

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**  
**SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN U.S. GAAP and PRC ASBE**  
**As related to Financial Statements As of**  
**June 30, 2015, and 2016 and For the Years Ended June 30, 2014, 2015 and 2016**

The International Bank for Reconstruction and Development (IBRD) financial statements are currently prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) as contained in the Financial Accounting Standard's Board (FASB) Accounting Standards Codification (ASC). This document describes certain **potentially significant** differences between (i) U.S. GAAP; and (ii) People's Republic of China (PRC) GAAP, Accounting Standards for Business Enterprises ("ASBE") issued by the Ministry of Finance, which were issued *and* effective as of June 30, 2016.

The document does not consider standards proposed by the respective Boards or standards that have been issued but are not yet effective. Key final standards include:

- **Accounting Standards Updates (ASU) issued by the FASB:** (i) ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, issued in May 2014, subsequently amended in 2015 and 2016, and currently effective in fiscal year<sup>1</sup> (FY) 2019; (ii) ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, issued in January 2016 and currently effective in FY2019; (iii) ASU 2016-02, *Leases (Topic 842)*, issued in February 2016 and currently effective in FY2020; and (iv) ASU 2016-13, *Financial Instruments - Credit Losses - (Topic 326): Measurement of Credit Losses on Financial Instrument*, issued in June 2016 and currently effective in FY2021.

It is possible that material differences, in addition to those potential differences discussed below, will emerge when these final standards are applied in the future.

IBRD is responsible for preparing the summary below. IBRD has not prepared a reconciliation of its financial statements and related footnote disclosures between U.S. GAAP and PRC ASBE and has not quantified such differences. Accordingly, no assurance is provided that the following summary of certain, potentially material, differences between U.S. GAAP and PRC ASBE is complete. In making an investment decision, investors must rely upon their own examination of IBRD, the terms of the offering and the related financial information.

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<sup>1</sup> IBRD's fiscal year begins on July 1 and ends on June 30.

IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
<b>1. Derivatives – Definition</b>			
<p>IBRD has elected not to designate any hedging relationships for accounting purposes. Rather, all derivative instruments are marked to fair value on the Balance Sheet, with changes in fair values accounted for through the Statement of Income.</p> <p>IBRD uses derivative instruments in its investment trading portfolio to manage interest rate and currency risks. These derivatives are carried and reported at fair value. Interest revenue/expenses are reflected as part of Interest revenue, while unrealized mark-to-market gains and losses on these derivatives are reflected as part of the related Unrealized mark-to-market gains (losses) on Investments-Trading, net line in the Statement of Income.</p> <p>IBRD also uses derivatives in its loan, borrowing and asset/liability management activities. In the loan and borrowing portfolios, derivatives are used to modify the interest rate and/or currency characteristics of these portfolios. The interest component of these derivatives is recognized as an adjustment to the related loan revenue and borrowing costs over the life of the derivative contracts</p>	<p><u>ASC 815 Derivatives and Hedging</u></p> <p>A derivative instrument is a financial instrument or other contract with all of the following characteristics:</p> <ul style="list-style-type: none"> <li>a. Underlying, notional amount, payment provision. The contract has both of the following terms, which determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required:               <ul style="list-style-type: none"> <li>1. One or more underlyings</li> <li>2. One or more notional amounts or payment provisions or both.</li> </ul> </li> <li>b. Initial net investment. The contract requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.</li> <li>c. Net settlement. The contract can be settled net by any of the following means:               <ul style="list-style-type: none"> <li>1. Its terms implicitly or explicitly require or permit net settlement.</li> </ul> </li> </ul>	<p><u>ASBE No.22- Recognition and Measurement of Financial Instruments</u></p> <p>A derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:</p> <ul style="list-style-type: none"> <li>a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');</li> <li>b. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and</li> <li>c. it is settled at a future date.</li> </ul> <p>This Standard shall be applied to those contracts to buy or sell a non-financial item that can be</p>	<p>The definition of a derivative is similar in that both standards require certain contractual characteristics to be present for a contract to be accounted for as a derivative.</p> <p>Yet a notable difference exists with regard to the settlement provisions. Unlike U.S. GAAP, PRC ASBE does not require a notional amount or payment provision or both, and it does not emphasize the characteristic of net settlement.</p> <p>Therefore, compared with U.S. GAAP, ASBE may have a broader definition of what is considered a derivative.</p>

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<p>and is included in Interest revenue/expenses on the Statement of Income. Changes in fair values of these derivatives are accounted for through the Statement of Income as unrealized mark-to-market gains and losses on non-trading portfolios, net.</p>	<p>2. It can readily be settled net by a means outside the contract.</p> <p>3. It provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.</p>	<p>settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.</p>	
<p><b>2. Loan - Impairment</b></p>			
<p>Management determines the appropriate level of accumulated provision for losses on exposures, which reflects the probable losses inherent in IBRD's exposures.</p> <p>Management reassesses the adequacy of the accumulated provision which is included in IBRD's balance sheet and the reasonableness of the inputs used, on a periodic basis, at least annually, and adjustments to the accumulated provision are recorded as a charge or release of provision in the Statement of Income.</p>	<p><u>ASC 310 Receivables 310-10-35 Subsequent Measurement</u></p> <p>A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement.</p> <p>Losses shall not be recognized before it is probable that they have been incurred, even though it may be probable based on past experience that losses will be incurred in the future. It is inappropriate to consider possible or expected future trends that may lead to additional losses. Recognition of losses shall not be deferred to periods after the period</p>	<p><u>ASBE No. 22, Recognition and Measurement of Financial Instruments</u></p> <p>An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall determine the amount of any impairment loss.</p> <p>If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred)</p>	<p>Under U.S. GAAP, when current information and events indicate that it is probable that the lender will be unable to collect all amounts due according to the loan agreement's contractual terms, a provision for credit loss should be recognized as measured by the difference between the recorded investment in the loan and the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of collateral if the loan is collateral dependent.</p> <p>ASBE adopts incurred loss concept that the entity shall determine the amount of any impairment loss if any</p>

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	<p>in which the losses have been incurred.</p> <p>When a loan is impaired, a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan.</p>	<p>discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.</p> <p><i>Other PRC regulations: Instruction on banks' loan provision from the People's Bank of China ("PBOC"), Yinfa [2002] No.98</i></p> <p>PRC regulators have set more detailed instructions on the loan impairment requirements for regulated banks, especially on indicative provision rate of each category among five categories of loans (which are pass, special mention, substandard, doubt, and loss). All the banks in China would follow this instruction. This guidance is more regulatory in nature and might not be considered a GAAP difference, though.</p> <p>Article 4: Banks should accrue general provision by quarter and the provision balance should not be lower than 1% of the total loan gross balance.</p> <p>Article 5: Banks should accrue specific provision by quarter and take the following provision rate as reference: 2% for special mention,</p>	<p>objective evidence of impairment exists. If there is no objective evidence of impairment, no further action is required. An impairment loss must be measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.</p>

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		25% for substandard, 50% for doubt, and 100% for loss.	
<b>3. Loan - Nonaccrual loans</b>			
<p>IBRD places loans into nonaccrual status if principal, interest, or other charges are overdue for more than 6 months, unless management determines that the overdue amount will be collected in the immediate future. Interest and other charges on nonaccrual loans are included in revenue only to the extent that payments have been received by IBRD.</p>	<p><u>ASC 310 Receivables</u></p> <p>As permitted by ASC 310, it is practice for financial institutions reporting under U.S. GAAP to cease the accrual of interest when collectability is in doubt or upon a loan being past due for a specified period (nonaccrual loans).</p>	<p><u>ASBE No. 22, Recognition and Measurement of Financial Instruments</u></p> <p>No such concept that the accrual of interest income could be ceased.</p> <p><u>Other PRC regulations: Circular of the Ministry of Finance on Shortening the Time Limit for Accounting of Interests Receivable by Financial Enterprises issued by Ministry of Finance Cai Jin [2002] No. 5</u></p> <p>Article 1: Where interests on loan, from the expiry date of interests, has been overdue for less than 90 days (inclusive of 90 days), the accrued interests receivable shall be accounted into current profit or loss; where it has been overdue for more than 90 days (exclusive of 90 days), the accrued interests receivable shall, whether the principal of the loan is overdue, not be accounted into current profit or loss, instead, it shall be accounted outside the statement and it shall not be accounted into profit or loss until it is actually received.</p> <p>Article 2: For interests receivable that has been accounted into profit</p>	<p>Under U.S. GAAP, it is practice to cease the accrual of loan interest when collectability is in doubt or upon a loan being past due for a specified period and include them only to the extent that payments have been received afterwards.</p> <p>Under PRC GAAP, there's no such concept of nonaccrual loans, the interest income should always be accrued.</p> <p>However, under other PRC regulations set forth for the regulated banking sector, banks should cease to accrue interest in balance sheet or income statement if the principals or interests are overdue for more than 90 days.</p> <p>Overall, the difference exists in banking practice of when the loan is placed on nonaccrual and cease to accrue interest.</p>

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		<p>or loss, after the principal of a loan or interests receivable has been overdue for more than 90 days (exclusive of 90 days), such transaction as writing off the interests shall be done by financial enterprises.</p>	
<p><b>4. Loan – effective interest rate and interest income calculation when there is a change of expected cash flow</b></p>			
<p>Loans are carried at amortized cost, except those which contain embedded derivatives that require bifurcation, which IBRD has elected to measure at fair value.</p> <p>IBRD applies the effective interest method based on contractual cash flows. Any loan origination fees incorporated in the terms of a loan are deferred and recognized over the life of the loan as an adjustment of yield. The unamortized balance of loan origination fees is included as a reduction of Loans outstanding on the Balance Sheet, and the loan origination fee amortization is included in Interest under Revenue from Loans on the Statement of Income.</p> <p>It is IBRD's practice not to reschedule interest or principal</p>	<p><u>ASC 310 Receivables</u></p> <p>ASC defines the effective interest rate as the return implicit in the loan, that is, the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan.</p> <p>In below instances for loans, interest is not recognized on the basis of contractual cash flows; rather, estimated cash flows are used:</p> <ul style="list-style-type: none"> <li>▶ If an enterprise holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated.</li> <li>▶ If upon initial investment in a loan there is evidence of credit deterioration, the effective interest method is applied on the basis of</li> </ul>	<p><u>ASBE No. 22, Recognition and Measurement of Financial Instruments</u></p> <p>ASBE defines the effective interest rate as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.</p> <p>When calculating the effective interest rate, an entity should estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but should not consider future credit losses.</p> <p>In the case of changes in estimates used in calculating the</p>	<p>Under U.S. GAAP, as a general matter, the effective interest method is applied on the basis of contractual cash flows. While there are three different approaches to account for a change in estimated cash flows for investments in loans or debt securities.</p> <p>Under PRC GAAP, the calculation of the effective interest rate is generally based on the estimated cash flows over the expected life of the asset.</p> <p>In the case of changes in expected cash flows, entities should recalculate the carrying amount of the loans by calculating the present value of the remaining cash flows at</p>

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<p>payments on its loans or participate in debt rescheduling agreements with respect to its loans. When modifications are made to the terms of existing loans, IBRD performs an evaluation to determine the required accounting treatment, including whether the modifications would result in the affected loans being accounted for as new loans, or as a continuation of the existing loans.</p>	<p>estimated cash flows.</p> <p>Further, there are three different approaches to account for a change in estimated cash flows for investments in loans or debt securities where interest income recognition is based on estimated rather than contractual cash flows:</p> <ul style="list-style-type: none"> <li>i. A catch-up approach: adjusts the carrying amount to the present value of the revised estimated cash flows, discounted at the original effective interest rate, which is similar with PRC practice;</li> <li>ii. A prospective approach: computes a new effective interest rate based on the carrying amount and remaining cash flows;</li> <li>iii. A retrospective approach: computes a new effective interest rate based on the original carrying amount, actual cash flows to date, and remaining estimated cash flows.</li> </ul>	<p>effective interest rate under PRC GAAP, an entity should recalculate the carrying amount of the financial instrument by calculating the present value of the remaining cash flows at the original effective interest rate. The adjustment to the carrying amount is recognized as income or expense in profit or loss.</p>	<p>the original effective interest rate in almost all cases.</p>



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<p><b>5. Impairment recognition – available-for-sale (AFS) debt instruments</b></p>			
<p>IBRD had an AFS portfolio which was established during the year ended June 30, 2013. During the fiscal year ended June 30, 2014, the AFS portfolio was liquidated.</p> <p>Unrealized gains and losses relating to AFS securities are included in Accumulated Other Comprehensive income (AOCI). Realized gains and losses on trading and AFS securities are recognized in the Statement of Income when securities are sold.</p>	<p><u>ASC 320-10-35 Investments—Debt and Equity Securities - Subsequent Measurement</u></p> <p>An investment in a debt security classified as AFS is impaired if the fair value is less than cost. An analysis is performed to determine whether the impairment is temporary or other than temporary. An impaired debt security is considered other-than-temporarily impaired if the entity:</p> <p>(1) has the intent to sell the impaired debt security, or</p> <p>(2) more likely than not will be required to sell the impaired debt security before recovery of its amortized cost basis.</p> <p>Additionally, regardless of whether or not there is an intention to sell or whether or not the entity may be required to sell, if the entity does not expect recovery of the entire amortized cost of the security, the impaired debt security is considered other-than-temporarily impaired.</p> <p>When an impairment is deemed other than temporary:</p>	<p><u>ASBE No. 22, Recognition and Measurement of Financial Instruments</u></p> <p>An impairment loss for a financial asset is recognized only if: (1) there is objective evidence of impairment as the result of one or more events that occurred after initial recognition of the asset (a loss event) and (2) that loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably. Loss events include but not limited to:</p> <ol style="list-style-type: none"> <li>1. Significant financial difficulty of the issuer</li> <li>2. Breach of contract, such as default or delinquency in interest or principal payments</li> <li>3. Concessions granted by a lender to the issuer because of the issuer's financial difficulty</li> <li>4. Probability of bankruptcy</li> <li>5. Disappearance of an active market, because of financial difficulties</li> <li>6. Observable data indicating there is a measurable decrease in the estimated future cash flows since initial recognition</li> <li>7. Any seriously disadvantageous change has occurred to</li> </ol>	<p>The U.S. GAAP impairment model focuses on whether an entity will recover the entire amortized cost basis of a debt security and whether the entity intends to sell the debt security or it is more likely than not that the entity will be required to sell the debt security before recovery of the amortized cost basis. In certain instances, the impairment loss is separated into an amount that is recognized in earnings and an amount that is recognized in other comprehensive income.</p> <p>However, ASBE focuses on evaluating only if a credit loss event has occurred, regardless of the reporting entity's intent to sell the impaired security or if it is more likely than not the entity will be required to sell the security before recovery of its amortized cost basis. For AFS debt securities, ASBE does not allow separation of an impairment loss into amounts recognized in earnings and other comprehensive income. The impairment losses shall all be recognized in profit or loss.</p>



IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
	<p>1. If an entity intends to sell prior to recovery or more likely than not will be required to sell prior to recovery, the entire difference between the security's cost and its fair value at the balance sheet date is recognized in earnings.</p> <p>2. If the entity does not intend to sell the security and it is not more likely than not that the investor will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the Other Than Temporary Impairment (OTTI) is separated into:</p> <ul style="list-style-type: none"> <li>i. The amount representing the credit loss, which is recognized in earnings.</li> <li>ii. The amount related to all other factors, which is recognized in other comprehensive income, net of applicable taxes.</li> </ul>	<p>technical, market, economic or legal environment, etc. wherein the debtor operates its business, which makes the investor of an equity instrument unable to take back its investment</p> <p>8. Where the fair value of the equity instrument investment drops significantly or other-than-temporary</p> <p>9. Other objective evidence</p> <p>ASBE focuses on these trigger events that affect the recovery of the cash flows from the investment, regardless of the entity's intent. A decline in the fair value of a financial asset below its cost or amortized cost is not necessarily evidence of impairment under PRC GAAP.</p> <p>When an impairment loss of an AFS debt security has occurred, ASBE requires the cumulative losses due to the decrease of fair value (including those that are not credit-related) that have been recognized directly in other comprehensive loss shall be transferred out and to be recognized in profit or loss.</p>	<p>These different approaches could potentially lead to different results on IBRD's income statement. However, since AFS portfolio was liquidated during the fiscal year ended June 30, 2014, financial statements for the years covered by this summary are not affected.</p>

IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
<b>6. Derecognition of financial instruments</b>			
<p>IBRD engages in securities lending and repurchases against adequate collateral, as well as secured borrowing and reverse repurchases (resales) of government and agency obligations, corporate securities and ABS. Because all of the securities transferred-in or transferred-out have not met the accounting criteria for treatment as a sale, IBRD retains securities transferred under repurchase agreements and security lending arrangements as assets on the Balance Sheet, and securities received under resale agreements are not recorded on the Balance Sheet.</p>	<p><u>ASC 860-10-40 Derecognition.</u> A transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset in which the transferor surrenders control over those financial assets shall be accounted for as a sale if and only if all of the following conditions are met:</p> <p>a. <i>Isolation of the transferred financial assets:</i> The transferred financial assets have been isolated from the transferor—put presumptively beyond the reach of the transferor, and its creditors — even in bankruptcy or other receivership;</p> <p>b. <i>Transferee's right to pledge or exchange:</i> Each transferee has the right to pledge or exchange the transferred financial assets (or beneficial interests) it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and</p> <p>c. <i>Effective control:</i> The transferor does not maintain effective control over the transferred financial assets or</p>	<p><u>ASBE No.23- Transfer of Financial Instruments</u> When an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:</p> <p>a. if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.</p> <p>b. if the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognize the financial asset.</p> <p>c. if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case:</p> <p>(i) if the entity has not retained control, it shall derecognize the financial asset and recognize</p>	<p>ASC 860 focuses on legal isolation and control over the transferred financial asset and the ability to exercise that control while the derecognition rules in ASBE are based on different accounting concepts, in particular a risks-and-reward model and a control model, which may lead to different conclusions. ASBE seeks to avoid the potential conflict between those accounting models by requiring the risks-and-rewards model to be applied first and the control model second.</p> <p>Because of the different approaches between U.S. GAAP and ASBE, it is possible that there may be some instruments that could meet derecognition or recognition criteria under PRC GAAP.</p>

IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
	beneficial interests.	<p>separately as assets or liabilities any rights and obligations created or retained in the transfer.</p> <p>(ii) if the entity has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset</p> <p>The transfer of risks and rewards is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset.</p> <p>Whether the entity has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.</p>	

IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
<p><b>7. Pension and Other Post-Retirement Benefits - Calculation of interest cost and the expected return on plan assets</b></p>			
<p>The Plan assets are used for the exclusive benefit of the participants and their beneficiaries. Contributions that are not needed to pay current benefits are invested with the objective of accumulating sufficient assets to meet future pension benefit obligations.</p> <p>The discount rate used to convert future obligations into today's dollars is derived from high-grade (that is, AA-rated) corporate bond yields as required by US GAAP for plan sponsors.</p>	<p><u>ASC 715 Compensation—Retirement Benefits</u></p> <p>The net pension cost of defined benefit plan includes (i) Service cost; (ii) Interest cost; (iii) Actual return on plan assets; (iv) Amortization of any prior service cost or credit included in accumulated other comprehensive income; (v) Gain or loss; (vi) Amortization of any net transition asset or obligation existing at the date of initial application and remaining in accumulated other comprehensive income.</p> <p>An independent calculation of interest cost is required based on the application of a discount rate to the projected benefit obligation.</p> <p>The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets.</p>	<p><u>ASBE No.9- Employee Compensation</u></p> <p>An entity shall recognize the components of defined benefit cost as follows:</p> <ul style="list-style-type: none"> <li>a. service cost in profit or loss;</li> <li>b. net interest on the net defined benefit liability (asset) in profit or loss, which includes interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling ;</li> <li>c. remeasurements of the net defined benefit liability (asset) in other comprehensive income. <ul style="list-style-type: none"> <li>(i) actuarial gains and losses;</li> <li>(ii) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and</li> <li>(iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).</li> </ul> </li> </ul>	<p>Under U.S. GAAP, an independent calculation of interest cost is required based on the application of a discount rate to the projected benefit obligation, and the expected annual return on plan assets based on the application of an expected rate of return on assets to the calculated asset value.</p> <p>But the concept of an expected return on plan assets does not exist under ASBE. A “net interest” expense (income) on the net defined benefit liability (asset) is recognized as a component of defined benefit cost, based on the discount rate used to determine the obligation.</p>

IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
<b>8. Pension and Other Post-Retirement Benefits - Treatment of prior service costs</b>			
<p>Unrecognized prior service costs on benefit plans in accumulated other comprehensive income are recognized in net income in subsequent periods.</p>	<p><u>ASC 715 Compensation—Retirement Benefits</u></p> <p>Prior service costs are initially recognized through other comprehensive income and are recognized in net income in subsequent periods.</p> <p>For benefit increases (positive plan amendments), the amortization of prior service costs occurs over the average remaining service period of active employees or over the average remaining life expectancy of inactive participants (if all or almost all participants are inactive).</p> <p>For benefit decreases (negative plan amendments), unrecognized prior service credits are first offset against any remaining unrecognized prior service costs in accumulated other comprehensive income. Any remaining prior service credits are then recognized in net income on the same basis as prior service costs.</p>	<p><u>ASBE No.9- Employee Compensation</u></p> <p>Article 16: Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.</p> <p>Article 18: An entity shall recognize past service cost as an expense at the earlier of the following dates:</p> <ul style="list-style-type: none"> <li>(a) When the plan amendment or curtailment occurs; and</li> <li>(b) When the entity recognizes related restructuring costs or termination benefits.</li> </ul>	<p>Under U.S. GAAP, Prior service costs are initially recognized through other comprehensive income and are amortized and recognized in net income in subsequent periods.</p> <p>Under PRC GAAP, past service costs from plan amendments are recognized immediately in net income at the earlier of when the related plan amendment occurs or when the entity recognizes related restructuring costs or termination benefits.</p>

IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
<p><b>9. Pension and Other Post-Retirement Benefits - Treatment of re-measurements/ gains and losses (including actuarial gains and losses)</b></p>			
<p>IBRD uses the corridor approach to amortize unrecognized gains and losses, and records unrecognized net actuarial losses/gains in accumulated other comprehensive income and recognizes in net income in subsequent periods.</p>	<p><u>ASC 715 Compensation— Retirement Benefits</u></p> <p>Under U.S. GAAP, gains and losses results from a change in the value of either the projected benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption. The guidance permits entities to either (1) recognize all gains and losses in profit or loss in the period incurred or (2) defer gains and losses recognition through the use of the “corridor” approach (or any systematic method that results in faster recognition than the corridor approach). Whether gains or losses are recognized immediately or amortized, they are ultimately taken into income as a component of net periodic pension expense.</p>	<p><u>ASBE No.9- Employee Compensation</u></p> <p>Article 16: Remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognized in other comprehensive income within equity.</p>	<p>Under U.S. GAAP, gains and losses are recognized in net income (either immediately or in future periods subsequent to when they are initially recognized in other comprehensive income)</p> <p>Under ASBE, gains and losses from remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income and shall not be reclassified to net income in a subsequent period. However, the entity may transfer those amounts recognized in other comprehensive income within equity.</p>

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<b>10. Borrowings – Fair Value Option</b>			
<p>IBRD has designated under the fair value option (FVO) all financial instruments in the borrowing portfolio at fair value with changes in the fair value recognized in the related unrealized mark-to-market gains and losses, net, line in the Statement of Income.</p> <p>IBRD’s election is based on the fact that a large derivatives book, also carried at fair value, is managed along with the borrowings as an overall portfolio.</p> <p>Interest expense relating to the debt instruments carried at fair value is measured on an effective yield basis and is reported as part of interest expenses on borrowings in the Statement of Income.</p> <p>For presentation purposes, amortization of discounts and premiums is included in interest expenses on borrowings in the Statement of Income.</p>	<p><u>ASC 825, Financial Instruments</u></p> <p>Under U.S. GAAP (ASC 825-10), entities have a free choice to designate any recognized financial assets and financial liabilities (among other eligible items) on an instrument-by-instrument basis at fair value through profit or loss, on initial recognition or on a remeasurement event. This is a free election with no other criteria needing to be met for most eligible instruments.</p>	<p><u>ASBE No. 22, Recognition and Measurement of Financial</u></p> <p>PRC GAAP requires that financial liabilities be classified into (i) the financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses, including trading financial liabilities and the financial liabilities that are designated to be measured at fair values through profits or losses and (ii) other financial liabilities.</p> <p>ASBE No.22 sets forth certain criteria for the use of fair value option for how financial liabilities can be designated, when they are initially recognized, as financial liabilities measured at fair value through profit or loss. The criteria for adopting FVO are:</p> <ul style="list-style-type: none"> <li>(a) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arisen from the different basis of measurement of the financial assets or financial liabilities;</li> <li>(b) The official written documents on risk management or investment strategies of the enterprise concerned have recorded that the combination</li> </ul>	<p>There is a GAAP difference in regards to the use of FVO under the two standards. The criteria regarding the use of the fair value option under PRC ASBE is more from a strategic/portfolio risk management perspective, therefore, will apply to limited situation. Without a clear risk management strategy documented which proves the financial liabilities raised are directly related to financial assets that are designated at fair value through profit or loss, under PRC ASBE, financial liabilities other than hybrid instruments with derivative components do not apply for the FVO.</p> <p>Furthermore, PRC ASBE allows an entity to designate a financial liability at fair value through profit or loss only upon initial recognition.</p>



IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
		<p>of said financial assets, the combination of said financial liabilities, or the combination of said financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and be reported to the key management personnel.</p> <p>Within the Interpretation Guidance to ASBE No. 22, it is explained that principle for setting the restriction (a) to the fair value option above is to make sure the FVO is used to help enhance the relevance of accounting information and to minimize the potential accounting mismatch by designating the financial assets and the financial liabilities that have the direct relationship with the financial assets as fair value through profit or loss when they undertake risks in similar feature and have an offsetting effect.</p> <p>Within the Application Guidance to ASBE No. 22, bond issued is mentioned as the example of other financial liabilities.</p>	

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<b>11. Equity – Equity instruments with redemption features</b>			
<p>IBRD has one class of shares. Under IBRD's Articles of Agreement, any member may withdraw from the Bank at any time by transmitting a notice in writing to the Bank at its principal office. Withdrawal shall become effective on the date such notice is received. In the event a member withdraws from IBRD, the withdrawing member is entitled to receive the value of its shares payable to the extent the member does not have any outstanding obligations to IBRD. IBRD's Articles of Agreement also state that the former member has continuing obligations to IBRD after withdrawal. Specifically, the former member remains fully liable for its entire capital subscription, including both the previously paid-in portion and the callable portion, so long as any part of the loans or guarantees contracted before it ceases to be a member are outstanding.</p> <p>IBRD records its paid-in capital within the capital stock account of equity in its Balance Sheet.</p>	<p><u>ASC 505, Equity</u></p> <p><u>ASC 480, Distinguishing Liabilities from Equity</u></p> <p>Under U.S. GAAP, equity is defined as the residual interest in the assets of an entity that remains after deducting its liabilities. ASC 480 (ASC 480, Distinguishing Liabilities from Equity) requires that equity instruments that are mandatorily redeemable be classified as liabilities. Shares are mandatorily redeemable pursuant to ASC 480 if the issuer is required to redeem the shares on a specified or determinable date (or dates) or upon an event that is certain to occur. If a financial instrument will be redeemed only upon the occurrence of a conditional event, redemption of that instrument is conditional and, therefore, the instrument does not meet the definition of a mandatorily redeemable financial instrument.</p> <p>Guidance on how to classify financial instruments issued in the form of shares and redeemable outside the issuer's control is also provided.</p> <p>Redeemable shares are generally classified as equity (temporary equity or "mezzanine classification")</p>	<p><u>ASBE No. 37, Disclosure and Presentation of Financial Instruments</u></p> <p>Under PRC GAAP, although the definition of equity is the same as in U.S. GAAP, financial instruments that give the holder the right to put the shares back to the issuer for cash or another financial instrument (puttable instruments) are required to be recognized as financial liabilities of the issuer upon initial recognition.</p> <p>However, PRC ASBE exempts from the definition of liability some puttable financial instruments that have certain features and meet certain conditions. Those features puttable instruments need to possess to be qualified for equity classification include:</p> <ul style="list-style-type: none"> <li>(i) It entitles the holder to a pro-rata share of the entity's net assets in the event of the entity's liquidation</li> <li>(ii) The instrument is in the class of instruments that is subordinate to all other classes of instruments</li> <li>(iii) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have</li> </ul>	<p>From general guideline for shares with redeemable features, both U.S. GAAP and PRC GAAP request financial instruments with mandatorily redeemable feature to be classified as financial liabilities.</p> <p>The exemption of puttable financial instruments from the definition of liability under PRC ASBE allows puttable instrument that is subordinate to all other classes of instruments and meet other criteria to be classified as equity. The criteria is set in accordance with a general principle that the class of puttable financial instruments which as a whole is the residual class can be classified as equity.</p> <p>A GAAP difference may arise from the classification of redeemable shares as temporary or mezzanine equity under U.S. GAAP and permanent equity under PRC GAAP.</p> <p>However, the guidance on redeemable equity instruments applies to financial statements that are prepared in</p>

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	<p>in financial statements that are prepared in accordance with the U.S. Securities Exchange Commission (SEC) Regulation S-X) under U.S. GAAP.</p>	<p>identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.</p> <p>(iv) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity.</p> <p>(v) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument (excluding any effects of the instrument).</p> <p>The intention of the standard is to ensure that the class of instruments as a whole is the residual class. Therefore, if no instrument holder has a preferential claim on the net assets of an entity and all instrument holders rank equally, then the</p>	<p>accordance with the SEC's Regulation S-X. While Regulation S-X does not apply to IBRD, IBRD has recorded those optionally puttable shares within equity, therefore, there is currently no factual difference as compared with PRC GAAP.</p> <p>IBRD's shares are not deemed to be mandatorily redeemable.</p>

IBRD adopted accounting policy/accounting treatment	U.S. GAAP	PRC ASBE	Summary of Key GAAP Differences
		puttable instruments are classified as equity.	
<b>12. Equity – Maintenance of Value receivables and payable</b>			
<p>Article II, Section 9 of IBRD's Articles of Agreement provides for maintenance of value (MOV). MOV is determined by measuring the foreign exchange value of a member's national currency against the standard of value of IBRD's capital based on the 1974 SDR. MOV receivable relates to amounts due from members on account of movements in exchange rates from the date of initial subscription, resulting in the reduction in the value of their paid-in capital denominated in national currencies. Members are required to make payments to IBRD if their currencies depreciate significantly relative to the standard of value. These amounts may be settled either in cash or on demand. Furthermore, the Executive Directors have adopted a policy of reimbursing members whose national currencies appreciate significantly in terms of the standard of value.</p> <p>MOV is deferred when the restriction of national currencies paid in is lifted and these</p>	<p><u>ASC 505, Equity</u></p> <p>ASC 505-10-45-2 provides guideline for Receivables for Issuance of Equity. It states that an entity may receive a note, rather than cash, as a contribution to its equity. The transaction may be a sale of capital stock or a contribution to paid-in capital. Reporting the note as an asset is generally not appropriate, except in very limited circumstances. Overall, such receivables are required to be reported as a deduction of the receivable from equity.</p> <p>Also in the session of EITF 85-1 DISCUSSION, Task Force members confirmed that the predominant practice is to offset the notes and stock in the equity section.</p>	<p><u>ASBE No. 37, Disclosure and Presentation of Financial Instruments</u></p> <p><u>ASBE No. 22, Recognition and Measurement of Financial</u></p> <p>ASBE No. 37 requires that the issuer of a financial instrument shall classify the instrument, or its component parts, on the initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and definitions of a financial liability, a financial asset and an equity instrument.</p> <p>ASBE No. 22 defines a contractual right to receive cash or another financial asset from another entity as a financial asset.</p> <p>There is no guideline under PRC GAAP to discuss in specific for equity in note receivables or equity to be paid in a later date. Given the definition of financial assets above and the non-applicability of the exemptions for financial instrument to be excluded from equity</p>	<p>All IBRD's MOV receivable balances are deemed an equity-related receivable and, therefore, are reflected as a deduction of the receivable balance from equity. Although there is no clear guidance under PRC GAAP for such specific situation, differences between two GAAPs may arise in presentation and measurements of such receivables.</p>

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<p>currencies are being used in IBRD's operations and/or are being invested, swapped, or loaned to members by IBRD or through IFC. Once these restricted currencies are no longer being used in operations, the related MOV is no longer deferred, but rather, becomes due on the same terms as other MOV obligations.</p> <p>All MOV <u>receivable</u> balances are shown as components of Equity, under Receivable Amounts to Maintain Value of Currency Holdings. The net receivable or payable MOV amounts relating to national currencies used in IBRD's lending and investing operations are also included as a component of Equity under Deferred Amounts to Maintain Value of Currency Holdings. All MOV <u>payable</u> balances are included in Liabilities, under Payable to Maintain Value of Currency Holdings on Account of Subscribed Capital.</p>		<p>classification, there is no reason that the MOV receivable be recorded as a financial asset under PRC GAAP.</p>	