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THE WORLD BANK

Washington, D.C.

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R2002-036 Other #: 41 Box #: 186491B
President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materials
Price Waterhouse - July 18, 1997

(FFC)

Pre-Brief: Price Waterhouse Mtg.

Friday, July 18, 1997
11:00 a.m. - 11:15 a.m.
MC11-127 Conference Room

Meeting: Price Waterhouse - Annual
Year-End Audit Clearance

Thursday, July 18, 1997
11:15 a.m. - 12:45 p.m.
MC11-127 Conference Room



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Price Waterhouse - July 18, 1997		Barcode No. 30488302		
Document Date July 18, 1997	Document Type Brief			
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Withdrawn by Diego Hernández	Date June 18, 2025			

INTERNATIONAL FINANCE CORPORATION

FINANCIAL STATEMENTS

June 30, 1997

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INTERNATIONAL FINANCE CORPORATION

BALANCE SHEET

June 30, 1997 and June 30, 1996

Expressed In Thousands of United States Dollars

	<u>1997</u>	<u>1996</u>
ASSETS		
Due from banks	\$ 70,370	\$ 39,389
Deposits and securities - Note B		
Trading	3,117,181	2,108,812
Available for sale	5,544,402	4,433,285
Securities purchased under resale agreements - Note B	16,183	38,775
Receivables and other assets - Note C	1,479,720	940,844
Loan and equity investments disbursed and outstanding - Note D		
Loan investments	6,574,362	6,139,365
Equity investments	1,848,675	1,678,004
Total investments	<u>8,423,037</u>	<u>7,817,369</u>
Less: Reserve against losses	(1,076,192)	(876,206)
Net investments	<u>7,346,845</u>	<u>6,941,163</u>
Derivative Instruments - Notes B, K and L		
Receivables from currency and interest rate swaps	10,341,582	7,812,781
Receivables from covered forwards	1,058,432	325,136
TOTAL ASSETS	<u>\$28,974,715</u>	<u>\$22,640,185</u>
LIABILITIES AND CAPITAL		
Liabilities:		
Payables and other liabilities - Note F	\$ 1,274,462	\$ 977,023
Securities sold under agreements to repurchase and payable for cash collateral received - Note B	601,454	210,104
Borrowings withdrawn and outstanding - Note G		
From market sources	9,524,665	8,165,069
From International Bank for Reconstruction and Development	598,676	791,020
Total borrowings	<u>10,123,341</u>	<u>8,956,089</u>
Derivative Instruments - Notes B, K and L		
Payables for currency and interest rate swaps	11,094,564	7,961,527
Payables for covered forwards	1,086,402	321,375
Deferred income	57,623	55,856
Total Liabilities	<u>24,237,846</u>	<u>18,481,974</u>
Capital:		
Capital stock, authorized 2,450,000 shares of \$1,000 par value each - Note H		
Subscribed	2,364,104	2,348,133
Less: Portion not yet paid	(135,253)	(271,971)
	<u>2,228,851</u>	<u>2,076,162</u>
Payments received on account of pending subscriptions	1,908	2,143
Net unrealized gains on available for sale securities	2,690	8,423
Retained earnings	2,503,420	2,071,483
Total Capital	<u>4,736,869</u>	<u>4,158,211</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$28,974,715</u>	<u>\$22,640,185</u>

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

INTERNATIONAL FINANCE CORPORATION

STATEMENT OF INCOME

For the Years Ended June 30, 1997 and June 30, 1996

Expressed In Thousands of United States Dollars

	<u>1997</u>	<u>1996</u>
INCOME		
Income from loan and equity investments:		
Interest and financial fees - Note I	\$ 580,245	\$ 520,533
Dividends and profit participations	147,733	87,444
Capital gains on equity sales	195,876	154,669
Total income from loan and equity investments	<u>923,854</u>	<u>762,646</u>
Service fees	75,018	63,324
Income from deposits and securities - Note B	411,009	348,265
Translation adjustments, net	826	3,332
Other income (expense), net	<u>6,319</u>	<u>(2,073)</u>
TOTAL INCOME	<u>1,417,026</u>	<u>1,175,494</u>
 EXPENSES		
Charges on borrowings - Note G	536,180	488,562
Administrative expenses - Notes N and P	177,562	185,413
Provision for losses - Note D	266,436	151,480
Contributions to special programs - Note J	<u>4,911</u>	<u>4,271</u>
TOTAL EXPENSES	<u>985,089</u>	<u>829,726</u>
NET INCOME	<u><u>\$ 431,937</u></u>	<u><u>\$ 345,768</u></u>

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

INTERNATIONAL FINANCE CORPORATION

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 1997 and June 30, 1996

Expressed In Thousands of United States Dollars

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM LOAN AND EQUITY INVESTMENT ACTIVITIES:		
Loan and equity disbursements	\$(2,002,855)	\$(2,053,457)
Loan repayments and equity redemptions	1,169,553	858,422
Sales of investments at cost	115,288	519,039
NET CASH USED IN INVESTING ACTIVITIES	<u>(718,014)</u>	<u>(675,996)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Drawdown of borrowings	3,925,815	3,106,703
Repayment of borrowings	(2,112,227)	(1,515,002)
Capital subscriptions	152,689	201,517
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,966,277</u>	<u>1,793,218</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	431,937	345,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses	266,436	151,480
Translation adjustments, net	(826)	(3,332)
Change in accrued income on loans, deposits and securities	(46,019)	(19,178)
Change in payables and other liabilities	866,684	368,795
Change in receivables and other assets	(559,868)	(146,419)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>958,344</u>	<u>697,114</u>
Change in cash, deposits and securities	2,206,607	1,814,336
Effect of exchange rate changes on cash, deposits and securities	(56,140)	(33,502)
Net change in cash, deposits and securities	2,150,467	1,780,834
Cash, deposits and securities at beginning of year	6,581,486	4,800,652
Cash, deposits and securities at end of period	<u>\$8,731,953</u>	<u>\$6,581,486</u>
Composed of:		
Due from banks	70,370	39,389
Deposits and securities held in trading portfolio	3,117,181	2,108,812
Deposits and securities available for sale	5,544,402	4,433,285
	<u>\$8,731,953</u>	<u>\$6,581,486</u>
Supplemental disclosure		
Change in ending balances resulting from exchange rate fluctuations		
Loans outstanding	\$ (74,843)	\$ (100,700)
Borrowings	(559,443)	(674,775)
Currency swaps	(466,229)	(557,156)

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

INTERNATIONAL FINANCE CORPORATION

STATEMENT OF CAPITAL STOCK AND VOTING POWER

June 30, 1997

Expressed In Thousands of United States Dollars

Members	Capital Stock		Voting Power		Members	Capital Stock		Voting Power	
	Amount Paid	Percent of Total	Number of Votes	Percent of Total		Amount Paid	Percent of Total	Number of Votes	Percent of Total
Afghanistan	\$ 111	.01	361	.02	Lao People's Dem. Rep.	\$ 278	.01	528	.02
Albania	1,188	.05	1,438	.06	Latvia	2,150	.10	2,400	.11
Algeria	3,788	.17	4,038	.18	Lebanon	118	.01	368	.02
Angola	1,353	.06	1,603	.07	Lesotho	71	*	321	.01
Antigua and Barbuda	13	*	263	.01	Liberia	83	*	333	.01
Argentina	34,813	1.56	35,063	1.54	Libya	55	*	305	.01
Armenia	992	.04	1,242	0.05	Lithuania	2,135	.10	2,385	.10
Australia	31,895	1.43	32,145	1.41	Luxembourg	2,139	.10	2,389	.11
Austria	18,024	.81	18,274	.80	Macedonia, FYR of	270	.01	520	.02
Azerbaijan	2,367	.11	2,617	.12	Madagascar	432	.02	682	.03
Bahamas, The	335	.02	585	.03	Malawi	1,346	.06	1,596	.07
Bahrain	1,746	.08	1,996	.09	Malaysia	15,222	.68	15,472	.68
Bangladesh	8,251	.37	8,501	.37	Maldives	16	*	266	.01
Barbados	361	.02	611	.03	Mali	451	.02	701	.03
Belarus	4,708	.21	4,958	.22	Marshall Islands	663	.03	913	.04
Belgium	50,610	2.27	50,860	2.24	Mauritania	214	.01	464	.02
Belize	93	*	343	.02	Mauritius	1,665	.07	1,915	.08
Benin	119	*	369	.02	Mexico	25,562	1.15	25,812	1.14
Bolivia	1,571	.07	1,821	.08	Micronesia	744	.03	994	.04
Bosnia and Herzegovina	620	.03	870	.04	Moldova, Republic of	744	.03	994	.04
Botswana	113	.01	363	.02	Mongolia	144	.01	394	.02
Brazil	36,046	1.62	36,296	1.60	Morocco	9,037	.41	9,287	.41
Bulgaria	1,789	.08	2,039	.09	Mozambique	322	.01	572	.03
Burkina Faso	786	.04	1,036	.05	Myanmar	666	.03	916	.04
Burundi	100	*	350	.02	Namibia	404	.02	654	.03
Cameroon	885	.04	1,135	.05	Nepal	822	.04	1,072	.05
Canada	81,342	3.65	81,592	3.59	Netherlands	51,250	2.30	51,500	2.27
Cape Verde	15	*	265	.01	New Zealand	3,583	.16	3,833	.17
Central African Republic	67	*	317	.01	Nicaragua	652	.03	902	.04
Chile	11,710	.53	11,960	.53	Niger	147	.01	397	.02
China	24,500	1.10	24,750	1.09	Nigeria	21,643	.97	21,893	.96
Colombia	12,606	.57	12,856	.57	Norway	16,071	.72	16,321	.72
Comoros	14	*	264	.01	Oman	1,187	.05	1,437	.06
Congo, Dem. Rep. of	2,159	.10	2,409	.11	Pakistan	19,380	.87	19,630	.86
Congo, Republic of	131	.01	381	.02	Panama	1,007	.05	1,257	.06
Costa Rica	952	.04	1,202	.05	Papua New Guinea	490	.02	740	.03
Cote d'Ivoire	3,544	.16	3,794	.17	Paraguay	436	.02	686	.03
Croatia	2,882	.13	3,132	.14	Peru	6,898	.31	7,148	.31
Cyprus	2,139	.10	2,389	.11	Philippines	11,405	.51	11,655	.51
Czech Republic	8,913	.40	9,163	.40	Poland	7,236	.32	7,486	.33
Cambodia	339	.02	589	.03	Portugal	8,324	.37	8,574	.38
Denmark	18,554	.83	18,804	.83	Romania	2,429	.11	2,679	.12
Djibouti	21	*	271	.01	Russian Federation	81,342	3.65	81,592	3.59
Dominica	39	*	289	.01	Rwanda	306	.01	556	.02
Dominican Republic	1,187	.05	1,437	.06	Saint Kitts and Nevis	638	.03	888	.04
Ecuador	2,161	.10	2,411	.11	St. Lucia	74	*	324	.01
Egypt, Arab Republic of	12,360	.55	12,610	.56	Saudi Arabia	20,693	.93	20,943	.92
El Salvador	11	*	261	.01	Senegal	1,777	.08	2,027	.09
Equatorial Guinea	43	*	293	.01	Seychelles	27	*	277	.01
Eritrea	935	.04	1,185	.05	Sierra Leone	83	*	333	.01
Estonia	1,308	.06	1,558	.07	Singapore	177	.01	427	.02
Ethiopia	116	.01	366	.02	Slovak Republic	4,457	.20	4,707	.21
Fiji	287	.01	537	.02	Slovenia	1,585	.07	1,835	.08
Finland	15,697	.70	15,947	.70	Solomon Islands	24	*	274	.01
France	110,492	4.96	110,742	4.87	Somalia	83	*	333	.01
Gabon	931	.04	1,181	.05	South Africa	15,948	.72	16,198	.71
Gambia, The	94	*	344	.02	Spain	37,026	1.66	37,276	1.64
Georgia	861	.04	1,111	.05	Sri Lanka	6,514	.29	6,764	.30
Germany	117,701	5.28	117,951	5.19	Sudan	111	*	361	.02
Ghana	4,630	.21	4,880	.21	Swaziland	684	.03	934	.04
Greece	6,898	.31	7,148	.31	Sweden	24,539	1.10	24,789	1.09
Grenada	74	*	324	.01	Switzerland	41,580	1.87	41,830	1.84
Guatemala	878	.04	1,128	.05	Syrian Arab Republic	72	*	322	.01
Guinea	339	.02	589	.03	Tajikistan	1,212	.05	1,462	.06
Guinea-Bissau	18	*	268	.01	Tanzania	1,003	.05	1,253	.06
Guyana	1,392	.06	1,642	.07	Thailand	10,941	.49	11,191	.49
Haiti	306	.01	556	.02	Togo	808	.04	1,058	.05
Honduras	370	.02	620	.03	Tonga	34	*	284	.01
Hungary	10,932	.49	11,182	.49	Trinidad and Tobago	3,754	.17	4,004	.18
Iceland	42	*	292	.01	Tunisia	3,255	.15	3,505	.15
India	74,268	3.33	74,518	3.28	Turkey	13,280	.60	13,530	.60
Indonesia	28,539	1.28	28,789	1.27	Turkmenistan	810	.04	1,060	.05
Iran, Islamic Republic of	1,444	.06	1,694	.07	Uganda	735	.03	985	.04
Iraq	147	.01	397	.02	Ukraine	8,907	.40	9,157	.40
Ireland	1,290	.06	1,540	.07	United Arab Emirates	4,033	.18	4,283	.19
Israel	2,135	.10	2,385	.10	United Kingdom	110,492	5.43	121,265	5.34
Italy	81,342	3.65	81,592	3.59	United States	533,271	23.93	533,521	23.48
Jamaica	4,282	.19	4,532	.20	Uruguay	3,569	.16	3,819	.17
Japan	141,174	6.33	141,424	6.23	Uzbekistan	3,873	.17	4,123	.18
Jordan	941	.04	1,191	.05	Vanuatu	55	*	305	.01
Kazakhstan	2,031	.09	2,281	.10	Venezuela	27,588	1.24	27,838	1.23
Kenya	4,041	.18	4,291	.19	Vietnam	446	.02	696	.03
Kiribati	12	*	262	.01	Western Samoa	35	*	285	.01
Korea, Republic of	14,558	.65	14,808	.65	Yemen, Republic of	652	.03	902	.04
Kuwait	9,947	.45	10,197	.45	Zambia	1,286	.06	1,536	.07
Kyrgyz Republic	1,720	.08	1,970	.09	Zimbabwe	2,120	.10	2,370	.10
Total June 30, 1997					\$2,228,851 100.00+ 2,271,851 100.00+				
Total June 30, 1996					\$2,076,162 100.00+ 2,118,662 100.00+				

* Less than .005 percent.

+ May differ from the sum of the individual percentages shown because of rounding.

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

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

PURPOSE

The International Finance Corporation (the Corporation), an international organization, was established in 1956 to further economic development in its member countries by encouraging the growth of private enterprise. The Corporation is a member of the World Bank Group, which also includes the International Bank for Reconstruction and Development (IBRD), the International Development Association and the Multilateral Investment Guarantee Agency (MIGA). The Corporation's activities are closely coordinated with and complement the overall development objectives of the other World Bank Group institutions. The Corporation, together with private investors, assists in financing the establishment, improvement and expansion of private sector enterprises by making loan and equity investments where sufficient private capital is not otherwise available on reasonable terms. The Corporation's share capital is provided by its member countries. It raises most of the funds for its investment activities through the issuance of notes, bonds and other debt securities in the international capital markets. The Corporation also plays a catalytic role in mobilizing additional project funding from other investors and lenders, either through cofinancing or through loan syndications, underwritings and guarantees. In addition to project finance and resource mobilization, the Corporation offers an array of financial and technical advisory services to private businesses in the developing world to increase their chances of success, and also advises governments on how to create an environment hospitable to the growth of private enterprise and foreign investment.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

The accounting and reporting policies of the Corporation conform with generally accepted accounting principles in the United States and with International Accounting Standards.

During the year ended June 30, 1997, the Corporation adopted International Accounting Standards (IAS) No. 32, "Financial Instruments: Disclosure and Presentation." IAS No. 32 specifies the disclosure of certain information on various risk elements associated with financial instruments which have been included in Notes B, D, G and K.

In 1996, the Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers of Assets and Servicing of Financial Assets and Extinguishments of Liabilities," which requires new accounting and reporting standards for sales, securitizations, and servicing of receivables and other financial assets, and extinguishments of liabilities. The standard is effective beginning in 1997 and had no material impact on the Corporation's financial statements. The provisions relating to transfers involving repurchase/resale agreements and securities lending for transfers of financial assets will not be effective until the beginning of 1998. The adoption of these provisions of the standard is expected to have no material impact on the Corporation's financial statements.

Financial Statements Presentation - Certain amounts in the prior year have been reclassified to conform to the current year's presentation.

Use of Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles in the United States and International Accounting Standards 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 expense during the reporting period. Actual results could differ from these estimates.

Translation of Currencies - Assets and liabilities not denominated in United States dollars (US dollars or \$), other than disbursed equity investments, are expressed in United States dollars at the exchange rates prevailing at June 30, 1997 and June 30, 1996. Disbursed equity investments are expressed in United States dollars at the prevailing exchange rates at the time of disbursement. Income and expenses are translated at the rates of exchange prevailing at the time of the transaction. Translation gains and losses are credited or charged to income.

Equity and Loan Investments - Investments are recorded as assets when disbursed. Loan investments are carried at the principal amounts outstanding. It is the Corporation's practice to obtain collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments are carried at cost. On occasion the Corporation enters into put and call option agreements in connection with equity investments.

Reserve Against Losses - The Corporation considers a loan as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the loan's contractual terms. The adoption of FASB SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by FASB SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Recognition and Disclosure" during the year ended June 30, 1996 did not have a material effect on the Corporation's financial statements. The reserve against losses for impaired loans represents management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate and an estimate of potential losses not specifically identifiable. The reserve is established through annual charges to income in the form of a provision for losses on investments. Investments written off, as well as any subsequent recoveries, are recorded through the reserve.

Revenue Recognition - Dividends and profit participations are recorded as income when received in freely convertible currencies. Gains on the sale of equity investments are measured against the average cost of the investments sold and are recorded as income when received in freely convertible currencies.

Interest and commitment fees are recorded as income on an accrual basis. All other fees are recorded as income when received in freely convertible currencies. The Corporation does not recognize income on loans where collectibility is in doubt or payments of interest or principal are past due more than 60 days unless management anticipates that collection of interest will occur in the near future. Any interest accrued on a loan placed in nonaccrual status is reversed out of current income and is thereafter recognized as income only when the actual payment is received. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income and credited to current income only when the related principal is received. Fees and costs associated with loan origination are recognized when incurred as the net of these amounts is not material.

Cash, Deposits and Securities - As part of its overall portfolio management strategy, to diversify its credit exposure to commercial banks and to obtain higher returns, the Corporation invests in government obligations, time deposits and asset-backed securities according to the Corporation's credit risk and duration policies. Government obligations include highly rated fixed rate bonds, notes, bills and other obligations issued or unconditionally guaranteed by governments of countries or other official entities including government agencies and instrumentalities or by multilateral organizations. The Corporation converts these fixed rate government obligations into variable rate U.S. dollar instruments by entering into currency and interest rate swaps.

On December 31, 1995, the Corporation transferred all of the Securities in the Held to Maturity Portfolio to the Available for Sale Portfolio. The one-time transfer was done pursuant to the adoption of the FASB Special Report, "A Guide to the Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." Securities that the Corporation has both the positive intent and ability to hold to maturity are classified as Securities Held to Maturity and carried at historical cost, adjusted for amortization of premiums and accretion of discounts.

On July 1, 1997, the Corporation transferred \$2,656 million of its deposits and securities classified as Trading Securities to the Available for Sale Portfolio.

Securities classified as Available for Sale, which are those securities that may be sold prior to maturity as part of asset/liability management or in response to other factors, are carried at fair value with any changes in fair value reported in a separate component of capital. Securities classified as Trading are carried at market value with any changes in fair value reported in Income from deposits and securities. Interest and dividends on securities and amortization of premiums and accretion of discounts are reported in Income from deposits and securities. Realized gains and losses on deposits and securities classified as Available for Sale or Trading, which are computed by the last-in first-out method, are included in Income from deposits and securities. The Corporation classifies cash, due from banks, and the deposits and securities portfolio as an element of liquidity in the Statement of Cash Flows because of their nature, and the Corporation's policies governing the level and use of such investments.

Repurchase and Resale Agreements - Repurchase agreements are contracts under which a party sells securities and simultaneously agrees to repurchase the same securities at a specified future date at a fixed price. The reverse of these transactions are called resale agreements. Securities purchased under resale agreements, and securities sold under agreements to repurchase and payable for cash collateral received are valued at market that approximates cost.

Borrowings - To diversify its access to funding and reduce its borrowing costs, the Corporation borrows in a variety of currencies. Generally, the Corporation simultaneously converts such borrowings into variable rate U.S. dollar borrowings through the use of currency and interest rate swap transactions. Under the borrowing agreements, the Corporation is not permitted to mortgage or allow a lien to be placed on its assets (other than purchase money security interests) without extending equivalent security to the holders of such borrowings.

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Derivative Financial Instruments - In the normal course of business, the Corporation is a party to derivative financial instruments used to manage its exposure to market risks. These activities include currency and interest rate swaps, commodity-indexed swaps, commodity-indexed options and forward contracts on its own behalf and for clients, guarantees for third parties, futures contracts, short sales, and covered forwards. In addition, the Corporation issues warrants, and purchases matching over-the-counter options to hedge these transactions. Income or expense on currency and interest rate swaps, forward contracts and commodity-indexed contracts are recognized over the life of the associated instrument as an element of charges on borrowings, service fees or income from deposits and securities, depending on the purpose for which the instrument is used. Gains and losses on futures contracts and short sales are recognized as an element of income from deposits and securities. The cash settlement value of warrants and associated options are reported gross on the balance sheet and are included in other assets and other liabilities. Income and expense from warrants and associated options are recognized as an element of charges on borrowings. All derivative financial instruments are accounted for on the accrual basis except for futures contracts and currency and interest rate swaps in the Available for Sale portfolio which are recorded in the balance sheet at fair value.

Where it acts as an intermediary on swap, option, or forward contracts, the Corporation minimizes its exposure to credit risk by performing credit reviews of the clients, and minimizes its exposure to currency and interest rate risks by entering into offsetting swap, option, or forward contract positions with highly rated market counterparties.

NOTE B - DEPOSITS AND SECURITIES

Trading Portfolio and Associated Derivative Instruments

A summary of the Trading portfolio as at and for the years ended June 30, 1997 and 1996 by instrument is as follows (\$ millions):

June 30, 1997					
	Fair Value		Net Losses for the Year	Average Maturity (Years)	Average Yield (%)
	As at Year End	Average Daily Balance			
Government obligations	\$1,870	\$1,028	\$(1)	x	x
Time deposits	1,753	1,216	-	x	x
Asset-backed securities	94	24	-	x	x
Sub Total	<u>3,717</u>	<u>2,268</u>	<u>(1)</u>		
Associated derivative instruments					
Net receivable from covered forwards	-	-	-	x	x
Total, net of derivative instruments	<u>\$3,717</u>	<u>\$2,268</u>	<u>\$(1)</u>		

June 30, 1996					
	Fair Value		Net Losses for the Year	Average Maturity (Years)	Average Yield (%)
	As at Year End	Average Daily Balance			
Government obligations	\$ 945	\$ 802	\$ (9)	3.1	5.8
Time deposits	1,164	1,046	-	-	5.0
Sub Total	<u>2,109</u>	<u>1,848</u>	<u>(9)</u>		
Associated derivative instruments					
Net receivable from covered forwards	1	-	-	-	4.2
Total, net of derivative instruments	<u>\$2,110</u>	<u>\$1,848</u>	<u>\$ (9)</u>		

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Available for Sale Portfolio and Associated Derivative Instruments

The amortized cost, gross unrealized gains and losses, fair value and average yield of deposits and securities classified as Available for Sale are as follows (\$ millions):

	June 30, 1997				
	Amortized Cost	Gross Gains	Unrealized (Losses)	Fair Value	Average Yield(%)
Government obligations	\$3,384	\$138	\$(18)	\$3,504	x
Time deposits	2,040	-	-	2,040	x
Sub Total	5,424	138	(18)	5,544	x
Associated derivative instruments					
Receivables from currency swaps	2,290	2	-	2,292	x
Payables for currency swaps	(2,468)	11	(134)	(2,591)	x
Interest rate swaps receivable	-	2	-	2	x
Interest rate swaps payable	-	9	(8)	1	x
Receivables from covered forwards	1,047	-	-	1,047	x
Payables for covered forwards	(1,075)	-	-	(1,075)	x
Total, net of derivative instruments	<u>\$5,218</u>	<u>\$162</u>	<u>\$(160)</u>	<u>\$5,220</u>	

	June 30, 1996				
	Amortized Cost	Gross Gains	Unrealized (Losses)	Fair Value	Average Yield (%)
Government obligations	\$2,133	\$ 51	\$ (26)	\$2,158	6.1
Time deposits	2,275	-	-	2,275	5.1
Sub Total	4,408	51	(26)	4,433	
Associated derivative instruments					
Receivables from currency swaps	1,055	3	-	1,058	5.6
Payables for currency swaps	(1,059)	16	(40)	(1,083)	6.1
Interest rate swaps receivable	-	1	-	1	5.6
Interest rate swaps payable	-	14	(10)	4	6.1
Receivables from covered forwards	222	-	-	222	5.4
Payables for covered forwards	(219)	-	-	(219)	2.9
Total, net of derivative instruments	<u>\$4,407</u>	<u>\$ 85</u>	<u>\$ (76)</u>	<u>\$4,416</u>	

The receivables from and payables for currency and interest rate swaps and receivables from and payables for covered forwards in the Available for Sale Portfolio are included in receivables from and payables for currency and interest rate swaps, and in receivables from and payables for covered forwards respectively, on the balance sheet.

Maturities

The expected maturities of deposits and securities in the Available for Sale portfolio, net of associated derivative instruments, are summarized below (\$ millions):

	June 30, 1997		June 30, 1996	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$x	\$x	\$2,878	\$2,881
Due after one year through two years	x	x	457	457
Due after two years through five years	x	x	750	756
Due after five years through ten years	x	x	322	322
Total	<u>\$ x</u>	<u>\$ x</u>	<u>\$4,407</u>	<u>\$4,416</u>

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The deposits and securities portfolio is denominated primarily in United States dollars; instruments in non-dollar currencies, net of the effect of associated derivative instruments which convert local currency securities into United States dollar securities, represent 3.0% of the portfolio at June 30, 1997, (5.6% - June 30, 1996). The annualized rate of return on securities in the Trading portfolio during the year ended June 30, 1997, was x% (5.4% - June 30, 1996). The annualized rate of return on securities in the Available for Sale Portfolio (which, prior to December 31, 1995 was classified as a Held to Maturity Portfolio) held during the year ended June 30, 1997 was 5.8% (5.8% - year ended June 30, 1996).

After the effect of interest rate and currency swaps, the deposits and securities portfolio generally reprices within one year.

Income from deposits and securities for the years ended June 30, 1997 and 1996 is summarized below (\$ thousands):

	<u>June 30, 1997</u>	<u>June 30, 1996</u>
Trading securities		
Interest income	\$128,272	\$105,034
Securities net (losses) gains		
Realized	(791)	6,802
Unrealized	(298)	(16,264)
Held to maturity securities		
Interest income	-	121,011
Available for sale securities		
Interest income	296,038	125,593
(Expense) income from securities under resale and repurchase agreements, net	<u>(12,212)</u>	<u>6,089</u>
Total	<u>\$411,009</u>	<u>\$348,265</u>

NOTE C - RECEIVABLES AND OTHER ASSETS

Receivables and other assets are summarized below (\$ thousands):

	<u>June 30, 1997</u>	<u>June 30, 1996</u>
Receivable from sales of trading securities	\$429,410	\$ 25,715
Accrued income on deposits and securities	132,105	102,741
Accrued income on swaps	358,640	355,759
Accrued income on loan investments	124,952	110,476
Headquarters Building:		
Land	89,208	89,208
Building, net	173,417	117,452
Deferred charges and other assets	<u>171,988</u>	<u>139,493</u>
Total receivables and other assets	<u>\$1,479,720</u>	<u>\$940,844</u>

Interest incurred during the construction of the Headquarters Building for the Corporation's own use has been capitalized as part of the project cost; at June 30, 1997, interest capitalized was \$24 million (\$16 million - June 30, 1996).

NOTE D - LOAN AND EQUITY INVESTMENTS AND RESERVE AGAINST LOSSES

Investments approved by the Board of Directors to be held by the Corporation but not yet signed as commitments, and commitments signed for which disbursements have not yet been made are summarized below (\$ millions):

	<u>June 30, 1997</u>	<u>June 30, 1996</u>
Investments approved but not committed:		
Loans	\$2,777	\$2,102
Equities	753	613
	<u>3,530</u>	<u>2,715</u>
Investments committed but not disbursed:		
Loans	1,717	1,570
Equities	381	457
	<u>2,098</u>	<u>2,026</u>
Total investments approved but not disbursed	<u>\$5,628</u>	<u>\$4,741</u>

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At June 30, 1997, 31% (33% - June 30, 1996) of the disbursed loan portfolio consisted of fixed-rate loans, while the remainder was at variable rates. The currency composition and average yield of loans disbursed and outstanding at June 30, 1997, is summarized below (\$ millions):

	Amount	Average Yield (%)
U.S. dollars	\$5,909	8.6
Deutsche mark	370	8.0
Japanese yen	112	7.0
Swiss francs	76	6.8
French francs	67	10.0
European Currency Unit	16	7.0
Other currencies	24	11.6
Total	<u>\$6,574</u>	8.6

Loans disbursed and outstanding in all currencies are repayable during the years ending June 30, 1998, through June 30, 2002, and thereafter as follows (\$ millions):

	1998	1999	2000	2001	2002	Thereafter	Total
Loans disbursed and outstanding							
Fixed rate	\$ 384	\$289	\$233	\$268	\$187	\$ 719	\$2,050
Variable rate	<u>641</u>	<u>690</u>	<u>676</u>	<u>628</u>	<u>527</u>	<u>1,362</u>	<u>4,524</u>
Total	<u>\$1,025</u>	<u>\$949</u>	<u>\$909</u>	<u>\$896</u>	<u>\$714</u>	<u>\$2,081</u>	<u>\$6,574</u>

The Corporation's variable-rate loans disbursed and outstanding generally reprice within one year.

Loans on which the accrual of interest has been discontinued amounted to \$322 million at June 30, 1997, (\$345 million - June 30, 1996). Interest income not recognized during the year ended June 30, 1997, on nonaccruing loans totaled \$27 million (\$26 million - year ended June 30, 1996). During the year ended June 30, 1997, \$7 million (\$11 million - year ended June 30, 1996) of interest on loans in nonaccrual status related to current and prior years was collected. The recorded investment in impaired loans at June 30, 1997, was \$x million (\$546 million - June 30, 1996).

Changes in the reserve against losses for the years ended June 30, 1997 and 1996 are summarized below (\$ thousands):

	June 30, 1997	June 30, 1996
Balance at beginning of year	\$876,206	\$776,635
Investments written off	(45,662)	(51,535)
Investments recovered	90	3,367
Translation adjustments	(20,878)	(3,741)
Provision for losses	<u>266,436</u>	<u>151,480</u>
Balance at end of year	<u>\$1,076,102</u>	<u>\$876,206</u>

The translation gain of \$20.9 million (\$3.7 million - year ended June 30, 1996) has been offset by an equivalent translation loss on currency hedges. Both amounts have been recorded in Translation Adjustments in the income statement.

NOTE E - PARTICIPATIONS

The Corporation mobilizes funds from commercial banks and other financial institutions through loan participations, which are sold by the Corporation, without recourse, but are administered and serviced on behalf of the participants. During the year ended June 30, 1997, the Corporation called and disbursed \$3,107 million (\$1,751 million - year ended June 30, 1996) of participants' funds. At June 30, 1997, the undisbursed participants' commitments were \$1,656 million (\$1,649 million - June 30, 1996). In addition, at June 30, 1997, the Corporation had arranged to place with participants \$4,162 million (\$4,020 million - June 30, 1996) of investments approved by the Board of Directors but not yet signed as commitments.

On July 6, 1995, the Corporation securitized and sold variable rate U.S. dollar loan participations to a trust (the Trust) at par. Concurrently, the Corporation provided a \$20 million liquidity facility to the

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Trust and acquired \$20 million of the Trust's Class C certificates. The outstanding balance of the Trust's Class C certificates was \$15 million at June 30, 1997 (\$19 million - June 30, 1996). The Class C certificates are included in equity investments and the liquidity facility is included in other assets. The Corporation has provided reserves for losses of \$15 million at June 30, 1997 (\$19 million - June 30, 1996) against these instruments. Certain of the securitized loan participations are secured by security interests in personal and real property. The principal balance outstanding of total loans securitized at June 30, 1997, was \$245 million (\$338 million - June 30, 1996).

NOTE F - PAYABLES AND OTHER LIABILITIES

Payables and other liabilities are summarized below (\$ thousands):

	June 30, 1997	June 30, 1996
Accrued charges on borrowings	\$ 283,725	\$298,115
Accrued charges on swaps	261,465	203,361
Obligations for securities purchased	611,966	369,901
Accounts payable, accrued expenses and other	117,306	105,646
Total payables and other liabilities	<u>\$1,274,462</u>	<u>\$977,023</u>

NOTE G - BORROWINGS

The Corporation's borrowings outstanding from market sources and currency and interest rate swaps, net of unamortized issue premiums and discounts are summarized below (\$ millions):

	June 30, 1997							
	-----Market-----		----Currency Swaps----		--Interest Rate Swaps--		---Net Currency---	
	Borrowings		Payable(Receivable)		Payable(Receivable)		Obligation	
	Amount	Weighted Average Cost(%)	Amount	Weighted Average Cost(%)	Notional Amount	Weighted Average Cost(%)	Amount	Weighted Average Cost(%)
U.S. dollars	\$2,232	6.4	\$7,688	5.4	\$2,051 (2,051)	5.6 (6.3)	\$9,920	5.5
Japanese yen	1,477	4.8	(1,477)	(4.8)	-	-	-	-
Spanish pesetas	1,024	5.0	(1,024)	(5.0)	-	-	-	-
Australian dollars	751	6.9	(751)	(6.9)	-	-	-	-
Hong Kong dollars	736	7.1	(736)	(7.1)	-	-	-	-
Greek drachmas	648	12.5	(648)	(12.5)	-	-	-	-
Pound sterling	517	6.3	(517)	(6.3)	-	-	-	-
Italian lire	455	8.1	(455)	(8.1)	-	-	-	-
Luxembourg francs	337	6.3	(337)	(6.3)	-	-	-	-
Deutsche mark	306	5.7	(240)	(5.1)	-	-	66	2.6
South african rand	321	14.3	(321)	(14.3)	-	-	-	-
Canadian dollars	282	7.8	(282)	(7.8)	-	-	-	-
Czech koruna	157	11.0	(157)	(11.0)	-	-	-	-
Netherlands guilders	107	3.4	(107)	(3.4)	-	-	-	-
Swiss francs	104	4.8	(104)	(4.8)	-	-	-	-
Philippine peso	99	10.3	(99)	(10.3)	-	-	-	-
Polish new zloty	77	18.5	(77)	(18.5)	-	-	-	-
Slovak koruna	66	12.6	(66)	(12.6)	-	-	-	-
Swedish kronor	52	10.6	(52)	(10.6)	-	-	-	-
Principal at face value	\$9,748		<u>\$238</u>				<u>\$9,986</u>	
Less: net unamortized discounts	223							
Total	<u>\$9,525</u>							

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June 30, 1996								
	-----Market-----		----Currency Swaps----		--Interest Rate Swaps--		---Net Currency---	
	Borrowings		Payable(Receivable)		Payable(Receivable)		Obligation	
	Amount	Weighted Average Cost(%)	Amount	Weighted Average Cost(%)	Notional Amount	Weighted Average Cost(%)	Amount	Weighted Average Cost(%)
U.S. dollars	\$2,049	7.3	\$ 6,131	5.1	\$2,093 (2,093)	5.2 (6.7)	\$8,180	5.3
Japanese yen	2,038	4.9	(2,038)	(4.9)	-	-	-	-
Italian lire	713	9.8	(713)	(9.8)	-	-	-	-
Hong Kong dollars	633	7.2	(633)	(7.2)	-	-	-	-
Greek drachmas	619	13.5	(619)	(13.5)	-	-	-	-
Australian dollars	444	7.9	(444)	(7.9)	-	-	-	-
Canadian dollars	342	7.8	(342)	(7.8)	-	-	-	-
Deutsche mark	297	5.7	(222)	(5.2)	-	-	75	2.9
Spanish pesetas	253	9.5	(253)	(9.5)	-	-	-	-
Luxembourg francs	191	7.2	(191)	(7.2)	-	-	-	-
Swedish kronor	182	10.4	(182)	(10.4)	-	-	-	-
Netherlands guilders	139	3.8	(123)	(3.5)	-	-	17	6.0
Swiss francs	129	4.8	(129)	(4.8)	-	-	-	-
Czech koruna	109	10.2	(109)	(10.2)	-	-	-	-
Portuguese escudos	70	12.0	(70)	(12.0)	-	-	-	-
South african rand	57	13.0	(57)	(13.0)	-	-	-	-
Polish new zloty	37	18.5	(37)	(18.5)	-	-	-	-
Principal at face value	\$8,302		<u>\$ (31)</u>				<u>\$8,272</u>	
Less: net unamortized discounts	137							
Total	<u>\$8,165</u>							

The weighted average cost of market borrowings after currency and interest rate swap transactions was 5.5% at June 30, 1997 (5.2% - June 30, 1996). The weighted average maturity of market borrowings was 6.6 years at June 30, 1997 (7.4 years - June 30, 1996).

The \$238 million net payable for currency swaps at June 30, 1997, (\$31 million net receivable - June 30, 1996), shown in the above table, consists of swap transactions in receivable positions of \$7,800 million (\$6,344 million - June 30, 1996) and swap transactions in payable positions of \$8,038 million (\$6,313 million - June 30, 1996) which are included in Receivables from and Payables for currency and interest rate swaps respectively, on the balance sheet.

Borrowings outstanding from IBRD are summarized below (\$ millions):

	June 30, 1997	June 30, 1996	June 30, 1997	June 30, 1996
	Principal	Amount	Weighted Average Cost(%)	Weighted Average Cost(%)
Deutsche mark	\$189	\$280	6.8	6.9
U.S. dollars	182	188	6.8	6.9
Japanese yen	106	131	6.1	6.1
Swiss francs	57	90	5.8	5.8
French franc	51	85	8.5	8.7
Other currencies	13	17	8.0	8.1
	<u>\$599</u>	<u>\$791</u>		

The weighted average cost of IBRD borrowings was 6.7% at June 30, 1997 (6.8% - June 30, 1996). The weighted average maturity of IBRD borrowings was 10.7 years at June 30, 1997 (10.1 years - June 30, 1996).

In addition, undrawn balances on committed borrowings from IBRD at June 30, 1997, were \$3 million (\$12 million - June 30, 1996). Charges on borrowings for the year ended June 30, 1997 includes \$48 million (\$61 million - year ended June 30, 1996) in respect of IBRD borrowings. A commitment fee is payable on the undrawn balances of borrowings at 3/4 of 1% per annum. For the year ended June 30, 1997, such commitment fees aggregated \$2 million (\$1 million - year ended June 30, 1996) and are included in charges on borrowings.

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NOTES TO FINANCIAL STATEMENTS

The principal amounts repayable on borrowings outstanding in all currencies, gross of any premiums or discounts, during the years ending June 30, 1998, through June 30, 2002, and thereafter are summarized below (\$ millions):

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Thereafter</u>	<u>Total</u>
Borrowings from market sources	\$1,301	\$2,580	\$1,200	\$1,432	\$1,027	\$2,208	\$ 9,748
Borrowings from IBRD	<u>120</u>	<u>118</u>	<u>78</u>	<u>58</u>	<u>45</u>	<u>180</u>	<u>599</u>
	<u>\$1,421</u>	<u>\$2,698</u>	<u>\$1,278</u>	<u>\$1,490</u>	<u>\$1,072</u>	<u>\$2,388</u>	<u>\$10,347</u>

After the effect of interest rate and currency swaps, the Corporation's borrowings generally reprice within one year.

NOTE H - CAPITAL STOCK

On May 4, 1992, the Board of Governors approved a resolution increasing the authorized capital of the Corporation from \$1,300 million to \$2,300 million. The resolution allocated \$964.9 million for subscriptions by member countries during the subscription period ending August 1, 1997. Members may elect to pay subscriptions in full or by installments, the last of which is payable on August 1, 1997.

On December 10, 1992, the Board of Governors of the Corporation approved a resolution selectively increasing IFC's authorized capital by \$150 million to \$2,450 million in order to provide sufficient shares for the full entitlement of the former Soviet Republics and to provide adequate shares for additional requests for existing or prospective members.

NOTE I - INTEREST AND FINANCIAL FEES FROM LOAN AND EQUITY INVESTMENTS

Interest and financial fees from loan and equity investments comprise the following (\$ thousands):

	<u>June 30, 1997</u>	<u>June 30, 1996</u>
Interest income	\$538,421	\$486,924
Commitment fees	11,788	11,996
Other financial fees	<u>30,036</u>	<u>21,613</u>
Total interest and financial fees	<u>\$580,245</u>	<u>\$520,533</u>

NOTE J - CONTRIBUTIONS TO SPECIAL PROGRAMS

From time to time, the Board of Directors approves recommendations under which the Corporation contributes to special programs, which presently are the Africa Project Development Facility (APDF), the South Pacific Project Facility (SPPF), the Foreign Investment Advisory Service (FIAS), the Enterprise Support Service for Africa (ESSA), and the Mekong Project Development Facility (MPDF). During the year ended June 30, 1997, the Corporation contributed \$4.9 million to these facilities (\$4.3 million - year ended June 30, 1996).

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NOTES TO FINANCIAL STATEMENTS

NOTE K - DERIVATIVE FINANCIAL INSTRUMENTS AND CREDIT RISK

Derivative financial instruments involve elements of credit and market risk in excess of the amounts recorded on the balance sheet. Credit risk represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contract. Market risk represents the potential loss due to a decrease in the value of an off-balance sheet financial instrument caused primarily by changes in interest rates or currency exchange rates. The Corporation is highly selective in its choice of counterparties and does not consider nonperformance to represent a significant risk. For such financial instruments, the Corporation limits trading to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty by type of instrument and maturity category and collateral agreements have been executed with counterparties in order to further minimize the Corporation's exposure to credit risk. Under these agreements, the Corporation may accept collateral in the form of cash or other approved liquid securities from individual counterparties in order to mitigate its credit exposure.

A summary of the aggregate contractual or notional amounts of derivative and other financial instruments is as follows (\$ millions):

	June 30, 1997	June 30, 1996
Currency Swaps:		
Borrowing-related	\$ 7,800	\$6,168
Intermediary	244	382
Asset/liability management	269	204
Deposits and securities		
For other than trading purposes	2,290	1,059
Total currency swaps	<u>\$10,603</u>	<u>\$7,813</u>
Interest Rate Swaps:		
Borrowing-related	\$2,051	\$2,093
Intermediary	890	741
Asset/liability management	184	148
Deposits and securities		
For trading purposes	-	28
For other than trading purposes	884	951
Total interest rate swaps	<u>\$ 4,009</u>	<u>\$3,961</u>
Guarantees to Clients:		
Signed	\$ 43	\$ 111
Issued and outstanding	35	64
Other Contracts:		
Deposits and securities		
For trading purposes		
Covered forwards	\$1,059	\$ 103
Futures and option contracts	21	1,018
For other than trading purposes		
Covered forwards	6	219
Commodity-indexed contracts	65	112
Interest rate caps	303	361
Guarantees on swaps	136	157
Other interest rate swaps	291	372
Total other contracts	<u>\$ 1,881</u>	<u>\$2,342</u>

There was no cash settlement value for the call options or put warrants purchased at June 30, 1997, and June 30, 1996. The off-balance sheet credit exposure, which represents the maximum estimated replacement cost, at market rates, of derivative financial instruments in a gain position is summarized as follows (\$ millions):

	June 30, 1997	June 30, 1996
Currency swaps	\$ x	\$413
Interest rate swaps	x	102
Other contracts		
Deposits and securities		
For trading purposes	x	1
For other than trading purposes	x	2
Other	x	33
Total credit exposure	<u>\$ x</u>	<u>\$551</u>

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The expected maturities of currency swaps, interest rate swaps, and other derivative financial instruments during the fiscal years ending June 30, 1998 through June 30, 2002 and thereafter are summarized below (\$ millions):

	1998	1999	2000	2001	2002	Thereafter	Total
Currency swaps:							
Borrowing-related							
Receive fixed currency,							
pay variable U.S. dollars	\$ 953	\$2,079	\$1,101	\$1,432	\$485	\$1,750	\$7,800
Intermediary	117	16	74	10	9	18	244
Asset/liability management	18	65	30	45	66	45	269
Deposits and securities	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Total currency swaps	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Interest rate swaps:							
Borrowing-related							
Receive fixed U.S. dollars,							
Pay variable U.S. dollars	347	500	100	-	542	562	2,051
Intermediary	20	33	151	167	125	394	890
Asset/liability management	30	29	77	5	5	38	184
Deposits and securities	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Total interest rate swaps	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Other derivatives	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
Total	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>

NOTE L - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Many of the Corporation's financial instruments lack a trading market, characterized as exchanges between willing buyers and sellers, accordingly, subjective estimates and present value calculations of future cash flows were used to estimate the fair values. Determining future cash flows for fair value estimation is subjective and imprecise, and minor changes in assumptions or methodologies may materially effect the estimated values. The excess or deficit resulting from the difference between the carrying amounts and the fair values presented do not necessarily reflect the realizable values since, in most cases, the Corporation generally holds loans and other financial instruments to maturity with the aim of realizing their recorded values.

The estimated fair values reflect the interest rate environments as of June 30, 1997, and June 30, 1996, but not the effects of interest rate fluctuations for any period preceding or following those dates. In different interest rate environments, fair value results can differ significantly, especially for certain fixed-rate financial instruments. Reasonable comparability of fair values among financial institutions is not likely, because of the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices. This lack of objective pricing standards introduces a greater degree of subjectivity and volatility to these derived or estimated fair values. Therefore, while disclosure of estimated fair values of financial instruments is required, readers are cautioned in using this data for purposes of evaluating the financial condition of the Corporation. The fair values of the individual instruments do not represent the fair value of the Corporation taken as a whole.

The methodologies used and key assumptions made to estimate fair values as of June 30, 1997, and June 30, 1996, are summarized below:

Deposits and Securities - The estimated fair value of the Trading and Available for Sale deposits and securities are based on quoted market prices and the present value of estimated future cash flows using appropriate discount rates.

Derivative Financial Instruments - Fair values for interest rate and currency swaps were derived by determining the present value of estimated future cash flows using appropriate discount rates. Fair values for covered forward agreements were derived by using quoted market forward exchange rates. Fair values for commodity-indexed contracts were based on pricing models. Fair value for call options was based on pricing models and fair value for put warrants was based on quoted market prices.

Loan Investments and Commitments - The Corporation, which extends loans to entities operating in the private sector in its developing member countries, generally has not sold its loans from the portfolio and there is no comparable secondary market. Fair values for fixed-rate loans and loan commitments were determined using a discounted cash flow model based on a discount rate comprising the fixed-rate loan spread plus the period-end estimated cost of funds. Since rates on variable rate loans and loan commitments are reset on a quarterly or six month basis, the carrying value adjusted for credit risk was determined to be the best estimate of fair

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

value. The Corporation also holds options to convert loans into equity of certain of its investee companies. Fair values of these conversion options are based on quoted market prices or other calculated values of the underlying equity.

Equity Investments - Fair values were determined using market prices where available, put option prices, book values, or cost, certain of which were discounted based upon management's estimate of net realizable value. Where market prices were not available or alternate valuation techniques were not practical, cost was determined to be the best estimate of fair value. Management's estimate of fair value takes into consideration the relative illiquidity and volatility, as well as the overall business constraints, in the emerging markets in which the Corporation invests.

Borrowings and Commitments - Fair values were estimated using a discounted cash-flow model based on rates representing the Corporation's estimated cost to raise funds with similar terms and remaining maturities.

Estimated fair values are summarized below (\$ millions):

	June 30, 1997		June 30, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSETS				
Due from banks	\$ 70	\$ 70	\$ 39	\$ 39
Deposits and securities				
Trading Portfolio				
Deposits and securities	3,117	3,117	2,109	2,109
Derivative assets	6	6	103	103
Derivative liabilities	(6)	(6)	(102)	(102)
Available for Sale portfolio				
Deposits and securities	5,544	5,544	4,433	4,433
Derivative assets	3,339	3,339	1,281	1,281
Derivative liabilities	(3,665)	(3,665)	(1,297)	(1,297)
Loan investments	6,574	x	6,139	6,266
Equity investments	1,849	x	1,678	2,209
Reserve against losses	(1,076)	(1,076)	(876)	(876)
Net investments	<u>7,347</u>	<u>x</u>	<u>6,940</u>	<u>7,598</u>
Intermediary currency and commodity-indexed swaps receivable	244	x	382	408
Asset/Liability management currency and interest rate swaps receivable	269	x	204	234
LIABILITIES				
IBRD and market borrowings	\$10,124	\$x	\$8,956	\$9,385
Receivables from currency and interest rate swaps	(7,800)	x	(6,168)	(6,977)
Payables for currency and interest rate swaps	8,083	x	6,306	6,776
Net borrowings	<u>10,407</u>	<u>x</u>	<u>9,094</u>	<u>9,184</u>
Intermediary currency and commodity-indexed swaps payable	244	x	382	406
Asset/Liability management currency and interest rate swaps payables	269	x	204	225
	Contract/Notional Value	Fair Value	Contract/Notional Value	Fair Value
OTHER FINANCIAL INSTRUMENTS				
Loan commitments	\$x	\$x	\$1,569	\$1,601
Borrowing commitments	x	x	12	13
Intermediary interest rate swaps, client	445	x	370	(2)
Intermediary interest rate swaps, counterparty	445	x	370	3
Commodity-indexed contracts, client	x	x	112	(14)
Commodity-indexed contracts, counterparty	x	x	112	14
Other interest rate swaps	291	x	372	74
Interest rate caps	296	x	361	60
Guarantees on swaps	136	x	157	2

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE M - CURRENCY POSITION

The Corporation conducts its operations for its loans, deposits and securities and borrowings in multiple currencies. The Corporation's policy is to minimize the level of currency risk by closely matching the currency of its assets (other than equity investments) and liabilities by using hedging instruments. IFC's equity investments in enterprises located in its developing member countries are typically made in the local currency of the country. As a matter of policy, the Corporation carries the currency risk of equity investments, and funds these investments from its capital and retained earnings.

The following table summarizes the Corporation's exposure in major currencies at June 30, 1997 and June 30, 1996 (\$ millions).

June 30, 1997					
	US Dollars	Deutsche Mark	Japanese Yen	Other Currencies	Total
Assets					
Cash, deposits and securities	\$ x	\$ x	\$ x	\$x	\$8,731
Securities purchased under resale agreements	x	x	x	x	16
Loan investments disbursed and outstanding	x	x	x	x	6,574
Equity investments disbursed and outstanding	x	x	-	x	1,849
Total investments	x	x	x	x	8,423
Less: Reserve against losses	x	x	x	x	(1,076)
	x	x	x	x	7,347
Receivables from currency and interest rate swaps	x	x	x	x	10,342
Receivables from covered forwards	x	x	x	x	1,008
Receivables and other assets	x	x	x	x	1,480
Total assets	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>	<u>\$28,924</u>
Liabilities					
Borrowings	\$ x	\$ x	\$x	\$x	\$10,123
Payables for currency and interest rate swaps	x	x	x	x	11,095
Payables for covered forwards	x	x	x	x	1,036
Other liabilities	x	x	x	x	1,332
Securities sold under agreements to repurchase and payable for cash collateral received	x	x	x	x	601
Total Liabilities	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>	<u>\$ x</u>	<u>\$24,187</u>
June 30, 1996					
	US Dollars	Deutsche Mark	Japanese Yen	Other Currencies	Total
Assets					
Cash, deposits and securities	\$ 4,818	\$ 351	\$ 364	\$1,048	\$ 6,581
Securities purchased under resale agreements	39	-	-	-	39
Loan investments disbursed and outstanding	5,368	397	123	251	6,139
Equity investments disbursed and outstanding	-	-	-	1,678	1,678
Total investments	5,368	397	123	1,929	7,817
Less: Reserve against losses	(683)	(135)	(9)	(49)	(876)
	4,685	262	114	1,880	6,941
Receivables from currency and interest rate swaps	1,522	459	2,080	3,752	7,813
Receivables from covered forwards	412	4	1	(92)	325
Receivables and other assets	616	47	46	232	941
Total assets	<u>\$12,092</u>	<u>\$1,123</u>	<u>\$2,605</u>	<u>\$6,820</u>	<u>\$22,640</u>
Liabilities					
Borrowings	\$ 2,235	\$ 580	\$2,175	\$3,966	\$ 8,956
Payables for currency and interest rate swaps	6,406	393	319	844	7,962
Payables for covered forwards	173	88	65	(5)	321
Other liabilities	598	62	46	327	1,033
Securities sold under agreements to repurchase and payable for cash collateral received	210	-	-	-	210
Total Liabilities	<u>\$ 9,622</u>	<u>\$1,123</u>	<u>\$2,605</u>	<u>\$5,132</u>	<u>\$18,482</u>

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE N - STAFF RETIREMENT PLAN

The World Bank Group has a defined benefit retirement plan (the Plan) covering substantially all of the Corporation's staff. The Plan also covers substantially all the staff of IBRD and MIGA. Under the Plan, benefits are based on the years of contributory service and the highest three-year average of pensionable remuneration as defined in the Plan, with the staff contributing a fixed percentage of pensionable remuneration and the World Bank Group contributing the remainder of the actuarially determined cost of future Plan benefits. The actuarial present values of Plan obligations throughout the fiscal year are determined at the beginning of the fiscal year by the Plan's actuary. The Corporation's total contribution to the Plan is based upon the aggregate funding method. All contributions to the Plan and all other assets and income held for purposes of the Plan are held separately from the other assets and income of the World Bank Group and can be used only for the benefit of the participants in the Plan and their beneficiaries, until all liabilities to them have been paid or provided for. Plan assets consist primarily of equity and fixed income securities, with small holdings of cash, real estate and other investments.

Net periodic pension cost for the World Bank Group for the years ended June 30, 1997 and June 30, 1996 comprised the following components (\$ millions):

	<u>1997</u>	<u>1996</u>
Service cost-benefits earned during the fiscal year	\$ x	\$ 216
Interest cost on projected benefit obligation	x	360
Actual return on plan assets	x	(917)
Net amortization and deferral	<u>x</u>	<u>437</u>
Net periodic pension cost	<u><u>x</u></u>	<u><u>\$ 96</u></u>

During the year ended June 30, 1997 the World Bank Group reevaluated its pension expense estimate. Pursuant to this reevaluation, the Corporation recorded pension income of \$14 million for the year ended June 30, 1997 (\$x million pension expense - year ended June 30, 1996) in Administrative Expenses relating to its allocation.

The following table sets forth the Plan's funded status at June 30, 1997 and June 30, 1996 (\$ millions):

	<u>1997</u>	<u>1996</u>
Actuarial present value of benefit obligations		
Accumulated benefit obligation		
Vested	\$ x	\$(3,543)
Nonvested	<u>x</u>	<u>(36)</u>
Subtotal	x	(3,579)
Effect of projected compensation levels	x	(1,718)
Projected benefit obligation	x	(5,297)
Plan assets at fair value	<u>x</u>	<u>7,033</u>
Plan assets in excess of projected benefit obligation	x	1,736
Remaining unrecognized net transition asset	x	(91)
Unrecognized prior service cost	x	(74)
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	<u>x</u>	<u>(1,719)</u>
Prepaid pension cost	<u><u>\$ x</u></u>	<u><u>\$ x</u></u>

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was x.x percent at June 30, 1997 (7.5 percent - June 30, 1996). The effect of projected compensation levels was calculated based on a scale that provides for a decreasing rate of salary increase depending on age, beginning with 13.3 percent at age 20 and decreasing to 6.8 percent at age 64. The expected long-term rate of return on assets was x percent at June 30, 1997 (9 percent - June 30, 1996).

Management fees paid by the Corporation to IBRD in respect of the Plan for the year ended June 30, 1997 were \$x million (\$x million - June 30, 1996).

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 0 - RETIRED STAFF BENEFITS PLAN

The World Bank Group has a Retired Staff Benefits Plan (RSBP) that provides certain health care and life insurance benefits to retirees. All staff of the Corporation who are enrolled in the insurance programs while in active service and who meet certain requirements are eligible for benefits when they reach early or normal retirement age while working for the Corporation. The RSBP also covers the staff of IBRD and MIGA. The portion of this cost allocated to the Corporation and included in Administrative Expenses for the year ended June 30, 1997, is \$x million (\$3.8 million - June 30, 1996).

Retirees contribute a level amount toward life insurance based on the amount of coverage. Retiree contributions toward health care are based on length of service and age at retirement. The Corporation annually contributes the remainder of the actuarially determined cost for future benefits. The actuarial present values of RSBP obligations throughout the fiscal year are determined at the beginning of the fiscal year by the RSBP's actuary. All contributions to the RSBP and all other assets and income held for purposes of the RSBP are held separately from the other assets and income of the World Bank Group and can be used only for the benefit of the participants in the RSBP and their beneficiaries until all liabilities to them have been paid or provided for. RSBP assets consist primarily of fixed income and equity securities.

Net periodic postretirement benefits cost for the World Bank Group for the years ended June 30, 1997 and June 30, 1996 comprised the following components (\$ millions):

	<u>1997</u>	<u>1996</u>
Service cost-benefits earned during the fiscal year	\$ x	\$ 32
Interest cost on accumulated postretirement benefit obligation	x	45
Actual return on plan assets	x	(130)
Net amortization and deferral	<u>x</u>	<u>87</u>
Total	<u>x</u>	<u>\$ 34</u>

The following table sets forth the RSBP's funded status at June 30, 1997 and June 30, 1996 (\$ millions):

	<u>1997</u>	<u>1996</u>
Accumulated postretirement benefit obligation		
Retirees	\$ x	\$ (293)
Fully eligible active plan participants	x	(128)
Other active plan participants	<u>x</u>	<u>(285)</u>
	x	(706)
Plan assets at fair value	<u>x</u>	<u>937</u>
Plan assets in excess of accumulated postretirement benefit obligation	x	231
Unrecognized prior service costs	x	(12)
Unrecognized net loss from past experience different from that assumed and from changes in assumptions	<u>x</u>	<u>107</u>
Prepaid postretirement benefit cost	<u>x</u>	<u>\$ 326</u>

Of the \$x million prepaid at June 30, 1997 (\$x million - June 30, 1996), \$x million is attributable to the Corporation (\$x million - June 30, 1996) and is included in Receivables and Other Assets on the Balance Sheet. The remainder is attributable to IBRD and MIGA.

For June 30, 1997, the accumulated plan benefit obligation (APBO) was determined using health care cost trend rates of x.x percent to x.x percent, decreasing gradually to x.x percent in 2010 and thereafter. The health care cost trend rate used for June 30, 1996 was 14.4 percent to 11.2 percent decreasing gradually to 5.5 percent in 2010 and thereafter.

The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point would increase the APBO at June 30, 1997 by \$x million and the net periodic postretirement benefit cost for the year ended June 30, 1997 by \$x million.

The weighted average discount rate used in determining the APBO was x percent at June 30, 1997 (8 percent - June 30, 1996). The expected long-term rate of return on plan assets was x percent at June 30, 1997 (8 percent - June 30, 1996).

INTERNATIONAL FINANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE P - OTHER MATTERS

Service and Support Payments - The Corporation obtains certain administrative and overhead services from IBRD in those areas where common services can be efficiently provided by IBRD. This includes shared costs of the Boards of Governors and Directors, and other services such as communications, internal auditing, administrative support, office occupancy, supplies, and insurance. Payments for these services are made by the Corporation to IBRD based on negotiated fees, chargebacks, and allocated charges where chargeback is not feasible. Expenses allocated to the Corporation for the year ended June 30, 1997, were \$20.6 million (\$21.8 million - year ended June 30, 1996).

Trust Funds - The Corporation uses the services of IBRD to administer funds on behalf of donors which are restricted for specific uses which include technical assistance, feasibility studies and project preparation, global and regional programs and research and training programs. These funds are placed in trust and are not included in the Corporation's assets. The responsibilities of the Corporation are to arrange for services generally not otherwise provided by it including full project implementation and procurement of goods and services. During the year ended June 30, 1997, the Corporation received \$x million (\$2.0 million - year ended June 30, 1996) as fees for Trust Fund services. During the year ended June 30, 1997 the Corporation recognized \$2.7 million (\$0.5 million - June 30, 1996) as income for Trust Fund services which is included in other income. The distribution of Trust Fund assets by executing agent is as follows:

	(\$ millions)			
	June 30, 1997		June 30, 1996	
	Total	Number of	Total	Number of
	<u>Fiduciary Assets</u>	<u>Active Funds</u>	<u>Fiduciary Assets</u>	<u>Active Funds</u>
Executed by the Corporation	\$400	77	\$377	65
Executed by the recipient	5	9	4	7
Total	<u>\$405</u>	<u>86</u>	<u>\$381</u>	<u>72</u>

(MIGA)

Pre-Brief: Price Waterhouse Mtg.

Friday, July 18, 1997
11:00 a.m. - 11:15 a.m.
MC11-127 Conference Room

Meeting: Price Waterhouse - Annual
Year-End Audit Clearance

Thursday, July 18, 1997
11:15 a.m. - 12:45 p.m.
MC11-127 Conference Room



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Price Waterhouse - July 18, 1997		Barcode No. 30488302		
Document Date July 14, 1997	Document Type Memorandum			
Correspondents / Participants To: Mr. James D. Wolfensohn, EXC From: Angus Scrimgeour, Chief Financial Advisor, MIGA				
Subject / Title MIGA Audit: Price Waterhouse Review				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date June 18, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date June 18, 2025
Withdrawn by Diego Hernández	Date June 18, 2025			

DRAFT

Multilateral Investment Guarantee Agency



Annual Financial Statements

June 30, 1997

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Balance Sheet

June 30, 1997 and June 30, 1996

Expressed in thousands of US dollars

	1997	1996
Assets		
CASH	\$ 7,334	\$ 7,767
INVESTMENTS - Notes A and B		
Obligations of governments and other official entities	59,306	56,423
Time deposits and other obligations of banks and financial institutions	<u>131,727</u>	<u>107,458</u>
	<u>191,033</u>	<u>163,881</u>
NONNEGOTIABLE, NONINTEREST-BEARING		
DEMAND OBLIGATIONS - Note C	<u>100,218</u>	<u>100,395</u>
OTHER ASSETS	<u>4,260</u>	<u>5,075</u>
TOTAL ASSETS	<u>\$ 302,845</u>	<u>\$ 277,118</u>
Liabilities, Capital and Retained Earnings		
LIABILITIES		
Accounts payable and accrued expenses	\$ 5,830	\$ 3,490
Unearned premiums and commitments fees - Note A	13,265	13,378
Reserve for claims - Note F	<u>55,192</u>	<u>33,523</u>
Total liabilities	<u>74,287</u>	<u>50,391</u>
CAPITAL AND RETAINED EARNINGS		
Capital stock - Note C		
Authorized capital (100,000 shares - June 30, 1997 and June 30, 1996)		
Subscribed capital (98,629 shares - June 30, 1997; 97,869 shares - June 30, 1996)	1,067,166	1,058,943
Less uncalled portion of subscriptions	853,733	847,155
Less amounts due on called subscriptions	<u>731</u>	<u>731</u>
	212,702	211,057
Payments on account of pending subscriptions	<u>266</u>	<u>485</u>
	<u>212,968</u>	<u>211,542</u>
Retained Earnings		
Accumulated net income	19,234	17,010
Cumulative translation adjustments	<u>(3,644)</u>	<u>(1,825)</u>
	<u>15,590</u>	<u>15,185</u>
Total capital and retained earnings	228,557	226,727
CONTINGENT LIABILITIES - Notes D and E		
TOTAL LIABILITIES, CAPITAL AND RETAINED EARNINGS	<u>\$ 302,845</u>	<u>\$ 277,118</u>

2 MIGA Financial Statements

Statement of Income

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in thousands of US dollars

	1997	1996
INCOME		
Premium and commitment fee income - Notes A and F	\$ 26,179	\$ 22,612
Premium ceded - Note F	<u>(1,554)</u>	<u>(722)</u>
Net premium and commitment fee earned	24,625	21,890
Income from investments - Notes A and B	9,981	9,391
Miscellaneous income	<u>108</u>	<u>26</u>
Total income	<u>34,714</u>	<u>31,307</u>
EXPENSES		
Provision for claims - Note A	21,810	17,111
Administrative and other expenses - Notes G, H and I	<u>10,680</u>	<u>10,634</u>
Total expenses	<u>32,490</u>	<u>27,745</u>
NET INCOME	<u>\$ 2,224</u>	<u>\$ 3,562</u>

Statement of Capital and Retained Earnings

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in thousands of US dollars

	1997	1996
CAPITAL		
Balance at beginning of fiscal year	\$ 211,542	\$ 208,269
New subscriptions	1,645	3,218
Payments on account of pending subscriptions	<u>(219)</u>	<u>55</u>
TOTAL CAPITAL	<u>\$ 212,968</u>	<u>\$ 211,542</u>
RETAINED EARNINGS		
Accumulated net income		
Balance at beginning of fiscal year	\$ 17,010	\$ 13,448
Net income for the fiscal year	<u>2,224</u>	<u>3,562</u>
	<u>19,234</u>	<u>17,010</u>
Cumulative translation adjustments		
Balance at beginning of fiscal year	(1,825)	2,515
Translation adjustments for the fiscal year	<u>(1,819)</u>	<u>(4,340)</u>
	<u>(3,644)</u>	<u>(1,825)</u>
TOTAL RETAINED EARNINGS	<u>\$ 15,590</u>	<u>\$ 15,185</u>

See Notes to Financial Statements

Statement of Cash Flows

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in thousands of US dollars

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 2,224	\$ 3,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for claims.....	21,810	17,111
Accretion of discounts, net	(43)	(74)
Decrease (increase) in other assets	814	(4,324)
(Decrease) increase in unearned premiums and commitment fees.....	(115)	4,535
Increase in accounts payable.....	<u>2,359</u>	<u>1,221</u>
Net cash provided by operating activities	27,049	22,031
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments.....	14,446,211	9,354,472
Purchases of investments	<u>(14,474,071)</u>	<u>(9,375,980)</u>
Net cash used in investing activities	(27,860)	(21,508)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital subscription payments	825	2,306
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	<u>(447)</u>	<u>(591)</u>
Net (decrease) increase in cash	(433)	2,238
Cash at beginning of fiscal year	<u>7,767</u>	<u>5,529</u>
CASH AT END OF FISCAL YEAR.....	<u>\$ 7,334</u>	<u>\$ 7,767</u>

Statement of Subscriptions to Capital Stock and Voting Power

June 30, 1997

Expressed in thousands of US dollars

Members	Share	SUBSCRIPTIONS (NOTE C)			VOTING POWER		
		Total Subscribed	Amount Paid-In	Amount Due	Amount Subject to Call	Number of Votes	% of Total
Albania	58	\$ 628	\$ 126	\$ -	\$ 502	235	0.19
Algeria	649	7,022	1,403	-	5,619	826	0.67
Angola	187	2,023	405	-	1,618	364	0.29
Argentina	1,254	13,568	2,714	-	10,854	1,431	1.16
Armenia	80	866	173	-	693	257	0.21
Azerbaijan	115	1,244	249	-	995	292	0.24
Bahamas, The	100	1,082	216	-	866	277	0.22
Bahrain	77	833	167	-	666	254	0.21
Bangladesh	340	3,679	736	-	2,943	517	0.42
Barbados	68	736	147	-	589	245	0.20
Belarus	233	2,521	504	-	2,017	410	0.33
Belgium	2,030	21,965	4,393	-	17,572	2,207	1.79
Belize	50	541	108	-	433	227	0.18
Benin	61	660	132	-	528	238	0.19
Bolivia	125	1,353	271	-	1,082	302	0.24
Bosnia and Herzegovina	80	866	173	-	693	257	0.21
Botswana	50	541	108	-	433	227	0.18
Brazil	1,479	16,003	3,201	-	12,802	1,656	1.34
Bulgaria	365	3,949	790	-	3,159	542	0.44
Burkina Faso	61	660	132	-	528	238	0.19
Cameroon	107	1,158	232	-	926	284	0.23
Canada	2,965	32,081	6,416	-	25,665	3,142	2.54
Cape Verde	50	541	108	-	433	227	0.18
Chile	485	5,248	1,050	-	4,198	662	0.54
China	3,138	33,953	6,791	-	27,162	3,315	2.68
Colombia	437	4,728	946	-	3,782	614	0.50
Congo, Democratic Republic of ...	338	3,658	-	731	2,927	515	0.42
Congo, Republic of	65	703	141	-	562	242	0.20
Costa Rica	117	1,266	253	-	1,013	294	0.24
Cote d'Ivoire	176	1,904	381	-	1,523	353	0.29
Croatia	187	2,023	405	-	1,618	364	0.29
Cyprus	104	1,125	225	-	900	281	0.23
Czech Republic	445	4,815	963	-	3,852	622	0.50
Denmark	718	7,769	1,554	-	6,215	895	0.72
Dominica	50	541	108	-	433	227	0.18
Dominican Republic	147	1,591	318	-	1,273	324	0.26
Ecuador	182	1,969	394	-	1,575	359	0.29
Egypt, Arab Republic of	459	4,966	993	-	3,973	636	0.51
El Salvador	122	1,320	264	-	1,056	299	0.24
Equatorial Guinea	50	541	108	-	433	227	0.18

Statement of Subscriptions to Capital Stock and Voting Power

June 30, 1997

Expressed in thousands of US dollars

Members	SUBSCRIPTIONS (NOTE C)				VOTING POWER		
	Share	Total Subscribed	Amount Paid-In	Amount Due	Amount Subject to Call	Number of Votes	% of Total
Eritrea	50	\$ 541	\$ 108	\$ -	\$ 433	227	0.18
Estonia	65	703	141	-	562	242	0.20
Ethiopia	70	757	152	-	605	247	0.20
Fiji	71	768	154	-	614	248	0.20
Finland	600	6,492	1,299	-	5,193	777	0.63
France	4,860	52,585	10,517	-	42,068	5,037	4.08
Gambia, The	50	541	108	-	433	227	0.18
Georgia	111	1,201	239	-	962	288	0.23
Germany	5,071	54,868	10,973	-	43,895	5,248	4.25
Ghana	245	2,651	530	-	2,121	422	0.34
Greece	280	3,030	606	-	2,424	457	0.37
Grenada	50	541	108	-	433	227	0.18
Guatemala	140	1,515	303	-	1,212	317	0.26
Guinea	91	985	197	-	788	268	0.22
Guyana	84	909	182	-	727	261	0.21
Haiti	75	811	162	-	649	252	0.20
Honduras	101	1,093	219	-	874	278	0.22
Hungary	564	6,102	1,220	-	4,882	741	0.60
India	3,048	32,979	6,596	-	26,383	3,225	2.61
Indonesia	1,049	11,350	2,270	-	9,080	1,226	0.99
Ireland	369	3,993	798	-	3,195	546	0.44
Israel	474	5,129	1,025	-	4,104	651	0.53
Italy	2,820	30,512	6,102	-	24,410	2,997	2.43
Jamaica	181	1,958	391	-	1,567	358	0.29
Japan	5,095	55,128	11,026	-	44,102	5,272	4.27
Jordan	97	1,050	210	-	840	274	0.22
Kazakstan	209	2,261	452	-	1,809	386	0.31
Kenya	172	1,861	372	-	1,489	349	0.28
Korea, Republic of	449	4,858	971	-	3,887	626	0.51
Kuwait	930	10,063	2,013	-	8,050	1,107	0.90
Kyrgyz Republic	77	833	167	-	666	254	0.21
Lebanon	142	1,536	307	-	1,229	319	0.26
Lesotho	50	541	108	-	433	227	0.18
Libya	549	5,940	1,188	-	4,752	726	0.59
Lithuania	106	1,147	229	-	918	283	0.23
Luxembourg	116	1,255	251	-	1,004	293	0.24
Macedonia, Former Yugoslav Republic of	50	541	108	-	433	227	0.18
Madagascar	100	1,082	216	-	866	277	0.22
Malawi	77	833	167	-	666	254	0.21
Malaysia	579	6,265	1,253	-	5,012	756	0.61

See Notes to Financial Statements

Statement of Subscriptions to Capital Stock and Voting Power

June 30, 1997

Expressed in thousands of US dollars

Members	Share	SUBSCRIPTIONS (NOTE C)			VOTING POWER		
		Total Subscribed	Amount Paid-In	Amount Due	Amount Subject to Call	Number of Votes	% of Total
Mali	81	\$ 876	\$ 175	\$ -	\$ 701	258	0.21
Malta	75	812	162	-	650	252	0.20
Mauritania	63	682	136	-	546	240	0.19
Mauritius	87	941	188	-	753	264	0.21
Micronesia, Fed. States of	50	541	108	-	433	227	0.18
Moldova	96	1,039	208	-	831	273	0.22
Morocco	348	3,765	753	-	3,012	525	0.42
Mozambique	97	1,050	210	-	840	274	0.22
Namibia	107	1,158	232	-	926	284	0.23
Nepal	69	747	149	-	598	246	0.20
Netherlands	2,169	23,469	4,694	-	18,775	2,346	1.90
Nicaragua	102	1,104	221	-	883	279	0.23
Nigeria	844	9,132	1,826	-	7,306	1,021	0.83
Norway	699	7,563	1,513	-	6,050	876	0.71
Oman	94	1,018	204	-	814	271	0.22
Pakistan	660	7,141	1,428	-	5,713	837	0.68
Panama	131	1,417	283	-	1,134	308	0.25
Papua New Guinea	96	1,039	208	-	831	273	0.22
Paraguay	80	866	173	-	693	257	0.21
Peru	373	4,036	807	-	3,229	550	0.45
Philippines	484	5,237	1,047	-	4,190	661	0.53
Poland	764	8,266	1,653	-	6,613	941	0.76
Portugal	382	4,133	827	-	3,306	559	0.45
Qatar	137	1,482	296	-	1,186	314	0.25
Romania	555	6,005	1,201	-	4,804	732	0.59
Russian Federation	3,137	33,942	6,788	-	27,154	3,314	2.68
St. Lucia	50	541	108	-	433	227	0.18
St. Vincent and the Grenadines	50	541	108	-	433	227	0.18
Saudi Arabia	3,137	33,942	6,788	-	27,154	3,314	2.68
Senegal	145	1,569	314	-	1,255	322	0.26
Seychelles	50	541	108	-	433	227	0.18
Sierra Leone	75	812	162	-	650	252	0.20
Slovak Republic	222	2,402	480	-	1,922	399	0.32
Slovenia	102	1,104	221	-	883	279	0.23
South Africa	943	10,203	2,041	-	8,162	1,120	0.91
Spain	1,285	13,904	2,781	-	11,123	1,462	1.18
Sri Lanka	271	2,932	586	-	2,346	448	0.36
Sudan	206	2,229	446	-	1,783	383	0.31
Swaziland	58	628	126	-	502	235	0.19
Sweden	1,049	11,350	2,270	-	9,080	1,226	0.99

Statement of Subscriptions to Capital Stock and Voting Power

June 30, 1997

Expressed in thousands of US dollars

Members	Share	SUBSCRIPTIONS (NOTE C)			VOTING POWER		
		Total Subscribed	Amount Paid-In	Amount Due	Amount Subject to Call	Number of Votes	% of Total
Switzerland.....	1,500	\$ 16,230	\$ 3,246	\$ -	\$ 12,984	1,677	1.36
Tanzania	141	1,526	305	-	1,221	318	0.26
Togo.....	77	833	167	-	666	254	0.21
Trinidad and Tobago	203	2,196	439	-	1,757	380	0.31
Tunisia	156	1,688	338	-	1,350	333	0.27
Turkey	462	4,999	1,000	-	3,999	639	0.52
Turkmenistan	66	714	143	-	571	243	0.20
Uganda.....	132	1,428	286	-	1,142	309	0.25
Ukraine	764	8,266	1,653	-	6,613	941	0.76
United Arab Emirates	372	4,025	805	-	3,220	549	0.44
United Kingdom.....	4,860	52,585	10,517	-	42,068	5,037	4.08
United States	20,519	222,016	44,404	-	177,612	20,696	16.75
Uruguay	202	2,186	438	-	1,748	379	0.31
Uzbekistan	175	1,894	380	-	1,514	352	0.28
Vanuatu.....	50	541	108	-	433	227	0.18
Venezuela	1,427	15,440	3,088	-	12,352	1,604	1.30
Vietnam.....	220	2,380	476	-	1,904	397	0.32
Western Samoa	50	541	108	-	433	227	0.18
Yemen, Republic of	155	1,677	335	-	1,342	332	0.27
Zambia.....	318	3,441	688	-	2,753	495	0.40
Zimbabwe	236	2,553	511	-	2,042	413	0.33
Total-June 30, 1997 ^{b/}	98,629	\$1,067,166	\$212,702	\$731	\$853,733	123,586	100.00
Total-June 30, 1996.....	97,869	\$1,058,943	\$211,057	\$731	\$847,155	121,587	

a/ Amounts aggregating the equivalent of \$266,000 have been received from (i) a country that has signed and/or ratified the Convention and is in the process of completing its membership requirements: Latvia \$79,000 and; (ii) a country in the process of succession to membership: Federal Republic of Yugoslavia (Serbia and Montenegro) \$187,000.

b/ May differ from the sum of individual figures shown because of rounding.

Notes to Financial Statements

Statement of Agency Purpose

The Multilateral Investment Guarantee Agency (MIGA), established on April 12, 1988, is a member of the World Bank Group. The Agency is designed to help developing countries attract productive foreign investment by both private investors and commercially operated public sector companies. Its facilities include guarantees or insurance against noncommercial risks and a program of consultative and advisory services to promote improvements in member countries' environments for foreign investment.

Note A: Summary of Significant Accounting and Related Policies

MIGA's financial statements have been prepared in conformity with International Accounting Standards. In the absence of such standards, then, subject to relevant legal requirements, the policy adopted is that considered most appropriate to the circumstances of MIGA having regard to the accounting principles used in the United States and the practices of other international insurance entities. The accounting policies followed are consistent in all material respects with generally accepted accounting principles in the United States.

The preparation of financial statements in conformity with International Accounting Standards and generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. The following summary of policies adopted by MIGA is provided to assist readers in the interpretation of these financial statements.

Translation of Currencies

MIGA's financial statements are expressed in terms of United States dollars solely for the purpose of summarizing MIGA's financial position and the results of its operations for the convenience of its members and other interested parties.

MIGA is an international organization that may conduct its operations in the currencies of all its members. MIGA's resources are derived from its capital and retained earnings in its members' currencies. MIGA strives to minimize exchange rate risks in a multicurrency environment. As such, MIGA attempts to match its contingent obligations in any one currency with assets in the same currency on a pro-rata basis.

Accordingly, MIGA may periodically undertake currency conversions on a pro-rata basis to match the currencies underlying its reserves with those of the outstanding contingencies. The purpose of these conversions will be to minimize currency exposure that may occur through operations. Otherwise, MIGA will not convert one currency into another except for small amounts required to meet certain operational needs.

Assets and liabilities are translated at market rates of exchange at the end of the period. Capital subscriptions are stated in accordance with the procedures described below. Income and expenses are generally translated at an average of the market rates of exchange in effect during each month. Translation adjustments are charged or credited to retained earnings.

Notes to Financial Statements

Valuation of Capital Stock

Under the MIGA Convention, all payments from members subscribing to the capital stock of MIGA shall be settled on the basis of the average value of the SDR in terms of United States dollars for the period January 1, 1981 to June 30, 1985, such value being equal to \$1.082 for one SDR. The Convention further states that ten percent of the members' shares be paid in cash, in freely convertible currencies, except that developing member countries may pay up to a quarter of the ten percent in their own currencies. In addition, another ten percent of the members' shares shall be paid in the form of nonnegotiable, noninterest-bearing promissory notes. The notes are denominated in freely convertible currencies and are due on demand to meet the Agency's obligations. The policies relating to translation of currencies as described above also apply to the cash and the promissory notes paid in.

Investments

Management has both the ability and intent to hold all investments to maturity. Accordingly, MIGA's investment holdings are carried at cost or amortized cost.

Revenue Recognition

Revenue from premium payments for direct insurance and reinsurance contracts assumed and ceded is recognized on a pro-rata basis over the contract period. Revenue from commitment fees, which are fees paid by investors to reserve for a limited period of time guarantee capacity for future use, is recognized on a pro-rata basis over the commitment period.

Reserve for Claims

The reserve for claims provides for losses inherent in guarantee operations based upon claim submissions, consideration of loss experiences by insurers engaged in similar underwritings, and other factors including changes in the composition and volume of the insurance and outstanding guarantees and worldwide economic and political conditions. This reserve is available to absorb losses related to insurance amounts outstanding, which are off-balance sheet commitments. The reserve is increased by provisions charged to expense and decreased for claims settlements.

The periodic provision for claims is usually based on management's evaluation of potential claim payments (net of expected recoveries) that may result from (i) risks that are inherent, but unidentifiable at the time of writing; (ii) unusually large concentrations of exposure in individual risks, countries or guarantee contracts; and (iii) an ongoing assessment of MIGA's expected recovery rates on its total portfolio. However, given the lack of historical claims experience in MIGA, there is no actuarial or historical basis upon which to determine the Agency's expected claims experience. Accordingly, management, with the approval of the Board, relies on a premium-based methodology for establishing the reserve for claims.

Recognizing the fact that during the early years of the Agency's operations when its cash reserves are small in relation to its obligations assumed under its insurance activities and when there is limited history for estimation of losses, it is understood, in accordance with the provisions of the Convention, that the promissory note portion of the subscribed capital would be utilized to pay any claims in excess of the cash reserve. In this context, member capital remains subject to direct risk. Considering the absence of historical claims experience, this risk is difficult to assess. However, it should be noted that under an extreme hypothetical claims scenario, this risk could be considerable.

Notes to Financial Statements

Acquisition Costs

Costs of acquiring investment insurance business are expensed in the year incurred, as such amounts are not material.

Note B: Investments

The investment portfolio was denominated primarily in United States dollars with instruments in nondollar currencies representing 15.5 percent (16.5 percent - June 30, 1996) of the portfolio. Held-to-maturity securities at June 30, 1997 and June 30, 1996 were as follows (\$ thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At June 30, 1997				
Government Obligations	\$ 59,306	\$ 94	\$ 40	\$ 59,360
Time Deposits	<u>131,727</u>	<u>-</u>	<u>-</u>	<u>131,727</u>
Total	<u>\$191,033</u>	<u>\$ 94</u>	<u>\$ 40</u>	<u>\$191,087</u>
At June 30, 1996				
Government Obligations	\$ 56,423	\$175	\$126	\$ 56,472
Time Deposits	<u>107,458</u>	<u>-</u>	<u>-</u>	<u>107,458</u>
Total	<u>\$163,881</u>	<u>\$175</u>	<u>\$126</u>	<u>\$163,930</u>

The expected maturities of investments at June 30, 1997 were as follows (\$ thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$161,056	\$161,072
Due after one year through two years	<u>29,977</u>	<u>30,015</u>
Total	<u>\$191,033</u>	<u>\$191,087</u>

Note C: Capital Stock

At June 30, 1997, MIGA's authorized capital stock comprised 100,000 shares, of which 98,629 (97,869 - June 30, 1996) shares had been subscribed. Each share has a par value of SDR10,000, valued at the rate of \$1.082 per SDR. Of the subscribed capital, \$212,702,000 (\$211,057,000 - June 30, 1996) has been paid in; \$731,000 (\$731,000 - June 30, 1996) is due and the remaining, \$853,733,000 (\$847,155,000 - June 30, 1996) is subject to call by the Agency when required to meet its obligations. Of the amounts paid in, at June 30, 1997, \$100,218,000 (\$100,395,000 - June 30, 1996) is in the form of nonnegotiable, noninterest-bearing demand obligations (promissory notes).

Notes to Financial Statements

Note D: Guarantee Program and Contingent Liabilities

Guarantee Program. MIGA offers guarantees or insurance against loss caused by noncommercial risks (political risk insurance) to eligible investors on qualified investments in developing member countries. MIGA insures investments for up to 20 years against four different categories of risk: currency transfer, expropriation, war and civil disturbance, and breach of contract. Currency transfer protects the investor from inconvertibility of local currency returns and proceeds from the liquidation of the investment project into foreign exchange for transfer outside the host country. Expropriation protects the investor against partial or total loss of the insured investment as a result of acts by the host government which may reduce or eliminate ownership of, control over, or rights to the insured investment. War and civil disturbance protects the investor against losses from damage to, or the destruction or disappearance of, tangible assets caused by politically motivated acts of war or civil disturbance in the host country. Breach of contract protects the investor against the impossibility to obtain or to enforce an arbitral or judicial decision recognizing the breach of an obligation by the host government. Investors may insure projects for any combination of the four types of coverage. MIGA guarantees, other than those issued as reinsurance, cannot be terminated unilaterally by the guarantee holder within the first three years from the date of issuance. Premium rates applicable to issued contracts are fixed for five years. Payments against all claims under a guarantee may not exceed the maximum amount of coverage issued under the guarantee.

On July 28, 1995, the Board of Directors, pursuant to a resolution of the Council of Governors approved on February 8, 1994, accepted Management's recommendation to increase the maximum aggregate amount of contingent liabilities that may be assumed by the Agency from an approved interim of 250 percent to 350 percent of the sum of the Agency's unimpaired subscribed capital and its reserves plus such portion of the insurance ceded by the Agency through contracts of reinsurance as the Board of Directors may determine. Accordingly, at June 30, 1997, the maximum level of guarantees outstanding may not exceed \$4,212,420,000.

Contingent Liability. The maximum amount of contingent liability of MIGA under guarantees issued and outstanding at June 30, 1997 totaled \$2,498,863,000 (\$2,276,953,000 - June 30, 1996). The maximum amount of contingent liability is MIGA's maximum exposure to insurance claims, which includes "standby" coverage for which MIGA is committed but not currently at risk. At June 30, 1997, MIGA's estimate of its actual exposure to insurance claims exclusive of standby coverage is \$1,634,664,000 (\$1,547,221,000 - June 30, 1996). At June 30, 1997, approximately 69 percent of the contingent liability represents guarantees issued which will expire in or after fiscal year 2007.

The composition of the contingent liability including "current" and "standby" coverage under guarantees issued and outstanding by host country and by guarantee currency is summarized on the following page:

Notes to Financial Statements

Host Country	Guarantee Currency (\$ thousands)					Total
	US Dollars	Deutsche Marks	French Francs	Japanese Yen	Pounds Sterling	
Brazil	\$ 201,022	\$	\$	\$	\$	\$ 201,022
Peru	182,024					182,024
Argentina	169,160					169,160
Russian Federation	166,048					166,048
Pakistan	122,300	24,711		1,104	9,954	158,069
Jamaica	104,000					104,000
China	96,744	2,040				98,784
Venezuela	98,500					98,500
Colombia	93,000					93,000
Indonesia	80,401					80,401
Papua New Guinea	76,600					76,600
Turkey	72,500					72,500
Tunisia	64,800					64,800
Kyrgyz Republic	63,750					63,750
Costa Rica	62,509					62,509
Bangladesh	28,800			33,006		61,806
Philippines	60,000					60,000
Kuwait	50,000					50,000
Mali	50,000					50,000
Trinidad and Tobago	50,000					50,000
Poland	36,825	7,970				44,795
Slovak Republic	19,786	24,661				44,447
Czech Republic					42,174	42,174
Ecuador	42,000					42,000
Hungary	11,064	26,496				37,560
Bulgaria	31,007				3,291	34,298
Nepal	32,827					32,827
Guyana	30,600					30,600
Uzbekistan	30,194					30,194
Honduras	29,465					29,465
Kazakstan	21,173					21,173
South Africa	19,800					19,800
Azerbaijan	16,524					16,524
Romania	15,768					15,768
Saudi Arabia	14,474					14,474
Guatemala	12,939					12,939
Algeria	10,000					10,000
Paraguay	10,000					10,000
El Salvador	9,900					9,900
Guinea	8,349					8,349
Uganda	7,648					7,648
Bahrain	5,851					5,851
Sri Lanka	5,400					5,400
Georgia	3,402					3,402
Egypt, Arab Republic of	2,236					2,236
Vietnam	1,915					1,915
Madagascar			1,722			1,722
Tanzania	430					430
Total ^{a/}	\$2,321,735	\$85,878	\$1,722	\$34,110	\$55,419	\$2,498,863

a/ May differ from the sum of individual figures shown because of rounding

Notes to Financial Statements

As of June 30, 1997, additional guarantee capacity amounting to \$10,000,000 has been committed (\$44,000,000 - June 30, 1996).

Claim Activity. As of June 30, 1997, there have been no claims lodged with the Agency. Two disputes were reported during the previous fiscal year between insured investors and their host governments. Both disputes were resolved.

Note E: Reinsurance

MIGA obtains reinsurance from both public and private political risk insurers to augment its underwriting capacity and to protect portions of its insurance portfolio. It is important to note that MIGA remains responsible to the insured client for the entire amount of the insurance contract even if MIGA has obtained reinsurance. Of the \$2,498,863,000 total contingent liability at June 30, 1997, \$279,897,000 was ceded through contracts of reinsurance (\$75,469,000 - June 30, 1996). MIGA can provide both public and private insurers with facultative reinsurance but has done so with mainly official investment insurers. As of June 30, 1997, total insurance assumed by MIGA amounted to \$136,204,000 (\$148,532,000 - June 30, 1996).

Premiums relating to direct, assumed and ceded contracts for the fiscal years ended June 30, 1997 and June 30, 1996 are as follows (in \$ thousands):

	<u>1997</u>	<u>1996</u>
Premiums written		
Direct	\$25,354	\$23,482
Assumed	2,555	3,435
Ceded	(2,635)	(1,122)
	<u>1997</u>	<u>1996</u>
Premiums earned		
Direct	\$23,434	\$19,563
Assumed	2,580	2,611
Ceded	(1,554)	(722)

Note F: Reserve for Claims

At June 30, 1997, MIGA's reserve for claims totaled \$55,192,000 (\$33,523,000 - June 30, 1996). Management is developing a new process for evaluating and measuring the required level of claims reserves. The objective will be to relate more directly the level of provisioning to an evaluation of past loss experience, the composition and volume of the guarantees outstanding and to worldwide economic and political conditions as described in Note A. Its implementation may significantly increase the level of reserves for claims and provision for losses. No estimate of the possible impact has been made as of June 30, 1997 and, accordingly, the accompanying financial statements do not reflect the new estimation process.

Note G: Staff Retirement Plan

The World Bank Group has a defined benefit retirement plan (Plan) covering substantially all of the staff of the Agency, the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC). Under the Plan, benefits are based on the years of contributory service and the highest three-year average of pensionable remuneration as defined in the Plan, with the staff contributing a fixed percentage of pensionable remuneration,

Notes to Financial Statements

and the World Bank Group contributing the remainder of the actuarially determined cost of future Plan benefits. The actuarial present values of Plan obligations throughout the fiscal year are determined at the beginning of the fiscal year by the Plan's actuary. The total contribution of the Agency is based upon the aggregate funding method. All contributions to the Plan and all other assets and income held for the purposes of the Plan are held separately from the other assets and income of the World Bank Group and can be used only for the benefit of the participants in the Plan and their beneficiaries, until all liabilities to them have been paid or provided for. Plan assets consists primarily of equity and fixed income securities, with small holdings of cash, real estate and other investments.

During the fiscal year ended June 30, 1997, the World Bank Group reevaluated its pension expense estimate. Pursuant to this reevaluation, the Agency recorded pension income of \$940,000 for the fiscal year ended June 30, 1997 (\$554,000 pension expense - June 30, 1996) in the Administrative and other expenses relating to its allocation of the pension income (pension expense).

Management fees paid to IBRD in respect of the Plan for the fiscal year ended June 30, 1997 were \$271,000 (\$166,000 - June 30, 1996).

Note H: Retired Staff Benefits Plan

The World Bank Group has a Retired Staff Benefits Plan (RSBP) that provides certain health care and life insurance benefits to retirees of the Agency, the IBRD and IFC. All staff who are enrolled in the insurance programs while in active service and who meet certain requirements are eligible for benefits when they reach early or normal retirement age while working for the World Bank Group.

Retirees contribute a level amount toward life insurance based on the amount of coverage. Retiree contributions toward health care are based on length of service and age at retirement. The World Bank Group annually contributes the remainder of the actuarially determined cost of future benefits. The actuarial present values of RSBP obligations throughout the fiscal year are determined at the beginning of the fiscal year by the RSBP's actuary. All contributions to the RSBP and all other assets and income held for purposes of the RSBP are held separately from the other assets and income of the World Bank Group and can be used only for the benefit of the participants in the RSBP and their beneficiaries until all liabilities to them have been paid or provided for. RSBP assets consist primarily of fixed income and equity securities.

The total expense allocated to the Agency and included in Administrative and other expenses for the fiscal year ended June 30, 1997 is \$301,000 (\$263,000 - June 30, 1996).

Note I: Service and Support Fee

The IBRD charges the Agency an annual Service and Support Fee, which for the fiscal year ended June 30, 1997, amounted to \$717,000 (\$719,000 - 1996).

Notes to Financial Statements

Note J: Estimated Fair Values

The estimated fair values of the Agency's cash and nonnegotiable, noninterest-bearing demand obligations are assumed to approximate their carrying values. The estimated fair value of the Agency's investments shown in Note B is based on market quotations. The estimated fair values are only indicative of individual financial instruments' values and should not be considered an indication of the fair value of the Agency.

Report of Independent Accountants

**MULTILATERAL INVESTMENT GUARANTEE AGENCY
AUDIT CLEARANCE MEETING WITH J. WOLFENSOHN
JULY 18, 1997**



I. Purpose of Price Waterhouse meeting

- To report the status of the work on the audit of the June 30, 1997 financial statements of MIGA

II. Significant matters

- Reserve for claims and risk management
 - Long-standing control weakness and PW recommendation to improve process
 - On- going risk management assessments at portfolio level should drive reserving process
 - PW opinion refers to risk
 - Some movement within MIGA to enhance process in 1998
- Collectibility of member country demand notes (capital)
 - Long-standing PW recommendation to assess collectibility
 - Point of management disagreement



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings and Events - Price Waterhouse - July 18, 1997		Barcode No. 30488302		
Document Date July 18, 1997	Document Type Briefing note			
Correspondents / Participants				
Subject / Title IBRD/IDA Audit Closing Meeting: Friday July 18, 1997 at 11:00 am Briefing note for Mr. James D. Wolfensohn				
Exception(s) Corporate Administrative Matters				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date June 18, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date June 18, 2025
Withdrawn by Diego Hernández	Date June 18, 2025			

International Bank for Reconstruction and Development

Financial Statements
June 30, 1997

UNAUDITED DRAFT
July 16, 1997

International Bank for Reconstruction and Development

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Balance Sheet

June 30, 1997 and June 30, 1996

Expressed in millions of U.S. dollars

UNAUDITED DRAFT July 16, 1997
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	1997	1996
Assets		
DUE FROM BANKS		
Unrestricted currencies	\$ 26	\$ 27
Currencies subject to restrictions—Note A	615	612
	<u>641</u>	<u>639</u>
INVESTMENTS—Notes B and E		
Trading	17,229	15,001
Held-to-maturity.....	1,279	1,169
	<u>18,508</u>	<u>16,170</u>
SECURITIES PURCHASED UNDER RESALE AGREEMENTS—Note B.....	97	1,282
NONNEGOTIABLE, NONINTEREST-BEARING DEMAND OBLIGATIONS ON ACCOUNT OF SUBSCRIBED CAPITAL	1,902	1,765
AMOUNTS RECEIVABLE TO MAINTAIN VALUE OF CURRENCY HOLDINGS	574	732
OTHER RECEIVABLES		
Amounts receivable from currency swaps—Notes D and E.....	29,031	18,010
Amounts receivable from investment securities traded	29	2,365
Amounts receivable from covered forwards—Notes B and E.....	4,571	204
Accrued income on loans	1,932	2,127
Accrued interest on investments	143	92
	<u>35,706</u>	<u>22,798</u>
LOANS OUTSTANDING (see Summary Statement of Loans, Notes C and E)		
Total loans	157,381	164,766
Less undisbursed balance	51,576	54,520
Loans outstanding	<u>105,805</u>	<u>110,246</u>
Less accumulated provision for loan losses	3,210	3,340
Loans outstanding net of accumulated provision	<u>102,595</u>	<u>106,906</u>
OTHER ASSETS		
Unamortized issuance costs of borrowings.....	492	412
Miscellaneous.....	1,430	1,300
	<u>1,922</u>	<u>1,712</u>
Total assets.....	<u>\$161,945</u>	<u>\$152,004</u>

Balance Sheet

June 30, 1997 and June 30, 1996

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

	<u>1997</u>	<u>1996</u>
Liabilities		
BORROWINGS— Notes D and E		
Short-term	\$ 7,648	\$ 4,328
Medium- and long-term	89,031	92,391
	<u>96,679</u>	<u>96,719</u>
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS AND PAYABLE FOR CASH		
COLLATERAL RECEIVED—Note B	294	2,439
AMOUNTS PAYABLE TO MAINTAIN VALUE OF CURRENCY HOLDINGS	4	4
OTHER LIABILITIES		
Amounts payable for currency swaps—Notes D and E	29,687	19,427
Amounts payable for investment securities purchased	135	1,508
Amounts payable for covered forwards—Notes B and E	4,694	202
Accrued charges on borrowings	2,167	2,352
Payable for Board of Governors-approved transfers—Note F	201	205
Accounts payable and miscellaneous liabilities	856	848
	<u>37,740</u>	<u>24,542</u>
Total liabilities	<u>134,717</u>	<u>123,704</u>
Equity		
CAPITAL STOCK (see Statement of Subscriptions to Capital Stock and Voting Power, Note A)		
Authorized capital (1,558,478 shares—June 30, 1997 and June 30, 1996)		
Subscribed capital (1,512,211 shares—June 30, 1997; 1,497,325 shares—June 30, 1996)	182,426	180,630
Less uncalled portion of subscriptions	171,378	169,636
	<u>11,048</u>	<u>10,994</u>
DEFERRED AMOUNTS TO MAINTAIN VALUE OF CURRENCY HOLDINGS	(106)	136
PAYMENTS ON ACCOUNT OF PENDING SUBSCRIPTIONS—Note A	7	15
RETAINED EARNINGS (see Statement of Changes in Retained Earnings, Note F)	16,194	16,099
CUMULATIVE TRANSLATION ADJUSTMENT (see Statement of Changes in Cumulative Translation Adjustment)	85	1,056
Total equity	<u>27,228</u>	<u>28,300</u>
Total liabilities and equity	<u>\$161,945</u>	<u>\$152,004</u>

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

Statement of Income

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

	<u>1997</u>	<u>1996</u>
INCOME		
Income from loans—Note C		
Interest.....	\$7,122	\$7,804
Commitment charges.....	113	118
Income from investments—Note B		
Trading		
Interest.....	718	673
Net gains/(losses)		
Realized.....	47	31
Unrealized.....	(43)	(83)
Held-to-maturity		
Interest.....	103	100
Income from securities purchased under resale agreements—Note B.....	53	66
Other income.....	12	11
Total income.....	<u>8,125</u>	<u>8,720</u>
EXPENSES		
Borrowing expenses—Note D		
Interest.....	5,827	6,455
Prepayment costs.....	16	9
Amortization of issuance and other borrowing costs.....	109	106
Interest on securities sold under agreements to repurchase and payable for cash collateral received—Note B.....	44	67
Administrative expenses—Notes G, H, I and J.....	651	733
Provision for loan losses—Note C.....	63	42
Other expenses.....	10	8
Total expenses.....	<u>6,720</u>	<u>7,420</u>
OPERATING INCOME.....	1,405	1,300
Less contributions to special programs—Note G.....	120	113
NET INCOME.....	<u>\$1,285</u>	<u>\$1,187</u>

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

Statement of Changes in Retained Earnings

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

	1997	1996
Retained earnings at beginning of the fiscal year	\$16,099	\$15,502
Board of Governors-approved transfers to—Note F		
International Development Association	(600)	(250)
Debt Reduction Facility for IDA-Only Countries	—	(100)
Trust Fund for Gaza and West Bank	(90)	(90)
Trust Fund for Bosnia and Herzegovina	—	(150)
Heavily Indebted Poor Countries Debt Initiative Trust Fund	(500)	—
Net income for the fiscal year	1,285	1,187
Retained earnings at end of the fiscal year	<u>\$16,194</u>	<u>\$16,099</u>

Statement of Changes in Cumulative Translation Adjustment

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in millions of U.S. dollars

	1997	1996
Cumulative translation adjustment at beginning of the fiscal year	\$1,056	\$ 3,308
Translation adjustment for the fiscal year	(971)	(2,252)
Cumulative translation adjustment at end of the fiscal year	<u>\$ 85</u>	<u>\$ 1,056</u>

Statement of Cash Flows

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

	1997	1996
Cash flows from lending and investing activities		
Loans		
Disbursements	\$(14,009)	\$(13,321)
Principal repayments	10,710	11,494
Principal prepayments	1,311	812
Investments: Held-to-maturity		
Purchases	(8,911)	(5,417)
Maturities	8,895	5,422
Net cash used in lending and investing activities	(2,004)	(1,010)
Cash flows from Board of Governors-approved transfers to		
International Development Association	(599)	(250)
Debt Reduction Facility for IDA-Only Countries	(1)	(86)
Trust Fund for Gaza and West Bank, Trust Fund for Bosnia and Herzegovina, and for		
Emergency Assistance for Rwanda	(91)	(179)
Heavily Indebted Poor Countries Debt Initiative Trust Fund	(500)	—
Net cash used in Board of Governors-approved transfers	(1,191)	(515)
Cash flows from financing activities		
Medium- and long-term borrowings		
New issues	14,928	9,851
Retirements	(14,137)	(10,330)
Net short-term borrowings	3,277	340
Net currency swaps	(266)	(649)
Net capital stock transactions	71	111
Net cash provided by (used in) financing activities	3,873	(677)
Cash flows from operating activities		
Net income	1,285	1,187
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	541	399
Provision for loan losses	63	42
Changes in other assets and liabilities		
Decrease in accrued income on loans and investments	18	176
Increase in miscellaneous assets	(153)	(80)
Decrease in accrued charges on borrowings	(49)	(214)
Increase (decrease) in accounts payable and miscellaneous liabilities	35	(18)
Net cash provided by operating activities	1,740	1,492
Effect of exchange rate changes on unrestricted cash and liquid investments	(319)	(1,632)
Net increase (decrease) in unrestricted cash and liquid investments	2,099	(2,342)
Unrestricted cash and liquid investments at beginning of the fiscal year	14,730	17,072
Unrestricted cash and liquid investments at end of the fiscal year	\$ 16,829	\$ 14,730
Composed of		
Investments held in trading portfolio	\$ 17,229	\$ 15,001
Unrestricted currencies	26	27
Net (payable) receivable for investment securities traded/purchased	(106)	857
Net (payable) receivable from covered forwards	(123)	2
Net payable for securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	(197)	(1,157)
	\$ 16,829	\$ 14,730
Supplemental disclosure		
Increase (decrease) in ending balances resulting from exchange rate fluctuations		
Loans outstanding	\$ (6,429)	\$(14,436)
Investments: Held-to-maturity	94	(29)
Borrowings	(4,701)	(11,731)
Currency swaps	(495)	(1,184)

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

Summary Statement of Loans

June 30, 1997

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

<i>Borrower or guarantor</i>	<i>Total loans</i>	<i>Loans approved but not yet effective¹</i>	<i>Undisbursed balance of effective loans²</i>	<i>Loans outstanding</i>	<i>Percentage of total loans outstanding</i>
Algeria	\$ 2,624	\$ 89	\$ 720	\$ 1,815	1.72
Argentina	8,483	1,259	1,852	5,372	5.08
Armenia	11	—	1	10	0.01
Bahamas, The	8	—	—	8	0.01
Bangladesh	43	—	—	43	0.04
Barbados	32	—	18	14	0.01
Belarus	158	—	36	122	0.12
Belize	56	7	14	35	0.03
Bolivia	48	—	—	48	0.05
Bosnia and Herzegovina ³	579	—	—	579	0.55
Botswana	58	—	—	58	0.05
Brazil	9,529	943	2,691	5,895	5.57
Bulgaria	768	40	263	465	0.44
Cameroon	475	—	8	467	0.44
Chile	1,434	—	404	1,030	0.97
China	16,765	2,181	6,647	7,937	7.50
Colombia	2,813	15	819	1,979	1.87
Congo, Democratic Republic of	84	—	—	84	0.08
Congo, Republic of	77	—	1	76	0.07
Costa Rica	287	—	62	225	0.21
Côte d'Ivoire	1,191	—	2	1,189	1.12
Croatia	544	135	185	224	0.21
Cyprus	89	—	27	62	0.06
Czech Republic	519	—	101	418	0.40
Dominica	4	—	4	—	—
Dominican Republic	376	112	37	227	0.21
Ecuador	1,255	21	322	912	0.86
Egypt, Arab Republic of	1,257	20	262	975	0.92
El Salvador	473	—	191	282	0.27
Estonia	117	—	50	67	0.06
Fiji	45	—	11	34	0.03
Gabon	113	10	18	85	0.08
Ghana	35	—	—	35	0.03
Grenada	4	—	4	—	—
Guatemala	274	46	32	196	0.19
Guyana	23	—	—	23	0.02
Honduras	311	—	—	311	0.29
Hungary	2,172	60	604	1,508	1.43
India	12,560	575	3,102	8,883	8.40
Indonesia	15,269	284	4,444	10,541	9.96
Iran, Islamic Republic of	795	—	384	411	0.39
Iraq	44	—	—	44	0.04
Jamaica	656	—	179	477	0.45
Jordan	940	—	168	772	0.73
Kazakstan	917	17	412	488	0.46
Kenya	257	—	—	257	0.24
Korea, Republic of	2,083	—	434	1,649	1.56
Latvia	233	38	89	106	0.10
Lebanon	597	53	407	137	0.13
Lesotho	87	—	29	58	0.05

Summary Statement of Loans (Continued)

June 30, 1997

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

<i>Borrower or guarantor</i>	<i>Total loans</i>	<i>Loans approved but not yet effective¹</i>	<i>Undisbursed balance of effective loans²</i>	<i>Loans outstanding</i>	<i>Percentage of total loans outstanding</i>
Liberia	\$ 141	—	—	\$ 141	0.13
Lithuania	267	4	156	107	0.10
Macedonia, former Yugoslav Republic of	111	—	38	73	0.07
Madagascar	4	—	—	4	*
Malawi	39	—	—	39	0.04
Malaysia	947	—	126	821	0.78
Mauritania	7	—	—	7	0.01
Mauritius	182	—	61	121	0.11
Mexico	15,341	960	2,669	11,712	11.07
Moldova	237	17	82	138	0.13
Morocco	4,488	90	881	3,517	3.32
Nicaragua	30	—	—	30	0.03
Nigeria	2,917	—	352	2,565	2.42
Oman	16	—	—	16	0.02
Pakistan	3,958	—	1,019	2,939	2.78
Panama	368	50	98	220	0.21
Papua New Guinea	353	—	70	283	0.27
Paraguay	369	—	233	136	0.13
Peru	2,756	—	876	1,880	1.78
Philippines	5,653	230	1,009	4,414	4.17
Poland	2,830	—	678	2,152	2.03
Portugal	18	—	2	16	0.02
Romania	2,467	548	839	1,080	1.02
Russian Federation	7,778	316	3,787	3,675	3.47
St. Kitts and Nevis	3	—	2	1	*
St. Lucia	10	—	6	4	*
St. Vincent and the Grenadines	3	—	2	*	*
Senegal	18	—	—	18	0.02
Seychelles	6	—	2	4	*
Sierra Leone	2	—	—	2	*
Slovak Republic	270	—	28	242	0.23
Slovenia	212	43	27	142	0.13
South Africa	46	46	—	—	—
Sri Lanka	35	—	—	35	0.03
Sudan	6	—	—	6	0.01
Swaziland	37	—	25	12	0.01
Syrian Arab Republic	360	—	—	360	0.34
Tanzania	45	—	—	45	0.04
Thailand	2,495	288	705	1,502	1.42
Trinidad and Tobago	158	—	81	77	0.07
Tunisia	2,273	162	567	1,544	1.46
Turkey	5,100	15	1,218	3,867	3.65
Turkmenistan	89	65	20	4	*
Ukraine	1,937	88	845	1,004	0.95
Uruguay	717	201	88	428	0.40

Summary Statement of Loans

June 30, 1997

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

<i>Borrower or guarantor</i>	<i>Total loans</i>	<i>Loans approved but not yet effective ¹</i>	<i>Undisbursed balance of effective loans ²</i>	<i>Loans outstanding</i>	<i>Percentage of total loans outstanding</i>
Uzbekistan	\$ 230	\$ —	\$ 79	\$ 151	0.14
Venezuela	1,998	—	691	1,307	1.24
Yugoslavia, Federal Republic of (Serbia/Montenegro) ³	1,146	—	—	1,146	1.08
Zambia	78	—	—	78	0.07
Zimbabwe	622	—	122	500	0.47
Subtotal ⁵	156,744	9,027	42,519	105,198	99.42
Caribbean Development Bank ⁴	35	—	27	8	0.01
International Finance Corporation	602	—	3	599	0.57
Total—June 30, 1997 ⁵	<u>\$157,381</u>	<u>\$9,027</u>	<u>\$42,549</u>	<u>\$105,805</u>	<u>100.00</u>
Total—June 30, 1996	<u>\$164,766</u>	<u>\$9,500</u>	<u>\$45,020</u>	<u>\$110,246</u>	

* Indicates amount less than \$0.5 million or less than 0.005 percent.

NOTES

- Loans totaling \$6,417 million (\$5,170 million—June 30, 1996) have been approved by IBRD, but the related agreements have not been signed. Loan agreements totaling \$2,610 million (\$4,330 million—June 30, 1996) have been signed, but the loans do not become effective and disbursements thereunder do not start until the borrowers and guarantors, if any, take certain actions and furnish certain documents to IBRD.
- Of the undisbursed balance, IBRD has entered into irrevocable commitments to disburse \$1,937 million (\$2,258 million—June 30, 1996).
- See Notes to Financial Statements—Notes A and C.
- These loans are for the benefit of The Bahamas, Barbados, Grenada, Guyana, Jamaica, Trinidad and Tobago, and territories of the United Kingdom (Associated States and Dependencies) in the Caribbean Region, who are severally liable as guarantors to the extent of subloans made in their territories.
- May differ from the sum of individual figures shown due to rounding.

Statement of Subscriptions to Capital Stock and Voting Power

UNAUDITED DRAFT
July 16, 1997

June 30, 1997

Expressed in millions of U.S. dollars

Member	Subscriptions					Voting Power	
	Shares	Percentage of total	Total amounts	Amounts paid in ¹	Amounts subject to call ¹	Number of votes	Percentage of total
Afghanistan	300	0.02	\$ 36.2	\$ 3.6	\$ 32.6	550	0.04
Albania	830	0.05	100.1	3.6	96.5	1,080	0.07
Algeria	9,252	0.61	1,116.1	67.1	1,049.0	9,502	0.61
Angola	2,676	0.18	322.8	17.5	305.4	2,926	0.19
Antigua and Barbuda	520	0.03	62.7	1.3	61.5	770	0.05
Argentina	17,911	1.18	2,160.7	132.2	2,028.4	18,161	1.17
Armenia	1,139	0.08	137.4	5.9	131.5	1,389	0.09
Australia	24,464	1.62	2,951.2	181.8	2,769.5	24,714	1.59
Austria	11,063	0.73	1,334.6	80.7	1,253.9	11,313	0.73
Azerbaijan	1,646	0.11	198.6	9.7	188.8	1,896	0.12
Bahamas, The	1,071	0.07	129.2	5.4	123.8	1,321	0.08
Bahrain	1,103	0.07	133.1	5.7	127.4	1,353	0.09
Bangladesh	4,854	0.32	585.6	33.9	551.6	5,104	0.33
Barbados	948	0.06	114.4	4.5	109.9	1,198	0.08
Belarus	3,323	0.22	400.9	22.3	378.5	3,573	0.23
Belgium	28,983	1.92	3,496.4	215.8	3,280.6	29,233	1.88
Belize	586	0.04	70.7	1.8	68.9	836	0.05
Benin	868	0.06	104.7	3.9	100.8	1,118	0.07
Bhutan	479	0.03	57.8	1.0	56.8	729	0.05
Bolivia	1,785	0.12	215.3	10.8	204.5	2,035	0.13
Bosnia and Herzegovina	549	0.04	66.2	5.8	60.4	799	0.05
Botswana	615	0.04	74.2	2.0	72.2	865	0.06
Brazil	24,946	1.65	3,009.4	185.1	2,824.2	25,196	1.62
Brunei Darussalam	2,373	0.16	286.3	15.2	271.1	2,623	0.17
Bulgaria	5,215	0.34	629.1	36.5	592.6	5,465	0.35
Burkina Faso	868	0.06	104.7	3.9	100.8	1,118	0.07
Burundi	716	0.05	86.4	3.0	83.4	966	0.06
Cambodia	214	0.01	25.8	2.6	23.2	464	0.03
Cameroon	1,527	0.10	184.2	9.0	175.2	1,777	0.11
Canada	44,795	2.96	5,403.8	334.9	5,068.9	45,045	2.89
Cape Verde	508	0.03	61.3	1.2	60.1	758	0.05
Central African Republic	862	0.06	104.0	3.9	100.1	1,112	0.07
Chad	862	0.06	104.0	3.9	100.1	1,112	0.07
Chile	6,931	0.46	836.1	49.6	786.6	7,181	0.46
China	44,799	2.96	5,404.3	335.0	5,069.3	45,049	2.89
Colombia	6,352	0.42	766.3	45.2	721.1	6,602	0.42
Comoros	282	0.02	34.0	0.3	33.7	532	0.03
Congo, Democratic Republic of	2,643	0.17	318.8	25.4	293.5	2,893	0.19
Congo, Republic of	927	0.06	111.8	4.3	107.5	1,177	0.08
Costa Rica	233	0.02	28.1	1.9	26.2	483	0.03
Côte d'Ivoire	2,516	0.17	303.5	16.4	287.1	2,766	0.18
Croatia	2,293	0.15	276.6	17.3	259.3	2,543	0.16
Cyprus	1,461	0.10	176.2	8.4	167.9	1,711	0.11
Czech Republic	6,308	0.42	761.0	45.9	715.0	6,558	0.42
Denmark	10,251	0.68	1,236.6	74.6	1,162.0	10,501	0.67
Djibouti	559	0.04	67.4	1.6	65.9	809	0.05
Dominica	504	0.03	60.8	1.1	59.7	754	0.05
Dominican Republic	2,092	0.14	252.4	13.1	239.3	2,342	0.15
Ecuador	2,771	0.18	334.3	18.2	316.1	3,021	0.19
Egypt, Arab Republic of	7,108	0.47	857.5	50.9	806.6	7,358	0.47

Statement of Subscriptions to Capital Stock and Voting Power

June 30, 1997

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
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Member	Subscriptions					Voting Power	
	Shares	Percentage of total	Total amounts	Amounts paid in ¹	Amounts subject to call ¹	Number of votes	Percentage of total
El Salvador	141	0.01	\$ 17.0	\$ 1.7	\$ 15.3	391	0.03
Equatorial Guinea	715	0.05	86.3	2.7	83.5	965	0.06
Eritrea	593	0.04	71.5	1.8	69.7	843	0.05
Estonia	923	0.06	111.3	4.3	107.1	1,173	0.08
Ethiopia	978	0.06	118.0	4.7	113.3	1,228	0.08
Fiji	987	0.07	119.1	4.8	114.3	1,237	0.08
Finland	8,560	0.57	1,032.6	61.9	970.8	8,810	0.57
France	69,397	4.59	8,371.7	520.4	7,851.3	69,647	4.47
Gabon	987	0.07	119.1	5.1	113.9	1,237	0.08
Gambia, The	543	0.04	65.5	1.5	64.0	793	0.05
Georgia	1,584	0.10	191.1	9.3	181.8	1,834	0.12
Germany	72,399	4.79	8,733.9	542.9	8,190.9	72,649	4.67
Ghana	1,525	0.10	184.0	12.7	171.2	1,775	0.11
Greece	1,684	0.11	203.1	14.1	189.1	1,934	0.12
Grenada	531	0.04	64.1	1.4	62.7	781	0.05
Guatemala	2,001	0.13	241.4	12.4	229.0	2,251	0.14
Guinea	1,292	0.09	155.9	7.1	148.8	1,542	0.10
Guinea-Bissau	540	0.04	65.1	1.4	63.7	790	0.05
Guyana	1,058	0.07	127.6	5.3	122.3	1,308	0.08
Haiti	1,067	0.07	128.7	5.4	123.3	1,317	0.08
Honduras	641	0.04	77.3	2.3	75.0	891	0.06
Hungary	8,050	0.53	971.1	58.0	913.1	8,300	0.53
Iceland	1,258	0.08	151.8	6.8	144.9	1,508	0.10
India	44,795	2.96	5,403.8	333.7	5,070.1	45,045	2.89
Indonesia	14,981	0.99	1,807.2	110.3	1,697.0	15,231	0.98
Iran, Islamic Republic of	23,686	1.57	2,857.4	175.8	2,681.5	23,936	1.54
Iraq	2,808	0.19	338.7	27.1	311.6	3,058	0.20
Ireland	5,271	0.35	635.9	37.1	598.8	5,521	0.35
Israel	4,750	0.31	573.0	33.2	539.8	5,000	0.32
Italy	44,795	2.96	5,403.8	334.8	5,069.0	45,045	2.89
Jamaica	2,578	0.17	311.0	16.8	294.2	2,828	0.18
Japan	93,770	6.20	11,311.9	703.5	10,608.5	94,020	6.04
Jordan	1,388	0.09	167.4	7.8	159.6	1,638	0.11
Kazakstan	2,985	0.20	360.1	19.8	340.3	3,235	0.21
Kenya	2,461	0.16	296.9	15.9	281.0	2,711	0.17
Kiribati	465	0.03	56.1	0.9	55.2	715	0.05
Korea, Republic of	9,372	0.62	1,130.6	67.9	1,062.7	9,622	0.62
Kuwait	13,280	0.88	1,602.0	97.4	1,504.6	13,530	0.87
Kyrgyz Republic	1,107	0.07	133.5	5.7	127.9	1,357	0.09
Lao People's Democratic Republic	178	0.01	21.5	1.5	20.0	428	0.03
Latvia	1,384	0.09	167.0	7.8	159.2	1,634	0.10
Lebanon	340	0.02	41.0	1.1	39.9	590	0.04
Lesotho	663	0.04	80.0	2.3	77.6	913	0.06
Liberia	463	0.03	55.9	2.6	53.3	713	0.05
Libya	7,840	0.52	945.8	57.0	888.8	8,090	0.52
Lithuania	1,507	0.10	181.8	8.7	173.1	1,757	0.11
Luxembourg	1,652	0.11	199.3	9.8	189.5	1,902	0.12
Macedonia, former Yugoslav Republic of	427	0.03	51.5	3.2	48.3	677	0.04
Madagascar	1,422	0.09	171.5	8.1	163.5	1,672	0.11
Malawi	1,094	0.07	132.0	5.6	126.4	1,344	0.09

Statement of Subscriptions to Capital Stock and Voting Power (Continued)

UNAUDITED DRAFT
July 16, 1997

June 30, 1997

Expressed in millions of U.S. dollars

Member	Subscriptions					Voting Power	
	Shares	Percentage of total	Total amounts	Amounts paid in ¹	Amounts subject to call ¹	Number of votes	Percentage of total
Malaysia	8,244	0.55	\$ 994.5	\$ 59.5	\$ 935.0	8,494	0.55
Maldives	469	0.03	56.6	0.9	55.7	719	0.05
Mali	1,162	0.08	140.2	6.1	134.1	1,412	0.09
Malta	1,074	0.07	129.6	5.4	124.1	1,324	0.09
Marshall Islands	469	0.03	56.6	0.9	55.7	719	0.05
Mauritania	900	0.06	108.6	4.1	104.4	1,150	0.07
Mauritius	1,242	0.08	149.8	6.7	143.1	1,492	0.10
Mexico	18,804	1.24	2,268.4	139.0	2,129.4	19,054	1.22
Micronesia, Federated States of	479	0.03	57.8	1.0	56.8	729	0.05
Moldova	1,368	0.09	165.0	7.6	157.4	1,618	0.10
Mongolia	466	0.03	56.2	2.3	53.9	716	0.05
Morocco	4,973	0.33	599.9	34.8	565.1	5,223	0.34
Mozambique	930	0.06	112.2	4.8	107.4	1,180	0.08
Myanmar	2,484	0.16	299.7	16.1	283.6	2,734	0.18
Namibia	1,523	0.10	183.7	8.8	174.9	1,773	0.11
Nepal	968	0.06	116.8	4.6	112.1	1,218	0.08
Netherlands	35,503	2.35	4,282.9	264.8	4,018.1	35,753	2.30
New Zealand	7,236	0.48	872.9	51.9	821.0	7,486	0.48
Nicaragua	608	0.04	73.3	2.1	71.3	858	0.06
Niger	852	0.06	102.8	3.8	99.0	1,102	0.07
Nigeria	12,655	0.84	1,526.6	92.7	1,433.9	12,905	0.83
Norway	9,982	0.66	1,204.2	72.6	1,131.6	10,232	0.66
Oman	1,561	0.10	188.3	9.1	179.2	1,811	0.12
Pakistan	9,339	0.62	1,126.6	67.8	1,058.9	9,589	0.62
Panama	385	0.03	46.4	3.2	43.2	635	0.04
Papua New Guinea	1,294	0.09	156.1	7.1	149.0	1,544	0.10
Paraguay	1,229	0.08	148.3	6.6	141.6	1,479	0.09
Peru	5,331	0.35	643.1	37.5	605.6	5,581	0.36
Philippines	6,844	0.45	825.6	48.9	776.7	7,094	0.46
Poland	10,908	0.72	1,315.9	79.6	1,236.3	11,158	0.72
Portugal	5,460	0.36	658.7	38.5	620.2	5,710	0.37
Qatar	1,096	0.07	132.2	9.0	123.3	1,346	0.09
Romania	4,011	0.27	483.9	30.5	453.4	4,261	0.27
Russian Federation	44,795	2.96	5,403.8	333.9	5,070.0	45,045	2.89
Rwanda	1,046	0.07	126.2	5.2	120.9	1,296	0.08
St. Kitts and Nevis	275	0.02	33.2	0.3	32.9	525	0.03
St. Lucia	552	0.04	66.6	1.5	65.1	802	0.05
St. Vincent and the Grenadines	278	0.02	33.5	0.3	33.2	528	0.03
Sao Tome and Principe	495	0.03	59.7	1.1	58.6	745	0.05
Saudi Arabia	44,795	2.96	5,403.8	335.0	5,068.9	45,045	2.89
Senegal	2,072	0.14	250.0	13.0	237.0	2,322	0.15
Seychelles	263	0.02	31.7	0.2	31.6	513	0.03
Sierra Leone	718	0.05	86.6	3.0	83.6	968	0.06
Singapore	320	0.02	38.6	3.9	34.7	570	0.04
Slovak Republic	3,216	0.21	388.0	23.0	365.0	3,466	0.22
Slovenia	1,261	0.08	152.1	9.5	142.6	1,511	0.10
Solomon Islands	513	0.03	61.9	1.2	60.7	763	0.05
Somalia	552	0.04	66.6	3.3	63.3	802	0.05
South Africa	13,462	0.89	1,624.0	98.8	1,525.2	13,712	0.88
Spain	23,686	1.57	2,857.4	175.6	2,681.7	23,936	1.54

Statement of Subscriptions to Capital Stock and Voting Power

UNAUDITED DRAFT
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June 30, 1997

Expressed in millions of U.S. dollars

Member	Subscriptions					Voting Power	
	Shares	Percentage of total	Total amounts	Amounts paid in ¹	Amounts subject to call ¹	Number of votes	Percentage of total
Sri Lanka	3,817	0.25	\$ 460.5	\$ 26.1	\$ 434.3	4,067	0.26
Sudan	850	0.06	102.5	7.2	95.3	1,100	0.07
Suriname	412	0.03	49.7	2.0	47.7	662	0.04
Swaziland	440	0.03	53.1	2.0	51.1	690	0.04
Sweden	14,974	0.99	1,806.4	110.2	1,696.2	15,224	0.98
Switzerland	26,606	1.76	3,209.6	197.2	3,012.4	26,856	1.72
Syrian Arab Republic	2,202	0.15	265.6	14.0	251.7	2,452	0.16
Tajikistan	1,060	0.07	127.9	5.3	122.5	1,310	0.08
Tanzania	1,295	0.09	156.2	10.0	146.2	1,545	0.10
Thailand	6,349	0.42	765.9	45.2	720.7	6,599	0.42
Togo	1,105	0.07	133.3	5.7	127.6	1,355	0.09
Tonga	494	0.03	59.6	1.1	58.5	744	0.05
Trinidad and Tobago	2,664	0.18	321.4	17.6	303.7	2,914	0.19
Tunisia	719	0.05	86.7	5.7	81.1	969	0.06
Turkey	7,379	0.49	890.2	52.9	837.2	7,629	0.49
Turkmenistan	526	0.03	63.5	2.9	60.5	776	0.05
Uganda	617	0.04	74.4	4.4	70.1	867	0.06
Ukraine	10,908	0.72	1,315.9	79.3	1,236.6	11,158	0.72
United Arab Emirates	2,385	0.16	287.7	22.6	265.1	2,635	0.17
United Kingdom	69,397	4.59	8,371.7	539.5	7,832.2	69,647	4.47
United States	264,969	17.52	31,964.5	1,998.4	29,966.2	265,219	17.03
Uruguay	2,812	0.19	339.2	18.6	320.7	3,062	0.20
Uzbekistan	2,493	0.16	300.7	16.1	284.7	2,743	0.18
Vanuatu	586	0.04	70.7	1.8	68.9	836	0.05
Venezuela	20,361	1.35	2,456.2	150.8	2,305.5	20,611	1.32
Vietnam	968	0.06	116.8	8.1	108.7	1,218	0.08
Western Samoa	531	0.04	64.1	1.4	62.7	781	0.05
Yemen, Republic of	2,212	0.15	266.8	14.0	252.8	2,462	0.16
Zambia	2,810	0.19	339.0	20.0	319.0	3,060	0.20
Zimbabwe	3,325	0.22	401.1	22.4	378.7	3,575	0.23
Total—June 30, 1997 ²	<u>1,512,211</u>	<u>100.00</u>	<u>\$182,426</u>	<u>\$11,048</u>	<u>\$171,378</u>	<u>1,557,211</u>	<u>100.00</u>
Total—June 30, 1996	<u>1,497,325</u>	<u>100.00</u>	<u>\$180,630</u>	<u>\$10,994</u>	<u>\$169,636</u>	<u>1,542,325</u>	

NOTES

1. See Notes to Financial Statements—Note A.
2. May differ from the sum of individual figures shown due to rounding.

Notes to Financial Statements

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Purpose and Affiliated Organizations

The International Bank for Reconstruction and Development (IBRD) is an international organization which commenced business in 1946. The principal purpose of IBRD is to promote economic development in its member countries, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform in developing member countries. The activities of IBRD are complemented by those of three affiliated organizations, the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Each of these organizations is legally and financially independent from IBRD, with separate assets and liabilities, and IBRD is not liable for their respective obligations. IDA's purpose is to promote economic development in the less developed areas of the world included in IDA's membership by providing financing on concessionary terms. 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 was established to encourage the flow of investments for productive purposes among member countries and, in particular, to developing member countries by providing guarantees against noncommercial risks for foreign investment in its developing member countries.

Summary of Significant Accounting and Related Policies

IBRD's financial statements are prepared in conformity with the accounting principles generally accepted in the United States and with International Accounting Standards.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant judgments have been used in the computation of estimated and fair values of loans and borrowings, the adequacy of the Accumulated Provision for Loan Losses, and the present value of obligations under the Staff Retirement and Retired Staff Benefits Plans.

During the first quarter of fiscal year 1997, IBRD adopted prospectively the Statement of Financial Accounting Standards No. 121, entitled "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of", which prescribes that long-lived assets and certain intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This accounting standard does not apply to financial instruments. The adoption of this standard had no material impact on IBRD's financial statements.

During the fourth quarter of fiscal year 1997, IBRD adopted International Accounting Standards (IAS) No. 32 entitled "Financial Instruments: Disclosure and Presentation". IAS No. 32 specifies the disclosure of certain information on various risk elements associated with financial instruments. These disclosures are contained in Notes B, C, and D.

In 1996, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 125, entitled "Accounting for Transfers of Assets and Servicing of Financial Assets and Extinguishments of Liabilities, which requires new accounting and reporting standards for transfers of assets, securitizations, collateral, and servicing of receivables and other financial assets, and extinguishments of liabilities. While the standard is effective beginning in 1997, the provisions relating to transfers involving repurchase/resale agreements and securities lending for transfers of financial assets will not be effective until the beginning of 1998. The adoption of this standard is expected to have no material impact on IBRD's financial statements.

Certain reclassifications of the prior year's information have been made to conform to the current period's presentation.

Translation of Currencies: IBRD's financial statements are expressed in terms of U.S. dollars solely for the purpose of summarizing IBRD's financial position and the results of its operations for the convenience of its members and other interested parties.

Notes to Financial Statements

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IBRD is an international organization which conducts its operations in the currencies of all of its members. IBRD's resources are derived from its capital, borrowings, and accumulated earnings in those various currencies. IBRD has a number of general policies aimed at minimizing exchange-rate risk in a multicurrency environment. IBRD matches its borrowing obligations in any one currency (after swaps) with assets in the same currency, as prescribed by its Articles of Agreement, primarily by holding or lending the proceeds of its borrowings (after swaps) in the same currencies in which they are borrowed. In addition, IBRD periodically undertakes currency conversions to more closely match the currencies underlying its Retained Earnings with those of the outstanding loans.

Assets and liabilities are translated at market exchange rates at the end of the period. Income and expenses are translated at the market exchange rates on the dates on which they are recognized or at average market exchange rates in effect during each month. Translation adjustments are charged or credited to Equity.

Valuation of Capital Stock: In the Articles of Agreement, the capital stock of IBRD is expressed in terms of "U.S. dollars of the weight and fineness in effect on July 1, 1944" (1944 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 1944 dollars into current dollars or into any other currency disappeared. The Executive Directors of IBRD have decided, until such time as the relevant provisions of the Articles of Agreement are amended, that the words "U.S. dollars of the weight and fineness in effect on July 1, 1944" in Article II, Section 2(a) of the Articles of Agreement of IBRD are interpreted to mean the Special Drawing Right (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 \$1.20635 for one SDR.

Maintenance of Value: Article II, Section 9 of the Articles of Agreement provides for maintenance of the value, at the time of subscription, of such restricted currencies, requiring (1) the member to make additional payments to IBRD in the event that the par value of its currency is reduced or the foreign exchange value of its currency has, in the opinion of IBRD, depreciated to a significant extent in its territories and (2) IBRD to reimburse the member in the event that the par value of its currency is increased.

Since currencies no longer have par values, maintenance of value amounts are determined by measuring the foreign exchange value of a member's currency against the standard of value of IBRD capital based on the 1974 SDR. Members are required to make payments to IBRD if their currencies depreciate significantly relative to the standard of value. Furthermore, the Executive Directors have adopted a policy of reimbursing members whose currencies appreciate significantly in terms of the standard of value.

The net maintenance of value amounts relating to restricted currencies out on loan are included in Deferred Amounts to Maintain Value of Currency Holdings and shown as a component of Equity since maintenance of value becomes effective only as such currencies are repaid to IBRD.

Retained Earnings: Retained Earnings consists of allocated amounts (Special Reserve, General Reserve, and Surplus) and unallocated Net Income.

The Special Reserve consists of loan commissions set aside pursuant to Article IV, Section 6 of the Articles of Agreement, which are to be held in liquid assets. These assets may be used only for the purpose of meeting liabilities of IBRD on its borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed by IBRD. The Special Reserve assets are included under Investments held in the Trading portfolio, comprising obligations of the United States Government, its agencies, and other official entities. The allocation of such commissions to the Special Reserve was discontinued in 1964 with respect to subsequent loans and no further additions are being made to it.

The General Reserve consists of earnings from prior fiscal years which, in the judgment of the Executive Directors, should be retained in IBRD's business.

Notes to Financial Statements (Continued)

UNAUDITED DRAFT
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Surplus consists of earnings from prior fiscal years which are retained by IBRD until a further decision is made on their disposition or the conditions of transfer for specified uses have been met.

Unallocated Net Income consists of earnings in the current fiscal year. Commencing in 1950, a portion or all of the unallocated Net Income has been allocated to the General Reserve. The Board of Governors, consisting of one Governor appointed by each member, periodically approves transfers out of unallocated Net Income and Surplus, components of Retained Earnings, after an assessment by the Executive Directors of IBRD's reserve needs, to various entities for development purposes consistent with IBRD's Articles of Agreement.

Loans: All of IBRD's loans are made to or guaranteed by members, except loans to IFC. The majority of IBRD's loans have repayment obligations in various currencies determined on the basis of a currency pooling system, which is designed to equalize exchange-rate risks among borrowers. IBRD also offers single currency loans. Except for certain loans which were converted to the currency pooling system, loans negotiated prior to July 1980 and all single currency loans are repayable in the currencies disbursed.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered immaterial.

IBRD's policy is to not reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. In exceptional cases, however, such as when implementation of a financed project has been delayed, the loan amortization schedule may be modified to avoid substantial repayments prior to project completion. In addition, in the special case of Bosnia and Herzegovina, IBRD has refinanced/rescheduled, through three new IBRD consolidation loans, certain loans made to the former Socialist Federal Republic of Yugoslavia (SFRY) for which Bosnia and Herzegovina has accepted liability. IBRD's special treatment in this case was based on the following criteria: the country (i) has emerged from a current or former member of IBRD, (ii) is assuming responsibility for a share of the debt of that member, (iii) has limited creditworthiness for servicing the debt that it assumes, because of a major armed conflict in its territory involving extensive destruction of physical assets, and (iv) can improve significantly its repayment capacity through refinancing/rescheduling, if appropriate supporting measures are taken. At the balance sheet dates no other country met these criteria.

IBRD does not charge fees or additional interest on any overdue interest or loan charges. Accordingly, IBRD incurs a cost equal to the difference between the present value of payments for interest and charges made according to the related loans' contractual terms and the present value of their expected future cash flows discounted at the loans' contractual rates. Such economic losses are considered in the determination of the Accumulated Provision for Loan Losses.

It is the policy of IBRD to place in nonaccrual status all loans made to or guaranteed by a member of IBRD if principal, interest, or other charges with respect to any such loan are overdue by more than six months, unless IBRD management determines that the overdue amount will be collected in the immediate future. In addition, if development credits made by IDA to a member government are placed in nonaccrual status, all loans to that member government will also be placed in nonaccrual status by IBRD. On the date a member's loans are placed in nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by IBRD. If collectibility risk is considered to be particularly high at the time of arrears clearance or if IBRD refinances/reschedules nonaccruing loans to a member so that no debt-service payments remain overdue, its loans may not automatically emerge from nonaccrual status, even though its eligibility for new loans may have been restored. The previously overdue interest and other charges are not recognized as income in the period the refinancing/rescheduling occurs. After a suitable period of payment performance has passed from the time of arrears clearance, a decision on the restoration of accrual status is made on a case-by-case basis.

IBRD determines the Accumulated Provision for Loan Losses based on an assessment of collectibility risk in the total loan portfolio, including loans in nonaccrual status. The accumulated provision is periodically adjusted based on a review of the prevailing circumstances and would be used to meet actual losses on loans. Adjustments to the accumulated provision are recorded as a charge or credit to income. In the context of determining the adequacy of the Accumulated Provision for Loan

Notes to Financial Statements

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Losses, IBRD considers the present value of expected cash flows relative to the contractual cash flows for loans in making the required assessment.

Investments: Investment securities are classified based on IBRD management's intention on the date of purchase. Securities which management has the intention and ability to hold until maturity are included in the Held-to-Maturity portfolio and reported at amortized cost. All other investment securities are held in a Trading portfolio and classified as an element of liquidity in the Statement of Cash Flows due to their nature and IBRD's policies governing the level and use of such investments. Investment securities and related financial instruments held in IBRD's Trading portfolio are carried and reported at market value. Unrecognized gains and losses for financial instruments held in the Trading portfolio are included in income. Derivative instruments are used in liquidity management to take advantage of profitable trading opportunities, and as a proxy for cash securities. These instruments include short-term, over-the-counter foreign exchange forwards, and exchange-traded futures and options on fixed income instruments. These derivatives are carried at market value. From time to time, IBRD enters into forward contracts for the sale or purchase of investment securities; these transactions are recorded at the time of commitment.

Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements: Securities purchased under resale agreements and securities sold under repurchase agreements are treated as lending and borrowing transactions and are carried at historical cost.

Borrowings: To ensure funds are available for lending and liquidity purposes, IBRD borrows in the worldwide capital markets offering its securities to private and governmental buyers. IBRD issues short-term and medium- and long-term debt instruments denominated in various currencies with both fixed and adjustable interest rates. Borrowings are carried on the balance sheet at their par value (face value) adjusted for any unamortized premiums or discounts. Issuance costs associated with a bond offering are deferred and amortized over the period during which the related indebtedness is outstanding. The unamortized balance of the issuance costs is included in Other Assets on the balance sheet, and the issuance costs amortization is presented as a separate element under Borrowing Expenses on the income statement. Amortization of discounts and premiums is included in interest under Borrowing Expenses on the income statement.

IBRD uses derivatives in its borrowing and liability management activities to take advantage of cost saving opportunities across capital markets and lower its funding costs, to delink the time at which its borrowing costs are fixed from the timing of the actual market borrowings, and to establish an appropriate match between the currency and interest rate characteristics of its assets and liabilities. These instruments include currency and interest rate swaps, swap spread-locks, foreign exchange forwards, exchange-traded futures, options and deferred and anticipatory rate setting contracts. These derivatives are used to modify the interest rate and/or currency characteristics of the borrowing portfolio and are linked to the related borrowings at inception and remain so throughout the terms of their contracts. The interest component of these derivatives is recognized as an adjustment to the borrowing cost over the life of the derivative contract and included in Interest under Borrowing Expenses on the income statement. Upon termination, the change in the derivative's market value is recorded as an adjustment to the carrying value of the underlying borrowing and recognized as an adjustment of the borrowing cost over the expected remaining life of the borrowing. In instances where the underlying borrowing is prepaid, the change in the associated derivative's market value is recognized immediately as an adjustment to the cost of the underlying borrowing instrument and accordingly into income. Currency swap payables and receivables are recorded on a historical cost basis and are separate items on the balance sheet. The notional principal on interest rate swaps is treated as an off-balance sheet item.

Fair Value Disclosures: Financial instruments for which market quotations are available have been valued at the prevailing market value. Financial instruments for which market quotations are not readily available have been valued using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not determinable.

Notes to Financial Statements (Continued)

UNAUDITED DRAFT July 16, 1997

Note A—Capital Stock, Restricted Currencies, Maintenance of Value and Membership

Capital Stock: At June 30, 1997, IBRD's capital comprised 1,558,478 (1,558,478—June 30, 1996) authorized shares, of which 1,512,211 (1,497,325—June 30, 1996) shares had been subscribed. Each share has a par value of 0.1 million 1974 SDRs, valued at the rate of \$1.20635 per 1974 SDR. Of the subscribed capital, \$11,048 million (\$10,994 million—June 30, 1996) has been paid in, and the remaining \$171,378 million (\$169,636 million—June 30, 1996) is subject to call only when required to meet the obligations of IBRD created by borrowing or guaranteeing loans. As to \$145,940 million (\$144,504 million—June 30, 1996) the restriction on calls is imposed by the Articles of Agreement and as to \$25,438 million (\$25,132 million—June 30, 1996) by resolutions of the Board of Governors.

Restricted Currencies: The portion of capital subscriptions paid in to IBRD is divided into two parts: (1) \$1,105 million (\$1,100 million—June 30, 1996) initially paid in gold or U.S. dollars and (2) \$9,943 million (\$9,894 million—June 30, 1996) paid in cash or noninterest-bearing demand obligations denominated either in the currencies of the respective members or in U.S. dollars. The amounts mentioned in (1) above, and (i) \$777 million (\$777 million—June 30, 1996) which were repurchased by members with U.S. dollars, and (ii) \$435 million (\$419 million—June 30, 1996) which were the proceeds from encashments of U.S. dollar-denominated notes which are included in the amounts mentioned in (2) above, are freely usable by IBRD in any of its operations. The portion of the amounts paid in U.S. dollar-denominated notes are encashed by IBRD in accordance with the schedules agreed between the members and IBRD. The remaining amounts paid in the currencies of the members, referred to as restricted currencies, are usable by IBRD in its lending operations only with the consent of the respective members, and for administrative expenses. The equivalent of \$5,299 million (\$5,522 million—June 30, 1996) has been used for lending purposes, with such consent.

Membership: In February 1993 IBRD's Executive Directors decided that the SFRY had ceased to be a member of IBRD and that the Republic of Bosnia and Herzegovina (now called Bosnia and Herzegovina), the Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Slovenia and the Federal Republic of Yugoslavia (Serbia and Montenegro) (FRY) are authorized to succeed to the SFRY's membership when certain requirements are met, including entering into a final agreement with IBRD on IBRD's loans made to or guaranteed by the SFRY which the particular successor Republic would assume. Four of the five successor Republics—Bosnia and Herzegovina, the Republic of Croatia, the Republic of Slovenia and the former Yugoslav Republic of Macedonia—have become members of IBRD. The paid-in portion of the SFRY's subscribed capital allocated to the FRY is included under Payments on Account of Pending Subscriptions until the requirements of succession are met.

Note B—Investments

As part of its overall portfolio management strategy, IBRD invests in government and agency obligations, time deposits and related financial instruments with off-balance sheet risk including futures, forward contracts, covered forward contracts, options, and short sales.

On April 18, 1997, the Executive Directors approved changes in IBRD's general investment authority to permit IBRD to invest in marketable bonds, notes, and other debt obligations or securities (including asset-backed securities) issued or unconditionally guaranteed by corporate entities or trusts. Such obligations or securities require a credit rating of AAA.

Government and Agency Obligations: These obligations include marketable bonds, notes and other obligations. Obligations issued or unconditionally guaranteed by governments of countries require a minimum credit rating of AA, if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government of a country, a multilateral organization or any other official entity require a minimum credit rating of AA.

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

Notes to Financial Statements

UNAUDITED DRAFT July 16, 1997
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Futures and Forwards: Futures and forward contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. Futures contracts are traded on regulated United States and international exchanges. IBRD generally closes out most open positions in futures contracts prior to maturity. Therefore, cash receipts or payments are mostly limited to the change in market value of the futures contracts. Futures contracts generally entail daily settlement of the net cash margin.

Options: Options are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price within a specified period of time from or to the seller of the option. The purchaser of an option pays a premium at the outset to the seller of the option, who then bears the risk of an unfavorable change in the price of the financial instrument underlying the option. IBRD only invests in exchange-traded options. The initial price of an option contract is equal to the premium paid by the purchaser and is significantly less than the contract or notional amount. IBRD does not write uncovered option contracts.

Repurchase and Resale Agreements and Securities Loans: Repurchase agreements are contracts under which a party sells securities and simultaneously agrees to repurchase the same securities at a specified future date at a fixed price. The reverse of this transaction is called a resale agreement. Securities loans are contracts under which securities are lent for a specified period of time at a fixed price.

Short Sales: Short sales are sales of securities not held in IBRD's portfolio at the time of the sale. IBRD must purchase the security at a later date and bears the risk that the market value of the security will move adversely between the time of the sale and the time the security must be delivered.

Covered Forwards: Covered forwards are agreements in which cash in one currency is converted into a different currency and, simultaneously, a forward exchange agreement is executed providing for a future exchange of the two currencies in order to recover the currency converted.

Notes to Financial Statements (Continued)

UNAUDITED DRAFT
July 16, 1997

Liquid Portfolio: A summary of IBRD's position in trading instruments at June 30, 1997 and June 30, 1996 is as follows:

In millions of U.S. dollars equivalent

	<i>Deutsche mark</i>		<i>Japanese yen</i>		<i>U.S. dollars</i>		<i>Other currencies</i>		<i>All currencies</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
Trading:										
Government and agency obligations:										
Carrying value	642	524	—	1,119	2,873	3,536	20	238	3,535	5,417
Average balance during fiscal year	429	879	324	2,738	2,237	3,473	182	257	3,172	7,347
Net gains (losses) for the fiscal year	(2)	19	(2)	(45)	(13)	(41)	10	7	(7)	(60)
Average yield (%)	3.22	4.60	—	1.35	5.92	5.03	3.62	4.82	5.40	4.12
Average maturity (years)	2.03	5.10	—	2.94	5.35	3.80	0.19	8.40	4.71	3.87
Time deposits:										
Carrying value	1,311	1,041	3,569	1,775	7,664	5,822	1,149	942	13,693	9,580
Average balance during fiscal year	578	411	2,126	1,562	6,847	3,793	1,055	1,035	10,606	6,801
Net gains (losses) for the fiscal year	—	—	—	—	—	—	—	(*)	—	(*)
Average yield (%)	3.11	3.38	0.49	0.50	5.91	5.52	3.76	3.96	4.05	4.21
Average maturity (years)	0.23	0.02	0.21	0.07	0.13	0.01	0.17	0.02	0.16	0.03
Futures and forwards:										
Carrying value	1	1	*	3	—	—	—	*	1	4
Average balance during fiscal year	1	1	2	3	—	—	*	*	3	4
Net gains (losses) for the fiscal year	(*)	(2)	1	(3)	11	15	*	(*)	12	10
Options:										
Carrying value	—	—	*	*	*	(*)	—	*	*	*
Average balance during fiscal year	—	—	*	*	*	*	*	*	*	*
Net gains (losses) for the fiscal year	(*)	(*)	(*)	(*)	(1)	(2)	*	(*)	(1)	(2)
Total Trading Investments***										
Carrying value	1,954	1,566	3,569	2,897	10,537	9,358	1,169	1,180	17,229	15,001
Average balance during fiscal year	1,008	1,291	2,452	4,303	9,084	7,266	1,237	1,292	13,781	14,152
Net gains (losses) for the fiscal year	(2)	17	(*)	(48)	(3)	(28)	10	7	5	(52)

Notes to Financial Statements

UNAUDITED DRAFT
July 16, 1997

Liquid Portfolio (continued)

In millions of U.S. dollars equivalent

	Deutsche mark		Japanese yen		U.S. dollars		Other currencies		All currencies	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
Repurchase agreements and Securities loans:										
Carrying value	—	—	—	—	(294)	(2,394)	—	(45)	(294)	(2,439)
Average balance during fiscal year	(34)	(142)	—	—	(716)	(1,406)	(80)	(27)	(830)	(1,575)
Average yield (%)	—	—	—	—	5.73	5.20	—	4.06	5.73	5.18
Average maturity (years)	—	—	—	—	0.02	0.02	—	0.02	0.02	0.02
Resale agreements:										
Carrying value	2	571	—	—	95	655	—	56	97	1,282
Average balance during fiscal year	305	463	—	—	721	775	92	68	1,118	1,306
Average yield (%)	2.90	3.49	—	—	5.46	5.17	—	4.40	5.41	4.39
Average maturity (years)	0.02	0.01	—	—	0.06	0.03	—	**	0.06	0.02
Short sales:										
Carrying value	—	(25)	—	—	(92)	(54)	—	(*)	(92)	(79)
Average balance during fiscal year	(42)	(44)	—	(5)	(134)	(133)	(15)	(12)	(191)	(194)
Net covered forwards:										
Carrying value	(908)	60	(3,226)	(91)	4,571	(17)	(560)	50	(123)	2
Average balance during fiscal year	(198)	162	(694)	(88)	1,047	(423)	(142)	348	13	(1)
Average yield (%)	3.10	3.33	0.48	0.43	5.78	5.40	3.69	3.17	3.55	3.69
Average maturity (years)	0.33	0.01	0.21	0.04	0.24	0.02	0.27	0.01	0.24	0.02

* Less than \$0.5 million.

** Less than 0.005 years.

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

Notes to Financial Statements (Continued)

UNAUDITED DRAFT
July 16, 1997

Held-to-maturity portfolio: The carrying and fair values of investment securities in the Held-to-maturity portfolio at June 30, 1997 and June 30, 1996 are as follows:

In millions

	1997				
	Carrying value	Average yield (%)	Gross unrealized gains	Gross unrealized losses	Fair value
Government and agency obligations	\$1,140	8.74	\$110	\$—	\$1,250
Time deposits.....	139	6.38	—	—	139
Total.....	<u>\$1,279</u>	<u>8.49</u>	<u>\$110</u>	<u>\$—</u>	<u>\$1,389</u>

In millions

	1996				
	Carrying value	Average yield (%)	Gross unrealized gains	Gross unrealized losses	Fair value
Government and agency obligations	\$1,055	8.74	\$56	\$—	\$1,111
Time deposits.....	114	5.81	—	—	114
Total.....	<u>\$1,169</u>	<u>8.46</u>	<u>\$56</u>	<u>\$—</u>	<u>\$1,225</u>

At June 30, 1997 and June 30, 1996, the Held-to-maturity portfolio was comprised of investments in pounds sterling only. The annualized rate of return on average investments in the Held-to-maturity portfolio, held during the fiscal year ended June 30, 1997, was 8.31 percent (8.35 percent—June 30, 1996).

The expected maturities of investment securities in the Held-to-maturity portfolio at June 30, 1997 and June 30, 1996 are summarized below:

In millions

	1997		
	Carrying value	Fair value	Net unrealized gains
July 1, 1997 through June 30, 1998.....	\$ 139	\$ 139	\$ —
July 1, 1998 through June 30, 2002.....	172	177	5
July 1, 2002 through June 30, 2007.....	255	277	22
Thereafter.....	<u>713</u>	<u>796</u>	<u>83</u>
Total.....	<u>\$1,279</u>	<u>\$1,389</u>	<u>\$110</u>

Notes to Financial Statements

UNAUDITED DRAFT
July 16, 1997

In millions

	1996		
	<i>Carrying value</i>	<i>Fair value</i>	<i>Net unrealized gains</i>
July 1, 1996 through June 30, 1997	\$ 114	\$ 114	\$—
July 1, 1997 through June 30, 2001	162	170	8
July 1, 2001 through June 30, 2006	236	252	16
Thereafter	657	689	32
Total	<u>\$1,169</u>	<u>\$1,225</u>	<u>\$56</u>

Note C—Loans, Cofinancing and Guarantees

Multicurrency Loans

Fixed rate loans: On loans negotiated prior to July 1982, IBRD charges interest at fixed rates.

Adjustable rate loans: In 1982 IBRD mitigated its interest rate risk by moving from fixed rate to adjustable rate lending. This rate, reset twice a year, is based on IBRD's own cost of qualified borrowings plus a 50 basis point spread, resulting in a pass-through of its average borrowing costs to those members that benefit from IBRD loans.

Average Maturity: IBRD maintains a targeted currency composition in its multicurrency loans. The present target ratio is one U.S. dollar for every 125 Japanese yen and two Deutsche mark equivalents (consisting of Deutsche mark, Netherlands guilders and Swiss francs). These five major currencies comprise at least 90 percent of the multicurrency loans' U.S. dollar equivalent value, with the remainder in other currencies. This ratio has been maintained since 1991, and is reviewed periodically. The composition of the multicurrency loans is affected by the selection of currencies for disbursements on those loans and by the currencies selected for the billing of the principal repayments. Along with the selection of disbursement currencies, IBRD manages the selection of repayment currencies to maintain the alignment of the multicurrency loans' composition with the target ratio. The selection of currencies for repayment billing by IBRD precludes the determination of average maturity information for multicurrency loans by individual currency. Accordingly, IBRD only discloses the maturity periods for its multicurrency loans on a combined U.S. dollars equivalent basis.

Single Currency Loans

Fixed rate loans: IBRD introduced fixed rate single currency loans in 1995. The rates charged on fixed rate single currency loans are set on semi-annual rate fixing dates for loan amounts disbursed during the preceding six-month period and remain fixed for such disbursed amounts until they are repaid. For the interim period from the date each disbursement is made until its rate fixing date, interest accrues at a variable rate equal to the rate on LIBOR-based single currency loans (PIBOR-based for French franc denominated loans) applicable for such interim period. The fixed lending rate comprises a base rate reflecting medium- to long-term market rates on the rate fixing date, plus a total spread consisting of (a) IBRD's funding cost margin for these loans, (b) a risk premium (intended to compensate IBRD for market risks incurred in funding these loans), and (c) a spread of 50 basis points.

Notes to Financial Statements (Continued)

UNAUDITED DRAFT
July 16, 1997

LIBOR-based loans: IBRD introduced LIBOR-based single currency loans in 1993. The rates charged on LIBOR-based single currency loans are a direct pass-through of IBRD's cost of funding for these loans, and are reset semi-annually. They comprise a base rate equal to the six-month reference interbank offered rate for the applicable currency on the rate reset date and a total spread consisting of (a) IBRD's average funding cost margin for these loans and (b) a spread of 50 basis points.

Since September 1, 1996, IBRD has offered its borrowers, in addition to its loan products, the option to convert undisbursed multicurrency pool loan amounts to single currency loan terms. Further, borrowers have the option to convert disbursed and undisbursed multicurrency pool loan amounts to new single currency pool loans. Borrowers selecting single currency pool loans have their choice of four different pools (U. S. dollars, Japanese yen, Deutsche mark or Swiss francs). Each single currency pool will be a multicurrency pool at inception, but will be adjusted to reach a level of at least 90 percent in the designated currency by July 1, 1999 and will be maintained at or above that level thereafter. Conversions to the new single currency pool loans will be implemented on one of three conversion dates (July 1, 1997, January 1, 1998 or July 1, 1998) depending upon the date the conversion request is approved by IBRD.

At June 30, 1997, borrowers had requested that \$9,794 million of outstanding multicurrency pool loan balances, and \$71 million of undisbursed multicurrency pool loan balances be converted to single currency pool loan terms on July 1, 1997.

Waivers of Loan Interest and Charges

On August 1, 1996, IBRD's Executive Directors approved a one-year interest waiver of 25 basis points on disbursed and outstanding loans for all payment periods commencing in the fiscal year ending June 30, 1997 for all eligible borrowers. A similar waiver of 25 basis points was in effect for the fiscal year ended June 30, 1996. In fiscal year 1995 IBRD's Executive Directors approved a one-time 10 basis point interest waiver, for two consecutive six-month interest periods, on currency pool loans which a borrower converts from loan interest rate terms in effect between 1982 and 1989 to interest rate terms in effect since 1989. For the fiscal year ended June 30, 1997 the combined effect of these waivers was to reduce Net Income by \$259 million (\$286 million—June 30, 1996).

Further, on August 1, 1996, the Executive Directors approved a one-year commitment fee waiver of 50 basis points on undisbursed loans to all borrowers for all payment periods commencing in the fiscal year ending June 30, 1997. A similar waiver of 50 basis points was in effect for the fiscal year ended June 30, 1996. For the fiscal year ended June 30, 1997, the effect of the commitment fee waiver was to reduce Net Income by \$226 million (\$235 million—June 30, 1996).

Notes to Financial Statements

UNAUDITED DRAFT
July 16, 1997

A summary of IBRD's outstanding loans by currency and product at June 30, 1997 and June 30, 1996 follows:

In millions of U.S. dollars equivalent

Currency	Rate type	1997						
		Multicurrency loans		Single currency loans			Total loans	
		Amount	Weighted average rate (%) [*]	Amount	Weighted average rate (%) [*]	Average maturity (years)	Amount	Weighted average rate (%) [*]
Deutsche mark	Fixed	\$ 1,937	8.77	\$ —	—	—	\$ 1,937	8.77
	Adjustable	27,269	6.70	83	3.48	7.07	27,352	6.69
Japanese yen	Fixed	1,954	8.87	—	—	—	1,954	8.87
	Adjustable	30,154	6.70	5	0.81	3.51	30,159	6.70
Netherlands guilders	Fixed	179	8.42	—	—	—	179	8.42
	Adjustable	1,155	6.70	—	—	—	1,155	6.70
Swiss francs	Fixed	1,064	8.02	—	—	—	1,064	8.02
	Adjustable	3,438	6.70	—	—	—	3,438	6.70
U.S. dollars	Fixed	1,578	8.78	2,315	7.03	6.63	3,893	7.74
	Adjustable	27,848	6.70	4,515	6.01	8.99	32,363	6.60
Others	Fixed	154	9.11	133	6.35	7.17	287	7.83
	Adjustable	2,020	6.70	4	3.53	7.80	2,024	6.69
Loans outstanding	Fixed	6,866	8.68	2,448	6.99	6.66	9,314	8.24
	Adjustable	91,884	6.70	4,607	5.96	8.95	96,491	6.66
	Total	<u>\$98,750</u>	<u>6.84</u>	<u>\$7,055</u>	<u>6.32</u>	<u>8.16</u>	105,805	<u>6.80</u>
Less accumulated provision for loan losses							3,210	
Loans outstanding net of accumulated provision							<u>\$102,595</u>	

* Excludes effects of any waivers of loan interest.

Notes to Financial Statements (Continued)

UNAUDITED DRAFT
July 16, 1997

In millions of U.S. dollars equivalent

Currency	Rate type	1996						
		Multicurrency loans		Single currency loans			Total loans	
		Amount	Weighted average rate (%) [*]	Amount	Weighted average rate (%) [*]	Average maturity (years)	Amount	Weighted average rate (%) [*]
Deutsche mark	Fixed	\$ 3,111	8.68	\$ —	—	—	\$ 3,111	8.68
	Adjustable	26,838	6.98	—	—	—	26,838	6.98
Japanese yen	Fixed	3,093	8.88	—	—	—	3,093	8.88
	Adjustable	31,259	6.98	—	—	—	31,259	6.98
Netherlands guilders	Fixed	325	8.58	—	—	—	325	8.58
	Adjustable	1,845	6.98	—	—	—	1,845	6.98
Swiss francs	Fixed	1,989	8.18	—	—	—	1,989	8.18
	Adjustable	7,029	6.98	—	—	—	7,029	6.98
U. S. dollars	Fixed	2,266	8.85	1,119	6.79	7.17	3,385	8.17
	Adjustable	27,640	6.98	1,096	5.66	10.11	28,736	6.93
Others	Fixed	255	9.16	42	7.29	7.20	297	8.89
	Adjustable	2,331	6.98	8	5.07	7.80	2,339	6.97
Loans outstanding	Fixed	11,039	8.69	1,161	6.81	7.17	12,200	8.51
	Adjustable	96,942	6.98	1,104	5.66	10.09	98,046	6.96
	Total	<u>\$107,981</u>	<u>7.15</u>	<u>\$2,265</u>	<u>6.25</u>	<u>8.59</u>	<u>110,246</u>	<u>7.13</u>
Less accumulated provision for loan losses							<u>3,340</u>	
Loans outstanding net of accumulated provision							<u>\$106,906</u>	

* Excludes effects of any waivers of loan interest.

Notes to Financial Statements

UNAUDITED DRAFT
July 16, 1997

The maturity structure of IBRD's loans outstanding, by product, at June 30, 1997 and June 30, 1996 is as follows:

In millions

Period	Rate type:	1997						
		Multicurrency loans		Single currency loans		All loans		
		Fixed	Adjustable	Fixed	Adjustable	Fixed	Adjustable	Total
July 1, 1997 through June 30, 1998		\$2,844	\$ 9,150	\$ —	\$ 4	\$2,844	\$ 9,154	\$ 11,998
July 1, 1998 through June 30, 2002		3,675	37,141	773	774	4,448	37,915	42,363
July 1, 2002 through June 30, 2007		335	33,585	1,365	2,283	1,700	35,868	37,568
Thereafter		12	12,008	310	1,546	322	13,554	13,876
Loans outstanding		<u>\$6,866</u>	<u>\$91.884</u>	<u>\$2,448</u>	<u>\$4.607</u>	<u>\$9.314</u>	<u>\$96.491</u>	<u>\$105.805</u>

In millions

Period	Rate type:	1996						
		Multicurrency loans		Single currency loans		All loans		
		Fixed	Adjustable	Fixed	Adjustable	Fixed	Adjustable	Total
July 1, 1996 through June 30, 1997		\$ 3,837	\$ 8,868	\$ —	\$ —	\$ 3,837	\$ 8,868	\$ 12,705
July 1, 1997 through June 30, 2001		6,437	38,825	302	245	6,739	39,070	45,809
July 1, 2001 through June 30, 2006		734	35,281	646	433	1,380	35,714	37,094
Thereafter		31	13,968	213	426	244	14,394	14,638
Loans outstanding		<u>\$11,039</u>	<u>\$96,942</u>	<u>\$1,161</u>	<u>\$1,104</u>	<u>\$12,200</u>	<u>\$98,046</u>	<u>\$110,246</u>

Estimated Value of Loans

All of IBRD's loans are made to or guaranteed by countries that are members of IBRD, except for those loans made to IFC. IBRD does not currently sell its loans, nor is there a market of loans comparable to those made by IBRD.

Multicurrency loans: The estimated value of fixed rate loans negotiated prior to July 1982 has been based on discounted future cash flows using the rate at which IBRD could undertake borrowings of comparable maturities at June 30, 1997 plus a 50 basis point spread. The estimated value of adjustable rate multicurrency loans is based on the relationship of the fair value to the carrying value of the underlying qualified borrowings, since the interest rate for such loans is based on the interest rate of the qualified borrowings.

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Single Currency Loans: The estimated value of fixed rate single currency loans has been based on discounted future cash flows using the rate at which IBRD could make similar loans of comparable maturities at June 30, 1997. The estimated value of LIBOR-based single currency loans has been based on the relationship of the fair value to the carrying value of the underlying borrowings funding these loans.

The following table reflects the carrying and estimated values of the loan portfolio based on current borrowing rates net of the Accumulated Provision for Loan Losses at June 30, 1997 and June 30, 1996:

In millions

		1997		1996	
		<i>Carrying value</i>	<i>Estimated value</i>	<i>Carrying value</i>	<i>Estimated value</i>
Multicurrency loans					
	Fixed.....	\$ 6,866	\$ 7,655	\$ 11,039	\$ 12,383
	Adjustable	91,884	99,774	96,942	103,080
Single currency loans					
	Fixed.....	2,448	2,497	1,161	1,067
	Adjustable	4,607	4,623	1,104	1,108
Total loans					
	Fixed.....	9,314	10,152	12,200	13,450
	Adjustable	96,491	104,397	98,046	104,188
		105,805	114,549	110,246	117,638
Less accumulated provision for loan losses....		3,210	3,210	3,340	3,340
Loans outstanding net of accumulated provision		<u>\$102,595</u>	<u>\$111,339</u>	<u>\$106,906</u>	<u>\$114,298</u>

Cofinancing and Guarantees

IBRD has taken direct participations in, or provided partial guarantees of, loans syndicated by other financial institutions for projects or programs also financed by IBRD through regular loans. IBRD also has provided partial guarantees of securities issued by an entity eligible for IBRD loans. IBRD's partial guarantees of bond issues are included in the guarantees amount mentioned below. IBRD's direct participations in syndicated loans are included in the reported loan balances.

Guarantees of loan principal of \$1,593 million at June 30, 1997 (\$1,537 million—June 30, 1996) were not included in reported loan balances. At June 30, 1997, \$148 million of these guarantees were subject to call (\$122 million—June 30, 1996). IBRD has partially guaranteed the timely payment of interest amounts on certain loans that have been sold. At June 30, 1997, these guarantees, approximating \$1 million (\$1 million—June 30, 1996), were subject to call.

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Statutory Lending Limit

Under the Articles of Agreement, the total amount outstanding of guarantees, participations in loans, and direct loans made by IBRD may not be increased to an amount exceeding 100 percent of the sum of Subscribed Capital, reserves, and surplus. At June 30, 1997 and June 30, 1996, the status of the statutory lending limit is as follows:

<i>In millions</i>	<i>1997</i>	<i>1996</i>
Statutory lending limit		
Subscribed capital.....	\$182,426	\$180,630
Retained earnings	16,194	16,099
Cumulative translation adjustment.....	85	1,056
	<u>\$198,705</u>	<u>\$197,785</u>
Loans and guarantees outstanding		
Loans outstanding.....	\$105,805	\$110,246
Principal guarantees callable	148	122
Interest guarantees callable	1	1
	<u>\$105,954</u>	<u>\$110,369</u>
Loans and guarantees outstanding as a percentage of statutory lending limit	53%	56%

Overdue Amounts

At June 30, 1997, no loans payable to IBRD other than those referred to in the following paragraphs were overdue by more than three months.

At June 30, 1997, the loans made to or guaranteed by certain member countries and the FRY with an aggregate principal balance outstanding of \$2,360 million (\$2,520 million—June 30, 1996), of which \$2,207 million (\$1,227 million—June 30, 1996) was overdue, were in nonaccrual status. At such date, overdue interest and other charges in respect of these loans totaled \$893 million (\$808 million—June 30, 1996). If these loans had not been in nonaccrual status, income from loans for the fiscal year ended June 30, 1997 would have been higher by \$146 million (\$188 million—June 30, 1996).

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A summary of countries with loans or guarantees in nonaccrual status follows:

<i>In millions</i>			
<i>Borrower</i>	<i>1997</i>		
	<i>Principal outstanding</i>	<i>Principal and charges overdue</i>	<i>Nonaccrual since</i>
<i>With overdues</i>			
Democratic Republic of Congo	\$ 84	\$ 72	November 1993
Federal Republic of Yugoslavia.....	1,146	1,298	September 1992
Iraq	44	68	December 1990
Liberia.....	141	252	June 1987
Sudan	6	4	January 1994
Syrian Arab Republic.....	360	513	February 1987
Total	1,781	2,207	
<i>Without overdues</i>			
Bosnia and Herzegovina.....	579	—	September 1992
Total.....	<u>\$2,360</u>	<u>\$2,207</u>	

In connection with the cessation of the membership of the SFRY discussed in Note A, in February 1993 IBRD reached an agreement with the FRY for the apportionment and service of debt due to IBRD on loans made to or guaranteed by the SFRY and assumed by the FRY, which confirmed a February 1992 interim agreement between the SFRY (then consisting of the Republics of Bosnia and Herzegovina, Macedonia, Montenegro and Serbia) and IBRD pertaining, among other things, to such loans. As of the date hereof, no debt-service payments have been received by IBRD from the FRY.

In June 1996 the accumulated arrears on loans to the former SFRY assumed by Bosnia and Herzegovina were cleared through three new consolidation loans extended by IBRD. These new loans consolidated all outstanding principal and overdue interest on the loans assumed by Bosnia and Herzegovina. This resulted in an increase in loans outstanding of \$168 million and the deferral of the recognition of the related interest income. The first consolidation loan was a currency pool loan of \$29 million carrying IBRD's adjustable lending rate for such loans at the time, 6.98 percent, plus 41 basis points. The second consolidation loan was also a currency pool loan in the amount of \$285 million carrying IBRD's adjustable lending rate for such loans at the time, 6.98 percent, plus 4 basis points. The third consolidation loan was a U. S. dollar LIBOR-based single currency loan of \$307 million carrying IBRD's lending rate for such loans at the time, 5.38 percent. All three consolidation loans have a final maturity of 30 years, which includes a five-year grace period. The consolidation loans aggregated the existing assumed loans which had final maturities ranging from April 1, 1992 to May 15, 2001 and a combined weighted-average interest rate of 7.95 percent.

The average recorded investment in nonaccruing loans during the fiscal year ended June 30, 1997 was \$2,430 million (\$2,466 million—June 30, 1996).

During the fiscal years ended June 30, 1997 and June 30, 1996, no loans came out of nonaccrual status.

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Accumulated Provision for Loan Losses

IBRD has never suffered a loss on any of its loans, although certain borrowers have found it difficult to make timely payments for protracted periods, resulting in their loans being placed in nonaccrual status. Several borrowers have emerged from nonaccrual status after a period of time by bringing up-to-date all principal payments and all overdue service payments, including interest and other charges. In an attempt to recognize the risk inherent in these and any other potential overdue payments, IBRD maintains a provision for loan losses.

An analysis of the changes to the Accumulated Provision for Loan Losses for the fiscal years ended June 30, 1997 and June 30, 1996 appears below:

<i>In millions</i>		
	<u>1997</u>	<u>1996</u>
Balance, beginning of the fiscal year	\$3,340	\$3,740
Provision for loan losses	63	42
Translation adjustment	(193)	(442)
Balance, end of the fiscal year	<u>\$3,210</u>	<u>\$3,340</u>

IBRD has endorsed an initiative for addressing the debt problems of a group of countries identified as heavily indebted poor countries (HIPC) to ensure that the reform efforts of these countries will not be put at risk by unsustainable external debt burdens. Under this initiative, creditors are to provide enhanced debt relief for those countries that demonstrated good policy performance over an extended period to bring their debt burdens to sustainable levels. On November 7, 1996, the HIPC Debt Initiative Trust Fund was established to assist eligible beneficiary countries reduce their overall debt burden. The HIPC Debt Initiative Trust Fund is administered by IDA.

IBRD has identified those eligible beneficiary countries under the HIPC Debt Initiative which have debt service situations assessed as ranging from possibly stressed to unsustainable and have loans outstanding from IBRD. While IBRD has no intention of restructuring any of its HIPC debt, IBRD has taken the situation of these countries into account in its review of the adequacy of the Accumulated Provision for Loan Losses.

Fifth Dimension Program

Under IDA's Fifth Dimension program established in September 1988, a portion of principal repayments to IDA are allocated on an annual basis to provide supplementary IDA credits to IDA-eligible countries that are no longer able to borrow on IBRD terms, but have outstanding IBRD loans approved prior to September 1988 and have in place an IDA-supported structural adjustment program. Such supplementary IDA credits are allocated to countries that meet specified conditions, in proportion to each country's interest payments due that year on its pre-September 1988 IBRD loans. To be eligible for such IDA supplemental credits, a member country must meet IDA's eligibility criteria for lending, must be ineligible for IBRD lending and must not have had an IBRD loan approved within the last twelve months. To receive a supplemental credit from the program, a member country cannot be more than 60 days overdue on its debt-service payments to IBRD or IDA. At June 30, 1997, IDA had approved credits of \$1,526 million (\$1,379 million—June 30, 1996) under this program from inception, of which \$1,435 million (\$1,327 million—June 30, 1996) had been disbursed to the eligible countries.

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Note D—Borrowings

Providing liquidity and minimizing the cost of funds are key objectives to IBRD's overall borrowing strategy. IBRD uses swaps in its borrowing strategy to lower the overall cost of its borrowings for those members who benefit from IBRD loans. IBRD undertakes swap transactions with a list of authorized counterparties. Credit limits have been established for each counterparty.

Currency swaps: Currency swaps are agreements comprised of a conversion of the proceeds of a borrowing into a different currency and a forward exchange agreement providing for a schedule of future exchanges of the two currencies in order to recover the currency converted. The combination of a borrowing and a currency swap produces the financial equivalent of substituting a borrowing in the currency obtained in the initial conversion for the original borrowing.

Interest rate swaps: Interest rate swaps are agreements which transform a fixed rate payment obligation in a particular currency into a floating rate obligation in that currency and vice-versa.

Forward interest rate swaps: A forward interest rate swap is an agreement under which the cash flow exchanges of the underlying interest rate swaps would begin to take effect from a specified date.

Swaptions: A swaption is an option that gives the holder the right to enter into an interest rate or currency swap at a certain future date.

Deferred rate setting (DRS) agreements: DRS allows an entity to fix the effective interest cost of all or a portion of debt issues over a specified period of time after the issue date of the respective debt issues. IBRD enters into DRS agreements in conjunction with some of its bond issues. The agreements provide for payments to be made to or by IBRD reflecting gain or loss on one or more government securities or related financial instruments. The potential credit loss to IBRD from nonperformance is limited to any amounts due, but unsettled, from the financial intermediary. However, periodic mark-to-market settlements on these agreements limit this risk. At June 30, 1997 and June 30, 1996, the effective interest cost of all principal amounts had been fixed.

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A summary of IBRD's borrowings portfolio at June 30, 1997 and June 30, 1996 follows:

Medium- and Long-term Borrowings and Swaps at June 30, 1997

In millions of U.S. dollars equivalent

Currency	Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
		Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Notional amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity* (years)
Deutsche mark	Fixed	\$12,468	6.58	5.43	\$ 3,071	7.47	2.33	\$ 6,800	6.93	2.74	\$ 22,339	6.81	4.19
					(393)	5.93	14.05	(2,878)	5.25	4.48	(3,271)	5.33	5.63
	Adjustable	203	7.54	6.12	8,921	3.05	2.98	2,936	3.24	4.53	12,060	3.17	3.41
					(22)	5.58	0.99	(6,858)	3.35	2.78	(6,880)	3.35	2.77
Japanese yen	Fixed	24,501	5.15	4.48	529	5.63	2.39	2,148	3.60	1.87	27,178	5.04	4.23
					(1,251)	5.99	6.07	(3,123)	3.02	4.39	(4,374)	3.85	4.86
	Adjustable	1,223	1.83	2.66	506	0.05	1.20	3,123	0.57	4.39	4,852	0.83	3.62
					(44)	4.45	14.98	(2,148)	1.34	1.87	(2,192)	1.41	2.13
Netherlands guilders	Fixed	1,873	7.25	3.28	80	6.31	0.19	—	—	—	1,953	7.21	3.15
					(1,123)	7.62	2.05				(1,123)	7.62	2.05
Swiss francs	Fixed	3,916	6.02	5.63	1,862	5.20	2.94	780	7.11	2.77	6,558	5.91	4.52
					(3,050)	5.79	2.84				(3,050)	5.79	2.84
	Adjustable	—	—	—	780	0.74	2.70				780	0.74	2.70
								(780)	1.73	2.77	(780)	1.73	2.77
U. S. dollars	Fixed	23,725	7.49	6.63	178	8.98	2.99	6,095	6.81	3.67	29,998	7.36	6.01
					(1,023)	9.19	3.12	(10,518)	6.29	5.69	(11,541)	6.55	5.46
	Adjustable	1,213	5.14	3.59	12,111	5.49	6.26	10,646	5.77	5.64	23,970	5.59	5.85
					(2,511)	5.57	2.31	(6,223)	5.78	3.62	(8,734)	5.72	3.24
Others	Fixed	18,112	8.71	4.80	157	8.34	2.09	113	5.77	7.17	18,382	8.68	4.79
					(16,029)	8.59	4.43	(424)	7.12	5.73	(16,453)	8.55	4.46
	Adjustable	1,798	5.92	4.95	13	10.85	0.32	424	3.35	5.73	2,235	5.46	5.07
					(2,149)	5.61	5.08	(113)	3.46	7.17	(2,262)	5.50	5.18
Total	Fixed	84,595	6.86	5.32	5,877			15,936			106,408	6.79	4.82
					(22,869)			(16,943)			(39,812)	6.95	4.70
	Adjustable	4,437	4.65	4.00	22,331			17,129			43,897	4.31	4.83
					(4,726)			(16,122)			(20,848)	4.31	3.16
Principal at face value		89,032	6.75	5.25	613						89,645	6.07	5.26
Net unamortized discounts		(1)						—			(1)		
Total		\$89,031	6.75	5.25	\$ 613			\$ —			\$ 89,644	6.07	5.26

* At June 30, 1997 the average repricing period of the net currency obligations for adjustable rate borrowings is four months.

Currency	Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
		Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Notional amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)
Deutsche mark	Fixed	\$14,287	6.71	5.58	\$ 2,000	7.75	2.51	\$ 8,544	7.08	3.41	\$24,831	6.92	4.59
								(2,134)	5.26	5.51	(2,134)	5.26	5.51
	Adjustable	229	7.54	7.12	9,919	2.93	3.53	2,199	3.37	5.57	12,347	3.09	3.96
								(8,609)	3.47	3.45	(8,609)	3.47	3.45
Japanese yen	Fixed	29,466	5.24	4.78	335	5.51	2.21	1,329	5.49	3.15	31,130	5.26	4.68
					(964)	6.12	8.07	(2,528)	2.64	5.72	(3,492)	3.59	6.36
	Adjustable	1,232	2.04	3.21	71	0.03	1.59	2,528	0.67	5.72	3,831	1.09	4.83
					(92)	0.25	0.48	(1,329)	2.09	3.15	(1,421)	1.97	2.97
Netherlands guilders	Fixed	2,837	7.23	3.33	91	6.31	1.19	—	—	—	2,928	7.20	3.26
					(1,447)	7.70	2.77				(1,447)	7.70	2.77
Swiss francs	Fixed	4,996	6.04	6.28	2,523	5.19	3.39	892	7.11	3.77	8,411	5.90	5.15
					(873)	6.47	3.46				(873)	6.47	3.46
	Adjustable	—	—	—	892	0.84	3.70				892	0.84	3.70
								(892)	2.08	3.77	(892)	2.08	3.77
U. S. dollars	Fixed	23,305	7.84	6.91	178	8.98	3.99	4,002	7.10	3.72	27,485	7.74	6.43
					(1,198)	9.02	3.73	(6,211)	6.45	7.50	(7,409)	6.87	6.89
	Adjustable	1,453	4.90	3.87	3,344	5.06	4.49	6,449	5.55	7.27	11,246	5.32	6.00
					(848)	4.94	4.66	(4,240)	5.53	3.58	(5,088)	5.43	3.76
Others	Fixed	13,180	9.30	3.72				36	6.62	7.20	13,216	9.29	3.73
					(10,904)	9.25	2.97	(287)	7.43	4.37	(11,191)	9.21	3.01
	Adjustable	1,419	6.38	4.62				417	5.24	4.57	1,836	6.12	4.61
					(1,610)	5.97	4.51	(166)	8.74	5.47	(1,776)	6.22	4.60
Total	Fixed	88,071	6.90	5.36	5,127			14,803			108,001	6.87	4.98
					(15,386)			(11,160)			(26,546)	7.33	4.74
	Adjustable	4,333	4.70	4.10	14,226			11,593			30,152	3.79	4.87
					(2,550)			(15,236)			(17,786)	4.12	3.59
Principal at face value		92,404			1,417			—			93,821		
Net unamortized discounts		(13)									(13)		
Total		\$92,391	6.80	5.29	\$ 1,417			\$ —			\$93,808	6.26	5.29

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Short-term Borrowings and Swaps at June 30, 1997 and June 30, 1996

In millions of U. S. dollars equivalent

		1997					1996				
Currency	Rate type	Principal outstanding	Currency swap payable (receivable)	Interest rate swap payable (receivable)	Net currency obligations*	Wgt'd. avg. cost (%)	Principal outstanding	Currency swap payable (receivable)	Interest rate swap payable (receivable)	Net currency obligations	Wgt'd. avg. cost (%)
Short-term Notes											
U. S. dollars	Fixed	\$3,015	\$ —	\$ —	\$3,015	5.68	\$1,369	\$ —	\$ —	\$1,369	5.46
Global Multicurrency Notes											
Czech koruny	Fixed	220	—	—	220	10.88	54	—	—	54	10.91
			(220)	—	(220)	10.88		(54)	—	(54)	10.91
Deutsche mark	Fixed	—	—	—	—	—	—	20	—	20	3.09
	Adjustable	—	394	—	394	2.80	—	54	—	54	3.05
Italian lire	Fixed	148	—	—	148	6.80	20	—	—	20	8.62
			(148)	—	(148)	6.80		(20)	—	(20)	8.62
Japanese yen	Fixed	95	88	—	183	3.16	—	—	—	—	—
			(95)	—	(95)	5.93	—	—	—	—	—
New Zealand dollars	Fixed	137	—	—	137	7.96	—	—	—	—	—
			(137)	—	(137)	7.96					
Slovak koruny	Fixed	67	—	—	67	12.65	—	—	—	—	—
			(67)	—	(67)	12.65	—	—	—	—	—
U. S. dollars	Fixed	1,100	120	—	1,220	4.93	300	—	—	300	5.52
				(900)	(900)	4.65	—	—	—	—	—
	Adjustable	—	877	900	1,777	5.52	—	—	—	—	—
			(112)	—	(112)	5.40	—	—	—	—	—
South African Rand	Fixed	657	—	—	657	15.07	—	—	—	—	—
			(657)	—	(657)	15.07	—	—	—	—	—
Central Bank Facility											
U. S. dollars	Adjustable	2,200	—	—	2,200	5.14	2,586	—	—	2,586	5.47
Total	Fixed	5,439	208	—	5,647	6.90	1,743	20	—	1,763	5.65
			(1,324)	(900)	(2,224)	8.99	—	(74)	—	(74)	10.29
	Adjustable	2,200	1,271	900	4,371	5.09	2,586	54	—	2,640	5.42
			(112)	—	(112)	5.40					
Principal at face value		7,639	43	—	7,682	5.28	4,329	—	—	4,329	5.43
Net unamortized discounts		9	—	—	9	—	(1)	—	—	(1)	—
Total		\$7,648	\$ 43	\$ —	\$7,691	5.28	\$4,328	\$ —	\$ —	\$4,328	5.43

* At June 30, 1997 the average repricing period of the net currency obligations for short-term borrowings is three months.

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The maturity structure of IBRD's Medium-and Long-term borrowings outstanding at June 30, 1997 and June 30, 1996 is as follows:

In millions

<i>Period</i>	<i>1997</i>
July 1, 1997 through June 30, 1998.....	\$13,185
July 1, 1998 through June 30, 1999.....	9,492
July 1, 1999 through June 30, 2000.....	17,430
July 1, 2000 through June 30, 2001.....	8,173
July 1, 2001 through June 30, 2002.....	9,498
July 1, 2002 through June 30, 2007.....	21,806
Thereafter.....	9,448
Total.....	<u>\$89,032</u>

In millions

<i>Period</i>	<i>1996</i>
July 1, 1996 through June 30, 1997.....	\$12,467
July 1, 1997 through June 30, 1998.....	13,949
July 1, 1998 through June 30, 1999.....	9,526
July 1, 1999 through June 30, 2000.....	14,262
July 1, 2000 through June 30, 2001.....	7,529
July 1, 2001 through June 30, 2006.....	25,886
Thereafter.....	8,785
Total.....	<u>\$92,404</u>

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The following table reflects the carrying and estimated fair values of the borrowings portfolio at June 30, 1997 and June 30, 1996:

In millions

	1997		1996	
	<i>Carrying value</i>	<i>Estimated fair value</i>	<i>Carrying value</i>	<i>Estimated fair value</i>
Short-term.....	\$ 7,648	\$ 7,699	\$ 4,328	\$ 4,371
Medium- and long-term.....	89,031	96,310	92,391	99,250
Swaps				
Currency				
Payable	29,687	30,098	19,427	19,841
Receivable	(29,031)	(30,375)	(18,010)	(19,203)
Interest rate	—	654	—	1,064
Swaptions.....	—	1	—	1
Total.....	<u>\$ 97,335</u>	<u>\$104,387</u>	<u>\$ 98,136</u>	<u>\$105,324</u>

The estimated fair values are based on quoted market prices where such prices are available. Where no quoted market price is available, the fair value is estimated based on the cost at which IBRD could currently undertake borrowings with similar terms and remaining maturities, using the secondary market yield curve. The fair value of swaps represents the estimated cost of replacing these contracts on that date.

Note E—Credit Risk

Country Credit Risk: This risk includes potential losses arising from protracted arrears on payments from borrowers. IBRD manages country credit risk through individual country exposure limits according to creditworthiness. These exposure limits are tied to performance on macroeconomic and structural policies. In addition, IBRD establishes absolute limits on the share of outstanding loans to any individual borrower. The country credit risk is further managed by financial incentives such as pricing loans using IBRD's own cost of borrowing and partial interest charge waivers conditioned on timely payment that give borrowers self-interest in IBRD's continued strong intermediation capacity. Collectibility risk is covered by the Accumulated Provision for Loan Losses. IBRD also uses a simulation model to assess the adequacy of its reserves in the case a major borrower, or group of borrowers, stops servicing its loans for an extended period of time.

Commercial Credit Risk: For the purpose of risk management, IBRD is party to a variety of financial instruments, certain of which involve elements of credit risk in excess of the amount recorded on the balance sheet. Credit risk exposure represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. Additionally, the nature of the instruments involve contract value and notional principal amounts that are not reflected in the basic financial statements. For both on- and off-balance sheet securities, IBRD limits trading to a list of authorized dealers and counterparties. Credit risk is controlled through application of eligibility criteria and volume limits for transactions with individual counterparties and through the expanding use of mark-to-market collateral arrangements. IBRD may also accept collateral in the form of cash or other approved liquid securities, from individual counterparties, in order to mitigate its credit exposure.

Notes to Financial Statements (Continued)

UNAUDITED DRAFT
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The contract value/notional amounts and credit risk exposure, as applicable, of these financial instruments at June 30, 1997 and June 30, 1996 are given below:

In millions

	<u>1997</u>	<u>1996</u>
INVESTMENTS - TRADING PORTFOLIO		
Futures and forwards		
• Long position.....	\$ 6,620	\$ 1,499
• Short position	6,675	5,875
• Credit exposure due to potential nonperformance by counterparties.....	1	2
Options		
• Long position.....	134	679
• Short position	—	429
Covered forwards		
• Credit exposure due to potential nonperformance by counterparties.....	36	2
BORROWINGS PORTFOLIO		
Currency swaps		
• Credit exposure due to potential nonperformance by counterparties.....	1,255	728
Interest rate swaps		
• Notional principal	33,965	26,396
• Credit exposure due to potential nonperformance by counterparties.....	393	96
Swaptions		
• Notional principal	74	30
• Credit exposure due to potential nonperformance by counterparties.....	—	—

Note F—Retained Earnings, Allocations and Transfers

Retained Earnings: Retained Earnings is comprised of the following elements at June 30, 1997 and June 30, 1996:

In millions

	<u>1997</u>	<u>1996</u>
Special reserve.....	\$ 293	\$ 293
General reserve.....	14,159	13,909
Surplus.....	457	710
Unallocated net income	1,285	1,187
Total.....	<u>\$16,194</u>	<u>\$16,099</u>

On August 1, 1996, the Executive Directors allocated \$250 million of the net income earned in the fiscal year ended June 30, 1996 to the General Reserve. On October 3, 1996, the Board of Governors approved the following transfers, out of unallocated Net Income: an amount equivalent to \$300 million in SDRs (valued at June 30, 1996) to IDA, by way of grant, and \$637 million to Surplus. On the same day, the Board of Governors approved the following transfers, by way of grant, out of Surplus: an amount equivalent to \$300 million in SDRs (valued at June 30, 1996) to IDA and amounts up to \$500 million to the Heavily

Notes to Financial Statements

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Indebted Poor Countries (HIPC) Debt Initiative Trust Fund or other arrangements in support of the HIPC Debt Initiative when other creditors of the eligible beneficiary countries are determined by IBRD to have agreed to meet their share of the costs envisaged within the framework of the initiative. On February 3, 1997, the Board of Governors approved a transfer from Surplus, by way of grant, of \$90 million to the Trust Fund for Gaza and West Bank.

Transfers to International Development Association: The Board of Governors had approved aggregate transfers through June 30, 1996 to IDA totaling \$4,831 million from unallocated Net Income. On October 3, 1996, the Board of Governors approved a transfer to IDA, by way of grant, of \$300 million in an equivalent amount in SDRs out of unallocated Net Income. On the same day, the Board of Governors approved a transfer, by way of grant, out of Surplus of \$300 million in an equivalent amount in SDRs. At June 30, 1997 there were no payable to IDA.

Transfers to Debt Reduction Facility for IDA-Only Countries: The Board of Governors had approved aggregate transfers through June 30, 1996 to the Debt Reduction Facility for IDA-Only Countries (DRF) totaling \$300 million. At June 30, 1997, \$118 million (\$119 million—June 30, 1996) remained payable.

Transfer to Trust Fund for Gaza and West Bank: The Board of Governors had approved aggregate transfers through June 30, 1996 to the Trust Fund for Gaza and West Bank (TFG), totaling \$140 million. On February 3, 1997, the Board of Governors approved a transfer from Surplus, by way of grant, of \$90 million. At June 30, 1997, \$83 million (\$70 million—June 30, 1996) remained payable.

Transfer to Trust Fund for Bosnia and Herzegovina: In February 1996 the Board of Governors approved a transfer from Surplus, by way of grant, of \$150 million to a trust fund administered by IDA to finance an emergency reconstruction program in Bosnia and Herzegovina. At June 30, 1997 there were no payable to the Trust Fund. At June 30, 1996, \$16 million remained payable.

Transfers to the Heavily Indebted Poor Countries Debt Initiative Trust Fund: On October 3, 1996, the Board of Governors approved a transfer from Surplus, by way of grant, of amounts up to \$500 million to the HIPC Trust Fund contingent upon IBRD's determination that the other creditors of the eligible beneficiary countries have agreed to meet their share of the costs envisaged under the HIPC Debt Initiative. On May 5, 1997, upon Management's determination that creditors holding a substantial portion of the debts of countries eligible under the HIPC Debt initiative have agreed to meet their share of the cost envisaged under the Initiative, IBRD's Executive Directors approved the transfer of the \$500 million that had been set aside in IBRD surplus to the HIPC Trust Fund. At June 30, 1997 there were no payable to the HIPC Trust Fund.

Note G—Administrative Expenses and Contributions to Special Programs

In fiscal year 1995 the Executive Directors authorized expenditures for costs associated with planned staff reductions. The total cost of this program was \$112 million, of which \$45 million was charged to IDA. At June 30, 1997, \$64 million (\$26 million—June 30, 1996) has been charged against the accrual of \$112 million. This accrual included costs associated with job search assistance, training, outplacement consulting, pension plan contributions, medical insurance contributions and related tax allowances.

On March 31, 1997, the Executive Directors approved a multiyear program of institutional renewal to improve IBRD's and IDA's business processes, products and services, strengthen their human resources through more skilled and better trained staff, and achieve a higher level of development effectiveness. Implementation of this program is expected to result in costs associated with staff reductions during the fiscal years 1997 through 1999. At June 30, 1997, 57 staff had been identified for separation at a cost of \$10 million. Included in the total charge of \$10 million are costs associated with outplacement consulting, job search assistance, training, medical insurance plan contributions and related tax allowances. Of the total charge of \$10 million, \$4 million has been charged to IDA, consistent with normal cost apportionment procedures through the management fee for the fiscal year 1997.

Notes to Financial Statements (Continued)

UNAUDITED DRAFT
July 16, 1997

Administrative Expenses for the fiscal year ended June 30, 1997 are net of the management fee of \$416 million (\$508 million—June 30, 1996) charged to IDA and \$108 million (\$102 million—June 30, 1996) charged to reimbursable programs. Included in the amounts charged to reimbursable programs are allocated charges of \$21 million (\$22 million—June 30, 1996) charged to IFC and \$1 million (\$1 million—June 30, 1996) charged to MIGA.

Contributions to special programs represent grants for agricultural research, the control of onchocerciasis, and other developmental activities.

Note H—Trust Funds

IBRD, alone or jointly with IDA, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses which include the cofinancing of IBRD lending projects, debt reduction operations, technical assistance for borrowers including feasibility studies and project preparation, global and regional programs and research and training programs. These funds are placed in trust and are not included in the assets of IBRD. The distribution of trust fund assets by executing agent at June 30, 1997 and June 30, 1996 is as follows:

	1997		1996	
	<i>Total fiduciary assets (In millions)</i>	<i>Number of trust fund accounts</i>	<i>Total fiduciary assets (In millions)</i>	<i>Number of trust fund accounts</i>
IBRD executed	\$ 552	1,622	\$ 548	1,314
Recipient executed	1,513	1,236	1,308	935
Total.....	<u>\$2,065</u>	<u>2,858</u>	<u>\$1,856</u>	<u>2,249</u>

The responsibilities of IBRD under these arrangements vary and range from services normally provided under its own lending projects to full project implementation including procurement of goods and services. During the fiscal year ended June 30, 1997, IBRD received \$15 million (\$15 million—June 30, 1996) as fees for administering trust funds. These fees have been recorded as a reduction of administrative expenses.

Note I—Staff Retirement Plan

IBRD has a defined benefit retirement plan (the Plan) covering substantially all of its staff. The Plan also covers substantially all the staff of IFC and MIGA. Under the Plan, benefits are based on the years of contributory service and the highest three-year average of pensionable remuneration as defined in the Plan, with the staff contributing a fixed percentage of pensionable remuneration, and IBRD contributing the remainder of the actuarially-determined cost of future Plan benefits. The actuarial present values of Plan obligations throughout the fiscal year are determined at the beginning of the fiscal year by the Plan's actuary. All contributions to the Plan and all other assets and income held for the purposes of the Plan are held by IBRD separately from the other assets and income of IBRD, IDA, IFC and MIGA and can be used only for the benefit of the participants in the Plan and their beneficiaries, until all liabilities to them have been paid or provided for. Plan assets consist primarily of equity and fixed income securities, with smaller holdings of cash, real estate and other investments.

Notes to Financial Statements

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July 16, 1997

Net periodic pension cost for IBRD participants for the fiscal years ended June 30, 1997 and June 30, 1996 consisted of the following components:

<i>In millions</i>		
	<i>1997</i>	<i>1996</i>
Service cost—benefits earned during the period	\$	\$ 216
Interest cost on projected benefit obligation		360
Actual return on plan assets		(917)
Net amortization and deferral		437
Net periodic pension cost.....	\$	\$ 96

The portion of this cost that relates to IBRD and is included in Administrative Expenses for the fiscal year ended June 30, 1997 is \$[] million. The balance has been included in the management fee charged to IDA.

The following table sets forth the Plan's funded status at June 30, 1997 and June 30, 1996:

<i>In millions</i>		
	<i>1997</i>	<i>1996</i>
Actuarial present value of benefit obligations		
Accumulated benefit obligation		
Vested.....	\$	\$(3,543)
Nonvested.....		(36)
Subtotal		(3,579)
Effect of projected compensation levels		(1,718)
Projected benefit obligation		(5,297)
Plan assets at fair value.....		7,033
Plan assets in excess of projected benefit obligation.....		1,736
Remaining unrecognized net transition asset		(91)
Unrecognized prior service cost		74
Unrecognized net gain from past experience different from that assumed and from changes in assumptions		(1,719)
Prepaid pension cost	\$	\$ —

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was [] percent (7.5 percent—June 30, 1996). The effect of projected compensation levels was calculated based on a scale that provides for a decreasing rate of salary increase depending on age, beginning with [] percent at age 20 and decreasing to [] percent at age 64. The expected long-term rate of return on assets was [] percent (9 percent—June 30, 1996).

Notes to Financial Statements (Continued)

UNAUDITED DRAFT
July 16, 1997

Note J—Retired Staff Benefits Plan

IBRD has a Retired Staff Benefits Plan (RSBP) that provides certain health care and life insurance benefits to retirees. All staff who are enrolled in the insurance programs while in active service and who meet certain requirements are eligible for benefits when they reach early or normal retirement age while working for IBRD. The RSBP also covers the staff of IFC and MIGA.

Retirees contribute a level amount toward life insurance based on the amount of coverage. Retiree contributions toward health care are based on length of service and age at retirement. IBRD annually contributes the remainder of the actuarially determined cost for future benefits. The actuarial present values of RSBP obligations throughout the fiscal year are determined at the beginning of the fiscal year by the RSBP's actuary. All contributions to the RSBP and all other assets and income held for purposes of the RSBP are held by IBRD separately from the other assets and income of IBRD, IDA, IFC, and MIGA and can be used only for the benefit of the participants in the RSBP and their beneficiaries until all liabilities to them have been paid or provided for. RSBP assets consist primarily of fixed income and equity securities.

Net periodic postretirement benefits cost for IBRD participants for the fiscal years ended June 30, 1997 and June 30, 1996 consisted of the following components:

In millions

	1997	1996
Service cost—benefits earned during the fiscal year	\$	\$ 32
Interest cost on accumulated postretirement benefit obligation.....		45
Actual return on plan assets.....		(130)
Net amortization and deferral		87
	<u>\$</u>	<u>\$ 34</u>

The portion of this cost that relates to IBRD and is included in Administrative Expenses for the fiscal year ended June 30, 1997 is \$[] million (\$22 million—June 30, 1996). The balance has been included in the management fee charged to IDA.

Notes to Financial Statements

UNAUDITED DRAFT
July 16, 1997

The following table sets forth the RSBP's funded status at June 30, 1997 and June 30, 1996:

<i>In millions</i>		
	<u>1997</u>	<u>1996</u>
Accumulated postretirement benefit obligation		
Retirees	\$	\$(293)
Fully eligible active plan participants		(128)
Other active plan participants		(285)
		<u>(706)</u>
Plan assets at fair value		937
Plan assets in excess of accumulated postretirement benefit obligation		231
Unrecognized prior service costs		(12)
Unrecognized net loss from past experience different from that assumed and from changes in assumptions		107
Prepaid postretirement benefit cost	<u>\$</u>	<u>\$ 326</u>

Of the \$[] million prepaid at June 30, 1997 (\$326 million—June 30, 1996), \$[] million is attributable to IBRD (\$295 million—June 30, 1996) and is included in Miscellaneous Assets on the balance sheet. The remainder has been attributed to IFC and MIGA.

For June 30, 1997, the accumulated plan benefit obligation (APBO) was determined using health care cost trend rates of [] percent to [] percent, decreasing gradually to [] percent in 2010 and thereafter. The health care cost trend rates used for June 30, 1996 was 14.4 percent to 11.2 percent decreasing gradually to 5.5 percent in 2010 and thereafter.

The health care cost trend rates assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point would increase the APBO at June 30, 1997 by \$[] million and the net periodic postretirement benefit cost for the fiscal year then ended by \$[] million.

The weighted average discount rate used in determining the APBO was [] percent (8 percent—June 30, 1996). The expected long-term rate of return on plan assets was [] percent (8 percent—June 30, 1996).

Report of Independent Accountants

UNAUDITED DRAFT July 16, 1997
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**International Development Association
and
Interim Trust Fund**

**Special Purpose Financial Statements
June 30, 1997**

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June 30, 1997

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July 16, 1997

International Development Association

Statement of Sources and Applications of Development Resources

June 30, 1997 and June 30, 1996

UNAUDITED DRAFT
July 16, 1997
Expressed in millions of U.S. dollars

	<i>1997</i>	<i>1996</i>
Applications of Development Resources		
NET RESOURCES AVAILABLE FOR DEVELOPMENT ACTIVITIES		
Cash and investments immediately available for disbursement		
Due from banks	\$ 29	\$ 15
Obligations of governments and other official entities—Notes B and F	2,044	2,487
Obligations of banks and other financial institutions—Notes B and F	3,174	2,257
Net payable on investment securities transactions—Notes B and F	(55)	(307)
	<u>5,192</u>	<u>4,452</u>
Cash and investments not immediately available for disbursement		
Due from banks	1	8
Obligations of governments and other official entities—Notes B and F	2,669	1,413
Obligations of banks and other financial institutions—Notes B and F	811	273
Net payable on investment securities transactions—Notes B and F	(14)	—
	<u>3,467</u>	<u>1,694</u>
Restricted cash and notes	66	69
Nonnegotiable, noninterest-bearing demand obligations on account of member subscriptions and contributions	15,034	21,232
Other resources, net	239	166
Total net resources available for development activities	<u>23,998</u>	<u>27,613</u>
RESOURCES USED FOR DEVELOPMENT CREDITS (see Summary Statement of Development Credits, Notes E and F)		
Total development credits	96,473	97,450
Less undisbursed balance	20,349	24,629
Total resources used for development credits	<u>76,124</u>	<u>72,821</u>
Total applications of development resources	<u><u>\$100,122</u></u>	<u><u>\$100,434</u></u>

Statement of Sources and Applications of Development Resources

June 30, 1997 and June 30, 1996

UNAUDITED DRAFT
July 16, 1997

Expressed in millions of U.S. dollars

	<i>1997</i>	<i>1996</i>
Sources of Development Resources		
Member subscriptions and contributions (see Statement of Voting Power, and Subscriptions and Contributions, Note C)		
Unrestricted	\$ 89,790	\$ 90,614
Restricted	286	287
Subscriptions and contributions committed	90,076	90,901
Less subscriptions and contributions receivable—Note C	633	1,517
Subscriptions and contributions paid in	89,443	89,384
Deferred amounts receivable to maintain value of currency holdings	(223)	(221)
Payments on account of pending membership—Note C	7	7
Transfers from the International Bank for Reconstruction and Development—Note D	5,430	4,831
Cumulative translation adjustment on development credits	2,373	4,291
Accumulated surplus (see Statement of Changes in Accumulated Surplus)	1,998	1,790
Securities sold under agreements to repurchase and payable for cash collateral received—Notes B and F	1,094	352
Total sources of development resources	\$100,122	\$100,434

Statement of Changes in Accumulated Surplus

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in millions of U.S. dollars

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July 16, 1997

	<u>1997</u>	<u>1996</u>
Income from development credits—Note E	\$ 537	\$ 512
Income from investments—Note B	450	345
Management fee charged by the International Bank for Reconstruction and Development—Notes G and H	(416)	(508)
Amortization of discount on subscription advances	(13)	(9)
Changes from operations	558	340
Effect of exchange rate changes on accumulated surplus	(350)	(545)
Net changes	208	(205)
Balance at beginning of the fiscal year	<u>1,790</u>	<u>1,995</u>
Balance at end of the fiscal year	<u>\$1,998</u>	<u>\$1,790</u>

Statement of Cash Flows

For the fiscal years ended June 30, 1997 and June 30, 1996

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

	<u>1997</u>	<u>1996</u>
Cash flows from development activities		
Development credit disbursements	\$(5,836)	\$(5,884)
Development credit principal repayments	615	563
Net cash used in development activities.....	(5,221)	(5,321)
Cash flows from member subscriptions and contributions.....	5,181	5,087
Cash flows from International Bank for Reconstruction and Development transfers...	599	250
Cash flows from operating activities		
Changes from operations	558	340
Less income from restricted investments.....	175	80
Adjustments to reconcile changes from operations to net cash provided by operating activities		
Amortization of discount on subscription advances	13	9
Net changes in other development resources	82	240
Net cash provided by operating activities	478	509
Effect of exchange rate changes on cash and investments immediately available for disbursement	(297)	(430)
Net increase in cash and investments immediately available for disbursement	740	95
Cash and investments immediately available for disbursement at beginning of the fiscal year	4,452	4,357
Cash and investments immediately available for disbursement at end of the fiscal year	<u>\$ 5,192</u>	<u>\$ 4,452</u>
Supplemental disclosure		
Decrease in ending balances resulting from exchange rate fluctuations		
Development credits outstanding	\$(1,918)	\$(4,532)

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

Summary Statement of Development Credits

June 30, 1997

UNAUDITED DRAFT**July 16, 1997***Expressed in millions of U.S. dollars*

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits¹</i>	<i>Development credits outstanding</i>	<i>Percentage of development credits outstanding</i>
Afghanistan	\$ 75	\$ -	\$ 75	0.10
Albania	268	126	142	0.19
Angola	273	146	127	0.17
Armenia	241	62	179	0.24
Azerbaijan	181	112	69	0.09
Bangladesh	6,870	1,147	5,723	7.52
Benin	671	155	516	0.68
Bhutan	27	5	22	0.03
Bolivia	1,169	284	885	1.16
Bosnia and Herzegovina	171	46	125	0.16
Botswana	11	-	11	0.01
Burkina Faso	779	138	641	0.84
Burundi	679	98	581	0.76
Cambodia	170	52	118	0.16
Cameroon	734	231	503	0.66
Cape Verde	67	24	43	0.06
Central African Republic	451	37	414	0.54
Chad	525	92	433	0.57
Chile	10	-	10	0.01
China	9,550	1,855	7,695	10.11
Colombia	10	-	10	0.01
Comoros	78	10	68	0.09
Congo, Democratic Republic of	1,253	-	1,253	1.65
Congo, Republic of	173	5	168	0.22
Costa Rica	2	-	2	*
Côte d'Ivoire	1,302	281	1,021	1.34
Djibouti	54	8	46	0.06
Dominica	15	3	12	0.02
Dominican Republic	16	-	16	0.02
Ecuador	25	-	25	0.03
Egypt, Arab Republic of	1,444	328	1,116	1.47
El Salvador	19	-	19	0.02
Equatorial Guinea	53	2	51	0.07
Eritrea	48	20	28	0.04
Ethiopia	2,008	467	1,541	2.03
Gambia, The	175	8	167	0.22
Georgia	255	95	160	0.21
Ghana	3,375	782	2,593	3.41
Grenada	10	3	7	0.01
Guinea	1,023	152	871	1.14

Summary Statement of Development Credits

June 30, 1997

UNAUDITED DRAFT
July 16, 1997

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits¹</i>	<i>Development credits outstanding</i>	<i>Percentage of development credits outstanding</i>
Guinea-Bissau	\$ 254	\$ 36	\$ 218	0.29
Guyana	285	74	211	0.28
Haiti	580	123	457	0.60
Honduras	655	183	472	0.62
India	22,368	4,651	17,717	23.27
Indonesia	725	-	725	0.95
Jordan	66	-	66	0.09
Kenya	2,698	646	2,052	2.70
Korea, Republic of	77	-	77	0.10
Kyrgyz Republic	317	114	203	0.27
Lao People's Democratic Republic	515	164	351	0.46
Lesotho	234	72	162	0.21
Liberia	107	3	104	0.14
Macedonia, former Yugoslav Republic of	181	35	146	0.19
Madagascar	1,468	318	1,150	1.51
Malawi	1,669	332	1,337	1.76
Maldives	48	10	38	0.05
Mali	1,135	216	919	1.21
Mauritania	485	111	374	0.49
Mauritius	16	-	16	0.02
Moldova	9	9	-	*
Mongolia	140	67	73	0.10
Morocco	31	-	31	0.04
Mozambique	1,551	446	1,105	1.45
Myanmar	744	-	744	0.98
Nepal	1,290	235	1,055	1.39
Nicaragua	482	127	355	0.47
Niger	766	136	630	0.83
Nigeria	798	422	376	0.49
Pakistan	4,557	1,034	3,523	4.63
Papua New Guinea	103	-	103	0.14
Paraguay	33	-	33	0.04
Philippines	269	75	194	0.25
Rwanda	692	155	537	0.71
St. Kitts and Nevis	2	-	2	*
St. Lucia	13	5	8	0.01
St. Vincent and the Grenadines	10	2	8	0.01
Sao Tome and Principe	67	9	58	0.08
Senegal	1,433	231	1,202	1.58
Sierra Leone	394	118	276	0.36

Summary Statement of Development Credits (Continued)

June 30, 1997

UNAUDITED DRAFT
July 16, 1997
Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits¹</i>	<i>Development credits outstanding</i>	<i>Percentage of development credits outstanding</i>
Solomon Islands	\$ 35	\$ 5	\$ 30	0.04
Somalia	414	-	414	0.54
Sri Lanka	1,896	380	1,516	1.99
Sudan	1,220	-	1,220	1.60
Swaziland	6	-	6	0.01
Syrian Arab Republic	44	-	44	0.06
Tajikistan	66	16	50	0.07
Tanzania	3,047	794	2,253	2.96
Thailand	99	-	99	0.13
Togo	649	80	569	0.75
Tonga	4	-	4	0.01
Tunisia	46	-	46	0.06
Turkey	121	-	121	0.16
Uganda	2,342	444	1,898	2.49
Vanuatu	16	3	13	0.02
Vietnam	1,293	806	487	0.64
Western Samoa	46	3	43	0.06
Yemen, Republic of	1,219	298	921	1.21
Zambia	1,782	386	1,396	1.83
Zimbabwe	490	159	331	0.43
Subtotal members ⁵	96,362	20,308	76,054	99.91
West African Development Bank ²	61	21	40	0.05
Caribbean Development Bank ³	43	20	23	0.03
Subtotal regional development banks	104	41	63	0.08
Other ⁴	7	-	7	0.01
Total—June 30, 1997 ⁵	<u>\$96,473</u>	<u>\$20,349</u>	<u>\$76,124</u>	<u>100.00</u>
Total—June 30, 1996	<u>\$97,450</u>	<u>\$24,629</u>	<u>\$72,821</u>	

NOTES

1. Of the undisbursed balance at June 30, 1997, IDA has entered into irrevocable commitments to disburse \$271 million (\$349 million—June 30, 1996).
2. These development credits are for the benefit of Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo.
3. These development credits are for the benefit of Grenada and territories of the United Kingdom (Associated States and Dependencies) in the Caribbean region.
4. Represents development credits made at a time when the authorities on Taiwan represented China in IDA (prior to May 15, 1980).
5. May differ from the sum of individual figures shown because of rounding.

Summary Statement of Development Credits

June 30, 1997

Expressed in millions of U.S. dollars

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Maturity Structure of Development Credits Outstanding

<i>Period</i>	
July 1, 1997 through June 30, 1998	\$ 861
July 1, 1998 through June 30, 1999	883
July 1, 1999 through June 30, 2000	1,033
July 1, 2000 through June 30, 2001	1,243
July 1, 2001 through June 30, 2002	1,455
July 1, 2002 through June 30, 2007	10,315
July 1, 2007 through June 30, 2012	13,288
July 1, 2012 through June 30, 2017	15,038
July 1, 2017 through June 30, 2022	13,607
July 1, 2022 through June 30, 2027	10,478
July 1, 2027 through June 30, 2032	6,069
July 1, 2032 through June 30, 2037	1,853
July 1, 2037 through June 30, 2042	1
Total	<u><u>\$76,124</u></u>

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

Statement of Voting Power, and Subscriptions and Contributions

June 30, 1997

*Expressed in millions of U.S. dollars***UNAUDITED DRAFT****July 16, 1997**

<i>Member</i> ¹	<i>Number of votes</i>	<i>Percentage of total</i>	<i>Subscriptions and contributions committed</i>
Part I Members			
Australia	141,883	1.31	\$ 1,546.7
Austria	71,910	0.67	749.7
Belgium	126,316	1.17	1,510.9
Canada	325,422	3.01	3,980.2
Denmark	104,317	0.97	1,180.4
Finland	68,091	0.63	598.8
France	451,054	4.18	6,254.2
Germany	747,221	6.92	10,407.7
Iceland	24,561	0.23	16.4
Ireland	30,401	0.28	103.8
Italy	295,641	2.74	3,700.0
Japan	1,154,286	10.69	19,914.1
Kuwait	69,834	0.65	649.1
Luxembourg	25,959	0.24	47.4
Netherlands	234,735	2.17	3,367.2
New Zealand	30,575	0.28	105.4
Norway	105,156	0.97	1,116.8
Portugal	24,702	0.23	22.0
Russian Federation	28,202	0.26	141.2
South Africa	30,365	0.28	82.2
Spain	58,166	0.54	407.2
Sweden	214,153	1.98	2,320.2
Switzerland ²	95,430	0.88	979.5
United Arab Emirates	1,367	0.01	5.6
United Kingdom	540,211	5.00	6,602.3
United States	1,650,557	15.29	21,831.5
Subtotal Part I Members ³	6,650,515	61.58	87,640.4
Part II Members			
Afghanistan	13,557	0.13	1.3
Albania	24,389	0.23	0.3
Algeria	27,720	0.26	5.1
Angola	45,662	0.42	7.9
Argentina	112,879	1.05	58.0
Armenia	584	0.01	0.5
Azerbaijan	644	0.01	0.9
Bangladesh	61,951	0.57	7.2
Belize	1,788	0.02	0.2
Benin	5,297	0.05	0.6
Bhutan	12,272	0.11	0.1
Bolivia	30,397	0.28	1.4
Bosnia and Herzegovina	17,871	0.17	2.3
Botswana	23,815	0.22	0.2
Brazil	176,169	1.63	91.9

Statement of Voting Power, and Subscriptions and Contributions

June 30, 1997

Expressed in millions of U.S. dollars
UNAUDITED DRAFT
July 16, 1997

<i>Member ¹</i>	<i>Number of votes</i>	<i>Percentage of total</i>	<i>Subscriptions and contributions committed</i>
Burkina Faso	19,466	0.18	\$ 0.7
Burundi	23,006	0.21	1.0
Cambodia	7,826	0.07	1.3
Cameroon	19,459	0.18	1.3
Cape Verde	5,012	0.05	0.1
Central African Republic	10,920	0.10	0.6
Chad	10,990	0.10	0.6
Chile	31,782	0.29	4.5
China	217,996	2.02	39.7
Colombia	43,080	0.40	22.5
Comoros	13,141	0.12	0.1
Congo, Democratic Republic of	12,164	0.11	3.8
Congo, Republic of	6,685	0.06	0.6
Costa Rica	12,480	0.12	0.3
Côte d'Ivoire	18,669	0.17	1.3
Croatia	29,526	0.27	5.5
Cyprus	28,236	0.26	1.1
Czech Republic	40,537	0.38	23.7
Djibouti	532	*	*
Dominica	15,049	0.14	0.2
Dominican Republic	25,658	0.24	0.6
Ecuador	23,800	0.22	0.8
Egypt, Arab Republic of	49,528	0.46	6.7
El Salvador	6,244	0.06	0.4
Equatorial Guinea	6,167	0.06	0.4
Eritrea	23,363	0.22	0.1
Ethiopia	21,353	0.20	0.7
Fiji	7,206	0.07	0.7
Gabon	2,093	0.02	0.6
Gambia, The	15,366	0.14	0.3
Georgia	22,523	0.21	0.9
Ghana	22,131	0.21	3.0
Greece	45,138	0.42	24.9
Grenada	18,999	0.18	0.1
Guatemala	25,634	0.24	0.5
Guinea	28,087	0.26	1.3
Guinea-Bissau	5,090	0.05	0.2
Guyana	18,160	0.17	1.0
Haiti	17,143	0.16	1.0
Honduras	21,570	0.20	0.4
Hungary	80,902	0.75	33.3
India	338,901	3.14	54.8
Indonesia	103,697	0.96	14.7
Iran, Islamic Republic of	15,455	0.14	5.7
Iraq	9,407	0.09	1.0

Statement of Voting Power, and Subscriptions and Contributions (Continued)

June 30, 1997

Expressed in millions of U.S. dollars

UNAUDITED DRAFT**July 16, 1997**

<i>Member ¹</i>	<i>Number of votes</i>	<i>Percentage of total</i>	<i>Subscriptions and contributions committed</i>
Israel	35,331	0.33	\$ 2.6
Jordan	24,865	0.23	0.4
Kazakhstan	806	0.01	1.8
Kenya	27,105	0.25	2.2
Kiribati	4,777	0.04	0.1
Korea, Republic of	43,668	0.40	112.1
Kyrgyz Republic	580	0.01	0.5
Lao People's Democratic Republic	11,723	0.11	0.6
Latvia	614	0.01	0.7
Lebanon	8,562	0.08	0.6
Lesotho	23,874	0.22	0.2
Liberia	23,379	0.22	1.1
Libya	7,771	0.07	1.3
Macedonia, former Yugoslav Republic of	15,759	0.15	1.0
Madagascar	11,600	0.11	1.2
Malawi	27,960	0.26	1.0
Malaysia	41,061	0.38	3.6
Maldives	22,916	0.21	*
Mali	22,407	0.21	1.2
Marshall Islands	4,914	0.05	*
Mauritania	10,885	0.10	0.6
Mauritius	29,011	0.27	1.2
Mexico	78,854	0.73	121.3
Micronesia, Federated States of	18,424	0.17	*
Moldova	612	0.01	0.7
Mongolia	24,389	0.23	0.3
Morocco	48,482	0.45	4.8
Mozambique	6,815	0.06	1.7
Myanmar	37,470	0.35	2.9
Nepal	26,166	0.24	0.7
Nicaragua	24,865	0.23	0.4
Niger	16,541	0.15	0.7
Nigeria	8,257	0.08	4.2
Oman	24,870	0.23	0.4
Pakistan	97,461	0.90	13.5
Panama	5,657	0.05	*
Papua New Guinea	13,050	0.12	1.1
Paraguay	11,419	0.11	0.4
Peru	13,524	0.13	2.2
Philippines	16,583	0.15	6.5
Poland	249,421	2.31	52.0
Rwanda	17,979	0.17	1.0
St. Kitts and Nevis	5,082	0.05	0.2
St. Lucia	22,535	0.21	0.2
St. Vincent and the Grenadines	514	*	0.1
Sao Tome and Principe	4,714	0.04	0.1

Statement of Voting Power, and Subscriptions and Contributions

June 30, 1997

Expressed in millions of U.S. dollars
UNAUDITED DRAFT
July 16, 1997

<i>Member</i> ¹	<i>Number of votes</i>	<i>Percentage of total</i>	<i>Subscriptions and contributions committed</i>
Saudi Arabia	377,100	3.49	\$ 2,033.2
Senegal	28,447	0.26	2.2
Sierra Leone	12,667	0.12	1.0
Slovak Republic	20,893	0.19	7.0
Slovenia	18,956	0.18	3.0
Solomon Islands	518	*	0.1
Somalia	10,506	0.10	1.0
Sri Lanka	44,784	0.41	4.0
Sudan	23,689	0.22	1.3
Swaziland	11,073	0.10	0.4
Syrian Arab Republic	7,651	0.07	1.2
Tajikistan	20,568	0.19	0.5
Tanzania	34,943	0.32	2.1
Thailand	44,784	0.41	4.2
Togo	22,455	0.21	1.0
Tonga	11,380	0.11	0.1
Trinidad and Tobago	770	0.01	1.6
Tunisia	2,793	0.03	1.9
Turkey	70,837	0.66	75.2
Uganda	22,438	0.21	2.2
Uzbekistan	746	0.01	1.5
Vanuatu	13,821	0.13	0.2
Vietnam	8,889	0.08	1.9
Western Samoa	13,061	0.12	0.1
Yemen, Republic of	33,296	0.31	2.0
Zambia	26,868	0.25	3.4
Zimbabwe	10,657	0.10	5.0
Subtotal Part II Members ³	4,143,008	38.44	2,947.4
Total—June 30, 1997 ^{2,3}	10,793,523	100.00	\$90,587.8
Total—June 30, 1996	10,728,072	100.00	\$91,413.0

* Indicates amounts less than \$0.05 million or less than 0.005 percent.

NOTES

1. See Notes to Special Purpose Financial Statements—Note A for an explanation of the two categories of membership.
2. \$512.3 million of Switzerland's subscription and contribution have not been included in the Statements of Sources and Applications of Development Resources at June 30, 1997 and June 30, 1996 since this represents the difference between the total cofinancing grants of \$580.1 million provided by Switzerland directly to IDA borrowers as cofinancing grants between the fourth and the ninth replenishments of the IDA resources, and the July 1992 contribution by Switzerland of \$67.8 million.
3. May differ from the sum of individual figures shown because of rounding.

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

Notes to Special Purpose Financial Statements

UNAUDITED DRAFT
July 16, 1997

Note A—Organization, Operations and Significant Accounting and Related Policies

Purpose and Affiliated Organizations

The International Development Association (IDA) is an international organization established on September 24, 1960 to promote economic development in the less developed areas of the world included in IDA's membership by providing financing on concessionary terms. IDA has 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. The principal purpose of IBRD is to promote the economic development of its member countries, primarily by providing loans 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 was established to encourage the flow of investments for productive purposes among member countries and, in particular, to developing member countries by providing guarantees against noncommercial risks for foreign investment in its developing member countries.

Summary of Significant Accounting and Related Policies

Due to the nature and organization of IDA, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of member subscriptions and are not intended to be a presentation in accordance with generally accepted accounting principles in the United States or with International Accounting Standards. These special purpose financial statements have been prepared to comply with Article VI, Section 11 (a) of the Articles of Agreement of IDA.

IDA's special purpose financial statements are prepared in accordance with the accounting policies outlined below.

Reclassifications

Certain reclassifications of the prior year's information have been made to conform to the current period's presentation.

Basis of Accounting

IDA's special purpose financial statements are prepared on the accrual basis of accounting for development credit income, investment income and administrative expenses. That is, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Translation of Currencies

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

IDA is an international organization which conducts its operations in the currencies of all of its members. Development resources and sources of development resources are translated at market rates of exchange at the end of the accounting period, except Member Subscriptions and Contributions which are translated in the manner described below. Income and expenses are translated at the market rates of exchange at the dates on which they are recognized or at an average of the market rates of exchange in effect during each month. Translation adjustments relating to the revaluation of development credits denominated

Notes to Special Purpose Financial Statements

UNAUDITED DRAFT July 16, 1997
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in Special Drawing Rights (SDRs) are charged or credited to Cumulative Translation Adjustment on Development Credits. Other translation adjustments are charged or credited to the Accumulated Surplus.

Member Subscriptions and Contributions

Recognition

Member Subscriptions and Contributions for each IDA replenishment are recorded in full as Subscriptions and Contributions Committed upon effectiveness of the relevant replenishment. Replenishments become effective when IDA has received commitments from members for subscriptions and contributions of 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 come due throughout the replenishment period (generally three years) in accordance with an agreed maturity schedule. The actual payment of receivables when they become due from certain members is conditional upon the respective member's budgetary appropriation processes.

The Subscriptions and Contributions Receivable are settled through payment of cash or nonnegotiable, noninterest-bearing demand notes. If the receivable is settled in cash, the cash is recorded in Cash and Investments Not Immediately Available for Disbursement, until such time as it becomes available in accordance with the replenishment agreement. The notes are encashed by IDA as provided in the relevant replenishment resolution over the disbursement period of the credits committed under the replenishment and the cash received is recorded in Cash and Investments Immediately Available for Disbursement.

In certain replenishments, members have had the option of paying all of their subscription and contribution amount in cash before it becomes due and receiving a discount. In these cases, IDA and the member agree that IDA will invest the cash and retain the income. The related subscription and contribution is recorded at the full undiscounted amount. The cash and investments are recorded in Cash and Investments Not Immediately Available for Disbursement until the date when it would have become due, at which time it becomes available. The discount is recorded in Subscriptions and Contributions Receivable and amortized over the projected encashment period.

Under the Articles of Agreement and the arrangements governing replenishments, IDA must take appropriate steps to ensure that, over a reasonable period of time, the resources provided by donors for lending by IDA are used on an approximately pro rata basis. As discussed in the previous paragraph, donors sometimes contribute resources substantially ahead of their pro rata share. Unless otherwise agreed, IDA does not disburse these funds ahead of donors' pro rata shares. Cash and Investments Not Immediately Available for Disbursement represents the difference between the amount contributed and the amount available for disbursements on a pro rata basis.

Transfers to IDA from IBRD are recorded as Sources of Development Resources and are receivable upon approval by IBRD's Board of Governors.

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 which 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 ninety 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 agreements 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. These subscriptions of Part II members are recorded as Restricted Cash and Notes.

Notes to Special Purpose Financial Statements (Continued)

UNAUDITED DRAFT**July 16, 1997**

Valuation

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 have decided, with effect on that date and until such time as the relevant provisions of the Articles of Agreement are amended, that 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), and have 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. Beginning July 1, 1986, subscriptions and contributions made available for disbursement in cash to IDA are translated at market rates of exchange on the dates they were made available. Prior to that date, subscriptions and contributions which had been disbursed or converted into other currencies were translated at market rates of exchange on dates of disbursement or conversion. Subscriptions and contributions not yet available for disbursements are translated at market rates of exchange at the end of the accounting period.

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, in the opinion of IDA, depreciated or appreciated to a significant extent within the member's territories, 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 Receivable to Maintain Value of Currency Holdings.

Development Credits

All 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 banks 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 level and the country may have only limited or no creditworthiness for IBRD lending. Development credits carry a service charge of 0.75 percent and generally have 35- or 40-year final maturities and a 10-year grace period for principal payments. Development credits are carried in the Special Purpose Financial Statements at the full face amount of the borrowers' outstanding obligations.

It is the policy of IDA to place in nonaccrual status all development credits made to a member government or to the government of a territory of a member if principal or charges with respect to any such development credit are overdue by more than six months, unless IDA management determines that the overdue amount will be collected in the immediate future. In

Notes to Special Purpose Financial Statements

UNAUDITED DRAFT
July 16, 1997

addition, if loans by IBRD to a member government are placed in nonaccrual status, all development credits to that member government will also be placed in nonaccrual status by IDA. On the date a member's development credits are placed in nonaccrual status, charges that had been accrued on development credits outstanding to the member which remained unpaid are deducted from the income from development credits of the current period. Charges on nonaccruing development credits are included in income only to the extent that payments have actually been received by IDA. On the date a member pays in full all overdue amounts to IBRD and IDA, the member's credits emerge from nonaccrual status, its eligibility for new credits is restored, and all overdue charges (including those from prior years) are recognized as income from development credits in the current period. If collectibility risk is considered to be particularly high at the time of arrears clearance, or if IBRD or IDA refinances/reschedules nonaccruing loans or credits to a member so that no debt-service payments remain overdue, its loans or credits may not automatically emerge from nonaccrual status, even though its eligibility for new loans or credits may have been restored. The previously overdue interest and other charges are not recognized as income in the period the refinancing/rescheduling occurs. After a suitable period of payment performance has passed from the time of arrears clearance, a decision on the restoration of accrual status is made on a case-by-case basis.

In fulfilling its mission, IDA makes concessional loans to the poorest countries, therefore there is significant credit risk in the portfolio of development credits. Management continually monitors this credit risk. However, no provision for credit losses has been established because it is not practicable to determine such an amount in view of the nature and maturity structure of the credit portfolio. Should actual losses occur, they would be charged against IDA's Accumulated Surplus. In a development credit refinancing/restructuring (such as that for the heavily indebted poor countries (HIPC)s, see Note I), losses, if any, would be recognized when binding agreements are signed. To date, IDA has not suffered any losses on receivables from development credits.

The repayment obligations of IDA's 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.

Investments

IDA carries its investment securities and related financial instruments at market value. Both realized and unrealized gains and losses are included in Income from Investments.

Special Fund and Interim Trust Fund

Special Fund: On October 26, 1982, IDA established the Special Fund constituted by funds contributed by members of IDA and administered by IDA, to supplement the regular resources available for lending by IDA. On May 31, 1996, the Special Fund was terminated and all its assets, liabilities and capital were transferred to IDA. On June 26, 1996, IDA's Board of Governors approved the allocation of voting rights in respect of contributions to the Special Fund, to be reflected in the general voting rights adjustment of IDA's Eleventh Replenishment. Voting rights will be adjusted upon the effectiveness of IDA's Eleventh Replenishment.

Interim Trust Fund: The Interim Trust Fund, established by IDA's Board of Governors in June 1996, is administered by IDA to help fund operations during the period July 1, 1996 to June 30, 1997 and its funds have a separate legal, procurement and accounting status. The Interim Trust Fund became effective on November 14, 1996. Credits financed by the Interim Trust Fund are made on the same terms and conditions as those of IDA credits with two exceptions. First, eligibility for procurement under the Interim Fund Credits is extended only to nationals of countries that either have contributed to the Interim Trust Fund or are eligible to borrow from IBRD or IDA. Second, the Interim Fund Credits are approved by IDA's President after

Notes to Special Purpose Financial Statements (Continued)

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consultation with a committee of Executive Directors representing the donors and eligible borrowers. Charges paid by borrowers on Interim Fund credits are received by IDA to compensate it for its services as administrator. The Interim Trust Fund is expected to be terminated when the credits it financed have been substantially disbursed. Upon termination, its assets and liabilities will transfer to IDA.

Note B—Investments

As part of its overall portfolio management strategy, IDA invests in government and agency obligations, time deposits and related financial instruments with off-balance sheet risk including futures, forward contracts, covered forward contracts, options, and short sales.

Government and Agency Obligations: These obligations include marketable bonds, notes and other obligations. Obligations issued or unconditionally guaranteed by governments of countries require a minimum credit rating of AA if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government of a country, a multilateral organization or any other official entity require a credit rating of AAA.

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

Futures and Forwards: Futures and forward contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. Futures contracts are traded on regulated United States and international exchanges. IDA generally closes out most open positions in futures contracts prior to maturity. Therefore, cash receipts or payments are mostly limited to the change in market value of the futures contracts. Futures contracts generally entail daily settlement of the net cash margin.

Covered Forwards: Covered forwards are agreements in which cash in one currency is converted into a different currency and, simultaneously, a forward exchange agreement is executed providing for a future exchange of the two currencies in order to recover the currency converted.

Options: Options are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price within a specified period of time from or to the seller of the option. The purchaser of an option pays a premium at the outset to the seller of the option, who then bears the risk of an unfavorable change in the price of the financial instrument underlying the option. IDA only invests in exchange-traded options. The initial price of an option contract is equal to the premium paid by the purchaser and is significantly less than the contract or notional amount. IDA does not write uncovered option contracts.

Short Sales: Short sales are sales of securities not held in IDA's portfolio at the time of the sale. IDA must purchase the security at a later date and bears the risk that the market value of the security will move adversely between the time of the sale and the time the security must be delivered.

Repurchase and Resale Agreements and Securities Loans: Repurchase agreements are contracts under which a party sells securities and simultaneously agrees to repurchase the same securities at a specified future date at a fixed price. The reverse of this transaction is called a resale agreement. Securities loans are contracts under which securities are lent for a future period of time at a fixed price.

Notes to Special Purpose Financial Statements

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A summary of IDA's investment portfolio by instrument for Investments Immediately Available for Disbursement at June 30, 1997 and June 30, 1996 is as follows:

In millions

	1997			1996		
	Carrying value	Average daily balance during the period	Net gains (losses) for the period	Carrying value	Average daily balance during the fiscal year	Net gains (losses) for the fiscal year
Government and agency obligations	\$1,923	\$1,928	\$20	\$2,282	\$1,900	\$(6)
Time deposits	3,174	3,254	—	2,257	2,309	—
Futures and forwards	*	1	(2)	1	1	4
Covered forwards	—	(3)	—	*	(1)	—
Options	*	*	(*)	*	*	(1)
Resale agreements	121	578	—	204	629	—
	<u>\$5,218</u>	<u>\$5,758</u>	<u>\$18</u>	<u>\$4,744</u>	<u>\$4,838</u>	<u>\$(3)</u>
Short sales.....	\$ (53)	\$ (100)	\$—	\$ (34)	\$ (32)	\$—
Repurchase agreements and securities loans.....	(447)	(562)	—	(319)	(281)	—

* Less than \$0.5 million.

A summary of IDA's investment portfolio by instrument for Investments Not Immediately Available for Disbursement at June 30, 1997 and June 30, 1996 is as follows:

In millions

	1997			1996		
	Carrying value	Average daily balance during the period	Net gains (losses) for the period	Carrying value	Average daily balance during the fiscal year	Net gains (losses) for the fiscal year
Government and agency obligations	\$2,653	\$2,089	\$37	\$1,320	\$ 963	\$(1)
Time deposits	811	422	—	272	327	—
Futures and forwards	1	1	(1)	1	1	4
Covered forwards	—	(1)	—	*	*	—
Options	*	*	(*)	*	*	*
Resale agreements	15	131	—	93	93	—
	<u>\$3,480</u>	<u>\$2,642</u>	<u>\$36</u>	<u>\$1,686</u>	<u>\$1,384</u>	<u>\$ 3</u>
Short sales.....	\$ (15)	\$ (42)	\$—	\$ (24)	\$ (8)	\$—
Repurchase agreements and securities loans.....	(648)	(416)	—	(33)	(138)	—

* Less than \$0.5 million.

Notes to Special Purpose Financial Statements (Continued)

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A summary of the currency composition of Investments Immediately Available for Disbursement and Not Immediately Available for Disbursement at June 30, 1997 and June 30, 1996 is as follows:

In millions of U.S. dollars equivalent

	1997			1996		
	<i>Immediately available for disbursement</i>	<i>Not immediately available for disbursement</i>	<i>Total</i>	<i>Immediately available for disbursement</i>	<i>Not immediately available for disbursement</i>	<i>Total</i>
Canadian dollars	\$ 28	\$ —	\$ 28	\$ —	\$ —	\$ —
Deutsche mark	1,691	707	2,398	1,739	321	2,060
French francs	449	289	738	387	167	554
Japanese yen	67	506	573	542	299	841
Pounds sterling	917	324	1,241	425	146	571
U.S. dollars	2,066	1,654	3,720	1,651	753	2,404
Other currencies	—	—	—	*	—	*
	<u>\$5,218</u>	<u>\$3,480</u>	<u>\$8,698</u>	<u>\$4,744</u>	<u>\$1,686</u>	<u>\$6,430</u>

* Less than \$0.5 million.

For the purpose of risk management, IDA is party to a variety of financial instruments, certain of which involve elements of credit risk in excess of the amount reflected in the Statement of Sources and Applications of Development Resources. Credit risk represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. Additionally, the nature of the instruments involve contract value and notional principal amounts that are not reflected in the basic financial statements. For both on- and off-balance sheet securities, IDA limits trading to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty by type of instrument and maturity category.

The credit risk exposure and contract value, as applicable, of these financial instruments at June 30, 1997 and June 30, 1996 are given below:

In millions

	1997	1996
Futures and Forwards		
• Long position	\$1,880	\$ 759
• Short position	2,704	2,840
• Credit exposure due to potential nonperformance by counterparties	9	7
Options		
• Long position	46	179
• Short position	—	36
Covered forward contracts		
• Credit exposure due to potential nonperformance by counterparties	—	1

Notes to Special Purpose Financial Statements

UNAUDITED DRAFT
July 16, 1997

Note C—Member Subscriptions and Contributions

Subscriptions and Contributions Receivable: At June 30, 1997, receivables from subscriptions and contributions was \$633 million (\$1,517 million—June 30, 1996) of which \$564 million (\$945 million—June 30, 1996) was due and \$69 million (\$572 million—June 30, 1996) was not yet due.

Subscriptions and contributions due at June 30, 1997 were as follows:

<i>In millions</i>	
<i>Amounts initially due on</i>	
July 1, 1996 through June 30, 1997	\$329
July 1, 1995 through June 30, 1996	—
July 1, 1994 through June 30, 1995	235
June 30, 1994 and earlier	*
Total	<u>\$564</u>

* Less than \$0.5 million.

Subscriptions and contributions not yet due at June 30, 1997 will become due as follows:

<i>In millions</i>	
<i>Period</i>	
July 1, 1997 through June 30, 1998	\$11
July 1, 1998 through June 30, 1999	10
Thereafter	48
Total	<u>\$69</u>

Eleventh Replenishment: In June 1996 the Board of Governors of IDA adopted resolutions authorizing the Eleventh Replenishment of IDA's resources. The Eleventh Replenishment provides IDA with resources to fund credits and grants committed during the period July 1, 1996 to June 30, 1999. The total amount of donor contributions pledged during this period, including supplementary contributions provided by certain members, is equivalent to SDR 6,929 million. The Eleventh Replenishment will become effective when IDA has received commitments for subscriptions and contributions of SDR 3,746 million. As part of the Eleventh Replenishment, an Interim Trust Fund consisting of donor contributions pledged equivalent to SDR 2,228 million has been established and is administered by IDA.

Membership: In February 1993 the Socialist Federal Republic of Yugoslavia (SFRY) ceased to be a member of IDA due to the cessation of its membership in IBRD. Four of the five successor Republics—Bosnia and Herzegovina, the Republics of Croatia and Slovenia and the former Yugoslav Republic of Macedonia—have since become members of IDA. At December 31, 1996, the subscription and contributions allocated to the other successor country the Federal Republic of Yugoslavia (Serbia and Montenegro) are included under Payments on Account of Pending Membership.

Notes to Special Purpose Financial Statements (Continued)

UNAUDITED DRAFT July 16, 1997
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In May 1992 Switzerland became a member of IDA. Before that date Switzerland had contributed to IDA an equivalent of \$51 million. As agreed between the Swiss Confederation and IDA, these grant contributions were converted to an IDA subscription. Further, during the commitment periods between the fourth and the ninth replenishments of IDA resources, Switzerland had cofinanced projects by making available to IDA borrowers untied grants in the aggregate amount of Swiss francs 1,055 million (historical U.S. dollar amount of \$580 million). In July 1992, as agreed between the Swiss Confederation and IDA, these grant contributions were converted to an IDA subscription and contribution when Switzerland contributed a further \$68 million, representing the present value of future reflows of the cofinancing grants if they had been made through IDA on IDA's repayment terms. At June 30, 1997, \$512 million (\$512 million—June 30, 1996), representing the difference between the total cofinancing grants of \$580 million and the present value of future reflows of \$68 million, have not been included in the Member Subscriptions and Contributions in the Statement of Sources and Applications of Development Resources.

Note D—Transfers from IBRD

IBRD's Board of Governors had approved aggregate transfers to IDA totaling \$5,430 million through June 30, 1997 (\$4,831 million—June 30, 1996).

Note E—Development Credits

At June 30, 1997, principal installments of \$0.1 million and charges of \$0.3 million payable to IDA on development credits were overdue by more than three months. At June 30 1997, the aggregate amounts outstanding on all development credits to any borrower, other than those referred to in the following paragraph, with any development credit overdue by more than three months was \$414 million.

At June 30, 1997, the development credits made to or guaranteed by certain member countries with an aggregate principal balance outstanding of \$3,239 million (\$3,183 million—June 30, 1996), of which \$130 million (\$95 million—June 30, 1996) was overdue, were in nonaccrual status. At such date, overdue charges in respect of these development credits totaled \$108 million (\$86 million—June 30, 1996). If these development credits had not been in nonaccrual status, income from development credits for the fiscal year ended June 30, 1997 would have been higher by \$24 million (\$24 million—June 30,

Notes to Special Purpose Financial Statements

UNAUDITED DRAFT
July 16, 1997

1996), which is net of charges received from such members during the period. A summary of member countries with credits or guarantees in nonaccrual status is as follows:

<i>In millions</i>			
<i>Borrower</i>	<i>June 30, 1997</i>		
	<i>Principal outstanding</i>	<i>Principal and charges overdue</i>	<i>Nonaccrual since</i>
<i>With overdues</i>			
Afghanistan.....	\$ 74	\$ 11	June 1992
Democratic Republic of Congo.....	1,253	76	November 1993
Liberia.....	104	17	April 1988
Somalia.....	414	41	July 1991
Sudan.....	1,220	81	January 1994
Syrian Arab Republic.....	44	12	April 1988
Total.....	3,109	238	
<i>Without overdues</i>			
Bosnia and Herzegovina.....	130	—	September 1992
Total.....	<u>\$3,239</u>	<u>\$238</u>	

During the fiscal year ended June 30, 1997 and June 30, 1996, no development credits came out of nonaccrual status.

Under a program established in September 1988, a portion of principal repayments to IDA are allocated on an annual basis to provide supplementary IDA credits to IDA-eligible countries that are no longer able to borrow on IBRD terms but have outstanding IBRD loans approved prior to September 1988 and have in place an IDA-supported structural adjustment program. Such supplementary IDA credits are allocated to countries that meet specified conditions, in proportion to each country's interest payments due that year on its pre-September 1988 IBRD loans. To be eligible for such IDA supplemental credits, a member country must meet IDA's eligibility criteria for lending, must be ineligible for IBRD lending and must not have had an IBRD loan approved within the last twelve months. To receive a supplemental credit from the program, a member country cannot be more than 60 days overdue on its debt-service payments to IBRD or IDA.

A summary of cumulative IDA credits committed and disbursed under this program from inception at June 30, 1997 and June 30, 1996 is given below:

<i>In millions</i>		
	<i>1997</i>	<i>1996</i>
Commitments.....	\$1,526	\$1,379
Less: Undisbursed.....	91	52
Disbursed and Outstanding.....	<u>\$1,435</u>	<u>\$1,327</u>

Notes to Special Purpose Financial Statements (Continued)

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July 16, 1997

Note F—Fair Value of Financial Instruments

Investments: Since IDA carries its investments at market value, the carrying amount represents the fair value of the portfolio. These fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The fair value of short-term financial instruments approximates their carrying value.

Development Credits: IDA development credits have a significant grant element because of the concessional nature of IDA's terms. Discounting IDA's credits using the standard 10% discount rate of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development provides an estimate for the grant element of IDA credits. Using the 10% DAC discount rate indicates that the typical IDA credit contains a grant element of 75% to 80% of the nominal credit amount at the time the credit is committed. This grant element calculation considers interest rates, maturity structures and grace periods for the credits. It does not consider credit risk, portfolio seasoning, multilateral and sovereign credit preferences and other risks or indicators that would be relevant in calculating fair value. Estimating the impact of these factors is not practicable. However, the fair value of Total Development Credits is substantially lower than the \$97,473 million reflected on the Statement of Sources and Applications of Development Resources.

Note G—Income and Expenses

IDA receives charges paid by borrowers on Interim Fund Credits as compensation for its services as administrator.

IDA pays a management fee to IBRD representing its share of the administrative expenses incurred by IBRD. The management fee for the fiscal year ended June 30, 1997 was reduced by pension income of \$40 million allocated from IBRD upon completion of a review of pension expense estimates by IBRD. For the fiscal year ended June 30, 1996, the management fee included \$36 million of pension expense.

Note H—Trust Funds

IDA, alone or jointly with IBRD, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses which include the cofinancing 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 placed in trust and are not included in the development resources of IDA. At June 30, 1997 and June 30, 1996, the distribution of trust fund assets by executing agent is as follows:

	1997		1996	
	<i>Total fiduciary assets (In millions)</i>	<i>Number of trust fund accounts</i>	<i>Total fiduciary assets (In millions)</i>	<i>Number of trust fund accounts</i>
IDA executed.....	\$ 714	583	\$235	454
Recipient executed	512	510	537	384
Total	<u>\$1,226</u>	<u>1,093</u>	<u>\$772</u>	<u>838</u>

The responsibilities of IDA under these arrangements vary and range from services normally provided under its own lending projects to full project implementation including procurement of goods and services. IDA receives fees for administering trust

Notes to Special Purpose Financial Statements

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funds as a reduction of the Management Fee Charged by IBRD. During the fiscal year ended June 30, 1997, IDA received \$11 million (\$10 million—June 30, 1996) as fees for administering trust funds.

Note I—Heavily Indebted Poor Countries

IDA has endorsed an initiative for addressing the debt problems of a group of countries identified as HIPC's to ensure that reform efforts of these countries will not be put at risk by unsustainable external debt burdens. Under the initiative, creditors are to provide enhanced debt relief for those countries that demonstrated good policy performance over an extended period in order to bring their debt burdens to sustainable levels.

On November 7, 1996, the HIPC Trust Fund was established to help beneficiaries reduce their overall debt, including IDA debt. The HIPC Trust Fund debt initiative is administered by IDA. The HIPC Trust Fund will pay cash to IDA for specific credits in amounts equivalent to the present value of the debt servicing obligations of the credits. The total development credits outstanding will be decreased by the nominal value of the credits sold and the difference between the cash received from the HIPC Trust Fund and the nominal value of the credits will be reflected separately in the Statement of Sources and Applications of Development Resources. The first borrower having IDA debt, that has been approved for debt relief under the HIPC debt initiative program is the following:

<i>In millions</i>			
<i>Country</i>	<i>Estimated</i>		<i>Difference</i>
	<i>Nominal Value</i>	<i>Settlement Value</i>	
Uganda	\$300	\$138	\$162

Report of Independent Accountants on Special Purpose Financial Statements

UNAUDITED DRAFT July 16, 1997
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UNAUDITED DRAFT
July 16, 1997

Interim Trust Fund

Statement of Sources and Applications of Development Resources

June 30, 1997

Expressed in millions of U.S. dollars

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Applications of Development Resources

NET RESOURCES AVAILABLE FOR DEVELOPMENT ACTIVITIES

Cash and investments immediately available for disbursement

Due from banks	\$ 1.1
Obligations of governments and other official entities—Notes B and D	0.6
Obligations of banks and other financial institutions—Notes B and D	41.3
	<u>43.0</u>

Nonnegotiable, noninterest-bearing demand obligations on account of contributions	2,538.9
Other resources, net	<u>(0.4)</u>

Total net resources available for development activities	<u>2,581.5</u>
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RESOURCES USED FOR INTERIM FUND CREDITS (see Summary Statement of Interim Fund Credits)

Total Interim Fund Credits	1,628.0
Less undisbursed balance	<u>1,484.4</u>

Total resources used for Interim Fund Credits	<u>143.6</u>
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Total applications of development resources	<u>\$2,725.1</u>
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Sources of Development Resources

Contributions (see Statement of Contributions)

Contributions committed	\$2,708.8
Less unamortized discount on contributions	2.0
	<u>2,706.8</u>

Less contributions receivable—Note C	<u>3.8</u>
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Contributions paid in	2,703.0
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Cumulative translation adjustment of Interim Fund Credits	0.8
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Accumulated deficit (see Statement of Changes in Accumulated Surplus)	(0.7)
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Short-term borrowing	<u>22.0</u>
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Total sources of development resources	<u>\$2,725.1</u>
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Statement of Changes in Accumulated Surplus

For the fiscal year ended June 30, 1997

Expressed in millions of U.S. dollars

UNAUDITED DRAFT
July 16, 1997

Income from investments—Note B	\$ 2.0
<u>Amortization of discount on contribution advances</u>	(0.1)
Changes from operations	1.9
Effect of exchange rate changes on accumulated surplus	(2.6)
Net changes	(0.7)
Balance at beginning of the fiscal year	—
Balance at end of the fiscal year	<u><u>\$(0.7)</u></u>

Statement of Cash Flows

For the fiscal year ended June 30, 1997

Expressed in millions of U.S. dollars

Cash flows from development activities	
Interim Fund Credit disbursements	\$(142.8)
Cash flows from financing activities	
Net short-term borrowings	22.0
Donor contributions	164.0
Net cash provided by financing activities	186.0
Cash flows from operating activities	
Changes from operations	1.9
Adjustments to reconcile changes from operations to net cash provided by operating activities	
Amortization of discount on subscription advances	0.1
Net changes in other development resources	0.2
Net cash provided by operating activities	2.2
Effect of exchange rate changes on cash and investments immediately available for disbursement ..	(2.4)
Net increase in cash and investments immediately available for disbursements	43.0
Cash and investments immediately available for disbursement at beginning of the fiscal year	—
Cash and investments immediately available for disbursement at end of the fiscal year	<u><u>\$ 43.0</u></u>

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

Summary Statement of Interim Fund Credits

June 30, 1997

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July 16, 1997

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total credits</i>	<i>Undisbursed credits</i>	<i>Credits outstanding</i>	<i>Percentage of credits outstanding</i>
Armenia	\$ 16.2	\$ 16.1	\$ 0.1	0.04
Bosnia and Herzegovina	31.1	25.9	5.2	3.60
Burkina Faso	45.7	45.7	—	—
Cambodia	54.9	54.7	0.2	0.13
Chad	25.1	25.1	—	—
China	222.9	222.9	—	—
Comoros	7.1	7.1	—	—
Côte d'Ivoire	41.3	41.3	—	—
Egypt, Arab Republic of	71.8	71.8	—	—
Ghana	29.0	29.0	—	—
Guinea	25.1	25.1	—	—
India	250.2	250.2	—	—
Kenya	26.9	26.9	—	—
Kyrgyz Republic	44.6	22.3	22.3	15.53
Madagascar	96.5	28.7	67.8	47.17
Malawi	12.1	12.1	—	—
Mali	81.6	81.6	—	—
Mozambique	96.3	48.1	48.2	33.53
Senegal	6.8	6.8	—	—
Sri Lanka	14.9	14.9	—	—
Uganda	126.0	126.0	—	—
Vietnam	289.4	289.4	—	—
Zimbabwe	12.4	12.4	—	—
Total—June 30, 1997 ¹	<u>\$1,628.0</u>	<u>\$1,484.4</u>	<u>\$143.6</u>	<u>100.00</u>

NOTES

1. May differ from the sum of individual figures shown because of rounding.

Summary Statement of Interim Fund Credits

June 30, 1997

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July 16, 1997

Expressed in millions of U.S. dollars

Maturity Structure of Interim Fund Credits Outstanding

<i>Period</i>	
July 1, 1997 through June 30, 2002.....	\$ —
July 1, 2006 through June 30, 2007.....	1.1
July 1, 2007 through June 30, 2012.....	24.6
July 1, 2012 through June 30, 2017.....	23.5
July 1, 2017 through June 30, 2022.....	44.1
July 1, 2022 through June 30, 2027.....	23.2
July 1, 2027 through June 30, 2032.....	13.6
July 1, 2032 through June 30, 2037.....	13.5
Total.....	<u>\$143.6</u>

Statement of Contributions

June 30, 1997

Expressed in millions of U.S. dollars

UNAUDITED DRAFT July 16, 1997
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<i>Donor</i>	<i>Contributions deposited</i>
Australia	\$ 83.5
Austria	37.5
Belgium	58.0
Botswana	0.5
Brazil	6.7
Canada	156.7
Czech Republic	2.0
Denmark	50.2
Finland	21.0
France	281.5
Germany	414.2
Greece	1.9
Hungary	2.8
Iceland	1.3
Japan	752.5
Korea, Republic of	11.8
Luxembourg	3.7
Mexico	4.6
Netherlands	222.3
New Zealand	7.2
Norway	69.4
Poland	1.3
Portugal	7.8
Russian Federation	11.2
Saudi Arabia	25.0
Slovak Republic	1.4
South Africa	2.9
Sweden	110.5
Switzerland	64.1
United Kingdom	295.4
Total ¹	<u><u>\$2,708.8</u></u>

NOTES

1. May differ from the sum of individual figures shown because of rounding.

Notes to Special Purpose Financial Statements

UNAUDITED DRAFT**July 16, 1997**

Note A—Organization, Operations and Significant Accounting and Related Policies

Purpose

The Interim Trust Fund, established by the International Development Association's (IDA) Board of Governors on June 26, 1996, is administered by IDA to help fund operations during the period July 1, 1996 to June 30, 1997 and it has a separate legal, procurement and accounting status. The Interim Trust Fund became effective on November 14, 1996 when contributions in excess of SDR 400 million from seven donors were received.

The Interim Trust Fund is expected to be terminated when the credits it financed have been substantially disbursed. Upon termination, its assets and liabilities will transfer to IDA. Voting rights in IDA on account of contributions made to the Interim Trust Fund will be allocated to contributors upon termination of the Interim Trust Fund.

Summary of Significant Accounting and Related Policies

Due to the nature of the Interim Trust Fund, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of contributions and are not intended to be a presentation in accordance with generally accepted accounting principles in the United States or with International Accounting Standards. These special purpose financial statements have been prepared consistent with Article VI, Section 11 (a) of the Articles of Agreement of IDA, and Section 2(e) of the Board of Governors' Resolution establishing the Interim Trust Fund.

The Interim Trust Fund's special purpose financial statements are prepared in accordance with the accounting policies outlined below.

Basis of Accounting

The Interim Trust Fund's special purpose financial statements are prepared on the accrual basis of accounting for investment income. That is, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Translation of Currencies

The Interim Trust Fund's special purpose financial statements are expressed in terms of U.S. dollars solely for the purpose of summarizing the Interim Trust Fund's financial position and the results of its operations for the convenience of its donors and other interested parties.

The Interim Trust Fund conducts its business in the various currencies contributed to it. Development resources are translated at market rates of exchange at the end of the accounting period. Contributions are translated in the manner described below. Income and expenses are translated at the market rates of exchange at the dates on which they are recognized or at an average of the market rates of exchange in effect during each month. Translation adjustments relating to the revaluation of Interim Fund Credits denominated in Special Drawing Rights (SDRs) are charged or credited to Cumulative Translation Adjustment on Interim Fund Credits. Other translation adjustments are charged or credited to the Accumulated Surplus.

Contributions

Contributions to the Interim Trust Fund are paid in cash and nonnegotiable, noninterest-bearing demand notes. The demand notes are encashed by IDA, on behalf of the Interim Trust Fund, on an approximately pro rata basis among donors, at

Notes to Special Purpose Financial Statements (Continued)

UNAUDITED DRAFT
July 16, 1997

reasonable intervals over the projected encashment period (approximately seven years) to meet the Interim Trust Fund's operational commitments.

Interim Trust Fund contributions are expressed and are payable in contributors' currencies, freely convertible currencies and SDRs. Contributions made available for disbursement in cash are translated at market rates of exchange on the dates they were made available. Contributions not yet available for disbursements are translated at market rates of exchange at the end of the accounting period.

Interim Fund Credits

Interim Fund Credits finance specific development projects or programs. The policies, practices and procedures governing the allocation of Interim Trust Fund resources, the selection and appraisal of projects or programs to be financed out of such resources and the approval and administration of Interim Fund Credits, including the terms and conditions thereof, are the same as those applicable with respect to development credits made under IDA's Eleventh Replenishment, except for the applicability of procurement restrictions and a separate approval process.

Interim Fund Credits are denominated in SDRs and are to be repaid in currency amounts currently equivalent to the SDRs disbursed. Principal repayments of Interim Fund Credits will be part of the resources of the Interim Trust Fund until it is terminated.

Investments

The Interim Trust Fund carries its investment securities and related financial instruments at market value. Both realized and unrealized gains and losses are included in Income from Investments.

Note B—Investments

Interim Trust Fund resources are invested in time deposits including certificates of deposit, bankers' acceptances, and other obligations. A summary of the Interim Trust Fund's investment portfolio by instrument for Investments Immediately Available for Disbursement at June 30, 1997 is as follows:

<i>In millions</i>			
	<i>Carrying value</i>	<i>Average daily balance during the period</i>	<i>Net gains (losses) for the period</i>
<u>Government and agency obligations</u>	\$ 0.6	\$ 4.2	\$—
Time deposits	41.3	44.4	—
	<u>\$41.9</u>	<u>\$48.6</u>	<u>\$—</u>

Notes to Special Purpose Financial Statements

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July 16, 1997

A summary of the currency composition of Investments Immediately Available for Disbursement at June 30, 1997 is as follows:

In millions of U.S. dollars equivalent

Canadian dollars.....	\$ 5.5
Deutsche mark.....	11.7
French francs.....	6.9
Japanese yen.....	10.4
Pounds sterling.....	7.4
	<u>\$41.9</u>

Note C—Donor Contributions

At June 30, 1997, receivables from contributions was \$5.8 million, all of which was not yet due. Subscriptions and contributions not yet due at June 30, 1997 will become due as follows:

In millions

Period

July 1, 1997 through June 30, 1998	\$0.8
July 1, 1998 through June 30, 1999	0.8
Thereafter	4.2
<u>Total</u>	<u>\$5.8</u>

Note D—Fair Value of Financial Instruments

Investments: Since the Interim Trust Fund carries its investments at market value, the carrying amount represents the fair value of the portfolio. These fair values are based on quoted market prices, where available. The fair value of short-term financial instruments approximates their carrying value.

Interim Fund Credits: Interim Fund Credits have a significant grant element because of the concessional nature of their terms. Discounting the Interim Fund Credits using the standard 10% discount rate of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development provides an estimate for the grant element of Interim Fund Credits. Using the 10% DAC discount rate indicates that the typical Interim Fund Credit contains a grant element of 75% to 80% of the nominal credit amount at the time the credit is committed. This grant element calculation considers interest rates, maturity structures and grace periods for the credits. It does not consider credit risk, portfolio seasoning, multilateral and sovereign credit preferences and other risks or indicators that would be relevant in calculating fair value. Estimating the impact of these factors is not practicable. However, the fair value of Total Interim Fund Credits is substantially lower than the \$1,628.0 million reflected on the Statement of Sources and Applications of Development Resources.

Notes to Special Purpose Financial Statements (Continued)

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Note E—Income and Expenses

Charges paid by borrowers on Interim Fund Credits are paid to IDA as compensation for its services as administrator of the Interim Trust Fund.

Report of Independent Accountants on Special Purpose Financial Statements

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