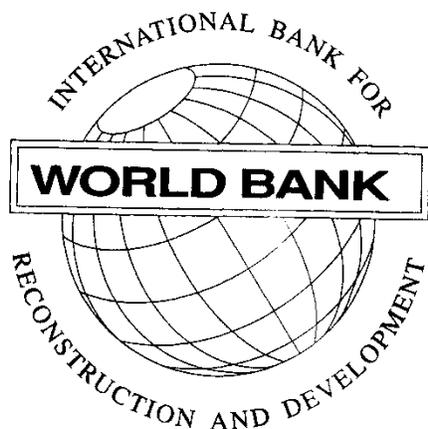


# International Bank for Reconstruction and Development



## Management's Discussion & Analysis and Condensed Quarterly Financial Statements September 30, 2018 (Unaudited)



**International Bank for Reconstruction and Development  
(IBRD)  
Management's Discussion and Analysis  
September 30, 2018**

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This Management's Discussion & Analysis (MD&A) reflects the results of the International Bank for Reconstruction and Development's (IBRD's) financial performance for the three-month period ended September 30, 2018. This document should be read together with IBRD's Financial Statements and MD&A for the fiscal year ended June 30, 2018 (FY18). IBRD undertakes no obligation to update any forward-looking statements. IBRD produces publicly available information relating to its development operations' results and corporate performance, which can be found in the World Bank Corporate Scorecard and Sustainability Review.

Box 1 provides IBRD's selected financial data as of, and for the three months ended, September 30, 2018 and 2017, as well as for the fiscal years ended June 30, 2015-2018.

## Box 1: Selected Financial Data

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

	<i>As of and for the three months ended September 30,</i>		<i>As of and for the fiscal years ended June 30,</i>			
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
<b>Lending Highlights (Section III)</b>						
Commitments <sup>a</sup>	\$ 1,551	\$ 1,542	\$ 23,002	\$ 22,611	\$ 29,729	\$ 23,528
Gross disbursements <sup>b</sup>	4,250	3,991	17,389	17,861	22,532	19,012
Net disbursements <sup>b</sup>	1,801	(162)	5,638	8,731	13,197	9,999
<b>Reported Basis (Section III)</b>						
<b>Income Statement</b>						
Board of Governors-approved and other transfers	\$ (90)	\$ (55)	\$ (178)	\$ (497)	\$ (705)	\$ (715)
Net income (loss)	404	24	698	(237)	495	(786)
<b>Balance Sheet</b>						
Total assets	\$ 416,790	\$ 413,324	\$ 403,056	\$ 405,898	\$ 371,260	\$ 343,225
Net investment portfolio	79,128	75,186	73,492	71,667	51,760	45,105
Net loans outstanding	185,122	178,412	183,588	177,422	167,643	155,040
Borrowing portfolio	223,184	211,660	213,652	207,144	178,231	158,853
<b>Key Management Indicators</b>						
Allocable Income (Section III)	\$ 226	\$ 205	\$ 1,161	\$ 795	\$ 593	\$ 686
Usable Equity <sup>c</sup> (Section IV)	\$ 43,471	\$ 42,061	\$ 43,518	\$ 41,720	\$ 39,424	\$ 40,195
Equity-to-loans Ratio <sup>d</sup> (Section IV)	22.8%	22.8%	22.9%	22.8%	22.7%	25.1%

a. Commitments include guarantee commitments and guarantee facilities that have been approved by the Executive Directors.

b. Amounts include transactions with the International Finance Corporation (IFC), and loan origination fees.

c. Excluding amounts associated with unrealized mark-to-market gains/losses on non-trading portfolios, net and related cumulative translation adjustments.

d. Ratio is computed using usable equity and excludes the respective periods' income. Full fiscal year usable equity includes proposed transfer to the General Reserve.

## Section I: Executive Summary

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### Goals and the 2030 Development Agenda

With its many years of experience and its depth of knowledge in the international development arena, IBRD plays a key role in achieving the World Bank Group's (WBG<sup>1</sup>) overarching goals of ending extreme poverty by 2030 and promoting shared prosperity in a sustainable manner<sup>2</sup>. The WBG has identified three key priorities to achieve this: sustainable and inclusive growth, investment in human capital, and strengthening resilience. These goals and priorities reflect and support the international community's development agenda set for 2030, which include the Sustainable Development Goals (SDGs).

The Forward Look: A Vision for the WBG in 2030, describes how the WBG will deliver on its twin goals and its three priorities. The Forward Look rests on four pillars: serving all clients; leading on global issues; mobilizing resources for development; and improving the business model.

At IBRD's Spring Meetings in April 2018, the Board of Governors (Governors) endorsed a package that includes a General Capital Increase (GCI) and a Selective Capital Increase (SCI), as well as institutional and financial reforms designed to ensure long-term financial sustainability. The package provides support for the priorities identified under the Forward Look strategy. On October 1, 2018, the Governors approved the capital increase, which will result in additional subscribed capital of \$60.1 billion, with \$7.5 billion of paid in capital and \$52.6 billion of callable capital, over the next five years.

### Financial Results and Portfolio Performance

The financial performance of IBRD reflects the impact from the measures put in place in previous years to increase its financial capacity and ensure its long-term financial sustainability.

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<sup>1</sup> 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).

<sup>2</sup> By decreasing the percentage of people living on less than \$1.90 a day to no more than 3% by 2030 and improving the income growth of the bottom 40% in each country.

### Net Income and Allocable Income

IBRD had net income of \$404 million on a reported basis for the first three months of FY19, compared with net income of \$24 million during the same period in FY18. The higher net income during the first three months of FY19 is primarily due to the unrealized mark-to-market gains experienced on the non-trading portfolios versus the unrealized mark-to-market losses in the same period last year. Given IBRD's intention to maintain its non-trading portfolio positions, unrealized mark-to-market gains and losses are not included in IBRD's allocable income, which is the income measure used as the basis for making net income allocation decisions.

**\$404**<sub>million</sub>  
Net Income

IBRD's allocable income during the first three months of FY19 was \$226 million, an increase of \$21 million from the same period in FY18. The higher allocable income was primarily due to the decrease in IBRD's net administrative expenses, as a result of the lower allocation of expenses to IBRD, as well as lower contributions to grant making facilities in FY19 as compared to FY18.

**\$226**<sub>million</sub>  
Allocable Income

### Loans

IBRD's lending operations during the first three months of FY19 resulted in \$1.6 billion of new loan commitments and \$1.8 billion of net loan disbursements. The latter was the key driver in the increase in net loans outstanding, from \$184 billion as of June 30, 2018 to \$185 billion as of September 30, 2018.

**\$185**<sub>billion</sub>  
Net Loans Outstanding

### Investments

IBRD's investment portfolio increased by \$5 billion, from \$74 billion as of June 30, 2018 to \$79 billion as of September 30, 2018. The investments remain concentrated in the upper end of the credit spectrum, with 61% rated AA or above, reflecting IBRD's objective of principal protection and resulting preference for high quality investments.

**\$79**<sub>billion</sub>  
Net Investment Portfolio

### Borrowings

IBRD raised medium and long-term debt of \$17 billion during the first three months of FY19, resulting in a \$9 billion increase in the portfolio, from \$214 billion as of June 30, 2018 to \$223 billion as of September 30, 2018. The funds raised financed development lending operations and satisfied the increase in liquidity requirements. The debt issuances were highly diversified; 17 currencies, ranging from sizes of \$0.5 million to \$5 billion, with an average maturity of 4.3 years.

**\$223**<sub>billion</sub>  
Borrowing Portfolio

### Usable Equity

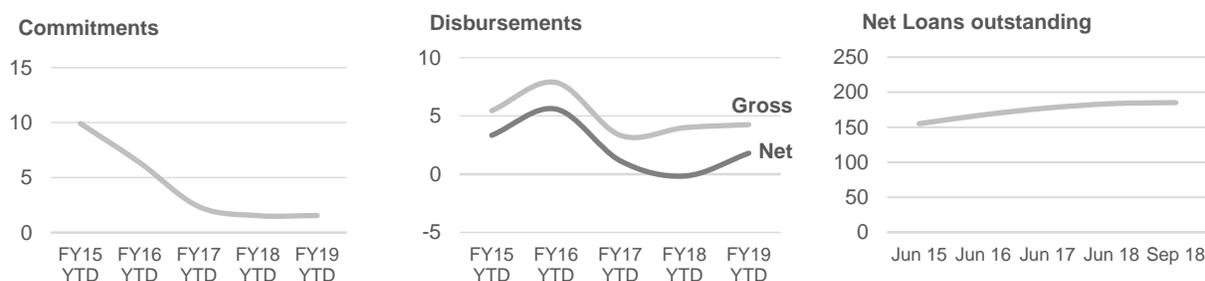
IBRD's usable equity continues to be adequate to support current lending operations. The Governors' approval of the GCI and SCI resolutions, on October 1, 2018, will enhance IBRD's financial capacity and allow IBRD to better support the development priorities of its client countries.

**\$43**<sub>billion</sub>  
Usable Equity

## Key Performance Indicators

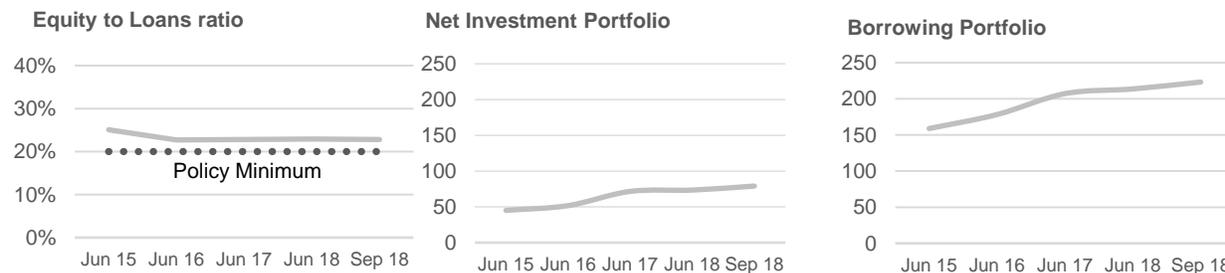
**Lending** – Lending commitments (including guarantees) were broadly in line with FY18 (Table 4). During the first three months of FY19, IBRD committed \$1.6 billion to help its borrowing member countries finance their development needs. Compared to the same period last year, the regions with the largest increase in share of commitments were Africa and the Middle East & North Africa, each with 19% of FY19 YTD commitments compared to 5% and 4%, respectively in FY18 YTD. As of September 30, 2018, IBRD's net loans outstanding amounted to \$185 billion, an increase of \$1.5 billion from June 30, 2018.

*In billions of U.S dollars*



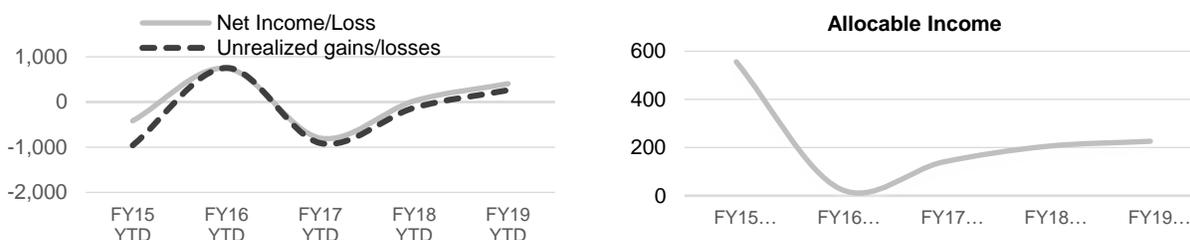
**Capital Adequacy and Liquidity** – The Equity-to-Loans ratio was 22.8% as of September 30, 2018 and remained largely unchanged compared with June 30, 2018. The net investment portfolio reached \$79 billion as of September 30, 2018. In addition to pre-funding activities during the period, IBRD maintains high levels of liquidity in its investment portfolio to ensure it can meet its liquidity needs, even under potential scenarios of severe market disruptions. The borrowing portfolio was \$223 billion as of September 30, 2018, an increase of \$9 billion compared with June 30, 2018.

*In billions of U.S dollars (except for ratio)*



**Financial Results** – On a reported basis, IBRD had net income of \$404 million for the first three months of FY19 compared with net income of \$24 million during the same period in FY18. This primarily reflects unrealized mark-to-market gains experienced on the non-trading portfolios compared with unrealized mark-to-market losses in the first three months of FY18 (See Table 1). After the standard adjustments to arrive at allocable income, IBRD had allocable income of \$226 million for the first three months of FY19, higher by \$21 million compared with the same period in FY18.

*In millions of U.S dollars*



## Section: II Overview

IBRD, an international organization owned by its 189-member countries, is one of the five institutions of the WBG. 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 is one of the largest Multilateral Development Banks (MDB) in the world and is able to combine knowledge services and financing with global reach. While its main business activity is extending loans to its eligible member countries, by operating globally, IBRD maintains a depth of development knowledge, uses its convening power to advance the global public goods agenda, and coordinates responses to regional and global challenges.

### Financial Business Model

IBRD’s objective is not to maximize profits, but to earn adequate income to ensure its financial strength to fulfill its sustainable 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 sustainability and provide support to IDA and to trust funds via income transfers for other developmental purposes.

The financial strength of IBRD is based on the support it receives from its shareholders, and on its array of

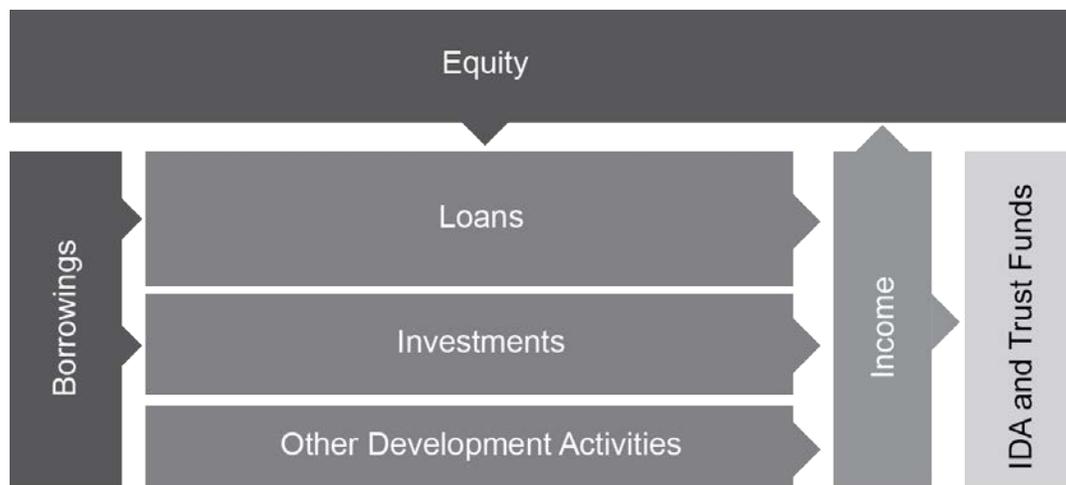
financial policies and practices. Shareholder support for IBRD is reflected in the capital backing it continues to receive from its members, and in the record of its borrowing member countries in meeting their debt service obligations to IBRD. Sound financial and risk management policies and practices have enabled IBRD 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.

IBRD pursues its development goals primarily by providing loans, guarantees, and knowledge services for development focused projects and programs to creditworthy middle-income and lower-income 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.

Figure 1 illustrates IBRD’s financial business model.

Figure 1: IBRD’s Financial Business Model



In order to be able to meet its development goals, it is important for IBRD to intermediate funds for lending from the 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 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.

IBRD makes extensive use of derivatives to manage its exposure to various market risks from the above activities. These are used to align the interest and currency composition of its assets (loan and investment trading portfolios) with that of its liabilities (borrowing portfolio), and to stabilize the earnings on its equity. See Section IV: Risk Management for additional details on how IBRD uses derivatives.

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

### Financial Performance

IBRD's primary sources of revenue are from loans and investments (both net of funding costs), and equity contribution. These revenues cover administrative

expenses, provisions for losses on loans and other exposures<sup>3</sup> (LLP), as well as transfers to Reserves, Surplus, and for other development purposes including transfers to IDA.

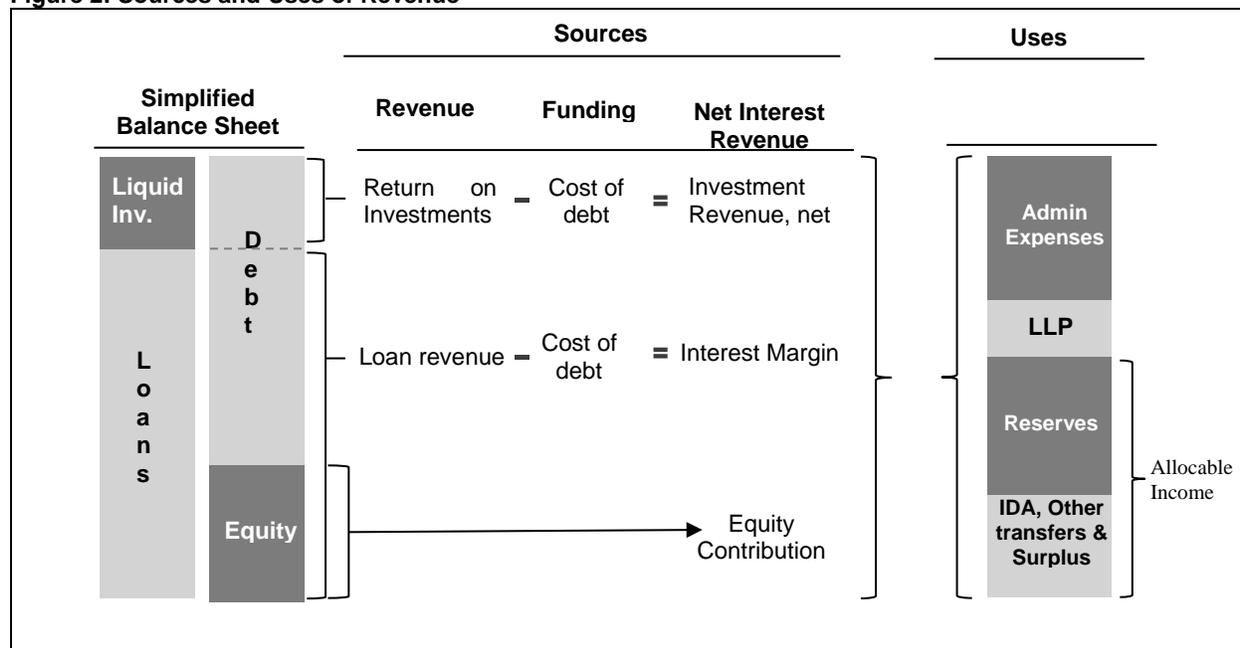
In addition to the revenue generated from activities as shown in Figure 2, IBRD also earns revenue from other development activities, in the form of non-interest revenue from externally funded activities. Mobilization of external funds from third-party partners includes trust funds, reimbursable funds and fee-based services from member countries, such as Reimbursable Advisory Services (RAS), Externally Financed Outputs (EFO), and the Reserves Advisory Management Program (RAMP). The growth of non-interest revenue from externally funded activities provides an additional means to expand capacity to support the development needs of client countries. Management continues to strengthen and align this revenue source with the overall WBG strategy and priorities.

At IBRD's Spring Meetings in April 2018, the Governors endorsed a package of measures and a capital increase designed to enhance IBRD's financial capacity on a sustainable basis. That package includes:

- A General and Selective Capital increase that will provide up to \$7.5 billion in additional paid-in capital. This includes the allocation of shares from the current pool of unallocated shares;
- New loan pricing measures approved by the Executive Directors at the end of FY18, and implemented in FY19;
- An increase in the Single Borrower Limit (SBL) with differentiation based on per capita income; approved by the Executive Directors at the end of FY18;
- Continued efficiency measures and administrative simplification; and
- A financial sustainability framework that will include a sustainable lending limit and crisis buffers. The framework will be developed by management and presented to the Executive Directors for approval in FY19.

<sup>3</sup> Other exposures include deferred drawdown options (DDO), irrevocable commitments, exposures to member countries' derivatives and guarantees.

**Figure 2: Sources and Uses of Revenue**



**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 Condensed Statement of Income, except for changes in IBRD’s own credit, which effective July 1, 2018, are reflected in Other Comprehensive Income. IBRD’s loans are reported at amortized cost, except for loans with embedded derivatives, if any, 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 V of this document. 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; and to manage various market risks, including interest rate risk and commercial counterparty credit risk.

**Allocable Income**

IBRD’s Articles of Agreement (Articles) require that the Governors determine the allocation of income at the end of every fiscal year. Allocable income, which

is a non-GAAP financial measure, is an internal management measure which reflects income available for allocation. IBRD’s definition of allocable income starts with the net income on a reported basis, and includes certain adjustments, which are approved by the Board at the end of every fiscal year. These adjustments primarily relate to unrealized mark-to-market 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 uses 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.

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 Equity Management Framework). 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 derivatives are carried at fair value with changes going through the income statement.

## Section III: Summary of Financial Results

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 1: Condensed Statement of Income**  
In millions of U.S. dollars

<i>For the three months ended September 30,</i>	<i>2018</i>	<i>2017</i>	<i>Variance</i>
Interest revenue, net of funding costs			
Interest margin	\$ 311	\$ 296	\$ 15
Equity contribution, (including EMF)	199	172	27
Investments	(4)	51	(55)
Net interest revenue	<u>\$ 506</u>	<u>\$ 519</u>	<u>\$ (13)</u>
Provision for losses on loans and other exposures, net	(20)	(23)	3
Net non-interest expenses (Table 6)	(293)	(329)	36
Net other revenue (Table 5)	39	40	(1)
Board of Governors-approved and other transfers	(90)	(55)	(35)
Unrealized mark-to-market gains/ (losses) on non-trading portfolios, net <sup>a</sup>	262	(128)	390
<b>Net Income</b>	<u><b>\$ 404</b></u>	<u><b>\$ 24</b></u>	<u><b>\$ 380</b></u>
Adjustments to reconcile net income to allocable income:			
Pension and other adjustments	(6)	(2)	(4)
Board of Governors-approved and other transfers	90	55	35
Unrealized mark-to-market gains/ (losses) on non-trading portfolios, net <sup>a</sup>	(262)	128	(390)
<b>Allocable income</b>	<u><b>\$ 226</b></u>	<u><b>\$ 205</b></u>	<u><b>\$ 21</b></u>

a. Adjusted to exclude amounts reclassified to realized gains (losses). See Table 14.

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

At September 30, 2018, total assets increased by 3.4% from June 30, 2018. The asset growth was primarily driven by an increase in investments. In line with IBRD's risk management strategies and consistent with the increase in investments, the receivable and payable from derivatives increased during the period compared with June 30, 2018. As of September 30, 2018, IBRD's net derivative exposure, after master netting agreements and collateral, was \$1,325 million, of which \$259 million related to commercial credit exposure (See Table 8 and Notes to Condensed Quarterly Financial Statements, Note F: Derivative Instruments).

**Table 2: Condensed Balance Sheet**  
In millions of U.S. dollars

<i>As of</i>	<i>September 30, 2018</i>	<i>June 30, 2018</i>	<i>Variance</i>
Investments and due from banks	\$ 80,571	\$ 73,188	\$ 7,383
Net loans outstanding	185,122	183,588	1,534
Receivable from derivatives	143,879	141,716	2,163
Other assets	7,218	4,564	2,654
<b>Total Assets</b>	<u><b>\$ 416,790</b></u>	<u><b>\$ 403,056</b></u>	<u><b>\$ 13,734</b></u>
Borrowings	216,361	208,009	8,352
Payable for derivatives	150,321	147,096	3,225
Other liabilities	7,835	6,107	1,728
Equity	42,273	41,844	429
<b>Total Liabilities and Equity</b>	<u><b>\$ 416,790</b></u>	<u><b>\$ 403,056</b></u>	<u><b>\$ 13,734</b></u>

## Net Income and Allocable Income

On a reported basis, IBRD had net income of \$404 million for the first three months of FY19, an increase of \$380 million compared with net income of \$24 million during the same period in FY18. The higher net income during the first three months of FY19 is primarily due to the unrealized mark-to-market gains experienced on the non-trading portfolios, compared with unrealized mark-to-market losses in the same period last year (See Table 1).

For the first three months of FY19, IBRD's allocable income was \$226 million, an increase of \$21 million from the same period in FY18. The higher allocable income was primarily due to lower net administrative expenses (after standard adjustments to arrive at the amount used to determine allocable income).

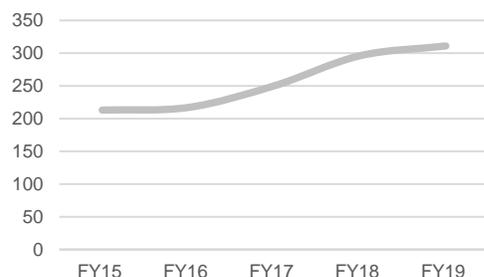
### Results from Lending activities

#### Interest Margin

Net interest margin is the spread earned (revenue less associated funding costs) on loans funded by borrowings and IBRD's equity. For the first three months of FY19, IBRD's net interest margin was \$311 million, an increase of \$15 million compared with the same period in FY18 (Figure 3). The higher net interest margin was driven by the pricing measures adopted in FY14, as well as the increase in lending volume.

**Figure 3: Net Interest Margin**

*In millions of U.S. dollars, YTD*

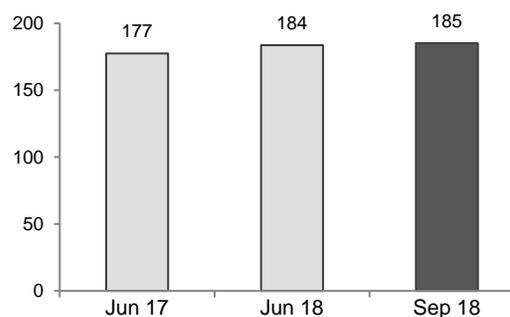


#### Loan Portfolio

At September 30, 2018, IBRD's net loans outstanding amounted to \$185.1 billion (Table 2), 0.8% higher compared with June 30, 2018 (Figure 4). The increase was mainly attributable to positive net disbursements of \$1.8 billion during the period, partially offset by \$0.3 billion of currency translation losses, resulting from the 0.5% depreciation of the euro against the U.S. dollar during the period.

**Figure 4: Net Loans Outstanding**

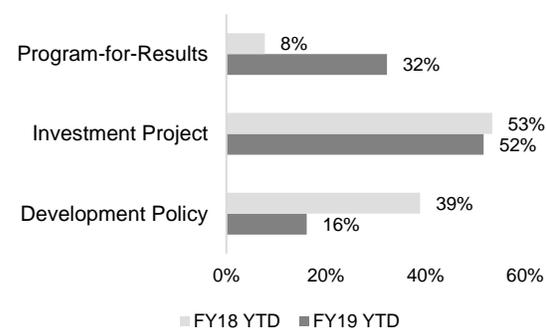
*In billions of U.S. dollars*



Gross disbursements during the first three months of FY19 were \$4.3 billion, 6.5% higher than the same period in FY18 (Table 3). The current period activity reflects \$2.1 billion of disbursements supporting Development Policy operations, of which \$0.9 billion was in the Middle East & North Africa region, and \$0.8 billion was in the East Asia and Pacific region. As shown in Table 3, the latter had the largest share of gross disbursements during the period.

In the first three months of FY19, IBRD had new loan commitments totaling \$1.6 billion, which were 0.6% higher than the same period in FY18 (Table 4). These new loan commitments primarily supported operations in Infrastructure and Sustainable Development and were largely concentrated in Energy & Extractives and Water related projects.

**Figure 5: Commitments by Instrument**



Program for Results operations increased by \$0.4 billion, reflecting commitments of \$0.3 billion in the Middle East & North Africa region, and \$0.2 billion in the East Asia & Pacific region.

**Table 3 : Gross Disbursements by Region***In millions of U.S. dollars*

<i>For the three months ended</i>	<i>September 30, 2018</i>		<i>September 30, 2017</i>		<i>Variance</i>
	<i>Amount</i>	<i>% of total</i>	<i>Amount</i>	<i>% of total</i>	
Africa	\$ 54	1%	\$ 9	0%	\$ 45
East Asia and Pacific	1,387	33	489	12	898
Europe and Central Asia	522	12	1,647	41	(1,125)
Latin America and the Caribbean	998	23	720	18	278
Middle East and North Africa	1,087	26	904	23	183
South Asia	202	5	222	6	(20)
<b>Total</b>	<b>\$ 4,250</b>	<b>100%</b>	<b>\$ 3,991</b>	<b>100%</b>	<b>\$ 259</b>

**Table 4: Commitments by Region***In millions of U.S. dollars*

<i>For the three months ended</i>	<i>September 30, 2018</i>		<i>September 30, 2017</i>		<i>Variance</i>
	<i>Amount</i>	<i>% of total</i>	<i>Amount</i>	<i>% of total</i>	
Africa	\$ 300	19%	\$ 80	5%	\$ 220
East Asia and Pacific	400	26	308	20	92
Europe and Central Asia	118	8	531	34	(413)
Latin America and the Caribbean	183	12	162	11	21
Middle East and North Africa	300	19	60	4	240
South Asia	250	16	401	26	(151)
<b>Total</b>	<b>\$ 1,551</b>	<b>100%</b>	<b>\$ 1,542</b>	<b>100%</b>	<b>\$ 9</b>

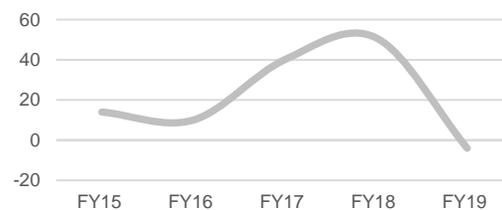
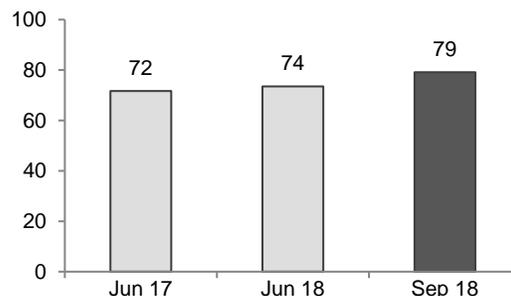
## Results from Investing activities

### Net Investment Revenue

During the first three months of FY19, IBRD's net investment revenue decreased by \$55 million. The decrease was primarily due to limited investment opportunities as a result of compressed credit and term premia during the period.

### Investment Portfolio

IBRD's investment portfolio consists mainly of the liquid asset portfolio. As of September 30, 2018, the net investment portfolio totaled \$79 billion, with \$77 billion representing the liquid asset portfolio. This compares with an investment portfolio valued at \$74 billion as at June 30, 2018, with \$72 billion representing the liquid asset portfolio (See Notes to Condensed Quarterly Financial Statements, Note C: Investments). The increased level of liquidity reflects higher projected debt service, as well as anticipation of loan disbursements during the coming months.

**Figure 6: Net Investment Revenue***In millions of U.S. dollars, YTD***Figure 7: Net Investment Portfolio***In billions of U.S. dollars*

## Results from Borrowing activities

As of September 30, 2018, the borrowing portfolio totaled \$223 billion, \$9 billion above June 30, 2018 (See Notes to Condensed Quarterly Financial Statements, Note E: Borrowings). This increase was due to net new issuances in anticipation of higher projected debt service and loan disbursements during the coming months. The debt issuances during the period were highly diversified in 17 currencies, with an average maturity of 4.3 years. As of September 30, 2018, the borrowing portfolio included short-term borrowings of \$12 billion, \$1.7 billion higher compared with June 30, 2018.

## Equity Contribution

Equity contribution is comprised of interest revenue earned from the Equity Management Framework (EMF), and any gains which have been realized during the period 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 FY19, equity contribution increased by \$27 million mainly as a result of higher equity savings. This was partially offset by the reduction in interest revenue from the EMF, consistent with the increase in interest rates during the period.

**Table 5: Net Other Revenue**

*In millions of U.S. dollars*

*For the three months ended September 30,*

	2018	2017	Variance
Loan commitment fees	\$ 25	\$ 20	\$ 5
Guarantee fees	3	3	-
Net earnings from Post-Employment Benefit Plan (PEBP)	7	13	(6)
Pilot Auction Facility (PAF) and Pandemic Emergency Facility (PEF)	3	4	(1)
Others	1	*	1
Net other revenue (Table 1)	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ (1)</u>

\* Indicates amount less than \$0.5 million

## Net Other Revenue

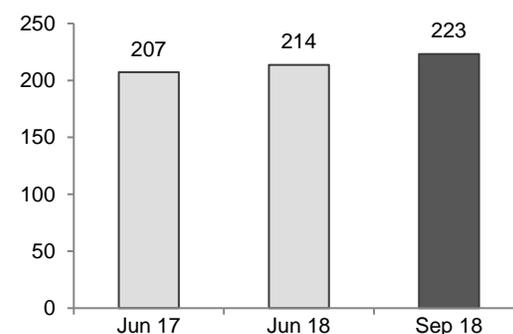
Table 5 provides details on the composition of net other revenue, which remained broadly unchanged in the first three months of FY19, compared with the same period in FY18. Loan commitment fees increased compared with FY18, as a result of the higher proportion of undisbursed loan balances, which are subject to the 25-basis point commitment fee charge as part of the FY14 pricing measures. This increase was more than offset by lower returns from PEBP during the period, compared with FY18.

## Net Non-Interest Expenses

As shown in Table 6, IBRD's net non-interest expenses primarily comprise administrative expenses,

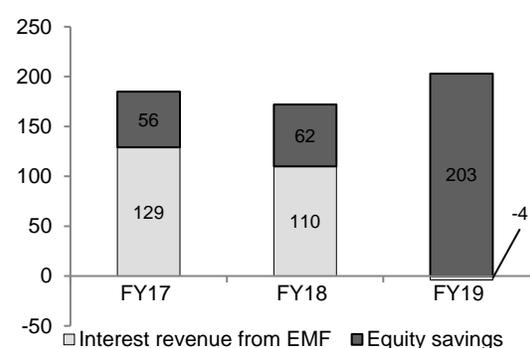
**Figure 8: Borrowing Portfolio**

*In billions of U.S. dollars*



**Figure 9: Equity Contribution**

*In millions of U.S. dollars, YTD*



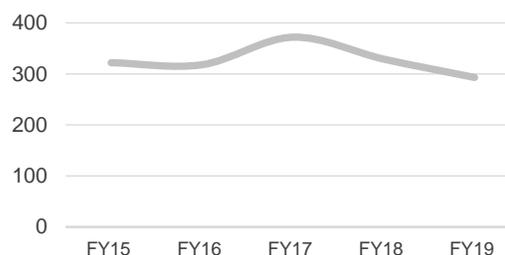
net of revenue from externally funded activities. IBRD/IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of net administrative expenses between IBRD and IDA is based on an agreed cost sharing methodology, approved by their Boards, which is primarily driven by the relative level of activities relating to lending, knowledge services, and other services between these two institutions. The staff costs and consultant and contractual services shown in Table 6, include costs related to IBRD executed trust funds, which are recovered through revenue from externally funded activities.

Net non-interest expenses decreased by \$36 million during the first three months of FY19 compared with

the same period in FY18. This decrease is mainly due to the \$15 million decrease in grant making facilities, and the \$9 million decrease in pension costs, as a result of the lower amortization of unrecognized net actuarial losses and service costs during the period.

**Figure 10: Net Non-Interest Expenses**

*In millions of U.S. dollars, YTD*



**Table 6: Net Non-Interest Expenses**

*In millions of U.S. dollars*

*For the three months ended September 30,*

	2018	2017	Variance
Administrative expenses			
Staff costs	\$ 238	\$ 237	\$ 1
Travel	28	31	(3)
Consultant and contractual services	62	63	(1)
Pension and other post-retirement benefits <sup>a</sup>	62	71	(9)
Communications and technology	12	12	-
Equipment and buildings	34	31	3
Other expenses	12	21	(9)
Total administrative expenses <sup>a</sup>	<u>\$ 448</u>	<u>\$ 466</u>	<u>\$ (18)</u>
Grant making facilities	1	16	(15)
Revenue from externally funded activities			
Reimbursable revenue – IBRD executed trust funds	(105)	(100)	(5)
Other revenue	(51)	(53)	2
Total revenue from externally funded activities	<u>\$ (156)</u>	<u>\$ (153)</u>	<u>\$ (3)</u>
Net non-interest expenses (Table 1)	<u>\$ 293</u>	<u>\$ 329</u>	<u>\$ (36)</u>

a. Includes all components of pension costs. See Notes to Condensed Quarterly Financial Statements, Note H: Pension And Other Post-Retirement Benefits

### 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 generally made on the basis of amounts which have been realized. See Section V for details on the unrealized mark-to-market gains/losses on the EMF portfolio.

#### Loan portfolio

All loans are reported at amortized cost, while the derivatives which convert IBRD's loans to variable rate instruments are 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 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 V for more details.

#### Borrowing portfolio

On a reported basis, all of IBRD's 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, except for changes in IBRD's own credit.

Effective July 1, 2018, the impact of the change in IBRD's own credit is reflected as a Debit Valuation Adjustment on Fair Value Option Elected Liabilities in Other Comprehensive Income (OCI). These amounts were previously recognized in IBRD's unrealized mark-to-market gains/losses on non-trading portfolios in net income. See Section V for more details.

## Section IV: Risk Management

### Risk Governance

IBRD's risk management processes and practices continually evolve to reflect changes in activities in response to market, credit, product, operational, and other developments. IBRD's Board of Executive Directors (Board), particularly Audit Committee (AC) members, periodically review trends in IBRD's risk profiles and performance, and any major developments in risk management policies and controls.

Management believes that effective risk management is critical for its overall operations. Accordingly, the risk management governance structure is designed to manage the principal risks IBRD assumes in its activities. It also supports Management in its oversight function, particularly in coordinating different aspects of risk management, and in connection with risks that are common across functional areas.

IBRD's financial and operational risk governance structure is built on the "three lines of defense" principle where:

- i. Business units are responsible for directly managing risks in their respective functional areas
- ii. The Vice President and WBG Chief Risk Officer (CRO) provides direction, challenge, and oversight over financial and operational risk activities, and
- iii. Internal Audit provides independent oversight.

IBRD's risk management process comprises: risk identification, assessment, response and risk monitoring and reporting. IBRD has policies and procedures under which risk owners and corporate functions are responsible for identifying, assessing, responding to, monitoring and reporting risks.

### Risk Oversight and Coverage

#### Financial and Operational Risk Management

The CRO has an overview of both financial and operational risks. These risks include (i) country credit risks in the core sovereign lending business, (ii) market and counterparty risks, including liquidity risk,

and (iii) operational risks relating to people, processes and systems. In addition, the CRO works closely with IFC, MIGA, and IDA's Management, to review, measure, aggregate, and report on risks, and share best practices across the WBG. The CRO also helps enhance cooperation between the entities and facilitates knowledge sharing in the risk management function.

The risk in operations in IBRD's lending activities is monitored, at the corporate level, by Operations Policy and Country Services (OPCS). Where fraud and corruption risks may impact IBRD-financed projects, OPCS and the Integrity Vice Presidency jointly address such issues.

### Summary and Management of IBRD's Specific Risks

IBRD assumes financial risks in order to achieve its development and strategic objectives. IBRD's financial risk management framework is designed to enable and support the institution in achieving its goals in a financially sustainable manner. IBRD manages credit, market and operational risks for its financial activities which include lending, borrowing and investing. The primary financial risk to IBRD is the country credit risk inherent in its loan portfolio. IBRD is also exposed to risks in its liquid asset and derivative portfolios, where the major risks are interest rate, exchange rate, commercial counterparty, and liquidity risks. IBRD's operational risk management framework is based upon a structured and uniform approach to identify, assess and monitor key operational risks across business units.

In an effort to maximize IBRD's capacity to lend to member countries for development purposes, IBRD limits its exposure to market and counterparty credit risks. 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.

### Capital Adequacy

IBRD holds capital to cover the credit, market and operational risks inherent in its operating activities and financial assets. Country credit risk is the most substantive risk covered by IBRD's equity.

**Table 7: Equity-to-Loans Ratio***In millions of U.S. dollars*

As of	September 30, 2018	June 30, 2018	Variance		
			Total	Due to Activities	Due to Translation Adjustment
Usable paid-in capital	\$ 15,692	\$ 15,732	\$ (40)	\$ 5	\$ (45)
Special reserve	293	293	-	-	-
General reserve <sup>a</sup>	28,606	28,606	-	-	-
Cumulative translation adjustment <sup>b</sup>	(472)	(465)	(7)	-	(7)
Other adjustments <sup>c</sup>	(648)	(648)	-	-	-
<b>Equity (usable equity)</b>	<b>\$ 43,471</b>	<b>\$ 43,518</b>	<b>\$ (47)</b>	<b>\$ 5</b>	<b>\$ (52)</b>
Loans exposure	\$ 187,147	\$ 185,589	\$ 1,558	\$ 1,802	\$ (244)
Present value of guarantees	2,533	2,540	(7)	(2)	(5)
Effective but undisbursed DDOs	3,351	4,548	(1,197)	(1,197)	-
Relevant accumulated provisions	(1,625)	(1,607)	(18)	(20)	2
Deferred loan income	(453)	(448)	(5)	-	(5)
Other exposures	(675)	(692)	17	17	-
<b>Loans (total exposure)</b>	<b>\$ 190,278</b>	<b>\$ 189,930</b>	<b>\$ 348</b>	<b>\$ 600</b>	<b>\$ (252)</b>
<b>Equity-to-Loans Ratio</b>	<b>22.8%</b>	<b>22.9%</b>			

a. June 30, 2018 amount includes proposed transfer of \$913 million to the General Reserve, which was subsequently approved by IBRD's Executive Directors on August 9, 2018.

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.

IBRD's capital adequacy is the degree to which its equity is sufficient to withstand unexpected shocks. IBRD's Board monitors IBRD's capital adequacy within a strategic capital adequacy framework and uses the equity-to-loans ratio as a key indicator of capital adequacy. The framework seeks to ensure that IBRD's equity is aligned with the financial risk associated with its loan portfolio as well as other exposures over a medium-term capital-planning horizon.

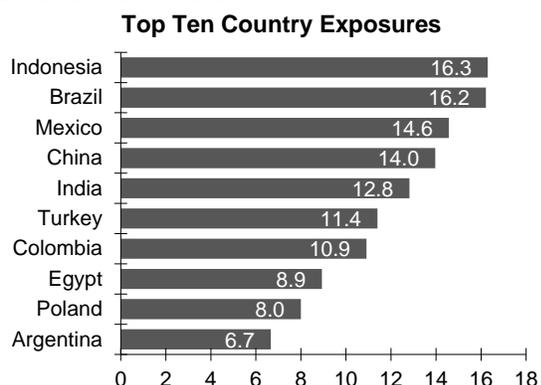
As shown on Table 7, IBRD's equity-to-loans ratio marginally decreased to 22.8% as of September 30, 2018, from 22.9% as of June 30, 2018, and remained above the 20% minimum ratio under the strategic capital adequacy framework. In line with IBRD's currency management policy, exchange rate movements during the period did not have an impact on IBRD's equity-to-loans ratio. Under the currency management policy, to minimize exchange rate risk in a multicurrency environment, IBRD matches its borrowing obligations in any one currency (after derivative activities) with assets in the same currency. In addition, IBRD's policy is to minimize the exchange rate sensitivity of its capital adequacy as measured by the equity-to-loans ratio. It implements this policy by periodically undertaking currency conversions to align the currency composition of its equity with that of its outstanding loans, across major currencies.

## Credit Risk

IBRD faces two types of credit risk: country credit risk and counterparty credit risk. Country credit risk is the risk of loss due to a country not meeting its contractual obligations, and counterparty credit risk is the risk of loss attributable to a counterparty not honoring its contractual obligations. IBRD is exposed to commercial as well as non-commercial counterparty credit risk.

### Country Credit Risk

IBRD manages country credit risk by using individual country exposure limits and takes into account factors such as population size and the economic situation of the country. In addition, IBRD conducts stress tests of the effects of changes in market variables and of potential geopolitical events on its portfolio to complement its capital adequacy framework.

**Figure 11: Country Exposures as of September 30, 2018***In billions of U.S. dollars***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 62% of IBRD's total exposure, as of September 30, 2018.

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). The Executive Directors approved a new SBL framework on June 28, 2018, which became effective July 1, 2018. The new framework reflects a dual-SBL system, which differentiates between countries below the Graduation Discussion Income (GDI) threshold and those above it. Under the new system, the SBL is \$21 billion for highly creditworthy countries below the GDI, and \$19.5 billion for highly creditworthy countries above the GDI. In the event that a borrowing country eligible for one of the limits set under the new SBL framework is downgraded to the high-risk category, management may determine that the borrowing country continue to be eligible for borrowing at the currently applicable limit, but the borrowing country would not be eligible for any future increases in the SBL approved by the Executive Directors. Currently, there are two countries below- GDI and two countries above-GDI, which have their exposure limits set at the applicable SBLs. For all other countries, the individual country exposure limits are set below the relevant SBL.

**Accumulated 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. For the first three months of FY19, IBRD had a provision for losses on loans and other exposures of \$20 million, reflecting the impact of the increase in exposure during the period.

As of September 30, 2018, IBRD had an accumulated provision for losses on loans and other exposures of \$1,663 million, which was less than 1% of these exposures, (\$1,645 million as of June 30, 2018, less than 1% of total exposures).

As of September 30, 2018, only 0.2% of IBRD's loans were in nonaccrual status, and all were related to Zimbabwe (See Notes to Condensed Quarterly Financial Statements, Note D: Loans and Other Exposures).

**Counterparty Credit Risk**

IBRD is exposed to commercial and non-commercial counterparty credit risk.

**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, in instruments issued by sovereign governments and non-sovereign holdings (including Agencies, Asset Backed Securities, Corporates, and Time Deposits). IBRD's overall commercial counterparty credit exposure increased by \$7 billion during the first three months of FY19, to \$79 billion as of September 30, 2018, consistent with the increase 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 61% 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 debt and time deposits. The A rated counterparties primarily consisted of financial institutions (limited to short-term deposits and swaps) and sovereign debt.

**Table 8: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating<sup>a</sup>***In millions of U.S. dollars*

<i>As of September 30, 2018</i>					
<i>Counterparty Rating<sup>a</sup></i>	<i>Investments</i>		<i>Net Derivative Exposure</i>	<i>Total Exposure</i>	<i>% of Total</i>
	<i>Sovereigns</i>	<i>Non-Sovereigns</i>			
AAA	\$ 4,515	\$ 12,064	\$ -	\$ 16,579	21%
AA	3,212	28,427	198	31,837	40
A	18,870	11,869	53	30,792	39
BBB	1	32	8	41	*
BB or lower/unrated	*	9	-	9	*
<b>Total</b>	<b>\$ 26,598</b>	<b>\$ 52,401</b>	<b>\$ 259</b>	<b>\$ 79,258</b>	<b>100%</b>

<i>As of June 30, 2018</i>					
<i>Counterparty Rating<sup>a</sup></i>	<i>Investments</i>		<i>Net Derivative Exposure</i>	<i>Total Exposure</i>	<i>% of Total</i>
	<i>Sovereigns</i>	<i>Non-Sovereigns</i>			
AAA	\$ 5,127	\$ 13,319	\$ -	\$ 18,446	26%
AA	3,388	28,208	177	31,773	44
A	13,045	8,365	66	21,476	30
BBB2	118	33	11	162	*
BB or lower/unrated	-	9	-	9	*
<b>Total</b>	<b>\$ 21,678</b>	<b>\$ 49,934</b>	<b>\$ 254</b>	<b>\$ 71,866</b>	<b>100%</b>

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%.

**Table 9: Non-Commercial Counterparty Credit Risk***In millions of U.S. dollars**Exposures as of September 30, 2018*

<i>Non-Commercial Counterparty</i>	<i>Instrument used</i>	<i>Purpose of derivative transaction</i>	<i>Notional</i>	<i>Net Exposure</i>
Borrowing Member Countries	Derivatives	Assist borrowing member countries with managing risks	\$ 11,452	\$ 505
Affiliated Organization	Derivatives	Intermediation on behalf of IDA	5,513	-
Non-Affiliated Organization	Derivatives	Assist IFFIm with managing risks	2,526	569
			<b>\$ 19,491</b>	<b>\$ 1,074</b>

## Non-Commercial Counterparty Credit Risk

In addition to the derivative transactions with commercial counterparties, IBRD also offers derivative-intermediation services to borrowing member countries, as well as to affiliated and non-affiliated organizations, to help meet their development needs or to carry out their development mandates (See Table 9).

IBRD has a master derivatives agreement with the International Finance Facility for Immunization (IFFIm), under which several transactions have been executed. IBRD has the right to call for collateral above an agreed specified threshold. As of September 30, 2018, IBRD had not exercised this right, but it reserves the right under the existing terms of the agreement. Rather than calling for collateral, IBRD and IFFIm have agreed to manage IBRD's exposure by applying a risk management buffer to the gearing

ratio limit. The gearing ratio limit represents the maximum amount of net financial obligations of IFFIm less cash and liquid assets, as a percent of the net present value of IFFIm's financial assets.

## Market Risk

### Exchange Rate Risk

IBRD holds its assets and liabilities mainly in U.S. dollars and euro. However, the reported levels of its assets, liabilities, income, and expenses in the financial statements are affected by exchange rate movements in all the currencies in which IBRD transacts, relative to its reporting currency, the U.S. dollar. These movements are shown as currency translation adjustments in other comprehensive income, in equity, given IBRD's multifunctional currency paradigm. While IBRD's equity could be affected by exchange rate movements, IBRD's risk

management policies work to minimize the exchange rate risk in its capital adequacy, by immunizing the equity-to-loans ratio against exchange rate movements.

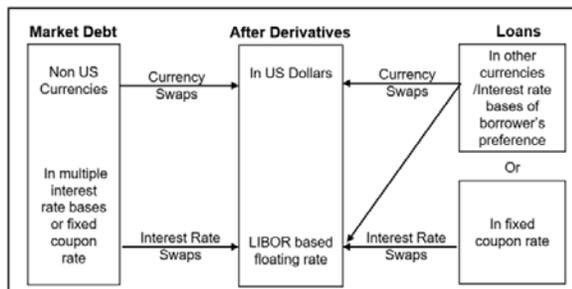
To minimize exchange risk, IBRD matches its borrowing obligations in any one currency (after derivative activities) with assets in the same currency. In addition, IBRD undertakes periodic currency conversions to align the currency composition of its equity with that of its outstanding loans across major currencies. Together, these policies are designed to minimize the impact of exchange rate fluctuations on the equity-to-loans ratio; thereby preserving IBRD’s ability to better absorb unexpected losses from arrears on loan repayments, regardless of exchange movements. As a result, exchange rate movements during the period generally do not have an impact on the overall equity-to-loans ratio.

**Interest Rate Risk**

IBRD faces three main sources of interest rate risk: the interest rate sensitivity of the income earned in a low interest rate environment, fixed-spread loans refinancing risk, and interest rate risk on the liquid asset portfolio.

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. After considering the effects of these derivatives, virtually the entire loan and borrowing portfolios are carried at variable interest rates. Figure 12 below illustrates the use of derivatives for loans and borrowings:

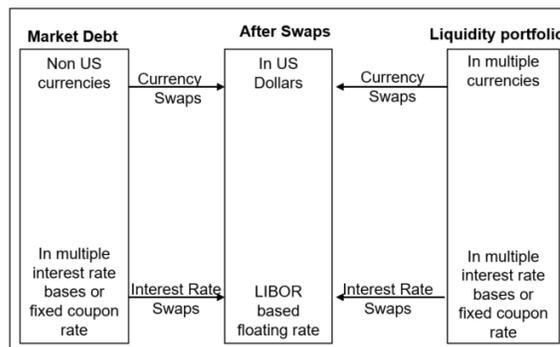
**Figure 12: Use of Derivatives for Loans and Borrowings**



Derivatives are also used to manage market risk in the liquidity portfolio. In line with its development mandate, IBRD maintains a large liquidity balance to ensure that it can make payments on its borrowing obligations and loan disbursements, even in the event

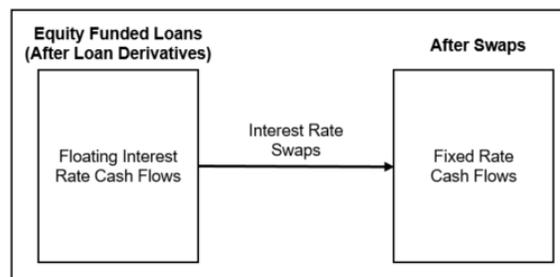
of severe market disruptions. Pending disbursement, the liquidity portfolio is invested on a global basis in multiple currencies and interest rates. Derivatives are also used to align the currency and duration of investments with the debt funding the liquidity portfolio. Figure 13 below illustrates the use of derivatives in the liquidity portfolio:

**Figure 13: Use of Derivatives for Investments**



Income from loans funded by IBRD’s equity is sensitive to changes in short-term interest rates, as IBRD’s loans, net of derivatives, predominantly earn variable interest linked to variable rate indices (e.g., LIBOR). Approximately 23% of IBRD’s net loans and other exposures are funded by equity, as indicated by the equity-to-loans ratio of 22.8%. 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 the EMF, which 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. Figure 14 illustrates the use of derivatives for EMF:

**Figure 14: Use of Derivatives for EMF**



**Liquidity Risk**

Liquidity risk arises in the general funding of IBRD's activities and in managing its financial position. It includes the risk of IBRD being unable to fund its portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

Under IBRD's liquidity management guidelines, aggregate liquid asset holdings are kept at or above a specified Prudential Minimum to safeguard against cash flow interruptions.

Historically, IBRD has operated at liquidity levels ranging between 100% and 150% of the Prudential Minimum, which is now defined as 80% of the Target Liquidity Level, starting from June 2017. The 150% maximum guideline now applies to the Target Liquidity Level rather than the Prudential Minimum, and continues to function as a guideline rather than a hard ceiling.

As of September 30, 2018, the liquid asset portfolio was 172% of the Target Liquidity Level. The increased level of liquidity reflects the higher Prudential Minimum, as well as higher projected debt

service and loan disbursements during the coming months. The FY19 Target Liquidity Level and Prudential Minimum liquidity level have been set at \$56 billion and \$44.8 billion, respectively.

**Operational Risk**

Operational risk is defined as the risk of financial loss or damage to IBRD's reputation resulting from inadequate or failed internal processes, people and systems, or from external events.

IBRD recognizes the importance of operational risk management activities, which are embedded in its financial operations. As part of its business activities, IBRD is exposed to a range of operational risks including physical security and safety, business continuity, external vendor risks and cyber security. IBRD's approach to managing operational risk includes assessing and prioritizing operational risks, monitoring and reporting relevant key risk indicators, aggregating and analyzing internal and external events, identifying emerging risks that may affect business units, and developing risk response and mitigating actions.

## Section V: Fair Value Analysis

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, and to manage certain market risks, including interest rate and commercial credit risk for derivative counterparties.

### Fair Value of Financial Instruments

For the first three months of FY19, IBRD experienced net unrealized mark-to-market losses on a fair value basis of \$144 million on its non-trading portfolios. See Table 10 for details.

### Credit and Debit Valuation Adjustments

Most outstanding derivative positions are transacted over-the-counter and therefore valued using internally developed valuation models. For commercial and non-commercial counterparties where IBRD has a net exposure (net receivable position), IBRD calculates a Credit Valuation Adjustment (CVA) to reflect credit risk (IBRD's non-commercial counterparty exposure mainly arises from derivative-intermediation activities on behalf of IFFIm, as discussed earlier). For net derivative positions with commercial and non-commercial counterparties where IBRD is in a net payable position, IBRD calculates a Debit Valuation Adjustment (DVA) to reflect its own credit risk.

IBRD also calculates a DVA for changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk (own credit).

Through FY18, all fair value adjustments were recognized through the Statement of Income. Under new guidance issued by the Financial Accounting Standards Board (FASB), effective July 1, 2018, fair value adjustments relating to changes in IBRD's own credit for financial liabilities measured under the fair value option are reported in Other Comprehensive Income (OCI) (see Notes to Financial Statements: Note A-Summary of Significant Accounting and Related Policies).

As of September 30, 2018, IBRD's condensed balance sheet included a DVA of \$207 million in Accumulated Other Comprehensive Income (AOCI), associated with the changes in own credit for financial liabilities measured under the fair value option. This includes \$52 million relating to the current period.

The CVA is calculated using the fair value of the derivative contracts, net of collateral received under credit support agreements, and the probability of counterparty default based on the Credit Default Swaps (CDS) spread and, where applicable, proxy CDS spreads. IBRD does not currently hedge this exposure. The DVA calculation is generally consistent with the CVA methodology and incorporates IBRD's own credit spread as observed through the CDS market. As of September 30, 2018, IBRD's condensed balance sheet included a CVA and a DVA, on outstanding derivatives, of \$8 million and \$60 million, respectively.

### Effect of Interest and Credit

After the effect of derivatives, virtually the entire loan and borrowing portfolios for IBRD carry variable interest rates. 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 (Table 11).

### Borrowing Portfolio

- For the first three months of FY19, IBRD experienced \$125 million of unrealized mark-to-market gains on the borrowing portfolio, of which \$72 million was reflected on the Statement of Income, and \$53 million was reflected in OCI. The \$72 million of unrealized mark-to-market gains are mainly due to the increase in interest rates during the period, as well as the change in fair value as instruments approach maturity. The \$53 million of unrealized mark-to-market gains, mainly reflects the changes in IBRD's own credit during the period. As shown in

Table 11, 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 \$64 million of unrealized mark-to-market gains.

**Table 10: Summary of Fair Value Adjustments on Non-Trading Portfolios<sup>a</sup>***In millions of U.S. dollars**For the three months ended September 30,*

	2018	2017
Borrowing portfolio	\$ 125	\$ (162)
Loan portfolio	(164)	383
EMF	(105)	(36)
Total	<u>\$ (144)</u>	<u>\$ 185</u>

a. See Table 13 for reconciliation to the fair value comprehensive basis net income.

**Table 11: Effect of Interest Rates and Credit on IBRD's Fair Value Income***In millions of U.S. dollars**As of September 30, 2018*

	Interest Rate Effect on Fair Value Income Sensitivity <sup>a c</sup>	Credit Effect on Fair Value Income Sensitivity <sup>b c</sup>
Borrowing portfolio	\$ 4	\$ 64
Loan portfolio	(12)	(29)
EMF	(11)	*
Investment portfolio	(1)	(2)
Total (loss)/gains	<u>\$ (20)</u>	<u>\$ 33</u>

a. After the effects of derivatives.

b. Excludes CVA and DVA adjustment on swaps.

c. Amount represents dollar change in fair value corresponding to a one basis-point parallel upward shift in interest rates /credit spreads.

\* Sensitivity is marginal.

## Loan Portfolio

For the first three months of FY19, IBRD experienced \$164 million of unrealized mark-to-market losses on the loan portfolio. This was mainly driven by the impact of the increase in interest rates on IBRD's loans as well as a slight worsening of borrowers' credit spreads during the period. As shown in

Table 11, the dollar value change corresponding to a one-basis-point upward parallel shift in CDS rates on the loan portfolio is about \$29 million of unrealized mark-to-market losses. See the June 30, 2018 MD&A for a detailed discussion on how the credit risk of each portfolio is managed.

## EMF

For the first three months of FY19, IBRD experienced \$105 million of unrealized mark-to-market losses on the EMF portfolio, which mainly reflected the impact of the increase in U.S. dollar interest rates during the period. As measured by duration, the interest rate sensitivity of IBRD's equity remained largely unchanged at approximately 2.7 years as of September 30, 2018.

As shown in Table 11, on a fair value basis, if interest rates increased by one basis point across markets, IBRD would overall experience a net unrealized mark-to-market loss of approximately \$11 million for the EMF portfolio as of September 30, 2018.

Figure 15 provides a breakdown of the overall sensitivity to interest rates of the borrowing, loan, EMF, and investment portfolios. The sensitivity of these portfolios to interest rate movements, after the effect of derivatives, is low, resulting in relatively small interest rate related unrealized mark-to-market gains/losses in reported net income. For example, for the borrowing portfolio, a one basis point increase in interest rates would result in net unrealized mark-to-market gains of \$64 million on the bonds. These would be offset by net unrealized mark-to-market losses of \$60 million on the related swaps, resulting in net unrealized mark-to-market gains of \$4 million for the portfolio.

## Fair Value Results

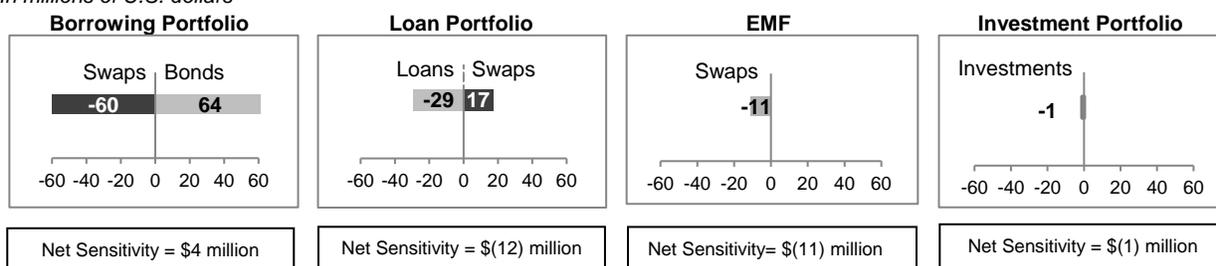
As non-financial assets and liabilities are not reflected at fair value, IBRD's equity is not intended to reflect fair value. Under the fair value basis, in addition to the instruments in the investment and borrowing portfolios, and all other derivatives, loans are reported at fair value and all changes in AOCI are also included in fair value net income.

Tables 12 to 14 provide a reconciliation from the reported basis to the fair value basis for both the condensed balance sheet and condensed income statement.

**Figure 15: Sensitivity to Interest Rates as of September 30, 2018**

*(Dollar change in fair value corresponding to a one-basis-point upward parallel shift in interest rates)*

In millions of U.S. dollars



**Table 12: Condensed Balance Sheet on a Fair Value Basis**

In millions U.S. dollars

	As of September 30, 2018			As of June 30, 2018		
	Reported Basis	Adjustments	Fair Value Basis	Reported Basis	Adjustments	Fair Value Basis
Due from banks	\$ 607	\$ -	\$ 607	\$ 619	\$ -	\$ 619
Investments	79,964	-	79,964	72,569	-	72,569
Net loans outstanding	185,122	2,599	187,721	183,588	3,062	186,650
Receivable from derivatives	143,879	-	143,879	141,716	-	141,716
Other assets	7,218	-	7,218	4,564	-	4,564
<b>Total assets</b>	<b>\$ 416,790</b>	<b>2,599</b>	<b>419,389</b>	<b>\$ 403,056</b>	<b>\$ 3,062</b>	<b>\$ 406,118</b>
Borrowings	\$ 216,361	10	216,371	\$ 208,009	\$ 10	\$ 208,019
Payable for derivatives	150,321	-	150,321	147,096	-	147,096
Other liabilities	7,835	-	7,835	6,107	-	6,107
<b>Total liabilities</b>	<b>374,517</b>	<b>10</b>	<b>374,527</b>	<b>361,212</b>	<b>10</b>	<b>361,222</b>
Paid-in capital stock	16,456	-	16,456	16,456	-	16,456
Retained earnings and other equity	25,817	2,589	28,406	25,388	3,052	28,440
<b>Total equity</b>	<b>42,273</b>	<b>2,589</b>	<b>44,862</b>	<b>41,844</b>	<b>3,052</b>	<b>44,896</b>
<b>Total liabilities and equity</b>	<b>\$ 416,790</b>	<b>2,599</b>	<b>419,389</b>	<b>\$ 403,056</b>	<b>\$ 3,062</b>	<b>\$ 406,118</b>

**Table 13: Reconciliation from Net Income to Income on a Fair Value Comprehensive Basis**

In millions U.S. dollars

For the three months ended September 30,	2018	2017	Variance
Net income from Table 1	\$ 404	\$ 24	\$ 380
Fair value adjustment on loans	(461)	303	(764)
Changes to AOCI:			
Currency translation adjustments	(14)	243	(257)
Others	29	46	(17)
Net Change in DVA on Fair Value option elected liabilities	52	-	52
<b>Net Income on fair value comprehensive basis</b>	<b>\$ 10</b>	<b>\$ 616</b>	<b>\$ (606)</b>

**Table 14: Fair Value Adjustments, net on non-trading portfolios***In millions of U.S. dollars*

	<i>For the three months ended September 30, 2018</i>				
	<i>Unrealized gains (losses) <sup>a</sup></i>	<i>Realized losses</i>	<i>Fair Value Adjustment from Table 13</i>	<i>Other Adjustments</i>	<i>Total from Table 10</i>
Borrowing portfolio <sup>c</sup>	\$ 71	\$ 1	\$ -	\$ 53 <sup>b</sup>	\$ 125
Loan portfolio <sup>c</sup>	296	1	(461)	-	(164)
EMF <sup>d</sup>	(105)	-	-	-	(105)
Asset-liability management portfolio <sup>d</sup>	-	-	-	-	-
Client operations portfolio	(*)	-	-	*	-
Total	\$ 262	\$ 2	\$ (461)	\$ 53	\$ (144)

	<i>For the three months ended September 30, 2017</i>				
	<i>Unrealized gains (losses) <sup>a</sup></i>	<i>Realized gains</i>	<i>Fair Value Adjustment from Table 13</i>	<i>Other Adjustments</i>	<i>Total from Table 10</i>
Borrowing portfolio <sup>c</sup>	\$ (168)	\$ *	\$ -	\$ 6	\$ (162)
Loan portfolio <sup>c</sup>	80	-	303	-	383
EMF <sup>d</sup>	(36)	-	-	-	(36)
Asset-liability management portfolio <sup>d</sup>	(*)	-	-	*	-
Client operations portfolio	(4)	-	-	4	-
Total	\$ (128)	\$ *	\$ 303	\$ 10	\$ 185

a. Excludes amounts reclassified to realized mark-to-market gains (losses).

b. Amount primarily represents change in fair value due to the change in IBRD's own credit risk for financial liabilities measured under the fair value option, included in the Condensed Statement of Other Comprehensive Income.

c. Includes related derivatives.

d. Included in other derivatives on the condensed Balance Sheet.

\* indicates amount less than \$0.5 million

## Section VI: Governance

### External Auditors

The external auditor is appointed to a five-year term, with a limit of two consecutive terms, and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board. FY18 was the final year of KPMG LLP's second term as IBRD's external auditor. Deloitte has been appointed as IBRD's external auditor for a five-year term commencing FY19.

### Senior Management Changes

On September 28, 2018, Arunma O. Oteh, Vice President and Treasurer of IBRD, announced that she will be leaving on December 1, 2018.

On October 26, 2018, Jingdong Hua was appointed Vice President and Treasurer of IBRD, effective January 1, 2019.

On November 12, 2018, Joaquim Levy, Managing Director and WBG Chief Financial Officer, announced that he will be leaving on December 3, 2018.

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# INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

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*September 30, 2018*

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## CONDENSED BALANCE SHEET

Expressed in millions of U.S. dollars

	<u>September 30, 2018</u> <i>(Unaudited)</i>	<u>June 30, 2018</u> <i>(Unaudited)</i>
<b>Assets</b>		
Due from banks—Notes C and K		
Unrestricted cash	\$ 525	\$ 542
Restricted cash	82	77
	<u>607</u>	<u>619</u>
Investments-Trading (including securities transferred under repurchase or securities lending agreements of \$25 million—September 30, 2018; \$29 million—June 30, 2018)—Notes C and K	79,748	72,352
Securities purchased under resale agreements—Note C	216	217
Derivative assets		
Investments—Notes C, F and K	42,588	38,015
Loans—Notes D, F and K	5,120	4,999
Client operations—Notes D, F, I and K	16,728	17,042
Borrowings—Notes E, F and K	78,225	80,518
Others—Notes F and K	1,218	1,142
	<u>143,879</u>	<u>141,716</u>
Loans outstanding—Notes D, I and K		
Total loans	252,350	254,011
Less undisbursed balance	<u>(65,203)</u>	<u>(68,422)</u>
Loans outstanding	187,147	185,589
Less:		
Accumulated provision for loan losses	(1,571)	(1,553)
Deferred loan income	<u>(454)</u>	<u>(448)</u>
Net loans outstanding	185,122	183,588
Other assets—Notes C, D, E and I	<u>7,218</u>	<u>4,564</u>
<b>Total assets</b>	<u>\$ 416,790</u>	<u>\$ 403,056</u>

	<u>September 30, 2018</u> <i>(Unaudited)</i>	<u>June 30, 2018</u> <i>(Unaudited)</i>
<b>Liabilities</b>		
Borrowings—Notes E and K	\$ 216,361	\$ 208,009
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received—Notes C and K	75	122
Derivative liabilities		
Investments—Notes C, F and K	41,931	37,298
Loans—Notes D, F and K	4,829	5,007
Client operations—Notes D, F, I and K	16,749	17,069
Borrowings—Notes E, F and K	85,048	86,161
Others—Notes F and K	1,764	1,561
	<u>150,321</u>	<u>147,096</u>
Other liabilities—Notes C, D and I	7,760	5,985
<b>Total liabilities</b>	<u>374,517</u>	<u>361,212</u>
<b>Equity</b>		
Capital stock—Note B		
Authorized capital (2,307,600 shares—September 30, 2018, and June 30, 2018)		
Subscribed capital (2,277,364 shares—September 30, 2018, and June 30, 2018)	274,730	274,730
Less uncalled portion of subscriptions	<u>(258,274)</u>	<u>(258,274)</u>
Paid-in capital	16,456	16,456
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital	(355)	(361)
Receivable amounts to maintain value of currency holdings	(228)	(313)
Deferred amounts to maintain value of currency holdings	(108)	27
Retained earnings (see Condensed Statement of Changes in Retained Earnings; Note G)	28,706	28,457
Accumulated other comprehensive loss—Note J	<u>(2,198)</u>	<u>(2,422)</u>
<b>Total equity</b>	<u>42,273</u>	<u>41,844</u>
<b>Total liabilities and equity</b>	<u>\$ 416,790</u>	<u>\$ 403,056</u>

***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

	<i>Three Months Ended September 30,</i> <i>(Unaudited)</i>	
	<u>2018</u>	<u>2017</u>
<b>Net interest revenue</b>		
Interest revenue		
Loans, net—Note D	\$ 1,199	\$ 784
Equity management, net	(4)	63
Investments - Trading, net	325	196
Other, net	10	10
<b>Borrowings, net—Note E</b>	(1,088)	(600)
<b>Interest revenue, net of borrowing expenses</b>	<u>442</u>	<u>453</u>
<b>Provision for losses on loans and other exposures—Note D</b>	(20)	(23)
<b>Non interest revenue</b>		
Revenue from externally funded activities—Note I	156	153
Commitment charges—Note D	25	20
Other	9	8
Total	<u>190</u>	<u>181</u>
<b>Non interest expenses</b>		
Administrative—Notes H and I	(464)	(395)
Pension—Note H	16	(71)
Contributions to special programs	(1)	(16)
Other	(6)	(6)
Total	<u>(455)</u>	<u>(488)</u>
<b>Board of Governors-approved and other transfers— Note G</b>	(90)	(55)
<b>Unrealized mark-to-market gains on Investments- Trading portfolio, net—Notes F and K</b>	73	84
<b>Unrealized mark-to-market gains (losses) on non-trading portfolios, net—Notes D, E, F and K</b>	264	(128)
<b>Net income</b>	<u>\$ 404</u>	<u>\$ 24</u>

*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

	<i>Three Months Ended September 30,</i> <i>(Unaudited)</i>	
	<u>2018</u>	<u>2017</u>
<b>Net income</b>	\$ 404	\$ 24
<b>Other comprehensive income—Note J</b>		
Reclassification to net income:		
Amortization of unrecognized net actuarial losses	22	33
Amortization of unrecognized prior service costs	6	6
Other	1	1
Net Change in Debit Valuation Adjustment (DVA) on Fair Value option elected liabilities	52	-
Currency translation adjustment	(12)	232
Total other comprehensive income	<u>69</u>	<u>272</u>
<b>Comprehensive income</b>	<u>\$ 473</u>	<u>\$ 296</u>

## CONDENSED STATEMENT OF CHANGES IN RETAINED EARNINGS

Expressed in millions of U.S. dollars

	<i>Three Months Ended September 30,</i> <i>(Unaudited)</i>	
	<u>2018</u>	<u>2017</u>
<b>Retained earnings at beginning of the fiscal year</b>	\$ 28,457	\$ 27,759
Cumulative effect of change in accounting principle—Notes A, G and J	(155)	-
Net income for the period	<u>404</u>	<u>24</u>
<b>Retained earnings at end of the period</b>	<u>\$ 28,706</u>	<u>\$ 27,783</u>

***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)	
	2018	2017
<b>Cash flows from investing activities</b>		
Loans		
Disbursements	\$ (4,238)	\$ (3,984)
Principal repayments	2,413	2,837
Principal prepayments	36	1,316
Loan origination fees received	3	3
Net derivatives-loans	2	3
Other investing activities, net	(28)	(50)
Net cash (used in) provided by investing activities	(1,812)	125
<b>Cash flows from financing activities</b>		
Medium and long-term borrowings		
New issues	14,625	11,195
Retirements	(8,257)	(6,507)
Net short-term borrowings	1,373	(1,653)
Net derivatives-borrowings	(424)	(66)
Capital subscriptions	-	39
Other capital transactions, net	1	(1)
Net cash provided by financing activities	7,318	3,007
<b>Cash flows from operating activities</b>		
Net income	404	24
Adjustments to reconcile net income to net cash used in operating activities:		
Unrealized mark-to-market (gains) losses on non-trading portfolios, net	(264)	128
Depreciation and amortization	209	193
Provision for losses on loans and other exposures	20	23
Changes in:		
Investments-Trading, net	(5,700)	(3,263)
Other assets and liabilities	(184)	(19)
Net cash used in operating activities	(5,515)	(2,914)
<b>Effect of exchange rate changes on unrestricted and restricted cash</b>	(3)	9
<b>Net (decrease) increase in unrestricted and restricted cash—Note A</b>	(12)	227
<b>Unrestricted and restricted cash at beginning of the fiscal year</b>	619	613
<b>Unrestricted and restricted cash at end of the period</b>	\$ 607	\$ 840
<b>Supplemental disclosure</b>		
(Decrease) increase in ending balances resulting from exchange rate fluctuations		
Loans outstanding	\$ (243)	\$ 1,184
Investment portfolio	11	1
Borrowing portfolio	(144)	940
Capitalized loan origination fees included in total loans	12	7
Interest paid on borrowing portfolio	941	538

*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 and notes should be read in conjunction with the June 30, 2018, audited financial statements and notes included therein. The condensed comparative information that has been derived from the June 30, 2018, 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

#### *Evaluated accounting standards:*

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and subsequent related amendments. The ASUs provide a common framework for revenue recognition for U.S. GAAP, and supersede most of the existing revenue recognition guidance in US GAAP. For IBRD, the revenue streams within the scope largely relate to the provision of technical assistance and knowledge under Reimbursable Advisory Services (RAS), asset management, and trustee services to clients and donors. The impact of adopting this standard is immaterial as less than 1% of IBRD's revenue is affected by the new requirements. IBRD adopted the ASUs in the quarter ended September 30, 2018, using a modified retrospective approach under which all changes in revenue recognition are reflected in the period of adoption. The adoption of the ASU also resulted in additional disclosures reflected in Note I – Transactions with Affiliated Organizations.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU makes targeted amendments to existing guidance on recognition and measurement of financial instruments that primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The new guidance requires that changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk are recognized in Other Comprehensive Income (OCI). For IBRD, the ASU became effective from the quarter ended September 30, 2018. Upon adoption, IBRD recorded a cumulative effect adjustment of \$155 million attributable to changes in instrument-specific credit risk (DVA) for financial liabilities measured under the fair value option. The adjustment was a reclassification from retained earnings to accumulated OCI. The adoption of the ASU also required changes to the Condensed Statement of Comprehensive Income, the Condensed Statement of Changes in Retained Earnings, as well as to Note E – Borrowings, Note D – Loans and other exposures, Note G – Retained Earnings, Allocations and Transfers, Note J – Comprehensive Income and Note K – Other Fair Value Disclosures.

In June 2018, the FASB issued ASU 2018-8, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU, which applies to all entities that receive or make contributions, clarifies and improves current guidance about whether a transfer of assets should be accounted for as a contribution or an exchange transaction, and provides additional guidance about how to determine whether a contribution is conditional. For contributions received, the ASU became effective from the quarter ended September 30, 2018. IBRD has evaluated the ASU and determined that the guidance on contributions received has no impact on its financial statements. IBRD is currently evaluating the impact of the portion of the ASU applicable to contributions made which will be effective from the quarter ending September 30, 2019.

Given the immateriality of the amounts subject to reclassification under the following ASUs, IBRD has applied their requirements prospectively from the quarter ended September 30, 2018:

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 became effective from the quarter ended September 30, 2018.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that the amounts of restricted cash and cash equivalents are included in the total of cash and cash equivalents at the beginning and end of the period in the Statement of Cash Flows. For IBRD, the ASU became effective from the quarter ended September 30, 2018.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU requires that an employer reports the service cost component of net benefit cost in the same line item as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and are not eligible for capitalization. For IBRD, this ASU became effective from the quarter ended September 30, 2018. It also resulted in additional disclosures reflected in Note H – Pension and Other Postretirement Benefits.

***Accounting standards under evaluation:***

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires that a lessee recognizes on the balance sheet the assets and liabilities that arise from all leases with a lease term of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows by the lessee will primarily depend on the classification of the lease as finance or operating. The accounting applied by a lessor remains largely unchanged from the current guidance, with some targeted improvements. For IBRD, the ASU is effective from the quarter ending September 30, 2019. IBRD is currently evaluating the impact of this ASU on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU introduces a new model for the accounting of credit losses of loans and other financial assets measured at amortized cost. Current U.S. GAAP requires an “incurred loss” methodology for recognizing credit losses. The new model, referred to as the current expected credit loss (CECL) model, requires an entity to estimate the credit losses expected over the life of an exposure, considering historical information, current information, and reasonable and supportable forecasts. Additionally, the ASU requires enhanced disclosures about credit quality and significant estimates and judgments used in estimating credit losses. For IBRD, the ASU will be effective from the quarter ending September 30, 2020, with early adoption permitted. IBRD is currently evaluating the impact of the ASU on its financial statements.

In August 2018, the FASB issued the following three ASUs. IBRD is currently evaluating the impact of these ASUs on its financial statements.

ASU 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which amends certain disclosure requirements of ASC 820. The guidance will be effective for IBRD from the quarter ending September 30, 2020.

ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*, which amends ASC 715 disclosure requirements related to defined benefit pension and other postretirement plans for annual periods. The guidance will be effective for IBRD from the fiscal year ending June 30, 2021.

ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which amends ASC 350-40 to address a customer’s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The guidance will be effective for IBRD from the quarter ending September 30, 2020.

## NOTE B—CAPITAL STOCK

The following table provides a summary of changes in IBRD's authorized and subscribed shares:

	<u>Authorized shares</u>	<u>Subscribed shares</u>
As of June 30, 2017	2,307,600	2,229,344
General Capital Increase (GCI)	-	48,020
As of June 30, 2018	2,307,600	2,277,364
Changes during the period	-	-
As of September 30, 2018	<u>2,307,600</u>	<u>2,277,364</u>

The following table provides a summary of the changes in subscribed capital, uncalled portion of subscriptions and paid-in capital:

*In millions of U.S. dollars*

	<u>Subscribed capital</u>	<u>Uncalled portion of subscriptions</u>	<u>Paid-in capital</u>
As of June 30, 2017	\$ 268,937	(252,828)	16,109
GCI	5,793	(5,446)	347
As of June 30, 2018	274,730	(258,274)	16,456
Changes during the period	-	-	-
As of September 30, 2018	<u>\$ 274,730</u>	<u>\$ (258,274)</u>	<u>\$ 16,456</u>

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.

The subscription period for the GCI agreed by shareholders in 2010 ended on March 16, 2018.

**Subsequent event:** On October 1, 2018, IBRD's Board of Governors approved two resolutions that increase IBRD's authorized capital. The total increase in authorized capital was \$57.5 billion, of which, \$27.8 billion and \$29.6 billion relate to the GCI and Selective Capital Increase (SCI), respectively. In addition, shares that were previously unallocated after the 2010 GCI and SCI will be made available for subscription under the 2018 SCI. Under the terms of the 2018 GCI and SCI, paid-in capital is expected to increase by \$7.5 billion over the next five years.

## NOTE C—INVESTMENTS

As of September 30, 2018, 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 Postretirement Contribution Reserve Fund (PCRF) which is used to stabilize IBRD's contributions to the pension plan.

The composition of IBRD's net investment portfolio was as follows:

*In millions of U.S. dollars*

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
Liquid asset portfolio	\$ 77,176	\$ 71,579
PEBP holdings	1,442	1,393
AMC holdings	215	250
PCRF holdings	295	270
Total	<u>\$ 79,128</u>	<u>\$ 73,492</u>

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, 2018, the majority of Investments was comprised of government and agency obligations, and time deposits (42% and 51%, respectively), with all instruments classified as Level 1 or Level 2 within the fair value hierarchy. As of September 30, 2018, Japanese Government Instruments represented the largest holding from a single counterparty, and amounted to 19% of Investments—Trading. Over 99% of IBRD's investments were rated A and above, as of September 30, 2018.

A summary of IBRD's Investments-Trading was as follows:

*In millions of U.S. dollars*

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
Equity securities <sup>a</sup>	\$ 674	\$ 672
Government and agency obligations	33,729	29,610
Time deposits	41,023	37,763
Asset-backed securities (ABS)	3,959	3,962
Alternative investments <sup>b</sup>	363	345
<b>Total</b>	<b>\$ 79,748</b>	<b>\$ 72,352</b>

*a. Includes \$311 million of investments in commingled funds at net asset value per share (NAV), related to PEBP holdings (\$295 million—June 30, 2018).*

*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:

*In millions of U.S. dollars*

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
<b>Investments - Trading</b>	<b>\$ 79,748</b>	<b>\$ 72,352</b>
<b>Securities purchased under resale agreements</b>	<b>216</b>	<b>217</b>
<b>Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received</b>	<b>(75)</b>	<b>(122)</b>
<b>Derivative assets</b>		
Currency forward contracts	20,773	18,647
Currency swaps	21,753	19,308
Interest rate swaps	62	60
Swaptions, exchange traded options and futures contracts	*	*
Other	-	-
<b>Total</b>	<b>42,588</b>	<b>38,015</b>
<b>Derivative liabilities</b>		
Currency forward contracts	(20,591)	(18,358)
Currency swaps	(21,295)	(18,894)
Interest rate swaps	(41)	(43)
Swaptions, exchange traded options and futures contracts	(4)	(3)
Other	-	-
<b>Total</b>	<b>(41,931)</b>	<b>(37,298)</b>
<b>Cash held in investment portfolio <sup>a</sup></b>	<b>340</b>	<b>407</b>
<b>Receivable from investment securities traded</b>	<b>55</b>	<b>83</b>
<b>Payable for investment securities purchased <sup>b</sup></b>	<b>(1,813)</b>	<b>(162)</b>
<b>Net investment portfolio</b>	<b>\$ 79,128</b>	<b>\$ 73,492</b>

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

*b. This amount includes \$89 million of liabilities related to PCRFB payable, and is included in Other liabilities on the Condensed Balance Sheet (\$80 million—June 30, 2018).*

*\* 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, 2018, there were \$37 million of short sales included in Other liabilities on the Condensed Balance Sheet (\$37 million—June 30, 2018).

## 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. Note that the fair value of alternative investments and certain equities is calculated using NAV. As a result, these amounts are included in the respective asset class totals and not in the fair value hierarchy, in accordance with the permitted practical expedient under U.S. GAAP.

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis			
	As of September 30, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments – Trading				
Equity securities	\$ 363	\$ -	\$ -	\$ 674 <sup>a</sup>
Government and agency obligations	19,451	14,278	-	33,729
Time deposits	3,395	37,628	-	41,023
ABS	-	3,959	-	3,959
Alternative investments <sup>b</sup>	-	-	-	363
Total Investments – Trading	\$ 23,209	\$ 55,865	\$ -	\$ 79,748
Securities purchased under resale agreements	41	175	-	216
Derivative assets-Investments				
Currency forward contracts	-	20,773	-	20,773
Currency swaps	-	21,753	-	21,753
Interest rate swaps	-	62	-	62
Swaptions, exchange traded options and futures contracts	*	*	-	*
Other	-	-	-	-
Total Derivative assets-Investments	*	42,588	-	42,588
Total	\$ 23,250	\$ 98,628	\$ -	\$ 122,552
<b>Liabilities:</b>				
Securities sold under repurchase agreements and securities lent under securities lending agreements <sup>c</sup>	\$ -	\$ 26	\$ -	\$ 26
Derivative liabilities-Investments				
Currency forward contracts	-	20,591	-	20,591
Currency swaps	-	21,295	-	21,295
Interest rate swaps	-	41	-	41
Swaptions, exchange traded options and futures contracts	4	*	-	4
Other	-	-	-	-
Total Derivative liabilities-Investments	4	41,927	-	41,931
Total	\$ 4	\$ 41,953	\$ -	\$ 41,957

a. Includes \$311 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. Excludes \$49 million relating to payable for cash collateral received.

\* Indicates amount less than \$0.5 million.

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis			
	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments – Trading				
Equity securities	\$ 377	\$ -	\$ -	\$ 672 <sup>a</sup>
Government and agency obligations	14,403	15,207	-	29,610
Time deposits	2,147	35,616	-	37,763
ABS	-	3,962	-	3,962
Alternative investments <sup>b</sup>	-	-	-	345
Total Investments – Trading	<u>\$ 16,927</u>	<u>\$ 54,785</u>	<u>\$ -</u>	<u>\$ 72,352</u>
Securities purchased under resale agreements	41	176	-	217
Derivative assets-Investments				
Currency forward contracts	-	18,647	-	18,647
Currency swaps	-	19,308	-	19,308
Interest rate swaps	-	60	-	60
Swaptions, exchange traded options and futures contracts	*	*	-	*
Other	-	-	-	-
Total Derivative assets-Investments	<u>*</u>	<u>38,015</u>	<u>-</u>	<u>38,015</u>
Total	<u>\$ 16,968</u>	<u>\$ 92,976</u>	<u>\$ -</u>	<u>\$ 110,584</u>
<b>Liabilities:</b>				
Securities sold under repurchase agreements and securities lent under securities lending agreements <sup>c</sup>	\$ -	\$ 30	\$ -	\$ 30
Derivative liabilities-Investments				
Currency forward contracts	-	18,358	-	18,358
Currency swaps	-	18,894	-	18,894
Interest rate swaps	-	43	-	43
Swaptions, exchange traded options and futures contracts	3	-	-	3
Other	-	-	-	-
Total Derivative liabilities-Investments	<u>3</u>	<u>37,295</u>	<u>-</u>	<u>37,298</u>
Total	<u>\$ 3</u>	<u>\$ 37,325</u>	<u>\$ -</u>	<u>\$ 37,328</u>

a. Includes \$295 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. Excludes \$92 million relating to payable for cash collateral received.

\* Indicates amount less than \$0.5 million.

During the three months ended September 30, 2018 and for the fiscal year ended June 30, 2018 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 To-Be-Announced (TBA) securities.

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 derivative 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:

*In millions of U.S. dollars*

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
Collateral received		
Cash	\$ 49	\$ 92
Securities	1,346	1,365
Total collateral received	<u>\$ 1,395</u>	<u>\$ 1,457</u>
Collateral permitted to be repledged	\$ 1,395	\$ 1,457
Amount of collateral repledged	-	-

As of September 30, 2018, IBRD had received total cash collateral of \$49 million (\$92 million—June 30, 2018), of which \$49 million was invested in highly liquid instruments (\$31 million—June 30, 2018).

**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, 2018, there were no amounts that could potentially be offset as a result of legally enforceable master netting arrangements (Nil—June 30, 2018).

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*

	<u>September 30, 2018</u>	<u>June 30, 2018</u>	<u>Financial Statement Presentation</u>
Securities transferred under repurchase or securities lending agreements	\$ 25	\$ 29	Included under Investments-Trading on the Condensed Balance Sheet.
Liabilities relating to securities transferred under repurchase or securities lending agreements	\$ 26	\$ 30	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, 2018 and June 30, 2018 there were no liabilities relating to securities transferred under repurchase or securities lending agreements that had not settled.

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:

*In millions of U.S. dollars*

	<u>September 30, 2018</u>		
	<u>Remaining contractual maturity of the agreements</u>		
	<u>Overnight and continuous</u>	<u>Up to 30 days</u>	<u>Total</u>
Repurchase or securities lending agreements			
Government and agency obligations	\$ 22	\$ -	\$ 22
Equity securities	4	-	4
Total liabilities relating to securities transferred under repurchase or securities lending agreements	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ 26</u>

*In millions of U.S. dollars*

	<u>June 30, 2018</u>		
	<u>Remaining contractual maturity of the agreements</u>		
	<u>Overnight and continuous</u>	<u>Up to 30 days</u>	<u>Total</u>
Repurchase or securities lending agreements			
Government and agency obligations	\$ 14	\$ -	\$ 14
Equity securities	16	-	16
Total liabilities relating to securities transferred under repurchase or securities lending agreements	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 30</u>

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, 2018 and June 30, 2018, there were no securities purchased under resale agreements that had not settled at these dates. For the resale agreements, IBRD received securities with a fair value of \$216 million (\$218 million—June 30, 2018). None of these securities had been transferred under repurchase or security lending agreements as of these dates.

## **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. As of September 30, 2018, all IBRD's loans were reported at amortized cost.

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, 2018, 77% were to the Latin America and the Caribbean, Europe and Central Asia, and East Asia and Pacific regions, combined.

As of September 30, 2018, only 0.2% 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 0.8% of the total loan portfolio. Based on IBRD's internal credit quality indicators, the majority of loans outstanding are in the medium risk and high risk classes.

### **Credit Quality of Sovereign Exposures**

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

IBRD's country risk ratings are an assessment of its borrowers' ability and willingness to repay IBRD on time and in full. These ratings are internal credit quality indicators. Individual country risk ratings are derived on the basis of both quantitative and qualitative analyses. The components considered in the analysis can be grouped broadly into eight categories: political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payment 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:

*In millions of U.S. dollars*

<i>Days past due</i>	<i>September 30, 2018</i>						<i>Current</i>	<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>	<i>Total Past Due</i>		
<b>Risk Class</b>								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,558	\$ 23,558
Medium	-	-	-	-	-	-	76,764	76,764
High	2	*	-	-	-	2	86,388	86,390
Loans in accrual status	2	*	-	-	-	2	186,710	186,712
Loans in nonaccrual status	-	-	-	-	435	435	-	435
<b>Total</b>	<b>\$ 2</b>	<b>\$ *</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 435</b>	<b>\$ 437</b>	<b>\$ 186,710</b>	<b>\$ 187,147</b>

*In millions of U.S. dollars*

<i>Days past due</i>	<i>June 30, 2018</i>						<i>Current</i>	<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>	<i>Total Past Due</i>		
<b>Risk Class</b>								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,606	\$ 23,606
Medium	-	-	-	-	-	-	76,153	76,153
High	-	-	-	-	-	-	85,395	85,395
Loans in accrual status	-	-	-	-	-	-	185,154	185,154
Loans in nonaccrual status	-	-	-	-	435	435	-	435
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 435</b>	<b>\$ 435</b>	<b>\$ 185,154</b>	<b>\$ 185,589</b>

\* Indicates amount less than \$0.5 million.

#### **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 are summarized below:

*In millions of U.S. dollars*

	September 30, 2018			June 30, 2018		
	Loans	Other <sup>a</sup>	Total	Loans	Other <sup>a</sup>	Total
Accumulated provision, beginning of the fiscal year	\$ 1,553	\$ 92	\$ 1,645	\$ 1,582	\$ 89	\$ 1,671
Provision - charge (release)	20	*	20	(34)	3	(31)
Translation adjustment	(2)	*	(2)	5	*	5
Accumulated provision, end of the period/fiscal year	<u>\$ 1,571</u>	<u>\$ 92</u>	<u>\$ 1,663</u>	<u>\$ 1,553</u>	<u>\$ 92</u>	<u>\$ 1,645</u>
Composed of accumulated provision for losses on:						
Loans in accrual status	\$ 1,354			\$ 1,336		
Loans in nonaccrual status	217			217		
Total	<u>\$ 1,571</u>			<u>\$ 1,553</u>		
Loans, end of the period/fiscal year:						
Loans at amortized cost in accrual status	\$ 186,712			\$ 185,154		
Loans at amortized cost in nonaccrual status	435			435		
Total	<u>\$ 187,147</u>			<u>\$ 185,589</u>		

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, 2018, there were no principal or interest amounts on loans in accrual status, that were overdue by more than three months. The following tables provide a summary of selected financial information related to loans in nonaccrual status:

*In millions of U.S. dollars*

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
Recorded investment in nonaccrual loans <sup>a</sup>	\$ 435	\$ 435
Accumulated provision for loan losses on nonaccrual loans	217	217
Average recorded investment in nonaccrual loans for the fiscal year	435	435
Overdue amounts of nonaccrual loans:	966	954
Principal	435	435
Interest and charges	531	519

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

*In millions of U.S. dollars*

	<u>Three Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Interest revenue not recognized as a result of loans being in nonaccrual status	\$ 9	\$ 9

During the three months ended September 30, 2018 and September 30, 2017, no loans were placed in nonaccrual status or restored to accrual status.

In addition, during the three months ended September 30, 2018 and September 30, 2017, no interest income was recognized on loans in nonaccrual status.

Information relating to the sole borrowing member with loans or guarantees in nonaccrual status is presented in the following table:

*In millions of U.S. dollars*

<u>Borrower</u>	<u>Principal Outstanding</u>	<u>Principal, Interest and Charges Overdue</u>	<u>Nonaccrual Since</u>
Zimbabwe	\$ 435	\$ 966	October 2000

## Guarantees

Guarantees of \$6,342 million were outstanding as of September 30, 2018 (\$6,357 million—June 30, 2018). 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 2037.

As of September 30, 2018, liabilities related to IBRD's obligations under guarantees of \$429 million (\$427 million—June 30, 2018), have been included in Other liabilities on the Condensed Balance Sheet. These include the accumulated provision for guarantee losses of \$86 million (\$86 million—June 30, 2018).

During the three months ended September 30, 2018 and September 30, 2017, no guarantees provided by IBRD were called.

IBRD executed Exposure Exchange Agreements with the Multilateral Investment Guarantee Agency (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 is presented in the following table:

*In millions of U.S. dollars*

	September 30, 2018			June 30, 2018			Location on Condensed Balance Sheet
	Notional amount	(Stand ready obligation) Asset	(Provision) Recoverable asset	Notional amount	(Stand ready obligation) Asset	(Provision) Recoverable asset	
Guarantee provided <sup>a,c</sup>	\$ 3,669	\$ (246)	\$ (36)	\$ 3,671	\$ (251)	\$ (36)	Other liabilities
Guarantee received <sup>b</sup>	(3,667)	246	37	(3,672)	251	37	Other assets
	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ *</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ *</u>	

a. For the three months ended September, 2018, Provisions for losses on loans and other exposures, line on the Condensed Statement of Income includes no provisions relating to Guarantee provided (Nil—three months ended September 30, 2017).

b. For the three months ended September 30, 2018, Other, net, line on the Condensed Statement of Income includes less than \$1 million of reduction in Recoverable asset relating to Guarantee received (Less than \$1 million—three months ended September 30, 2017).

c. Notional amount, Stand ready obligation and Provision for the guarantee provided are included in guarantees outstanding of \$6,342 million, obligations under guarantees of \$429 million and accumulated provision for guarantee losses of \$86 million, respectively (\$6,357 million, \$427 million and \$86 million, respectively—June 30, 2018).

\* Indicates amount less than \$0.5 million.

### 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 resulting from waivers of loan charges is summarized below:

*In millions of U.S. dollars*

	Three Months Ended September 30,	
	2018	2017
Interest waivers	\$ 12	\$ 15
Commitment charge waivers	*	*
Front-end fee waivers	2	3
Total	<u>\$ 14</u>	<u>\$ 18</u>

\* 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, 2018, one country contributed in excess of 10% of total loan revenue; this amounted to \$147 million.

Information about IBRD's loans outstanding and associated loan revenue by geographic region is presented in the following table:

*In millions of U.S. dollars*

<i>Region</i>	<i>September 30, 2018</i>		<i>September 30, 2017</i>	
	<i>Loans Outstanding</i>	<i>Loan Revenue<sup>b</sup></i>	<i>Loans Outstanding</i>	<i>Loan Revenue<sup>b</sup></i>
Africa	\$ 4,554	\$ 66	\$ 4,069	\$ 63
East Asia and Pacific	40,251	323	37,818	218
Europe and Central Asia	46,372	203	46,547	150
Latin America and the Caribbean	57,060	473	56,152	378
Middle East and North Africa	24,083	155	21,557	98
South Asia	14,827	117	14,335	73
Other <sup>a</sup>	-	-	-	*
Total	\$ 187,147	\$ 1,337	\$ 180,478	\$ 980

a. Represents loans to IFC, an affiliated organization.

b. Does not include interest expenses, net of \$112 million from loan related derivatives (\$176 million—September 30, 2017).

Includes commitment charges of \$25 million (\$20 million—September 30, 2017).

\* Indicates amount less than \$0.5 million.

### Fair Value Disclosures

There were no loans carried at fair value as of September 30, 2018 and June 30, 2018.

The table below presents the fair value of all IBRD's loans for disclosure purposes, along with their carrying values:

*In millions of U.S. dollars*

	<i>September 30, 2018</i>		<i>June 30, 2018</i>	
	<i>Carrying Value</i>	<i>Fair Value</i>	<i>Carrying Value</i>	<i>Fair Value</i>
Net loans outstanding	\$ 185,122	\$ 187,721	\$ 183,588	\$ 186,650

IBRD's loans would be 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, 2018, 98% 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:

*In millions of U.S. dollars*

	<i>September 30, 2018</i>	<i>June 30, 2018</i>
Borrowings <sup>a</sup>	\$ 216,361	\$ 208,009
Currency swaps, net	4,508	3,737
Interest rate swaps, net	2,315	1,906
	\$ 223,184	\$ 213,652

a. Includes \$2,398 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 (\$126 million—June 30, 2018).

Interest expenses, net for Borrowings on the Condensed Statement of Income of \$1,088 million (\$600 million—three months ended September 30, 2017) include \$165 million of interest revenue, net, related to derivatives associated with the Borrowing portfolio (\$488 million—three months ended September 30, 2017).

Net short-term borrowings on the Condensed Statement of Cash Flows include new issues and retirements for instruments with maturities longer than 90 days and up to 1 year in the amounts of \$1,281 million and \$2,102 million, respectively (\$1,800 million and \$1,390 million, respectively—three months ended September 30, 2017).

For the three months ended September 30, 2018, the amount of interest paid on zero-coupon bonds and bonds with insignificant coupon interest rates was \$74 million (\$29 million—three months ended September 30, 2017).

### Fair Value Disclosures

IBRD's fair value hierarchy for borrowings measured at fair value on a recurring basis was as follows:

*In millions of U.S. dollars*

	<u>September 30, 2018</u>	<u>June 30, 2018</u>
Level 1	\$ -	\$ -
Level 2	211,986	203,603
Level 3	<u>4,375</u>	<u>4,406</u>
	<u>\$ 216,361</u>	<u>\$ 208,009</u>

The following table provides a summary of changes in the fair value of IBRD's Level 3 borrowings:

*In millions of U.S. dollars*

	<u>Three Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Beginning of the fiscal year	\$ 4,406	\$ 2,278
Total realized/unrealized mark-to-market losses (gains) in:		
Net income	12	(96)
Other comprehensive income (OCI) <sup>a</sup>	(33)	(12)
Issuances	77	492
Settlements	(87)	(112)
Transfers into, net	-	322
End of the period	<u>\$ 4,375</u>	<u>\$ 2,872</u>

a. Starting with the period ended September 30, 2018, OCI includes the DVA on Fair Value Option Elected Liabilities.

#### Valuation adjustments on fair value option elected liabilities

Starting July 1, 2018, changes in fair value of IBRD's financial liabilities that relate to IBRD's own credit risk will be recognized in OCI as a Debit Valuation Adjustment (DVA) on Fair Value Option Elected Liabilities. The DVA on Fair Value Option Elected Liabilities will be measured by revaluing each liability to determine the changes in fair value of that liability arising from changes in IBRD's cost of funding relative to LIBOR.

The following table provides information on the changes in fair value due to the change in IBRD's own credit risk for financial liabilities measured under the fair value option, included in the Condensed Statement of Other Comprehensive Income:

*In millions of U.S. dollars*

<u>Unrealized mark-to-market gains/(losses) due to DVA on fair value option elected liabilities</u>	<u>September 30, 2018</u>
DVA on Fair Value Option Elected Liabilities	\$ 51
Amounts reclassified to net income upon derecognition of a liability	1
Net change in DVA on Fair Value Option Elected Liabilities	<u>\$ 52</u>

The following table provides information on the cumulative changes in fair value due to the change in IBRD's own-credit risk for financial liabilities measured under the fair value option, as well as where those amounts are included in the Condensed Balance Sheet:

*In millions of U.S. dollars*

<u>DVA on fair value option elected liabilities</u>	<u>September 30, 2018</u>
Reported as follows:	
Accumulated other comprehensive loss	\$ 207

Information on the unrealized mark-to-market gains or losses included in the Condensed Statement of Income 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*

<i>Unrealized mark-to-market gains</i>	<i>Three Months Ended September 30,</i>	
	<i>2018</i>	<i>2017</i>
Reported as follows:		
Unrealized mark-to-market gains (losses) on non-trading portfolios, net	\$ 38	\$ 133

The following table provides information on the unrealized mark-to-market gains or losses included in the Condensed Statement of Income 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*

<i>Unrealized mark-to-market gains</i>	<i>Three Months Ended September 30,</i>	
	<i>2018</i>	<i>2017</i>
Reported as follows:		
Unrealized mark-to-market gains (losses) on non-trading portfolios, net	\$ 754	\$ 233

IBRD's Level 3 borrowings primarily relate to structured bonds. The fair value of these bonds is estimated using discounted cash flow 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, 2018, and the fiscal year ended June 30, 2018, the interest rate volatilities for certain currencies were extrapolated for certain tenors and, thus, are considered an unobservable input.

The table below provides the details of all inter-level transfers. Transfers between Level 2 and Level 3 are due to changes in price transparency.

*In millions of U.S. dollars*

	<i>September 30, 2018</i>		<i>September 30, 2017</i>	
	<i>Level 2</i>	<i>Level 3</i>	<i>Level 2</i>	<i>Level 3</i>
Borrowings				
Transfer into (out of)	\$ -	\$ -	\$ -	\$ -
Transfer (out of) into	-	-	(322)	322
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (322)</u>	<u>\$ 322</u>

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

*In millions of U.S. dollars*

	<u>Fair Value</u>	<u>Principal Amount Due Upon Maturity</u>	<u>Difference</u>
September 30, 2018	\$ 216,361	\$ 225,402	\$ (9,041)
June 30, 2018	\$ 208,009	\$ 216,458	\$ (8,449)

### **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 rate 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 derivative 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:

<b>Portfolio</b>	<b>Derivative instruments used</b>	<b>Purpose / Risk being managed</b>
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 presentation of IBRD's derivatives is based on the manner in which they are settled. Interest rate swaps are settled on a net basis and are, therefore, presented on a net basis. Currency swaps are settled on a gross basis and are therefore, presented on a gross basis.

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:

*In millions of U.S. dollars*

	<b>Condensed Balance Sheet Location</b>			
	<b>Derivative Assets</b>		<b>Derivative Liabilities</b>	
	<b>September 30, 2018</b>	<b>June 30, 2018</b>	<b>September 30, 2018</b>	<b>June 30, 2018</b>
Derivatives not designated as hedging instruments				
Swaptions, exchange traded options and futures contracts – Investments-Trading	\$ *	\$ *	\$ 4	\$ 3
Interest rate swaps	4,696	4,691	8,135	7,852
Currency swaps <sup>a</sup>	139,183	137,025	142,182	139,241
Other	-	-	-	-
<b>Total derivatives</b>	<b>\$ 143,879</b>	<b>\$ 141,716</b>	<b>\$ 150,321</b>	<b>\$ 147,096</b>

*a. Includes currency forward contracts and structured swaps.*

*\* Indicates amount less than \$0.5 million.*

### 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. 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, 2018					
	Location on the Condensed Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 20,112	\$ (15,416)	\$ 4,696	\$ 36,802	\$ (28,667)	\$ 8,135
Currency swaps <sup>a</sup>	139,183	-	139,183	142,182	-	142,182
Other <sup>b</sup>	*	-	*	4	-	4
<b>Total</b>	<b>\$ 159,295</b>	<b>\$ (15,416)</b>	<b>\$ 143,879</b>	<b>\$ 178,988</b>	<b>\$ (28,667)</b>	<b>\$ 150,321</b>
Amounts subject to legally enforceable master netting agreements <sup>c</sup>			(141,486)			(141,486)
Net derivative positions at counterparty level before collateral			2,393			8,835
Less:						
Cash collateral received <sup>d</sup>			49			
Securities collateral received <sup>d</sup>			1,019			
Net derivative exposure after collateral			\$ 1,325			

a. Includes currency forward contracts and structured swaps.

b. These relate to swaptions, exchange traded options and futures contracts.

c. Not offset on the Condensed Balance Sheet.

d. Does not include excess collateral received.

\* Indicates amount less than \$0.5 million.

In millions of U.S. dollars

	June 30, 2018					
	Location on the Condensed Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 18,665	\$ (13,974)	\$ 4,691	\$ 37,482	\$ (29,630)	\$ 7,852
Currency swaps <sup>a</sup>	137,025	-	137,025	139,241	-	139,241
Other <sup>b</sup>	*	-	*	3	-	3
<b>Total</b>	<b>\$ 155,690</b>	<b>\$ (13,974)</b>	<b>\$ 141,716</b>	<b>\$ 176,726</b>	<b>\$ (29,630)</b>	<b>\$ 147,096</b>
Amounts subject to legally enforceable master netting agreements <sup>c</sup>			(139,164)			(139,164)
Net derivative positions at counterparty level before collateral			2,552			7,932
Less:						
Cash collateral received <sup>d</sup>			92			
Securities collateral received <sup>d</sup>			1,006			
Net derivative exposure after collateral			\$ 1,454			

a. Includes currency forward contracts and structured swaps.

b. These relate to swaptions, exchange traded options and futures contracts.

c. Not offset on the Condensed Balance Sheet.

d. Does not include excess collateral received.

## Notional amounts and credit risk exposure of the derivative instruments:

In millions of U.S. dollars

Type of contract	September 30, 2018	June 30, 2018
<b>Investments - Trading</b>		
Interest rate swaps		
Notional principal	\$ 3,712	\$ 3,723
Credit exposure	62	60
Currency swaps (including currency forward contracts)		
Credit exposure	789	823
Swaptions, exchange traded options and futures contracts <sup>a</sup>		
Notional long position	943	998
Notional short position	49	42
Credit exposure	*	*
Other derivatives		
Notional long position	-	-
Notional short position	-	-
Credit exposure	-	-
<b>Loans</b>		
Interest rate swaps		
Notional principal	24,250	23,410
Credit exposure	392	305
Currency swaps		
Credit exposure	881	837
<b>Client operations</b>		
Interest rate swaps		
Notional principal	18,183	19,029
Credit exposure	606	673
Currency swaps (including currency forward contracts)		
Credit exposure	1,031	1,065
<b>Borrowings</b>		
Interest rate swaps		
Notional principal	239,612	237,174
Credit exposure	2,418	2,511
Currency swaps		
Credit exposure	3,782	4,002
<b>Other derivatives</b>		
Interest rate swaps		
Notional principal	154,759	157,234
Credit exposure	1,218	1,142
Currency swaps		
Credit exposure	-	-
<b>Total credit exposure</b>		
Interest rate swaps	4,696	4,691
Currency swaps (including currency forward contracts)	6,483	6,727
Swaptions, exchange traded options and futures contracts <sup>a</sup>	*	*
Other derivatives	-	-
<b>Total exposure</b>	<b>11,179</b>	<b>11,418</b>

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.

\* 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, 2018 is \$8,720 million (\$7,791 million—June 30, 2018). 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, 2018, the amount of collateral that would need to be posted would be \$5,265 million (\$3,986 million—June 30, 2018). Subsequent triggers of contingent features would require posting of additional collateral, up to a maximum of \$8,720 million (\$7,791 million—June 30, 2018). In contrast, IBRD received collateral totaling \$1,395 million as of September 30, 2018 (\$1,457 million—June 30, 2018), 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 and their location on the Condensed Statement of Income:

*In millions of U.S. dollars*

<i>Derivatives not designated as hedging instruments, and not held in a trading portfolio</i> <sup>a</sup>	<i>Reported as:</i>	<i>Unrealized mark-to-market losses</i>	
		<i>Three Months Ended September 30,</i>	
		<i>2018</i>	<i>2017</i>
Interest rate swaps	Unrealized mark-to-market gains	\$ (262)	\$ (210)
Currency swaps (including currency forward contracts and structured swaps)	(losses) on non-trading portfolios, net	(228)	(151)
Total		<u>\$ (490)</u>	<u>\$ (361)</u>

*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 Investments – Trading portfolio and their location on the Condensed Statement of Income:

*In millions of U.S. dollars*

<i>Reported as:</i>	<i>Unrealized mark-to-market gains</i> <sup>a</sup>	
	<i>Three Months Ended September 30,</i>	
	<i>2018</i>	<i>2017</i>
Type of instrument		
Fixed income (including associated derivatives)	\$ 67	\$ 72
Equity	6	12
Total	<u>\$ 73</u>	<u>\$ 84</u>

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

## Fair Value Disclosures

IBRD's fair value hierarchy for derivative assets and liabilities measured at fair value on a recurring basis was as follows:

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis September 30, 2018			
	Level 1	Level 2	Level 3	Total
<b>Derivative Assets:</b>				
Investments				
Currency forward contracts	\$ -	\$ 20,773	\$ -	\$ 20,773
Currency swaps	-	21,753	-	21,753
Interest rate swaps	-	62	-	62
Swaptions, exchange traded options and futures contracts	*	*	-	*
Other	-	-	-	-
	<u>*</u>	<u>42,588</u>	<u>-</u>	<u>42,588</u>
Loans				
Currency swaps	-	4,463	265	4,728
Interest rate swaps	-	392	-	392
	<u>-</u>	<u>4,855</u>	<u>265</u>	<u>5,120</u>
Client operations				
Currency swaps (including currency forward contracts)	-	16,122	-	16,122
Interest rate swaps	-	606	-	606
	<u>-</u>	<u>16,728</u>	<u>-</u>	<u>16,728</u>
Borrowings				
Currency swaps	-	74,525	1,282	75,807
Interest rate swaps	-	2,361	57	2,418
	<u>-</u>	<u>76,886</u>	<u>1,339</u>	<u>78,225</u>
Others				
Currency swaps	-	-	-	-
Interest rate swaps	-	1,218	-	1,218
	<u>-</u>	<u>1,218</u>	<u>-</u>	<u>1,218</u>
<b>Total derivative assets</b>	<u>\$ *</u>	<u>\$ 142,275</u>	<u>\$ 1,604</u>	<u>\$ 143,879</u>
<b>Derivative Liabilities:</b>				
Investments				
Currency forward contracts	\$ -	\$ 20,591	\$ -	\$ 20,591
Currency swaps	-	21,295	-	21,295
Interest rate swaps	-	41	-	41
Swaptions, exchange traded options and futures contracts	4	*	-	4
Other	-	-	-	-
	<u>4</u>	<u>41,927</u>	<u>-</u>	<u>41,931</u>
Loans				
Currency swaps	-	3,598	267	3,865
Interest rate swaps	-	964	-	964
	<u>-</u>	<u>4,562</u>	<u>267</u>	<u>4,829</u>
Client operations				
Currency swaps (including currency forward contracts)	-	16,116	-	16,116
Interest rate swaps	-	604	29	633
	<u>-</u>	<u>16,720</u>	<u>29</u>	<u>16,749</u>
Borrowings				
Currency swaps	-	78,850	1,465	80,315
Interest rate swaps	-	4,532	201	4,733
	<u>-</u>	<u>83,382</u>	<u>1,666</u>	<u>85,048</u>
Others				
Currency swaps	-	-	-	-
Interest rate swaps	-	1,764	-	1,764
	<u>-</u>	<u>1,764</u>	<u>-</u>	<u>1,764</u>
<b>Total derivative liabilities</b>	<u>\$ 4</u>	<u>\$ 148,355</u>	<u>\$ 1,962</u>	<u>\$ 150,321</u>

\* Indicates amount less than \$0.5 million.

In millions of U.S. dollars

Fair Value Measurements on a Recurring Basis  
June 30, 2018

	Level 1	Level 2	Level 3	Total
<b>Derivative Assets:</b>				
Investments				
Currency forward contracts	\$ -	\$ 18,647	\$ -	\$ 18,647
Currency swaps	-	19,308	-	19,308
Interest rate swaps	-	60	-	60
Swaptions, exchange traded options and futures contracts	*	*	-	*
Other	-	-	-	-
	<u>*</u>	<u>38,015</u>	<u>-</u>	<u>38,015</u>
Loans				
Currency swaps	-	4,461	233	4,694
Interest rate swaps	-	305	-	305
	<u>-</u>	<u>4,766</u>	<u>233</u>	<u>4,999</u>
Client operations				
Currency swaps (including currency forward contracts)	-	16,369	-	16,369
Interest rate swaps	-	672	1	673
	<u>-</u>	<u>17,041</u>	<u>1</u>	<u>17,042</u>
Borrowings				
Currency swaps	-	76,643	1,364	78,007
Interest rate swaps	-	2,469	42	2,511
	<u>-</u>	<u>79,112</u>	<u>1,406</u>	<u>80,518</u>
Others				
Currency swaps	-	-	-	-
Interest rate swaps	-	1,142	-	1,142
	<u>-</u>	<u>1,142</u>	<u>-</u>	<u>1,142</u>
<b>Total derivative assets</b>	<u>\$ *</u>	<u>\$ 140,076</u>	<u>\$ 1,640</u>	<u>\$ 141,716</u>
<b>Derivative Liabilities:</b>				
Investments				
Currency forward contracts	\$ -	\$ 18,358	\$ -	\$ 18,358
Currency swaps	-	18,894	-	18,894
Interest rate swaps	-	43	-	43
Swaptions, exchange traded options and futures contracts	3	-	-	3
Other	-	-	-	-
	<u>3</u>	<u>37,295</u>	<u>-</u>	<u>37,298</u>
Loans				
Currency swaps	-	3,642	239	3,881
Interest rate swaps	-	1,126	-	1,126
	<u>-</u>	<u>4,768</u>	<u>239</u>	<u>5,007</u>
Client operations				
Currency swaps (including currency forward contracts)	-	16,364	-	16,364
Interest rate swaps	-	674	31	705
	<u>-</u>	<u>17,038</u>	<u>31</u>	<u>17,069</u>
Borrowings				
Currency swaps	-	80,280	1,464	81,744
Interest rate swaps	-	4,207	210	4,417
	<u>-</u>	<u>84,487</u>	<u>1,674</u>	<u>86,161</u>
Others				
Currency swaps	-	-	-	-
Interest rate swaps	-	1,561	-	1,561
	<u>-</u>	<u>1,561</u>	<u>-</u>	<u>1,561</u>
<b>Total derivative liabilities</b>	<u>\$ 3</u>	<u>\$ 145,149</u>	<u>\$ 1,944</u>	<u>\$ 147,096</u>

\* 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:

*In millions of U.S. dollars*

	<i>Three Months Ended September 30, 2018</i>			<i>Three Months Ended September 30, 2017</i>		
	<i>Currency swaps</i>	<i>Interest rate swaps</i>	<i>Total</i>	<i>Currency swaps</i>	<i>Interest rate swaps</i>	<i>Total</i>
Beginning of the fiscal year	\$ (106)	\$ (198)	\$ (304)	\$ 33	\$ (108)	\$ (75)
Total realized/unrealized mark-to-market (losses) gains in:						
Net income	(47)	26	(21)	(14)	(118)	(132)
Other comprehensive income	(32)	*	(32)	3	1	4
Issuances	(1)	*	(1)	(1)	(73)	(74)
Settlements	1	(1)	*	2	(11)	(9)
Transfers, net	-	-	-	-	(1)	(1)
End of the period	<u>\$ (185)</u>	<u>\$ (173)</u>	<u>\$ (358)</u>	<u>\$ 23</u>	<u>\$ (310)</u>	<u>\$ (287)</u>

Unrealized mark-to-market gains or losses included in the Condensed Statement of Income 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*

<i>Unrealized mark-to-market losses</i>	<i>Three Months Ended September 30,</i>	
	<i>2018</i>	<i>2017</i>
Reported as follows:		
Unrealized mark-to-market gains (losses) on non-trading portfolios, net	\$ (32)	\$ (133)

The following table provides details of all inter-level transfers:

*In millions of U.S. dollars*

	<i>Three Months Ended September 30, 2018</i>		<i>Three Months Ended September 30, 2017</i>	
	<i>Level 2</i>	<i>Level 3</i>	<i>Level 2</i>	<i>Level 3</i>
Derivative assets, net				
Transfer into (out of)	\$ -	\$ -	\$ -	\$ -
Transfer (out of) into	-	-	(1)	1
	-	-	(1)	1
Derivative liabilities, net				
Transfer (into) out of	\$ -	\$ -	\$ -	\$ -
Transfer out of (into)	-	-	2	(2)
	-	-	2	(2)
Transfers, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ (1)</u>

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

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

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

*In millions of U.S. dollars*

<i>Portfolio</i>	<i>Fair Value at September 30, 2018</i>	<i>Fair Value at June 30, 2018</i>	<i>Valuation Technique</i>	<i>Unobservable input</i>	<i>Range (average), September 30, 2018</i>	<i>Range (average), June 30, 2018</i>
Currency swaps,			Discounted Cash Flow	Correlations	-31% to 76% (12%)	-34% to 73% (10%)
interest rate swaps	(358)	(304)		Interest rate volatilities	17% to 32% (27%)	18% to 34% (29%)

### 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 9, 2018, IBRD's Executive Directors approved the following allocations relating to the net income earned in the fiscal year ended June 30, 2018; an increase in General Reserve by \$913 million and a decrease in the Pension Reserve by \$22 million.

On September 5, 2018, IBRD's Board of Governors approved a transfer of \$90 million from Surplus to the Trust Fund for Gaza and West Bank. The transfer was made on September 14, 2018.

**Subsequent event:** On October 12, 2018, IBRD's Board of Governors approved a transfer to International Development Association (IDA) of \$248 million out of the net income earned in the fiscal year ended June 30, 2018. The transfer to IDA was made on October 23, 2018.

Retained earnings comprise the following components:

*In millions of U.S. dollars*

	<i>September 30, 2018</i>	<i>June 30, 2018</i>
Special reserve	\$ 293	\$ 293
General reserve	28,606	27,693
Pension reserve	787	810
Surplus	126	216
Cumulative fair value adjustments <sup>a</sup>	(1,888) <sup>b</sup>	(1,467)
Unallocated net income	742	875
Restricted retained earnings	40	37
Total	\$ 28,706	\$ 28,457

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

b. Includes cumulative effect of \$155 million related to the change in accounting principle from the adoption of ASU 2016-01 on instrument specific credit risk for fair value option elected liabilities (DVA), on July 1, 2018.

## 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 following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for IBRD and IDA.

*In millions of U.S. dollars*

	<i>Three Months Ended September 30, 2018</i>				<i>Three Months Ended September 30, 2017</i>			
	<i>SRP</i>	<i>RSBP</i>	<i>PEBP</i>	<i>Total</i>	<i>SRP</i>	<i>RSBP</i>	<i>PEBP</i>	<i>Total</i>
Benefit cost								
Service cost	\$ 118	\$ 31	\$ 21	\$ 170	\$ 114	\$ 31	\$ 20	\$ 165
Interest cost	183	30	17	230	162	28	15	205
Expected return on plan assets	(252)	(40)	-	(292)	(225)	(36)	-	(261)
Amortization of unrecognized prior service costs <sup>a</sup>	1	4	1	6	1	4	1	6
Amortization of unrecognized net actuarial losses <sup>a</sup>	5	-	17	22	19	-	14	33
Net periodic pension cost	<u>\$ 55</u>	<u>\$ 25</u>	<u>\$ 56</u>	<u>\$ 136</u>	<u>\$ 71</u>	<u>\$ 27</u>	<u>\$ 50</u>	<u>\$ 148</u>
Of which:								
IBRD's share	\$ 25	\$ 11	\$ 26	\$ 62	\$ 34	\$ 13	\$ 24	\$ 71
IDA's share	30	14	30	74	37	14	26	77

*a. Included in Amounts reclassified into net income in Note J—Comprehensive Income.*

The components of net periodic pension cost, other than the service cost component, are included in the line item Pension in the Condensed Statement of Income. From the quarter ended September 30, 2018, the service cost component is included in the line item Administrative expenses. The following table provides the amounts of IBRD's pension service cost:

*In millions of U.S. dollars*

	<i>Three Months Ended September 30, 2018</i>				<i>Three Months Ended September 30, 2017</i>			
	<i>SRP</i>	<i>RSBP</i>	<i>PEBP</i>	<i>Total</i>	<i>SRP</i>	<i>RSBP</i>	<i>PEBP</i>	<i>Total</i>
Service cost	\$ 118	\$ 31	\$ 21	\$ 170	\$ 114	\$ 31	\$ 20	\$ 165
Of which:								
IBRD's share <sup>a</sup>	\$ 54	\$ 14	\$ 10	\$ 78	\$ 55	\$ 15	\$ 9	\$ 79
IDA's share	64	17	11	92	59	16	11	86

*a. Included in Administrative expenses in the Condensed Statement of Income.*

## NOTE I—TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

IBRD transacts with affiliated organizations by providing loans, grants, 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).

IBRD had the following receivables from (payables to) its affiliated organizations:

*In millions of U.S. dollars*

	September 30, 2018				June 30, 2018			
	IDA	IFC	MIGA	Total	IDA	IFC	MIGA	Total
Administrative Services	\$ 274	\$ 43	\$ 8	\$ 325	\$ 339	\$ 41	\$ 12	\$ 392
Derivative Transactions <sup>a</sup>								
Receivable	4,197	-	-	4,197	4,284	-	-	4,284
Payable	(4,427)	-	-	(4,427)	(4,531)	-	-	(4,531)
Pension and Other Postretirement								
Benefits	(675)	(357)	(13)	(1,045)	(676)	(352)	(13)	(1,041)
Investments	-	(89)	-	(89)	-	(80)	-	(80)
	<u>\$ (631)</u>	<u>\$ (403)</u>	<u>\$ (5)</u>	<u>\$ (1,039)</u>	<u>\$ (584)</u>	<u>\$ (391)</u>	<u>\$ (1)</u>	<u>\$ (976)</u>

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 <sup>a</sup>	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. As of September 30, 2018 and June 30, 2018, there were no loans outstanding under this facility.

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, 2018, assets related to IBRD's right to be indemnified under this agreement amounted to \$2 million (\$2 million—June 30, 2018), while liabilities related to IBRD's obligation under this agreement amounted to \$2 million (\$2 million—June 30, 2018). These include an accumulated provision for guarantee losses of \$1 million (\$1 million—June 30, 2018).

### 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, 2018, IBRD's administrative expenses are net of the share of expenses allocated to IDA of \$412 million (\$413 million—three months ended September 30, 2017).

## 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, 2018, IBRD's revenue is net of revenue allocated to IDA of \$51 million (\$47 million—three months ended September 30, 2017) and is included in Revenue from externally funded activities on the Condensed Statement of Income.

This revenue also includes revenue from contracts with customers as follows:

*In millions of U.S. dollars*

	<i>Three Months Ended September 30,</i>		<i>Description</i>
	<i>2018</i>	<i>2017</i>	
Trust fund fees	\$ 18	\$ 20	Administrative and trustee services for trust funds
Other	2	6	RAS and asset management services
	<u>\$ 20</u>	<u>\$ 26</u>	
Of which:			
IBRD's share	\$ 10	\$ 14	
IDA's share	10	12	

Each revenue stream represents compensation for services provided and the related revenue is recognized over time.

IBRD's rights to consideration are deemed unconditional, and are classified as receivables. IBRD also has an obligation to transfer certain services for which it has received consideration in advance. Such considerations are presented as contract liabilities and are subsequently recognized as revenue, when the related performance obligation is satisfied.

The following table shows IBRD's receivables and contract liabilities related to revenue from contracts with customers:

*In millions of U.S. dollars*

	<i>September 30, 2018</i>	<i>June 30, 2018</i>
Receivables	\$ 34	\$ 57
Contract liabilities	139	132

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*

	<i>Three Months Ended September 30,</i>	
	<i>2018</i>	<i>2017</i>
Fees charged to IFC	\$ 17	\$ 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 Postretirement 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.

### **Investments**

These relate to investments that IBRD has made on behalf of IFC, associated with the PCRF and are included in Investments-Trading on IBRD's Condensed Balance Sheet. The corresponding payable to IFC is included in the amount payable for investment securities purchased. As a result, there is no impact on IBRD's investments net asset value from these transactions.

## **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. Other 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.

Effective July 1, 2018, IBRD adopted ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* which affected the recognition and measurement of financial liabilities where the fair value option has been elected. The ASU requires the portion of the total change in fair value caused by changes in IBRD's own credit risk (DVA on Fair Value Option Elected Liabilities) to be presented separately in other comprehensive income. Previously these amounts were recognized in net income. Upon derecognition of a liability designated under the fair value option, the cumulative amount of DVA on Fair Value Option Elected Liabilities will be reclassified from accumulated other comprehensive income to net income. Upon adoption of this ASU, a cumulative effect adjustment of \$155 million was reclassified from retained earnings to accumulated other comprehensive income.

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) balances:

*In millions of U.S. dollars*

	<i>Three Months Ended September 30, 2018</i>						
	<i>Balance, beginning of the fiscal year</i>	<i>Cumulative adjustment</i>	<i>Adjusted beginning balance</i>	<i>Changes in fair value in AOCL</i>	<i>Amounts reclassified into net income</i>	<i>Net Changes during the period</i>	<i>Balance, end of the period</i>
Cumulative Translation Adjustment	\$ 139	\$ -	\$ 139	\$ (12)	\$ -	\$ (12)	\$ 127
DVA on Fair Value option elected liabilities	-	155	155	51	1	52	207
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(2,423)	-	(2,423)	-	22 <sup>a</sup>	22	(2,401)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(136)	-	(136)	-	6 <sup>a</sup>	6	(130)
Other	(2)	-	(2)	-	1	1	(1)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$ (2,422)</b>	<b>\$ 155</b>	<b>\$ (2,267)</b>	<b>\$ 39</b>	<b>\$ 30</b>	<b>\$ 69</b>	<b>\$ (2,198)</b>

*In millions of U.S. dollars*

	<i>Three Months Ended September 30, 2017</i>				
	<i>Balance, beginning of the fiscal year</i>	<i>Changes in fair value in AOCL</i>	<i>Amounts reclassified into net income</i>	<i>Net Changes during the period</i>	<i>Balance, end of the period</i>
Cumulative Translation Adjustment	\$ 46	\$ 232	\$ -	\$ 232	\$ 278
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(3,257)	-	33 <sup>a</sup>	33	(3,224)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(160)	-	6 <sup>a</sup>	6	(154)
Other	(5)	-	1	1	(4)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$ (3,376)</b>	<b>\$ 232</b>	<b>\$ 40</b>	<b>\$ 272</b>	<b>\$ (3,104)</b>

a. See Note H—Pension and Other Post Retirement Benefits.

## 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:

*In millions of U.S. dollars*

	September 30, 2018		June 30, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Due from banks	\$ 607	\$ 607	\$ 619	\$ 619
Investments-Trading (including Securities purchased under resale agreements)	79,964	79,964	72,569	72,569
Net loans outstanding	185,122	187,721	183,588	186,650
Derivative assets				
Investments	42,588	42,588	38,015	38,015
Loans	5,120	5,120	4,999	4,999
Client operations	16,728	16,728	17,042	17,042
Borrowings	78,225	78,225	80,518	80,518
Others	1,218	1,218	1,142	1,142
<b>Liabilities</b>				
Borrowings	216,361	216,371	208,009	208,019
Securities sold/lent under repurchase agreements/securities lending agreements and payable for cash collateral received	75	75	122	122
Derivative liabilities				
Investments	41,931	41,931	37,298	37,298
Loans	4,829	4,829	5,007	5,007
Client operations	16,749	16,749	17,069	17,069
Borrowings	85,048	85,048	86,161	86,161
Others	1,764	1,764	1,561	1,561

### Valuation Methods and Assumptions

As of September 30, 2018 and June 30, 2018, 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:

*In millions of U.S. dollars*

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts <sup>a</sup>	Unrealized gains (losses)	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts <sup>a</sup>	Unrealized gains (losses)
Investments-Trading	\$ 393	\$ (320)	\$ 73	\$ (595)	\$ 679	\$ 84
Non trading portfolios, net						
Loans derivatives—Notes D and F	1	296	297	-	80	80
Equity management, net	-	(105)	(105)	-	(36)	(36)
Borrowings, including derivatives —Notes E and F	1	71	72 <sup>b</sup>	*	(168)	(168) <sup>b</sup>
Other assets/liabilities derivatives	-	-	-	-	(*)	(*)
Client operations derivatives	-	(*)	(*)	-	(4)	(4)
Total	\$ 2	\$ 262	\$ 264	\$ *	\$ (128)	\$ (128)

*a. Adjusted to exclude amounts reclassified to realized gains (losses).*

*b. Includes \$682 million of unrealized mark-to-market losses related to derivatives associated with borrowings (unrealized mark-to-market losses of \$401 million —three months ended September 30, 2017).*

*\* Indicates amount less than \$0.5 million.*

## 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, 2018, will have a material adverse effect on IBRD's financial position, results of operations or cash flows.

# INDEPENDENT AUDITORS' REVIEW REPORT



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## INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying condensed balance sheet of the International Bank for Reconstruction and Development ("IBRD") as of September 30, 2018, and the related condensed statements of income, comprehensive income, changes in retained earnings, and cash flows for the three-month period ended September 30, 2018 (the "interim financial information"). The condensed statements of income, statements of comprehensive income, statements of changes in retained earnings, and statements of cash flows for the three-month period ended September 30, 2017, were reviewed by other auditors whose report dated November 13, 2017, stated that based on their review, they were not aware of any material modifications that should be made to those statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. The balance sheet of IBRD as of June 30, 2018, and the related statements of income, comprehensive income, changes in retained earnings, cash flows, for the year then ended (not presented herein), were audited by other auditors whose report dated August 9, 2018, expressed an unmodified opinion on those statements.

### Management's Responsibility for the Interim Financial Information

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

### Auditors' Responsibility

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

### Conclusion

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

A handwritten signature in black ink that reads "DELOITTE &amp; TOUCHE LLP".

November 12, 2018