

# International Development Association



Management's Discussion & Analysis  
and  
Financial Statements  
June 30, 2017



# INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

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The International Development Association (IDA) is a multilateral development organization with headquarters in Washington, D.C., USA. IDA became a rated entity for the first time in FY17, and was rated triple-A on the basis of its very high levels of equity, ample and well-managed liquidity, and long track record of member support. As a member of the World Bank Group (WBG)<sup>1</sup>, IDA provides loans, grants, guarantees, and expertise for development projects and programs to many of the world's developing countries. Its main business activity is extending loans to its eligible member countries.

## Highlights

- FY17 was the third and final year of IDA's Seventeenth Replenishment of resources (IDA17). Strong demand for IDA's financing products and services by borrowers resulted in the full commitment of the \$58 billion<sup>2</sup> lending envelope and IDA's equity grew to \$158.5 billion over the IDA17 period. See Section III: Funding and Resource Allocation.
- On March 31, 2017, IDA's Eighteenth Replenishment of resources (IDA18) was approved by the Board of Governors. The IDA18 financing framework is an integrated package that will leverage IDA's strong equity base. It includes an expansion of IDA's business model to access debt from the capital markets. Members have agreed that IDA will make \$75 billion in new commitments over the three year replenishment period, FY18-FY20, backed by \$27.2 billion in new member contributions, and that equity of \$158.5 billion will be leveraged to raise funds in the capital markets. See Section III: Funding and Resource Allocation.

## Financial Results

- **Total Loans Outstanding (Section V)**

IDA's loan portfolio increased by \$5.5 billion from \$136.7 billion as of June 30, 2016 to \$142.2 billion as of June 30, 2017. This reflects the strengthening demand for IDA's lending products as measured by lending commitments and net loan disbursement activity.

- **Equity (Section IV)**

IDA's reported equity increased by \$3.8 billion from \$154.7 billion as of June 30, 2016 to \$158.5 billion as of June 30, 2017. The main driver for the increase was the receipt of \$7 billion in member contributions.

- **Investments (Section VII)**

IDA's investment portfolio decreased by \$0.2 billion from \$29.9 billion as of June 30, 2016 to \$29.7 billion as of June 30, 2017. The decrease was primarily due to unrealized mark-to-market losses, resulting from the increase in interest rates during the year.

- **Net Income (Section IV)**

For FY17, IDA reported a net loss of \$2.3 billion. The net reported loss incurred by IDA primarily reflects the impact of \$2.6 billion in grants provided to IDA's eligible members. These are financed by contributions from members, which are recorded as equity and not reflected in the Statement of Income.

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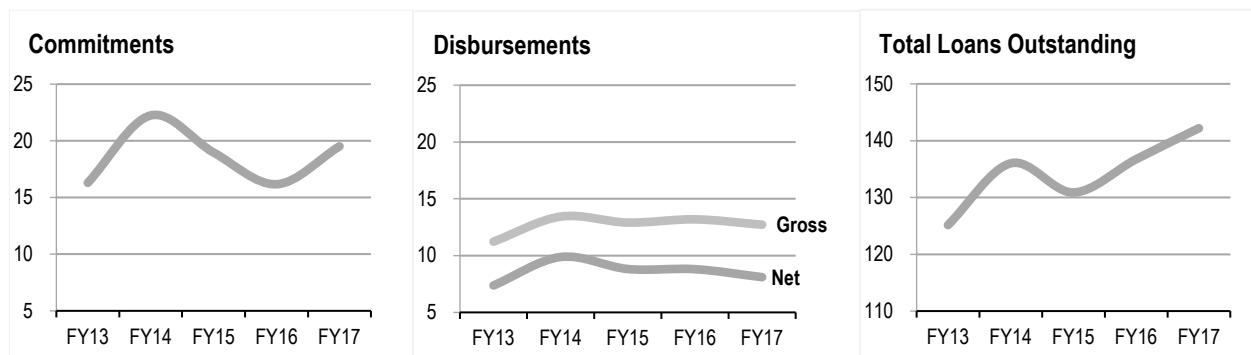
<sup>1</sup> The institutions of the WBG are: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Each of these institutions is legally and financially independent.

<sup>2</sup> U.S. dollar amounts are based on an IDA17 reference rate of USD/SDR 1.50718. The USD amounts are provided for illustrative purposes only, as IDA's balance sheet is predominantly managed in Special Drawing Rights (SDR).

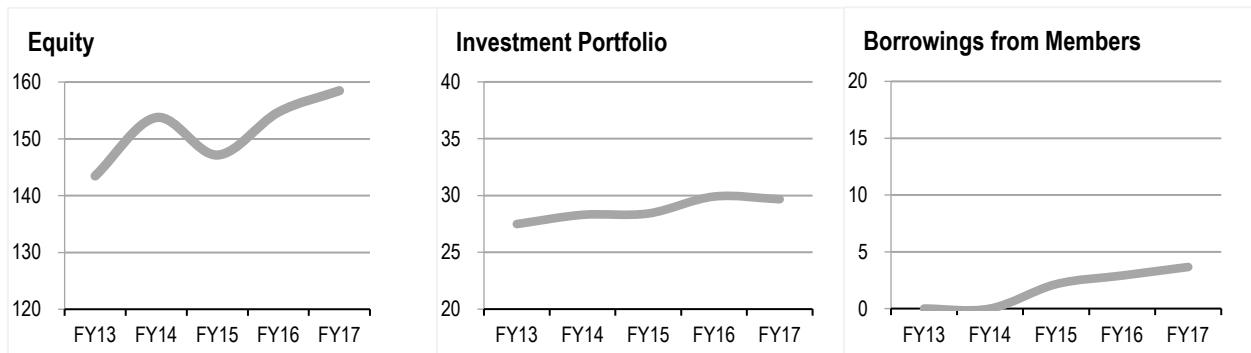
## KEY PERFORMANCE INDICATORS

(In billions of U.S. dollars)

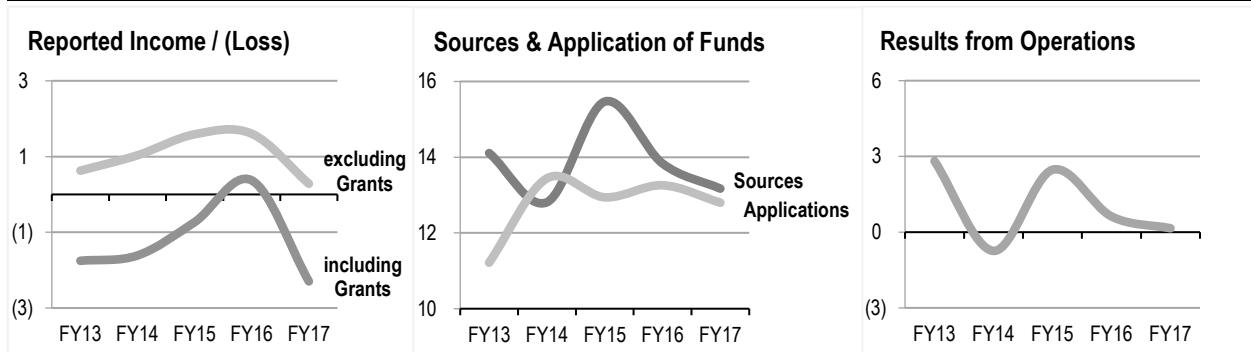
**LENDING** – IDA’s lending activity is characterized by a peak in commitment activity in the last year of a replenishment cycle (IDA16-FY14, IDA17-FY17). IDA’s loans typically disburse over a period of up to 10 years, and have repayment periods of up to 40 years. Therefore, each replenishment results in a steady increase in IDA’s net loans outstanding. As most of IDA’s loans are currently denominated in SDRs, the decrease in FY15 reflects the 9% depreciation of the SDR against the USD in that year.



**EQUITY, LIQUIDITY & BORROWINGS** – Each successive replenishment has strengthened IDA’s equity to finance its operations. Since IDA’s resources are primarily in SDR, the reported balance of IDA’s equity is affected by the appreciation /depreciation of the SDR against the USD. The decline in equity in FY15 was due to the 9% depreciation of the SDR in that year, however, this decline did not affect IDA’s lending capacity in SDR. IDA has maintained high levels of liquidity in its investment portfolio to ensure that it can meet its liquidity needs.



**FINANCIAL RESULTS** – IDA’s reported net losses are primarily driven by its grant activity, as previously discussed. IDA’s FY17 reported net loss as compared to the reported net gain in FY16, primarily reflects a higher level of grant activity, consistent with the final year of a replenishment. The FY17 results were also affected by unrealized losses on IDA’s investment portfolio due to the increase in relevant yield curves. Results from Operations in FY15 reflect the increase from concessional partner loans. In FY14, an increase in outflows for loan and grant disbursements by \$2.2 billion, resulted in net cash outflows.



## SECTION II: OVERVIEW

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### Presentation

This document provides Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for IDA for the fiscal year ended June 30, 2017 (FY17). A Glossary of Terms and a list of Abbreviations and Acronyms is provided at the end of this document.

IDA undertakes no obligation to update any forward-looking statements. Certain reclassifications of prior years' information have been made to conform to the current year's presentation. For further details see Note A: Summary of Significant Accounting and Related Policies in the Notes to the Financial Statements for the year ended June 30, 2017.

### Introduction

Owned by its 173 members, IDA has been providing financing and knowledge services to many of the world's developing countries for more than 56 years. IDA was created to supplement the activities and objectives of the International Bank for Reconstruction and Development, by providing development financing to lower income countries on more flexible terms. IDA currently has lending, grant, and guarantee activities in over 107 countries, and shares the WBG's overarching goals of ending extreme poverty by 2030 and promoting shared prosperity in a sustainable manner, specifically, by decreasing the percentage of people living on less than \$1.90 a day to no more than 3% by 2030 (currently 10.7%) and improving the income growth of the bottom 40% in each country.

In addition to loans, grants, and guarantees provided to countries to help meet their development needs, IDA leverages its experience and expertise to provide technical assistance and policy advice. It also supports countries with disaster risk financing and insurance against natural disasters and health-related crises, and facilitates financing through trust fund partnerships.

### Eighteenth Replenishment of Resources (IDA18)

Every three years, representatives of IDA's members<sup>3</sup> meet to assess IDA's financial capacity and the medium term demand for new IDA financing. Members decide the policy framework, agree upon the amount of financing to be made available for the replenishment period, and commit to additional contributions of equity that are required to meet these goals. The meetings culminate in a replenishment agreement that determines the levels, sources (both internal and external), and uses of funds for the following three years.

With its many years of experience and its depth of knowledge in the international development arena, IDA plays a key role in achieving both the WBG's goals and the international community's development agenda set for 2030 which includes the Sustainable Development Goals (SDG's), the climate change goals established at the 21st. Conference of Parties (COP21), the Addis Ababa Action Agenda (AAAA) on Financing for Development, and the Sendai Framework for Disaster Risk Reduction.

With this agenda at the forefront, in March, 2017, the Board of Governors adopted a resolution approving the Eighteenth Replenishment of resources (IDA18). IDA18 represents an innovative policy and financing package for FY18 through FY20. The IDA18 financing framework represents a fundamental shift in IDA's approach to mobilizing finance since it combines contributions from members (\$27.2 billion) and internal resources (\$21.2 billion), with market debt (\$22.1 billion), thereby allowing IDA to provide US\$75 billion<sup>4</sup> in financing for IDA clients.

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<sup>3</sup> IDA's members are owners and hold voting rights in IDA. Members do not, however, hold shares in IDA and are therefore not referred to as shareholders. Payments for subscriptions and contributions from members increase IDA's paid-in equity and are financially equivalent to paid-in capital in multilateral development organizations with capital structures.

<sup>4</sup> IDA's functional currencies are the SDR and its component currencies of U.S. dollar, euro, Japanese yen, pound sterling and Chinese renminbi. Following the decision by the International Monetary Fund, the Chinese renminbi (RMB) was added to the SDR basket as one of its component currencies on October 1, 2016. The RMB has been included as a functional currency for IDA for the fiscal year ended June 30, 2017. For the convenience of its members and other users, IDA's financial statements are reported in U.S.Dollars.

In terms of focus, IDA's members selected "Toward 2030: Investing in Growth, Resilience and Opportunity" as the overarching theme for IDA18. Gender and development, climate change, fragility, conflict and violence (FCV), jobs and economic transformation, and governance and institutions, were selected as special themes which will receive extra attention in IDA's normal business of providing country-driven development support.

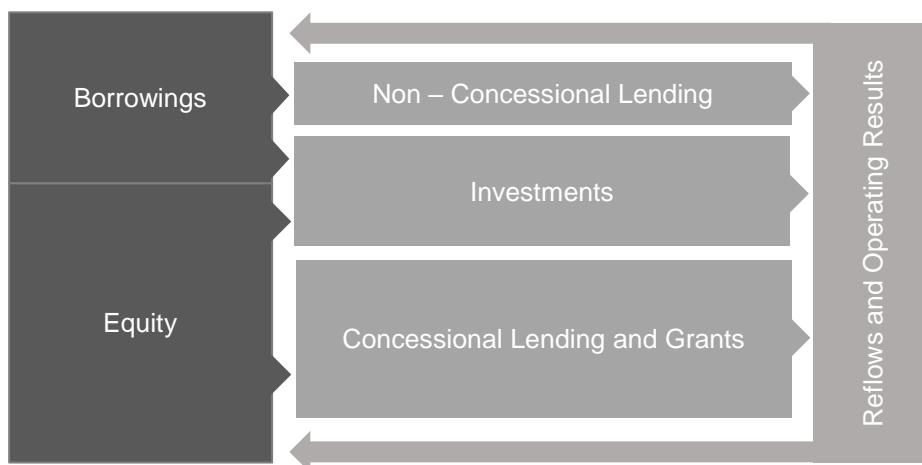
## **Business Model**

IDA has financed its operations over the years with its own equity, including periodic additions to equity provided by member countries as part of the replenishment process. As a result of strong support of member countries, IDA has built up a substantial equity base, amounting to \$158.5 billion as of June 30, 2017. IDA first introduced debt into its business model in IDA17 through concessional loans received from some of its members. In order to make the most efficient use of the strong equity base that has been built up over the decades, IDA will include market debt in its business model going forward. By prudently leveraging its equity and blending market debt with additional equity contributions from members, IDA can increase its financial efficiency, and scale up its financing to support the escalating demand for its resources to deliver on the following priorities:

- Retain IDA's mandate to provide concessional financing on terms that respond to clients' needs and ensure debt sustainability for IDA's borrowers; and
- Ensure long-term financial sustainability of IDA's financial model through a prudent risk management framework.

Concessional lending will be primarily financed by new member contributions, Concessional Partner Loans (CPLs) and IDA's existing equity. Grants will be financed by new member contributions. Non-concessional loans will be financed by market debt. To the extent that market debt is used to finance concessional lending, it will be blended with donor contributions, which will provide an interest subsidy. See Section IX: Risk Management.

**Figure 1: IDA's Business Model**



## **Governance and Risk Management**

IDA's risk management governance structure is designed to manage the principal risks IDA assumes in its activities, and supports Management in its oversight function, particularly in coordinating different aspects of risk management.

IDA's existing governance and risk management frameworks have been enhanced to reflect the changes in its business model under IDA18. These changes will ensure that market debt is prudently and sustainably introduced, see

**Table 1** below for details of the existing risk management framework and the changes approved in FY17 for IDA18.

**Table 1: IDA18 Risk Management Framework (Discussed in Section IX)**

<b>Governance</b>	
Structure	<ul style="list-style-type: none"> <li>Existing WBG governance structure, led by IDA's Board of Governors, Executive Directors and IDA Deputies, continues to govern risks related to IDA.</li> <li>The Finance and Risk Committee (FRC), a management-level committee chaired by the World Bank Group Managing Director and Chief Financial Officer, will continue to provide a governance structure for decisions that have credit, financial or operational risk implications.</li> <li>The same World Bank departments and staff will continue to be responsible for both IDA and IBRD financial and risk management design, implementation and oversight.</li> </ul>
<b>Capital Adequacy</b>	
Sufficiency of Equity to withstand unexpected shocks	<ul style="list-style-type: none"> <li>Under IDA18, capital adequacy will be ensured using a newly developed, solvency-based capital adequacy framework. IDA's financing activities will be managed so that Deployable Strategic Capital (DSC) is maintained above zero.</li> <li>Below the DSC, there is a buffer of ten percent of equity and loan loss reserve. This buffer is held in addition to the capital required to protect against potential losses from existing exposures under currently prevailing conditions.</li> </ul>
<b>Credit Risk</b>	
Loan Portfolio Credit Quality Concentration Risks	<ul style="list-style-type: none"> <li>IDA's Credit Risk Management Framework has always included regular comprehensive country risk and debt sustainability assessments. IDA's lending allocation policies are developed and applied using the existing Performance Based Allocation (PBA) mechanism and the allocation framework agreed at each replenishment, taking into account capital adequacy requirements and single borrower limits. Under IDA18, a single borrower limit has been established in line with Basel-based principles. Capital adequacy is determined based on country credit-risk ratings derived using IDA's comprehensive internal ratings assessment methodology.</li> </ul>
Counterparty Credit Risk	<ul style="list-style-type: none"> <li>Counterparty risk will continue to be mitigated through existing approval and monitoring procedures, including assigning credit limits.</li> </ul>
<b>Market Risk</b>	
Interest Rates	<ul style="list-style-type: none"> <li>Existing Asset Liability Management (ALM) policies have been enhanced under IDA18 to ensure the alignment of interest rates between loans and funding. Funding risk related to the mismatch between the maturity profile of debt and the loans funded by debt is monitored through duration management and adjustments to capital requirements.</li> </ul>
Exchange Rates	<ul style="list-style-type: none"> <li>Existing currency risk management policies have been refined under IDA18 to ensure broad alignment between commitments to eligible members and all sources of new and existing funding.</li> </ul>
<b>Liquidity Risk</b>	
Prudential Minimum	<ul style="list-style-type: none"> <li>For IDA18 a prudential minimum has been established and is set at 80% of 24 months of projected net outflows.</li> </ul>
Liquid Asset Portfolio	<ul style="list-style-type: none"> <li>Investment portfolio will be transitioned from a core liquidity approach under IDA17 toward a three sub-portfolio structure (Operational, Stable and Discretionary) under IDA18.</li> </ul>
<b>Asset Coverage</b>	
Coverage Principles	<ul style="list-style-type: none"> <li>IDA's liquidity is monitored to ensure its ability to satisfy borrowing and commitment obligations in the event of significant market disruptions.</li> </ul> <p>With the introduction of market debt in IDA18, asset coverage principles have been introduced, where:</p> <ul style="list-style-type: none"> <li>Asset levels available to satisfy debt liabilities are monitored and future loan and grant commitments will be adjusted should there be a risk that the level of asset coverage falls below required levels.</li> <li>If IDA's access to sources of funding is impaired, then no additional loan or grant commitments will be approved until funding has been resumed or all market debt repaid.</li> </ul>

## SECTION III: FUNDING AND RESOURCE ALLOCATION

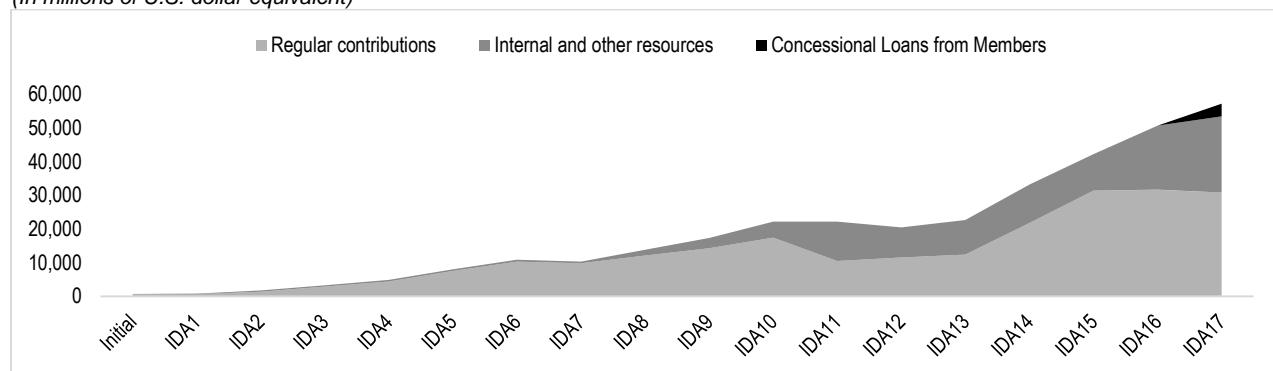
### Funding and Application of IDA's Resources

IDA's triennial replenishments have grown from \$690 million for the initial replenishment to \$75 billion in IDA18. Since its inception, IDA has provided \$345 billion of loans and grants in 115 countries. For FY17, IDA's commitments reached \$19.5 billion spread over 257 new operations.

**Figure 2** shows the evolution of resources by replenishment, supporting new commitments. The growth of the proportion of internal resources (reflows and investment income) primarily reflects the increasing reflows, resulting from principal repayments of loans provided to borrowers in earlier replenishments. The introduction of market debt will significantly increase IDA's resources.

**Figure 2: IDA's Resources by Replenishment**

(In millions of U.S. dollar equivalent)



### Commitment Authority

IDA's Commitment Authority, the resource envelope available for financing lending and grant commitments made during the three-year replenishment period, is based on the long-term outlook of IDA's financial sustainability. This takes into account the amount of member contributions and the concessionality of the proposed financing to borrowers, market conditions, and capital adequacy requirements. The Commitment Authority is monitored and adjusted as needed throughout the replenishment.

### Performance Based Allocation (PBA) System

IDA's resources are allocated to eligible members, using its Performance Based Allocations (PBA) system and the allocation framework agreed during each replenishment. These allocations depend on several factors: the overall availability of IDA's resources, individual country's needs, their policy performance and institutional capacity, and each country's performance relative to others. The PBA system is used in order to concentrate resources where they are likely to be most helpful in reducing poverty.

Under the PBA, the main factor that determines the allocation of IDA's core concessional resources among eligible countries is the performance in the Country Policy and Institutional Assessment (CPIA). The CPIA reflects the results of an exercise that rates eligible countries against a set of criteria including: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. The CPIA and portfolio performance together constitute the IDA Country Performance Rating (CPR). In addition to the CPR, population and per capita income factor into a country's final allocation, which can also reflect remedies under the Non-Concessional Borrowing Policy (NCBP) options, if applicable.

Following a review of IDA's resource allocation framework under IDA18, the base allocation per country was increased to SDR 45 million (SDR 12 million in IDA17) per replenishment or SDR 15 million annually.

In recognition of the change in IDA's business model, and to ensure that its lending decisions are compatible with the capital adequacy requirements of a triple-A rating, the allocation framework for IDA18 is in line with single borrower limits (SBL) and capital adequacy requirements under the Deployable Strategic Capital Framework (DSC), see Section IX: Risk Management.

## IDA17 Commitment Authority

As of June 30, 2017, IDA completed its seventeenth replenishment period. **Table 2** below provides a breakdown of the principal sources making up the total lending envelope under the revised IDA17 Commitment Authority Framework as of June 30, 2017. These sources were fully committed to fund IDA's lending activity under IDA17 with approximately 53% committed to Regular IDA term loans, 27% to Blend term loans, 13% to Grants, 5% to Transitional loans and, 2% to Guarantees.

**Table 2: Results for IDA17 Revised Commitment Authority**

(In billions of U.S.dollars)

Sources	USD equivalent <sup>a</sup>
Member equity contributions	26
Member compensation for MDRI	4
Internal resources of IDA	18
Transfers from IBRD and IFC	3
Concessional Loans from Members	4
Carryovers from IDA16	3
<b>Total Commitment Authority</b>	<b>58</b>
<b>Total Committed</b>	<b>58</b>

<sup>a</sup> U.S. dollar amounts are based on IDA17 reference rate of USD/SDR 1.50718. The USD amounts are provided for illustrative purposes only. IDA's commitment authority is managed in SDR, except for \$5 billion primarily relating to the Scale-up Facility.

## IDA18 Commitment Authority

### Sources of IDA18 Funding - \$75 billion

<b>Regular Member Equity Contributions</b> \$21.0 billion	<ul style="list-style-type: none"> <li>Paid in cash or non- interest bearing demand obligations, in SDRs or freely convertible currency. In three equal installments, or as agreed.</li> <li>Demand obligations encashed as per IDA18 schedule over nine years or as agreed.</li> <li>Convey voting rights. Early payments receive discounts or additional voting rights.</li> <li>Includes CPL grant element received in cash.</li> </ul>
<b>Member Compensation for HIPC/MDRI</b> HIPC - \$2.1 billion MDRI - \$4.1 billion	<ul style="list-style-type: none"> <li>Contributing Members to compensate IDA for forgone loan reflows from MDRI and HIPC; amount is reassessed every three years.</li> </ul>
<b>Internal Resources (Reflows and Investment Income)</b> \$21.2 billion	<ul style="list-style-type: none"> <li>Loan reflows are the largest component.</li> <li>Investment income based on the long-term financial projections of IDA's liquidity. Reassessed on a regular basis.</li> </ul>
<b>Transfers from IBRD and IFC</b> \$0.6 billion	<ul style="list-style-type: none"> <li>Annual approval required by IBRD and IFC's Board of Governors. Actual amount depends on level of earnings of IBRD and IFC.</li> <li>Includes \$0.4 billion of indicative IBRD transfers and \$0.2 billion of indicative IFC grants to be paid over three years.</li> </ul>
<b>Market Debt</b> \$22.1 billion	<ul style="list-style-type: none"> <li>Bonds to be issued internationally, as required to meet financing needs.</li> <li>IDA18 bond issuances will occur over disbursement period of IDA18 lending activity (approx. 9 years), as needed.</li> </ul>
<b>Concessional Loans from Members</b> \$3.9 billion	<ul style="list-style-type: none"> <li>Of the US\$5.2 billion pledged, the \$1.3 billion grant element will be paid into equity, the remainder will be loan instruments (\$3.9 billion)</li> </ul>

### Uses of IDA18 Funding

**Eligibility** for IDA's resources is determined primarily by a member's relative poverty. Relative poverty is defined as GNI per capita below an established threshold and is updated annually. For FY18 the threshold is \$1,165 (FY17: \$1,185).

As of July 1, 2017, 75 countries are eligible to borrow from IDA on concessional terms. These are as follows:

<b>"IDA Only" countries</b>	<b>"Non-Gap" countries</b>	36 countries that (a) have not exceeded the IDA operational cut-off GNI per capita for more than two consecutive years; and (b) are not creditworthy for IBRD financing.
	<b>"Gap" Countries</b>	1 country with loans in nonaccrual status, where the GNI per capita currently exceeds the IDA operational cutoff, is classified as "IDA-only" based on its classification at the time it became a nonaccrual country.
	<b>"Small Island Economies"</b>	12 countries that are eligible only for IDA resources, which are (a) determined by IDA to be eligible for IDA financing; (b) determined by IDA to have a GNI per capita that has exceeded the cut-off for IDA eligibility for more than two consecutive years; and (c) not currently determined by IBRD to be creditworthy for IBRD financing.
<b>"Blend" countries</b>		10 Small Island Economies that are eligible only for IDA resources through the Small Island Economies Exception: the special treatment that IDA accords Small Island Economies which have per capita incomes above the IDA operational cut-off but have no or very limited creditworthiness which limits or precludes their access to IBRD borrowing.
		15 countries (including 5 Small Island Economies) which are determined: (a) by IDA to be eligible for IDA financing; and (b) by IBRD to be creditworthy for IBRD financing.
		1 country with loans in nonaccrual status, which was classified as "Blend" at the time it became a nonaccrual country.

### Concessional Financing

Concessional financing is provided in the form of loans, grants and guarantees. Eligibility and percentage of allocation for grants for IDA-only countries is based on an assessment of the country's risk of debt distress, where the higher the risk assessment, the greater the proportion of grant financing. Gap and Blend countries are only eligible for grants for any financing received from the Refugee sub-window, see IDA's Regional Program below.

**Core Financing**, represents \$52.4 billion of the IDA18 resource envelope. The amount available for each country is a function of the country's PBA.

**Non-Core Financing**, allows IDA to respond to specific needs of its members in IDA18. \$11.1 billion of the IDA18 resource envelope will be used to fund the following windows:

<b>IDA's Regional Program</b> \$7 billion	To support the regional approaches to development including for infrastructure; includes a new \$2 billion Refugee sub-window to help IDA countries that host refugees.
<b>IDA's Crisis Response Window (CRW),</b> \$3 billion	To support IDA members' response and preparedness against severe natural disasters, economic crises, and health emergencies.
<b>Re-engagement Set Aside</b> \$1.1 billion	To support applicable members to re-engage with IDA.

### Non-Concessional Financing

Non-Concessional financing comprises loans and guarantees whose terms are aligned with those of IBRD's flexible loans and guarantees. \$9 billion of resources under IDA18 have been allocated to non-concessional financing, of which \$6.2 billion relates to the Scale-up Facility and \$2.8 billion relates to transitional support for graduating countries.

- **Scale-up Facility:** Allocation of Scale-up Facility resources to the regions will broadly conform to the allocations under the PBA, excluding countries at a high risk of debt distress. Efforts will be made to ensure allocations are balanced between IDA-only and blend countries and to avoid having a concentration of Scale-up Facility resources. Implementation arrangements will prioritize a country's ability to absorb resources and the proposed projects' alignment with IDA18 policy priorities and WBG goals.
- **Transitional Support for Graduating Countries:** A member country that was once eligible for IDA financing may no longer be eligible, and be deemed to have "graduated" from IDA to IBRD as a result of an improvement in growth, poverty reduction and creditworthiness . While graduation from IDA represents an important milestone of progress in a country's development, in some cases it could adversely impact a country's capacity to maintain development momentum, if it leads to a significant decline in available financing for that country. During the IDA18 replenishment discussions, it was agreed that IDA would provide transitional support to these members in order to ensure a smooth transition from IDA to IBRD. Accordingly, it was agreed that transitional support would

be given at non-concessional terms to new graduates. Bolivia, Sri Lanka and Vietnam graduated from IDA on June 30, 2017, and may receive up to \$2.8 billion in exceptional transitional support for the IDA18 period only.

#### **Private Sector Window (PSW)**

A \$2.5 billion IFC-MIGA Private Sector Window has been created in IDA18. Its goal is to mobilize private sector investment in the IDA-only and IDA-eligible FCV countries, with particular emphasis on FCV countries. The PSW will be deployed through four facilities. These facilities have been designed to target critical challenges faced by the private sector in these difficult markets and will leverage IFC and MIGA's business platforms and instruments.

- Risk Mitigation Facility: Involving both MIGA and IFC, designed to provide project-based guarantees to encourage/mobilize private sector infrastructure investment transactions.
- Local Currency Facility: Administered by IFC. This facility is designed to provide local currency denominated loans, investments or hedges to private sector clients who operate in markets where there are limited currency hedging capabilities.
- Blended Finance Facility: Administered by IFC. This facility blends PSW financing support with IFC investments to support small and medium enterprises (SMEs), agribusiness and other pioneering investments.
- MIGA Guarantee Facility: Administered by MIGA. This facility is designed to expand the coverage of MIGA Political Risk Insurance (PRI) products through shared first-loss or risk participation similar to reinsurance.

## SECTION IV: FINANCIAL RESULTS

### Basis of Reporting

IDA prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), referred to in this document as the “reported basis”. The financial statements provide a basis upon which users are able to analyze IDA’s sources and uses of resources.

### Fair Value Results

IDA reflects all financial instruments at fair value in Section X: Fair Value Analysis of the MD&A. The fair value of these instruments is affected by changes in market variables such as interest rates, exchange rates, and credit risk. Management uses fair value to assess the performance of the investment-trading portfolio, and to manage various market risks, including interest rate risk and commercial counterparty credit risk.

### Summary of Financial Results

IDA had a net loss of \$2,296 million in FY17 compared with a net income of \$371 million in FY16. The net loss in FY17 was primarily due to \$2,577 million of grant activity, for which, IDA is compensated by member contributions, that are recorded in equity.

The \$2,667 million variance as compared to FY16 was primarily driven by :

- the \$1,345 million increase in grant expense consistent with increased financing during the final year of a replenishment and,
- the \$876 million impact of the shift from unrealized gains on the investment trading portfolio in FY16 to unrealized losses in FY17. The unrealized gains for FY16 are due to the decrease in applicable yield curves during that year. The unrealized losses in FY17 are due to increases in applicable interest rates in FY17.

**Table 3: Condensed Statement of Income**

(In millions of U.S.dollars)

For the fiscal year ended June 30,	2017	2016	Variance
<b>Interest Revenue</b>			
Loans	\$ 1,232	\$ 1,149	\$ 83
Investments, net	391	384	7
Borrowings, net	(102)	(80)	(22)
<b>Interest Revenue, net of borrowing expenses</b>	<b>1,521</b>	<b>1,453</b>	<b>68</b>
Provision for losses on loans and other exposures, release (charge)	56	(380)	436
Other non-interest revenue and expenses, net (Table 7)	(2)	19	(21)
Net non-interest expenses (Table 8)	(1,499)	(1,196)	(303)
Transfers from affiliated organizations and others	599	990	(391)
Non-functional currency translation adjustment (losses) gains, net	(49)	208	(257)
Unrealized mark-to-market (losses) gains on Investments-Trading portfolio, net	(367)	509	(876)
Unrealized mark-to-market gains on non-trading portfolios, net	22	-	22
Development Grants	(2,577)	(1,232)	(1,345)
<b>Net (Loss) Income</b>	<b>\$ (2,296)</b>	<b>\$ 371</b>	<b>\$ (2,667)</b>

**Table 4: Condensed Balance Sheet**

(in millions of U.S.dollars)

As of June 30,	2017	2016	Variance
<b>Assets</b>			
Due from Banks	\$ 483	\$ 672	\$ (189)
Investments	32,033	31,493	540
Net loans outstanding	138,351	132,825	5,526
Receivable from derivatives	23,843	12,838	11,005
Other assets	2,331	2,647	(316)
<b>Total assets</b>	<b>\$ 197,041</b>	<b>\$ 180,475</b>	<b>\$ 16,566</b>
<b>Liabilities</b>			
Borrowings	\$ 3,660	\$ 2,906	\$ 754
Payable for derivatives	24,073	12,737	11,336
Other liabilities	10,832	10,132	700
Equity	158,476	154,700	3,776
<b>Total liabilities and equity</b>	<b>\$ 197,041</b>	<b>\$ 180,475</b>	<b>\$ 16,566</b>

**Loans Portfolio and Grant Activity**

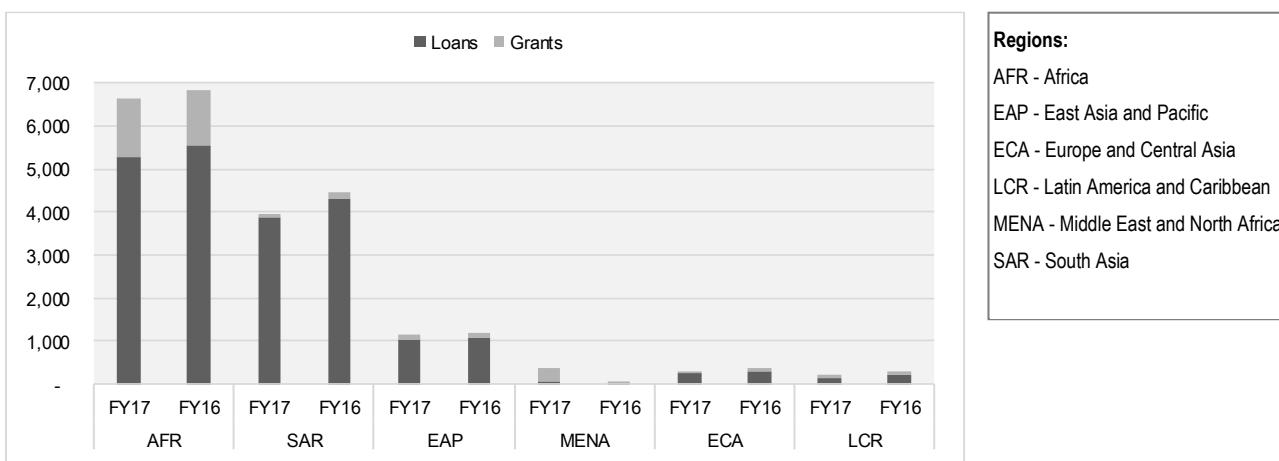
As of June 30, 2017, IDA's net loans outstanding were \$138.4 billion, \$5.5 billion higher than a year earlier. The increase was mainly due to \$6.1 billion in net positive loan disbursements, partially offset by currency translation losses of \$ 0.6 billion, consistent with the 0.5% depreciation of the SDR against the U.S. dollar during the year.

FY17 gross loan disbursements were \$10.6 billion (\$11.5 billion in FY16), which primarily consisted of \$5.3 billion to the Africa region, \$3.9 billion to the South Asia region, and \$1.1 billion to the East Asia and the Pacific region. See **Figure 3**. IDA's loans generally disburse within five to ten years for investment project financing and one to three years for development policy financing. Therefore, FY17 and FY16 disbursements also include amounts relating to commitments made in earlier years. Principal repayments and prepayments increased by \$0.3 billion in FY17, from \$4.3 billion in FY16 to \$4.6 billion in FY17.

Interest revenue from loans has increased by \$83 million from FY16 to FY17. The increase reflects, in part, the increase in the proportion of loans which carry blend interest rate terms.

**Figure 3: Gross Disbursements of Loans and Grants by Region**

(In millions of U.S. dollars)



As of June 30, 2017, IDA's payable for development grants was \$6.6 billion, \$0.5 billion higher than a year earlier. This increase reflects grant expenses of \$2.6 billion in FY17 (which were \$1.3 billion higher compared to FY16), partially offset by grant disbursements of \$2.1 billion. The FY17 grant disbursements primarily consisted of \$1.4 billion to the Africa region and \$0.3 billion to the MENA region.

## Investment Portfolio

The net investment portfolio decreased by \$235 million as compared to the prior year. The key drivers are:

- Unrealized mark-to-market losses of \$399 million, primarily resulting from the increase in yield curves of major currencies,
- the \$208 million net negative impact of exchange rate movements, primarily reflecting the depreciation of JPY, GBP and CNY against the U.S. dollar, partially offset by,
- the net inflows from IDA's operating and non-operating activities as reflected in the (**Table 5**) below.

**Table 5: Statement of Activities**

(In millions of U.S. dollars)

For the fiscal year ended June 30,	2017	2016
<b>Net Asset Value of Investment Portfolio, at beginning of fiscal year</b>	\$ 29,908	\$ 28,418
<b>Sources of Funds</b>		
Member Resources	\$ 7,449	\$ 7,941
Transfers from Affiliated Organizations	598	980
Internal Resources	5,124	4,913
<b>Total Sources of Funds</b>	<b>13,171</b>	<b>13,834</b>
<b>Application of Funds</b>		
Loans and Grants Disbursements (including PPA <sup>a</sup> grant activity)	\$ (12,718)	\$ (13,192)
Borrowing expenses	(82)	(68)
<b>Total Application of Funds</b>	<b>(12,800)</b>	<b>(13,260)</b>
<b>Administrative Activities</b>	\$ (217)	\$ 49
<b>Results from Operating Activities</b>	<b>\$ 154</b>	<b>\$ 623</b>
Effects of exchange rates	\$ (208)	\$ 141
Unrealized mark-to-market (losses) gains on the investment portfolio	(399)	544
Net movement in non-operating activities	218	182
<b>Net Asset Value of Investment Portfolio, at end of fiscal year</b>	<b>\$ 29,673</b>	<b>\$ 29,908</b>

a. Project Preparation Advances (PPA)

## Borrowing Portfolio

As part of IDA17, IDA signed loan agreements with members for a total notional amount of \$4.8 billion, including the grant element. As of June 30, 2017, all the amounts expected to be received under IDA17 CPL agreements have been received. See Note D in the Financial Statements for more details.

## Equity

IDA's equity increased by \$3.8 billion as compared to the prior year, primarily due to a \$7.0 billion increase in subscriptions and contributions paid-in in the form of cash and demand obligations. This was offset by \$2.3 billion of net losses incurred during the year, and a \$0.8 billion increase in accumulated other comprehensive income due to negative translation adjustments on functional currencies, as the SDR depreciated against the USD.

**Table 6: Subscriptions and Contributions**

(In millions of U.S. dollars)

As of June 30,	2017	2016
Subscriptions and contributions committed	\$ 245,930	\$ 245,430
Less: Subscriptions and contributions receivable	27,113	33,695
Less: Cumulative discounts/acceleration credits on subscriptions and contributions	3,414	3,305
Subscriptions and contributions paid-in	215,403	208,430
Demand obligations	(9,318)	(9,237)
Deferred amounts to maintain value of currency holdings	(244)	(244)
Accumulated deficit	(45,326)	(43,030)
Accumulated other comprehensive income	(2,039)	(1,219)
<b>Total Equity</b>	<b>\$ 158,476</b>	<b>\$ 154,700</b>

*Subscriptions and contributions receivable* – This amount represents the balance of subscriptions and contributions committed but for which demand obligations or cash have not yet been received.

*Demand obligations* – Demand obligations are nonnegotiable and noninterest-bearing instruments of payment. Payments on these instruments are due to IDA upon demand and they are held in central bank accounts in IDA's name. During FY17, the receipt of new notes amounting to \$4.0 billion was offset by the encashment of notes of \$3.9 billion.

*Accumulated deficit* - Primarily represents the impact of IDA's grant activity and the HIPC and MDRI programs, which are compensated for by member contributions which are recorded as subscriptions and contributions. The \$2.3 billion increase is primarily due to grant activity as previously discussed.

### Transfers from Affiliated Organizations

On October 7, 2016, IBRD's Board of Governors approved a transfer of \$497 million, for a total of \$1,782 million in transfers under IDA17. The transfer was received on October 14, 2016. On January 30, 2017, IDA received an IDA17 grant from IFC of \$101 million, for a total of \$771 million in grants under IDA17.

### Other non-interest revenue and expenses

**Table 7: Other non-interest revenue and expenses, net**  
(in millions of U.S. dollars)

For the fiscal year ended June 30,	2017	2016	2015	FY17 Vs FY16	FY16 Vs FY15
Guarantee fee revenue	\$ 8	\$ 5	\$ 3	\$ 3	\$ 2
Project Preparation Advances (PPA) grants and other expenses	(10)	14	(13)	(24)	27
<b>Other non-interest revenue and expenses, net (Table 3)</b>	<b>\$ (2)</b>	<b>\$ 19</b>	<b>\$ (10)</b>	<b>\$ (21)</b>	<b>\$ 29</b>

### Net Non-Interest Expense

IBRD and IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of administrative expenses between IBRD and IDA is based upon an agreed cost sharing methodology, approved by their Boards, which is driven by the relative level of lending, knowledge services and related activities between these two institutions. Starting in FY17, under the cost sharing methodology, any grants made under the Grant Making Facility, referred to as "Contributions to special programs", are being shared between IDA and IBRD; previously these were all allocated to IBRD.

For FY17, IDA's net non-interest expenses were \$1,499 million, a \$303 million increase as compared to FY16. The increase was primarily driven by i) higher pension costs as a result of higher amortization of unrecognized actuarial losses during FY17 and, ii) the increase in costs allocated to IDA under the cost sharing methodology. The greater allocation is due to both the increase in client engagement activities in preparation for IDA18 and the increase in lending commitments in FY17. See **Table 8**.

**Table 8** provides a comparison of the main sources of Administrative expenses and revenue from externally funded activities between FY17 and FY16.

**Table 8: Net Non-Interest Expenses**

(In millions of U.S. dollars)

For the fiscal year ended June 30,	2017	2016	2015	FY17 Vs FY16	FY16 Vs FY15
<b>Administrative expenses:</b>					
Staff costs	\$ 879	\$ 776	\$ 799	\$ 103	\$ (23)
Travel	165	149	158	16	(9)
Consultant and contractual services	436	417	462	19	(45)
Pension and other post-retirement benefits	426	215	257	211	(42)
Communications and technology	56	52	53	4	(1)
Equipment and buildings	138	129	134	9	(5)
Other expenses	21	27	5	(6)	22
<b>Total administrative expenses</b>	<b>\$ 2,121</b>	<b>\$ 1,765</b>	<b>\$ 1,868</b>	<b>\$ 356</b>	<b>\$ (103)</b>
Contributions to special programs	25	-	-	25	-
<b>Revenue from externally funded activities:</b>					
Reimbursable advisory services	(42)	(41)	(47)	(1)	6
Reimbursable revenue - IDA executed trust funds	(400)	(340)	(326)	(60)	(14)
Revenue – trust funds administration	(42)	(42)	(45)	-	3
Restricted revenue	(22)	(17)	(21)	(5)	4
Other revenue	(141)	(129)	(135)	(12)	6
<b>Total revenue from externally funded activities</b>	<b>\$ (647)</b>	<b>\$ (569)</b>	<b>\$ (574)</b>	<b>\$ (78)</b>	<b>\$ 5</b>
<b>Total Net Non-Interest Expenses (Table 3)</b>	<b>\$ 1,499</b>	<b>\$ 1,196</b>	<b>\$ 1,294</b>	<b>\$ 303</b>	<b>\$ (98)</b>

## SECTION V: DEVELOPMENT ACTIVITIES, PRODUCTS AND PROGRAMS

### Lending Framework

IDA has a common framework which extends across all of its development activities. The main elements of this framework are: financing principles, financing cycles and financing categories.

### Financing Principles

IDA's operations are required to conform to the general principles derived from its Articles of Agreement. These principles are described in **Table 9**. Within the scope permitted by the Articles of Agreement, application of these financing principles must be developed and adjusted in light of experience and changing conditions.

**Table 9: Financing Principles**

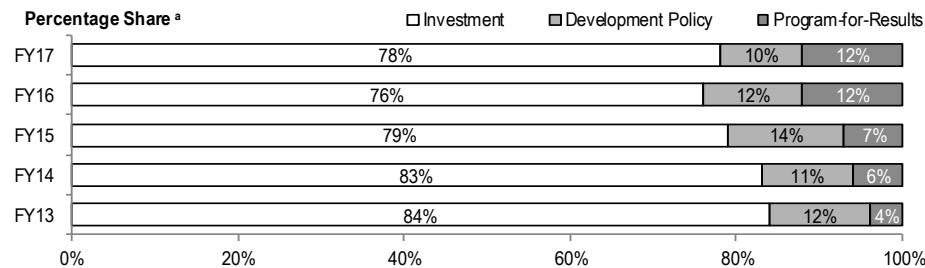
- (i) IDA may provide financing for its development operations in the form of loans, grants, and guarantees directly to its members, public or private entities and regional or public international organizations.
- (ii) IDA's financing of its development operations is designed to promote economic development, increase productivity and thus raise standards of living in its member countries. Investment projects financed by IDA are required to meet IDA's standards for technical, economic, financial, institutional and environmental soundness. Specific provisions apply to development policy financing, including the treatment of the macroeconomic framework, poverty and social impact, environment, forests and other natural resources.
- (iii) Decisions to approve financing are based upon, among other things, studies by IDA of a member country's economic structure, including assessments of its resources and ability to generate sufficient foreign exchange to meet debt-service obligations.
- (iv) IDA must be satisfied that in the prevailing market conditions (taking into account the member's overall external financing requirements); the recipient would be unable to obtain financing under conditions which, in the opinion of IDA, are reasonable for the recipient. This would include loans made by private sources or IBRD.
- (v) The use of funds by recipients is supervised. IDA makes arrangements intended to ensure that funds provided are used only for authorized purposes and, where relevant, with due attention to considerations of cost-effectiveness. This policy is enforced primarily by requiring recipients (a) to submit documentation establishing, to IDA's satisfaction, that the expenditures financed with the proceeds of loans or grants are made in conformity with the applicable financing agreements, and (b) to maximize competition in the procurement of goods and services by using, wherever possible, international competitive bidding procedures or, when it is not appropriate, other procedures that ensure maximum economy and efficiency. In addition, IDA considers the use of recipient country procurement, and environmental and social safeguard systems in selected operations where these systems are assessed by IDA as being equivalent to IDA's systems and where the recipient's policies and procedures, implementation practices, track record, fiduciary and safeguard risks and capacity are considered acceptable to IDA.

### Financing Cycles

The process of identifying and appraising a project and approving and disbursing the funds often extends over several years. However, in response to emergency situations, such as natural disasters and financial crises, IDA is able to accelerate the preparation and approval cycle. In most cases, IDA's Executive Directors approve each loan, grant and guarantee after appraisal of a project by staff. Under a new Multiphase Programmatic Approach approved by the Executive Directors on July 21, 2017, Executive Directors may approve an overall program framework, its financing envelope and the first appraised phase, and then authorize Management to appraise and commit financing for later program phases. Disbursements are subject to the fulfillment of conditions set out in the loan or grant agreement. During implementation of IDA-supported operations, staff review progress, monitor compliance with IDA policies, and assist in resolving any problems that may arise. An independent unit, the Independent Evaluations Group, also assesses the extent to which operations have met their major objectives, and these evaluations are reported directly to the Executive Directors.

### Financing Categories

Most of IDA's lending is of three types: investment project financing, development policy financing, and program-for-results. **Figure 4** shows the percentage of IDA loans approved for investment lending, development policy operations and Program-for-Results over the past five years.

**Figure 4: Share of Financing Categories**

a. May differ from the sum of individual figures shown due to rounding

### **Investment Project Financing (IPF)**

IPF is used in all sectors, it supports a wide range of activities including capital-intensive investments, agricultural development, service delivery, credit and grant delivery, community-based development, and institution building. IPF is usually disbursed over the long-term (5 to 10 year horizon).

FY17 commitments under IPF amounted to \$15.1 billion, compared with \$12.4 billion in FY16. The share of investment financing has declined over the last five years, ranging from 84% to 76%.

### **Development Policy Financing (DPF)**

DPF provides rapidly-disbursing financing (1 to 3 years) to help a borrower address actual or anticipated development financing requirements. DPF aims to support the borrower in achieving sustainable development through a program of policy and institutional actions, for example, strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy. DPF supports such reforms through non-earmarked general budget financing that is subject to the borrower's own implementation processes and systems. Commitments under DPF for both FY17 and FY16 totaled \$1.9 billion each year.

### **Program-for-Results (PforR)**

PforR helps countries improve the design and implementation of their development programs and achieve specific results by strengthening institutions and building capacity. It helps strengthen partnerships with government, development partners and other stakeholders by providing a platform to collaborate in larger country programs. PforR disburses when agreed results are achieved and verified. Results are identified and agreed upon during the preparation stage.

FY17 commitments under PforR totaled \$2.4 billion, compared with \$1.9 billion in FY16. The increase is primarily due to commitments provided to countries in SAR and MENA.

These three complementary categories support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth.

## **Financial Terms**

### **Commitment Currency**

The currency of commitment for IDA grants and loans is predominantly the SDR. However, in response to client needs to reduce currency exposure and simplify debt management, IDA offers a Single Currency Lending option that allows IDA recipients to denominate new IDA loans in USD, EUR, GBP and JPY. As of June 30, 2017, \$5.5 billion of US dollar denominated loans and U.S. dollar equivalent \$3.3 billion in EUR denominated loans had been approved under the Single Currency lending program, of which \$1.2 billion in U.S. dollar equivalent were outstanding. Further, loans provided under IDA18 from the Scale-up Facility and for transitional support, may only be denominated in either USD, EUR, GBP and JPY.

**Table 10: Summary of Financial Terms for IDA Lending Products, Effective July 1, 2017**

Instrument type <sup>a</sup>	Currencies	Maturity/Grace Period	Current Charges	Interest rates
Grant	SDR	Not applicable	None	Not applicable
Regular-Term loan	SDR, USD, EUR, GBP, JPY	38/6 years	75bps SDR equivalent service charge	Not applicable
Regular-Small Island loan	SDR, USD, EUR, GBP, JPY	40/10 years	75bps SDR equivalent service charge	Not applicable
Blend-Term loan	SDR, USD, EUR, GBP, JPY	30/5 years	75bps SDR equivalent service charge	1.25%
Non-concessional loans a) Transitional support loan b) Loans under Scale-up Facility	USD, EUR, GBP, JPY	20 years maximum weighted average maturity with 35 years final maturity	25 bps SDR equivalent one-time front-end fee 25 bps SDR equivalent commitment fee	Market-based floating reference rate (6-month) plus a spread (variable spread or fixed spread)
Catastrophe Deferred Draw Down Option (CAT DDO) (New in IDA18)	SDR, USD, EUR, GBP, JPY	<b>Before Drawdown:</b> Front end fee and renewal fee are set at 0.5% and 0.25% respectively under SUF option, and at 0% under PBA or Undisbursed balances option.  <b>After Drawdown:</b> - Under PBA or Undisbursed balances option - IDA concessional rates would apply. - Under SUF option - non-concessional rates would apply.		

a. Prior to July 1, 2017, IDA offered Hard-Term loans to Blend Countries (excluding Small Island Economies). They had a single currency option, and had terms equivalent to IBRD's fixed spread loans, less 200 bps, a variable option was also available. Undisbursed loan amounts carry a 75bps service charge

### Charges on Loans and Grants

**Service Charge.** A service charge is levied on the principal amount disbursed and outstanding on all Regular, Small Islands, and Blend term loans, regardless of repayment terms, at 0.75% per annum.

**Commitment Charge.** A commitment charge, which is payable on any undisbursed loan or grant amount, is set by the Executive Directors at the beginning of each fiscal year. Commitment charges are set at a level to ensure that net loan revenue covers administrative expenses over the medium term. From FY09 to FY17, the commitment charge on undisbursed concessional loans had been set at nil and for grants it had been set at nil from FY03 to FY17. For FY17, the commitment charge on transitional support loans and Scale-up Facility loans was set at nil and 0.25% respectively. For FY18, commitment charges have been set at the same levels as those set for FY17, with the exception of transitional support loans which will have a commitment charge of 0.25% .

**Interest.** Interest is charged on all loans subject to blend terms approved under IDA16 and IDA17, all hard-term loans, transitional support and on loans provided under the Scale-up Facility. In FY17, the interest charged on blend, hard-term and transitional loans was more concessional than the fixed-rate equivalent of IBRD's lending rate after considering the repayment terms, including the grace period and maturity. The Scale-up Facility interest rate was determined quarterly, based on the fixed rate equivalent of IBRD's lending rate. Further, new loans offered under hard term, transitional support and Scale-up Facility were available at floating interest rates. All other rates were fixed. In FY18, similar interest terms will apply, however non-concessional loans will be charged interest on IBRD terms.

**Table 10** provides a summary of the financial terms of IDA's lending products based on eligibility, effective July 1, 2017.

### Repayment Terms

Loans approved through June 30, 1987 have a final maturity of 50 years, including a grace period of 10 years. In recent replenishments, differentiation in IDA's lending terms has been introduced to recognize the variation in economic development of broad categories of IDA recipients.

Since 1987, IDA has included an accelerated repayment clause in the legal agreements of regular, blend and hard-term loans that allows IDA to double the principal repayments of the loan, if the borrower's GNI per capita exceeds a specific threshold and the borrower is eligible for IBRD financing. Implementation is subject to approval by IDA's Executive Directors after considering a borrower's economic development. The borrower would have a choice to either (a) shorten the loan's maturity (principal option), (b) pay interest at a rate that would result in the same net present value (interest option), or a combination of the two options.

As of June 30, 2017, the acceleration clause has been implemented for the qualifying IDA loans of 15 borrowers that have graduated from IDA since the introduction of the accelerated repayment clause. Of these 15 borrowers, 10 borrowers selected the principal option, 4 borrowers selected the interest option, and one borrower selected a combination of the two options. As part of IDA18, it was agreed that the implementation of the acceleration clause for new eligible borrowers would be temporarily suspended until the mid-term review discussions.

## Loans and Grants Activity

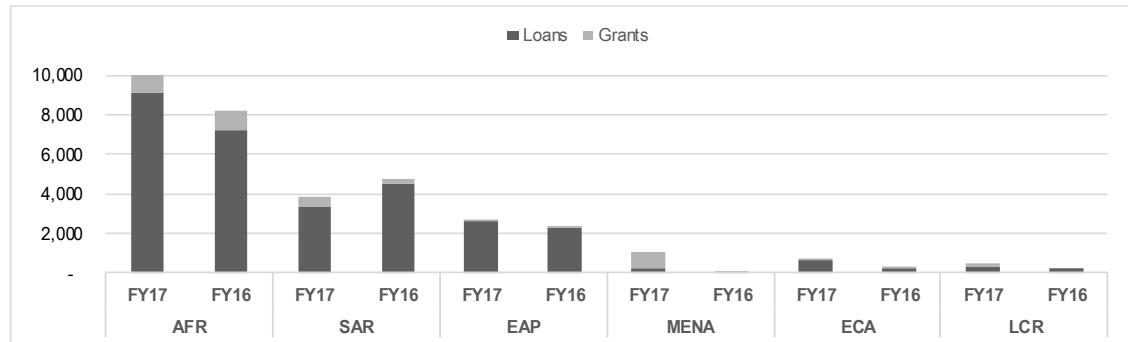
### Commitments of Loans and Grants

Commitments of loans in FY17 were \$16,243 million, an increase of \$1,845 million (13%) over FY16. In terms of regional focus, Africa accounted for \$1,872 million of the increase. Africa and South Asia together accounted for 77% of the FY17 commitments (see **Figure 5**).

Commitments of grants, net of cancellations in FY17 were \$2,627 million, an increase of \$1,395 million (113%) over FY16. In terms of regional focus, Africa and MENA accounted for \$804 million of the increase. Africa and MENA together accounted for 66% of the total FY17 commitments (see **Figure 5**).

**Figure 5: Commitments of Loans and Grants by Region**

(In millions of U.S. dollars)

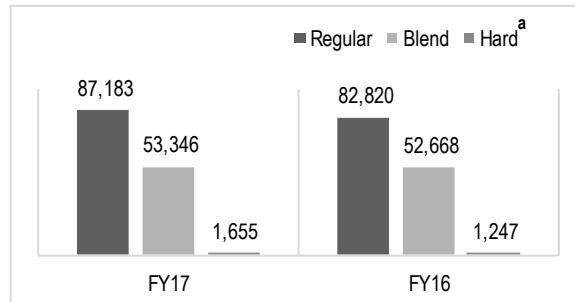


### Loans Outstanding

Loans outstanding as of June 30, 2017 were \$142,184 million. **Figure 6** shows the breakdown by term. For FY17, 61% are on regular terms and the remaining are interest bearing loans. Scale-up Facility and transitional loans are recently introduced products and only certain members are eligible for them.

**Figure 6: Loans outstanding by term**

In millions of U.S. dollars



a. Includes \$222 million of transitional support (\$77 million - June 30, 2016) and \$157 million of Scale up facility (Nil-June 30, 2016)

**Table 11** provides details of the top five borrowers with the largest loan outstanding balances as of June 30, 2017. These borrowers represented 50% of total loans outstanding as of that date.

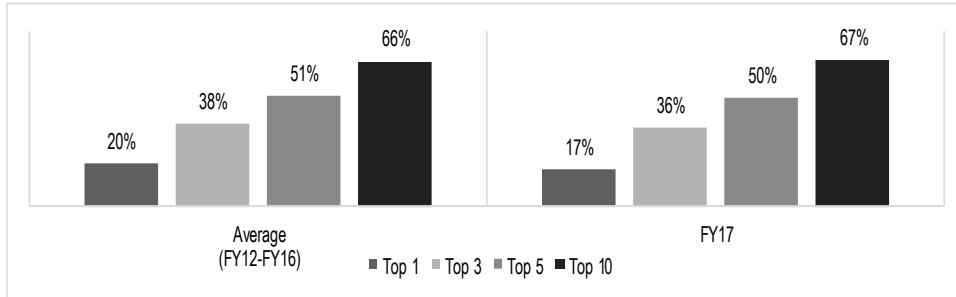
**Table 11: Top Five Borrowers with the Largest Outstanding Balance**

(In millions of U.S. dollars, or as otherwise indicated)

Country	Total	India	Pakistan	Bangladesh	Vietnam	Nigeria	Others
Country Category (effective July 2017)		IBRD	Blend	IDA only	IBRD	Blend	
Loans Outstanding	142,184	24,380	13,708	13,097	12,259	7,464	71,276
% of Total Loans Outstanding	100%	17%	10%	9%	9%	5%	50%
Weighted Average Maturity (Years)	12.4	6.3	12.5	14.0	14.1	15.4	13.7
Loans outstanding by terms							
Regular	87,183	5,204	978	13,097	7,781	4,849	55,274
Blend	53,346	18,517	12,209	-	4,227	2,615	15,778
Hard	1,276	437	465	-	251	-	123
Transitional support	222	222	-	-	-	-	-
Scale-up Facility	157	-	56	-	-	-	101
Undisbursed balance	54,179	5,775	2,266	5,357	5,399	4,885	30,497

**Figure 7** shows the concentration of IDA's outstanding loan portfolio amongst its largest borrowers for the average of FY12 through FY16 and for FY17.

**Figure 7: Exposure of Largest IDA Borrowing Countries**



**Table 12** shows IDA's interest and service charge income by loan type. The \$55 million increase in interest income is primarily driven by the increase in interest on blend term loans, reflecting the increased volume of disbursements under interest-bearing blend term lending.

**Table 12: Income by Category**

*In millions of U.S. dollars*

Category	Outstanding balance as of June 30,		Interest income		Service charge income	
	2017	2016	FY17	FY16	FY17	FY16
<b>Loans</b>						
Regular	\$ 87,183	\$ 82,820	\$ 14	\$ 15	\$ 606	\$ 585
Blend	53,346	52,668	174	131	388	383
Hard	1,276	1,170	36	28	9	7
Transitional support	222	77	3	*	-	-
Scale up Facility	157	-	2	-	-	-
<b>Total</b>	<b>\$ 142,184</b>	<b>\$ 136,735</b>	<b>\$ 229</b>	<b>\$ 174</b>	<b>\$ 1,003</b>	<b>\$ 975</b>

\* Indicates amount less than 0.5 million

## Section VI: Other Development Activities and Programs

IDA has products, services and programs, other than lending, that it offers to its borrowing member countries to help them meet their development goals. These include guarantees, debt relief, trust fund administration, and externally funded reimbursable advisory services.

### Guarantees

In December 2013, IDA's Executive Directors approved a series of changes to IDA's guarantees that became effective from July 1, 2014. As a result of these changes, IDA offers both Project-based and Policy-based Guarantees. These guarantees are available for projects and programs in member countries to help mobilize private financing for development purposes. IDA's guarantees are partial in nature as they cover risks only to the extent necessary to obtain the required private financing, taking into account country, market and, if appropriate, project circumstances. All IDA guarantees, require a sovereign counter-guarantee and indemnity, comparable to the requirement of a sovereign guarantee for IDA lending to sub-sovereign and non-sovereign borrowers. See **Table 13** for the types of guarantees that IDA provides.

**Table 13: Types of Guarantees**

<b>Project based guarantees</b>	Project-based guarantees are provided to mobilize private financing for a project and/or mitigate payment and/or performance related risks of a project. There are two types: <ol style="list-style-type: none"> <li>1. Loan guarantees: these cover loan-related debt service defaults caused by the government's failure to meet specific payment and/or performance obligations arising from contract, law or regulation. Loan guarantees include coverage for debt service defaults on: (i) commercial debt, normally for a private sector project; and, (ii) a specific portion of commercial debt irrespective of the cause of such default, normally for a public sector project.</li> <li>2. Payment guarantees: These cover payment default on non-loan related government payment obligations to private entities and foreign public entities arising from contract, law or regulation.</li> </ol>
<b>Policy-based guarantees</b>	Policy-based guarantees are provided to mobilize private financing for sovereign or sub-sovereign projects. They cover debt service default, irrespective of the cause of such default, on a specific portion of commercial debt owed by government and associated with the supported government's program of policy and institutional actions.

**Table 14: Pricing for IDA Project-Based and Policy-Based Guarantees**

Charges	Guarantees on Concessional Terms		Guarantees on Non-Concessional Terms	
	Private Projects	Public Projects	Private Projects	Public Projects
Front-end fee	N.A.	N.A.	25 bps	25 bps
Initiation fee <sup>a</sup>	15 bps	N.A.	15 bps	N.A.
Processing fee <sup>b</sup>	50 bps	N.A.	50 bps	N.A.
Standby fee	0 bps	0 bps	25 bps	25 bps
Guarantee fee	75 bps	75 bps	50-100bps <sup>c</sup>	50-100bps <sup>c</sup>

a. The initiation fee is 15 basis points of the guaranteed amount or \$100,000, whichever is greater.

b. The processing fee is determined on a case-by-case basis.

c. Based on the weighted average maturity of the guarantee.

### Guarantee Exposure

IDA's exposure on its project and policy based guarantees (measured by discounting each guaranteed amount from its next call date) was \$1,152 million as of June 30, 2017 (\$1,024 million—June 30, 2016). The \$128 million increase in guarantee exposure is primarily due to a \$210 million guarantee that became effective in June 2017. The maximum potential undiscounted future payments that IDA could be required to make under these guarantees is \$1,177 million as of June 30, 2017 (\$1,059 million—June 30, 2016). For additional information see the Notes to Financial Statements—Note F – Loans and Other Exposures.

### Assisting Borrowing Members Manage Risk

IDA facilitates access to risk management solutions to mitigate the financial effects of natural disasters for borrowing members. Financial solutions can include disaster risk financing through catastrophe swaps, insurance and reinsurance contracts, and regional pooling facilities. In FY17, IDA renewed coverage of the Pacific Disaster Insurance Program, a \$34 million transaction that provides protection against earthquakes, tsunamis and tropical cyclones to certain Pacific Island countries. IDA acts as the intermediary between the members and reinsurers. As an intermediary, IDA entered into swap contracts with the members as well as the insurance companies. As a result, all of the catastrophe risk was passed to the reinsurance markets through these contracts, thereby facilitating access to reinsurance markets for the members.

In order to promote countries' resilience to disasters and expand the range of IDA's crisis instruments, members endorsed the introduction of the Catastrophe Deferred Draw-Down Option (CAT-DDO) for IDA18. The CAT-DDO is a contingent credit line that provides immediate liquidity to countries in the aftermath of a catastrophe and serves as early financing while funds from other sources such as bilateral aid or reconstruction loans are being mobilized. CAT-DDOs are intended to enhance IDA countries' capacity to plan for and manage crises.

### Crisis Response Window

The primary objective of the CRW is to provide IDA countries with additional resources that will help countries to respond to severe economic crises, major natural disasters, or health emergencies and pandemics, and return to their long-term development paths. An allocation is made to the CRW under each replenishment. The CRW was allocated \$1.8 billion in IDA17 and was fully utilized by the end of the replenishment period, with \$800 million utilized in FY17.

### Debt Relief

The Heavily Indebted Poor Countries Debt Initiative (HIPC Initiative) and the Multilateral Debt Relief Initiative (MDRI) were implemented in 1996 and 2006 respectively as a part of a global effort focused on heavily indebted poor countries with strong policy performance. The initiatives aim to reduce the external debt of eligible countries as part of a broader poverty reduction strategy, whilst safeguarding the long-term financial capacity of IDA and other participating multilateral institutions; and encouraging the best use of additional member resources for development, by allocating these resources to low-income countries on the basis of policy performance.

In order to receive irrevocable debt relief, eligible countries are required to maintain macroeconomic stability, carry out key structural and social reforms, and implement a Poverty Reduction Strategy, in addition to being in good standing with respect to all eligible debt repayments. To ensure IDA's financial capacity was not eroded, members agreed to compensate IDA with additional contributions to offset the impact of the forgone reflows, resulting from the provision of debt relief.

During FY17, HIPC debt relief was provided on \$9 million of loans (\$10 million in FY16) and \$1 million of service charges (\$1 million in FY16). On a cumulative basis, debt relief has been given on \$2.1 billion of loans and \$335 million of charges as of June 30, 2017. The accumulated provision for debt relief was recorded at the inception of the initiative and is adjusted to reflect the impact of any changes in the decision and completion point dates of the related countries.

During FY17, there was no cancellation of eligible loans under MDRI (\$524 million in FY16). On a cumulative basis, debt relief has been provided on \$40.2 billion of loans under the MDRI as of June 30, 2017. The provision for the debt relief was recorded at the beginning of the MDRI Initiative.

### Trust Funds Administration

Trust Funds are an integral part of the WBG's development activities, providing resources and added flexibility in providing development solutions that serve member recipients and donors alike. The partnerships funded by trust funds often serve as a platform from which IDA and its members can draw on the WBG's diverse technical and financial resources to achieve development goals that cannot be addressed effectively by any single member, given their complexity, scale, and scope. IDA's roles and responsibilities in managing trust funds depend on the type of fund, outlined as follows:

#### IDA's Trust Funds:

- IDA-Executed Trust Funds (BETFs): IDA, alone or jointly with one or more of its affiliated organizations, implements or supervises the activities financed by trust funds. These trust funds support IDA's work program.
- Recipient-Executed Trust Funds (RETFs) are provided to a third party, normally in the form of project financing, and are supervised by IDA.
- Financial Intermediary Funds (FIFs): IDA, as a trustee, provides financial management services such as receiving, holding and transferring funds to multiple implementing entities.

During FY17, IDA recorded \$42 million (\$42 million in FY16) as revenue for the administration of its trust fund portfolio. IDA, as an executing agency, disbursed \$400 million (\$340 million in FY16) of trust fund program funds. For additional information, see the Notes to Financial Statements-Note H-Trust Funds Administration.

The cash and investment assets held in trust by IDA as administrator and trustee as of June 30, 2017 and June 30, 2016 are summarized in **Table 15**. IDA's contribution to these trust funds for the year ended June 30, 2017 was \$50 million (Nil in June 30, 2016).

**Table 15: Cash and Investment Assets Held in Trust by IDA**

As of June 30,	Total fiduciary assets		2016
	2017	2016	
IDA-executed	\$ 40	\$ 49	
Jointly administered with affiliated organization	817	840	
Recipient-executed	1,949	2,020	
Financial intermediary funds	270	284	
Execution note yet assigned <sup>a</sup>	3,086	3,094	
<b>Total</b>	<b>\$ 6,162</b>	<b>\$ 6,287</b>	

*a.These represent assets held in trust for which the determination as to the type of execution is yet to be finalized.*

### **Externally funded Reimbursable Advisory Services (RAS)**

IDA provides technical assistance to its member countries, both in connection with, and independent of, lending operations. There is a growing demand from borrowers for strategic advice, knowledge transfer, and capacity building. Such assistance includes assigning qualified professionals to survey developmental opportunities in member countries, analyzing their fiscal, economic and developmental environment, assisting member countries in devising coordinated development programs, appraising projects suitable for investment, and assisting member countries in improving their asset and liability management techniques.

While most of IDA's advisory services and analytical work is financed by its own budget or donor contributions (Trust Funds), clients may also pay for such services. RAS allow IDA to provide advisory services that the clients demand, but that IDA cannot fund in full within the existing budget envelope. In FY17, income relating to reimbursable advisory services was \$42 million (FY16 - \$41 million).

### **Buy-down of Loans**

The Investment Partnership for Polio program to fund the immunization of children in high-risk polio countries has a funding mechanism that allows the purchase of oral vaccines from the proceeds of loans.

Under this program, IDA enters into an arrangement with third party donors who make payments on the borrower's service and commitment charges through a trust fund until the borrower reaches agreed performance goals. The trust fund then buys down the related loans for an amount equivalent to the present value of the remaining cash flows of the related loans, ensuring IDA incurs no economic loss. The trust fund subsequently cancels the purchased loans, converting them to grant terms. During FY17, there were no loans purchased under the buy-down mechanism. During FY16, one loan, with a carrying value of \$85 million was purchased for the present value equivalent of \$58 million.

## SECTION VII: INVESTMENT ACTIVITIES

As of June 30, 2017, IDA's net investment portfolio totaled \$29.7 billion (**Figure 8**), of which \$28.7 billion represents the trading portfolio, and \$1 billion represents the non-trading portfolio.

### Trading Portfolio

Under IDA17, the trading portfolio was held in three sub-portfolios, each with different risk profiles and performance guidelines. The portfolio was structured in a way that, even in the absence of access to market debt, it allowed for better asset liability management and ensured that funds were available on a timely basis in the amount needed to meet all IDA's financial obligations as they fall due. Tranche 1 primarily consists of accelerated encashments of equity contributions from members, transfers from IBRD and IFC, and voluntary credit prepayments. Tranches 2 and 3 constitute IDA's core liquidity to meet working capital requirements, as well as expected and unexpected cash flow volatility. See **Figure 9** for the breakup of investments held by tranche.

During FY17 and FY16, the trading portfolio had a relatively long duration, as a result of IDA's interest immunization strategy. Under this strategy, the duration of IDA's investments is aligned with that of its liabilities. The long duration leads to higher sensitivity to market rates, and relatively large unrealized mark-to-market gains/losses depending on the magnitude of the changes in interest rates. IDA's return for FY17 was (0.30)% primarily due to unrealized mark-to-market losses reflecting the increase in yield curves across major currencies. Table 16 provides a breakdown of the average balances and returns of IDA's liquidity portfolio for FY17 and FY16 by tranche. For details on returns of the total portfolio, refer to Section IV: Financial RESULTS.

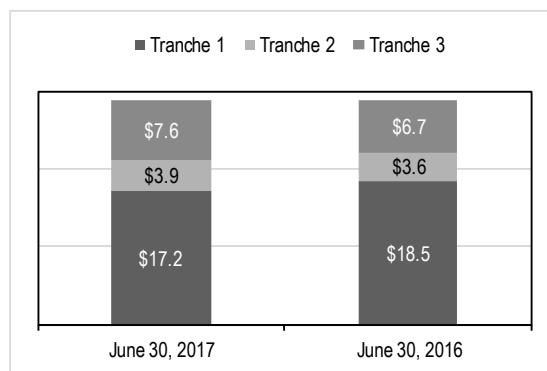
**Figure 8: Net Investment Portfolio**

(In billions of U.S. dollars)



**Figure 9: Investments by Tranche - Trading Portfolio**

(In billions of U.S. dollars)



**Table 16: Average Balances and Returns by Tranche**

(In millions of U.S. dollars, except rates in percentages)

Tranches	FY17		FY16	
	Average Balance	Return	Average Balance	Return
1	\$ 17,057	(0.66%)	\$ 17,715	4.56%
2	3,680	0.10%	3,658	1.54%
3	8,472	0.42%	6,728	0.22%
<b>Total</b>	<b>\$ 29,209</b>	<b>(0.30%)</b>	<b>\$ 28,101</b>	<b>3.13%</b>

For IDA18, the size and structure of the tranches will be adjusted to reflect the new hybrid financing model. IDA's investment portfolio will be gradually transitioned from the current tranche structure to a sub-portfolio structure which will comprise a Stable portfolio and an Operational portfolio. A Discretionary portfolio will be added if and when needed to hold any extra liquidity.

The portfolios will continue to be managed with the goal of prioritizing principal protection and ensuring sufficient cash flow to meet all of IDA's financial commitments. IDA will seek a reasonable return on its investment portfolio, which can be added to its internal resources. It will continue to restrict its liquid assets to high-quality investments.

IDA's liquid assets are held mainly in highly rated, fixed-income instruments (See **Table 21** for eligibility criteria for IDA's investments). These include government and agency obligations, time deposits, and other unconditional obligations of banks and financial institutions. IDA also holds currency and interest rate derivatives (including currency forward contracts) and asset-backed securities (including mortgage-backed securities).

In April, 2017 the Board approved an adjustment to IDA's policy for prudential minimum liquidity, to ensure that it holds sufficient liquidity to cover new activities related to market borrowings commencing in IDA18 in addition to its existing activities. The prudential minimum liquidity level is set at 80% of 24 months of projected net outflows. It will be predominantly held in the Stable portfolio. See Section IX – Risk Management for details on how IDA manages liquidity risk.

## **SECTION VIII: BORROWING ACTIVITIES**

### **Concessional Loans from Members**

Introduced in IDA17, Concessional Partner Loans (CPLs) will continue as a source of funding in IDA18. The terms in IDA18 will be similar to IDA17, where the borrowing terms of the concessional loans from members aim to follow the concessional features of IDA's loans.

The maturities of the loans are either 25 or 40 years to match the terms of IDA's loans, with a grace period of 5 years for a 25 year loan and 10 years for a 40 year loan. The loans have an all-in SDR equivalent coupon of up to one percent.

Voting rights are allocated to providers of the concessional loans from members following the drawdowns by IDA, and are based on the cash paid, computed as the derived grant element of the loan. The grant element, which is paid in and recorded as equity is a function of the terms of the loan and the discount rate agreed upon during the replenishment discussions - 2.35% SDR equivalent for 25-year maturity and 2.70% for 40-year maturity in IDA18. In IDA17 the discount rate was a single rate of 2.65% SDR equivalent.

As of June 30, 2017, the borrowings outstanding balance relating to concessional loans from members was \$3,660 million, an increase of \$754 million as compared to June 30, 2016. The increase is primarily due to additional loan proceeds received during the current fiscal year. Interest expense associated with these loans was \$47 million in FY17 (FY16 - \$43 million).

### **Short Term Borrowings**

Under its Investment Guidelines, IDA is allowed to enter into transactions involving securities sold under repurchase agreements and securities lent under securities lending agreements. These transactions are accounted for as short-term borrowings. The agreements are secured predominantly by high quality collateral, including government issued debt, and are used both to enhance returns and for liquidity management purposes.

As of June 30, 2017, securities lent or sold under repurchase agreements totaled \$2,560 million, an increase of \$592 million over June 30, 2016. **Table 17** provides details on short-term borrowing activities as of June 30, 2017, June 30, 2016 and June 30, 2015.

**Table 17: Short-Term Borrowings**

(In millions of U.S.dollars, except rates in percentages)

As of June 30,	2017	2016	2015
<b>Securities sold under repurchase agreements and securities lent under securities lending agreements</b>			
Balance at year-end	\$ 2,560	\$ 1,968	\$ 4,860
Average monthly balance during the year	\$ 2,576	\$ 3,636	\$ 4,544
Maximum month-end balance	\$ 3,261	\$ 4,985	\$ 5,621
Weighted-average rate at end of fiscal year	0.74%	0.51%	0.20%
Weighted-average rate during the fiscal year	0.58%	0.26%	0.14%

## SECTION IX: RISK MANAGEMENT

### Risk Governance

IDA's risk management processes and practices continually evolve to reflect changes in activities in response to market, credit, product, operational, and other developments. The Board, particularly Audit Committee members, periodically review trends in IDA'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 IDA assumes in its activities, and 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.

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

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

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

**Figure 10: Financial and Operational Risk Management Structure**



### 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 IBRD, IFC, and MIGA'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.

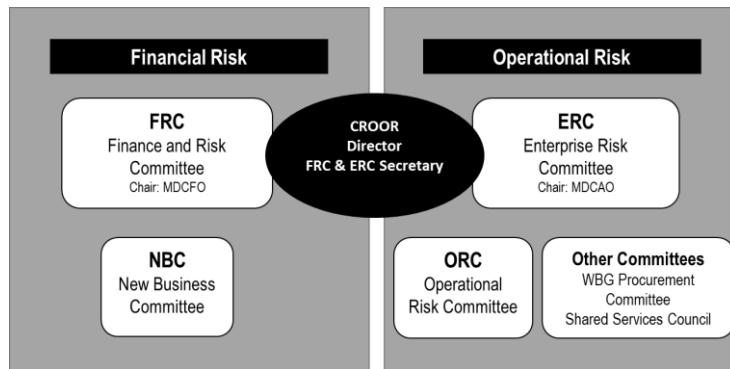
The following three departments report directly to the CRO:

- The **Credit Risk Department** identifies, measures, monitors, and manages country credit risk faced by IDA. The department assesses loan portfolio risk and capital requirements, determines the adequacy of provisions for losses on loans and other exposures, and monitors borrowers that are vulnerable to crises in the near term. The Department assesses the consistency of country lending programs as determined in IDA's PBA allocation framework with overall capital adequacy. Furthermore, whenever a new financial product is being considered for introduction, this department reviews any implications for country credit risk.
- The **Market and Counterparty Risk Department** is responsible for market, liquidity, and counterparty credit risk oversight, assessment, and reporting. It does these in coordination with IDA's financial managers who are responsible for the day-to-day execution of trades for the liquid asset and derivative portfolios within applicable policy and guideline limits. The department is also responsible for ensuring effective oversight, which includes: i) maintaining sound credit assessments, ii) addressing transaction and product risk issues, iii) providing an independent review function, iv) monitoring market and counterparty risk in the investment, borrowing and client operation portfolios, and v) implementing the model risk governance framework. It also provides reports to the Audit Committee and the Board on the extent and nature of risks, risk management, and oversight.
- The **Operational Risk Department** (CROOR) provides direction and oversight for operational risk activities by business function. The department's key operational risk management responsibilities include: (i) administering the Operational Risk Committee (ORC) for IDA, (ii) implementing the operational risk management framework which is aligned with Basel principles and providing direction to business unit partners to ensure consistent application, (iii) assisting and guiding business unit partners in identifying and prioritizing significant operational risks and enabling monitoring and reporting of risks through suitable metrics (or risk indicators), and (iv) helping identify emerging risks and trends through monitoring of internal and external risk events. The department is also responsible for business continuity management, and enterprise risk management functions and prepares a corporate Operational Risk Report for review and discussion by the ORC.

## Risk Committees

**Figure 11** depicts IDA's risk committee structure for financial and operational risks:

Figure 11: Risk Committee Structure for Financial and Operational Risks



### Financial Risk Committees:

The **Finance and Risk Committee (FRC)** provides a high level governance structure for decisions that may have financial risks. The FRC was created under the authority of the Managing Director and WBG Chief Financial Officer (MDCFO) to approve, clear, or discuss: (a) risk policy and procedure documents related to financial integrity, income sustainability and balance sheet strength, and (b) issues and new business initiatives with policy implications related to IDA's financial risks in the areas of finance, which include country credit, market, counterparty, liquidity and model risks. The FRC helps to integrate individual components of finance and risk management activities by building on mechanisms and processes already in place, and provides a forum for discussing and communicating significant risk related issues. The FRC meets regularly to discuss the financial performance, new products and services, and risk management of IDA.

**The New Business Committee (NBC)** is a standing committee of the FRC under the authority of the MDCFO. The NBC provides advice, guidance and recommendations to the FRC, by performing due diligence over new financial products or services to ensure that Management has a full understanding of the rationale, costs, risks and rewards of the product or service being considered.

### **Operational Risk Committees:**

**The Enterprise Risk Committee (ERC)** is a corporate committee that has oversight over operational and non-financial risks across IDA. Chaired by IDA's Managing Director and Chief Administrative Officer (MDCAO), it consists of a Vice President level committee to review and discuss enterprise risk matters. Specifically, the Committee has a governance role over risk matters relating to corporate security, business continuity and IT security. The ERC also sponsors the further development of the enterprise risk management framework including an annual high level survey of emerging top risks for IDA.

**Operational Risk Committee (ORC)** is the main governance committee for operational risk and provides a mechanism for an integrated review and response across IDA units on operational risks associated with people, processes, and systems including business continuity, and recognizing that business units remain responsible for managing operational risks. The Committee's key responsibilities include monitoring significant operational risk matters and events on a quarterly basis to ensure that appropriate risk-response measures are taken, and reviewing and concluding on IDA's overall operational risk profile. The ORC is chaired by the CRO and escalates significant risks/decisions to the FRC and ERC.

### **Summary of IDA's Specific Risks**

IDA assumes financial risks in order to achieve its development and strategic objectives. IDA's financial risk management framework is designed to enable and support the institution in achieving its goals in a financially sustainable manner. IDA manages credit, market and operational risks for its financial activities which include lending, borrowing and investing (**Table 18**). The primary financial risk to IDA is the country credit risk inherent in its loan portfolio. IDA 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. IDA's operational risk management framework is based upon a structured and uniform approach to identify, assess and monitor key operational risks across business units. The Board, particularly the Audit Committee, periodically reviews trends in IDA's risk profiles and performance, as well as any major developments in risk management policies and controls.

**Table 18: Summary of IDA's Specific Risk Categories**

Types of Financial Risk	How the risk is managed
<b>Credit Risk</b>	
Country Credit Risk	IDA's credit-risk-bearing capacity and individual country exposure limits.
Counterparty Credit Risk	Counterparty credit limits and collateral.
<b>Market Risk</b>	
Interest Rate Risk	Interest rate derivatives to match the sensitivity of assets and liabilities.
Exchange Rate Risk	Currency derivatives to match the currency composition of assets and liabilities.
Liquidity Risk	Minimum liquidity target levels.
<b>Operational Risk</b>	Risk assessment and monitoring of key risk indicators and events including the risk of loss from inadequate internal processes, people and systems, or from external events.

### **Capital Adequacy**

In support of its new leveraged financing model, IDA developed a new capital adequacy framework. On July 1, 2017, IDA will be using an economic capital model, which mandates that IDA holds capital for credit risk, market risk and operational risk covering all activities and assets on its books. The main measure of capital adequacy will be Deployable Strategic Capital (DSC), which is the capital available to support future commitments, over and above the current portfolio. IDA will be required to keep the DSC at levels greater or equal to zero percent. It is calculated as the amount by which Total Resources Available (TRA) exceed Total Resources Required (TRR), plus a Conservation Buffer (CB). By definition, the TRA includes only IDA's existing equity and does not take into account potential additions to equity in future replenishments. **Table 19** shows IDA's DSC ratio as if it were in effect as of June 30, 2017.

**Table 19: Deployable Strategic Capital Ratio**

(In billions of U.S.dollars except ratios in percentages)

Component	Description	As of June 30, 2017
Total Resources Available (TRA)	Consists of IDA's existing equity plus its outstanding loan loss reserve	\$ 162.3
Total Resources Required (TRR) <sup>a</sup>	The minimum capital required to cover expected and unexpected losses in connection with all of IDA's currently existing operations and assets. It also includes a capital allowance to reflect losses that result from valuing IDA's concessional loan portfolio in present value terms using market interest rates	85.7
Conservation Buffer (CB)	10 percent of TRA	16.2
Deployable Strategic Capital (DSC)	DSC = (TRA-TRR-CB)	\$ 60.4
<b>Deployable Strategic Capital as a percentage of Total Resources Available</b>	DSC/TRA	<b>37%</b>

a. TRR will be increased for the \$2.5 billion allocated to the Private Sector Window as it is utilized.

### Asset Coverage Principles

In addition to DSC framework, IDA has policies in place to ensure alignment of its lending and borrowing activities. With the introduction of market debt in IDA18, IDA's Board approved the following asset coverage principles:

- Management will monitor the level of assets available to satisfy all of IDA's borrowings and shall adjust future lending and grant commitments should the level of asset coverage fall below the level expected for a triple-A entity.
- Management will monitor IDA's liquidity to ensure its ability to satisfy its borrowing and commitment obligations even under stressed conditions taking into account the level expected for a triple-A entity without callable capital.
- If IDA's access to the capital markets or alternative sources of cash funding is impaired, then no additional loan, credit or grant commitments will be approved until access to cash funding, has resumed or all market debt is repaid.

These principles have informed the prudent capital adequacy and liquidity risk management policies that will be in place for FY18.

### Credit Risk

IDA 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. IDA is exposed to commercial as well as noncommercial counterparty credit risk.

#### Country Credit Risk

IDA's lending management framework encompasses the long-standing PBA mechanism and allocation framework agreed at each replenishment, complemented by additional considerations required when accessing debt markets to ensure adherence to risk management (capital adequacy) requirements.

While the PBA framework was not originally intended as a credit quality metric, it incorporates factors related to country credit risk. The PBA determines the volume of concessional IDA resources allocated to each country, based on performance in implementing policies that promote economic growth and poverty reduction, as assessed under the Country Policy and Institutional Assessment (CPIA). The CPIA includes economic management criteria, such as fiscal policy and debt policy and management.

In addition to these considerations in the PBA, IDA assesses the country credit risk of all its borrowers. Based on these risk ratings, to manage overall portfolio risk, the allocation outcomes of the PBA and other mechanisms are reviewed to ensure that they are compatible with the Deployable Strategic Capital Framework and Single Borrower Limit.

## Single Borrower Limit

Portfolio concentration risk, which arises when a small group of borrowing countries account for a large share of loans outstanding, is a key consideration for IDA. Concentration risk is managed through the SBL, which caps exposure to any single borrowing country to 25 percent of equity, in line with the Basel-based maximum exposure limit.

As of June 30, 2017 the SBL is determined at \$40 billion (25 percent of \$158.5 billion of equity as of June 30, 2017). Currently, the maximum country exposure levels compatible with IDA's overall capital adequacy target are lower than the SBL for all IDA-borrowing countries. As a consequence, the SBL is not currently a constraining factor.

As of June 30, 2017, the ten countries with the highest exposures accounted for 67% of IDA's total exposure (**Figure 7**). IDA's largest exposure to a single borrowing country, India, was \$24 billion as of June 30, 2017 (**Table 11**). Monitoring these exposures relative to the limit, however, requires consideration of the repayment profiles of existing loans, as well as disbursement profiles and projected new loans and guarantees.

## Debt Relief

IDA has participated in two comprehensive debt relief initiatives, HIPC and MDRI, adopted by the global development community to reduce the debt burdens of developing countries. In each case, IDA agreed to provide debt relief in return for future compensation from members for forgone reflows, ensuring that IDA's financial capacity would not be reduced. For a borrower to be eligible for debt relief on its loans with IDA, they are required to maintain macroeconomic stability, carry out key structural and social reforms, and maintain all loans in accrual status.

## Probable Losses, Overdue Payments and Non-Performing Loans

When a borrower fails to make payments on any principal, interest or other charges due to IDA, IDA may suspend disbursements immediately on all loans and grants to that borrower. IDA's current practice is to exercise this option using a graduated approach (**Table 20**). These practices also apply to member countries eligible to borrow from both IDA and IBRD, and whose payments on IBRD loans may become overdue. It is IDA's practice not to reschedule interest or principal payments on its loans, or participate in debt rescheduling agreements with respect to its loans. As of June 30, 2017, no IDA borrowing countries in the accrual portfolio had overdue payments beyond 90 days.

**Table 20: Treatment of Overdue Payments**

Overdue by 30 days	Where the borrower is the member country, no new loans or grants to the member country, or to any other borrower in the country, will be presented to the Board for approval nor will any previously approved loans or grants be signed, until payments for all amounts 30 days overdue or longer have been received. Where the borrower is not the member country, no new loans or grants to that borrower will be signed or approved.
Overdue by 45 days	In addition to the provisions cited above for payments overdue by 30 days, to avoid proceeding further on the notification process leading to suspension of disbursements, the country as borrower or guarantor and all borrowers in the country must pay not only all payments overdue by 30 days or more, but also all payments due regardless of the number of days since they have fallen due. Where the borrower is not the member country, no new loans or grants to, or guaranteed by, the member country, will be signed or approved.
Overdue by 60 days	In addition to the suspension of approval for new loans or grants and signing of previously approved loans or grants, disbursements on all grants or loans to or guaranteed by the member country are suspended until all overdue amounts are paid. This policy applies even when the borrower is not the member country. Under exceptional circumstances, disbursements can be made to a member country upon the Board's approval.
Overdue by more than six months	All loans made to or guaranteed by a member of IDA are placed in nonaccrual status, unless IDA determines that the overdue amount will be collected in the immediate future. Unpaid service charges and other charges not yet paid on loans outstanding are deducted from the income for the current period. To the extent that these payments are received, they are included in income. At the time of arrears clearance, a decision is made on the restoration of accrual status on a case-by-case basis; in certain cases this decision may be deferred until after a suitable period of payment performance has passed.

The loan-loss provision is calculated using IDA's exposure, the expected default frequency (EDF), or probability of default, and the estimated loss in the event of default. Probable losses inherent in the loan portfolio attributable to country credit risk are covered by the accumulated provision for losses on loans and other exposures, while unexpected losses owing to country credit risk are covered by equity.

A key determinant in the provision for losses on loans and other exposures is IDA's borrowing country credit risk ratings. These ratings are IDA's own assessment of borrowers' ability and willingness to repay IDA on time and in full. Countries are rated using IDA's internal comprehensive credit risk rating methodology. In light of the IDA18 replenishment which will commence from July 1, 2017, IDA's management is reviewing its approach to the credit risk rating of IDA's sovereign borrowers. As of June 30, 2017, the potential net impact of this refinement on IDA's accumulated provision is not expected to be material. For additional information see the Notes to Financial Statements—Note F—Loans and Other Exposures.

In FY17, IDA had a \$56 million release of provision for losses on loans and other exposures, compared with a \$380 million charge during the same period in FY16. The main drivers of the decrease in the provisioning requirement were changes in the credit quality of the portfolio, including a favorable impact of the annual update of the inputs used for estimating loan loss provision largely offset by the increase in lending exposure. As of June 30, 2017, IDA had \$142,184 million of loans outstanding, of which loans in non-accrual status represent 1.8 %. IDA's total provision for losses on loans was \$1,913 million (excluding accumulated provision for losses on debt relief) which represents a provisioning rate of 1.3 %. IDA's provisioning rate on loans for FY13 through FY17 has been between 1.0% to 1.4%. For a summary of countries with loans or guarantees in nonaccrual status at June 30, 2017, see Notes to Financial Statements—Note F—Loans and Other Exposures.

### **Counterparty Credit Risk**

IDA is exposed to commercial counterparty credit risk. Commercial counterparty credit risk is concentrated in IDA's investment portfolio and in debt instruments issued by sovereign governments, agencies, banks, and corporate entities. Most of these investments are in triple-A and double-A rated instruments. (**Table 22**)

#### **Commercial Counterparty Credit Risk**

This is the normal risk that counterparties fail to meet their payment obligations under the terms of the contract or other financial instruments. Effective management of counterparty credit risk is vital to the success of IDA's funding, investment, and asset/liability management activities. The monitoring and management of these risks is continuous as the market environment evolves.

IDA mitigates the counterparty credit risk from its investments and derivative holdings through the credit approval process, the use of collateral agreements and risk limits, and other monitoring procedures. The credit approval process involves evaluating counterparty and security-specific creditworthiness, assigning internal credit ratings and limits, and determining the risk profile of specific transactions. Credit limits are calculated and monitored taking into account current market values, estimates of potential future movements in those values, and counterparty collateral agreements. If a collateral agreement exists, the amount of collateral obtained is based on the credit rating of the counterparty. Collateral held includes cash and highly liquid investment securities.

#### **Derivative Instruments**

In the normal course of its business, IDA enters into various derivative and foreign exchange financial instrument transactions. These are used mainly to meet the financial needs of IDA's borrowers and to manage the institution's exposure to fluctuations in interest and exchange rates. These transactions are conducted with other financial institutions and, by their nature, entail commercial counterparty credit risk.

For derivative products, IDA uses the estimated replacement cost of the derivative to measure credit risk exposure. While the contractual principal amount of derivatives is the most commonly used volume measure in derivative markets, it does not measure credit or market risk.

Under mark-to-market collateral arrangements, when IDA is in a net receivable position higher than the agreed upon collateral threshold allocated to a counterparty, counterparties are required to post collateral with IDA. As of June 30, 2017, IDA had not received any collateral in the form of cash or securities.

Under most of its derivatives agreements, IDA is not required to post collateral as long as it maintains liquidity holdings at predetermined levels that are a proxy for a triple-A credit rating. After becoming a rated entity, IDA has started to enter into derivatives agreements with commercial counterparties in which IDA is not required to post collateral as long as it maintains a triple-A credit rating. For the contractual value, notional amounts, related credit risk exposure amounts, and the amount IDA would be required to post in the event that it did not maintain these requirements, see Notes to Financial Statements: Note E—Derivative Instruments.

## Investment Securities

The General Investment Authorization for IDA, approved by the Board, provides the basic authority for IDA to invest its liquid assets. Furthermore, all investment activities are conducted in accordance with a more detailed set of Investment Guidelines. The Investment Guidelines are approved by the MDCFO and implemented by the Treasurer. These Investment Guidelines set out detailed trading and operational rules including: which instruments are eligible for investment and establish risk parameters relative to benchmarks. These include an overall consultative loss limit and duration deviation, specifying concentration limits on counterparties and instrument classes, as well as clear lines of responsibility for risk monitoring and compliance. Credit risk is controlled by applying eligibility criteria (**Table 21**).

The overall market risk of the investment portfolio is subject to a consultative loss limit to reflect a level of tolerance for the risk of underperforming the benchmark in any fiscal year. IDA has procedures in place to monitor performance against this limit and potential risks, and it takes appropriate actions if the limit is reached.

**Table 21: Eligibility Criteria for IDA's Investments**

Instrument Securities	Description
Sovereigns	IDA may only invest in obligations issued or unconditionally guaranteed by governments of member countries with a minimum credit rating of AA-. However, no rating is required if government obligations are denominated in the national currency of the issuer.
Agencies	IDA may invest only in obligations issued by an agency or instrumentality of a government of a member country, a multilateral organization, or any other official entity other than the government of a member country, with a minimum credit rating of AA-.
Corporates and asset-backed securities	IDA may only invest in securities with a triple-A credit rating.
Time deposits <sup>a</sup>	IDA may only invest in time deposits issued or guaranteed by financial institutions, whose senior debt securities are rated at least A-.
Commercial Paper	IDA may only invest in short-term borrowings (less than 190 days) from commercial banks, corporates, and financial institutions.
Securities lending, and borrowing, repurchases, resales, and reverse repurchases	IDA may engage in repurchases and reverse repurchases, against adequate margin protection, of the securities described under the sovereigns, agencies, and corporates and asset-backed security categories.
Collateral Assets	IDA may engage in collateralized forward transactions, such as swap, repurchase, resale, securities lending, or equivalent transactions that involve certain underlying assets not independently eligible for investment. In each case, adequate margin protection needs to be received.

a. Time deposits include certificates of deposit, bankers' acceptances and other obligations issued or unconditionally guaranteed by banks or other financial institutions.

## Commercial Counterparty Credit Risk Exposure

As a result of IDA's use of mark-to-market collateral arrangements for swap transactions, its residual commercial counterparty credit risk exposure is concentrated in the investment portfolio; in debt instruments issued by sovereign governments, agencies, commercial paper, time deposits, and corporate entities (**Table 22**).

The credit quality of IDA's investment portfolio remains concentrated in the upper end of the credit spectrum with 71% of the portfolio rated AA or above as of June 30, 2017, reflecting IDA's continued preference for highly rated securities and counterparties across all categories of financial instruments. Total commercial counterparty credit exposure, net of collateral held, was \$31,147 million as of June 30, 2017.

**Table 22: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating**

In millions of U.S. dollars, except rates in percentages

As of June 30,		2017					2016				
		Counterparty Rating	Sovereigns	Agencies, ABS, Commercial Paper, Swaps, Corporate and Time Deposits	Total Exposure	% of Total	Sovereigns	Agencies, ABS, Commercial Paper, Swaps, Corporate and Time Deposits	Total Exposure	% of Total	
AAA	\$ 8,065	\$ 5,088	\$ 13,153	42	\$ 10,897	\$ 5,117	\$ 16,014	52			
AA	3,919	5,194	9,113	29	5,959	2,942	8,901	29			
A	6,860	2,017	8,877	29	4,865	1,167	6,032	19			
BBB or below	-	4	4	*	-	4	4	*			
<b>Total</b>	<b>\$ 18,844</b>	<b>\$ 12,303</b>	<b>\$ 31,147</b>	<b>100</b>	<b>\$ 21,721</b>	<b>\$ 9,230</b>	<b>\$ 30,951</b>	<b>100</b>			

\* Denotes less than 0.5%.

For the contractual value, notional amounts and related credit risk exposure amounts by instrument see the Notes to Financial Statements—Note E—Derivative Instruments.

## Market Risk

IDA is exposed to changes in interest and exchange rates. The introduction of market debt financing into IDA’s business model from IDA18 will present additional exposures. Accordingly, IDA has updated its ALM Framework in order to minimize its exposure to market risk.

### Interest Rate Risk

IDA is exposed to interest rate risk due to mismatches between its assets (loans and investment portfolio) and its liabilities (borrowing portfolio) both in terms of maturity and instrument type. Given IDA’s lengthy disbursement profile, the duration of IDA’s investment portfolio is relatively long. This long duration, combined with volatility in market interest rates, results in significant year-on-year variability in unrealized mark-to-market gains/losses on the portfolio.

Until FY17, the primary objective in the management of IDA’s investment trading portfolio was to provide a ready source of liquidity when needed by IDA to meet projected net cash requirements. Accordingly, IDA’s assets were invested so that their duration closely matched the duration of these projected net cash requirements. The change in the present value of the projected net cash outflows provided the economic offset to the unrealized mark-to-market gains/losses on the investment portfolio.

As of June 30, 2017, IDA’s overall investment portfolio had a duration of slightly above two years. During FY17, the investment portfolio experienced unrealized mark-to-market losses of \$367 million as compared to unrealized mark-to-market gains of \$509 million in FY16, as a result of the increase in the yield curves of major currencies in FY17.

For IDA18, the trading portfolio will be adjusted to reflect the new hybrid financing model. IDA’s investment portfolio will be gradually transitioned from the current tranche structure to a sub-portfolio structure which will be comprised of a Stable portfolio and an Operational portfolio. See Section VII: Investment Activities.

Under the new integrated financing model IDA will employ the following strategies to continue to enhance its management of interest rate risk:

- The capital adequacy policies will factor in the sensitivity to interest rates.
- Matching interest rates between loans and funding to minimize open interest rate positions.
- The funding risk related to the mismatch between the maturity profile of the debt funding and the related loans will be monitored through duration measurements and adjustments to capital requirements to cover this risk.

### Exchange Rate Risk

IDA faces foreign exchange rate risk exposure as a result of the currency mismatch between its commitments for loans and grants, which are mainly denominated in SDRs; equity contributions from members, which are typically denominated in national currencies; and the portion of IDA’s internal resources and expenditures that is denominated in U.S. dollars.

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 IDA transacts, relative to its reporting currency, the U.S. dollar. These movements are shown as currency translation adjustments. Translation adjustments relating to the revaluation of assets and liabilities denominated in SDR and SDR component currencies, (IDA’s functional currencies), are reflected in Accumulated Other Comprehensive Income, in equity. Translation adjustments relating to non-functional currencies are reported in IDA’s Statement of Income (see Note A: Summary of Significant Accounting and Related Policies in the Notes to the Financial Statements).

IDA uses currency forward contracts to convert members’ encashments provided in national currencies into the five currencies of the SDR basket. Until IDA17, these transactions were intermediated by IBRD for efficiency purposes. Under this arrangement, IDA entered into foreign exchange forwards with IBRD, and IBRD simultaneously entered into off-setting foreign exchange forwards with market counterparts. In preparation for IDA18, IDA entered into \$13.2 billion in notional foreign exchange forwards directly with market counterparts in order to manage exchange rate risk. For further details, see Notes to Financial Statements—Note E—Derivative Instruments.

The payable leg of the currency forward contracts economically hedging member equity contribution pledges are denominated in non-functional currencies. Accordingly, appreciation (depreciation) of these currencies against the U.S. dollar results in exchange rate losses (gains), which are reported in the Statement of Income. The translation adjustment on future inflows from members is the economic offset to the translation adjustment on non-functional currencies of currency forward contracts.

The translation adjustment loss on non-functional currencies of \$49 million in FY17 was due to the appreciation of the non-functional currencies against the U.S. dollar. This was offset by the effect of foreign exchange on the future inflows from members, which was a gain of \$102 million in FY17. In contrast, the translation adjustment gain on non-functional currencies of \$208 million in FY16 was due to the depreciation of the non-functional currencies against the U.S. dollar. This was offset by the effect of foreign exchange movements on the future inflows from members, which was a loss of \$158 million in FY16.

The difference between the reported translation adjustments and the effect of foreign exchange movements on the economic offsets, primarily represent the effect of foreign exchange movements on the member equity contributions in non-functional currencies that are not economically hedged through forward contracts due to their relatively small contribution amount or the unpredictability of the expected payment date. These residual equity contributions are hedged using a currency correlation methodology under the overall currency management framework.

Until the end of IDA17, the focus of currency risk management was to protect financing resources denominated in SDR to ensure sufficient availability of cash to support commitments under each replenishment. With the IDA18 integrated financing framework, cash availability constraints will be diminished as IDA will have access to capital markets. Changes in exchange rates affect the capital adequacy of IDA when the currency of the equity or debt funding the loan portfolio is different from that of the loan exposure. Accordingly, the aim of IDA's exchange rate risk management under IDA18 is the protection of IDA's financial capacity, as measured by the capital adequacy framework.

The key components of IDA's foreign exchange risk mitigation framework under IDA18 include:

- Aligning the currency composition of the IDA18 concessional funding sources: member contributions, internal resources, IBRD and IFC grants and, grant element of CPL's, with the currency composition of concessional loans. Non-SDR IDA18 sources of funding will be hedged to SDRs, where required at the start of the replenishment, to lock-in the SDR value.
- Adjusting the currency of concessional funding sources when single currency credits are approved, in order to maintain the alignment of currency composition of concessional loans to sources of concessional funding.
- Aligning of debt funding sources for IDA's non-concessional financing with the currency composition of non-concessional loans. The non-concessional loans will only be available in USD, GBP, EUR and JPY, accordingly debt funding will be issued in the same currency as the non-concessional financing. Alternatively, the debt currency can be converted to the needed currency through overlay swaps.
- Aligning the currency composition of its equity to that of the currency composition of required capital ("Total Resources Required" measure in capital adequacy framework).

## Liquidity Risk

Liquidity risk arises in the general funding of IDA's activities and in managing its financial position. It includes the risk of IDA 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.

IDA's liquidity management guidelines, where IDA's minimum liquidity target was 33 percent of a three-year annual moving average of gross disbursements, have been revised to reflect the integrated financing model under IDA18. IDA's aggregate liquid asset holdings are to be kept above a specified prudential minimum to safeguard against cash flow interruptions. This minimum is equal to 80% of the liquidity target, being 24 months of projected net outflows.

IDA will hold liquidity above the prudential minimum to ensure sufficient liquidity under a wide range of shock scenarios as well as to give it flexibility in timing its borrowing transactions and to meet working capital needs.

## Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

IDA recognizes the importance of operational risk management activities, which are embedded in its financial operations. IDA'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, and identifying emerging risks that may affect business units. The operational risk in IDA's lending activities is monitored and supported by the Operations Policy and Country Services. This covers risk of non-compliance with IDA's policies, safeguards as well as risk of mis-procurement on behalf of clients, and fraud and corruption in its financed projects.

## SECTION X: FAIR VALUE ANALYSIS

Fair value reflects the most current and complete expectation and estimation of the value of assets and liabilities. It aids comparability, and can be useful in decision-making. On a reported basis, IDA's loans and borrowings are carried at amortized cost, while all instruments in its investment portfolio (trading and non-trading) are carried at fair value. Whilst IDA intends to hold its loans and borrowings to maturity, a fair value estimate of IDA's financial assets and liabilities along with their respective carrying values is presented in **Table 23**. As non-financial assets and liabilities are not reflected at fair value, IDA's equity, as shown in **Table 23**, is not intended to reflect full fair value. **Table 23** shows that IDA's equity on a fair value basis (\$131.1 billion) is less than on a carrying value basis (\$158.5 billion) primarily due to the \$26.8 billion negative fair value adjustment on IDA's net loans outstanding. This negative fair value adjustment arises due to the concessional nature of IDA's loans; IDA's interest rates are below market rates for the given maturity of its loans and risk profile of the borrowers (concessional). The fair value of loans is calculated using market-based methodologies - see Notes to Financial Statements—Note F—Loans and Other Exposures. For details on valuation methods and assumptions relating to other fair value disclosures, see Notes to Financial Statements—Note L—Other Fair Value Disclosures.

### Loans

As of June 30, 2017, there was a \$26.8 billion negative fair value adjustment on IDA's net loans outstanding bringing the fair value to \$111.5 billion. This compares with a \$20.6 billion adjustment as of June 30, 2016, bringing the fair value to \$112.3 billion. The variance of the adjustment of \$6.2 billion is due to an increase in SDR interest rates partially offset by changes in credit risk.

### Borrowings

As of June 30, 2017, the fair value of borrowings was \$4,175 million (\$3,585 million as of June 30, 2016). The increase of \$590 million is primarily due to \$786 million of additional borrowings received during the year, partially offset by \$92 million impact from exchange rate movements during the period and \$103 million unrealized mark-to-market gains driven by upward movement of the yield curves.

**Table 23: Fair Value Estimates and their Carrying Value**

*In millions of U.S. dollars*

As of June 30,	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Due from Banks	\$ 483	\$ 483	\$ 672	\$ 672
Investments (including securities purchased under resale agreements)	32,033	32,033	31,493	31,493
Net Loans Outstanding	138,351	111,539	132,825	112,276
<b>Derivative Assets</b>				
Investments	4,318	4,318	4,624	4,624
Other Asset-Liability Management	19,525	19,525	8,214	8,214
Receivable from affiliated organization	798	798	882	882
Other assets	1,533	1,533	1,765	1,765
<b>Total</b>	<b>\$ 197,041</b>	<b>\$ 170,229</b>	<b>\$ 180,475</b>	<b>\$ 159,926</b>
<b>Liabilities</b>				
Borrowings	\$ 3,660	\$ 4,175	\$ 2,906	\$ 3,585
Securities sold/lent under repurchase agreements/securities lending agreements, and payable for cash collateral received	2,560	2,560	1,968	1,968
<b>Derivative Liabilities</b>				
Investments	4,523	4,523	4,794	4,794
Other Asset-Liability Management	19,550	19,550	7,943	7,943
Payable for grants	6,583	6,583	6,099	6,099
Payable to affiliated organization	471	471	458	458
Other liabilities	1,218	1,218	1,607	1,607
<b>Total Liabilities</b>	<b>\$ 38,565</b>	<b>\$ 39,080</b>	<b>\$ 25,775</b>	<b>\$ 26,454</b>
<b>Equity</b>	<b>\$ 158,476</b>	<b>\$ 131,149</b>	<b>\$ 154,700</b>	<b>\$ 133,472</b>
<b>Total Liabilities and Equity</b>	<b>\$ 197,041</b>	<b>\$ 170,229</b>	<b>\$ 180,475</b>	<b>\$ 159,926</b>

## **SECTION XI: CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES**

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Note A of IDA's financial statements contains a summary of IDA's significant accounting policies. These policies, as well as significant estimates made by management, are integral to the presentation of IDA's financial position. While all of these policies require a certain level of management judgment and estimates, this section discusses the significant accounting policies that require management to make judgments that are difficult, complex or subjective and relate to matters that are inherently uncertain.

### **Fair Value of Financial Instruments**

All fair value adjustments are recognized through the income statement. The fair values of financial instruments are based on a three level hierarchy.

For financial instruments classified as Level 1 and 2, inputs are based on observable market data and less judgment is applied in arriving at a fair value measurement. For financial instruments classified as Level 3, significant unobservable inputs are used. These inputs require management to make significant assumptions and judgments in arriving at a fair value measurement.

Derivative contracts include currency forward contracts, swaptions, plain vanilla swaps, and structured swaps are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates and basis spreads.

In instances where management relies on instrument valuations supplied by external pricing vendors, there are procedures in place to validate the appropriateness of the models used as well as the inputs applied in determining those values.

All of IDA's financial instruments which are recorded at fair value are classified as Level 1 and Level 2 as of June 30, 2017, as the inputs are based on observable market data and less judgment is applied in arriving at fair value measures.

On a quarterly basis, the methodology, inputs and assumptions are reviewed to assess the appropriateness of the fair value hierarchy classification of each financial instrument. All the financial models used for input to IDA's financial statements are subject to both internal and periodic external verification and review by qualified personnel.

### **Provision for Losses on Loans and Other Exposures**

IDA's accumulated provision for losses on loans and other exposures reflects the probable losses inherent in its nonaccrual and accrual portfolios after taking into consideration the expected relief under the HIPC Debt Initiative and MDRI and any provision for losses on the buy-down of loans. The provision required is a function of the expected default frequency and the assumed severity of the loss given default for each of the borrowers.

The expected default frequency is based on the borrower's assigned risk rating. The determination of a borrower's risk rating is based on a quantitative framework which relies primarily on considerations of political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payments risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks and corporate sector debt and other vulnerabilities. IDA periodically reassesses the adequacy of the accumulated provision for losses on loans and other exposures.

Adjustments to the accumulated provision are recorded as a charge or a release of provision in the Statement of Income. Actual losses may differ from expected losses due to unforeseen changes in any of the factors that affect borrowers' creditworthiness.

The Credit Risk Committee monitors aspects of country credit risk, in particular, reviewing the provision for losses on loans and guarantees taking into account, among other factors, any changes in exposure, risk ratings of borrowing member countries, or movements between the accrual and non-accrual portfolios.

Additional information on IDA's provisioning policy and the status of nonaccrual loans can be found in the Notes to Financial Statements-Note A-Summary of Significant Accounting and Related Policies and Note F- Loans and Other Exposures.

**Provision for HIPC Debt Initiative and MDRI**

The adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI is based on both quantitative and qualitative analyses of various factors, including estimates of Decision and Completion Point dates. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI. Adjustments to the accumulated provision are recorded as a charge against or addition to income.

**Provision for Losses on Buy-Down of Loans**

IDA records a provision for losses on loans when all performance goals as well as conditions necessary to effect the buy-down under the investment partnership for polio program have been completed. The provision is equivalent to the difference between the carrying amount of the loans to be bought down and the estimated amount to be received. The estimated amount to be received is based on quantitative factors including the discount rate.

## **SECTION XII: GOVERNANCE AND CONTROL**

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### **General Governance**

IDA's decision-making structure consists of the Board of Governors, the Executive Directors, the President, Management and staff. The Board of Governors is the highest decision-making authority. Governors are appointed by their member governments for a five-year term, which is renewable. The Board of Governors may delegate authority to the Executive Directors to exercise any of its powers, except for certain powers enumerated in the IDA Articles. IDA has its own policies and frameworks that are carried out by staff that share responsibilities for both IDA and IBRD.

### **Board Membership**

In accordance with the Articles, Executive Directors are appointed or elected every two years by their member governments. The Board currently has 25 Executive Directors who represent all 173 member countries. Executive Directors are neither officers nor staff of IDA. The President is the only member of the Board from management, and he serves as a non-voting member and as Chairman of the Board.

The Board is required to consider proposals made by the President on IDA loans, grants and guarantees and on other policies that affect its general operations. The Board is also responsible for presenting to the Board of Governors, at the Annual Meetings, audited accounts, an administrative budget, and an annual report on operations and policies and other matters.

The Board and its committees are in continuous session at the main World Bank offices in Washington DC, as business requires. Each committee's terms of reference establishes its respective roles and responsibilities. As committees do not vote on issues, their role is primarily to serve the Board in discharging its responsibilities.

The committees are made up of 8 members and function under their respective terms of reference. These committees are as follows:

- Audit Committee - assists the Boards in overseeing the IDA's finances, accounting, risk management and internal controls (See further explanation below).
- Budget Committee - assists the Boards in approving the World Bank's budget and in overseeing the preparation and execution of the IDA's business plans. The committee provides guidance to management on strategic directions of IDA.
- Committee on Development Effectiveness - supports the Boards in assessing the IDA's development effectiveness, providing guidance on strategic directions of IDA, monitoring the quality and results of operations.
- Committee on Governance and Executive Directors' Administrative Matters - assists the Boards in issues related to the governance of IDA, the Boards' own effectiveness, and the administrative policy applicable to Executive Directors' offices.
- Human Resources Committee- strengthens the efficiency and effectiveness of the Board in discharging its oversight responsibility on the World Bank's human resources strategy, policies and practices, and their alignment with the business needs of the organization.

### **Audit Committee**

#### **Membership**

The Audit Committee consists of eight Executive Directors. Membership in the Audit Committee is determined by the Board, based on nominations by the Chairman of the Board, following informal consultation with Executive Directors.

#### **Key Responsibilities**

The Audit Committee is appointed by the Board for the primary purpose of assisting the Board in overseeing IDA's finances, accounting, risk management, internal controls and institutional integrity. Specific responsibilities include:

- Oversight of the integrity of IDA's financial statements.
- Appointment, qualifications, independence and performance of the External Auditor.
- Performance of the Internal Audit Department.

- Adequacy and effectiveness of financial and accounting policies and internal controls and the mechanisms to deter, prevent and penalize fraud and corruption in IDA operations and corporate procurement.
- Effective management of financial, fiduciary and compliance risks in IDA.
- Oversight of the institutional arrangements and processes for risk management across IDA.

In carrying out its role, the Audit Committee discusses financial issues and policies that affect IDA's financial position and capital adequacy, with Management, external auditors, and internal auditors. It also recommends the annual audited financial statements for approval to the Board. The Audit Committee monitors and reviews developments in corporate governance and its own role on an ongoing basis.

### **Executive Sessions**

Under the Audit Committee's terms of reference, it may convene an executive session at any time, without Management's presence. The Audit Committee meets separately in executive session with the external and internal auditors.

### **Access to Resources and to Management**

Throughout the year, the Audit Committee receives a large volume of information to enable it to carry out its duties, and meets both formally and informally throughout the year to discuss relevant matters. It has complete access to Management, and reviews and discusses with Management topics considered in its terms of reference.

The Audit Committee has the authority to seek advice and assistance from outside legal, accounting, or other advisors as it deems necessary.

### **Business Conduct**

The WBG promotes a positive work environment in which staff members understand their ethical obligations to the institution. In support of this commitment, the institution has in place a Code of Conduct. The WBG has both an Ethics Helpline and a Fraud and Corruption hotline. A third-party service offers many methods of worldwide communication. Reporting channels include telephone, mail, email, or confidential submission through a website.

IDA has in place procedures for receiving, retaining, and handling recommendations and concerns relating to business conduct identified during the accounting, internal control, and auditing processes.

WBG staff rules clarify and codify the staff's obligations in reporting suspected fraud, corruption, or other misconduct that may threaten the operations or governance of the WBG. These rules also offer protection from retaliation.

### **Auditor Independence**

The appointment of the external auditor for IDA is governed by a set of Board-approved principles. These include:

- Prohibiting the external auditor from providing any non-audit-related services;
- Requiring all audit-related services to be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee; and
- Mandatory rebidding of the external audit contract every five years, with a limit of two consecutive terms and mandatory rotation thereafter, provided however that the Audit Committee may exceptionally recommend that the incumbent audit firm should be allowed to participate in the re-bidding.

The external auditor is appointed to a five-year term and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board. In FY14, KPMG LLP began a second five-year term as IDA's external auditor.

Communication between the external auditor and the Audit Committee is ongoing and carried out as often as deemed necessary by either party. The Audit Committee meets periodically with the external auditor and individual committee members have independent access to the external auditor. IDA's external auditors also follow the communication requirements with the Audit Committee set out under generally accepted auditing standards in the United States and in the International Standards on Auditing.

On December 7, 2016, the Board approved amendments to the policy on the appointment of an external auditor which will come into effect for the FY19 audit period. The primary amendments now permit the external auditor to provide non-prohibited, non-audit related services subject to monetary limits.

Broadly, the list of prohibited non-audit services include those that would put the external auditor in the roles typically performed by management and in a position of auditing their own work, such as accounting services, internal audit services, and provision of investment advice. The total non-audit services fees over the term of the relevant external audit contract shall not exceed 70 percent of the audit fees over the same period.

## **Senior Management Changes**

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

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

## **Internal Controls**

### **Internal Control over External Financial Reporting**

Each fiscal year, Management evaluates the internal controls over external financial reporting to determine whether any changes made in these controls during the fiscal year materially affect, or would be reasonably likely to materially affect, IDA's internal control over external financial reporting. The internal control framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Internal Control - Integrated Framework (2013)" provides guidance for designing, implementing and conducting internal control and assessing its effectiveness. Since FY16, IDA has been using the 2013 COSO framework to assess the effectiveness of the internal control over external financial reporting. As of June 30, 2017, these controls were determined to be effective. See "Management's report regarding effectiveness of Internal Control over External Financial Reporting" on page 48.

Concurrently, IDA's external auditor provides a report on the effectiveness of internal control over external financial reporting is fairly stated in all material aspects. See Independent Auditors' Report on page 50.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed is gathered and communicated to Management as appropriate, to allow timely decisions regarding required disclosure by IDA.

Management conducted an evaluation of the effectiveness of such controls and procedures and the President and the MDCFO have concluded that these controls and procedures were effective as of June 30, 2017.

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## Glossary of Terms

**Blend Borrower:** IDA Member that is eligible to borrow from IDA on the basis of per capita income and is also eligible to borrow from IBRD. Given the access to both sources of funds, blend borrowers are expected to limit IDA funding to social sector projects and to use IBRD resources for projects in the other sectors.

**Board:** The Board of Executive Directors

**Commitment Authority:** Total value of resources available during a particular **replenishment** including member equity contributions, borrowings, internal resources, IBRD transfers, IFC grants and other resources.

**Completion Point:** When conditions specified in the legal notification sent to a country are met and the country's other creditors have confirmed their full participation in the HIPC debt relief initiative. When a country reaches its Completion Point, IDA's commitment to provide the total debt relief for which the country is eligible, becomes irrevocable.

**Committee of Sponsoring Organizations of the Treadway Commission (COSO):** Committee of Sponsoring Organizations of the Treadway Commission. COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private-sector initiative which studied the causal factors that can lead to fraudulent financial reporting. In 1992, COSO issued its Internal Control-Integrated Framework, which provided a common definition of internal control and guidance on judging its effectiveness.

**Consultative Loss Limit:** Reflects a level of IDA's tolerance for risk of underperforming the benchmark in any fiscal year.

**Duration:** Duration provides an indication of the interest rate sensitivity of a fixed income security to changes in its underlying yield.

**Encashment:** Draw down (payment in cash) of a demand note in accordance with a schedule agreed for each replenishment.

**Externally Financed Output (EFO):** An instrument for receiving external contributions to support the Bank's work program, typically, for amounts under \$1 million, however larger amounts can also be received.

**Graduate Member:** A member country that was once eligible to borrow from IDA, however due to improvements in the member's economic results is no longer eligible to borrow from IDA, and is deemed to have "graduated" to IBRD.

**Instrument of Commitment (IoC):** The instrument through which a government commits to make a subscription or a subscription and contribution to IDA's resources.

**Net Disbursements:** Loans and grant disbursements net of repayments and prepayments.

**Prudential Minimum:** The minimum amount of liquidity that IDA is required to hold. It represents twenty four months coverage as calculated at the start of every fiscal year. The prudential minimum is defined as 80% of the target liquidity level.

**Replenishment:** The process of periodic review of the adequacy of IDA resources and authorization of additional subscriptions. Under IDA's Articles, replenishments are required to be approved by IDA's Board of Governors by a two-thirds majority of the total voting power.

**Special Drawing Rights (SDR):** The SDR is an international reserve asset, created by the International Monetary Fund in 1969 to supplement the existing official reserves of member countries. The SDR is defined as a basket of currencies, consisting of the Chinese Renminbi, euro, Japanese yen, pound sterling, and U.S. dollar. The basket composition is reviewed every five years to ensure that it reflects the relative importance of currencies in the world's trading and financial systems.

**Voting Rights:** IDA's voting rights consist of a combination of membership and subscription votes.

**World Bank:** The World Bank consists of IBRD and IDA.

**World Bank Group (WBG):** The World Bank Group consists of the IBRD, IDA, IFC, MIGA and ICSID.

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)  
FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS

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June 30, 2017

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# MANAGEMENT'S REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER EXTERNAL FINANCIAL REPORTING

## The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 477-1234  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

## Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting

August 3, 2017

The management of the International Development Association (IDA) is responsible for the preparation, integrity, and fair presentation of its published financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on informed judgments and estimates made by management.

The financial statements have been audited by an independent audit firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Executive Directors and their Committees. Management believes that all representations made to the independent auditors during their audit of IDA's financial statements and attestation of its internal control over external financial reporting was valid and appropriate. The independent auditors' reports accompany the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial statement presentations in conformity with accounting principles generally accepted in the United States of America. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal control over external financial reporting, which is subject to scrutiny by management and the internal auditors, and is revised as considered necessary, supports the integrity and reliability of the external financial statements.

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

IDA assessed its internal control over external financial reporting for financial statement presentation in conformity with accounting principles generally accepted in the United States of America as of June 30, 2017. This assessment was based on the criteria for effective internal control over external financial reporting described in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IDA maintained effective internal control over external financial reporting presented in conformity with accounting principles generally accepted in the United States of America as of June 30, 2017. The independent audit firm that

August 3, 2017

audited the financial statements has issued an Independent Auditors Report which expresses an opinion on IIDA's internal control over external financial reporting.

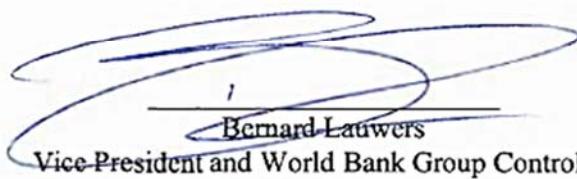
The Executive Directors of IDA have appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IDA. The Audit Committee is comprised entirely of Executive Directors who are independent of IDA's management. The Audit Committee is responsible for recommending to the Executive Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of IDA in addition to reviewing IDA's financial reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over external financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.



Jim Yong Kim  
President



Joaquim Vieira Ferreira Levy  
Managing Director and World Bank Group Chief Financial Officer



Bernard Lauwers  
Vice President and World Bank Group Controller

# INDEPENDENT AUDITORS' REPORT ON EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

President and Executive Directors  
International Development Association:

We have audited the International Development Association's (IDA) internal control over external financial reporting as of June 30, 2017, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### *Management's Responsibility for Internal Control Over Financial Reporting*

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Definition and Inherent Limitations of Internal Control Over Financial Reporting*

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Opinion*

In our opinion, IDA maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

*Report on Financial Statements*

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of IDA, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of income, comprehensive income, changes in accumulated deficit and cash flows for each of the years in the three-year period ended June 30, 2017, and our report dated August 3, expressed an unmodified opinion on those financial statements.

*KPMG LLP*

Washington, D.C.  
August 3, 2017

# INDEPENDENT AUDITORS' REPORT



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

President and Executive Directors  
International Development Association:

We have audited the accompanying financial statements of the International Development Association (IDA), which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of income, comprehensive income, changes in accumulated deficit and cash flows for each of the years in the three-year period ended June 30, 2017, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IDA as of June 30, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2017 in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



#### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The summary statement of loans and the statement of voting power and subscriptions and contributions as of June 30, 2017 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

#### **Report on Internal Control over Financial Reporting**

We also have audited, in accordance with auditing standards generally accepted in the United States of America, IDA's internal control over financial reporting as of June 30, 2017, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 3, 2017 expressed an unmodified opinion on the effectiveness of IDA's internal control over financial reporting.

*KPMG LLP*

Washington, District of Columbia  
August 3, 2017

**BALANCE SHEET**  
*June 30, 2017 and June 30, 2016*

*Expressed in millions of U.S. dollars*

	<i>2017</i>	<i>2016</i>
<b>Assets</b>		
<b>Due from Banks</b>		
Unrestricted cash—Note C	\$ 455	\$ 645
Restricted cash	<u>28</u>	<u>27</u>
	<u>483</u>	<u>672</u>
<i>Investments (including securities transferred under repurchase or securities lending agreements of \$2,150 million—June 30, 2017; \$1,691 million—June 30, 2016)—Notes C and G</i>	31,789	31,413
<b>Securities Purchased Under Resale Agreements—Note C</b>	244	80
<b>Derivative Assets</b>		
Investments—Notes C and E	4,318	4,624
Asset-liability management—Notes E and G	<u>19,525</u>	<u>8,214</u>
	<u>23,843</u>	<u>12,838</u>
<b>Receivable from Affiliated Organization—Note G</b>	798	882
<b>Other Receivables</b>		
Receivable from investment securities traded—Note C	527	861
Accrued service and commitment charges	<u>358</u>	<u>327</u>
	<u>885</u>	<u>1,188</u>
<b>Loans Outstanding (Summary Statement of Loans, Notes F and L)</b>		
Total Loans	196,363	186,211
Less: Undisbursed balance	<u>54,179</u>	<u>49,476</u>
Loans outstanding	142,184	136,735
Less: Accumulated provision for losses on loans	3,853	3,932
Add: Deferred loans origination costs	<u>20</u>	<u>22</u>
Net loans outstanding	<u>138,351</u>	<u>132,825</u>
<b>Other Assets—Note H</b>	<u>648</u>	<u>577</u>
<b>Total Assets</b>	<u>\$ 197,041</u>	<u>\$ 180,475</u>

	<u>2017</u>	<u>2016</u>
<b>Liabilities</b>		
<b>Borrowings—Note D</b>	\$ 3,660	\$ 2,906
<b>Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received—Note C</b>	2,560	1,968
<b>Derivative Liabilities</b>		
Investments—Notes C and E	4,523	4,794
Asset-liability management—Notes E and G	<u>19,550</u>	<u>7,943</u>
	<u>24,073</u>	<u>12,737</u>
<b>Payable for Development Grants—Note I</b>	6,583	6,099
<b>Payable to Affiliated Organization—Note G</b>	471	458
<b>Other Liabilities</b>		
Payable for investment securities purchased—Note C	543	948
Accounts payable and miscellaneous liabilities—Notes F and H	<u>675</u>	<u>659</u>
	<u>1,218</u>	<u>1,607</u>
<b>Total Liabilities</b>	<u>38,565</u>	<u>25,775</u>
<b>Equity</b>		
<b>Members' Subscriptions and Contributions (Statement of Voting Power and Subscriptions and Contributions and Note B)</b>		
Unrestricted	245,603	245,103
Restricted	<u>327</u>	<u>327</u>
Subscriptions and contributions committed	245,930	245,430
Less:		
Subscriptions and contributions receivable	27,113	33,695
Cumulative discounts/ acceleration credits on subscriptions and contributions	<u>3,414</u>	<u>3,305</u>
Subscriptions and contributions paid-in	215,403	208,430
<b>Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Members' Subscriptions and Contributions</b>		
Unrestricted	(9,267)	(9,189)
Restricted	<u>(51)</u>	<u>(48)</u>
	<u>(9,318)</u>	<u>(9,237)</u>
<b>Deferred Amounts to Maintain Value of Currency Holdings</b>	(244)	(244)
<b>Accumulated Deficit (Statement of Changes in Accumulated Deficit)</b>	(45,326)	(43,030)
<b>Accumulated Other Comprehensive Income—Note J</b>	<u>(2,039)</u>	<u>(1,219)</u>
<b>Total Equity</b>	<u>158,476</u>	<u>154,700</u>
<b>Total Liabilities and Equity</b>	<u>\$ 197,041</u>	<u>\$ 180,475</u>

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

## STATEMENT OF INCOME

For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015

Expressed in millions of U.S. dollars

	2017	2016	2015
<b>Interest revenue</b>			
Loans—Note F	\$ 1,232	\$ 1,149	\$ 1,065
Investments, net—Notes C, E, G and L	391	384	419
<b>Borrowings, net—Notes C and D</b>	(102)	(80)	(49)
<b>Interest revenue, net of borrowing expenses</b>	<u>1,521</u>	<u>1,453</u>	<u>1,435</u>
<b>Provision for losses on loans and other exposures, release (charge)—Note F</b>	56	(380)	(372)
<b>Non interest revenue</b>			
Revenue from externally funded activities—Notes G and H	647	569	574
Other	8	5	3
Total	<u>655</u>	<u>574</u>	<u>577</u>
<b>Non interest expenses</b>			
Administrative—Notes G, H and K	(2,121)	(1,765)	(1,868)
Contributions to special programs—Note G	(25)	-	-
Other	(10)	14	(13)
Total	<u>(2,156)</u>	<u>(1,751)</u>	<u>(1,881)</u>
<b>Transfers from affiliated organizations and others—Notes G and H</b>	599	990	993
<b>Development grants—Note I</b>	(2,577)	(1,232)	(2,319)
<b>Non-functional currency translation adjustment (losses) gains, net</b>	(49)	208	912
<b>Unrealized mark-to-market (losses) gains on Investments-Trading portfolio, net—Notes E and L</b>	(367)	509	103
<b>Unrealized mark-to-market gains (losses) on Non-Trading portfolios, net</b>			
Investment—Note L	(32)	35	(19)
Asset-Liability management—Notes E and L	54	(35)	(160)
Total	<u>22</u>	<u>-</u>	<u>(179)</u>
<b>Net (Loss) Income</b>	<u>\$ (2,296)</u>	<u>\$ 371</u>	<u>\$ (731)</u>

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

**STATEMENT OF COMPREHENSIVE INCOME**  
*For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015*

*Expressed in millions of U.S. dollars*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net (Loss) Income</b>	\$ (2,296)	\$ 371	\$ (731)
<b>Other Comprehensive Loss—Note J</b>			
Currency translation adjustments on functional currencies	(820)	(344)	(13,872)
<b>Comprehensive (Loss) Income</b>	<u>\$ (3,116)</u>	<u>\$ 27</u>	<u>\$ (14,603)</u>

**STATEMENT OF CHANGES IN ACCUMULATED DEFICIT**  
*For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015*

*Expressed in millions of U.S. dollars*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Accumulated Deficit at beginning of the fiscal year</b>	\$ (43,030)	\$ (43,401)	\$ (42,670)
Net (loss) income for the year	(2,296)	371	(731)
<b>Accumulated Deficit at end of the fiscal year</b>	<u>\$ (45,326)</u>	<u>\$ (43,030)</u>	<u>\$ (43,401)</u>

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

## STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015

Expressed in millions of U.S. dollars

	2017	2016	2015
<b>Cash flows from investing activities</b>			
Loans			
Disbursements	\$ (10,613)	\$ (11,461)	\$ (10,860)
Principal repayments	4,513	4,276	4,057
Principal prepayments	51	51	28
Proceeds from buy-down of loans	-	58	-
Non-trading securities—Investments			
Purchases	-	-	(1,179)
Principal payments received	113	72	25
Net cash used in investing activities	<u>(5,936)</u>	<u>(7,004)</u>	<u>(7,929)</u>
<b>Cash flows from financing activities</b>			
Members' subscriptions and contributions	6,893	7,525	8,004
Borrowings	786	653	2,145
Net cash provided by financing activities	<u>7,679</u>	<u>8,178</u>	<u>10,149</u>
<b>Cash flows from operating activities</b>			
Net (loss) income	(2,296)	371	(731)
Adjustments to reconcile net (loss) income to net cash used in operating activities			
Provision for losses on loans and other exposures, net—(release) charge	(56)	380	372
Non-functional currency translation adjustment losses (gains), net	49	(208)	(912)
Unrealized mark-to-market (gains) losses on non-trading portfolios, net	(22)	-	179
Other non interest expenses	10	(14)	13
Amortization of discount on borrowings	35	25	8
Changes in:			
Investments—Trading, net	(708)	1,483	(1,924)
Net investment securities traded/purchased	(123)	(10)	(724)
Net derivatives—Investments	42	(45)	227
Net derivatives—Asset-liability management	210	66	140
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	430	(2,408)	1,303
Net receivable from affiliated organizations	104	45	(36)
Payable for development grants	522	(499)	279
Accrued service and commitment charges	(33)	(36)	(38)
Other assets	(144)	(35)	8
Accounts payable and miscellaneous liabilities	27	34	(151)
Net cash used in operating activities	<u>(1,953)</u>	<u>(851)</u>	<u>(1,987)</u>
<b>Effect of exchange rate changes on unrestricted cash</b>			
<b>Net (decrease) increase in unrestricted cash</b>	<b>20</b>	<b>(6)</b>	<b>(25)</b>
<b>Unrestricted cash at beginning of the fiscal year</b>	<b>(190)</b>	<b>317</b>	<b>208</b>
<b>Unrestricted cash at end of the fiscal year</b>	<b>645</b>	<b>328</b>	<b>120</b>
	<b>\$ 455</b>	<b>\$ 645</b>	<b>\$ 328</b>

## STATEMENT OF CASH FLOWS

*For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015*

*Expressed in millions of U.S. dollars*

	2017	2016	2015
<b><i>Supplemental disclosure</i></b>			
(Decrease) Increase in ending balances resulting from exchange rate fluctuations:			
Loans outstanding	\$ (588)	\$ (655)	\$ (11,891)
Investment portfolio	(208)	141	(2,292)
Derivatives—Asset-liability management	(139)	421	372
Borrowings	(67)	78	(3)
Principal repayments written off under Heavily Indebted Poor Countries (HIPC) Debt Initiative	9	10	14
Loans written off under Multilateral Debt Relief Initiative (MDRI)	-	524	-
Loans prepaid—carrying value	54	54	30
Buy-down of loans—carrying value	-	85	-
Interest paid on borrowings	46	42	21

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

# SUMMARY STATEMENT OF LOANS

June 30, 2017

*Amounts expressed in millions of U.S. dollars*

Borrower or guarantor	Total loans	Undisbursed loans <sup>a</sup>	Loans outstanding	Percentage of loans outstanding <sup>c</sup>
Afghanistan	\$ 360	\$ -	\$ 360	0.25 %
Albania	710	3	707	0.50
Angola	635	116	519	0.37
Armenia	1,167	45	1,122	0.79
Azerbaijan	527	51	476	0.34
Bangladesh	18,454	5,357	13,097	9.21
Benin	1,181	365	816	0.57
Bhutan	226	17	209	0.15
Bolivia	978	272	706	0.50
Bosnia and Herzegovina	1,187	98	1,089	0.77
Botswana	2	-	2	*
Burkina Faso	1,745	487	1,258	0.89
Burundi	146	-	146	0.10
Cabo Verde, Republic of	346	34	312	0.22
Cambodia	781	247	534	0.38
Cameroon	1,655	654	1,001	0.70
Central African Republic	166	104	62	0.04
Chad	191	5	186	0.13
China	2,747	-	2,747	1.93
Comoros	13	-	13	0.01
Congo, Democratic Republic of	1,736	832	904	0.64
Congo, Republic of	252	126	126	0.09
Côte d'Ivoire	1,329	736	593	0.42
Djibouti	204	66	138	0.10
Dominica	38	12	26	0.02
Dominican Republic	3	-	3	*
Ecuador	3	-	3	*
Egypt, Arab Republic of	769	-	769	0.54
El Salvador	4	-	4	*
Equatorial Guinea	26	-	26	0.02
Eritrea	435	-	435	0.31
Ethiopia	10,623	4,042	6,581	4.63
Gambia, The	161	97	64	0.05
Georgia	1,202	33	1,169	0.82
Ghana	4,232	624	3,608	2.54
Grenada	101	11	90	0.06
Guinea	363	130	233	0.16
Guinea-Bissau	226	167	59	0.04
Guyana	64	30	34	0.02
Honduras	1,023	54	969	0.68
India	30,155	5,775	24,380	17.15
Indonesia	1,414	-	1,414	0.99
Iraq	333	-	333	0.23
Jordan	117	52	65	0.05
Kenya	8,845	3,776	5,069	3.57
Kosovo	170	126	44	0.03
Kyrgyz Republic	802	156	646	0.45
Lao People's Democratic Republic	685	133	552	0.39
Lebanon	100	100	-	-
Lesotho	416	114	302	0.21
Liberia	563	282	281	0.20

**SUMMARY STATEMENT OF LOANS**  
*June 30, 2017*

*Amounts expressed in millions of U.S. dollars*

Borrower or guarantor	Total loans	Undisbursed loans <sup>a</sup>	Loans outstanding	Percentage of loans outstanding <sup>c</sup>
Macedonia, former Yugoslav Republic of	\$ 257	\$ -	\$ 257	0.18 %
Madagascar	1,896	389	1,507	1.06
Malawi	1,184	452	732	0.52
Maldives	89	-	89	0.06
Mali	1,860	407	1,453	1.02
Mauritania	452	74	378	0.27
Mauritius	3	-	3	*
Moldova	745	155	590	0.42
Mongolia	621	178	443	0.31
Montenegro	56	-	56	0.04
Morocco	5	-	5	*
Mozambique	3,346	632	2,714	1.91
Myanmar	2,663	1,664	999	0.70
Nepal	2,988	1,049	1,939	1.36
Nicaragua	788	230	558	0.39
Niger	1,473	597	876	0.62
Nigeria	12,349	4,885	7,464	5.25
Pakistan	15,973	2,266	13,707	9.64
Papua New Guinea	495	276	219	0.15
Paraguay	6	-	6	*
Philippines	92	-	92	0.07
Rwanda	1,592	423	1,169	0.82
Samoa	120	24	96	0.07
São Tomé and Príncipe	12	-	12	0.01
Senegal	2,963	1,140	1,823	1.28
Serbia	419	-	419	0.30
Sierra Leone	386	141	245	0.17
Solomon Islands	73	38	35	0.03
Somalia	413	-	413	0.29
South Sudan	155	107	48	0.03
Sri Lanka	3,995	1,048	2,947	2.07
St. Kitts and Nevis	1	-	1	*
St. Lucia	126	49	77	0.05
St. Vincent and the Grenadines	89	59	30	0.02
Sudan	1,206	-	1,206	0.85
Swaziland	1	-	1	*
Syrian Arab Republic	14	-	14	0.01
Tajikistan	552	238	314	0.22
Tanzania	9,051	3,011	6,040	4.25
Timor-Leste	62	42	20	0.01
Togo	153	110	43	0.03
Tonga	51	16	35	0.03
Tunisia	5	-	5	*
Turkey	13	-	13	0.01
Uganda	4,541	1,734	2,807	1.97
Uzbekistan	1,646	1,087	559	0.39
Vanuatu	103	88	15	0.01
Vietnam	17,658	5,399	12,259	8.62
Yemen, Republic of	1,722	26	1,696	1.19
Zambia	1,649	816	833	0.59
Zimbabwe	461	-	461	0.32
<b>Subtotal—Members <sup>c</sup></b>	<b>\$ 196,184</b>	<b>\$ 54,179</b>	<b>\$ 142,005</b>	<b>99.87 %</b>

**SUMMARY STATEMENT OF LOANS**  
*June 30, 2017*

*Amounts expressed in millions of U.S. dollars*

Borrower or guarantor	Total loans	Undisbursed loans <sup>a</sup>	Loans outstanding	Percentage of loans outstanding <sup>c</sup>
African Trade Insurance Agency <sup>b</sup>	\$ 9	\$ -	\$ 9	0.01 %
Bank Of The States Of Central Africa <sup>b</sup>	37	-	37	0.03
Caribbean Development Bank <sup>b</sup>	14	-	14	0.01
West African Development Bank <sup>b</sup>	119	-	119	0.08
Subtotal—Regional development banks	<u>\$ 179</u>	<u>\$ -</u>	<u>\$ 179</u>	<u>0.13 %</u>
Total—June 30, 2017 <sup>c</sup>	<u><u>\$ 196,363</u></u>	<u><u>\$ 54,179</u></u>	<u><u>\$ 142,184</u></u>	<u><u>100.00 %</u></u>
Total—June 30, 2016	<u><u>\$ 186,211</u></u>	<u><u>\$ 49,476</u></u>	<u><u>\$ 136,735</u></u>	

\* Indicates less than 0.005 percent

**NOTES**

- a. Of the undisbursed balance at June 30, 2017, IDA has entered into irrevocable commitments to disburse \$466 million (\$334 million—June 30, 2016).
- b. The loans to these regional development banks and agencies are for the benefit of members of IDA or territories of members of IDA.
- c. May differ from the calculated amounts or sum of individual figures shown due to rounding.

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

**STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS**  
*June 30, 2017*

*Amounts expressed in millions of U.S. dollars*

<i>Member <sup>a</sup></i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed <sup>b</sup></i>
<b><i>Part I Members</i></b>			
Australia	337,656	1.25 %	\$ 4,523.40
Austria	228,350	0.85	3,107.03
Belgium	300,527	1.12	4,478.65
Canada	720,103	2.67	11,073.00
Denmark	249,652	0.93	3,613.29
Estonia	48,318	0.18	12.76
Finland	174,313	0.65	1,936.32
France	1,026,486	3.81	17,289.53
Germany	1,469,076	5.46	25,585.79
Greece	53,189	0.20	195.72
Iceland	59,288	0.22	84.10
Ireland	98,162	0.36	709.14
Italy	625,724	2.32	9,930.61
Japan	2,275,107	8.45	43,619.50
Kuwait	113,772	0.42	998.65
Latvia	54,873	0.20	12.83
Lithuania	48,202	0.18	11.00
Luxembourg	73,367	0.27	330.66
Netherlands	532,753	1.98	8,822.91
New Zealand	73,923	0.27	352.04
Norway	262,328	0.97	3,952.61
Portugal	56,255	0.21	277.06
Russian Federation	90,647	0.34	748.98
Slovenia	56,841	0.21	40.17
South Africa	70,905	0.26	224.94
Spain	304,102	1.13	4,283.61
Sweden	545,243	2.02	8,037.82
Switzerland	340,114	1.26	5,127.87
United Arab Emirates	1,367	0.01	5.58
United Kingdom	1,676,710	6.23	28,276.66
United States	2,748,798	10.21	50,411.44
<b>Subtotal—Part I Members <sup>b</sup></b>	<b>14,716,151</b>	<b>54.64 %</b>	<b>\$ 238,073.67</b>
<b><i>Part II Members</i></b>			
Afghanistan	54,983	0.20 %	\$ 1.48
Albania	58,331	0.22	0.36
Algeria	102,493	0.38	5.62
Angola	153,438	0.57	8.71
Argentina	348,315	1.29	141.09
Armenia	54,878	0.20	0.67
Azerbaijan	65,915	0.25	1.12
Bahamas, The	59,379	0.22	8.54
Bangladesh	142,091	0.53	8.03
Barbados	59,280	0.22	2.36
Belize	19,834	0.07	0.27
Benin	60,820	0.23	0.78
Bhutan	43,510	0.16	0.07
Bolivia, Plurinational State of	71,726	0.27	1.63
Bosnia and Herzegovina	52,455	0.20	2.48

**STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS**  
*June 30, 2017*

*Amounts expressed in millions of U.S. dollars*

<i>Member <sup>a</sup></i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed <sup>b</sup></i>
Botswana	51,149	0.19 %	\$ 1.63
Brazil	477,996	1.78	848.17
Burkina Faso	60,510	0.22	0.78
Burundi	52,501	0.20	1.09
Cabo Verde, Republic of	43,840	0.16	0.13
Cambodia	66,849	0.25	1.58
Cameroon	60,782	0.23	1.61
Central African Republic	48,910	0.18	0.77
Chad	48,910	0.18	0.77
Chile	58,505	0.22	39.12
China	592,628	2.20	535.88
Colombia	94,824	0.35	24.91
Comoros	43,840	0.16	0.13
Congo, Democratic Republic of	79,399	0.30	4.57
Congo, Republic of	48,910	0.18	0.73
Costa Rica	24,489	0.09	0.27
Côte d'Ivoire	63,156	0.23	1.53
Croatia	83,458	0.31	5.90
Cyprus	66,499	0.25	18.94
Czech Republic	118,998	0.44	122.92
Djibouti	44,816	0.17	0.26
Dominica	55,500	0.21	0.14
Dominican Republic	27,780	0.10	0.58
Ecuador	50,151	0.19	0.94
Egypt, Arab Republic of	123,049	0.46	13.37
El Salvador	46,516	0.17	0.49
Equatorial Guinea	6,167	0.02	0.41
Eritrea	44,036	0.16	0.14
Ethiopia	49,232	0.18	0.70
Fiji	19,809	0.07	0.76
Gabon	2,093	0.01	0.63
Gambia, The	51,908	0.19	0.42
Georgia	58,826	0.22	0.98
Ghana	81,240	0.30	3.12
Grenada	26,427	0.10	0.13
Guatemala	37,396	0.14	0.55
Guinea	33,987	0.13	1.31
Guinea-Bissau	44,500	0.17	0.22
Guyana	67,274	0.25	1.24
Haiti	52,038	0.19	1.10
Honduras	52,855	0.20	0.43
Hungary	186,963	0.69	134.19
India	769,591	2.86	259.67
Indonesia	236,158	0.88	33.71
Iran, Islamic Republic of	115,883	0.43	24.25
Iraq	66,912	0.25	1.11
Israel	77,179	0.29	96.24
Jordan	24,865	0.09	0.41
Kazakhstan	23,093	0.09	8.50
Kenya	73,133	0.27	2.39

**STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS**  
*June 30, 2017*

*Amounts expressed in millions of U.S. dollars*

<i>Member<sup>a</sup></i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed<sup>b</sup></i>
Kiribati	43,592	0.16 %	\$ 0.10
Korea, Republic of	241,074	0.90	1,932.31
Kosovo, Republic of	48,357	0.18	0.85
Kyrgyz Republic	60,842	0.23	0.57
Lao People's Democratic Republic	48,910	0.18	0.73
Lebanon	8,562	0.03	0.56
Lesotho	51,040	0.19	0.23
Liberia	52,038	0.19	1.12
Libya	44,771	0.17	1.41
Macedonia, former Yugoslav Republic of	47,095	0.18	1.09
Madagascar	63,156	0.23	1.38
Malawi	52,038	0.19	0.97
Malaysia	97,299	0.36	32.78
Maldives	55,046	0.20	0.05
Mali	59,145	0.22	1.34
Marshall Islands	4,902	0.02	0.01
Mauritania	48,910	0.18	0.77
Mauritius	68,639	0.26	1.34
Mexico	142,236	0.53	168.34
Micronesia, Federated States of	18,424	0.07	0.03
Moldova	56,582	0.21	0.88
Mongolia	45,818	0.17	0.31
Montenegro	53,123	0.20	0.74
Morocco	100,122	0.37	5.47
Mozambique	59,370	0.22	2.03
Myanmar	76,958	0.29	2.54
Nepal	54,710	0.20	0.73
Nicaragua	46,646	0.17	0.42
Niger	48,910	0.18	0.75
Nigeria	97,535	0.36	4.48
Oman	53,192	0.20	1.41
Pakistan	224,684	0.83	26.47
Palau	3,804	0.01	0.03
Panama	10,185	0.04	0.03
Papua New Guinea	63,658	0.24	1.27
Paraguay	30,157	0.11	0.42
Peru	84,502	0.31	18.06
Philippines	137,593	0.51	23.74
Poland	539,049	2.00	107.00
Romania	96,010	0.36	5.23
Rwanda	52,038	0.19	1.12
St. Kitts and Nevis	13,868	0.05	0.17
St. Lucia	30,532	0.11	0.23
St. Vincent and the Grenadines	46,546	0.17	0.12
Samoa	43,901	0.16	0.14
São Tomé and Principe	49,519	0.18	0.12
Saudi Arabia	885,267	3.29	2,634.57
Senegal	68,943	0.26	2.61
Serbia	80,795	0.30	7.04
Sierra Leone	63,638	0.24	1.05

# STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2017

*Amounts expressed in millions of U.S. dollars*

<i>Member <sup>a</sup></i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed <sup>b</sup></i>
Singapore	44,809	0.17 %	\$ 207.47
Slovak Republic	85,928	0.32	28.16
Solomon Islands	43,901	0.16	0.13
Somalia	10,506	0.04	0.95
South Sudan	52,447	0.19	0.45
Sri Lanka	98,100	0.36	4.38
Sudan	60,782	0.23	1.53
Swaziland	19,022	0.07	0.41
Syrian Arab Republic	11,027	0.04	1.19
Tajikistan	53,918	0.20	0.54
Tanzania	68,943	0.26	2.32
Thailand	104,101	0.39	9.15
Timor-Leste	45,123	0.17	0.44
Togo	57,838	0.21	1.17
Tonga	49,514	0.18	0.11
Trinidad and Tobago	76,534	0.28	2.10
Tunisia	2,793	0.01	1.89
Turkey	161,354	0.60	188.57
Tuvalu	6,338	0.02	0.02
Uganda	47,092	0.18	2.28
Ukraine	115,569	0.43	8.06
Uzbekistan	73,936	0.27	1.95
Vanuatu	50,952	0.19	0.31
Vietnam	61,168	0.23	2.23
Yemen, Republic of	68,976	0.26	2.20
Zambia	81,227	0.30	3.65
Zimbabwe	105,982	0.39	6.41
<b>Subtotal—Part II Members <sup>b</sup></b>	<b>12,214,589</b>	<b>45.36 %</b>	<b>\$ 7,856.26</b>
<b>Total—June 30, 2017 <sup>b</sup></b>	<b>26,930,740</b>	<b>100.00 %</b>	<b>\$ 245,930</b>
<b>Total—June 30, 2016</b>	<b>26,068,199</b>		<b>\$ 245,430</b>

## **NOTES**

a. See Notes to Financial Statements—Note A for an explanation of the two categories of membership.

b. May differ from the calculated amounts or sum of individual figures shown due to rounding.

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

## **NOTES TO FINANCIAL STATEMENTS**

### **PURPOSE AND AFFILIATED ORGANIZATIONS**

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

IDA is immune from taxation pursuant to Article VIII, Section 9, *Immunities from Taxation*, of IDA's Articles of Agreement.

### **NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

IDA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Due to the inherent uncertainty involved in making those estimates, actual results could differ from these estimates. Significant judgment has been used in the valuation of certain financial instruments and the determination of the adequacy of the accumulated provisions for debt relief and losses on loans and other exposures (irrevocable commitments, guarantees and repaying project preparation facilities).

Certain reclassifications of the prior year's information have been made to conform with the current year's presentation. There is no effect on IDA's total assets, total liabilities, equity, reported net income (loss), or unrestricted cash balances, from these changes in presentation.

On August 3, 2017, the Executive Directors approved these financial statements for issue, which was also the date through which IDA's Management evaluated subsequent events.

#### **Translation of Currencies**

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

IDA conducts its operations in Special Drawing Rights (SDR) and its component currencies of U.S. dollar, Euro, Japanese Yen, Pound Sterling and Chinese Renminbi. These constitute the functional currencies of IDA. Effective October 1, 2016, the Chinese renminbi (RMB) was added to the SDR basket as one of its component currencies by the Executive Board of the International Monetary Fund. In line with this, the RMB is a functional currency for IDA for the fiscal year ended June 30, 2017.

Assets and liabilities are translated at market exchange rates in effect at the end of the accounting period. Revenue and expenses are translated at either the market exchange rates in effect on the dates of revenue and expense recognition, or at an average of the exchange rates in effect during each month. Translation adjustments relating to the revaluation of loans, development grants payable and all other assets and liabilities denominated in either SDR

or the component currencies of SDR, are reflected in Accumulated Other Comprehensive Income. Translation adjustments relating to non-functional currencies are reported in the Statement of Income.

## **Members' Subscriptions and Contributions**

### ***Recognition***

Members' Subscriptions and contributions committed for each IDA replenishment are initially recorded both as Subscriptions and contributions committed and, correspondingly, as Subscriptions and contributions receivable. Prior to effectiveness, only a portion of the value of Instruments of Commitment (IoCs) received as specified in the replenishment resolution is recorded as Subscriptions and contributions committed. Upon effectiveness, the remainder of the value of IoCs received is subsequently recorded as Subscriptions and contributions committed.

IoCs can contain unqualified or qualified commitments. Under an unqualified commitment, a contributing member agrees to pay a specified amount of its Subscription and contribution without requiring appropriation legislation. A qualified commitment is subject to the contributing member obtaining the necessary appropriation legislation. Subscriptions and contributions made under IoCs become available for commitment for loans, grants and guarantees by IDA for a particular replenishment in accordance with the IDA commitment authority framework as approved by the Executive Directors.

A replenishment becomes effective when IDA receives IoCs from members whose Subscriptions and contributions aggregate to a specified portion of the full replenishment. Amounts not yet paid in at the date of effectiveness, are recorded as Subscriptions and contributions receivable and shown as a reduction of Subscriptions and contributions committed. These receivables become due throughout the replenishment period, generally three years, in accordance with an agreed payment schedule. The actual payment of receivables when they become due may be subject to the budgetary appropriation processes for certain members.

The Subscriptions and contributions receivable are settled through payment of cash or deposit of nonnegotiable, non interest bearing demand notes. The notes are encashed by IDA on an approximately *pro rata* basis either as provided in the relevant replenishment resolution over the disbursement period of the loans and grants committed under the replenishment, or as needed.

In certain replenishments, donors receive discounts when they pay a particular contribution amount before the relevant due date, and acceleration credits when they pay their full contribution amount before the due date. IDA retains the related revenue on these early payments, with Subscriptions and contributions committed being recorded at contribution amounts received grossed up for discounts and acceleration credits. The discounts and acceleration credits are deducted in arriving at the Subscriptions and contributions paid-in.

Under the Seventeenth Replenishment of IDA's Resources (IDA17), IDA's Executive Directors approved the use of a limited amount of concessional debt funding, referred to as concessional partner loans. The borrowing terms of this concessional debt funding aim to match the concessional features of IDA's loans. Proceeds received under this arrangement have two separate components: (1) a borrowing component and (2) a grant component, for which voting rights are allocated to providers of the concessional partner loans. The borrowing component of the concessional partner loans is recognized and reported at amortized cost (see borrowings section for more details). The grant component is a function of the terms of the loan and the discount rate agreed upon during the replenishment discussions. This grant component is recorded as equity based on the proceeds received.

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

either as Restricted cash under Due from Banks, or as restricted notes included under Non-negotiable, Non interest bearing Demand Obligations on Account of Member Subscriptions and Contributions.

Following adoption by the Board of Governors on April 21, 2006 of a resolution authorizing additions to IDA's resources to finance the MDRI (Multilateral Debt Relief Initiative), pledges received in the form of IoCs for financing the MDRI are recorded and accounted for in their entirety. Therefore, the full value of all IoCs received is recorded as Subscriptions and contributions committed. Correspondingly, the IoCs are recorded as Subscriptions and contributions Receivable and deducted from equity.

#### ***Withdrawal of membership***

Under IDA's Articles of Agreement, a member may withdraw from membership in IDA at any time. When a government ceases to be a member, it remains liable for all financial obligations undertaken by it to IDA, whether as a member, borrower, guarantor or otherwise. The Articles provide that upon withdrawal, IDA and the government shall proceed to a settlement of accounts. If agreement is not reached within six months, standard arrangements are provided. Under these arrangements, IDA would pay to the government the lower of the member's total paid-in Subscriptions and contributions or the member's proportionate share of IDA's net assets. These funds would be paid as a proportionate share of all principal repayments received by IDA on loans made during the period of the government's membership.

#### ***Valuation of Subscriptions and contributions***

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

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

The Subscriptions and contributions provided under the Fourth Replenishment and thereafter are expressed in members' currencies or SDRs and are payable in members' currencies. Subscriptions and contributions made available for disbursement in cash to IDA are translated at market exchange rates in effect on the dates they were made available. Subscriptions and contributions not yet available for disbursements are translated at market exchange rates in effect at the end of the accounting period.

#### ***Maintenance of Value***

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

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

## **Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Members' Subscriptions and Contributions**

Payments on these instruments are due to IDA upon demand and these instruments are held in bank accounts in IDA's name. These instruments are carried and reported at face value as a reduction to equity on the Balance Sheet.

### **Loans and Other Exposures**

In fulfilling its mission, IDA makes concessional loans to the poorest countries. These loans and other exposures (exposures) are made to, or guaranteed by, member governments or to the government of a territory of a member (except for loans, which have been made to regional development institutions for the benefit of members or territories of members of IDA). In order to qualify for lending on IDA terms, a country's per capita income must be below a certain cut-off level (\$1,185 for the fiscal year ended June 30, 2017 and \$1,215 for the fiscal year ended June 30, 2016) and the country may have only limited or no access to IBRD lending.

Loans are carried in the financial statements at amortized cost, less an accumulated provision for loan losses, plus the deferred loans origination costs.

Commitment charges on the undisbursed balance of loans, when applicable, are recognized in revenue as accrued.

Incremental direct costs associated with originating loans are capitalized and amortized over the life of the loans.

It is IDA's practice not to reschedule service charge, interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans.

IDA considers all exposures in nonaccrual status to be impaired. It is the policy of IDA to place into nonaccrual status all loans and other exposures made to, or guaranteed by, a member or to the territory of a member if principal or charges with respect to any such loan and other exposures are overdue by more than six months, unless IDA's Management determines that the overdue amount will be collected in the immediate future. In addition, if loans by IBRD to a member government are placed into nonaccrual status, all loans and other exposures to that member will also be placed into nonaccrual status by IDA. On the date a member's loans and other exposures are placed into nonaccrual status, unpaid charges that had been accrued on loans are deducted from the revenue from loans of the current period.

Revenue on nonaccrual loans is included in the Statement of Income only to the extent that payments have actually been received by IDA. If collectability risk is considered to be particularly high at the time of arrears clearance, the member's loans and other exposures may not automatically emerge from nonaccrual status, even though the member's eligibility for new loans may have been restored. In such instances, a decision on the restoration of accrual status is made on a case-by-case basis after a suitable period of payment or policy performance has passed from the time of arrears clearance.

The repayment obligations of loans funded from resources through the Fifth Replenishment are expressed in the loan agreements in terms of 1960 dollars. In June 1987, the Executive Directors decided to value those loans at the rate of \$1.20635 per 1960 dollar on a permanent basis. Loans funded from resources provided under the Sixth Replenishment and thereafter are denominated in SDRs, with the exception of loans provided under the Single Currency Lending pilot program.

During the fiscal year-ended June 30, 2012, IDA introduced a Single Currency Lending pilot program. This pilot program, which expands borrowing options beyond the standard SDR loans, has allowed IDA recipients to denominate new IDA loans in one of the five constituent currencies of the SDR basket. In March 2016, IDA's Executive Directors increased the program's limit from SDR3 billion to SDR7 billion.

### **Buy-down of Loans**

The Investment Partnership for Polio program to fund the immunization of children in high-risk polio countries has a funding mechanism that allows the purchase of oral vaccines from the proceeds of loans, which are subsequently converted to grant terms under the "buy-down mechanism", upon attainment of agreed performance goals.

Pursuant to the applicable buy-down terms, IDA enters into an arrangement with third party donors who make payments on the borrower's service and commitment charges through a trust fund, until the borrower reaches agreed performance goals. At that time, the trust fund buys down the related loans for an amount equivalent to the present value of the remaining cash flows of the related loans, based on appropriate discount rates. The trust fund subsequently cancels the purchased loans, thereby converting them to grant terms.

IDA records a provision for losses on loans equivalent to the difference between the carrying amount of the loans to be bought down and the estimated amount to be received, when all performance goals as well as conditions necessary to effect the buy-down have been completed. The provision is recorded as a reduction of disbursed and outstanding loans under the accumulated provision for losses on loans and other exposures, and as a corresponding expense. Upon purchase of the loans, the applicable portion of the loans will be written-off and the related accumulated provision for losses on loans and other exposures will be reduced accordingly.

### **Development Grants**

Development grants are recorded as an expense, and a liability is recognized, upon approval by the Executive Directors.

### **Project Preparation Advances**

Project Preparation Advances (PPAs) are advances made to borrowers to finance project preparation costs pending the approval of follow-on development operations. If approved under grant terms, these amounts are charged to expenses upon approval by Management. To the extent there are follow-on loans or grants, these PPAs are refinanced out of the proceeds of the loans and grants. Accordingly, the PPA grant amounts initially charged to expense are reversed upon approval of the follow-on development grants or loans.

### **Guarantees**

Financial guarantees are commitments issued by IDA to guarantee payment performance by a borrowing member country to a third party in the event that a member government (or government-owned entity) fails to perform its contractual obligations with respect to a private project.

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

At inception of the guarantees, IDA records the fair value of the obligation to stand ready and a corresponding asset, included in Accounts payable and miscellaneous liabilities and Other Assets, respectively, on the Balance Sheet.

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

Up-front guarantee fees received are deferred and amortized over the life of the guarantee.

IDA records a contingent liability for the probable losses related to guarantees outstanding. This provision, as well as the unamortized balance of the deferred guarantee fees, and the unamortized balance of the obligation to stand ready, are included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

### **HIPC Debt Initiative**

The HIPC Debt Initiative was launched in 1996 as a joint effort by bilateral and multilateral creditors to ensure that reform efforts of HICPs would not be put at risk by unsustainable external debt burdens.

Under the Enhanced HIPC Framework, implementation mechanisms include: (i) partial forgiveness of IDA debt service as it comes due, and ii) in the case of countries with a substantial amount of outstanding IBRD debt, partial refinancing with IDA resources (excluding transfers from IBRD) of outstanding IBRD debt.

Upon signature by IDA of the country specific legal notification, immediately following the decision by the Executive Directors of IDA to provide debt relief to the country (the Decision Point), the country becomes eligible for debt relief up to the nominal value equivalent of one third of the net present value of the total HIPC debt relief committed to the specific country. A Completion Point is reached when the conditions specified in the legal notification are met and the country's other creditors have confirmed their full participation in the debt relief initiative. When the country reaches its Completion Point, IDA's commitment to provide the total debt relief for which the country is eligible, becomes irrevocable. IDA's provisioning policy for the HIPC Debt Initiative is discussed below.

Donors compensate IDA on a "pay-as-you-go" basis to finance IDA's forgone loan reflows (principal and service charge repayments) under the HIPC Debt Initiative. This means that for the debt relief provided by writing off the

principal and charges during a replenishment, the donors compensate IDA for the forgone reflows through additional contributions in the relevant replenishment.

## **MDRI**

Debt relief provided under the MDRI, which is characterized by the write-off of eligible loans upon qualifying borrowers reaching the HIPC Completion Point date, is in addition to existing debt relief commitments provided by IDA and other creditors under the HIPC Debt Initiative. When a country reaches Completion Point, the applicable loans are written off. This write off occurs at the beginning of the quarterly period following the date on which the country reaches Completion Point. For forgone repayments under MDRI, donors established a separate MDRI replenishment spanning fiscal years 2007 through 2044 and pledged to compensate IDA for the costs of providing debt relief under MDRI on a “dollar-for-dollar” basis. These additional resources are accounted for as Subscriptions and contributions.

## **Accumulated Provision for Losses on Loans and Other Exposures**

The accumulated provision for losses on loans and other exposures also includes the accumulated provision for HIPC Debt Initiative and MDRI.

### ***HIPC Debt Initiative and MDRI***

The adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI is based on both quantitative and qualitative analyses of various factors, including estimates of decision and completion point dates. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision for the HIPC Debt Initiative and MDRI. Adjustments to the accumulated provision are recorded as a charge to or release of provision in the Statement of Income.

Upon approval by the Executive Directors of IDA of debt relief for a country under the Enhanced HIPC Initiative, the principal component of the estimated debt relief costs is recorded as a reduction of the disbursed and outstanding loans under the accumulated provision for losses, and as a charge to the Statement of Income. This estimate is subject to periodic revision. The accumulated provision for HIPC Debt Initiative is written off as and when debt relief is provided.

Following the Executive Directors' approval of IDA's participation in the MDRI in June 2006, IDA fully provided for the estimated probable write-off of the principal component of debt relief to be delivered under the MDRI for the HIPC eligible countries confirmed by the Executive Directors as eligible for relief at that time.

The provision is recorded as a reduction of the disbursed and outstanding loans under the accumulated provision for losses and as a charge to expenses. The applicable loans are written off when the country reaches the Completion Point and the related provision reduced accordingly.

### ***Loans and Other Exposures***

Delays in receiving loan payments result in present value losses since IDA does not charge fees or additional interest on any overdue service charges or interest. These present value losses are equal to the difference between the present value of payments of service charges, interest and other charges made according to the related loan's contractual terms and the present value of its expected future cash flows. Except for debt relief provided under the HIPC Debt Initiative and MDRI, and any provision for losses under the mechanism to buy-down loans, it is IDA's practice not to write off its loans. To date, no loans have been written off, other than under the HIPC Debt Initiative, MDRI and the buy-down mechanism. Notwithstanding IDA'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. Other exposures include irrevocable commitments, guarantees and repaying project preparation facilities.

Management determines the appropriate level of the accumulated provision for losses, which reflects the probable losses inherent in IDA's exposures. Probable losses comprise estimates of losses arising from default and non payment of principal amounts due, as well as present value losses due to delay in receiving payments when compared to the schedule of payments.

Several steps are taken to determine the appropriate level of provision. First, the exposures are disaggregated into two groups: exposures in accrual status and exposures in nonaccrual status. In each group, the net exposures for each borrower (defined as the nominal amount of loans disbursed and outstanding less the accumulated provision for loss under the HIPC Debt Relief Initiative, MDRI and the buy-down mechanism, plus other applicable exposures) are

then assigned the credit risk rating of that borrower. With respect to countries with exposures in accrual status, these exposures are grouped according to the assigned borrower risk rating. The determination of borrowers' ratings is based on both quantitative and qualitative factors. Second, each risk rating is mapped to an expected default frequency (probability of default) based on historical experience. Finally, the provision required is calculated by multiplying the net exposures by the expected default frequency and by the assumed severity of loss given default. The severity of loss given default, which is assessed annually, is dependent on the borrower's eligibility, namely: IDA, Blend (IBRD and IDA) and IBRD, with the highest severity associated with IDA. Borrower's eligibility is assessed at least annually. IDA reassesses the adequacy of the accumulated provision and the reasonableness of the inputs used, on a periodic basis, at least annually, and adjustments to the accumulated provision are recorded as a charge to or release of provision in the Statement of Income. This methodology is also applied to countries with exposures in nonaccrual status, however, at times, to reflect certain distinguishing circumstances of a particular nonaccrual situation, Management may use different input assumptions for a particular country. Generally, all exposures in nonaccrual status have the same risk rating. In light of the IDA18 replenishment which will commence from July 1, 2017, IDA's management is reviewing its approach to the credit risk rating of IDA's sovereign borrowers. As of June 30, 2017, the potential net impact of this refinement on IDA's accumulated provision is not expected to be material.

When a member country prepays its outstanding loans, it may receive a discount equivalent to the difference between the outstanding carrying amount and the present value of the remaining cash flows. In such instances, IDA records a provision for losses on loans equivalent to the discount provided, at the time when the prepayment terms are agreed between IDA and the member country.

### **Statement of Cash Flows**

For the purpose of IDA's Statement of Cash Flows, cash is defined as the amount of Unrestricted cash due from Banks.

### **Investments**

Investment securities are classified based on Management's intention on the date of purchase, their nature, and IDA's policies governing the level and use of such investments. Until June 30, 2014, all investment securities were held in a trading portfolio. During the year ended June 30, 2015, IDA also purchased a security from IFC which is held in a non-trading portfolio. While IDA does not plan to sell the security, IDA elected to measure it at fair value, so that all its investment securities would be measured on the same basis. All investment securities and related financial instruments held by IDA are carried and reported at fair value, or at face value 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, Asset-backed Securities (ABS), Mortgage-backed Securities To-Be-Announced (TBA securities) and futures contracts. 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. The first-in first-out method is used to determine the cost of securities sold in computing the realized gains and losses on these instruments. Unrealized mark-to-market gains and losses for investment securities and related financial instruments held in the investment portfolio are included in the Statement of Income. Interest revenue, including amortization of the premium and discount arising at acquisition, are included in the Statement of Income.

IDA may require collateral in the form of approved liquid securities from individual counterparties or cash, under legal agreements that provide for collateralization, in order to mitigate its credit exposure to these counterparties. For collateral received in the form of cash from counterparties, IDA records the cash and a corresponding obligation to return the cash. Collateral received in the form of liquid securities is only recorded on IDA's Balance Sheet to the extent that it has been transferred under securities lending agreements in return for cash. IDA does not offset the fair value amounts recognized for derivative instruments that have been executed with the same counterparty under master netting agreements; as a result, the fair value amounts recognized for the obligation to return cash collateral received from counterparties are not offset with the fair value amounts recognized for the related derivative instruments.

### **Securities Purchased Under Resale Agreements, Securities Sold Under Repurchase Agreements, Securities Lent Under Securities Lending Agreements and Payable for Cash Collateral Received**

Securities purchased under resale agreements, securities sold under repurchase agreements and securities lent under securities lending agreements are recorded at face value, which approximates fair value, as they are short term in nature. IDA receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to counterparties under the repurchase and security lending arrangements and the securities transferred to IDA under the resale agreements have not met the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on the Balance Sheet, and securities received under resale agreements are not recorded on the Balance Sheet. Securities lent under securities lending agreements and sold under securities repurchase agreements as well as securities purchased under resale agreements are presented on a gross basis, which is consistent with the manner in which these instruments are settled.

### **Borrowings**

IDA introduced long term borrowings through concessional partner loans for the first time under IDA17, which commenced on July 1, 2014. The borrowing terms of the concessional partner loans aim to match the concessional features of IDA's loans. These borrowings are unsecured and unsubordinated fixed rate debt in SDR component currencies. IDA may prepay some or the entire outstanding amounts without penalty. These borrowings are carried and reported at amortized cost.

Interest expense and amortization of discounts and premiums relating to borrowings are reported as part of Borrowing expenses in the Statement of Income.

### **Accounting for Derivatives**

IDA has elected not to designate any hedging relationships for accounting purposes. Rather, all derivative instruments are marked to fair value on the Balance Sheet, with changes in fair value accounted for through the Statement of Income. The presentation of derivative instruments is consistent with the manner in which these instruments are settled. Currency swaps are settled on a gross basis, while interest rate swaps are settled on a net basis.

Derivative contracts include currency forward contracts, TBA securities, swaptions, exchange traded options and futures contracts, currency swaps and interest rate swaps. Currency swaps and interest rate swaps are primarily plain vanilla instruments. Currency forward contracts and 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.

### **Valuation of Financial Instruments**

Derivative financial instruments and investment securities are recorded in the financial statements at fair value.

IDA has an established and documented process for determining fair values. Fair value is based upon quoted market prices for the same or similar securities, where available.

Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models and other established valuation models. These models primarily use market-based or independently sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves, and may incorporate unobservable inputs. Selection of these inputs may involve some judgment. In instances where Management relies on instrument valuations supplied by external pricing vendors, there are procedures in place to validate the appropriateness of the models used as well as the inputs applied in determining those values.

To ensure that the valuations are appropriate where internally-developed models are used, IDA has various internal controls in place.

As of June 30, 2017 and June 30, 2016, IDA had no financial assets or liabilities measured at fair value on a non-recurring basis.

## **Fair Value Hierarchy**

Financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3).

Financial assets and liabilities recorded at fair value on the Balance Sheet are categorized based on the inputs to the valuation techniques as follows:

*Level 1:* Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2:* Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

*Level 3:* Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

IDA's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

## **Accounting for Contributions to Special Programs**

IDA recognizes an expense for Contributions to Special Programs, when incurred.

### **Transfers**

Transfers from IBRD's net income and grants made from the retained earnings of IFC to IDA are recorded through the Statement of Income and as a receivable on the Balance Sheet upon approval by the Board of Governors of IBRD and upon execution of a grant agreement between IFC and IDA, respectively. In addition, IDA periodically receives transfers from trust funds and private institutions. IDA does not assign any voting rights for these transfers and grants.

Temporary restrictions relating to these transfers may arise from the timing of receipt of cash, or donor imposed restrictions as to use. When the cash is received and any other restrictions on the transfers and grants are complied with, the temporary restrictions are removed.

### **Donor Contributions to Trust Funds**

For those IDA-executed trust funds where IDA acts as an intermediary agent, undisbursed third party donor contributions are recorded as assets held on behalf of the specified beneficiaries, with corresponding liabilities. Amounts disbursed from these trust funds are recorded as expenses with the corresponding amounts recognized as revenue. For Recipient-executed trust funds, since IDA acts as a trustee, no assets or liabilities relating to these activities are recorded on the Balance Sheet.

In some trust funds, execution is split between Recipient-executed and IDA-executed portions. Decisions on assignment of funding resources between the two types of execution may be made on an ongoing basis; therefore the execution of a portion of these available resources may not yet be assigned.

IDA also acts as a financial intermediary to provide specific administrative or financial services with a limited fiduciary or operational role. These arrangements, referred to as Financial Intermediary Funds, include, for example, administration of debt service trust funds, financial intermediation and other more specialized limited fund management roles. For these arrangements, funds are held and disbursed in accordance with instructions from donors or, in some cases, an external governance structure or a body operating on behalf of donors. For Financial Intermediary Funds, since IDA acts as a trustee, no assets or liabilities relating to these activities are recorded on IDA's Balance Sheet.

## **Accounting and Reporting Developments**

### ***Recently adopted accounting standards:***

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements (Subtopic 205-40): Going Concern – Disclosure of Uncertainties about an Entity’s ability to Continue as a Going Concern*. The ASU provides guidance on management’s responsibilities in evaluating the entity’s ability to continue as a going concern and on the related financial statement disclosures. Under this ASU, each reporting period, management is to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date on which the financial statements are issued. For IDA, the ASU is effective beginning with the quarter ending June 30, 2017. To implement the requirement of the ASU, IDA established an appropriate quarterly evaluation process. Based on this evaluation, at June 30, 2017, there is no substantial doubt that IDA will continue as a going concern for the period of one year after the date of financial statement issuance.

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

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

In April 2015, the FASB issued ASU 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*. The ASU provides guidance to help customers determine whether fees paid for cloud computing arrangements include a software license or should be accounted for as a service contract. For IDA, the ASU was effective from the quarter ended September 30, 2016. The adoption of the ASU did not result in any changes to IDA’s financial statements.

### ***Accounting standards under evaluation:***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and subsequent amendments in 2015 and 2016. 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. The core principle of the guidance is that an entity recognizes revenue when it transfers control of promised goods and services to customers in an amount that reflects consideration to which the entity expects to be entitled. The ASUs also require additional quantitative and qualitative disclosures to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For IDA, the ASUs will be effective from the fiscal year ending June 30, 2020, with early adoption permitted. IDA has identified the revenue streams that are within the scope of this ASU and is currently evaluating the impact of this ASU on its revenue recognition policy.

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 IDA, the ASU will be effective from the fiscal year ending June 30, 2020. Early adoption is permitted only for certain provisions. IDA is currently evaluating the impact of this ASU on its financial statements.

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 IDA, the ASU will be effective from

the fiscal year ending June 30, 2021, with early adoption permitted. IDA 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 losses (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 IDA, the ASU will be effective beginning from the fiscal year ending June 30, 2022, with early adoption permitted. IDA is currently evaluating the impact of the ASU on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The ASU provides classification guidance on eight specific cash flow classification issues for which current US GAAP does not provide guidance. For IDA, the ASU will be effective from the fiscal year ending June 30, 2020, with early adoption permitted. IDA is currently evaluating the impact of this ASU on its financial statements.

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 flow. For IDA, the ASU will be effective from the fiscal year ending June 30, 2020, with early adoption permitted. IDA is currently evaluating the impact of this ASU on its financial statements.

In February 2017, the FASB issued ASU 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610 20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. The ASU clarifies the guidance on derecognition of nonfinancial assets that was included in ASU 2014-09, *Revenue from Contracts with Customers*, and includes additional guidance for partial sales of nonfinancial assets. For IDA, this ASU and ASU 2014-09 will be effective beginning from the fiscal year ending June 30, 2020, with earlier application permitted. IDA is currently evaluating the impact of the ASU on its financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The ASU requires the shortening of the amortization period of premiums of callable debt securities purchased at a premium. The premium should be amortized to the earliest call date. For securities purchased at a discount, the discount continues to be amortized to maturity. For IDA, this ASU will be effective beginning from the fiscal year ending June 30, 2021, with earlier application permitted. IDA is currently evaluating the impact of the ASU on its financial statements.

## **NOTE B—MEMBERS' SUBSCRIPTIONS AND CONTRIBUTIONS**

**Subscriptions and Contributions Paid-In:** The movement in Subscriptions and Contributions paid-in during the fiscal years ended June 30, 2017 and June 30, 2016, is summarized below:

<i>In millions of U.S dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
<b>Beginning of the fiscal year</b>	\$ 208,430	\$ 201,045
Cash contributions received <sup>a</sup>	2,963	3,381
Demand obligations received	4,014	4,477
Translation adjustment	(4)	(473)
<b>End of the fiscal year</b>	<b>\$ 215,403</b>	<b>\$ 208,430</b>

<sup>a</sup>. Includes any restricted cash subscriptions.

During the fiscal year ended June 30, 2017, IDA encashed demand obligations totaling \$3,930 million (\$4,144 million—fiscal year ended June 30, 2016).

## NOTE C—INVESTMENTS

### Overview

The investment securities held by IDA are designated as either trading or non-trading. These securities are carried and reported at fair value, or at face value which approximates fair value.

As of June 30, 2017, the majority of IDA's Investments comprised government and agency obligations (80%), with all the instruments being classified as either Level 1 or Level 2 within the fair value hierarchy. As of June 30, 2017, U.S. Government instruments represented the largest holding of a single counterparty, and amounted to 18% of the Investments-Trading.

In addition, as of June 30, 2017, the majority of the instruments were denominated in U.S. dollars (38%), Euro (29%), Japanese yen (13%), Chinese Renminbi (9%) and Pounds sterling (6%). IDA uses derivative instruments to align the currency composition of the investment portfolio to the SDR basket of currencies and to manage other currency and interest rate risks in the portfolio. After considering the effects of these derivatives, the investment portfolio had an average repricing of 3.6 years and the following currency composition: U.S. dollars (46%), Euro (25%), Japanese yen (12%), Chinese Renminbi (10%) and Pounds sterling (7%). The credit quality of IDA's investment portfolio remains concentrated in the upper end of the credit spectrum with 71% of the portfolio rated AA or above as of June 30, 2017, reflecting IDA's continued preference for highly rated securities and counterparties across all categories of financial instruments.

### Investments

A summary of IDA's Investments and the currency composition as of June 30, 2017 and June 30, 2016, is as follows:

<i>In millions of U.Sdolars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
<b>Trading</b>		
Government and agency obligations	\$ 25,341	\$ 26,628
Time deposits	4,783	2,550
Asset-backed securities (ABS)	705	1,130
	<hr/> \$ 30,829	<hr/> \$ 30,308
<b>Non-trading (at fair value)</b>		
Debt securities	960	1,105
<b>Total</b>	<hr/> \$ 31,789	<hr/> \$ 31,413

The following table summarizes the currency composition of IDA's Investment as of June 30, 2017 and June 30, 2016:

	<i>In millions of U.S dollars</i>		<i>June 30, 2017</i>		<i>June 30, 2016</i>	
	<i>Carrying Value</i>	<i>Average Repricing (years)<sup>a</sup></i>	<i>Carrying Value</i>	<i>Average Repricing (years)<sup>a</sup></i>	<i>Carrying Value</i>	<i>Average Repricing (years)<sup>a</sup></i>
Euro	\$ 9,190	\$ 2.35	\$ 9,136	\$ 3.47	-	-
Chinese Renminbi	2,866	2.97	-	-	-	-
Japanese yen	4,135	1.38	4,133	2.05	-	-
Pound sterling	1,786	3.01	2,537	3.81	-	-
U.S. dollar	12,101	5.50	13,771	6.37	-	-
Other	1,711	0.64	1,836	2.36	-	-
<b>Total</b>	<hr/> \$ 31,789	<hr/> \$ 3.40	<hr/> \$ 31,413	<hr/> \$ 4.37	<hr/> \$ 31,413	<hr/> \$ 4.37

<sup>a</sup>. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed.

## Net Investment Portfolio

IDA manages its investments on a net portfolio basis. The following table summarizes IDA's net portfolio position as of June 30, 2017 and June 30, 2016:

In millions of U.S. dollars	June 30, 2017	June 30, 2016
<b>Investments</b>		
Trading	\$ 30,829	\$ 30,308
Non-trading (at fair value)	960	1,105
Total	<u>31,789</u>	<u>31,413</u>
<b>Securities purchased under resale agreements</b>	244	80
<b>Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received</b>	(2,560)	(1,968)
<b>Derivative Assets</b>		
Currency forward contracts	803	689
Currency swaps	3,513	3,929
Interest rate swaps	*	3
Swaptions, exchange traded options and futures contracts	1	2
Other <sup>a</sup>	1	1
Total	<u>4,318</u>	<u>4,624</u>
<b>Derivative Liabilities</b>		
Currency forward contracts	(819)	(681)
Currency swaps	(3,689)	(4,073)
Interest rate swaps	(8)	(20)
Swaptions, exchange traded options and futures contracts	(5)	(20)
Other <sup>a</sup>	(2)	(*)
Total	<u>(4,523)</u>	<u>(4,794)</u>
<b>Cash held in investment portfolio <sup>b</sup></b>	421	640
<b>Receivable from investment securities traded</b>	527	861
<b>Payable for investment securities purchased</b>	(543)	(948)
<b>Net Investment Portfolio</b>	<u>\$ 29,673</u>	<u>\$ 29,908</u>

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

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

\* Indicates amount less than \$0.5 million.

The following table summarizes the currency composition of IDA's Net Investment Portfolio as of June 30, 2017 and June 30, 2016:

	June 30, 2017		June 30, 2016	
	Carrying Value	Average Repricing (years) <sup>a</sup>	Carrying Value	Average Repricing (years) <sup>a</sup>
Euro	\$ 7,270	\$ 2.95	\$ 7,453	\$ 4.20
Chinese Renminbi	3,077	2.86	-	-
Japanese yen	3,522	1.44	3,815	2.62
Pound sterling	1,967	2.71	2,494	3.83
U.S. dollar	13,792	4.81	16,146	5.11
Other	45	0.15	*	†
Total	<u>\$ 29,673</u>	<u>\$ 3.61</u>	<u>\$ 29,908</u>	<u>\$ 4.35</u>

a. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed.

\* Indicates amount less than \$0.5 million.

† Indicates amount not meaningful.

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

As of June 30, 2017, there were short sales totaling \$77 million (\$138 million—June 30, 2016) included in Payable for investment securities purchased on the Balance Sheet. These are reported at fair value on a recurring basis.

### Fair Value Disclosures

The following tables present IDA's fair value hierarchy for investment assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and June 30, 2016:

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis				
	As of June 30, 2017				
	Level 1	Level 2	Level 3	Total	
<b>Assets:</b>					
Investments—Trading					
Government and agency obligations	\$ 12,271	\$ 13,070	\$ -	\$ 25,341	
Time deposits	165	4,618	-	4,783	
ABS	-	705	-	705	
Total Investments—Trading	12,436	18,393	-	30,829	
Investments—Non-trading (at fair value)	-	960	-	960	
Securities purchased under resale agreements	225	19	-	244	
Derivative assets					
Currency forward contracts	-	803	-	803	
Currency swaps	-	3,513	-	3,513	
Interest rate swaps	-	*	-	*	
Swaptions, exchange traded options and futures contracts	-	1	-	1	
Other <sup>a</sup>	-	1	-	1	
Total Derivative assets—Investments	-	4,318	-	4,318	
<b>Total</b>	<b>\$ 12,661</b>	<b>\$ 23,690</b>	<b>\$ -</b>	<b>\$ 36,351</b>	
<b>Liabilities:</b>					
Securities sold under repurchase agreements and securities lent under security lending agreements <sup>b</sup>	\$ -	\$ 2,560	\$ -	\$ 2,560	
Derivative liabilities					
Currency forward contracts	-	819	-	819	
Currency swaps	-	3,689	-	3,689	
Interest rate swaps	-	8	-	8	
Swaptions, exchange traded options and futures contracts	4	1	-	5	
Other <sup>a</sup>	-	2	-	2	
Total Derivative liabilities—Investments	4	4,519	-	4,523	
Payable for investment securities purchased <sup>c</sup>	19	58	-	77	
<b>Total</b>	<b>\$ 23</b>	<b>\$ 7,137</b>	<b>\$ -</b>	<b>\$ 7,160</b>	

*a. These relate to TBA securities.*

*b. Excludes amount payable for cash collateral received less than \$0.5 million.*

*c. These relate to short sales of investment securities.*

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

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis				
	As of June 30, 2016				
	Level 1	Level 2	Level 3	Total	
<b>Assets:</b>					
Investments—Trading					
Government and agency obligations	\$ 16,316	\$ 10,312	\$ -	\$ 26,628	
Time deposits	213	2,337	-	2,550	
ABS	-	1,130	-	1,130	
Total Investments—Trading	16,529	13,779	-	30,308	
Investments—Non-trading (at fair value)	-	1,105	-	1,105	
Securities purchased under resale agreements	20	60	-	80	
Derivative assets					
Currency forward contracts	-	689	-	689	
Currency swaps	-	3,929	-	3,929	
Interest rate swaps	-	3	-	3	
Swaptions, exchange traded options and futures contracts	-	2	-	2	
Other <sup>a</sup>	-	1	-	1	
Total Derivative assets—Investments	-	4,624	-	4,624	
<b>Total</b>	<b>\$ 16,549</b>	<b>\$ 19,568</b>	<b>\$ -</b>	<b>\$ 36,117</b>	
<b>Liabilities:</b>					
Securities sold under repurchase agreements and securities lent under security lending agreements <sup>b</sup>	\$ 28	\$ 1,939	\$ -	\$ 1,967	
Derivative liabilities					
Currency forward contracts	-	681	-	681	
Currency swaps	-	4,073	-	4,073	
Interest rate swaps	-	20	-	20	
Swaptions, exchange traded options and futures contracts	18	2	-	20	
Other <sup>a</sup>	-	*	-	*	
Total Derivative liabilities—Investments	18	4,776	-	4,794	
Payable for investment securities purchased <sup>c</sup>	81	57	-	138	
<b>Total</b>	<b>\$ 127</b>	<b>\$ 6,772</b>	<b>\$ -</b>	<b>\$ 6,899</b>	

a. These relate to TBA securities.

b. Excludes \$1 million relating to payable for cash collateral received

c. These relate to short sales of investment securities.

\* Indicates amount less than \$0.5 million.

As of June 30, 2017 and June 30, 2016, there were no securities transferred between Level 1 and Level 2 within the fair value hierarchy.

Presented below is the difference between the aggregate fair value and aggregate contractual principal balance of non-trading securities in the investment portfolio:

<i>In millions of U.S. dollars</i>	Fair value	Principal amount due	Difference
June 30, 2017	\$ 960	\$ 969	\$ (9)
June 30, 2016	\$ 1,105	\$ 1,082	\$ 23

The maturity structure of IDA's non-trading investment portfolio as of June 30, 2017 and June 30, 2016 was as follows:

<i>In millions of U.S dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
<i>Period</i>		
Less than 1 year	\$ 126	\$ 113
Between		
1 - 2 years	122	126
2 - 3 years	124	122
3 - 4 years	125	124
4 - 5 years	113	125
Thereafter	359	472
	\$ 969	\$ 1,082

### Commercial Credit Risk

For the purpose of risk management, IDA 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, IDA limits trading to a list of authorized dealers and counterparties. In addition, credit limits have been established for counterparties by type of instrument and maturity category.

**Swap Agreements:** Credit risk is mitigated through a credit approval process, volume limits, monitoring procedures and the use of mark-to-market collateral arrangements. IDA may require collateral in the form of cash or other approved liquid securities from individual counterparties to mitigate its credit exposure. As of June 30, 2017 and June 30, 2016, IDA had not received any cash collateral related to swap agreements.

IDA 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 derivative 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 E—Derivative Instruments.

The following is a summary of the collateral received by IDA in relation to swap transactions as of June 30, 2017 and June 30, 2016.

<i>In millions of U.S. dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
Collateral received		
Cash	\$ -	\$ -
Securities	- <hr/>	2
Total collateral received	\$ - <hr/>	\$ 2
Collateral permitted to be repledged	\$ -	\$ 2
Amount of collateral repledged	- <hr/>	-

**Securities Lending:** IDA 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 ABS.

These transactions have been conducted under legally enforceable master netting arrangements, which allow IDA to reduce its gross credit exposure related to these transactions. As of June 30, 2017, amounts which could potentially be offset as a result of legally enforceable master netting arrangements were \$225 million (\$80 million—June 30, 2016).

Transfers of securities by IDA 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.

Securities lending agreements and repurchase agreements expose IDA to several risks, including counterparty risk, reinvestment risk, and risk of a collateral gap (increase or decrease in the fair value of collateral pledged). IDA has procedures in place to ensure that trading activity and balances under these agreements are below predefined counterparty and maturity limits, and to actively monitor net counterparty exposure, after collateral, through daily mark-to-market. Whenever the collateral pledged by IDA related to its borrowings under securities lending agreements and repurchase 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:

<i>In millions of U.S. dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>	<i>Financial Statement Presentation</i>
Securities transferred under repurchase or securities lending agreements	\$ 2,150	\$ 1,691	Included under Investments - Trading on the Balance Sheet
Liabilities relating to securities transferred under repurchase or securities lending agreements	\$ 2,560	\$ 1,967	Included under Securities Sold under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received on the Balance Sheet.

As of June 30, 2017, the liabilities relating to securities transferred under repurchase or securities lending agreements included \$388 million (\$287 million—June 30, 2016) of repurchase agreement trades that had not settled at that date. Of this amount, \$368 million represented replacement trades entered into in anticipation of maturing trades of a similar amount (Nil—June 30, 2016).

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

<i>In millions of U.S. dollars</i>	<i>As of June 30, 2017</i>		
	<i>Remaining contractual maturity of the agreements</i>		
	<i>Overnight and continuous</i>	<i>Up to 30 days</i>	<i>Total</i>
<b>Repurchase or Securities Lending agreements</b>			
Government and agency obligations	\$ 1,699	\$ 861	\$ 2,560
<b>Total liabilities for Securities sold under repurchase agreements and Securities Lent under Securities Lending Agreements</b>	<b>\$ 1,699</b>	<b>\$ 861</b>	<b>\$ 2,560</b>

<i>In millions of U.S. dollars</i>	<i>As of June 30, 2016</i>		
	<i>Remaining contractual maturity of the agreements</i>		
	<i>Overnight and continuous</i>	<i>Up to 30 days</i>	<i>Total</i>
<b>Repurchase or Securities Lending agreements</b>			
Government and agency obligations	\$ 1,653	\$ 314	\$ 1,967
<b>Total liabilities for Securities sold under repurchase agreements and Securities Lent under Securities Lending Agreements</b>	<b>\$ 1,653</b>	<b>\$ 314</b>	<b>\$ 1,967</b>

In the case of resale agreements, IDA received 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 IDA's balance sheet as the accounting criteria for treatment as a sale have not been met. As of June 30, 2017 and June 30, 2016, none of the securities purchased under resale agreements remained unsettled on that date. For the securities purchased under resale agreement, IDA received securities with a fair value of \$244 million (\$81 million—June 30, 2016). Out of this amount, no securities had been transferred under repurchase or securities lending agreements (Nil—June 30, 2016).

#### **NOTE D—BORROWINGS**

IDA's borrowings comprise concessional partner loans made by IDA members. These borrowings are unsecured and unsubordinated fixed rate debt in SDR component currencies. IDA may prepay some or the entire outstanding amounts without penalty. These borrowings are carried and reported at amortized cost.

As of June 30, 2017, IDA's borrowings outstanding were \$3,660 million (\$2,906 million—June 30, 2016). These borrowings have original maturities of 25 and 40 years, with the final maturity being 2054. The weighted average effective interest rate for these borrowings was 2.46% as of June 30, 2017. This does not include the effect of the amounts relating to proceeds received under the grant component of the concessional partner loan agreements, for which voting rights have been received. These amounts are reflected in equity.

<i>In millions of U.S dollars</i>				<i>Borrowings outstanding</i>	
	<i>Principal at face value</i>	<i>Net unamortized premium (discount)</i>		<i>Total</i>	
June 30, 2017	\$ 4,392	\$ (732)		\$ 3,660	
June 30, 2016	\$ 3,448	\$ (542)		\$ 2,906	

#### **Fair Value Disclosures**

The table below presents the fair value of IDA's borrowings for disclosure purposes, along with their respective carrying amounts as of June 30, 2017 and June 30, 2016:

<i>In millions of U.S dollars</i>			
	<i>June 30, 2017</i>		<i>June 30, 2016</i>
	<i>Carrying Value</i>	<i>Fair Value</i>	<i>Carrying Value</i>
Borrowings outstanding	\$ 3,660	\$ 4,175	\$ 2,906
			\$ 3,585

As of June 30, 2017, IDA's borrowings were classified as Level 2 within the fair value hierarchy.

The maturity structure of IDA's borrowings outstanding as of June 30, 2017 and June 30, 2016 was as follows:

<i>In millions of U.S dollars</i>			
<i>Period</i>	<i>June 30, 2017</i>		<i>June 30, 2016</i>
2 - 3 years	\$ 44		\$ -
3 - 4 years	112		43
4 - 5 years	123		111
Thereafter	4,113		3,294
<b>Principal at face value</b>	<b>\$ 4,392</b>		<b>\$ 3,448</b>

#### **Valuation Methods and Assumptions**

The fair value of IDA's borrowings is calculated using a discounted cash flow method which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and proxy funding spreads.

## NOTE E—DERIVATIVE INSTRUMENTS

IDA uses derivative instruments in its investment portfolio to manage currency and interest rate risks, for asset-liability management purposes, and to assist clients in managing risks.

The following table summarizes IDA'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—Trading	Interest rate swaps, currency forward contracts, currency swaps, options, swaptions, futures contracts, and TBA securities	Manage currency and interest rate risk in the portfolio
Other assets/liabilities	Currency forward contracts	Manage foreign exchange risks
Other purposes:		
Client operations	Structured swaps	Assist clients in managing risks

The following tables provide information on the fair value amounts and the location of the derivative instruments on the Balance Sheet, as well as the notional amounts and credit risk exposures of those derivative instruments, as of June 30, 2017 and June 30, 2016:

*In millions of U.S. dollars*

	<i>Balance Sheet Location</i>			
	<i>Derivative assets</i>		<i>Derivative liabilities</i>	
	<i>June 30, 2017</i>	<i>June 30, 2016</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
<b>Derivatives not designated as hedging instruments</b>				
Currency forward contracts	\$ 20,328	\$ 8,903	\$ 20,369	\$ 8,624
Currency swaps	3,513	3,929	3,689	4,073
Swaptions, exchange traded options and futures contracts	1	2	5	20
Interest rate swaps	*	3	8	20
Other <sup>a</sup>	1	1	2	*
<b>Total Derivatives</b>	<b>\$ 23,843</b>	<b>\$ 12,838</b>	<b>\$ 24,073</b>	<b>\$ 12,737</b>

*a. These relate to TBA securities.*

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

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

<i>In millions of U.S. dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
<i>Type of contract</i>		
<b>Investments - Trading</b>		
Interest rate swaps		
Notional principal	\$ 760	\$ 1,543
Credit exposure	* —	3
Currency swaps (including currency forward contracts)		
Credit exposure	14	61
Swaptions, exchange traded options, and futures contracts <sup>a</sup>		
Notional long position	37,967	978
Notional short position	39,264	13,879
Credit exposure	1	2
Other <sup>b</sup>		
Notional long position	412	186
Notional short position	147	15
Credit exposure	1	1
<b>Asset-liability management</b>		
Currency forward contracts		
Credit exposure	305	489
<b>Client Operations</b>		
Structured swaps		
Notional principal	68	86
Credit exposure	—	—

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

*b.* These relate to TBA securities.

Under most of its derivatives agreements, IDA is not required to post collateral as long as it maintains liquidity holdings at predetermined levels that are a proxy for a triple-A credit rating. After becoming a rated entity, IDA has started to enter into derivatives agreements with commercial counterparties in which IDA is not required to post collateral as long as it maintains a triple-A rating. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position as of June 30, 2017 is \$366 million (\$160 million—June 30, 2016). As of June 30, 2017, IDA was not required to post any collateral in accordance with the relevant agreements.

If the credit-risk related contingent features underlying these agreements were triggered to the extent that IDA would be required to post collateral as of June 30, 2017, the amount of collateral that would need to be posted would be \$82 million (Nil—June 30, 2016). Subsequent triggers of contingent features would require posting of additional collateral, up to a maximum of \$366 million as of June 30, 2017 (\$160 million—June 30, 2016).

Amounts of gains and losses on the Asset-liability management derivative instruments and their location on the Statement of Income for the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015 are as follows:

<i>In millions of U.S. dollars</i>	<i>Gains (Losses)</i>		
	<i>Fiscal Year Ended June 30,</i>		
	<i>Statement of Income Location</i>	<i>2017</i>	<i>2016</i>
<b>Derivatives not designated as hedging instruments and not held in a trading portfolio <sup>a</sup></b>			
Currency forward contracts and currency swaps	<b>Unrealized mark-to-market gains (losses) on Non-Trading portfolios, net</b>	\$ 54	\$ (35)
		\$ (160)	

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

The majority of the instruments in IDA's investment portfolio are held for trading purposes. Within the trading portfolio, IDA holds highly rated fixed income instruments 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 amount of gains and losses on the IDA's investment trading portfolio (derivative and non-derivative instruments), and their location on the Statement of Income for the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015:

*In millions of U.S. dollars*

Type of instrument	Statement of Income Location	Gains (Losses)		
		Fiscal Year Ended June 30,		
		2017	2016	2015
Fixed income (including related derivatives)	Unrealized mark-to-market (losses) gains on Investment-Trading portfolios, net	\$ (367)	\$ 509	\$ 103

#### **Offsetting assets and liabilities**

IDA 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 IDA 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 tables summarize information on derivative assets and liabilities (before and after netting adjustments) that are reflected on IDA's Balance Sheet as of June 30, 2017 and June 30, 2016. Total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements. The net derivative asset positions have been further reduced by the cash and securities collateral received.

*In millions of U.S. dollars*

June 30, 2017						
Located on the Balance Sheet						
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 1	\$ (1)	\$ *	\$ 251	\$ (243)	\$ 8
Currency swaps <sup>a</sup>	23,841	-	23,841	24,059	(1)	24,058
Other <sup>b</sup>	2	-	2	28	(21)	7
Total	\$ 23,844	\$ (1)	\$ 23,843	\$ 24,338	\$ (265)	\$ 24,073
Amounts subject to legally enforceable master netting agreements <sup>c</sup>			\$ (23,684)			\$ (23,684)
<b>Net derivatives positions at counterparty level before collateral</b>			159			389
Less:						
Cash collateral received <sup>d</sup>			-			
Securities collateral received			-			
<b>Net derivative exposure after collateral</b>			\$ <u>159</u>			

a. Includes currency forward contracts.

b. These include swaptions, exchange traded options, futures contracts and TBA securities.

c. Not offset on the Balance Sheet.

d. Does not include excess collateral received.

\* Indicates amount less than \$0.5 million.

*In millions of U.S. dollars*

	June 30, 2016					
	Located on the Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 150	\$ (147)	\$ 3	\$ 395	\$ (375)	\$ 20
Currency swaps <sup>a</sup>	12,832	-	12,832	12,698	(1)	12,697
Other <sup>b</sup>	3	-	3	23	(3)	20
Total	\$ 12,985	\$ (147)	\$ 12,838	\$ 13,116	\$ (379)	\$ 12,737
Amounts subject to legally enforceable master netting agreements <sup>c</sup>			\$ (12,489)			\$ (12,489)
<b>Net derivatives positions at counterparty level before collateral</b>			349			248
Less:						
Cash collateral received <sup>d</sup>			1			
Securities collateral received			-			
<b>Net derivative exposure after collateral</b>			\$ 348			

a. Includes currency forward contracts.

b. These include swaptions, exchange traded options, futures contracts and TBA securities.

c. Not offset on the Balance Sheet.

d. Does not include excess collateral received.

## Fair Value Disclosures

IDA's fair value hierarchy for derivative assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and June 30, 2016 is as follows:

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis As of June 30, 2017			
	Level 1		Level 2	
			Level 3	Total
<b>Derivative assets:</b>				
Investments				
Currency forward contracts	\$ -	\$ 803	\$ -	\$ 803
Currency swaps	-	3,513	-	3,513
Interest rate swaps	-	*	-	*
Swaptions, exchange traded options and futures contracts	-	1	-	1
Other <sup>a</sup>	-	1	-	1
	-	4,318	-	4,318
Asset-liability management				
Currency forward contracts	-	19,525	-	19,525
<b>Total derivative assets</b>	<b>\$ -</b>	<b>\$ 23,843</b>	<b>\$ -</b>	<b>\$ 23,843</b>
<b>Derivative liabilities:</b>				
Investments				
Currency forward contracts	\$ -	\$ 819	\$ -	\$ 819
Currency swaps	-	3,689	-	3,689
Interest rate swaps	-	8	-	8
Swaptions, exchange traded options and futures contracts	4	1	-	5
Other <sup>a</sup>	-	2	-	2
	4	4,519	-	4,523
Asset-liability management				
Currency forward contracts	-	19,550	-	19,550
<b>Total derivative liabilities</b>	<b>\$ 4</b>	<b>\$ 24,069</b>	<b>\$ -</b>	<b>\$ 24,073</b>

a. These relate to TBA securities.

\* Indicates amount less than \$0.5 million.

*In millions of U.S. dollars*

	Fair Value Measurements on a Recurring Basis As of June 30, 2016				<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
<b>Derivative assets:</b>					
Investments					
Currency forward contracts	\$ -	\$ 689	\$ -	\$ 689	
Currency swaps	-	3,929	-	3,929	
Interest rate swaps	-	3	-	3	
Swaptions, exchange traded options and futures contracts	-	2	-	2	
Other <sup>a</sup>	-	1	-	1	
	-	4,624	-	4,624	
Asset-liability management					
Currency forward contracts	-	8,214	-	8,214	
<b>Total derivative assets</b>	<b>\$ -</b>	<b>\$ 12,838</b>	<b>\$ -</b>	<b>\$ 12,838</b>	
<b>Derivative liabilities:</b>					
Investments					
Currency forward contracts	\$ -	\$ 681	\$ -	\$ 681	
Currency swaps	-	4,073	-	4,073	
Interest rate swaps	-	20	-	20	
Swaptions, exchange traded options and futures contracts	18	2	-	20	
Other <sup>a</sup>	-	*	-	*	
	18	4,776	-	4,794	
Asset-liability management					
Currency forward contracts	-	7,943	-	7,943	
<b>Total derivative liabilities</b>	<b>\$ 18</b>	<b>\$ 12,719</b>	<b>\$ -</b>	<b>\$ 12,737</b>	

*a. These relate to TBA securities.*

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

### Inter-level transfers

During the fiscal years ended June 30, 2017 and June 30, 2016, there were no inter-level transfers in the derivatives portfolio.

### Valuation Methods and Assumptions

Derivative contracts include currency forward contracts, TBA securities, swaptions, exchange traded options and future contracts, currency swaps and interest rate swaps. These are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates and basis spreads and funding spreads.

### NOTE F—LOANS AND OTHER EXPOSURES

Loans and other exposures are generally made directly to member countries of IDA. Other exposures include irrevocable commitments, guarantees and repaying project preparation facilities.

Loans are carried and reported at amortized cost. Of the total loans outstanding as of June 30, 2017, 91% were to the South Asia, Africa, and East Asia and Pacific regions combined.

Based on IDA's internal credit quality indicators, the majority of the loans outstanding are in the Medium and High risk classes.

As of June 30, 2017, loans outstanding totaling \$2,529 million (representing about 2% of the portfolio) from five borrowers, were in nonaccrual status.

## Maturity Structure

The maturity structure of loans outstanding as of June 30, 2017 and June 30, 2016 was as follows:

<i>In millions of U.S dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
July 01, 2017 through June 30, 2018	\$ 6,217	July 01, 2016 through June 30, 2017 \$ 5,807
July 01, 2018 through June 30, 2022	24,513	July 01, 2017 through June 30, 2021 22,598
July 01, 2022 through June 30, 2027	34,007	July 01, 2021 through June 30, 2026 32,619
Thereafter	<u>77,447</u>	Thereafter <u>75,711</u>
Total	<u>\$ 142,184</u>	<u>Total \$ 136,735</u>

## Currency Composition

Loans outstanding had the following currency composition as of June 30, 2017 and June 30, 2016:

<i>In millions of U.S dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
EUR	\$ 659	\$ 337
USD	4,878	4,972
SDR	<u>136,647</u>	<u>131,426</u>
	<u>\$ 142,184</u>	<u>\$ 136,735</u>

## Credit Quality of Sovereign Loans

Based on an evaluation of IDA's loans, Management has determined that IDA has one portfolio segment — Sovereign Exposures. Loans constitute the majority of sovereign exposures.

IDA's country risk ratings are an assessment of its borrowers' ability and willingness to repay IDA 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 factors. For the purpose of analyzing the risk characteristics of IDA's exposures, 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.

IDA's borrowers' country risk ratings are key determinants in the provisions for loan losses.

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

The following tables provide an aging analysis of loans outstanding as of June 30, 2017 and June 30, 2016:

*In millions of U.S. dollars*

Days past due	June 30, 2017						Total Past Due	Current	Total
	Up to 45	46-60	61-90	91-180	Over 180				
<b>Risk Class</b>									
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,762	\$ 2,762	
Medium	-	-	-	-	-	-	26,385	26,385	
High	7	-	-	-	-	7	110,501	110,508	
<b>Loans in accrual status</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>139,648</b>	<b>139,655</b>	
<b>Loans in nonaccrual status</b>									
	12	1	5	22	1,146	1,186	1,343	2,529	
<b>Total</b>	<b>\$ 19</b>	<b>\$ 1</b>	<b>\$ 5</b>	<b>\$ 22</b>	<b>\$ 1,146</b>	<b>\$ 1,193</b>	<b>\$ 140,991</b>	<b>\$ 142,184</b>	

*In millions of U.S. dollars*

Days past due	June 30, 2016						Total Past Due	Current	Total
	Up to 45	46-60	61-90	91-180	Over 180				
<b>Risk Class</b>									
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,579	\$ 3,579	
Medium	-	-	-	-	-	-	26,978	26,978	
High	1	*	-	-	-	1	103,636	103,637	
<b>Loans in accrual status</b>	<b>1</b>	<b>*</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>134,193</b>	<b>134,194</b>	
<b>Loans in nonaccrual status</b>									
	12	1	5	21	1,067	1,106	1,435	2,541	
<b>Total</b>	<b>\$ 13</b>	<b>\$ 1</b>	<b>\$ 5</b>	<b>\$ 21</b>	<b>\$ 1,067</b>	<b>\$ 1,107</b>	<b>\$ 135,628</b>	<b>\$ 136,735</b>	

\* Indicates amount less than \$0.5 million.

### Accumulated Provision for Losses on Loans and Other Exposures

#### 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 IDA's exposures. Probable losses comprise estimates of losses arising from default and nonpayment of principal amounts due, as well as present value losses. Management reassesses the adequacy of the accumulated provision and the reasonableness of the inputs used, on a periodic basis, at least annually, and adjustments are recorded as a charge against or addition to revenue.

Provision for HIPC Debt Initiative and MDRI includes provisions which are based on quantitative and qualitative analyses of various factors, including estimates of Decision Point and Completion Point dates. These factors are reviewed periodically as part of the reassessment of the adequacy of the accumulated provision for loss. Provisions are released as qualifying debt service becomes due and is forgiven under the HIPC Debt Initiative, and are reduced by the amount of the eligible loans written off when the country reaches Completion Point, and becomes eligible for MDRI debt relief.

Changes to the accumulated provision for losses on loans and other exposures for the fiscal years ended June 30, 2017 and June 30, 2016 are summarized below:

*In millions of U.S. dollars*

	June 30, 2017				June 30, 2016			
	Debt relief under HIPC/MDRI			Total	Debt relief under HIPC/MDRI			Total
	Loans	HIPC/MDRI	Other		Loans	HIPC/MDRI	Other	
<b>Accumulated provision, beginning of the fiscal year</b>	\$ 1,932	\$ 2,000	\$ 25	\$ 3,957	\$ 1,585	\$ 2,559	\$ 11	\$ 4,155
Provision, net - charge (release) <sup>a</sup>	(10)	(46)	*	(56)	386	(20)	14	380
Loans written off under:								
Buy-down mechanism	-	-	-	-	(27)	-	-	(27)
Prepayments	(3)	-	-	(3)	(3)	-	-	(3)
HIPC/MDRI	-	(9)	-	(9)	-	(534)	-	(534)
Translation adjustment	(6)	(5)	*	(11)	(9)	(5)	(*)	(14)
<b>Accumulated provision, end of the period</b>	<b>\$ 1,913</b>	<b>\$ 1,940</b>	<b>\$ 25</b>	<b>\$ 3,878</b>	<b>\$ 1,932</b>	<b>\$ 2,000</b>	<b>\$ 25</b>	<b>\$ 3,957</b>
Composed of accumulated provision for losses on:								
Loans in accrual status	\$ 1,644	\$ 126		\$ 1,770	\$ 1,667	\$ 136		\$ 1,803
Loans in nonaccrual status	269	1,814		2,083	265	1,864		2,129
<b>Total</b>	<b>\$ 1,913</b>	<b>\$ 1,940</b>		<b>\$ 3,853</b>	<b>\$ 1,932</b>	<b>\$ 2,000</b>		<b>\$ 3,932</b>
Loans:								
Loans in accrual status				\$ 139,655				\$ 134,194
Loans in nonaccrual status				2,529				2,541
<b>Total</b>				<b>\$ 142,184</b>				<b>\$ 136,735</b>

a. For the fiscal year ended June, 2017, the provision includes: Nil for loans bought down (\$27 million - June 30, 2016) and \$3 million for the discount on prepayment of loans (\$3 million - June 30, 2016).

\* Indicates amount less than \$0.5 million.

	Reported as Follows	
	Balance Sheet	Statement of Income
<b>Accumulated Provision for Losses on:</b>		
Loans	Accumulated provision for losses on loans	Provision for losses on loans and other exposures, net
Debt Relief under HIPC/MDRI	Accumulated provision for losses on loans	Provision for losses on loans and other exposures, net
Other Exposures	Other liabilities	Provision for losses on loans and other exposures, net

### Loans to be written off under MDRI

During the fiscal year ended June 30, 2017, there were no loans written off under the MDRI.

During the fiscal year ended June 30, 2016, loans eligible for relief under MDRI totaling \$524 million were written off as a result of Chad reaching Completion Point under the HIPC Debt Initiative on April 28, 2015.

### Overdue Amounts

As of June 30, 2017, there were no principal or charges under loans in accrual status which were overdue by more than three months.

The following tables provide a summary of selected financial information related to loans in nonaccrual status as of and for the fiscal years ended June 30, 2017 and June 30, 2016:

*In millions of U.S. dollars*

<i>Borrower</i>	<i>Nonaccrual since</i>	<i>Recorded investment<sup>a</sup></i>	<i>Average recorded investment<sup>b</sup></i>	<i>Principal Outstanding</i>	<i>Provision for debt relief</i>	<i>Provision for loan losses<sup>c</sup></i>	<i>Overdue amounts</i>	
							<i>Principal</i>	<i>Charges</i>
Eritrea	March 2012	\$ 435	\$ 429	\$ 435	\$ 300	\$ 20	\$ 52	\$ 19
Somalia	July 1991	413	409	413	393	3	234	82
Sudan	January 1994	1,206	1,195	1,206	1,121	13	683	207
Syrian Arab Republic	June 2012	14	14	14	-	2	7	1
Zimbabwe	October 2000	461	456	461	-	231	210	52
Total - June 30, 2017		<u>\$ 2,529</u>	<u>\$ 2,503</u>	<u>\$ 2,529</u>	<u>\$ 1,814</u>	<u>\$ 269</u>	<u>\$ 1,186</u>	<u>\$ 361</u>
Total - June 30, 2016		<u>\$ 2,541</u>	<u>\$ 2,537</u>	<u>\$ 2,541</u>	<u>\$ 1,864</u>	<u>\$ 265</u>	<u>\$ 1,106</u>	<u>\$ 346</u>

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

*b. Represents the average for the fiscal years. For the fiscal year ended June 30, 2015: \$2,616 million.*

*c. Loan loss provisions are determined after taking into account accumulated provision for debt relief.*

*In millions of U.S. dollars*

	<i>Fiscal Year Ended June 30,</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>
Service charge revenue not recognized as a result of loans being in nonaccrual status	\$ 19	\$ 19	\$ 18

During the fiscal years ended June 30, 2017 and June 30, 2016, no loans were placed into nonaccrual status.

During the fiscal year ended June 30, 2017, service charge revenue recognized on loans in nonaccrual status was \$3 million (\$3 million—fiscal year ended June 30, 2016 and \$2 million—fiscal year ended June 30, 2015).

### **Guarantees**

Guarantees of \$1,177 million were outstanding as of June 30, 2017 (\$1,059 million—June 30, 2016). This amount represents the maximum potential undiscounted future payments that IDA could be required to make under these guarantees, and is not included on the Balance Sheet. The guarantees issued by IDA have original maturities ranging between 9 and 22 years, and expire in decreasing amounts through 2035.

As of June 30, 2017, liabilities related to IDA's obligations under guarantees of \$96 million (\$97 million—June 30, 2016), have been included in Other liabilities on the Balance Sheet. These include the accumulated provision for guarantee losses of \$19 million (\$19 million—June 30, 2016).

During the fiscal years ended June 30, 2017 and June 30, 2016, no guarantees provided by IDA were called.

### **Segment Reporting**

Based on an evaluation of its operations, Management has determined that IDA has only one reportable segment.

Loan revenue comprises service charges and interest charges on outstanding loan balances. For the fiscal year ended June 30, 2017, loan revenue from three countries \$226 million, \$160 million and \$124 million, respectively were in excess of ten percent of total loan revenue.

The following table presents IDA's loans outstanding and associated loan revenue as of June 30, 2017 and June 30, 2016, by geographic region:

Region	<i>In millions of U.S. dollars</i>				
	June 30, 2017		June 30, 2016		
	Loans Outstanding	Service and Interest Charges	Loans Outstanding	Service and Interest Charges	
Africa	\$ 52,991	\$ 374	\$ 48,393	\$ 340	
East Asia and Pacific	19,460	181	19,699	178	
Europe and Central Asia	7,462	106	7,587	103	
Latin America and the Caribbean	2,518	25	2,449	23	
Middle East and North Africa	3,025	23	3,166	24	
South Asia	56,728	523	55,441	481	
Total	<u>\$ 142,184</u>	<u>\$ 1,232</u>	<u>\$ 136,735</u>	<u>\$ 1,149</u>	

### Buy-down of Loans

During the fiscal year ended June 30, 2017, there were no loans purchased under the buy-down mechanism by the Global Program to Eradicate Poliomyelitis Trust Fund.

During the fiscal year ended June 30, 2016, one loan was purchased under the buy down mechanism. This loan had an outstanding carrying value of \$85 million and was purchased for a present value equivalent of \$58 million, resulting in a \$27 million write-off included in the Provisions for losses on loans and other exposures in the Statement of Income.

### Discount on Loans Prepaid under the Seventeenth Replenishment of IDA's Resources (IDA17)

During the fiscal year ended June 30, 2017, as part of IDA17, one IDA graduate country prepaid loans with an outstanding carrying value of \$54 million. The total amount prepaid of \$51 million reflected the present value of the loans as on the date of prepayment, resulting in an aggregate discount of \$3 million included in the Provisions for losses on loans and other exposures in the Statement of Income.

During the fiscal year ended June 30, 2016, as part of IDA17, one IDA graduate country prepaid loans with an outstanding carrying value of \$54 million. The total amount prepaid of \$51 million reflected the present value of the loans as on the date of prepayment, resulting in an aggregate discount of \$3 million included in the Provisions for losses on loans and other exposures in the Statement of Income.

### Fair Value Disclosures

IDA's loans are carried out and reported at amortized cost. The table below presents the fair value of loans for disclosure purposes, along with their respective carrying amounts as of June 30, 2017 and June 30, 2016:

In millions of U.S dollars	June 30, 2017			June 30, 2016	
	Carrying Value		Fair Value	Carrying Value	
	Net Loans Outstanding	\$ 138,351	\$ 111,539	\$ 132,825	\$ 112,276

As of June 30, 2017, IDA's loans are classified as Level 3 within the fair value hierarchy.

### Valuation Methods and Assumptions

The fair value of loans is calculated using market-based methodologies which incorporate the respective borrowers' Credit Default Swap (CDS) spreads and, where applicable, proxy CDS spreads. Basis adjustments are applied to market recovery levels to reflect IDA's recovery experience.

## NOTE G—AFFILIATED ORGANIZATIONS

IDA transacts with affiliated organizations as a recipient of transfers and grants, administrative and derivative intermediation services as well as through cost sharing of IBRD's sponsored pension and other postretirement plans.

### Transfers and Grants

Cumulative transfers and grants made to IDA as of June 30, 2017 were \$18,945 million (\$18,346 million—June 30, 2016). Details by transferor are as follows:

*In millions of U.S dollars*

Transfers	Beginning of the fiscal year	Transfers during the fiscal year	End of the fiscal year
Total	\$ 18,346	\$ 599	\$ 18,945
Of which from:			
IBRD	14,629	497	15,126
IFC	3,491	101	3,592

### Receivables and Payables

As of June 30, 2017, and June 30, 2016, the total amounts receivable from or (payable to) affiliated organizations comprised:

*In millions of U.S dollars*

	Receivable From (Payable To) IBRD				
	Derivative transactions				
	Administrative Services <sup>a</sup>	Pension and Other Postretirement Benefits	Receivable	Payable	Total
June 30, 2017	\$ (368)	\$ 695	\$ 6,717	\$ (6,559)	\$ 485
June 30, 2016	\$ (397)	\$ 821	\$ 8,214	\$ (7,942)	\$ 696

*a. Includes \$103 million receivable from IBRD for IDA's share of investments associated with Post-Retirement Contribution Reserve Fund (PCRF), which is a fund established to stabilize contributions made to the pension plans (\$61 million - June 30, 2016).*

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

Receivables / Payables related to:	Reported as:
Receivable for pension and other postretirement benefits	Receivable from affiliated organization
Receivables (payables) for derivative transactions	Derivative assets/liabilities – Asset-liability management
Payable for administrative services <sup>a</sup>	Payable to affiliated organization

*a. Includes amounts receivable from IBRD for IDA's share of investments associated with PCRF. This receivable is included in Receivable from affiliated organization on the Balance Sheet.*

**Administrative Services:** The payable to IBRD represents IDA's share of joint administrative expenses, net of other revenue jointly earned. The allocation of expenses is based upon an agreed cost sharing formula, and amounts are settled quarterly. Beginning from the period ending September 30, 2016, the allocation of expenses jointly incurred by IBRD and IDA also includes Contributions to special programs.

During the fiscal year ended June 30, 2017, IDA's share of joint administrative expenses and contributions to special programs totaled \$1,746 million (\$1,425 million—fiscal year ended June 30, 2016 and \$1,542 million—fiscal year ended June 30, 2015).

**Other revenue:** Includes IDA's share of other revenue jointly earned with IBRD during the fiscal year ended June 30, 2017 totaling \$247 million (\$229 million—fiscal year ended June 30, 2016 and \$248 million—fiscal year ended June 30, 2015). The allocation of revenue is based upon an agreed revenue sharing formula, and amounts are settled quarterly.

For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015, the amount of fee revenue associated with services provided to other affiliated organizations is included in Other revenue on the Statement of Income, as follows:

<i>In millions of U.S dollars</i>	<i>Fiscal Year Ended June 30,</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>
Fees charged to IFC	\$ 61	\$ 59	\$ 64
Fees charged to MIGA	5	4	5

*Pension and Other Postretirement Benefits:* The receivable from IBRD represents IDA's net share of prepaid costs for pension and other postretirement benefit plans and Post-Employment Benefits Plan (PEBP) assets. These will be realized over the lives of the plan participants.

*Derivative transactions:* These relate to currency forward contracts entered into by IDA with IBRD acting as the intermediary with the market and primarily convert donors' expected contributions in national currencies under the Sixteenth and Seventeenth replenishments of IDA's resources into the five currencies of the SDR basket.

### **Investments**

During the fiscal year ended June 30, 2015, IDA purchased a debt security issued by IFC for a principal amount of \$1,179 million, amortizing over a period of 25 years. The investment carries a fixed interest rate of 1.84% and has a weighted average maturity of 5 years. As of June 30, 2017, the principal amount due on the debt security was \$969 million (\$1,082 million—fiscal year ended June 30, 2016), and it had a fair value of \$960 million (\$1,105 million—fiscal year ended June 30, 2016). The investment is reported under Investments in the Balance Sheet. During the fiscal year ended June 30, 2017, IDA recognized interest income of \$19 million (\$21 million—fiscal year ended June 30, 2016 and \$18 million—fiscal year ended June 30, 2015).

### **NOTE H—TRUST FUNDS ADMINISTRATION**

IDA, alone or jointly with one or more of its affiliated organizations, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses in accordance with administration agreements with donors. Specified uses include, for example, co-financing of IDA lending projects, debt reduction operations for IDA members, technical assistance for borrowers including feasibility studies and project preparation, global and regional programs, and research and training programs. These funds are held in trust by IDA and/or IBRD, and are held in a separate investment portfolio which is not commingled with IDA and/or IBRD funds.

Trust fund execution may be carried out in one of two ways: Recipient-executed or IDA-executed.

Recipient-executed trust funds involve activities carried out by a recipient third-party "executing agency". IDA enters into agreements with and disburses funds to such recipients, who then exercise spending authority to meet the objectives and comply with terms stipulated in the agreements.

IDA-executed trust funds involve execution of activities by IDA as described in relevant administration agreements with donors, which define the terms and conditions for use of the funds. Spending authority is exercised by IDA, under the terms of the administration agreements. The executing agency services provided by IDA vary and include for example, activity preparation, analytical and advisory activities and project-related activities, including procurement of goods and services. The following table summarizes the expenses pertaining to IDA-executed trust funds during the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015:

<i>In millions of U.S dollars</i>	<i>Fiscal Year Ended June 30,</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>
IDA-executed trust funds expenses	\$ 400	\$ 340	\$ 326

These amounts are included in Administrative expenses and the corresponding revenue is included in Other non interest revenue in the Statement of Income. Administrative expenses primarily relate to staff cost, travel and consultant fees.

The following table summarizes undisbursed contributions made by third party donors to IDA-executed trust funds, recognized on the Balance Sheet as of June 30, 2017 and June 30, 2016:

<i>In millions of U.S dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
IDA-executed trust funds	\$ 461	\$ 439

These amounts are included in Other Assets and the corresponding liabilities are included in Accounts payable and miscellaneous liabilities on the Balance Sheet.

### **Revenues**

During the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015, IDA's revenues for the administration of trust fund operations were as follows:

<i>In millions of U.S dollars</i>	<i>Fiscal Year Ended June 30,</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>
Revenues	\$ 42	\$ 42	\$ 45

These amounts are included in Other non interest revenue in the Statement of Income.

Amounts collected from donor contributions but not yet earned totaling \$52 million at June 30, 2017 (\$62 million—June 30, 2016) are included in Other Assets and in Accounts payable and miscellaneous liabilities, correspondingly, on the Balance Sheet.

### **Transfers Received**

Under the agreements governing the administration of certain trust funds, IDA may receive any surplus assets as transfers upon the termination of these trust funds. In addition, as loans are repaid to trust funds, in certain cases the repayments are transferred to IDA. During the fiscal year ended June 30, 2017 funds recorded as Other non interest revenue under these arrangements totaled less than \$1 million (\$9 million—fiscal year ended June 30, 2016 and \$7 million—fiscal year ended June 30, 2015).

### **NOTE I—DEVELOPMENT GRANTS**

A summary of changes to the amounts payable for development grants for the fiscal years ended June 30, 2017 and June 30, 2016, is presented below:

<i>In millions of U.S dollars</i>	<i>June 30, 2017</i>	<i>June 30, 2016</i>
Balance, beginning of the fiscal year	\$ 6,099	\$ 6,637
Commitments	2,627 <sup>a</sup>	1,232
Disbursements (including PPA grant activity)	(2,105)	(1,731)
Translation adjustment	(38)	(39)
Balance, end of the fiscal year	<u>\$ 6,583</u>	<u>\$ 6,099</u>

*a. Includes \$50 million contribution to Pandemic Emergency Financing Facility (PEF) which will be expensed when the amounts are disbursed from PEF Financial Intermediary Funds.*

For the fiscal years ended June 30, 2017 and June 30, 2016, the commitment charge rate on the undisbursed balances of IDA grants was set at nil percent.

## **NOTE J—ACCUMULATED OTHER COMPREHENSIVE INCOME**

Comprehensive income consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For IDA, comprehensive income (loss) is comprised of net income (loss) and currency translation adjustments on functional currencies. These items are presented in the Statement of Comprehensive Income.

The following table presents the changes in Accumulated Other Comprehensive Income balances for the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015:

*In millions of U.S dollars*

	<i>Fiscal Year Ended June 30,</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>
Balance, beginning of the fiscal year	\$ (1,219)	\$ (875)	\$ 12,997
Currency translation adjustments on functional currencies	(820)	(344)	(13,872)
Balance, end of the fiscal year	\$ (2,039)	\$ (1,219)	\$ (875)

## **NOTE K—PENSION AND OTHER POSTRETIREMENT BENEFITS**

The staff of IBRD perform functions for both IBRD and IDA, but all staff compensation is paid directly by IBRD. Accordingly, a portion of IBRD's staff and associated administrative costs is allocated to IDA based on an agreed cost sharing ratio computed every year using various indicators. The methodology for computing this share ratio is approved by the Executive Directors for both institutions.

IBRD, along with IFC and MIGA sponsor a Staff Retirement Plan and Trust (SRP), a Retired Staff Benefits Plan and Trust (RSBP) and a PEBP that cover substantially all of their staff members.

The SRP provides regular defined pension benefits and also includes a cash balance component. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides certain pension benefits administered outside the SRP.

June 30 is used as the measurement date for these pension and other postretirement benefit plans. All costs, assets and liabilities associated with these plans are allocated between IBRD, IFC, and MIGA based upon their employees' respective participation in the plans.

While IDA is not a participating entity to these benefit plans, IDA shares in the costs and reimburses IBRD for its proportionate share of any contributions made to these plans by IBRD, as part of IBRD's allocation of staff and associated administrative costs to IDA based on an agreed cost sharing ratio. During the fiscal year ended June 30, 2017, IDA's share of IBRD's costs relating to all the three plans totaled \$426 million (\$215 million—fiscal year ended June 30, 2016 and \$257 million—fiscal year ended June 30, 2015).

The cost of any potential future liability arising from these plans would be shared by IBRD and IDA using the applicable share ratio. As of June 30, 2017, the SRP and the RSBP were underfunded by \$985 million and \$346 million, respectively. The PEBP, after reflecting IBRD and IDA's share of assets which are included in IBRD's investment portfolio of \$873 million, was underfunded by \$719 million.

## NOTE L—OTHER FAIR VALUE DISCLOSURES

The table below presents IDA's estimates of fair value of its financial assets and liabilities along with their respective carrying amounts as of June 30, 2017 and June 30, 2016.

*In millions of U.S dollars*

	June 30, 2017		June 30, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Due from Banks	\$ 483	\$ 483	\$ 672	\$ 672
Investments (including securities purchased under resale agreements)	32,033	32,033	31,493	31,493
Net Loans Outstanding	138,351	111,539	132,825	112,276
<b>Derivative Assets</b>				
Investments	4,318	4,318	4,624	4,624
Asset-Liability Management	19,525	19,525	8,214	8,214
<b>Liabilities</b>				
Borrowings	3,660	4,175	2,906	3,585
Securities sold/ lent under repurchase agreements/ securities lending agreements and payable for cash collateral received	2,560	2,560	1,968	1,968
<b>Derivative Liabilities</b>				
Investments	4,523	4,523	4,794	4,794
Asset-Liability Management	19,550	19,550	7,943	7,943

### Valuation Methods and Assumptions

As of June 30, 2017 and June 30, 2016, IDA had no financial assets or liabilities measured at fair value on a non-recurring basis.

For additional fair value disclosures regarding Investments, Borrowings, Derivative assets and liabilities and Loans, refer to Note C—Investments, Note D—Borrowings, Note E—Derivative Instruments and Note F—Loans and other exposures, respectively.

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

### Unrealized Mark-to-Market Gains (Losses) on Trading and Non-Trading Portfolios, Net

The following table reflects the components of the unrealized mark-to-market gains or losses on IDA's trading and non-trading portfolios, net, for the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015.

*In millions of U.S. dollars*

	Fiscal Year Ended June 30, 2017		
	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts	Unrealized gains (losses)
Investments Trading—Note E	\$ 233	\$ (600)	\$ (367)
Non-trading portfolios, net			
Investment portfolio—Note C	-	(32)	(32)
Asset-liability management—Note E	-	54	54
Total	\$ -	\$ 22	\$ 22

*In millions of U.S. dollars*

	Fiscal Year Ended June 30, 2016		
	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts	Unrealized gains (losses)
Investments Trading—Note E	\$ 170	\$ 339	\$ 509
Non-trading portfolios, net			
Investment portfolio—Note C	-	35	35
Asset-liability management—Note E	-	(35)	(35)
Total	\$ -	\$ *	\$ *

*In millions of U.S. dollars*

	Fiscal Year Ended June 30, 2015		
	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts	Unrealized gains (losses)
Investments Trading—Note E	\$ 90	\$ 13	\$ 103
Non-trading portfolios, net			
Investment portfolio—Note C	-	(19)	(19)
Asset-liability management—Note E	-	(160)	(160)
Total	\$ -	\$ (179)	\$ (179)

\* Indicates amount less than \$ 0.5 million

## NOTE M—CONTINGENCIES

From time to time, IDA may be named as a defendant or co-defendant in legal actions on different grounds in various jurisdictions. IDA's Management does not believe the outcome of any existing legal action, in which IDA has been named as a defendant or co-defendant, as of and for the fiscal year ended June 30, 2017, will have a material adverse effect on IDA's financial position, results of operations or cash flows.