International Bank for Reconstruction and Development

Management's Discussion & Analysis
and
Condensed Quarterly Financial Statements
September 30, 2016
(Unaudited)

International Bank for Reconstruction and Development (IBRD)

Contents

September 30, 2016

Management's Discussion and Analysis

Condensed Quarterly Financial Statements

I. Executive Summary

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, 2016 (FY16). 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, 2016 and 2015, as well as for the fiscal year ended June 30, 2016.

IBRD, an international organization owned by its 189 member countries, is one of the largest Multilateral Development Banks (MDB) in the world and is one of the five institutions of the World Bank Group (WBG)[1]. Each of these institutions is legally and financially independent, with separate assets and liabilities. IBRD is not liable for the obligations of the other institutions.

IBRD provides loans, guarantees, and knowledge for development focused projects and programs to creditworthy middle-income and low-income countries. Its main business activity is extending loans to its eligible member countries. As of September 30, 2016, IBRD's net loans outstanding were $169 billion, an increase of $1.3 billion from June 30, 2016. The increase was mainly attributable to $1.1 billion in net loan disbursements made in the first three months of FY17, which mainly went to the Middle East and North Africa region, as part of IBRD's efforts to improve the business environment for private sector development and ensure a sustainable energy supply (Section III).

IBRD had a net loss on a reported basis of $799 million for the first three months of the fiscal year ending June 30, 2017 (FY17), compared to a net income of $745 million during the same period in FY16. The reported net loss for the first three months of FY17, primarily reflects unrealized mark-to-market losses of $910 million experienced on the non-trading portfolios. The net income in the first three months of FY16 was primarily due to unrealized mark-to-market gains of $753 million experienced on these non-trading portfolios. See Financial Results Section (Section III) and Summary of Fair Value Analysis Section (Section IV).

IBRD's allocable income during the first three months of FY17 was $140 million, an increase of $111 million from the same period in FY16. The increase was primarily due to the lower provision for losses on loans and other exposures, and higher net interest revenue during the year. See Financial Results Section (Section III).

[1] *The other WBG institutions 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).*

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, 2016	September 30, 2015	June 30, 2016
Lending Highlights (Section III)			
Commitments [a]	$ 2,361	$ 6,369	$ 29,729
Gross disbursements [b]	3,333	7,868	22,532
Net disbursements [b]	1,147	5,586	13,197
Reported Basis (Section III)			
Income Statement			
Board of Governors-approved and other transfers	$ -	$ -	$ (705)
Net (loss) income	(799)	745	495
Balance Sheet			
Total assets	$ 394,801	$ 355,240	$ 371,260
Net investment portfolio	59,812	44,067	51,760
Net loans outstanding	168,913	160,258	167,643
Borrowing portfolio	188,276	168,708	178,231
Key Management Indicators (Section III)			
Allocable Income	$ 140	$ 29	$ 593
Usable Equity [c]	$ 39,536	$ 40,248	$ 39,424
Equity-to-loans Ratio [d]	22.6%	24.7%	22.7%

a. Commitments include guarantee commitments and guarantee facilities that have been approved by the Executive Directors.
b. Amounts include transactions with 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 period's income. (Full year June 30, 2016 amount includes the proposed transfer to the General Reserve from FY16 net income, which was subsequently approved by IBRD's Executive Directors on August 4, 2016).

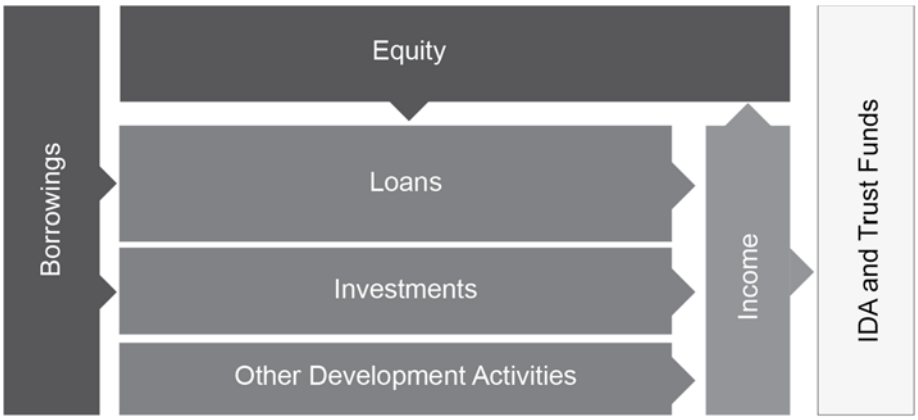
II. Overview

The mission of the WBG is defined by two goals: to end extreme poverty by reducing the percentage of people living on less than $1.90 per day to no more than 3% globally by 2030; and to promote shared prosperity in a sustainable manner by fostering income growth for the bottom 40% of the population of every developing country.

Business Model

The financial strength of IBRD is based on the support it receives from its shareholders and on its array of financial policies and practices. Shareholder support for IBRD is reflected in the capital backing it continues to receive from its members and in the record of its borrowing member countries in meeting their debt service obligations to IBRD. IBRD's sound financial and risk management policies and practices have enabled it to maintain its capital adequacy, diversify its funding sources, hold a portfolio of liquid investments to meet its financial commitments, and limit its risks, including credit and market risks, Figure 1 illustrates IBRD's business model.

Figure 1: IBRD's Business Model



IBRD pursues the above mentioned development goals primarily by providing loans, guarantees, and knowledge for development focused projects and programs to creditworthy middle-income and lower-income countries. IBRD's 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 denominated in U.S dollars and euros. IBRD also supports its borrowers by providing access to risk management tools such as derivative instruments, including currency and interest rate swaps and interest rate caps and collars.

In achieving these development goals, it is important for IBRD to intermediate funds for lending from international capital markets. IBRD's loans are financed through its equity, and from borrowings raised in the capital markets. IBRD is rated triple-A by the major rating agencies and its bonds are viewed as high quality securities by investors. IBRD's funding strategy is aimed at achieving the best long-term value on a sustainable basis for its borrowing members. This strategy has enabled IBRD to borrow at favorable market terms and pass the savings on to its borrowing members. 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. Funds not deployed for lending are maintained in IBRD's investment portfolio to supply liquidity for its operations.

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

IBRD reflects all financial instruments at fair value in Section IV of the MD&A. The fair value of these instruments is affected by changes in market variables such as interest rates, exchange rates, and credit risk. Management uses fair value to assess the performance of the investment-trading portfolio; to manage various market risks, including interest rate risk and commercial counterparty credit risk; and to monitor the results of the Equity Management Framework (EMF).

Allocable Income

IBRD makes net income distributions based on allocable income, derived from its reported net income. The primary differences between allocable income and reported net income are the unrealized gains/losses associated with its non-trading portfolios, as well as the expenses associated with the Board of Governors-approved and other transfers, which primarily relate to the allocation of the prior year's net income.

IBRD makes extensive use of derivatives to manage its exposure to various market risks inherent in its trading and non-trading portfolios. These derivatives are primarily used to economically align the interest rate and currency bases of its assets and liabilities. However, they introduce volatility in IBRD's reported net income through the unrealized mark-to-market gains and losses on these instruments.

In line with its financial risk management policies, IBRD intends to maintain its positions in the non-trading portfolios (loans, borrowings, and derivative instruments in the EMF). As a result, Management has consistently followed the practice of excluding unrealized mark-to-market gains and losses on its non-trading portfolios to arrive at allocable income, since adopting Financial Accounting Standards Board's (FASB's) guidance on derivatives and hedging in FY01, which required that derivatives be carried at fair value with changes in mark-to-market going through the income statement.

III. Financial Performance and Risk Management

Capital Adequacy

IBRD's capital adequacy is the degree to which its equity 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 was first adopted in 2008, and seeks to ensure that IBRD's equity is aligned with the financial risk associated with its loan portfolio as well as other exposures[2] over a medium-term capital-planning horizon.

Since 2008, IBRD's portfolio credit quality has improved significantly, as a result of which the capital adequacy framework was reviewed in FY14 and the minimum equity-to-loans ratio of 23%, in effect since 2008, was reduced to 20%. As shown on Table 1, IBRD's equity-to-loans ratio remained largely unchanged in September 30, 2016 from June 30, 2016, and remained above the minimum ratio of 20%.

[2] *Other exposures include deferred drawdown options, irrevocable commitments, exposures to member countries' derivatives, and guarantees.*

Table 1: Equity-to-Loans Ratio
In millions of U.S. dollars

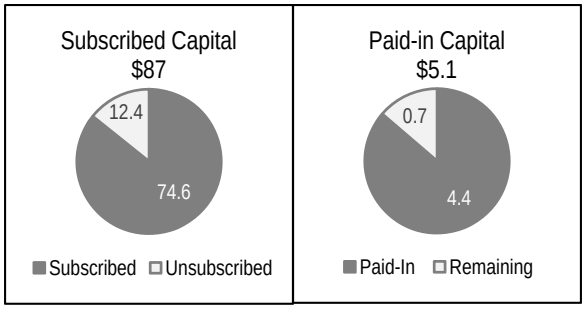
As of	September 30, 2016	June 30, 2016	Variance Total	Variance Due to Activities	Variance Due to Translation Adjustment
Usable paid-in capital	$ 15,238	$ 15,121	$ 117	$ 89	$ 28
Special reserve	293	293	-	-	-
General reserve [a]	27,021	27,021	-	-	-
Cumulative translation adjustment [b]	(758)	(753)	(5)		(5)
Other adjustments [c]	(2,258)	(2,258)	-	-	-
Equity (usable equity)	**$ 39,536**	**$ 39,424**	**$ 112**	**$ 89**	**$ 23**
Loans exposure	$ 170,755	$ 169,452	$ 1,303	$ 1,148	$ 155
Present value of guarantees	1,228	1,225	3	2	1
Effective but undisbursed DDOs	4,413	4,514	(101)	(101)	-
Relevant accumulated provisions	(1,634)	(1,607)	(27)	(26)	(1)
Deferred loan income	(445)	(441)	(4)	(4)	-
Other exposures	437	452	(15)	(16)	1
Loans (total exposure)	**$ 174,754**	**$ 173,595**	**$ 1,159**	**$ 1,003**	**$ 156**
Equity-to-Loans Ratio	**22.6%**	**22.7%**			

a. The June 30, 2016 amount includes proposed transfers to the General Reserve from FY16 net income.
b. Excluding cumulative translation amounts associated with the unrealized mark-to-market gains/losses on non-trading portfolios, net.
c. Other adjustments primarily relate to the net underfunded status of IBRD's pension plans.

The increase in usable paid-in capital during the first three months of the fiscal year ending June 30, 2017 (FY17) relates to the subscription of shares under the General and Selective Capital Increases (GCI/SCI).

In 2010, IBRD's shareholders approved the GCI/SCI, which became effective in FY11. As a result, IBRD is expected to receive $87 billion of subscribed capital, of which $5.1 billion will be paid in. The subscription period for eligible individual members is up to March 16, 2018 for the GCI; and up to March 16, 2017 for the SCI. As of September 30, 2016, $74.6 billion was subscribed, resulting in additional paid-in capital of $4.4 billion, of which $91 million was received during the first three months of FY17.

Figure 2: Status of FY11 GCI/SCI Subscriptions as of September 30, 2016
In billions of U.S. dollars



Financial Results

IBRD's objective is not to maximize profits, but to earn adequate income to ensure its financial strength and sustain its development activities. IBRD seeks to generate sufficient revenue to conduct its operations as well as to be able to set aside funds in reserves to strengthen its financial position, and provide support to IDA and to trust funds via income transfers for other developmental purposes.

IBRD's primary sources of revenue are the following: the loan and investment revenue (both net of funding costs), and equity contribution. This revenue is used to cover IBRD's administrative expenses, and provisions for loans and other exposures[3], as well as transfers to Reserves, Surplus, and for other development purposes including transfers to IDA.

On a reported basis, IBRD had a net loss of $799 million for the first three months of FY17, compared with net income of $745 million during the same period in FY16. The net loss during the first three months of FY17 primarily relates to the unrealized mark-to-market losses experienced on the non-trading portfolios (See Table 2).

For the first three months of FY17, IBRD's allocable income was $140 million, an increase of $111 million from the same period in FY16. The higher allocable income during the first three months of FY17 was primarily due to the lower provision for losses on loans and other exposures and higher net interest revenue, as discussed further in this section.

The following is a discussion on the key drivers of IBRD's financial performance, including a reconciliation between IBRD's reported net income and allocable income.

Table 2: Condensed Statement of Income

In millions of U.S. dollars

For the three months ended September 30,	2016	2015	Variance
Interest revenue, net of funding costs			
Interest margin	$ 250	$ 217	$ 33
Equity contribution, (including EMF)	185	191	(6)
Investments	40	10	30
Net interest revenue	**$ 475**	**$ 418**	**$ 57**
Provision for losses on loans and other exposures, net	(26)	(98)	72
Net non-interest expenses (Table 3)	(372)	(318)	(54)
Net other income (Table 4)	34	(10)	44
Board of Governors-approved and other transfers	-	-	-
Unrealized mark-to-market (losses)/gains on non-trading portfolios, net [a]			
Borrowing portfolio	(610)	513	(1,123)
Loan portfolio	175	(497)	672
EMF	(468)	741	(1,209)
Asset-liability management portfolio	(2)	(1)	(1)
Client operations portfolio	(5)	(3)	(2)
Net (loss) Income	**$ (799)**	**$ 745**	**$ (1,544)**
Adjustments to reconcile net (loss)/gains to allocable income:			
Pension and other adjustments	29	37	(8)
Board of Governors-approved and other transfers	-	-	-
Unrealized mark-to-market losses/(gains) on non-trading portfolios, net [a]	910	(753)	1,663
Allocable income	**$ 140**	**$ 29**	**$ 111**

a. Adjusted to exclude amounts reclassified to realized gains (losses). See Table 13.

Interest Margin

Approximately 23% of IBRD's net loans and other exposures are funded by equity, as indicated by the equity-to-loans ratio. For the portion of loans funded by borrowings, IBRD earned a net interest margin of $250 million for the first three months of FY17, an increase of $33 million from the same period in FY16. The higher net interest margin earned in FY17 is mainly due to the increase in the volume of loans outstanding (See Box 1), as well as the increase in the contractual spread on new loans, attributable to pricing measures adopted in FY14. The benefit from the higher pricing is gradual due to the application only on new loans and is largely offset by the adverse effect of a

[3] *Other exposures include deferred drawdown, irrevocable commitments, exposures to member countries' derivatives, and guarantees.*

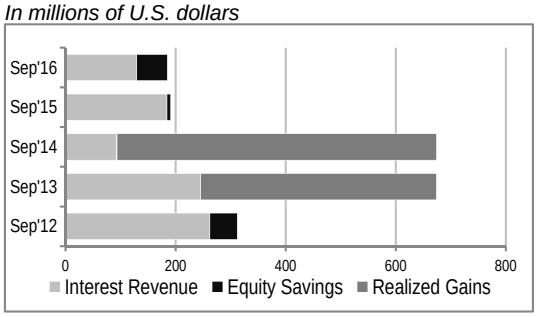
six-month lag in passing on IBRD's increased borrowing costs compared to U.S. dollar LIBOR through to borrowing members.

Equity Contribution

Equity contribution is primarily comprised of interest revenue earned from the EMF and any gains which have been realized during the year as a result of the termination of certain EMF positions. It also includes equity savings, revenue from the proportion of loans funded by equity, and certain minor adjustments including those relating to discontinued loan products. For the first three months of FY17, the equity contribution amounted to $185 million, a decline of $6 million from the same period in FY16.

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. The interest revenue on the 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 (Figure 3).

Figure 3: Equity Contribution
For the three months ended September 30,
In millions of U.S. dollars



As measured by duration, the interest rate sensitivity of IBRD's equity was 4.2 years as of September 30, 2016 as compared to 4.4 years as of June 30, 2016. Consistent with the increase in the U.S. interest rates, during the first three months of FY17, IBRD had unrealized mark-to-market losses of $468 million for the EMF. As a result of this unrealized mark-to-market loss, the market value of the EMF position decreased to $1.8 billion as of September 30, 2016 from $2.2 billion as of June 30, 2016.

Net Non-Interest Expenses

As shown in Table 3, IBRD's net non-interest expenses primarily comprise administrative expenses, net of revenue from externally funded activities. IBRD/IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of administrative expenses between IBRD and IDA is based on an agreed cost sharing methodology, approved by their Boards, which is primarily driven by the relative level of lending activity between these two institutions.

The increase in net non-interest expenses of $54 million for the first three months of FY17 compared to the same period in FY16, was mainly due to higher pension and staff costs, partially offset by the decline in expenses relating to grant making facilities during the year. The increase in staff costs of $38 million was primarily related to the increase in costs funded by IBRD executed trust funds, which are recovered through revenue from externally funded activities. In addition, there was an increase in costs allocated to IBRD due to the changes in lending activities of IBRD relative to IDA over the same period. The higher pension cost of $51 million for the period was primarily due to the decline in the discount rate, which is reflected in the higher amortization of unrecognized net actuarial losses and service costs (see Note H: Pension and Other Postretirement Benefits to the Condensed Quarterly Financial Statements).

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

For the three months ended September 30,	2016	2015	Variance
Administrative expenses			
Staff costs	$ 240	$ 202	$ 38
Travel	29	29	-
Consultant and contractual services	64	66	(2)
Pension and other post-retirement benefits	106	55	51
Communications and technology	10	11	(1)
Equipment and buildings	33	32	1
Other expenses	13	10	3
Total administrative expenses	$ 495	$ 405	$ 90
Grant making facilities	16	30	(14)
Revenue from externally funded activities			
Reimbursable revenue – IBRD executed trust funds	(93)	(70)	(23)
Other revenue	(46)	(47)	1
Total revenue from externally funded activities	$ (139)	$ (117)	$ (22)
Net non-interest expenses (Table 2)	$ 372	$ 318	$ 54

Net Other Income

Table 4 below provides details on the composition of net other income. The commitment fee income increased during the first three months of FY17 as a result of the increase in the proportion of undisbursed balances that is affected by the restoration of the 25 basis point commitment fee charged on undisbursed balances since FY15. The increase in PEBP income is due to positive investment returns experienced during the current period.

Table 4: Net Other Income
In millions of U.S. dollars

For the three months ended September 30,	2016	2015	Variance
Loan commitment fee income	$ 16	$ 7	$ 9
Guarantee fee income	2	2	*
Net earnings from Post-Employment Benefit Plan (PEBP)	15	(19)	34
Pilot Auction Facility (PAF)	3	-	3
Others	(2)	*	(2)
Net other income (Table 2)	$ 34	$ (10)	$ 44

**Indicates amount less than $0.5 million.*

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 intends to maintain its positions in the non-trading portfolios, 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.

Loan portfolio

On a reported basis, while the derivatives which convert IBRD's loans to variable rate instruments 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. In order to show the effect of its risk management policies, IBRD reflects its loans at fair value in the MD&A. See Section IV for more details.

Borrowing portfolio

On a reported basis, all of the borrowings and the related derivatives are at fair value, 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 IV 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, 2016	June 30, 2016	Variance
Investments and due from banks	$ 64,162	$ 54,806	$ 9,356
Net loans outstanding	168,913	167,643	1,270
Receivable from derivatives	156,721	144,488	12,233
Other assets	5,005	4,323	682
Total assets	$ 394,801	$ 371,260	$ 23,541
Borrowings	$ 191,164	$ 181,723	$ 9,441
Payable for derivatives	154,874	141,741	13,133
Other liabilities	12,290	10,733	1,557
Equity	36,473	37,063	(590)
Total liabilities and equity	$ 394,801	$ 371,260	$ 23,541

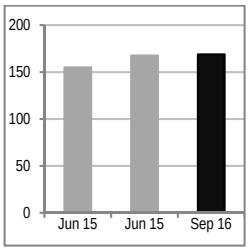
Loan portfolio

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 within an overall statutory lending limit as prescribed in the Articles. 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.

Lending Activities

As of September 30, 2016, IBRD's net loans outstanding amounted to $169 billion, an increase of $1.3 billion or approximately 1% compared with June 30, 2016. The increase was mainly attributable to $1.1 billion in net positive loan disbursements made in the first three months of FY17.

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



In the first three months of FY17, IBRD had new loan commitments totaling $2.4 billion, 63% lower than the same period in FY16 (Table 6). The decrease in loan commitments is primarily observed in the Europe and Central Asia region. The decrease was primarily as a result of lower development policy loans committed during the first three months of FY17. Notwithstanding this decrease, there was an overall increase in the share of lending to the Middle East and North Africa region, as part of IBRD's efforts to provide assistance to address the current refugee crisis, and to improve the business environment for private sector development and strengthen capacity for quality infrastructure.

Gross disbursements during the first three months of FY17 were $3.3 billion, 58% lower than the same period in FY16 (Table 7). The lower gross disbursement level in FY17 is primarily due to lower disbursements to the countries in the Europe and Central Asia and East Asia and Pacific regions. This was partially offset by the increase to the Middle East and North Africa region, as part of IBRD's efforts to improve the business environment for private sector development and ensure sustainable energy supply.

Table 6: Commitments by Region – For the Fiscal Year-To-Date

In millions of U.S. dollars

For the three months ended	September 30, 2016 Commitments	% of total	September 30, 2015 Commitments	% of total	Variance
Africa	$ 70	3%	$ 260	4%	$ (190)
East Asia and Pacific	366	15	150	2	216
Europe and Central Asia	368	16	3,054	48	(2,686)
Latin America and the Caribbean	445	19	1,405	22	(960)
Middle East and North Africa	722	31	1,500	24	(778)
South Asia	390	16	-	-	390
Total	$ 2,361	100%	$ 6,369	100%	$ (4,008)

Table 7: Gross Disbursements by Region – For the Fiscal Year-To-Date

In millions of U.S. dollars

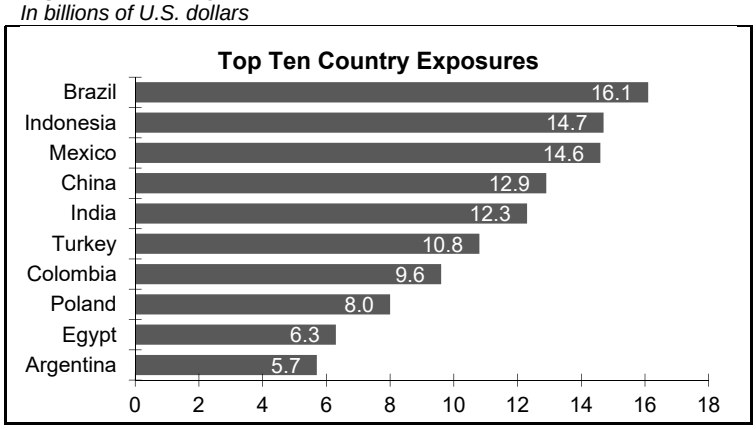
For the three months ended	September 30, 2016 Gross Disbursements	% of total	September 30, 2015 Gross Disbursements	% of total	Variance
Africa	$ 26	1%	$ 507	7%	$ (481)
East Asia and Pacific	856	26	2,656	34	(1,800)
Europe and Central Asia	539	16	2,543	32	(2,004)
Latin America and the Caribbean	507	15	1,411	18	(904)
Middle East and North Africa	1,188	36	418	5	770
South Asia	217	6	333	4	(116)
Total	$ 3,333	100%	$ 7,868	100%	$ (4,535)

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 63% of IBRD's total exposure, as of September 30, 2016.

Figure 5: Country Exposures as of September 30, 2016

In billions of U.S. dollars



The concentration risk is carefully managed, in part, by applying an exposure limit to a single borrowing country 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. 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). There are currently five countries subject to the SBL. The SBL effective on September 30, 2016 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 $29.2 billion at September 30, 2016.

IBRD also entered into Exposure Exchange Agreements (EEA) with MIGA, the African Development Bank (AfDB) and the Inter-American Development Bank (IADB). For each institution, EEAs, through diversification benefits, have the potential to help reduce credit risk at the portfolio level; improve the risk-weighted capital ratios especially by addressing exposure concentration concerns; and create lending headroom for individual borrowing countries where each institution may be constrained. These EEAs are treated as financial guarantees under U.S. GAAP. The EEA involves the receipt of a guarantee and the provision of a guarantee for nonpayment in the reference portfolio by each institution to the other. As of September 30, 2016, IBRD had received guarantees of $3,689 million and provided guarantees of $3,690 million under the EEA ($3,694 million of guarantees received and $3,692 million of

guarantees provided as of June 30, 2016). See Note D: Loans and Other Exposures to the Condensed Quarterly Financial Statements.

Provision on Loans and Other Exposures

IBRD records a provision to reflect the probable losses inherent in its loan portfolio and other exposures, including protection provided under the EEA. As of September 30, 2016, IBRD had an accumulated provision for losses on loans and other exposures of $1,677 million, which was approximately 1% of these exposures, ($1,650 million as of June 30, 2016 - 1% of exposures). The accumulated provision for losses on loans and other exposures as of September 30, 2016, excludes the $41 million recoverable asset associated with the protection received under the EEA. The recoverable asset is included in other assets on the condensed quarterly balance sheet.

As of September 30, 2016, 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 FY17, there was a charge of $26 million, reflecting an increase in the loan portfolio during the period due to the net disbursements. This compares with a charge of $98 million in the same period in FY16, reflecting an increase in net loan disbursements and the change in the credit quality of the loan portfolio during that period.

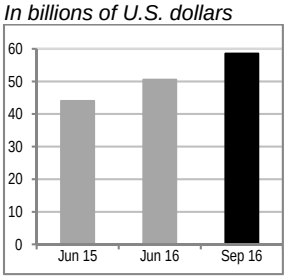
Investment Portfolio

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.

Liquid Asset Portfolio

As of September 30, 2016, the net investment portfolio totaled $59.8 billion (Figure 6), with $58.5 billion representing the liquid asset portfolio (see Note C: Investments to the Condensed Quarterly Financial Statements). This compares with an investment portfolio valued at $51.8 billion as at June 30, 2016, with $50.5 billion representing the liquid asset portfolio.

Figure 6: Liquid Asset Portfolio
In billions of U.S. dollars



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 FY17, and the liquid asset portfolio was at 213% of this level as of September 30, 2016. The increased level of liquidity is in anticipation of large loan disbursements and debt redemptions in upcoming months.

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. As shown on Table 8, the credit quality of IBRD's portfolio remains concentrated in the upper end of the credit spectrum, with 67% of the portfolio rated AA or above and the remaining portfolio primarily rated A. The exposures with the AAA and AA rated counterparties primarily related to sovereign fixed income and deposits. 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.

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, 2016, this debt security had a carrying value of $46 million an increase of $2 million compared with June 30, 2016, due to unrealized mark-to-market gains experienced during the period. The loss in the value of the security from FY07 to September 30, 2016 was a result of legislation passed in FY14 to cancel the underlying debt. During October 2016, IBRD accepted a tender offer to exchange its

bond for a new zero coupon bond maturing over 18 years. This zero coupon bond was sold on the market for $79 million at the end of October 2016, resulting in additional gains of $35 million in the current fiscal year.

Table 8: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating[a]

In millions of U.S. dollars

	As of September 30, 2016				
	Investments				
Counterparty Rating [a]	Sovereigns	Agencies, Commercial paper, Asset-Backed Securities, Corporates and Time Deposits	Net Swap Exposure	Total Exposure	% of Total
AAA	$ 10,151	$ 10,527	$ -	$ 20,678	34%
AA	7,186	12,325	99	19,610	33
A	12,967	7,074	64	20,105	33
BBB	*	11	-	11	*
BB or lower/unrated	-	52	-	52	*
Total	$ 30,304	$ 29,989	$ 163	$ 60,456	100%

	As of June 30, 2016				
	Investments				
Counterparty Rating [a]	Sovereigns	Agencies, Commercial paper, Asset-Backed Securities, Corporates and Time Deposits	Net Swap Exposure	Total Exposure	% of Total
AAA	$ 10,954	$ 10,521	$ -	$ 21,475	42%
AA	2,988	8,259	133	11,380	22
A	12,159	6,336	128	18,623	36
BBB	*	12	*	12	*
BB or lower/unrated	-	50	*	50	*
Total	$ 26,101	$ 25,178	$ 261	$ 51,540	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%.*

Investment Revenue

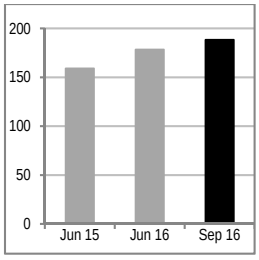
Investment revenue includes interest earned and mark-to-market gains and losses on the liquid asset portfolio, net of funding costs. During the first three months of FY17, this revenue amounted to $40 million, compared to $10 million during the same period in FY16. The increase during FY17, was due to higher unrealized mark-to-market gains in FY17 resulting from the improvement in market conditions, compared to unrealized mark-to-market losses in the same period during FY16.

Borrowing Portfolio

IBRD issues debt securities to both institutional and retail investors in a variety of currencies. During the first three months of FY17, IBRD raised medium and long-term debt of $17.5 billion in 14 currencies.

As of September 30, 2016, the borrowing portfolio totaled $188 billion, an increase of $10 billion from June 30, 2016 (see Note E: Borrowings in the Notes to the Condensed Quarterly Financial Statements). This increase was due to net new issuances of $9.2 billion in anticipation of large loan disbursements and debt redemptions for the upcoming months.

Figure 7: Borrowing Portfolio
In billions of U.S. dollars



IV. 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, 2016.

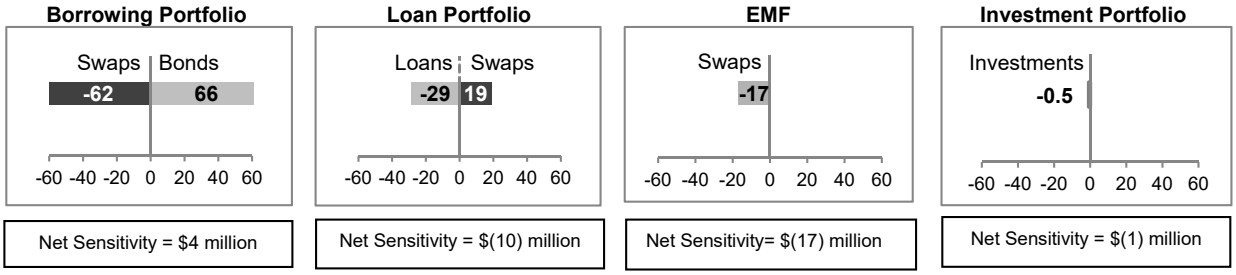
Table 9: Effect of Interest Rates and Credit on IBRD's Fair Value Income
In millions of U.S. dollars

As of September 30, 2016	Interest Rate Effect on Fair Value Income [a] Sensitivity [c]	Credit Effect on Fair Value Income [b] Sensitivity [c]
Borrowing portfolio	$ 4	$ 66
Loan portfolio	(10)	(31)
EMF	(17)	*
Investment portfolio	(1)	(4)
Total (loss)/gains	$ (24)	$ 31

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 8 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 $66 million on the bonds. These would be significantly offset by the $62 million of net unrealized mark-to-market losses on the related swaps, resulting in net unrealized mark-to-market gains of $4 million for the portfolio.

Figure 8: Sensitivity to Interest Rates as of September 30, 2016
(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 FY17, IBRD experienced net unrealized mark-to-market losses on a fair value basis of $293 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,	2016	2015
Borrowing portfolio	$ (610)	$ 516
Loan portfolio	785	(1,524)
EMF	(468)	741
Total	$ (293)	$ (267)

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

Effect of Interest and Credit

IBRD uses derivatives in its trading and non-trading 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 8).

Borrowing Portfolio

For the first three months of FY17, IBRD experienced $610 million of unrealized mark-to-market losses on the borrowing portfolio, which is mainly comprised of $438 million of unrealized mark-to-market losses due to the tightening of IBRD's credit spreads relative to LIBOR. 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 $66 million of unrealized mark-to-market gains.

Loan Portfolio

For the first three months of FY17, IBRD experienced $785 million of unrealized mark-to-market gains on the loans portfolio, which is mainly comprised of $445 million of unrealized mark-to-market gains due to the improvement of the credit 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 $31 million of unrealized mark-to-market losses. See the June 30, 2016, MD&A for a detailed discussion on how the credit risk of each portfolio is managed.

EMF

For the first three months of FY17, the unrealized mark-to-market losses on the EMF position of $468 million were due to the increase in U.S. interest rates experienced during the first three months of FY17.

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 11-13 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, 2016			As of June 30, 2016		
	Reported Basis	Adjustments	Fair Value Basis	Reported Basis	Adjustments	Fair Value Basis
Due from banks	$ 1,507	$ -	$ 1,507	$ 1,284	$ -	$ 1,284
Investments	62,655	-	62,655	53,522	-	53,522
Net loans outstanding	168,913	5,545	174,458	167,643	4,934	172,577
Receivable from derivatives	156,721	-	156,721	144,488	-	144,488
Other assets	5,005	-	5,005	4,323	-	4,323
Total assets	$ 394,801	$ 5,545	$ 400,346	$ 371,260	$ 4,934	$ 376,194
	-	-				
Borrowings	$ 191,164	$ 14	[a] $ 191,178	$ 181,723	$ 13	[a] $ 181,736
Payable for derivatives	154,874	-	154,874	141,741	-	141,741
Other liabilities	12,290	-	12,290	10,733	-	10,733
Total liabilities	358,328	14	358,342	334,197	13	334,210
Paid-in capital stock	15,896	-	15,896	15,805	-	15,805
Retained earnings and other equity	20,577	5,531	26,108	21,258	4,921	26,179
Total equity	36,473	5,531	42,004	37,063	4,921	41,984
Total liabilities and equity	$ 394,801	$ 5,545	$ 400,346	$ 371,260	$ 4,934	$ 376,194

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,	2016	2015	Variance
Net (loss) income from Table 2	$ (799)	$ 745	$ (1,544)
Fair value adjustment on loans	610	(1,027)	1,637
Changes to AOCI:			
Currency translation adjustments	(3)	(5)	2
Others	90	34	56
Net (loss) on fair value comprehensive basis	$ (102)	$ (253)	$ 151

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

	For the three months ended September 30, 2016				
	Unrealized gains (losses)[a]	Realized gains	Fair Value Adjustment from Table 12	Other Adjustments	Total from Table 10
Borrowing portfolio [c]	$ (610)	$ 1	$ -	$ (1) [b]	$ (610)
Loan portfolio [c]	175	-	610	-	785
EMF [d]	(468)	-	-	-	(468)
Asset-liability management portfolio [d]	(2)	-	-	2	-
Client operations portfolio	(5)	-	-	5	-
Total	$ (910)	$ 1	$ 610	$ 6	$ (293)

	For the three months ended September 30, 2015				
	Unrealized gains (losses)[a]	Realized gains	Fair Value Adjustment from Table 12	Other Adjustments	Total from Table 10
Borrowing portfolio [c]	$ 513	$ 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)

a. Adjusted to exclude amounts reclassified to realized 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.
** indicates amount less than $0.5 million*

V. Senior Management Changes

On September 27, 2016, Dr. Jim Yong Kim was appointed to a second five-year term as President of the World Bank Group, commencing on July 1, 2017.

On July 27, 2016, Sri Mulyani Indrawati resigned as Managing Director and Chief Operating Officer (MDCOO). Subsequently, on October 28, 2016, Kristalina Georgieva was appointed as IBRD's Chief Executive Officer (CEO), effective January 2, 2017, which was a newly created position to replace the MDCOO position.

CONDENSED BALANCE SHEET

Expressed in millions of U.S. dollars

	September 30, 2016 (Unaudited)	*June 30, 2016 (Unaudited)*
Assets		
Due from banks—Notes C and K		
Unrestricted cash	$ 1,437	$ 1,222
Restricted cash	70	62
	1,507	1,284
Investments-Trading (including securities transferred under repurchase or securities lending agreements of $9 million—September 30, 2016; $14 million—June 30, 2016)—Notes C and K	60,864	51,830
Securities purchased under resale agreements—Note C	1,791	1,692
Derivative assets		
Investments—Notes C, F and K	35,098	25,889
Loans—Notes D, F and K	4,157	4,096
Client operations—Notes D, F, I and K	30,711	27,573
Borrowings—Notes E, F and K	84,280	83,965
Others—Notes F and K	2,475	2,965
	156,721	144,488
Loans outstanding—Notes D, I and K		
Total loans	235,640	235,564
Less undisbursed balance	64,682	65,909
Loans outstanding (including loans at fair value of $134 million—September 30, 2016; $123 million—June 30, 2016)	170,958	169,655
Less:		
Accumulated provision for loan losses	1,600	1,571
Deferred loan income	445	441
Net loans outstanding	168,913	167,643
Other assets—Notes C, D, E and I	5,005	4,323
Total assets	$ 394,801	$ 371,260

	September 30, 2016 (Unaudited)	*June 30, 2016 (Unaudited)*
Liabilities		
Borrowings—Notes E and K	$ 191,164	$ 181,723
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received—Notes C and K	1,452	1,685
Derivative liabilities		
Investments—Notes C, F and K	35,564	26,536
Loans—Notes D, F and K	6,493	6,433
Client operations—Notes D, F, I and K	30,752	27,610
Borrowings—Notes E, F and K	81,392	80,473
Others—Notes F and K	673	689
	154,874	141,741
Other liabilities—Notes C, D and I	10,838	9,048
Total liabilities	358,328	334,197
Equity		
Capital stock—Note B		
Authorized capital (2,307,600 shares—September 30, 2016, and June 30, 2016)		
Subscribed capital (2,195,583 shares—September 30, 2016, and 2,182,854 shares—June 30, 2016)	264,864	263,329
Less uncalled portion of subscriptions	248,968	247,524
Paid-in capital	15,896	15,805
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital	(317)	(320)
Receivable amounts to maintain value of currency holdings	(335)	(348)
Deferred amounts to maintain value of currency holdings	70	56
Retained earnings (see Condensed Statement of Changes in Retained Earnings; Note G)	27,197	27,996
Accumulated other comprehensive loss—Note J	(6,038)	(6,126)
Total equity	36,473	37,063
Total liabilities and equity	$ 394,801	$ 371,260

The Notes to 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)	
	2016	*2015*
Net interest revenue		
Interest revenue		
Loans, net—Note D	$ 541	$ 330
Equity management, net	129	184
Investments - Trading, net	135	59
Other, net	3	1
Interest expenses		
Borrowings, net—Note E	(349)	(126)
Net interest revenue, before provision for losses	459	448
Provision for losses on loans and other exposures—Note D	(26)	(98)
Net interest revenue, after provision for losses	433	350
Non interest revenue		
Revenue from externally funded activities—Note I	139	117
Commitment charges—Note D	16	7
Other	6	1
Total	161	125
Non interest expenses		
Administrative—Note I	(389)	(350)
Pension—Note H	(106)	(55)
Contributions to special programs	(16)	(30)
Other	(6)	-
Total	(517)	(435)
Unrealized mark-to-market gains (losses) on Investments-Trading portfolio, net—Notes F and K	33	(52)
Unrealized mark-to-market (losses) gains on non-trading portfolios, net—Notes D, E, F and K	(909)	757
Net (loss) income	$ (799)	$ 745

The Notes to 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)	
	2016	*2015*
Net (loss) income	$ (799)	$ 745
Other comprehensive income—Note J		
Reclassification to net income:		
Derivatives and hedging transition adjustment	1	-
Amortization of unrecognized net actuarial losses	86	29
Amortization of unrecognized prior service costs	6	6
Currency translation adjustment	(5)	6
Total other comprehensive income	88	41
Comprehensive (loss) income	$ (711)	$ 786

CONDENSED STATEMENT OF CHANGES IN RETAINED EARNINGS

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2016	*2015*
Retained earnings at beginning of the fiscal year	$ 27,996	$ 27,501
Net (loss) income for the period	(799)	745
Retained earnings at end of the period	$ 27,197	$ 28,246

The Notes to 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)	
	2016	*2015*
Cash flows from investing activities		
Loans		
Disbursements	$ (3,323)	$ (7,855)
Principal repayments	2,186	2,282
Principal prepayments	-	-
Loan origination fees received	3	5
Net derivatives-loans	3	1
Other investing activities, net	(29)	(27)
Net cash used in investing activities	(1,160)	(5,594)
Cash flows from financing activities		
Medium and long-term borrowings		
New issues	17,323	8,927
Retirements	(9,089)	(12,228)
Net short-term borrowings	881	8,032
Net derivatives-borrowings	(276)	(275)
Capital subscriptions	91	32
Other capital transactions, net	(5)	19
Net cash provided by financing activities	8,925	4,507
Cash flows from operating activities		
Net (loss) income	(799)	745
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Unrealized mark-to-market losses (gains) on non-trading portfolios, net	909	(757)
Depreciation and amortization	170	170
Provision for losses on loans and other exposures	26	98
Changes in:		
Investments-Trading, net	(7,946)	1,541
Other assets and liabilities	90	(186)
Net cash (used in) provided by operating activities	(7,550)	1,611
Effect of exchange rate changes on unrestricted cash	-	(2)
Net increase in unrestricted cash	215	522
Unrestricted cash at beginning of the fiscal year	1,222	311
Unrestricted cash at end of the period	$ 1,437	$ 833
Supplemental disclosure		
Increase (decrease) in ending balances resulting from exchange rate fluctuations		
Loans outstanding	$ 154	$ (257)
Investment portfolio	8	8
Borrowing portfolio	62	65
Capitalized loan origination fees included in total loans	10	13
Interest paid on borrowings	271	39

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

NOTES TO CONDENSED QUARTERLY FINANCIAL 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, 2016, audited financial statements and notes included therein. The condensed comparative information that has been derived from the June 30, 2016, 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.

Accounting and Reporting Developments

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis.* This ASU makes amendments to the current consolidation guidance focusing on targeted areas for certain types of entities. For IBRD, the ASU was effective from the quarter ended September 30, 2016. The ASU did not have any impact on IBRD's financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* To simplify the presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liabilities, consistent with debt premiums and discounts. The recognition and measurement of debt issuance costs are not affected. For IBRD, the ASU was effective from the quarter ended September 30, 2016. The ASU did not have any impact on IBRD's financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. The ASU provides guidance to help customers determine whether fees paid for cloud computing arrangements include a software license or should be accounted for as a service contract. For IBRD, the ASU was effective from the quarter ended September 30, 2016. The adoption of the ASU did not result in any changes to IBRD's financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The ASU provides classification guidance on eight specific cash flow classification issues for which current US GAAP does not provide guidance. For IBRD, the ASU is effective from the quarter ending September 30, 2018, with early adoption permitted. IBRD is currently evaluating the impact of this ASU on its financial statements.

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, 2016 and the fiscal year ended June 30, 2016:

	Authorized shares	*Subscribed shares*
As of June 30, 2015	2,307,600	2,095,748
General and Selective Capital Increase (GCI/SCI)	-	86,520
New membership	-	586
As of June 30, 2016	2,307,600	2,182,854
GCI/SCI	-	12,729
As of September 30, 2016	2,307,600	2,195,583

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, 2016 and the fiscal year ended June 30, 2016:

	Subscribed capital	*Uncalled portion of subscriptions*	*Paid-in capital*
As of June 30, 2015	$ 252,821	$ (237,629)	$ 15,192
GCI/SCI	10,437	(9,826)	611
New membership	71	(69)	2
As of June 30, 2016	263,329	(247,524)	15,805
GCI/SCI	1,535	(1,444)	91
As of September 30, 2016	$ 264,864	$ (248,968)	$ 15,896

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, 2016, 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, 2016 and June 30, 2016 was as follows:

In millions of U.S. dollars

	September 30, 2016	*June 30, 2016*
Net investment portfolio		
Liquid asset portfolio	$ 58,534	$ 50,536
PCRF holdings	135	120
AMC holdings	135	153
PEBP holdings	1,008	951
Total	$ 59,812	$ 51,760

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, 2016, the majority of Investments is comprised of government and agency obligations, and time deposits (59% and 31%, respectively), with all instruments classified as Level 1 or Level 2 within the fair value hierarchy. As of September 30, 2016, U.S. Treasuries represented the largest holding from a single counterparty, and amounted to 10% of Investments–Trading. Over 99% of IBRD's investments were rated A and above, as of September 30, 2016.

A summary of IBRD's Investments-Trading at September 30, 2016 and June 30, 2016, is as follows:

In millions of U.S. dollars

	September 30, 2016	*June 30, 2016*
Equity securities [a]	$ 546	$ 523
Government and agency obligations	35,769	31,255
Time deposits	19,164	14,261
Asset-backed securities (ABS)	5,210	5,629
Alternative investments [b]	175	162
Total	$ 60,864	$ 51,830

a. Includes $170 million of investments in commingled funds at net asset value per share (NAV), related to PEBP holdings ($162 million—June 30, 2016).

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, 2016 and June 30, 2016:

In millions of U.S. dollars

	September 30, 2016	*June 30, 2016*
Investments - Trading	$ 60,864	$ 51,830
Securities purchased under resale agreements	1,791	1,692
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received	(1,452)	(1,685)
Derivative assets		
Currency forward contracts	13,245	9,423
Currency swaps	21,762	16,346
Interest rate swaps	87	116
Swaptions, exchange traded options and futures contracts	4	4
Other [a]	*	*
Total	35,098	25,889
Derivative liabilities		
Currency forward contracts	(13,252)	(9,598)
Currency swaps	(22,162)	(16,749)
Interest rate swaps	(144)	(175)
Swaptions, exchange traded options and futures contracts	(6)	(14)
Other [a]	(*)	-
Total	(35,564)	(26,536)
Cash held in investment portfolio [b]	1,222	1,118
Receivable from investment securities traded	138	42
Payable for investment securities purchased [c]	(2,285)	(590)
Net investment portfolio	$ 59,812	$ 51,760

a. These relate to TBA securities.

b. This amount is included in Unrestricted cash under Due from banks on the Condensed Balance Sheet.

c. This amount includes $39 million of liabilities related to PCRF payable which is included in Other liabilities on the Condensed Balance Sheet ($34 million—June 30, 2016).

** 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, 2016, there were $633 million of short sales included in Other liabilities on the Condensed Balance Sheet ($549 million—June 30, 2016).

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, 2016 and June 30, 2016:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of September 30, 2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments – Trading				
Equity securities	$ 376	$ -	$ -	$ 546 [a]
Government and agency obligations	24,833	10,936	-	35,769
Time deposits	1,485	17,679	-	19,164
ABS	-	5,210	-	5,210
Alternative investments [b]	-	-	-	175
Total Investments – Trading	$ 26,694	$ 33,825	$ -	$ 60,864
Securities purchased under resale agreements	991	800	-	1,791
Derivative assets-Investments				
Currency forward contracts	-	13,245	-	13,245
Currency swaps	-	21,762	-	21,762
Interest rate swaps	-	87	-	87
Swaptions, exchange traded options and futures contracts	*	4	-	4
Other [c]	-	*	-	*
Total Derivative assets-Investments	*	35,098	-	35,098
Total	$ 27,685	$ 69,723	$ -	$ 97,753
Liabilities:				
Securities sold under repurchase agreements and securities lent under securities lending agreements [d]	$ -	$ 9	$ -	$ 9
Derivative liabilities-Investments				
Currency forward contracts	-	13,252	-	13,252
Currency swaps	-	22,162	-	22,162
Interest rate swaps	-	144	-	144
Swaptions, exchange traded options and futures contracts	3	3	-	6
Other [c]	-	*	-	*
Total Derivative liabilities-Investments	3	35,561	-	35,564
Payable for investments securities purchased [e]	633	-	-	633
Total	$ 636	$ 35,570	$ -	$ 36,206

a. Includes $170 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 $1,443 million relating to payable for cash collateral received.
e. This relates to short sales of investment 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, 2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments – Trading				
Equity securities	$ 361	$ -	$ -	$ 523 [a]
Government and agency obligations	20,898	10,357	-	31,255
Time deposits	2,255	12,006	-	14,261
ABS	-	5,629	-	5,629
Alternative investments [b]	-	-	-	162
Total Investments – Trading	$ 23,514	$ 27,992	$ -	$ 51,830
Securities purchased under resale agreements	976	716	-	1,692
Derivative assets-Investments				
Currency forward contracts	-	9,423	-	9,423
Currency swaps	-	16,346	-	16,346
Interest rate swaps	-	116	-	116
Swaptions, exchange traded options and futures contracts	*	4	-	4
Other [c]	-	*	-	*
Total Derivative assets-Investments	*	25,889	-	25,889
Total	$ 24,490	$ 54,597	$ -	$ 79,411
Liabilities:				
Securities sold under repurchase agreements and securities lent under securities lending agreements [d]	$	$ 14	$ -	$ 14
Derivative liabilities-Investments				
Currency forward contracts	-	9,598	-	9,598
Currency swaps	-	16,749	-	16,749
Interest rate swaps	-	175	-	175
Swaptions, exchange traded options and futures contracts	11	3	-	14
Other [c]	-	-	-	-
Total Derivative liabilities-Investments	11	26,525	-	26,536
Payable for investments securities purchased [e]	549	-	-	549
Total	$ 560	$ 26,539	$ -	$ 27,099

a. Includes $162 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 $1,671 million relating to payable for cash collateral received.
e. This relates to short sales of investment securities.
** Indicates amount less than $0.5 million.*

During the three months ended September 30, 2016, and for the fiscal year ended June 30, 2016 there were no transfers between Level 1 and Level 2 within the fair value hierarchy.

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 TBAs.

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 non-performance 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, 2016 and June 30, 2016.

In millions of U.S. dollars

	September 30, 2016	*June 30, 2016*
Collateral received		
Cash	$ 1,443	$ 1,671
Securities	2,172	2,175
Total collateral received	$ 3,615	$ 3,846
Collateral permitted to be repledged	$ 3,615	$ 3,846
Amount of collateral repledged	-	-

As of September 30, 2016, IBRD had received total cash collateral of $1,443 million ($1,671 million—June 30, 2016), of which $422 million was invested in highly liquid instruments ($739 million—June 30, 2016).

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, 2016, there was no amount which could potentially be offset as a result of legally enforceable master netting arrangements (Nil—June 30, 2016).

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, 2016	*June 30, 2016*	*Financial Statement Presentation*
Securities transferred under repurchase or securities lending agreements	$ 9	$ 14	Included under Investments-Trading on the Condensed Balance Sheet.
Liabilities relating to securities transferred under repurchase or securities lending agreements	$ 9	$ 14	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 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, 2016 and June 30, 2016 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, 2016 and June 30, 2016:

In millions of U.S. dollars

	September 30, 2016		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	*Up to 30 days*	*Total*
Repurchase or securities lending agreements			
Government and agency obligations	$ 2	$ -	$ 2
Equity securities	7	-	7
Total liabilities relating to securities transferred under repurchase or securities lending agreements	$ 9	$ -	$ 9

In millions of U.S. dollars

	June 30, 2016		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	*Up to 30 days*	*Total*
Repurchase or securities lending agreements			
Government and agency obligations	$ -	$ -	$ -
Equity securities	14	-	14
Total liabilities relating to securities transferred under repurchase or securities lending agreements	$ 14	$ -	$ 14

In the case of resale agreements, IBRD receives collateral in the form of liquid securities and is permitted to repledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded on IBRD's Balance Sheet as the accounting criteria for treatment as a sale have not been met. As of September 30, 2016, there were no securities purchased under resale agreements which had not settled at that date (Nil—June 30, 2016). For the remaining purchases, IBRD received securities with a fair value of $1,786 million ($1,694 million—June 30, 2016). None of these securities had been transferred under repurchase or security lending agreements as of that date (Nil—June 30, 2016).

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 derivatives 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, 2016, 80% were to the Latin America and the Caribbean, Europe and Central Asia, and East Asia and Pacific regions, combined.

As of September 30, 2016, only 0.3% of IBRD's loans were in nonaccrual status and related to one borrower. The total provision for losses on accrual and nonaccrual loans accounted for 0.9% 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.

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, 2016 and June 30, 2016:

In millions of U.S. dollars

	September 30, 2016							
Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,874	$ 21,874
Medium	-	-	-	-	-	-	76,165	76,165
High	1	5	-	-	-	6	72,335	72,341
Loans in accrual status [a]	1	5	-	-	-	6	170,374	170,380
Loans in nonaccrual status [a]	-	-	-	-	444	444	-	444
Loan at fair value [b]	-	-	-	-	-	-	134	134
Total	$ 1	$ 5	$ -	$ -	$ 444	$ 450	$ 170,508	$ 170,958

In millions of U.S. dollars

	June 30, 2016							
Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,923	$ 21,923
Medium	-	-	-	-	-	-	75,973	75,973
High	-	-	-	-	-	-	71,192	71,192
Loans in accrual status [a]	-	-	-	-	-	-	169,088	169,088
Loans in nonaccrual status [a]	-	-	-	-	444	444	-	444
Loan at fair value [b]	-	-	-	-	-	-	123	123
Total	$ -	$ -	$ -	$ -	$ 444	$ 444	$ 169,211	$ 169,655

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 provision 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, 2016, and for the fiscal year ended June 30, 2016 are summarized below:

In millions of U.S. dollars

	September 30, 2016			*June 30, 2016*		
	Loans	*Other [a]*	*Total*	*Loans*	*Other [a]*	*Total*
Accumulated provision, beginning of the fiscal year	$ 1,571	$ 79	$ 1,650	$ 1,554	$ 39	$ 1,593
Provision - charge (release)	28	(2)	26	17	40	57
Translation adjustment	1	*	1	*	*	*
Accumulated provision, end of the period/fiscal year	$ 1,600	$ 77	$ 1,677	$ 1,571	$ 79	$ 1,650
Composed of accumulated provision for losses on:						
Loans in accrual status	$ 1,378			$ 1,349		
Loans in nonaccrual status	222			222		
Total	$ 1,600			$ 1,571		
Loans, end of the period/fiscal year:						
Loans at amortized cost in accrual status	$ 170,380			$ 169,088		
Loans at amortized cost in nonaccrual status	444			444		
Loan at fair value in accrual status	134			123		
Total	$ 170,958			$ 169,655		

a. Provision does not include recoverable asset received under the Exposure Exchange Agreements (EEA) for guarantee received (for more details see Guarantees section).

** Indicates amount less than 0.5 million.*

	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 member countries' derivatives)	Other liabilities	Provision for losses on loans and other exposures
Exposures to member countries' derivatives	Derivative Assets – Client operations	Unrealized mark-to-market gains/losses on non-trading portfolios

Overdue Amounts

At September 30, 2016, 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, 2016 and June 30, 2016, and for the three months ended September 30, 2016, and September 30, 2015:

In millions of U.S. dollars

	September 30, 2016	*June 30, 2016*
Recorded investment in nonaccrual loans [a]	$ 444	$ 444
Accumulated provision for loan losses on nonaccrual loans	222	222
Average recorded investment in nonaccrual loans for the fiscal year	444	449
Overdue amounts of nonaccrual loans:	909	896
Principal	444	444
Interest and charges	465	452

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,	
	2016	*2015*
Interest revenue not recognized as a result of loans being in nonaccrual status	$ 9	$ 7

During the three months ended September 30, 2016 and September 30, 2015, no loans were placed in nonaccrual status or restored to accrual status.

In addition, during the three months ended September 30, 2016, no interest income was recognized on loans in nonaccrual status ($2 million—three months ended September 30, 2015).

Information relating to the sole borrowing member with loans or guarantees in nonaccrual status at September 30, 2016, is presented in the following table:

In millions of U.S. dollars

Borrower	*Principal Outstanding*	*Principal, Interest and Charges Overdue*	*Nonaccrual Since*
Zimbabwe	$ 444	$ 909	October 2000

Guarantees

Guarantees of $5,215 million were outstanding as of September 30, 2016 ($5,220 million—June 30, 2016). 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 2030.

As of September 30, 2016, liabilities related to IBRD's obligations under guarantees of $380 million ($387 million—June 30, 2016), have been included in Other liabilities on the Condensed Balance Sheet. These include the accumulated provision for guarantee losses of $62 million ($62 million—June 30, 2016).

During the three months ended September 30, 2016 and September 30, 2015, no guarantees provided by IBRD were called.

IBRD executed several EEAs with MIGA for $120 million, the African Development Bank for $1,588 million and the Inter-American Development Bank for $2,021 million. While these agreements are not legally considered guarantees, they meet the accounting criteria for financial guarantees and are therefore recognized as financial guarantees in IBRD’s financial statements.

Information on the location and amounts associated with the EEA included in the Condensed Balance Sheet and Condensed Statement of Income as of and for the three months ended September 30, 2016 and the fiscal year ended June 30, 2016, is presented in the following table:

In millions of U.S. dollars

	September 30, 2016					
	Notional amount	*(Stand ready obligation) Asset*	*Location on Condensed Balance Sheet*	*(Provision) Recoverable asset*	*Location on Condensed Balance Sheet*	*Location on Condensed Statement of Income*
Guarantee provided [a]	$ 3,690	$ (287)	Other liabilities	$ (41)	Other liabilities	Provision for losses on loans and other exposures
Guarantee received	(3,689)	287	Other assets	42	Other assets	Other income
Total	$ 1	$ -		$ 1		

a. Notional amount, stand ready obligation and provision for the guarantee provided are included in guarantees outstanding of $5,215 million, obligations under guarantees of $380 million and accumulated provision for guarantee losses of $62 million, respectively.

In millions of U.S. dollars

	June 30, 2016					
	Notional amount	*(Stand ready obligation) Asset*	*Location on Condensed Balance Sheet*	*(Provision) Recoverable asset*	*Location on Condensed Balance Sheet*	*Location on Condensed Statement of Income*
Guarantee provided [a]	$ 3,692	$ (292)	Other liabilities	$ (41)	Other liabilities	Provision for losses on loans and other exposures
Guarantee received	(3,694)	292	Other assets	42	Other assets	Other income
Total	$ (2)	$ -		$ 1		

a. Notional amount, stand ready obligation and provision for the guarantee provided are included in guarantees outstanding of $5,220 million, obligations under guarantees of $387 million and accumulated provision for guarantee losses of $62 million, respectively.

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, 2016 and September 30, 2015, resulting from waivers of loan charges is summarized below:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2016	*2015*
Interest waivers	$ 18	$ 22
Commitment charge waivers	*	1
Front-end fee waivers	3	4
Total	$ 21	$ 27

** Indicates amount less than $0.5 million.*

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 revenue comprises interest, commitment fees, loan origination fees and prepayment premia, net of waivers. For the three months ended September 30, 2016, one country contributed in excess of 10 percent of total loan revenue; this amounted to $83 million.

Information about IBRD's loans outstanding and associated loan revenue by geographic region, as of and for the three months ended September 30, 2016 and September 30, 2015, is presented in the following table:

In millions of U.S. dollars

	September 30, 2016		September 30, 2015	
Region	*Loans Outstanding*	*Loan Revenue [b]*	*Loans Outstanding*	Loan Revenue [b]
Africa	$ 3,684	$ 50	$ 3,344	$ 45
East Asia and Pacific	35,963	162	34,277	112
Europe and Central Asia	44,067	121	43,877	102
Latin America and the Caribbean	56,111	307	54,650	250
Middle East and North Africa	16,878	58	12,379	35
South Asia	14,051	50	13,601	27
Other [a]	204	*	213	*
Total	$ 170,958	$ 748	$ 162,341	$ 571

a. Represents loans to IFC, an affiliated organization.
b. Does not include interest expenses, net of $191 million from loan related derivatives ($234 million—September 30, 2015). Includes commitment charges of $16 million ($7 million—September 30, 2015).
** 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, 2016 was 5.28%. 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, 2016 and September 30, 2015:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2016	*2015*
Beginning of the fiscal year	$ 123	$ 125
Total realized/unrealized gains (losses) in:		
Net income	2	1
Other comprehensive income	9	(9)
End of the period	$ 134	$ 117

Information on unrealized mark-to-market gains or losses, relating to IBRD's Level 3 loan, for the three months ended September 30, 2016 and September 30, 2015 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 mark-to-market (losses) gains	*2016*	*2015*
Condensed Statement of Income line		
Unrealized mark-to-market gains (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, 2016 and June 30, 2016:

In millions of U.S. dollars

	September 30, 2016		June 30, 2016	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Net loans outstanding	$ 168,913	$ 174,458	$ 167,643	$ 172,577

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, 2016 and June 30, 2016, 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 ones 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, 2016, 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, 2016 and June 30, 2016:

In millions of U.S. dollars

	September 30, 2016	*June 30, 2016*
Borrowings [a]	$ 191,164	$ 181,723
Currency swaps, net	924	1,279
Interest rate swaps, net	(3,812)	(4,771)
	$ 188,276	$ 178,231

a. Includes $800 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 ($455 million—June 30, 2016).

Interest expenses, net for Borrowings on the Condensed Statement of Income of $349 million ($126 million—three months ended September 30, 2015) include $638 million of interest revenue, net related to derivatives associated with the Borrowing portfolio ($767 million—three months ended September 30, 2015).

Fair Value Disclosures

IBRD's fair value hierarchy for borrowings measured at fair value on a recurring basis as of September 30, 2016 and June 30, 2016 is as follows:

In millions of U.S. dollars

	September 30, 2016	*June 30, 2016*
Level 1	$ -	$ -
Level 2	188,665	178,932
Level 3	2,499	2,791
	$ 191,164	$ 181,723

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, 2016 and September 30, 2015:

In millions of U.S. dollars

	Three Months Ended September 30,	
	2016	*2015*
Beginning of the fiscal year	$ 2,791	$ 2,406
Total realized/unrealized mark-to-market losses (gains) in:		
Net income	64	(105)
Other comprehensive income	16	(6)
Issuances	64	7
Settlements	(21)	(272)
Transfers (out of) into, net	(415)	12
End of the period	$ 2,499	$ 2,042

Information on the unrealized mark-to-market gains or losses included in the Condensed Statement of Income for the three months ended September 30, 2016 and September 30, 2015, 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

	Three Months Ended September 30,	
Unrealized mark-to-market (losses) gains	*2016*	*2015*
Condensed Statement of Income line		
Unrealized mark-to-market (losses) gains on non-trading portfolios, net	$ (28)	$ 75

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, 2016 and September 30, 2015, 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

	Three Months Ended September 30,	
Unrealized mark-to-market gains (losses)	*2016*	*2015*
Condensed Statement of Income line		
Unrealized mark-to-market (losses) gains on non-trading portfolios, net	$ 439	$ (477)

During the three months ended September 30, 2016, IBRD's credit spreads tightened. The estimated financial effects on the fair value of the debt issued and outstanding as of September 30, 2016, were unrealized mark-to-market losses of $438 million. During the three months ended September 30, 2015, IBRD's 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.

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. During the three months ended September 30, 2016, and the fiscal year ended June 30, 2016, the interest rate volatilities for certain currencies were extrapolated for certain tenors and thus are considered an unobservable input.

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, 2016*	*Fair Value at June 30, 2016*	*Valuation technique*	*Unobservable input*	*Range (average), September 30, 2016*	*Range (average), June 30, 2016*
Borrowings	$2,499	$2,791	Discounted Cash Flow	Correlations	-37% to 80% (11%)	-37% to 83% (15%)
				Interest rate volatilities	26% to 476% (209%)	28% to 487% (445%)

The table below provides the details of all inter-level transfers for the three months ended September 30, 2016 and September 30, 2015. Transfers between Level 3 and Level 2 are due to changes in price transparency.

In millions of U.S. dollars

	September 30, 2016		*September 30, 2015*	
	Level 2	*Level 3*	*Level 2*	*Level 3*
Borrowings				
Transfer into (out of)	$ 415	$ (415)	$ 9	$ (9)
Transfer (out of) into	-	-	(21)	21
	$ 415	$ (415)	$ (12)	$ 12

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, 2016	$ 191,164	$ 191,204	$ (40)
June 30, 2016	$ 181,723	$ 180,863	$ 860

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 market 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, currency forward contracts, interest rate swaps, 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, currency forward contracts, 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, 2016 and June 30, 2016:

In millions of U.S. dollars

	Balance Sheet Location			
	Derivative Assets		*Derivative Liabilities*	
	September 30, 2016	*June 30, 2016*	*September 30, 2016*	*June 30, 2016*
Derivatives not designated as hedging instruments				
Swaptions, exchange traded options and futures contracts – Investment-Trading	$ 4	$ 4	$ 6	$ 14
Interest rate swaps	9,173	10,405	6,830	6,791
Currency swaps [a]	147,544	134,079	148,038	134,936
Other [b]	*	*	*	-
Total derivatives	$ 156,721	$ 144,488	$ 154,874	$ 141,741

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, 2016*	*June 30, 2016*
Investments - Trading		
Interest rate swaps		
Notional principal	$ 16,439	$ 10,997
Credit exposure	87	116
Currency swaps (including currency forward contracts)		
Credit exposure	284	390
Swaptions, exchange traded options and futures contracts [a]		
Notional long position	1,570	176
Notional short position	909	2,294
Credit exposure	4	4
Other derivatives [b]		
Notional long position	38	28
Notional short position	10	-
Credit exposure	*	*
Loans		
Interest rate swaps		
Notional principal	25,457	25,583
Credit exposure	76	69
Currency swaps		
Credit exposure	822	968
Client operations		
Interest rate swaps		
Notional principal	20,635	22,237
Credit exposure	1,894	1,992
Currency swaps (including currency forward contracts)		
Credit exposure	1,712	1,749
Borrowings		
Interest rate swaps		
Notional principal	228,711	217,961
Credit exposure	5,226	5,840
Currency swaps		
Credit exposure	7,877	7,890
Other derivatives		
Interest rate swaps		
Notional principal	51,968	51,938
Credit exposure	1,890	2,388
Currency swaps		
Credit exposure	38	33

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.

** Indicates amount less than $0.5 million.*

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, 2016 is $3,862 million ($3,385 million—June 30, 2016). 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 as of September 30, 2016, the amount of collateral that would need to be posted would be $1,083 million ($776 million—June 30, 2016). Subsequent triggers of contingent features would require posting of additional collateral, up to a maximum of $3,862 million ($3,385 million—June 30, 2016). In contrast, IBRD received collateral totaling $3,615 million as of September 30, 2016 ($3,846 million—June 30, 2016), 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, 2016, and September 30, 2015, and their location on the Condensed Statement of Income:

In millions of U.S. dollars

Derivatives not designated as hedging instruments, and not held in a trading portfolio [a]	*Condensed Income Statement line*	*Unrealized mark-to-market (losses) gains*	
		Three Months Ended September 30,	
		2016	*2015*
Interest rate swaps	Unrealized mark-to-market (losses) gains on non-trading portfolios, net	$ (1,259)	$ 981
Currency swaps (including currency forward contracts and structured swaps)		(89)	256
Total		$ (1,348)	$ 1,237

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 securities, equity securities as well as derivatives. The trading portfolio is primarily held to ensure the availability of funds to meet future cash flow requirements and for liquidity management purposes.

The following table provides information on the location and amount of unrealized mark-to-market 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, 2016 and September 30, 2015:

In millions of U.S. dollars

Condensed Statement of Income line	*Unrealized mark-to-market gains (losses)* [a]	
	Three Months Ended September 30,	
	2016	*2015*
Type of instrument		
Fixed income (including associated derivatives)	$ 18	$ (31)
Equity	15	(21)
	$ 33	$ (52)

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

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, 2016 and June 30, 2016. 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, 2016					
	Location on the 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	$ 20,003	$ (10,830)	$ 9,173	$ 22,070	$ (15,240)	$ 6,830
Currency swaps [a]	147,544	-	147,544	148,038	-	148,038
Other [b]	4	-	4	7	(1)	6
Total	$ 167,551	$ (10,830)	$ 156,721	$ 170,115	$ (15,241)	$ 154,874
Amounts subject to legally enforceable master netting agreements [c]			(150,905)			(150,905)
Net derivative positions at counterparty level before collateral			5,816			3,969
Less:						
Cash collateral received [d]			1,428			
Securities collateral received [d]			1,552			
Net derivative exposure after collateral			$ 2,836			

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, 2016					
	Location on the 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	$ 22,347	$ (11,942)	$ 10,405	$ 19,323	$ (12,532)	$ 6,791
Currency swaps [a]	134,079	-	134,079	134,936	-	134,936
Other [b]	4	-	4	16	(2)	14
Total	$ 156,430	$ (11,942)	$ 144,488	$ 154,275	$ (12,534)	$ 141,741
Amounts subject to legally enforceable master netting agreements [c]			(138,206)			(138,206)
Net derivative positions at counterparty level before collateral			6,282			3,535
Less:						
Cash collateral received [d]			1,646			
Securities collateral received [d]			1,543			
Net derivative exposure after collateral			$ 3,093			

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, 2016 and June 30, 2016 is as follows:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis September 30, 2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative Assets:				
Investments				
Currency forward contracts	$ -	$ 13,245	$ -	$ 13,245
Currency swaps	-	21,762	-	21,762
Interest rate swaps	-	87	-	87
Swaptions, exchange traded options and futures contracts	*	4	-	4
Other [a]	-	*	-	*
	*	35,098	-	35,098
Loans				
Currency swaps	-	3,972	109	4,081
Interest rate swaps	-	76	-	76
	-	4,048	109	4,157
Client operations				
Currency swaps (including currency forward contracts)	-	28,817	-	28,817
Interest rate swaps	-	1,894	-	1,894
	-	30,711	-	30,711
Borrowings				
Currency swaps	-	77,565	1,489	79,054
Interest rate swaps	-	5,186	40	5,226
	-	82,751	1,529	84,280
Others				
Currency swaps	-	585	-	585
Interest rate swaps	-	1,890	-	1,890
	-	2,475	-	2,475
Total derivative assets	$ *	$ 155,083	$ 1,638	$ 156,721
Derivative Liabilities:				
Investments				
Currency forward contracts	$ -	$ 13,252	$ -	$ 13,252
Currency swaps	-	22,162	-	22,162
Interest rate swaps	-	144	-	144
Swaptions, exchange traded options and futures contracts	3	3	-	6
Other [a]	-	*	-	*
	3	35,561	-	35,564
Loans				
Currency swaps	-	3,172	115	3,287
Interest rate swaps	-	3,206	-	3,206
	-	6,378	115	6,493
Client operations				
Currency swaps (including currency forward contracts)	-	28,808	-	28,808
Interest rate swaps	-	1,925	19	1,944
	-	30,733	19	30,752
Borrowings				
Currency swaps	-	78,643	1,335	79,978
Interest rate swaps	-	1,286	128	1,414
	-	79,929	1,463	81,392
Others				
Currency swaps	-	551	-	551
Interest rate swaps	-	122	-	122
	-	673	-	673
Total derivative liabilities	$ 3	$ 153,274	$ 1,597	$ 154,874

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 June 30, 2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative Assets:				
Investments				
Currency forward contracts	$ -	$ 9,423	$	$ 9,423
Currency swaps	-	16,346	-	16,346
Interest rate swaps	-	116	-	116
Swaptions, exchange traded options and futures contracts	*	4	-	4
Other [a]	-	*	-	*
	*	25,889	-	25,889
Loans				
Currency swaps	-	3,919	108	4,027
Interest rate swaps	-	69	-	69
	-	3,988	108	4,096
Client operations				
Currency swaps (including currency forward contracts)	-	25,581	-	25,581
Interest rate swaps	-	1,992	-	1,992
	-	27,573	-	27,573
Borrowings				
Currency swaps	-	76,669	1,456	78,125
Interest rate swaps	-	5,779	61	5,840
	-	82,448	1,517	83,965
Others				
Currency swaps	-	577	-	577
Interest rate swaps	-	2,388	-	2,388
	-	2,965	-	2,965
Total derivative assets	$ *	$ 142,863	$ 1,625	$ 144,488
Derivative Liabilities:				
Investments				
Currency forward contracts	$ -	$ 9,598	$	$ 9,598
Currency swaps	-	16,749	-	16,749
Interest rate swaps	-	175	-	175
Swaptions, exchange traded options and futures contracts	11	3	-	14
Other [a]	-	-	-	-
	11	26,525	-	26,536
Loans				
Currency swaps	-	2,969	94	3,063
Interest rate swaps	-	3,370	-	3,370
	-	6,339	94	6,433
Client operations				
Currency swaps (including currency forward contracts)	-	25,572	-	25,572
Interest rate swaps	-	2,022	16	2,038
	-	27,594	16	27,610
Borrowings				
Currency swaps	-	78,099	1,305	79,404
Interest rate swaps	-	927	142	1,069
	-	79,026	1,447	80,473
Others				
Currency swaps	-	550	-	550
Interest rate swaps	-	139	-	139
	-	689	-	689
Total derivative liabilities	$ 11	$ 140,173	$ 1,557	$ 141,741

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 derivative assets (liabilities), net during the three months ended September 30, 2016 and September 30, 2015:

In millions of U.S. dollars

	Three Months Ended September 30, 2016			*Three Months Ended September 30, 2015*		
	Currency swaps	*Interest rate swaps*	*Total*	*Currency swaps*	*Interest rate swaps*	*Total*
Beginning of the fiscal year	$ 165	$ (97)	$ 68	$ 48	$ (16)	$ 32
Total realized/unrealized mark-to-market gains (losses) in:						
Net income	(7)	28	21	(8)	(72)	(80)
Other comprehensive income	4	-	4	12	-	12
Issuances	-	-	-	-	-	-
Settlements	(5)	(1)	(6)	(6)	4	(2)
Transfers, net	(9)	(37)	(46)	(16)	-	(16)
End of the period	$ 148	$ (107)	$ 41	$ 30	$ (84)	$ (54)

Unrealized mark-to-market gains or losses included in the Condensed Statement of Income for the three months ended September 30, 2016 and September 30, 2015, 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 mark-to-market gains (losses)	*2016*	*2015*
Statement of Income Location		
Unrealized mark-to-market (losses) gains on non-trading portfolios, net	$ 2	$ (45)

The following table provides details of all inter-level transfers during the three months ended September 30, 2016 and September 30, 2015:

In millions of U.S. dollars

	Three Months Ended September 30, 2016		*Three Months Ended September 30, 2015*	
	Level 2	*Level 3*	*Level 2*	*Level 3*
Derivative assets, net				
Transfer into (out of)	$ 84	$ (84)	$ -	$ -
Transfer (out of) into	-	-	-	-
	84	(84)	-	-
Derivative liabilities, net				
Transfer (into) out of	$ (38)	$ 38	$ -	$ -
Transfer out of (into)	-	-	16	(16)
	(38)	38	16	(16)
Transfers, net	$ 46	$ (46)	$ 16	$ (16)

Transfers between Level 3 and Level 2 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, 2016*	*Fair Value at June 30, 2016*	*Valuation Technique*	*Unobservable input*	*Range (average), September 30, 2016*	*Range (average), June 30, 2016*
Currency swaps, interest rate swaps	$41	$68	Discounted Cash Flow	Correlations	-37% to 80% (11%)	-37% to 83% (15%)
				Interest rate volatilities	26% to 476% (209%)	28% to 487% (445%)

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 and other transfers, and after considering the allocation to the pension reserve.

On August 4, 2016, IBRD's Executive Directors approved the following allocations relating to the net income earned in the fiscal year ended June 30, 2016, an increase in General Reserve by $96 million and a decrease in the Pension Reserve by $24 million.

Subsequent event: On October 7, 2016, IBRD's Board of Governors approved an immediate transfer to International Development Association (IDA) of $497 million out of the net income earned in the fiscal year ended June 30, 2016. The transfer to IDA was made on October 14, 2016.

Retained earnings comprise the following components at September 30, 2016 and June 30, 2016:

In millions of U.S. dollars

	September 30, 2016	*June 30, 2016*
Special reserve	$ 293	$ 293
General reserve	27,021	26,925
Pension reserve	938	962
Surplus	271	271
Cumulative fair value adjustments [a]	(1,048)	(1,679)
Unallocated net income	(302)	1,200
Restricted retained earnings	24	24
Total	$ 27,197	$ 27,996

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 methodology. 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, 2016 and September 30, 2015:

In millions of U.S. dollars

	Three Months Ended September 30, 2016				*Three Months Ended September 30, 2015*			
	SRP	*RSBP*	*PEBP*	*Total*	*SRP*	*RSBP*	*PEBP*	*Total*
Benefit Cost								
Service cost	$ 118	$ 33	$ 18	$ 169	$ 98	$ 26	$ 15	$ 139
Interest cost	151	27	13	191	166	28	12	206
Expected return on plan assets	(214)	(33)	-	(247)	(233)	(35)	-	(268)
Amortization of unrecognized prior service costs [a]	1	4	1	6	1	4	1	6
Amortization of unrecognized net actuarial losses [a]	65	6	15	86	19	-	10	29
Net periodic pension cost [b]	$ 121	$ 37	$ 47	$ 205	$ 51	$ 23	$ 38	$ 112
of which:								
IBRD's share [b]	$ 63	$ 19	$ 24	$ 106	$ 25	$ 11	$ 19	$ 55
IDA's share	$ 58	$ 18	$ 23	$ 99	$ 26	$ 12	$ 19	$ 57

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, 2016 and June 30, 2016, IBRD had the following receivables from (payables to) its affiliated organizations:

In millions of U.S. dollars

	September 30, 2016					
			Derivative Transactions [a]			
	Loans	Administrative Services	Receivable	Payable	Pension and Other Postretirement Benefits	Total
IDA	$ -	$ 331	$ 9,611	$ (9,929)	$ (792)	$ (779)
IFC	204	54	-	-	(236)	22
MIGA	-	4	-	-	(9)	(5)
	$ 204	$ 389	$ 9,611	$ (9,929)	$ (1,037)	$ (762)

In millions of U.S. dollars

	June 30, 2016					
			Derivative Transactions [a]			
	Loans	Administrative Services	Receivable	Payable	Pension and Other Postretirement Benefits	Total
IDA	$ -	$ 397	$ 7,942	$ (8,214)	$ (821)	$ (696)
IFC	205	59	-	-	(226)	38
MIGA	-	5	-	-	(9)	(4)
	$ 205	$ 461	$ 7,942	$ (8,214)	$ (1,056)	$ (662)

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 and other exposures

IBRD has a Local Currency Loan Facility Agreement with IFC which is capped at $300 million. At September 30, 2016, the loan balance under this facility amounted to $8 million ($9 million—June 30, 2016) and carried a fixed interest rate of 3.96% and maturity of 0.45 years. This loan is not eligible for interest waivers.

IBRD has another facility with IFC under which IFC can borrow up to $300 million. At September 30, 2016, the balance of this loan was $196 million ($196 million—June 30, 2016). This loan is at LIBOR less 25 basis points (0.69% as of September 30, 2016) and is not eligible for interest waivers.

During the fiscal year ended June 30, 2014, IBRD entered into an exposure exchange agreement with MIGA under which IBRD and MIGA exchanged selected exposures, with each divesting 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, 2016, assets related to IBRD's right to be indemnified under this agreement amounted to $2 million ($3 million—June 30, 2016), while liabilities related to IBRD's obligation under this agreement amounted to $2 million ($3 million—June 30, 2016). These include an accumulated provision for guarantee losses of $1 million ($1 million—June 30, 2016).

Administrative Services

Expenses jointly incurred by IBRD and IDA are allocated based on an agreed cost sharing methodology, and amounts are settled quarterly. For the three months ended September 30, 2016, IBRD's administrative expenses are net of the share of expenses allocated to IDA of $390 million ($349 million—three months ended September 30,

2015). Beginning July 1, 2016, the allocation of expenses jointly incurred by IBRD and IDA also includes Contributions to Special Programs.

Other Revenue

Revenue jointly earned by IBRD and IDA is allocated based on an agreed revenue sharing methodology. Amounts are settled quarterly. For the three months ended September 30, 2016, IBRD's other revenue is net of revenue allocated to IDA of $37 million ($40 million—three months ended September 30, 2015).

For the three months ended September 30, 2016 and September 30, 2015, 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,	
	2016	*2015*
Fees charged to IFC	$ 16	$ 16
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 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. Comprehensive income (loss) comprises currency translation adjustments, the cumulative effects of a change in accounting principle related to the implementation of guidance on FASB's derivatives and hedging, 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, 2016 and September 30, 2015:

In millions of U.S. dollars

	Three Months Ended September 30, 2016				
	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	$ (135)	$ (5)	$ -	$ (5)	$ (140)
Cumulative Effect of Change in Accounting Principle [a]	500	-	-	-	500
Reclassification [a]	(507)	-	1 [b]	1	(506)
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(5,800)	-	86 [c]	86	(5,714)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(184)	-	6 [c]	6	(178)
Total Accumulated Other Comprehensive Loss	$ (6,126)	$ (5)	$ 93	$ 88	$ (6,038)

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)

a. The Cumulative effect of change in accounting principle and the subsequent reclassification of this amount to net income, relate to the adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

b. Reclassified into Borrowings, net in the 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, 2016 and June 30, 2016:

In millions of U.S. dollars

	September 30, 2016		*June 30, 2016*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Assets				
Due from banks	$ 1,507	$ 1,507	$ 1,284	$ 1,284
Investments-Trading (including Securities purchased under resale agreements)	62,655	62,655	53,522	53,522
Net loans outstanding	168,913	174,458	167,643	172,577
Derivative assets				
Investments	35,098	35,098	25,889	25,889
Loans	4,157	4,157	4,096	4,096
Client operations	30,711	30,711	27,573	27,573
Borrowings	84,280	84,280	83,965	83,965
Others	2,475	2,475	2,965	2,965
Liabilities				
Borrowings	191,164	191,178 [a]	181,723	181,736 [a]
Securities sold/lent under repurchase agreements/securities lending agreements and payable for cash collateral received	1,452	1,452	1,685	1,685
Derivative liabilities				
Investments	35,564	35,564	26,536	26,536
Loans	6,493	6,493	6,433	6,433
Client operations	30,752	30,752	27,610	27,610
Borrowings	81,392	81,392	80,473	80,473
Others	673	673	689	689

a. Includes $14 million ($13 million—June 30, 2016) relating to the transition adjustment on adoption of FASB's guidance on derivatives and hedging on July 1, 2000.

Valuation Methods and Assumptions

As of September 30, 2016 and June 30, 2016, 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 portfolio and non-trading portfolios, net for the three months ended September 30, 2016, and September 30, 2015:

In millions of U.S. dollars

	Three Months Ended September 30, 2016			*Three Months Ended September 30, 2015*		
	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	$ 13	$ 20	$ 33	$ 22	$ (74)	$ (52)
Non trading portfolios, net						
Loans, including derivatives—Notes D and F	-	175	175 [b]	-	(497)	(497) [b]
Equity management, net	-	(468)	(468)	-	741	741
Borrowings, including derivatives —Notes E and F	1	(610)	(609) [c]	4	513	517 [c]
Other assets/liabilities derivatives	-	(2)	(2)	-	(1)	(1)
Client operations derivatives	-	(5)	(5)	-	(3)	(3)
Total	$ 1	$ (910)	$ (909)	$ 4	$ 753	$ 757

a. Adjusted to exclude amounts reclassfied to realized gains (losses).

b. Includes $175 million of unrealized mark-to-market gains related to derivatives associated with loans (unrealized mark-to-market losses of $494 million—three months ended September 30, 2015).

c. Includes $1,048 million of unrealized mark-to-market losses related to derivatives associated with borrowings (unrealized mark-to-market gains of $994 million —three months ended September 30, 2015).

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, in which IBRD has been named as a defendant or co-defendant, as of and for the three months ended September 30, 2016, will have a material adverse effect on IBRD's financial position, results of operations or cash flows.