

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FINANCIAL STATEMENTS

JUNE 30, 2001

<b>Balance Sheet</b>	<b>34</b>
<b>Statement of Income</b>	<b>36</b>
<b>Statement of Comprehensive Income</b>	<b>37</b>
<b>Statement of Changes in Retained Earnings</b>	<b>37</b>
<b>Statement of Cash Flows</b>	<b>38</b>
<b>Summary Statement of Loans</b>	<b>40</b>
<b>Statement of Subscriptions to Capital Stock and Voting Power</b>	<b>43</b>
<b>Notes to Financial Statements</b>	<b>47</b>
<b>Report of Independent Accountants</b>	<b>73</b>

**BALANCE SHEET**  
*June 30, 2001 and June 30, 2000*

*Expressed in millions of U.S. dollars*

	<u>2001</u>	<u>2000</u>
<b>Assets</b>		
<b><i>Due from Banks</i></b>		
Unrestricted currencies	\$ 50	\$ 32
Currencies subject to restrictions—Note A	635	659
	<u>685</u>	<u>691</u>
<b><i>Investments—Trading (including securities transferred under repurchase or security lending agreements of \$206 million—June 30, 2001)—Notes B and F</i></b>	24,168	24,941
<b><i>Securities Purchased Under Resale Agreements—Note B</i></b>	322	101
<b><i>Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital</i></b>	1,838	1,670
<b><i>Amounts Receivable from Currency and Interest Rate Swaps</i></b>		
Investments—Notes B and F	11,043	11,317
Borrowings (including an increase of \$2,032 million due to FAS 133—June 30, 2001)—Notes D and F	63,326	67,231
Other Asset/Liability (including an increase of \$2 million due to FAS 133—June 30, 2001)—Notes E and F	728	—
	<u>75,097</u>	<u>78,548</u>
<b><i>Amounts Receivable to Maintain Value of Currency Holdings on Account of Subscribed Capital</i></b>	197	432
<b><i>Other Receivables</i></b>		
Amounts receivable from investment securities traded	508	189
Accrued income on loans	2,036	2,196
	<u>2,544</u>	<u>2,385</u>
<b><i>Loans Outstanding (see Summary Statement of Loans, Notes C and F)</i></b>		
Total loans	156,800	164,858
Less undisbursed balance	37,934	44,754
Loans outstanding	<u>118,866</u>	<u>120,104</u>
Less:		
Accumulated provision for loan losses	3,959	3,400
Deferred loan income	500	460
Net loans outstanding	<u>114,407</u>	<u>116,244</u>
<b><i>Other Assets</i></b>		
Unamortized issuance costs of borrowings	489	608
Miscellaneous—Note J	3,094	2,919
	<u>3,583</u>	<u>3,527</u>
<b>Total assets</b>	<u>\$222,841</u>	<u>\$228,539</u>

	<u>2001</u>	<u>2000</u>
<b>Liabilities</b>		
<b><i>Borrowings—Notes D and F</i></b>		
Short-term	\$ 6,918	\$ 4,730
Medium- and long-term (including an increase of \$45 million due to FAS 133—June 30, 2001)	99,839	105,649
	<u>106,757</u>	<u>110,379</u>
<b><i>Securities Sold Under Repurchase Agreements and Payable for Cash Collateral Received—Note B</i></b>	207	—
<b><i>Amounts Payable for Currency and Interest Rate Swaps</i></b>		
Investments—Notes B and F	10,791	11,720
Borrowings (including an increase of \$1,362 million due to FAS 133—June 30, 2001)—Notes D and F	68,051	70,864
Other Asset/Liability—Notes E and F	701	—
	<u>79,543</u>	<u>82,584</u>
<b><i>Amounts Payable to Maintain Value of Currency Holdings on Account of Subscribed Capital</i></b>	8	56
<b><i>Other Liabilities</i></b>		
Amounts payable for investment securities purchased	686	529
Accrued charges on borrowings	3,232	3,312
Payable for Board of Governors-approved transfers—Note G	1,093	861
Liabilities under other postretirement benefits plans—Note J	129	119
Accounts payable and miscellaneous liabilities	1,616	1,410
	<u>6,756</u>	<u>6,231</u>
<b>Total liabilities</b>	<u>193,271</u>	<u>199,250</u>
<b>Equity</b>		
<b><i>Capital Stock (see Statement of Subscriptions to Capital Stock and Voting Power, Note A)</i></b>		
Authorized capital (1,581,724 shares—June 30, 2001 and June 30, 2000)		
Subscribed capital (1,570,895 shares—June 30, 2001; 1,563,443 shares—June 30, 2000)	189,505	188,606
Less uncalled portion of subscriptions	178,029	177,188
	<u>11,476</u>	<u>11,418</u>
<b><i>Amounts to Maintain Value of Currency Holdings—Note A</i></b>	(912)	(522)
<b><i>Payments on Account of Pending Subscriptions—Note A</i></b>	—	7
<b><i>Retained Earnings (see Statement of Changes in Retained Earnings, Note G)</i></b>	19,851	19,027
<b><i>Accumulated Other Comprehensive Loss—Note L</i></b>	(845)	(641)
<b>Total equity</b>	<u>29,570</u>	<u>29,289</u>
<b>Total liabilities and equity</b>	<u>\$222,841</u>	<u>\$228,539</u>

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

# STATEMENT OF INCOME

For the fiscal years ended June 30, 2001, June 30, 2000 and June 30, 1999

Expressed in millions of U.S. dollars

	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>Income</b>			
Income from loans—Note C			
Interest	\$ 8,052	\$ 8,041	\$7,535
Commitment charges	91	112	114
Income from investments—Note B			
Trading			
Interest	1,476	1,575	1,425
Net gains (losses)			
Realized	(10)	3	1
Unrealized	51	3	(5)
Held-to-maturity			
Interest	—	—	47
Realized gains	—	—	237
Income from securities purchased under resale agreements—Note B	29	12	15
Income from Staff Retirement Plan—Note J	155	166	255
Other income—Notes H and I	171	133	134
Total income	<u>10,015</u>	<u>10,045</u>	<u>9,758</u>
<b>Expenses</b>			
Borrowing expenses—Note D			
Interest	6,988	6,978	6,703
Prepayment losses	33	1	1
Amortization of issuance and other borrowing costs	131	149	142
Interest on securities sold under repurchase agreements and payable for cash collateral received—Note B	6	4	36
Administrative expenses—Notes H and I	859	935	965
Contributions to special programs—Note H	147	126	129
Other postretirement benefits expense—Note J	7	10	10
Provision for loan losses—Note C	676	(166)	246
Other expenses	24	17	8
Total expenses	<u>8,871</u>	<u>8,054</u>	<u>8,240</u>
<b>Operating Income</b>	1,144	1,991	1,518
<b>FAS 133 adjustment</b>	126	—	—
<b>Income before cumulative effect of change in accounting principle</b>	1,270	1,991	1,518
<b>Cumulative effect of change in accounting principle</b>	219	—	—
<b>Net Income</b>	<u>\$ 1,489</u>	<u>\$ 1,991</u>	<u>\$1,518</u>

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## STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2001, June 30, 2000 and June 30, 1999

Expressed in millions of U.S. dollars

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net income	\$1,489	\$1,991	\$1,518
Other comprehensive income—Note L			
Cumulative effect of change in accounting principle	500	—	—
Reclassification of FAS 133 transition adjustment to net income	(169)	—	—
Currency translation adjustments	(535)	(4)	323
Total other comprehensive income (loss)	<u>(204)</u>	<u>(4)</u>	<u>323</u>
Comprehensive income	<u>\$1,285</u>	<u>\$1,987</u>	<u>\$1,841</u>

## STATEMENT OF CHANGES IN RETAINED EARNINGS

For the fiscal years ended June 30, 2001, June 30, 2000 and June 30, 1999

Expressed in millions of U.S. dollars

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Retained earnings at beginning of the fiscal year	\$19,027	\$17,709	\$16,733
Board of Governors-approved transfers to—Note G			
International Development Association	(320)	(348)	(352)
Trust Fund for Gaza and West Bank	—	(60)	(90)
Trust Fund for East Timor	—	(10)	—
Heavily Indebted Poor Countries Debt Initiative Trust Fund	(250)	(200)	(100)
Capacity building in Africa	(30)	(30)	—
Trust Fund for Kosovo	(35)	(25)	—
Trust Fund for Federal Republic of Yugoslavia	(30)	—	—
Net income for the fiscal year	<u>1,489</u>	<u>1,991</u>	<u>1,518</u>
Retained earnings at end of the fiscal year	<u>\$19,851</u>	<u>\$19,027</u>	<u>\$17,709</u>

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# STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2001, June 30, 2000 and June 30, 1999

Expressed in millions of U.S. dollars

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Cash flows from lending and investing activities			
Loans			
Disbursements	\$(11,707)	\$(13,222)	\$(18,100)
Principal repayments	9,623	9,973	9,988
Principal prepayments	70	499	94
Loan origination fees received	1	19	32
Investments: Held-to-maturity			
Purchases of securities and repayments of securities sold under repurchase agreements	—	—	(13,266)
Maturities of securities and proceeds from securities sold under repurchase agreements	—	—	13,426
Proceeds from sale of held-to-maturity portfolio net of securities sold under repurchase agreements	—	—	1,389
Net cash used in lending and investing activities	<u>(2,013)</u>	<u>(2,731)</u>	<u>(6,437)</u>
Cash flows from Board of Governors-approved transfers to			
International Development Association	(20)	(50)	—
Debt Reduction Facility for IDA-Only Countries	3	(19)	—
Trust Fund for Gaza and West Bank	(17)	(83)	(62)
Heavily Indebted Poor Countries Debt Initiative Trust Fund	(250)	(200)	—
Trust Fund for East Timor, Trust Fund for Kosovo, Trust Fund for Federal Republic of Yugoslavia, and capacity building in Africa	(95)	(65)	—
Net cash used in Board of Governors-approved transfers	<u>(379)</u>	<u>(417)</u>	<u>(62)</u>
Cash flows from financing activities			
Medium- and long-term borrowings			
New issues	17,223	15,206	21,846
Retirements	(18,027)	(19,211)	(10,034)
Net short-term borrowings	1,870	(917)	(1,512)
Net currency and interest rate swaps—Borrowings	(1,402)	(454)	(340)
Net capital stock transactions	72	154	175
Net cash (used in) provided by financing activities	<u>(264)</u>	<u>(5,222)</u>	<u>10,135</u>
Cash flows from operating activities			
Net income	1,489	1,991	1,518
Adjustments to reconcile net income to net cash provided by operating activities			
FAS 133 adjustment	(126)	—	—
Cumulative effect of change in accounting principle	(219)	—	—
Depreciation and amortization	979	884	819
Amortization of deferred loan income	(49)	(30)	(20)
Provision for loan losses	676	(166)	246
Income from Staff Retirement Plan	(155)	(166)	(255)
Gain on sale of held-to-maturity portfolio	—	—	(237)
Changes in other assets and liabilities			
Decrease (increase) in accrued income on loans and held-to-maturity investments	138	(99)	(46)
Decrease (increase) in miscellaneous assets	82	(269)	(130)
(Decrease) increase in accrued charges on borrowings	(49)	322	470
Increase (decrease) in accounts payable and miscellaneous liabilities	54	135	(258)
Net cash provided by operating activities	<u>2,820</u>	<u>2,602</u>	<u>2,107</u>

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Effect on liquid investments due to decrease in net assets associated with other postretirement benefits	\$ —	\$ —	\$ 650
Effect of exchange rate changes on unrestricted cash and liquid investments	<u>(88)</u>	<u>(23)</u>	<u>224</u>
Net increase (decrease) in unrestricted cash and liquid investments	76	(5,791)	6,617
Unrestricted cash and liquid investments at beginning of the fiscal year	<u>24,331</u>	<u>30,122</u>	<u>23,505</u>
Unrestricted cash and liquid investments at end of the fiscal year	<u><u>\$24,407</u></u>	<u><u>\$24,331</u></u>	<u><u>\$ 30,122</u></u>
Composition of unrestricted cash and liquid investments:			
Investments held in trading portfolio	\$24,168	\$24,941	\$ 30,345
Unrestricted currencies	50	32	33
Net (payable) receivable for investment securities traded/purchased—Trading	(178)	(340)	(79)
Net receivable (payable) from currency and interest rate swaps—Investments	252	(403)	(81)
Net receivable (payable) for securities purchased/sold under resale/repurchase agreements and payable for cash collateral received	115	101	(96)
	<u><u>\$24,407</u></u>	<u><u>\$24,331</u></u>	<u><u>\$ 30,122</u></u>
Supplemental disclosure			
Increase (decrease) in ending balances resulting from exchange rate fluctuations			
Loans outstanding	\$(3,329)	\$ 16	\$ 2,519
Investments—Held-to-maturity	—	—	13
Borrowings	(5,530)	(1,173)	1,010
Currency and interest rate swaps—Borrowings	3,164	1,195	1,244
Capitalized loan origination fees included in total loans	77	110	115

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# SUMMARY STATEMENT OF LOANS

June 30, 2001

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total loans</i>	<i>Loans approved but not yet effective<sup>1</sup></i>	<i>Undisbursed balance of effective loans<sup>2</sup></i>	<i>Loans outstanding</i>	<i>Percentage of total loans outstanding</i>
Algeria	\$ 1,883	\$ 42	\$ 460	\$ 1,381	1.16%
Argentina	11,102	446	1,992	8,664	7.29
Armenia	8	—	—	8	0.01
Bahamas, The	2	—	—	2	*
Bangladesh	20	—	—	20	0.02
Barbados	29	15	2	12	0.01
Belarus	125	23	7	95	0.08
Belize	55	1	12	42	0.03
Bosnia and Herzegovina	548	—	—	548	0.46
Botswana	12	—	—	12	0.01
Brazil	11,047	476	2,359	8,212	6.91
Bulgaria	1,012	77	150	785	0.66
Cameroon	243	53	—	190	0.16
Chad	40	40	—	—	—
Chile	904	—	136	768	0.65
China	19,059	706	7,112	11,241	9.46
Colombia	2,537	185	503	1,849	1.56
Congo, Democratic Republic of	80	—	—	80	0.07
Congo, Republic of	42	—	—	42	0.03
Costa Rica	152	—	38	114	0.10
Côte d'Ivoire	526	—	—	526	0.44
Croatia	602	5	217	380	0.32
Cyprus	30	—	—	30	0.02
Czech Republic	224	—	—	224	0.19
Dominica	7	—	4	3	*
Dominican Republic	464	33	123	308	0.26
Ecuador	1,124	32	189	903	0.76
Egypt, Arab Republic of	895	—	314	581	0.49
El Salvador	502	—	187	315	0.26
Estonia	84	—	21	63	0.05
Fiji	17	—	—	17	0.01
Gabon	68	—	8	60	0.05
Ghana	6	—	—	6	0.01
Grenada	9	—	6	3	*
Guatemala	568	82	179	307	0.26
Guyana	6	—	—	6	0.01
Honduras	139	—	—	139	0.12
Hungary	591	—	18	573	0.48
India	11,288	1,474	2,899	6,915	5.82
Indonesia	13,359	284	1,477	11,598	9.76
Iran, Islamic Republic of	756	—	283	473	0.40
Iraq	35	—	—	35	0.03
Jamaica	418	—	28	390	0.33
Jordan	1,064	—	171	893	0.75
Kazakhstan	1,669	65	567	1,037	0.87

<i>Borrower or guarantor</i>	<i>Total loans</i>	<i>Loans approved but not yet effective<sup>1</sup></i>	<i>Undisbursed balance of effective loans<sup>2</sup></i>	<i>Loans outstanding</i>	<i>Percentage of total loans outstanding</i>
Kenya	\$ 33	\$ —	\$ —	\$ 33	0.03%
Korea, Republic of	7,973	—	55	7,918	6.66
Latvia	312	37	42	233	0.20
Lebanon	645	20	375	250	0.21
Lesotho	88	—	32	56	0.05
Liberia	122	—	—	122	0.10
Lithuania	382	—	128	254	0.21
Macedonia, former Yugoslav Republic of	204	16	76	112	0.09
Malawi	5	—	—	5	*
Malaysia	1,001	—	219	782	0.66
Mauritius	91	—	14	77	0.06
Mexico	14,660	1,480	1,945	11,235	9.45
Moldova	197	—	13	184	0.15
Morocco	2,994	100	285	2,609	2.20
Nicaragua	2	—	—	2	*
Nigeria	1,455	—	16	1,439	1.21
Oman	2	—	—	2	*
Pakistan	3,032	—	127	2,905	2.44
Panama	421	83	60	278	0.23
Papua New Guinea	343	—	114	229	0.19
Paraguay	292	—	91	201	0.17
Peru	2,851	177	110	2,564	2.16
Philippines	4,274	60	842	3,372	2.84
Poland	2,746	145	514	2,087	1.76
Romania	2,518	130	526	1,862	1.57
Russian Federation	8,452	457	1,294	6,701	5.64
St. Kitts and Nevis	12	—	7	5	*
St. Lucia	13	—	7	6	*
St. Vincent and the Grenadines	2	—	2	*	*
Seychelles	3	—	—	3	*
Slovak Republic	164	—	—	164	0.14
Slovenia	95	—	17	78	0.07
South Africa	24	—	19	5	*
Sri Lanka	10	—	—	10	0.01
Swaziland	29	—	20	9	0.01
Syrian Arab Republic	18	—	—	18	0.02
Tanzania	9	—	—	9	0.01
Thailand	3,520	—	588	2,932	2.47
Trinidad and Tobago	124	—	34	90	0.08
Tunisia	1,745	73	496	1,176	0.99

# SUMMARY STATEMENT OF LOANS (Continued)

June 30, 2001

Expressed in millions of U.S. dollars

Borrower or guarantor	Total loans	Loans approved but not yet effective <sup>1</sup>	Undisbursed balance of effective loans <sup>2</sup>	Loans outstanding	Percentage of total loans outstanding
Turkey	\$ 6,133	\$ —	\$ 2,542	\$ 3,591	3.02%
Turkmenistan	65	—	36	29	0.02
Ukraine	2,343	53	281	2,009	1.69
Uruguay	738	33	159	546	0.46
Uzbekistan	405	—	184	221	0.19
Venezuela, República Bolivariana de	1,205	30	268	907	0.76
Yugoslavia, Federal Republic of	1,066	—	—	1,066	0.90
Zambia	24	—	—	24	0.02
Zimbabwe	396	—	1	395	0.33
Subtotal <sup>4</sup>	156,589	6,933	31,001	118,655	99.83
Caribbean Development Bank <sup>3</sup>	5	—	—	5	*
International Finance Corporation	206	—	—	206	0.17
Total—June 30, 2001 <sup>4</sup>	\$156,800	\$6,933	\$31,001	\$118,866	100.00%
Total—June 30, 2000	\$164,858	\$5,760	\$38,994	\$120,104	

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

## NOTES

- Loans totaling \$5,475 million (\$4,754 million-June 30, 2000) have been approved by IBRD, but the related agreements have not been signed. Loan agreements totaling \$1,458 million (\$1,006 million-June 30, 2000) have been signed, but the loans do not become effective and disbursements thereunder do not start until the borrowers and guarantors, if any, take certain actions and furnish certain documents to IBRD.
- Of the undisbursed balance, IBRD has entered into irrevocable commitments to disburse \$1,018 million (\$1,165 million-June 30, 2000).
- These loans are for the benefit of The Bahamas, Barbados, Grenada, Guyana, Jamaica, Trinidad and Tobago, and territories of the United Kingdom (Associated States and Dependencies) in the Caribbean Region, that are severally liable as guarantors to the extent of subloans made in their territories.
- May differ from the sum of individual figures shown due to rounding.

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

# STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

June 30, 2001

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total	Total amounts	Amounts paid in <sup>1</sup>	Amounts subject to call <sup>1,2</sup>	Number of votes	Percentage of total
Afghanistan	300	0.02%	\$ 36.2	\$ 3.6	\$ 32.6	550	0.03%
Albania	830	0.05	100.1	3.6	96.5	1,080	0.07
Algeria	9,252	0.59	1,116.1	67.1	1,049.0	9,502	0.59
Angola	2,676	0.17	322.8	17.5	305.4	2,926	0.18
Antigua and Barbuda	520	0.03	62.7	1.3	61.5	770	0.05
Argentina	17,911	1.14	2,160.7	132.2	2,028.4	18,161	1.12
Armenia	1,139	0.07	137.4	5.9	131.5	1,389	0.09
Australia	24,464	1.56	2,951.2	181.8	2,769.5	24,714	1.53
Austria	11,063	0.70	1,334.6	80.7	1,253.9	11,313	0.70
Azerbaijan	1,646	0.10	198.6	9.7	188.8	1,896	0.12
Bahamas, The	1,071	0.07	129.2	5.4	123.8	1,321	0.08
Bahrain	1,103	0.07	133.1	5.7	127.4	1,353	0.08
Bangladesh	4,854	0.31	585.6	33.9	551.6	5,104	0.32
Barbados	948	0.06	114.4	4.5	109.9	1,198	0.07
Belarus	3,323	0.21	400.9	22.3	378.5	3,573	0.22
Belgium	28,983	1.84	3,496.4	215.8	3,280.6	29,233	1.81
Belize	586	0.04	70.7	1.8	68.9	836	0.05
Benin	868	0.06	104.7	3.9	100.8	1,118	0.07
Bhutan	479	0.03	57.8	1.0	56.8	729	0.05
Bolivia	1,785	0.11	215.3	10.8	204.5	2,035	0.13
Bosnia and Herzegovina	549	0.03	66.2	5.8	60.4	799	0.05
Botswana	615	0.04	74.2	2.0	72.2	865	0.05
Brazil	33,287	2.12	4,015.6	245.5	3,770.1	33,537	2.07
Brunei Darussalam	2,373	0.15	286.3	15.2	271.1	2,623	0.16
Bulgaria	5,215	0.33	629.1	36.5	592.6	5,465	0.34
Burkina Faso	868	0.06	104.7	3.9	100.8	1,118	0.07
Burundi	716	0.05	86.4	3.0	83.4	966	0.06
Cambodia	214	0.01	25.8	2.6	23.2	464	0.03
Cameroon	1,527	0.10	184.2	9.0	175.2	1,777	0.11
Canada	44,795	2.85	5,403.8	334.9	5,068.9	45,045	2.79
Cape Verde	508	0.03	61.3	1.2	60.1	758	0.05
Central African Republic	862	0.05	104.0	3.9	100.1	1,112	0.07
Chad	862	0.05	104.0	3.9	100.1	1,112	0.07
Chile	6,931	0.44	836.1	49.6	786.6	7,181	0.44
China	44,799	2.85	5,404.3	335.0	5,069.3	45,049	2.79
Colombia	6,352	0.40	766.3	45.2	721.1	6,602	0.41
Comoros	282	0.02	34.0	0.3	33.7	532	0.03
Congo, Democratic Republic of	2,643	0.17	318.8	25.4	293.5	2,893	0.18
Congo, Republic of	927	0.06	111.8	4.3	107.5	1,177	0.07
Costa Rica	233	0.01	28.1	1.9	26.2	483	0.03
Côte d'Ivoire	2,516	0.16	303.5	16.4	287.1	2,766	0.17
Croatia	2,293	0.15	276.6	17.3	259.3	2,543	0.16
Cyprus	1,461	0.09	176.2	8.4	167.9	1,711	0.11
Czech Republic	6,308	0.40	761.0	45.9	715.0	6,558	0.41
Denmark	13,451	0.86	1,622.7	97.8	1,524.9	13,701	0.85
Djibouti	559	0.04	67.4	1.6	65.9	809	0.05
Dominica	504	0.03	60.8	1.1	59.7	754	0.05
Dominican Republic	2,092	0.13	252.4	13.1	239.3	2,342	0.14
Ecuador	2,771	0.18	334.3	18.2	316.1	3,021	0.19
Egypt, Arab Republic of	7,108	0.45	857.5	50.9	806.6	7,358	0.46

STATEMENT OF SUBSCRIPTIONS TO  
CAPITAL STOCK AND VOTING POWER (Continued)

June 30, 2001

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total	Total amounts	Amounts paid in <sup>1</sup>	Amounts subject to call <sup>1,2</sup>	Number of votes	Percentage of total
El Salvador	141	0.01%	\$ 17.0	\$ 1.7	\$ 15.3	391	0.02%
Equatorial Guinea	715	0.05	86.3	2.7	83.5	965	0.06
Eritrea	593	0.04	71.5	1.8	69.7	843	0.05
Estonia	923	0.06	111.3	4.3	107.1	1,173	0.07
Ethiopia	978	0.06	118.0	4.7	113.3	1,228	0.08
Fiji	987	0.06	119.1	4.8	114.3	1,237	0.08
Finland	8,560	0.54	1,032.6	61.9	970.8	8,810	0.54
France	69,397	4.42	8,371.7	520.4	7,851.3	69,647	4.31
Gabon	987	0.06	119.1	5.1	113.9	1,237	0.08
Gambia, The	543	0.03	65.5	1.5	64.0	793	0.05
Georgia	1,584	0.10	191.1	9.3	181.8	1,834	0.11
Germany	72,399	4.61	8,733.9	542.9	8,190.9	72,649	4.49
Ghana	1,525	0.10	184.0	12.7	171.2	1,775	0.11
Greece	1,684	0.11	203.1	14.1	189.1	1,934	0.12
Grenada	531	0.03	64.1	1.4	62.7	781	0.05
Guatemala	2,001	0.13	241.4	12.4	229.0	2,251	0.14
Guinea	1,292	0.08	155.9	7.1	148.8	1,542	0.10
Guinea-Bissau	540	0.03	65.1	1.4	63.7	790	0.05
Guyana	1,058	0.07	127.6	5.3	122.3	1,308	0.08
Haiti	1,067	0.07	128.7	5.4	123.3	1,317	0.08
Honduras	641	0.04	77.3	2.3	75.0	891	0.06
Hungary	8,050	0.51	971.1	58.0	913.1	8,300	0.51
Iceland	1,258	0.08	151.8	6.8	144.9	1,508	0.09
India	44,795	2.85	5,403.8	333.7	5,070.1	45,045	2.79
Indonesia	14,981	0.95	1,807.2	110.3	1,697.0	15,231	0.94
Iran, Islamic Republic of	23,686	1.51	2,857.4	175.8	2,681.5	23,936	1.48
Iraq	2,808	0.18	338.7	27.1	311.6	3,058	0.19
Ireland	5,271	0.34	635.9	37.1	598.8	5,521	0.34
Israel	4,750	0.30	573.0	33.2	539.8	5,000	0.31
Italy	44,795	2.85	5,403.8	334.8	5,069.0	45,045	2.79
Jamaica	2,578	0.16	311.0	16.8	294.2	2,828	0.17
Japan	127,000	8.08	15,320.6	944.0	14,376.7	127,250	7.87
Jordan	1,388	0.09	167.4	7.8	159.6	1,638	0.10
Kazakhstan	2,985	0.19	360.1	19.8	340.3	3,235	0.20
Kenya	2,461	0.16	296.9	15.9	281.0	2,711	0.17
Kiribati	465	0.03	56.1	0.9	55.2	715	0.04
Korea, Republic of	15,817	1.01	1,908.1	114.5	1,793.5	16,067	0.99
Kuwait	13,280	0.85	1,602.0	97.4	1,504.6	13,530	0.84
Kyrgyz Republic	1,107	0.07	133.5	5.7	127.9	1,357	0.08
Lao People's Democratic Republic	178	0.01	21.5	1.5	20.0	428	0.03
Latvia	1,384	0.09	167.0	7.8	159.2	1,634	0.10
Lebanon	340	0.02	41.0	1.1	39.9	590	0.04
Lesotho	663	0.04	80.0	2.3	77.6	913	0.06
Liberia	463	0.03	55.9	2.6	53.3	713	0.04
Libya	7,840	0.50	945.8	57.0	888.8	8,090	0.50
Lithuania	1,507	0.10	181.8	8.7	173.1	1,757	0.11
Luxembourg	1,652	0.11	199.3	9.8	189.5	1,902	0.12
Macedonia, former Yugoslav Republic of	427	0.03	51.5	3.2	48.3	677	0.04
Madagascar	1,422	0.09	171.5	8.1	163.5	1,672	0.10
Malawi	1,094	0.07	132.0	5.6	126.4	1,344	0.08

Member	Subscriptions				Voting Power		
	Shares	Percentage of total	Total amounts	Amounts paid in <sup>1</sup>	Amounts subject to call <sup>1,2</sup>	Number of votes	Percentage of total
Malaysia	8,244	0.52%	\$ 994.5	\$ 59.5	\$ 935.0	8,494	0.53%
Maldives	469	0.03	56.6	0.9	55.7	719	0.04
Mali	1,162	0.07	140.2	6.1	134.1	1,412	0.09
Malta	1,074	0.07	129.6	5.4	124.1	1,324	0.08
Marshall Islands	469	0.03	56.6	0.9	55.7	719	0.04
Mauritania	900	0.06	108.6	4.1	104.4	1,150	0.07
Mauritius	1,242	0.08	149.8	6.7	143.1	1,492	0.09
Mexico	18,804	1.20	2,268.4	139.0	2,129.4	19,054	1.18
Micronesia, Federated States of	479	0.03	57.8	1.0	56.8	729	0.05
Moldova	1,368	0.09	165.0	7.6	157.4	1,618	0.10
Mongolia	466	0.03	56.2	2.3	53.9	716	0.04
Morocco	4,973	0.32	599.9	34.8	565.1	5,223	0.32
Mozambique	930	0.06	112.2	4.8	107.4	1,180	0.07
Myanmar	2,484	0.16	299.7	16.1	283.6	2,734	0.17
Namibia	1,523	0.10	183.7	8.8	174.9	1,773	0.11
Nepal	968	0.06	116.8	4.6	112.1	1,218	0.08
Netherlands	35,503	2.26	4,282.9	264.8	4,018.1	35,753	2.21
New Zealand	7,236	0.46	872.9	51.9	821.0	7,486	0.46
Nicaragua	608	0.04	73.3	2.1	71.3	858	0.05
Niger	852	0.05	102.8	3.8	99.0	1,102	0.07
Nigeria	12,655	0.81	1,526.6	92.7	1,433.9	12,905	0.80
Norway	9,982	0.64	1,204.2	72.6	1,131.6	10,232	0.63
Oman	1,561	0.10	188.3	9.1	179.2	1,811	0.11
Pakistan	9,339	0.59	1,126.6	67.8	1,058.9	9,589	0.59
Palau	16	*	1.9	0.2	1.8	266	0.02
Panama	385	0.02	46.4	3.2	43.2	635	0.04
Papua New Guinea	1,294	0.08	156.1	7.1	149.0	1,544	0.10
Paraguay	1,229	0.08	148.3	6.6	141.6	1,479	0.09
Peru	5,331	0.34	643.1	37.5	605.6	5,581	0.35
Philippines	6,844	0.44	825.6	48.9	776.7	7,094	0.44
Poland	10,908	0.69	1,315.9	79.6	1,236.3	11,158	0.69
Portugal	5,460	0.35	658.7	38.5	620.2	5,710	0.35
Qatar	1,096	0.07	132.2	9.0	123.3	1,346	0.08
Romania	4,011	0.26	483.9	30.5	453.4	4,261	0.26
Russian Federation	44,795	2.85	5,403.8	333.9	5,070.0	45,045	2.79
Rwanda	1,046	0.07	126.2	5.2	120.9	1,296	0.08
St. Kitts and Nevis	275	0.02	33.2	0.3	32.9	525	0.03
St. Lucia	552	0.04	66.6	1.5	65.1	802	0.05
St. Vincent and the Grenadines	278	0.02	33.5	0.3	33.2	528	0.03
Samoa	531	0.03	64.1	1.4	62.7	781	0.05
San Marino	595	0.04	71.8	2.5	69.3	845	0.05
São Tomé and Príncipe	495	0.03	59.7	1.1	58.6	745	0.05
Saudi Arabia	44,795	2.85	5,403.8	335.0	5,068.9	45,045	2.79
Senegal	2,072	0.13	250.0	13.0	237.0	2,322	0.14
Seychelles	263	0.02	31.7	0.2	31.6	513	0.03
Sierra Leone	718	0.05	86.6	3.0	83.6	968	0.06
Singapore	320	0.02	38.6	3.9	34.7	570	0.04
Slovak Republic	3,216	0.20	388.0	23.0	365.0	3,466	0.21
Slovenia	1,261	0.08	152.1	9.5	142.6	1,511	0.09
Solomon Islands	513	0.03	61.9	1.2	60.7	763	0.05

STATEMENT OF SUBSCRIPTIONS TO  
CAPITAL STOCK AND VOTING POWER (Continued)  
June 30, 2001

Expressed in millions of U.S. dollars

Member	Subscriptions				Voting Power		
	Shares	Percentage of total	Total amounts	Amounts paid in <sup>1</sup>	Amounts subject to call <sup>1,2</sup>	Number of votes	Percentage of total
Somalia	552	0.04%	\$ 66.6	\$ 3.3	\$ 63.3	802	0.05%
South Africa	13,462	0.86	1,624.0	98.8	1,525.2	13,712	0.85
Spain	27,997	1.78	3,377.4	206.8	3,170.6	28,247	1.75
Sri Lanka	3,817	0.24	460.5	26.1	434.3	4,067	0.25
Sudan	850	0.05	102.5	7.2	95.3	1,100	0.07
Suriname	412	0.03	49.7	2.0	47.7	662	0.04
Swaziland	440	0.03	53.1	2.0	51.1	690	0.04
Sweden	14,974	0.95	1,806.4	110.2	1,696.2	15,224	0.94
Switzerland	26,606	1.69	3,209.6	197.2	3,012.4	26,856	1.66
Syrian Arab Republic	2,202	0.14	265.6	14.0	251.7	2,452	0.15
Tajikistan	1,060	0.07	127.9	5.3	122.5	1,310	0.08
Tanzania	1,295	0.08	156.2	10.0	146.2	1,545	0.10
Thailand	6,349	0.40	765.9	45.2	720.7	6,599	0.41
Togo	1,105	0.07	133.3	5.7	127.6	1,355	0.08
Tonga	494	0.03	59.6	1.1	58.5	744	0.05
Trinidad and Tobago	2,664	0.17	321.4	17.6	303.7	2,914	0.18
Tunisia	719	0.05	86.7	5.7	81.1	969	0.06
Turkey	8,328	0.53	1,004.6	59.8	944.8	8,578	0.53
Turkmenistan	526	0.03	63.5	2.9	60.5	776	0.05
Uganda	617	0.04	74.4	4.4	70.1	867	0.05
Ukraine	10,908	0.69	1,315.9	79.3	1,236.6	11,158	0.69
United Arab Emirates	2,385	0.15	287.7	22.6	265.1	2,635	0.16
United Kingdom	69,397	4.42	8,371.7	539.5	7,832.2	69,647	4.31
United States	264,969	16.87	31,964.5	1,998.4	29,966.2	265,219	16.41
Uruguay	2,812	0.18	339.2	18.6	320.7	3,062	0.19
Uzbekistan	2,493	0.16	300.7	16.1	284.7	2,743	0.17
Vanuatu	586	0.04	70.7	1.8	68.9	836	0.05
Venezuela, República Bolivariana de	20,361	1.30	2,456.2	150.8	2,305.5	20,611	1.27
Vietnam	968	0.06	116.8	8.1	108.7	1,218	0.08
Yemen, Republic of	2,212	0.14	266.8	14.0	252.8	2,462	0.15
Yugoslavia, Federal Republic of	1,597	0.10	192.7	16.9	175.7	1,847	0.11
Zambia	2,810	0.18	339.0	20.0	319.0	3,060	0.19
Zimbabwe	3,325	0.21	401.1	22.4	378.7	3,575	0.22
Total—June 30, 2001 <sup>2</sup>	<u>1,570,895</u>	<u>100.00%</u>	<u>\$189,505</u>	<u>\$11,476</u>	<u>\$178,029</u>	<u>1,616,645</u>	<u>100.00%</u>
Total—June 30, 2000	<u>1,563,443</u>	<u>100.00%</u>	<u>\$188,606</u>	<u>\$11,418</u>	<u>\$177,188</u>	<u>1,608,693</u>	

\* Indicates amounts less than 0.005 percent.

NOTES

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

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

# NOTES TO FINANCIAL STATEMENTS

## PURPOSE AND AFFILIATED ORGANIZATIONS

The International Bank for Reconstruction and Development (IBRD) is an international organization which commenced operations in 1946. The principal purpose of IBRD is to promote sustainable economic development and reduce poverty in its member countries, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform in developing member countries. The activities of IBRD are complemented by those of three affiliated organizations, the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Each of these organizations is legally and financially independent from IBRD, with separate assets and liabilities, and IBRD is not liable for their respective obligations. IDA's main goal is to reduce poverty through promoting economic development in the less developed areas of the world included in IDA's membership by providing financing on concessionary terms. IFC's purpose is to encourage the growth of productive private enterprises in its member countries through loans and equity investments in such enterprises without a member's guarantee. MIGA was established to encourage the flow of investments for productive purposes among member countries and, in particular, to developing member countries by providing guarantees against noncommercial risks for foreign investment in its developing member countries.

## SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant judgments have been used in the computation of estimated and fair values of loans and borrowings, the determination of the adequacy of the Accumulated Provision for Loan Losses, the determination of net periodic income from pension and other postretirement benefits plans, and the present value of benefit obligations.

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

**Accounting and Reporting Developments:** On July 1, 2000, IBRD adopted the Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", along

with its amendments. In addition, IBRD adopted International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement". Although adoption of IAS 39 is not required for IBRD until July 1, 2001, IBRD elected to adopt this standard concurrently with SFAS No. 133. These standards are collectively referred to as FAS 133 in this document. These standards require that derivative instruments, as defined by FAS 133, be recorded on the balance sheet and reported at fair value.

IBRD uses derivative instruments in its investments and borrowings portfolios and for asset/liability management purposes. In applying FAS 133 for purposes of financial statement reporting, IBRD has elected not to define any qualifying hedging relationships. Rather, all derivative instruments, as defined by FAS 133, have been marked to fair value and all changes in the fair value have been recognized in net income. While the derivatives in the borrowings portfolio require an adjustment under FAS 133, as do the Other Asset/Liability swaps, no adjustment is required to the investments portfolio since those derivative instruments are already recorded at fair value as part of the trading portfolio. While IBRD believes that its hedging strategies achieve its objectives, the application of FAS 133 qualifying hedge criteria would not make fully evident the risk management strategy that IBRD employs.

The cumulative effect of a change in accounting principle includes the difference between the carrying value and the fair value of the embedded derivatives and derivative instruments, as defined by FAS 133, in the borrowings portfolio on July 1, 2000, offset by any gains or losses on those borrowings for which a fair value exposure was being hedged. Upon adoption of FAS 133, IBRD's net income was increased by \$219 million and an additional \$500 million was reported in other comprehensive income. The allocation between net income and other comprehensive income was based upon the hedging relationships that existed under generally accepted accounting principles before the initial application of FAS 133.

Since IBRD has not defined any qualifying hedging relationships under this standard, the amount recorded in other comprehensive income is being reclassified into earnings in the same period or periods in which the hedged forecasted transactions affect earnings.

The amounts reclassified into earnings for the year ended June 30, 2001 of \$169 million have been included in Reclassification of FAS 133 Transition Adjustment to Net Income in the statement of comprehensive income. On the statement of income these reclassifications are included in the FAS 133 Adjustment.

During fiscal year 2001, IBRD adopted prospectively SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of SFAS No. 125". This statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral, and requires certain additional disclosures. As applied to

IBRD, this statement requires that securities transferred under repurchase or security lending agreements be disclosed separately from other trading investments. Adoption of this standard did not have a material impact on IBRD's financial statements.

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

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

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

**Valuation of Capital Stock:** In the Articles of Agreement, the capital stock of IBRD is expressed in terms of "U.S. dollars of the weight and fineness in effect on July 1, 1944" (1944 dollars). Following the abolition of gold as a common denominator of the monetary system and the repeal of the provision of the U.S. law defining the par value of the U.S. dollar in terms of gold, the pre-existing basis for translating 1944 dollars into current dollars or into any other currency disappeared. The Executive Directors of IBRD have decided, until such time as the relevant provisions of the Articles of Agreement are amended, that the words "U.S. dollars of the weight and fineness in effect on July 1, 1944" in Article II, Section 2(a) of the Articles of Agreement of IBRD are interpreted to mean the Special Drawing Right (SDR) introduced by the International Monetary Fund, as the SDR was valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being \$1.20635 for one SDR.

**Maintenance of Value:** Article II, Section 9 of the Articles of Agreement provides for maintenance of the value (MOV), at the time of subscription, of such restricted currencies (see Note A), requiring (1) the member to make additional payments to IBRD in the event that the par value of its currency is reduced or

the foreign exchange value of its currency has, in the opinion of IBRD, depreciated to a significant extent in its territories and (2) IBRD to reimburse the member in the event that the par value of its currency is increased.

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

The net MOV amounts relating to restricted currencies out on loan, and amounts that have been reclassified from receivables for those countries that have been in arrears for two years or more, are included in Amounts to Maintain Value of Currency Holdings. For amounts on loan, these MOV amounts are shown as a component of Equity since MOV becomes effective only as such currencies are repaid to IBRD.

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

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

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

The Pension Reserve consists of the difference between actual funding of the Staff Retirement Plan (SRP) and the SRP's accounting income. This Pension Reserve would be reduced if in any future fiscal year pension accounting expenses were to exceed the actual funding of the SRP.

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

Unallocated Net Income consists of earnings in the current fiscal year. Commencing in 1950, a portion or all of the unallocated Net Income has been allocated to the General Reserve after an assessment by the Executive Directors of IBRD's reserve needs. Upon recommendation by the Executive Directors, the Board of

Governors, consisting of one Governor appointed by each member, periodically approves transfers out of unallocated Net Income and Surplus to various entities for development purposes consistent with IBRD's Articles of Agreement.

**Loans:** All of IBRD's loans are made to or guaranteed by members, except loans to IFC. The majority of IBRD's loans have repayment obligations based on specific currencies. IBRD also holds multicurrency loans which have repayment obligations in various currencies determined on the basis of a currency pooling system.

Any loan origination fees incorporated in a loan's terms are deferred and recognized over the life of the loan as an adjustment of yield. However, incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered immaterial. The unamortized balance of loan origination fees is included as a reduction of Loans Outstanding on the balance sheet, and the loan origination fees amortization is included in Interest under Income from Loans on the income statement.

It is IBRD's practice not to reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. In exceptional cases, however, such as when implementation of a financed project has been delayed, the loan amortization schedule may be modified to avoid substantial repayments prior to project completion.

In addition, on May 8, 2001, the Executive Directors approved a financial assistance package for the Federal Republic of Yugoslavia (FRY) in connection with its succession to membership of the former Socialist Federal Republic of Yugoslavia (SFRY) in IBRD. One component of that package is a plan for the clearance of arrears under all loans to the former SFRY for which the FRY has accepted liability. Under the arrears clearance plan, FRY's principal and interest arrears would be consolidated into one or more new IBRD loans. The exact terms of the consolidation loans are being negotiated with the FRY authorities.

IBRD's treatment of FRY is based on criteria approved by the Executive Directors in connection with the financial assistance package for Bosnia and Herzegovina in 1996. These criteria limit eligibility for such treatment to a country: (a) that has emerged from a current or former member of IBRD; (b) that is assuming responsibility for a share of the debt of such member; (c) that, because of a major armed conflict in its territory involving extensive destruction of physical assets, has limited creditworthiness for servicing the debt it is assuming; and (d) for which rescheduling/refinancing would result in a significant improvement in its repayment capacity, if appropriate supporting measures are taken. IBRD does not believe that any other borrowers with loans in nonaccrual status currently meet these eligibility criteria.

Delays in receiving loan payments result in present value losses to IBRD since it does not charge fees or

additional interest on any overdue interest or loan charges. These present value losses are equal to the difference between the present value of payments for interest and charges made according to the related loan's contractual terms and the present value of its expected future cash flows. Such present value losses are considered in the determination of the Accumulated Provision for Loan Losses. IBRD has not written off any of its outstanding loans.

It is the policy of IBRD to place in nonaccrual status all loans made to or guaranteed by a member of IBRD if principal, interest, or other charges with respect to any such loan are overdue by more than six months, unless IBRD management determines that the overdue amount will be collected in the immediate future. In addition, if development credits made by IDA to a member government are placed in nonaccrual status, all loans made to or guaranteed by that member government will also be placed in nonaccrual status by IBRD. On the date a member's loans are placed in nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by IBRD. If collectibility risk is considered to be particularly high at the time of arrears clearance, the member's loans may not automatically emerge from nonaccrual status, even though the member's eligibility for new loans may have been restored. A decision on the restoration of accrual status is made on a case-by-case basis after a suitable period of payment performance has passed from the time of arrears clearance.

IBRD determines the Accumulated Provision for Loan Losses based on an assessment of collectibility risk in the total loan and callable guarantees portfolio, including loans in nonaccrual status. The accumulated provision is periodically adjusted based on a review of the prevailing circumstances. Adjustments to the accumulated provision are recorded as a charge or addition to income. In the context of determining the adequacy of the Accumulated Provision for Loan Losses, IBRD considers the present value of expected cash flows relative to the contractual cash flows for loans.

**Investments:** Investment securities are classified based on management's intention on the date of purchase. Securities which management has the intention and ability to hold until maturity are classified as Held-to-maturity and reported at amortized cost. Securities designated for other postretirement benefits are carried and reported at market value or at their estimated fair values. The changes in the values of the securities designated for other postretirement benefits are included in the determination of net income. All other investment securities are held in a Trading portfolio and classified as an element of liquidity in the Statement of Cash Flows due to their nature and IBRD's policies governing the level and use of such investments. Investment securities and related financial instruments held in IBRD's Trading portfolio are carried and reported at

market value. Unrealized gains and losses for investment securities and related financial instruments held in the Trading portfolio are included in income. Derivative instruments are used in liquidity management to take advantage of profitable trading opportunities and as a proxy for cash securities. These instruments include short-term, over-the-counter foreign exchange forwards, currency swaps, cross-currency interest rate swaps, interest rate swaps, and exchange-traded futures and options on fixed income instruments. These derivatives are carried at market value. From time to time, IBRD enters into forward contracts for the sale or purchase of investment securities; these transactions are recorded at the time of commitment.

**Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements and Payable for Cash Collateral Received:** Securities purchased under resale agreements and securities sold under repurchase agreements are recorded at historical cost. IBRD receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, requires additional collateral.

**Borrowings:** To ensure funds are available for lending and liquidity purposes, IBRD borrows in the worldwide capital markets offering its securities to private and governmental buyers. IBRD issues short-term and medium- and long-term debt instruments denominated in various currencies with both fixed and adjustable interest rates. Borrowings are carried on the balance sheet at their par value (face value), adjusted for any unamortized premiums or discounts, and include adjustments for embedded derivatives and fair value hedges that existed at June 30, 2000, as required by FAS 133. Issuance costs associated with a bond offering are deferred and amortized over the period during which the related indebtedness is outstanding. The unamortized balance of the issuance costs is included in Other Assets on the balance sheet, and the issuance costs amortization is presented as a separate element under Borrowing Expenses on the income statement. Amortization of discounts and premiums is included in Interest under Borrowing Expenses on the income statement.

IBRD uses derivatives in its borrowing and liability management activities to take advantage of cost saving opportunities across capital markets to lower its funding costs. These instruments include currency and interest rate swaps, swap spread-locks, swaptions, and structures with embedded optionality. These derivatives are used to modify the interest rate and/or currency characteristics of the borrowing portfolio. The interest component of these derivatives is recognized as an adjustment to the borrowing cost over the life of the derivative contract and included in Interest under Borrowing Expenses on the income statement. Prior to the adoption of FAS 133 on July 1, 2000, all derivatives were recorded on an historical cost basis using synthetic accounting; upon termination, the change in the derivative's market value was recorded as an adjustment to the carrying value of the underlying borrowing and rec-

ognized as an adjustment of the borrowing cost over the remaining life of the borrowing. In instances where the underlying borrowing was prepaid, the change in the associated derivative's market value was recognized immediately as an adjustment to the cost of the underlying borrowing instrument. However, upon adoption of FAS 133, these derivatives are carried at market value.

**Other Derivatives:** As part of asset/liability management, IBRD entered into a number of currency swaps in fiscal year 2001 to better align its currency composition of Equity with that of loans. These currency swap payables and receivables are recorded at market value in accordance with FAS 133.

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

#### **NOTE A-CAPITAL STOCK, RESTRICTED CURRENCIES, MAINTENANCE OF VALUE, AND MEMBERSHIP**

**Capital Stock:** At June 30, 2001, IBRD's capital comprised 1,581,724 (1,581,724—June 30, 2000) authorized shares, of which 1,570,895 (1,563,443—June 30, 2000) shares had been subscribed. Each share has a par value of 0.1 million 1974 SDRs, valued at the rate of \$1.20635 per 1974 SDR. Of the subscribed capital, \$11,476 million (\$11,418 million—June 30, 2000) has been paid in, and the remaining \$178,029 million (\$177,188 million—June 30, 2000) is subject to call only when required to meet the obligations of IBRD created by borrowing or guaranteeing loans.

**Currencies Subject to Restrictions:** A portion of capital subscriptions paid in to IBRD has been paid in the local currencies of the members. These amounts, referred to as restricted currencies, are usable by IBRD in its lending operations, only with the consent of the respective members, and for administrative expenses.

**Maintenance of Value:** Of the total amount of \$912 million (\$522 million—June 30, 2000) included in Amounts to Maintain Value of Currency Holdings, which has been deducted from equity, \$198 million (\$169 million—June 30, 2000) represents MOV receivables for countries that have amounts in arrears for two years or more. IBRD still considers these MOV receivables in arrears as obligations due from the members concerned. The remaining \$714 million (\$353 million—June 30, 2000) represents net MOV amounts relating to restricted currencies out on loan that become payable under the same terms as other MOV

obligations only after such currencies are repaid to IBRD.

**Membership:** In February 1993, IBRD's Executive Directors decided that the former Socialist Federal Republic of Yugoslavia (SFRY) had ceased to be a member of IBRD and that the Republic of Bosnia and Herzegovina (now called Bosnia and Herzegovina), the Republic of Croatia, the former Yugoslav Republic of Macedonia, the Republic of Slovenia and the Federal Republic of Yugoslavia (FRY) were authorized to succeed to the SFRY's membership when certain requirements were met, including entering into an agreement with IBRD on IBRD's loans made to or guaranteed by the SFRY which the particular successor Republic would assume. On May 8, 2001, the Executive Directors approved a membership and financial assistance package for the FRY in connection with its succession to membership of the former SFRY in IBRD. One component of that package is a plan for the clearance of arrears under all loans to the former SFRY for which FRY has accepted liability. The paid-in portion of the SFRY's subscribed capital allocated to the FRY which was included under Payments on Account of Pending Subscriptions in fiscal year 2000, is now included in capital stock. All five of the successor Republics have now become members of IBRD.

## NOTE B— INVESTMENTS

As part of its overall portfolio management strategy, IBRD invests in government and agency obligations, time deposits, asset-backed securities, repurchase agreements, securities loans, resale agreements and related financial derivatives including futures, forward contracts, currency swaps, cross-currency interest rate swaps, interest rate swaps, options and short sales.

For government and agency obligations, IBRD may only invest in obligations issued or unconditionally guaranteed by governments of countries with a minimum credit rating of AA; however, if such obligations are denominated in the home currency of the issuer, no rating is required. IBRD may only invest in obligations issued by an agency or instrumentality of a government of a country, a multilateral organization or any other official entity with a minimum credit rating of AA. For asset-backed securities, IBRD may only invest in securities with a AAA credit rating.

With respect to futures and options, IBRD generally closes out most open positions prior to maturity. Therefore, cash receipts or payments are mostly limited to the change in market value of the futures and options contracts. Futures contracts generally entail daily settlement of the net cash margin.

For options, IBRD only invests in exchange-traded options. The initial price of an option contract is equal to the premium paid by the purchaser and is significantly less than the contract or notional amount. IBRD does not write uncovered option contracts as part of its investment portfolio strategy.

As of June 30, 2001, IBRD had received \$319 million of securities under resale agreements. None of these securities has been included in the assets of IBRD.

**Held-to-maturity portfolio:** During fiscal year 1999, IBRD liquidated the securities in the held-to-maturity portfolio and thereby realized a gain of \$237 million.

**Liquid Portfolio:** A summary of IBRD's position in trading and other liquid portfolio instruments at June 30, 2001 and June 30, 2000 is as follows:

*In millions of U.S. dollars equivalent*

	Euro <sup>a</sup>		Japanese yen		U.S. dollars		Other currencies		All currencies	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
<b>Trading:</b>										
Government and agency obligations:										
Carrying value	5,359	3,386	2,221	3,596	1,118	911	21	34	8,719	7,927
Average balance during fiscal year	4,355	2,253	2,935	4,266	1,200	1,020	19	53	8,509	7,592
Net gains (losses) for the fiscal year	8	(56)	5	(50)	9	(12)	*	*	22	(118)
Average yield (%)	4.75	4.87	0.24	(0.18)	4.83	6.77	5.09	6.31	3.59	2.77
Average maturity (years)	2.94	1.52	3.27	1.09	3.80	1.08	0.29	1.27	3.13	1.27
Time deposits:										
Carrying value	848	3,252	188	289	9,014	7,289	980	1,611	11,030	12,441
Average balance during fiscal year	1,705	2,895	311	564	8,495	11,790	1,064	1,339	11,575	16,588
Average yield (%)	4.62	4.31	0.08	0.08	4.14	6.95	4.99	5.19	4.18	5.87
Average maturity (years)	0.09	0.26	0.02	0.15	0.08	0.13	0.04	0.16	0.07	0.17
Asset-backed securities:										
Carrying value	—	—	—	—	4,413	4,573	—	—	4,413	4,573
Average balance during fiscal year	—	—	—	—	4,494	3,966	—	—	4,494	3,966
Net gains (losses) for the fiscal year	—	—	—	—	22	(1)	—	—	22	(1)
Average yield (%)	—	—	—	—	4.92	6.60	—	—	4.92	6.60
Average maturity (years)	—	—	—	—	8.37	7.55	—	—	8.37	7.55
Options, futures and forwards:										
Carrying value	—	(*)	—	*	6	—	—	—	6	(*)
Average balance during fiscal year	(*)	2	*	*	2	*	—	*	2	2
Net gains (losses) for the fiscal year	—	1	—	(*)	(*)	1	—	(*)	(*)	2
<b>Total Trading Investments**</b>										
Carrying value	6,207	6,638	2,409	3,885	14,551	12,773	1,001	1,645	24,168	24,941
Average balance during fiscal year	6,060	5,150	3,246	4,830	14,191	16,776	1,083	1,392	24,580	28,148
Net gains (losses) for the fiscal year <sup>b</sup>	8	(55)	5	(50)	31	(12)	*	*	44	(117)
<b>Repurchase agreements &amp; securities loans:</b>										
Carrying value	—	—	—	—	(207)	—	—	—	(207)	—
Average balance during fiscal year	—	—	—	—	(108)	(76)	—	—	(108)	(76)
Average cost (%)	—	—	—	—	4.13	—	—	—	4.13	—
Average maturity (years)	—	—	—	—	0.01	—	—	—	0.01	—
<b>Resale agreements:</b>										
Carrying value	—	—	—	—	322	101	—	—	322	101
Average balance during fiscal year	—	3	—	—	506	204	—	—	506	207
Average yield (%)	—	—	—	—	4.34	6.50	—	—	4.34	6.50
Average maturity (years)	—	—	—	—	0.01	2.38	—	—	0.01	2.38

In millions of U.S. dollars equivalent

	Euro <sup>a</sup>		Japanese yen		U.S. dollars		Other currencies		All currencies	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
<b>Short sales:<sup>c</sup></b>										
Carrying value	—	—	—	—	(63)	(100)	—	—	(63)	(100)
Average balance during fiscal year	—	—	—	—	(214)	(35)	—	—	(214)	(35)
<b>Currency swaps receivable:</b>										
Carrying value	—	—	—	—	1,354	4,189	—	—	1,354	4,189
Average balance during fiscal year	—	1	—	—	2,248	3,819	14	27	2,262	3,847
Average yield (%)	—	—	—	—	4.36	6.71	—	—	4.36	6.71
Average maturity (years)	—	—	—	—	0.08	0.27	—	—	0.08	0.27
<b>Currency swaps payable:</b>										
Carrying value	(683)	(2,907)	(40)	(103)	—	—	(600)	(1,164)	(1,323)	(4,174)
Average balance during fiscal year	(1,465)	(2,482)	(90)	(302)	(14)	(28)	(665)	(991)	(2,234)	(3,803)
Average cost (%)	4.60	4.28	0.06	0.14	—	—	5.18	5.39	4.72	4.48
Average maturity (years)	0.11	0.30	0.07	0.39	—	—	0.06	0.22	0.08	0.28
<b>Cross-currency interest rate swaps receivable:<sup>d</sup></b>										
Carrying value	—	—	892	291	8,797	6,837	—	—	9,689	7,128
Average balance during fiscal year	—	—	537	277	7,729	6,232	—	—	8,266	6,509
Net gains (losses) for the fiscal year <sup>b</sup>	—	—	(7)	(3)	20	(*)	—	—	13	(3)
Average yield (%)	—	—	0.07	0.41	4.30	6.50	—	—	3.91	6.25
Average maturity (years)	—	—	0.31	1.12	2.23	1.30	—	—	2.05	1.30
<b>Cross-currency interest rate swaps payable:<sup>d</sup></b>										
Carrying value	(5,365)	(3,381)	(3,116)	(3,882)	(952)	(258)	(18)	(21)	(9,451)	(7,542)
Average balance during fiscal year	(4,359)	(2,251)	(3,443)	(4,535)	(536)	(251)	(19)	(55)	(8,357)	(7,092)
Net gains (losses) for the fiscal year <sup>b</sup>	(14)	56	(1)	54	(2)	(*)	(*)	(1)	(17)	109
Average cost (%)	4.72	4.87	0.14	(0.14)	3.88	6.50	5.06	6.31	3.11	2.33
Average maturity (years)	2.95	1.54	1.49	1.12	0.31	1.28	0.29	1.27	2.19	1.31
<b>Net Interest rate swaps:<sup>d</sup></b>										
Carrying value	—	—	—	—	(17)	(4)	—	—	(17)	(4)
Average balance during fiscal year	—	—	—	—	(7)	(10)	—	—	(7)	(10)
Net gains (losses) for the fiscal year <sup>b</sup>	—	—	—	—	1	17	—	—	1	17
Average cost (%)	—	—	—	—	0.05	0.07	—	—	0.05	0.07
Average maturity (years)	—	—	—	—	0.90	1.18	—	—	0.90	1.18

a. Effective January 1, 1999, the euro was introduced. For reporting purposes, holdings in the twelve national currencies that are considered national currency units of the euro have been aggregated with the euro and reported as euro in both the current and prior year.

b. Included in Net gains (losses) on the Trading portfolio in the income statement.

c. Included in Amounts Payable for Investment Securities Purchased on the balance sheet.

d. Included in Currency and Interest Rate Swaps-Trading on the balance sheet.

\* Less than \$0.5 million, 0.005 percent, or 0.05 years.

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

## NOTE C— LOANS, COFINANCING AND GUARANTEES

IBRD's loan portfolio includes multicurrency loans, single currency pool loans and single currency loans. Each of these is described below. At June 30, 2001 only single currency loans which carry either a variable or fixed spread were available for new commitments.

### Multicurrency Loans

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

**Adjustable rate loans:** In 1982, IBRD mitigated its interest rate risk by moving from fixed rate to adjustable rate lending. This rate, reset twice a year, is based on IBRD's own cost of qualified borrowings plus a lending spread<sup>a</sup>, resulting in a pass-through of its average borrowing costs to those members that benefit from IBRD loans. IBRD has withdrawn these loan terms for commitments for which the invitation to negotiate was issued on or after March 1, 2001.

### Single Currency Pool Loans

In fiscal year 1997, IBRD offered its borrowers the opportunity to convert their existing multicurrency pool loans to single currency pools. These pools were available in four currencies (U.S. dollar, Japanese yen, Deutsche mark, or Swiss franc). At inception, each single currency pool reflected the composition of the multicurrency pool. However, as of June 30, 1999, all of the pools had exceeded the 90% target in the designated currency. All adjustable rate multicurrency pool loans that were converted to single currency pools carry the applicable pool's adjustable lending rate, reset semi-annually to reflect the previous semester average cost of outstanding borrowings allocated to fund that pool weighted by the shares of currencies in the pool, plus a spread of 50 basis points. Any fixed-rate multicurrency pool loans that were converted to single currency pools continued to carry their fixed rate.

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a. *Until July 31, 1998, the lending spread was 50 basis points. However, during the first quarter of fiscal year 1999, the lending spread charged by IBRD to its borrowers was increased by 25 basis points to 75 basis points for loans where the invitation to negotiate was issued on or after July 31, 1998. In addition, a front-end fee of 100 basis points, payable for each such loan at the time it becomes effective, was introduced.*

### Single Currency Loans

**Fixed-rate loans:** IBRD introduced fixed rate single currency loans in 1995. The rates charged on fixed rate single currency loans are set on semi-annual rate fixing dates for loan amounts disbursed during the preceding six-month period and remain fixed for such disbursed amounts until they are repaid. For the interim period from the date each disbursement is made until its rate fixing date, interest accrues at a variable rate equal to the rate on LIBOR-based single currency loans applicable for such interim period. The fixed lending rate comprises a base rate reflecting medium- to long-term market rates on the semi-annual rate-fixing date for loan amounts disbursed during the preceding six-month period, plus a total spread consisting of (a) IBRD's funding cost margin for these loans in the loan currency, (b) a market risk premium (intended to compensate IBRD for market risks incurred in funding these loans), and (c) a lending spread. As of December 1, 1999, fixed-rate single currency loans were no longer available for new commitments.

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

Certain variable-spread single currency loans, including the Special Structural and Sector Adjustment Loans introduced in fiscal year 1999, have non-standard terms. These loans have a fixed spread ranging from 75 to 400 basis points over LIBOR, a front-end fee, and are not eligible for waivers of interest or commitment charges.

**Fixed-Spread loans:** IBRD introduced fixed-spread loans in fiscal year 2000. These loans have an interest rate based on LIBOR plus a spread that will be fixed for the life of the loan. The spread is currently 55 basis points for U.S. dollar and euro denominated loans, and 50 basis points for Japanese yen denominated loans. A commitment charge premium of 10 basis points over the standard 75 basis points charged on other IBRD loans will be included for the first four years from the date the commitment charge begins to accrue.

Borrowers selecting this product have the flexibility to change the currency or interest rate basis over the life of the loan, subject to certain conditions.

## Waivers of Loan Interest and Commitment Charges

For payment periods beginning during the fiscal year ended June 30, 2001, the following interest waivers on disbursed and outstanding loans to eligible borrowers were in effect. With respect to loans for which the invitation to negotiate was issued on or after July 31, 1998, and which carry a 75 basis point lending spread, the interest waiver was 25 basis points. A similar waiver was in effect for the fiscal years ended June 30, 2000 and June 30, 1999. With respect to loans for which the invitation to negotiate was issued before July 31, 1998, and which carry a 50 basis point lending spread, the interest waiver was 15 basis points. A waiver of 5 basis points was in effect during the fiscal years ended June 30, 2000 and June 30, 1999. For the

fiscal year ended June 30, 2001, the combined effect of these waivers was to reduce Net Income by \$139 million (\$59 million—June 30, 2000, \$102 million—June 30, 1999).

A one-year commitment charge waiver of 50 basis points was in effect on all eligible undisbursed loans to all borrowers for all payment periods commencing in the fiscal year ended June 30, 2001. A similar waiver of 50 basis points was in effect for the fiscal years ended June 30, 2000 and June 30, 1999. For the fiscal year ended June 30, 2001, the effect of the commitment charge waiver was to reduce Net Income by \$169 million (\$207 million—June 30, 2000, \$229 million—June 30, 1999).

A summary of IBRD's outstanding loans by currency and product at June 30, 2001 and June 30, 2000 follows:

*In millions of U.S. dollars equivalent*

	2001											
	Euro <sup>a</sup>		Japanese yen		U.S. dollars		Others		Loans Outstanding		Total	
	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.		
Multicurrency loans <sup>b,c</sup>												
Amount	\$ 261	\$ 8,417	\$206	\$ 9,865	\$ 351	\$10,447	\$160	\$1,534	\$ 978	\$ 30,263	\$ 31,241	
Weighted average rate (%) <sup>d</sup>	8.15	5.04	8.09	5.04	8.39	5.13	7.84	5.04	8.17	5.07	5.17	
Single currency pools												
Amount	\$ 3	\$ 2,997	\$ —	\$ 47	\$ 26	\$27,448	\$ —	\$ —	\$ 29	\$ 30,492	\$ 30,521	
Weighted average rate (%) <sup>d</sup>	10.93	7.26	—	3.94	11.37	8.76	—	—	11.33	8.61	8.61	
Average Maturity (years)	0.47	4.02	—	3.25	0.45	4.26	—	—	0.45	4.24	4.23	
Single currency loans <sup>e</sup>												
Amount	\$ 522	\$ 1,468	\$ —	\$ 137	\$14,467	\$37,308	\$ —	\$ 2	\$14,989	\$ 38,915	\$ 53,904	
Weighted average rate (%) <sup>d</sup>	5.48	4.79	—	0.31	6.74	5.55	—	3.38	6.69	5.50	5.83	
Average Maturity (years)	4.87	6.68	—	7.09	4.82	6.02	—	4.47	4.82	6.05	5.70	
Fixed-spread single currency loans												
Amount	\$ 265	\$ 64	\$ —	\$ —	\$ 215	\$ 2,656	\$ —	\$ —	\$ 480	\$ 2,720	\$ 3,200	
Weighted average rate (%) <sup>d</sup>	6.29	5.04	—	—	6.92	4.61	—	—	6.57	4.62	4.91	
<b>Total Loans</b>												
Amount	\$1,051	\$12,946	\$206	\$10,049	\$15,059	\$77,859	\$160	\$1,536	\$16,476	\$102,390	\$118,866	
Weighted average rate (%) <sup>d</sup>	6.36	5.52	8.09	4.97	6.79	6.59	7.84	5.04	6.79	6.27	6.35	
<b>Total loans</b>												\$118,866
Less accumulated provision for loan losses and deferred loan income												4,459
Net loans outstanding												<u>\$114,407</u>

*Note: For footnotes see following page.*

In millions of U.S. dollars equivalent

	2000										
	Euro <sup>a</sup>		Japanese yen		U.S. dollars		Others		Loans Outstanding		Total
	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	Fixed	Adjust.	
Multicurrency loans <sup>b,c</sup>											
Amount	\$ 386	\$10,004	\$364	\$12,622	\$ 479	\$11,283	\$221	\$1,641	\$ 1,450	\$ 35,550	\$ 37,000
Weighted average rate (%) <sup>d</sup>	8.28	5.23	8.30	5.23	8.08	5.28	7.92	5.23	8.16	5.24	5.36
Single currency pools											
Amount	\$ 7	\$ 3,860	\$ —	\$ 68	\$ 63	\$31,424	\$ —	\$ —	\$ 70	\$ 35,352	\$ 35,422
Weighted average rate (%) <sup>d</sup>	10.61	6.71	—	4.05	11.06	8.66	—	—	11.01	8.44	8.44
Average Maturity (years)	0.85	4.31	—	3.50	0.84	4.63	—	—	0.84	4.59	4.59
Single currency loans <sup>e</sup>											
Amount	\$ 463	\$ 1,126	\$ —	\$ 160	\$12,486	\$32,476	\$ —	\$ 3	\$12,949	\$ 33,765	\$ 46,714
Weighted average rate (%) <sup>d</sup>	5.46	4.50	—	0.35	6.76	7.29	—	3.25	6.71	7.16	7.04
Average Maturity (years)	5.20	6.81	—	7.84	5.45	6.47	—	4.97	5.44	6.48	6.20
Fixed-spread single currency loans											
Amount	\$ 229	\$ —	\$ —	\$ —	\$ —	\$ 739	\$ —	\$ —	\$ 229	\$ 739	\$ 968
Weighted average rate (%) <sup>d</sup>	6.36	—	—	—	—	7.57	—	—	6.36	7.57	7.28
<b>Total Loans</b>											
Amount	\$1,085	\$14,990	\$364	\$12,850	\$13,028	\$75,922	\$221	\$1,644	\$14,698	\$105,406	\$120,104
Weighted average rate (%) <sup>d</sup>	6.69	5.55	8.30	5.16	6.83	7.56	7.92	5.23	6.87	6.95	6.94
<b>Total loans</b>											\$120,104
Less accumulated provision for loan losses and deferred loan income											3,860
Net loans outstanding											<u>\$116,244</u>

a. Effective January 1, 1999, the euro was introduced. For reporting purposes, amounts in the twelve national currencies that are considered national currency units of the euro have been aggregated with the euro and reported as euro in both the current and prior year.

b. Includes pre-pool loans, loans to IFC, and co-financing loans in addition to multicurrency pool loans.

c. **Average Maturity - Multicurrency loans.** IBRD maintains a targeted currency composition in its multicurrency loans. The present target ratio is one U.S. dollar for every 125 Japanese yen and one euro. These three major currencies comprise at least 90% of the multicurrency loans' U.S. dollar equivalent value, with the remainder in other currencies. This ratio was changed in January 1999 as a result of the introduction of the euro. The composition of the multicurrency loans is affected by the selection of currencies for disbursements on those loans and by the currencies selected for the billing of the principal repayments. Along with the selection of disbursement currencies, IBRD manages the selection of repayment currencies to maintain the alignment of the multicurrency loans' composition with the target ratio. The selection of currencies for repayment billing by IBRD precludes the determination of average maturity information for multicurrency loans by individual currency. Accordingly, IBRD only discloses the maturity periods for its multicurrency loans on a combined U.S. dollars equivalent basis.

d. Excludes effects of any waivers of loan interest.

e. Includes fixed-rate and variable-spread loans.

The maturity structure of IBRD's loans at June 30, 2001 and June 30, 2000 is as follows:

*In millions*

<i>Product/Rate Type</i>	<i>2001</i>				<i>Total</i>
	<i>July 1, 2001 through June 30, 2002</i>	<i>July 1, 2002 through June 30, 2006</i>	<i>July 1, 2006 through June 30, 2011</i>	<i>Thereafter</i>	
Multicurrency loans					
Fixed	\$ 690	\$ 256	\$ 32	\$ —	\$ 978
Adjustable	4,306	13,531	10,315	2,111	30,263
Single currency pools					
Fixed	28	1	—	—	29
Adjustable	4,511	14,844	9,592	1,545	30,492
Single currency loans <sup>a</sup>					
Fixed	788	7,469	6,374	358	14,989
Adjustable	1,664	16,226	14,478	6,547	38,915
Fixed-spread single currency loans					
Fixed	—	43	232	205	480
Adjustable	—	49	1,913	758	2,720
All Loans					
Fixed	1,506	7,769	6,638	563	16,476
Adjustable	10,481	44,650	36,298	10,961	102,390
Total loans outstanding	<u>\$11,987</u>	<u>\$52,419</u>	<u>\$42,936</u>	<u>\$11,524</u>	<u>\$118,866</u>

*In millions*

<i>Product/Rate Type</i>	<i>2000</i>				<i>Total</i>
	<i>July 1, 2000 through June 30, 2001</i>	<i>July 1, 2001 through June 30, 2005</i>	<i>July 1, 2005 through June 30, 2010</i>	<i>Thereafter</i>	
Multicurrency loans					
Fixed	\$ 960	\$ 429	\$ 61	\$ —	\$ 1,450
Adjustable	4,531	15,097	12,717	3,205	35,550
Single currency pools					
Fixed	42	28	—	—	70
Adjustable	4,728	16,157	11,949	2,518	35,352
Single currency loans <sup>a</sup>					
Fixed	324	5,790	6,130	705	12,949
Adjustable	684	13,504	13,491	6,086	33,765
Fixed-spread single currency loans					
Fixed	—	10	95	124	229
Adjustable	—	—	687	52	739
All Loans					
Fixed	1,326	6,257	6,286	829	14,698
Adjustable	9,943	44,758	38,844	11,861	105,406
Total loans outstanding	<u>\$11,269</u>	<u>\$51,015</u>	<u>\$45,130</u>	<u>\$12,690</u>	<u>\$120,104</u>

a. Includes fixed-rate and variable-spread loans.

### Estimated Value of Loans

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

IBRD's estimate of the probable expected cash flows of these instruments to IBRD.

The estimated value of all loans is based on a discounted cash flow method. The estimated cash flows from principal repayments and interest are discounted by the market yield curves applicable to IBRD funding

plus IBRD's relevant basis point lending spread adjusted for waivers.

The following table reflects the carrying and estimated values of the loan portfolio at June 30, 2001 and June 30, 2000:

*In millions*

	2001		2000	
	Carrying value	Estimated value	Carrying value	Estimated value
Multicurrency loans				
Fixed	\$ 978	\$ 1,000	\$ 1,450	\$ 1,482
Adjustable	30,263	31,830	35,550	36,842
Single currency pools				
Fixed	29	30	70	72
Adjustable	30,492	32,701	35,352	36,681
Single currency loans <sup>a</sup>				
Fixed	14,989	15,326	12,949	12,484
Adjustable <sup>b</sup>	38,915	38,966	33,765	33,735
Fixed-spread single currency loans				
Fixed	480	487	229	230
Adjustable	2,720	2,722	739	739
Total loans				
Fixed	16,476	16,843	14,698	14,268
Adjustable	102,390	106,219	105,406	107,997
Total loans outstanding	118,866	123,062	120,104	122,265
Less accumulated provision for loan losses and deferred loan income	4,459	4,459	3,860	3,860
Net loans outstanding	<u>\$114,407</u>	<u>\$118,603</u>	<u>\$116,244</u>	<u>\$118,405</u>

a. Includes fixed-rate and variable-spread loans.

b. Amount includes carrying value of \$11,301 million (\$10,800 million—June 30, 2000) and estimated value of \$11,319 million (\$10,789 million—June 30, 2000) for non-standard single currency loans.

### Cofinancing and Guarantees

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

Guarantees of loan principal of \$1,488 million at June 30, 2001 (\$1,661 million—June 30, 2000), were not included in reported loan balances. At June 30, 2001, \$473 million of these guarantees were subject to call (\$467 million—June 30, 2000). In some cases, IBRD guarantees have included interest payments in addition to principal. Total interest guarantees at June 30, 2001 were \$117 million (\$20 million—June 30, 2000), of

which \$11 million (\$10 million—June 30, 2000) were subject to call.

### Overdue Amounts

At June 30, 2001, no loans payable to IBRD, other than those referred to in the following paragraph, were overdue by more than three months.

At June 30, 2001, the loans made to or guaranteed by certain member countries with an aggregate principal balance outstanding of \$2,832 million (\$2,031 million—June 30, 2000), of which principal of \$1,331 million (\$1,302 million—June 30, 2000) was overdue, were in nonaccrual status. At such date, overdue interest and other charges in respect of these loans totaled \$1,087 million (\$1,060 million—June 30, 2000). If these loans had not been in nonaccrual status, income from loans for the fiscal year ended June 30, 2001, would have been higher by \$80 million (\$52 million—June 30, 2000, \$55 million—June 30, 1999).

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

*In millions*

<i>Borrower</i>	<i>2001</i>		
	<i>Principal outstanding</i>	<i>Principal and charges overdue</i>	<i>Nonaccrual since</i>
<b>With overdues</b>			
Congo, Democratic Republic of	\$ 80	\$ 126	November 1993
Congo, Republic of	42	34	November 1997
Côte d'Ivoire	526	50	March 2001
Iraq	35	63	December 1990
Liberia	122	282	June 1987
Syrian Arab Republic	18	70 <sup>a</sup>	February 1987
Yugoslavia, Federal Republic of	1,066	1,745	September 1992
Zimbabwe	395	48	October 2000
Total	2,284	2,418	
<b>Without overdues</b>			
Bosnia and Herzegovina	548	—	September 1992
<b>Total</b>	<u>\$2,832</u>	<u>\$2,418</u>	

a. Represents interest and charges overdue.

On May 8, 2001, the Executive Directors approved a membership and financial assistance package for the FRY at which time the FRY accepted liability for all loans allocated to it by the SFRY. One component of that package is a plan for the clearance of arrears under which FRY's principal and interest arrears would be consolidated into one or more new IBRD loans. The exact terms of the consolidation loans are being negotiated with the FRY authorities.

During fiscal year 1998, the Syrian Arab Republic and IBRD entered into an agreement covering, among other things, the application of payments by Syria of its overdue principal, interest, and charges. Under this agreement, Syria paid the overdue principal to IBRD in one payment of \$263 million on September 2, 1997 and has been making monthly payments to IBRD since then.

In June 1996, the accumulated arrears on loans to the former SFRY assumed by Bosnia and Herzegovina were cleared through three new consolidation loans extended by IBRD. These new loans consolidated all outstanding principal and overdue interest on the loans assumed by Bosnia and Herzegovina. This resulted in an increase in loans outstanding of \$168 million and the deferral of the recognition of the related interest income.

The average recorded investment in nonaccruing loans during the fiscal year ended June 30, 2001, was \$2,424 million (\$2,057 million—June 30, 2000, \$2,084 million—June 30, 1999).

During the fiscal years ended June 30, 2001 and June 30, 2000, no loans came out of nonaccrual status. During fiscal year 2001, all loans made to or guaranteed by Zimbabwe and Côte d'Ivoire were placed in nonaccrual status.

#### **Accumulated Provision for Loan Losses**

IBRD has always eventually collected all contractual principal and interest on its loans. However, IBRD suffers losses resulting from the difference between the discounted present value of expected payments for interest and charges according to the related loan's contractual terms and the actual cash flows. Certain borrowers have found it difficult to make timely payments for protracted periods, resulting in their loans being placed in nonaccrual status. Several borrowers have emerged from nonaccrual status after a period of time by bringing up-to-date all principal payments and all overdue service payments, including interest and other charges. To recognize the risks inherent in its loan portfolio, IBRD maintains an accumulated provision for loan losses. Of the Accumulated Provision for Loan Losses of \$3,959 million at June 30, 2001 (\$3,400 mil-

lion—June 30, 2000), \$1,090 million is attributable to the nonaccruing loan portfolio (\$700 million—June 30, 2000).

Changes to the Accumulated Provision for Loan Losses for the fiscal years ended June 30, 2001, June 30, 2000 and June 30, 1999 are summarized below:

*In millions*

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Balance, beginning of the fiscal year	\$3,400	\$3,560	\$3,240
Provision for loan losses	676	(166)	246
Translation adjustment	<u>(117)</u>	<u>6</u>	<u>74</u>
Balance, end of the fiscal year	<u>\$3,959</u>	<u>\$3,400</u>	<u>\$3,560</u>

In fiscal year 2001, a reassessment of the probable losses inherent in the portfolio resulted in an increase in provisioning requirements at June 30, 2001, as compared to June 30, 2000. The factors that contributed to the increase in provisioning requirements were the movement of the loans made to or guaranteed by two borrowers into nonaccrual status, and a net deterioration in the creditworthiness of the accrual portfolio.

IBRD has endorsed a multilateral initiative for addressing the debt problems of a group of countries, identified as heavily indebted poor countries (HIPC), to ensure that the reform efforts of these countries will

not be put at risk by unsustainable external debt burdens. Under this initiative, creditors are to provide debt relief for those countries that demonstrated good policy performance over an extended period to bring their debt burdens to sustainable levels. IBRD has taken the situation of these countries into account in its review of the adequacy of the Accumulated Provision for Loan Losses.

### **Fifth Dimension Program**

Under IDA's Fifth Dimension program established in September 1988, a portion of principal repayments to IDA are allocated on an annual basis to provide supplementary IDA credits to IDA-eligible countries that are no longer able to borrow on IBRD terms, but have outstanding IBRD loans approved prior to September 1988 and have in place an IDA-supported structural adjustment program. Such supplementary IDA credits are allocated to countries that meet specified conditions, in proportion to each country's interest payments due that year on its pre-September 1988 IBRD loans. To be eligible for such IDA supplemental credits, a member country must meet IDA's eligibility criteria for lending, must be ineligible for IBRD lending and must not have had an IBRD loan approved within the last twelve months. To receive a supplemental credit from the program, a member country cannot be more than 60 days overdue on its debt-service payments to IBRD or IDA. At June 30, 2001, IDA had approved credits of \$1,679 million (\$1,659 million—June 30, 2000) under this program from inception, of which \$1,651 million (\$1,630 million—June 30, 2000) had been disbursed to the eligible countries.

## NOTE D— BORROWINGS

Providing liquidity and minimizing the cost of funds are key objectives to IBRD's overall borrowing strategy. IBRD uses swaps in its borrowing strategy to lower the overall cost of its borrowings for those members who

benefit from IBRD loans. IBRD undertakes swap transactions with a list of authorized counterparties. Credit limits have been established for each counterparty. Swaps include currency swaps, interest rate swaps, forward interest rate swaps, and swaptions.

A summary of IBRD's borrowings portfolio at June 30, 2001 and June 30, 2000 follows:

### Medium- and Long-term Borrowings and Swaps at June 30, 2001

*In millions of U.S. dollars equivalent*

Currency/ Rate type	Direct borrowings			Currency swap agreements <sup>a</sup>			Interest rate swap agreements			Net currency obligations		
	Amount	Wgtd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Notional amount payable (receivable)	Wgtd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgtd. avg. cost (%)	Average maturity <sup>b</sup> (years)
<b>Euro<sup>c</sup></b>												
Fixed	\$12,932	6.63	4.77	\$ 1,464 (11,451)	6.23 6.77	2.50 4.29	\$ 3,329 (1,447)	6.26 5.92	3.02 3.19	\$ 17,725 (12,898)	6.53 6.67	4.25 4.17
Adjustable	4,681	4.94	8.14	7,961 (5,621)	4.54 4.79	2.58 7.77	1,421 (3,311)	4.61 4.72	2.48 3.03	14,063 (8,932)	4.68 4.76	4.42 6.02
<b>Japanese yen</b>												
Fixed	9,331	4.79	4.54	81 (6,334)	5.88 4.93	2.23 3.85	3,518 (2,607)	0.50 2.75	1.10 3.51	12,930 (8,941)	3.63 4.29	3.59 3.75
Adjustable	4,177	5.68	18.50	4,563 (4,610)	(0.08) 4.32	0.93 15.45	2,607 (3,518)	0.12 0.07	3.51 1.10	11,347 (8,128)	2.09 2.48	7.99 9.24
<b>U. S. dollars</b>												
Fixed	47,381	6.15	4.70	11,531 (435)	9.05 6.30	2.68 1.15	18,050 (42,669)	6.02 5.80	7.50 4.42	76,962 (43,104)	6.56 5.80	5.05 4.39
Adjustable	1,380	4.57	3.17	39,840 (12,754)	4.52 4.41	8.39 2.00	42,133 (17,516)	4.63 4.75	3.95 7.34	83,353 (30,270)	4.57 4.61	6.06 5.10
<b>Others</b>												
Fixed	19,624	7.23	8.12	463 (19,416)	5.10 7.14	0.53 7.57	363 (154)	7.08 6.66	0.30 5.26	20,450 (19,570)	7.18 7.13	7.81 7.55
Adjustable	245	4.32	17.55	363 (397)	2.05 5.83	0.23 12.83	154 (363)	4.47 3.33	5.26 0.30	762 (760)	3.27 4.64	6.81 6.85
<b>Total</b>												
Fixed	89,268	6.32	5.44	13,539 (37,636)			25,260 (46,877)			128,067 (84,513)	6.36 6.08	5.23 5.02
Adjustable	10,483	5.17	11.83	52,727 (23,382)			46,315 (24,708)			109,525 (48,090)	4.32 4.28	6.05 6.00
<b>Principal at face value</b>	99,751	<u>6.20</u>	<u>6.11</u>	5,248			(10)			104,989	<u>5.41</u>	
<b>Net unamortized premium</b>	43			59			113			215		
<b>FAS 133 Adjustment</b>	45			(544)			(125)			(624)		
<b>Total</b>	<u>\$99,839</u>			<u>\$ 4,763</u>			<u>\$ (22)</u>			<u>\$104,580</u>		

a. *Currency swap agreements include cross-currency interest rate swaps.*

b. *At June 30, 2001, the average repricing period of the net currency obligations for adjustable rate borrowings was three months.*

c. *Effective January 1, 1999, the euro was introduced. For reporting purposes, amounts in the twelve national currencies that are considered national currency units of the euro have been aggregated with the euro and reported as euro in both the current and prior year.*

## Medium- and Long-term Borrowings and Swaps at June 30, 2000

In millions of U.S. dollars equivalent

Currency/ Rate type	Direct borrowings			Currency swap agreements <sup>a</sup>			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Notional amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity <sup>b</sup> (years)
<b>Euro<sup>c</sup></b>												
Fixed	\$ 15,446	6.74	5.28	\$ 2,944 (14,078)	7.11 6.92	1.66 4.64	\$ 3,731 (1,591)	6.38 5.62	3.51 3.47	\$22,121 (15,669)	6.73 6.79	4.50 4.52
Adjustable	5,757	5.46	8.89	8,477 (6,531)	4.07 5.22	2.54 8.37	1,564 (3,711)	4.49 4.33	3.26 3.45	15,798 (10,242)	4.62 4.90	4.93 6.59
<b>Japanese yen</b>												
Fixed	12,334	4.97	4.82	51 (8,268)	4.98 5.05	1.41 4.14	4,761 (3,123)	0.84 2.74	1.21 4.45	17,146 (11,391)	3.82 4.42	3.80 4.22
Adjustable	2,857	3.70	10.99	5,174 (2,805)	(0.22) 2.10	0.90 11.57	3,123 (4,761)	0.07 0.12	4.45 1.21	11,154 (7,566)	0.86 0.86	4.48 5.05
<b>U. S. dollars</b>												
Fixed	45,816	6.48	5.22	13,629 (1,158)	9.16 8.26	3.20 1.09	15,448 (40,011)	5.98 5.93	7.84 4.46	74,893 (41,169)	6.86 6.00	5.39 4.37
Adjustable	1,757	6.58	4.86	38,452 (12,055)	6.46 6.46	6.45 1.84	39,762 (15,223)	6.39 6.60	4.37 7.68	79,971 (27,278)	6.43 6.54	5.38 5.10
<b>Others</b>												
Fixed	21,494	7.37	5.20	1,296 (21,853)	5.64 7.27	0.73 4.68	390 (158)	7.08 6.66	1.30 6.26	23,180 (22,011)	7.27 7.27	4.88 4.69
Adjustable	193	6.99	0.60	390 (351)	1.58 8.23	1.23 3.15	158 (390)	5.85 3.10	6.26 1.30	741 (741)	3.90 5.53	2.14 2.18
<b>Total</b>												
Fixed	95,090	6.53	5.17	17,920 (45,357)			24,330 (44,883)			137,340 (90,240)	6.53 6.25	4.97 4.45
Adjustable	10,564	5.20	8.64	52,493 (21,742)			44,607 (24,085)			107,664 (45,827)	5.57 5.22	5.20 5.37
<b>Principal at face value</b>	105,654	6.39	5.52	3,314			(31)			108,937	6.37	
<b>Net unamor- tized premium (discount)</b>	(5)			186			159			340		
<b>Total</b>	<u>\$105,649</u>	<u>6.39</u>	<u>5.52</u>	<u>\$ 3,500</u>			<u>\$ 128</u>			<u>\$109,277</u>	<u>6.37</u>	

a. Currency swap agreements include cross-currency interest rate swaps.

b. At June 30, 2000, the average repricing period of the net currency obligations for adjustable rate borrowings was three months.

c. Effective January 1, 1999, the euro was introduced. For reporting purposes, amounts in the twelve national currencies that are considered national currency units of the euro have been aggregated with the euro and reported as euro in both the current and prior year.

## Short-term Borrowings and Swaps at June 30, 2001 and June 30, 2000

In millions of U.S. dollars equivalent

Currency/ Rate type	2001					2000				
	Principal outstanding	Currency swap <sup>a</sup> payable (receivable)	Interest rate swap payable (receivable)	Net currency obligations <sup>b</sup>	Wgt'd. avg. cost (%)	Principal outstanding	Currency swap <sup>a</sup> payable (receivable)	Interest rate swap payable (receivable)	Net currency obligations <sup>b</sup>	Wgt'd. avg. cost (%)
<b>Japanese yen</b>										
Fixed	\$ —	\$ —	\$ —	\$ —	—	\$ —	\$ —	\$ 556	\$ 556	0.21
Adjustable	—	—	—	—	—	—	—	(556)	(556)	0.20
<b>Polish zlotys</b>										
Fixed	189	— (189)	—	189 (189)	17.36 17.36	215	— (215)	—	215 (215)	16.13 16.13
<b>U. S. dollars</b>										
Fixed	5,923	—	—	5,923	3.93	3,343	—	—	3,343	6.59
Adjustable	827	173	(100)	(100)	3.91	1,196	—	(95)	(95)	6.65
		—	100	1,100	3.78		220	100	1,516	5.98
		—	—	—	—		—	(6)	(6)	1.67
<b>Total</b>										
Fixed	6,112	—	—	6,112	4.35	3,558	—	556	4,114	6.23
Adjustable	827	173	100	1,100	3.78	1,196	220	100	1,516	5.98
		—	—	—	—		—	(562)	(562)	0.22
<b>Principal at face value</b>	6,939	(16)	—	6,923	3.91	4,754	5	(1)	4,758	6.40
<b>Net unamortized premium (discount)</b>	(21)	1	—	(20)		(24)	1	—	(23)	
<b>FAS 133 Adjustment</b>	—	(1)	(*)	(1)		—	—	—	—	
<b>Total</b>	<b>\$6,918</b>	<b>\$ (16)</b>	<b>\$ (*)</b>	<b>\$6,902</b>	<b>3.91</b>	<b>\$4,730</b>	<b>\$ 6</b>	<b>\$ (1)</b>	<b>\$4,735</b>	<b>6.40</b>

a. Currency swap agreements include cross-currency interest rate swaps.

b. At June 30, 2001, the average repricing period of the net currency obligations for short-term borrowings was one month (one month— June 30, 2000.)

\* Less than \$0.5 million

The maturity structure of IBRD's Medium-and Long-term borrowings outstanding at June 30, 2001 and June 30, 2000 is as follows:

<i>In millions</i>		<i>In millions</i>	
<i>Period</i>	<i>2001</i>	<i>Period</i>	<i>2000</i>
July 1, 2001 through June 30, 2002	\$17,560	July 1, 2000 through June 30, 2001	\$ 14,181
July 1, 2002 through June 30, 2003	16,763	July 1, 2001 through June 30, 2002	18,431
July 1, 2003 through June 30, 2004	11,191	July 1, 2002 through June 30, 2003	17,669
July 1, 2004 through June 30, 2005	9,019	July 1, 2003 through June 30, 2004	8,408
July 1, 2005 through June 30, 2006	9,547	July 1, 2004 through June 30, 2005	9,515
July 1, 2006 through June 30, 2011	17,691	July 1, 2005 through June 30, 2010	22,568
Thereafter	17,980	Thereafter	14,882
<b>Total</b>	<b>\$99,751</b>	<b>Total</b>	<b>\$105,654</b>

The following table reflects the carrying and estimated fair values of the borrowings portfolio at June 30, 2001 and June 30, 2000:

	<i>2001</i>				<i>2000</i>	
	<i>Carrying Value<sup>a</sup> (before FAS 133 adjustment)</i>	<i>FAS 133 Adjustment</i>	<i>Adjusted Carrying value<sup>a</sup></i>	<i>Estimated fair value</i>	<i>Carrying value<sup>a</sup></i>	<i>Estimated fair value</i>
<b>Short-term</b>	\$ 6,917	\$ —	\$ 6,917	\$ 6,918	\$ 4,729	\$ 4,726
<b>Medium- and long-term</b>	99,306	45	99,351	103,372	105,042	107,045
<b>Swaps</b>						
Currency						
Payable	66,430	448	66,878	66,878	70,632	71,249
Receivable	(61,138)	(993)	(62,131)	(62,131)	(67,126)	(68,380)
Interest rate	103	(125)	(22)	(22)	127	810
<b>Total</b>	<b>\$111,618</b>	<b>\$(625)</b>	<b>\$110,993</b>	<b>\$115,015</b>	<b>\$113,404</b>	<b>\$115,450</b>

a. The carrying value is net of unamortized issuance costs of borrowings.

The estimated fair values are based on quoted market prices where such prices are available. Where no quoted market price is available, the fair value is estimated based on the cost at which IBRD could currently

undertake borrowings with similar terms and remaining maturities, using the secondary market yield curve. The fair value of swaps represents the estimated cost of replacing these contracts on that date.

## NOTE E— OTHER ASSET/LIABILITY SWAPS

In March 2001, as part of asset/liability management, IBRD entered into a number of currency swaps to better align its currency composition of Equity with that of loans. A summary of IBRD's other asset/liability swaps at June 30, 2001 is presented below:

*In millions of U.S. dollars equivalent*

	<i>Other Asset/Liability Swap Agreements</i>		
	<i>Amount Receivable (payable)</i>	<i>Weighted Average Cost (%)</i>	<i>Average Maturity (years)</i>
U.S. dollars	\$ 726	<u>4.85</u>	<u>5.72</u>
FAS 133 adjustment	<u>2</u>		
Total amount receivable	<u>\$ 728</u>		
Euro	\$(271)	4.71	5.71
Japanese yen	(430)	<u>0.04</u>	<u>5.73</u>
	(701)	<u>1.85</u>	<u>5.72</u>
FAS 133 adjustment	<u>*</u>		
Total amount payable	<u>\$(701)</u>		

\* Less than \$0.5 million.

## NOTE F— CREDIT RISK

**Country Credit Risk:** This risk includes potential losses arising from protracted arrears on payments from borrowers. IBRD manages country credit risk through individual country exposure limits according to creditworthiness. These exposure limits are tied to performance on macroeconomic and structural policies. In addition, IBRD establishes absolute limits on the share

of outstanding loans to any individual borrower. The country credit risk is further managed by financial incentives such as pricing loans using IBRD's own cost of borrowing and partial interest charge waivers conditioned on timely payment that give borrowers self-interest in IBRD's continued strong intermediation capacity. Collectibility risk is covered by the Accumulated Provision for Loan Losses. IBRD also uses a simulation model to assess the adequacy of its equity including reserves in case a major borrower, or group of borrowers, stops servicing its loans for an extended period of time.

**Commercial Credit Risk:** For the purpose of risk management, IBRD is party to a variety of financial instruments, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. For all securities, IBRD limits trading to a list of authorized dealers and counterparties. Credit risk is controlled through application of eligibility criteria and volume limits for transactions with individual counterparties and through the 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. As of June 30, 2001, IBRD had received collateral of \$351 million in connection with swap agreements. None of this collateral has been included in the assets of IBRD.

In addition, IBRD has entered into master derivatives agreements which contain legally enforceable close-out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps shown below. Credit risk with financial assets subject to a master derivatives arrangement is eliminated only to the extent that financial liabilities to the same counterparty are settled after the assets are realized. Because the exposure is affected by each transaction subject to the arrangement, the extent of the reduction in exposure may change substantially within a short period of time following the balance sheet date.

The contract value/notional amounts and credit risk exposure, as applicable, of these financial instruments at June 30, 2001 and June 30, 2000 (prior to taking into account any master derivatives or collateral arrangements that have been entered into) are given below:

*In millions*

	<u>2001</u>	<u>2000</u>
<b>INVESTMENTS - TRADING PORTFOLIO</b>		
Options, futures and forwards		
• Long position	\$ 5,500	\$ 805
• Short position	3,400	1,250
• Credit exposure due to potential nonperformance by counterparties	*	*
Currency swaps		
• Credit exposure due to potential nonperformance by counterparties	33	77
Cross-currency interest rate swaps		
• Credit exposure due to potential nonperformance by counterparties	438	306
Interest rate swaps		
• Notional principal	12,058	13,687
• Credit exposure due to potential nonperformance by counterparties	16	3
<b>BORROWING PORTFOLIO</b>		
Currency swaps		
• Credit exposure due to potential nonperformance by counterparties	2,845	3,863
Interest rate swaps		
• Notional principal	71,685	69,625
• Credit exposure due to potential nonperformance by counterparties	1,169	869
<b>OTHER ASSET/LIABILITY</b>		
Currency swaps		
• Credit exposure due to potential nonperformance by counterparties	36	—

\* Less than \$0.5 million.

#### **NOTE G— RETAINED EARNINGS, ALLOCATIONS AND TRANSFERS**

**Retained Earnings:** Retained Earnings comprises the following elements at June 30, 2001 and June 30, 2000:

<i>In millions</i>	<u>2001</u>	<u>2000</u>
<b>Special reserve</b>	\$ 293	\$ 293
<b>General reserve</b>	17,223	16,109
<b>Pension reserve</b>	715	549
<b>Surplus</b>	131	85
<b>Unallocated net income</b>	1,489	1,991
<b>Total</b>	<u>\$19,851</u>	<u>\$19,027</u>

On August 1, 2000, the Executive Directors allocated \$1,114 million of the net income earned in the fiscal year ended June 30, 2000 to the General Reserve and

\$166 million to the Pension Reserve, representing the difference between actual funding of the Staff Retirement Plan (SRP) and its accounting income for the fiscal year 2000.

On September 27, 2000, the Board of Governors approved the following transfers out of unallocated Net Income: an amount equivalent to \$320 million in SDRs (valued at June 30, 2000) to IDA, \$250 million to the Heavily Indebted Poor Countries (HIPC) Debt Initiative Trust Fund, \$35 million to the Trust Fund for Kosovo, and \$30 million for capacity building in Africa. The remaining \$76 million was allocated to Surplus. Of the \$320 million in SDRs valued at June 30, 2000 that was approved for transfer to IDA, \$300 million is to be drawn down in fiscal year 2005; the remaining \$20 million was transferred in October 2000 as a reimbursement of IDA's share of the fiscal year 2000 cost of implementing the Strategic Compact of IBRD and IDA.

On April 30, 2001, the Board of Governors approved a transfer from Surplus in the amount of \$30 million to the Trust Fund for the Federal Republic of Yugoslavia.

The aggregate transfers and amounts payable for these Board of Governors-approved transfers at June 30, 2001 and June 30, 2000 are included in the following table:

*In millions of U.S dollars equivalent*

<i>Transfers to</i>	<i>Aggregate Transfers through June 30, 2000</i>	<i>Fiscal Year 2001 Transfers from</i>		<i>Amount Payable at June 30</i>	
		<i>Unallocated Net Income</i>	<i>Surplus</i>	<i>2001</i>	<i>2000</i>
International Development Association <sup>a</sup>	\$6,435	\$320	\$—	\$ 896	\$650
Debt Reduction Facility for IDA-only Countries	300	—	—	84	81
Trust Fund for Gaza and West Bank	380	—	—	13	30
Heavily Indebted Poor Countries Debt Initiative Trust Fund	1,050	250	—	100	100
Capacity building in Africa	30	30	—	—	—
Trust Fund for Kosovo	25	35	—	—	—
Trust Fund for East Timor	10	—	—	—	—
Trust Fund for Federal Republic of Yugoslavia	—	—	30	—	—
				<u>\$1,093</u>	<u>\$861</u>

a. All amounts are approved in an equivalent amount of SDRs.

#### **NOTE H— ADMINISTRATIVE EXPENSES, CONTRIBUTIONS TO SPECIAL PROGRAMS, AND OTHER INCOME**

In March 1997, the Executive Directors approved a multiyear program of institutional renewal to improve IBRD's and IDA's business processes, products and services, strengthen their human resources through more skilled and better trained staff, and achieve a higher level of development effectiveness. This program, which was in effect for three years ending June 30, 2000, resulted in the termination of 723 staff at a cumulative cost of \$111 million, of which \$44 million was allocated to IDA, consistent with normal cost apportionment procedures applied in the calculation of IDA's share of administrative expenses. Included in the total charges of \$111 million are costs associated with outplacement consulting, job search assistance, training, medical insurance plan contributions and related tax allowances. At June 30, 2001, \$10 million was payable (\$42 million—June 30, 2000).

Administrative Expenses for the fiscal year ended June 30, 2001 are net of the share of administrative expenses charged to IDA of \$551 million (\$549 million—June 30, 2000, \$518 million—June 30, 1999).

Contributions to special programs represent grants for agricultural research, and other developmental activities.

IBRD recovers certain of its administrative expenses by billing third parties for services rendered. These amounts are included in Other Income. For the fiscal years ending June 30, 2001, June 30, 2000, and June 30, 1999, the amount of fee revenue associated with administrative services is as follows:

<i>In millions</i>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Service fee revenue	\$146	\$118	\$116
Included in these amounts are the following:			
Fees charged to IFC	19	16	17
Fees charged to MIGA	1	1	1

At June 30, 2001 and June 30, 2000, the following payables (receivables) by IBRD to (from) its affiliated organizations with regard to administrative services and pension and other postretirement benefits are included in Miscellaneous Assets and Accounts Payable and Miscellaneous Liabilities:

*In millions*

	2001			2000		
	<i>Administrative Services</i>	<i>Pension and Other Postretirement Benefits</i>	<i>Total</i>	<i>Administrative Services</i>	<i>Pension and Other Postretirement Benefits</i>	<i>Total</i>
IDA	\$ (229)	\$ 637	\$ 408	\$ (215)	\$ 513	\$ 298
IFC	(26)	250	224	(25)	199	174
MIGA	(3)	14	11	(3)	11	8
	<u>\$ (258)</u>	<u>\$ 901</u>	<u>\$ 643</u>	<u>\$ (243)</u>	<u>\$ 723</u>	<u>\$ 480</u>

During fiscal year 2000, IBRD began offering investment management services to a non-affiliated institution. Under this arrangement, IBRD is responsible for managing investment account assets on behalf of this institution, and in return receives a quarterly fee based on the average value of the portfolio. This fee income is

included in service fee revenues noted previously. At June 30, 2001, the assets managed under this agreement had a value of \$4,172 million (\$5,158 million—June 30, 2000). These funds are not included in the assets of IBRD.

#### NOTE I— TRUST FUNDS

IBRD, alone or jointly with IDA, administers on behalf of donors, including members, their agencies and other entities, funds restricted for specific uses which include the cofinancing of IBRD lending projects, debt reduction operations, technical assistance for borrowers including feasibility studies and project preparation,

global and regional programs and research and training programs. These funds are held in trust and are not included in the assets of IBRD. The trust fund assets by executing agent at June 30, 2001 and June 30, 2000 are summarized below:

	2001		2000	
	<i>Total fiduciary assets (In millions)</i>	<i>Number of trust fund accounts</i>	<i>Total fiduciary assets (In millions)</i>	<i>Number of trust fund accounts</i>
IBRD executed	\$ 864	1,577	\$ 447	1,184
Recipient executed	1,977	1,349	2,088	2,093
Total	<u>\$2,841</u>	<u>2,926</u>	<u>\$2,535</u>	<u>3,277</u>

The responsibilities of IBRD under these arrangements vary and range from services normally provided under its own lending projects to full project implementation including procurement of goods and services. During

the fiscal year ended June 30, 2001, IBRD received \$14 million (\$17 million—June 30, 2000 and \$19 million—June 30, 1999) as fees for administering trust funds. These fees have been recorded as Other Income.

**NOTE J— PENSION AND OTHER POSTRETIREMENT BENEFITS**

IBRD has a defined benefit Staff Retirement Plan (SRP) that covers substantially all of its staff. The SRP also covers substantially all the staff of IFC and MIGA. In addition, IBRD provides other postretirement benefits for eligible active and retired staff through a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP).

During the fiscal year ended June 30, 1998, IBRD reviewed the status of the RSBP and PEBP accounts and determined that the assets and liabilities did not qualify for off-balance sheet accounting. At June 30, 1998, the assets and liabilities were recorded on IBRD's balance sheet.

Subsequently, during the first quarter of fiscal year 1999, the RSBP was modified so that some of the assets

designated for other postretirement benefits met the requirements for plan assets prescribed under SFAS 106 "Employer's Accounting for Postretirement Benefits Other than Pensions". Accordingly, the RSBP assets and liabilities were removed from the balance sheet. As a result, the assets and liabilities designated on the balance sheet for other postretirement benefits were reduced by \$806 million and \$620 million, respectively. The \$650 million of assets that remained on the balance sheet were incorporated into Trading investments. At June 30, 2001, liabilities of \$129 million (\$119 million—June 30, 2000) for the PEBP shown on the balance sheet represent pension benefits administered outside the SRP.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP for IBRD and IDA for the fiscal years ended June 30, 2001, June 30, 2000, and June 30, 1999:

*In millions*

	SRP			RSBP			PEBP		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
<b>Benefit Cost</b>									
Service cost	\$ 228	\$ 230	\$ 186	\$ 23	\$ 24	\$ 25	\$ 8	\$ 9	\$ 5
Interest cost	448	391	324	52	42	36	6	9	7
Expected return on plan assets	(829)	(773)	(738)	(79)	(67)	(65)	—	—	—
Amortization of prior service cost	7	7	7	—	—	—	—	—	—
Amortization of unrecognized net (gain) loss	(113)	(121)	(175)	—	—	—	(1)	—	3
Amortization of Transition Asset	(11)	(11)	(11)	—	—	—	—	—	—
Net periodic pension (income) cost	<u>\$ (270)</u>	<u>\$ (277)</u>	<u>\$ (407)</u>	<u>\$ (4)</u>	<u>\$ (1)</u>	<u>\$ (4)</u>	<u>\$ 13</u>	<u>\$ 18</u>	<u>\$ 15</u>

The portion of the SRP and RSBP income related to IBRD that has been included in income for the fiscal year ended June 30, 2001 is \$155 million (\$166 million—June 30, 2000; \$255 million—June 30, 1999). The balance has been included as a payable to IDA.

The portion of the cost for the PEBP related to IBRD that has been included in income for the fiscal year ended June 30, 2001 is \$7 million (\$10 million—June 30, 2000; \$10 million—June 30, 1999). The balance has been included as a receivable from IDA.

The following table summarizes the benefit obligations, plan assets, funded status and rate assumptions associated with the SRP, RSBP, and PEBP for the fiscal years ended June 30, 2001, June 30, 2000, and June 30, 1999:

*In millions*

	SRP			RSBP			PEBP		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
<b>Benefit Obligation</b>									
Beginning of year	\$ 6,951	\$ 6,483	\$ 5,890	\$731	\$662	\$627	\$ 89	\$ 142	\$ 90
Service cost	271	271	217	26	27	28	10	10	6
Interest cost	536	461	378	57	47	40	7	10	8
Employee contributions	64	64	61	6	5	5	*	*	*
Amendments	—	—	—	—	—	—	—	—	—
Benefits paid	(312)	(244)	(231)	(20)	(17)	(18)	(5)	(4)	(5)
Actuarial (gain) loss	(233)	(84)	168	67	7	(20)	2	(69)	43
End of year	7,277	6,951	6,483	867	731	662	103	89	142
<b>Fair value of plan assets</b>									
Beginning of year	11,562	10,226	9,608	975	846	—	—	—	—
Assets transferred to the Plan	—	—	—	—	—	806	—	—	—
Employee contributions	64	64	61	6	5	5	—	—	—
Actual return on assets	(950)	1,516	788	(70)	141	53	—	—	—
Employer contributions	—	—	—	3	—	—	—	—	—
Benefits paid	(312)	(244)	(231)	(20)	(17)	(18)	—	—	—
End of year	10,364	11,562	10,226	894	975	846	—	—	—
<b>Funded status</b>									
Plan assets in excess of projected benefit obligation	3,087	4,611	3,743	27	244	184	(103)	(89)	(142)
Unrecognized net (gain) loss from past experience different from that assumed and from changes in assumptions	(1,415)	(3,258)	(2,713)	170	(53)	6	(26)	(30)	39
Unrecognized prior service cost	33	41	50	—	—	—	—	—	—
Remaining unrecognized net transition asset	(26)	(39)	(52)	—	—	—	—	—	—
Prepaid (accrued) pension cost	\$ 1,679	\$ 1,355	\$ 1,028	\$197	\$191	\$190	\$ (129)	\$ (119)	\$ (103)

\* Less than \$0.5 million.

The \$1,679 million prepaid SRP cost at June 30, 2001 (\$1,355 million—June 30, 2000) is included in Miscellaneous Assets on the balance sheet. Of this amount \$815 million was attributable to IDA, IFC, and MIGA (\$643 million—June 30, 2000) and is included in Accounts Payable and Miscellaneous Liabilities on the balance sheet.

The \$197 million prepaid RSBP cost at June 30, 2001 (\$191 million—June 30, 2000), is included in Miscellaneous Assets on the balance sheet. Of this amount \$86 million was attributable to IDA, IFC, and MIGA (\$85 million—June 30, 2000) and is included in Accounts Payable and Miscellaneous Liabilities on the balance sheet.

### Assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will

impact future benefit costs and obligations. The weighted-average assumptions used in determining expense and benefit obligations for the fiscal years ended June 30, 2001, June 30, 2000, and June 30, 1999 are as follows:

*In percent*

	SRP			RSBP			PEBP		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Discount rate	7.00	7.75	7.25	7.00	7.75	7.25	7.00	7.75	7.25
Expected return on plan assets	9.00	9.00	9.00	9.00	9.00	9.00			
Rate of compensation increase <sup>a</sup>	5.00 - 11.50	5.75 - 12.25	5.25 - 11.75						
Health care growth rates									
- at end of fiscal year				7.00	7.25	6.25			
- to year 2011 and thereafter				5.00	5.75	5.25			

- a. The effect of projected compensation levels was calculated based on a scale that provides for a decreasing rate of salary increase depending on age, beginning with 11.50% (12.25%– June 30, 2000; 11.75%– June 30, 1999) at age 20 and decreasing to 5.00% (5.75%– June 30, 2000; 5.25%– June 30, 1999) at age 64.

The medical cost trend rate can significantly affect the reported postretirement benefit income or costs and benefit obligations. The following table shows the

effects of a one-percentage-point change in the assumed healthcare cost trend rate:

*In millions*

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	\$ 19	\$ (15)
Effect on postretirement benefit obligation	167	(133)

### NOTE K— SEGMENT REPORTING

Based on an evaluation of IBRD's operations, management has determined that IBRD has only one reportable segment since IBRD does not manage its operations by allocating resources based on a determination of the contribution to net income from individual borrowers. In addition, given the nature of IBRD, the risk and return profiles are sufficiently similar among borrowers that IBRD does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries.

For fiscal year 2001, loans to each of two countries generated in excess of 10 percent of loan income. Loan

income from these two countries was \$939 million and \$870 million.

### NOTE L— COMPREHENSIVE INCOME

Comprehensive income consists of net income and other gains and losses affecting equity that, under generally accepted accounting principles, are excluded from net income. For IBRD, comprehensive income comprises the effects of the implementation of FAS 133, currency translation adjustments, and net income. These items are presented in the Statement of Comprehensive Income.

The following tables present the changes in Accumulated Other Comprehensive Loss balances for the fiscal years ended June 30, 2001, June 30, 2000, and June 30, 1999:

*In millions*

	2001			<i>Total Accumulated Other Comprehensive Loss</i>
	<i>Cumulative Translation Adjustment</i>	<i>Cumulative Effect of Change in Accounting Principle</i>	<i>Reclassification<sup>a</sup></i>	
Balance, beginning of the fiscal year	\$ (641)	\$ —	\$ —	\$(641)
Changes from period activity	(535)	500	(169)	(204)
Balance, end of the fiscal year	<u>\$ (1,176)</u>	<u>\$500</u>	<u>\$ (169)</u>	<u>\$(845)</u>

*In millions*

	2000			<i>Total Accumulated Other Comprehensive Loss</i>
	<i>Cumulative Translation Adjustment</i>	<i>Cumulative Effect of Change in Accounting Principle</i>	<i>Reclassification<sup>a</sup></i>	
Balance, beginning of the fiscal year	\$ (637)	\$—	\$—	\$(637)
Changes from period activity	(4)	—	—	(4)
Balance, end of the fiscal year	<u>\$ (641)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$(641)</u>

*In millions*

	1999			<i>Total Accumulated Other Comprehensive Loss</i>
	<i>Cumulative Translation Adjustment</i>	<i>Cumulative Effect of Change in Accounting Principle</i>	<i>Reclassification<sup>a</sup></i>	
Balance, beginning of the fiscal year	\$ (960)	\$—	\$—	\$(960)
Changes from period activity	323	—	—	323
Balance, end of the fiscal year	<u>\$ (637)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$(637)</u>

a. *Reclassification of FAS 133 transition adjustment to net income.*

# REPORT OF INDEPENDENT ACCOUNTANTS

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**Deloitte  
Touche  
Tohmatsu  
(International Firm)**

President and Board of Governors  
International Bank for Reconstruction and Development

We have audited the accompanying balance sheets of the International Bank for Reconstruction and Development as of June 30, 2001 and 2000, including the summary statement of loans and the statement of subscriptions to capital stock and voting power as of June 30, 2001, and the related statements of income, comprehensive income, changes in retained earnings, and cash flows for each of the three fiscal years in the period ended June 30, 2001. These financial statements are the responsibility of the International Bank for Reconstruction and Development's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the International Bank for Reconstruction and Development as of June 30, 2001 and 2000, and the results of its operations and its cash flows for each of the three fiscal years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America and International Accounting Standards.

As discussed in the Summary of Significant Accounting and Related Policies in the notes to the financial statements, the International Bank for Reconstruction and Development changed its method of accounting for derivative instruments to conform with Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133*, and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. The International Bank for Reconstruction and Development has also early-adopted International Accounting Standard No. 39, *Financial Instruments: Recognition and Measurement*.

*Deloitte Touche Tohmatsu (International Firm)*

July 30, 2001

