MDRI, has been established.

The repayment obligations of IDA's development credits funded from resources through the Fifth Replenishment are expressed in the development credit agreements in terms of 1960 dollars. In June 1987, the Executive Directors decided to value those development credits at the rate of \$1.20635 per 1960 dollar on a permanent basis. Development credits funded from resources provided under the Sixth Replenishment and thereafter are denominated in SDRs; the principal amounts disbursed under such development credits are to be repaid in currency amounts currently equivalent to the SDRs disbursed.

Development Grants

IDA is authorized to provide a significant portion of financing beginning with the Thirteenth Replenishment as development grants. The annual net income transfers from IBRD for fiscal years 1997 through 2005 also authorized the use of such funds for IDA development grants.

Effective July 1, 2005, development grants are charged to income upon approval by IDA's Executive Directors. In previous periods, development grants were charged to income upon signing of the grant agreement by the recipient country.

Commitment charges on the undisbursed balances of IDA grants are set annually by the Board of Executive Directors of IDA.

Guarantees

IDA provides guarantees for loans issued in support of projects located within a member country that are undertaken by private entities. These financial guarantees are commitments issued by IDA to guarantee payment performance by a borrower to a third party.

Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred, and called when a guaranteed party demands payment under the guarantee. IDA would be required to perform under its guarantees if the payments guaranteed are not made by the borrower and the guaranteed party called the guarantee by demanding payment from IDA in accordance with the terms of the guarantee.

In the event that a guarantee is called, IDA has the contractual right to require payment from the member country that has provided the counter guarantee to IDA, on demand, or as IDA may otherwise direct.

Guarantees fee income received is deferred and amortized over the period of benefit.

At inception of the guarantees, IDA records the fair value of the obligation to stand ready.

The unamortized balance of the deferred guarantee fee income and the unamortized balance of the obligation to stand ready are included in Other Resources, net on the Statement of Sources and Applications of Development Resources.

Heavily Indebted Poor Countries (HIPC) Debt Initiative

The HIPC Debt Initiative was launched in 1996 as a joint effort by bilateral and multilateral creditors to

ensure that reform efforts of HIPC's would not be put at risk by unsustainable external debt burdens. As part of this process, the HIPC Debt Initiative Trust Fund was established on November 7, 1996. It is administered by IDA and constituted by funds of donors including the IBRD, to help beneficiaries reduce their overall debt, including IDA debt.

Under the Enhanced Framework of the Initiative, which was approved by IDA's Executive Directors on January 27, 2000, implementation mechanisms include: (i) partial forgiveness of IDA debt service as it comes due, to be reimbursed to IDA by the IBRD/IDA component of the HIPC Debt Initiative Trust Fund; and (ii) in the case of countries with a substantial amount of outstanding IBRD debt, partial refinancing by IDA resources (excluding transfers from IBRD) of outstanding IBRD debt.

Upon approval of debt relief for a country under the Enhanced HIPC Initiative by the Executive Directors of IDA, the principal component of the estimated debt relief costs is recorded as a reduction of the disbursed and outstanding development credits under the accumulated provision for HIPC Debt Initiative, and as a charge to income.

This estimate is subject to periodic revision. The accumulated provision for HIPC Debt Initiative is reduced when debt relief is provided by IDA.

Upon signature by IDA of the country specific legal notification, immediately following the decision by the Executive Directors of IDA to provide debt relief to the country (the decision point), the country becomes eligible for debt relief up to the nominal value equivalent of one third of the net present value of the principal component of the total debt relief committed to the specific country. Further, when the country reaches its completion point and the country's other creditors have confirmed their full participation in the debt relief initiative to the satisfaction of IDA, the country becomes eligible for the full amount of debt relief provided under this initiative.

The Multilateral Debt Relief Initiative (MDRI)

On March 28, 2006, the Executive Directors approved IDA's participation in the MDRI. The objective of the MDRI is to provide additional support to HIPC countries.

Debt relief to be provided under the MDRI will be in addition to existing debt relief commitments by IDA and other creditors under the HIPC Debt Initiative. Additional resources for financing IDA's costs of providing debt relief under MDRI will be provided by

donors under a resolution of IDA's Board of Governors adopted on April 21, 2006. Such resources will be added to IDA's resources and will be accounted for as subscriptions and contributions.

The MDRI replenishment will become effective when IDA has received written commitments from donors whose aggregate contributions amount to not less than SDR 10,434 million, of which not less than SDR 410 million are unqualified commitments for payments due in FY2007 and FY2008.

Upon approval of IDA's participation in the MDRI by IDA's Executive Directors, IDA provided in full for the expected write off of the principal component of debt relief to be delivered under the MDRI. The provision is recorded as a reduction of the disbursed and outstanding developments credits and as a charge to income. Following the start of the MDRI implementation by IDA on July 1, 2006, the applicable development credits will be written off and the provision reduced accordingly for the first group of post-completion point HIPC countries that have been confirmed by the Executive Directors as eligible for MDRI relief, and subsequently upon reaching completion point for the other HIPC countries.

Cash and Liquid Investments

IDA considers unrestricted cash as well as securities held in the investment portfolio, as an element of liquidity in the Statement of Cash Flows, since they are readily convertible to known amounts of cash.

IDA carries its investment securities and related financial instruments at fair value, using trade date accounting. 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. Both realized and unrealized gains and losses are included in income from Investments on the Statement of Income.

Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are recorded at historical cost. IDA receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions.

The securities transferred to IDA 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 IDA's Statement of Sources and Applications of Development Resources and securities received under resale agreements are not recorded on IDA's Statement of Sources and Applications of Development Resources.

NOTE B—INVESTMENTS

As part of its portfolio management strategy, IDA invests in the following financial instruments.

Asset-backed Securities: IDA may only invest in asset-backed securities with a AAA credit rating.

Currency Swaps: IDA is authorized to enter into currency swaps including currency forward contracts.

Futures: IDA generally closes out most open positions in futures contracts prior to expiration. Therefore, cash receipts or payments are mostly limited to the change in market value of the futures contracts.

Futures contracts generally entail daily settlement of the variation margin.

Government and Agency Obligations: Obligations issued or unconditionally guaranteed by governments of member countries require a minimum credit rating of AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required.

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 require a minimum credit rating of AA-.

Options: IDA invests only in exchange-traded options. The initial price of an option contract is equal to the premium paid by the purchaser and is significantly less than the contract or notional amount.

Time Deposits: IDA may only invest in time deposits issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.

A summary of IDA's investments, by instrument, at June 30, 2006 and June 30, 2005 is as follows:

In millions of U.S. dollars equivalent

	<i>Carrying Value</i>	
	<i>2006</i>	<i>2005</i>
Government and agency obligations	\$ 11,206	\$ 9,406
Time deposits	11,579	7,467
Asset-backed securities	3,193	2,324
Gross investment holdings	25,978	19,197
Securities purchased under resale agreements	592	1,142
Repurchase agreements and securities loans	(10,237)	(5,664)
Receivable from currency and interest rate swaps	1,269	346
Payable for currency and interest rate swaps	(1,266)	(347)
Investments—Trading	16,336	14,674
Receivable from securities traded	716	1,224
Payable for securities traded ^a	(1,199)	(1,751)
Net payable on investments securities transactions	(483)	(527)
Investments	15,853	14,147
Cash held in Investment portfolio ^b	816	888
Net Investment Portfolio	\$16,669	\$15,035

a. As of June 30, 2006, IDA had \$59 million (\$228 million—June 30, 2005) of short sales included in Payable for securities traded.

b. This amount is included in Unrestricted Currencies under Due from Banks on the Statement of Sources and Applications of Development Resources.

A summary of the currency composition of investments at June 30, 2006 and June 30, 2005 is as follows:

Gross investment holdings

In millions of U.S. dollars equivalent

	2006			2005		
	Carrying value	Average Yield (%)	Average Repricing (years)	Carrying value	Average Yield (%)	Average Repricing (years)
Euro	\$ 12,099	3.30	2.00	\$ 8,337	2.43	3.49
Japanese yen	1,963	0.39	1.10	—	—	—
Pounds sterling	1,607	4.70	2.00	3,410	4.52	3.82
U.S. dollars	9,888	5.37	2.19	7,047	3.74	3.52
Other	421	4.11	0.35	403	4.69	3.28
Total	<u>\$25,978</u>	<u>3.97</u>	<u>1.98</u>	<u>\$19,197</u>	<u>3.33</u>	<u>3.56</u>

Net Investment Portfolio

In millions of U.S. dollars equivalent

	2006			2005		
	Carrying value	Average Yield (%)	Average Repricing (years)	Carrying value	Average Yield (%)	Average Repricing (years)
Euro	\$ 6,427	3.78	3.45	\$ 7,290	2.38	3.74
Japanese yen	2,429	0.28	0.87	873	—	—
Pounds sterling	1,061	4.57	2.96	1,846	4.33	6.73
U.S. dollars	6,751	6.10	3.16	5,026	4.42	7.28
Other	1	2.34	†	*	†	†
Total	<u>\$16,669</u>	<u>4.28</u>	<u>2.94</u>	<u>\$15,035</u>	<u>3.17</u>	<u>5.18</u>

* Indicates amounts less than \$0.05 million.

† Indicates amounts not meaningful.

For the purpose of risk management in the investment portfolio, IDA is party to a variety of financial instruments, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. IDA limits trading to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty by type of instrument and maturity category.

In addition, IDA has entered into master derivatives agreements which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps shown below. The reduction in exposure as a result of these netting provisions can vary as additional transactions are entered into under these agreements. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date.

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

In millions of U.S. dollars equivalent

	2006	2005
Exchange traded Futures and options		
• Notional Long position	\$14,539	\$8,605
• Notional Short position	93	1,842
Currency swaps		
• Credit exposure	4	—
Interest rate swaps		
• Notional principal	1,975	1,280
• Credit exposure	37	5

Exchange traded instruments are deemed to have no material credit risk. All outstanding futures and options contracts at the end of June 30, 2006 and June 30, 2005 were interest rate contracts.

As of June 30, 2006, IDA had received \$602 million (\$1,153 million—June 30, 2005) of securities under resale agreements. Of these instruments held by IDA, \$479 million (\$369 million—June 30, 2005) has been transferred under repurchase or security lending agreements. None of these securities have been included in the assets of IDA.

At June 30, 2006, IDA maintained a line of credit facility 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 this amount in aggregate. The line of credit facility is being used to cover any overnight overdrafts that may occur due to failed trades. At June 30, 2006, IDA had not drawn down under this facility (\$nil — June 30, 2005).

NOTE C—MEMBER SUBSCRIPTIONS AND CONTRIBUTIONS

Subscriptions and Contributions Receivable: At June 30, 2006, receivables from subscriptions and contributions were \$10,048 million (\$824 million—June 30, 2005) of which \$585 million (\$355 million—June 30, 2005) was due and \$9,463 million (\$469 million—June 30, 2005) was not yet due.

Subscriptions and contributions due at June 30, 2006 were as follows:

In millions of U.S. dollars equivalent

Amounts initially due

July 1, 2005 through June 30, 2006	\$256
June 30, 2005 and earlier	329
Total	<u>\$585</u>

Subscriptions and contributions not yet due at June 30, 2006 will become due as follows:

In millions of U.S. dollars equivalent

Period

July 1, 2006 through June 30, 2007	\$4,669
July 1, 2007 through June 30, 2008	4,625
Thereafter	169
Total	<u>\$9,463</u>

Restricted notes on account of member subscriptions at June 30, 2006 were \$46 million (\$44 million—June 30, 2005).

Fourteenth Replenishment (IDA 14): Under the IDA 14 replenishment, which was approved by the Board of Governors on April 13, 2005, IDA is expected to provide concessional financing of about \$35 billion (SDR 24 billion), including a significant portion as grants during the period July 1, 2005 to June 30, 2008. Of this amount, new donor contributions are expected to total about \$20 billion (SDR 14 billion). The Fourteenth Replenishment became effective on January 24, 2006 after IDA had received commitments for subscriptions and contributions of SDR 8,952 million.

Donors agreed to provide HIPC-related contributions to IDA to cover IDA's HIPC costs during the Fourteenth Replenishment. Such contributions can be made either directly to IDA or through the World Bank component of the HIPC Trust Fund, which are then transferred to IDA. Donors will receive voting rights for these contributions.

As of June 30, 2006, IDA has received HIPC-related contributions of \$697 million which has been recorded in subscriptions and contributions paid in on the Statement of Sources and Applications of Development Resources. Of this amount, \$87 million was paid through the HIPC Trust Fund.

Subsequent Event

On July 10, 2006, IDA received joint communications from both Serbia and Montenegro (SaM) 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, Serbia will continue the membership of SaM in IDA, retaining its present subscription and voting power, with all rights and obligations stemming from membership in IDA. In addition, the republics have agreed on their respective portions of the financial obligations formerly undertaken by SaM with IDA.

In response, IDA has accepted that Serbia continues SaM membership in IDA and takes on all of the rights, obligations and assets of SaM in respect of IDA, pending completion of Montenegro's membership in IDA. On July 17, 2006, the Government of Montenegro submitted its application for membership in IDA.

NOTE D—TRANSFERS

At June 30, 2006 and June 30, 2005, cumulative transfers were comprised of:

In millions of U.S. dollars

<i>Transfer from</i>	<i>2006</i>	<i>2005</i>
International Bank for Reconstruction and Development	\$8,445	\$8,049
Trust Fund for Bosnia and Herzegovina	135	135
Trust Fund for Kosovo	4	4
Trust Fund for West Bank and Gaza	1	1
Total	<u>\$8,585</u>	<u>\$8,189</u>

IBRD's Board of Governors has approved aggregate transfers to IDA totaling \$8,357 million through June 30, 2006 (\$7,957 million—June 30, 2005) of which \$400 million was approved and transferred in September 2005. The aggregate transfers of \$8,445 million reported in the above table differs from the amount of aggregate transfers approved due to exchange rate movements on the value of transfers that were approved in SDR.

At June 30, 2006, \$210 million was receivable from IBRD (\$740 million—June 30, 2005) in accordance with the donor encashment schedule for IDA's Thirteenth Replenishment.

On June 30, 2005, in accordance with the administration agreement for the Trust Fund for Kosovo, \$4 million in cash was transferred from the trust fund to IDA.

The following table provides a summary of selected financial information related to development credits in nonaccrual status for the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004:

In millions of U.S. dollars equivalent

	<i>2006</i>	<i>2005</i>	<i>2004</i>
Recorded investment in nonaccrual credits	\$5,961	\$6,390	\$4,984
Overdue amounts	\$1,053	\$ 877	\$ 751
Of which			
Principal	733	602	509
Charges	320	275	242
Service charge income recognized on credits in nonaccrual status	3	4	4
Service charge income not recognized as a result of credits being in nonaccrual status	43	52	33

On September 24, 2003, in accordance with the administration agreement for the Trust Fund for Bosnia and Herzegovina, the Executive Directors of IDA approved the termination of the trust fund and the transfer of its assets to IDA. These assets included the right to receive repayments of credits totaling \$124 million and \$11 million in cash balances.

NOTE E—DEVELOPMENT CREDITS

Commitment charges on the undisbursed balances of IDA credits are set annually by the Board of Executive Directors of IDA. For the fiscal year ended June 30, 2006 the rate for undisbursed credits was set at 0.30 percent (June 30, 2005—0.35 percent). For the fiscal year ending June 30, 2007 the rate has been set at 0.20 percent.

Currency Composition

The currency composition of IDA's development credits outstanding at June 30, 2006 and June 30, 2005 is as follows:

In millions of U.S. dollars equivalent

	<i>2006</i>	<i>2005</i>
USD	\$ 11,518	\$ 12,072
SDR	115,510	108,835
Development credits outstanding	<u>\$127,028</u>	<u>\$120,907</u>

Overdue Amounts

At June 30, 2006, there were no principal or charges on development credits in accrual status which were overdue by more than three months.

A summary of borrowers with development credits or guarantees in nonaccrual status follows:

In millions of U.S. dollars equivalent

Borrower	June 30, 2006		
	Principal Outstanding	Principal and Charges Overdue	Nonaccrual Since
Central African Republic	\$ 432	\$ 56	June 2002
Côte d'Ivoire	1,806	76	November 2004
Liberia	107	46	April 1988
Myanmar	762	200	September 1998
Somalia	429	144	July 1991
Sudan	1,253	378	January 1994
Togo	682	86	May 2002
Zimbabwe	490	67	October 2000
Total	<u>\$5,961</u>	<u>\$1,053</u>	

During the fiscal year ended June 30, 2006, all IDA development credits 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. As a result, income from credits for the fiscal year ended June 30, 2006, increased by \$1 million, representing income that would have been accrued in previous fiscal years had these credits not been in nonaccrual status.

During the fiscal year ended June 30, 2005, development credits made to, or guaranteed by, Côte d'Ivoire were placed in nonaccrual status. Income from credits for the fiscal year would have been higher by \$21 million, had these credits not been in nonaccrual status.

During the fiscal year ended June 30, 2005, all development credits to, or guaranteed by, Haiti were restored to accrual status, after the clearance of all overdue payments on principal and service charges to IDA. As a result, income from development credits for the fiscal year ended June 30, 2005 increased by \$14 million, representing income that would have been accrued in previous fiscal years had these credits not been in nonaccrual status.

Accumulated Provision for HIPC Debt Initiative and MDRI

Development credits outstanding are presented in the Statement of Sources and Applications of Development Resources before any provision in connection with the HIPC Debt Initiative and MDRI.

The accumulated provision for the HIPC Debt Initiative is the sum of the principal component of debt relief remaining to be provided to those countries that have reached their decision points, and in certain

cases their completion points, and the estimated principal component of debt relief that is expected to be provided to other eligible countries.

On March 28, 2006, the Executive Directors approved IDA's participation in the MDRI. The objective of the MDRI is to provide additional support to HIPC countries.

Debt relief to be provided under the MDRI will be in addition to existing debt relief commitments by IDA and other creditors under the HIPC Debt Initiative. Additional resources for financing IDA's costs of providing debt relief under MDRI will be provided by donors under a resolution of IDA's Board of Governors adopted on April 21, 2006. Such resources will be added to IDA's resources and will be accounted for as subscriptions and contributions. The MDRI replenishment will become effective when IDA has received written commitments from donors whose aggregate contributions amount to not less than SDR 10,434 million, of which not less than SDR 410 million are unqualified commitments for payments due in FY2007 and FY2008.

Upon approval of IDA's participation in the MDRI by IDA's Executive Directors, IDA provided in full for the expected write off of the principal component of debt relief to be delivered under the MDRI. The provision is recorded as a reduction of the disbursed and outstanding development credits and as a charge to income. Following the start of the MDRI implementation by IDA on July 1, 2006, the applicable IDA development credits will be written off and the provision reduced accordingly for the first group of post-completion point HIPC countries that have been confirmed by the Executive Directors as eligible for MDRI relief, and subsequently upon reaching completion point for the other HIPC countries.

Changes to the accumulated provision for HIPC Debt Initiative and MDRI for the fiscal years ended June 30, 2006 and June 30, 2005 are summarized below:

In millions of U.S. dollars equivalent

	2006			2005		
	HIPC	MDRI	Total	HIPC	MDRI	Total
Balance, beginning of the fiscal year	\$11,719	\$ —	\$11,719	\$10,785	\$—	\$10,785
Reallocation	(808)	808	—	—	—	—
Provision	2,057	30,903	32,960	1,325	—	1,325
Principal component of debt relief forgiven	(458)	—	(458)	(391)	—	(391)
Translation adjustment	—	912	912	—	—	—
Balance, end of the fiscal year/period	<u>\$12,510</u>	<u>\$32,623</u>	<u>\$45,133</u>	<u>\$11,719</u>	<u>\$—</u>	<u>\$11,719</u>

Reduction of income from service charges due to debt forgiveness

In millions of U.S. dollars equivalent

	2006	2005
HIPC	\$16	\$—
MDRI	61	—
Total	<u>\$77</u>	<u>\$—</u>

Under the arrangements agreed during IDA14, donors have agreed to reimburse IDA for both principal and charges forgiven under the HIPC debt initiative during the IDA14 Replenishment period (FY2006 - FY2008). These reimbursements are being recorded as Subscription and Contributions and have no effect on the Statement of Income.

Prior to the IDA14 Replenishment, service charges forgiven under the HIPC debt relief initiative were reimbursed to IDA by the HIPC Trust Fund and treated as income. However, during FY 2006, all contributions to this trust fund that did not represent

subscriptions and contributions were fully utilized. Consequently, \$16 million of service charges were forgiven without reimbursement during FY 2006.

Subsequent Event

In their approval of March 28, 2006, the Executive Directors had decided that debt cancellation under the MDRI will take place at the start of FY2007, subject to the effectiveness of the MDRI replenishment. On June 23, 2006 the Executive Directors approved the implementation of the MDRI commencing July 1, 2006, on the target date set by donors, even if the MDRI has not yet become effective on that date. As a result, on July 1, 2006 \$30,096 million of development credits outstanding to countries which have reached their completion point under the HIPC debt initiative will be written off. As of June 30, 2006, the amounts to be written off on July 1, 2006 are included in the provision of \$45,133 million for the HIPC and MDRI initiative.

Accrued services charges at June 30, 2006 on these credits were also reversed thus reducing the service charges by \$61 million for FY 2006.

The following table provides details on the impact of the write off of credits related to these 19 countries:

In millions of U.S. dollars equivalent

<i>Country</i>	<i>Credits Outstanding as of June 30, 2006</i>	<i>Amount written off on July 1, 2006</i>	<i>Credits Outstanding after the write-off</i>	<i>Charges written off</i>
Benin	\$ 796	\$ 689	\$ 107	\$ 1.4
Bolivia	1,725	1,507	218	3.3
Burkina Faso	1,086	822	264	1.5
Cameroon	1,061	908	153	1.4
Ethiopia	3,493	3,053	440	5.6
Ghana	4,511	3,769	742	8.3
Guyana	230	221	9	0.4
Honduras	1,410	1,103	307	3.2
Madagascar	2,407	1,891	516	3.7
Mali	1,517	1,260	257	2.6
Mauritania	709	607	102	0.9
Mozambique	1,749	1,189	560	2.8
Nicaragua	1,204	970	234	2.0
Niger	1,111	967	144	1.9
Rwanda	1,009	866	143	1.4
Senegal	2,143	1,733	410	3.0
Tanzania	4,045	3,300	745	5.9
Uganda	3,279	2,923	356	6.1
Zambia	2,556	2,318	238	5.3
Total	<u>\$36,041</u>	<u>\$30,096</u>	<u>\$5,945</u>	<u>\$60.7</u>

The maturity structure of IDA's development credits outstanding at June 30, 2006 and June 30, 2005 were as follows:

In millions of U.S. dollars equivalent

<i>2006</i>		<i>2005</i>	
July 1, 2006 through June 30, 2007 ^a	\$ 32,792	July 1, 2005 through June 30, 2006	\$ 2,884
July 1, 2007 through June 30, 2008	2,109	July 1, 2006 through June 30, 2007	2,494
July 1, 2008 through June 30, 2009	2,312	July 1, 2007 through June 30, 2008	2,705
July 1, 2009 through June 30, 2010	2,483	July 1, 2008 through June 30, 2009	2,971
July 1, 2010 through June 30, 2011	2,669	July 1, 2009 through June 30, 2010	3,195
July 1, 2011 through June 30, 2016	17,071	July 1, 2010 through June 30, 2015	20,299
July 1, 2016 through June 30, 2021	20,418	July 1, 2015 through June 30, 2020	24,575
July 1, 2021 through June 30, 2026	21,020	July 1, 2020 through June 30, 2025	25,939
July 1, 2026 through June 30, 2031	15,742	July 1, 2025 through June 30, 2030	20,862
July 1, 2031 through June 30, 2036	7,677	July 1, 2030 through June 30, 2035	11,190
July 1, 2036 through June 30, 2041	2,215	July 1, 2035 through June 30, 2040	3,265
July 1, 2041 through June 30, 2046	520	July 1, 2040 through June 30, 2045	528
Total	<u>\$127,028</u>	Total	<u>\$120,907</u>

a. Includes amounts to be written off on July 1, 2006 under the MDRI.

Guarantees

Guarantees of \$190 million at June 30, 2006 (\$191 million—June 30, 2005) were not included in IDA's Statement of Sources and Applications of Development Resources. These outstanding amounts represent the maximum potential undiscounted future payments that IDA could be required to make under these guarantees.

The existing guarantees issued by IDA expire between 2011 and 2026.

At June 30, 2006, liabilities related to obligations under guarantees of \$12 million (\$8 million—June 30, 2005), have been included in Other resources, net on the Statement of Sources and Applications of Development Resources.

HIPC Debt Service Relief

As of June 30, 2006, total debt service relief of \$2,039 million has been provided by IDA consisting of \$1,762 million in principal repayments and \$277 million in service charges. Of these amounts, the HIPC Debt Initiative Trust Fund has reimbursed IDA \$1,653 million in respect of principal and \$261 million in respect of service charges. The remaining amount has been funded by donor contributions and is recorded as part of Subscriptions and Contributions.

Receivable from the HIPC Debt Initiative Trust Fund

A summary of changes to the receivable from the HIPC Debt Initiative Trust Fund is presented below:

In millions of U.S. dollars

	2006	2005
Balance, beginning of the fiscal year	\$173	\$366
Contribution from the HIPC Debt Initiative Trust Fund	176	200
Reimbursement received for principal repayments forgiven	(349)	(393)
Balance, end of the fiscal year	<u>\$ —</u>	<u>\$173</u>

Segment Reporting

Based on an evaluation of its operations, management has determined that IDA has only one reportable segment since IDA does not manage its operations by allocating its resources based on the contribution to net income from individual borrowers. In addition, the risk and return profiles are sufficiently similar among its borrowers so that IDA does not differentiate in terms of the nature of products or services provided, the preparation process, or the method of providing services to its borrowers.

Charge income comprises service charges on outstanding development credit balances, commitment charges on undisbursed development credit balances and guarantee fee income.

For the fiscal year ended June 30, 2006, development credits to one country generated in excess of ten percent of total income from credits, amounting to \$185 million.

The following table presents IDA's development credits outstanding and associated charge income, by geographic region, at June 30, 2006 and June 30, 2005.

In millions of U.S. dollars equivalent

Region	2006		2005	
	Charge Income	Development Credits Outstanding	Charge Income	Development Credits Outstanding
Africa	\$289	\$ 50,747	\$351	\$ 48,119
East Asia and Pacific	130	17,158	132	16,648
Europe and Central Asia	47	5,853	45	5,420
Latin America and the Caribbean	29	5,269	55	5,070
Middle East and North Africa	27	3,476	28	3,329
South Asia	340	44,525	343	42,321
Total	<u>\$862</u>	<u>\$127,028</u>	<u>\$954</u>	<u>\$120,907</u>

NOTE F—FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments: IDA carries its investments at fair value. These fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The fair value of short-term financial instruments approximates their carrying value.

Development Credits: IDA's development credits have a significant grant element because of the concessional nature of IDA's terms. Discounting the future cash flows from IDA's development credits using government reference rates represented by interest rates of government securities having similar maturity to the portfolio of development credits, provides an estimate for the grant element. Under the HIPC Debt Initiative, development credits identified for sale to the HIPC Debt Initiative Trust Fund are written down to their estimated net present value using currency specific Commercial Interest Reference Rates (CIRRs) published monthly by the Organization for Economic Cooperation and Development (OECD). Using the six

months average CIRR as a discount rate provides an alternative estimate for the grant element.

Since IDA's development credits are denominated either in U.S. dollars or SDRs, currency specific rates have been used to discount the corresponding future cash flows for each currency component of the development credits before being aggregated to provide the composite results.

The grant element calculations consider interest rates, maturity structures and grace periods for the credits. They do not consider credit risk, portfolio seasoning, multilateral and sovereign credit preferences and other risks or indicators that would be relevant in calculating fair value. Estimating the impact of these factors is not practicable.

However, under either alternative, the estimated fair values of development credits outstanding are substantially lower than the \$127,028 million reflected on the Statement of Sources and Applications of Development Resources at June 30, 2006 (\$120,907 million—June 30, 2005), as shown in the following table.

In millions of U.S. dollars equivalent

	2006		2005	
	<i>Government reference rate-based fair value</i>	<i>CIRR-based fair value</i>	<i>Government reference rate-based fair value</i>	<i>CIRR-based fair value</i>
Development credits outstanding ^a	\$127,028	\$127,028	\$120,907	\$120,907
Less grant equivalent	(47,789)	(51,379)	(36,947)	(46,074)
Estimated value of development credits outstanding	<u>\$ 79,239</u>	<u>\$ 75,649</u>	<u>\$ 83,960</u>	<u>\$ 74,833</u>
Estimated grant element	38%	40%	31%	38%
	<i>Discount Rates Used</i>		<i>Discount Rates Used</i>	
Government reference rates				
- US dollar	5.14%		3.92%	
- SDR ^b	4.46%		3.47%	
CIRRs: Average of six months to June 30				
- U.S. dollar		5.67%		5.05%
- SDR		4.86%		4.42%

a. Before the write-off related to MDRI.

b. Implies weighted average government reference rates of the component currencies contained in the SDR.

Discounting the future cash flows from IDA's development credits using the standard 10 percent discount rate of the Development Assistance Committee (DAC) of the OECD, provides another

alternative for the grant element. The estimated grant element based on this standard DAC rate for IDA's development credits is 63% percent as of June 30, 2006 (65 percent—June 30, 2005).

NOTE G—ADMINISTRATIVE EXPENSES

Administrative expenses represent IDA's share of such expenses jointly incurred by IBRD and IDA.

The allocation of expenses is based upon an agreed cost sharing formula that reflects the administrative costs of service delivery to countries that are eligible for lending from IBRD and IDA.

NOTE H—TRUST FUNDS ADMINISTRATION

IDA, alone or jointly with IBRD, administers on behalf of donors, including members, their agencies

At June 30, 2006 and June 30, 2005, the allocation of trust fund assets by executing agent were as follows:

	2006		2005	
	Total fiduciary assets (In millions)	Number of trust fund accounts	Total fiduciary assets (In millions)	Number of trust fund accounts
IDA executed	\$1,652	1,740	\$1,222	1,507
Recipient executed	2,357	835	2,586	1,016
Total	<u>\$4,009</u>	<u>2,575</u>	<u>\$3,808</u>	<u>2,523</u>

The responsibilities of IDA 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. IDA receives fees for administering trust funds as a reduction of the administrative expenses shared with IBRD. During the fiscal year ended June 30, 2006, IDA received \$18 million (\$20 million—June 30, 2005, \$18 million—June 30, 2004) as fees for administering trust funds.

NOTE I—DEVELOPMENT GRANTS

A summary of changes to the amounts payable for development grants is presented below:

In millions of U.S. dollars equivalent

	2006	2005
Balance, beginning of the fiscal year	\$2,898	\$2,088
Commitments	1,939	2,035
Disbursements	(1,228)	(1,200)
Translation adjustment	21	(25)
Balance, end of the fiscal year	<u>\$3,630</u>	<u>\$2,898</u>

Effective July 1, 2005, development grants are charged to income upon approval by IDA's Executive Directors. In previous periods, development grants

and other entities, funds restricted for specific uses which include the cofinancing of IDA lending projects, debt reduction operations for IDA members, technical assistance for borrowers including feasibility studies and project preparation, global and regional programs and research and training programs. These funds are placed in trust with IDA and/or IBRD, and are held in a separate investment portfolio which is not commingled with IDA and/or IBRD funds, nor are they included in the development resources of IDA.

were charged to income upon signing of the grant agreement by the recipient country. Management considers that the new policy is preferable as it provides more reliable and relevant information. Had this new policy been in place during the prior periods presented in these financial statements, the opening Accumulated Deficit balance of \$8,856 million would have been higher by \$123 million to \$8,979 million, with the comparative Payable for Development Grants balance increasing by an equivalent amount to \$3,021 million. Further, the comparative Development Grant expense amount for the fiscal year ended June 30, 2005 would have been lower by \$147 million. Of the \$1,939 million of development grant expenses for the fiscal year ended June 30, 2006, \$123 million relates to development grants which were approved but not signed as of June 30, 2005.

For the fiscal years ended June 30, 2006 and June 30, 2005, the commitment charge rate on the undisbursed balances of IDA grants was zero percent. For the fiscal year ending June 30, 2007 the rate will continue to be zero percent.

NOTE J—COMPREHENSIVE INCOME

Comprehensive income consists of net income and other gains and losses affecting sources of development resources that are excluded from net income. For IDA, comprehensive income is comprised

of income or loss after HIPC Debt Initiative and MDRI, currency translation adjustments on development credits, payable for development grants and accumulated provision for MDRI. These items are presented in the Statement of Comprehensive Income. The total accumulated other comprehensive income represents the cumulative translation adjustment on

development credits and payable for development grants. The following table presents the changes in Accumulated Other Comprehensive Income balances for the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004:

In millions of U.S. dollars equivalent

	<i>Accumulated Other Comprehensive Income</i>		
	<i>2006</i>	<i>2005</i>	<i>2004</i>
Balance, beginning of the fiscal year	\$8,371	\$8,920	\$4,708
Currency Translation Adjustment	(357)	(549)	4,212
Balance, end of the fiscal year	<u>\$8,014</u>	<u>\$8,371</u>	<u>\$8,920</u>