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International Development Association

Management's Discussion & Analysis
and
Financial Statements
June 30, 2013

INTERNATIONAL DEVELOPMENT ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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Throughout Management's Discussion and Analysis, terms in **boldface** type are defined in the Glossary of Terms.

The Management Discussion and Analysis contains forward looking statements which may be identified by such terms as "anticipates," "believes," "expects," "intends," or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond IDA's control. Consequently, actual results in the future could differ materially from those currently anticipated.

Box 1: Five-Year Summary of Selected Financial Data

As of and for the fiscal years ended June 30,

In millions of US dollars, except ratios and return data in percentages and months	*2013*	*2012*	*2011*	*2010*	*2009*
Development Operations (Discussed in Section 4)					
Commitments of development credits, grants and guarantees	$ 16,298	$ 14,753	$ 16,269	$ 14,550	$ 14,041[a]
Gross Disbursements of development credits and grants	11,228	11,061	10,282	11,460	9,219
Net Disbursements of development credits and grants	7,371	7,037[b]	7,781	9,111	7,010
Balance Sheet (Discussed in Section 1)					
Total Assets	$165,806	$160,028	$162,544	$138,070	$137,709
Net Investment portfolio	27,487	26,333	24,872	21,639	21,287
of which core liquidity	10,079	9,698	11,987	9,811	8,594
Development credits outstanding	125,135	123,576	125,287	113,474	112,894
Development grants payable	6,436	6,161	6,830	5,837	5,652
Subscriptions and Contributions paid-in	184,511	175,587	167,610	157,413	150,085
Income Statement (Discussed in Section 7)					
Income from development credits and guarantees	$ 1,021	$ 914	$ 897	$ 837	$ 801
Investment income, net	99	1,006	305	910	1,499
Transfers and grants	964	858	991	990	1,037
Development grants	(2,380)	(2,062)	(2,793)	(2,583)	(2,575)
Net (Loss) Income	(1,752)	(210)	(2,332)	(1,077)	1,850
Funding Position (Discussed in Section 6)					
Investment portfolio and unrestricted demand notes as a percentage of undisbursed commitments of credits and development grants payable	79%	81%	77%	78%	83%
Liquidity Position (Discussed in Section 6)					
Months of average monthly gross disbursements covered by core liquidity	11	11	14	10	11

a. FY 2009 commitments of credits and grants include Heavily Indebted Poor Countries (HIPC) grants totaling $46 million.
b. FY 2012 net disbursements include $940 million of prepayments. The associated funds were received in June 2011 but were effective for July 2011.

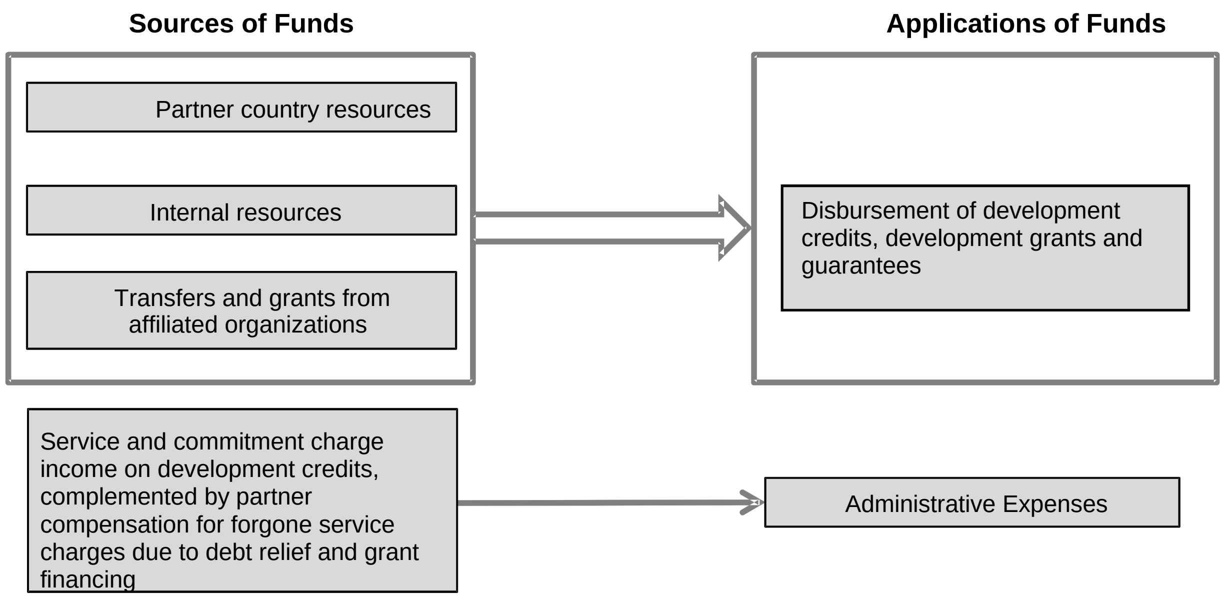
SECTION 1: INTRODUCTION AND OVERVIEW OF FINANCIAL RESULTS

Introduction

The International Development Association (IDA) is an international organization established in 1960 and is owned by its member countries. It is the largest multilateral channel for providing concessional financing to the world's poorest countries. With its overarching goals to reduce poverty and promote shared prosperity, IDA plays a pivotal role in the global aid architecture and agenda. IDA pursues these goals by providing concessional development credits, development grants and guarantees to its recipient member countries for programs and operations that help meet development needs. It also provides technical assistance, policy advice, and global knowledge services through economic sector work and country studies.

Sources and Applications of IDA's Funds

IDA's lending, grant financing and guarantee activities are funded by partner and internal resources, and transfers and grants from affiliated organizations. These key activities are presented and discussed below.



Sources of Funds

Partner Country Resources (Subscriptions and Contributions)*:* IDA finances its commitments for development credits and development grants primarily through contributions from partner countries. IDA's financial assistance is highly concessional and its resources must therefore be periodically replenished, normally every three years. The partner resources are in the form of subscriptions and contributions with assigned voting rights.

Internal Resources*:* These primarily comprise contractual principal repayments (including any accelerated repayments and voluntary prepayments) and income from the investment portfolio.

Transfers and Grants from affiliated organizations: These are transfers from the International Bank for Reconstruction and Development's (IBRD) net income and grants from the International Finance Corporation's (IFC) retained earnings.

Applications of Funds

Disbursement of development credits and grants: Through its development operations, IDA's development credits, development grants and guarantees benefit the poorest and least creditworthy countries.

Administrative Expenses

IDA's policy is to maintain its **service and commitment** charges at a level that will cover its **administrative expenses**. IDA is expected to cover cash based administrative expenses, which differ from the reported administrative expenses due to certain accounting adjustments. Commitment charges are set annually and take into account the extent to which service and interest charges, and partner compensation for development grant financing and forgone charges on development credits forgiven under MDRI and HIPC, cover administrative expenses.

Basis of Reporting

Audited Financial Statements: 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 audited financial statements provide a basis upon which users are able to analyze IDA's sources and uses of resources. Under the reported basis, IDA's Statement of Income does not reflect the true economic results of IDA due to a number of asymmetries, as discussed in detail in ***Section 7: Reported Basis Results.***

Statement of Activities

To address the asymmetries embedded in IDA's reported results; management prepares a Statement of Activities (**Table 1**). The Statement of Activities categorizes activities under two broad headings, namely: operating activities and risk management activities. In addition to re-categorizing items on the Statement of Income into the two broad headings, the following items have now been included in order to arrive at the Statement of Activities:

Included as operating activities:

- Cash inflows from members in the form of subscriptions and contributions, excluding those inflows relating to partner compensation for forgone charges.
- Cash inflows from principal repayments and prepayments of development credits.
- Cash outflows relating to development credit and development grant disbursements.
- Partner financing of forgone services charges on credits cancelled due to debt relief provided under the Heavily Indebted Poor Country Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI) and on IDA13 grants.

Included as risk management activities:

- The translation adjustment on future cash inflows, relating to partner contributions being hedged.

The table below presents the Statement of Activities, designed to show the sources and applications of IDA's funds in executing its operating and risk management activities.

Table 1 : Statement of Activities for the fiscal years ended June 30, 2013 and June 30, 2012

Expressed in millions of U.S. dollars

	FY 2013	FY 2012	Variance
Operating Activities			
Sources of Funds			
Partner Resources – Members' subscriptions and contributions	$ 8,306	$ 8,681	$ (375)
Transfers and Grants from Affiliated Organizations and Trust Funds	964	858	106
Internal Resources			
Principal repayments and prepayments	3,822	3,041	781
Proceeds from buy-down of development credits	23	42	(19)
Investment interest income	466	472	(6)
	4,311	3,555	756
Total Sources of Funds	13,581	13,094	487
Application of Funds			
Disbursements			
Development credit disbursements	(9,161)	(8,650)	(511)
Development grant disbursements (including PPA grant activity)	(2,054)	(2,398)	344
Total Application of Funds	(11,215)	(11,048)	(167)
Administrative Activities			
Administrative expenses, net [a]	(1,253)	(1,147)	(106)
Service and interest charges	1,021	914	107
Partner compensation for forgone charges	279	277	2
	47	44	3
Results from Operating Activities	2,413	2,090	323
Risk Management Activities			
Unrealized mark-to-market (losses) gains [b]			
Investment portfolio	(367)	534	(901)
Currency forwards	(102)	39	(141)
	(469)	573	(1,042)
Translation Adjustment			
Currency Forwards	1	424	(423)
Non-functional currency partner inflows	(4)	(449)	445
	(3)	(25)	22
Results from Risk Management Activities	(472)	548	(1,020)
Results from Operating and Risk Management Activities	$ 1,941	$ 2,638	$ (697)

a. Excludes non-cash items and other accounting adjustments which are included in the reported basis of administrative expense, net, as IDA is not expected to cover these items. The reported basis administrative expenses, net for FY 2013 and FY2012 were $1,370 million and $1,156 million respectively.

b. Does not include the economic offset to the unrealized mark-to-market losses/gains.

Reconciliation to Reported Basis Net Loss

Expressed in millions of U.S. dollars

	FY 2013	FY 2012
Results from Operating and Risk Management Activities	$ 1,941	$ 2,638
Members' subscriptions and contributions	(8,306)	(8,681)
Partner compensation for forgone charges	(279)	(277)
Development credit disbursements	9,161	8,650
Development grant disbursements	2,054	2,398
Development grant expense	(2,380)	(2,062)
Principal repayments and prepayments	(3,822)	(3,041)
Difference between reported and non-cash administrative expenses, net	(117)	(9)
Discount on prepaid development credits	(12)	(113)
Provision for debt relief and losses on development credits and other exposures, net	53	(66)
Proceeds from buy-down of development credits	(23)	(42)
Write-off on buy-down of development credits	(26)	(45)
PPA grants and other	–	(9)
Non-functional currency partner inflows (losses)/gains, net translation adjustment	4	449
Reported Basis Net Loss	$ (1,752)	$ (210)

Results from Operating and Risk Management Activities

IDA's operating and risk management activities produced an overall positive result of $1,941 million for the year ended June 30, 2013 (FY 2013). This primarily reflects $8,306 million of cash receipts relating to member subscriptions and contributions, $4,311 million of internal resources and $964 million of transfers and grants from affiliated organizations and trust funds, net, partially offset by $11,215 million of outflows for disbursements.

Following the positive results from operating and risk management activities, IDA's core liquidity position as of June 30, 2013 was sufficient to cover approximately 11 months of average monthly gross disbursements, and the liquidity position remains within the historical range of 10 to 14 months.

IDA's funding position stood at 79% at June 30, 2013, as compared to 81% at June 30, 2012. The remaining funding gap will be primarily covered by future receipts of cash and demand notes already committed by partners, as well as through repayments on existing credits, not yet committed. At all times, IDA enters into new commitments based on the commitment authority available. See **Section VIII** for further details on IDA's commitment authority.

Results from Operating Activities

IDA experienced net positive flows of $2,413 million from its operating activities during FY 2013, compared with positive flows of $2,090 million in FY 2012. The key drivers of the $323 million change between FY 2013 and FY 2012 are (i) members' subscriptions and contributions, (ii) principal repayments and prepayments (iii) development credit and grant disbursements and (iv) administrative activities. The impact of these activities on IDA's Results from Operating Activities between FY 2013 and FY 2012 are discussed below.

Members' Subscriptions and Contributions

The subscriptions and contributions of $8,306 million represent the cash contributions received from members and the encashment of demand notes, excluding $279 million received relating to the financing by members of forgone charges under the MDRI and development grant financing, which is shown as part of administrative activities. The decrease of $375 million as compared to FY 2012 is primarily due to a decrease in note encashments. The timing of encashments is driven by the schedule agreed upon for each replenishment, however members are able to accelerate their encashments and receive discounts for early payment (see ***Section 2: Financial Resources***).

Principal Repayments and Prepayments

Principal repayments in FY 2013 were $3,822 million, an increase of $781 million from FY 2012. This amount includes the voluntary prepayment of $298 million for a development credit under IDA16. Voluntary prepayments by IDA **graduate members** have increased the resources that IDA can redistribute to countries most in need of concessional funding.

Development Credit Disbursements

Gross disbursements of development credits in FY 2013 were $9,161 million, an increase of $511 million (6%) from FY 2012. In terms of regional focus, Africa accounted for $449 million of the increase. Africa and the South Asia Regions together accounted for 75% of the total FY 2013 gross disbursements.

Of the $9,161 million in development credit disbursements, 32% relate to commitments made under IDA16, 43% under IDA15, 22% under IDA14 and the remaining 3% relate to commitments made under earlier replenishments.

Development Grant Disbursements

The majority of the $344 million decrease (14%) in development grants disbursed in FY 2013 as compared to FY 2012 is attributable to the Africa region and is primarily due to the timing of the disbursements, rather than a decline in grant activity. Grant commitments increased by $318 million in FY 2013 as compared to FY 2012.

Administrative Activities

IDA is not expected to cover any non-cash administrative expenses that may be included in the administrative expenses as reported in the Statement of Income.

The increase in non-cash administrative expenses, net, of $106 million was primarily due to higher expenses directly attributable to IDA consistent with the increase in IDA's lending operations.

The increase in service and interest charges of $107 million was primarily due to the restoration of all development credits to Myanmar to accrual status in January 2013, when Myanmar cleared all of its overdue principal and charges due to IDA. The event resulted in an additional $90 million of service charge income being recognized.

Risk Management Activities

IDA's key financial risk management activities are primarily represented in its investment strategy and the hedging of future partner contributions.

Investment Strategy

The primary objective in the management of IDA's investment portfolio is to provide a ready source of liquidity when needed by IDA to meet projected net cash requirements, namely: future net disbursements less receipts from partner note encashments and transfers and grants from affiliated organizations. Accordingly, IDA's assets are invested so that their duration closely matches the duration of these projected net cash requirements. Given IDA's lengthy disbursement profile, the duration for IDA's investment portfolio is therefore 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. The economic offset to the unrealized mark-to-market gains/losses on the investment portfolio would be the change in the present value of the projected net cash outflows.

IDA uses currency forward contracts to economically hedge the cash flows from the encashment of demand notes from partners, which are denominated in non-functional currencies, to **SDR** denominated currencies. There are certain non-functional currencies, which, due to the relatively small size of the contribution or the unpredictability of the expected payment date, are not being hedged. The economic offset to the unrealized mark-to-market gains/losses on the currency forwards would be the present value of the projected cash inflows from the encashment of notes from partners.

The unrealized mark-to-market gains/losses on the investment portfolio and the currency forwards are included in IDA's Statement of Income, and shown under Investments – Trading, net and Fair value adjustment on non-trading portfolios, net respectively.

Mark-to-market gains/losses

IDA's investment portfolio had a duration of approximately three years as of June 30, 2013, and has two components: core liquidity and partner asset and liability management, (see ***Section 5: Investment Portfolio Management*** for details). During FY 2013, the investment portfolio experienced unrealized mark-to-market losses of $367 million as a result of the steepening of the yield curves for all major currencies in FY 2013. This compares with $534 million of unrealized mark-to-market gains experienced in FY 2012 due to the flattening of the yield curves. Similarly, the currency forward contracts incurred unrealized mark-to-market losses of $102 million during FY 2013 primarily due to the steepening of the euro yield curve, as compared to FY 2012 when a flattening of the euro yield curve resulted in unrealized mark-to-market gains of $39 million.

Translation adjustments

The payable leg of the currency forward contracts economically **hedging** partner pledges are denominated in non-functional currencies. Appreciation (depreciation) of these currencies against the U.S. dollar results in exchange rate losses (gains). The translation adjustment gain on non-functional currencies of $1 million in FY 2013 is a net amount resulting from the offsetting movements of the underlying non-functional currencies against the U.S. dollar. In FY2012, the significant depreciation of the non-functional currencies against the U.S. dollar resulted in much higher translation adjustment gains of $424 million, consistent with the depreciation of the majority of the non-functional currencies against the U.S. dollar. The translation adjustment on the economic offset to the currency forward contracts; the future inflows from partners, was a loss of $4 million in FY 2013 and a loss of $449 million in FY 2012. The differences between the reported translation adjustments and the related translation adjustments on the economic offsets primarily represent the translation adjustments on the partner contributions in non-functional currencies that are not hedged due to the reasons outlined above.

Balance Sheet Analysis

The principal components of IDA's balance sheet are development credits outstanding, investment assets net of liabilities, and subscriptions and contributions paid-in. Movements in these principal components between FY 2013 and FY 2012 are discussed further below.

Table 2: Condensed Balance Sheet

In millions of U.S. dollars

As of June 30,	2013	2012	Variance
Assets			
Investment assets including derivatives	$ 37,208	$ 34,079	$ 3,129
Derivatives relating to asset-liability management	5,307	7,327	(2,020)
Receivables and other assets, including non-investment cash	2,161	1,769	392
Development credits outstanding	125,135	123,576	1,559
Accumulated provision for debt relief and losses on development credits	(4,005)	(6,723)	2,718
Total assets	$165,806	$160,028	5,778
Liabilities and equity			
Liabilities and derivatives relating to investments	$9,721	$ 7,746	$ 1,975
Derivatives relating to asset-liability management	5,242	7,714	(2,472)
Payables and other liabilities, including maintenance of value	7,147	6,788	359
Subscriptions and contributions paid-in	184,511	175,587	8,924
Demand obligations	(9,015)	(8,678)	(337)
Accumulated deficit	(41,058)	(39,306)	(1,752)
Accumulated other comprehensive income	9,258	10,177	(919)
Total liabilities and equity	$165,806	$160,028	$ 5,778

Development Credits Outstanding and Accumulated Provision for Debt Relief and Losses on Development Credits

Development credits outstanding increased by $1,559 million in FY 2013. This was primarily due to positive net disbursements of $5,316 million, partially offset by the $2,647 million write-off of development credits relating to Côte d'Ivoire, Guinea and Comoros under the MDRI and negative currency translation adjustments of $1,067 million due to the 1% depreciation of the SDR against the U.S. dollar.

The $2,718 million decrease in the accumulated provision for debt relief and losses on development credits, was also primarily due to the $2,647 million write-off of the development credits discussed above.

Investment Assets, net of Related Liabilities

The net investment portfolio increased from $26,333 million as of June 30, 2012 to $27,487 million as of June 30, 2013, reflecting the net results of IDA's cash related activities as follows:

Table 3: Changes in the net asset value of the investment portfolio

In millions of U.S. dollars

As of June 30,	2013	2012
Beginning of fiscal year	$26,333	$24,872
Net cash used in development activities	(5,293)	(5,567)
Net cash from partner contributions, including amounts for forgone charges	8,585	8,958
Net cash used in operating activities, excluding investment trading activities	(1,319)	(796)
Effects of exchange rates	(389)	(1,128)
Others	(430)	(6)
End of fiscal year	$27,487	$26,333

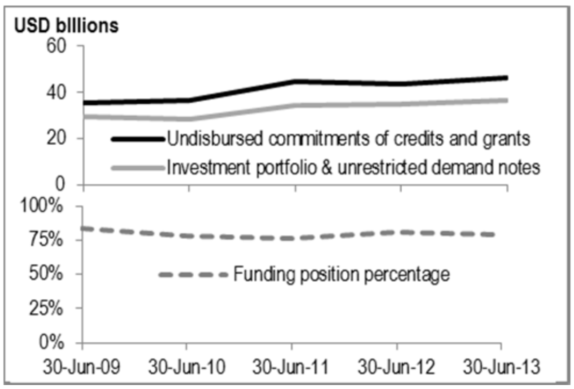
Subscriptions and Contributions

The $8,924 million increase in subscriptions and contributions paid in is primarily attributable to the receipt from members of $7,445 million of demand notes and $ 1,928 million of cash contributions, partially offset by translation adjustment losses of $449 million.

Funding and Liquidity Position

Management monitors IDA's funding and liquidity positions as key indicators to assess IDA's ability to conduct its operations. Since IDA does not borrow from the capital markets, even though it is allowed to do so under its Articles of Agreement, it is important that it has sufficient funding resources and liquidity to meet its contractual obligations to disburse approved development credits and grants in a timely manner. See ***Section 6: Financial Risk Management*** for more details***.***

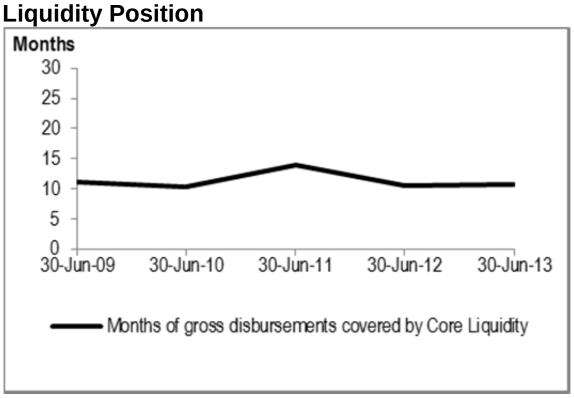
Funding Position



As of June 30, 2013, the investment portfolio and unrestricted demand notes covered 79% of all undisbursed commitments of development credits and grants, compared with 81% as at June 30, 2012.

As shown, IDA's funding position has been relatively stable for the last 5 years, ranging from 77% to 83%.

Liquidity Position



As of June 30, 2013, core liquidity amounted to $10,079 million, comprising short-term and medium-term investments, and was sufficient to cover nearly 11 months of average monthly gross disbursements, based on FY 2013 volume.

As shown, IDA's core liquidity position has been relatively stable for the last 5 years, ranging from 10 to 14 months of average monthly gross disbursements since FY 2009.

SECTION 2: FINANCIAL RESOURCES

Commitment Authority

The resources available to IDA for funding its lending activities constitute its **commitment authority**. IDA finances its development credit, development grant and guarantee commitments primarily from contributions from partner countries. Additional funds are obtained from IDA's internal resources, including reflows (repayments of principal on outstanding development credits) and investment income, as well as transfers by IBRD out of its net income, and grants designated out of IFC's retained earnings. Since IDA's lending is highly concessional, its resources are periodically replenished. Since its inception, IDA's resources have been replenished sixteen times, including the Sixteenth Replenishment of IDA's Resources (IDA16), complemented by an additional **replenishment** agreed to in 2006 for financing the MDRI.

Starting from FY1989, the Executive Directors authorized IDA to make advance commitments against future reflows. The Advance Commitment Scheme[1] was established in recognition of the fact that credits disburse over several years and therefore cash in hand is not needed at the time of commitment.

Partner Country Resources

Partner country resources constitute the principal component of IDA's financial resources, 62% for IDA16, represented primarily by member contributions.

Replenishment Process

Partners normally replenish IDA's resources every three years. The regular **replenishment** process has several steps:

(a) **Replenishment Discussions**. These include meetings between IDA's management and partner country representatives, called IDA **Deputies**. Issues discussed include the size of the **replenishment**, relative burden-sharing among partners, and the policy framework for the **replenishment**. Contributions are negotiated in **SDR** terms, and translated into national currencies using an average exchange rate, agreed upon early in the **replenishment** process.

(b) **Replenishment Effectiveness**. The effective date of a **replenishment** occurs when IDA receives **Instruments of Commitment** (**IoCs**) from partners whose aggregate contributions account for not less than the amount defined in the Replenishment Resolution. IDA16 became effective on November 30, 2011 when IDA received **IoCs** for subscriptions and contributions from partners of **SDR** 10.4 billion, exceeding the threshold level for effectiveness.

(c) **Advance Contribution Scheme**. To avoid disruption to IDA programs at the start of a new **replenishment**, partners have the option of participating in an Advance Contribution Scheme. This scheme allows IDA to continue making new lending commitments without waiting for the new **replenishment** to become effective. The Advance Contribution Scheme lapses once the new **replenishment** becomes effective.

(d) **Commitment Authority**. Partner contributions become available for commitment in three equal tranches. Part of the first tranche becomes available for commitment under the **Advance Contribution Scheme** and the remainder of the first tranche becomes available upon effectiveness of the **replenishment** provided that partners have submitted unqualified **IoCs**. The second and third tranches are subsequently released for commitment on the dates specified in the Replenishment Resolution.

(e) **Payment of Contributions**. Typically, partner contributions are made in cash or non-interest bearing demand notes, on specific dates in three equal annual installments.

(f) **Encashment.** Partner contributions which are paid by non-interest bearing demand notes are encashed, on an approximately pro-rata basis among partners, in accordance with the agreed encashment schedule. IDA16 has a nine-year encashment schedule. In certain replenishments, partners have had the option of paying all of their subscription and contribution amounts in cash before they become due, thereby receiving discounts or acceleration credits both of which receive voting rights. Partners receive discounts when they pay amounts less than their contribution amount before the due date, and partners receive acceleration

1 *Credits, which disburse over several years, do not have to be fully funded at the time of their approval by the Executive Directors. This allows partner contributions to be encashed over several years and internal resources to be committed in advance of their anticipated receipt.*

credits when they pay their full contribution amount before the due date. IDA retains the related income 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 subsequently deducted in arriving at the subscriptions and contributions paid-in.

Other Resources

Other resources comprise: Internal resources, IBRD transfers and IFC grants

Internal Resources

IDA's internal resources include reflows (principal repayments and prepayments), investment income from a portion of the investment portfolio, and residual resources from past **replenishment**s that become available to IDA during the current **replenishment** period. Repayments and prepayments of outstanding credits constitute the largest component of internal resources.

IBRD Transfers

Since 1964, IDA has received regular financial support towards its replenishment resources from IBRD in the form of direct transfers out of IBRD's net income. The IDA16 financing framework includes an indicative amount of IBRD transfers of $1,824 million, inclusive of anticipated interest income. Depending first on IBRD fulfilling its reserve retention needs, it is expected that this amount will be allocated in three installments during fiscal years 2012, 2013 and 2014. Each installment is required to be approved annually by IBRD's Board of Governors. If approved, each installment is expected to be drawn down by IDA immediately. In FY 2013, IDA received $608 million from IBRD, the second of the three installments, resulting in cumulative transfers received from IBRD of $12,723 million as of June 30, 2013.

IFC Grants

Since 2006, IDA has received financial support towards its replenishment resources from IFC in the form of grants out of its retained earnings. The IDA16 financing framework includes an indicative amount of $1,000 million, as designations out of IFC's retained earnings for grants to IDA. These grants are to be used by IDA for sectors and themes that contribute significantly to private sector growth and economic development in countries that are members of both IFC and IDA. These grants will be spread across three installments for fiscal years 2012, 2013 and 2014. The installments are subject to availability of funds and annual approval, and are recognized upon IDA and IFC signing the respective grant agreements. Of the IDA16 indicative amount, $340 million was received in FY 2013, resulting in cumulative transfers of $2,570 million as of June 30, 2013.

IDA16 Commitment Authority

As of June 30, 2013, IDA is two thirds into the IDA16 replenishment period. Cumulative commitments made under IDA16 as of June 30, 2013 amounted to approximately 59% of the total IDA16 lending envelope of SDR 33.9 billion (U.S. dollar equivalent 51.0 billion).

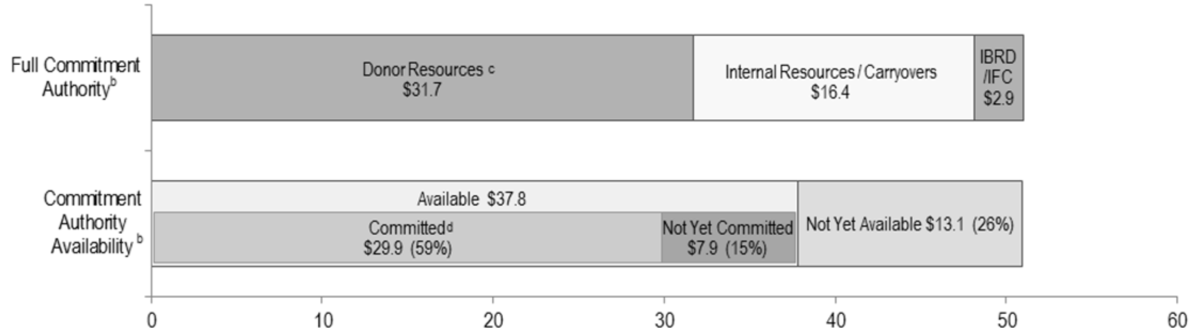
Chart 1 provides a breakdown of the principal sources making up the total lending envelope of SDR 33.9 billion under the revised IDA16 Commitment Authority Framework and the extent to which these sources have been used for commitment of development credits, grants and guarantees through June 30, 2013.

Of the $16 billion committed during FY 2013, approximately $14 billion relates to development credits and $2 billion relates to development grants. The impact of the use of the IDA16 Commitment Authority on IDA's June 30, 2013 Balance Sheet is as follows:

- The $14 billion committed for development credits has increased total development credits and, correspondingly, the undisbursed balance, to the extent that no related disbursements have been made. Disbursements made relating to IDA16 credit commitments result in an increase in Development Credits outstanding. In FY 2013, $3 billion of the total disbursements related to development credits committed under IDA16 and the remainder related to earlier replenishments.
- The $2 billion committed for development grants has increased the payable for development grants, to the extent that no related disbursements have been made. Payments made relating to IDA16 development grant commitments result in a decrease in the payable for development grants. In FY 2013, $0.7 billion of development grant disbursements related to development grants committed under IDA16 and the remainder related to prior replenishments.

Chart 1 : IDA16 Commitment Authority Status

In billions of U.S. dollars equivalent[a]



a. Commitment Authority is measured and monitored in SDR. The chart represents the U.S. dollar equivalent amounts based on USD/SDR exchange rate at June 30, 2013 for presentational purposes only. Actual commitments are recorded based on historical USD rates.
b. Amounts may not add due to rounding.
c. Includes U.S.dollar equivalent 5.3 billion of partner commitments for compensation of debt relief provided under MDRI.
d. IDA16 guarantee commitments totaled $508 million, of which only 25% ($127 million) is used for the purposes of the Commitment Authority.

SECTION 3: ALLOCATION OF RESOURCES

Performance Based Allocation (PBA) System

A key concern for IDA is inequitable allocation of resources to recipients. This risk of inequitable allocation is managed using the PBA system. Under the PBA system, one country's gain in terms of more allocations would result in fewer resources available for others for a given level of the resource envelope. The system has evolved over time with modifications and enhancements being incorporated at successive **replenishments,** including IDA16. The base allocation per country increased to **SDR** 9 million per replenishment (or **SDR** 3 million annually), in order to better meet the fixed costs of country engagement and maintain an effective country program.

Under the PBA system, individual country allocations are derived substantially from the annual Country Performance Ratings (CPR), population and, to a lesser extent, Gross National Income per capita. Before arriving at a country's final allocation, adjustments are made for any grant allocations to that country. In addition, for those countries eligible for debt cancellation under the MDRI, the debt service due in the relevant fiscal year is netted against that year's allocation.

Under the IDA16 period, the PBA system has continued to balance performance with needs by allocating, consistent with performance, the majority of resources to Sub-Saharan Africa.

SECTION 4: DEVELOPMENT ACTIVITIES, PRODUCTS AND PROGRAMS

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

Eligibility Criteria

Two basic criteria govern a country's eligibility for IDA resources, namely:

(i) relative poverty defined as Gross National Income per capita below an established threshold (updated annually), and

(ii) lack of creditworthiness to borrow from both commercial sources and IBRD, and therefore a need for concessional resources.

As of July 1, 2013, 82 countries are eligible to borrow from IDA. Of these, 64 are not considered sufficiently creditworthy to borrow from IBRD and are referred to as "IDA only" countries. The remaining 18 countries are deemed to have limited IBRD creditworthiness. These latter countries may receive both IDA and IBRD financing and are referred to as "blend" countries. With a few exceptions, IDA's eligibility cutoff for FY2014 has been set at a Gross National Income per capita in 2012 of $1,205 (the "operational cutoff"). The operational cutoff for FY 2013 was a Gross National Income per capita in 2011 of $1,195.

Financing Principles

IDA's operations are required to conform with the general principles derived from its Articles of Agreement. These principles are described in **Box 2**. 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.

Box 2: Financing Principles

(i) IDA may provide financing for its development operations in the form of development credits, development 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 development credits 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, on numerous occasions, IDA has shortened the preparation and approval cycle in response to emergency situations, such as natural disasters and financial crises. After appraisal of a project by staff, with certain exceptions, IDA's Executive Directors must approve each development credit, development grant and guarantee. Disbursements are subject to the fulfillment of conditions set out in the credit 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, assesses the extent to which operations have met their major objectives, and these evaluations are reported directly to the Executive Directors.

Financing Categories

IDA's financing of its development operations in the form of development credits and grants falls into one of three categories – investment financing, development policy financing, and program-for-results.

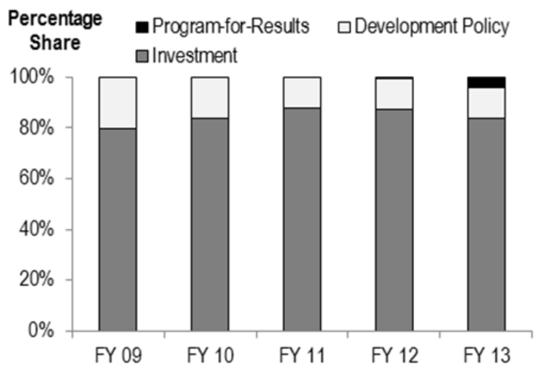
(i) Investment financing is generally used to procure goods, works and services in support of economic and social development projects in a broad range of sectors.

(ii) Development policy financing provides quick disbursing credits or grants to members with external financing needs to support structural reforms in a sector or the economy as a whole.

(iii) Program-for-Results is an innovative financing instrument that started in FY 2012 for IDA's client countries which links the disbursement of funds directly to the delivery of defined results. The objective is to improve the design and implementation of development programs and achieve lasting results by strengthening institutions and building capacity. It intends to strengthen partnerships with government, development partners and other stakeholders by providing a platform to collaborate in larger country programs.

These three complementary categories support the policy and institutional changes needed to create an environment conducive to sustained and equitable growth. The share of investment financing has increased from 80 percent in FY 2009 to 84 percent in FY 2013. Chart 2 shows the percentage of IDA credits approved for investment lending, development policy operations and Program-for-Results over the past five years.

Chart 2: Share of Financing Categories



Development Credits

Since August 1, 1980, all development credits approved are denominated in **SDR**s. Prior to that, development credits were denominated in U.S. dollars. Principal payments and service and commitment charges are due in the currency specified in the Development Credit Agreement in an amount equivalent to the **SDR**s required under the agreement.

In June 2012, Executive Directors approved the introduction of a two-year pilot program of up to SDR 3 billion for single-currency lending to IDA countries, aimed at reducing their currency exposures, especially for countries with national currencies pegged to one of the four **SDR** component currencies. The program came into effect in December 2012 and allows IDA to provide development credits in the underlying currencies of the **SDR** basket (US dollars, Euro, Pounds sterling or Japanese yen). The repayment terms are the same as those available for **SDR**-denominated development credits, see **Table 4**. IDA will manage the currency risk associated with the single currency development credits under the existing currency risk management framework (see ***Section 6: Financial Risk Management***). There were no development credits provided under this program in FY 2013.

Charges on development credits

IDA's policy is to maintain its charges (service and commitment charges) at a level that will cover its administrative expenses. In addition, there is an interest charge for the more economically advanced recipient countries.

Service Charge. A service charge is levied on the principal amount disbursed and outstanding on all development credits, regardless of repayment terms, at an SDR equivalent rate of 0.75% per annum.

Commitment Charge. A commitment charge, which is payable on the undisbursed amount of the development credit, is set by the Executive Directors at the beginning of each fiscal year. From FY 2009 to FY 2014, IDA's Executive Directors have maintained the commitment charge on undisbursed development credits at nil. As noted previously, commitment charges are set at a level to ensure that service charges (adjusted to include income forgone from development credits forgiven under HIPC and MDRI, and from providing development grant financing) cover administrative expenses.

Interest. Interest is charged on all new credits subject to blend terms approved under IDA16 and on all hard-term credits. The interest charged on hard-term credits is more concessional than the fixed-rate equivalent of IBRD's lending rate after taking into account the grace period and repayment terms. The rate is determined annually prior to the start of each fiscal year and is applicable to all such credits approved during a fiscal year. **Table 4** shows the applicable rates effective July 1, 2013.

Repayment Terms

Development credits approved through June 30, 1987 have a final maturity of 50 years, including a grace period of 10 years. More recently, differentiation in IDA's lending terms has been introduced to recognize the variation in economic development of broad categories of IDA recipients. **Table 4** provides a summary of the repayment terms of development credits based on eligibility, effective July 1, 2013.

Table 4: Summary of Repayment Terms for Development Credits, effective July 1, 2013

Terms	Eligibility Criteria	Repayment Terms	Service Charge	Interest
IDA Only	Not considered sufficiently creditworthy to borrow from IBRD (or a small island nation). For FY2014, "IDA-only" recipients with a 2012 Gross National Income per capita of $1,205 or less (the 'operational' cutoff).	40 years including a grace period of 10 years.	75 basis points	nil
Blend	Blend terms apply to both **blend borrowers** and IDA countries with Gross National Income per capita above the operational cut-off for more than two consecutive years, known previously as "gap" or "hardened term" countries.	25 years including a grace period of 5 years.[a]	75 basis points	1.25%
Hard-terms	A **blend borrower** will be eligible for an additional window of IDA lending at hard-terms (excluding small island nations receiving credits on IDA-only terms).	25 years including a grace period of 5 years.[b]	75 basis points	1.40%

a. For credits approved during IDA15, 35-year maturity for blend borrowers, and 20 years maturity for hardened term countries, including a grace period of 10 years.
b. For credits approved during IDA15, 35 year maturity including a grace period of 10 years.

Commitments of Development Credits

Commitments of development credits in FY 2013 were $13,772 million, an increase of $1,692 million (14%) over FY 2012. In terms of regional focus, AFR accounted for $1,370 million of the increase. AFR and SAR together accounted for 76% of the FY 2013 commitments (see **Chart 3**).

Gross Disbursements of Development Credits

Gross disbursements of development credits in FY 2013 reached $9,161 million, an increase of $511 million (6%) from FY 2012. In terms of regional focus, AFR accounted for $449 million of the increase. AFR and SAR accounted for 75% of the total FY 2013 gross disbursements (see **Chart 4**).

Chart 3: Commitments of Development Credits by Region

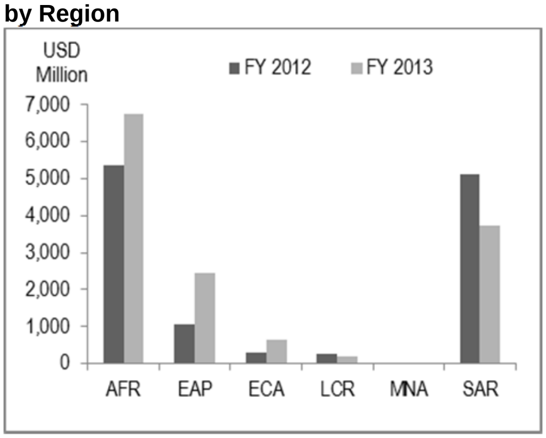
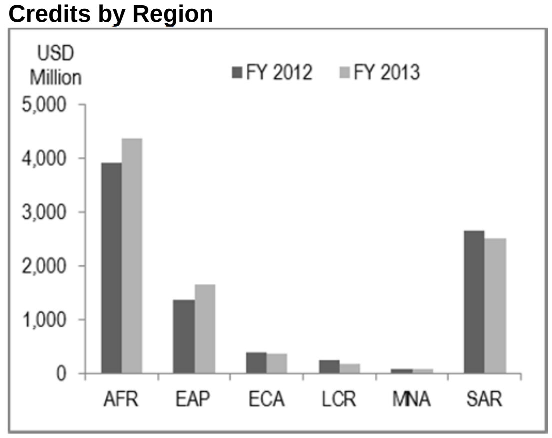


Chart 4: Gross Disbursements of Development Credits by Region



Regions:
AFR Africa | EAP East Asia and Pacific | ECA Europe and Central Asia
LCR Latin America and the Caribbean | MNA Middle East and North Africa | SAR South Asia

Development Credits Outstanding

Development credits outstanding as of June 30, 2013 were $125,135 million. **Chart 5** shows the breakdown by term. Of the $1,559 million increase in development credits outstanding as compared to FY 2012, $1,161 million (74%) are on IDA only terms. See **Table 4** for details of IDA's terms.

Chart 5: Development Credits Outstanding by Terms

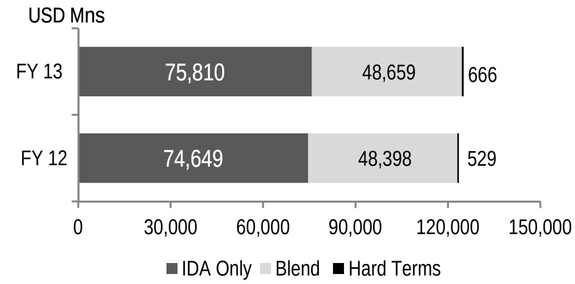


Table 5 provides details of the top five borrowers with the largest development credits outstanding. As at June 30, 2013, the top five borrowers represented 51% of total development credits outstanding.

Table 5: Top Five Borrowers with the Largest Development Credits Outstanding Balance

Country	India	Bangladesh	Pakistan	Vietnam	China [a]
Development Credits Outstanding (USD Mn)	26,097	11,136	11,073	9,393	6,267
% of Total Development Credits Outstanding	21%	9%	9%	7%	5%
Weighted Average Maturity (Years)	11.5	14.4	14.5	16.8	4.2
Credits outstanding by terms (USD Mn):					
IDA only	7,260	11,136	1,351	7,922	999
Blend	18,733	—	9,451	1,264	5,268
Hard terms	104	—	271	207	—
Undisbursed balance (USD Mn)	6,205	3,510	2,184	5,050	—

a. China graduated from IDA in the fiscal year ended 1999

Development Grants

Commitment Authority for Funding of Grants

Only funds that are provided with specific grant authorization may be used by IDA to finance development grants.[2] Beginning with the transfer out of IBRD's FY1997 net income, funds received from IBRD as net income transfers have included explicit authority that the funding could be used for development grants. Recent **replenishment** resolutions have also authorized the financing of development grants from partner resources. In addition, all grants received from IFC's retained earnings have also included the explicit authorization that IDA could use such funding for development grants.

Charges on Development Grants

Commitment charges on the undisbursed balances of development grants are set annually by the Executive Directors of IDA. From FY2003 through FY 2014, IDA's commitment charge on the undisbursed balances of development grants has been set at nil.

Allocation of Development Grants

Development grants under IDA16 are available solely for IDA-only countries. The amount available for each country is a function of the country's performance-based IDA allocation (see ***Section 3: Allocation of Resources***), and its eligibility for development grants is based on an assessment of the risk of debt distress. Countries with low risk of debt distress receive 100 percent of their IDA allocation as development credits. Countries with a medium risk of debt distress receive 50 percent of their IDA allocation as development credits, and the remaining as development grants. Countries with a high risk of debt distress will receive 100 percent of their allocation in the

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2 *IDA's Articles of Agreement (Article V, Section 2(a)) state, "financing by the Association shall take the form of loans." IDA may provide financing in different form, such as grants and guarantees, only if the funds for such financing are accompanied by express advance authorization for such other form of financing. The restriction also applies to "funds derived therefrom as principal, interest or other charges," i.e., reflows.*

form of development grants; however the initial allocation of resources is reduced by 20%. The 20% is then returned to the performance based allocation calculation and is used in part to fund hard term credits.

Commitments of Development Grants

Commitments of development grants in FY 2013 were $2,466 million, an increase of $241 million (11%) over FY 2012. In terms of regional focus, SAR accounted for $171 million of the increase. AFR and SAR together accounted for 71% of the total FY 2013 commitments (see **Chart 6**).

Gross Disbursements

Gross disbursements of development grants in FY 2013 were $2,067 million, a decrease of $344 million (14%) from FY 2012. In terms of regional focus, AFR accounted for $396 million of the decrease. AFR and SAR together accounted for 80% of the total FY 2013 gross disbursements (see **Chart 7**).

Chart 6: Commitments of Development Grants by Region

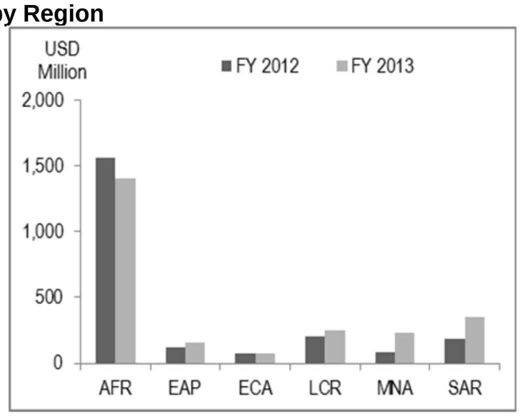
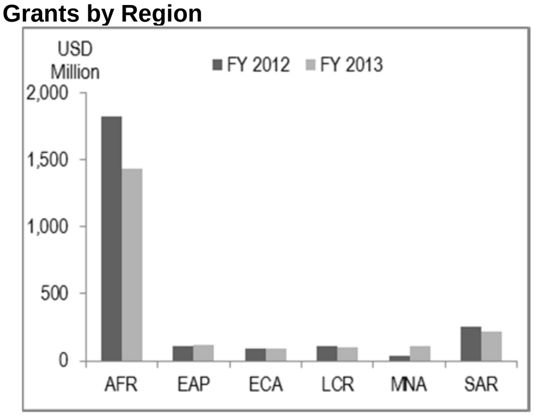


Chart 7: Gross Disbursements of Development Grants by Region



Regions:		
AFR Africa	EAP East Asia and Pacific	ECA Europe and Central Asia
LCR Latin America and the Caribbean	MNA Middle East and North Africa	SAR South Asia

Other Development Activities and Programs

Guarantees

When IDA issues a guarantee, it obtains an indemnity agreement from the host government. If the guarantee is called, IDA pays the project lenders. Without limiting its rights under the indemnity agreement (counter-guarantee), IDA takes into account all relevant circumstances in deciding whether or not to exercise its right to demand compensation from the host government under the counter-guarantee, and what form the compensation will take. IDA currently only offers partial risk guarantees, which cover private lenders against the risk of a public entity or a government failing to perform its obligations with respect to a private project.

Guarantee Exposure

IDA's exposure on its guarantees (measured by discounting each guaranteed amount from its first call date) was $349 million as of June 30, 2013 ($281 million—June 30, 2012). For additional information see the Notes to Financial Statements–Note E–Development Credits and Other Exposures.

Guarantee Pricing

Table 6 provides a summary of the Guarantee Pricing Terms for Partial Risk Guarantees, effective July 1, 2013. These guarantees cover private lenders against the risk of a public entity or government failing to perform its obligations with respect to a private sector project.

Table 6: Summary of Guarantee Pricing Terms for Partial Risk Guarantees, effective July 1, 2013

Type of Fee	*Pricing terms*
Annual guarantee fee[a]	0.75% per annum
Commitment charge[b]	Nil-0.5% per annum
One time initiation fee	Higher of 0.15% or $100,000
Processing fee[c]	Nil – 0.5%

a. Based on IDA's maximum exposure, being the full value of the disbursed and outstanding balance under the guarantee financing.
b. Set at Nil for FY 2013 and FY 2012
c. For all private sector borrowings and is determined on a case by case basis.

Debt Relief

Heavily Indebted Poor Countries Debt Initiative

The HIPC Debt Initiative is a comprehensive approach to reduce the external debt of the world's poorest, most heavily indebted countries, and it represented an important step forward in placing debt relief within an overall framework of poverty reduction. The countries that qualify for HIPC assistance are the poorest countries that are eligible for highly concessional assistance from IDA and from the International Monetary Fund's (IMF) Poverty Reduction and Growth Facility. The list of countries potentially eligible under the Enhanced HIPC Framework has been limited, whereby no new countries are considered for eligibility unless they meet the income and indebtedness criteria as of end calendar year 2004 as specified in the Initiative.

Implementation mechanisms of the Enhanced HIPC Framework 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 by IDA resources (excluding transfers from IBRD) of outstanding IBRD debt.

A provision is initially recorded for all of the estimated probable write-offs of development credits outstanding under the HIPC Debt Initiative, based on projected **Decision and Completion Point** dates. This provision is included as part of the accumulated provision for debt relief and losses on development credits as reported on the Balance Sheet. As borrowers continue to service the eligible development credits until these projected dates are reached, changes to these initially projected dates result in a revision to the provision estimates.

Partners compensate IDA on a "pay-as-you-go" basis to finance IDA's forgone credit reflows under the HIPC Debt Initiative. This means that for the debt relief provided by writing off the principal and charges during a **replenishment**, the partners compensate IDA for the forgone reflows through additional contributions in the relevant **replenishment** and these are recorded in IDA's balance sheet as subscriptions and contributions.

During FY 2013, $5 million of development credits and $2 million of charges were written off as debt relief under the partial forgiveness of debt service as it came due. During FY 2012, the comparable amounts were $5 million and $2 million, respectively. On a cumulative basis, $2,087 million of development credits and $331 million of charges had been written off as of June 30, 2013.

Multilateral Debt Relief Initiative

The MDRI provides additional debt relief through 100 percent cancellation of eligible debt owed to IDA, the African Development Bank and the IMF, by countries that reach the HIPC **Completion Point**. The objectives of MDRI are twofold: deepening debt relief to HIPC countries while safeguarding the long-term financial capacity of IDA and other participating multilateral institutions; and encouraging the best use of additional partner resources for development, by allocating these resources to low-income countries on the basis of policy performance.

A provision is initially recorded for all of the estimated probable write-offs of eligible development credits outstanding for debt relief to be delivered under the MDRI based on projected **Completion Point** dates. This provision is included as part of the accumulated provision for debt relief and losses on development credits as reported in the Balance Sheet. As borrowers continue to service the eligible development credits until the **Completion Points** are reached, changes to the initially projected dates result in a revision to the provision estimates. The eligible development credits are written off when a country reaches its **Completion Point** and the related provision reduced accordingly.

Partners have agreed to compensate IDA on a dollar-for-dollar basis for forgone credit reflows due to debt cancellation under the MDRI. The value of the compensation is reassessed every three years, normally at the time of regular IDA replenishment. In this context, partners have agreed to provide IDA with additional resources of **SDR** 3.5 billion ($5.3 billion) to cover debt relief costs due to MDRI during the IDA16 disbursement period. The partner compensation received is recorded in the balance sheet as subscriptions and contributions.

As of June 30, 2013, the MDRI replenishment, based on the latest cost estimates, stood at $35,568 million at the agreed replenishment foreign exchange reference rates. Of this amount, partners have provided IoCs of $31,286 million representing 88% of the total replenishment.

The cancellation of eligible development credits due to their write off under the MDRI during the fiscal year ended June 30, 2013 is summarized below:

In millions of U.S. dollars

Country	*Completion Point Date*	*Write off amount*	*Write off date*
Côte d'Ivoire	June 26, 2012	$ 1,559	July 1, 2012
Guinea	September 26, 2012	995	October 1, 2012
Comoros	December 20, 2012	93	January 1, 2013
		$2,647	

On a cumulative basis, $39,639 million of development credits have been written off under the MDRI as of June 30, 2013.

Trust Funds Administration

IDA, alone or jointly with one or more of its affiliated organizations, administers on behalf of partners, including members, their agencies and other entities, funds restricted for specific uses in accordance with administration agreements with partners. These funds are held in trust and are not included in IDA's Balance Sheet, except for undisbursed third party contributions to IDA-executed trust funds. The cash and investment assets held in trust by IDA as administrator and trustee as of June 30, 2013 and June 30, 2012 are summarized in **Table 7.** IDA's contribution to these trust funds for the year ended June 30, 2013 and June 30, 2012 was nil.

Table 7: Cash and Investment Assets Held In Trust by IDA

In millions of U.S. dollars

	Total fiduciary assets	
	June 30, 2013	*June 30, 2012*
IDA-executed	$ 73	$ 58
Jointly administered with affiliated organizations	584	533
Recipient-executed	2,697	2,709
Financial intermediary funds	675	735
Execution not yet assigned[a]	3,201	3,754
Total	$7,230	$7,789

a. These represent assets held in trust for which the agreement as to the type of execution is to be finalized jointly by the partners and IDA.

During the fiscal year ended June 30, 2013, IDA, as executing agency, disbursed $316 million ($309 million—fiscal year ended June 30, 2012) for trust fund program funds. For additional information, see the Notes to Financial Statements-Note G-Trust Funds Administration.

SECTION 5: INVESTMENT PORTFOLIO MANAGEMENT

IDA's primary objective in the management of its investment portfolio is to ensure that funds will be available on a timely basis in the amount needed to meet future cash flow requirements, including disbursements for development credits, grants and administrative expenses. Consistent with the primary objective, IDA also seeks to maximize returns, subject to loss constraints, to generate investment income, which can be added to IDA's internal resources.

IDA faces timing mismatches between cash receipts from partners and recipients and disbursements of new development credits and development grants. To manage these timing mismatches between cash inflows and outflows, and to ensure optimal use of development resources, IDA employs a number of financial practices, namely:

- Use of **hedging** strategies to minimize currency mismatches of cash flows.
- Encashment of partner contributions over time so as to match the eleven year average disbursement profile of development credits and development grants during a given replenishment. For both IDA15 and IDA16, partners have agreed to a nine year standard encashment period, which is an acceleration of the 11-year disbursement profile in order for IDA to generate additional investment income.
- Provision of incentives in the form of discounts or acceleration credits to partners for early **encashments**, provided that the present value of their contributions remains intact.
- A portion of expected principal repayments on disbursed and outstanding credits are committed in advance so that resulting disbursements match the time profile of credit reflows.

Additionally, IDA needs to be able to address any unexpected demands on its core liquidity by maintaining a sufficient level of liquid assets.

Minimum Liquidity

Minimum liquidity represents the liquidity that IDA holds as a reserve against cash flow volatility. Liquidity planning is essential, as IDA does not borrow from capital markets as a matter of policy, other than for short-term cash management purposes. Minimum liquidity serves the dual purpose of cushioning against expected future cash flow volatility; and meeting unexpected liquidity demands. Minimum liquidity is held in IDA's core liquidity component, with 48% held in Tranche 2 and 52% held in Tranche 3, see below for further discussion on IDA's tranches.

For the IDA16 period, IDA's minimum liquidity is targeted at 33 percent of a three-year annual moving average of gross disbursements, representing approximately $3.9 billion.

General Investment Authorization

The General Investment Authorization for IDA, approved by the Executive Directors, provides the basic authority under which the investment portfolio of IDA can be invested. Further, all investment activities are conducted in accordance with a more detailed set of Investment Guidelines. The Investment Guidelines are approved by the Managing Director and Chief Financial Officer (MDCFO) and implemented by the Treasurer. These Investment Guidelines provide detailed trading and operational rules including: criteria for eligible instruments for investment, establishing risk parameters relative to benchmarks, such as an overall consultative loss limit and **duration** deviation, specifying concentration limits on counterparties and instrument classes, as well as establishing clear lines of responsibility for risk monitoring and compliance. See **Box 4** for the range of instruments permitted for investments under the existing General Investment Authorization for IDA.

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

Liquidity Tranching

All of IDA's investments are held in a trading portfolio but invested in three separate tranches, which improves transparency and allows for better tailoring of investment objectives, risk tolerances and investment horizon to the purpose of holding the investments.

Partner Asset and Liability Management

This tranche, also referred to as Tranche 1, primarily consists of accelerated **encashments** of partner contributions, transfers and grants from IBRD and IFC, and voluntary credit prepayments under IDA16. It is managed under an immunization strategy, whereby the tranche **duration** benchmark is aligned with the weighted average duration of future net cash outflows, such that the variation in investment earnings is largely matched by equivalent changes in the present value of future net cash outflows. The **duration** is periodically reviewed and reset at least annually to reflect prevailing conditions.

Core Liquidity

Tranches 2 and 3 constitute IDA's core liquidity to meet working capital requirements, as well as expected and unexpected cash flow volatility. Core liquidity as a proportion of IDA's total liquidity holding at June 30, 2013 was 37% (37% - June 30, 2012).

Tranche 2 – Medium-term Investment tranche. This tranche includes the core liquidity of IDA which is expected to be available over at least a three year horizon. This tranche is managed in accordance with a return maximization strategy subject to pre-specified risk constraints over a medium-term (three years) investment horizon.

Tranche 3 – Short-term Investment tranche. This tranche is used for managing the operational liquidity for IDA. The investment objective of this tranche is to ensure liquidity and timely availability of the investment balances when needed, with investment returns being a secondary consideration. The tranche is invested in overnight and very short-term cash investments.

Table 8 provides a breakdown of the average balances and returns by tranches of IDA's liquidity portfolio for FY 2013 and FY 2012. For an explanation of the decrease in financial returns of the total portfolio, refer to ***Section 7: Reported Basis Results.***

Table 8: Average Balances and Returns by Tranches

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

	FY 2013		FY 2012	
Tranches	*Average Balance*	*Financial Return*	*Average Balance*	*Financial Return*
1	$17,046	0.37%	$14,452	5.72%
2	3,966	0.13%	4,163	3.40%
3	6,328	0.27%	6,344	0.39%
Total	$27,340	0.31%	$24,959	4.00%

Table 9: Short-term Borrowings

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

	June 30, 2013	*June 30, 2012*	*June 30, 2011*
Securities sold under repurchase agreements and securities lent under securities lending agreements,			
Balance at year-end	$3,613	$3,824	$6,013
Average monthly balance during the year	$3,920	$3,992	$5,450
Maximum month-end balance	$5,154	$4,938	$7,984
Weighted-average rate at end of fiscal year	0.14%	0.28%	0.38%
Weighted-average rate during the fiscal year	0.15%	0.26%	0.38%

Short-term Borrowings

IDA does not borrow long-term from the capital markets, but it is allowed to do so under its Articles. IDA's short-term borrowings consist primarily of securities sold under repurchase agreements and securities lent under securities lending agreements. These 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, 2013, securities lent or sold under repurchase agreements totaled $3,613 million, a decrease of $211 million over June 30, 2012. **Table 9** provides data on short-term borrowings activities.

SECTION 6: FINANCIAL RISK MANAGEMENT

The processes and procedures by which IDA manages its risk profile continually evolve as its activities change in response to market, credit, product, operational and other developments. The Executive Directors, particularly the Audit Committee members, periodically review trends in IDA's risk profiles and performance, as well as any significant developments in risk management policies and controls. In addition, on an annual basis, Management prepares an integrated risk monitoring report for the Executive Directors to provide a holistic picture of risk management activities within IDA.

Governance Structure

The risk management governance structure supports senior management in their oversight function, particularly in the coordination of different aspects of risk management, and in connection with risks that run across functional areas.

The Chief Risk Officer (CRO) is responsible for: (i) assessing risks; (ii) benchmarking existing risk management practices against major financial institutions; (iii) ensuring consistency of risk management activities with best practice; and (iv) considering unique risks that are specific to multilateral development banks and international financial institutions.

The Finance Committee which is chaired by the Managing Director, Finance and Chief Financial Officer (MDCFO), reviews, evaluates and decides on matters related to IDA finances to ensure that these are aligned with corporate financial and risk tolerance objectives set by the Board. There are four subcommittees that report to the Finance Committee. These subcommittees provide technical expertise and guidance on strategy, policy, risk management and new initiative issues enabling the group to make the decisions necessary to conduct appropriate oversight of IDA's financial issues.

The Strategy, Performance and Risk Subcommittee develops, approves and monitors the management policies under which market and commercial credit risks faced by IDA are measured, reported and managed. Such policies are ratified by the MDCFO. Specific areas of activity include reviewing and endorsing guidelines for limiting balance sheet and market risks, and the use of derivative instruments and investment activities. The subcommittee meets as needed to review current and proposed business strategy and risk limits/policies.

The Finance Initiatives Subcommittee reviews the financial and organizational implications of implementing new initiatives that may impact IDA. The subcommittee reviews all financial management, legal, reputational, financial operations and reporting aspects including risk/reward parameters and whether capital deployment is required. This subcommittee's approval is required before a new IDA initiative may be proposed to the Finance Committee or the Board. The subcommittee meets as needed.

The Credit Risk Subcommittee: monitors the measurement and reporting of country credit risk. The subcommittee meets at least quarterly to review the impact on the provision for losses on credits and other exposures of any changes in risk ratings of borrowing member countries and movements between the accrual and nonaccrual portfolio and other factors including expected default frequencies. In addition, the Audit Committee of the Board is apprised by management at least twice a year on the accumulated provision for losses on credits and other exposures.

The Operational Risk Subcommittee provides oversight on operational risks for financial operations. The subcommittee meets on a quarterly basis to ensure key operational risks relating to financial operations are monitored and managed appropriately, recognizing that primary responsibility for the management of operational risk resides with the business units.

In addition to the previously discussed committees, the following departments are also involved in IDA's financial risk management:

The IDA Resource Mobilization Department which reports to the Vice President of Concessional Finance and Global Partnerships, manages IDA **replenishments**. This department discusses policy and funding frameworks with partners, and allocates concessional resources between borrowing member countries based on the agreed performance based allocation system. Responsibility for financial management, including asset-liability management and the management of liquidity, currency and interest rate risks, also lies with this department.

The Credit Risk Department is responsible for determining the adequacy of provisions for losses on credits and other exposures.

The Market and Counterparty Risk Department is responsible for market and credit risk oversight, assessment and reporting. It works with IDA's financial managers, who are responsible for the day-to-day management of market and counterparty risks. The department's responsibilities include establishing and maintaining guidelines, volume limits and risk oversight processes to facilitate effective monitoring and control, and provides reports to the Audit Committee and the Board on the extent and nature of risks, risk management and oversight. Under the auspices of the Finance Committee and the Strategy, Performance and Risk subcommittee, policies and procedures for measuring and managing such risks are formulated, approved and communicated throughout IDA. The department's management represented on the Finance Committee is responsible for ensuring effective oversight, which includes maintaining sound credit assessments, addressing transaction and product risk issues, providing an independent review function and monitoring the development credit and investment portfolios.

Risk-Bearing Capacity

The risk bearing capacity of IDA falls under four main categories.

(i) Funding risk - the extent to which IDA can commit to new financing of development credits, grants and guarantees given its financial position at any point in time and whether there are sufficient resources to meet undisbursed commitments of credits and grants.

(ii) Liquidity risk - whether IDA has sufficient core liquidity to meet disbursements of approved credits and grants.

(iii) Credit risk - the risk of default by recipient countries and market counterparties.

(iv) Market risk - the exposure to currency and interest rate risks. .

Funding Risk

IDA's capacity to commit to new financing of credits, grants and guarantees at any point in time is defined by the **Commitment Authority** Framework of the particular **replenishment** which is effective at that time (see ***Section 2: Financial Resources*** for details).

As previously discussed, (see ***Section 1: Introduction and Overview of Financial Results***) management monitors IDA's funding position as a key indicator to assess IDA's ability to conduct its operations. Funding risk relates to whether there are sufficient resources (investment portfolio and demand notes) to meet undisbursed commitments of credits and grants.

Further details on IDA's funding risk management, including details of the three tranches which comprise IDA's investment portfolio, together with a description of the General Investment Authorization are provided in ***Section 5: Investment Portfolio Management.***

Liquidity Risk

Liquidity risk is also a key risk to IDA's operations. It is managed through a combination of IDA's daily cash flow monitoring and management, timing of partner contributions, and prudent investment policies under an established financial framework. A key indicator of liquidity management is the core liquidity position which reflects the number of months of gross disbursements (based on the average for a particular year) that can be met out of the core liquidity (tranches 2 and 3) available at a point in time (see ***Section 1: Introduction and Overview of Financial Results***).

Further details on IDA's liquidity risk management, including details of the three tranches which comprise IDA's investment portfolio, together with a description of the General Investment Authorization, are provided in ***Section 5: Investment Portfolio Management.***

Credit Risk

IDA has two types of credit risk: country credit risk and commercial credit risk. Country credit risk is the risk of loss due to a country not meeting its contractual obligations and commercial credit risk is the risk of loss due to a counterparty not honoring its contractual obligations.

Country Credit Risk

The IDA Resource Mobilization Department regularly reviews the credit risk of its recipient member countries in terms of the country's debt sustaining capacity. These reviews provide an input into the composition of development credits versus grants for new operations. ***Section 4: Development Activities, Products and Programs*** describes how funds are allocated for development grants based on a country's risk of debt distress.

Overdue and non-performing development credits

When a borrower fails to make payment on any principal, interest or other charges, IDA has the contractual right to suspend disbursements immediately on all credits and grants. IDA's current policy however, is to exercise this right through a graduated approach as summarized in **Box 3**. These policies also apply to those member countries who are eligible to borrow from both IBRD and IDA, and whose payments on IBRD loans may become overdue. For borrowers with IDA development credits who become overdue in their debt service payments on IBRD loans, IDA also applies the treatment described in **Box 3**. As of June 30, 2013, IDA had $125,135 million of development credits of which credits in non-accrual status represent 2.15% of total development credits outstanding. For a summary of countries with development credits or guarantees in nonaccrual status at June 30, 2013, see Notes to Financial Statements–Note E–Development Credits and Other Exposures.

Box 3: Treatment of Overdue Payments

Overdue by 30 days	Where the borrower is the member country, no new development credits or grants to the member country, or to any other borrower in the country, will be presented to the Executive Directors for approval; nor will any previously approved credits 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 credits 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 development credits 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 development credits or grants and signing of previously approved credits or grants, disbursements on all grants or credits to or guaranteed by the member country are suspended until all overdue amounts have been paid. This policy applies even when the borrower is not the member country. Under exceptional circumstances, disbursements could be made to a member country upon approval by the Executive Directors.
Overdue by more than six months	All development credits 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 development credits outstanding are deducted from the income of 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 that decision may be deferred until after a suitable period of payment performance has passed.

Commercial Credit Risk

In the normal course of its business, IDA utilizes various derivatives and foreign exchange financial transactions to manage its exposure to fluctuations in interest and currency rates. Derivative and foreign exchange transactions also involve credit risk. The effective management of credit risk is vital to the success of IDA's investment and asset/liability management activities. The monitoring and managing of these risks is a continuous process due to changing market environments.

IDA mitigates the counterparty credit risk arising from investments, derivatives and asset/liability management activities through its credit approval process and monitoring procedures. The credit approval process involves evaluating counterparty creditworthiness, assigning credit limits and determining the risk profile of specific transactions. Credit limits are calculated and monitored on the basis of potential exposures taking into consideration current market values and estimates of potential future movements in those values, and collateral agreements with counterparties. If there is a collateral agreement with the counterparty to reduce credit risk, then the amount of collateral obtained is based on the credit rating of the counterparty. Collateral held includes cash and highly liquid investment securities.

For derivative products, IDA uses the estimated replacement cost of the derivative as the measure of credit exposure. While the contractual principal amount of derivatives is the most commonly used volume measure in the derivative markets, it is not a measure of credit or market risk. For all securities, IDA limits trading to a list of authorized dealers and counterparties. With the exception of transactions with IBRD, credit risk is managed through application of eligibility criteria, (see **Box 4**) volume limits and through the use of mark-to-market collateral arrangements for swap transactions. Under the mark-to-market collateral arrangements, when IDA is in a net receivable position higher than the agreed upon collateral threshold allocated to the counterparty, counterparties are required to post collateral with IDA. During FY 2013, IDA received cash collateral of $9 million.

With respect to futures and options, IDA generally closes out most open positions prior to expiration. Futures are settled on a daily basis.

During FY 2013, Management has taken actions to broaden its universe of investment assets in an effort to achieve greater diversification in the portfolio and better risk-adjusted investment performance. As a result of these efforts, investment opportunities in a range of local currency sovereign bond markets have been pursued, resulting in new sovereign exposure to counterparties in the A and BBB rating categories in FY 2013 (See **Table 10**). This new exposure is being monitored by the Market and Counterparty Risk Department. As of June 30, 2013, the maximum maturity of these sovereign bonds was less than one year.

Table 10 summarizes IDA's commercial counterparty credit risk exposure. The credit quality of IDA's portfolio remains concentrated in the upper end of the credit spectrum with 92% of the portfolio rated AA or above, reflecting IDA's continued preference for highly rated securities and counterparties across all categories of financial instruments.

Market Risk

IDA faces risks which result from market movements, primarily changes in currency exchange rates and interest rates. The manner in which these market risks impact IDA's finances and the steps taken by IDA to counter them are described below.

Box 4: Eligibility Criteria for IDA's Investment Securities

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, if government obligations are denominated in the national currency of the issuer, no rating is required.
Agencies	IDA may only invest 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 (ABS)	IDA may only invest in securities with an AAA credit rating.
Commercial Paper	IDA may only invest in short-term borrowings (less than 190 days) from commercial banks, corporates and financial institutions.
Time deposits[a]	IDA may only invest in time deposits issued or guaranteed by financial institutions, whose senior debt securities are rated at least A-.

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

Table 10: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating

In millions of U.S. dollars

	At June 30, 2013				*At June 30, 2012*	
Counterparty Rating	*Sovereigns*	*Agencies, ABS, Commercial paper, Swaps, Corporate and Time Deposits*	*Total*	*% of Total*	*Total*	*% of Total*
AAA	$12,802	$3,969	$16,771	55	$21,492	70
AA	8,456	2,732	11,188	37	6,886	22
A	170	2,313	2,483	8	2,173	7
BBB or below	102	8	110	*	81	*
Total	$21,530	$9,022	$30,552	100	$30,632	100

** Denotes less than 0.5%.*

Of IDA's total commercial credit exposure, net of any collateral held of $30,552 million as of June 30, 2013, $10,670 million (35%) relates to countries in the Euro Zone, of which $10,071 million (94%) is rated AA or above, and none are rated below A.

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

Currency Exchange Rate Risk

IDA faces currency exchange rate risk exposure as a result of the currency mismatch between its commitments for development credits and grants, which are denominated in **SDR**s; partner contributions, which are typically denominated in national currencies; and the portion of IDA's internal resources and expenditures that is denominated in U.S. dollars.

IDA uses currency forward contracts to convert partners' **encashments** provided in national currencies into the four currencies of the **SDR** basket. These transactions are intermediated by IBRD for efficiency purposes.

Under this arrangement, IDA enters into foreign exchange forwards with IBRD, and IBRD simultaneously enters into off-setting foreign exchange forwards with market counterparts. For further details, see Notes to Financial Statements–Note D–Derivative Instruments.

In addition, IDA also mitigates the currency exchange rate risk by aligning the currency composition of its liquid asset portfolio and the hedges of its non-**SDR** cash flows with the **SDR** composition.

Interest Rate Risk

IDA funds a portion of its development credits and grants with internal resources, including income on its investment portfolio. IDA's liquid assets are invested in separate tranches each with its own set of **duration** benchmarks. Changes in interest rates have a direct impact on the mark-to-market values of the investment portfolio and hence on the investment income reported by IDA. Further details of the three tranches which comprise IDA's investment portfolio are discussed in ***Section 5: Investment Portfolio Management.***

Additional Risks Associated with Partner Resources

Delays in the timing of **encashment** affect IDA's liquidity. If **encashment** delays occur, IDA may agree with the partner on a revised **encashment** schedule that yields at least an equivalent value. Another risk is the potential for delays in declaring effectiveness of a **replenishment** due to a delay in receipt of **IoCs**. It is only upon the effectiveness of a **replenishment** that partner contributions become payable to IDA.

SECTION 7: REPORTED BASIS RESULTS

Under the reported basis, IDA's Statement of Income does not reflect the true economic results of IDA due to of a number of asymmetries as discussed below.

Development grants: Development grants are recorded as charges to net income under U.S. GAAP. In contrast, the significant inflows of resources from IDA's partners, which fund these expenses, are recorded as equity through members' subscriptions and contributions and therefore do not flow through the Statement of Income.

Currency forward contracts: As part of its currency risk management strategy, IDA uses currency forward contracts at the start of each replenishment to hedge its exposure to potential changes in the value of partner contributions. The translation adjustment on the non-functional currency forward contracts, together with the related unrealized mark-to-market gains/losses, are reported in the income statement. However, the economic offset represented by the change in value of the related partner pledges are not reported in the Statement of Income, since partner pledges do not meet the definition of assets.

Investment Income: The investment portfolio is primarily managed whereby its duration is aligned with the average duration of the future net cash outflows. Accordingly, it has a relatively long duration and is sensitive to interest rate movements. An asymmetry arises due to the fact that the significant unrealized mark-to-market gains or losses are reported in the Statement of Income, however, the economic offset, represented by the change in the present value of the associated future net cash outflows is not reported in IDA's financial statements.

Administrative expenses: IDA's administrative expenses are expected to be covered by service and interest charge income and the partner compensation for forgone charges on cancelled credits under the HIPC Debt Initiative and MDRI, and for development grants provided. Under the reported basis, IDA's administrative expense net of related other income is included in the Statement of Income. However, the net amount is only partially covered by the service and interest income, with the additional contributions for forgone charges recorded as equity.

All asymmetries have been addressed in the Statement of Activities, with the exception of the asymmetry related to the investment income, see ***Section 1: Introduction and Overview of Financial Results.***

Condensed Statement of Income Analysis

Table 11: Condensed Statement of Income provides a comparison of the main sources of income and expenses between FY 2013 and FY 2012. The net loss of $1,752 million in FY 2013 is $1,542 million more than the net loss of $210 million in FY 2012. The primary factors contributing to the deterioration in the net results are as follows:

Investment income, net: The $907 million decrease was primarily driven by the unrealized mark-to-market losses associated with the steepening of the yield curves of the major currencies experienced during FY 2013. In contrast, IDA experienced unrealized mark-to-market gains in FY 2012 due to the flattening of the applicable yield curves. IDA's investment portfolio is sensitive to interest rate movements as a result of having a longer duration to help it immunize interest rate risk. The duration of the portfolio was approximately three years as of June 30, 2013.

Translation adjustment gains on the non-functional currencies: The translation adjustment gain on non-functional currencies of $1 million in FY 2013 is a net amount resulting from the offsetting movements of the underlying non-functional currencies against the U.S. dollar. In FY2012, the significant depreciation of the non-functional currencies against the U.S. dollar resulted in higher translation adjustment gains of $424 million consistent with the depreciation of the majority of the non-functional currencies against the U.S. dollar. These liabilities arise out of the payable leg of currency forwards used to hedge the **SDR** value of future partner commitments.

Development grants: The $318 million higher development grant approvals primarily related to the Africa and South Asia regions, combined, which constituted 71% of the total development grant approvals in FY 2013.

Fair value adjustment on non-trading portfolios: The negative fair value adjustment of $102 million in FY 2013 was primarily due to the effect of the upward shift in the euro yield curve on the currency forward contracts used to hedge partner commitments of IDA16 and prior replenishments. In contrast, in FY 2012, the net positive fair value adjustment of $39 million was primarily due to the decline of the euro yield curve on these currency forward contracts.

Administrative expenses, net: The increase of $262 million was primarily due to higher pension expenses. For a breakdown of IDA's administrative expenses for the last two years, see **Table 12: Net Administrative Expenses.**

Table 11: Condensed Statement of Income for the fiscal years ended June 30, 2013 and June 30, 2012

Expressed in millions of U.S. dollars

	FY 2013	*FY 2012*	*Variance*
Income			
Income from development credits and guarantees	$ 1,021	$ 914	$ 107
Investment income, net	99	1,006	(907)
Transfers and grants from affiliated organizations and trust funds	964	858	106
Other income	566	518	48
Expenses			
Administrative expenses	(1,936)	(1,674)	(262)
Development grants	(2,380)	(2,062)	(318)
Provision for debt relief and losses on credits and other exposures, net	53	(66)	119
Effect of exchange rate changes on non-functional currencies	1	424	(423)
Fair value adjustment on non-trading portfolios, net	(102)	39	(141)
Discount on prepaid development credits	(12)	(113)	101
Write-off on buy-down of development credits	(26)	(45)	19
Project preparation advances (PPA) grants and other expenses	-	(9)	9
Net Loss	$ (1,752)	$ (210)	$ (1,542)

Table 12: Net Administrative Expenses for the fiscal years ended June 30, 2013 and June 30, 2012

Expressed in millions of U.S. dollars

	FY 2013	*FY 2012*	*Variance*
Administrative expenses			
Staff costs	$ 811	$ 750	$ 61
Operational travel	179	163	16
Consultant fees	280	274	6
Pension and other post-retirement benefits	327	174	153
Communications and IT	48	46	2
Contractual services	145	127	18
Equipment and buildings	127	117	10
Other expenses	19	23	(4)
Total administrative expenses	$1,936	$1,674	$ 262
Administrative income			
Service fee revenues	$ (224)	$ (191)	$ (33)
Revenue related to IDA Executed Trust Funds	(316)	(309)	(7)
Restricted income	(26)	(18)	(8)
Total administrative income	$ (566)	$ (518)	$ (48)
Total Net Administrative Expenses	$1,370	$1,156	$ 214

Condensed Balance Sheet Analysis

Variances between June 30, 2013 and June 30, 2012 balances in IDA's condensed balance sheet are discussed in ***Section 1: Introduction and Overview of Financial Results.***

SECTION 8: CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

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, and 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 are classified as Level 1 and Level 2 as of June 30, 2013, 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 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 Development Credits

The provision for losses on the buy-down of development credits is equivalent to the difference between the carrying amount of the development credits 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 estimated amount to be received is based on quantitative factors including the discount rate.

Provision for Losses on Development Credits and Other Exposures

IDA's accumulated provision for losses on credits 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 development credits. 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 credits and other exposures accordingly. Adjustments to the accumulated provision are recorded as a charge against or addition to income. Actual losses may differ from expected losses due to unforeseen changes in any of the factors that affect borrowers' creditworthiness.

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 E-Development Credits and Other Exposures.

SECTION 9: GOVERNANCE AND CONTROLS

General Governance

IDA's decision-making structure consists of the Board of Governors, Executive Directors (the Board) and the President 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 Board to exercise any of its powers, with the exception of certain powers enumerated in IDA's Articles of Agreement (Article VI, Section 2(c)).

The Board is responsible for IDA's general operations. It reviews and approves IDA's financial policies and practices, including:

- financial products and programs, such as the terms and conditions of development credits, grants and guarantees, and the provision and modalities of debt relief; and
- financial management policies, such as investment authority and policy, the method of apportioning administrative expenses between IDA and IBRD, and the use of IDA's internal resources.

Board Membership

In accordance with its Articles of Agreement, members of the Board are appointed or elected every two years by their member governments. Currently the Board is composed of 25 Executive Directors. These Executive Directors are neither officers nor staff of IDA. The President is the only member of the Board from management, serving as a non-voting member and as Chairman of the Board. The Executive Directors have established several committees including:

- Audit Committee
- Budget Committee
- Committee on Development Effectiveness
- Committee on Governance and Executive Directors' Administrative Matters
- Ethics Committee
- Human Resources Committee

The Board and its committees function in continuous session at the principal offices of IDA, 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 Board is required to consider proposals made by the President on IDA's development credits, grants and guarantees, and other policies that impact IDA's 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 as well as other matters.

Senior Management Changes

Effective July 1, 2012, Jim Yong Kim became the President of IDA.

Effective September 5, 2012, Kaushik Basu became IDA's Chief Economist and Senior Vice President.

Effective January 1, 2013, Mahmoud Mohieldin commenced the new role of President's Special Envoy on Millennium Development Goals (MDG's) and Financial Development. Responsibilities include the coordination of IBRD's agenda on MDG's and the Post-2015 process, strengthening of relationships with multilateral development institutions and the G20, and working on long-term finance and financial inclusion.

Effective January 1, 2013, Pamela Cox assumed the position of Senior Vice President, Change Management. This is a new position, created to manage the process of institutional change needed so that IBRD can continue to fulfill its mission. Responsibilities include implementation, coordination, and sequencing of all change initiatives; as well as overall internal and external communications concerning the change agenda. Effective October 2013, Pamela Cox will retire from this position.

Effective March 1, 2013, Bertrand Badré became Managing Director of IDA and its Chief Financial Officer.

Effective June 30, 2013, Robert Kopech retired as CRO. Effective July 1, 2013, Bertrand Badré assumed the position of acting CRO until such time as a new CRO is appointed.

Effective July 30, 2013, Sri Mulyani Indrawati, Managing Director of IDA also assumed the position of Chief Operating Officer.

Effective October 2013, Caroline Anstey will retire as Managing Director of IDA.

Audit Committee

Membership

The Audit Committee consists of eight members drawn from the Board. Membership on the Audit Committee is determined by the Board, based upon nominations by the Chairman of the Board, following informal consultation with the Executive Directors. In addition, membership of the Audit Committee is expected to reflect the economic and geographic diversity of IDA's member countries and a balanced representation between recipient and non-recipient member countries. Generally, Audit Committee members are appointed for a two year term; reappointment to a second term, when possible, is desirable for continuity. Audit Committee meetings are generally open to any member of the Board who may wish to attend, and non-Audit Committee members of the Board may participate in the discussion. In addition, the Chairman of the Audit Committee may speak in that capacity at meetings of the Board, with respect to discussions held in the Audit Committee.

Key Responsibilities

The Audit Committee is appointed by the Board to assist it in the oversight and assessment of IDA's finances and accounting, including the effectiveness of financial policies, the integrity of financial statements, the system of internal controls regarding finance, accounting and ethics (including fraud and corruption), and financial and operational risks. The Audit Committee also has the responsibility for reviewing the performance and recommending to the Board the appointment of the external auditor, as well as monitoring the independence of the external auditor. The Audit Committee participates in oversight of the internal audit function and reviews the annual internal audit plan. In the execution of its role, the Audit Committee discusses with management, the external auditors, and the internal auditors, financial issues and policies which have a bearing on IDA's financial position. The Audit Committee also reviews with the external auditor IDA's annual financial statements prior to their publication and recommends them for approval to the Board. The Audit Committee monitors the evolution of developments in corporate governance and the role of audit committees on an ongoing basis and updated its terms of reference in July 2009.

Executive Sessions

Members of the Audit Committee may convene in executive session at any time, without management present. Under the Audit Committee's terms of reference, it 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, which supports the preparation of the financial statements. The Audit Committee meets both formally and informally throughout the year to discuss financial and accounting matters. Executive Directors have complete access to management. The Audit Committee reviews and discusses with management topics contemplated in their terms of reference.

The Audit Committee has the capacity, under exceptional circumstances, to obtain advice and assistance from outside legal, accounting or other advisors as deemed appropriate.

Business Conduct

The **World Bank** promotes a positive work environment where staff members understand their ethical obligations to the institution, which are embodied in its Core Values and Principles of Staff Employment. In support of this commitment, the institution has in place a Code of Conduct, entitled *Living our Values* (the Code). The Code applies to all staff worldwide and is available on the **World Bank's** website, www.worldbank.org. Staff, including consultants, are required to complete an acknowledgment that they will abide by the tenets of the Code.

The business conduct obligations of staff are articulated in the Staff Manual (Principles of Staff Employment, Staff Rules), Administrative Manual and other guidelines. The Principles and Staff Rules require that all staff avoid or properly manage conflicts of interest. In accordance with the Staff Rules, senior managers must complete a confidential financial disclosure instrument with the Office of Ethics and Business Conduct.

The **World Bank** has both an Ethics Help Line and a Fraud and Corruption hotline. A third-party service offers numerous methods of worldwide communication. Other reporting channels include: phone, mail, email or through the units' respective websites. Callers may also visit the offices in person.

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

The **World Bank's** Staff Rules clarify and codify the obligations of staff in reporting suspected fraud, corruption or other misconduct that may threaten its operations or governance. Additionally, these rules offer protection from retaliation.

Auditor Independence

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

- Prohibition of the external auditor from the provision of all non audit-related services.
- All audit-related services must be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee.
- Mandatory rebidding of the external audit contract every five years, with a limitation of two consecutive terms and mandatory rotation thereafter.

The External auditor is appointed to a five year term of service. This is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Executive Directors. In FY 2014, KPMG will begin a second five-year term as IDA's external auditor. Communication between the external auditor and the Audit Committee is ongoing, as frequently as deemed necessary by either party. The Audit Committee meets periodically with the external auditor and individual members of the Audit Committee have independent access to the external auditor. IDA's external auditors follow the communication requirements with audit committees set out under U.S. generally accepted auditing and attestation standards and International Standards on Auditing.

Internal Controls

Internal Control over Financial Reporting

Management makes an annual assertion that, as of June 30 of each fiscal year, its system of internal control over its external financial reporting has met the criteria for effective internal control over external financial reporting as described in the Internal Control-Integrated Framework issued in 1992 by **The Committee of Sponsoring Organizations of the Treadway Commission (COSO)**. Concurrently, IDA's external auditor provides an attestation report that management's assertion regarding the effectiveness of internal control over external financial reporting is fairly stated in all material respects.

For each fiscal year, Management performs an evaluation of internal control over external financial reporting for the purpose of determining if there were any changes made in internal control during the fiscal year covered by this report that materially affected, or would be reasonably likely to materially affect IDA's internal control over external financial reporting. As of June 30, 2013, no such changes had occurred.

GLOSSARY OF TERMS

Asset-Backed Securities (ABS): Asset-Backed Securities are instruments whose cash flows are based on a pool of underlying assets managed by a trust. Mortgage-backed securities are a type of ABS whose cash flows are based on the repayments of the mortgages.

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 on the basis of limited creditworthiness. 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 'harder' sectors.

Commitment Authority: Total value of resources available during a particular **replenishment** including partner contributions, internal resources, IBRD transfers, IFC grants and other resources. The Commitment Authority level is monitored periodically to ensure that funding is available to meet commitments and to provide early warning signs of any problems in terms of resource availability.

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.

Decision Point: Decision by the Executive Directors of IDA to provide debt relief under the HIPC Initiative.

Deputies: Representatives of countries who contribute to the resources of IDA. They include representatives from both **Part I members** and those **Part II members** who contribute to IDA's replenishments.

Development Committee: The Development Committee is a forum of the World Bank and the International Monetary Fund that facilitates intergovernmental consensus building on development issues.

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 promissory note in accordance with a schedule agreed for each replenishment.

Graduate Member: A member country that was once only 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.

Hedging: Hedging is a risk management technique of entering into offsetting commitments to eliminate or minimize the impact of adverse movements in value or cash flow of the underlying instrument or economic condition.

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

Membership votes*:* Voting rights accorded to IDA members are based on participation in the initial subscription and subsequent replenishments. All members whether they are **Part I** or **Part II** have the same number of membership votes.

Net Disbursements: Development Credit and development grant disbursements net of repayments and prepayments.

Part I and Part II Members: IDA's Articles distinguish between two categories of original members - Part I and Part II - and provide for a different treatment of the initial subscription payments by each group. Part I members were originally those countries, generally developed countries that contribute to the resources of IDA, whose economic and financial situation justified making the entire amount of their subscriptions available on a freely convertible basis. Part II members are mostly developing countries who subscribe to IDA replenishments for **voting rights**. Some Part II members also contribute to the resources of IDA.

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 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.

Stop-loss limits: Stop-loss limits are levels of mark-to-market losses against the benchmark, at which management will revert to passive management of the portfolio.

Subscription votes*:* Voting rights accorded to IDA members are based on subscriptions. Subscription votes are calculated at a specific cost per vote for each replenishment and are dependent on each member's subscription amount. Additional subscription votes are provided to members who contribute to the replenishment.

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

World Bank: Refers collectively to IBRD and IDA in this document.

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INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS
JUNE 30, 2013

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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Washington, D.C. 20433
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Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting

August 7, 2013

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, 2013. This assessment was based on the criteria for effective internal control over external financial reporting described in the *1992 Internal Control-Integrated Framework* 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, 2013. The independent audit firm that audited the financial statements has issued an attestation report on management's assertion on IDA'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

Bertrand Badré
Managing Director, Finance and World Bank Group Chief Financial Officer

Charles A. McDonough
Vice President and Controller

Independent Auditors' Report on Management's Assertion Regarding Effectiveness of Internal Control Over Financial Reporting

KPMG

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

Independent Auditors' Report

President and Board of Executive Directors
International Development Association:

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the International Development Association (IDA) maintained effective internal control over financial reporting as of June 30, 2013, based on criteria established in the *1992 Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). IDA's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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 accounting principles generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America, 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.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation 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.

In our opinion, management's assertion that IDA maintained effective internal control over financial reporting as of June 30, 2013 is fairly stated, in all material respects, based on criteria established in the *1992 Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing, the accompanying financial statements of IDA, which comprise the balance sheets as of June 30, 2013 and 2012, 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, 2013, and our report dated August 7, 2013 expressed an unqualified opinion on those financial statements.

KPMG LLP

August 7, 2013

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

Independent Auditors' Report

President and Board of Executive Directors
International Development Association:

Report on the Financial Statements

We have audited the accompanying financial statements of the International Development Association (IDA), which comprise the balance sheet as of June 30, 2013 and 2012, 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, 2013, 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 accounting principles generally accepted in the United States of America; 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 and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

KPMG

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The summary statement of development credits and the statement of voting power and subscriptions and contributions as of June 30, 2013 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 and in accordance with International Standards on Auditing. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting,* that IDA maintained effective internal control over external financial reporting as of June 30, 2013, based on criteria established in the *1992 Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 7, 2013 expressed an unqualified opinion on management's assertion.

KPMG LLP

Washington, D.C.
August 7, 2013

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BALANCE SHEET
June 30, 2013 and June 30, 2012

Expressed in millions of U.S. dollars

	2013	*2012*
Assets		
Due from Banks		
Unrestricted cash	$ 565	$ 78
Restricted cash	30	28
	595	106
Investments—Trading (including securities transferred under repurchase or securities lending agreements of $3,236 million-June 30, 2013; $2,691 million-June 30, 2012)—Note C	30,283	30,424
Securities Purchased Under Resale Agreements—Note C	458	441
Derivative Assets		
Investments—*Notes C and D*	2,605	1,905
Asset-liability management—*Notes D and F*	5,307	7,327
	7,912	9,232
Receivable from Affiliated Organization—Note F	887	1,006
Other Receivables		
Receivable from investment securities traded—*Note C*	3,752	1,255
Accrued service and commitment charges	248	236
	4,000	1,491
Development Credits Outstanding (Summary Statement of Development Credits and Note E)		
Development credits	164,900	160,720
Less: Undisbursed balance	39,765	37,144
Development credits outstanding	125,135	123,576
Less: Accumulated provision for debt relief and losses on development credits	4,005	6,723
Plus: Deferred development credits origination costs	27	27
Net development credits outstanding	121,157	116,880
Other Assets—Notes G	514	448
Total Assets	$165,806	$160,028

	2013	2012
Liabilities		
Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received—Note C	$ 3,622	$ 3,824
Derivative Liabilities		
Investments—*Notes C and D*	2,602	1,899
Asset-liability management—*Notes D and F*	5,242	7,714
	7,844	9,613
Payable for Development Grants—Note H	6,436	6,161
Payable to Affiliated Organization—Note F	413	375
Other Liabilities		
Payable for investment securities purchased—*Note C*	3,497	2,023
Accounts payable and miscellaneous liabilities—*Notes E and G*	532	486
	4,029	2,509
Total Liabilities	22,344	22,482
Equity		
Members' Subscriptions and Contributions (Statement of Voting Power and Subscriptions and Contributions, and Note B)		
Unrestricted	223,981	224,412
Restricted	322	320
Subscriptions and contributions committed	224,303	224,732
Less:		
Subscriptions and contributions receivable	36,933	46,571
Cumulative discounts/acceleration credits on subscriptions and contributions	2,859	2,574
Subscriptions and contributions paid-in	184,511	175,587
Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Members' Subscriptions and Contributions		
Unrestricted	(8,964)	(8,627)
Restricted	(51)	(51)
	(9,015)	(8,678)
Deferred Amounts to Maintain Value of Currency Holdings	(234)	(234)
Accumulated Deficit (Statement of Changes in Accumulated Deficit)	(41,058)	(39,306)
Accumulated Other Comprehensive Income—Note I	9,258	10,177
Total Equity	143,462	137,546
Total Liabilities and Equity	$165,806	$160,028

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

STATEMENT OF INCOME

For the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011

Expressed in millions of U.S. dollars

	2013	*2012*	*2011*
Income			
Development credits and guarantees—Note E			
Service and interest charges	$ 1,019	$ 912	$ 895
Guarantee fee income	2	2	2
	1,021	914	897
Investments—Trading, net—Notes C and D	105	1,013	320
Transfers and grants from affiliated organizations and trust funds—Notes F and G	964	858	991
Other income—Notes F and G	566	518	482
Total Income	2,656	3,303	2,690
Expenses			
Administrative expenses—Notes F, G and J	1,936	1,674	1,716
Development grants—Note H	2,380	2,062	2,793
Interest expense on securities sold under repurchase agreements	6	7	15
Provision for debt relief and for losses on development credits and other exposures, net—(release) charge —Note E	(53)	66	(44)
Non-functional currency translation adjustment (gains) losses, net	(1)	(424)	455
Discount on prepaid development credits—Note E	12	113	–
Write-off on buy-down of development credits—Note E	26	45	–
Fair value adjustment on non-trading portfolios, net—Note D	102	(39)	101
Project Preparation Advances (PPA) grants/Other expenses	–	9	(14)
Total Expenses	4,408	3,513	5,022
Net Loss	$(1,752)	$ (210)	$(2,332)

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

STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011

Expressed in millions of U.S. dollars

	2013	*2012*	*2011*
Net Loss	$ (1,752)	$ (210)	$(2,332)
Other Comprehensive Loss—Note I			
Currency translation adjustments on functional currencies	(919)	(7,617)	9,935
Comprehensive (Loss) Income	$ (2,671)	$(7,827)	$ 7,603

STATEMENT OF CHANGES IN ACCUMULATED DEFICIT

For the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011

Expressed in millions of U.S. dollars

	2013	*2012*	*2011*
Accumulated Deficit at beginning of the fiscal year	$ (39,306)	$(39,096)	$(36,764)
Net loss for the year	(1,752)	(210)	(2,332)
Accumulated Deficit at end of the fiscal year	$ (41,058)	$(39,306)	$(39,096)

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

STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011

Expressed in millions of U.S. dollars

	2013	*2012*	*2011*
Cash flows from investing activities			
Development credits			
Disbursements	$ (9,161)	$(8,650)	$(8,021)
Principal repayments	3,524	3,041	2,501
Principal prepayments	298	–	–
Proceeds from buy-down of development credits	23	42	–
Net cash used in investing activities	(5,316)	(5,567)	(5,520)
Cash flows from financing activities			
Members' subscriptions and contributions	8,585	8,958	7,580
Cash flows from operating activities			
Net loss	(1,752)	(210)	(2,332)
Adjustments to reconcile net loss to net cash used in operating activities			
Provision for debt relief and for losses on development credits and other exposures, net— (release) charge	(53)	66	(44)
Non-functional currency translation adjustment (gains) losses, net	(1)	(424)	455
Discount on prepaid development credits	12	113	–
Write-off on buy-down of development credits	26	45	–
Fair value adjustment on non-trading portfolios, net	102	(39)	101
PPA grants/Other expenses	–	9	(14)
Changes in:			
Investments—Trading, net	(309)	(1,964)	(1,245)
Net investment securities traded/purchased	(990)	1,826	(1,139)
Net derivatives—Investments	(38)	95	(59)
Net derivatives—Asset/liability management	(85)	(71)	(90)
Net securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	(159)	(2,495)	834
Net receivable from affiliated organizations	149	(4)	103
Payable for development grants	326	(336)	532
Accrued service and commitment charges	(17)	8	(32)
Other assets	(77)	47	(106)
Accounts payable and miscellaneous liabilities	74	–	969
Net cash used in operating activities	(2,792)	(3,334)	(2,067)
Effect of exchange rate changes on unrestricted cash	10	1	12
Net increase in unrestricted cash	487	58	5
Unrestricted cash at beginning of the fiscal year	78	20	15
Unrestricted cash at end of the fiscal year	$ 565	$ 78	$ 20
Supplemental disclosure			
(Decrease) increase in ending balances resulting from exchange rate fluctuations:			
Development credits outstanding	$(1,067)	$(6,175)	$ 8,772
Investment portfolio	(389)	(1,128)	1,638
Derivatives - Asset/liability management	468	(489)	61
Principal repayments written off under Heavily Indebted Poor Countries (HIPC) Debt Initiative	(5)	(5)	(15)
Development credits written off under HIPC Debt Initiative and Multilateral Debt Relief Initiative (MDRI) upon countries reaching their Completion Points	(2,647)	–	(2,464)
Amounts received in prior year relating to current year's development credit prepayments	–	940	–
Development credits prepaid-carrying value	310	–	–
Buy-down of development credits – carrying value	49	87	–

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

SUMMARY STATEMENT OF DEVELOPMENT CREDITS

June 30, 2013

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total development credits*	*Undisbursed development credits* [a]	*Development credits outstanding*	*Percentage of development credits outstanding*[c]
Afghanistan	$ 418	$ 3	$ 415	0.33%
Albania	898	43	855	0.68
Angola	754	319	435	0.35
Armenia	1,277	73	1,204	0.96
Azerbaijan	749	240	509	0.41
Bangladesh	14,646	3,510	11,136	8.90
Benin	818	347	471	0.38
Bhutan	189	17	172	0.14
Bolivia	761	312	449	0.36
Bosnia and Herzegovina	1,266	102	1,164	0.93
Botswana	3	-	3	*
Burkina Faso	1,086	193	893	0.71
Burundi	170	-	170	0.14
Cambodia	628	49	579	0.46
Cameroon	1,311	730	581	0.46
Cape Verde	337	26	311	0.25
Central African Republic	167	144	23	0.02
Chad	846	45	801	0.64
China	6,267	-	6,267	5.01
Comoros	15	-	15	0.01
Congo, Democratic Republic of	970	25	945	0.75
Congo, Republic of	141	46	95	0.08
Côte d'Ivoire	116	*	116	0.09
Djibouti	159	13	146	0.12
Dominica	28	1	27	0.02
Dominican Republic	6	-	6	*
Ecuador	7	-	7	*
Egypt, Arab Republic of	1,181	*	1,181	0.94
El Salvador	6	-	6	0.01
Equatorial Guinea	38	-	38	0.03
Eritrea	470	-	470	0.38
Ethiopia	5,614	2,357	3,257	2.60
Gambia, The	61	-	61	0.05
Georgia	1,406	131	1,275	1.02
Ghana	3,696	1,063	2,633	2.10
Grenada	76	26	50	0.04
Guinea	172	12	160	0.13
Guinea-Bissau	54	-	54	0.04
Guyana	22	10	12	0.01
Honduras	1,018	184	834	0.67
India	32,302	6,205	26,097	20.85
Indonesia	2,114	5	2,109	1.69
Iraq	509	279	230	0.18
Jordan	25	-	25	0.02
Kenya	6,613	2,875	3,738	2.99
Kosovo	47	34	13	0.01
Kyrgyz Republic	747	83	664	0.53
Lao People's Democratic Republic	598	*	598	0.48
Lesotho	347	41	306	0.25
Liberia	402	360	42	0.03
Macedonia, former Yugoslav Republic of	333	-	333	0.27
Madagascar	1,497	233	1,264	1.01
Malawi	778	393	385	0.31
Maldives	108	6	102	0.08
Mali	1,530	439	1,091	0.87
Mauritania	455	75	380	0.30

SUMMARY STATEMENT OF DEVELOPMENT CREDITS
June 30, 2013

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total development credits*	*Undisbursed development credits* [a]	*Development credits outstanding*	*Percentage of development credits outstanding*[c]
Mauritius	$ 6	$ -	$ 6	0.01%
Moldova	621	119	502	0.40
Mongolia	515	56	459	0.37
Montenegro	84	1	83	0.07
Morocco	10	-	10	0.01
Mozambique	2,836	913	1,923	1.54
Myanmar	854	-	854	0.68
Nepal	2,121	629	1,492	1.19
Nicaragua	605	107	498	0.40
Niger	956	490	466	0.37
Nigeria	8,456	3,611	4,845	3.87
Pakistan	13,257	2,184	11,073	8.85
Papua New Guinea	260	131	129	0.10
Paraguay	10	-	10	0.01
Philippines	147	-	147	0.12
Rwanda	645	206	439	0.35
Samoa	118	17	101	0.08
São Tomé and Príncipe	14	-	14	0.01
Senegal	1,860	503	1,357	1.09
Serbia	702	15	687	0.55
Sierra Leone	263	33	230	0.18
Solomon Islands	38	-	38	0.03
Somalia	435	-	435	0.35
South Sudan	70	70	-	-
Sri Lanka	3,278	525	2,753	2.20
St. Kitts and Nevis	1	-	1	*
St. Lucia	85	20	65	0.05
St. Vincent and the Grenadines	43	19	24	0.02
Sudan	1,270	-	1,270	1.02
Swaziland	2	-	2	*
Syrian Arab Republic	14	-	14	0.01
Tajikistan	361	*	361	0.29
Tanzania	5,914	1,543	4,371	3.49
Togo	44	30	14	0.01
Tonga	22	-	22	0.02
Tunisia	13	-	13	0.01
Turkey	28	-	28	0.02
Uganda	3,270	1,026	2,244	1.79
Uzbekistan	822	594	228	0.18
Vanuatu	10	-	10	0.01
Vietnam	14,442	5,050	9,392	7.51
Yemen, Republic of	2,121	78	2,043	1.63
Zambia	1,093	516	577	0.46
Zimbabwe	501	-	501	0.40
Subtotal - Members[c]	164,469	39,535	124,934	99.84

SUMMARY STATEMENT OF DEVELOPMENT CREDITS *(continued)*

June 30, 2013

Expressed in millions of U.S. dollars

Borrower or guarantor	*Total development credits*	*Undisbursed development credits* [a]	*Development credits outstanding*	*Percentage of development credits outstanding* [c]
African Trade Insurance Agency [b]	$ 219	$ 209	$ 10	*%
Bank Of The States Of Central Africa [b]	48	21	27	0.02
Caribbean Development Bank [b]	19	-	19	0.02
West African Development Bank [b]	145	-	145	0.12
Subtotal— Regional development banks	431	230	201	0.16
Total—June 30, 2013[c]	$164,900	$39,765	$125,135	100.00%
Total—June 30, 2012	$160,720	$37,144	$123,576	

** Indicates amounts less than $0.5 million or 0.005 percent.*

NOTES

a. *Of the undisbursed balance at June 30, 2013, IDA has entered into irrevocable commitments to disburse $649 million ($450 million—June 30, 2012).*

b. *The development credits 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, 2013

Expressed in millions of U.S. dollars

Member [a]	*Number of votes*	*Percentage of total votes*	*Subscriptions and contributions committed*[b]
Part I Members			
Australia	277,139	1.21 %	$ 4,076.81
Austria	179,616	0.78	2,480.89
Belgium	248,004	1.08	4,051.03
Canada	592,995	2.58	10,228.32
Denmark	209,864	0.91	3,386.60
Estonia	42,128	0.18	8.43
Finland	139,898	0.61	1,648.96
France	870,863	3.79	15,898.60
Germany	1,269,936	5.53	24,068.28
Greece	53,240	0.23	206.32
Iceland	52,632	0.23	59.13
Ireland	72,255	0.31	617.41
Italy	556,756	2.42	9,551.68
Japan	1,963,955	8.55	40,890.74
Kuwait	102,777	0.45	946.52
Latvia	48,713	0.21	10.84
Lithuania	42,126	0.18	8.01
Luxembourg	62,034	0.27	282.77
Netherlands	442,153	1.92	8,201.18
New Zealand	64,314	0.28	319.25
Norway	230,340	1.00	3,641.68
Portugal	55,762	0.24	286.98
Russian Federation	71,057	0.31	580.38
Slovenia	50,524	0.22	38.25
South Africa	62,623	0.27	203.86
Spain	206,661	0.90	3,160.90
Sweden	441,813	1.92	7,459.65
Switzerland	244,874	1.07	3,953.60
United Arab Emirates	1,367	0.01	5.58
United Kingdom	1,282,935	5.58	24,976.23
United States	2,461,716	10.71	46,543.24
Subtotal Part I Members[b]	12,401,070	53.95%	$217,792.12
Part II Members			
Afghanistan	54,983	0.24 %	$ 1.48
Albania	51,942	0.23	0.35
Algeria	83,313	0.36	5.47
Angola	66,873	0.29	8.29
Argentina	134,439	0.58	69.76
Armenia	54,615	0.24	0.69
Azerbaijan	58,826	0.26	1.16
Bahamas, The	52,653	0.23	4.47
Bangladesh	123,773	0.54	7.84
Barbados	52,553	0.23	2.34
Belize	13,653	0.06	0.26
Benin	54,711	0.24	0.77
Bhutan	43,467	0.19	0.07
Bolivia, Plurinational State of	63,431	0.28	1.58
Bosnia and Herzegovina	51,994	0.23	2.51
Botswana	51,149	0.22	1.64
Brazil	375,349	1.63	851.26
Burkina Faso	54,710	0.24	0.78
Burundi	52,038	0.23	1.09
Cambodia	61,049	0.27	1.53
Cameroon	60,782	0.26	1.62
Cape Verde	43,840	0.19	0.13
Central African Republic	48,910	0.21	0.78
Chad	48,910	0.21	0.77
Chile	43,415	0.19	38.97
China	472,432	2.06	236.63
Colombia	92,384	0.40	24.95

Expressed in millions of U.S. dollars

Member [a]	*Number of votes*	*Percentage of total votes*	*Subscriptions and contributions committed* [b]
Comoros	43,840	0.19 %	$ 0.13
Congo, Democratic Republic of	79,399	0.35	4.59
Congo, Republic of	48,910	0.21	0.74
Costa Rica	18,689	0.08	0.27
Côte d'Ivoire	54,982	0.24	1.52
Croatia	73,491	0.32	5.88
Cyprus	58,205	0.25	13.96
Czech Republic	101,316	0.44	108.28
Djibouti	44,816	0.20	0.26
Dominica	49,640	0.22	0.14
Dominican Republic	27,780	0.12	0.58
Ecuador	50,151	0.22	0.94
Egypt, Arab Republic of	104,776	0.46	11.27
El Salvador	46,464	0.20	0.49
Equatorial Guinea	6,167	0.03	0.41
Eritrea	43,969	0.19	0.14
Ethiopia	48,923	0.21	0.71
Fiji	19,462	0.08	0.76
Gabon	2,093	0.01	0.63
Gambia, The	51,908	0.23	0.42
Georgia	58,401	0.25	1.03
Ghana	71,336	0.31	3.08
Grenada	26,427	0.11	0.13
Guatemala	37,396	0.16	0.55
Guinea	33,987	0.15	1.31
Guinea-Bissau	44,500	0.19	0.22
Guyana	52,674	0.23	1.17
Haiti	52,038	0.23	1.11
Honduras	52,855	0.23	0.44
Hungary	157,823	0.69	122.55
India	661,909	2.88	60.29
Indonesia	203,606	0.89	16.06
Iran, Islamic Republic of	97,730	0.43	6.04
Iraq	59,301	0.26	1.08
Israel	67,473	0.29	70.43
Jordan	24,865	0.11	0.41
Kazakhstan	13,550	0.06	5.01
Kenya	72,127	0.31	2.44
Kiribati	43,592	0.19	0.10
Korea, Republic of	175,667	0.76	1,573.04
Kosovo, Republic of	48,357	0.21	0.87
Kyrgyz Republic	54,311	0.24	0.57
Lao People's Democratic Republic	48,910	0.21	0.73
Lebanon	8,562	0.04	0.56
Lesotho	44,816	0.20	0.23
Liberia	52,038	0.23	1.12
Libya	44,771	0.19	1.42
Macedonia, former Yugoslav Republic of	46,885	0.20	1.10
Madagascar	54,982	0.24	1.39
Malawi	52,038	0.23	0.99
Malaysia	83,968	0.37	6.00
Maldives	49,126	0.21	0.05
Mali	53,345	0.23	1.33
Marshall Islands	4,902	0.02	0.01
Mauritania	48,910	0.21	0.77
Mauritius	60,782	0.26	1.32
Mexico	142,236	0.62	168.34
Micronesia, Federated States of	18,424	0.08	0.03
Moldova	56,582	0.25	0.89
Mongolia	45,667	0.20	0.32
Montenegro	52,896	0.23	0.75
Morocco	98,017	0.43	5.61
Mozambique	59,370	0.26	2.05
Myanmar	76,958	0.33	2.54
Nepal	54,710	0.24	0.74
Nicaragua	46,457	0.20	0.42
Niger	48,910	0.21	0.75
Nigeria	95,536	0.42	4.74

STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2013

Expressed in millions of U.S. dollars

Member [a]	*Number of votes*	*Percentage of total votes*	*Subscriptions and contributions committed*[b]
Oman	52,997	0.23 %	$ 1.41
Pakistan	194,020	0.84	14.34
Palau	3,804	0.02	0.03
Panama	10,185	0.04	0.03
Papua New Guinea	55,805	0.24	1.31
Paraguay	29,968	0.13	0.43
Peru	72,993	0.32	18.05
Philippines	116,552	0.51	18.85
Poland	453,234	1.97	98.63
Rwanda	52,038	0.23	1.13
St. Kitts and Nevis	13,778	0.06	0.17
St. Lucia	30,532	0.13	0.23
St. Vincent and the Grenadines	40,587	0.18	0.12
Samoa	43,901	0.19	0.14
São Tomé and Principe	49,519	0.22	0.12
Saudi Arabia	734,242	3.19	2,498.33
Senegal	63,143	0.27	2.58
Serbia	79,477	0.35	7.09
Sierra Leone	57,838	0.25	1.05
Singapore	23,945	0.10	109.73
Slovak Republic	74,628	0.32	25.13
Solomon Islands	43,901	0.19	0.13
Somalia	10,506	0.05	0.95
South Sudan	52,447	0.23	0.56
Sri Lanka	85,236	0.37	4.34
Sudan	54,982	0.24	1.51
Swaziland	19,022	0.08	0.42
Syrian Arab Republic	11,027	0.05	1.19
Tajikistan	53,918	0.23	0.54
Tanzania	68,943	0.30	2.37
Thailand	90,945	0.40	4.87
Timor-Leste	45,123	0.20	0.44
Togo	57,838	0.25	1.18
Tonga	43,714	0.19	0.11
Trinidad and Tobago	59,184	0.26	2.00
Tunisia	2,793	0.01	1.89
Turkey	135,588	0.59	170.11
Tuvalu	504	0.00	0.02
Uganda	47,092	0.20	2.35
Ukraine	115,569	0.50	8.38
Uzbekistan	65,964	0.29	1.95
Vanuatu	50,952	0.22	0.31
Vietnam	61,168	0.27	2.24
Yemen, Republic of	68,976	0.30	2.23
Zambia	75,427	0.33	3.60
Zimbabwe	105,982	0.46	6.41
Subtotal Part II Members [b]	10,580,885	46.05 %	$6,510.44
Total—June 30, 2013 [b]	22,981,955	100.00 %	$224,303
Total—June 30, 2012	22,006,347		$224,732

* *Indicates less than 0.005 percent.*

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.

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 concessionary financing in the form of grants, development credits 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 AND RELATED 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 income and expenses during the reporting period. 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 development credits 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.

On August 7, 2013, 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 interested parties.

IDA conducts its operations in Special Drawing Rights (SDR) and its component currencies of U.S. dollar, euro, Japanese yen and pound sterling. These constitute the functional currencies of IDA.

Assets and liabilities are translated at market exchange rates in effect at the end of the accounting period, except for Members' Subscriptions and contributions, which are translated in the manner described below. Income and expenses are translated at either the market exchange rates in effect on the dates of income and expense recognition, or at an average of the exchange rates in effect during each month. Translation adjustments relating to the revaluation of development credits, 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 development credits, 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, noninterest-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 development credits and grants committed under the replenishment, or as needed.

In certain replenishments, donors receive discounts when they pay amounts less than their contribution amount before the due date, and donors receive acceleration credits when they pay their full contribution amount before the due date. IDA retains the related income 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 subsequently deducted in arriving at the subscriptions and contributions paid-in.

In these cases, IDA retains the related income, with subscriptions and contributions committed being recorded at amounts received grossed up for discounts or acceleration credits. The discounts or acceleration credits are deducted in arriving at the Subscriptions and contributions paid-in.

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, Noninterest-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, 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 also recorded as Subscriptions and contributions Receivable and deducted from equity.

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 development credits 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 are held in bank accounts which bear IDA's name. These instruments are carried and reported at face value as a reduction to equity on the Balance Sheet.

Development Credits

In fulfilling its mission, IDA makes concessional development credits to the poorest countries. These development credits are made to, or guaranteed by, member governments or to the government of a territory of a member (except for development credits, 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 ($1,195 for the fiscal year ended June 30, 2013 and $1,175 for the fiscal year ended June 30, 2012) and the country may have only limited or no creditworthiness for IBRD lending.

Development credits are carried in the financial statements at amortized cost, less an accumulated provision for debt relief and development credit losses, plus the deferred development credits origination costs.

Commitment charges on the undisbursed balance of development credits, when applicable, are recognized in income as accrued.

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

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

It is the policy of IDA to place in nonaccrual status all development credits made to, or guaranteed by, a member or to the territory of a member if principal or charges with respect to any such development credit 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 in nonaccrual status, all development credits to that member will also be placed in nonaccrual status by IDA. On the date a member's development credits are placed in nonaccrual status, outstanding charges that had accrued on development credits that remained unpaid are deducted from the income from development credits of the current period. Income on nonaccrual development credits is included in 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 development credits may not automatically emerge from nonaccrual status, even though the member's eligibility for new credits may have been restored in such instances. 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 development credits funded from resources through the Fifth Replenishment are expressed in the development credit agreements in terms of 1960 dollars. In June 1987, the Executive Directors decided to value those development credits at the rate of $1.20635 per 1960 dollar on a permanent basis. Development credits funded from resources provided under the Sixth Replenishment and thereafter are denominated in SDRs; the principal amounts disbursed under such development credits are to be repaid in currency amounts currently equivalent to the SDRs disbursed.

Buy-down of Development Credits

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 development credits, 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 credits for an amount equivalent to the present value of the remaining cash flows of the related credits, based on appropriate discount rates. The trust fund subsequently cancels the purchased credits, thereby converting them to grant terms.

IDA records a provision for losses on development credits equivalent to the difference between the carrying amount of the development credits 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 development credits under the accumulated provision for losses on development credits and other exposures, and as a corresponding charge against income. Upon purchase of the development credits, the applicable portion of the development credits will be written-off and the related accumulated provision for losses on credits and other exposures will be reduced accordingly.

Development Grants

Development grants are charged to income, and a liability 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. These amounts are charged to income upon approval by management. To the extent there are follow-on development credits or grants, these PPAs are refinanced out of the proceeds of the development credits and grants. Accordingly, the PPA grant expenses initially charged to income are reversed upon approval of the follow-on development grants, or at the effectiveness of the follow-on development credits.

Guarantees

IDA provides guarantees for credits issued in support of projects located within a member country that are undertaken by private entities. These 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.

Guarantee fee income received is 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 fee income, 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 HIPCs 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 by 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 credit reflows 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 development credits 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. Specifically, for forgone reflows 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 Debt Relief and Losses on Development Credits and Other Exposures

Accumulated 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.

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 development credits under the accumulated provision for debt relief, and as a charge to 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 provided in full 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 development credits under the accumulated provision for debt relief and as a charge against income. The applicable development credits are written off when the country reaches the Completion Point and the related provision reduced accordingly.

Accumulated Provision for Losses on Development Credits and Other Exposures

Delays in receiving development credit 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 development credit'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, it is IDA's practice not to write off its development credits. To date, no development credits have been written off, other than under the HIPC Debt Initiative and MDRI. 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 development credits and other exposures (exposures). Other exposures include irrevocable commitments, guarantees and repaying project preparation facilities.

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 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 development credits disbursed and outstanding less the accumulated provision for debt relief under the HIPC Debt Relief Initiative and MDRI 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. 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 periodically, 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. This methodology is also applied to countries with exposures in nonaccrual status. Generally, all exposures in nonaccrual status have the same risk rating.

The determination of borrowers' ratings is based on both quantitative and qualitative factors. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision accordingly. Adjustments to the accumulated provision are recorded as a charge against or addition to income.

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. Investment securities and related financial instruments held by IDA are carried and reported at fair value.

At June 30, 2013 and June 30, 2012, all investment securities were held in a trading portfolio. 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 gains and losses for investment securities and related financial instruments held in the trading portfolio are included in income. Derivative instruments used in liquidity management are not designated as hedging instruments.

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

Securities purchased under resale agreements, securities lent under securities lending agreements, and securities sold under repurchase agreements are recorded at face value which approximates fair value. 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.

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.

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. These models primarily use market-based or independently sourced market parameters such as yield curves, interest rates, 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, 2013 and June 30, 2012, 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.

Transfers and Grants

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 are receivable 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 the trust funds are recorded as expenses with corresponding amounts recognized as income. 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.

Accounting and Reporting Developments

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law in the United States. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and interpret its requirements. Pending the development of these rules, no impact on IDA has been determined as of June 30, 2013. IDA continues to evaluate the potential future implications of the Act.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* The ASU requires comprehensive income to be reported in either a single statement or in two consecutive statements. The ASU does not change which items are reported in other comprehensive income or existing requirements to reclassify items out of accumulated other comprehensive income to net income. Subsequently, in December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which deferred certain reclassification provisions in ASU 2011-05. For IDA, the ASUs are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The ASUs did not have an effect on IDA’s financial statement as these are already in compliance with one of the options allowed under ASU 2011-05.

Subsequent to the issuance of ASU 2011-05 and ASU 2011-12, in February 2013, the FASB issued ASU 2013-02 *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI).* The ASU introduces new presentation requirements about the amounts reclassified out of AOCI. It requires an entity to present information about the reclassified amounts by component and to provide additional details about such reclassifications. The ASU does not change the current requirements for reporting net income or other comprehensive income in financial statements or which items could be reclassified from other comprehensive income to net income. For IDA, the new requirements will be effective for the fiscal year ending June 30, 2015, with early adoption permitted. IDA is currently evaluating the impact of this ASU on its financial statements and intends to adopt it early as permitted by the standard.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The ASU requires entities to disclose both gross information and net information about instruments and transactions eligible for offset in the statement of financial position, and instruments and transactions subject to a master netting agreement and agreements similar to master netting agreements. The new disclosure requirements will facilitate comparison between U.S. GAAP and IFRS. Subsequently, in January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* which has clarified that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with *Topic 815*, Derivatives and Hedging, that are either offset in accordance with US GAAP or subject to an enforceable master netting arrangement or similar agreement. For IDA, the ASUs are effective for the quarter ending September 30, 2013. IDA is currently evaluating the impact of these ASUs on its financial statements.

In February 2013, the FASB issued ASU 2013-03 *Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities.* The ASU clarifies the scope and applicability of a particular disclosure to nonpublic entities that resulted from the issuance of ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S GAAP and IFRSs,* which IDA adopted from the quarter ended March 31, 2012. ASU 2013-03 clarifies that the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3) does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. For IDA, the ASU was effective from the quarter ended March 31, 2013. IDA has elected not to make use of the exemption provided in this ASU.

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, 2013 and June 30, 2012 is summarized below:

In millions of U.S. dollars

	June 30, 2013	*June 30, 2012*
Beginning of the fiscal year	$175,587	$167,610
Cash contributions received	1,928[a]	1,655
Demand obligations received	7,445	6,848
Translation adjustment	(449)	(526)
End of the fiscal year	$184,511	$175,587

a. Includes restricted cash subscriptions of $1 m at June 30, 2013

During the fiscal year ended June 30, 2013, IDA encashed demand obligations totaling $6,658 million ($7,303 million—fiscal year ended June 30, 2012).

Cumulative discounts/acceleration credits on subscriptions and contributions: At June 30, 2013, the cumulative discounts/ acceleration credits on subscriptions and contributions totaled $2,859 million ($2,574 million—June 30, 2012) and comprised the following:

In millions of U.S. dollars

	June 30, 2013	*June 30, 2012*
Discounts/acceleration credits on Advance Subscriptions and contributions	$2,347	$2,062
Allocation to Switzerland	512	512
Cumulative discounts/acceleration credits	$2,859	$2,574

The allocation to Switzerland represents the discount given to Switzerland when it became a member of IDA. Switzerland had provided $580 million in co-financing grants to IDA borrowers before it became a member of IDA. These grant contributions were converted to subscriptions and contributions upon membership at $512 million, representing the present value of the future reflows of the co-financing grants had they been made through IDA on its repayment terms existing then.

NOTE C—INVESTMENTS

Overview

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

As of June 30, 2013, the majority of Investments-Trading is comprised of government and agency obligations (79%), with all the instruments being classified as either Level 1 or Level 2 within the fair value hierarchy.

The majority of the instruments in Investments -Trading are denominated in U.S. dollars (43%), Euro (30%), Pounds sterling (11%) and Japanese yen (9%). 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 has an average repricing of 3.5 years and the following currency composition: U.S. dollars (49%), Euro (31%), Pounds sterling (10%) and Japanese yen (10%).

Investments–Trading

A summary of IDA's Investments-Trading and the currency composition at June 30, 2013 and June 30, 2012 is as follows:

In millions of U.S. dollars

	June 30, 2013	June 30, 2012
Investments—Trading		
Government and agency obligations	$23,775	$23,140
Time deposits	5,561	6,104
Asset-backed securities (ABS)	947	1,180
Total	$30,283	$30,424

In millions of U.S. dollars

	June 30, 2013		June 30, 2012	
	Carrying value	Average Repricing (years)[a]	Carrying value	Average Repricing (years)[a]
Euro	$9,164	3.52	$ 9,423	3.55
Japanese yen	2,636	2.53	3,531	2.72
Pounds sterling	3,332	2.80	3,478	3.05
U.S. dollars	13,094	3.70	13,262	4.09
Other	2,057	0.38	730	0.39
Total	$30,283	3.22	$30,424	3.51

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.

Net Investment Portfolio

IDA manages its investments on a net portfolio basis. The following tables summarize the net portfolio position and currency composition as of June 30, 2013 and June 30, 2012:

In millions of U.S. dollars

	June 30, 2013	June 30, 2012
Investments—Trading	$30,283	$30,424
Securities purchased under resale agreements	458	441
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received	(3,622)	(3,824)
Derivatives Assets		
Currency forward contracts	1,066	743
Currency swaps	1,534	1,159
Interest rate swaps	1	2
Swaptions, exchange traded options and futures contracts	4	–
Other[a]	*	1
Total	2,605	1,905
Derivatives Liabilities		
Currency forward contracts	(1,068)	(747)
Currency swaps	(1,529)	(1,149)
Interest rate swaps	(1)	(2)
Swaptions, exchange traded options and futures contracts	(*)	(1)
Other[a]	(4)	(*)
Total	(2,602)	(1,899)
Cash held in investment portfolio[b]	110	54
Receivable from investment securities traded[c]	3,752	1,255
Payable for investment securities purchased[d]	(3,497)	(2,023)
Net Investment Portfolio	$27,487	$26,333

a. These relate to Mortgage Backed Securities To-Be-Announced (TBA) securities.
b. This amount is included in Unrestricted cash under Due from Banks and in Other liabilities on the Balance Sheet.
c. This amount is included in Other Receivables on the Balance Sheet.
d. This amount is included in Other Liabilities on the Balance Sheet.
** Indicates amount less than $0.5 million.*

In millions of U.S. dollars

	June 30, 2013		June 30, 2012	
	Carrying value	Average Repricing (years)[a]	Carrying value	Average Repricing (years)[a]
Euro	$ 8,443	3.86	$ 7,647	3.91
Japanese yen	2,780	2.34	3,145	3.33
Pounds sterling	2,628	3.46	2,581	4.90
U.S. dollars	13,621	3.58	12,948	3.83
Other	15	†	12	0.01
Total	$27,487	3.52	$26,333	3.88

† Indicates amounts not meaningful.

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.

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

As of June 30, 2013 there were short sales totaling $134 million ($32 million—June 30, 2012) included in Payable for investment securities purchased on the Balance Sheet.

For the fiscal year ended June 30, 2013, IDA's income included $367 million of net unrealized losses (net unrealized gains of $534 million—fiscal year ended June 30, 2012 and net unrealized losses of $161 million—fiscal year ended June 30, 2011).

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, 2013 and June 30, 2012:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments–Trading				
Government and agency obligations	$7,029	$16,746	$ –	$23,775
Time deposits	881	4,680	–	5,561
ABS	–	947	–	947
Total Investments – Trading	7,910	22,373	–	30,283
Securities purchased under resale agreements	100	358	–	458
Derivative assets-Investments				
Currency forward contracts	–	1,066	–	1,066
Currency swaps	–	1,534	–	1,534
Interest rate swaps	–	1	–	1
Swaptions, exchange traded options and futures contracts	4	–	–	4
Other[b]	–	*	–	*
	4	2,601	–	2,605
Total	$8,014	$25,332	$ –	$33,346
Liabilities:				
Securities sold under repurchase agreements and securities lent under security lending agreements[a]	$ 133	$3,480	$ –	$3,613
Derivative liabilities-Investments				
Currency forward contracts	–	1,068	–	1,068
Currency swaps	–	1,529	–	1,529
Interest rate swaps	–	1	–	1
Swaptions, exchange traded options and futures contracts	*	–	–	*
Other[b]	–	4	–	4
	*	2,602	–	2,602
Total	$ 133	$6,082	$ –	$6,215

a. Excludes $9 million relating to payable for cash collateral received.
b. 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, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Investments–Trading				
Government and agency obligations	$7,131	$16,009	$–	$23,140
Time deposits	997	5,107	–	6,104
ABS	–	1,176	4	1,180
Total Investments – Trading	8,128	22,292	4	30,424
Securities purchased under resale agreements	335	106	–	441
Derivative assets-Investments				
Currency forward contracts	–	743	–	743
Currency swaps	–	1,159	–	1,159
Interest rate swaps	–	2	–	2
Swaptions, exchange traded options and futures contracts	–	–	–	–
Other[a]	–	1	–	1
	–	1,905	–	1,905
Total	$8,463	$24,303	$4	$32,770
Liabilities:				
Securities sold under repurchase agreements and securities lent under security lending agreements	$ 97	$ 3,727	$–	$ 3,824
Derivative liabilities-Investments				
Currency forward contracts	–	747	–	747
Currency swaps	–	1,149	–	1,149
Interest rate swaps	–	2	–	2
Swaptions, exchange traded options and futures contracts	1	–	–	1
Other[a]	–	*	–	*
	1	1,898	–	1,899
Total	$ 98	$ 5,625	$–	$ 5,723

a.These relate to TBA securities.
** Indicates amount less than $0.5 million.*

Level 3 Financial Instruments

The following table provides a summary of changes in the fair value of the Level 3 financial instruments relating to Investments-Trading during the fiscal years ended June 30, 2013 and June 30, 2012:

In millions of U.S. dollars

	Level 3 Financial Instruments Investments – Trading (ABS) Fiscal Year Ended June 30,	
	2013	*2012*
Beginning of the year	$4	$ 18
Total unrealized/realized gains (losses) in:		
Net income:	1	*
Purchases	–	–
Sales/Settlements	(*)	(2)
Transfers (out), net	(5)	(12)
End of the year	$–	$ 4

** Indicates amount less than $0.5 million.*

The following table provides information on the unrealized gains or losses included in income for the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011, relating to the Level 3 financial instruments still held as of those dates, as well as where those amounts are included in the Statement of Income.

In millions of U.S. dollars

	Level 3 Financial Instruments Still Held as of the reporting date		
Unrealized Gains (Losses)	*Investments —Trading (ABS)*		
Statement of Income Location	*Fiscal Year Ended June 30,*		
	2013	*2012*	*2011*
Income: Investments—Trading, net	$–	$*	$5

** Indicates amount less than $0.5 million.*

The fair value of Level 3 instruments (ABS) in the investment portfolio is estimated using valuation models that incorporate observable market inputs and unobservable inputs. The significant unobservable inputs include constant prepayment rates, probability of default, and loss severity rate. The constant prepayment rate is an annualized expected rate of principal prepayment for a pool of asset-backed securities. The probability of default is an estimate of the expected likelihood of not collecting contractual amounts owed. Loss severity is the present value of lifetime losses, both interest and principal, as a percentage of the principal balance.

Significant increases (decreases) in the assumptions used for these inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for constant prepayment rates.

The following table provides a summary of the valuation technique applied in determining fair values of these Level 3 instruments and quantitative information regarding the significant unobservable inputs used as of June 30, 2012. There were no Level 3 instruments as of June 30, 2013.

In millions of U.S. dollars

Instrument type	*Fair Value at June 30, 2012*	*Valuation Technique*	*Unobservable input*	*Range (weighted average) June 30, 2012*
ABS	$4	Discounted Cash Flow	Probability of default	0% to 8.0% (1.14%)
			Constant prepayment rate	0.5% to 5.0% (4.48%)
			Loss severity	0% to 100% (45.9%)

Inter-level transfers

The transfer from Level 2 to Level 3 reflects the unavailability of quoted prices for similar instruments resulting from a decreased volume of trading for these instruments. Conversely, the transfers from Level 3 to Level 2 reflect the availability of quoted prices for similar instruments resulting from increased volume of trading for these instruments.

The table below provides the details of all gross inter-level transfers during the fiscal years ended June 30, 2013 and June 30, 2012:

In millions of U.S. dollars

	Fiscal Year Ended June 30, 2013	
	Level 2	*Level 3*
Investments-Trading		
ABS		
Transfers (out of) into	$(4)	$ 4
Transfers into (out of)	9	(9)
	$ 5	$(5)

In millions of U.S. dollars

	Fiscal Year Ended June 30, 2012	
	Level 2	*Level 3*
Investments-Trading		
ABS		
Transfers (out of) into	$ (5)	$ 5
Transfers into (out of)	17	(17)
	$12	$(12)

Valuation Methods and Assumptions

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

Investment securities

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include futures contracts and most government and agency securities.

Instruments for which market quotations are not available, fair values are determined based on 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 prepayment speeds. Where applicable, unobservable inputs such as constant prepayment rates, probability of default, and loss severity are used.

Unless quoted prices are available, given their short term nature, time deposits are reported at face value which approximates fair value.

Securities Purchased under Resale Agreements, Securities Sold under Agreements to Repurchase and Securities Lent Under Securities Lending Agreements

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

Commercial Credit Risk

For the purpose of risk management, IDA is party to a variety of financial transactions, somen of which involve elements of credit risk. Credit risk exposure represents the maximum potential loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. For all securities, 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.

IDA has entered into master derivatives agreements which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps. The reduction in exposure as a result of these netting provisions can vary as additional transactions are entered into under these agreements. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date.

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 corporate and ABS. 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.

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

In millions of U.S. dollars

	June 30, 2013	*June 30, 2012*	*Financial Statement Presentation*
Securities transferred under repurchase or securities lending agreements	$3,236	$2,691	Included under Investments—Trading on the Balance Sheet
Liabilities relating to securities transferred under repurchase or securities lending agreements	$3,613	$3,772	Included under Securities Sold Under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received on the Balance Sheet.

At June 30, 2013, the liabilities relating to securities transferred under repurchase or securities lending agreements included $344 million ($1,046 million—June 30, 2012) of repurchase agreement trades that had not settled at that date. The entire amount of $344 million ($685 million—June 30, 2012) represented replacement trades entered into in anticipation of maturing trades.

IDA receives collateral in connection with resale agreements. This collateral serves to mitigate IDA's exposure to credit risk. The collateral received is in the form of liquid securities and IDA 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 the Balance Sheet as the accounting criteria for treatment as a sale have not been met. As of June 30, 2013, IDA had received securities with a fair value of $465 million ($442 million—June 30, 2012) in connection with resale agreements. No securities had been transferred under repurchase or security lending agreements as of June 30, 2013 ($52 million— June 30, 2012).

NOTE D—DERIVATIVE INSTRUMENTS

Overview

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:

Portfolio	**Derivative instruments used**	**Purpose/Risk being managed**
Risk management purposes:		
Investments—Trading	Interest rate swaps, currency forward contracts, currency swaps, options, swaptions and futures contracts	Manage currency and interest rate risk in the portfolio.
Other assets/liabilities	Currency forward contracts and currency swaps	Manage foreign exchange risks of future cash flows in non-SDR component currencies.
Other purposes:		
Client operations	Structured swaps	Assist clients in managing risks.

Under its derivative agreement with IBRD, IDA is not required to post collateral as long as it maintains liquidity holdings at pre-determined levels that are a proxy for AAA credit rating. As of June 30, 2013, IDA had not posted any collateral with IBRD in accordance with the agreement.

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, 2013 and June 30, 2012:

Fair value amounts of the derivative instruments on the Balance Sheet:

In millions of U.S. dollars

	Balance Sheet Location			
	Derivative assets		*Derivative liabilities*	
	June 30, 2013	*June 30, 2012*	*June 30, 2013*	*June 30, 2012*
Derivatives not designated as hedging instruments				
Swaptions, exchange traded options and futures contracts -Investments	$ 4	$ *	$ *	$ 1
Interest rate swaps	1	2	1	2
Currency forward contracts	6,373	8,070	6,310	8,461
Currency swaps	1,534	1,159	1,529	1,149
Other[a]	*	1	4	*
Total Derivatives	$ 7,912	$9,232	$ 7,844	$9,613

a. These relate to TBA securities.
** Indicates amount less than $0.5 million.*

Notional amounts and credit risk exposure of the derivative instruments:

In millions of U.S. dollars

Type of contract	*June 30, 2013*	*June 30, 2012*
Investments—Trading		
Interest rate swaps		
Notional principal	$ 67	$ 60
Credit exposure	1	2
Currency swaps (including currency forward contracts)		
Credit exposure	31	28
Swaptions, exchange traded options and futures contracts[a]		
Notional long position	624	1,251
Notional short position	4,597	4,778
Credit exposure	*	2
Other[b]		
Notional long position	318	203
Notional short position	31	26
Credit exposure	*	1
Asset/liability management		
Currency forward contracts		
Credit exposure	199	57
Client Operations		
Structured swaps		
Notional principal	90	–
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.
** Indicates amount less than $0.5 million.*

Amounts of gains and losses on the non-trading derivative instruments and their location on the Statement of Income for the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011 are as follows:

In millions of U.S. dollars

		Gains (Losses)		
		Fiscal Year Ended June 30,		
	Statement of Income Location	*2013*	*2012*	*2011*
Derivatives not designated as hedging instruments, and not held in a trading portfolio[a]				
Currency forward contracts, currency swaps and structured swaps	Fair value adjustment on non-trading portfolios, net	$(102)	$39	$(101)

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

All instruments in IDA's investment portfolio are held for trading purposes. Within the investment portfolio, IDA holds highly rated fixed income instruments as well as derivatives. The investment 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 net investment portfolio (derivative and non-derivative instruments), and their location on the Statement of Income for the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011:

Investments—Trading portfolio

In millions of U.S. dollars

		Gains (Losses)		
		Fiscal Year Ended June 30,		
	Statement of Income Location	*2013*	*2012*	*2011*
Type of instrument				
Fixed income	Investments—Trading,net	$(367)	$534	$(161)

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, 2013 and June 30, 2012 is as follows:

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2013			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative assets:				
Investments				
Currency forward contracts	$ –	$ 1,066	$–	$1,066
Currency swaps	–	1,534	–	1,534
Interest rate swaps	–	1	–	1
Swaptions, exchange traded options and futures contracts	4	–	–	4
Other[a]	–	*	–	*
	4	2,601	–	2,605
Asset-liability management				
Currency forward contracts	–	5,307	–	5,307
Total	$4	$7,908	$–	$7,912
Derivative liabilities:				
Investments				
Currency forward contracts	$–	$ 1,068	$–	$1,068
Currency swaps	–	1,529	–	1,529
Interest rate swaps	–	1	–	1
Swaptions, exchange traded options and futures contracts	*	–	–	*
Other[a]	–	4	–	4
	*	2,602	–	2,602
Asset-liability management				
Currency forward contracts	–	5,242	–	5,242
Total	$*	$ 7,844	$–	$7,844

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, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Derivative assets:				
Investments				
Currency forward contracts	$–	$ 743	$–	$ 743
Currency swaps	–	1,159	–	1,159
Interest rate swaps	–	2	–	2
Swaptions, exchange traded options and futures contracts	–	–	–	–
Other[a]	–	1	–	1
	–	1,905	–	1,905
Asset-liability management				
Currency forward contracts	–	7,327	–	7,327
Total	$–	$9,232	$–	$9,232
Derivative liabilities:				
Investments				
Currency forward contracts	$–	$ 747	$–	$ 747
Currency swaps	–	1,149	–	1,149
Interest rate swaps	–	2	–	2
Swaptions, exchange traded options and futures contracts	1	–	–	1
Other[a]	–	*	–	*
	1	1,898	–	1,899
Asset-liability management				
Currency forward contracts	–	7,714	–	7,714
Total	$1	$9,612	$–	$9,613

a.These relate to TBA securities.
***** *Indicates amount less than $0.5 million*

During the fiscal years ended June 30, 2013 and June 30, 2012, there were no inter-level transfers in the derivatives portfolio.

Valuation Methods and Assumptions

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

NOTE E—DEVELOPMENT CREDITS AND OTHER EXPOSURES

Overview

Development credits and other exposures are generally made directly to member countries of IDA. Development credits are carried and reported at amortized cost. Of the total development credits outstanding as of June 30, 2013, 89% 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 development credits outstanding are in the Medium and High risk classes.

As of June 30, 2013, IDA's development credits are predominantly denominated in SDR (representing about 95% of the portfolio) and carry a service charge of 75 basis points.

As of June 30, 2013, five borrowers with development credits outstanding totaling $2,690 million (representing about 2% of the portfolio) were in nonaccrual status.

Maturity Structure

The maturity structure of development credits outstanding at June 30, 2013 and June 30, 2012 was as follows:

In millions of U.S. dollars

June 30, 2013		June 30, 2012	
July 1, 2013 through June 30, 2014	$ 4,400	July 1, 2012 through June 30, 2013[a]	$ 6,006
July 1, 2014 through June 30, 2018	16,937	July 1, 2013 through June 30, 2017	15,992
July 1, 2018 through June 30, 2023	26,115	July 1, 2017 through June 30, 2022	25,091
Thereafter	77,683	Thereafter	76,487
Total	$125,135	Total	$123,576

a. Includes $1,559 million written off on July 1, 2012 under the MDRI.

Currency Composition

Development credits outstanding had the following currency composition at June 30, 2013 and June 30, 2012:

In millions of U.S. dollars

	June 30, 2013	June 30, 2012
USD-denominated	$ 6,061	$ 6,690
SDR-denominated	119,074	116,886
	$125,135	$123,576

Credit Quality of Sovereign Development Credits

Based on an evaluation of IDA's development credits, management has determined that IDA has one portfolio segment – Sovereign Exposures. Development credits constitute the majority of sovereign exposures.

IDA's country risk ratings are an assessment of its borrowers' ability and willingness to repay 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 considers all exposures in nonaccrual status to be impaired.

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

IDA considers a development credit 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 development credit agreements.

The following tables provide an aging analysis of development credits outstanding as of June 30, 2013 and June 30, 2012:

In millions of U.S. dollars

	June 30, 2013							
Days past due	*Up to 45*	*46-60*	*61-90*	*91-180*	*Over 180*	*Total Past Due*	*Current*	*Total*
Risk Class								
Low	$ –	$ –	$ –	$ –	$ –	$ –	$ 6,289	$ 6,289
Medium	–	–	–	–	–	–	28,867	28,867
High	*	–	–	–	–	–	87,289	87,289
Credits in accrual status	*	–	–	–	–	–	122,445	122,445
Credits in nonaccrual status	10	1	5	22	855	893	1,797	2,690
Total	$10	$ 1	$ 5	$22	$855	$893	$124,242	$125,135

** Indicates amounts less than $0.5 million.*

In millions of U.S. dollars

Days past due	June 30, 2012 Up to 45	46-60	61-90	91-180	Over 180	Total Past Due	Current	Total
Risk Class								
Low	$ –	$–	$–	$ –	$ –	$ –	$ 7,074	$ 7,074
Medium	–	–	–	–	–	–	33,611	33,611
High	*	–	–	–	–	*	79,405	79,405
Credits in accrual status	*	–	–	–	–	*	120,090	120,090
Credits in nonaccrual status	12	2	6	28	1,072	1,120	2,366	3,486
Total	$12	$2	$6	$28	$1,072	$1,120	$122,456	$123,576

** Indicates amounts less than $0.5 million.*

Accumulated Provision for Losses on Development Credits, Debt Relief (HIPC Debt Initiative and MDRI) and Other Exposures

Provision for Losses on Development Credits 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 on a periodic basis and adjustments are recorded as a charge against or addition to income.

Provision for Debt Relief

HIPC Debt Initiative and MDRI provisions 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 debt relief. Provisions are released as qualifying debt service becomes due under the HIPC Debt Initiative and are reduced by the amount of the eligible development credits written off when the country reaches Completion Point, and becomes eligible for MDRI debt relief.

Changes to the accumulated provision for losses on development credits and other exposures, as well as the debt relief under HIPC Debt Initiative and MDRI for the fiscal years ended June 30, 2013 and June 30, 2012 are summarized below:

In millions of U.S. dollars

	June 30, 2013				June 30, 2012			
	Develop-ment credits	Other	Debt relief under HIPC/MDRI	Total	Develop-ment credits	Other	Debt relief under HIPC/MDRI	Total
Accumulated provision, beginning of the fiscal year	$ 1,339	$13	$5,384	$6,736	$ 1,333	$15	$5,614	$6,962
Provision, net –(release) charge	(34)[a]	3	(22)	(53)	70	(1)	(3)	66
Development credits written off under HIPC	–	–	(5)	(5)	–	–	(5)	(5)
Development credits written off under MDRI	–	–	(2,647)	(2,647)	–	–	–	–
Translation adjustment	(11)	–	1	(10)	(64)	(1)	(222)	(287)
Accumulated provision, end of the fiscal year	$ 1,294	$16	$2,711	$4,021	$ 1,339	$13	$5,384	$6,736
Composed of accumulated provision for losses on:								
Development credits in accrual status	$ 1,243				$ 1,131			
Development credits in nonaccrual status	51				208			
Total	$ 1,294				$ 1,339			
Development credits, end of the fiscal year:								
Development credits in accrual status	$ 122,445				$ 120,090			
Development credits in nonaccrual status	2,690				3,486			
Total	$ 125,135				$123,576			

[a] *Includes provision of $30 million for one development credit expected to be bought -down.*

Accumulated Provision for Losses on:	Reported as Follows: Balance Sheet	Reported as Follows: Statement of Income
Development Credits	Accumulated provision for debt relief and losses on development credits	Provision for debt relief and for losses on development credits and other exposures
Debt Relief under HIPC/MDRI	Accumulated provision for debt relief and losses on development credits	Provision for debt relief and for losses on development credits and other exposures
Other Exposures	Other Liabilities-Accounts payable and miscellaneous liabilities	Provision for debt relief and for losses on development credits and other exposures

Development credits written off under MDRI

The table below summarizes the eligible development credits written off under the MDRI during the fiscal years ended June 30, 2013:

In millions of U.S. dollars

Country	*Completion Point Date*	*Amount*	*Date*
Côte d'Ivoire	June 26, 2012	$ 1,559	July 1, 2012
Guinea	September 26, 2012	995	October 1, 2012
Comoros	December 20, 2012	93	January 1, 2013
		$2,647	

Overdue Amounts

It is the policy of IDA to place in nonaccrual status all development credits and other exposures made to, or guaranteed by, a member of IDA if principal, service charges, or other charges with respect to any such exposures are overdue by more than six months, unless IDA's management determines that the overdue amount will be collected in the immediate future. IDA considers the exposures in nonaccrual status to be impaired. In addition, if exposures by IBRD to a member are placed in nonaccrual status, all development credits and other exposures made to, or guaranteed by, that member will also be placed in nonaccrual status by IDA. On the date a member's development credits and other exposures are placed into nonaccrual status, unpaid service charges and other charges accrued on development credits outstanding to the member are deducted from the income from development credits in the current period. Charge income on nonaccrual exposures is included in income only to the extent that payments have actually been received. If collectability risk is considered to be particularly high at the time of arrears clearance, a borrowing member's exposures may not automatically emerge from nonaccrual status. In such instances, a decision on the restoration of accrual status is made on a case-by-case basis, and in certain cases that decision may be deferred until a suitable period of payment or policy performance has passed.

As of June 30, 2013, there were no principal or charges under development credits in accrual status which were overdue by more than three months.

The following tables provide a summary of selected financial information related to development credits in nonaccrual status as of and for the fiscal years ended June 30, 2013 and June 30, 2012:

In millions of U.S. dollars

Borrower	*Nonaccrual Since*	*Recorded investment*[a]	*Average recorded investment*[b]	*Principal Outstanding*	*Provision for debt relief*	*Provision for credit losses*[c]	*Overdue amounts: Principal*	*Overdue amounts: Charges*
Eritrea	March 2012	$ 470	$ 475	$ 470	$ 336	$ 27	$ 15	$ 7
Somalia	July 1991	435	439	435	419	3	189	74
Sudan	January 1994	1,270	1,279	1,270	1,217	11	548	179
Syrian Arab Republic	June 2012	14	14	14	–	*	3	*
Zimbabwe	October 2000	501	507	501	–	10	138	50
Total – June 30, 2013		$2,690	$2,714	$2,690	$1,972	$ 51	$ 893	$310
Total – June 30, 2012		$3,486	$3,206	$3,486	$1,980	$208	$1,120	$376

a. A credit loss provision has been recorded against each of the credits in nonaccrual status.
b. Represents the average for the fiscal years. For the fiscal year ended June 30, 2011: $3,055 million.
c. Credit loss provisions are determined after taking into account accumulated provision for debt relief.
** Indicates amount less than $0.5 million.*

In millions of U.S. dollars

	Fiscal Year Ended June 30,		
	2013	*2012*	*2011*
Service charge income not recognized as a result of development credits being in nonaccrual status	$20	$27	$23

On January 25, 2013, Myanmar cleared all of its overdue principal and charges due to IDA and the credits to, or guaranteed by, Myanmar were restored to accrual status on that date. As a result of this event, income from development credits increased by $90 million, $87 million of which represented income that would have been accrued in previous fiscal years had these credits not been in nonaccrual status.

The arrears clearance of the overdue payments to IDA by Myanmar was accomplished using intra-day bridge financing. On the same day, IDA disbursed a development credit to Myanmar on standard IDA terms. The proceeds from this development credit were used to repay the bridge financing.

During the fiscal year ended June 30, 2013, no development credits were placed into nonaccrual status.

During the fiscal years ended June 30, 2013, June 30, 2012, and June 30, 2011 no service charge income was recognized on development credits in nonaccrual status.

Guarantees

Guarantees of $359 million were outstanding at June 30, 2013 ($299 million—June 30, 2012). 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 10 and 23 years, and expire in decreasing amounts through 2035.

At June 30, 2013, liabilities related to IDA's obligations under guarantees of $30 million (June 30, 2012—$26 million), have been included in Accounts payable and miscellaneous liabilities on the Balance Sheet. These include the accumulated provision for guarantee losses of $9 million (June 30, 2012—$7 million).

During the fiscal years ended June 30, 2013 and June 30, 2012, 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.

Charge income comprises service charges and interest charges on outstanding development credit balances and guarantee fee income. For the fiscal year ended June 30, 2013, charge income from one country totaling $200 million was in excess of ten percent of total charge income.

The following table presents development credits outstanding and associated charge income as of and for the fiscal years ended June 30, 2013 and June 30, 2012, by geographic region.

In millions of U.S. dollars

	June 30, 2013		*June 30, 2012*	
	Development Credits Outstanding	*Charge Income*	*Development Credits Outstanding*	*Charge Income*
Africa	$ 37,618	$ 249	$ 36,604	$244
East Asia and Pacific	20,704	251	20,555	154
Europe and Central Asia	7,905	64	8,080	62
Latin America and the Caribbean	2,008	16	1,872	14
Middle East and North Africa	3,661	28	3,729	29
South Asia	53,239	413	52,736	411
Total	$125,135	$1,021	$123,576	$914

Buy-down of Development Credits

During the fiscal year ended June 30, 2013, one development credit with outstanding carrying value of $49 million was purchased for a present value equivalent of $23 million under the buy-down mechanism by the Global Program to Eradicate Poliomyelitis Trust Funds, resulting in a $26 million write-off as an expense in the Statement of Income. In addition, for one development credit with an outstanding carrying value of $55 million, all performance goals as well as conditions necessary to effect the buy-down were completed during the year. As a result, as of June 30, 2013, a provision for losses of $30 million on this development credit was recorded. This provision was equivalent to the difference between the carrying amount of the development credit and the estimated amount to be received.

During the fiscal year ended June 30, 2012, two development credits with outstanding nominal value of $87 million were purchased for a present value equivalent of $42 million under the buy-down mechanism by the Global Program to Eradicate Poliomyelitis Trust Funds, resulting in a $45 million write-off.

Discount on Development Credits prepaid under the Sixteenth Replenishment of IDA's Resources (IDA16)

During the fiscal year ended June 30, 2013, one IDA graduate country prepaid development credits with an outstanding carrying value totaling $310 million as part of IDA16. The total amount prepaid of $298 million reflected the present value of the development credits as on the date of prepayment, resulting in an aggregate discount of $12 million.

During the fiscal year ended June 30, 2012, two IDA graduate countries prepaid development credits with outstanding nominal values totaling $1,053 million as part of IDA16. The total amount prepaid of $940 million reflected the present value of the development credits as of the date of the prepayment, resulting in an aggregate discount of $113 million.

Fair Value Disclosures

The table below presents the fair value of development credits along with their respective carrying amounts as of June 30, 2013 and June 30, 2012:

In millions of U.S. dollars

	June 30, 2013		*June 30, 2012*	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Net Development Credits Outstanding	$121,157	$79,670	$116,880	$79,917

As of June 30, 2013, IDA's development credits are classified as Level 3 within the fair value hierarchy.

Valuation Methods and Assumptions

The fair value of development credits 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 F—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

On October 12, 2012, IBRD's Board of Governors approved an immediate transfer to IDA of $608 million. This transfer was received on October 16, 2012.

On January 15, 2013, IFC and IDA signed an agreement for IFC to provide a grant to IDA of $340 million. This grant was received on January 23, 2013.

In millions of U.S. dollars

Transfers from	*Beginning of the fiscal year*	*Transfers during the fiscal year*	*End of the fiscal year*
Total	$14,518	$964	$15,482
Of which from:			
IBRD	12,115	608	12,723
IFC	2,230	340	2,570

Cumulative transfers and grants made to IDA as of June 30, 2013 were $15,482 million ($14,518 million—June 30, 2012).

Receivables and Payables

At June 30, 2013, and June 30, 2012, the total amounts receivable from or (payable to) affiliated organizations comprised:

In millions of U.S. dollars

	June 30, 2013			
	Administrative Services	*Pension and Other Postretirement Benefits*	*Derivative transactions*	*Total*
Receivable from:				
IBRD	$ –	$ 887	$5,307	$ 6,194
Payable to:				
IBRD	$ (413)	$ –	$(5,242)	$(5,655)

In millions of U.S. dollars

	June 30, 2012			
	Administrative Services	*Pension and Other Postretirement Benefits*	*Derivative transactions*	*Total*
Receivable from:				
IBRD	$ –	$ 1,006	$ 7,327	$ 8,333
Payable to:				
IBRD	$(375)	$ –	$(7,714)	$(8,089)

Administrative Services: The payable to IBRD represents IDA's share of joint administrative expenses, net of other income jointly earned. The allocation of expenses is based upon an agreed cost sharing formula, and amounts are settled quarterly.

During the fiscal year ended June 30, 2013, IDA's share of joint administrative expenses totaled $1,620 million ($1,365 million - fiscal year ended June 30, 2012 and $1,427 million - fiscal year ended June 30, 2011).

Other income: Includes IDA's share of other income jointly earned with IBRD during the fiscal year ended June 30, 2013 totaling $250 million (fiscal year ended June 30, 2012—$209 million and fiscal year ended June 30, 2011—$193 million). Other income is allocated on the basis consistent with that applied to joint administrative expenses.

For the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011, the amount of fee revenue associated with services provided to other affiliated organizations is included in Other income on the Statement of Income, as follows:

In millions of U.S. dollars

	Fiscal Year Ended June 30,		
	2013	*2012*	*2011*
Fees charged to IFC	$45	$40	$40
Fees charged to MIGA	6	6	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 life 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 IDA16 and prior replenishments of IDA's resources into the four currencies of the SDR basket.

NOTE G—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, 2013, June 30, 2012 and June 30, 2011:

In millions of U.S. dollars

	Fiscal Year Ended June 30,		
	2013	*2012*	*2011*
IDA-executed trust funds expenses	$316	$309	$289

These amounts are included in Administrative expenses and the corresponding income is included in Other income in the Statement of Income.

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, 2013 and June 30, 2012:

In millions of U.S. dollars

	June 30, 2013	*June 30, 2012*
IDA-executed trust funds	$380	$334

These amounts are included in Other Assets and the corresponding liabilities are included in Accounts payable and miscellaneous liabilities 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 include, for example, administration of debt service trust funds, financial intermediation and other more specialized limited fund management roles. 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.

Revenues

During the fiscal year ended June 30, 2013, June 30, 2012 and June 30, 2011, IDA's revenues for the administration of trust fund operations were as follows:

In millions of U.S. dollars

	Fiscal Year Ended June 30,		
	2013	*2012*	*2011*
Revenues	$68	$68	$61

These amounts are included in Other income in the Statement of Income.

Revenues collected from donor contributions but not yet earned totaling $76 million at June 30, 2013 ($77 million—June 30, 2012) 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 development credits are repaid to trust funds, in certain cases they are transferred to IDA. During the fiscal year ended June 30, 2013, surplus funds recorded as income under these arrangements totaled $15 million ($7 million – fiscal year ended June 30, 2012).

NOTE H—DEVELOPMENT GRANTS

A summary of changes to the amounts payable for development grants is presented below:

In millions of U.S. dollars

	June 30, 2013	*June 30,2012*
Balance, beginning of the fiscal year	$ 6,161	$ 6,830
Commitments	2,380	2,062
Disbursements (including PPA grant activity)	(2,054)	(2,398)
Translation adjustment	(51)	(333)
Balance, end of the fiscal year	$ 6,436	$ 6,161

For the fiscal years ending June 30, 2013 and June 30, 2012, the commitment charge rate on the undisbursed balances of IDA grants was set at nil percent.

NOTE I—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 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, 2013, June 30, 2012 and June 30, 2011:

In millions of U.S. dollars

	June 30,		
	2013	*2012*	*2011*
Balance, beginning of the fiscal year	$10,177	$ 17,794	$ 7,859
Currency translation adjustments on functional currencies	(919)	(7,617)	9,935
Balance, end of the fiscal year	$ 9,258	$10,177	$17,794

NOTE J—PENSION AND OTHER POSTRETIREMENT BENEFITS

IDA and IBRD are jointly called The World Bank. 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 (SRP), a Retired Staff Benefits Plan (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, 2013, IDA's share of IBRD's costs relating to all the three plans totaled $327 million ($173 million - fiscal year ended June 30, 2012 and $241 million - fiscal year ended June 30, 2011).

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, 2013, the SRP and the RSBP had negative funded status of $729 million and $610 million, respectively. The funded status of the PEBP, after reflecting IBRD and IDA's share of assets which are included in IBRD's investment portfolio ($533 million), was negative $222 million.

NOTE K—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, 2013 and June 30, 2012.

In millions of U.S. dollars

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Due from Banks	$ 595	$ 595	$ 106	$ 106
Investments (including Securities Purchased Under Resale Agreements)	30,741	30,741	30,865	30,865
Net Development Credits Outstanding	121,157	79,670	116,880	79,917
Derivative Assets				
Investments	2,605	2,605	1,905	1,905
Other Asset/Liability Management	5,307	5,307	7,327	7,327
Securities sold/lent under repurchase agreements/ securities lending agreements and payable for cash collateral received	3,622	3,622	3,824	3,824
Derivative Liabilities				
Investments	2,602	2,602	1,898	1,898
Other Asset/Liability Management	5,242	5,242	7,714	7,714

Valuation Methods and Assumptions

As of June 30, 2013 and June 30, 2012, IDA had no financial assets or liabilities measured at fair value on a non-recurring basis.

For valuation methods and assumptions for the following items refer to the respective notes as follows:

Investments: See Note C

Derivative assets and liabilities: See Note D

Development Credits Outstanding: See Note E

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