

International Development Association



Management's Discussion & Analysis
and
Condensed Quarterly Financial Statements
September 30, 2017
(Unaudited)

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

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Box 1: Selected Financial Data*(in millions of U.S. dollars)*

	<i>As of and for the three months ended September 30,</i>		<i>As of and for Fiscal Year ended June 30,</i>			
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
<u>Development Operations (Section IV)</u>						
Commitments of loans, grants and guarantees	\$ 4,492	\$ 1,458	\$ 19,513	\$ 16,171	\$ 18,966	\$ 22,239
Gross disbursements of loans and grants	2,411	1,706	12,718	13,191	12,905	13,432
Net disbursements of loans and grants	1,266	675	8,153	8,806	8,820	9,878
<u>Balance Sheet (Section IV)</u>						
Total assets	\$ 201,259	\$ 182,601	\$ 197,041	\$ 180,475	\$ 178,685	\$ 183,445
Net investment portfolio	29,608	29,600	29,673	29,908	28,418	28,300
Total loans outstanding	144,995	136,845	142,184	136,735	130,878	136,011
Borrowings	3,702	2,913	3,660	2,906	2,150	-
Payable for grants	7,380	5,854	6,583	6,099	6,637	6,983
Total Equity	160,065	154,874	158,476	154,700	147,149	153,749
<u>Income Statement (Section IV)</u>						
Revenue from loans and guarantees	\$ 335	\$ 308	\$ 1,240	\$ 1,154	\$ 1,068	\$ 1,015
Investment revenue, net	112	61	4	881	514	631
Transfers and grants from affiliated organizations and others	-	-	599	990	993	881
Grants	(1,324)	(43)	(2,577)	(1,232)	(2,319)	(2,645)
Net (Loss) Income	(1,421)	(80)	(2,296)	371	(731)	(1,612)
<u>Sources and Application of Funds (Section IV)</u>						
Total Sources of Funds	\$ 2,076	\$ 1,615	\$ 13,171	\$ 13,834	\$ 15,469	\$ 12,812
Total Applications of Funds	2,435	1,722	12,800	13,260	12,941	13,441

SECTION I: HIGHLIGHTS OF THE FIRST THREE MONTHS OF FY18

This document provides Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for IDA for the three months ended September 30, 2017. Box 1 provides IDA's selected financial data as of and for the three months ended September 30, 2017 (FY18 YTD) and September 30, 2016 (FY17 YTD), as well as for the fiscal years ended June 30, 2014-17. This document should be read in conjunction with IDA's financial statements and MD&A issued for the fiscal year ended June 30, 2017. IDA undertakes no obligation to update any forward-looking statements.

On July 1, 2017, The International Development Association (IDA) commenced its Eighteenth Replenishment of resources (IDA18). Under this replenishment, members have agreed that IDA will make \$75 billion in new commitments over the three year replenishment period, FY18-FY20. The IDA18 financing framework is an integrated package. It includes an expansion of IDA's business model to access debt from the capital markets, which leverages IDA's strong equity base. See Section III: Funding and Resource Allocation.

Financial Results

Total Loans Outstanding (Section IV)

IDA's loan portfolio increased by \$2.8 billion from \$142.2 billion as of June 30, 2017 to \$145.0 billion as of September 30, 2017. This reflects the strong demand for IDA's lending products as measured by lending commitments and net loan disbursement activity.

Equity (Section IV)

IDA's reported equity increased by \$1.6 billion from \$158.5 billion as of June 30, 2017 to \$160.1 billion as of September 30, 2017. The main driver of the increase was the receipt of \$1.0 billion in contributions from members.

Investments (Section IV)

IDA's investment portfolio decreased by \$0.1 billion from \$29.7 billion as of June 30, 2017 to \$29.6 billion as of September 30, 2017. During this period, IDA financed \$2.4 billion of loan and grant operations and, received \$2.1 billion of resources comprised of \$0.8 billion in cash contributions from members and \$1.2 billion of loan repayments and prepayments.

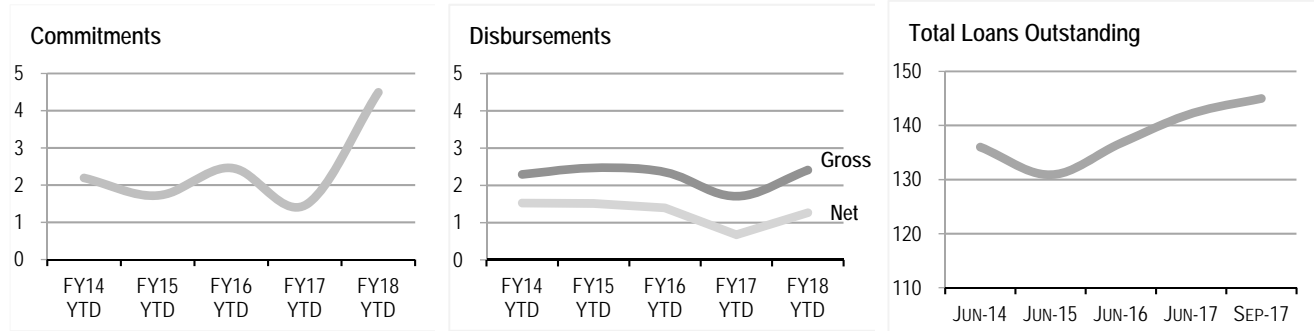
Net Income (Section IV)

For FY18 YTD, IDA reported a net loss of \$1.4 billion. The net reported loss primarily reflects the impact of \$1.3 billion in grants provided to IDA's eligible members. The grants were primarily provided to members in the Africa region. Grants are financed by contributions from members, which are recorded as equity and not reflected in the Statement of Income.

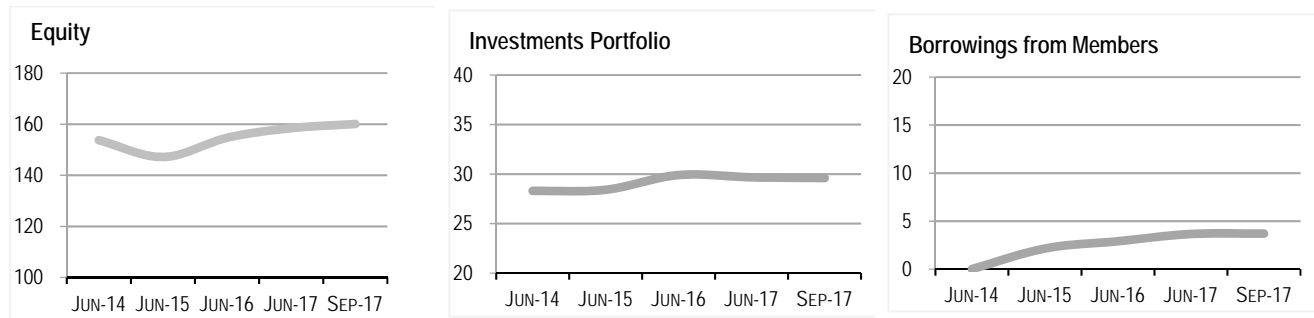
KEY PERFORMANCE INDICATORS

(In billions of U.S. dollars)

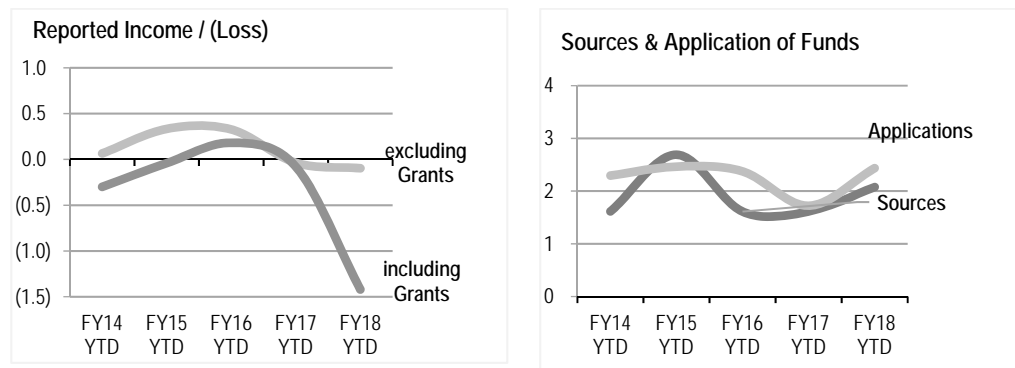
LENDING – IDA’s lending activity is characterized by a peak in commitment activity in the last year of a replenishment cycle. IDA’s loans normally disburse over a period of up to 10 years, and have repayment periods of up to 40 years. Therefore, each replenishment typically results in a steady increase in IDA’s total loans outstanding.



EQUITY, LIQUIDITY & BORROWINGS – Each successive replenishment has strengthened IDA’s equity to finance its operations. Since IDA’s resources are primarily in SDR, the reported balance of IDA’s equity is affected by the appreciation /depreciation of the SDR against the USD. IDA has maintained high levels of liquidity in its investment portfolio to ensure that it can meet its liquidity needs, even under potential scenarios of severe market disruptions.



FINANCIAL RESULTS – IDA’s reported net losses are primarily driven by its grant activity, as previously discussed.



SECTION II: OVERVIEW

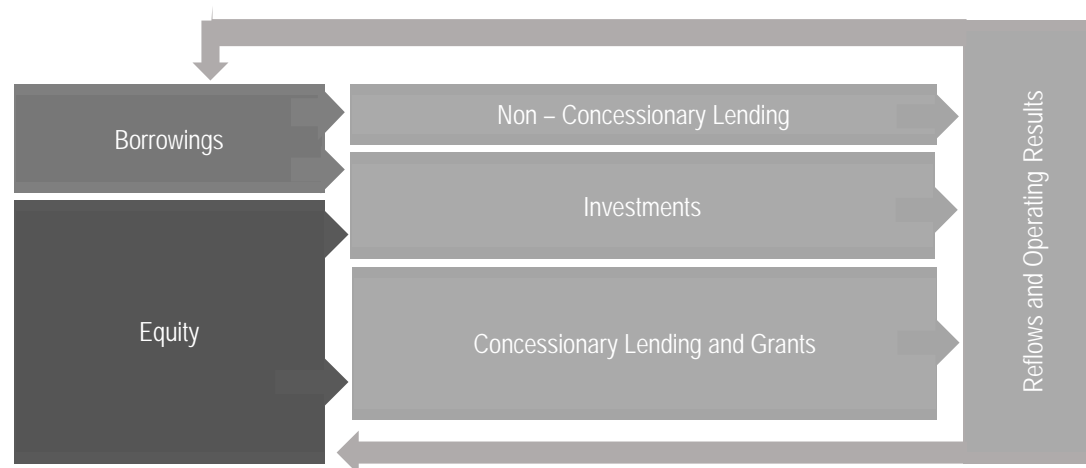
Owned by its 173 members¹, IDA has been providing financing and knowledge services to many of the world's developing countries for more than 56 years. In addition to loans, grants, and guarantees provided to countries to help meet their development needs, IDA leverages its experience and expertise to provide technical assistance and policy advice. It also supports countries with disaster risk financing and insurance against natural disasters and health-related crises, and facilitates financing through trust fund partnerships.

Business Model

IDA has financed its operations over the years with equity. As a result of strong support of member countries, IDA has built up a substantial equity base, amounting to \$160.1 billion as of September 30, 2017. In addition to equity, starting from IDA18, IDA will be using market debt to finance its operations. As of September 30, 2017, IDA has not raised any debt from the market.

Concessional lending is primarily financed by new member contributions, Concessional Partner Loans (CPLs) and IDA's existing equity. Grants are financed by new member contributions. Non-concessional loans will primarily be financed by market debt. To the extent that market debt will be used to finance concessional lending, it will be blended with member contributions, which will provide an interest subsidy. See **Figure 1**.

Figure 1: IDA's Business Model



¹ IDA's members are owners and hold voting rights in IDA. Members do not, however, hold shares in IDA and are therefore not referred to as shareholders. Payments for subscriptions and contributions from members increase IDA's paid-in equity and are financially equivalent to paid-in capital in multilateral development organizations with capital structures.

² IDA's functional currencies are the SDR and its component currencies of U.S. dollar, euro, Japanese yen, pound sterling and Chinese renminbi. For the convenience of its members and other users, IDA's financial statements are reported in U.S. Dollars.

SECTION III: FUNDING AND RESOURCE ALLOCATION

Sources of IDA's Funding

IDA's equity remains strong at \$160 billion as of September 30, 2017, as shown in **Table 5: Changes in Equity**. During FY18 YTD, IDA received \$1.3 billion in subscriptions and contributions, which includes \$0.4 billion in net demand note activity. Demand notes will be encashed over a period of approximately 9 years to finance loan and grant disbursements. In addition to equity, IDA uses internal resources, comprised primarily of repayments and prepayments of loans, to fund its financing activities. During FY18 YTD, IDA received \$1.2 billion of internal resources.

Uses of IDA Funding

Concessional financing is provided in the form of loans, grants and guarantees. Eligibility and percentage of allocation for grants for IDA-only countries is based on an assessment of the country's risk of debt distress, where the higher the risk assessment, the greater the proportion of grant financing.

As of September 30, 2017, commitments for concessional financing amounted to \$4,362 million, of which \$3,044 million was in the form of loans and \$1,318 million in the form of grants. Included in these commitments were \$785 million to Fragile or Conflicted affected members (FCSs).

Non-Concessional financing comprises loans and guarantees whose terms are aligned with those of IBRD's flexible loans and guarantees. As of September 30, 2017, commitments for non-concessional financing was \$130 million and was entirely for the scale-up facility. There were no commitments for transitional member loans.

A \$2.5 billion **IFC-MIGA Private Sector Window (PSW)** has been created in IDA18. Its goal is to mobilize private sector investment in the IDA-only and IDA-eligible FCV countries, with emphasis on FCV countries. The PSW is deployed through four facilities. These facilities have been designed to target critical challenges faced by the private sector in these difficult markets and leverages IFC and MIGA's business platforms and instruments. For further details, see Section III: Funding and Resource Allocation of the MD&A for the fiscal year ended June 30, 2017. As of September 30, 2017, there were no commitments under the PSW.

SECTION IV: FINANCIAL RESULTS

Basis of Reporting

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

Fair Value Results

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

Summary of Financial Results

IDA had a net loss of \$1,421 million in FY18 YTD compared with a net loss of \$80 million in FY17 YTD. The net loss in FY18 YTD was driven by the \$1,324 million of grant activity, primarily in the Africa region, for which IDA is compensated by member contributions that are recorded in equity.

Table 1: Condensed Statement of Income

(In millions of U.S.dollars)

For the three months ended September 30,	2017	2016	Variance
Interest Revenue			
Loans	\$ 332	\$ 306	\$ 26
Investments, net	106	97	9
Borrowings, net	(32)	(22)	(10)
Interest Revenue, net of borrowing expenses	406	381	25
Provision for losses on loans and other exposures, charge	(28)	(17)	(11)
Other non-interest revenue and expenses, net	(17)	3	(20)
Net non-interest expenses (Table 6)	(366)	(353)	(13)
Transfers from affiliated organizations and others	-	-	-
Non-functional currency translation adjustment losses, net	(165)	(9)	(156)
Unrealized mark-to-market gains (losses) on Investments-Trading portfolio, net	15	(33)	48
Unrealized mark-to-market gains (losses) on non-trading portfolios, net	58	(9)	67
Development Grants	(1,324)	(43)	(1,281)
Net Loss	\$ (1,421)	\$ (80)	\$ (1,341)

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

As of	September 30, 2017	June 30, 2017	Variance
Assets			
Due from Banks	\$ 527	\$ 483	\$ 44
Investments	32,988	32,033	955
Net loans outstanding	141,100	138,351	2,749
Receivable from derivatives	24,114	23,843	271
Other assets	2,530	2,331	199
Total assets	\$ 201,259	\$ 197,041	\$ 4,218
Liabilities			
Borrowings	\$ 3,702	\$ 3,660	\$ 42
Payable for derivatives	24,619	24,073	546
Other liabilities	12,873	10,832	2,041
Equity	160,065	158,476	1,589
Total liabilities and equity	\$ 201,259	\$ 197,041	\$ 4,218

Loans Portfolio and Grant Activity

As of September 30, 2017, IDA's net loans outstanding were \$141.1 billion, \$2.8 billion higher than the previous fiscal year end. The increase was mainly due to \$0.6 billion in net positive loan disbursements, complemented by currency translation gains of \$2.2 billion, consistent with the 1.6% appreciation of the SDR against the U.S. dollar during the period.

FY18 YTD gross loan disbursements were \$1.8 billion (\$1.4 billion in FY17 YTD), which primarily consisted of \$1.0 billion to the Africa region, \$0.4 billion to the South Asia region, and \$0.2 billion to the East Asia and Pacific region. See **Figure 2**. IDA's loans generally disburse within five to ten years for investment project financing and one to three years for development policy financing. Therefore, FY18 YTD and FY17 YTD disbursements also include amounts relating to commitments made in earlier years.

Interest revenue from loans has increased by \$26 million from FY17 YTD to FY18 YTD. The increase reflects, the increase in the overall loan volume as well as the increase in the proportion of loans which carry blend interest rate terms.

As of September 30, 2017, IDA's payable for development grants was \$7.4 billion, \$0.8 billion higher than as of June 30, 2017. This increase reflects grant expenses of \$1.3 billion in FY18 YTD which were primarily for the Africa region, including a \$700 million grant to Ethiopia which has the objective of improving equitable access to basic services in the health, education and agricultural sectors.

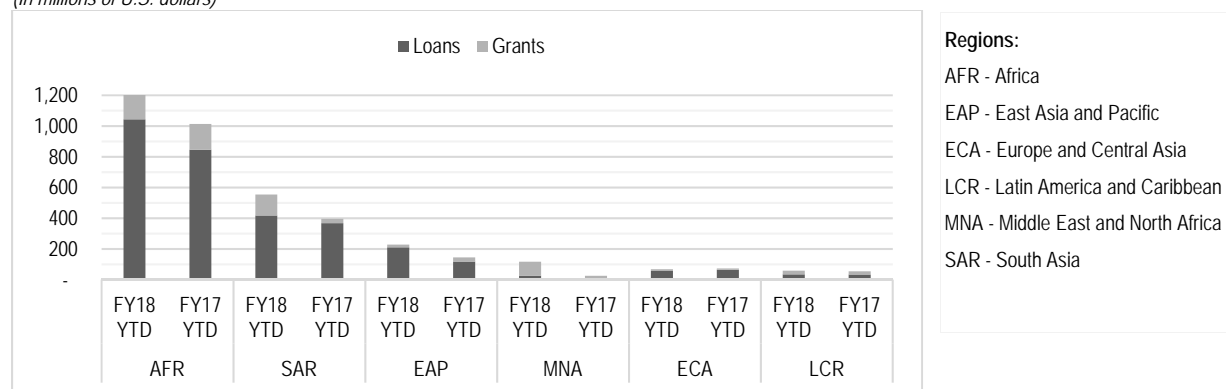
Figure 2: Gross Disbursements of Loans and Grants by Region*(In millions of U.S. dollars)*

Table 3 shows IDA's interest and service charge income by loan type. The \$12 million increase in interest income and \$14 million increase in service charges is primarily driven by the increased volume of loans.

Table 3: Income by Category

In millions of U.S. dollars

Category	Outstanding balance as of September 30,		Interest income		Service charge income	
	2017	2016	FY18 YTD	FY17 YTD	FY18 YTD	FY17 YTD
Loans						
Concessional						
Regular	\$ 89,295	\$ 83,161	\$ 4	\$ 4	\$ 161	\$ 150
Blend	54,010	52,433	51	42	101	99
Hard	1,289	1,167	10	9	3	2
Non-concessional						
Transitional support	233	84	1	*	-	-
Scale up Facility	168	-	1	-	-	-
Total	\$ 144,995	\$ 136,845	\$ 67	\$ 55	\$ 265	\$ 251

* Indicates amount less than \$0.5 million.

Investment Portfolio

The net investment portfolio remained stable, with a \$65 million decrease from \$29,673 million as of June 30, 2017 to \$29,608 million as of September 30, 2017. The key drivers during the period were:

- The receipt of \$834 million relating to member subscriptions
- The inflow of \$1,145 million in the form of loan repayments and prepayments
- The payment of \$2,412 million in loan and grant disbursements.

Table 4: Change in Net Asset Value of IDA's Investment Portfolio

(In millions of U.S. dollars)

For the three months ended September 30,	2017	2016
Net Asset Value of Investment Portfolio, at beginning of fiscal year	\$ 29,673	\$ 29,908
Sources of Funds		
Member Resources	834	490
Internal Resources	1,242	1,125
Total Sources of Funds	2,076	1,615
Application of Funds		
Loans and Grants Disbursements (including PPA ^a grant activity)	(2,412)	(1,703)
Borrowing expenses	(23)	(19)
Total Application of Funds	(2,435)	(1,722)
Administrative Activities		
Net administrative expenses (see Table 6)	(366)	(353)
Interest revenue from Loans	335	308
Total Administrative Activities	(31)	(45)
Results from Operating Activities	(390)	(152)
Effects of exchange rates	372	(38)
Unrealized mark-to-market gains (losses) on the investment portfolio	15	(38)
Net movement in non-operating activities	(62)	(80)
Net Asset Value of Investment Portfolio, at end of period	\$ 29,608	\$ 29,600

a. Project Preparation Advances (PPA)

Transfers from Affiliated Organizations

On October 13, 2017, IBRD's Board of Governors approved a transfer of \$123 million to IDA, bringing the cumulative transfers to \$15,249 million. This transfer was received on October 24, 2017.

Equity

IDA's equity increased by \$1.6 billion as compared to the prior year, primarily due to \$1.3 billion in subscriptions and contributions paid-in in the form of cash and demand obligations, and a \$2.2 billion increase in accumulated other comprehensive income due to positive translation adjustments on functional currencies due to the 1.6% appreciation of the SDR against the USD. This was offset by \$1.4 billion of net losses incurred during the year.

The \$1.4 billion increase in the accumulated deficit largely represents the impact of IDA's grant activity during the period, which is funded by member contributions which are recorded as subscriptions and contributions.

Net Non-Interest Expense

IBRD and IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of administrative expenses between IBRD and IDA is based upon an agreed cost sharing methodology, approved by their Boards, which is driven by the relative level of lending, knowledge services and related activities between these two institutions.

Table 6: Net Non-Interest Expenses

(In millions of U.S. dollars)

For the three months ended September 30,	2017	2016	Variance
Administrative expenses:			
Staff costs	\$ 232	\$ 205	\$ 27
Travel	29	24	5
Consultant and contractual services	59	57	2
Pension and other post-retirement benefits	77	99	(22)
Communications and technology	12	10	2
Equipment and buildings	32	29	3
Other expenses	24	13	11
Total administrative expenses	\$ 465	\$ 437	\$ 28
Contributions to special programs	18	15	3
Revenue from externally funded activities:			
Reimbursable revenue - IDA executed trust funds	(70)	(62)	(8)
Other revenue	(47)	(37)	(10)
Total revenue from externally funded activities	\$ (117)	\$ (99)	\$ (18)
Total Net Non-Interest Expenses (Table 1)	\$ 366	\$ 353	\$ 13

Table 5: Changes in Equity

(In millions of U.S. dollars)

Equity balance as of July 1, 2017	\$ 158,476
Subscriptions and contributions paid-in	1,264
Nonnegotiable, noninterest-bearing demand obligations on account of members' subscriptions and contributions	(430)
Accumulated deficit	(1,421)
Accumulated other comprehensive income	2,175
Deferred amounts to maintain value of currency holdings	1
Equity balance as of September 30, 2017	\$ 160,065

For FY18 YTD, IDA's net non-interest expenses were \$366 million, a \$13 million increase as compared to FY17 YTD. The increase was primarily driven by i) the increase in costs allocated to IDA under the cost sharing methodology, partially offset by ii) lower pension costs as a result of lower amortization of unrecognized actuarial losses during FY18 YTD. The greater allocation of costs to IDA is due to the increase in client engagement activities for IDA18. See **Table 6**.

Table 6 provides a comparison of the main sources of Administrative expenses and revenue from externally funded activities between FY18 YTD and FY17 YTD.

Section V: Risk Management

Risk Governance

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

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

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

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

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

Risk Oversight and Coverage

Financial and Operational Risk Management

The CRO has an overview of both financial and operational risks. These risks include (i) country credit risks in the core sovereign lending business, (ii) market and counterparty risks including liquidity risk, and (iii) operational risks relating to people, processes and systems. In addition, the CRO works closely with IDA, IBRD, IFC, and MIGA's Management to review, measure, aggregate, and report on risks and share best practices across the WBG. The CRO also helps enhance cooperation between the entities and facilitates knowledge sharing in the risk management function.

Capital Adequacy

IDA's capital adequacy framework is based on an economic capital model, which mandates that IDA holds capital for credit risk, market risk and operational risk covering all activities and assets on its books. The main measure of capital adequacy is Deployable Strategic Capital (DSC), which is the capital available to support future commitments, over and above the current portfolio. IDA is required to keep the DSC at levels greater than or equal to zero percent. At September 30, 2017, the DSC was 37%, unchanged from June 30, 2017, see **Table 7** below.

In addition to the DSC framework, IDA has Board approved policies in place to ensure alignment of its lending and borrowing activities. These policies have informed the prudent capital adequacy and liquidity risk management policies. Included in these policies are asset coverage requirements, where Management will monitor asset and liquidity levels to ensure IDA's ability to satisfy all its borrowing and commitment obligations. See Section IX, Risk Management of IDA's June 30, 2017 MD&A.

Table 7: Deployable Strategic Capital Ratio

(in billions of U.S. dollars except ratios in percentage)

Component	As of September 30, 2017	As of June 30, 2017	Description
Total Resources Available (TRA)	\$ 164.0	\$ 162.3	Consists of IDA's existing equity plus its outstanding loan loss reserve
Total Resources Required (TRR) ^a	86.2	85.7	The minimum capital required to cover expected and unexpected losses in connection with all of IDA's currently existing operations and assets. It also includes a capital allowance to reflect losses that result from valuing IDA's concessional loan portfolio in present value terms using market interest rates
Conservation Buffer (CB)	16.4	16.2	10 percent of TRA
Deployable Strategic Capital (DSC)	\$ 61.4	\$ 60.4	DSC = (TRA-TRR-CB)
Deployable Strategic Capital as a percentage of Total Resources Available	37%	37%	DSC/TRA

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

Credit Risk

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

Country credit risk is managed through regular assessments of borrowers' debt sustainability and credit risk. Based on these assessments, to manage overall portfolio risk, the allocation outcomes of the Performance Based Allocation (PBA) and other mechanisms are reviewed to ensure that they are compatible with the Deployable Strategic Capital Framework and Single Borrower Limit (SBL).

As of September 30, 2017, the SBL was \$40 billion (25 percent of the \$160.1 billion of equity as of September 30, 2017). Currently, the maximum country exposure levels compatible with IDA's overall capital adequacy target are lower than the SBL for all IDA-borrowing countries. Consequently, the SBL is not currently a constraining factor.

Probable Losses, Overdue Payments and Non-Performing Loans

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

As of September 30, 2017, approximately 2% of IDA's loans were in nonaccrual status, unchanged from June 30, 2017. (Refer to Note F: Loans and Other Exposures in the Notes to the Condensed Quarterly Financial Statements).

Error! Not a valid result for table. provides details of the top five borrowers with the largest loan outstanding balances as of September 30, 2017. These borrowers represented 50% of total loans outstanding as of that date.

Table 8: Top Five Borrowers with the Largest Outstanding Balance

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

Country	Total	India	Pakistan	Bangladesh	Vietnam	Nigeria	Others
Eligibility		IBRD	Blend	IDA only	IBRD	Blend	
Loans Outstanding	\$ 144,995	\$ 24,464	\$ 13,869	\$ 13,390	\$ 12,563	\$ 7,649	\$ 73,060
% of Total Loans Outstanding	100	17	10	9	9	5	50
Weighted Average Maturity (Years)	12.4	6.2	12.3	14.0	13.9	15.3	13.7
Loans outstanding by terms							
Concessional							
Regular	89,295	5,127	973	13,390	7,882	4,997	56,926
Blend	54,010	18,663	12,369	-	4,428	2,652	15,898
Hard	1,289	441	470	-	253	-	125
Non-concessional							
Scale Up Facility	168	-	57	-	-	-	111
Transitional support	233	233	-	-	-	-	-
Undisbursed balance	\$ 56,406	\$ 5,684	\$ 2,351	\$ 5,850	\$ 5,338	\$ 4,877	\$ 32,306

Commercial Counterparty Credit Risk Exposure

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

The credit quality of IDA’s investment portfolio remains concentrated in the upper end of the credit spectrum with 70% of the portfolio rated AA or above as of September 30, 2017, reflecting IDA’s continued preference for highly rated securities and counterparties across all categories of financial instruments. Total commercial counterparty credit exposure, net of collateral held, was \$32,496 million as of September 30, 2017.

As a result of IDA’s use of mark-to-market collateral arrangements for swap transactions, its residual commercial counterparty credit risk exposure is concentrated in the investment portfolio; in debt instruments issued by sovereign governments, agencies, commercial paper, time deposits, and corporate entities. **(Table 9).**

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

Table 9: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating

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

As of	September 30, 2017				June 30, 2017			
	Counterparty Rating	Sovereigns	Agencies, ABS, Commercial Paper, Swaps, Corporate and Time Deposits	Total Exposure	% of Total	Sovereigns	Agencies, ABS, Commercial Paper, Swaps, Corporate and Time Deposits	Total Exposure
AAA	\$ 8,395	\$ 4,688	\$ 13,083	40	\$ 8,065	\$ 5,088	\$ 13,153	42
AA	4,002	5,710	9,712	30	3,919	5,194	9,113	29
A	7,394	2,304	9,698	30	6,860	2,017	8,877	29
BBB or below	-	3	3	*	-	4	4	*
Total	\$ 19,791	\$ 12,705	\$ 32,496	100	\$ 18,844	\$ 12,303	\$ 31,147	100

* Denotes less than 0.5%.

Market Risk

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

Interest Rate Risk

IDA is exposed to interest rate risk due to mismatches between its assets (loans and investment portfolio) and its liabilities (borrowing portfolio) both in terms of maturity and instrument type.

IDA employs the following strategies in its management of interest rate risk:

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

As of September 30, 2017, IDA's overall investment portfolio had a duration of slightly above 2 years. During FY18 YTD, the investment portfolio experienced unrealized mark-to-market gains of \$15 million as compared to unrealized mark-to-market losses of \$38 million in FY17 YTD, as a result of the improvement in the spread of major currencies in FY18 YTD. For IDA18, the trading portfolio is gradually being adjusted to reflect the new hybrid financing model. IDA's investment portfolio is gradually being transitioned to a sub-portfolio structure comprised of a Stable portfolio and an Operational portfolio.

Exchange Rate Risk

Changes in exchange rates affect the capital adequacy of IDA when the currency of the equity or debt funding the loan portfolio is different from that of the loan exposure. Accordingly, the aim of IDA's exchange rate risk management under IDA18 is the protection of IDA's financial capacity, as measured by the capital adequacy framework.

The key element of IDA's foreign exchange risk mitigation framework under IDA18 is the Alignment of the currency composition of IDA's equity with that of the currency composition of required capital ("Total Resources Required" measure in the capital adequacy framework).

As part of IDA's currency alignment strategy, IDA uses currency forward contracts to convert members' encashments provided in national currencies into the five currencies of the SDR basket, thereby aligning the currency composition of partner contributions with the net cash outflows relating to loans and grants, which are denominated in SDRs.

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

The translation adjustment losses on non-functional currencies of \$165 million in FY18 YTD was due to the appreciation of the majority of the non-functional currencies against the U.S. dollar. This was offset by the effect of foreign exchange on the future inflows from members, which was a gain of \$186 million in FY18 YTD. In comparison, in FY17 YTD, the translation adjustment losses on non-functional currencies amounted to \$9 million and was due to the appreciation of the non-functional currencies against the U.S. dollar. This was offset by the effect of foreign exchange movements on the future inflows from members, which was a gain of \$5 million in FY17 YTD.

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

Liquidity Risk

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

IDA's aggregate liquid asset holdings are to be kept above a specified prudential minimum to safeguard against cash flow interruptions. This minimum is equal to 80% of 24 months of projected net outflows and is reset annually. For FY18, the prudential minimum is \$10,707 million. As of September 30, 2017, IDA held \$32,079 million in the liquid asset portfolio. IDA will hold liquidity above the prudential minimum to ensure sufficient liquidity under a wide range of shock scenarios as well as to give it flexibility in timing its borrowing transactions and to meet working capital needs.

SECTION VI: FAIR VALUE ANALYSIS

Fair value reflects the most current and complete expectation and estimation of the value of assets and liabilities. It aids comparability, and can be useful in decision-making. On a reported basis, IDA's loans and borrowings are carried at amortized cost, while all instruments in its investment portfolio (trading and non-trading) are carried at fair value. Whilst IDA intends to hold its loans and borrowings to maturity, a fair value estimate of IDA's financial assets and liabilities along with their respective carrying values is presented in **Table 10**.

As non-financial assets and liabilities are not reflected at fair value, IDA's equity, as shown in **Table 10**, is not intended to reflect full fair value. **Table 10** shows that IDA's equity on a fair value basis (\$133.8 billion) is less than on a carrying value basis (\$160.1 billion). This is primarily due to the \$25.8 billion negative fair value adjustment on IDA's net loans outstanding. This negative fair value adjustment arises due to the concessional nature of IDA's loans; IDA's interest rates are below market rates for the given maturity of its loans and risk profile of the borrowers (concessional).

The fair value of loans is calculated using market-based methodologies - see Notes to Financial Statements—Note F— Loans and Other Exposures. For details on valuation methods and assumptions relating to other fair value disclosures, see Notes to Financial Statements—Note K— Other Fair Value Disclosures.

Loans

As of September 30, 2017, there was a \$25.8 billion negative fair value adjustment on IDA's net loans outstanding bringing the fair value to \$115.3 billion. This compares with a \$26.8 billion adjustment as of June 30, 2017, bringing the fair value to \$111.5 billion at that time. The \$3.8 billion variance in the fair value of the loans is mainly due to the increase in loan volume and changes in the credit risk of the portfolio.

Borrowings

The fair value of borrowings increased marginally from \$4,175 million as of June 30, 2017 to \$4,207 million as of September 30, 2017. The increase of \$32 million was primarily driven by exchange rate movement during the period.

Table 10: Fair Value Estimates and their Carrying Value

In millions of U.S. dollars

As of	September 30, 2017		June 30, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Due from Banks	\$ 527	\$ 527	\$ 483	\$ 483
Investments (including securities purchased under resale agreements)	32,988	32,988	32,033	32,033
Net Loans Outstanding	141,100	115,304	138,351	111,539
Derivative Assets				
Investments	5,000	5,000	4,318	4,318
Other Asset-Liability Management	19,114	19,114	19,525	19,525
Receivable from affiliated organization	804	804	798	798
Other assets	1,726	1,726	1,533	1,533
Total	\$ 201,259	\$ 175,463	\$ 197,041	\$ 170,229
Liabilities				
Borrowings	\$ 3,702	\$ 4,207	\$ 3,660	\$ 4,175
Securities sold/lent under repurchase agreements/ securities lending agreements, and payable for cash collateral received	3,493	3,493	2,560	2,560
Derivate Liabilities				
Investments	5,184	5,184	4,523	4,523
Other Asset-Liability Management	19,435	19,435	19,550	19,550
Payable for grants	7,380	7,380	6,583	6,583
Payable to affiliated organization	416	416	471	471
Other liabilities	1,584	1,584	1,218	1,218
Total Liabilities	\$ 41,194	\$ 41,699	\$ 38,565	\$ 39,080
Equity	\$ 160,065	\$ 133,764	\$ 158,476	\$ 131,149
Total Liabilities and Equity	\$ 201,259	\$ 175,463	\$ 197,041	\$ 170,229

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INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

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September 30, 2017

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CONDENSED BALANCE SHEET

Expressed in millions of U.S. dollars

	September 30, 2017 (Unaudited)	June 30, 2017 (Unaudited)
Assets		
Due from banks		
Unrestricted cash—Note C	\$ 499	\$ 455
Restricted cash	28	28
	<u>527</u>	<u>483</u>
Investments (including securities transferred under repurchase or securities lending agreements of \$3,059 million—September 30, 2017; \$2,150 million—June 30, 2017)—Notes C and G	32,969	31,789
Securities purchased under resale agreements—Note C	19	244
Derivative assets		
Investments—Notes C and E	5,000	4,318
Asset-liability management—Notes E and G	19,114	19,525
	<u>24,114</u>	<u>23,843</u>
Receivable from affiliated organization—Note G	804	798
Loans outstanding—Notes F and K		
Total loans	201,401	196,363
Less: Undisbursed balance	56,406	54,179
Loans outstanding	144,995	142,184
Less: Accumulated provision for losses on loans	3,914	3,853
Add: Deferred loans origination costs	19	20
Net loans outstanding	<u>141,100</u>	<u>138,351</u>
Other assets—Note C	<u>1,726</u>	<u>1,533</u>
Total Assets	<u>\$ 201,259</u>	<u>\$ 197,041</u>

Expressed in millions of U.S.dollars

	<u>September 30, 2017</u> <i>(Unaudited)</i>	<u>June 30, 2017</u> <i>(Unaudited)</i>
Liabilities		
Borrowings—Note D	\$ 3,702	\$ 3,660
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received—Note C	3,493	2,560
Derivative liabilities		
Investments—Notes C and E	5,184	4,523
Asset-liability management—Notes E and G	19,435	19,550
	<u>24,619</u>	<u>24,073</u>
Payable for development grants—Note H	7,380	6,583
Payable to affiliated organization—Note G	416	471
Other liabilities—Notes C and F	1,584	1,218
Total Liabilities	<u>41,194</u>	<u>38,565</u>
Equity		
Members' subscriptions and contributions—Note B		
Subscriptions and contributions committed	250,131	245,930
Less: Subscriptions and contributions receivable	29,965	27,113
Less: Cumulative discounts/acceleration credits on subscriptions and contributions	3,499	3,414
Subscriptions and contributions paid-in	216,667	215,403
Nonnegotiable, noninterest-bearing demand obligations on account of members' subscriptions and contributions	(9,748)	(9,318)
Deferred amounts to maintain value of currency holdings	(243)	(244)
Accumulated deficit (See Condensed Statement of Changes in Accumulated Deficit)	(46,747)	(45,326)
Accumulated other comprehensive income—Note J	136	(2,039)
Total Equity	<u>160,065</u>	<u>158,476</u>
Total Liabilities and Equity	<u>\$ 201,259</u>	<u>\$ 197,041</u>

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

CONDENSED STATEMENT OF INCOME

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2017	2016
Interest revenue		
Loans—Note F	\$ 332	\$ 306
Investments, net—Notes C and G	106	97
Borrowings, net—Notes C and D	(32)	(22)
Interest revenue, net of borrowing expenses	406	381
Provision for losses on loans and other exposures, charge—Note F	(28)	(17)
Non-interest revenue		
Revenue from externally funded activities—Note G	117	99
Commitment charges—Note F	1	-
Other	2	2
Total	120	101
Non-interest expenses		
Administrative—Notes G and I	(465)	(437)
Contributions to special programs—Note G	(18)	(15)
Other	(20)	1
Total	(503)	(451)
Development grants—Note H	(1,324)	(43)
Non-functional currency translation adjustment losses, net	(165)	(9)
Unrealized mark-to-market gains (losses) on Investments-Trading portfolio, net—Notes E and K	15	(33)
Unrealized mark-to-market gains (losses) on Non-Trading portfolios, net		
Investment—Note K	-	(5)
Asset-Liability management—Notes E and K	58	(4)
Total	58	(9)
Net Loss	\$ (1,421)	\$ (80)

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

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of U.S. dollars

	<i>Three Months Ended September 30, (Unaudited)</i>	
	<u>2017</u>	<u>2016</u>
Net Loss	\$ (1,421)	\$ (80)
Other comprehensive income (loss)—Note J		
Currency translation adjustments on functional currencies	<u>2,175</u>	<u>(235)</u>
Comprehensive Income (Loss)	<u>\$ 754</u>	<u>\$ (315)</u>

CONDENSED STATEMENT OF CHANGES IN ACCUMULATED DEFICIT

Expressed in millions of U.S. dollars

	<i>Three Months Ended September 30, (Unaudited)</i>	
	<u>2017</u>	<u>2016</u>
Accumulated Deficit at beginning of the fiscal year	\$ (45,326)	\$ (43,030)
Net loss for the period	<u>(1,421)</u>	<u>(80)</u>
Accumulated Deficit at end of the period	<u>\$ (46,747)</u>	<u>\$ (43,110)</u>

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

CONDENSED STATEMENT OF CASH FLOWS

Expressed in millions of U.S. dollars

	<i>Three Months Ended September 30, (Unaudited)</i>	
	<u>2017</u>	<u>2016</u>
Cash flows from investing activities		
Loans		
Disbursements	\$ (1,785)	\$ (1,428)
Principal repayments	1,145	1,031
Non-trading securities—Investments		
Principal payments received	66	47
Net cash used in investing activities	<u>(574)</u>	<u>(350)</u>
Cash flows from financing activities		
Members' subscriptions and contributions	834	490
Net cash provided by financing activities	<u>834</u>	<u>490</u>
Cash flows from operating activities		
Net loss	(1,421)	(80)
Adjustments to reconcile net loss to net cash used in operating activities		
Provision for losses on loans and other exposures, net charge	28	17
Non-functional currency translation adjustment losses, net	165	9
Unrealized mark-to-market (gains) losses on non-trading portfolios, net	(58)	9
Other non interest expenses	20	(1)
Amortization of discount on borrowings	11	7
Changes in:		
Investments—Trading, net	418	645
Other assets and liabilities	620	(247)
Net cash used in operating activities	<u>(217)</u>	<u>359</u>
Effect of exchange rate changes on unrestricted cash	<u>1</u>	<u>(2)</u>
Net increase in unrestricted cash	44	497
Unrestricted cash at beginning of the fiscal year	<u>455</u>	<u>645</u>
Unrestricted cash at end of the period	<u>\$ 499</u>	<u>\$ 1,142</u>
Supplemental disclosure		
Increase (Decrease) in ending balances resulting from exchange rate fluctuations:		
Loans outstanding	\$ 2,173	\$ (285)
Investment portfolio	372	(38)
Derivatives—Asset-liability management	(369)	61
Borrowings	31	-
Principal repayments written off under Heavily Indebted Poor Countries (HIPC) Debt Initiative	2	2
Interest paid on borrowings	24	23

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

NOTES TO CONDENSED QUARTERLY FINANCIAL STATEMENTS

NOTE A—SUMMARY

Basis of Preparation

These unaudited condensed quarterly financial statements should be read in conjunction with the June 30, 2017 audited financial statements and notes included therein. The condensed comparative information that has been derived from the June 30, 2017 audited financial statements has not been audited. In the opinion of management, the condensed quarterly financial statements reflect all adjustments necessary for a fair presentation of IDA's financial position and results of operations in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed quarterly financial statements and the reported amounts of revenue and expenses during the reporting period. Due to the inherent uncertainty involved in making those estimates, actual results could differ from those estimates. Areas in which significant estimates have been made include, but are not limited to, the provision for losses on loans and other exposures and valuation of certain financial instruments carried at fair value. The results of operations for the first three months of the current fiscal year are not necessarily indicative of the results that may be expected for the full year.

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

These financial statements were approved for issue on November [], 2017 which was also the date through which IDA's management evaluated subsequent events.

Accounting and Reporting Developments

Accounting standards under evaluation:

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and subsequent amendments in 2015 and 2016. The ASUs provide a common framework for revenue recognition for U.S. GAAP and supersede most of the existing revenue recognition guidance in US GAAP. The core principle of the guidance is that an entity recognizes revenue when it transfers control of promised goods and services to customers in an amount that reflects consideration to which the entity expects to be entitled. The ASUs also require additional quantitative and qualitative disclosures to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For IDA, the ASUs are expected to be effective from the quarter ending September 30, 2018, with early adoption permitted. IDA has identified the revenue streams that are within the scope of this ASU and is currently evaluating the impact of this ASU on its revenue recognition policy.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU makes targeted amendments to existing guidance on recognition and measurement of financial instruments that primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The new guidance requires that changes in the fair value of financial liabilities measured under the fair value option that are attributable to instrument-specific credit risk are recognized in Other Comprehensive Income (OCI). For IDA, the ASU is expected to be effective from the quarter ending September 30, 2018. Early adoption is permitted only for certain provisions. IDA is currently evaluating the impact of this ASU on its financial statements.

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

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

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted cash*. The ASU requires that the amounts of restricted cash and cash equivalents are included in the total of cash and cash equivalents at the beginning and end of the period in the statement of cash flow. For IDA, the ASU is expected to be effective from the quarter ending September 30, 2018, with early adoption permitted. IDA is currently evaluating the impact of this ASU on its financial statements.

In February 2017, the FASB issued ASU 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610 20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. The ASU clarifies the guidance on derecognition of nonfinancial assets that was included in ASU 2014-09, *Revenue from Contracts with Customers*, and includes additional guidance for partial sales of nonfinancial assets. For IDA, this ASU and ASU 2014-09 are expected to be effective beginning from the quarter ending September 30, 2018, with earlier application permitted. IDA is currently evaluating the impact of the ASU on its financial statements.

NOTE B—MEMBERS’ SUBSCRIPTIONS AND CONTRIBUTIONS, AND MEMBERSHIP

Subscriptions and Contributions: The movement in Subscriptions and Contributions paid-in for the three months ended September 30, 2017, and for the fiscal year ended June 30, 2017, is summarized below:

In millions of U.S dollars

	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Beginning of the fiscal year	\$ 215,403	\$ 208,430
Cash contributions received	551	2,963
Demand obligations received	477	4,014
Translation adjustment	236	(4)
End of the period/fiscal year	<u>\$ 216,667</u>	<u>\$ 215,403</u>

During the three months ended September 30, 2017, IDA encashed demand obligations totaling \$283 million.

NOTE C—INVESTMENTS

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

As of September 30, 2017, the majority of IDA's Investments comprised government and agency obligations (78%), with all the instruments being classified as either Level 1 or Level 2 within the fair value hierarchy. As of September 30, 2017, U.S. Government instruments represented the largest holding of a single counterparty, and amounted to 18% of the Investments-Trading.

A summary of IDA's Investments as of September 30, 2017 and June 30, 2017, is as follows:

In millions of U.S.dollars

	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Trading		
Government and agency obligations	\$ 25,831	\$ 25,341
Time deposits	5,565	4,783
Asset-backed securities (ABS)	683	705
	<u>\$ 32,079</u>	<u>\$ 30,829</u>
Non-trading (at fair value)		
Debt securities	890	960
Total	<u>\$ 32,969</u>	<u>\$ 31,789</u>

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

In millions of U.S. dollars

	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Investments		
Trading	\$ 32,079	\$ 30,829
Non-trading (at fair value) - Note G	890	960
Total	<u>32,969</u>	<u>31,789</u>
Securities purchased under resale agreements	19	244
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received	(3,493)	(2,560)
Derivative Assets		
Currency forward contracts	1,722	803
Currency swaps	3,277	3,513
Interest rate swaps	1	*
Swaptions, exchange traded options and futures contracts	-	1
Other ^a	*	1
Total	<u>5,000</u>	<u>4,318</u>
Derivative Liabilities		
Currency forward contracts	(1,733)	(819)
Currency swaps	(3,438)	(3,689)
Interest rate swaps	(9)	(8)
Swaptions, exchange traded options and futures contracts	(3)	(5)
Other ^a	(1)	(2)
Total	<u>(5,184)</u>	<u>(4,523)</u>
Cash held in investment portfolio ^b	469	421
Receivable from investment securities traded ^c	630	527
Payable for investment securities purchased ^d	(802)	(543)
Net Investment Portfolio	<u>\$ 29,608</u>	<u>\$ 29,673</u>

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

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

c. This amount is included in Other assets on the Condensed Balance Sheet.

d. This amount is included in Other liabilities on the Condensed Balance Sheet.

* Indicates amount less than \$0.5 million.

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

As of September 30, 2017, there were short sales totaling \$79 million (\$77 million—June 30, 2017) included in Other liabilities on the Condensed Balance Sheet. These are reported at fair value on a recurring basis.

Fair Value Disclosures

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

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis			
	As of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments—Trading				
Government and agency obligations	\$ 13,008	\$ 12,823	\$ -	\$ 25,831
Time deposits	669	4,896	-	5,565
ABS	-	683	-	683
Total Investments—Trading	13,677	18,402	-	32,079
Investments—Non-trading (at fair value)	-	890	-	890
Securities purchased under resale agreements	-	19	-	19
Derivative assets				
Currency forward contracts	-	1,722	-	1,722
Currency swaps	-	3,277	-	3,277
Interest rate swaps	-	1	-	1
Swaptions, exchange traded options and futures contracts	-	-	-	-
Other ^a	-	*	-	*
Total Derivative assets—Investments	-	5,000	-	5,000
Total	\$ 13,677	\$ 24,311	\$ -	\$ 37,988
Liabilities:				
Securities sold under repurchase agreements and securities lent under security lending agreements ^b	\$ -	\$ 3,493	\$ -	\$ 3,493
Derivative liabilities				
Currency forward contracts	-	1,733	-	1,733
Currency swaps	-	3,438	-	3,438
Interest rate swaps	-	9	-	9
Swaptions, exchange traded options and futures contracts	3	-	-	3
Other ^a	-	1	-	1
Total Derivative liabilities—Investments	3	5,181	-	5,184
Payable for investment securities purchased ^c	19	60	-	79
Total	\$ 22	\$ 8,734	\$ -	\$ 8,756

a. These relate to TBA securities.

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

c. These relate to short sales of investment securities.

* Indicates amount less than \$0.5 million.

In millions of U.S. dollars

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

a. These relate to TBA securities.

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

c. These relate to short sales of investment securities.

* Indicates amount less than \$0.5 million.

During the three months ended September 30, 2017 and for the fiscal ended June 30, 2017, there were no securities transferred between Level 1 and Level 2 within the fair value hierarchy.

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

<i>In millions of U.S dollars</i>			
	<i>Fair value</i>	<i>Principal amount due</i>	<i>Difference</i>
September 30, 2017	\$ 890	\$ 903	\$ (13)
June 30, 2017	\$ 960	\$ 969	\$ (9)

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

<i>In millions of U.S dollars</i>		
<i>Period</i>	<i>September 30, 2017</i>	<i>June 30, 2017</i>
Less than 1 year	\$ 122	\$ 126
Between		
1 - 2 years	122	122
2 - 3 years	127	124
3 - 4 years	122	125
4 - 5 years	105	113
Thereafter	305	359
	<u>\$ 903</u>	<u>\$ 969</u>

Valuation Methods and Assumptions

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

Investment securities

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

For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads, and constant prepayment spreads. Where applicable, unobservable inputs such as constant prepayment rates, probability of default, and loss severity are used.

Unless quoted prices are available, time deposits are reported at face value, which approximates fair value, as they are short term in nature.

Securities purchased under resale agreements, securities sold under repurchase agreements, and securities lent under securities lending agreements

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

Commercial Credit Risk

For the purpose of risk management, IDA is party to a variety of financial transactions, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. For all securities, IDA limits trading to a list of authorized dealers and counterparties. In addition, credit limits have been established for counterparties by type of instrument and maturity category.

Swap Agreements: Credit risk is mitigated through a credit approval process, volume limits, monitoring procedures and the use of mark-to-market collateral arrangements. IDA may require collateral in the form of cash or other approved liquid securities from individual counterparties to mitigate its credit exposure.

IDA has entered into master derivative agreements which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps. Credit risk with financial

assets subject to a master derivatives arrangement is further reduced under these agreements to the extent that payments and receipts with the counterparty are netted at settlement. The reduction in exposure as a result of these netting provisions can vary due to the impact of changes in market conditions on existing and new transactions. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date. For more information on netting and offsetting provisions, see Note E—Derivative Instruments.

IDA did not receive the collateral in relation to swap transactions as of September 30, 2017 and June 30, 2017.

Securities Lending: IDA may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resales) of government and agency obligations, and ABS.

These transactions have been conducted under legally enforceable master netting arrangements, which allow IDA to reduce its gross credit exposure related to these transactions. As of September 30, 2017, there were no amounts that could potentially be offset as a result of legally enforceable master netting arrangements (\$225 million—June 30, 2017).

Transfers of securities by IDA to counterparties are not accounted for as sales as the accounting criteria for the treatment as a sale have not been met. Counterparties are permitted to repledge these securities until the repurchase date.

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

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

<i>In millions of U.S. dollars</i>			
	<u>September 30, 2017</u>	<u>June 30, 2017</u>	<u>Financial Statement Presentation</u>
Securities transferred under repurchase or securities lending agreements	\$ 3,059	\$ 2,150	Included under Investments - Trading on the Condensed Balance Sheet
Liabilities relating to securities transferred under repurchase or securities lending agreements	\$ 3,493	\$ 2,560	Included under Securities Sold under Repurchase Agreements, Securities Lent under Securities Lending Agreements, and Payable for Cash Collateral Received on the Condensed Balance Sheet.

As of September 30, 2017, the liabilities relating to securities transferred under repurchase or securities lending agreements included \$422 million (\$388 million—June 30, 2017) of repurchase agreement trades that had not settled at that date. All of these amounts represented replacement trades entered into in anticipation of maturing trades of a similar amount (\$368 million—June 30, 2017).

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

In millions of U.S.dollars

	<i>As of September 30, 2017</i>		
	<i>Remaining contractual maturity of the agreements</i>		
	<i>Overnight and continuous</i>	<i>Up to 30 days</i>	<i>Total</i>
Repurchase or Securities Lending agreements			
Government and agency obligations	\$ 2,622	\$ 871	\$ 3,493
Total liabilities for Securities sold under repurchase agreements and Securities lent under Securities Lending Agreements	\$ 2,622	\$ 871	\$ 3,493

In millions of U.S.dollars

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

In the case of resale agreements, IDA received collateral in the form of liquid securities and is permitted to repledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded on IDA's balance sheet as the accounting criteria for treatment as a sale have not been met. As of September 30, 2017, none of the securities purchased under resale agreements remained unsettled on that date (Nil—June 30, 2017). For the securities purchased under resale agreements, IDA received securities with a fair value of \$19 million (\$244 million—June 30, 2017). Out of this amount, no securities had been transferred under repurchase or securities lending agreements (Nil—June 30, 2017).

NOTE D—BORROWINGS

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

As of September 30, 2017, IDA's borrowings outstanding were \$3,702 million (\$3,660 million—June 30, 2017). These borrowings have original maturities of 25 and 40 years, with the final maturity being 2054. This does not include the effect of the amounts relating to proceeds received under the grant component of the concessional partner loan agreements, for which voting rights have been received. These amounts are reflected in equity.

In millions of U.S dollars

	<i>Borrowings outstanding</i>		
	<i>Principal at face value</i>	<i>Net unamortized premium (discount)</i>	<i>Total</i>
September 30, 2017	\$ 4,437	\$ (735)	\$ 3,702
June 30, 2017	\$ 4,392	\$ (732)	\$ 3,660

Fair Value Disclosures

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

In millions of U.S dollars

	<i>September 30, 2017</i>		<i>June 30, 2017</i>	
	<i>Carrying Value</i>	<i>Fair Value</i>	<i>Carrying Value</i>	<i>Fair Value</i>
Borrowings outstanding	\$ 3,702	\$ 4,207	\$ 3,660	\$ 4,175

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

Valuation Methods and Assumptions

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

NOTE E—DERIVATIVE INSTRUMENTS

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

The following table summarizes IDA's use of derivatives in its various financial portfolios.

Portfolio	Derivative instruments used	Purpose/Risk being managed
Risk management purposes:		
Investments—Trading	Interest rate swaps, currency forward contracts, currency swaps, options, swaptions, futures contracts, and TBA securities	Manage currency and interest rate risk in the portfolio.
Other assets/liabilities	Currency forward contracts	Manage foreign exchange risks.
Other purposes:		
Client operations	Structured swaps	Assist clients in managing risks.

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

Fair Value amounts of the derivative instruments on the Condensed Balance Sheet:

In millions of U.S. dollars

	<i>Condensed Balance Sheet Location</i>			
	<i>Derivative assets</i>		<i>Derivative liabilities</i>	
	<i>September 30, 2017</i>	<i>June 30, 2017</i>	<i>September 30, 2017</i>	<i>June 30, 2017</i>
Derivatives not designated as hedging instruments				
Currency forward contracts	\$ 20,836	\$ 20,328	\$ 21,168	\$ 20,369
Currency swaps	3,277	3,513	3,438	3,689
Swaptions, exchange traded options and futures contracts	-	1	3	5
Interest rate swaps	1	*	9	8
Other ^a	*	1	1	2
Total Derivatives	\$ 24,114	\$ 23,843	\$ 24,619	\$ 24,073

a. These relate to TBA securities.

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

Notional amounts and credit risk exposure of the derivative instruments:

In millions of U.S. dollars

<i>Type of contract</i>	<i>September 30, 2017</i>	<i>June 30, 2017</i>
Investments - Trading		
Interest rate swaps		
Notional principal	\$ 768	\$ 760
Credit exposure	1	*
Currency swaps (including currency forward contracts)		
Credit exposure	31	14
Swaptions, exchange traded options, and futures contracts ^a		
Notional long position	1,910	37,967
Notional short position	7,831	39,264
Credit exposure	-	1
Other ^b		
Notional long position	311	412
Notional short position	70	147
Credit exposure	*	1
Asset-liability management		
Currency forward contracts		
Credit exposure	282	305
Client Operations		
Structured swaps		
Notional principal	68	68
Credit exposure	-	-

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

b. These relate to TBA securities.

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

Under most of its derivatives agreements, IDA is not required to post collateral as long as it maintains liquidity holdings at predetermined levels that are a proxy for a triple-A credit rating. After becoming a rated entity, IDA has

started to enter into derivatives agreements with commercial counterparties in which IDA is not required to post collateral as long as it maintains a triple-A rating. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position as of September 30, 2017 is \$635 million (\$366 million—June 30, 2017). As of September 30, 2017, IDA was not required to post any collateral in accordance with the relevant agreements.

If the credit-risk related contingent features underlying these agreements were triggered to the extent that IDA would be required to post collateral as of September 30, 2017, the amount of collateral that would need to be posted would be \$40 million (\$82 million—June 30, 2017). Subsequent triggers of contingent features would require posting of additional collateral, up to a maximum of \$635 million as of September 30, 2017 (\$366 million—June 30, 2017).

Amounts of gains and losses on the Asset-liability management derivative instruments and their location on the Condensed Statement of Income during the three months ended September 30, 2017 and September 30, 2016 are as follows:

In millions of U.S. dollars

	<i>Condensed Statement of Income Location</i>	<i>Gains (Losses)</i>	
		<i>Three Months Ended</i>	
		<i>September 30,</i>	
		<i>2017</i>	<i>2016</i>
Derivatives not designated as hedging instruments and not held in a trading portfolio ^a			
	Unrealized mark-to-market gains (losses) on non-trading portfolios, net		
Currency forward contracts and currency swaps		\$ 58	\$ (4)

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

The majority of the instruments in IDA's investment portfolio are held for trading purposes. Within the trading portfolio, IDA holds highly rated fixed income instruments as well as derivatives. The trading portfolio is primarily held to ensure the availability of funds to meet future cash flow requirements and for liquidity management purposes.

The following table provides information on the amount of gains and losses on the IDA's investment trading portfolio (derivative and non-derivative instruments), and their location on the Condensed Statement of Income during the three months ended September 30, 2017 and September 30, 2016:

In millions of U.S. dollars

	<i>Statement of Income Location</i>	<i>Gains (Losses)</i>	
		<i>Three Months Ended September 30,</i>	
		<i>2017</i>	<i>2016</i>
Type of instrument			
	Unrealized mark-to-market gains (losses) on Investment-Trading portfolios, net		
Fixed income (including related derivatives)		\$ 15	\$ (33)

Offsetting assets and liabilities

IDA enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements with substantially all of its derivative counterparties. These legally enforceable master netting agreements give IDA the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of default by the counterparty.

The presentation of derivative instruments is consistent with the manner in which these instruments are settled. Interest rate swaps are settled on a net basis, while currency swaps are settled on a gross basis.

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

In millions of U.S. dollars

	<i>September 30, 2017</i>					
	<i>Located on the Condensed Balance Sheet</i>					
	<i>Derivative Assets</i>			<i>Derivative Liabilities</i>		
	<i>Gross Amounts Recognized</i>	<i>Gross Amounts Offset</i>	<i>Net Amounts Presented</i>	<i>Gross Amounts Recognized</i>	<i>Gross Amounts Offset</i>	<i>Net Amounts Presented</i>
Interest rate swaps	\$ 10	\$ (9)	\$ 1	\$ 242	\$ (233)	\$ 9
Currency swaps ^a	24,113	-	24,113	24,606	-	24,606
Other ^b	*	-	*	6	(2)	4
Total	\$ 24,123	\$ (9)	\$ 24,114	\$ 24,854	\$ (235)	\$ 24,619
Amounts subject to legally enforceable master netting agreements ^c			\$ (23,972)			\$ (23,972)
Net derivative positions at counterparty level before collateral			142			647
Less:						
Cash collateral received ^d			-			
Securities collateral received			-			
Net derivative exposure after collateral			\$ 142			

a. Includes currency forward contracts.

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

c. Not offset on the Condensed Balance Sheet.

d. Does not include excess collateral received.

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

In millions of U.S. dollars

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

a. Includes currency forward contracts.

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

c. Not offset on the Condensed Balance Sheet.

d. Does not include excess collateral received.

* Indicates amount less than \$0.5 million.

Fair Value Disclosures

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

In millions of U.S. dollars

	<i>Fair Value Measurements on a Recurring Basis</i>			
	<i>As of September 30, 2017</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Derivative assets:				
Investments				
Currency forward contracts	\$ -	\$ 1,722	\$ -	\$ 1,722
Currency swaps	-	3,277	-	3,277
Interest rate swaps	-	1	-	1
Swaptions, exchange traded options and futures contracts	-	-	-	-
Other ^a	-	*	-	*
	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Asset-liability management				
Currency forward contracts	-	19,114	-	19,114
Total derivative assets	<u>\$ -</u>	<u>\$ 24,114</u>	<u>\$ -</u>	<u>\$ 24,114</u>
Derivative liabilities:				
Investments				
Currency forward contracts	\$ -	\$ 1,733	\$ -	\$ 1,733
Currency swaps	-	3,438	-	3,438
Interest rate swaps	-	9	-	9
Swaptions, exchange traded options and futures contracts	3	-	-	3
Other ^a	-	1	-	1
	<u>3</u>	<u>5,181</u>	<u>-</u>	<u>5,184</u>
Asset-liability management				
Currency forward contracts	-	19,435	-	19,435
Total derivative liabilities	<u>\$ 3</u>	<u>\$ 24,616</u>	<u>\$ -</u>	<u>\$ 24,619</u>

a. These relate to TBA securities.

* Indicates amount less than \$0.5 million.

In millions of U.S. dollars

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

a. These relate to TBA securities.

* Indicates amount less than \$0.5 million.

Inter-level transfers

During the three months ended September 30, 2017 and September 30, 2016, there were no inter-level transfers in the derivatives portfolio.

Valuation Methods and Assumptions

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

NOTE F—LOANS AND OTHER EXPOSURES

Loans and other exposures are generally made directly to member countries of IDA. Other exposures include irrevocable commitments, guarantees and repaying project preparation facilities. Loans are carried and reported at amortized cost. Of the total loans outstanding as of September 30, 2017, 91% were to the South Asia, Africa, and East Asia and Pacific regions combined.

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

As of September 30, 2017 loans outstanding totaling \$2,560 million (representing about 2% of the portfolio) from five borrowers, were in nonaccrual status.

Credit Quality of Sovereign Loans

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

IDA's country risk ratings are an assessment of its borrowers' ability and willingness to repay IDA on time and in full. These ratings are internal credit quality indicators. Individual country risk ratings are derived on the basis of both quantitative and qualitative factors. For the purpose of analyzing the risk characteristics of IDA's exposures, exposures are grouped into three classes in accordance with assigned borrower risk ratings which relate to the likelihood of loss: Low, Medium and High risk classes, as well as exposures in nonaccrual status.

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

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

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

In millions of U.S. dollars

Days past due	September 30, 2017						Total Past Due	Current	Total
	Up to 45	46-60	61-90	91-180	Over 180				
Risk Class									
Low	\$ *	\$ *	\$ -	\$ -	\$ -	\$ *	\$ 2,628	\$ 2,628	
Medium	*	-	-	-	-	*	26,479	26,479	
High	8	*	-	-	-	8	113,320	113,328	
Loans in accrual status	8	*	-	-	-	8	142,427	142,435	
Loans in nonaccrual status	10	3	7	21	1,181	1,222	1,338	2,560	
Total	\$ 18	\$ 3	\$ 7	\$ 21	\$ 1,181	\$ 1,230	\$ 143,765	\$ 144,995	

In millions of U.S. dollars

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

* Indicates amount less than \$0.5 million.

Accumulated Provision for Losses on Loans and Other Exposures

Provision for Losses on Loans and Other Exposures

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

In light of the IDA18 replenishment which will commence from July 1, 2017, IDA's management is reviewing its approach to the credit risk rating of IDA's sovereign borrowers. As of September 30, 2017, the potential net impact of this refinement on IDA's accumulated provision is not expected to be material.

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

Changes to the accumulated provision for losses on loans and other exposures for the three months ended September 30, 2017 and the fiscal year ended June 30, 2017 are summarized below:

In millions of U.S. dollars

	September 30, 2017				June 30, 2017			
	Debt relief under				Debt relief under			
	Loans	HIPC/MDRI	Other	Total	Loans	HIPC/MDRI	Other	Total
Accumulated provision, beginning of the fiscal year	\$ 1,913	\$ 1,940	\$ 25	\$ 3,878	\$ 1,932	\$ 2,000	\$ 25	\$ 3,957
Provision, net - charge (release) ^a	25	-	3	28	(10)	(46)	*	(56)
Loans written off under:								
Prepayments	-	-	-	-	(3)	-	-	(3)
HIPC/MDRI	-	(2)	-	(2)	-	(9)	-	(9)
Translation adjustment	29	9	*	38	(6)	(5)	*	(11)
Accumulated provision, end of the period	<u>\$ 1,967</u>	<u>\$ 1,947</u>	<u>\$ 28</u>	<u>\$ 3,942</u>	<u>\$ 1,913</u>	<u>\$ 1,940</u>	<u>\$ 25</u>	<u>\$ 3,878</u>
Composed of accumulated provision for losses on:								
Loans in accrual status	\$ 1,692	\$ 124		\$ 1,816	\$ 1,644	\$ 126		\$ 1,770
Loans in nonaccrual status	275	1,823		2,098	269	1,814		2,083
Total	<u>\$ 1,967</u>	<u>\$ 1,947</u>		<u>\$ 3,914</u>	<u>\$ 1,913</u>	<u>\$ 1,940</u>		<u>\$ 3,853</u>
Loans:								
Loans in accrual status				\$ 142,435				\$ 139,655
Loans in nonaccrual status				2,560				2,529
Total				<u>\$ 144,995</u>				<u>\$ 142,184</u>

a. For the three months ended September 30, 2017, the provision includes Nil for the discount on prepayment of loans (\$3 million-June 30, 2017).

* Indicates amount less than \$0.5 million.

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

For the three months ended September 30, 2017 and the fiscal year ended June 30, 2017, there were no loans written off under the MDRI.

Overdue Amounts

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

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

In millions of U.S. dollars

<i>Borrower</i>	<i>Nonaccrual since</i>	<i>Recorded investment^a</i>	<i>Average recorded investment^b</i>	<i>Principal Outstanding</i>	<i>Provision for debt relief</i>	<i>Provision for loan losses^c</i>	<i>Overdue amounts</i>	
							<i>Principal</i>	<i>Charges</i>
Eritrea	March 2012	\$ 442	\$ 441	\$ 442	\$ 303	\$ 21	\$ 55	\$ 20
Somalia	July 1991	417	417	417	395	4	238	83
Sudan	January 1994	1,218	1,218	1,218	1,125	14	704	212
Syrian Arab Republic	June 2012	14	14	14	-	2	7	1
Zimbabwe	October 2000	469	468	469	-	234	218	54
Total - September 30, 2017		<u>\$ 2,560</u>	<u>\$ 2,558</u>	<u>\$ 2,560</u>	<u>\$ 1,823</u>	<u>\$ 275</u>	<u>\$ 1,222</u>	<u>\$ 370</u>
Total - June 30, 2017		<u>\$ 2,529</u>	<u>\$ 2,503</u>	<u>\$ 2,529</u>	<u>\$ 1,814</u>	<u>\$ 269</u>	<u>\$ 1,186</u>	<u>\$ 361</u>

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

b. For September 30, 2017, represents the average for the three months ended that date (June 30, 2017 - represents the average for the fiscal year then ended).

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

In millions of U.S. dollars

	<i>Three months ended September 30,</i>	
	<i>2017</i>	<i>2016</i>
Service charge revenue not recognized as a result of loans being in nonaccrual status	<u>\$ 5</u>	<u>\$ 5</u>

During the three months ended September 30, 2017 and September 30, 2016, no loans were placed into nonaccrual status.

During the three months ended September 30, 2017 and September 30, 2016, no service charge revenue was recognized on loans in nonaccrual status.

Guarantees

Guarantees of \$1,179 million were outstanding as of September 30, 2017 (\$1,177 million—June 30, 2017). This amount represents the maximum potential undiscounted future payments that IDA could be required to make under these guarantees, and is not included on the Condensed Balance Sheet. The guarantees issued by IDA have original maturities ranging between 9 and 22 years, and expire in decreasing amounts through 2035.

As of September 30, 2017, liabilities related to IDA's obligations under guarantees of \$102 million (\$96 million—June 30, 2017), have been included in Other liabilities on the Condensed Balance Sheet. These include the accumulated provision for guarantee losses of \$19 million (\$19 million—June 30, 2017).

During the three months ended September 30, 2017 and September 30, 2016, no guarantees provided by IDA were called.

Segment Reporting

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

Loan revenue comprises service charges and interest charges on outstanding loan balances. For the three months ended September 30, 2017, loan revenue from three countries \$60 million, \$44 million and \$34 million, respectively were in excess of 10 percent of total loan revenue.

The following table presents IDA's loans outstanding and associated loan revenue as of and for the three months ended September 30, 2017 and September 30, 2016, by geographic region:

In millions of U.S. dollars

<i>Region</i>	<i>September 30, 2017</i>		<i>September 30, 2016</i>	
	<i>Loans Outstanding</i>	<i>Service and Interest Charges^a</i>	<i>Loans Outstanding</i>	<i>Service and Interest Charges^a</i>
Africa	\$ 54,745	\$ 103	\$ 49,024	\$ 91
East Asia and Pacific	19,713	48	19,522	46
Europe and Central Asia	7,546	27	7,557	27
Latin America and the Caribbean	2,567	6	2,460	6
Middle East and North Africa	3,043	6	3,121	6
South Asia	57,381	142	55,161	130
Total	<u>\$ 144,995</u>	<u>\$ 332</u>	<u>\$ 136,845</u>	<u>\$ 306</u>

Fair Value Disclosures

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

In millions of U.S. dollars

	<i>September 30, 2017</i>		<i>June 30, 2017</i>	
	<i>Carrying Value</i>	<i>Fair Value</i>	<i>Carrying Value</i>	<i>Fair Value</i>
Net Loans Outstanding	\$ 141,100	\$ 115,304	\$ 138,351	\$ 111,539

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

Valuation Methods and Assumptions

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

NOTE G—AFFILIATED ORGANIZATIONS

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

Transfers and Grants

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

In millions of U.S. dollars

<i>Transfers from</i>	<i>Beginning of the fiscal year</i>	<i>Transfers during the period</i>	<i>End of period</i>
Total	\$ 18,945	\$ -	\$ 18,945
Of which from:			
IBRD	15,126	-	15,126
IFC	3,592	-	3,592

Subsequent Event

On October 13, 2017, IBRD's Board of Governors approved a transfer of \$123 million. This transfer was received on October 24, 2017.

Receivables and Payables

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

In millions of U.S dollars

	Receivable From (Payable To) IBRD				
	Administrative Services ^a	Pension and Other Postretirement Benefits	Derivative transactions		Total
Receivable			Payable		
September 30, 2017	\$ (305)	\$ 693	\$ 6,441	\$ (6,299)	\$ 530
June 30, 2017	\$ (368)	\$ 695	\$ 6,717	\$ (6,559)	\$ 485

a. Includes \$111 million as of September 30, 2017 (\$103 million-June 30, 2017) receivable from IBRD for IDA's share of investments associated with Post-Retirement Contribution Reserve Fund (PCRF), which is a fund established to stabilize contributions made to the pension plans.

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

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

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

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

For the three months ended September 30, 2017, IDA's share of joint administrative expenses totaled \$413 million (\$390 million—three months ended September 30, 2016).

Other revenue: Includes IDA's share of other revenue jointly earned with IBRD during the three months ended September 30, 2017 totaling \$47 million (\$37 million—three months ended September 30, 2016). The allocation of revenue is based upon an agreed revenue sharing formula, and amounts are settled quarterly.

For the three months ended September 30, 2017 and September 30, 2016, the amount of fee revenue associated with services provided to other affiliated organizations is included in Other revenue on the Condensed Statement of Income, as follows:

In millions of U.S dollars

	Three Months Ended September 30,	
	2017	2016
Fees charged to IFC	\$ 14	\$ 13
Fees charged to MIGA	1	1

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

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

Investments

During the fiscal year ended June 30, 2015, IDA purchased a debt security issued by IFC for a principal amount of \$1,179 million, amortizing over a period of 25 years. The investment carries a fixed interest rate of 1.84% and has a weighted average maturity of 5 years. As of September 30, 2017, the principal amount due on the debt security was \$903 million, and it had a fair value of \$890 million. The investment is reported under Investments in the Condensed Balance Sheet. During the three months ended September 30, 2017, IDA recognized interest income of \$4 million on this debt security (\$5 million—three months ended September 30, 2016).

NOTE H—DEVELOPMENT GRANTS

A summary of changes to the amounts payable for development grants for the three months ended September 30, 2017, and for the fiscal year ended June 30, 2017, is presented below:

In millions of U.S. dollars

	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Balance, beginning of the fiscal year	\$ 6,583	\$ 6,099
Commitments	1,324	2,627 ^a
Disbursements (including PPA grant activity)	(627)	(2,105)
Translation adjustment	100	(38)
Balance, end of the period/ fiscal year	<u>\$ 7,380</u>	<u>\$ 6,583</u>

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

For the fiscal years ending June 30, 2018 and June 30, 2017, the commitment charge rate on the undisbursed balances of IDA grants has been set at nil percent.

NOTE I—PENSION AND OTHER POSTRETIREMENT BENEFITS

IBRD, along with IFC and the Multilateral Investment Guarantee Agency, sponsor a defined benefit Staff Retirement Plan and Trust, a Retired Staff Benefits Plan and Trust and a PEBP that cover substantially all of their staff members.

While IDA is not a participating entity to these benefit plans, IDA shares in the costs and reimburses IBRD for its proportionate share of any contributions made to these plans by IBRD, as part of IBRD's allocation of staff and associated administrative expenses to IDA based on an agreed cost sharing ratio.

During the three months ended September 30, 2017, IDA's share of IBRD's benefit costs relating to all three plans totaled \$77 million (\$99 million—three months ended September 30, 2016).

The cost of any potential future liability arising from these plans would be shared by IBRD and IDA using the applicable share ratio.

NOTE J—ACCUMULATED OTHER COMPREHENSIVE INCOME

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

The following table presents the changes in Accumulated other comprehensive income balances for the three months ended September 30, 2017 and September 30, 2016.

In millions of U.S dollars

	Three Months Ended September 30,	
	2017	2016
Balance, beginning of the fiscal year	\$ (2,039)	\$ (1,219)
Currency translation adjustments on functional currencies	2,175	(235)
Balance, end of the period	\$ 136	\$ (1,454)

NOTE K—OTHER FAIR VALUE DISCLOSURES

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

In millions of U.S dollars

	September 30, 2017		June 30, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Due from Banks	\$ 527	\$ 527	\$ 483	\$ 483
Investments (including securities purchased under resale agreements)	32,988	32,988	32,033	32,033
Net Loans Outstanding	141,100	115,304	138,351	111,539
Derivative Assets				
Investments	5,000	5,000	4,318	4,318
Asset-Liability Management	19,114	19,114	19,525	19,525
Liabilities				
Borrowings	3,702	4,207	3,660	4,175
Securities sold/ lent under repurchase agreements/ securities lending agreements and payable for cash collateral received	3,493	3,493	2,560	2,560
Derivative Liabilities				
Investments	5,184	5,184	4,523	4,523
Asset-Liability Management	19,435	19,435	19,550	19,550

Valuation Methods and Assumptions

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

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

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

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

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

In millions of U.S. dollars

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts	Unrealized gains (losses)	Realized gains (losses)	Unrealized gains (losses) excluding realized amounts	Unrealized gains (losses)
Investments- Trading—Note E	\$ (44)	\$ 59	\$ 15	\$ 41	\$ (74)	\$ (33)
Non-trading portfolios, net						
Investment portfolio—Note C	-	*	*	-	(5)	(5)
Asset-liability management—Note E	-	58	58	-	(4)	(4)
Total	\$ -	\$ 58	\$ 58	\$ -	\$ (9)	\$ (9)

* Indicates amounts less than \$0.5 million.

NOTE L—CONTINGENCIES

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

INDEPENDENT AUDITORS' REVIEW REPORT



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

Independent Auditors' Review Report

President and Board of Executive Directors
International Development Association:

Report on the Financial Statements

We have reviewed the condensed financial statements of the International Development Association (IDA), which comprise the condensed balance sheet as of September 30, 2017, the related condensed statement of income and comprehensive income for the three-month period ended September 30, 2017 and the related condensed statement of changes in accumulated deficit and cash flows for the three-month period ended September 30, 2017. The accompanying condensed statements of income and comprehensive income for the three-month period ended September 30, 2016 and the related condensed statements of changes in accumulated deficit and cash flows for the three-month period ended September 30, 2016 of IDA were not reviewed by us, and accordingly, we do not express any form of assurance on them.

Management's Responsibility

IDA's management is responsible for the preparation and fair presentation of the condensed financial information in accordance with [identify the applicable financial reporting framework; for example, U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

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

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial information referred to above for it to be in accordance with U.S. generally accepted accounting principles.

Report on Condensed Balance Sheet as of June 30, 2017

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet as of June 30, 2017, and the related statements of income, comprehensive income, changes in accumulated deficit, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 3, 2017. In our opinion, the accompanying condensed balance sheet of IDA as of June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Washington, D.C.
November 13, 2017

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