International Bank for Reconstruction and Development

Management's Discussion & Analysis
and
Condensed Quarterly Financial Statements
September 30, 2015

(Unaudited)

International Bank for Reconstruction and Development (IBRD)

Contents

September 30, 2015

Management's Discussion and Analysis

Condensed Quarterly Financial Statements

Box 1: Selected Financial Data

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

	As of and for the three months ended		As of and for fiscal year
	September 30, 2015	September 30, 2014	June 30, 2015
Lending Highlights (Section II)			
Commitments[a]	$ 6,369	$ 9,916	$ 23,528
Gross disbursements	7,868	5,439	19,012
Net disbursements[b]	5,586	3,332	9,999
Reported Basis (Section II)			
Income Statement			
Board of Governors-approved and other transfers	$ -	$ -	$ (715)
Net income (loss)	745	(417)	(786)
Balance Sheet			
Total assets	$355,240	$353,328	$343,225
Net investment portfolio	44,067	40,925	45,105
Net loans outstanding	160,258	152,458	155,040
Borrowing portfolio	168,708	157,152	158,853
Key Management Indicators (Section II)			
Allocable Income	$ 29	$ 556	$ 686
Usable Equity[c]	$ 40,248	$ 39,915	$ 40,195
Equity-to-loans Ratio[d]	24.7%	25.3%	25.1%

a. Commitments include guarantee commitments and guarantee facilities that have been approved by the Executive Directors.
b. Amounts include transactions with the International Finance Corporation (IFC), and loan origination fees.
c. Excluding amounts associated with unrealized mark-to-market gains/losses on non-trading portfolios, net and related cumulative translation adjustments.
d. Ratio is computed using usable equity and excludes the respective periods' income. (Full year June 30, 2015 amount includes proposed transfer to the General Reserve).

I. Overview

This document should be read together with the International Bank for Reconstruction and Development's (IBRD) Financial Statements and Management's Discussion and Analysis (MD&A) for the fiscal year ended June 30, 2015 (FY15). IBRD undertakes no obligation to update any forward looking statements. Box 1 provides IBRD's selected financial data as of, and for the three months ended, September 30, 2015 and 2014, as well as for the fiscal year ended June 30, 2015.

Business Model

IBRD, an international organization owned by its 188 member countries, is the largest multilateral development bank in the world and is one of the five institutions of the World Bank Group (WBG); the others are the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Each of these organizations is legally and financially independent, with separate assets and liabilities. IBRD is not liable for their respective obligations. The WBG's two goals, to be achieved by 2030, are to end extreme poverty by reducing the percentage of people living on less than $1.90 per day to no more than 3% globally, and to promote shared prosperity in a sustainable manner by fostering income growth for the bottom 40% of the population in every developing country. In October 2015, the WBG raised its poverty line figure upwards, from $1.25 to $1.90 a day, to reflect the increase in prices worldwide based on updated purchasing-power-parity data.

IBRD provides loans, guarantees, and knowledge for development focused projects and programs to middle-income and creditworthy lower-income member countries. Its main business activity is extending loans to its eligible member countries. IBRD offers its borrowers long-term loans that can have a final maturity of up to 35 years. Borrowers may customize their repayment terms to meet their debt management or project needs. Loans are offered on both fixed and variable terms, and in multiple currencies; though borrowers have generally preferred loans in U.S dollars and euros. IBRD also provides access to risk management tools such as derivative instruments, including currency and interest rate swaps.

IBRD's loans are financed through its equity, and from money borrowed in the capital markets. IBRD is rated triple-A by the major rating agencies and investors view its bonds as high quality securities. IBRD's funding strategy is aimed at achieving the best long-term value on a sustainable basis for its borrowing members. Its ability to intermediate the funds it raises in international capital markets to developing member countries is important in helping it achieve its goals. IBRD issues its securities both through global offerings and bond issues tailored to the needs of specific markets or investor types. This is done by offering bonds to investors in various currencies, maturities, markets, and with fixed and variable terms, often opening up new markets for international investors by offering new products or bonds in emerging-market currencies. IBRD's annual funding volumes vary from year to year. This strategy has enabled IBRD to borrow at favorable market terms and pass the savings on to its borrowing members. Funds not immediately deployed for lending are held in IBRD's investment portfolio to supply liquidity for its operations.

IBRD makes extensive use of derivatives to manage its exposure to various market risks arising from the above activities. These are used to align the interest and currency composition of its assets (loan and investment trading portfolios) with that of its liabilities (borrowing portfolio), and to stabilize the earnings on its equity.

Management believes that these risk management strategies, taken together, effectively manage market risk in IBRD's operations from an economic perspective. However, these strategies necessarily entail the extensive use of derivatives, which introduce volatility through unrealized mark-to-market gains and losses on the reported basis income statement (particularly given the long-term nature of some of IBRD's assets and liabilities). Accordingly, Management makes decisions on income allocation without reference to unrealized mark-to-market gains and losses in its non-trading portfolios – see Basis of Reporting – Allocable Income below.

Basis of Reporting

Financial Statements

IBRD's financial statements conform with accounting principles generally accepted in the United States of America (U.S. GAAP), referred to in this document as the "reported basis". All instruments in the investment and borrowing portfolios and all other derivatives are reported at fair value, with changes in fair value reported in the statement of income. IBRD's loans are reported at amortized cost, except for loans with embedded derivatives, which are reported at fair value. Management uses the reported net income as the basis for deriving allocable income.

Fair Value Results

In an attempt to address the asymmetry in the reported financial statements, in which not all financial instruments are reported on the same measurement basis, IBRD reflects all financial instruments at fair value in the MD&A. The fair value of these instruments is affected by changes in such market variables as interest rates, exchange rates, and credit risk. Management uses fair value to assess the performance of the investment-trading portfolio; to manage certain market risks, including interest rate risk and commercial counterparty credit risk; and to monitor the results of the Equity Management Framework (EMF).

Allocable Income

The volatility in IBRD's reported net income is primarily driven by the unrealized mark-to-market gains and losses on the derivative instruments in IBRD's non-trading portfolios (loans, borrowings, and EMF). These derivatives are primarily used to align the interest rate and currency bases of its assets and liabilities. In line with IBRD's financial risk management policies, IBRD expects to maintain its non-trading portfolio positions. As a result, for non-trading portfolios, allocable income only includes amounts which have been realized. For trading portfolios (investment portfolio), allocable income includes both realized amounts, as well as unrealized mark-to-market gains and losses.

Management has consistently followed this practice of excluding unrealized mark-to-market gains and losses on its non-trading portfolios from reported net income to arrive at allocable income, since adopting Financial Accounting Standards Board's (FASB's) guidance on derivatives and hedging in FY01. Accordingly, in years in which reported net income has been positively impacted by unrealized mark-to-market gains on the non-trading portfolios, IBRD did not take these unrealized mark-to-market gains into account in making income allocation decisions. Likewise, in the case of unrealized mark-to-market losses on the non-trading portfolios, IBRD consistently excludes these amounts from reported net income to arrive at allocable income.

Allocable income also reflects certain other adjustments to reported net income, namely: Board of Governors-approved and other transfers, pension adjustments, and restricted income. All of these adjustments reflect Management's view of the most appropriate measure of a given year's financial results for allocation purposes (Table 2). See June 30, 2015, MD&A for a detailed discussion on allocable income.

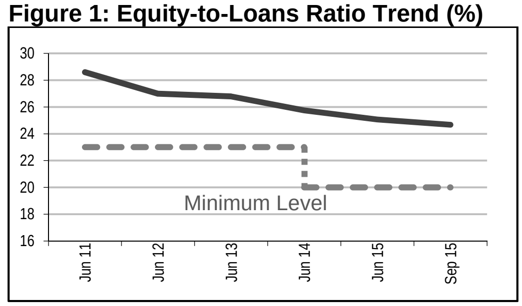
II. Financial Performance and Risk Management

As part of IBRD's lending, borrowing, and investment activities, IBRD is exposed to market, counterparty and country credit risks. To manage these risks, IBRD has put in place a strong risk management framework, which supports Management in its oversight functions. This framework is designed to enable and support IBRD in achieving its goals in a financially sustainable manner.

In an effort to maximize IBRD's capacity to lend to member countries for development purposes, IBRD limits its exposure to market and counterparty credit risks. Among the various types of market risks, interest rate risk is the most significant risk faced by IBRD. IBRD's exposure to currency and liquidity risks is minimal as a result of its risk management policies. In addition, IBRD faces two types of credit risk: country credit risk and counterparty credit risk.

Capital Adequacy

Figure 1: Equity-to-Loans Ratio Trend (%)



IBRD's capital adequacy is the degree to which its capital is sufficient to withstand unexpected shocks. IBRD's Board of Executive Directors (Board) monitors IBRD's capital adequacy within a strategic capital adequacy framework and uses the equity-to-loans ratio as a key indicator of IBRD's capital adequacy. The framework seeks to ensure that IBRD's capital is aligned with the financial risk associated with its loan portfolio as well as other exposures over a medium-term capital-planning horizon. Under this framework, IBRD evaluates its capital adequacy as measured by stress tests and an appropriate Board approved minimum level for the long term equity-to-loans ratio, currently set at 20%.

As shown on Table 1, IBRD's equity-to-loans ratio decreased from 25.1% at June 30, 2015 to 24.7% at September 30, 2015, and remained above the minimum ratio of 20%. The decrease in the ratio was primarily due to the $5.6 billion increase in net positive loan disbursements. Of this amount, $2.6 billion relates to disbursements on Deferred Drawdown Options (DDO's). The decline in effective and undisbursed DDO's, therefore did not have a net impact on the total exposure. Under IBRD's currency management policy, to minimize exchange rate risk in a multicurrency environment, IBRD matches its borrowing obligations in any one currency (after derivative activities) with assets in the same currency. In addition, IBRD's policy is to minimize the exchange rate sensitivity of its capital adequacy as measured by the equity-to-loans ratio. It implements this policy by periodically undertaking currency conversions to align the currency composition of its equity with that of its outstanding loans, across major currencies. As a result, the impact on IBRD's equity-to-loans ratio from the exchange rate movements during the year was negligible.

Table 1: Equity-to-Loans Ratio

In millions of U.S. dollars

			Variance		
As of	Sep 30, 2015	June 30, 2015	Total	Due to Translation Adjustment	Due to Activities
Usable paid-in capital	$ 14,348	$ 14,297	$ 51	$ 13	$ 38
Special reserve	293	293	-	-	-
General reserve[a]	26,925	26,925	-	-	-
Cumulative translation adjustment[b]	(591)	(593)	2	2	-
Other adjustments[c]	(727)	(727)	-	-	-
Equity (usable equity)	**$ 40,248**	**$ 40,195**	**$ 53**	**$ 15**	**$ 38**
Loans exposure	$162,133	$156,802	$ 5,331	$(257)	$ 5,588
Present value of guarantees	1,109	894	215	4	211
Effective but undisbursed DDOs	1,475	4,095	(2,620)	-	(2,620)
Relevant accumulated provisions	(1,691)	(1,592)	(99)	(1)	(98)
Deferred loan income	(426)	(418)	(8)	-	(8)
Other exposures	527	550	(23)	-	(23)
Loans (total exposure)	**$163,127**	**$160,331**	**$ 2,796**	**$(254)**	**$ 3,050**
Equity-to-Loans Ratio	**24.7%**	**25.1%**			

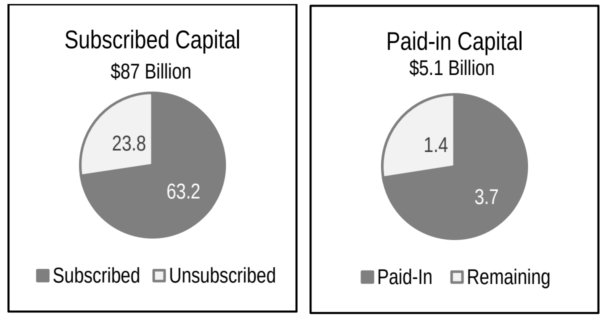
a. The June 30, 2015 amount includes proposed transfers to the General Reserve.

b. Excluding cumulative translation amounts associated with the unrealized mark-to-market gains/losses on non-trading portfolios, net.

c. Other adjustments comprise the net underfunded status of IBRD's pension plans and income earned on Post-Employment Benefit Plan (PEBP) assets prior to FY 2011.

As a result of the General and Selective Capital Increase resolutions in the fiscal year ended June 30, 2011 (FY11), subscribed capital is expected to increase by $87.0 billion (including shares subscribed under the Voice Reform for which no paid-in capital was required), of which $5.1 billion will be paid-in. The General Capital Increase (GCI) subscription period is for five years and ends on March 16, 2016 or March 16, 2017 depending upon individual members' extension requests. As of September 30, 2015, $63.2 billion was subscribed, resulting in additional paid-in capital of $3.7 billion, of which $32 million was received during the first three months of the fiscal year ending June 30, 2016 (FY16).

Figure 2: Status of FY11 GCI/SCI Subscriptions as of September 30, 2015
In billions of U.S. dollars



Financial Results

The primary sources of IBRD's income are the equity contribution and the net interest margin on its loans funded by borrowings. The main driver of the equity contribution is revenue from the derivatives used as part of the EMF. In addition to the regular interest earned from the derivative instruments, this revenue, on an allocable income basis, includes net mark-to-market gains which have been realized during the year as a result of the liquidation of derivative positions. Additionally, equity contribution includes revenue from the proportion of loans which are funded by equity and certain minor adjustments including those relating to discontinued loan products. IBRD also earns revenue from other development activities, as well as the margin on its investment portfolio.

On a reported basis, IBRD had net income of $745 million for the first three months of FY16, compared with a net loss of $417 million during the same period in FY15. The higher net income during the first three months of FY16 primarily relates to the unrealized mark-to-market gains experienced on the non-trading portfolios (See Table 4). For the first three months of FY16, IBRD's allocable income was $29 million, compared with $556 million during the same period in FY15. The higher allocable income during the first three months of FY15 was primarily due to the $581 million of gains from the termination of certain EMF positions. In contrast, there were no terminations of trades during the same period in FY16. The following is a discussion on the key drivers of IBRD's financial performance, including a reconciliation between IBRD's allocable income and reported net income.

Table 2: Condensed Statement of Income
In millions of U.S. dollars

For the three months ended September 30,	2015	2014	Variance
Interest revenue, net of funding costs			
Interest margin	$ 217	$ 213	$ 4
Equity contribution[a]	191	674	(483)
Investments	10	14	(4)
Net interest revenue	$ 418	$ 901	$ (483)
Provision for losses on loans and other exposures	(98)	(40)	(58)
Other income, net[b]	(10)	3	(13)
Net non-interest expenses[c]	(318)	(322)	4
Unrealized mark-to-market gains/(losses) on non-trading portfolios, net[a,d]	753	(959)	1,712
Net Income (loss)	**$ 745**	**$(417)**	**$1,162**
Adjustments to reconcile net gains/(loss) to allocable income:			
Pension and other adjustments	37	14	23
Unrealized mark-to-market (gains)/losses on non-trading portfolios, net[a,d]	(753)	959	(1,712)
Allocable income	**$ 29**	**$ 556**	**$ (527)**

a. This includes the reclassification of net realized mark-to-market gains of $581 million for the first three months ended September 30, 2014, associated with the termination of certain positions under the EMF, from unrealized mark-to-market losses on non-trading portfolios, net, to equity contribution.
b. Amount includes guarantee fee income, loan commitment fee income and net earnings from PEBP.
c. See Table 3.
d. See Table 4.

Net Interest Margin

As of September 30, 2015, IBRD's equity to loans ratio was 24.7%, indicating that approximately 25% of IBRD's net loans and other exposures is funded by equity, and the remainder funded by borrowings. For the portion of loans funded by borrowings, the net interest margin has remained relatively stable compared with the prior year (Table 2).

Net Non-Interest Expenses

As shown on Table 3, IBRD's net non-interest expenses primarily comprise administrative expenses, net of revenue from externally funded activities. These expenses have remained stable over the two year period.

Table 3: Net Non-Interest Expenses
In millions of U.S. dollars

For the three month ended September 30,	2015	2014	Variance
Administrative expenses			
Staff costs	$202	$197	$ 5
Travel	29	26	3
Consultant and contractual services	66	66	-
Pension and other post-retirement benefits	55	58	(3)
Communications and technology	11	11	-
Equipment and buildings	32	29	3
Other expenses	10	15	(5)
Total administrative expenses	$405	$402	$ 3
Grant Making Facilities	30	33	(3)
Revenue from externally funded activities			
Reimbursable revenue – IBRD executed trust funds	(70)	(73)	3
Other revenue	(47)	(40)	(7)
Total Net Non-Interest Expenses (Table 2)	$318	$322	$ (4)

Unrealized mark-to-market gains/losses on non-trading portfolios

These mainly comprise unrealized mark-to-market gains and losses on IBRD's loan, borrowing, and EMF portfolios. Since IBRD expects to maintain its non-trading portfolio positions, unrealized mark-to-market gains and losses associated with these positions, are excluded from reported net income to arrive at allocable income. As a result, from a long-term financial sustainability perspective, income allocations are made on the basis of amounts which have been realized.

As shown on Table 4, for the first three months of FY16, $753 million of unrealized mark-to-market gains were excluded from reported net income to arrive at allocable income ($959 million unrealized mark-to-market losses in the first three months of FY15). See discussion below for more details.

Table 4: Unrealized Mark-to-Market Gains/Losses, on Non-Trading Portfolio, net
In millions of U.S. dollars

	For the three months ended September 30, 2015		
	Unrealized gains (losses), excluding realized amounts	Realized gains	Total
Borrowing portfolio[b]	$ 513[a]	$ 4	$ 517
Loan portfolio[b]	(497)	-	(497)
EMF	741	-	741
Asset-liability management portfolio[c]	(1)	-	(1)
Client operations portfolio	(3)	-	(3)
Total	$ 753	$ 4	$ 757

	For the three months ended September 30, 2014		
	Unrealized gains (losses), excluding realized amounts	Realized gains	Total
Borrowing portfolio[b]	$(244)[a]	$ 6	$(238)
Loan portfolio[b]	11	-	11
EMF	(723)[a]	581	(142)
Asset-liability management portfolio[c]	(1)	-	(1)
Client operations portfolio	(2)	-	(2)
Total	$(959)	$587	$(372)

a. Includes adjustments to reclass net realized mark-to-market gains (losses) to the related interest income and expense lines for allocable income purposes.
b. Includes related derivatives.
c. Included in other derivatives on the Balance Sheet.

EMF: During the first three months of FY16, IBRD had unrealized mark-to-market gains of $741 million for the EMF in its reported net income, primarily as a result of the decline in the U.S. interest rates.

Loan portfolio: On a reported basis, while the derivatives which convert IBRD's loans to variable rates are reported at fair value, all loans are reported at amortized cost, with the exception of one loan with an embedded derivative, which is reported at fair value. As a result, while from an economic perspective, all of IBRD's loans after the effect of derivatives carry variable rates, and therefore have a low sensitivity to interest rates, this is not reflected in its reported net income. For the first three months of FY16, the $497 million of unrealized mark-to-market losses on the loan portfolio relate primarily to the impact of the decrease in long-term interest rates during the period on the loan related derivatives. In order to show the effect of its risk management policies, IBRD reflects its loans at fair value in the MD&A. See Section III for more details.

Borrowing portfolio: Given that all of the derivatives and the related underlying borrowings are at fair value, there is no asymmetry in the reported net income, and therefore, unrealized mark-to-market gains and losses on the borrowing related derivatives are correspondingly offset by unrealized mark-to-market gains and losses on the underlying borrowings. As a result, since IBRD does not hedge its own credit, the main component of the net unrealized mark-to-market gains and losses relates to the impact of the change in IBRD's own credit. See Section III for more details.

Balance Sheet Analysis

IBRD's principal assets are its loans to member countries. These are financed by IBRD's equity and proceeds of borrowings from capital markets.

Table 5: Condensed Balance Sheet

In millions of U.S. dollars

As of	September 30, 2015	June 30, 2015	Variance
Investments and due from banks	$ 49,184	$ 50,339	$ (1,155)
Net loans outstanding	160,258	155,040	5,218
Receivable from derivatives	136,489	134,325	2,164
Other assets	9,309	3,521	5,788
Total assets	$355,240	$343,225	$12,015
Borrowings	$169,592	$160,980	$ 8,612
Payable for derivatives	135,489	132,324	3,165
Other liabilities	10,694	11,284	(590)
Equity	39,465	38,637	828
Total liabilities and equity	$355,240	$343,225	$12,015

Loan portfolio

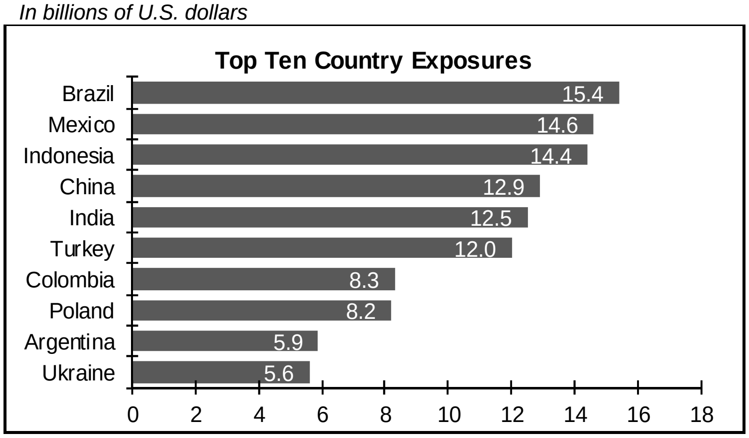
As part of its lending activities, consistent with its mandate IBRD has exposure to sovereign (country) credit risk. Country credit risk reflects potential losses arising from protracted arrears on payments from borrowers on loans and other exposures. IBRD manages this risk by applying individual country exposure limits. These limits take into account the creditworthiness and performance of borrowers. In addition, to ensure that the financial risks associated with its loans and other exposures do not exceed its risk-bearing capacity, IBRD uses a strategic capital adequacy framework as a key medium-term capital planning tool.

Portfolio Concentration Risk

Portfolio concentration risk, which arises when a small group of borrowers account for a large share of loans outstanding, is a key concern for IBRD. The ten countries with the highest exposures accounted for about 66% of IBRD's total exposure.

Figure 3: Country Exposures as of September 30, 2015

In billions of U.S. dollars



The concentration risk is carefully managed, in part, by applying an exposure limit for the aggregate balance of loans outstanding, the present value of guarantees, the undisbursed portion of Deferred Drawdown Options (DDOs), and other eligible exposures that have become effective, to a single borrowing country. Under the current guidelines, IBRD's exposure to a single borrowing country is restricted to the lower of an Equitable Access Limit (EAL) and the Single Borrower Limit (SBL). The SBL effective on September 30, 2015 was $20.0 billion for India and $19.0 billion for the other four SBL-eligible borrowing countries (Brazil, China, Indonesia, and Mexico), lower than the EAL of $28.1 billion at September 30, 2015.

Provision on Loans and Other Exposures

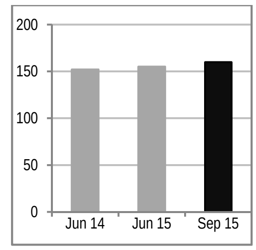
IBRD records a provision to reflect the probable losses inherent in its loan portfolio and other exposures. As of September 30, 2015, IBRD had an accumulated provision for losses on loans and other exposures of $1,657 million, which was approximately 1% of these exposures, ($1,554 million as of June 30, 2015 - 1% of exposures). As of September 30, 2015, only 0.3% of IBRD's loans were in nonaccrual status and were all related to Zimbabwe. (Refer to Note D: Loans and Other Exposures in the Notes to the Condensed Quarterly Financial Statements).

For the first three months of FY16, there was a charge of $98 million, reflecting an increase in net loan disbursements and the change in the credit quality of the loan portfolio during the period. This compares with a charge of $40 million in the same period in FY15, primarily reflecting an increase in net loan disbursements during the period.

Lending Activities

As of September 30, 2015, IBRD's net loans outstanding amounted to $160.3 billion, 3% higher than June 30, 2015. The increase was mainly attributable to $5.6 billion in net positive loan disbursements made in the first three months of FY16.

Figure 4: Net Loans Outstanding
In billions of U.S. dollars



In the first three months of FY16, IBRD had new loan commitments (including guarantees) totaling $6.4 billion, 36% lower than the same period in FY15 (Table 6). Commitments during the first three months of FY15 were exceptionally high due to the transitional pricing measures that were in place during that time.

Gross disbursements during the first three months of FY16 were $7.9 billion, 45% above the same period in FY15 (Table 7). The higher gross disbursement level in FY16 is primarily due to higher disbursements to the countries in the East Asia and Pacific region.

Table 6: Commitments by Region – For the Fiscal Year-To-Date
In millions of U.S. dollars

For the three months ended	September 30, 2015		September 30, 2014		
	Commitments	% of total	Commitments	% of total	Variance
Africa	$ 260	4%	$ 559	6%	$ (299)
East Asia and Pacific	150	2	3,017	30	(2,867)
Europe and Central Asia	3,054	48	3,836	39	(782)
Latin America and the Caribbean	1,405	22	715	7	690
Middle East and North Africa	1,500	24	1,789	18	(289)
South Asia	-	-	-	-	
Total	$6,369	100%	$9,916	100%	$(3,547)

Table 7: Gross Disbursements by Region - For the Fiscal Year-To-Date
In millions of U.S. dollars

	September 30, 2015		September 30, 2014		
For the three months ended	Disbursements	% of total	Disbursements	% of total	Variance
Africa	$ 507	7%	$ 57	1%	$ 450
East Asia and Pacific	2,656	34	683	13	1,973
Europe and Central Asia	2,543	32	2,416	44	127
Latin America and the Caribbean	1,411	18	1,319	24	92
Middle East and North Africa	418	5	837	16	(419)
South Asia	333	4	127	2	206
Total	$7,868	100%	$5,439	100%	$2,429

Investment Portfolio

Funds raised through IBRD's borrowing activity which have not yet been deployed for lending, are held in IBRD's investment portfolio to ensure liquidity for its operations. IBRD restricts its liquid assets to high-quality investments as its investment objective prioritizes principal protection over yield. Liquid assets are therefore managed conservatively, and are primarily held for potential disruptions in IBRD's access to capital markets.

IBRD has operated at levels of liquidity in the range of between 140% and 175% of the prudential minimum. The prudential minimum liquidity level has been set at $27.5 billion for FY16, and the liquid asset portfolio was at 156% of this level as of September 30, 2015.

Commercial Counterparty Credit Risk

Commercial counterparty credit risk is managed by applying eligibility criteria, volume limits for transactions with individual counterparties, and using mark-to-market collateral arrangements for swap transactions. The effective management of this risk is vital to the success of IBRD's funding, investment, and asset/liability management. The monitoring and managing of this risk is continuous, given the changing market environment.

As a result of IBRD's use of mark-to-market collateral arrangements for swap transactions, its residual commercial counterparty credit risk is concentrated in the investment portfolio. IBRD's overall commercial counterparty credit exposure decreased by $1.6 billion during the first three months of FY16, reflecting the impact on the investment portfolio, of loan disbursements made during the first three months of FY16. As shown on Table 8, the credit quality of IBRD's portfolio remains concentrated in the upper end of the credit spectrum, with 70% of the portfolio rated AA or above and the remaining portfolio primarily rated A. The A rated counterparties primarily consisted of financial institutions (limited to short-term deposits and swaps) and sovereigns. Most of the BB or lower rated exposure relates to IBRD's investment in a debt security issued by the Hypo Alpe-Adria Bank as discussed below.

Table 8: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating
In millions of U.S. dollars

	As of September 30, 2015				
	Investments				
Counterparty Rating[a]	Sovereigns	Agencies, Commercial paper, Asset-Backed Securities, Corporates and Time Deposits	Net Swap Exposure	Total Exposure	% of Total
AAA	$10,402	$ 9,939	$ –	$20,341	45%
AA	4,524	6,879	139	11,542	25
A	10,040	3,862	81	13,983	30
BBB	42	12	*	54	*
BB or lower/unrated	-	29	*	29	*
Total	$25,008	$20,721	$220	$45,949	100%

	As of June 30, 2015				
	Investments				
Counterparty Rating[a]	Sovereigns	Agencies, Commercial paper, Asset-Backed Securities, Corporates and Time Deposits	Net Swap Exposure	Total Exposure	% of Total
AAA	$10,451	$ 9,571	$ -	$20,022	42%
AA	4,385	9,375	78	13,838	29
A	7,336	5,997	107	13,440	28
BBB	223	8	2	233	*
BB or lower/unrated	-	18	5	23	*
Total	$22,395	$24,969	$192	$47,556	100%

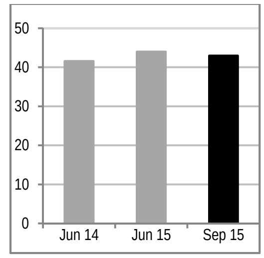
a. Average rating is calculated using available ratings from the three major rating agencies; however, if ratings are not available from each of the three rating agencies. IBRD uses the average of the ratings available from any of such rating agencies or a single rating to the extent that an instrument or issuer (as applicable) is rated by only one rating agency.
** Indicates amount less than $0.5 million or percentage less than 0.5%.*

In FY07, IBRD purchased for $190 million a debt security issued by an Austrian bank, Hypo Alpe-Adria, which was fully guaranteed by the state of Carinthia. As of September 30, 2015, this debt security had a carrying value of $25 million. The loss in the value of the security is the result of legislation passed in FY14 to cancel the underlying debt. In July 2015, this legislation was overturned and ruled by the Austrian Constitutional Court as unconstitutional and the guarantee was reinstated. The investment had a carrying value of $13 million as of June 30, 2015, resulting in unrealized mark-to-market gains of $12 million during the three month period ended September 30, 2015. IBRD will continue to monitor the value of this investment and related market developments.

Liquid Asset Portfolio

As of September 30, 2015, the net investment portfolio totaled $44.1 billion (Figure 5), with $43.0 billion representing the liquid asset portfolio (see Note C: Investments to the Condensed Quarterly Financial Statements). This compares with an investment portfolio valued at $45.1 billion as at June 30, 2015, with $44.0 billion representing the liquid asset portfolio. The $1.0 billion decline in the liquid asset portfolio reflects the impact of loan disbursements made during the first three months of FY16.

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

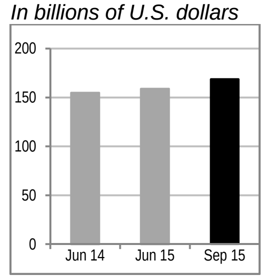


During the first three months of FY16, interest revenue net of funding cost, from the investment portfolio, amounted to $10 million. This compares with $14 million during the same period in FY15. The decrease in net interest revenue during FY16, was primarily due to higher unrealized mark-to-market losses on the portfolio, partially offset by higher interest income.

Borrowing Portfolio

IBRD issues debt securities to both institutional and retail investors in a variety of currencies. During the first three months of FY16, IBRD raised medium and long-term debt of $14.3 billion in 15 currencies.

Figure 6: Borrowing Portfolio
In billions of U.S. dollars



As of September 30, 2015, the borrowing portfolio totaled $168.7 billion, an increase of $9.9 billion from June 30, 2015 (see Note E: Borrowings in the Notes to the Condensed Quarterly Financial Statements). This increase was mainly due to net new issuances of $10.1 billion to support the increase in loan disbursements. Of the new issuances, $5.9 billion remained unsettled as of September 30, 2015, and a receivable for the proceeds was recorded under Other Assets on the Condensed Balance Sheet.

Equity Contribution and Equity Management Framework

Under its current interest rate risk management strategy, IBRD seeks to match the interest rate sensitivity of its assets (loan and investment trading portfolios) with those of its liabilities (borrowing portfolio) by using derivatives, such as interest rate swaps. These derivatives effectively convert IBRD's financial assets and liabilities into variable-rate instruments. This strategy helps IBRD to manage the interest margin on the proportion of loans funded by debt, against interest rate volatility. The interest revenue on the remaining proportion of loans funded by equity, if left unmanaged, would be highly sensitive to fluctuations in short-term interest rates. To manage this exposure, IBRD uses an EMF, which seeks to manage the sensitivity of IBRD's revenue from loans funded by equity to fluctuations in short-term interest rates. In particular, the EMF allows the flexibility of managing the duration of IBRD's equity within a range of zero to five years based on market and macroeconomic conditions. It also allows IBRD to realize some of the unrealized mark-to-market gains from the positions. As measured by duration, the interest rate sensitivity of IBRD's equity remained largely unchanged at 4.4 years as of September 30, 2015, from 4.8 years as of June 30, 2015. The market value of the EMF position increased to $1.6 billion as of September 30, 2015, from $0.7 billion as of June 30, 2015. The increase was primarily as a result of net unrealized mark-to-market gains of $741 million experienced during the first three months of FY16, due to the decline in the U.S. interest rates (Table 4).

The main driver of equity contribution is revenue from the derivatives used as part of the EMF. In addition to the regular interest income earned from the derivative instruments, this revenue, on an allocable income basis, includes net mark-to-market gains which have been realized during the year as a result of the termination of derivative positions. Additionally, equity contribution includes revenue from the proportion of loans which are funded by equity and certain minor adjustments including those relating to discontinued loan products.

For the first three months of FY16, the equity contribution amounted to $191 million, compared with $674 million for the same period in FY15, where IBRD had $581 million of realized gains as a result of the liquidation of certain EMF positions during that time. There were no terminations of positions during the same period in FY16. This decline was however partially offset by the increase in interest income earned during FY16, as a result of the increase in the volume of EMF positions.

III. Summary of Fair Value Results

Fair Value Adjustments

An important element in achieving IBRD's financial goals is its ability to minimize the cost of borrowing from capital markets for lending to member countries by using financial instruments, including derivatives. The fair value of these financial instruments is affected by changes in the market environment such as interest rates, exchange rates and credit risk. Fair value is used mainly to assess the performance of the investment trading portfolio, to monitor the results of the EMF, and to manage certain market risks, including interest rate and commercial credit risk for derivative counterparties.

As shown in Table 9, on a fair value basis, if interest rates increased by one basis point, IBRD would experience a net unrealized mark-to-market loss of approximately $24 million as of September 30, 2015.

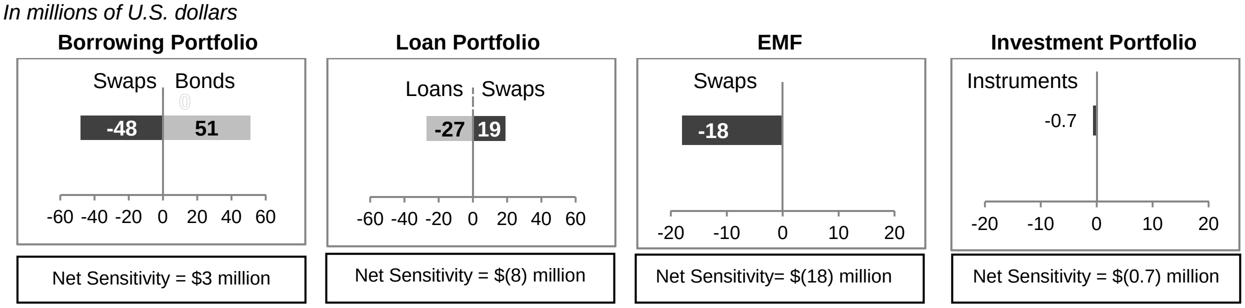
Table 9: Effect of Interest Rates and Credit on IBRD's Fair Value Income
In millions of U.S. dollars

As of September 30, 2015	Interest Rate Effect on Fair Value Income[a] Sensitivity[c]	Credit Effect on Fair Value Income[b] Sensitivity[c]
Borrowing portfolio	$ 3	$ 51
Loan portfolio	(8)	(36)
EMF	(18)	*
Investment portfolio	(1)	3
Total (loss)/gains	$(24)	$ 18

a. After the effects of derivatives.
b. Excludes CVA adjustment on swaps.
c. Amount represents dollar change in fair value corresponding to a one basis-point parallel upward shift in interest rates.
** Sensitivity is marginal.*

Figure 7 provides a further breakdown of how the use of derivatives affects the overall sensitivity of the loan and borrowing portfolios. For example, for the borrowing portfolio, a one basis point increase in interest rates would result in net unrealized mark-to-market gains of $51 million on the bonds. These would be significantly offset by the $48 million of net unrealized mark-to-market losses on the related swaps, resulting in net unrealized mark-to-market gains of $3 million for the portfolio.

Figure 7: Sensitivity to Interest Rates as of September 30, 2015
(Dollar change in fair value corresponding to a one-basis-point upward parallel shift in interest rates)
In millions of U.S. dollars



For the first three months of FY16, IBRD experienced net unrealized mark-to-market losses on a fair value basis of $267 million on its non-trading portfolios. See Table 10 below for details.

Table 10: Summary of Fair Value Adjustments on Non-Trading Portfolios[a]
In millions of U.S. dollars

For the three months ended September 30,	2015	2014
Borrowing portfolio	$ 516	$(237)
Loan portfolio	(1,524)	(566)
EMF	741	(142)
	$ (267)	$(945)

a. See Table 12 for reconciliation to the fair value comprehensive basis net income.

Effect of Interest and Credit

IBRD uses derivatives in its loan and borrowing portfolios to arrive at floating rate instruments, as part of its risk management strategies. The sensitivity of these portfolios to interest rate movements, after the effect of derivatives is therefore low, resulting in relatively small interest rate related unrealized mark-to-market gains/losses in income (Figure 7).

For the first three months of FY16, the unrealized mark-to-market gains on the EMF position of $741 million were primarily due to the decrease in U.S. interest rates experienced during the first three months of FY16.

For the first three months of FY16, IBRD experienced $516 million of unrealized mark-to-market gains on the borrowing portfolio, which is comprised of $665 million mark-to-market unrealized gains due to the widening of its credit spreads, partially offset by $232 million of mark-to-market losses due to the decline in interest rates. As shown on Table 9, the dollar value change corresponding to a one-basis-point upward parallel shift in interest rates on IBRD's own credit relative to LIBOR is about $51 million of unrealized mark-to-market gains.

In addition, IBRD experienced $1.5 billion of unrealized mark-to-market losses on the loan portfolio, which was mainly due to the net widening of Credit Default Swaps (CDS) spreads for several of its borrowing member countries during the same period. As shown on Table 9, the dollar value change corresponding to a one-basis-point upward parallel shift in CDS rates on the loan portfolio is about $36 million of unrealized mark-to-market losses. See the June 30, 2015, MD&A for a detailed discussion on how the credit risk of each portfolio is managed.

Fair Value Results

As non-financial assets and liabilities are not reflected at fair value, IBRD's equity is not intended to reflect fair value. Under the fair value basis, in addition to the instruments in the investment and borrowing portfolios, and all other derivatives, loans are reported at fair value and all changes in AOCI are also included in fair value net income. Tables 11-12 provide a reconciliation from the reported basis to the fair value basis for both the balance sheet and income statement.

Table 11: Condensed Balance Sheet on a Fair Value Basis
In millions U.S. dollars

	As of September 30, 2015			As of June 30, 2015		
	Reported Basis	Adjustments	Fair Value Basis	Reported Basis	Adjustments	Fair Value Basis
Due from banks	$ 887	$	$ 887	$ 388		$ 388
Investments	48,297		48,297	49,951		49,951
Net loans outstanding	160,258	(168)	160,090	155,040	$870	155,910
Receivable from derivatives	136,489		136,489	134,325		134,325
Other assets	9,309		9,309	3,521		3,521
Total assets	$355,240	$(168)	$355,072	$343,225	$870	$344,095
Borrowings	$169,592	$ 10[a]	$169,602	$160,980	$ 8[a]	$160,988
Payable for derivatives	135,489		135,489	132,324		132,324
Other liabilities	10,694		10,694	11,284		11,284
Total liabilities	315,775	10	315,785	304,588	8	304,596
Paid-in capital stock	15,224		15,224	15,192		15,192
Retained earnings and other equity	24,241	(178)	24,063	23,445	862	24,307
Total equity	39,465	(178)	39,287	38,637	862	39,499
Total liabilities and equity	$355,240	$(168)	$355,072	$343,225	$870	$344,095

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

Table 12: Reconciliation from Net Income to Income on a Fair Value Comprehensive Basis
In millions U.S. dollars

For the three months ended September 30,	2015	2014	Variance
Net income (loss) from Table 2	$ 745	$ (417)	$1,162
Fair value adjustment on loans[a]	(1,027)	(577)	(450)
Changes to AOCI:			
Currency translation adjustments	(5)	(443)	438
Others	34	52	(18)
Net (loss) on fair value comprehensive basis	$ (253)	$(1,385)	$1,132

a. Amount has been adjusted to exclude the provision for losses on loans and other exposures: $98 million charge and $40 million charge – three months ended September 30, 2015 and September 30, 2014, respectively.

Table 13: Fair Value Adjustments, net
In millions of U.S. dollars

	For the three months ended September 30, 2015				
	Unrealized gains (losses)	Realized gains	Fair Value Adjustment from Table 12	Other Adjustments	Total from Table 10
Borrowing portfolio[c]	$ 513[a]	$ 4		$(1)[b]	$ 516
Loan portfolio[c]	(497)		$(1,027)		(1,524)
EMF[d]	741				741
Asset-liability management portfolio[d]	(1)			1	-
Client operations portfolio	(3)			3	-
Total	$ 753	$ 4	$(1,027)	$ 3	$ (267)

	For the three months ended September 30, 2014				
	Unrealized gains (losses)	Realized gains	Fair Value Adjustment from Table 12	Other Adjustments	Total from Table 10
Borrowing portfolio[c]	$(244)[a]	$ 6		$1[b]	$(237)
Loan portfolio[c]	11		$(577)		(566)
EMF[d]	(723)[a]	581			(142)
Asset-liability management portfolio[d]	(1)			1	-
Client operations portfolio	(2)			2	-
Total	$(959)	$587	$(577)	$4	$(945)

a. Includes amounts reclassified to realized mark-to-market gains (losses).
b. Amount represents amortization of transition adjustment relating to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000, included in AOCI.
c. Includes related derivatives.
d. Included in other derivatives on the condensed Balance Sheet.

IV. Senior Management Changes

On November 6, 2015, Bertrand Badre announced that he will be leaving as Managing Director and WBG Chief Financial Officer at the end of March 2016.

CONDENSED BALANCE SHEET

Expressed in millions of U.S. dollars

	September 30, 2015 (Unaudited)	*June 30, 2015 (Unaudited)*
Assets		
Due from banks—Notes C and K		
Unrestricted cash	$ 833	$ 311
Restricted cash	54	77
	887	388
Investments-Trading (including securities transferred under repurchase agreements or securities lending agreements of $390 million—September 30, 2015; $844 million—June 30, 2015)—Note C	45,804	47,823
Securities purchased under resale agreements—Note C	2,493	2,128
Derivative assets		
Investments—Notes C, F and K	24,894	22,196
Loans—Notes D, F and K	4,122	3,902
Client operations—Notes D, F, I and K	28,349	28,739
Borrowings—Notes E, F and K	77,012	78,267
Others—Notes F and K	2,112	1,221
	136,489	134,325
Loans outstanding—Notes D, I and K		
Total loans	220,787	217,223
Less undisbursed balance	58,446	60,211
Loans outstanding (including a loan at fair value of $117 million—September 30, 2015; $125 million—June 30, 2015)	162,341	157,012
Less:		
Accumulated provision for loan losses	1,657	1,554
Deferred loan income	426	418
Net loans outstanding	160,258	155,040
Other assets—Notes C, E and I	9,309	3,521
Total assets	$ 355,240	$ 343,225

	September 30, 2015 (Unaudited)	June 30, 2015 (Unaudited)
Liabilities		
Borrowings—Notes E and K	$ 169,592	$ 160,980
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received—Notes C and K	3,015	3,575
Derivative liabilities		
Investments—Notes C, F and K	24,401	21,279
Loans—Notes D, F and K	5,996	5,535
Client operations—Notes D, F, I and K	28,350	28,747
Borrowings—Notes E, F and K	76,128	76,140
Others—Notes F and K	614	623
	135,489	132,324
Other liabilities—Notes C, D and I	7,679	7,709
Total liabilities	315,775	304,588
Equity		
Capital stock—Note B		
Authorized (2,307,600 shares—September 30, 2015, and June 30, 2015)		
Subscribed (2,100,276 shares—September 30, 2015, and 2,095,748 shares—June 30, 2015)	253,367	252,821
Less uncalled portion of subscriptions	238,143	237,629
Paid-in capital	15,224	15,192
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital	(295)	(304)
Receivable amounts to maintain value of currency holdings	(350)	(365)
Deferred amounts to maintain value of currency holdings	(188)	(174)
Retained earnings (see Condensed Statement of Changes in Retained Earnings; Note G)	28,246	27,501
Accumulated other comprehensive loss—Note J	(3,172)	(3,213)
Total equity	39,465	38,637
Total liabilities and equity	$ 355,240	$ 343,225

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

CONDENSED STATEMENT OF INCOME

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2015	*2014*
Net interest revenue		
Interest revenue		
Loans, net—Note D	$ 330	$ 290
Equity management, net	184	93
Investments - Trading, net	59	51
Other, net	1	1
Interest expenses		
Borrowings, net—Note E	(126)	(94)
Net interest revenue, before provision for losses	448	341
Provision for losses on loans and other exposures—Note D	(98)	(40)
Net interest revenue, after provision for losses	350	301
Non-interest revenue		
Revenue from externally funded activities—Note I	117	113
Commitment charges—Note D	7	4
Other, net	1	1
Total	125	118
Non-interest expenses		
Administrative—Note I	(350)	(344)
Pension—Note H	(55)	(58)
Contributions to special programs	(30)	(33)
Total	(435)	(435)
Unrealized mark-to-market losses on Investments-Trading portfolio, net—Notes F and K	(52)	(29)
Unrealized mark-to-market gains (losses) on non-trading portfolios, net—Notes D, E, F and K	757	(372)
Net income (loss)	$ 745	$ (417)

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

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2015	*2014*
Net income (loss)	$ 745	$ (417)
Other comprehensive income—Note J		
Reclassification to net income:		
Derivatives and hedging transition adjustment	-	1
Amortization of unrecognized net actuarial losses	29	45
Amortization of unrecognized prior service costs	6	6
Currency translation adjustment	6	(438)
Total other comprehensive income (loss)	41	(386)
Comprehensive income (loss)	$ 786	$ (803)

CONDENSED STATEMENT OF CHANGES IN RETAINED EARNINGS
Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2015	*2014*
Retained earnings at beginning of the fiscal year	$ 27,501	$ 28,287
Net income (loss) for the period	745	(417)
Retained earnings at end of the period	$ 28,246	$ 27,870

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

CONDENSED STATEMENT OF CASH FLOWS

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2015	*2014*
Cash flows from investing activities		
Loans		
Disbursements	$ (7,855)	$ (5,428)
Principal repayments	2,282	2,107
Loan origination fees received	5	3
Net derivatives-loans	1	(1)
Other investing activities, net	(27)	(33)
Net cash used in investing activities	(5,594)	(3,352)
Cash flows from financing activities		
Medium and long-term borrowings		
New issues	8,927	14,961
Retirements	(12,228)	(11,209)
Net short-term borrowings	8,032	(2,564)
Net derivatives-borrowings	(275)	(218)
Capital subscriptions	32	209
Other capital transactions, net	19	(3)
Net cash provided by financing activities	4,507	1,176
Cash flows from operating activities		
Net income (loss)	745	(417)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Unrealized mark-to-market (gains) losses on non-trading portfolios, net	(757)	372
Depreciation and amortization	170	198
Provision for losses on loans and other exposures	98	40
Changes in:		
Investments-Trading, net	1,541	1,447
Other assets and liabilities	(186)	571
Net cash provided by operating activities	1,611	2,211
Effect of exchange rate changes on unrestricted cash	(2)	(95)
Net increase (decrease) in unrestricted cash	522	(60)
Unrestricted cash at beginning of the fiscal year	311	3,606
Unrestricted cash at end of the period	$ 833	$ 3,546
Supplemental disclosure		
Increase (decrease) in ending balances resulting from exchange rate fluctuations		
Loans outstanding	$ (257)	$ (2,842)
Investment portfolio	8	(236)
Borrowing portfolio	65	(2,212)
Capitalized loan origination fees included in total loans	13	11
Interest paid on borrowings	39	8

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

Basis of Preparation

These unaudited condensed quarterly financial statements should be read in conjunction with the June 30, 2015, audited financial statements and notes included therein. The condensed comparative information that has been derived from the June 30, 2015, audited financial statements has not been audited. In the opinion of management, the condensed quarterly financial statements reflect all adjustments necessary for a fair presentation of IBRD's financial position and results of operations in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

Certain reclassifications of the prior year's information have been made to conform with the current year's presentation. In particular, the presentation for realized mark-to-market gains and losses on the Statement of Income and the Statement of Cash Flows for the prior period was changed to better reflect the manner in which these derivatives are economically hedging the related portfolios. For the Statement of Income, these amounts were previously presented on a gross basis as part of Interest, net, for the Equity management and Borrowing portfolios, with a corresponding offset in the related Unrealized mark-to-market gains and losses for the respective portfolios. For the Statement of Cash flows, within the Cash flows from operating activities category, consistent with the gross basis presentation on the Statement of Income, realized mark-to-market gains and losses, were previously shown as part of Other assets and liabilities, with a corresponding offset in the Unrealized mark-to-market gains and losses on non-trading portfolios, net. Under the new presentation, realized mark-to-market gains and losses are no longer presented on a gross basis. As a result:

- On the Statement of Income, for the three months ended September 30, 2014, interest revenue on Equity management, net, decreased by $581 million, while the related unrealized mark-to-market losses decreased by $581 million. Interest expenses on Borrowings, net, increased by $6 million while the related unrealized market-to-market losses, net decreased by $6 million. Similarly, interest revenue on Investments-Trading, net increased by $29 million while the related unrealized mark-to-market losses increased by $29 million. There was no net effect on net income (loss) due to this reclassification.

- For the Statement of Cash Flows, for the three months ended September 30, 2014, Unrealized mark-to-market losses (gains) on non-trading portfolios, net decreased by $587 million, with a corresponding change in miscellaneous assets. There was no net effect on the Cash flows from operating activities in the Statement of Cash Flows.

Accounting and Reporting Developments

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and interpret its requirements. As the rules are being developed, IBRD continues to assess the impact on its business. As of September 30, 2015, IBRD believes that the Act has not had any significant effect on its business.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The ASU defers for one year the effective date of ASU 2014-09 *Revenue from Contracts with Customers*. As a result, for IBRD, ASU 2014-09 will be effective beginning from the quarter ending September 30, 2018, with earlier application permitted as of the quarter ending September 30, 2017.

NOTE B—CAPITAL STOCK

The following table provides a summary of changes in IBRD's authorized and subscribed shares during the three months ended September 30, 2015 and the fiscal year ended June 30, 2015:

	Authorized shares	*Subscribed shares*
As of June 30, 2014	2,307,600	1,929,711
General and Selective Capital Increase (GCI/SCI)	-	166,037
As of June 30, 2015	2,307,600	2,095,748
GCI/SCI	-	4,528
As of September 30, 2015	2,307,600	2,100,276

The following table provides a summary of the changes in subscribed capital, uncalled portion of subscriptions and paid-in capital during the three months ended September 30, 2015 and the fiscal year ended June 30, 2015:

In millions of U.S. dollars

	Subscribed capital	*Uncalled portion of subscriptions*	*Paid-in capital*
As of June 30, 2014	$ 232,791	$ (218,786)	$ 14,005
GCI/SCI	20,030	(18,843)	1,187
As of June 30, 2015	252,821	(237,629)	15,192
GCI/SCI	546	(514)	32
As of September 30, 2015	$ 253,367	$ (238,143)	$ 15,224

The uncalled portion of subscriptions is subject to call only when required to meet the obligations incurred by IBRD as a result of borrowings, or guaranteeing loans.

NOTE C—INVESTMENTS

As of September 30, 2015, IBRD's investments include the liquid asset portfolio and, holdings relating to the Advance Market Commitment for Pneumococcal Vaccines Initiative (AMC), Post Employment Benefit Plan (PEBP), and the Post Retirement Contribution Reserve Fund (PCRF) which is used to stabilize IBRD's contributions to the pension plan.

The composition of IBRD's net investment portfolio as of September 30, 2015 and June 30, 2015 was as follows:

In millions of U.S. dollars

	September 30, 2015	*June 30, 2015*
Net investment portfolio		
Liquid asset portfolio	$ 42,982	$ 43,983
PCRF holdings	74	60
AMC holdings	142	156
PEBP holdings	869	906
Total	$ 44,067	$ 45,105

Investments held by IBRD are designated as trading and are carried and reported at fair value, or at face value which approximates fair value. As of September 30, 2015, the majority of Investments is composed of government and agency obligations, and time deposits (60% and 26%, respectively), with all the instruments classified as Level 1 or Level 2 within the fair value hierarchy. As of September 30, 2015, U.S. Treasuries represented the largest holding of a single counterparty, and amounted to 13.8% of the Investments–Trading portfolio. Over 99% of IBRD's investments were rated A and above, as of September 30, 2015.

A summary of IBRD's Investments-Trading at September 30, 2015 and June 30, 2015, is as follows:

In millions of U.S. dollars

	September 30, 2015	June 30, 2015
Equity securities[a]	$ 495	$ 504
Government and agency obligations	27,709	24,665
Time deposits	11,844	16,898
Asset-backed securities (ABS)	5,633	5,653
Alternative Investments[b]	123	103
Total	$ 45,804	$ 47,823

a. Includes $152 million of investments in commingled funds, related to PEBP holdings ($197 million—June 30, 2015).

b. Includes investments in hedge funds, private equity funds and real estate funds, related to PEBP holdings, at net asset value per share (NAV).

IBRD manages its investments on a net portfolio basis. The following table summarizes IBRD's net portfolio position as of September 30, 2015 and June 30, 2015:

In millions of U.S. dollars

	September 30, 2015	June 30, 2015
Investments - Trading	$ 45,804	$ 47,823
Securities purchased under resale agreements	2,493	2,128
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received	(3,015)	(3,575)
Derivative assets		
Currency forward contracts	7,001	4,388
Currency swaps	17,756	17,706
Interest rate swaps	119	91
Swaptions, exchange traded options and futures contracts	18	11
Other[a]	*	-
Total	24,894	22,196
Derivative liabilities		
Currency forward contracts	(7,042)	(4,366)
Currency swaps	(17,211)	(16,787)
Interest rate swaps	(117)	(107)
Swaptions, exchange traded options and futures contracts	(31)	(19)
Other[a]	-	(*)
Total	(24,401)	(21,279)
Cash held in investment portfolio[b]	704	201
Receivable from investment securities traded[c]	38	69
Payable for investment securities purchased[d]	(2,450)	(2,458)
Net Investment Portfolio	$ 44,067	$ 45,105

a. These relate to Mortgage-backed Securities To-Be-Announced (TBA securities).

b. These amounts are included in Unrestricted cash under Due from banks on the Condensed Balance Sheet.

c. This amount is included in Other assets on the Condensed Balance Sheet.

d. This amount is included in Other liabilities on the Condensed Balance Sheet.

** Indicates amount less than $0.5 million.*

IBRD uses derivative instruments to manage currency and interest rate risks in the investment portfolio. For details regarding these instruments, see Note F—Derivative Instruments.

As of September 30, 2015, there were $1,519 million of short sales included in Other liabilities on the Condensed Balance Sheet ($1,635 million—June 30, 2015).

Fair Value Disclosures

The following tables present IBRD's fair value hierarchy for investment assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and June 30, 2015:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of September 30, 2015			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments – Trading				
Equity securities	$ 343	$ -	$ -	$ 495 [a]
Government and agency obligations	18,851	8,858	-	27,709
Time deposits	3,196	8,648	-	11,844
ABS	-	5,633	-	5,633
Alternative investments[b]	-	-	-	123
Total Investments – Trading	22,390	23,139	-	45,804
Securities purchased under resale agreements	464	2,029	-	2,493
Derivative assets-Investments				
Currency forward contracts	-	7,001	-	7,001
Currency swaps	-	17,756	-	17,756
Interest rate swaps	-	119	-	119
Swaptions, exchange traded options and futures contracts	-	18	-	18
Other[c]	-	*	-	*
Total Derivative assets-Investments	-	24,894	-	24,894
Total	$ 22,854	$ 50,062	$ -	$ 73,191
Liabilities:				
Securities sold under repurchase agreements and securities lent under securities lending agreements[d]	$ 296	$ 94	$ -	$ 390
Derivative liabilities-Investments				
Currency forward contracts	-	7,042	-	7,042
Currency swaps	-	17,211	-	17,211
Interest rate swaps	-	117	-	117
Swaptions, exchange traded options and futures contracts	14	17	-	31
Other[c]	-	-	-	-
Total Derivative liabilities-Investments	14	24,387	-	24,401
Payable for investments securities purchased[e]	1,519	-	-	1,519
Total	$ 1,829	$ 24,481	$ -	$ 26,310

a. Includes $152 million of commingled funds at NAV, related to PEBP holdings and not included in the fair value hierarchy.
b. Investments at NAV related to PEBP holdings, not included in the fair value hierarchy.
c. These relate to TBA securities.
d. Excludes $2,625 million relating to payable for cash collateral received.
e. These relate to short sales of investments securities.
** Indicates amount less than $0.5 million.*

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments – Trading				
Equity securities	$ 307	$ -	$ -	$ 504 [a]
Government and agency obligations	15,442	9,223	-	24,665
Time deposits	2,811	14,087	-	16,898
ABS	-	5,653	-	5,653
Alternative investments[b]	-	-	-	103
Total Investments – Trading	$ 18,560	$ 28,963	$ -	$ 47,823
Securities purchased under resale agreements	541	1,587	-	2,128
Derivative assets-Investments				
Currency forward contracts	-	4,388	-	4,388
Currency swaps	-	17,706	-	17,706
Interest rate swaps	-	91	-	91
Swaptions, exchange traded options and futures contracts	*	11	-	11
Other[c]	-	-	-	-
Total Derivative assets-Investments	*	22,196	-	22,196
Total	$ 19,101	$ 52,746	$ -	$ 72,147
Liabilities:				
Securities sold under repurchase agreements and securities lent under securities lending agreements[d]	$ 309	$ 537	$ -	$ 846
Derivative liabilities-Investments				
Currency forward contracts	-	4,366	-	4,366
Currency swaps	-	16,787	-	16,787
Interest rate swaps	-	107	-	107
Swaptions, exchange traded options and futures contracts	8	11	-	19
Other[c]	-	*	-	*
Total Derivative liabilities-Investments	8	21,271	-	21,279
Payable for investments securities purchased[e]	1,635	-	-	1,635
Total	$ 1,952	$ 21,808	$ -	$ 23,760

a. Includes $197 million of commingled funds at NAV, related to PEBP holdings and not included in the fair value hierarchy.
b. Investments at NAV related to PEBP holdings, not included in the fair value hierarchy.
c. These relate to TBA securities.
d. Excludes $2,729 million relating to payable for cash collateral received.
e. These relate to short sales of investments securities.
** Indicates amount less than $0.5 million.*

During the three months ended Septermber 30, 2015, there were no transfers between Level 1 and Level 2. On June 30, 2015, $834 million of investments related to non-U.S. government obligations were transferred from Level 2 to Level 1 within the fair value hierarchy. This transfer was based on the outcome of the annual review of the inputs used to measure fair value.

Valuation Methods and Assumptions

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

Investment securities

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. These securities are carried and reported at fair value, or at face value or NAV, which approximates fair value. Where available, quoted market prices are used to determine the fair value of trading securities. Examples include most government and agency securities, mutual funds, futures contracts, exchange-traded equity securities and ABS and TBA.

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

Securities purchased under resale agreements, Securities sold under repurchase agreements, and Securities lent under securities lending agreements

These securities are of a short term nature and reported at face value which approximates fair value.

Commercial Credit Risk

For the purpose of risk management, IBRD is party to a variety of financial transactions, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. For all securities, IBRD limits trading to a list of authorized dealers and counterparties. In addition, IBRD receives collateral in connection with resale agreements as well as swap agreements. This collateral serves to mitigate IBRD's exposure to credit risk.

Swap Agreements: Credit risk is mitigated through the application of eligibility criteria and volume limits for transactions with individual counterparties and through the use of mark-to-market collateral arrangements for swap transactions. IBRD may require collateral in the form of cash or other approved liquid securities from individual counterparties in order to mitigate its credit exposure.

IBRD has entered into master derivatives agreements which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps. Credit risk with financial assets subject to a master derivatives arrangement is further reduced under these agreements to the extent that payments and receipts with the counterparty are netted at settlement. The reduction in exposure as a result of these netting provisions can vary due to the impact of changes in market conditions on existing and new transactions. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date. For more information on netting and offsetting provisions see Note F—Derivative Instruments.

The following is a summary of the collateral received by IBRD in relation to swap transactions as of September 30, 2015 and June 30, 2015.

In millions of U.S. dollars

	September 30, 2015	*June 30, 2015*
Collateral received		
Cash	$ 2,625	$ 2,729
Securities	1,583	2,229
Total collateral received	$ 4,208	$ 4,958
Collateral permitted to be repledged	$ 4,208	$ 4,958
Amount of collateral repledged	-	-

As of September 30, 2015, IBRD had received total cash collateral of $2,625 million ($2,729 million—June 30, 2015), of which $2,605 million was invested in highly liquid instruments ($2,714 million—June 30, 2015).

Securities Lending: IBRD may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resales) of government and agency obligations, and corporate and ABS. These transactions have been conducted under legally enforceable master netting arrangements, which allow IBRD to reduce its gross credit exposure related to these transactions. For balance sheet presentation purposes, IBRD presents its securities lending and repurchases, as well as resales, on a gross basis. As of September 30, 2015, amounts which could potentially be offset as a result of legally enforceable master netting arrangements were $374 million ($822 million—June 30, 2015).

Securities lending and repurchase agreements expose IBRD to several risks, including counterparty risk, reinvestment risk, and risk of a collateral gap (increase or decrease in the fair value of collateral pledged). IBRD has procedures in place to ensure that trading activity and balances under these agreements are below predefined counterparty and maturity limits, and to actively manage net counterparty exposure, after collateral, through daily mark-to-market. Whenever the collateral pledged by IBRD related to its borrowings under repurchase agreements and securities lending agreements declines in value, the transaction is re-priced as appropriate by returning cash or pledging additional collateral.

The following is a summary of the carrying amount of the securities transferred under repurchase or securities lending agreements, and the related liabilities:

In millions of U.S. dollars

	September 30, 2015	*June 30, 2015*	*Financial Statement Presentation*
Securities transferred under repurchase or securities lending agreements	$ 390	$ 844	Included under Investments-Trading on the Condensed Balance Sheet.
Liabilities relating to securities transferred under repurchase or securities lending agreements	$ 390	$ 846	Included under Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received, on the Condensed Balance Sheet.

Transfers of securities by IBRD to counterparties are not accounted for as sales as IBRD still retails control over these securities and therefore the accounting criteria for the treatment as a sale have not been met. Counterparties are permitted to repledge these securities until the repurchase date.

At September 30, 2015, and June 30, 2015 there were no liabilities relating to securities transferred under repurchase or securities lending agreements that had not settled at that date.

The following tables present the disaggregation of the gross obligation by class of collateral pledged and the remaining contractual maturities for repurchase or securities lending agreements that are accounted for as secured borrowings as of September 30, 2015 and June 30, 2015:

In millions of U.S. dollars

	September 30, 2015		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	*Up to 30 days*	*Total*
Repurchase or securities lending agreements			
Government and agency obligations	$ 296	$ 78	$ 374
Equity securities	16	-	16
Total liabilities relating to securities transferred under repurchase or securities lending agreements	$ 312	$ 78	$ 390

In millions of U.S. dollars

	June 30, 2015		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	*Up to 30 days*	*Total*
Repurchase or securities lending agreements			
Government and agency obligations	$ 557	$ 277	$ 834
Equity securities	12	-	12
Total liabilities relating to securities transferred under repurchase or securities lending agreements	$ 569	$ 277	$ 846

In the case of resale agreements, IBRD receives collateral in the form of liquid securities and is permitted to repledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded on IBRD's Balance Sheet as IBRD has not obtained control over these securities and therefore the accounting criteria for treatment as a sale have not been met. As of September 30, 2015, securities purchased under resale agreements included $437 million of securities which had not settled at that date ($252 million—June 30, 2015). For the remaining purchases, IBRD received securities with a fair value of $2,048 million ($1,875 million—June 30, 2015). None of these securities had been transferred under repurchase or security lending agreements as of that date (Nil—June 30, 2015).

NOTE D—LOANS AND OTHER EXPOSURES

IBRD's loans and other exposures (exposures) are generally made to, or guaranteed by, member countries of IBRD. In addition, IBRD may also make loans to the International Finance Corporation (IFC), an affiliated organization, without any guarantee. Other exposures include: Deferred Drawdown Options (DDOs), Irrevocable Commitments, Exposures to member Countries' Derivatives, and Guarantees. IBRD's loans are reported at amortized cost, with the exception of one loan which is carried and reported at fair value, because it contains an embedded derivative.

IBRD uses derivative contracts to manage the currency risk as well as the repricing risk between its loans and borrowings. For details regarding derivatives used in the loan portfolio, see Note F—Derivative Instruments.

Of the total loans outstanding as of September 30, 2015, 82% were to the Latin America and the Caribbean, Europe and Central Asia, and East Asia and Pacific regions, combined.

As of September 30, 2015, only 0.3% of IBRD's loans were in nonaccrual status and were all related to one borrower. The total provision for losses on accrual and nonaccrual loans accounted for 1.0% of the total loan portfolio. Based on IBRD's internal credit quality indicators, the majority of loans outstanding are in the medium risk and high risk classes.

Credit Quality of Sovereign Exposures

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

IBRD's country risk ratings are an assessment of its borrowers' ability and willingness to repay IBRD on time and in full. These ratings are internal credit quality indicators. Individual country risk ratings are derived on the basis of both quantitative and qualitative analyses. The components considered in the analysis can be grouped broadly into eight categories: political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payments risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks, and corporate sector debt and vulnerabilities. For the purpose of analyzing the risk characteristics of IBRD's exposures, these exposures are grouped into three classes in accordance with assigned borrower risk ratings which relate to the likelihood of loss: Low, Medium and High risk classes, as well as exposures in nonaccrual status. IBRD considers all exposures in nonaccrual status to be impaired.

IBRD's borrowers' country risk ratings are key determinants in the provision for losses. Country risk ratings are determined in review meetings that take place several times a year. All countries are reviewed at least once a year, or more frequently, if circumstances warrant, to determine the appropriate ratings.

IBRD considers loans to be past due when a borrower fails to make payment on any principal, interest or other charges due to IBRD on the dates provided in the contractual loan agreement.

The following tables provide an aging analysis of the loans outstanding as of September 30, 2015 and June 30, 2015:

In millions of U.S. dollars

	September 30, 2015							
Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,495	$ 21,495
Medium	*	-	-	-	-	*	83,868	83,868
High	1	-	-	-	-	1	56,409	56,410
Loans in accrual status[a]	1	-	-	-	-	1	161,772	161,773
Loans in nonaccrual status[a]	-	-	-	-	451	451	-	451
Loan at fair value[b]	-	-	-	-	-	-	117	117
Total	$ 1	$ -	$ -	$ -	$ 451	$ 452	$ 161,889	$ 162,341

In millions of U.S. dollars

	June 30, 2015							
Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,574	$ 20,574
Medium	-	-	-	-	-	-	81,233	81,233
High	-	-	-	-	-	-	54,628	54,628
Loans in accrual status[a]	-	-	-	-	-	-	156,435	156,435
Loans in nonaccrual status[a]	-	-	-	-	452	452	-	452
Loan at fair value[b]	-	-	-	-	-	-	125	125
Total	$ -	$ -	$ -	$ -	$ 452	$ 452	$ 156,560	$ 157,012

a. At amortized cost.

b. For the loan that is reported at fair value, and which is in accrual status, the credit risk assessment is incorporated in the determination of the fair value.

Accumulated Provision for Losses on Loans and Other Exposures

Management determines the appropriate level of accumulated provisions for losses, which reflects the probable losses inherent in IBRD’s exposures. Probable losses comprise estimates of potential losses arising from default and nonpayment of principal amounts due, as well as present value losses. Delays in receiving loan payments result in present value losses to IBRD since it does not charge fees or additional interest on any overdue interest or charges. These present value losses are equal to the difference between the present value of payments of interest and charges, made according to the related instrument’s contractual terms and the present value of its expected future cash flows. It is IBRD’s practice not to write off its loans. All contractual obligations associated with exposures in nonaccrual status have eventually been cleared, thereby allowing borrowers to eventually emerge from nonaccrual status. To date, no loans have been written off.

Notwithstanding IBRD’s historical experience, the risk of losses associated with nonpayment of principal amounts due is included in the accumulated provision for losses on loans and other exposures.

Changes to the Accumulated provision for losses on loans and other exposures for the three months ended September 30, 2015, and for the fiscal year ended June 30, 2015 are summarized below:

In millions of U.S. dollars

	September 30, 2015			*June 30, 2015*		
	Loans	*Other*	*Total*	*Loans*	*Other*	*Total*
Accumulated provision, beginning of the fiscal year	$ 1,554	$ 39	$ 1,593	$ 1,626	$ 41	$ 1,667
Provision - charge (release)	102	(4)	98	(11)	1	(10)
Translation adjustment	1	-	1	(61)	(3)	(64)
Accumulated provision, end of the period/fiscal year	$ 1,657	$ 35	$ 1,692	$ 1,554	$ 39	$ 1,593
Composed of accumulated provision for losses on:						
Loans in accrual status	$ 1,432			$ 1,328		
Loans in nonaccrual status	225			226		
Total	$ 1,657			$ 1,554		
Loans, end of the period/fiscal year:						
Loans at amortized cost in accrual status	$ 161,773			$ 156,435		
Loans at amortized cost in nonaccrual status	451			452		
Loan at fair value in accrual status	117			125		
Total	$ 162,341			$ 157,012		

	Reported as Follows	
	Condensed Balance Sheet	***Condensed Statement of Income***
Accumulated Provision for Losses on:		
Loans	Accumulated provision for loan losses	Provision for losses on loans and other exposures
Other exposures (excluding exposures to x member countries' derivatives)	Other liabilities	Provision for losses on loans and other exposures
Exposures to member countries' Derivatives	Derivative liabilities – Client operations	Unrealized mark-to-market gains/losses on non-trading portfolios

Overdue Amounts

At September 30, 2015, there were no principal or interest amounts on loans in accrual status, which were overdue by more than three months. The following tables provide a summary of selected financial information related to loans in nonaccrual status as of September 30, 2015 and June 30, 2015, and for the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

	September 30, 2015	*June 30, 2015*
Recorded investment in nonaccrual loans[a]	$ 451	$ 452
Accumulated provision for loan losses on nonaccrual loans	225	226
Average recorded investment in nonaccrual loans for the period/fiscal year	452	457
Overdue amounts of nonaccrual loans:	882	873
Principal	451	452
Interest and charges	431	421

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

In millions of U.S. dollars

	Three Months Ended September 30,	
	2015	*2014*
Interest revenue not recognized as a result of loans being in nonaccrual status	$ 7	$ 9

During the three months ended September 30, 2015 and September 30, 2014, no loans were placed in nonaccrual status or restored to accrual status.

In addition, during the three months ended September 30, 2015, interest income of $2 million was recognized on loans in nonaccrual status (Nil—three months ended September 30, 2014).

Information relating to the sole borrowing member with loans or guarantees in nonaccrual status at September 30, 2015, is as follows:

In millions of U.S. dollars

Borrower	*Principal Outstanding*	*Principal, Interest and Charges overdue*	*Nonaccrual Since*
Zimbabwe	$ 451	$ 882	October 2000

Guarantees

Guarantees of $1,670 million were outstanding at September 30, 2015 ($1,432 million—June 30, 2015). This amount represents the maximum potential amount of undiscounted future payments that IBRD could be required to make under these guarantees, and is not included in the Condensed Balance Sheet. These guarantees have original maturities ranging between 5 and 20 years, and expire in decreasing amounts through 2029.

At September 30, 2015, liabilities related to IBRD's obligations under guarantees of $60 million ($42 million—June 30, 2015), have been included in Other liabilities on the Condensed Balance Sheet. These include the accumulated provision for guarantee losses of $23 million ($17 million—June 30, 2015).

During the three months ended September 30, 2015 and September 30, 2014, no guarantees provided by IBRD were called.

Waivers of Loan Charges

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

The reduction in net income for the three months ended September 30, 2015 and September 30, 2014, resulting from waivers of loan charges is summarized below:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2015	*2014*
Interest waivers	$ 22	$ 27
Commitment charge waivers	1	1
Front-end fee waivers	4	5
Total	$ 27	$ 33

Segment Reporting

Based on an evaluation of IBRD’s operations, management has determined that IBRD has only one reportable segment since financial results are reviewed, and resource allocation decisions are made, at the entity level.

Loan income comprises interest, commitment fees, loan origination fees and prepayment premia, net of waivers. For the three months ended September 30, 2015, one country contributed in excess of 10 percent of total loan revenue; this amounted to $63 million.

Information about IBRD's loans outstanding and associated loan revenue by geographic region, as of, and for the three months ended September 30, 2015 and September 30, 2014, is presented in the following table:

In millions of U.S. dollars

	September 30, 2015		*September 30, 2014*	
Region	*Loans Outstanding*	*Loan Revenue*[b]	*Loans Outstanding*	*Loan Revenue*[b]
Africa	$ 3,344	$ 45	$ 2,523	$ 23
East Asia and Pacific	34,277	112	30,526	100
Europe and Central Asia	43,877	102	43,648	113
Latin America and the Caribbean	54,650	250	52,059	240
Middle East and North Africa	12,379	35	12,341	38
South Asia	13,601	27	13,196	21
Other[a]	213	*	221	*
Total	$ 162,341	$ 571	$ 154,514	$ 535

a. Represents loans to IFC, an affiliated organization.

b. Does not include interest expenses, net from loan related derivatives of $234 million ($241 million—September 30, 2014). Includes commitment charges of $7 million ($4 million—September 30, 2014).

** Indicates amount less than $0.5 million.*

Fair Value Disclosures

The only loan carried at fair value is classified as Level 3. This loan has an embedded derivative and its fair value is estimated on a matrix basis against the related bond. As IBRD's loans are not traded, the yield which is used as a key input to determining the fair value of this loan is not observable. The yield applied in determining the fair value of the loan at September 30, 2015 was 6.2%. An increase (decrease) in the yield would result in a decrease (increase) in the fair value of the loan.

The following table provides a summary of changes in the fair value of IBRD's Level 3 loan during the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2015	*2014*
Beginning of the fiscal year	$ 125	$ 141
Total realized/unrealized gains (losses) in:		
Net income	1	2
Other comprehensive loss	(9)	(11)
End of the period	$ 117	$ 132

Information on unrealized mark-to-market gains or losses, relating to IBRD's Level 3 loan, included in revenue, for the three months ended September 30, 2015 and September 30, 2014 as well as where those amounts are included in the Condensed Statement of Income, is presented in the following table:

In millions of U.S. dollars

	Three Months Ended September 30,	
Unrealized Gains (Losses)	*2015*	*2014*
Condensed Statement of Income location		
Unrealized mark-to-market losses on non-trading portfolios, net	$ (3)	$ (*)

** Indicates amount less than $0.5 million.*

The table below presents the fair value of all IBRD's loans for disclosure purposes, along with their carrying values as of September 30, 2015 and June 30, 2015:

In millions of U.S. dollars

	September 30, 2015		*June 30, 2015*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Net Loans Outstanding	$ 160,258	$ 160,090	$ 155,040	$ 155,910

Valuation Methods and Assumptions

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

As of September 30, 2015 and June 30, 2015, except for one loan which is reported at fair value, all other loans are carried at amortized cost. The fair value of these loans is calculated using a discounted cash flow method. This method incorporates Credit Default Swap spreads for each borrower. Basis adjustments are applied to market recovery levels to reflect IBRD's recovery experience. IBRD's loans, including the one reported at fair value on a recurring basis, are classified as Level 3, within the fair value hierarchy.

NOTE E—BORROWINGS

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

Borrowings issued by IBRD are carried and reported at fair value. As of September 30, 2015, 99% of the instruments in the portfolio were classified as Level 2, within the fair value hierarchy.

IBRD uses derivative contracts to manage the currency risk as well as the repricing risk between its loans and borrowings. For details regarding the derivatives used in the borrowing portfolio, see Note F—Derivative Instruments.

The following table summarizes IBRD's borrowing portfolio after derivatives at September 30, 2015 and June 30, 2015:

In millions of U.S. dollars

	September 30, 2015	June 30, 2015
Borrowings[a]	$ 169,592	$ 160,980
Currency swaps, net	3,402	1,433
Interest rate swaps, net	(4,286)	(3,560)
	$ 168,708	$ 158,853

a. Includes $5,872 million of unsettled borrowings, representing a non-cash financing activity, for which there is a related receivable included in Other assets on the Condensed Balance Sheet ($225 million—June 30, 2015).

Interest, net for Borrowings on the Condensed Statement of Income includes $767 million of interest revenue, net related to derivatives associated with the Borrowing portfolio ($901 million—three months ended September 30, 2014).

Fair Value Disclosures

IBRD's fair value hierarchy for borrowings measured at fair value on a recurring basis as of September 30, 2015 and June 30, 2015 is as follows:

In millions of U.S. dollars

	September 30, 2015	June 30, 2015
Level 1	$ -	$ -
Level 2	167,550	158,574
Level 3	2,042	2,406
	$ 169,592	$ 160,980

The following table provides a summary of changes in the fair value of IBRD's Level 3 borrowings during the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2015	2014
Beginning of the fiscal year	$ 2,406	$ 3,883
Total realized/unrealized mark-to-market (gains) losses in:		
Net income	(105)	220
Other comprehensive income	(6)	(256)
Issuances	7	286
Settlements	(272)	(500)
Transfers into (out of), net	12	(150)
End of the period	$ 2,042	$ 3,483

Information on the unrealized mark-to-market gains or losses included in the condensed Statement of Income for the three months ended September 30, 2015 and September 30, 2014, relating to IBRD's Level 3 borrowings still held at the reporting dates, as well as where those amounts are included in the Condensed Statement of Income, is presented in the following table:

In millions of U.S. dollars

Unrealized Gains (Losses)	*Three Months Ended September 30,* 2015	2014
Condensed Statement of Income location		
Unrealized mark-to-market gains (losses) on non-trading portfolios, net	$ 75	$ (151)

The following table provides information on the unrealized mark-to-market gains or losses included in the condensed Statement of Income for the three months ended September 30, 2015 and September 30, 2014, relating to IBRD's total borrowings held at the reporting dates, as well as where those amounts are included in the Condensed Statement of Income:

In millions of U.S. dollars

Unrealized Gains (Losses)	*Three Months Ended September 30,* 2015	2014
Condensed Statement of Income location		
Unrealized mark-to-market (losses) gains on non-trading portfolios , net	$ (477)	$ 21

During the three months ended September 30, 2015, IBRD credit spreads widened. The estimated financial effects on the fair value of the debt issued and outstanding as of September 30, 2015, were unrealized mark-to-market gains of $665 million. During the three months ended September 30, 2014, IBRD's credit spreads tightened. The estimated financial effects on the fair value of the debt issued and outstanding as of September 30, 2014, were unrealized mark-to-market losses of $153 million.

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

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

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

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

In millions of U.S. dollars

Portfolio	*Fair Value at September 30, 2015*	*Fair Value at June 30, 2015*	*Valuation Technique*	*Unobservable input*	*Range (average), September 30, 2015*	*Range (average), June 30, 2015*
Borrowings	$2,042	$2,406	Discounted Cash Flow	Correlations	-52% to 75% (8%)	-50% to 72% (2%)
				Long-dated interest rate volatilities	20% to 53% (37%)	19% to 71% (36%)

The table below provides the details of all gross inter-level transfers for the three months ended September 30, 2015 and September 30, 2014. Transfers between Level 2 and Level 3 are due to changes in price transparency.

In millions of U.S. dollars

	Three Months Ended September 30, 2015		*Three Months Ended September 30, 2014*	
	Level 2	*Level 3*	*Level 2*	*Level 3*
Borrowings				
Transfers into (out of)	$ 9	$ (9)	$ 152	$ (152)
Transfers (out of) into	(21)	21	(2)	2
	$ (12)	$ 12	$ 150	$ (150)

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

In millions of U.S. dollars

	Fair Value	*Principal Amount Due Upon Maturity*	*Difference*
September 30, 2015	$ 169,592	$ 168,626	$ 966
June 30, 2015	$ 160,980	$ 160,568	$ 412

Valuation Methods and Assumptions

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

Discount notes and vanilla bonds

Discount notes and vanilla bonds are valued using the standard discounted cash flow method which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads, where available, quoted marked prices are used to determine the fair value of short-term notes.

Structured bonds

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

NOTE F—DERIVATIVE INSTRUMENTS

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

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

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

The following tables provide information on the fair value amounts and the location of the derivative instruments on the Condensed Balance Sheet, as well as notional amounts and credit risk exposures of those derivative instruments as of September 30, 2015 and June 30, 2015:

Fair value of derivative instruments on the Condensed Balance Sheet:

In millions of U.S. dollars

	Balance Sheet Location			
	Derivative Assets		*Derivative Liabilities*	
	September 30, 2015	*June 30, 2015*	*September 30, 2015*	*June 30, 2015*
Derivatives not designated as hedging instruments				
Swaptions, exchange traded options and futures contracts – Investment-Trading	$ 18	$ 11	$ 31	$ 19
Interest rate swaps	8,378	6,510	5,244	4,450
Currency swaps[a]	128,093	127,804	130,214	127,855
Other[b]	*	-	-	*
Total Derivatives	$ 136,489	$ 134,325	$ 135,489	$ 132,324

a. Includes currency forward contracts and structured swaps.

b. These relate to TBA securities.

** Indicates amount less than $0.5 million.*

Notional amounts and credit risk exposure of the derivative instruments:

In millions of U.S. dollars

Type of contract	*September 30, 2015*	*June 30, 2015*
Investments - Trading		
Interest rate swaps		
Notional principal	$ 9,363	$ 8,755
Credit exposure	119	91
Currency swaps (including currency forward contracts)		
Credit exposure	797	1,136
Swaptions, exchange traded options and futures contracts[a]		
Notional long position	1,761	1,313
Notional short position	5,274	7,224
Credit exposure	18	11
Other derivatives[b]		
Notional long position	28	28
Notional short position	-	-
Credit exposure	*	-
Loans		
Interest rate swaps		
Notional principal	27,677	28,118
Credit exposure	71	139
Currency swaps		
Credit exposure	821	507
Client operations		
Interest rate swaps		
Notional principal	22,488	23,024
Credit exposure	1,606	1,221
Currency swaps		
Credit exposure	1,783	1,657
Borrowings		
Interest rate swaps		
Notional principal	188,656	184,491
Credit exposure	4,965	4,325
Currency swaps		
Credit exposure	7,777	8,025
Other derivatives		
Interest rate swaps		
Notional principal	53,929	45,647
Credit exposure	1,617	734
Currency swaps		
Credit exposure	-	-

a. Exchange traded instruments are generally subject to daily margin requirements and are deemed to have no material credit risk. All swaptions, options, and futures contracts are interest rate contracts.

b. These relate to TBA securities.

IBRD is not required to post collateral under its derivative agreements as long as it maintains a AAA credit rating. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on September 30, 2015 is $5,270 million ($4,230 million—June 30, 2015). IBRD has not posted any collateral with these counterparties due to its AAA credit rating.

If the credit-risk related contingent features underlying these agreements were triggered to the extent that IBRD would be required to post collateral on September 30, 2015, the amount of collateral that would need to be posted would be $2,411 million ($1,709 million—June 30, 2015). Subsequent triggers of contingent features would require posting of additional collateral, up to a maximum of $5,270 million ($4,230 million—June 30, 2015). In contrast, IBRD received collateral totaling $4,208 million as of September 30, 2015 ($4,958 million—June 30, 2015), in relation to swap transactions (see Note C—Investments).

The following table provides information on the location and amount of unrealized mark-to-market gains and losses on the non-trading derivatives during the three months ended September 30, 2015, and September 30, 2014, and their location on the Condensed Statement of Income:

In millions of U.S. dollars

	Condensed Income Statement location	*Unrealized mark-to-market gains (losses)*	
		Three Months Ended September 30,	
		2015	*2014*
Derivatives not designated as hedging instruments, and not held in a trading portfolio[a]			
Interest rate swaps	Unrealized mark-to-market gains (losses) on non-trading portfolios, net	$ 981	$ (532)
Currency swaps (including currency forward contracts and structured swaps)	Unrealized mark-to-market gains (losses) on non-trading portfolios, net	256	139
Total		$ 1,237	$ (393)

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

All of the instruments in IBRD's investment portfolio are held for trading purposes. Within the investment portfolio, IBRD holds highly rated fixed income instruments, equity securities as well as derivatives.

The following table provides information on the location and amount of gains and losses on the net investment – trading portfolio and their location on the Condensed Statement of Income during the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

Condensed Statement of Income Location	*Unrealized mark-to-market gains (losses) on Investments-Trading, net[a]*	
	Three Months Ended September 30,	
	2015	*2014*
Type of instrument		
Fixed income (including associated derivatives)	$ (31)	$ (25)
Equity[b]	(21)	(4)
Total	$ (52)	$ (29)

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

b. Includes alternative investments, related to PEBP holdings.

Offsetting assets and liabilities

IBRD enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements with substantially all of its derivative counterparties. These legally enforceable master netting agreements give IBRD the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of default by the counterparty.

The presentation of derivative instruments is consistent with the manner in which these instruments are settled. Interest rate swaps are settled on a net basis, while currency swaps are settled on a gross basis.

The following table summarizes information on derivative assets and liabilities (before and after netting adjustments) that are reflected on IBRD's Condensed Balance Sheet as of September 30, 2015 and June 30, 2015. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements. The net derivative asset positions have been further reduced by the cash and securities collateral received.

In millions of U.S. dollars

	September 30, 2015					
	Located on the Condensed Balance Sheet					
	Derivative Assets			*Derivative Liabilities*		
	Gross Amounts Recognized	*Gross Amounts Offset*	*Net Amounts Presented*	*Gross Amounts Recognized*	*Gross Amounts Offset*	*Net Amounts Presented*
Interest rate swaps	$ 24,978	$ (16,600)	$ 8,378	$ 17,962	$ (12,718)	$ 5,244
Currency swaps[a]	128,093	-	128,093	130,214	-	130,214
Other[b]	18	-	18	31	-	31
Total	$ 153,089	$ (16,600)	$ 136,489	$ 148,207	$ (12,718)	$ 135,489
Amounts subject to legally enforcable master netting agreements[c]			(130,128)			(130,128)
Net derivative positions at counterparty level before collateral			6,361			5,361
Less:						
Cash collateral received[d]			2,180			
Securities collateral received[d]			1,344			
Net derivative exposure after collateral			$ 2,837			

a. Includes currency forward contracts and structured swaps.
b. These relate to swaptions, exchange traded options, futures contracts and TBA securities.
c. Not offset on the Condensed Balance Sheet.
d. Does not include excess collateral received.

In millions of U.S. dollars

	June 30, 2015					
	Located on the Condensed Balance Sheet					
	Derivative Assets			*Derivative Liabilities*		
	Gross Amounts Recognized	*Gross Amounts Offset*	*Net Amounts Presented*	*Gross Amounts Recognized*	*Gross Amounts Offset*	*Net Amounts Presented*
Interest rate swaps	$ 24,968	$ (18,458)	$ 6,510	$ 16,938	$ (12,488)	$ 4,450
Currency swaps[a]	127,804	-	127,804	127,855	-	127,855
Other[b]	11	-	11	22	(3)	19
Total	$ 152,783	$ (18,458)	$ 134,325	$ 144,815	$ (12,491)	$ 132,324
Amounts subject to legally enforcable master netting agreements[c]			(128,010)			(128,010)
Net derivatives positions at counterparty level before collateral			6,315			4,314
Less:						
Cash collateral received[d]			2,284			
Securities collateral received[d]			1,609			
Net derivative exposure after collateral			$ 2,422			

a. Includes currency forward contracts and structured swaps.
b. These relate to swaptions, exchange traded options, futures contracts and TBA securities.
c. Not offset on the Condensed Balance Sheet.
d. Does not include excess collateral received.

Fair Value Disclosures

IBRD's fair value hierarchy for derivative assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and June 30, 2015 is as follows:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of September 30, 2015			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative Assets:				
Investments				
Currency forward contracts	$ -	$ 7,001	$ -	$ 7,001
Currency swaps	-	17,756	-	17,756
Interest rate swaps	-	119	-	119
Swaptions, exchange traded options and futures contracts	-	18	-	18
Other[a]	-	*	-	*
	-	24,894	-	24,894
Loans				
Currency swaps	-	3,921	130	4,051
Interest rate swaps	-	71	-	71
	-	3,992	130	4,122
Client operations				
Currency swaps	-	26,743	-	26,743
Interest rate swaps	-	1,606	-	1,606
	-	28,349	-	28,349
Borrowings				
Currency swaps	-	70,868	1,179	72,047
Interest rate swaps	-	4,952	13	4,965
	-	75,820	1,192	77,012
Other assets/liabilities				
Currency swaps	-	495	-	495
Interest rate swaps	-	1,617	-	1,617
	-	2,112	-	2,112
Total derivative assets	$ -	$ 135,167	$ 1,322	$ 136,489
Derivative Liabilities:				
Investments				
Currency forward contracts	$ -	$ 7,042	$ -	$ 7,042
Currency swaps	-	17,211	-	17,211
Interest rate swaps	-	117	-	117
Swaptions, exchange traded options and futures contracts	14	17	-	31
Other[a]	-	-	-	-
	14	24,387	-	24,401
Loans				
Currency swaps	-	3,129	101	3,230
Interest rate swaps	-	2,766	-	2,766
	-	5,895	101	5,996
Client operations				
Currency swaps	-	26,735	-	26,735
Interest rate swaps	-	1,615	-	1,615
	-	28,350	-	28,350
Borrowings				
Currency swaps	-	74,271	1,178	75,449
Interest rate swaps	-	582	97	679
	-	74,853	1,275	76,128
Other assets/liabilities				
Currency swaps	-	547	-	547
Interest rate swaps	-	67	-	67
	-	614	-	614
Total derivative liabilities	$ 14	$ 134,099	$ 1,376	$ 135,489

a. These relate to TBA securities.

** Indicates amount less than $0.5 million.*

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2015			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative Assets:				
Investments				
Currency forward contracts	$ -	$ 4,388	$ -	$ 4,388
Currency swaps	-	17,706	-	17,706
Interest rate swaps	-	91	-	91
Swaptions, exchange traded options and futures contracts	-	11	-	11
Other[a]	-	-	-	-
	-	22,196	-	22,196
Loans				
Currency swaps	-	3,671	92	3,763
Interest rate swaps	-	139	-	139
	-	3,810	92	3,902
Client operations				
Currency swaps	-	27,518	-	27,518
Interest rate swaps	-	1,221	-	1,221
	-	28,739	-	28,739
Borrowings				
Currency swaps	-	72,555	1,387	73,942
Interest rate swaps	-	4,258	67	4,325
	-	76,813	1,454	78,267
Other assets/liabilities				
Currency swaps	-	487	-	487
Interest rate swaps	-	734	-	734
	-	1,221	-	1,221
Total derivative assets	$ -	$ 132,779	$ 1,546	$ 134,325
Derivative Liabilities:				
Investments				
Currency forward contracts	$ -	$ 4,366	$ -	$ 4,366
Currency swaps	-	16,787	-	16,787
Interest rate swaps	-	107	-	107
Swaptions, exchange traded options and futures contracts	8	11	-	19
Other[a]	-	*	-	*
	8	21,271	-	21,279
Loans				
Currency swaps	-	3,188	77	3,265
Interest rate swaps	-	2,270	-	2,270
	-	5,458	77	5,535
Client operations				
Currency swaps	-	27,515	-	27,515
Interest rate swaps	-	1,224	8	1,232
	-	28,739	8	28,747
Borrowings				
Currency swaps	-	74,021	1,354	75,375
Interest rate swaps	-	690	75	765
	-	74,711	1,429	76,140
Other assets/liabilities				
Currency swaps	-	547	-	547
Interest rate swaps	-	76	-	76
	-	623	-	623
Total derivative liabilities	$ 8	$ 130,802	$ 1,514	$ 132,324

a. These relate to TBA securities.

** Indicates amount less than $0.5 million.*

The following tables provide a summary of changes in the fair value of IBRD's Level 3 derivatives, net during the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

	Three Months Ended September 30, 2015			*Three Months Ended September 30, 2014*		
	Currency Swaps	*Interest Rate Swaps*	*Total*	*Currency Swaps*	*Interest Rate Swaps*	*Total*
Beginning of the fiscal year	$ 48	$ (16)	$ 32	$ 461	$ 26	$ 487
Total realized/unrealized gains (losses) in:						
Net income	(8)	(72)	(80)	173	(15)	158
Other comprehensive income	12	-	12	(235)	-	(235)
Issuances	-	-	-	(2)	-	(2)
Settlements	(6)	4	(2)	(85)	-	(85)
Transfers, net	(16)	-	(16)	(14)	(25)	(39)
End of the period	$ 30	$ (84)	$ (54)	$ 298	$ (14)	$ 284

Unrealized mark-to-market gains or losses included in the Condensed Statement of Income for the three months ended September 30, 2015 and September 30, 2014, relating to IBRD's Level 3 derivatives, net still held at the reporting dates as well as where those amounts are included in the Condensed Statement of Income, are presented in the following table:

In millions of U.S. dollars

	Three Months Ended September 30,	
Unrealized Gains (Losses)	*2015*	*2014*
Condensed Statement of Income Location		
Unrealized mark-to-market (losses) gains on non-trading portfolios, net	$ (45)	$ 108

The following table provides details of all inter-level transfers during the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

	Three Months Ended September 30, 2015		*Three Months Ended September 30, 2014*	
	Level 2	*Level 3*	*Level 2*	*Level 3*
Derivatives, net				
Transfer into (out of)	$ -	$ -	$ 14	$ (14)
Transfer out of (into)	16	(16)	25	(25)
	$ 16	$ (16)	$ 39	$ (39)

Transfers between Level 2 and Level 3 are due to changes in price transparency.

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

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

In millions of U.S. dollars

Portfolio	*Fair Value at September 30, 2015*	*Fair Value at June 30, 2015*	*Valuation Technique*	*Unobservable input*	*Range (average), September 30, 2015*	*Range (average), June 30, 2015*
Currency swaps, Interest rate swaps	$(54)	$32	Discounted Cash Flow	Correlations	-52% to 75% (8%)	-50% to 72% (2%)
				Long-dated interest rate volatilities	20% to 53% (37%)	19% to 71% (36%)

Valuation Methods and Assumptions

Derivative contracts include currency forward contracts, TBAs, swaptions, exchange traded options and futures contracts currency swaps and interest rate swaps. Currency swaps and interest rate swaps are either plain vanilla or structured. Currency forward contracts and plain vanilla currency and interest rate swaps are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads. For structured currency and interest rate swaps, which primarily consist of callable swaps linked to interest rates, foreign exchange rates, and equity indices, valuation models and inputs similar to the ones applicable to structured bonds valuation are used. Where applicable, the models also incorporate significant unobservable inputs such as correlations and long-dated interest rate volatilities.

NOTE G—RETAINED EARNINGS, ALLOCATIONS AND TRANSFERS

IBRD makes net income allocation decisions on the basis of reported net income, adjusted to exclude unrealized mark-to-market gains and losses on non-trading portfolios, net, restricted income and Board of Governors-approved transfers, and after considering the allocation to the pension reserve.

On August 6, 2015, IBRD’s Executive Directors approved the following allocations relating to the net income earned in the fiscal year ended June 30, 2015, an increase in General Reserve by $36 million and a decrease in the Pension Reserve by $55 million.

Subsequent event: On October 9, 2015, IBRD’s Board of Governors approved an immediate transfer to IDA of $650 million out of the net income earned in the fiscal year ended June 30, 2015. The transfer to IDA was made on October 15, 2015.

Retained earnings comprise the following components at September 30, 2015 and June 30, 2015:

In millions of U.S. dollars

	September 30, 2015	*June 30, 2015*
Special Reserve	$ 293	$ 293
General Reserve	26,925	26,889
Pension Reserve	962	1,017
Surplus	326	326
Cumulative fair value adjustments[a]	(1,679)	(977)
Unallocated Net Income	1,395	(71)
Restricted Retained Earnings	24	24
Total	$ 28,246	$ 27,501

a. Unrealized mark-to-market gains or losses, net applicable to non-trading portfolios reported at fair value.

NOTE H—PENSION AND OTHER POSTRETIREMENT BENEFITS

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

All costs, assets and liabilities associated with these pension plans are allocated between IBRD, IFC and MIGA based upon their employees’ respective participation in the plans. Costs allocated to IBRD are then shared between IBRD and IDA based on an agreed cost sharing ratio. The net periodic pension cost for the SRP, RSBP and PEBP is included in Pension expenses, in the Condensed Statement of Income.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for IBRD and IDA for the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

	Three Months Ended September 30, 2015				Three Months Ended September 30, 2014			
	SRP	*RSBP*	*PEBP*	*Total*	*SRP*	*RSBP*	*PEBP*	*Total*
Benefit Cost								
Service cost	$ 98	$ 26	$ 15	$ 139	$ 97	$ 28	$ 12	$ 137
Interest cost	166	28	12	206	161	30	11	202
Expected return on plan assets	(233)	(35)	-	(268)	(231)	(33)	-	(264)
Amortization of unrecognized prior service costs[a]	1	4	1	6	1	4	1	6
Amortization of unrecognized net actuarial losses[a]	19	-	10	29	27	7	11	45
Net periodic pension cost	$ 51	$ 23	$ 38	$ 112	$ 55	$ 36	$ 35	$ 126
of which:								
IBRD's share[b]	$ 25	$ 11	$ 19	$ 55	$ 25	$ 17	$ 16	$ 58
IDA's share	$ 26	$ 12	$ 19	$ 57	$ 30	$ 19	$ 19	$ 68

a. Included in Amounts reclassified into net income in Note J—Comprehensive Income.
b. Included in Pension expenses in the Condensed Statement of Income.

NOTE I—TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

IBRD transacts with affiliated organizations by providing loans, administrative and derivative intermediation services, as well as through its pension and other postretirement benefit plans.

In addition, IBRD provides transfers to IDA out of its net income, upon approval by the Board of Governors (see Note G—Retained earnings, Allocations and Transfers).

At September 30, 2015 and June 30, 2015, IBRD had the following receivables from (payables to) its affiliated organizations:

In millions of U.S. dollars

	September 30, 2015					
			Derivative Transactions[a]			
	Loans	*Administrative Services*	*Receivable*	*Payable*	*Pension and Other Postretirement Benefits*	*Total*
IDA	$ -	$ 291	$ 8,431	$ (8,694)	$ (808)	$ (780)
IFC	213	54	-	-	(196)	71
MIGA	-	5	-	-	(7)	(2)
	$ 213	$ 350	$ 8,431	$ (8,694)	$ (1,011)	$ (711)

In millions of U.S. dollars

	June 30, 2015					
			Derivative Transactions[a]			
	Loans	*Administrative Services*	*Receivable*	*Payable*	*Pension and Other Postretirement Benefits*	*Total*
IDA	$ -	$ 364	$ 8,962	$ (8,914)	$ (831)	$ (419)
IFC	213	50	-	-	(210)	53
MIGA	-	4	-	-	(8)	(4)
	$ 213	$ 418	$ 8,962	$ (8,914)	$ (1,049)	$ (370)

a. For details on derivative transactions relating to swap intermediation services provided by IBRD to IDA see Note F—Derivative Instruments.

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

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

a. Includes amounts payable to IDA for its share of investments associated with PCRF. This payable is included in Other Liabilities on the Condensed Balance Sheet.

Loans

IBRD has a Local Currency Loan Facility Agreement with IFC which is capped at $300 million. At September 30, 2015, the loan balance under this facility amounted to $17 million ($17 million—June 30, 2015) and carried a fixed interest rate of 3.96% and maturity of 1 year. This loan is not eligible for interest waivers.

IBRD has another facility with IFC under which IFC can borrow up to $197 million. This loan is at LIBOR less 25 basis points (0.19% as of September 30, 2015) and is not eligible for interest waivers. At September 30, 2015, the balance of this loan was $196 million ($196 million—June 30, 2015).

During the fiscal year ended June 30, 2015, IBRD entered into an exposure exchange agreement with MIGA under which IBRD and MIGA exchange selected exposures, with each divesting itself of exposure in countries where their lending capacities are limited, in return for exposure in countries where they have excess lending capacity. Under the agreement, IBRD and MIGA have each exchanged $120 million of notional exposure as follows: MIGA assumes IBRD's loan principal and interest exposure in exchange for IBRD's assumption of principal and interest exposure of MIGA under its Non-Honoring of Sovereign Financial Obligation agreement. As of September 30, 2015, liabilities related to IBRD’s obligation under this agreement amounted to $3 million ($3 million—June 30, 2015). These include an accumulated provision for guarantee losses of less than $1 million (less than $1 million—June 30, 2015).

Administrative Services

Expenses jointly incurred by IBRD and IDA are allocated based on an agreed cost sharing ratio, and amounts are settled quarterly. For the three months ended September 30, 2015, IBRD’s administrative expenses are net of the share of expenses allocated to IDA of $349 million ($374 million—three months ended September 30, 2014).

Other Revenue

Revenue jointly earned by IBRD and IDA is allocated based on an agreed revenue sharing ratio. Amounts are settled quarterly. For the three months ended September 30, 2015, IBRD’s other revenue is net of revenue allocated to IDA of $40 million ($45 million—three months ended September 30, 2014).

For the three months ended September 30, 2015 and September 30, 2014, the amount of fee revenue associated with services provided to affiliated organizations is included in Revenue from externally funded activities on the Condensed Statement of Income, as follows:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2015	*2014*
Fees charged to IFC	$ 16	$ 12
Fees charged to MIGA	1	1

Pension and Other Postretirement Benefits

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

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

For Pension and Other Post Retirement Benefits related disclosure see Note H—Pension and Other Postretirement Benefits.

Derivative transactions

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

NOTE J—COMPREHENSIVE INCOME

Comprehensive income 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 (loss) comprises currency translation adjustments, the cumulative effects of a change in accounting principle related to the implementation of FASB's derivatives and hedging guidance, pension-related items, and net income. These items are presented in the Condensed Statement of Comprehensive Income.

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) balances for the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

	Three Months Ended September 30, 2015				
	Balance, beginning of the fiscal year	Changes in fair value in AOCL	Amounts reclassified into net income	Net changes during the period	Balance, end of the period
Cumulative Translation Adjustment	$ *	$ 6	$ -	$ 6	$ 6
Cumulative Effect of Change in Accounting Principle[a]	500	-	-	-	500
Reclassification[a]	(509)	-	* [b]	*	(509)
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(3,022)	-	29 [c]	29	(2,993)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(182)	-	6 [c]	6	(176)
Total Accumulated Other Comprehensive Loss	$ (3,213)	$ 6	$ 35	$ 41	$ (3,172)

In millions of U.S. dollars

	Three Months Ended September 30, 2014				
	Balance, beginning of the fiscal year	Changes in fair value in AOCL	Amounts reclassified into net income	Net changes during the period	Balance, end of the period
Cumulative Translation Adjustment	$ 1,017	$ (438)	$ -	$ (438)	$ 579
Cumulative Effect of Change in Accounting Principle[a]	500	-	-	-	500
Reclassification[a]	(511)	-	1 [b]	1	(510)
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(3,862)	-	45 [c]	45	(3,817)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(206)	-	6 [c]	6	(200)
Total Accumulated Other Comprehensive Loss	$ (3,062)	$ (438)	$ 52	$ (386)	$ (3,448)

a. The Cumulative effect of change in accounting principle and subsequent reclassification to net income relates to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000.
b. Reclassified into Borrowings, net in the Condensed Statement of Income.
c. See Note H—Pension and Other Post Retirement Benefits.
** Indicates amount less than $0.5 million.*

NOTE K—OTHER FAIR VALUE DISCLOSURES

The table below presents IBRD's estimates of fair value of its financial assets and liabilities along with their respective carrying amounts as of September 30, 2015 and June 30, 2015:

In millions of U.S. dollars

	September 30, 2015		*June 30, 2015*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Assets				
Due from Banks	$ 887	$ 887	$ 388	$ 388
Investments				
Trading (including Securities purchased under resale agreements)	48,297	48,297	49,951	49,951
Net Loans Outstanding	160,258	160,090	155,040	155,910
Derivative Assets				
Investments	24,894	24,894	22,196	22,196
Loans	4,122	4,122	3,902	3,902
Client operations	28,349	28,349	28,739	28,739
Borrowings	77,012	77,012	78,267	78,267
Others	2,112	2,112	1,221	1,221
Liabilities				
Borrowings	169,592	169,602 [a]	160,980	160,988 [a]
Securities sold/lent under repurchase agreements/securities lending agreements and payable for cash collateral received	3,015	3,015	3,575	3,575
Derivative Liabilities				
Investments	24,401	24,401	21,279	21,279
Loans	5,996	5,996	5,535	5,535
Client operations	28,350	28,350	28,747	28,747
Borrowings	76,128	76,128	76,140	76,140
Others	614	614	623	623

a. Includes $10 million ($8 million—June 30, 2015) relating to transition adjustment on adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

Valuation Methods and Assumptions

As of September 30, 2015 and June 30, 2015, IBRD had no assets or liabilities measured at fair value on a non-recurring basis.

For valuation methods and assumptions as well as additional fair value disclosures regarding Investments, Loans, Borrowings and Derivative assets and liabilities, refer to Note C—Investments, Note D—Loans, Note E—Borrowings and Note F—Derivative Instruments, respectively.

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

Unrealized mark-to-market Gains or Losses on Investments-Trading and Non-Trading Portfolios, Net

The following table reflects the components of the realized and unrealized gains or losses on Investments-Trading and non-trading portfolios, net for the three months ended September 30, 2015 and September 30, 2014:

In millions of U.S. dollars

	Three Months Ended September 30, 2015			*Three Months Ended September 30, 2014*		
	Realized gains (losses)	*Unrealized gains (losses) excluding realized amounts*[a]	*Unrealized gains (losses)*	*Realized gains (losses)*	*Unrealized gains (losses) excluding realized amounts*[a]	*Unrealized gains (losses)*
Investments - Trading	$ 22	$ (74)	$ (52)	$ (34)	$ 5	$ (29)
Non trading portfolios, net						
Loans, including derivatives—Notes D and F	-	(497)[b]	(497)	-	11[b]	11
Equity management, net	-	741	741	581	(723)	(142)
Borrowings, including derivatives —Notes E and F	4	513	517	6	(244)	(238)
Other assets/liabilities derivatives	-	(1)	(1)	-	(1)	(1)
Client operations derivatives	-	(3)	(3)	-	(2)	(2)
Total	$ 4	$ 753	$ 757	$ 587	$ (959)	$ (372)

a. Adjusted to exclude amounts reclassfied to realized gains (losses).
b. Includes $494 million of unrealized mark-to-market losses related to derivatives associated with loans (unrealized mark-to-market gains of $11 million—September 30, 2014).

NOTE L—CONTINGENCIES

From time to time, IBRD may be named as a defendant or co-defendant in legal actions on different grounds in various jurisdictions. IBRD's management does not believe the outcome of any existing legal action, as of and for the three months ended September 30, 2015, will have a material adverse effect on IBRD's financial position, results of operations or cash flows.

KPMG

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Independent Auditors' Review Report

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

Report on the Financial Statements

We have reviewed the condensed financial statements of the International Bank for Reconstruction and Development (IBRD), which comprise the condensed balance sheet as of September 30, 2015, the related condensed statements of income and comprehensive income for the three-month periods ended September 30, 2015 and 2014 and the related condensed statements of changes in retained earnings and cash flows for the three-month periods ended September 30, 2015 and 2014.

Management's Responsibility

IBRD's management is responsible for the preparation and fair presentation of the condensed financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on Condensed Balance Sheet as of June 30, 2015

We have previously audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the balance sheet as of June 30, 2015, and the related statements of income, comprehensive income, changes in retained earnings, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 6, 2015. In our opinion, the accompanying condensed balance sheet of IBRD as of June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Washington, D.C.
November 11, 2015