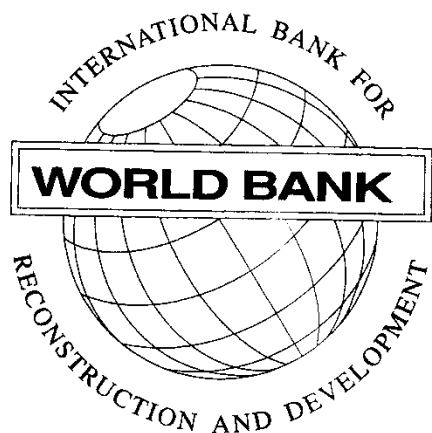


International Bank for Reconstruction and Development



Management's Discussion & Analysis and Condensed Quarterly Financial Statements

September 30, 2020

(Unaudited)

International Bank for Reconstruction and Development (IBRD)

Management's Discussion and Analysis

September 30, 2020

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This Management's Discussion and Analysis (MD&A) reflects the results of the International Bank for Reconstruction and Development's (IBRD's) financial performance for the three months ended September 30, 2020 (FY21 YTD). This document should be read in conjunction with IBRD's Financial Statements and MD&A for the fiscal year ended June 30, 2020 (FY20). For information relating to IBRD's development operations' results and corporate performance, refer to the World Bank Corporate Scorecard and Sustainability Review.

Box 1: Selected Financial Data

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

	As of and for the three months ended September 30,		As of and for the fiscal years ended June 30,			
	2020	2019	2020	2019	2018	2017
Lending Highlights (Section III)						
Net commitments ^a	\$ 3,121	\$ 4,009	\$ 27,976	\$ 23,191	\$ 23,002	\$ 22,611
Gross disbursements ^b	7,437	3,236	20,238	20,182	17,389	17,861
Net disbursements ^b	5,161	960	10,622	10,091	5,638	8,731
Income Statement						
Board of Governors-approved and other transfers	\$ -	\$ (81)	\$ (340)	\$ (338)	\$ (178)	\$ (497)
Net income (loss)	676	(116)	(42)	505	698	(237)
Balance Sheet						
Total assets	\$ 306,305	\$ 277,377	\$ 296,804	\$ 283,031	\$ 263,800	\$ 258,648
Net investment portfolio	82,601	75,029	82,485	81,127	73,492	71,667
Net loans outstanding	209,528	191,983	202,158	192,752	183,588	177,422
Borrowing portfolio	243,390	221,667	237,231	228,763	213,652	207,144
Total equity	41,345	42,138	40,387	42,115	41,844	39,798
Non-GAAP Measures						
Allocable Income (Section III)	\$ 339	\$ 370	\$ 1,381	\$ 1,190	\$ 1,161	\$ 795
Usable Equity ^{c, d} (Section IV)	\$ 47,922	\$ 45,367	\$ 47,138	\$ 45,360	\$ 43,518	\$ 41,720
Equity-to-loans Ratio ^d (Section IV)	22.6%	22.9%	22.8%	22.8%	22.9%	22.8%

a. Amounts are net of full terminations and cancellations approved in the same fiscal year and include guarantee commitments and guarantee facilities that have been approved by the Executive Directors (referred to as "the Board" in this document).

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

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

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

Section I: Executive Summary

With its many years of experience and its depth of knowledge in the international development arena, IBRD plays a key role in achieving the World Bank Group's (WBG¹) goal of helping countries achieve better development outcomes. IBRD contributes to both the WBG's twin goals of ending extreme poverty and promoting shared prosperity, and to the Forward Look², by providing countries with loans, advisory services and analytical support. IBRD and its affiliated organizations seek to help countries achieve improvements in growth, job creation, poverty reduction, governance, the environment, climate adaptation and resilience, human capital, infrastructure and debt transparency.

To meet its development goals, the WBG is increasing its focus on country programs in order to improve growth and development outcomes. The Bank's operational realignment, which came into effect on July 1st, strengthens the country-driven delivery model, while strengthening thought leadership on development issues of critical importance to sustainable growth and poverty alleviation. Support is being expanded for countries at lower levels of income, and fragile and conflict-affected states. The new model also strengthens the focus on Africa by creating two Vice Presidencies, one focused on Western and Central Africa and the other on Eastern and Southern Africa.

In March 2020, in response to the global outbreak of the coronavirus disease (COVID-19) and to support global public goods, as part of a WBG package, IBRD announced that it could deploy an estimated range of \$50-\$55 billion over the next 15 months to support member countries in their efforts to contain the pandemic and respond to its immediate health consequences as well as to address the social and economic effects. This amount was estimated in compliance with IBRD's Financial Sustainability Framework based on market conditions at that time. Given the continued uncertainty around the outbreak's full impact on markets, as well as on client needs, these estimates are subject to revisions in order to ensure continued compliance with all risk limits. IBRD's operational response includes three stages: a) Relief stage that involves emergency response to the health threat, b) Restructuring stage that focuses on strengthening health systems, restoring human capital, and restructuring of firms and sectors. and c) Resilient recovery stage that entails new opportunities to build a more sustainable, inclusive and resilient future. Each stage is structured through four thematic crisis response pillars: i) Saving lives, ii) Protecting the poor and vulnerable, iii) Ensuring sustainable business growth and job creation, and iv) Strengthening policies, institutions and investments.

This approach anchors a flexible and focused WBG response to the crisis rooted in its comparative advantages and tailored to the specific circumstances of client groups and individual countries.

¹ The other WBG institutions are the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

² The Forward Look: A Vision for the WBG in 2030, describes how the WBG will deliver on its twin goals and its three priorities. The Forward Look rests on four pillars: serving all clients; mobilizing resources for development; leading on global issues; and improving the business model.

Summary Financial Results

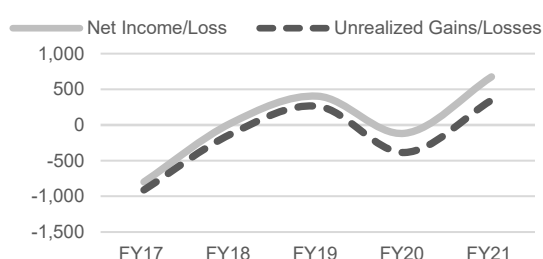
The financial performance of IBRD reflects the impact of the measures put in place in previous years to increase its financial capacity and ensure its long-term financial sustainability, along with evolving market conditions.

Net Income and Allocable Income

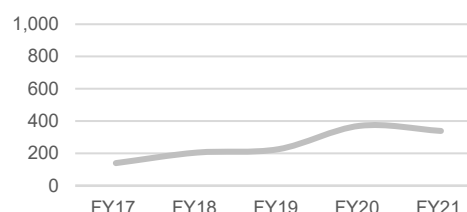
IBRD earned net income of \$676 million for the first three months of FY21, compared with a net loss of \$116 million during the same period in FY20. The change from a net loss in FY20 YTD to net income in FY21 YTD was primarily due to net unrealized mark-to-market gains on IBRD's non-trading portfolios. Unrealized mark-to-market gains and losses on non-trading portfolios introduce volatility to IBRD's net income. Given IBRD's intention to maintain its non-trading portfolio positions, unrealized mark-to-market gains and losses are not included in IBRD's allocable income.

Allocable income is the income measure IBRD uses for making net income allocation decisions. During the first three months of FY21, allocable income was \$339 million, a decrease of \$31 million from the same period in FY20. The decrease was primarily due to the increase in the provision for credit losses and the increase in net non-interest expenses. (See Section III).

In millions of U.S dollars – YTD



Allocable Income

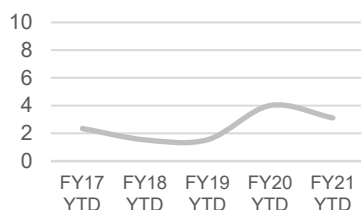


Loans

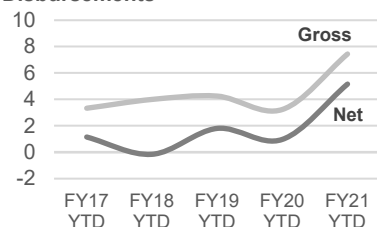
IBRD's lending operations during the first three months of FY21 resulted in \$3.1 billion of new net loan commitments (net of full terminations and cancellations approved in the same fiscal year) and \$7.4 billion of gross loan disbursements. Positive net disbursement activity was the key driver in the increase in net loans outstanding, from \$202.2 billion as of June 30, 2020 to \$209.5 billion as of September 30, 2020.

In billions of U.S dollars

Net Commitments



Disbursements



Net Loans outstanding



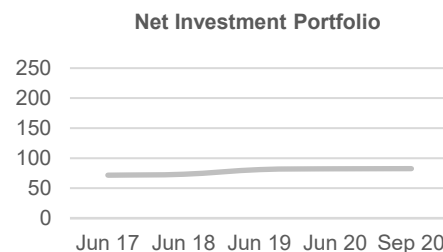
Net lending commitments (including guarantees) were \$0.9 billion lower compared with the same period in FY20 (Table 5). The regions with the largest share of commitments in FY21 were Europe and Central Asia with 39% and Latin America and the Caribbean with 30%.

Investments

IBRD's net investment portfolio marginally increased by \$0.1 billion, from \$82.5 billion as of June 30, 2020 to \$82.6 billion as of September 30, 2020. The investments remain concentrated in the upper end of the credit spectrum, with 74% rated AA or above (see Table 9), reflecting IBRD's objective of principal protection and its resulting preference for high-quality investments.

The net investment portfolio level remained stable and adequate to meet IBRD's financial commitments even under potential scenarios of severe market disruption.

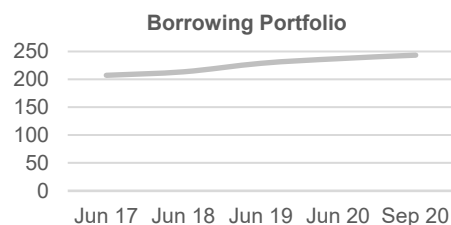
In billions of US dollars



Borrowings

As of September 30, 2020, the borrowing portfolio totaled \$243.4 billion, \$6.2 billion above June 30, 2020. The increase was mainly due to net medium-and long-term debt issuances during the period. The funds raised financed development and lending operations and satisfied liquidity requirements.

In billions of US dollars

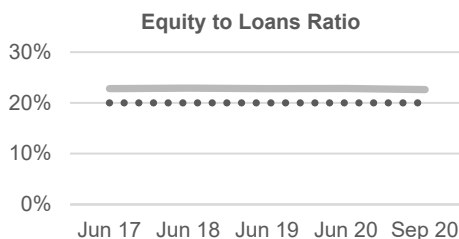


Usable Equity and Equity-to-Loans Ratio

IBRD's usable equity increased marginally compared with June 30, 2020. During the first three months of FY21, IBRD received \$147 million of paid-in capital under the General and Selective Capital Increases (GCI and SCI), bringing the cumulative amounts received to \$1.7 billion, 23% of the total amount expected.

The Equity-to-Loans ratio was 22.6% as of September 30, 2020, marginally lower compared with 22.8% as of June 30, 2020, as the increase in the loan and other exposures outpaced the increase in usable equity.

Ratio in percentages



Section II: Overview

IBRD, an international organization owned by its 189-member countries, is one of the five institutions of the WBG. Each institution is legally and financially independent, with separate assets and liabilities. IBRD is not liable for the obligations of the other institutions.

IBRD is one of the largest Multilateral Development Banks (MDB) in the world and combines knowledge services and financing with a global reach. IBRD's value derives from its ability to help eligible borrowing members address their development challenges and meet their rising demand for innovative products. IBRD provides loans, guarantees, and other financial products for development-focused projects and programs to creditworthy middle-income and low-income countries to support sustainable development. By operating across a full range of country clients, IBRD maintains a depth of development knowledge, uses its convening power to promote development and advance the global public goods agenda, and coordinates responses to regional and global challenges.

Member countries use IBRD's technical advice and analysis and convening power to develop or implement better policies, programs, and reforms that help sustain development over the long term. The products delivered range from development data, to reports in key social economic and social issues at the local, country, regional and global levels. The products also include knowledge-sharing workshops focused on local issues, to flagship events and fora to address the most pressing global development challenges.

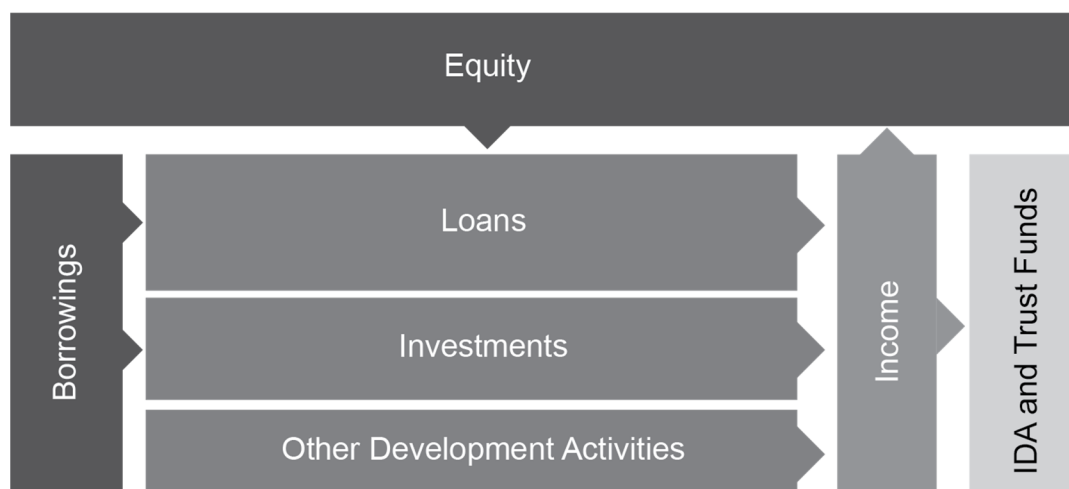
Financial Business Model

IBRD's objective is not to maximize profits, but to earn adequate income to ensure that it has the long-term financial capacity necessary to support its development activities. IBRD seeks to generate sufficient revenue to finance its operations as well as to be able to set aside funds in reserves to strengthen its financial position. It also seeks to provide support to IDA and trust funds via income transfers for other developmental purposes.

IBRD's financial strength rests on the support it receives from its shareholders, and on its array of financial policies and practices. Shareholder support for IBRD is reflected in the capital backing it continues to receive from its members and in the record of its borrowing member countries in meeting their debt service obligations to IBRD. Sound financial and risk management policies and practices have enabled IBRD to maintain adequate capital, diversify its funding sources, hold a portfolio of liquid investments to meet its financial commitments, and limit its risks, including credit and market risks.

IBRD offers its borrowers, in middle income and creditworthy low-income countries, long-term loans with maturities of up to 35 years. Borrowers may customize their repayment terms to meet their debt management or project needs, and loans are offered on fixed and variable terms in multiple currencies. However, borrowers have generally preferred loans denominated in U.S. dollars and euros. IBRD also supports its borrowers by providing access to risk management products such as derivative instruments, including currency and interest rate swaps and interest rate caps and collars.

To meet its development goals, it is important for IBRD to intermediate funds for lending from the international capital markets. IBRD's loans are financed through its equity, and from borrowings raised in the capital markets. IBRD is rated triple-A by the major rating agencies and its bonds are viewed as high-quality securities by investors. IBRD's funding strategy is aimed at achieving the best long-term value on a sustainable basis for its borrowing members. This strategy has enabled IBRD to borrow at favorable market terms and pass the savings on to its borrowing members. IBRD's annual funding volumes vary from year to year, and funds raised are used to finance IBRD's development projects and programs in member countries. Funds not deployed for lending are maintained in IBRD's investment portfolio to supply liquidity for its operations. Figure 1 illustrates IBRD's financial business model.

Figure 1: IBRD's Financial Business Model

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

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

Financial Performance

IBRD's primary sources of revenue are from loans and investments, both net of funding costs (see Figure 2). These revenues cover administrative expenses, provision for losses on loans and other exposures³ (LLP), as well as transfers to Reserves, Surplus, and for other development purposes including transfers to IDA.

In addition, other development activities generate non-interest revenue that is classified as *Revenue from externally funded activities*. These external funds include trust funds, reimbursable funds and revenues from fee-based services to member countries. Non-interest revenue from externally funded activities provides additional capacity to support the development needs of client countries.

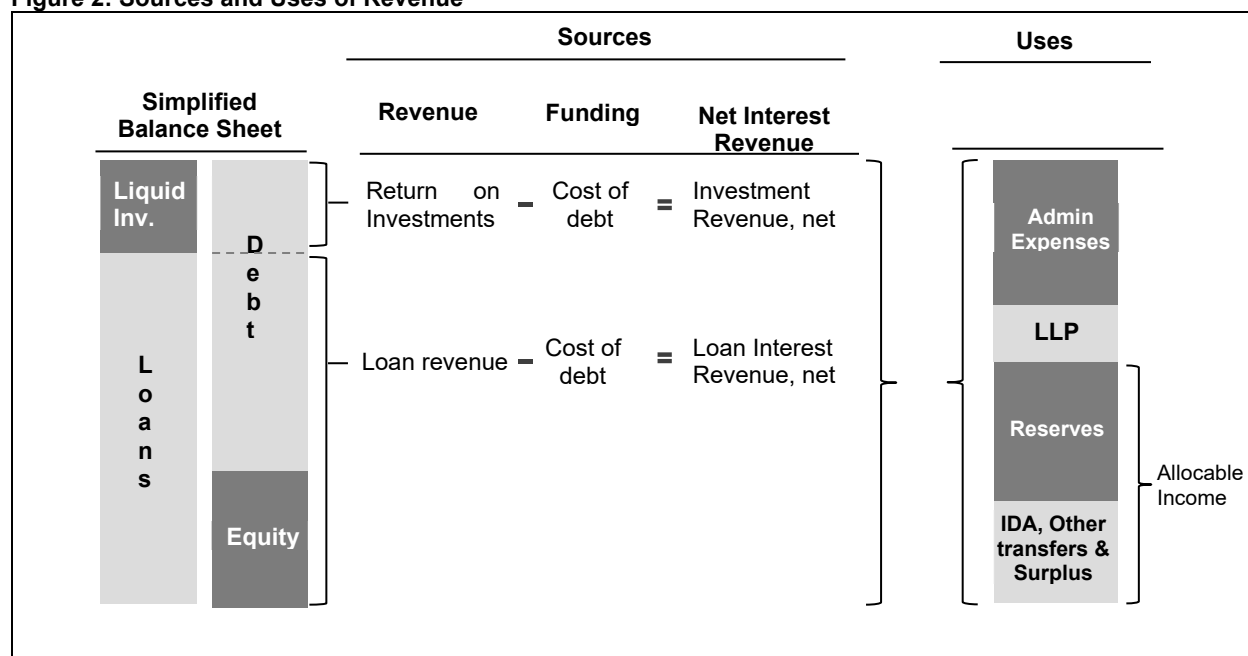
The financial results for FY21 reflect the impact of the measures implemented in prior years to enhance IBRD's financial sustainability. These measures are intended to increase IBRD's equity, lending capacity, and its ability to fund priorities that meet shareholder goals while also ensuring its long-term financial sustainability.

In 2018, the Board of Governors (the Governors) endorsed a capital package consisting of a series of policy and financial measures designed to enhance IBRD's financial capacity on a sustainable basis. The package included the following:

- 1) a GCI and SCI that will provide up to \$7.5 billion in additional paid-in capital, which was approved by the Governors on October 1, 2018;
- 2) new loan pricing measures, which became effective from July 1, 2018;
- 3) an increase in the Single Borrower Limit (SBL) with differentiation based on per capita income;

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

- 4) continued efficiency measures and administrative simplification; and
- 5) a financial sustainability framework, under which management provides an update of the sustainable annual lending level and the Board approves a crisis buffer, which enables IBRD to respond to crises.

Figure 2: Sources and Uses of Revenue

Basis of Reporting

Financial Statements

IBRD's financial statements conform with accounting principles generally accepted in the United States of America (U.S. GAAP). All financial instruments in the investment and borrowing portfolios and all derivatives are reported at fair value, with changes in fair value reported in the Statement of Income, except for changes in IBRD's own credit, which are reflected in Other Comprehensive Income. IBRD's loans are reported at amortized cost, except for loans with embedded derivatives, if any, which are reported at fair value. Management uses net income as the basis for deriving allocable income, as discussed below.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU, along with its subsequent amendments, introduces a new credit loss methodology, the Current Expected Credit Losses (CECL) methodology. The ASUs also requires additional credit risk measurement disclosures. IBRD adopted the ASUs on July 1, 2020 (see Notes to Condensed Quarterly Financial Statements, Note A – Summary of Significant Accounting and Related Policies).

Allocable Income

IBRD's Articles of Agreement (the Articles) require that the Governors determine the allocation of income at the end of every fiscal year. Allocable income, which is a non-GAAP financial measure, is an internal management measure that reflects income available for allocation. IBRD defines allocable income as net income after certain adjustments, that are approved by the Board at the end of every fiscal year. These adjustments primarily relate to unrealized mark-to-market gains and losses associated with its non-trading portfolios, as well as the expenses for Board of Governors-approved and other transfers, which primarily relate to the allocation of the prior year's net income.

See Financial Results Section (Section III) and Table 1 for details of the adjustments to reported net income required to calculate allocable income.

The volatility in IBRD's net income is primarily driven by the unrealized mark-to-market gains and losses on the derivative instruments in IBRD's non-trading portfolios: loans, borrowings, and other asset/liability management (ALM). IBRD's risk management strategy entails the use of derivatives to manage market risk. These derivatives are primarily used to align the interest rate and currency bases of its assets and liabilities. IBRD has elected not to designate any hedging relationships for accounting purposes. Rather, all derivative instruments are reported at fair value on the Balance Sheet, with changes in fair values reflected in the Statement of Income.

In line with its financial risk management policies, for the non-trading portfolios, unrealized gains and losses from instruments carried at fair value (borrowings, and derivatives in the loans and other ALM portfolios) are excluded from allocable income.

For the trading portfolio (investment portfolio), allocable income includes both realized and unrealized mark-to-market gains and losses.

Section III: Financial Results

Summary of Financial Results

The following is a discussion of the key drivers of IBRD's financial performance, including a reconciliation between IBRD's net income and allocable income.

Table 1: Condensed Statement of Income

In millions of U.S. dollars

For the three months ended September 30,

	2020	2019	Variance
Interest revenue, net of borrowing expenses			
Loan interest revenue, net	\$ 466	\$ 576	\$ (110)
Other ALM derivatives, net	126	(5)	131
Investment revenue, net ^a	27	40	(13)
Net interest revenue	<u>\$ 619</u>	<u>\$ 611</u>	<u>\$ 8</u>
Provision for losses on loans and other exposures, net	(37)	(6)	(31)
Net non-interest expenses (Table 7)	(329)	(307)	(22)
Net other revenue (Table 6)	66	52	14
Board of Governors-approved and other transfers	-	(81)	81
Non-functional currency translation adjustments, gains / (losses) net	11	-	11
Unrealized mark-to-market gains/ (losses) on non-trading portfolios, net ^b	346	(385)	731
Net income (loss)	<u>\$ 676</u>	<u>\$ (116)</u>	<u>\$ 792</u>
Adjustments to reconcile net income to allocable income:			
Pension ^c and other adjustments	20	20	-
Board of Governors-approved and other transfers	-	81	(81)
Non-functional currency translation adjustments, gains / (losses) net	(11)	-	(11)
Unrealized mark-to-market gains/ (losses) on non-trading portfolios, net ^b	(346)	385	(731)
Allocable income	<u>\$ 339</u>	<u>\$ 370</u>	<u>\$ (31)</u>

a. Amounts include unrealized mark-to-market gains (losses) on the Investments-Trading portfolio.

b. Adjusted to exclude amounts reclassified to realized gains (losses).

c. Adjustment to pension accounting expense to arrive at pension plan contributions. Pension plan contributions were \$57 million for FY21 YTD, and \$54 million for FY20 YTD.

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

As of September 30, 2020, total assets increased by 3% from June 30, 2020. The increase was primarily driven by the increase in net loans outstanding.

Table 2: Condensed Balance Sheet

In millions of U.S. dollars

As of	September 30, 2020	June 30, 2020	Variance
Investments and due from banks ^a	\$ 86,906	\$ 86,031	\$ 875
Net loans outstanding ^b	209,528	202,158	7,370
Derivative assets, net	4,598	3,744	854
Other assets	5,273	4,871	402
Total Assets	<u>\$ 306,305</u>	<u>\$ 296,804</u>	<u>\$ 9,501</u>
Borrowings	251,074	243,240	7,834
Derivative liabilities, net	1,160	1,473	(313)
Other liabilities	12,726	11,704	1,022
Equity	41,345	40,387	958
Total Liabilities and Equity	<u>\$ 306,305</u>	<u>\$ 296,804</u>	<u>\$ 9,501</u>

a. September 30, 2020 includes - investments of \$84,974 million (June 30, 2020 - \$84,161 million) and due from banks of \$1,932 million (June 30, 2020 - \$1,870 million).

b. The fair value of IBRD's loans was \$217,169 million as of September 30, 2020 (\$209,613 million - June 30, 2020).

Net Income

IBRD had net income of \$676 million for the first three months of FY21, compared with net loss of \$116 million during the same period in FY20. The increase in FY21 YTD primarily reflects unrealized mark-to-market gains on the loan-related derivatives and the borrowing portfolio, mainly driven by the increasing interest rates during the period (see Table 1 and Notes to Condensed Quarterly Financial Statements, Note K: Fair Value Disclosures, Table K10).

Results from Lending activities

Loan Interest Revenue, net

Loans are funded by equity, and borrowings raised in the capital markets. The lending rates for all of IBRD's loans are based on the underlying cost of the borrowings funding these loans.

For the first three months of FY21, IBRD's loan interest revenue, net was \$466 million, a decrease of \$110 million compared with the same period in FY20 (Figure 4). The decrease was driven mainly by the effect of the decreasing interest rates during the period on the portion of the loan portfolio that is sensitive to interest rate movements. This was partially offset by the higher lending volume during the period.

Under IBRD's pricing policy, the cost of funding is passed on to borrowers. This pricing policy, combined with the effect of IBRD's other ALM derivatives, which moderates the impact of rates on the portion of the loan portfolio sensitive to interest rate movements, stabilizes interest revenue earned from loans. The combined effect of the interest revenue from Other ALM derivatives, net, along with loan interest revenue, net was an increase of \$21 million for the first three months of FY21 compared to the same period of FY20.

Table 3: Net Loans Outstanding activity

In millions of U.S. dollars

Net Loans outstanding as of June 30, 2020	\$ 202,158
Activity during the period:	
Gross loan disbursements	7,437
Loan repayments	(2,276)
Accumulated provision for loan losses	428
Deferred Loan Income	(3)
Translation adjustment impact	1,784
Total activity	\$ 7,370
Net Loans outstanding as of September 30, 2020	\$ 209,528

Figure 3: Net Loans Outstanding

In billions of U.S. dollars

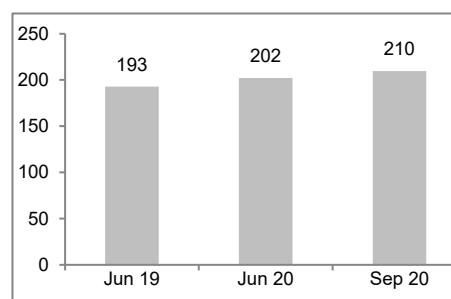
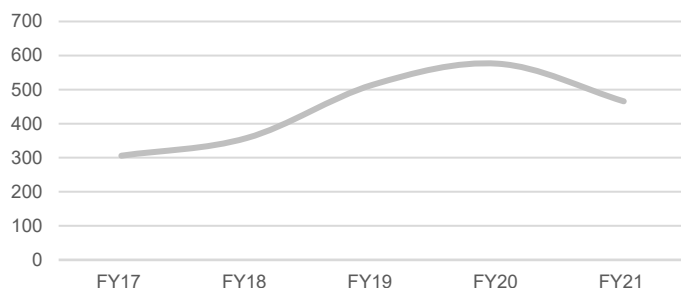


Figure 4: Loan Interest Revenue, net

In millions of U.S. dollars, YTD



As of September 30, 2020, 80% of IBRD's total loans outstanding after derivatives were denominated in U.S. dollars, and 19% were denominated in Euro. For the regional presentation of loans outstanding, see Notes to Condensed Quarterly Financial Statements, Note D: Loans and other exposures, Table D7.

Gross disbursements during the first three months of FY21 were \$7.4 billion, 130% higher compared with the same period in FY20 (Table 4), primarily due to higher activity in Development Policy Financing (DPF) operations.

Table 4: Gross Disbursements by Region

In millions of U.S. dollars

*For the three months ended
September 30,*

	2020		2019		Variance
	Amount	% of total	Amount	% of total	
Eastern and Southern Africa ^a	\$ 53	1%	\$ 21	1%	\$ 32
Western and Central Africa ^a	15	*	68	2	(53)
East Asia and Pacific	1,119	15	718	22	401
Europe and Central Asia	533	7	382	12	151
Latin America and the Caribbean	3,087	41	1,381	42	1,706
Middle East and North Africa	1,171	16	411	13	760
South Asia	1,459	20	255	8	1,204
Total	<u>\$ 7,437</u>	<u>100%</u>	<u>\$ 3,236</u>	<u>100%</u>	<u>\$ 4,201</u>

a. Effective July 1, 2020, the Africa Region was reorganized into two regions: Eastern and Southern Africa and Western and Central Africa. Prior period numbers have been reclassified and presented for comparability.

* Indicates percentages less than 0.5%.

Net commitments during the first three months of FY21 were \$3.1 billion, 22% lower compared with the same period in FY20 (Table 5), primarily due to lower activity in DPF operations.

Table 5: Net Commitments by Region

In millions of U.S. dollars

*For the three months ended
September 30,*

	2020		2019		Variance
	Amount	% of total	Amount	% of total	
Eastern and Southern Africa ^a	\$ -	0%	\$ 1,320	33%	\$ (1,320)
Western and Central Africa ^a	-	-	-	-	-
East Asia and Pacific	600	19	170	4	430
Europe and Central Asia	1,196	39	696	17	500
Latin America and the Caribbean	925	30	1,158	29	(233)
Middle East and North Africa	200	6	500	13	(300)
South Asia	200	6	165	4	35
Total	<u>\$ 3,121</u>	<u>100%</u>	<u>\$ 4,009</u>	<u>100%</u>	<u>\$ (888)</u>

a. Effective July 1, 2020, the Africa Region was reorganized into two regions: Eastern and Southern Africa and Western and Central Africa. Prior period numbers have been reclassified and presented for comparability.

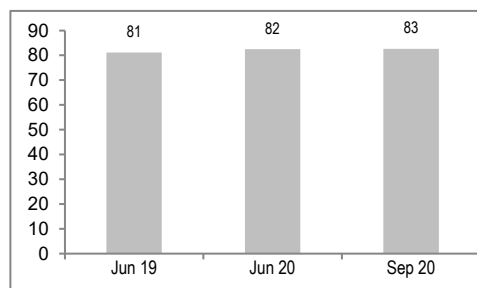
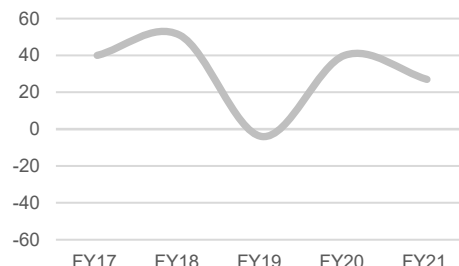
Results from Investing Activities

Investment Portfolio

IBRD's net investment portfolio was \$82.6 billion as of September 30, 2020 (\$82.5 billion as of June 30, 2020). Of this amount, \$79.9 billion related to the liquid asset portfolio (\$79.9 billion as of June 30, 2020). See Notes to Condensed Quarterly Financial Statements, Note C: Investments. The liquid asset portfolio remained stable as the increase in net loan disbursements was primarily offset by the new debt issuances during the period.

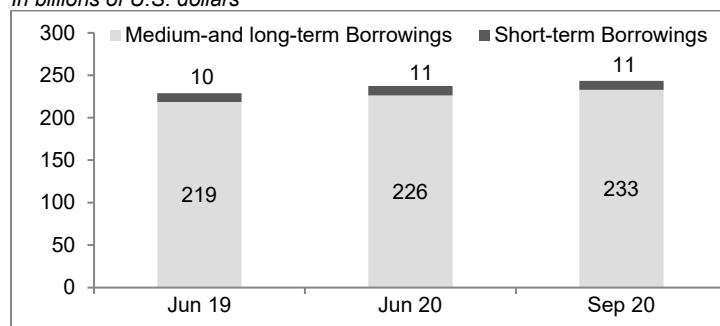
Net Investment Revenue

For the first three months of FY21, IBRD's net investment revenue was \$27 million, \$13 million lower compared with the same period in FY20, mainly due to the lower interest rate environment in the current period.

Figure 5: Net Investment Portfolio*In billions of U.S. dollars***Figure 6: Net Investment Revenue***In millions of U.S. dollars, YTD*

Results from Borrowing Activities

As of September 30, 2020, the borrowing portfolio totaled \$243.4 billion, a \$6.2 billion increase compared with June 30, 2020 (See Notes to Condensed Quarterly Financial Statements, Note E: Borrowings). The increase was primarily due to net issuances of medium-and long-term debt during the period. The medium-and long-term debt issuances of \$15.7 billion during the period were highly diversified with an average maturity of 7.4 years. The funds raised financed development lending operations and satisfied the liquidity requirements.

Figure 7: Borrowing Portfolio*In billions of U.S. dollars*

Net Other Revenue

Net other revenue represents certain non-interest sources of revenue. Table 6 provides details on the composition of net other revenue, which was \$14 million higher in the first three months of FY21, compared with the same period in FY20. The increase was mainly due to the higher earnings from Post-Employment Benefit Plan (PEBP).

Table 6: Net Other Revenue*In millions of U.S. dollars**For the three months ended September 30,*

	2020	2019	Variance
Loan commitment fees	\$ 29	\$ 27	\$ 2
Guarantee fees	3	4	(1)
Net Earnings from Post-Employment Benefit Plan (PEBP) and Post-Retirement Contribution Reserve Fund (PCRF)	33	1	32
PEF and PAF ^a	*	(2)	2
Others	1	22	(21)
Net other revenue (Table 1)	\$ 66	\$ 52	\$ 14

a. Amounts are fully offset by fair value changes in trades (facing counterparties) related to PEF and PAF, which are included in Unrealized mark-to market gains/(losses) on non-trading portfolios, net (Table 1). In July 2020, all PEF related trades matured.

* Indicates amounts less than \$0.5 million.

Net Non-Interest Expenses

As shown in Table 7, IBRD's net non-interest expenses primarily comprise administrative expenses, net of revenue from externally-funded activities. IBRD/IDA's administrative budget is a single resource envelope that funds the combined work programs of IBRD and IDA. The allocation of net administrative expenses between IBRD and IDA is based on an agreed cost and revenue-sharing methodology, approved by their Boards, which is primarily driven by the relative level of lending, knowledge services, and other services between these two institutions. The administrative expenses shown in Table 7 include costs related to IBRD-executed trust funds and other externally funded activities.

Figure 8: Net Non-Interest Expenses

In millions of U.S. dollars, YTD

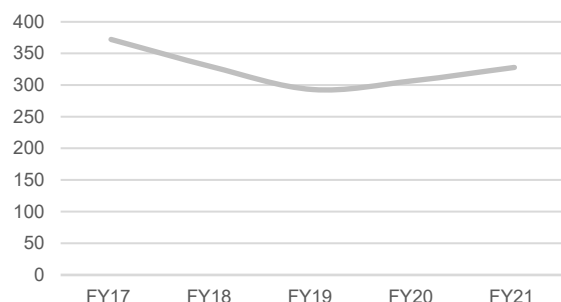


Table 7: Net Non-Interest Expenses

In millions of U.S. dollars

For the three months ended September 30,

	2020	2019	Variance
Administrative and pension expenses			
Staff costs	\$ 240	\$ 244	\$ (4)
Travel	2	30	(28)
Consultant and contractual services	65	66	(1)
Pension and other post-retirement benefits ^a	110	75	35
Communications and technology	13	12	1
Premises and equipment	29	32	(3)
Other expenses	12	17	(5)
Total administrative and pension expenses^b	\$ 471	\$ 476	\$ (5)
Revenue from externally funded activities			
Reimbursable revenue – IBRD executed trust funds	(83)	(105)	22
Other revenue	(59)	(64)	5
Total revenue from externally funded activities	\$ (142)	\$ (169)	\$ 27
Net non-interest expenses (Table 1)	\$ 329	\$ 307	\$ 22

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

b. Includes expenses related to IBRD executed trust funds of \$83 million and \$105 million for FY20.

Net non-interest expenses for the first three months of FY21 increased compared with the same period last year. This primarily reflects an increase in pension costs driven by decrease in discount rate resulting in higher amortization of unrecognized actuarial losses.

Unrealized mark-to-market gains/losses on non-trading portfolios

Unrealized mark-to-market gains and losses associated with non-trading portfolios, are excluded from reported net income to arrive at allocable income. As a result, from a long-term financial sustainability perspective, income allocations are based on amounts that have been realized (except for the Investments-Trading portfolio, as previously discussed). For the first three months of FY21, \$346 million of net unrealized mark-to-market gains (\$385 million net unrealized mark-to-market losses for same period in FY20) were excluded from reported net income to arrive at allocable income (see Table 1 and Notes to Condensed Quarterly Financial Statements, Note K: Fair Value Disclosures, Table K 10).

Loan Portfolio

Loans are reported at amortized cost, whereas the derivatives which convert the loans with fixed-rate to variable-rate instruments are reported at fair value. As a result, while from an economic perspective, IBRD's loans after the effect of derivatives carry variable interest rates, and therefore have a low sensitivity to interest rates, this is not reflected in the reported net income. Net income includes only unrealized mark to market gains and losses on loan related derivatives, which for the first three months of FY21 was a gain of \$304 million. To show the full economic effect of IBRD's risk management policies, see Section IV: Risk Management for additional details on how IBRD uses derivatives in the loan portfolio.

Borrowing Portfolio

IBRD's bonds and the related derivatives are reported at fair value, and, therefore, unrealized mark-to-market gains and losses on the borrowing related derivatives are offset by unrealized mark-to-market gains and losses on the underlying bonds, except for changes in IBRD's own credit, referred to as the Debit Valuation Allowance (DVA) which are recorded in AOCL. For the first three months of FY21, the DVA includes \$616 million of unrealized mark-to-market losses resulting mainly from the tightening of IBRD's credit spreads relative to LIBOR during the first three months of FY21. As of September 30, 2020, IBRD's Condensed Balance Sheet included a cumulative DVA of \$598 million reflected in AOCL, associated with the changes in its own credit for financial liabilities measured under the fair value option (borrowings, see Notes to the Condensed Quarterly Financial Statements, Note K – Other Fair Value Disclosures).

Other ALM Portfolio

IBRD uses derivatives to stabilize its interest revenue from the portion of loans funded by equity. Other ALM portfolio consists of derivatives which convert variable rate cash flows to fixed rate cash flows. These derivatives are at fair value. For the first three months of FY21, IBRD recorded unrealized mark to market losses of \$136 million on this portfolio primarily due to the increase in U.S. dollar interest rates during the period. As of September 30, 2020, the duration of this portfolio is 3.1 years.

Transfers to Affiliated Organizations

Since 1964, IBRD has made transfers to IDA out of its net income, upon approval by the Board of Governors. Under a formula-based approach for IBRD's income support to IDA, the amount of income transfer recommended for IDA is a function of IBRD's financial results. For allocations out of the FY20 Net Income, the Board approved IBRD's management's proposal to hold \$331 million in the IBRD's Surplus account, as a measure of prudence in view of the current uncertain outlook due to the COVID-19 crisis, retaining the option to keep those funds with IBRD to strengthen its reserves should a downside scenario materialize. IBRD's Management will make further recommendations to the Board later in FY21, which could include transferring these funds to IDA, for the approval of the Governors.

Section IV: Risk Management

Risk Governance

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

Management believes that effective risk management is critical for its overall operations. Accordingly, the risk management governance structure is designed to manage the principal risks IBRD assumes in its activities, 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.

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

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

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

Risk Oversight and Coverage

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

The risk of IBRD's operations not meeting their development outcomes (development outcome risk) in IBRD's lending activities is monitored at the corporate level by Operations Policy and Country Services (OPCS). Where fraud and corruption risks may impact IBRD-financed projects, OPCS, the regions and practice groups, and the Integrity Vice Presidency jointly address such issues.

Management of IBRD's Risks

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

In an effort to maximize IBRD's capacity to lend to member countries for development purposes, IBRD limits its exposure to market and counterparty credit risks. In addition, to ensure that the financial risks associated with its loans and other exposures do not exceed its risk-bearing capacity, IBRD uses a strategic capital adequacy framework as a key medium-term capital planning tool.

Coronavirus Disease 2019 (COVID-19) Outbreak

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

In light of COVID-19, IBRD faces additional credit, market and operational risks for its activities. IBRD continues to monitor developments and to manage the risks associated with all its portfolios. IBRD's announced lending capacity response to the outbreak was estimated within its existing financial, operational and risk management policies as well as prescribed limits, which have not been modified for this response to the outbreak, as described in Section I.

As of September 30, 2020, IBRD had sufficient resources to meet its liquidity requirements and continues to have access to capital market resources, despite recent market volatility. The liquid asset portfolio was 118% of the Target Liquidity Level. In the first three months in FY21, IBRD continued to maintain a robust liquidity position and flexibility to access the necessary liquidity resources. In October 2020, IBRD issued a \$6 billion 5-year Global Debt Offering.

Management remains vigilant in assessing funding needs in the medium and longer-term to manage the effect of possible severe market movements.

As of the reporting date, country credit risk and counterparty credit risk remain in line with the existing governance framework and established credit limits. The loan loss provisions reflect IBRD's current assessment of country risk ratings. The fair values of related financial instruments reflect counterparty credit risk in IBRD's portfolios. Developments in the market continue to be closely monitored and managed.

Home-based work continues in IBRD offices throughout the world, with certain exceptions, in line with IBRD's Business Continuity Procedure. In addition, IBRD has adopted other prudent measures to ensure the health and safety of its employees, including imposing travel restrictions, and holding public events in virtual format.

While the duration of the COVID-19 pandemic and its effects are difficult to predict at this time, IBRD has continued to respond to demand and operate our core business functions effectively by utilizing technology for remote work, and by leveraging our extensive local presence in client countries around the world.

Management has an office reopening framework that prioritizes staff health and safety while taking into consideration risks including business continuity. The office reopening framework provides for the incremental return to office and on-site business activities in stages or "tiers," allowing for enough time in between tiers to assess risk and preparedness indicators. IBRD continues to monitor risks associated with COVID-19 and prepare plans to respond in case the situation deteriorates.

Capital Adequacy

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

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

As shown in Table 8, IBRD's equity-to-loans ratio marginally decreased to 22.6% as of September 30, 2020, from 22.8% as of June 30, 2020, and remained above the 20% minimum ratio under the strategic capital adequacy framework. In line with IBRD's currency management policy, exchange rate movements during the period did not have an impact on IBRD's equity-to-loans ratio. Under the currency management policy, to minimize exchange rate risk, IBRD matches its borrowing obligations in any one currency (after derivatives) with assets in the same currency. In addition, IBRD periodically undertakes currency conversions to align the currency composition of its equity with that of its outstanding loans, across major currencies.

Table 8: Equity-to-Loans Ratio*In millions of U.S. dollars*

<i>As of</i>	<i>September 30, 2020</i>	<i>June 30, 2020</i>	<i>Variance</i>		
			<i>Total</i>	<i>Due to Activities</i>	<i>Due to Translation Adjustments</i>
Usable paid-in capital	\$ 17,540	\$ 17,288	\$ 252	\$ 150	\$ 102
Special reserve	293	293	-	-	-
General reserve ^a	30,387	30,387	-	-	-
Cumulative translation adjustment ^b	(385)	(737)	352	-	352
Other adjustments	87	(93)	180	203	(23)
Equity (usable equity)	\$ 47,922	\$ 47,138	\$ 784	\$ 353	\$ 431
Loans exposure	\$ 211,188	\$ 204,231	\$ 6,957	\$ 5,161	\$ 1,796
Present value of guarantees	3,014	3,264	(250)	(321)	71
Effective but undisbursed DDOs	-	1,834	(1,834)	(1,834)	-
Related accumulated provisions	(1,212)	(1,669)	457	466	(9)
Deferred loan income	(481)	(474)	(7)	(3)	(4)
Other exposures	(723)	(727)	4	4	-
Loans (total exposure)	\$ 211,786	\$ 206,459	\$ 5,327	\$ 3,473	\$ 1,854
Equity-to-Loans Ratio	22.6%	22.8%			

a. June 30, 2020 amount includes the proposed transfer to the General Reserve, which was approved by IBRD's Executive Directors on August 7, 2020.

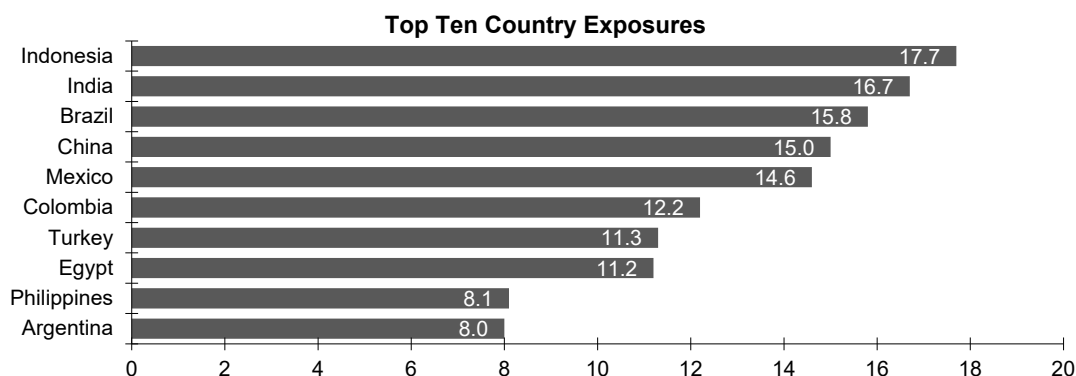
b. Excludes cumulative translation amounts associated with the unrealized mark-to-market gains/losses on non-trading portfolios, net.

Credit Risk

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

Country Credit Risk

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

Figure 9: Country Exposures as of September 30, 2020*In billions of U.S. dollars*

Portfolio Concentration Risk

Portfolio concentration risk, which arises when a small group of borrowers account for a large share of loans outstanding, is a key concern for IBRD. The ten countries with the highest exposures accounted for 61% of IBRD's total exposure as of September 30, 2020.

Concentration risk is carefully managed, in part, by applying an exposure limit to a single borrowing country for the aggregate balance of loans outstanding, the present value of guarantees, the undisbursed portion of Deferred Drawdown Options (DDOs), and other eligible exposures that have become effective. Under the current guidelines, IBRD's exposure to a single borrowing country is restricted to the lower of an Equitable Access Limit (EAL) and the Single Borrower Limit (SBL).

The SBL framework reflects a dual-SBL system, which differentiates between countries below the Graduation Discussion Income (GDI) threshold and those above it. Under this system, for FY21 the SBL is \$23.5 billion for highly creditworthy countries below the GDI, and \$20.5 billion for highly creditworthy countries above the GDI.

Accumulated Provision on Loans and Other Exposures

Beginning July 1, 2020, IBRD records a provision to reflect the expected losses inherent in its loan and other exposures, including protection provided under the Exposure Exchange Agreement. Prior to July 1, 2020, the provision was determined based on a probable incurred loss model. On July 1, 2020, IBRD recorded a transition adjustment of \$203 million, increasing the opening balance of retained earnings. This adjustment represented the difference between the previous method and CECL (see Notes to Condensed Quarterly Financial Statements, Note A – Summary of Significant Accounting and Related Policies). For the first three months of FY21, IBRD recorded a provision for losses on loans and other exposures of \$37 million, primarily reflecting the impact of the change in exposures and severity during the period.

As of September 30, 2020, IBRD's accumulated provision for losses on loans and other exposures was \$1,533 million, including \$303 million of accumulated provision related to Loan commitments (see Notes to Condensed Quarterly Financial Statements, Note D: Loans and Other Exposures). This was less than 1% of the underlying exposures (\$1,698 million as of June 30, 2020, less than 1% of total exposures).

As of September 30, 2020, 0.2% of IBRD's loans were in nonaccrual status and all related to Zimbabwe. During the first three months of FY21, IBRD did not receive any payments towards overdue interest and principal from Zimbabwe (\$0.75 million for FY20 YTD). (See Notes to Condensed Quarterly Financial Statements, Note D: Loans and Other Exposures).

Counterparty Credit Risk

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

Commercial Counterparty Credit Risk

Commercial counterparty credit risk is the 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 IBRD's funding, investment, and asset/liability management activities. The monitoring and management of these risks is continuous as the market environment evolves.

As a result of IBRD's use of mark-to-market collateral arrangements for swap transactions, its residual commercial counterparty credit risk is concentrated in the investment portfolio, in instruments issued by sovereign governments and non-sovereign holdings (including Agencies, Asset Backed Securities, Corporates, and Time Deposits). IBRD's overall commercial counterparty credit exposure increased by \$0.7 billion during the first three months of FY21, to \$84.1 billion as of September 30, 2020, consistent with the increase in the investment portfolio.

As shown in Table 9, the credit quality of IBRD's investment portfolio remains concentrated in the upper end of the credit spectrum, with 74% of the portfolio rated AA or above and the remainder predominantly rated A. The exposures with the AAA and AA rated counterparties primarily related to sovereign debt and time deposits. The A rated counterparties principally consisted of financial institutions (limited to short-term deposits and swaps) and sovereign debt.

Table 9: Commercial Credit Exposure, Net of Collateral Held, by Counterparty Rating*In millions of U.S. dollars**As of September 30, 2020*

<i>Counterparty Rating ^a</i>	<i>Investments</i>		<i>Net Swap Exposure</i>	<i>Total Exposure</i>	<i>% of Total</i>
	<i>Sovereigns</i>	<i>Non-Sovereigns</i>			
AAA	\$ 25,691	\$ 13,921	\$ -	\$ 39,612	47%
AA	2,066	20,137	273	22,476	27
A	10,421	10,887	599	21,907	26
BBB	1	46	-	47	*
BB or lower/unrated	39	6	-	45	*
Total	\$ 38,218	\$ 44,997	\$ 872	\$ 84,087	100%

As of June 30, 2020

<i>Counterparty Rating ^a</i>	<i>Investments</i>		<i>Net Swap Exposure</i>	<i>Total Exposure</i>	<i>% of Total</i>
	<i>Sovereigns</i>	<i>Non-Sovereigns</i>			
AAA	\$ 22,620	\$ 14,069	\$ -	\$ 36,689	44%
AA	2,109	23,226	683	26,018	31
A	11,128	9,245	215	20,588	25
BBB	1	38	-	39	*
BB or lower/unrated	41	5	-	46	*
Total	\$ 35,899	\$ 46,583	\$ 898	\$ 83,380	100%

a. Average rating is calculated using available ratings from the three major rating agencies; however, if ratings are not available from each of the three rating agencies, IBRD uses the average of the ratings available from any of such rating agencies or a single rating if an instrument or issuer (as applicable) is rated by only one rating agency.

* Indicates amount less than \$0.5 million or percentage less than 0.5%.

Non-Commercial Counterparty Credit Risk

In addition to its derivative transactions with commercial counterparties, IBRD offers derivative-intermediation services to borrowing member countries, as well as to affiliated and non-affiliated organizations, to help meet their development needs and fulfill their development mandates (See Table 10).

IBRD has a master derivatives agreement with the International Finance Facility for Immunization (IFFIm), under which several transactions have been executed. IBRD has the right to call for collateral above an agreed specified threshold. As of September 30, 2020, IBRD had not exercised this right, but may do so under the existing terms of the agreement. Rather than calling for collateral, IBRD and IFFIm have agreed to manage IBRD's exposure by applying a risk management buffer to the gearing ratio limit. The gearing ratio limit represents the maximum amount of IFFIm's net financial obligations less cash and liquid assets, as a percentage of the net present value of its financial assets.

Table 10: Non-Commercial Counterparty Credit Risk*In millions of U.S. dollars**Exposures as of September 30, 2020*

<i>Non-Commercial Counterparty</i>	<i>Instrument used</i>	<i>Purpose of derivative transaction</i>	<i>Notional</i>	<i>Net Exposure</i>
Borrowing Member Countries	Derivatives	Assist borrowing member countries with managing risks	\$ 11,653	\$ 1,711
Affiliated Organization	Derivatives	Intermediation on behalf of IDA	1,362	-
Non-Affiliated Organization	Derivatives	Assist IFFIm with managing risks	2,030	303
			\$ 15,045	\$ 2,014

Effect of Changes in Credit Spreads

The sensitivity of IBRD's portfolios to changes in credit spreads is shown in the table below, where the amount represents the dollar change in fair value which corresponds to a one basis point parallel upward shift in credit spreads.

Table 11: Effect of Credit on IBRD's Portfolios

In millions of U.S. dollars

As of September 30, 2020

		<i>Credit Effect on Portfolio</i>
		<i>Sensitivity^a</i>
Borrowing portfolio	\$	95
Loan portfolio ^b		(37)
Other ALM portfolio		(*)
Investment portfolio		(4)
Total gains	\$	54

a. Excludes CVA and DVA on derivatives.

b. If loans were measured at fair value.

** Sensitivity is marginal.*

Market Risk

IBRD is exposed to changes in interest and exchange rates, and it uses various strategies to minimize its exposure to market risk.

Interest Rate Risk

Under its current interest rate risk management strategy, IBRD seeks to match the interest rate sensitivity of its assets (loan and investment trading portfolios) with those of its liabilities (borrowing portfolio) by using derivatives, such as interest rate swaps. These derivatives effectively convert IBRD's financial assets and liabilities into variable-rate instruments. After considering the effects of these derivatives, virtually the entire loan and borrowing portfolios are carried at variable interest rates. The sensitivity of these portfolios to interest rate movements, after the effect of derivatives, is shown in the table below where the amount represents the dollar change in fair value which corresponds to a one basis point parallel upward shift in interest rates.

Table 12: Effect of Interest Rates on IBRD's Portfolios

In millions of U.S. dollars

As of September 30, 2020

		<i>Interest Rate Effect on Portfolio</i>
		<i>Sensitivity^a</i>
Borrowing portfolio	\$	6
Loan portfolio ^b		(17)
Other ALM portfolio		(13)
Investment portfolio		(1)
Total losses	\$	(25)

a. After the effects of derivatives.

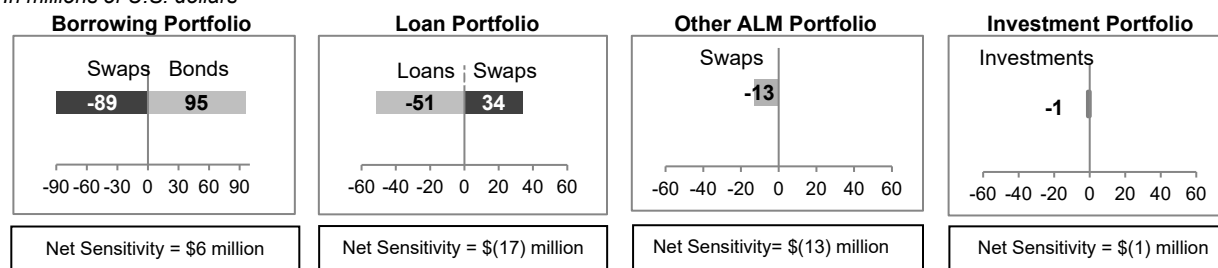
b. If loans were measured at fair value.

Figure 10 illustrates how the use of derivatives affects the overall sensitivity of the borrowing, loan, other ALM and investment portfolios. It illustrates the extent to which each portfolio is economically hedged. For example, for the borrowing portfolio a one-basis-point upward parallel shift in interest rates would result in \$95 million of unrealized mark-to-market gains on bonds which would be offset by \$89 million of unrealized mark-to-market losses on swaps. Loans are illustrated as if they were measured at fair value.

Figure 10: Sensitivity to Interest Rates as of September 30, 2020

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

In millions of U.S. dollars



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

Low Interest Rate Environment

Loans to borrowing countries

Under IBRD's loan agreements, if an interest rate formula yields a negative rate, the interest rate is fixed at zero.

Liquid Asset Portfolio

IBRD's existing guidelines allow for the investment in a wide variety of credit products in both developed and emerging market economies (see investment eligibility criteria in IBRD's MD&A as of June 30, 2020). Low and negative fixed interest rates present a challenge for the investment of the liquid asset portfolio. However, even markets with negative rates can provide positive spread returns once the investment is swapped back into a U.S. dollar floating basis. In the first three months of FY21, despite the low interest rate environment, IBRD was able to generate a positive return, net of funding costs on its liquid asset portfolio (see Table 1).

Fixed Spread Loan Refinancing Risk

Refinancing risk for funding fixed-spread loans relates to the potential impact of any future deterioration in IBRD's funding spread. IBRD does not match the maturity of its funding with that of its fixed spread loans as this would result in significantly higher financing costs for all loans. Instead, IBRD targets a shorter average funding maturity and manages the refinancing risk through two technical components of the fixed-spread loan pricing, both of which can be changed at Management's discretion:

- *Projected funding cost*: Management's best estimate of average funding costs over the life of the loan
- *Risk premium*: a charge for the risk that actual funding costs are higher than projected

Liquid Asset Portfolio Spread Exposure

The interest rate risk on IBRD's liquid asset portfolio, including the risk that the value of assets in the portfolio will fluctuate in response to changes in market interest rates, is managed within specified duration-mismatch limits. The liquid asset portfolio has spread exposure because IBRD holds instruments other than the short-term bank deposits represented by the portfolios' London Interbank Bid Rate (LIBID) benchmark. These investments generally yield positive returns over the benchmark but can generate mark-to-market losses if their spreads relative to LIBOR widen.

Other Interest Rate Risks

Interest rate risk also arises from other variables, including differences in timing between the contractual maturities or re-pricing of IBRD's assets, liabilities, and derivative instruments. On variable-rate assets and liabilities, IBRD is exposed to timing mismatches between the re-set dates on its variable-rate receivables and payables. IBRD monitors these exposures and may execute overlay interest rate swaps to reduce sizable timing mismatches.

Alternative Reference Rate

In July 2017, the Financial Conduct Authority (FCA), the regulator of LIBOR, announced that it will no longer compel panel banks to submit rates required to calculate LIBOR after December 31, 2021 and, therefore, market participants, including IBRD and its borrowers need to move to alternative reference rates because the availability of LIBOR after this date is not a certainty. Although, the transition from LIBOR is faced with numerous uncertainties and challenges, the transition decision is aimed at increased transparency in the financial markets by better aligning the alternative reference rates with actual market transactions.

IBRD previously completed an initial impact assessment of its exposure, both quantitatively and qualitatively, to LIBOR and developed an implementation roadmap for the LIBOR transition. As part of the communication strategy for the transition, senior management has also met with various internal and external key stakeholders to discuss the important nature of the transition. In FY20, IBRD's Executive Directors endorsed an omnibus amendment process with borrowers for loan agreements to address the replacement of LIBOR, allowing IBRD to maintain and preserve the pre-existing relationship between its funding costs and lending rates and maintain the principles of fairness and equivalence for any replaced reference rate. The planned contract amendments will enable similar treatment to all loans by bringing the fallback provisions related to changes in the reference rate in the General Conditions into conformity with the revised General Conditions of December 2018. The new language permits IBRD to transition the interest rate to alternative reference rates when a suitable alternative is available, and it is appropriate to do so. During FY21, loan agreement omnibus amendments were distributed to borrowers and IBRD has started receiving signed amendments from borrowers. IBRD is actively working through this transition and is analyzing the impact from multiple perspectives: lending, funding, accounting, operations, information technology, liquidity investing, risk and legal, considering the portfolio of existing loans and other instruments that use LIBOR as a benchmark. IBRD will continue to work with key stakeholders, including internal subject matter experts, senior management, borrowers, industry groups and other market participants, to mitigate potential financial and operational risks to which IBRD is exposed and to ensure an orderly transition to the alternative reference rates. IBRD is managing the transition prudently and in a cost-effective manner.

Exchange Rate Risk

IBRD holds its assets and liabilities mainly in U.S. dollars and euro. However, the reported levels of its assets, liabilities, income, and expenses in the financial statements are affected by exchange rate movements in all the currencies in which IBRD transacts, relative to its reporting currency, the U.S. dollar. While IBRD's equity could be affected by exchange rate movements, IBRD's risk management policies work to minimize the exchange rate risk in its capital adequacy, by immunizing the equity-to-loans ratio against exchange rate movements.

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

Liquidity Risk

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

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

The Target Liquidity Level represents twelve-months' coverage as calculated at the start of every fiscal year. The Prudential Minimum is defined as 80% of the Target Liquidity Level. The 150% maximum guideline (150% of Target Liquidity Level) applies to the portfolio and it continues to function as a guideline rather than a hard ceiling (see Table 13).

Table 13: Liquidity Levels for FY21

	<i>In billions of U.S. dollars</i>	<i>% Of Target Liquidity Level</i>
Target Liquidity Level	68.0	
Guideline Maximum Liquidity Level	102.0	150%
Prudential Minimum Liquidity Level	54.4	80%
Liquid Asset Portfolio as of September 30, 2020	79.9	118%

The FY21 Target Liquidity Level is \$2 billion higher than the prior year, reflecting the higher Prudential Minimum, as well as higher projected debt service for FY21.

Operational Risk

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

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

Section V: Governance

Senior Management Changes

There were no Senior Management changes during the period.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

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CONDENSED BALANCE SHEET

Expressed in millions of U.S. dollars

	<i>September 30, 2020</i> <i>(Unaudited)</i>	<i>June 30, 2020</i> <i>(Unaudited)</i>
Assets		
Due from banks—Notes C and K		
Unrestricted cash	\$ 1,810	\$ 1,748
Restricted cash	122	122
	<u>1,932</u>	<u>1,870</u>
Investments-Trading (including securities transferred under repurchase or securities lending agreements of \$9 million—September 30, 2020; \$8 million—June 30, 2020)—Notes C and K	84,582	83,767
Securities purchased under resale agreements—Note C and K	392	394
Derivative assets, net—Notes C, E, F and K	4,598	3,744
Loans outstanding—Notes D, I and K		
Total loans approved	275,825	274,047
Less undisbursed balance (including signed loan commitments of \$54,942 million — September 30, 2020, and \$54,834 million — June 30, 2020)	<u>(64,637)</u>	<u>(69,816)</u>
Loans outstanding	211,188	204,231
Less:		
Accumulated provision for loan losses	(1,179)	(1,599)
Deferred loan income	<u>(481)</u>	<u>(474)</u>
Net loans outstanding	209,528	202,158
Other assets—Notes C, D, E and I	<u>5,273</u>	<u>4,871</u>
Total assets	<u><u>\$ 306,305</u></u>	<u><u>\$ 296,804</u></u>

	<i>September 30, 2020</i> <i>(Unaudited)</i>	<i>June 30, 2020</i> <i>(Unaudited)</i>
Liabilities		
Borrowings—Notes E and K	\$ 251,074	\$ 243,240
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received—Notes C and K	95	36
Derivative liabilities, net—Notes C, E, F and K	1,160	1,473
Other liabilities—Notes C, D and I	12,631	11,668
Total liabilities	<u>264,960</u>	<u>256,417</u>
Equity		
Capital stock—Note B		
Authorized capital (2,783,873 shares—September 30, 2020, and June 30, 2020)		
Subscribed capital (2,398,189 shares—September 30, 2020, and 2,387,388 shares—June 30, 2020)	289,306	288,002
Less uncalled portion of subscriptions	<u>(271,125)</u>	<u>(269,968)</u>
Paid-in capital	18,181	18,034
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital	(366)	(373)
Receivable amounts to maintain value of currency holdings	(249)	(299)
Deferred amounts to maintain value of currency holdings	30	(14)
Retained earnings (see Condensed Statement of Changes in Retained Earnings; Note G)	29,644	28,765
Accumulated other comprehensive loss—Note J	<u>(5,895)</u>	<u>(5,726)</u>
Total equity	<u>41,345</u>	<u>40,387</u>
Total liabilities and equity	<u><u>\$ 306,305</u></u>	<u><u>\$ 296,804</u></u>

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

CONDENSED STATEMENT OF INCOME

Expressed in millions of U.S. dollars

	<i>Three Months Ended September 30, (Unaudited)</i>	
	<i>2020</i>	<i>2019</i>
Net interest revenue		
Interest revenue		
Loans, net—Note D	\$ 718	\$ 1,324
Other asset/liability management derivatives, net	126	(5)
Investments-Trading, net	80	413
Other, net	1	5
Borrowing expenses, net—Note E	(343)	(1,182)
Interest revenue, net of borrowing expenses	582	555
Provision for losses on loans and other exposures—Note D	(38)	(6)
Non-interest revenue		
Revenue from externally funded activities—Note I	142	169
Commitment charges—Note D	29	27
Other	10	32
Total	181	228
Non-interest expenses		
Administrative—Notes H and I	(468)	(490)
Pension—Note H	(3)	14
Other	(6)	(6)
Total	(477)	(482)
Board of Governors-approved and other transfers—Note G	-	(81)
Non-functional currency translation adjustments, net	11	-
Unrealized mark-to-market gains on Investments-Trading portfolio, net—Notes F and K	71	54
Unrealized mark-to-market gains (losses) on non-trading portfolios, net—Notes D, E, F and K	346	(384)
Net income (loss)	\$ 676	\$ (116)

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>	
	<i>2020</i>	<i>2019</i>
Net income (loss)	\$ 676	\$ (116)
Other comprehensive income—Note J		
Reclassification to net income:		
Amortization of unrecognized net actuarial losses	94	43
Amortization of unrecognized prior service costs	6	6
Net Change in Debit Valuation Adjustment (DVA) on Fair Value option elected liabilities	(616)	61
Currency translation adjustments on functional currency	347	(283)
Total other comprehensive loss	(169)	(173)
Comprehensive income (loss)	<u>\$ 507</u>	<u>\$ (289)</u>

CONDENSED STATEMENT OF CHANGES IN RETAINED EARNINGS

Expressed in millions of U.S. dollars

	<i>Three Months Ended September 30, (Unaudited)</i>	
	<i>2020</i>	<i>2019</i>
Retained earnings at beginning of the fiscal year	\$ 28,765	\$ 28,807
Cumulative effect of change in accounting principle—Notes A, D and G	203	-
Net income (loss)	676	(116)
Retained earnings at end of the period	<u>\$ 29,644</u>	<u>\$ 28,691</u>

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

CONDENSED STATEMENT OF CASH FLOWS

Expressed in millions of U.S. dollars

	Three Months Ended September 30, (Unaudited)	
	2020	2019
Cash flows from investing activities		
Loans		
Disbursements	\$ (7,427)	\$ (3,226)
Principal repayments	2,276	2,260
Principal prepayments	-	15
Loan origination fees received	7	3
Net derivatives-loans	3	3
Other investing activities, net	(26)	(25)
Net cash used in investing activities	<u>(5,167)</u>	<u>(970)</u>
Cash flows from financing activities		
Medium and long-term borrowings		
New issues	15,600	13,705
Retirements	(10,334)	(19,617)
Short-term borrowings (original maturities greater than 90 days)		
New issues	6,851	3,863
Retirements	(5,158)	(4,607)
Net short-term borrowings (original maturities less than 90 days)	(2,243)	1,196
Net derivatives-borrowings	(154)	(195)
Capital subscriptions	147	388
Net cash provided by (used in) financing activities	<u>4,709</u>	<u>(5,267)</u>
Cash flows from operating activities		
Net income (loss)	676	(116)
Adjustments to reconcile net income to net cash used in operating activities:		
Unrealized mark-to-market (gains) losses on non-trading portfolios, net	(346)	384
Non-functional currency translation adjustments, net	(11)	-
Depreciation and amortization	167	241
Provision for losses on loans and other exposures	38	6
Changes in:		
Investments portfolio	270	6,302
Other assets and liabilities	(330)	(369)
Net cash provided by operating activities	<u>464</u>	<u>6,448</u>
Effect of exchange rate changes on unrestricted and restricted cash	<u>56</u>	<u>(18)</u>
Net increase in unrestricted and restricted cash	<u>62</u>	<u>193</u>
Unrestricted and restricted cash at beginning of the fiscal year	<u>1,870</u>	<u>895</u>
Unrestricted and restricted cash at end of the period	<u>\$ 1,932</u>	<u>\$ 1,088</u>
Supplemental disclosure		
Increase (decrease) in ending balances resulting from exchange rate fluctuations		
Loans outstanding	\$ 1,796	\$ (1,738)
Investment portfolio	132	(7)
Borrowing portfolio	1,414	(1,134)
Capitalized loan origination fees included in total loans	10	10
Interest paid on borrowing portfolio	684	1,351

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

NOTES TO CONDENSED QUARTERLY FINANCIAL STATEMENTS

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

Basis of Preparation

These unaudited condensed quarterly financial statements and notes should be read in conjunction with the June 30, 2020, audited financial statements and notes included therein. The condensed comparative information that has been derived from the June 30, 2020, audited financial statements has not been audited. In the opinion of management, the condensed quarterly financial statements reflect all adjustments necessary for a fair presentation of IBRD's financial position and results of operations in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

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

Accounting and Reporting Developments

Evaluated accounting standards:

In March 2020, the FASB issued ASU 2020-04 - *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU provides temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burden of the expected market transition from LIBOR and other interbank offered rates. To be eligible for the optional expedients, modifications of contractual terms that change (or have the potential to change) the amount or timing of contractual cash flows must be related only to replacement of a reference rate. The relief is temporary and is only available through December 31, 2022. IBRD will apply the standard consistently to contractual amendments made to all applicable floating rate instruments indexed to IBOR (inter-bank offered rate) rates. IBRD adopted the standard effective June 30, 2020 and the adoption did not have a material impact on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which amends certain disclosure requirements of ASC 820. The guidance became effective for IBRD on July 1, 2020. The adoption of this ASU had no material impact on IBRD's financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which amends ASC 350-40. The guidance became effective for IBRD on July 1, 2020. The adoption of this ASU had no material impact on IBRD's financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL ASU). The ASU and its subsequent amendments introduce a new model for the accounting of credit losses on loans and other financial assets measured at amortized cost. The current expected credit loss (CECL) model, requires an entity to estimate the credit losses expected over the life of an exposure, considering historical information, current information, and reasonable and supportable forecasts. Additionally, the ASUs require enhanced disclosures about credit quality and significant estimates and judgments used in estimating credit losses.

For IBRD, the ASUs became effective on July 1, 2020. The transition adjustment increased Retained earnings by \$203 million, which reflects the decrease in the expected credit losses relating to loans and other exposures under CECL compared to the previous “incurred loss” model. The impact is mainly driven by the use of implied forward interest rates under CECL compared to historical average interest rates under the previous methodology. Implied forward interest rates declined to historically low levels in the context of the global pandemic. This impact was partially offset by the inclusion of signed loan commitments in the determination of the provision and the requirement to provision over the full life of IBRD’s long maturity profile credit exposures.

See the table below for details of the CECL transition adjustment as of July 1, 2020. The transition adjustment had no impact on the Statement of Income. See Note D — Loans and Other Exposures and Note G — Retained Earnings, Allocations and Transfers, for additional details.

In millions of U.S. dollars

	<i>Location on the Condensed Balance Sheet</i>	<i>June 30, 2020 As reported</i>	<i>Impact of the adoption of the CECL ASU</i>	<i>July 1, 2020 Adjusted</i>
<i>Accumulated provision related to:</i>				
Loans outstanding	Accumulated provision for loan losses	\$ 1,599	\$ (465)	\$ 1,134
Signed loan commitments	Other liabilities	-	298	298
Other exposures	Other liabilities	99	(47)	52
Total impact on accumulated provision		<u>\$ 1,698</u>	<u>\$ (214)</u>	<u>\$ 1,484</u>
Recoverable asset relating to guarantee received under the Exposure Exchange Agreements (EEAs)	Other assets	\$ (28)	\$ 11	\$ (17)
Retained earnings		\$ 28,765	<u>\$ 203</u>	\$ 28,968

As a result of the implementation of the CECL ASU, the significant accounting policies have been updated as follows.

Accumulated Provision for Losses on Loans and Other Exposures: Management determines the appropriate level of accumulated provisions for losses on exposures, which reflects the expected losses inherent in IBRD’s exposures. The exposures are disaggregated into two groups: exposures in accrual status and exposures in nonaccrual status. For countries in accrual status, these exposures are grouped in pools of borrowers with similar risk ratings. The expected credit losses related to loans and other exposures are calculated over the life of the instruments by multiplying the annual expected exposures by the expected default frequency (probability of default to IBRD) and by the estimated severity of the loss given default. The provision for expected losses on loans is the sum of the expected annual losses over the expected life of the instruments. The total exposure for provisioning under CECL is the current exposure and the expected exposure over the life of the instrument. Each risk rating is mapped to the annual expected default frequencies using IBRD’s credit migration matrix, based on historical observations of credit ratings at the beginning and at the end of each year. Expected losses on loan exposures comprise estimates of potential losses arising from default and nonpayment of principal amounts due, as well as the economic loss due to delays in receiving payments. The severity of loss given default is determined at each balance sheet date, based on historical experience as well as parameters adjusted for current conditions during the reasonable and supportable forecast period of IBRD. The severity of loss is dependent on the borrower’s eligibility, namely: IBRD, Blend (IBRD and IDA) and IDA, with the highest severity associated with IDA. The borrower’s eligibility is assessed at least annually. The main factors used to determine the loss severity are the delays in receiving loan payments resulting in economic losses to IBRD based on the effective interest rate of the exposure, as well as the length of time in nonaccrual status.

For the calculation of expected credit losses, IBRD applies a three-year reasonable and supportable forecast period, as IBRD has the most reliable and available economic data during this period. IBRD also applies ten-year straight-line reversion to mean to reflect the historical pattern of rating migration to mean of its loan portfolio. All exposures for countries in nonaccrual status are individually assessed.

Loan commitments: Following the implementation of CECL, IBRD now records provision for expected losses on undisbursed loan commitments including Deferred Drawdown Options (DDOs), when signed. The signature of the loan agreement is a binding event that prevents IBRD from withdrawing from the agreement unconditionally. The projected disbursements of signed loan commitments, adjusted by the cancellations based on historical experience, is multiplied by the probability of losses and loss given default to determine the expected credit losses related to loan commitments. The provision is included in Other liabilities on the Condensed Balance Sheet.

Guarantees: IBRD records a contingent liability for the expected losses related to guarantees over the projected life of the instruments.

Accounting standards under evaluation:

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

NOTE B—CAPITAL STOCK

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

Table B1: IBRD's shares

	<i>Authorized shares</i>	<i>Subscribed shares</i>
As of June 30, 2019	2,783,873	2,320,659
General Capital Increase/Selective Capital Increase (GCI/SCI)	-	66,729
As of June 30, 2020	2,783,873	2,387,388
GCI/SCI	-	10,801
As of September 30, 2020	<u>2,783,873</u>	<u>2,398,189</u>

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

Table B2: IBRD's capital

In millions of U.S. dollars

	<i>Subscribed capital</i>	<i>Uncalled portion of subscriptions</i>	<i>Paid-in capital</i>
As of June 30, 2019	\$ 279,953	\$ (262,892)	\$ 17,061
GCI/SCI	8,049	(7,076)	973
As of June 30, 2020	288,002	(269,968)	18,034
GCI/SCI	1,304	(1,157)	147
As of September 30, 2020	<u>\$ 289,306</u>	<u>\$ (271,125)</u>	<u>\$ 18,181</u>

The uncalled portion of subscriptions is subject to call only when required to meet the obligations incurred by IBRD as a result of borrowings or guaranteeing loans.

On October 1, 2018, IBRD's Board of Governors approved two resolutions that increased IBRD's authorized capital. The total increase in authorized capital was \$57.5 billion, of which, \$27.8 billion and \$29.7 billion relate to the GCI and SCI, respectively. Under the terms of the 2018 GCI and SCI, paid-in capital is expected to increase by up to \$7.5 billion over a five-year period ending September 2023. As of September 30, 2020, the cumulative subscription payments received related to the 2018 capital increases was \$1.7 billion.

NOTE C—INVESTMENTS

As of September 30, 2020, IBRD's investments include the liquid asset portfolio and holdings relating to the Advance Market Commitment for Pneumococcal Vaccines Initiative (AMC), Post Employment Benefit Plan (PEBP), the Postretirement Contribution Reserve Fund (PCRF) and the Local Currency Market Development (LCMD) investments. LCMD investments are investments in sovereign bonds denominated in the local currencies of less developed markets and funded by borrowings in the same currency with matching volume, payment and maturity characteristics.

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

Table C1: Net investment portfolio composition

In millions of U.S. dollars

	<i>September 30, 2020</i>	<i>June 30, 2020</i>
Net Investment Portfolio		
Liquid asset portfolio	\$ 79,871	\$ 79,908
PEBP holdings	1,979	1,847
PCRF holdings	476	450
AMC holdings	236	239
LCMD investments	39	41
Total	<u>\$ 82,601</u>	<u>\$ 82,485</u>

Investments held by IBRD are designated as trading and are reported at fair value, or at face value, which approximates fair value. As of September 30, 2020, Investments-Trading was primarily comprised of government and agency obligations, and time deposits (58% and 38%, respectively), with all instruments classified as Level 1 or Level 2 within the fair value hierarchy. As of September 30, 2020, the largest holdings of Investments-Trading from a single counterparty were U.S. Treasuries (11%) and Japanese Government Instruments (10%). Over 99% of IBRD's investments as of September 30, 2020 were rated A and above, by a major rating agency.

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

Table C2: Investments-Trading composition

In millions of U.S. dollars

	<i>September 30, 2020</i>	<i>June 30, 2020</i>
Government and agency obligations	\$ 48,906	\$ 48,449
Time deposits	31,725	30,982
Asset-backed Securities (ABS)	2,505	3,012
Alternative investments ^a	1,028	942
Equity securities	418	382
Total	<u>\$ 84,582</u>	<u>\$ 83,767</u>

a. Comprised of investments in hedge funds, private equity funds and real estate funds, related to PEBP holdings, at net asset value (NAV).

IBRD manages its investments on a net portfolio basis. The following table summarizes IBRD's net portfolio position:

Table C3: Net investment portfolio position

In millions of U.S. dollars

	September 30, 2020	June 30, 2020
Investments - Trading	\$ 84,582	\$ 83,767
Securities purchased under resale agreements	392	394
Securities sold under repurchase agreements, securities lent under securities lending agreements, and payable for cash collateral received ^a	(2,403)	(2,161)
Derivative assets		
Currency swaps and forward contracts	165	169
Interest rate swaps	46	51
Other	2	3
Total	213	223
Derivative liabilities		
Currency swaps and forward contracts	(818)	(625)
Interest rate swaps	(429)	(328)
Other	(4)	(2)
Total	(1,251)	(955)
Cash held in investment portfolio ^b	1,530	1,430
Receivable from investment securities traded and other assets ^c	392	193
Payable for investment securities purchased ^d	(854)	(406)
Net investment portfolio	\$ 82,601	\$ 82,485

a. Includes \$2,393 million of cash collateral received from counterparties under derivative agreements (\$2,152 million—June 30, 2020).

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 includes \$149 million of liabilities related to PCRF payable, which is included in Other liabilities on the Condensed Balance Sheet (\$141 million—June 30, 2020), and \$163 million of liabilities related to short sales (\$162 million—June 30, 2020).

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

The following table summarizes the currency composition and the weighted average repricing period of IBRD's net investment portfolio:

Table C4: Net investment portfolio currency composition after derivatives

In millions of U.S. dollars

Currency	September 30, 2020		June 30, 2020	
	Carrying Value	Weighted average repricing (years) ^a	Carrying Value	Weighted average repricing (years) ^a
U.S. dollar	\$ 77,883	0.18	\$ 78,669	0.19
Others	4,718	0.18	3,816	0.31
Total	\$ 82,601	0.18	\$ 82,485	0.19

a. The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier, weighted by the carrying value of the instruments. This indicates the average length of time for which interest rates are fixed. Alternative investments and equity securities are not subject to repricing.

Commercial Credit Risk

For the purpose of risk management, IBRD is party to a variety of financial transactions, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential loss due to possible non-performance by obligors and counterparties under the terms of the contracts. For all securities, IBRD limits trading to a list of authorized dealers and counterparties. In addition, IBRD receives collateral in connection with resale agreements as well as swap agreements. This collateral serves to mitigate IBRD's exposure to credit risk.

Swap Agreements: Credit risk is mitigated through the application of eligibility criteria and volume limits for transactions with individual counterparties and through the use of mark-to-market collateral arrangements for swap transactions. IBRD may require collateral in the form of cash or other approved liquid securities from individual counterparties in order to mitigate its credit exposure.

IBRD has entered into master derivative agreements which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps. Credit risk with financial assets subject to a master derivatives arrangement is further reduced under these agreements to the extent that payments and receipts with the counterparty are netted at settlement. The reduction in exposure as a result of these netting provisions can vary due to the impact of changes in market conditions on existing and new transactions. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date. For more information on netting and offsetting provisions see Note F—Derivative Instruments.

The following is a summary of the collateral received by IBRD in relation to swap transactions:

Table C5: Collateral received

In millions of U.S. dollars

	<i>September 30, 2020</i>	<i>June 30, 2020</i>
Collateral received		
Cash	\$ 2,393	\$ 2,152
Securities	1,834	1,011
Total collateral received	<u>\$ 4,227</u>	<u>\$ 3,163</u>
Collateral permitted to be repledged	\$ 4,227	\$ 3,163
Amount of collateral repledged	-	-
Amount of Cash Collateral invested	999	888

Securities Lending: IBRD may engage in securities lending and repurchases, against adequate collateral, as well as securities borrowing and reverse repurchases (resales) of government and agency obligations, corporate securities, ABS and Mortgage-backed securities. These transactions have been conducted under legally enforceable master netting arrangements, which allow IBRD to reduce its gross credit exposure related to these transactions. For balance sheet presentation purposes, IBRD presents its securities lending and repurchases, as well as resales, on a gross basis. As of September 30, 2020 and June 30, 2020, there were no amounts that could potentially be offset as a result of legally enforceable master netting arrangements.

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

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

As of September 30, 2020, liabilities relating to securities transferred under repurchase or securities lending agreements amounted to \$10 million (\$9 million — June 30, 2020) and there were no unsettled trades relating to repurchase or securities lending agreements.

In the case of resale agreements, IBRD receives collateral in the form of liquid securities and is permitted to repledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded on IBRD's Balance Sheet as the accounting criteria for treatment as a sale have not been met. As of September 30, 2020 and June 30, 2020, there were no unsettled trades pertaining to securities purchased under resale agreements. For the resale agreements, IBRD received securities with a fair value of \$392 million (\$396 million—June 30, 2020). As of September 30, 2020 and June 30, 2020, none of these securities had been transferred.

NOTE D—LOANS AND OTHER EXPOSURES

IBRD's loans and other exposures (together, "exposures") are generally made to, or guaranteed by, member countries of IBRD. In addition, IBRD may also make loans to the International Finance Corporation (IFC), an affiliated organization, without any guarantee. Other exposures include: Signed loan commitments (including DDOs and Irrevocable Commitments), Exposures to Member Countries' Derivatives, and Guarantees. As of September 30, 2020, all IBRD's loans were reported at amortized cost.

IBRD uses derivatives to manage the currency risk as well as the interest rate risk between its loans and borrowings. For details regarding derivatives used in the loan portfolio, see Note F—Derivative Instruments.

As of September 30, 2020 accrued interest receivable on loans of \$990 million is included in Other assets on the Condensed Balance Sheet (\$987 million—June 30, 2020).

As of September 30, 2020, only 0.2% of IBRD's loans were in nonaccrual status and related to one borrower. The total provision for losses on accrual and nonaccrual loans accounted for 0.6% of the total loan portfolio. Based on IBRD's internal credit quality indicators, the majority of loans outstanding are in the medium-risk and high-risk classes.

Credit Quality of Sovereign Exposures

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

IBRD's country risk ratings are an assessment of its borrowers' ability and willingness to repay IBRD on time and in full. These ratings are internal credit quality indicators. Individual country risk ratings are derived on the basis of both quantitative and qualitative analyses. The components considered in the analysis can be grouped broadly into eight categories: political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payment risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks, and corporate sector debt and vulnerabilities. For the purpose of analyzing the risk characteristics of IBRD's exposures, these exposures are grouped into three classes in accordance with assigned borrower risk ratings, which relate to the likelihood of loss: Low, Medium and High risk classes, as well as exposures in nonaccrual status. IBRD considers all exposures in nonaccrual status to be impaired.

IBRD's borrowers' country risk ratings are key determinants in the provision for losses as sovereign exposures are grouped in pools of borrowers with similar risk ratings for the purpose of the calculation of the expected credit losses. Country risk ratings are determined in review meetings that take place several times a year. All countries are reviewed at least once a year, or more frequently, if circumstances warrant, to determine the appropriate ratings.

An assessment was performed to determine whether a qualitative adjustment was needed to reflect the impact of COVID-19 in the loan loss provision as of September 30, 2020. Management concluded that a qualitative adjustment beyond the regular application of IBRD's loan loss provision framework was not warranted. The following tables provide an aging analysis of the loans outstanding:

Table D1: Loan portfolio aging structure

In millions of U.S. dollars

<i>Days past due</i>	<i>September 30, 2020</i>						<i>Current</i>	<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>	<i>Total Past Due</i>		
<i>Risk Class</i>								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,759	\$ 23,759
Medium	-	-	-	-	-	-	95,496	95,496
High	*	-	-	-	-	*	91,500	91,500
Loans in accrual status	*	-	-	-	-	*	210,755	210,755
Loans in nonaccrual status	-	-	-	-	433	433	-	433
Total	\$ *	\$ -	\$ -	\$ -	\$ 433	\$ 433	\$ 210,755	\$ 211,188

* Indicates amount less than \$0.5 million.

Table D1.1*In millions of U.S. dollars*

<i>Days past due</i>	<i>June 30, 2020</i>						<i>Current</i>	<i>Total</i>
	<i>Up to 45</i>	<i>46-60</i>	<i>61-90</i>	<i>91-180</i>	<i>Over 180</i>	<i>Total Past Due</i>		
<i>Risk Class</i>								
Low	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,424	\$ 23,424
Medium	-	-	-	-	-	-	90,719	90,719
High	-	-	-	-	-	-	89,655	89,655
Loans in accrual status	-	-	-	-	-	-	203,798	203,798
Loans in nonaccrual status	-	-	-	-	433	433	-	433
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433</u>	<u>\$ 433</u>	<u>\$ 203,798</u>	<u>\$204,231</u>

IBRD considers the signature date the most appropriate indicator for origination as the decision to originate a loan to sovereign borrowers is made at the time of signature rather than at disbursement. IBRD applies the practical expedient to exclude accrued interest from the table below as allowed by the CECL ASU.

The table below discloses the outstanding balances of IBRD's loan portfolio as of September 30, 2020, classified by the year the loan agreement was signed.

Table D2: Loan portfolio vintage disclosure*In millions of U.S. dollars*

in millions of U.S. dollars									
	September 30, 2020								
	Fiscal Year (Origination)								Loans
	2021	2020	2019	2018	2017	Prior Years	CAT DDOs Disbursed and Revolving	CAT DDOs Converted to Term Loans	outstanding as of September 30, 2020
Risk Class									
High	\$ 457	\$ 4,078	\$ 5,402	\$ 5,385	\$ 7,363	\$ 68,115	\$ 432	\$ 268	\$ 91,500
Medium	2,563	4,872	3,560	3,780	4,303	74,129	1,069	1,220	95,496
Low	-	13	363	146	1,586	21,651	-	-	23,759
Loans in accrual status	3,020	8,963	9,325	9,311	13,252	163,895	1,501	1,488	210,755
Loans in nonaccrual status	-	-	-	-	-	433	-	-	433
Total	<u>\$ 3,020</u>	<u>\$ 8,963</u>	<u>\$ 9,325</u>	<u>\$ 9,311</u>	<u>\$ 13,252</u>	<u>\$ 164,328</u>	<u>\$ 1,501</u>	<u>\$ 1,488</u>	<u>\$ 211,188</u>

The amount of Catastrophe Deferred Drawdown Option (CAT DDOs) converted to term loans during the three months ended September 30, 2020, is \$7 million (Nil —three months ended September 30, 2019).

Accumulated Provision for Losses on Loans and Other Exposures

Management determines the appropriate level of accumulated provision for losses, which reflects the expected losses inherent in IBRD's exposures. Delays in receiving loan payments result in economic losses to IBRD since it does not charge additional interest on any overdue interest or loan charges. These economic losses are equal to the difference between the present value of payments of interest and charges made according to the related loan's contractual terms and the present value of its expected future cash flows. It is IBRD's practice not to write off its loans. Historically, all contractual obligations associated with exposures in nonaccrual status were eventually cleared, thereby allowing borrowers to emerge from nonaccrual status. To date, no loans have been written off by IBRD.

Management reassesses the adequacy of the accumulated provision and the reasonableness of the inputs used, on a periodic basis, at least annually, and adjustments to the accumulated provision are recorded as a charge to or release of provision in the Statement of Income.

The beginning balance of accumulated provision for the current period was decreased by the \$214 million transition adjustment recorded upon adoption of CECL on July 1, 2020. The transition adjustment corresponds to the difference between the accumulated provision calculated under the “incurred loss” model and the CECL model. Changes to the Accumulated provision for losses on loans and other exposures are summarized below:

Table D3: Accumulated provision

In millions of U.S. dollars

	September 30, 2020				June 30, 2020		
	Loans outstanding	Loan commitments	Other ^a	Total	Loans outstanding	Other ^a	Total
Accumulated provision, beginning of the fiscal year	\$ 1,599	\$ -	\$ 99	\$ 1,698	\$ 1,574	\$ 114	\$ 1,688
CECL Transition adjustment	(465)	298	(47)	(214)	-	-	-
Adjusted Accumulated provision, beginning of the fiscal year	1,134	298	52	1,484	1,574	114	1,688
Provision - charge (release)	37	3	(2)	38	32	(14)	18
Translation adjustment	8	2	1	11	(7)	(1)	(8)
Accumulated provision, end of the period/fiscal year	<u>\$ 1,179</u>	<u>\$ 303</u>	<u>\$ 51</u>	<u>\$ 1,533</u>	<u>\$ 1,599</u>	<u>\$ 99</u>	<u>\$ 1,698</u>
Composed of accumulated provision for losses on:							
Loans in accrual status	\$ 963				\$ 1,383		
Loans in nonaccrual status	216				216		
Total	<u>\$ 1,179</u>				<u>\$ 1,599</u>		
Loans, end of the period/fiscal year:							
Loans at amortized cost in accrual status	\$ 210,755				\$ 203,798		
Loans at amortized cost in nonaccrual status	433				433		
Total	<u>\$ 211,188</u>				<u>\$ 204,231</u>		

a. Provision does not include recoverable asset relating to Guarantee received under the EEAs (for more details see Guarantees section).

	Reported as Follows	
	Condensed Balance Sheet	Condensed Statement of Income
Accumulated Provision for Losses on:		
Loans outstanding	Accumulated provision for loan losses	Provision for losses on loans and other exposures
Loan commitments and other exposures (excluding exposures to member countries' derivatives)	Other liabilities	Provision for losses on loans and other exposures

Overdue Amounts

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

At September 30, 2020, there were no principal or interest amounts on loans in accrual status, that were overdue by more than three months. The following tables provide a summary of selected financial information related to loans in nonaccrual status:

Table D4: Loans in nonaccrual status

In millions of U.S. dollars

	September 30, 2020	June 30, 2020
Recorded investment in nonaccrual loans ^a	\$ 433	\$ 433
Accumulated provision for loan losses on nonaccrual loans	216	216
Average recorded investment in nonaccrual loans for the fiscal year	433	433
Overdue amounts of nonaccrual loans:	1,025	1,015
Principal	433	433
Interest and charges	592	582

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

Table D4.1:
In millions of U.S. dollars

	Three Months Ended September 30,	
	2020	2019
Interest revenue not recognized as a result of loans being in nonaccrual status	\$ 7	\$ 7

During the three months ended September 30, 2020 and September 30, 2019, no loans were placed in nonaccrual status or restored to accrual status.

In addition, during the three months ended September 30, 2020, no interest income was recognized on loans in nonaccrual status (less than \$1 million — three months ended September 30, 2019).

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

Table D4.2
In millions of U.S. dollars

Borrower	Principal Outstanding	Principal, Interest and Charges Overdue	Nonaccrual Since
Zimbabwe	\$ 433	\$ 1,025	October 2000

Guarantees

Guarantees of \$6,642 million were outstanding as of September 30, 2020 (\$6,898 million—June 30, 2020). This amount represents the maximum potential amount of undiscounted future payments that IBRD could be required to make under these guarantees and is not included in the Condensed Balance Sheet. These guarantees have original maturities ranging between 6 and 20 years, and expire in decreasing amounts through 2039.

As of September 30, 2020, liabilities of \$419 million related to IBRD's obligations under guarantees (\$463 million—June 30, 2020), have been included in Other liabilities on the Condensed Balance Sheet. These include the accumulated provision for guarantee losses of \$51 million (\$98 million—June 30, 2020). The cumulative effect of the adoption of the CECL ASU was a decrease of \$48 million in the accumulated provision for guarantee losses as of July 1, 2020.

During the three months ended September 30, 2020 and September 30, 2019, no guarantees provided by IBRD were called.

IBRD participates in Exposure Exchange Agreements (EEA) which are recognized as financial guarantees in the financial statements. Information on the location and amounts associated with the EEAs executed with Multilateral Investment Guarantee Agency (MIGA), African Development Bank (AfDB) and Inter-American Development Bank (IADB) included in the Condensed Balance Sheet and Condensed Statement of Income is presented in the following table:

Table D5: Amounts associated with EEAs

In millions of U.S. dollars

	September 30, 2020			June 30, 2020			Location on Condensed Balance Sheet
	Notional Amount	(Stand ready obligation) Asset	(Provision) Recoverable Asset	Notional Amount	(Stand ready obligation) Asset	(Provision) Recoverable Asset	
Guarantee provided ^{a,c}	\$ 3,648	\$ (205)	\$ (21)	\$ 3,651	\$ (210)	\$ (38)	Other liabilities
Guarantee received ^b	(3,646)	205	18	(3,651)	210	28	Other assets
	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ (*)</u>	<u>\$ -</u>	<u>\$ (10)</u>	

a. For the three months ended September 30, 2020, Provisions for losses on loans and other exposures, line on the Condensed Statement of Income includes less than \$1 million charge relating to Guarantee provided (Nil—three months ended September 30, 2019). The cumulative effect of the adoption of the CECL ASU was a decrease of \$18 million in the accumulated provision relating to Guarantee provided, as of July 1, 2020.

b. For the three months ended September 30, 2020, Other, net, line on the Condensed Statement of Income includes less than \$1 million of gain in relation to Recoverable asset relating to Guarantee received (Nil—three months ended September 30, 2019). The cumulative effect of the adoption of the CECL ASU was a decrease of \$11 million in the recoverable asset relating to Guarantee received, as of July 1, 2020.

c. Notional amount, Stand ready obligation and Provision for the guarantee provided are included in guarantees outstanding of \$6,642 million, obligations under guarantees of \$419 million and accumulated provision for guarantee losses of \$51 million, respectively (\$6,898 million, \$463 million and \$98 million, respectively—June 30, 2020).

* Indicates amount less than \$0.5 million.

Waivers of Loan Charges

IBRD provides waivers on eligible loans, which include a portion of interest on loans, a portion of the commitment charge on undisbursed balances and a portion of the front-end fee charged on all eligible loans. Waivers are approved annually by the Executive Directors of IBRD. As part of the IBRD's COVID-19 response under the Fast Track COVID-19 Facility, the Executive Directors of IBRD approved the waiver of commitment/standby fees for health-related COVID-19 operations payable during the first year of each financing and a reduced front-end fee of 25 bps for Catastrophe Deferred Drawdown Options approved under the IBRD's COVID-19 response.

The forgone income resulting from waivers of loan charges is summarized in the following table:

Table D6: Waivers of loan charges

In millions of U.S. dollars

	Three Months Ended September 30,	
	2020	2019
Interest waivers	\$ 7	\$ 9
Commitment charge waivers	1	*
Front-end fee waivers	1	2
Total	<u>\$ 9</u>	<u>\$ 11</u>

* Indicates amount less than \$0.5 million.

Concentration risk

Loan revenue comprises interest, commitment fees, loan origination fees and prepayment premiums, net of waivers. For the three months ended September 30, 2020, there was no country that contributed more than 10% of the total loan revenue.

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

Table D7: Loan revenue and associated outstanding loan balances

In millions of U.S. dollars

As of and for the three months ended

Region	September 30, 2020		September 30, 2019	
	Loan Revenue ^a	Loans Outstanding	Loan Revenue ^a	Loans Outstanding
Eastern and Southern Africa ^b	\$ 55	\$ 4,225	\$ 62	\$ 3,595
Western and Central Africa ^b	8	1,488	8	1,329
East Asia and Pacific	196	45,191	351	42,399
Europe and Central Asia	142	46,734	209	44,299
Latin America and the Caribbean	338	64,465	507	59,292
Middle East and North Africa	117	29,916	186	26,994
South Asia	68	19,169	132	16,102
Total	\$ 924	\$ 211,188	\$ 1,455	\$ 194,010

a. Does not include interest expenses, net of \$177 million from loan related derivatives (\$104 million—September 30, 2019).

Includes commitment charges of \$29 million (\$27 million—September 30, 2019).

b. Effective July 1, 2020, Africa region has been reorganized into two regions: Eastern and Southern Africa and Western and Central Africa.

NOTE E—BORROWINGS

IBRD issues unsubordinated and unsecured fixed and variable rate debt in a variety of currencies. Variable rates may be based on, for example, exchange rates or interest rates.

Borrowings issued by IBRD are carried and reported at fair value. As of September 30, 2020, 98% of the instruments in the portfolio were classified as Level 2, within the fair value hierarchy. In addition, most of these instruments were denominated in U.S. dollars and euro (61% and 13%, respectively).

IBRD uses derivative contracts to manage the currency risk as well as the interest rate risk between its loans and borrowings. For details regarding the derivatives used, see Note F—Derivative Instruments.

Table E1: Borrowings after derivatives

In millions of U.S. dollars

	September 30, 2020	June 30, 2020
Borrowings ^a	\$ 251,074	\$ 243,240
Currency swaps, net	466	2,211
Interest rate swaps, net	(8,150)	(8,220)
	\$ 243,390	\$ 237,231

a. Includes \$100 million of unsettled borrowings, representing a non-cash financing activity, for which there is a related receivable included in Other assets on the Condensed Balance Sheet (\$3 million—June 30, 2020).

For the three months ended September 30, 2020, Borrowing expenses on the Condensed Statement of Income of \$343 million (\$1,182 million—three months ended September 30, 2019) include \$707 million of interest revenue, net, related to derivatives associated with the Borrowing portfolio (\$136 million—three months ended September 30, 2019).

For the three months ended September 30, 2020, the amount of interest paid on zero-coupon bonds and bonds with insignificant coupon interest rates was \$61 million (\$112 million—three months ended September 30, 2019), and is not included in the Interest paid on borrowing portfolio in the Supplemental disclosure of the Statement of Cash Flows.

NOTE F—DERIVATIVE INSTRUMENTS

IBRD uses derivative instruments in its investment, loan and borrowing portfolios, and for asset/liability management purposes. It also offers derivative intermediation services to clients and concurrently enters into offsetting transactions with market counterparties. The following table summarizes IBRD's use of derivatives in its various financial portfolios:

Portfolio	<i>Derivative instruments used</i>	<i>Purpose / Risk being managed</i>
Risk management purposes:		
Investments	Currency swaps, currency forward contracts, interest rate swaps, options, swaptions and futures contracts, To-Be-Announced (TBA) securities	Manage currency and interest rate risks in the portfolio
Loans	Currency swaps and interest rate swaps	Manage currency risk as well as interest rate risks between loans and borrowings
Borrowings	Currency swaps and interest rate swaps	Manage currency risk as well as interest rate risks between loans and borrowings
Other asset/liability management derivatives	Currency swaps and interest rate swaps	Manage currency risk and the duration of IBRD's equity
Other purposes:		
Client operations	Currency swaps, currency forward contracts, and interest rate swaps	Assist clients in managing risks

The derivatives in the related tables of Note F are presented on a net basis by instrument. A reconciliation to the Balance Sheet presentation is shown in table F1.

Offsetting assets and liabilities

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

The following table summarizes information on derivative assets and liabilities (before and after netting adjustments) that are reflected on IBRD's Condensed Balance Sheet. Gross amounts in the tables represent the amounts receivable (payable) for instruments that are in a net asset (net liability) position. The effects of legally enforceable master netting agreements are applied on an aggregate basis to the total derivative asset and liability position. The net derivative asset positions have been further reduced by the cash and securities collateral received.

Table F1: Derivative assets and liabilities before and after netting adjustments*In millions of U.S. dollars*

	September 30, 2020					
	Location on the Condensed Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts	Gross Amounts Offset	Net Amounts Presented	Gross Amounts	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 21,600	\$ (7,763)	\$ 13,837	\$ 21,726	\$ (13,678)	\$ 8,048
Currency swaps ^a	70,923	(64,046)	6,877	72,766	(65,872)	6,894
Other ^b	2	*	2	4	*	4
Total	\$ 92,525	\$ (71,809)	\$ 20,716^d	\$ 94,496	\$ (79,550)	\$ 14,946^d
Less:						
Amounts subject to legally enforceable master netting agreements			13,810 ^e			13,786 ^f
Cash collateral received ^c			2,308			
Net derivative position on the Balance Sheet			\$ 4,598			\$ 1,160
Less:						
Securities collateral received ^c			1,749			
Net derivative exposure after collateral			\$ 2,849			

*a. Includes currency forward contracts and structured swaps.**b. These relate to swaptions, exchange-traded options and futures contracts.**c. Does not include excess collateral received.**d. Total is based on amounts where derivatives have been netted by instrument.**e. Includes \$35 million CVA adjustment.**f. Includes \$11 million DVA adjustment.*** Indicates amount less than \$0.5 million***Table F1.1***In millions of U.S. dollars*

	June 30, 2020					
	Location on the Condensed Balance Sheet					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts	Gross Amounts Offset	Net Amounts Presented	Gross Amounts	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	\$ 22,129	\$ (7,834)	\$ 14,295	\$ 21,381	\$ (13,011)	\$ 8,370
Currency swaps ^a	61,415	(55,342)	6,073	79,079	(71,492)	7,587
Other ^b	3	*	3	3	(1)	2
Total	\$ 83,547	\$ (63,176)	\$ 20,371^d	\$ 100,463	\$ (84,504)	\$ 15,959^d
Less:						
Amounts subject to legally enforceable master netting agreements			14,502 ^e			14,486 ^f
Cash collateral received ^c			2,125			
Net derivative position on the Balance Sheet			\$ 3,744			\$ 1,473
Less:						
Securities collateral received ^c			928			
Net derivative exposure after collateral			\$ 2,816			

*a. Includes currency forward contracts and structured swaps.**b. These relate to swaptions, exchange-traded options and futures contracts.**c. Does not include excess collateral received.**d. Total is based on amounts where derivatives have been netted by instrument.**e. Includes \$28 million CVA adjustment.**f. Includes \$12 million DVA adjustment.*** Indicates amount less than \$0.5 million*

The following table provides information about the credit risk exposures of IBRD's derivative instruments by portfolio, before the effects of master netting arrangements and collateral:

Table F2: Credit risk exposure of the derivative instruments

In millions of U.S. dollars

	September 30, 2020			
	Interest rate swaps	Currency swaps (including currency forward contracts)	Other ^a	Total
Investments	\$ 46	\$ 165	\$ 2	\$ 213
Loans	79	1,084	-	1,163
Client operations	1,700	766	-	2,466
Borrowings	9,195	4,862	-	14,057
Other asset/liability management derivatives	2,817	-	-	2,817
Total Exposure	<u>\$ 13,837</u>	<u>\$ 6,877</u>	<u>\$ 2</u>	<u>\$ 20,716</u>

In millions of U.S. dollars

	June 30, 2020			
	Interest rate swaps	Currency swaps (including currency forward contracts)	Other ^a	Total
Investments	\$ 51	\$ 169	\$ 3	\$ 223
Loans	42	1,134	-	1,176
Client operations	1,722	769	-	2,491
Borrowings	9,498	4,001	-	13,499
Other asset/liability management derivatives	2,982	-	-	2,982
Total Exposure	<u>\$ 14,295</u>	<u>\$ 6,073</u>	<u>\$ 3</u>	<u>\$ 20,371</u>

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

The volume of derivative contracts is measured using the U.S. dollar equivalent notional balance. The notional balance represents the face value, or reference value, on which the calculations of payments on the derivative instruments are determined. At September 30, 2020, the notional amounts of IBRD's derivative contracts outstanding were as follows: interest rate contracts \$439,492 million (\$474,644 million—June 30, 2020), currency swaps \$131,610 million (\$127,276 million—June 30, 2020), long positions of other derivatives \$247 million (\$362 million at June 30, 2020), and short positions of other derivatives \$57 million (\$56 million—June 30, 2020).

IBRD is not required to post collateral under its derivative agreements as long as it maintains a triple-A credit rating. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on September 30, 2020 is \$950 million (\$1,138 million—June 30, 2020). IBRD has not posted any collateral with these counterparties due to its triple-A credit rating.

If the credit-risk related contingent features underlying these agreements were triggered to the extent that IBRD would be required to post collateral as of September 30, 2020, the amount of collateral that would need to be posted would be \$122 million (\$156 million—June 30, 2020). Subsequent triggers of contingent features would require posting of additional collateral, up to a maximum of \$950 million (\$1,138 million—June 30, 2020). In contrast, IBRD received collateral totaling \$4,227 million as of September 30, 2020 (\$3,163 million—June 30, 2020), in relation to swap transactions (see Note C—Investments).

The following table provides information on the location and amount of unrealized mark-to-market gains and losses on the non-trading derivatives and their location on the Condensed Statement of Income:

Table F3: Unrealized mark-to-market gains and losses on non-trading derivatives ^a

In millions of U.S. dollars

		<i>Unrealized mark-to-market gains (losses)</i>	
		<i>Three Months Ended September 30,</i>	
		<i>2020</i>	<i>2019</i>
	<i>Reported as:</i>		
Interest rate swaps	Unrealized mark-to-market gains (losses) on non-trading portfolios, net	\$ (220)	\$ 1,075
Currency swaps (including currency forward contracts and structured swaps)		(9)	381
Total		<u>\$ (229)</u>	<u>\$ 1,456</u>

a. For alternative disclosures about trading derivatives, see table F4.

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

The following table provides information on the location and amount of unrealized mark-to-market gains and losses on the net Investments – Trading portfolio and their location on the Condensed Statement of Income:

Table F4: Unrealized mark-to-market gains and losses on net investment-trading portfolio

In millions of U.S. dollars

<i>Reported as:</i>		<i>Unrealized mark-to-market gains (losses) ^a</i>	
		<i>Three Months Ended September 30,</i>	
		<i>2020</i>	<i>2019</i>
Type of instrument			
Fixed income (including associated derivatives)		\$ 39	\$ 54
Equity		32	(*)
Total		<u>\$ 71</u>	<u>\$ 54</u>

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

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

NOTE G—RETAINED EARNINGS, ALLOCATIONS AND TRANSFERS

IBRD makes net income allocation decisions on the basis of reported net income, adjusted to exclude unrealized mark-to-market gains and losses on non-trading portfolios, net, restricted income and Board of Governors-approved and other transfers, and after considering the allocation to the pension reserve.

On August 6, 2020, IBRD's Executive Directors approved the following allocations relating to the net income earned in the fiscal year ended June 30, 2020; an increase in General Reserve by \$950 million and an increase in the Pension Reserve by \$62 million.

On August 24, 2020, IBRD's Board of Governors approved a transfer of \$20 million from Surplus to the IBRD Fund for Innovative Global Public Goods Solutions (GPG Fund). The transfer was made on September 4, 2020.

Subsequent events:

On October 7, 2020, IBRD's Board of Governors approved a transfer of \$80 million from Surplus to the Trust Fund for Gaza and West Bank. The transfer was made on October 19, 2020.

On October 15, 2020, IBRD's Board of Governors approved a transfer of \$431 million to Surplus out of the net income earned in the fiscal year ended June 30, 2020 which consists of \$100 million to provide grant support for development needs, and \$331 million representing the final amount calculated in accordance with the formula for IBRD's income support to IDA, subject to the understanding that the latter amount shall be considered for transfer to IDA should downside risks to IBRD not materialize.

Retained earnings comprise the following components:

Table G1: Retained earnings composition

In millions of U.S. dollars

	September 30, 2020	June 30, 2020
Special reserve	\$ 293	\$ 293
General reserve	30,387	29,437
Pension reserve	731	793
Surplus	80	100
Cumulative fair value adjustments ^a	(3,302) ^b	(2,166) ^b
Unallocated net income	1,107	298
Restricted retained earnings	54	(5)
Other reserves ^c	294	15
Total	<u>\$ 29,644</u>	<u>\$ 28,765</u>

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

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

c. Comprised of non-functional currency translation gains/losses, the unutilized portion of the transfer to the GPG Fund and the cumulative effect related to the adoption of ASU 2016-13 (CECL).

NOTE H—PENSION AND OTHER POSTRETIREMENT BENEFITS

IBRD, IFC and the Multilateral Investment Guarantee Agency (MIGA) participate in the defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and PEBP that cover substantially all of their staff members.

All costs, assets and liabilities associated with these pension plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the plans. Costs allocated to IBRD are then shared between IBRD and IDA based on an agreed cost-sharing methodology.

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

Table H1: Pension plan benefit costs

In millions of U.S. dollars

	Three Months Ended September 30, 2020				Three Months Ended September 30, 2019			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Benefit cost								
Service cost	\$ 160	\$ 43	\$ 28	\$ 231	\$ 137	\$ 36	\$ 24	\$ 197
Interest cost	147	27	14	188	172	30	17	219
Expected return on plan assets	(242)	(41)	-	(283)	(256)	(43)	-	(299)
Amortization of unrecognized prior service costs ^a	1	4	1	6	1	4	1	6
Amortization of unrecognized net actuarial losses ^a	78	3	13	94	22	-	21	43
Net periodic pension cost	<u>\$ 144</u>	<u>\$ 36</u>	<u>\$ 56</u>	<u>\$ 236</u>	<u>\$ 76</u>	<u>\$ 27</u>	<u>\$ 63</u>	<u>\$ 166</u>
Of which:								
IBRD's share	\$ 67	\$ 17	\$ 26	\$ 110	\$ 34	\$ 12	\$ 29	\$ 75
IDA's share	77	19	30	126	42	15	34	91

a. Included in Amounts reclassified into net income in Note J—Accumulated Other Comprehensive Loss.

The components of net periodic pension cost, other than the service cost component, are included in the Non-interest expense—Pension line item on the Condensed Statement of Income. The service cost component is included in the Non-interest expense—Administrative expenses line item.

The following table provides the amounts of IBRD's pension service cost:

Table H2: Pension service cost

In millions of U.S. dollars

	Three Months Ended September 30, 2020				Three Months Ended September 30, 2019			
	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Service cost	\$ 160	\$ 43	\$ 28	\$ 231	\$ 137	\$ 36	\$ 24	\$ 197
Of which:								
IBRD's share ^a	\$ 74	\$ 20	\$ 13	\$ 107	\$ 62	\$ 16	\$ 11	\$ 89
IDA's share	86	23	15	124	75	20	13	108

a. Included in Administrative non-interest expenses line on the Condensed Statement of Income.

NOTE I—TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

IBRD transacts with affiliated organizations by providing loans, administrative and derivative intermediation services, as well as through its pension and other postretirement benefit plans.

In addition, IBRD provides transfers to IDA out of its net income, upon approval by the Board of Governors (see Note G—Retained Earnings, Allocations and Transfers).

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

Table I1: IBRD's receivables and payables with affiliated organizations

In millions of U.S. dollars

	September 30, 2020				June 30, 2020			
	IDA	IFC	MIGA	Total	IDA	IFC	MIGA	Total
Administrative Services, net	\$ 203	\$ 43	\$ 12	\$ 258	\$ 271	\$ 63	\$ 13	\$ 347
Derivative Transactions ^a								
Derivative assets, net	51	-	-	51	53	-	-	53
Derivative liabilities, net	(75)	-	-	(75)	(74)	-	-	(74)
Pension and Other Postretirement Benefits	(597)	(503)	(19)	(1,119)	(620)	(477)	(18)	(1,115)
Investments	-	(149)	-	(149)	-	(141)	-	(141)
	<u>\$ (418)</u>	<u>\$ (609)</u>	<u>\$ (7)</u>	<u>\$ (1,034)</u>	<u>\$ (370)</u>	<u>\$ (555)</u>	<u>\$ (5)</u>	<u>\$ (930)</u>

a. Presented on a net basis by instrument. For details on derivative transactions relating to swap intermediation services provided by IBRD to IDA see Note F—Derivative Instruments.

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

Receivables / Payables related to:	Reported as:
Loans	Loans outstanding
Receivable for administrative services ^a	Other assets
Receivables (payables) for derivative transactions	Derivative assets/liabilities – net
Payable for pension and other postretirement benefits	Other liabilities

a. Includes amounts payable to IDA for its share of investments associated with PCRf. This payable is included in Other liabilities on the Condensed Balance Sheet.

Loans and other exposures

IBRD has a Local Currency Loan Facility Agreement with IFC, which is capped at \$300 million. As of September 30, 2020 and June 30, 2020, there were no loans outstanding under this facility.

During the fiscal year ended June 30, 2014, IBRD entered into an exposure exchange agreement with MIGA under which IBRD and MIGA exchanged selected exposures, with each divesting exposure in countries where their lending capacities are limited, in return for exposure in countries where they have excess lending capacity. Under the agreement, IBRD and MIGA have each exchanged \$120 million of notional exposure as follows: MIGA assumes IBRD's loan principal and interest exposure in exchange for IBRD's assumption of principal and interest exposure of MIGA under its Non-Honoring of Sovereign Financial Obligation agreement. As of September 30, 2020, assets related to IBRD's right to be indemnified under this agreement amounted to \$1 million (\$1 million—June 30, 2020), while liabilities related to IBRD's obligation under this agreement amounted to \$1 million (\$1 million—June 30, 2020). These include an accumulated provision for guarantee losses of less than \$1 million (less than \$1 million—June 30, 2020).

Administrative Services

Expenses jointly incurred by IBRD and IDA are allocated based on an agreed cost-sharing methodology, and amounts are settled quarterly. For the three months ended September 30, 2020, IBRD's administrative expenses are net of the share of expenses allocated to IDA of \$455 million (\$454 million—three months ended September 30, 2019).

Revenue

Revenue jointly earned by IBRD and IDA is allocated based on an agreed revenue-sharing methodology. Amounts are settled quarterly. For the three months ended September 30, 2020, IBRD's revenue is net of revenue allocated to IDA of \$57 million (\$66 million—three months ended September 30, 2019) and is included in Revenue from externally funded activities on the Condensed Statement of Income.

Revenue from externally funded activities includes revenue from contracts with clients, who are not affiliated with IBRD, as shown in tables I2 and I3 below:

Table I2: Revenue from contracts with clients

In millions of U.S. dollars

	<i>Three Months Ended September 30,</i>		<i>Description</i>
	<i>2020</i>	<i>2019</i>	
Trust fund fees	\$ 17	\$ 22	Administrative and trustee services for trust funds Reimbursable advisory services and asset management services
Other	24	24	
Total	\$ 41	\$ 46	
Of which:			
IBRD's share	\$ 21	\$ 22	
IDA's share	20	24	

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

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

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

Table I3: Receivables and contract liabilities related to revenue from contracts with clients

In millions of U.S. dollars

	<i>September 30, 2020</i>	<i>June 30, 2020</i>
Receivables	\$ 86	\$ 114
Contract liabilities	174	169

The amount of fee revenue associated with services provided to affiliated organizations is included in Revenue from externally funded activities on the Condensed Statement of Income, as follows:

Table I4: Fee revenue from affiliated organizations

In millions of U.S. dollars

	<i>Three Months Ended September 30,</i>	
	<i>2020</i>	<i>2019</i>
Fees charged to IFC	\$ 19	\$ 17
Fees charged to MIGA	1	1

Pension and Other Postretirement Benefits

The payable to IDA represents IDA's net share of prepaid costs for pension and other postretirement benefit plans and PEBP assets. These will be realized over the life of the plan participants.

The payables to IFC and MIGA represent their respective share of PEBP assets. The PEBP assets are managed by IBRD and are part of the investment portfolio.

For Pension and Other Postretirement Benefits-related disclosure see Note H—Pension and Other Postretirement Benefits.

Derivative transactions

These relate to currency forward contracts entered into by IDA, with IBRD acting as the intermediary with the market.

Investments

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

NOTE J—ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive income or loss consists of net income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. Other comprehensive income (loss) comprises currency translation adjustments on assets and liabilities denominated in euro; DVA on fair value elected liabilities, the cumulative effects of a change in accounting principle related to the implementation of U.S. GAAP requirements; and pension-related items. These items are presented in the Condensed Statement of Comprehensive Income.

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

Table J1: AOCL changes

In millions of U.S. dollars

	<i>Three Months Ended September 30, 2020</i>				
	<i>Balance, beginning of the fiscal year</i>	<i>Changes in AOCL</i>	<i>Amounts reclassified into net income</i>	<i>Net Changes during the period</i>	<i>Balance, end of the period</i>
Cumulative Translation Adjustments on functional currency	\$ (106)	\$ 347	\$ -	\$ 347	\$ 241
DVA on Fair Value option elected liabilities	1,214	(605)	(11)	(616)	598
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(6,745)	-	94	94	(6,651)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(89)	-	6	6	(83)
Other	*	-	*	*	*
Total Accumulated Other Comprehensive Loss	<u>\$ (5,726)</u>	<u>\$ (258)</u>	<u>\$ 89</u>	<u>\$ (169)</u>	<u>\$ (5,895)</u>

Table J1.1:*In millions of U.S. dollars*

	<i>Three Months Ended September 30, 2019</i>				
	<i>Balance, beginning of the fiscal year</i>	<i>Changes in AOCL</i>	<i>Amounts reclassified into net income</i>	<i>Net Changes during the period</i>	<i>Balance, end of the period</i>
Cumulative Translation Adjustments on functional currency	\$ (18)	\$ (283)	\$ -	\$ (283)	\$ (301)
DVA on Fair Value option elected liabilities	705	61	(*)	61	766
Unrecognized Net Actuarial (Losses) Gains on Benefit Plans	(3,678)	-	43	43	(3,635)
Unrecognized Prior Service (Costs) Credits on Benefit Plans	(112)	-	6	6	(106)
Other	(*)	-	*	*	(*)
Total Accumulated Other Comprehensive Loss	<u>\$ (3,103)</u>	<u>\$ (222)</u>	<u>\$ 49</u>	<u>\$ (173)</u>	<u>\$ (3,276)</u>

* Indicates amount less than \$0.5 million.

NOTE K—FAIR VALUE DISCLOSURES**Valuation Methods and Assumptions**

As of September 30, 2020 and June 30, 2020, IBRD had no assets or liabilities measured at fair value on a non-recurring basis.

Due from Banks

The carrying amount of unrestricted and restricted currencies is considered a reasonable estimate of the fair value of these positions.

Loans and Loan commitments

There were no loans carried at fair value as of September 30, 2020 and June 30, 2020. IBRD's loans and loan commitments would be classified as Level 3 within the fair value hierarchy.

Summarized below are the techniques applied in determining the fair values of IBRD's financial instruments.

Investment securities

Investment securities are classified based on management's intention on the date of purchase, their nature, and IBRD's policies governing the level and use of such investments. As of September 30, 2020, all of the financial instruments in IBRD's investment portfolio were classified as trading. These securities are carried and reported at fair value, or at face value or NAV, which approximates fair value. Where available, quoted market prices are used to determine the fair value of trading securities. Examples include most government and agency securities, mutual funds, futures contracts, exchange-traded equity securities and ABS and To-Be-Announced (TBA) securities.

For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads, and constant prepayment rates. Where applicable, unobservable inputs such as constant prepayment rates, probability of default and loss severity are used. Unless quoted prices are available, time deposits are reported at face value, which approximates fair value, as they are short term in nature.

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

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

Discount notes and vanilla bonds

Discount notes and vanilla bonds are valued using the standard discounted cash flow method which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads. Where available, quoted market prices are used to determine the fair value of short-term notes.

Structured bonds

Structured bonds issued by IBRD have coupon or repayment terms linked to the level or the performance of interest rates, foreign exchange rates, equity indices, catastrophic events or commodities. The fair value of the structured bonds is generally derived using the discounted cash flow method based on estimated future payoffs determined by applicable models and computation of embedded optionality such as caps, floors and calls. A wide range of industry standard models such as one factor Hull-White, LIBOR Market Model and Black-Scholes are used depending on the specific structure. These models incorporate market observable inputs, such as yield curves, foreign exchange rates, basis spreads, funding spreads, interest rate volatilities, equity index volatilities and equity indices. Where applicable, the models also incorporate significant unobservable inputs such as correlations and long-dated interest rate volatilities. Generally, the movements in correlations are considered to be independent of movements in long-dated interest rate volatilities.

Derivative instruments

Derivative contracts include currency forward contracts, TBAs, swaptions, exchange traded options and futures contracts, currency swaps and interest rate swaps. Currency swaps and interest rate swaps are either plain vanilla or structured. Currency forward contracts and plain vanilla currency and interest rate swaps are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads. For structured currency and interest rate swaps, which primarily consist of callable swaps linked to interest rates, foreign exchange rates, and equity indices, valuation models and inputs similar to the ones applicable to structured bonds valuation are used. Where applicable, the models also incorporate significant unobservable inputs such as correlations and long-dated interest rate volatilities.

Valuation adjustments on fair value option elected liabilities

The DVA on Fair Value Option Elected Liabilities is measured by revaluing each liability to determine the changes in fair value of that liability arising from changes in IBRD's cost of funding relative to LIBOR.

The table below presents IBRD's estimates of fair value of its financial assets and liabilities along with their respective carrying amounts:

Table K1: Fair value and carrying amount of financial assets and liabilities

In millions of U.S. dollars

	September 30, 2020		June 30, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Due from banks	\$ 1,932	\$ 1,932	\$ 1,870	\$ 1,870
Investments-Trading (including Securities purchased under resale agreements)	84,974	84,974	84,161	84,161
Net loans outstanding	209,528	217,169	202,158	209,613
Derivative assets, net	4,598	4,598	3,744	3,744
Liabilities				
Borrowings	251,074	251,080	243,240	243,247
Securities sold/lent under repurchase agreements/securities lending agreements and payable for cash collateral received	95	95	36	36
Derivative liabilities, net	1,160	1,160	1,473	1,473

As of September 30, 2020, IBRD's signed loan commitments had a fair value of \$1.9 billion (\$1.9 million—June 30, 2020).

The following tables present IBRD's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis. Note that the fair value of alternative investments and certain equities is calculated using NAV. As a result, these amounts are included in the respective asset class totals and not in the fair value hierarchy, in accordance with the permitted practical expedient under U.S. GAAP.

Table K2: Fair value hierarchy of IBRD's assets and liabilities

In millions of U.S. dollars

	Fair Value Measurements on a Recurring Basis September 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments – Trading				
Government and agency obligations	\$ 20,524	\$ 28,382	\$ -	\$ 48,906
Time deposits	2,361	29,364	-	31,725
ABS	-	2,505	-	2,505
Alternative investments ^a	-	-	-	1,028
Equity securities	418	-	-	418
Total Investments – Trading	\$ 23,303	\$ 60,251	\$ -	\$ 84,582
Securities purchased under resale agreements	47	345	-	392
Derivative Assets				
Currency swaps ^b	\$ -	\$ 6,694	\$ 183	\$ 6,877
Interest rate swaps	-	13,677	160	13,837
Other ^c	-	2	-	2
	\$ -	\$ 20,373	\$ 343	\$ 20,716
Less:				
Amounts subject to legally enforceable master netting agreements ^e				13,810
Cash collateral received ^e				2,308
Derivative Assets, net				\$ 4,598
Liabilities:				
Borrowings	\$ -	\$ 245,808	\$ 5,266	\$ 251,074
Securities sold under repurchase agreements and securities lent under securities lending agreements ^d	-	10	-	10
Derivative Liabilities				
Currency swaps ^b	-	6,610	284	6,894
Interest rate swaps	-	7,928	120	8,048
Other ^c	2	2	-	4
	\$ 2	\$ 14,540	\$ 404	\$ 14,946
Less:				
Amounts subject to legally enforceable master netting agreements ^f				13,786
Derivative Liabilities, net				\$ 1,160

a. Investments at NAV related to PEBP holdings, not included in the fair value hierarchy.

b. Includes currency forward contracts and structured swaps.

c. These relate to swaptions, exchange traded options and future contracts and TBA securities.

d. Excludes \$2,393 million relating to payable for cash collateral received.

e. Includes \$35 million CVA adjustment.

f. Includes \$11 million DVA adjustment.

Table K2.1:
In millions of U.S. dollars

Fair Value Measurements on a Recurring Basis June 30, 2020				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments – Trading				
Government and agency obligations	\$ 19,368	\$ 29,081	\$ -	\$ 48,449
Time deposits	1,850	29,132	-	30,982
ABS	-	3,012	-	3,012
Alternative investments ^a	-	-	-	942
Equity securities	382	-	-	382
Total Investments – Trading	\$ 21,600	\$ 61,225	\$ -	\$ 83,767
Securities purchased under resale agreements	53	341	-	394
Derivative Assets				
Currency swaps ^b	\$ -	\$ 5,916	\$ 157	\$ 6,073
Interest rate swaps	-	14,154	141	14,295
Other ^c	*	3	-	3
	\$ -	\$ 20,073	\$ 298	\$ 20,371
Less:				
Amounts subject to legally enforceable master netting agreements ^e				14,502
Cash collateral received				2,125
Derivative Asset, net				\$ 3,744
Liabilities:				
Borrowings	\$ -	\$ 237,893	\$ 5,347	\$ 243,240
Securities sold under repurchase agreements and securities lent under securities lending agreements ^f	-	9	-	9
Derivative Liabilities				
Currency swaps ^b	-	7,277	310	7,587
Interest rate swaps	-	8,207	163	8,370
Other ^c	*	2	-	2
	\$ -	\$ 15,486	\$ 473	\$ 15,959
Less:				
Amounts subject to legally enforceable master netting agreements ^f				14,486
Derivative Liabilities, net				\$ 1,473

a. Investments at NAV related to PEBP holdings, not included in the fair value hierarchy.

b. Includes currency forward contracts and structured swaps.

c. These relate to swaptions, exchange traded options and future contracts and TBA securities.

d. Excludes \$2,152 million relating to payable for cash collateral received.

e. Includes \$28 million CVA adjustment.

f. Includes \$12 million DVA adjustment.

* Indicates amount less than \$0.5 million.

IBRD's Level 3 borrowings primarily relate to structured bonds. The fair value of these bonds is estimated using discounted cash flow valuation models that incorporate model parameters, observable market inputs, and unobservable inputs. The significant unobservable inputs used in the fair value measurement of structured bonds and swaps are correlations and long-dated interest rate volatilities. Generally, the movements in correlations are considered to be independent of the movements in long-dated interest rate volatilities.

Correlation is the statistical measurement of the relationship between two variables. For contracts where the holder benefits from the convergence of the underlying index prices (e.g. interest rates and foreign exchange rates), an increase in correlation would generally result in an increase in the fair value of the instrument. The magnitude and direction of the fair value adjustment would depend on whether the holder is short or long the option.

Interest rate volatility is the extent to which the level of interest rates changes over time. For purchased options, an increase in volatility would generally result in an increase in the fair value. In general, the volatility used to price the option depends on the maturity of the underlying instrument and the option strike price. During the three months ended September 30, 2020, and the fiscal year ended June 30, 2020, the interest rate volatilities for certain currencies were extrapolated for certain tenors and, thus, are considered an unobservable input.

In certain instances, particularly for instruments with coupon or repayment terms linked to catastrophic events, management relies on instrument valuations supplied by external pricing vendors.

The following table provides a summary of the valuation technique applied in determining fair values of these Level 3 instruments and quantitative information regarding the significant unobservable inputs used. Level 3 instruments represent 2.1% of IBRD's borrowings.

Table K3: Level 3 Borrowings and derivatives valuation technique and quantitative information regarding the significant unobservable inputs:

In millions of U.S. dollars

	<i>Fair Value at September 30, 2020</i>	<i>Fair Value at June 30, 2020</i>	<i>Valuation Technique</i>	<i>Unobservable input</i>	<i>Range (average), September 30, 2020</i>	<i>Range (average), June 30, 2020</i>
Borrowings	\$5,266	\$5,347	Discounted Cash Flow	Correlations Interest rate volatilities	-53% to 76% (6%) 37% to 757% (304%)	-55% to 76% (7%) 37% to 412% (183%)
Derivative liabilities	(\$61)	(\$175)	Discounted Cash Flow	Correlations Interest rate volatilities	-53% to 76% (6%) 37% to 757% (304%)	-55% to 76% (7%) 37% to 412% (183%)

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

Table K4: Borrowings and derivatives inter level transfers

In millions of U.S. dollars

	<i>Three Months Ended September 30, 2020</i>		<i>Three Months Ended September 30, 2019</i>	
	<i>Level 2</i>	<i>Level 3</i>	<i>Level 2</i>	<i>Level 3</i>
Borrowings				
Transfer into (out of)	\$ 21	\$ (21)	\$ 2	\$ (2)
Transfer (out of) into	-	-	(309)	309
	<u>21</u>	<u>(21)</u>	<u>(307)</u>	<u>307</u>
Derivative assets, net				
Transfer into (out of)	\$ -	\$ -	\$ *	\$ (*)
Transfer (out of) into	-	-	(1)	1
	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>1</u>
Derivative liabilities, net				
Transfer (into) out of	\$ (2)	\$ 2	\$ -	\$ -
Transfer out of (into)	-	-	9	(9)
	<u>(2)</u>	<u>2</u>	<u>9</u>	<u>(9)</u>
Total Derivative Transfers, net	<u>\$ (2)</u>	<u>\$ 2</u>	<u>\$ 8</u>	<u>\$ (8)</u>

* Indicates amount less than \$0.5 million.

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

Table K5: Borrowings Level 3 changes

In millions of U.S. dollars

	<i>Three Months Ended September 30,</i>	
	<i>2020</i>	<i>2019</i>
Beginning of the fiscal year	\$ 5,347	\$ 4,941
Issuances	34	361
Settlements	(266)	(266)
Total realized/unrealized mark-to-market losses (gains) in:		
Net (loss) income	119	60
Other comprehensive income	53	(16)
Transfers to (from) Level 3, net	(21)	307
End of the period	<u>\$ 5,266</u>	<u>\$ 5,387</u>

Table K5.1: Derivatives Level 3 changes*In millions of U.S. dollars*

	<i>Three Months Ended September 30, 2020</i>			<i>Three Months Ended September 30, 2019</i>		
	<i>Derivatives, Assets/(Liabilities)</i>			<i>Derivatives, Assets/(Liabilities)</i>		
	<i>Currency Swaps</i>	<i>Interest Rate Swaps</i>	<i>Total</i>	<i>Currency Swaps</i>	<i>Interest Rate Swaps</i>	<i>Total</i>
Beginning of the fiscal year	\$ (153)	\$ (22)	\$ (175)	\$ (62)	\$ (120)	\$ (182)
Issuances	(1)	-	(1)	(4)	-	(4)
Settlements	(3)	(5)	(8)	4	89	93
Total realized/unrealized mark-to-market gains in:						
Net (loss) income	39	65	104	18	32	50
Other comprehensive income	15	2	17	(6)	(1)	(7)
Transfers to (from) Level 3, net	2	-	2	(8)	-	(8)
End of the period	<u>\$ (101)</u>	<u>\$ 40</u>	<u>\$ (61)</u>	<u>\$ (58)</u>	<u>\$ -</u>	<u>\$ (58)</u>

Information on the unrealized gains or losses included in the Condensed Statement of Income and Condensed Statement of Comprehensive Income relating to IBRD's Level 3 borrowings and derivatives that are still held at the reporting dates, is presented in the following table:

Table K6: Unrealized gains or losses relating to IBRD's Level 3 borrowings and derivatives*In millions of U.S. dollars*

	<i>Three Months Ended September 30,</i>	
	<i>2020</i>	<i>2019</i>
Reported as follows:		
Borrowings		
Net (loss) income ^a	\$ (85)	\$ (89)
Other Comprehensive Income ^b	(53)	17
Derivatives		
Net (loss) income ^a	\$ 92	\$ 114
Other Comprehensive Income ^c	17	(8)

a. Amounts are included in Unrealized mark-to-market gains (losses) on non-trading portfolios, net on the Condensed Statement of Income.

b. Amounts are included in Currency translation adjustment and Net Change in Debt Valuation Adjustment (DVA) on fair value option elected liabilities, on the Statement of Comprehensive Income.

c. Amounts are included Currency translation adjustment, on the Statement of Comprehensive Income.

Table K7: Borrowings fair value and contractual principal balance*In millions of U.S. dollars*

	<i>Fair Value</i>	<i>Principal Amount Due Upon Maturity</i>	<i>Difference</i>
September 30, 2020	\$ 251,074	\$ 246,171	\$ 4,903
June 30, 2020	\$ 243,240	\$ 238,674	\$ 4,566

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

Table K8: Changes in fair value due to IBRD's own credit risk*In millions of U.S. dollars*

<i>Unrealized mark-to-market (losses) gains due to DVA on fair value option elected liabilities</i>	<i>Three Months Ended September 30,</i>	
	<i>2020</i>	<i>2019</i>
DVA on Fair Value Option Elected Liabilities	\$ (605)	\$ 61
Amounts reclassified to net income upon derecognition of a liability	(11)	(*)
Net change in DVA on Fair Value Option Elected Liabilities	<u>\$ (616)</u>	<u>\$ 61</u>

* Indicates amount less than \$0.5 million.

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

Table K9: Cumulative changes in fair value due to the change in IBRD's own-credit risk

In millions of U.S. dollars

<i>DVA on fair value option elected liabilities</i>	<i>September 30, 2020</i>	<i>June 30, 2020</i>
Reported as follows:		
Accumulated other comprehensive loss	\$ 598	\$ 1,214

Table K10: Unrealized mark-to-market gains or losses on investments-trading, and non-trading portfolios, net

In millions of U.S. dollars

	<i>Three Months Ended September 30, 2020</i>			<i>Three Months Ended September 30, 2019</i>		
	<i>Realized gains (losses)</i>	<i>Unrealized gains (losses) excluding realized amounts ^a</i>	<i>Unrealized gains (losses)</i>	<i>Realized gains (losses)</i>	<i>Unrealized gains (losses) excluding realized amounts ^a</i>	<i>Unrealized gains (losses)</i>
Investments-Trading	\$ (577)	\$ 648	\$ 71	\$ 195	\$ (141)	\$ 54
Non-trading portfolios, net						
Loan derivatives—Note F	-	304	304	-	(634)	(634)
Other assets/liabilities management derivatives, net	-	(136)	(136)	-	144	144
Borrowings, including derivatives —Notes E and F	*	176	176 ^b	1	109	110 ^b
Client operations derivatives	-	2	2	-	(4)	(4)
Total	\$ *	\$ 346	\$ 346	\$ 1	\$ (385)	\$ (384)

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

b. Includes \$399 million of unrealized mark-to-market losses related to derivatives associated with borrowings (unrealized mark-to-market gains of \$1,950 million —three months ended September 30, 2019).

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

NOTE L—CONTINGENCIES

In light of the COVID-19 pandemic, IBRD faces additional credit, market and operational risks. The duration of the COVID-19 pandemic is difficult to predict at this time, as are the extent and efficacy of economic interventions by governments and central banks. The length and severity of the pandemic and the related developments, as well as the impact on the financial results and position of IBRD in future periods cannot be reasonably estimated at this point in time and continue to evolve. IBRD continues to monitor the developments and to manage the risks associated with its various portfolios within existing financial policies and limits.

From time to time, IBRD may be named as a defendant or co-defendant in legal actions on different grounds in various jurisdictions. The outcome of any existing legal action, in which IBRD has been named as a defendant or codefendant, as of and for the fiscal year ended September 30, 2020, is not expected to have a material adverse effect on IBRD's financial position, results of operations or cash flows.

INDEPENDENT AUDITORS' REVIEW REPORT



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INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying condensed balance sheet of the International Bank for Reconstruction and Development ("IBRD") as of September 30, 2020, and the related condensed statements of income, comprehensive income, changes in retained earnings, and cash flows for the three-month periods ended September 30, 2020 and 2019 (the "interim financial information").

Management's Responsibility for the Interim Financial Information

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

Auditors' Responsibility

Our responsibility is to conduct our 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 interim financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on Condensed Balance Sheet as of June 30, 2020

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of IBRD as of June 30, 2020, and the related statements of income, comprehensive income, changes in retained earnings, 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 7, 2020. In our opinion, the accompanying condensed balance sheet of IBRD as of June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

November 13, 2020