

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT (IBRD)**
Also known as WORLD BANK (WB)



**BANCO INTERNACIONAL DE
RECONSTRUCCIÓN Y FOMENTO (BIRF)**
También conocido como BANCO MUNDIAL
(BM)

COP \$ 600,000,000,000
Bonds of 2004

COP \$ 600.000'000.000
Bonos de 2004

The INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("IBRD", or the "ISSUER") is issuing COP \$ 600,000,000,000 Bonds of 2004 (the "BONDS"). IBRD is an international organization established in 1945 pursuant to its Articles of Agreement (the "Articles of Agreement") among its member countries including the Republic of Colombia ("Colombia"). IBRD and its senior unsecured debt have been rated AAA by Standard & Poor's and Aaa by Moody's Investors Services within the twelve months preceding the offering of the BONDS.

El BANCO INTERNACIONAL DE RECONSTRUCCIÓN Y FOMENTO ("BIRF") también conocido como el Banco Mundial (el "BM" ó el "EMISOR"), está realizando una emisión de Bonos por COP \$ 600.000'000.000 de 2004 (los "BONOS"). El BM es una organización internacional establecida en 1945 en virtud de su Convenio Constitutivo (el "Convenio Constitutivo") entre sus países miembros, entre los cuales está incluida la República de Colombia ("Colombia"). BM y su deuda sin garantía no subordinada han recibido una calificación de AAA de Standard & Poor's y de Aaa de Moody's Investors Services durante los doce meses anteriores a la oferta de los BONOS.

The BONDS may be issued in up to five Series (the "Series"). The OFFERING NOTICE (as defined herein) will specify which Series of BONDS are being offered and the principal amount thereof. The aggregate principal amounts of all Series that are issued shall not exceed the aggregate amount stated above.

Los BONOS podrán ser emitidos en cinco Series (las "Series"). El AVISO DE OFERTA (como se define más adelante) especificará cuales Series de BONOS se ofrecen y el monto de capital de cada una, que no excederá el monto total mencionado anteriormente.

Each Series of BONDS will be redeemed in Colombian Pesos on the date mentioned in this Prospectus as the MATURITY DATE for such Series and may not be redeemed by the ISSUER prior to such date. However, the BONDS may be purchased and cancelled by the ISSUER as provided in Section 5(b) (Purchase and Cancellation) of the Terms and Conditions of the Bonds set out in this Prospectus.

Cada Serie de BONOS se redimirá en pesos colombianos en la fecha mencionada en este Prospecto como la FECHA DE VENCIMIENTO de dicha Serie y no podrá ser redimida por el EMISOR antes de dicha fecha. Sin embargo, los BONOS pueden ser readquiridos y cancelados por el EMISOR de conformidad con lo dispuesto en la Sección 5(b) (Compra y Anulación) de los Términos y Condiciones de los Bonos que aparecen en este Prospecto.

Interest on the BONDS will be payable in Colombian Pesos annually, semiannually or quarterly in arrears on the INTEREST PAYMENT DATES described herein, according to each Series. The interest rate per annum applicable to the BONDS shall be the one defined for each Series as described herein.

Los intereses sobre los BONOS serán pagaderos en pesos colombianos anual, semestral o trimestralmente en las FECHAS DE PAGO DE INTERESES aquí descritas, según corresponda a cada Serie. La tasa de interés aplicable a los BONOS será aquella definida para cada Serie según se describe en el presente Prospecto.

The NOTIONAL AMOUNT of each BOND is one million Colombian Pesos (COP\$1,000,000). However, the minimum investment in any Series of BONDS, both for purposes of the original subscription and any subsequent transfer thereof, is ten (10) BONDS, that is, ten million Colombian Pesos (COP\$10,000,000).

El VALOR NOMINAL de cada BONO es un millón de pesos colombianos (COP\$1.000.000). Sin embargo, la inversión mínima en cualquier Serie de BONOS, tanto para efectos de la suscripción original como para cualquier transferencia posterior, es de diez (10) BONOS, esto es, diez millones de pesos colombianos (COP\$10.000.000).

The BONDS shall be issued to the order of and will be offered to the general public.

La ley de circulación de los BONOS será a la orden y sus destinatarios serán el público en general.

THE BONDS ARE NOT OBLIGATIONS OF ANY GOVERNMENT.

LOS BONOS NO CONSTITUYEN OBLIGACIONES DE GOBIERNO ALGUNO.

The BONDS have been registered at the National Securities and Intermediaries Register (*Registro Nacional de Valores e Intermediarios*) maintained by the Superintendencia de Valores de Colombia ("SDV").

Los BONOS han sido inscritos en el Registro Nacional de Valores e Intermediarios de la Superintendencia de Valores de Colombia ("SDV").

THE REGISTRATION OF THE BONDS AT THE NATIONAL SECURITIES AND INTERMEDIARIES REGISTER DOES NOT IMPLY ANY INDICATION OR CERTIFICATION OF THE MERITS OF THE BONDS OR THE SOLVENCY OF THE ISSUER BY THE SDV.

LA INSCRIPCIÓN DE LOS BONOS EN EL REGISTRO NACIONAL DE VALORES E INTERMEDIARIOS NO IMPLICA CERTIFICACIÓN SOBRE LA BONDAD DEL BONO NI SOBRE LA SOLVENCIA DEL EMISOR POR PARTE DE LA SDV.

The BONDS will be listed on the COLOMBIAN STOCK EXCHANGE (*Bolsa de Valores de Colombia S.A.*) (the "BVC"). SUCH LISTING DOES NOT IMPLY ANY INDICATION OR CERTIFICATION OF THE MERITS OF THE BONDS OR THE SOLVENCY OF THE ISSUER BY THE BVC.

Los BONOS estarán inscritos en la BOLSA DE VALORES DE COLOMBIA S.A. (la "BVC"). ESTA INSCRIPCIÓN NO IMPLICA CERTIFICACIÓN SOBRE LA BONDAD DEL BONO NI SOBRE LA SOLVENCIA DEL EMISOR POR PARTE DE LA BVC.

Arranger
ABN AMRO N.V.

Estructurador
ABN AMRO N.V.

Lead Manager
Corporación Financiera Nacional y Suramericana S.A. CORFINSURA

Agente Líder
Corporación Financiera Nacional y Suramericana S.A. CORFINSURA

Selling Agents
COMPAÑÍA SURAMERICANA DE VALORES S.A.
ULTRABURSATILES S.A.
ALIANZA VALORES S.A.

Agentes Colocadores
COMPAÑÍA SURAMERICANA DE VALORES S.A.
ULTRABURSATILES S.A.
ALIANZA VALORES S.A.

The date of this Prospectus is
March 24, 2004

La fecha de este Prospecto es
Marzo 24 de 2004



ESPACIO EN BLANCO INTENCIONAL

INTRODUCTION

No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained in this Prospectus in connection with the **ISSUE** or sale of the **BONDS** and, if given or made, such information or representation must not be relied upon as having been authorized by the **ISSUER**, the Arranger or the Lead Manager.

The distribution of this Prospectus and the offering or sale of the **BONDS** outside of Colombia may be restricted by law. People into whose possession this Prospectus comes are required by the **ISSUER**, the Arranger, the Lead Manager and the **SELLING AGENTS** to inform themselves about such restrictions and how to observe them.

This Prospectus contains particulars given in compliance with the requirements of the SDV (as applied in relation to the **ISSUE** of the **BONDS**) for the purpose of giving information with regard to IBRD and the **BONDS**. SDV does not take any responsibility for the contents of this Prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus. IBRD, having made all reasonable enquiries, confirms that this Prospectus contains all information with regard to the **BONDS** and IBRD which, as of the date of this Prospectus, is material in the context of the **ISSUE** of the **BONDS**, that the information contained in this Prospectus is true and accurate in all material respects and is not misleading and that there are no other facts the omission of which makes this Prospectus as a whole or any such information misleading in any material respect. However, neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, imply that there has been no change in the affairs of the **ISSUER** since the date hereof. The **ISSUER** is required to deliver to the SDV certain periodic information, including the most recently published Annual Report and financial statements of IBRD, in accordance with Resolution 400 of 1995, as amended and supplemented by Resolution 933 of 2001, of the SDV. Such information will be available for inspection at the National Securities and Intermediaries Register (*Registro Nacional de Valores e Intermediarios*).

This Prospectus has been prepared in English and, except for the Independent Auditors Report and the Financial Statements of IBRD, translated into Spanish. In accordance with the provisions of paragraph (k) of Article 1.2.4.77 of Resolution 400 of 1995, as amended and supplemented by Article Four of Resolution 933 of 2001 of the SDV, in the event of a conflict or inconsistency between the English text and its translation into Spanish, the English text will prevail.

INTRODUCCIÓN

Ningún agente, vendedor u otra persona ha sido autorizado para dar información alguna o para hacer declaración alguna distinta de aquellas contenidas en este Prospecto en relación con la **EMISIÓN** o venta de los **BONOS** y, en caso de darse o hacerse, dicha información o declaración no podrá considerarse como autorizada por el **EMISOR**, por el Estructurador ni por el Agente Líder.

La distribución de este Prospecto y la oferta o venta de los **BONOS** fuera de Colombia puede estar restringida por ley. Personas que tengan en su poder este Prospecto deben solicitar al **EMISOR**, al Estructurador, al Agente Líder y a los **AGENTES COLOCADORES** información sobre tales restricciones y la forma de observarlas.

Este Prospecto contiene información suministrada de conformidad con los requisitos de la SDV (aplicables en relación con la **EMISIÓN** de los **BONOS**) con el objeto de brindar información con respecto a BM y a los **BONOS**. La SDV no asume responsabilidad alguna por el contenido de este Prospecto, y no hace declaración sobre su exactitud o integridad y rechaza expresamente cualquier responsabilidad por cualquier pérdida, derivada en cualquier forma de, o con referencia a, la totalidad o cualquier parte del contenido de este Prospecto. BM, después de efectuar todas las averiguaciones razonables, confirma que este Prospecto contiene toda la información con respecto a los **BONOS** y a BM que, a la fecha de este Prospecto, es relevante en el contexto de la **EMISIÓN** de los **BONOS**, que la información contenida en este Prospecto es verídica y precisa en todos sus aspectos sustanciales y no es engañosa y que no existen otros hechos cuya omisión haga este Prospecto en su totalidad o dicha información engañosa en cualquier aspecto relevante. Sin embargo, ni la entrega de este Prospecto ni venta alguna efectuada en relación con el mismo implicarán, bajo ninguna circunstancia, que no se han presentado cambios en los asuntos del **EMISOR** desde la fecha del presente documento. El **EMISOR** está obligado a entregar a la SDV cierta información periódica, incluyendo los Informes Anuales y los estados financieros de BM de más reciente publicación de acuerdo con la Resolución 400 de 1995, tal y como fue modificada y complementada por la Resolución 933 de 2001, de la SDV. Tal información estará a disposición para su inspección en el Registro Nacional de Valores e Intermediarios de la SDV.

Este Prospecto ha sido preparado en inglés y, con excepción del Informe de los Auditores Independientes y los Estados Financieros de BM, traducido al español. De conformidad con lo dispuesto en el literal (k) del Artículo 1.2.4.77 de la Resolución 400 de 1995, tal y como fue modificada y complementada por el Artículo Cuatro de la Resolución 933 de 2001, de la SDV, en el evento de un conflicto o inconsistencia entre el texto en inglés y su traducción al español, prevalecerá el texto en inglés.



This Prospectus does not constitute an offer of, or an invitation by or on behalf of IBRD, the Arranger, the Lead Manager or the **SELLING AGENTS** to subscribe for or purchase, any of the **BONDS**. No action has been taken or will be taken to permit a **PUBLIC OFFER** of the **BONDS** or the distribution of this Prospectus in any jurisdiction other than in Colombia. The distribution of this Prospectus and the offering and sale of the **BONDS** in jurisdictions other than Colombia may be restricted by law.

The final terms of the **BONDS**, including without limitation, the Series to be issued and the aggregate principal amount, number of **BONDS**, final redemption date, **ISSUE** price and the interest rate of each Series of **BONDS** being issued, will be set out in the **OFFERING NOTICE** (the "**OFFERING NOTICE**") to be published by the **ISSUER** in a newspaper of national circulation in Colombia on the date on which the **BONDS** are offered for subscription and purchase.

The **BONDS** constitute direct, unsecured obligations of the **ISSUER** ranking *pari passu*, without any preference among themselves, with all of its other obligations that are unsecured and unsubordinated.

Pursuant to the IBRD's Articles of Agreement, which were incorporated into Colombian law by virtue of Law 76 of 1946, all officers, directors and employees of IBRD shall be immune from legal process with respect to acts performed by them in their official capacity. Actions may be brought against IBRD only in a court of competent jurisdiction in the territories of a member country in which IBRD has an office, has appointed an agent for service or notice of process, or has issued or guaranteed securities. The property and assets of IBRD shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against IBRD. In addition, the Articles of Agreement provide that the archives of IBRD shall be inviolable.

The **BONDS** will be issued in dematerialized form; the **BONDS** will be represented by a single global bond (the "Global Bond"), without interest coupons, which will be deposited with and administered by the *Depósito Centralizado de Valores de Colombia DECEVAL, S.A.* as **DEPOSITARY** (or such other entity selected by the **ISSUER** to act as the **DEPOSITARY** duly authorized by the SDV) from the date agreed to in the Depositary Agreement as further described in Section 1 (Form, Denomination and Title) of the Terms and Conditions of the Bonds set out in this Prospectus.

Pursuant to the Articles of Agreement, and Law 76 of 1946,

Este Prospecto no constituye una oferta ni una invitación por o a nombre de BM, el Estructurador o el Agente Líder o los **AGENTES COLOCADORES** a suscribir o comprar, cualquiera de los **BONOS**. No se ha tomado ni se tomará ninguna acción para permitir una **OFERTA PÚBLICA** de los **BONOS** o la distribución de este Prospecto en cualquier jurisdicción distinta de Colombia. La distribución de este Prospecto y la oferta y venta de los **BONOS** en jurisdicciones distintas de Colombia pueden estar restringidas por la ley.

Los términos finales de los **BONOS**, incluyendo sin limitarse a ello, las Series a ser emitidas y el monto total de capital, el número de **BONOS**, la fecha final de maduración, el precio de la **EMISIÓN** y la tasa de interés de cada Serie de los **BONOS** que se emita, se especificarán en el **AVISO DE OFERTA** (el "**AVISO DE OFERTA**") publicado por el **EMISOR** en un periódico de circulación nacional en Colombia en la fecha en la cual se ofrecen los **BONOS** para suscripción y compra.

Los **BONOS** constituyen obligaciones directas, no garantizadas del **EMISOR** y tienen el mismo rango (*pari passu*), sin preferencia alguna entre ellos y las demás obligaciones no garantizadas y no subordinadas del **EMISOR**.

De conformidad con el Convenio Constitutivo de BM, incorporado al derecho colombiano en virtud de la Ley 76 de 1946, todos los funcionarios, directores y empleados de BM tendrán inmunidad frente a acciones judiciales con respecto a los actos realizados por ellos en su carácter oficial. Únicamente podrán entablarse acciones en contra de BM ante un tribunal competente en los territorios de un país miembro en el cual BM tenga una oficina, haya designado un agente para notificaciones judiciales, o haya emitido o garantizado valores. Los bienes y activos de BM, dondequiera que estén localizados y en poder de quien se encuentren, tendrán inmunidad frente a cualquier forma de incautación, embargo o ejecución antes del pronunciamiento de un fallo definitivo en contra de BM. Adicionalmente, el Convenio Constitutivo establece que los archivos de BM serán inviolables.

Los **BONOS** se emitirán en forma desmaterializada; los **BONOS** están representados por un macrotítulo ("Macrotítulo"), sin cupones de intereses, el cual permanecerá depositado ante el Depósito Centralizado de Valores de Colombia DECEVAL, S.A. como **DEPOSITARIO** (o ante la otra entidad elegida por el **EMISOR** para actuar como **DEPOSITARIO** y debidamente autorizada por SDV), y será administrado por éste, a partir de la fecha acordada en el Contrato de Depósito y Administración de la Emisión de Bonos, tal como se describe más detalladamente en la Sección 1 (Forma, Denominación y Titularidad) de los Términos y Condiciones de los Bonos que aparecen en este Prospecto.

De conformidad con lo previsto en el Convenio



the **ISSUER** is immune from liability for the collection and payment of any tax or duty.

Accordingly, interest on the **BONDS** will be paid by the **ISSUER**, through its agents or representatives, without deduction in respect of any tax, as further described in Section 7 (Tax Status) of the Terms and Conditions of the Bonds set out in this Prospectus.

Notwithstanding IBRD's immunity in connection with withholding obligations, for the Bondholders, the Bonds and the interest thereon are subject to the general rules pertaining to income tax, as provided, among others, under Decree 700 of 1997.

In this Prospectus, references to "COP\$" are to Colombian Pesos and references to "U.S. dollars", "U.S.\$" or "\$" are to United States dollars and references to the "Articles" are to the Articles of Agreement of IBRD.

Constitutivo, y la Ley 76 de 1946, el **EMISOR** goza de inmunidad respecto del recaudo y pago de todo tipo de impuestos.

En tal virtud, los intereses sobre los **BONOS** serán pagados por el **EMISOR**, a través de sus agentes o mandatarios, sin ningún tipo deducción tributaria tal como se describe en la Sección 7 (Situación Tributaria) de los Términos y Condiciones de los Bonos que aparecen en este Prospecto.

Sin perjuicio de la inmunidad de la que goza el BM en relación con obligaciones de retención en la fuente, los Bonos y los intereses están sujetos a las normas generales sobre impuesto sobre la renta y a lo previsto, entre otros, por el Decreto 700 de 1997.

En este Prospecto, las referencias a "COP\$" son referencias a pesos colombianos y las referencias a "dólares de los E.U.", "U.S.\$" o "\$" son referencias a dólares de los Estados Unidos y las referencias al "Convenio" son referencias al Convenio Constitutivo de BM.



TABLE OF CONTENTS / TABLA DE CONTENIDO

| | |
|---|----|
| INTRODUCTION | 3 |
| INTRODUCCIÓN | 3 |
| GLOSSARY | 8 |
| GLOSARIO | 8 |
| TERMS AND CONDITIONS OF THE BONDS | 12 |
| 1. Form, Denomination and Title | 12 |
| 2. Status | 14 |
| 3. Interest | 14 |
| 4. Payments | 17 |
| 5. Redemption and Purchase | 18 |
| 6. Prescription | 18 |
| 7. Tax Status | 19 |
| 8. Default | 19 |
| 9. Bondholder Legal Representative | 20 |
| 10. Notices | 21 |
| 11. Meetings of Bondholders | 21 |
| 12. Governing Law and Jurisdiction | 22 |
| 13. Listing of Bonds | 23 |
| 14. Terms and Conditions of the Placement and Sale of the Bonds | 23 |
| 15. Period during which Offer is in effect | 26 |
| 16. Placement Period | 26 |
| TÉRMINOS Y CONDICIONES DE LOS BONOS | 12 |
| 1. Forma, Denominación y Titularidad | 12 |
| 2. Status | 14 |
| 3. Intereses | 14 |
| 4. Pagos | 17 |
| 5. Redención y Compra | 18 |
| 6. Prescripción | 18 |
| 7. Situación Tributaria | 19 |
| 8. Incumplimiento | 19 |
| 9. Representante Legal de los Tenedores de Bonos | 20 |
| 10. Notificaciones | 21 |
| 11. Asambleas de los Tenedores de Bonos | 21 |

| | |
|---|----|
| 12. Ley Aplicable y Jurisdicción | 22 |
| 13. Inscripción de los Bonos | 23 |
| 14. Condiciones para la Colocación y Negociación de los Bonos | 23 |
| 15. Vigencia de la Oferta | 26 |
| 16. Período de Colocación | 26 |
| CLEARANCE AND SETTLEMENT | 27 |
| USE OF PROCEEDS | 29 |
| LIQUIDACIÓN Y COMPENSACIÓN | 27 |
| DESTINACIÓN DE LOS RECURSOS | 29 |
| INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | 30 |
| 1. Principal Purpose | 30 |
| 2. Legal Status, Privileges and Immunities | 30 |
| 3. Organization and Administration | 31 |
| 4. Capitalization | 32 |
| 5. Key Financial Policies | 32 |
| 6. Development Activities | 34 |
| BANCO INTERNACIONAL DE RECONSTRUCCIÓN Y FOMENTO | 30 |
| 1. Propósito Principal | 30 |
| 2. Estatus, Privilegios e Inmunidades | 30 |
| 3. Organización y Administración | 31 |
| 4. Capitalización | 32 |
| 5. Políticas Financieras Claves | 32 |
| 6. Actividades de Desarrollo | 34 |
| FINANCIAL STATEMENTS | 37 |
| ESTADOS FINANCIEROS | 37 |
| GENERAL INFORMATION | 86 |
| INFORMACIÓN GENERAL | 86 |
| SPECIFIED ADDRESSES | 87 |
| OFICINAS ESPECIFICADAS | 87 |



GLOSSARY

Words and expressions used in this Prospectus (which appear in bold capital letters) shall have the meanings set out below.

AUCTION DATE: The day in which the Auction for the Series offered in the **OFFERING NOTICE** takes place, which is the same day as the publication of the **OFFERING NOTICE** and the same day as the **SUBSCRIPTION DATE** of the **BONDS**.

BOLSA DE VALORES DE COLOMBIA S.A. (BVC) – Colombian Stock Exchange: Private commercial establishment, constituted as a corporation, regulated by the *Superintendencia de Valores* which is an entity under the control of the *Ministerio de Hacienda y Crédito Público* of Colombia.

BONDHOLDER LEGAL REPRESENTATIVE: Helm Trust S.A., or any successor thereto appointed in accordance with the terms of the Bondholder Legal Representation Agreement.

BUSINESS DAY: Any day in which commercial banks and the foreign exchange market are open for business in Colombia.

CALCULATION AGENT: The **DEPOSITARY**; provided that if the Depositary Agreement is terminated and a new depositary is not appointed by the **ISSUER**, thereafter the **CALCULATION AGENT** shall be the **PAYING AGENT** or such other entity as the **ISSUER** may appoint for the purpose of making certain calculations in respect of the **BONDS**.

CPI: The net change in the Consumer Price Index in Colombia certified by the *Departamento Administrativo Nacional de Estadística* (DANE), for the twelve months prior to the beginning of each **INTEREST PERIOD**, expressed as an annual effective rate. The **CPI** used for the calculation of the interest shall be the one published during the month of the beginning of such **INTEREST PERIOD**; if the **INTEREST PERIOD** begins on a day prior to the publication of such index, the **CPI** should be the one published during the previous month.

CPI-LINKED BONDS: Bonds of Series A13.

DAY COUNT FRACTION (DCF): A fraction, the numerator of which is the actual number of days in the relevant **INTEREST PERIOD** and the denominator of which is 365 (or 366 in leap years).

DEPOSITARY: The *Depósito Centralizado de Valores de Colombia* DECEVAL S.A., or any successor depositary appointed in accordance with the terms of the Depositary

GLOSARIO

Los términos incluidos en este Prospecto (resaltados en negrilla y mayúsculas) deberán ser interpretados según la definición incluida a continuación.

FECHA DE COLOCACIÓN: Es el día en el que se realiza la Subasta de las Series ofrecidas en el **AVISO DE OFERTA** y corresponderá al día de la publicación del **AVISO DE OFERTA**. Corresponderá a la **FECHA DE SUSCRIPCIÓN** de los **BONOS**.

BOLSA DE VALORES DE COLOMBIA S.A. (BVC): Establecimiento mercantil de carácter privado, constituido como sociedad anónima, vigilada por la Superintendencia de Valores, entidad adscrita al Ministerio de Hacienda y Crédito Público.

REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS: Helm Trust S.A., o cualquier entidad que lo reemplace de conformidad con los términos establecidos en el contrato de Representación Legal de los Tenedores de Bonos.

DÍA HÁBIL: Un día en el cual los bancos comerciales y los mercados de divisas están abiertos para los negocios en Colombia.

AGENTE DE CÁLCULO: El **DEPOSITARIO**; teniendo en cuenta, sin embargo, que si en el caso de terminación del Contrato de Depósito un nuevo depositario no ha sido nombrado por el **EMISOR**, será el **AGENTE DE PAGOS** u otra entidad nombrada por el **EMISOR** para realizar los cálculos respecto a los **BONOS**.

IPC: La variación neta del Índice de Precios al Consumidor (IPC) en Colombia certificada por el DANE (Departamento Administrativo Nacional de Estadística), para los doce meses anteriores al comienzo de cada **PERIODO DE INTERESES**, expresada como una tasa efectiva anual. El **IPC** utilizado para el cálculo de intereses será aquel publicado durante el mes de la fecha de inicio del **PERIODO DE INTERESES**; si el **PERIODO DE INTERESES** inicia en una fecha anterior a la publicación del **IPC**, deberá tomarse aquel publicado en el mes anterior.

BONOS AL IPC: Bonos de la Serie A13.

FRACCIÓN DE CONTEO DE DÍAS (FCD): Una fracción, cuyo numerador es el número de días transcurrido en un **PERIODO DE INTERESES** y cuyo denominador es 365 (ó 366 en caso de un año bisiesto).

DEPOSITARIO: El Depósito Centralizado de Valores de Colombia DECEVAL S.A., o la entidad que lo reemplace en virtud de lo establecido en el Contrato de Depósito.

Agreement.

DEMATERIALIZATION: The form of the Bonds in which the Bonds are represented by a single global bond (*Macrotítulo*) held by the **DEPOSITARY**.

DTF: The average 90-day deposit rate for banks and financial corporations in Colombia published weekly by the *Banco de la República* as an annual effective rate. The **DTF** used for the calculation of the interest shall be the one published and outstanding during the week of the beginning of such **INTEREST PERIOD**.

DTF-LINKED BONDS: Bonds of Series B3 and B5.

DUTCH AUCTION: The auction method by which a **SINGLE RATE** (*Tasa de Corte*) is established. Bonds are allocated totally or partially to participants in the auction whose bids are equal to or below such rate. At the same **SINGLE RATE** and same amount the allotting will be done on a pro rata basis.

FIXED INTEREST RATE: With respect to each Series of **FIXED RATE BONDS**, the **SINGLE RATE** determined for such Series in the relevant **DUTCH AUCTION**.

FIXED RATE BONDS: Bonds of Series C3 and C5.

INTEREST AMOUNT: The amount of interest payable with respect to the **NOTIONAL AMOUNT** for a relevant **INTEREST PERIOD**.

INTEREST DETERMINATION DATE: Each date on which the rate of interest and the **INTEREST AMOUNTS** in respect of an **INTEREST PERIOD** are calculated by the **CALCULATION AGENT**, which shall be at least 5 **BUSINESS DAYS** prior to the relevant **INTEREST PAYMENT DATE**.

INTEREST PAYMENT DATE: If the **INTEREST PERIOD** for a Series is specified as Annual, the first anniversary date of the **ISSUE DATE** of such Series and each succeeding anniversary date of the **ISSUE DATE**, up to and including the **MATURITY DATE** of such Series. If the **INTEREST PERIOD** for a Series is specified as Semi-Annual, the date that falls six months after the **ISSUE DATE** of such Series and each succeeding date that falls six months after the preceding **INTEREST PAYMENT DATE**, up to and including the **MATURITY DATE** of such Series. If the **INTEREST PERIOD** for a Series is specified as Quarterly, the date that falls three months after the **ISSUE DATE** of such Series and each succeeding date that falls three months after the preceding **INTEREST PAYMENT DATE**, up to and including the **MATURITY DATE** of such Series.

INTEREST PERIOD: With respect to each Series the period beginning on the day following the **ISSUE DATE** and ending on the first **INTEREST PAYMENT DATE** and

DESMATERIALIZACIÓN: Los Bonos representados en un Título Global o Macrotítulo custodiado por el **DEPOSITARIO**.

DTF: La tasa promedio de captación a 90 días de los bancos, corporaciones financieras y compañías de financiamiento comercial en Colombia divulgada semanalmente por el Banco de la República como una tasa efectiva anual. Los intereses serán calculados tomando como referencia la **DTF** efectiva anual vigente para la semana en que se inicie el respectivo **PERÍODO DE INTERESES**.

BONOS A LA DTF: Bonos de las Series B3 y B5.

SUBASTA HOLANDESA: Subasta que establece una única **TASA DE CORTE**, a la cual se adjudican total o parcialmente todas las demandas con tasa menor o igual a ésta. A igual **TASA DE CORTE** e igual monto se prorratea.

TASA FIJA DE INTERÉS: Con respecto a cada Serie, la **TASA DE CORTE** determinada para dicha Serie en la **SUBASTA HOLANDESA**.

BONOS TASA FIJA: Los Bonos de las Series C3 y C5.

MONTO DE INTERÉS: El monto a pagar de intereses respecto al **VALOR NOMINAL** en cada **PERÍODO DE INTERESES** relevante.

FECHA DE DETERMINACIÓN DE INTERESES: Cada fecha en la cual la tasa de interés y el **MONTO DE INTERÉS** son calculados para cada **PERÍODO DE INTERESES** por el **AGENTE DE CÁLCULO**, que será al menos 5 **DÍAS HÁBILES** antes de la **FECHA DE PAGO DE INTERESES**.

FECHA DE PAGO DE INTERESES: Si el **PERÍODO DE INTERESES** de una Serie es anual, será el primer aniversario de la **FECHA DE EMISIÓN** de dicha Serie y cada aniversario de la **FECHA DE EMISIÓN** sucesivamente hasta la **FECHA DE VENCIMIENTO** inclusive. Si el **PERÍODO DE INTERESES** de una Serie es semestral, será la fecha seis meses después de la **FECHA DE EMISIÓN** de dicha Serie y cada semestre a partir de la última **FECHA DE PAGO DE INTERESES** sucesivamente hasta la **FECHA DE VENCIMIENTO** inclusive. Si el **PERÍODO DE INTERESES** de una Serie es trimestral, será la fecha tres meses después de la **FECHA DE EMISIÓN** de dicha Serie y cada trimestre a partir de la última **FECHA DE PAGO DE INTERESES** sucesivamente hasta la **FECHA DE VENCIMIENTO** inclusive.

PERÍODO DE INTERESES: Para cada Serie, el período que comienza al día siguiente de la **FECHA DE EMISIÓN** y termina en la primera **FECHA DE PAGO DE**



each succeeding period beginning on the day following an **INTEREST PAYMENT DATE** and ending on the following **INTEREST PAYMENT DATE**.

ISSUE DATE: Is the same day as the publication of the first **OFFERING NOTICE**.

MATURITY DATE: With respect to each Series, the date in which the **BONDS** mature as specified in the **OFFERING NOTICE**.

NOTIONAL AMOUNT: The COP 1,000,000 face value of the Bond, representing the amount of principal payable at the maturity of such Bond.

OFFERING NOTICE: With respect to the issue, the notice published in a national newspaper and/or on the *Bolsa de Valores de Colombia's* web page and/or through the *Mercado Electrónico Colombiano – MEC*, once all the prerequisites for the issue established by Resolution 400 of 1995 have been met. In this notice, the Bonds are offered to the general public and it includes the characteristics of such securities.

PAYING AGENT: ABN AMRO Bank Colombia, or successor thereto appointed in accordance with the terms of the Paying Agency Agreement.

PUBLIC OFFER: An offer to undetermined persons as defined under Colombian law.

REFERENCE RATE: The **BONDS** can be referred to **DTF** and/or **CPI** rates, with respect to **CPI-LINKED BONDS** and **DTF-LINKED BONDS**.

SECONDARY MARKET: All purchase and sale transactions with respect to the **BONDS** after the **PUBLIC OFFER** is completed.

SELLING AGENT: Each firm designated as **SELLING AGENT** with respect to the underwriting of the **BONDS** described in this Prospectus.

SETTLEMENT DAY: It is the day of the issue, the subscription, and the bond payment. It will be the same day as the **AUCTION DATE**.

SINGLE RATE (TASA DE CORTE): With respect to each Series of **CPI-LINKED BONDS** and **DTF-LINKED BONDS**, the **SPREAD** for such Series, and with respect to each Series of **FIXED RATE BONDS** the **FIXED INTEREST RATE** for such Series, in either case as determined by the **DUTCH AUCTION**.

SPREAD: With respect to each Series of **CPI-LINKED BONDS** and **DTF-LINKED BONDS**, the additional percentage rate per annum to be applied to the **CPI** or the **DTF** according to the procedures established for his matter in Section 3 of the Terms and Conditions of the Bonds,

INTERESES y cada período sucesivo que comience al día siguiente de una **FECHA DE PAGO DE INTERESES** y termine en la **FECHA DE PAGO DE INTERESES** inmediatamente siguiente.

FECHA DE EMISIÓN: Corresponde al día de la publicación del primer **AVISO DE OFERTA**.

FECHA DE VENCIMIENTO: Para cada Serie, corresponde a la fecha en la cual se cumple el plazo de los **BONOS** de acuerdo con lo establecido en el **AVISO DE OFERTA**.

VALOR NOMINAL: Es COP 1,000,000 que corresponde al valor facial del Bono, representativo del capital a pagar, al vencimiento del mismo.

AVISO DE OFERTA: Para la emisión, el aviso publicado en un diario de circulación nacional y/o en la página de Internet de la Bolsa de Valores de Colombia S.A y/o a través del Mercado Electrónico Colombiano -MEC, una vez cumplidos los requisitos previstos en la Resolución 400 de 1995. En este aviso se ofrecen los Bonos al público en general y se incluyen las características de los títulos.

AGENTE DE PAGOS: ABN AMRO Bank Colombia, o la entidad que lo reemplace en virtud de lo establecido en el Contrato de Agencia de Pagos.

OFERTA PÚBLICA: Es la oferta dirigida a personas no determinadas definida por la legislación colombiana.

TASA DE REFERENCIA: Los **BONOS** podrán estar referenciados a la **DTF** y/o al **IPC**, según sean **BONOS AL IPC** o **BONOS A LA DTF**.

MERCADO SECUNDARIO: Se refiere a la compra y venta de los **BONOS** ya emitidos y en circulación, una vez cumplida la **OFERTA PÚBLICA**.

AGENTES COLOCADORES: Las firmas que llevarán a cabo la colocación de los Bonos objeto del presente Prospecto.

DÍA DE CUMPLIMIENTO: Corresponde al día de la emisión, la suscripción, la anotación en cuenta por suscripción original y el pago de los **BONOS**. Es el día de la **FECHA DE COLOCACIÓN**.

TASA DE CORTE: Para cada Serie de **BONOS AL IPC**, y **BONOS A LA DTF**, el **MARGEN** adjudicado a cada Serie y para los **BONOS TASA FIJA**, la **TASA FIJA DE INTERÉS** adjudicada, en todos los casos, es determinada mediante **SUBASTA HOLANDESA**.

MARGEN (SPREAD): Para cada Serie de **BONOS AL IPC** y **BONOS A LA DTF**, la tasa porcentual anual que será adicionada al **IPC** y/o a la **DTF** de acuerdo con el procedimiento establecido en el numeral 3 de los Términos y Condiciones de los Bonos, para determinar la tasa de



to determine the rate of interest payable with respect to an **INTEREST PERIOD**. interés para el **PERIODO DE INTERESES** respectivo.

SUBSCRIPTION DATE: It is the day on which payment for the Bonds is made. It will be the same day as the **AUCTION DATE**.

FECHA DE SUSCRIPCIÓN: Es la fecha en la cual se paga originalmente cada bono. Corresponderá a la **FECHA DE COLOCACIÓN**.



TERMS AND CONDITIONS OF THE BONDS

*The following is the text of the terms and conditions that will apply to the **BONDS**.*

The **ISSUE** of COP\$ 600,000,000,000 **BONDS** of 2004, (the "**BONDS**") is authorized pursuant to a resolution of the Issuer's Board of Directors adopted on July 30, 1996 (as last amended on October 3, 2003). The **BONDS** are issued in accordance with, and subject to, the provisions of a Paying Agency Agreement (*Contrato de Agencia de Pagos*) made or to be made between the IBRD and ABN AMRO BANK Colombia as **PAYING AGENT** (the "**PAYING AGENT**", which expression shall, wherever the context so admits, include any substitute and/or additional **PAYING AGENT**), a Depositary Agreement (*Contrato de Depósito y Administración de la Emisión de Bonos*) made or to be made between IBRD and *Depósito Centralizado de Valores de Colombia* DECEVAL, S.A. (the "**DEPOSITARY**", which expression includes any entity that replaces DECEVAL as **DEPOSITARY** and administrator of the **BONDS** in accordance with the Depositary Agreement), and a Bondholder Legal Representation Agreement (*Contrato de Representación Legal de los Tenedores de Bonos*) made or to be made between IBRD and HELM TRUST S.A. (the "**BONDHOLDER LEGAL REPRESENTATIVE**", which expression includes any entity that replaces HELM TRUST S.A. as legal representative of the holders of the Bonds in accordance with the Bondholder Legal Representation Agreement). The offices of the **PAYING AGENT**, the **DEPOSITARY** and the **BONDHOLDER LEGAL REPRESENTATIVE** for the purposes of any communications (the "Specified Addresses") shall be the offices set out in the last page of this Prospectus or such other office as may be notified to the Bondholders in accordance with Section 10 (Notices) of these Terms and Conditions. The holders for the time being of the Bonds (the "Bondholders") are bound by, and are deemed to have notice of, all the provisions of the Paying Agency Agreement, the Depositary Agreement and the Bondholder Legal Representation Agreement (the "Agreements"). Such agreements are available for inspection at the National Securities and Intermediaries Register (*Registro Nacional de Valores e Intermediarios*), at the Specified Address of the **BONDHOLDER LEGAL REPRESENTATIVE**, at the Specified Address of the **PAYING AGENT** and/or at the office of any substitute and/or additional paying agents.

1. Form, Denomination and Title

The **BONDS** may be issued in up to five Series, as described below:

TÉRMINOS Y CONDICIONES DE LOS BONOS

*El siguiente es el texto de los términos y condiciones que se aplicarán a los **BONOS***

La **EMISIÓN** de los **BONOS** por COP\$ 600.000'000.000 de 2004, (los "**BONOS**") ha sido autorizada en virtud de una resolución de la Junta de Directores del **EMISOR** adoptada el 30 de julio de 1996 (tal como fue modificada el 3 de octubre de 2003). Los **BONOS** se emiten de conformidad con y sujetos a las disposiciones de un Contrato de Agencia de Pagos celebrado o por celebrarse entre BM y ABN AMRO BANK Colombia como **AGENTE DE PAGOS** (el "**AGENTE DE PAGOS**", expresión que, cuando el contexto así lo admita, incluirá a cualquier **AGENTE DE PAGOS** sustituto y/o adicional), un Contrato de Depósito y Administración de la Emisión de Bonos celebrado o por celebrarse entre BM y el Depósito Centralizado de Valores de Colombia DECEVAL, S.A. (el "**DEPOSITARIO**", expresión que incluye a cualquier entidad que reemplace a DECEVAL como **DEPOSITARIO** y administrador de los **BONOS** de conformidad con el Contrato de Depósito), y un Contrato de Representación Legal de los Tenedores de Bonos celebrado o por celebrarse entre BM y HELM TRUST S.A. (el "**REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS**", expresión que incluye a cualquier entidad que reemplace a HELM TRUST S.A. como representante legal de los Tenedores de los Bonos de conformidad con el Contrato de Representación Legal de Tenedores de Bonos). La dirección del **AGENTE DE PAGOS**, del **DEPOSITARIO** y del **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS**, para efectos de cualquier comunicación (las "Oficinas Especificadas"), serán las oficinas a las que se hace referencia en la última página de este Prospecto o cualquier otra oficina que sea notificada a los Tenedores de Bonos de conformidad con la Sección 10 (Notificaciones) de estos Términos y Condiciones. Los Tenedores de los Bonos (los "Tenedores de Bonos") están obligados por todas las disposiciones del Contrato de Agencia de Pagos, del Contrato de Depósito y Administración de la Emisión de Bonos y del Contrato de Representación Legal de Tenedores de Bonos (los "Contratos") y se considera que tienen conocimiento de las mismas. En el Registro Nacional de Valores e Intermediarios, en la oficina especificada del **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS** y en la oficina especificada del **AGENTE DE PAGOS** y/o de cualesquiera agentes de pagos sustitutos y/o adicionales, hay copias de dichos contratos disponibles para su inspección.

1. Forma, Denominación y Titularidad

Los **BONOS** podrán ser emitidos en cinco Series, como se describe a continuación:

| <i>Series</i> | <i>Tenor</i> | <i>Rate</i> | <i>INTEREST PERIOD</i> |
|---------------|--------------|-------------|------------------------|
| A13 | 13 semesters | IPC | Semiannual |
| B3 | 3 years | DTF | Quarterly |
| B5 | 5 years | DTF | Quarterly |
| C3 | 3 years | Fixed | Annual or Semiannual |
| C5 | 5 years | Fixed | Annual or Semiannual |

(*)INTEREST PAYMENT DATES fall at the end of each INTEREST PERIOD

| <i>Series</i> | <i>Plazo</i> | <i>Tasa</i> | <i>PERIODO DE INTERESES</i> |
|---------------|--------------|-------------|-----------------------------|
| A13 | 13 semestres | IPC | Semestral |
| B3 | 3 años | DTF | Trimestral |
| B5 | 5 años | DTF | Trimestral |
| C3 | 3 años | Fija | Annual o Semestral |
| C5 | 5 años | Fija | Annual o Semestral |

(*) Las FECHAS DE PAGO DE INTERESES serán al final de cada PERIODO DE INTERESES

The **OFFERING NOTICE** will specify which Series of **BONDS** are being offered, the **METHOD OF INTEREST PAYMENT** and the principal amount thereof. The aggregate principal amounts of all Series that are issued shall not exceed the aggregate amount stated herein.

The **BONDS** will be issued in dematerialized form. The **BONDS** and the Series will be represented by a single global bond (“Global Bond”) without interest coupons which, on the **ISSUE DATE**, will be issued to the order of and delivered to the **DEPOSITARY** for deposit and administration by the **DEPOSITARY** in accordance with the terms of the Depositary Agreement and the rules and procedures from time to time established by the **DEPOSITARY**. The Global Bond is non-negotiable, may not be assigned or transferred to any person and may only be exchanged for definitive **BONDS** in accordance with the terms set out below.

The **BONDS** shall be issued to the order of and will be offered to the general public.

The **NOTIONAL AMOUNT** of each **BOND** is COP\$1,000,000. The **OFFERING NOTICE** will specify the number of **BONDS** in each Series to be offered. In accordance with the Depositary Agreement and the rules and procedures for the time being of the **DEPOSITARY**, for as long as the Series of **BONDS** are represented by a Global Bond held by the **DEPOSITARY**, each person who is for the time being shown in the records of the **DEPOSITARY** as the holder of a particular notional amount of such **BONDS** (in which regard any certificate or other document issued by the **DEPOSITARY** as to the **NOTIONAL AMOUNT** of such **BONDS** standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be deemed to be (and shall be treated by the **ISSUER**, the **PAYING AGENT** and the **BONDHOLDER LEGAL REPRESENTATIVE** as) the holder of such notional amount of **BONDS**, all in accordance with and subject to these Terms and Conditions and the terms of the Agreements (and the expressions “Bondholder” and “Holder of Bonds”

El **AVISO DE OFERTA** especificará cuales Series de **BONOS** se ofrecen, la **MODALIDAD DE PAGO DE INTERESES** y el monto de capital correspondiente. El total del monto de la **EMISIÓN** de las Series, no excederá el monto total expresado anteriormente.

Los **BONOS** se emiten en forma desmaterializada. Los **BONOS** y sus Series, están representados por un macrotítulo (el “Macro título”) sin cupones de intereses, que en la **FECHA DE EMISIÓN**, se emitirá a la orden y se entregará al **DEPOSITARIO** para su depósito y administración de conformidad con los términos del Contrato de Depósito y con las normas y procedimientos aplicables al **DEPOSITARIO** en tal momento. El Macro título no es negociable, no puede ser cedido ni transferido a ninguna persona y sólo puede ser intercambiado por **BONOS** definitivos en los términos expresados más adelante.

La Ley de Circulación de los **BONOS** será a la orden y sus destinatarios serán el público en general.

El **VALOR NOMINAL** de cada **BONO** es de COP\$1.000.000. El **AVISO DE OFERTA** especificará el número de **BONOS** de cada Serie que se ofrece. De conformidad con el Contrato de Depósito y las normas y procedimientos vigentes del **DEPOSITARIO**, mientras que cualquier Serie de los **BONOS** esté representada por un Macro título en poder del **DEPOSITARIO**, cada persona que en el momento figure en los registros del **DEPOSITARIO** como tenedor de un determinado monto nominal de **BONOS** (y en este sentido cualquier certificado u otro documento expedido por el **DEPOSITARIO** con respecto al **VALOR NOMINAL** de tales **BONOS** que figure a favor de cualquier persona será concluyente y vinculante para todos los efectos, salvo en caso de error manifiesto) se considerará (y será tratado por el **EMISOR**, el **AGENTE DE PAGOS** y el **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS**) como el tenedor de dicho monto nominal de **BONOS**, todo ello de acuerdo con estos Términos y Condiciones y los términos de los Contratos y con



and related expressions shall be construed accordingly). **BONDS** which are represented by a Global Bond are transferable only by registration in the books and records of the **DEPOSITARY** in accordance with the rules and procedures of the **DEPOSITARY** prevailing at the time.

In the event that the Depositary Agreement is terminated in accordance with the terms thereof and the **ISSUER** does not appoint a new entity to act as **DEPOSITARY** prior to the following **INTEREST PAYMENT DATE**, definitive **BONDS** will be issued in favor of the Bondholders at the request of the **BONDHOLDER LEGAL REPRESENTATIVE**. In such case, each Global Bond shall be surrendered to the **ISSUER** for cancellation and the **ISSUER** will deliver, or cause the delivery of, an equal aggregate amount of definitive **BONDS** (with a **NOTIONAL AMOUNT** of one million Colombian Pesos (COP\$ 1,000,000) each) issued to the order of the Bondholders. Except in such limited circumstances, no Bondholder will be entitled to receive physical delivery of definitive **BONDS**, and ownership of the **BONDS** will only be determined by, and the transfer of that ownership will only be effected through, the records maintained by the **DEPOSITARY**. Title to the definitive **BONDS** passes by endorsement and delivery thereof by the holder of the **BOND** to the transferee.

2. Status

The **BONDS** constitute direct, unsecured obligations of the **ISSUER** ranking *pari passu* and without any preference among themselves, with all of its other obligations that are unsecured and unsubordinated.

THE BONDS ARE NOT OBLIGATIONS OF ANY GOVERNMENT.

3. Interest

(a) The **BONDS** of each Series shall bear interest during the **INTEREST PERIOD** in accordance with the **OFFERING NOTICE**, as stated hereafter:

1. For **CPI-LINKED BONDS**, on each **INTEREST DETERMINATION DATE**, the **CALCULATION AGENT** shall determine the rate of interest payable for the relevant **INTEREST PERIOD** in accordance with the following formula:

$$\text{Interest Rate} = \{ [(1 + \text{CPI}) * (1 + \text{Spread}\%)]^{\text{(DCF)}} \} - 1$$

sujeción a los mismos (y la expresión “Tenedor de Bonos” y otras expresiones relacionadas se interpretarán de manera acorde). Los **BONOS** representados por un Macro título son transferibles únicamente mediante anotación en los libros y registros del **DEPOSITARIO** de conformidad con las normas y procedimientos del **DEPOSITARIO** vigentes en el momento.

En el evento en que el Contrato de Depósito sea terminado de forma anticipada de acuerdo con los términos allí previstos y el **EMISOR** no designe una nueva entidad para actuar como **DEPOSITARIO** antes de la siguiente **FECHA DE PAGO DE INTERESES**, serán expedidos **BONOS** definitivos a la orden de los Tenedores de Bonos, por solicitud del **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS**. En tal caso, cada Macro título se entregará al **EMISOR** para su cancelación y el **EMISOR** entregará, o dispondrá la entrega, de un monto total igual de **BONOS** definitivos (con un **VALOR NOMINAL** de un millón de pesos colombianos (COP\$ 1'000.000) cada uno) emitidos a la orden de los Tenedores de Bonos. Salvo en estas circunstancias limitadas, ningún Tenedor de Bonos tendrá derecho a recibir la entrega física de **BONOS** definitivos, y la propiedad de los **BONOS** se determinará únicamente por los registros mantenidos por el **DEPOSITARIO**, y el traspaso de dicha propiedad únicamente se efectuará mediante tales registros. La titularidad sobre los **BONOS** definitivos se traspasa mediante endoso y entrega de los mismos por su tenedor al receptor del traspaso.

2. Status

Los **BONOS** constituyen obligaciones directas, no garantizadas del **EMISOR**, y tienen el mismo rango (*pari passu*), sin preferencia alguna entre ellos y las demás obligaciones no garantizadas y no subordinadas del **EMISOR**.

LOS BONOS NO CONSTITUYEN OBLIGACIONES DE GOBIERNO ALGUNO.

3. Intereses

(a) Los **BONOS** de cada Serie devengan intereses a partir del día siguiente a la **FECHA DE EMISIÓN** según la **MODALIDAD DE PAGO DE INTERESES** y lo dispuesto en el **AVISO DE OFERTA**, así:

1. Para los **BONOS AL IPC**, en cada **FECHA DE DETERMINACIÓN DE INTERESES**, el **AGENTE DE CÁLCULO** determinará la tasa de interés aplicable para el respectivo **PERIODO DE INTERESES** de acuerdo con la siguiente fórmula:

$$\text{Tasa de Interés} = \{ [(1 + \text{IPC}) * (1 + \text{Margen}\%)]^{\text{(FCD)}} \} - 1$$

Where:

DCF: **DAY COUNT FRACTION**; and

CPI: The **CPI** for the twelve months prior to each **INTEREST PERIOD**, published in the month in which the first day of the relevant **INTEREST PERIOD** falls (such month, the "**INITIAL MONTH**"); provided that if, as of the **INTEREST DETERMINATION DATE**, no **CPI** has been published during the **INITIAL MONTH**, then the **CPI** shall be the most recent **CPI** published prior to the **INITIAL MONTH**.

The rate of interest determined in accordance with the formula set out above shall be applied to the **NOTIONAL AMOUNT** to determine the amount of interest payable per **BOND**.

In the event the **CPI** used in the interest calculation is amended or is otherwise varied in any way following the relevant **INTEREST DETERMINATION DATE**, there will be no recalculation of interest.

In the event the method of calculating or publishing the **CPI** is changed such that the **CPI** is no longer published monthly as an annual effective rate with respect to the previous twelve months, the **CALCULATION AGENT** shall make in good faith such changes to the formula set out above or to the **CPI** rate as it deems necessary so that each interest rate determined in accordance with the formula set out above replicates as closely as possible the interest rate that would have been determined had such change to the **CPI** not occurred.

In the event the **CPI** is eliminated, with respect to each **INTEREST DETERMINATION DATE** thereafter, for the purpose of calculating the rate of interest payable in respect of the **CPI-LINKED BONDS**, the **CPI** shall be replaced by such index published by the Colombian government (a "**SUBSTITUTE INDEX**") that the **CALCULATION AGENT** believes in good faith has replaced or is otherwise substantially similar to the **CPI**, and shall make in good faith any changes to the formula set out above or to the **SUBSTITUTE INDEX** rate as it deems necessary so that each interest rate determined in accordance with the formula set out above replicates as closely as possible the interest rate that would have been determined had the **CPI** not been eliminated; and provided further that if no such **SUBSTITUTE INDEX** is available, the **CPI** shall be calculated by an independent third party entity selected by the **ISSUER** using an internationally accepted methodology with respect to the relevant period and expressed as an annual effective rate.

2. For **DTF-LINKED BONDS**: On each **INTEREST DETERMINATION DATE**, the **CALCULATION AGENT** shall determine the rate of interest payable for the relevant **INTEREST PERIOD** in accordance with the following formula:

Donde:

FCD: **FRACCIÓN DE CONTEO DE DÍAS**

IPC: El **IPC** para los doce meses anteriores a cada **PERIODO DE INTERESES**, publicado en el mes del primer día del respectivo **PERIODO DE INTERESES** (el "**MES INICIAL**"), teniendo en cuenta que, si a la **FECHA DE DETERMINACIÓN DE INTERESES** no se ha publicado el **IPC** en el **MES INICIAL** entonces, se utilizará el **IPC** más reciente publicado antes del **MES INICIAL**.

La tasa de interés determinada mediante la fórmula anterior será aplicada al **VALOR NOMINAL** con el fin de determinar el monto de interés que se pagará por **BONO**.

En caso en que el **IPC** utilizado para la causación de intereses sufra alguna modificación posterior a la **FECHA DE DETERMINACIÓN DE INTERESES**, no se realizarán reliquidaciones de intereses.

En el caso que la metodología de cálculo o publicación del **IPC** varíe de forma tal que el **IPC** no sea publicado mensualmente como una tasa efectiva anual con respecto a los doce meses anteriores, el **AGENTE DE CÁLCULO** deberá hacer, de buena fe, los ajustes que considere necesarios a la fórmula arriba establecida o al **IPC** de manera que la tasa resultante se asemeje tanto como sea posible la tasa que hubiese sido determinada si no hubiese ocurrido tal cambio en el **IPC**.

En el evento en que el **IPC** sea eliminado, para cada **FECHA DE DETERMINACIÓN DE INTERESES** subsiguiente, para propósitos del cálculo de la tasa de interés aplicable para los **BONOS AL IPC**, el **IPC** será reemplazado por el indicador que el gobierno colombiano establezca (un "**ÍNDICE SUSTITUTO**") que será tomado por el **AGENTE DE CÁLCULO**, de buena fe, como reemplazo o similar del **IPC**, y efectuará, de buena fe, los cambios que estime pertinentes a la fórmula antes establecida o al **ÍNDICE SUSTITUTO** de manera que el índice calculado de acuerdo con la fórmula antes establecida se asemeje tanto como sea posible a la tasa de interés que hubiese sido publicado si el **IPC** no hubiese sido eliminado. En el caso en que dicho **ÍNDICE SUSTITUTO** no sea publicado, una tercera entidad independiente seleccionada por el **EMISOR** calculará dicho índice mediante la aplicación de metodologías aceptadas internacionalmente para cada periodo correspondiente y expresado como una tasa efectiva anual.

2. Para los **BONOS A LA DTF**: En cada **FECHA DE DETERMINACIÓN DE INTERESES**, el **AGENTE DE CÁLCULO** determinará la tasa de interés aplicable al respectivo **PERIODO DE INTERESES** de acuerdo con la siguiente fórmula:



$$\text{Interest Rate} = \{ [(1 + \text{DTF}) * (1 + \text{Spread}\%)]^{\text{DCF}} \} - 1$$

Where:

DCF: **DAY COUNT FRACTION**; and

DTF: The **DTF** published during for the week in which the first day of the relevant **INTEREST PERIOD** falls (such week, the “**INITIAL WEEK**”) provided that if, as of the **INTEREST DETERMINATION DATE**, no **DTF** has been published during the **INITIAL WEEK**, then the **DTF** shall be the most recent **DTF** published prior to the **INITIAL WEEK**.

The rate of interest determined in accordance with the formula set out above shall be applied to the **NOTIONAL AMOUNT** to determine the amount of interest payable per Bond.

In the event the **DTF** used in the interest calculation is amended or is otherwise varied in any way following the relevant **INTEREST DETERMINATION DATE**, there will be no recalculation of interest.

In the event that the method of calculating or publishing the **DTF** is changed such that the **DTF** is no longer published weekly as an annual effective rate a weekly average 90-day deposit rate, the **CALCULATION AGENT** shall make in good faith such changes to the formula set out above or to the **DTF** rate as it deems necessary so that each interest rate determined in accordance with the formula set out above replicates as closely as possible the interest rate that would have been determined had such change to the **DTF** not occurred.

In the event the **DTF** is eliminated, with respect to each **INTEREST DETERMINATION DATE** thereafter, for the purpose of calculating the rate of interest payable in respect of the **DTF-LINKED BONDS**, the **DTF** shall be replaced by such index (a “**SUBSTITUTE INDEX**”) that the **CALCULATION AGENT** believes in good faith has replaced or is otherwise substantially similar to the **DTF**, and shall make in good faith any changes to the formula set out above or to the **SUBSTITUTE INDEX** rate as it deems necessary so that each interest rate determined in accordance with the formula set out above replicates as closely as possible the interest rate that would have been determined had the **DTF** not been eliminated; and provided further that if no such **SUBSTITUTE INDEX** is available, the **DTF** shall be calculated as the arithmetic average of the average deposit rate reported by the five largest banking institutions in Colombia, measured by assets size, as the average 90-day deposit rate offered during the last **BUSINESS DAY** of the week immediately preceding the first week of the relevant **INTEREST PERIOD**.

3. For **FIXED RATE BONDS**, On each **INTEREST DETERMINATION DATE**, the **CALCULATION AGENT**

$$\text{Tasa de Interés} = \{ [(1 + \text{DTF}) * (1 + \text{Margen}\%)]^{\text{FCD}} \} - 1$$

Donde:

FCD: **FRACCIÓN DE CONTEO DE DÍA** y

DTF: La **DTF** publicada durante la semana del primer día del respectivo **PERIODO DE INTERESES** (la “**SEMANA INICIAL**”), teniendo en cuenta que, si a la **FECHA DE DETERMINACIÓN DE INTERESES** no se ha publicado la **DTF** de la **SEMANA INICIAL**, será utilizada la **DTF** más reciente publicada antes de la **SEMANA INICIAL**,

La tasa de interés determinada mediante la aplicación de la fórmula anterior, será aplicada al **VALOR NOMINAL** con el fin de determinar el monto de interés que se pagará por **BONO**.

En el caso en que la **DTF** utilizada para la causación de intereses sufra alguna modificación posterior a la **FECHA DE DETERMINACIÓN DE INTERESES**, no se realizarán reliquidaciones de intereses.

En el caso que la metodología de cálculo o publicación de la **DTF** varíe de forma tal que la **DTF** no sea publicada semanalmente como una tasa efectiva anual con respecto a la tasa promedio de captación a 90 días, el **AGENTE DE CÁLCULO** deberá hacer, de buena fe, los ajustes que considere necesarios a la fórmula arriba establecida o a la **DTF** de manera que la tasa resultante se asemeje tanto como sea posible la tasa que hubiese sido determinada si no hubiese ocurrido tal cambio en la **DTF**.

En el evento en que la **DTF** sea eliminada, para cada **FECHA DE DETERMINACIÓN DE INTERESES** subsiguiente, para propósitos del cálculo de la tasa de interés aplicable para los **BONOS A LA DTF**, la **DTF** será reemplazada por el indicador que el gobierno colombiano establezca (un “**ÍNDICE SUSTITUTO**”) que será tomado por el **AGENTE DE CÁLCULO**, de buena fe, como reemplazo o similar a la **DTF**, y efectuará, de buena fe, los cambios que estime pertinentes a la fórmula antes establecida o al **ÍNDICE SUSTITUTO** de manera que el índice calculado de acuerdo con la fórmula antes establecida se asemeje tanto como sea posible a la tasa de interés que hubiese sido publicado si la **DTF** no hubiese sido eliminada. En el caso en que dicho **ÍNDICE SUSTITUTO** no sea publicado, la **DTF** será publicada como el promedio aritmético de las tasas de captación de los cinco bancos más grandes de Colombia, medidos por el tamaño de activos, como la tasa promedio de captación a 90 días ofrecida en el **DÍA HÁBIL** de la semana anterior a la primera semana del respectivo **PERIODO DE INTERESES**.

3. Para los **BONOS TASA FIJA**, en cada **FECHA DE DETERMINACIÓN DE INTERESES**, el **AGENTE**

shall calculate the interest for the relevant **INTEREST PERIOD** beginning on the day following an **INTEREST PAYMENT DATE** and ending on the following **INTEREST PAYMENT DATE**. The **FIXED INTEREST RATE** shall be applied to the **NOTIONAL AMOUNT** to determine the amount of interest payable per **BOND**.

- (b) If any **INTEREST PAYMENT DATE** would otherwise fall on a day which is not a **BUSINESS DAY**, it shall be postponed to the first following **BUSINESS DAY** and no interest or other amount shall be payable in respect of any such postponement.
- (c) The **BONDS** will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused by the **ISSUER**, in which case the **BONDS** will continue to accrue interest in accordance with the terms of this Section 3 until final payment of all principal outstanding.
- (d) All calculations of rates of interest amounts by the **CALCULATION AGENT** shall be final and binding in the absence of manifest error.

4. Payments

(a) As long as the **BONDS** are represented by a Global Bond held by the **DEPOSITARY**, all payments of principal and interest in respect of the **BONDS** will be made by the **PAYING AGENT** to the **DEPOSITARY**, which will distribute such amounts, acting as an agent, among the Bondholders in accordance with the prevailing rules and procedures of the **DEPOSITARY** and such distribution will be the responsibility of the **DEPOSITARY**. The direct depositors without securities administration services with the **DEPOSITARY** shall obtain a billing certificate for the payment of the principal and interest issued by the **DEPOSITARY** in accordance with the terms of the *Reglamento de Operaciones* of the **DEPOSITARY**, which must be presented in the offices of the **PAYING AGENT** in order to make such charges. Payments will be made to the Bondholders without any deduction in respect of withholding tax, as further described below in Section 7 (Tax Status) of these Terms and Conditions.

(b) All payments will be subject in all cases to any applicable fiscal or other laws or regulations or directives. No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) The **ISSUER** has reserved the right at any time to vary or terminate the appointment of the **PAYING AGENT** and to appoint a substitute and/or additional or other paying agents,

DE CÁLCULO deberá calcular los intereses para el respectivo **PERIODO DE INTERESES**, a partir de cada período sucesivo que comience al día siguiente de una **FECHA DE PAGO DE INTERESES** y termine en la **FECHA DE PAGO DE INTERESES** inmediatamente siguiente. La **TASA FIJA DE INTERÉS** será aplicada al **VALOR NOMINAL** para determinar el monto de intereses que pagará el **BONO**.

- (b) Si cualquier **FECHA DE PAGO DE INTERESES** fuese a caer en un día que no sea un **DÍA HÁBIL**, la misma se aplazará hasta el primer **DÍA HÁBIL** siguiente y no se causarán intereses adicionales por dicho aplazamiento.
- (c) Los **BONOS** dejarán de devengar intereses a partir de su fecha de redención a no ser que, una vez hayan sido debidamente presentados, el pago del capital sea indebidamente retenido o rehusado por el **EMISOR**, caso en el cual los **BONOS** continuarán devengando intereses de conformidad con los términos de esta Sección 3 hasta que se efectúe el pago final de la totalidad del capital adeudado.
- (d) Todos los cálculos de tasas de interés del **AGENTE DE CÁLCULO** deberán ser finales y obligantes ante la ausencia de error manifiesto.

4. Pagos

(a) Mientras que los **BONOS** estén representados por un Macro título en poder del **DEPOSITARIO**, todos los pagos de capital e intereses respecto de los **BONOS** serán efectuados por el **AGENTE DE PAGOS** al **DEPOSITARIO**, quien en calidad de mandatario, distribuirá tales montos entre los Tenedores de Bonos de conformidad con las normas y procedimientos vigentes del **DEPOSITARIO** y dicha distribución será responsabilidad del **DEPOSITARIO**. Los depositantes directos sin servicio de administración de valores con el **DEPOSITARIO** deberán obtener una certificación para el cobro de intereses y capital expedida por el **DEPOSITARIO** de acuerdo con los términos del Reglamento de Operaciones del **DEPOSITARIO**, la cual deberá ser presentada en las oficinas del **AGENTE DE PAGOS** para efectos de realizar el cobro. Los pagos se harán a los Tenedores de Bonos sin deducción alguna por concepto de retención en la fuente, tal como se describe a continuación en la Sección 7 (Situación Tributaria) de estos Términos y Condiciones.

(b) Todos los pagos estarán sujetos en todos los casos a cualesquiera leyes, reglamentos o directrices fiscales u otras aplicables. No se cobrará a los Tenedores de Bonos comisión alguna o gastos respecto de tales pagos.

(c) El **EMISOR** se ha reservado el derecho de variar o dar por terminado en cualquier momento el nombramiento del **AGENTE DE PAGOS** y de nombrar un agente sustituto



provided that it will, so long as any of the **BONDS** remain outstanding, at all times maintain a **PAYING AGENT** having a specified office in Colombia. Notice of changes in paying agents or their Specified Addresses will be given to the Bondholders in accordance with Section 10 (Notices) of these Terms and Conditions.

(d) In the event that the Global Bond has been surrendered and cancelled and definitive **BONDS** have been issued, all payments of principal and interest will be made against presentation of the relevant definitive **BONDS** at the Specified Address of the **PAYING AGENT** by transfer to a Colombian Peso account maintained by the payee, with a bank in Colombia. **BONDS** shall be surrendered to the **PAYING AGENT** for payment of the principal amount thereof.

5. Redemption and Purchase

(a) *Final Redemption:* Unless previously purchased and cancelled, the **BONDS** of each Series will be redeemed at their principal amount on the date specified in the table below, for such Series; provided that if any such date would otherwise fall on a day which is not a **BUSINESS DAY**, it shall be postponed to the first following day that is a **BUSINESS DAY**:

| Series | MATURITY DATE |
|--------|-----------------------------------|
| A6 | 13 semesters after the issue date |
| B3 | 3rd anniversary of the issue date |
| B5 | 5th anniversary of the issue date |
| C3 | 3rd anniversary of the issue date |
| C5 | 5th anniversary of the issue date |

(b) *Purchase and Cancellation:* The **ISSUER** may at any time after the first anniversary of the **SUBSCRIPTION DATE**, purchase or otherwise acquire **BONDS** at any price. Such acquisition must be carried out in the **SECONDARY MARKET** through the *Bolsa de Valores de Colombia*, as a voluntary matter for each investor. Any **BONDS** so purchased will be surrendered for cancellation and may not be reissued or resold and the obligations of the **ISSUER** in respect of any such **BONDS** shall be discharged.

6. Prescription

Claims against the **ISSUER** for payment in respect of the **BONDS** shall prescribe and become void unless made within four years (in the case of principal and interest) from the appropriate Relevant Date in respect thereof. As used in

y/o agentes de pago adicionales o distintos, siempre y cuando, mientras cualquiera de los **BONOS** permanezca pendiente de pago, el **EMISOR** tenga en todo momento un **AGENTE DE PAGOS** con una oficina especificada en Colombia. La notificación a los Tenedores de Bonos de los cambios del agente de pago o de sus Oficinas Especificadas se hará de conformidad con la Sección 10 (Notificaciones) de estos Términos y Condiciones.

(d) En el evento en que el Macrotítulo haya sido entregado y cancelado y se hayan emitido **BONOS** definitivos, todos los pagos de capital e intereses se harán contra presentación de los respectivos **BONOS** definitivos en la oficina especificada del **AGENTE DE PAGOS** mediante transferencia a una cuenta en pesos colombianos mantenida por el beneficiario en un banco en Colombia. Los **BONOS** serán entregados al **AGENTE DE PAGOS** para el pago del monto de capital de los mismos.

5. Redención y Compra

(a) *Redención Final:* A no ser que hayan sido comprados y anulados previamente, los **BONOS** de cada Serie serán redimidos en su integridad en las fechas indicadas en la siguiente tabla, bajo el entendido de que si cualquiera de estas fechas llegare a caer en un día que no sea un **DÍA HÁBIL**, será aplazada hasta el primer **DÍA HÁBIL** siguiente:

| Series | FECHA DE VENCIMIENTO |
|--------|--|
| A13 | Transcurridos 13 semestres a partir de la fecha de emisión |
| B3 | 3er aniversario de la fecha de emisión |
| B5 | 5° aniversario de la fecha de emisión |
| C3 | 3er aniversario de la fecha de emisión |
| C5 | 5° aniversario de la fecha de emisión |

(b) *Compra y Anulación:* El **EMISOR** podrá en cualquier momento, a partir del primer aniversario de la **FECHA DE SUSCRIPCIÓN**, comprar o readquirir **BONOS** a cualquier precio. La readquisición de los **BONOS** deberá efectuarse en el **MERCADO SECUNDARIO** a través de la Bolsa de Valores de Colombia, y será voluntario para los inversionistas. Los **BONOS** así comprados, serán entregados para su anulación y no podrán ser reemitidos ni revendidos y, las obligaciones del **EMISOR** en relación con tales **BONOS** cesarán.

6. Prescripción

Las reclamaciones en contra del **EMISOR** por pagos respecto de los **BONOS** prescribirán y serán nulas a menos que se presenten dentro de los cuatro años (en el

these Terms and Conditions, “Relevant Date” in respect of any **BOND** means the date on which payment in respect of it first becomes due.

7. Tax Status

The **BONDS** and any interest thereon are not exempt from taxation generally.

Pursuant to the Articles of Agreement, and Law 76 of 1946, the **ISSUER** is not required to withhold or pay any tax imposed by any member country in respect of the **BONDS**. Accordingly, and pursuant to the provisions of Decree 3050 of 1997, the agents and/or representatives of the **ISSUER** are not required to withhold any taxes on the amounts paid to the Bondholders.

Therefore, payments in respect of principal and interest on the **BONDS** will be paid to the Bondholders without deduction in respect of any tax.

In the events in which the Bondholders and, therefore, the beneficiaries of the interest are self-financial withholding agents, the income tax must be made by such beneficiaries as established in the terms of Decree 700 of 1997.

8. Default

If the **ISSUER** shall default in the payment of the principal of, or interest on, or in the performance of any covenant in respect of a purchase fund or sinking fund in any bonds (including the **BONDS**), notes or similar obligations which shall have been issued, assumed or guaranteed by the **ISSUER** and such default shall continue for a period of 90 days, then at any time thereafter and during the continuance of such default, the **BONDHOLDER LEGAL REPRESENTATIVE**, acting upon instructions of Bondholders representing at least twenty-five percent (25%) of the principal amount of the **BONDS** outstanding, shall declare the **BONDS** to be due and payable and cause to be delivered to the **ISSUER** at its principal office in the city of Washington, District of Columbia, United States of America, a written notice of such Bondholders’ resolution. On the thirtieth day after such notice has been delivered to the **ISSUER**, the **BONDS** shall become due and payable together with accrued interest thereon, unless prior to that time all such defaults shall have been cured.

caso del capital y los intereses) siguientes a la Fecha Relevante apropiada respecto de los mismos. Tal como se emplea en estos Términos y Condiciones, la “Fecha Relevante” respecto de cualquier **BONO** significa la fecha en la cual se haga exigible inicialmente el pago respecto del mismo.

7. Situación Tributaria

Los **BONOS** y los intereses derivados de los mismos no están, en general, exentos de impuestos.

En virtud del Convenio Constitutivo y de la Ley 76 de 1946, el **EMISOR** no está obligado a realizar retenciones de impuestos o a pagar tributo alguno establecido por un país miembro en relación con los **BONOS**. Así mismo, de conformidad con el Decreto 3050 de 1997, los agentes y/o representantes del **EMISOR** no están obligados a realizar retenciones sobre los pagos efectuados a los Tenedores de Bonos.

Por lo tanto, los pagos de capital e intereses derivados de los **BONOS** serán pagados a los Tenedores de Bonos sin ninguna deducción con relación a cualquier tributo.

En los eventos en los que los Tenedores de Bonos y, por lo tanto, los beneficiarios de los intereses sean agentes autorretenedores, el impuesto sobre la renta debe ser pagado por dichos beneficiarios en virtud de lo establecido en el Decreto 700 de 1997.

8. Incumplimiento

Si el **EMISOR** deja de pagar el capital o los intereses sobre cualquiera de los **BONOS** o incumple cualquier obligación adicional (*covenant*) en relación con un fondo de recompra (*purchase fund*), o un fondo de contingencia (*sinking fund*), respecto de cualquier bono, (incluyendo los **BONOS**), pagará u obligaciones similares que hayan sido asumidas o garantizadas por el **EMISOR** y dicho incumplimiento se prolongue por un período de 90 días, en cualquier momento a partir de entonces y mientras continúe dicho incumplimiento, el **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS**, actuando por instrucciones de un número de Tenedores de Bonos que represente por lo menos el veinticinco por ciento (25%) del monto de capital de los **BONOS** en circulación, declarará los **BONOS** vencidos y exigibles y entregará al **EMISOR** en su sede principal en la ciudad de Washington, Distrito de Columbia, Estados Unidos de América, una notificación escrita de dicha resolución de los Tenedores de Bonos. En el trigésimo día contado a partir de la entrega de dicha notificación al **EMISOR**, los **BONOS** vencerán y se harán exigibles junto con los intereses causados sobre los mismos, a no ser que dichos incumplimientos hayan sido subsanados antes de esa fecha.



9. Bondholder Legal Representative

The **ISSUER** has appointed HELM TRUST S.A. currently located at Carrera 7 No. 27-18 Piso 19 Bogotá D.C. (Colombia), to act as the **BONDHOLDER LEGAL REPRESENTATIVE**. The **BONDHOLDER LEGAL REPRESENTATIVE** has been appointed by the **ISSUER** in accordance with the provisions of Article 1.2.4.9 of Resolution 400 of 1995, as amended and supplemented by Resolution 933 of 2001, of the SDV. The duties and responsibilities of the **BONDHOLDER LEGAL REPRESENTATIVE**, which are set out in the Bondholder Legal Representation Agreement, shall include:

- (a) To convene a meeting of the Bondholders, at the request of the **ISSUER** or if so requested in writing by a group of Bondholders representing not less than twenty-five percent (25%) in principal amount outstanding of the **BONDS**, or upon the occurrence of any of the events described in Section 8 of these Terms and Conditions.
- (b) To preside all meetings of the Bondholders and verify the proper quorum thereof and of any resolution approved by the Bondholders in the course of any such meeting.
- (c) To act on behalf of the Bondholders in any judicial and extra-judicial proceedings initiated against the **ISSUER**.
- (d) To carry out any other act of administration, conservation and disposal which is necessary for the exercise of the rights and the protection of the common interests of the Bondholders under the **BONDS**.
- (e) To represent the Bondholders in matters concerning their common or collective interests as instructed to do so by a resolution approved by such Bondholders.
- (f) To report to the Bondholders and the *Superintendencia de Valores*, as soon as possible and by adequate means, any non-performance by the **ISSUER** of its obligations in respect of the **BONDS**.
- (g) To request the **ISSUER** to submit the periodic information set out in Article 1.2.4.80, Section 2 of Resolution 400 of 1995, as amended and supplemented by Article Four of Resolution 933 of 2001, of the SDV.

In connection with the exercise of its powers and attributions, the **BONDHOLDER LEGAL REPRESENTATIVE** will represent the interests of the Bondholders as a group. Furthermore, the **BONDHOLDER LEGAL REPRESENTATIVE** will also endeavor to consult with the

9. Representante Legal de los Tenedores de Bonos

El **EMISOR** ha designado a HELM TRUST S.A., quien actualmente está ubicado en la Carrera 7 No. 27-18 Piso 19 Bogotá D.C. (Colombia) para que actúe como **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS**. El **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS** ha sido designado por el **EMISOR** de conformidad con lo dispuesto en el artículo 1.2.4.9 de la Resolución 400 de 1995, tal como ha sido enmendada y complementada por la Resolución 933 de 2001, de la SDV. Las atribuciones y funciones del **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS**, que se establecen en el Contrato de Representación Legal de Tenedores de Bonos, incluyen:

- (a) Convocar una reunión de los Tenedores de Bonos, a solicitud del **EMISOR** o si así lo solicita por escrito un grupo de Tenedores de Bonos que represente no menos del veinticinco por ciento (25%) del monto de capital pendiente de pago de los **BONOS** o al ocurrir cualquiera de los eventos descritos en la Sección 8 de estos Términos y Condiciones.
- (b) Presidir todas las asambleas de los Tenedores de Bonos y verificar el quórum apropiado para las mismas y para cualquier resolución aprobada por los Tenedores de Bonos en el transcurso de tal reunión.
- (c) Actuar en nombre de los Tenedores de Bonos en cualquier proceso judicial o extrajudicial instaurado en contra del **EMISOR**.
- (d) Llevar a cabo cualquier otro acto de administración, conservación y disposición, necesario para el ejercicio de los derechos y la protección del interés común de los Tenedores de Bonos derivados los **BONOS**.
- (e) Representar a los Tenedores de Bonos en asuntos relacionados con sus intereses comunes o colectivos, como sea instruido mediante una resolución aprobada por tales Tenedores de Bonos.
- (f) Informar a los Tenedores de Bonos y a la Superintendencia de Valores, a la mayor brevedad posible y por medios adecuados, el incumplimiento por parte del **EMISOR** de sus obligaciones respecto de los **BONOS**.
- (g) Solicitar al **EMISOR** que suministre la información periódica especificada en el Artículo 1.2.4.80, parágrafo 2, de la Resolución 400 de 1995, tal y como fue modificada y complementada por el Artículo Cuatro de la Resolución 933 de 2001, de la SDV.

En relación con el ejercicio de sus facultades y atribuciones, el **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS** tendrá en cuenta los intereses de los Tenedores de Bonos como grupo. Adicionalmente, el **REPRESENTANTE LEGAL DE LOS TENEDORES DE**

Bondholders via a meeting of Bondholders or by any other appropriate means, prior to taking any action that would materially affect the rights and interests of the Bondholders, and will act in accordance with the decisions and instructions made by a representative number of the Bondholders or, where a particular action requires the approval of a specified number of Bondholders, whether pursuant to a meeting of Bondholders or otherwise, in accordance with the decisions and instructions made by such specified number of Bondholders. The **BONDHOLDER LEGAL REPRESENTATIVE** shall be liable for any event in which it is demonstrated that it has acted with negligence (*culpa leve*) or willful misconduct in the performance of its duties pursuant to the Bondholder Legal Representation Agreement.

10. Notices

All notices regarding the **BONDS**, including without limitation the **OFFERING NOTICE**, shall be validly given if published in a leading daily newspaper printed in the Spanish language of general circulation in Colombia. It is expected that such notices will normally be published in *La República*.

Notices to be given by any Bondholder pursuant hereto (including to the **ISSUER**) shall be presented in writing to the **PAYING AGENT** or the **BONDHOLDER LEGAL REPRESENTATIVE** at their respective Specified Addresses provided, however, so long as the Global Bond is held in its entirety by the **DEPOSITARY**, such notice may be given by any Bondholder to the **PAYING AGENT** through the **DEPOSITARY** at its Specified Address in such manner as the **PAYING AGENT** and the **DEPOSITARY** may approve for this purpose.

11. Meetings of Bondholders

The Bondholder Legal Representation Agreement contains provisions for convening meetings of Bondholders of any of the Series to consider matters affecting their interests. The quorum for any meeting will be a plural number of Bondholders that represent no less than fifty-one percent (51%) of the outstanding amount of each Series, or at any adjourned meeting, a plural number of people being or representing Bondholders of each Series whatever the principal amount of the **BONDS** held or represented, and the quorum for the approval of any resolution in any such meetings will be the people holding or representing a majority (*mitad más uno*) of the outstanding amount of each Series represented in such meeting, unless the agenda of such meeting includes consideration of proposals, *inter alia*, to (i) postpone the maturity of the **BONDS** of any Series or the

BONOS hará lo posible por consultar a los Tenedores de Bonos, por medio de una Asamblea de Tenedores de Bonos o de cualquier otro medio apropiado, antes de adoptar cualquier acción que pueda llegar a afectar sustancialmente los derechos e intereses de los Tenedores de Bonos, y actuará de conformidad con las decisiones e instrucciones adoptadas por un número representativo de los Tenedores de Bonos o, en los casos en que una acción particular requiera la aprobación de un número específico de Tenedores de Bonos, ya sea en virtud de una asamblea de Tenedores de Bonos o de otra manera, de conformidad con las decisiones e instrucciones adoptadas por dicho número específico de Tenedores de Bonos. El **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS** será responsable por cualquier evento en el cual se demuestre que ha actuado con negligencia (*culpa leve*) o dolo en el cumplimiento de sus funciones en virtud del Contrato de Representación Legal de Tenedores de Bonos.

10. Notificaciones

Todas las notificaciones relacionadas con los **BONOS**, incluyendo sin limitación el **AVISO DE OFERTA**, se considerarán válidamente realizadas si se publican en un diario de primer orden impreso en español, de circulación general en Colombia. Se espera que tales notificaciones se publiquen normalmente en *La República*.

Las notificaciones que haya de dar cualquier Tenedor de Bonos en virtud de los **BONOS** (incluidas las que se hayan de dar al **EMISOR**) deberán constar por escrito y ser presentadas al **AGENTE DE PAGOS** o al **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS** en sus respectivas Direcciones Especificadas, no obstante, mientras el Macrotítulo esté totalmente en poder del **DEPOSITARIO**, dicha notificación podrá ser dada por cualquier Tenedor de Bonos al **AGENTE DE PAGOS** por intermedio del **DEPOSITARIO** en su Dirección Especificada en la forma que el **AGENTE DE PAGOS** y el **DEPOSITARIO** aprueben para este propósito.

11. Asambleas de los Tenedores de Bonos

El Contrato de Representación Legal de Tenedores de Bonos contiene disposiciones para la convocatoria a asambleas de los Tenedores de Bonos de cualquiera de las Series para considerar asuntos que afecten sus intereses. El quórum para cualquier reunión estará conformado por un número plural de Tenedores de Bonos que representen no menos del cincuenta y uno por ciento (51%) del monto insoluto de cada Serie, o en cualquier reunión de segunda convocatoria, por un número plural de personas que sean o representen a los Tenedores de Bonos de cada Serie, cualquiera que sea el monto de capital de los **BONOS** representados, y el quórum para la aprobación de cualquier resolución en cualquiera de tales reuniones estará conformado por las personas que posean o representen la mitad más uno del monto



dates on which interest is payable in respect of such **BONDS**, (ii) reduce or cancel the principal amount of, or interest on, such **BONDS**, (iii) change the currency of payment of such **BONDS** or (iv) modify the provisions concerning the quorum required at any meeting of Bondholders of such Series or the majority required to pass an extraordinary resolution, in which case the necessary quorum will be two or more people holding or representing, in the case of a first meeting, not less than eighty percent (80%) in principal amount of the **BONDS** of the relevant Series for the time being outstanding, or in the case of the first adjourned meeting, not less than forty percent (40%) in principal amount of the **BONDS** of the relevant Series for the time being outstanding, or in the case of a third adjourned meeting, any principal amount of the **BONDS** of the relevant Series for the time being outstanding. Any extraordinary resolution duly passed shall be binding on all Bondholders of the relevant Series (whether or not they were present at the meeting at which such resolution was passed).

12. Governing Law and Jurisdiction

The **BONDS** are governed by, and shall be construed in accordance with, the laws of Colombia. With regard to any legal action or proceedings arising out of or in connection with the **BONDS**, the **ISSUER** submits to the non-exclusive jurisdiction of the courts of Colombia.

The courts of Colombia are to have jurisdiction to settle any disputes which may arise out of or in connection with the **BONDS** and accordingly any legal action or proceedings arising out of or in connection with the **BONDS** ("Proceedings") may be brought in such courts. The **ISSUER** irrevocably submits to the jurisdiction of such courts and waives any objection to any Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum provided, however, that the **ISSUER** does not and shall not be required to waive any privileges and immunities contained in its Articles of Agreement.

The **ISSUER** irrevocably appoints its representative office in Colombia located at Cra. 7 # 71-21, Building A 16th Floor, Bogotá as its authorized agent for service of process in Colombia. If for any reason such representative office shall cease to be the agent for the service of process, the **ISSUER** shall forthwith appoint a new agent for service of process in Colombia and deliver to the **PAYING AGENT**, to the **DEPOSITARY** and to the **BONDHOLDER LEGAL REPRESENTATIVE** a copy of the new agent's acceptance of

insoluto de cada Serie representados en dicha reunión, a no ser que los asuntos a tratar en dicha reunión incluyan la consideración de propuestas, *inter alia*, para (i) aplazar la **REDENCIÓN** de los **BONOS** de cualquier Serie o las fechas en las cuales se hagan exigibles los intereses respecto de tales **BONOS**, (ii) reducir o anular el monto de capital o los intereses sobre tales **BONOS**, (iii) cambiar la moneda de pago de tales **BONOS** o (iv) modificar las disposiciones relativas al quórum requerido en cualquier Asamblea de Tenedores de Bonos de dicha Serie o la mayoría requerida para adoptar una resolución extraordinaria, en cuyo caso el quórum necesario será de dos o más personas que posean o representen, en el caso de una reunión de primera convocatoria, no menos del ochenta por ciento (80%) del monto de capital de los **BONOS** de la Serie relevante que en ese momento estén en circulación, o en el caso de la reunión de segunda convocatoria, no menos del cuarenta por ciento (40%) del monto de capital de los **BONOS** de la Serie relevante que en ese momento se encuentren en circulación, o en el caso de reuniones de tercera convocatoria, cualquier monto de capital de los **BONOS** de la respectiva Serie que en ese momento estén en circulación. Cualquier resolución extraordinaria debidamente adoptada será vinculante para todos los Tenedores de Bonos de la respectiva Serie (ya sea que hayan estado presentes o no en la reunión en la cual se adoptó dicha resolución).

12. Ley Aplicable y Jurisdicción

Los **BONOS** se rigen por las leyes de Colombia y se interpretarán de acuerdo con las mismas. En relación con cualquier acción o proceso judicial que surja de o en relación con los **BONOS**, el **EMISOR** se somete a la jurisdicción no exclusiva de los tribunales de Colombia.

Los tribunales de Colombia tendrán jurisdicción para resolver cualquier disputa que pueda surgir de los **BONOS** o en relación con éstos y por consiguiente cualquier acción o proceso judicial que surja de los **BONOS** o en relación con éstos (un "Proceso") podrá entablarse ante tales tribunales. El **EMISOR** se somete irrevocablemente a la jurisdicción de tales tribunales y renuncia a cualquier objeción que pueda tener a cualquier Proceso en tales tribunales ya sea por razones de jurisdicción o debido a que el Proceso se haya entablado en un foro inconveniente, entendiéndose, no obstante, que el **EMISOR** no renuncia ni estará obligado a renunciar a cualesquiera privilegios e inmunidades contenidos en su Convenio Constitutivo.

El **EMISOR** designa irrevocablemente a su oficina de representación en Colombia localizada en la Cra. 7 # 71-21, Torre A Piso 16, Bogotá, como su agente autorizado para notificaciones judiciales en Colombia. Si por cualquier razón dicha oficina de representación en el país deja de ser dicho agente para notificaciones judiciales, el **EMISOR** designará de inmediato un nuevo agente para notificaciones judiciales en Colombia y entregará al **AGENTE DE PAGOS**, al **DEPOSITARIO** y al

that appointment within 30 days of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

13. Listing of Bonds

The **BONDS** will be listed in the Colombian Stock Exchange (**BOLSA DE VALORES DE COLOMBIA S.A. - BVC**)

14. Terms and Conditions of the Placement and Sale of the Bonds

The **BONDS**' placement will be through **SELLING AGENTS**. The **SELLING AGENTS** will be in charge of the placement and sale of the **BONDS** issued by the **ISSUER**.

The **BONDS** will be offered in the Colombian capital market through a **PUBLIC OFFER** and allocated by means of a **DUTCH AUCTION**, which will take place through the mechanism described in this Section.

The auction mechanism will take place according to the following conditions:

1. Criteria
 - a) Each **OFFERING NOTICE** may only offer one Series at a time.
 - b) The **OFFERING NOTICE** will specify the entities through which the investors shall present their proposals, the phone numbers, fax numbers or the addresses at which the proposals must be presented.
 - c) The investors may only present their proposals in the timeframe indicated in the relevant **OFFERING NOTICE** on the day of the publication of such notice through the **SELLING AGENTS**.
 - d) In any case, the investors' proposals shall be made through the **SELLING AGENTS** whom will present such proposals on their own behalf to the Lead Manager in the same timeframe as indicated in the relevant **OFFERING NOTICE**. The proposals presented directly by the **SELLING AGENTS** will be the ones taken into account for the execution of the **DUTCH AUCTION**. **The ISSUER will not be responsible if the SELLING AGENTS do not present the received proposals during the established timeframe for such purpose.**

REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS una copia de la aceptación de dicho nombramiento por parte del nuevo agente dentro del término de 30 días a partir de tal nombramiento. Nada de lo aquí dispuesto afectará el derecho a efectuar notificaciones judiciales en cualquier otra forma permitida por la ley.

13. Inscripción de los Bonos

Los **BONOS** estarán inscritos en la **BOLSA DE VALORES DE COLOMBIA S.A. (BVC)**

14. Condiciones para la Colocación y Negociación de los Bonos

La colocación de los **BONOS** se efectuará a través de **AGENTES COLOCADORES**. Los **AGENTES COLOCADORES** se encargarán de las labores de colocación y comercialización de los **BONOS** que emita el **EMISOR**.

Los **BONOS** serán colocados en el mercado de capitales de Colombia mediante **OFERTA PÚBLICA** y serán asignados bajo el mecanismo de **SUBASTA HOLANDESA**, el cual será llevado a cabo a través del mecanismo descrito en esta Sección.

El mecanismo de subasta se hará de acuerdo con las siguientes condiciones:

1. Criterios:
 - a) En cada **AVISO DE OFERTA** sólo se podrá ofrecer una Serie.
 - b) En el **AVISO DE OFERTA** se especificarán los nombres de las entidades ante las cuales los inversionistas deberán presentar las demandas, el número de teléfono, de fax o la dirección en la cual se recibirán las demandas.
 - c) Los inversionistas sólo deberán presentar sus demandas en el horario que se indique en el respectivo **AVISO DE OFERTA** el día de su publicación a través de los **AGENTES COLOCADORES**.
 - d) En todos los casos, las demandas de los inversionistas se realizarán a través de los **AGENTES COLOCADORES** y serán éstas entidades las que presenten las demandas de los inversionistas a nombre propio al Agente Líder en los mismos horarios de recepción de las demandas que se indiquen en el respectivo **AVISO DE OFERTA**. Estas demandas realizadas directamente por los **AGENTES COLOCADORES** son las que se tendrán en cuenta para la realización de la **SUBASTA HOLANDESA**. **EI EMISOR no será responsable si los AGENTES**



COLOCADORES no presentan las demandas recibidas en el horario establecido para el efecto.

- e) The **SELLING AGENTS** must present the investors' proposals individually, in the same terms as those specified by the investors, which will be binding, on the day of the publication of the **OFFERING NOTICE**, on the timeframe established for presenting the proposals for the auction, indicating the subscription amount and the interest rate or **SPREAD** being proposed.
- f) The investors' proposals that do not specify a subscription amount and/or an interest rate being proposed (which cannot exceed the parameters established in the **OFFERING NOTICE**) will be considered unapproved.
- g) In the event in which any of the proposals arrive illegible via fax, the **SELLING AGENTS** will immediately request the investors which proposals were illegible, to resend their proposals and confirm them by phone, in any case following the order in which the first fax was received.
- h) In the event in which any of the proposals are received via telephone, the **SELLING AGENTS** must complete a form in order to register the conditions of the investor's proposal specifying the subscription amount and the interest rate proposed, as well as the investor's name and the name of the person whom acting on behalf of the investor, is presenting the proposal.
- e) Los **AGENTES COLOCADORES**, deberán presentar las demandas de los inversionistas, de manera individual, en los mismos términos que los inversionistas indiquen, las cuales serán vinculantes, el día de la publicación del **AVISO DE OFERTA**, en el horario establecido para presentar las ofertas para la subasta, señalando el monto de suscripción y la tasa de interés o **MARGEN**.
- f) Las demandas de los inversionistas que no especifiquen un monto de suscripción y/o una tasa de interés propuestos (los cuales no podrán exceder de los parámetros señalados en el **AVISO DE OFERTA**) se considerarán no aprobadas.
- g) En el evento en que alguna(s) demanda(s) llegue(n) ilegible(s) vía fax, los **AGENTES COLOCADORES** solicitarán inmediatamente al o los inversionistas que reenvíen su demanda y que la confirmen vía telefónica respetando en cualquier caso el orden de llegada del primer fax.
- h) En el evento en que alguna (s) demanda(s) sea(n) recibida(s) telefónicamente, los **AGENTES COLOCADORES** deberán diligenciar un formato donde quede registrado las condiciones de la demanda del inversionista especificando el monto de suscripción, la tasa de interés propuesta, el nombre de la entidad inversionista y el nombre del funcionario que la solicita.

2. Pre-allotting

- a) When the time to receive the proposals has elapsed, the **ISSUER** will proceed to determine the single rate (**SINGLE RATE**) for the Series being offered in the relevant **OFFERING NOTICE** classifying all the proposals using the Interest Rate (from least to greatest) criteria.
- b) In no event, shall there be two different **SINGLE RATES** for each Series.
- c) The **SINGLE RATE** cannot be greater than the maximum offering rate established in the **OFFERING NOTICE**, for the relevant allotting.
- d) The proposals with rates greater than the **SINGLE RATE** will be eliminated and those which have rates equal to or below such rate will be pre-selected for the **DUTCH AUCTION**.

3. Allotting

2. Preadjudicación

- a) Una vez terminado el horario para recibir las demandas, el **EMISOR** procederá a determinar la tasa única de interés ó rentabilidad para la serie ofrecida (**TASA DE CORTE**) en el correspondiente **AVISO DE OFERTA**, clasificando todas las demandas, usando como criterio la tasa de interés (de menor a mayor).
- b) En ningún caso, para una Serie habrá dos **TASAS DE CORTE** diferentes.
- c) La **TASA DE CORTE** no podrá ser superior a la tasa máxima ofrecida en el **AVISO DE OFERTA** respectivo, para la adjudicación respectiva.
- d) Las demandas con tasas superiores a la **TASA DE CORTE** serán eliminadas y las que tengan tasas iguales o inferiores a ésta serán preseleccionadas para realizar la **SUBASTA HOLANDESA**.

3. Adjudicación

Una vez realizada la preadjudicación, el **EMISOR**

Once the pre-allotting has been completed, the **ISSUER** will proceed to allot taking into consideration that the total amount allotted cannot exceed the amount being offered plus the amount resulting from the over-allotting clause established in Section (b) of this Section 3 (the “**TOTAL OFFERED AMOUNT**”). In any event, the following criteria must be taken into account:

- a) If there are proposals that meet the characteristics established in the **OFFERING NOTICE** and the proposed amount is equal to or less than the offered amount, the **ISSUER** must allot the proposed amount.
- b) **Over-Allotting Clause (Green Shoe)**: If provided in the relevant **OFFERING NOTICE**, in the event the proposals received in the **DUTCH AUCTION** are with respect to a principal amount of **BONDS** in excess of the amount offered in the **OFFERING NOTICE**, the **ISSUER** may, in its sole discretion, allot up to an additional one-hundred percent (100%) of the amount being issued, given that the aggregated amount must not exceed the total amount authorized for this **ISSUE**. The allotting of these proposals will be made taking into account the favorability criteria for the **ISSUER** with respect to rate and maturity, provided that all allotments shall be made in accordance with the criteria set forth in this Section.
- c) In the event in which the total proposed amount with rates below or equal to the **SINGLE RATE** is greater than the offered amount, the allotting shall be made with the interest rate criteria (least to greatest) in respect to the **SINGLE RATE**. The allotting procedure shall be as follows: (i) The **ISSUER** must allot 100% of the offered amount or up to the **TOTAL OFFERED AMOUNT**, taking into account the favorability criteria for the **ISSUER** with respect to rate and maturity; (ii) in the event that two or more proposals present the same rate, the remaining offered amount shall be allotted on a pro-rata basis, in the same proportions as the proposed amounts of each such proposal.
- d) This allotting will take place in the timeframe established in the respective **OFFERING NOTICE** on the same day of its publication, and in any case following the conditions for pre-allotting and allotting established in this Section. Each **SELLING AGENT** must notify its investors if the proposal was accepted (and under which characteristics) or if it was rejected. Such notification will be made by phone to each of the participating investors by the **SELLING AGENT** through which the proposal was presented on the timeframe established in the **OFFERING NOTICE**.
- e) In the event in which there are remaining amounts for the Series being offered, they may be offered through a new **OFFERING NOTICE**, under the same financial conditions applying a premium or discount to the **BOND'S** price. For the auction and the allotting of the

procederá a realizar la adjudicación teniendo en cuenta que la suma total de lo que adjudique no puede exceder el monto de la oferta más el monto que la cláusula de sobreadjudicación contempla en el literal (b) del presente numeral (el “**MONTO TOTAL DE LA OFERTA**”). En cualquier caso se deberán atender los siguientes criterios:

- a) Si existen demandas que estén acorde con las características establecidas en el respectivo **AVISO DE OFERTA** y el monto demandado es inferior o igual al ofrecido, el **EMISOR** deberá adjudicar el monto demandado.
- b) **Cláusula de Sobreadjudicación (Green Shoe)**: Siempre y cuando se advierta en el respectivo **AVISO DE OFERTA**, en el evento en que el monto total demandado en la **SUBASTA HOLANDESA** fuere superior al monto ofrecido en el **AVISO DE OFERTA**, el **EMISOR**, podrá, por decisión autónoma, atender la demanda insatisfecha hasta por un monto equivalente que complete el cien por ciento (100%) del monto de la emisión, siempre que el agregado no exceda el monto total autorizado de la **EMISIÓN**. La adjudicación de la demanda insatisfecha se efectuará según criterios de favorabilidad para el **EMISOR** de tasa y plazo y con sujeción a los criterios establecidos en el presente numeral
- c) En caso en que el monto total demandado con tasas por debajo o igual a la **TASA DE CORTE** sea mayor al monto de la oferta, la adjudicación se realizará en orden de acuerdo con el criterio de tasa de interés de menor a mayor con respecto a la **TASA DE CORTE** y el procedimiento de adjudicación será: (i) El **EMISOR** deberá adjudicar el 100% del monto de la oferta o hasta el **MONTO TOTAL DE LA OFERTA**, conforme a criterios de favorabilidad para el **EMISOR** en cuanto a tasa y plazo; (ii) en el evento en que dos o más demandas, presenten igual tasa habrá lugar a prorrateo hasta agotar el remanente del monto total ofertado, en iguales proporciones a los montos demandados. .
- d) Esta adjudicación se realizará en el horario indicado en el respectivo **AVISO DE OFERTA** el mismo día de su publicación y en cualquier caso respetando las mismas condiciones de Preadjudicación y de Adjudicación de la presente Sección. Cada **AGENTE COLOCADOR** deberá informarle a sus inversionistas si la demanda fue aceptada (y bajo qué características) o si fue rechazada. Dicha notificación se realizará telefónicamente a cada uno de los inversionistas participantes a través del **AGENTE COLOCADOR** mediante el cual realizó la demanda a partir del horario indicado en el **AVISO DE OFERTA**.
- e) En caso en que queden saldos en la Serie ofertada, se podrán ofrecer en un nuevo **AVISO DE OFERTA**, bajo las mismas condiciones financieras aplicando una prima o descuento al precio de los **BONOS**. Para efectos de la subasta y la adjudicación de los



BONDS that were not proposed, the **NOTIONAL AMOUNT** will be used.

- f) In the event in which the proposals are received by fax or by phone, during the term of the offer, the Fiscal Auditor of the Lead Manager, will certify by fax, daily, at the end of each day to the Superintendency of Securities (*Superintendencia de Valores*) the adequate process of pre-allotting and allotting. The Fiscal Auditors of the **SELLING AGENTS** must certify by fax, daily, at the end of each day to the Superintendency of Securities (*Superintendencia de Valores*) the adequate arrival of the proposals.

15. Period during which Offer is in effect

The offer of each Series of the **BONDS** shall be in effect only during the date on which the **OFFERING NOTICE** is published.

16. Placement Period

The period during which the **BONDS** can be placed for subscription shall be one thirty (30) days, counted from the date on which the **OFFERING NOTICE** is published, and which shall be understood to be the only period in which the **ISSUER** can offer the **BONDS** in the public securities market (*mercado público de valores*).

BONOS que no fueron demandados, se tomará su **VALOR NOMINAL**.

- f) En el evento en que las demandas sean recibidas vía fax o telefónicamente, durante la vigencia de la oferta, el Revisor Fiscal del Agente Líder, deberá certificar vía fax, diariamente al final del día, a la Superintendencia de Valores el adecuado desarrollo del proceso de preadjudicación y adjudicación. Los Revisores Fiscales de los **AGENTES COLOCADORES** deberán certificar vía fax, diariamente al final del día, a la Superintendencia de Valores el adecuado desarrollo del proceso de recepción de las demandas.

15. Vigencia de la Oferta

La oferta de cada Serie de los **BONOS** estará vigente únicamente durante el día en que se publique el **AVISO DE OFERTA**.

16. Período de Colocación

El periodo durante el cual pueden emitirse los **BONOS** es de treinta (30) días, contados a partir de la fecha de publicación del **AVISO DE OFERTA**, y se entenderá como el único periodo durante el cual el **EMISOR** puede ofrecer los **BONOS** en el mercado público de valores.

CLEARANCE AND SETTLEMENT

The **BONDS** have been accepted for clearance and settlement by the *Depósito Centralizado de Valores de Colombia* DECEVAL S.A. as **DEPOSITARY**, through an electronic book-entry system for the trading of securities maintained by the **DEPOSITARY**, in accordance with the Depositary Agreement and the **DEPOSITARY'S** rules and procedures. DECEVAL S.A. (the "**DEPOSITARY**") is a corporation established pursuant to Law 27 of 1990 and Regulatory Decree 437 of 1992, which regulate the Administrators of Centralized Securities Deposits (*Sociedades Administradoras de Depósitos Centralizados de Valores*). Its current domicile is in the city of Bogotá at Carrera 10 No. 72 — 33 Torre B Piso 5. The purpose of the **DEPOSITARY** is the holding in deposit of securities which are registered at the National Securities and Intermediaries Register (*Registro Nacional de Valores e Intermediarios*) maintained by the SDV, for their custody and administration.

The **DEPOSITARY** shall be legally responsible for the custody and administration of the **BONDS**, and shall distribute payments made by the **PAYING AGENT** (on behalf of the **ISSUER**), acting as agent, of principal and interest under the **BONDS** to the Bondholders. It shall also carry out all operational activities that may derive from the deposit of the Global Bond, including but not limited to the following:

- (a) To register the **BONDS** in its books and records. Such duty includes the record, custody, administration and control of the Global Bond, including the control of the aggregate amount outstanding of the **BONDS** of each Series. The Global Bond thus registered and administered, shall enable the **DEPOSITARY** to report the amount of the **BONDS** of each Series outstanding on a daily basis.
- (b) To register and keep the record of:
 1. The individual placement of the **BONDS** as reported by the Lead Manager or by any entity designated by the **ISSUER** for such purpose.
 2. Any disposal or transfer of **BONDS** as recorded in the deposit accounts and sub-accounts maintained by or on behalf of the Bondholders with the **DEPOSITARY**. For the registration of the disposal and transfer of **BONDS** in deposit, the procedure established in the **DEPOSITARY'S** rules and procedures shall be followed. **BONDS** of each Series may only be transferred in whole, and not in part or fractions thereof. The minimum amount of **BONDS** of any Series that may be transferred is ten (10), equivalent to COP\$ 10,000,000.
 3. The cancellation of **BONDS** pursuant of the **ISSUER'S** instructions.
 4. Any liens, attachments or encumbrances affecting any

LIQUIDACIÓN Y COMPENSACIÓN

Los **BONOS** han sido aceptados para liquidación y compensación por el Depósito Centralizado de Valores de Colombia DECEVAL S.A. como **DEPOSITARIO**, a través de un sistema electrónico de asientos en libros para la negociación de valores que tiene el **DEPOSITARIO**, de conformidad con el Contrato de Depósito y las normas y procedimientos del **DEPOSITARIO**. DECEVAL S.A. es una sociedad anónima constituida en virtud de la Ley 27 de 1990 y el Decreto Reglamentario 437 de 1992, los cuales regulan las Sociedades Administradoras de Depósitos Centralizados de Valores. Su domicilio actual es en la ciudad de Bogotá, en la Carrera 10 No. 72 — 33 Torre B Piso 5. El objeto del **DEPOSITARIO** es el recibo y mantenimiento en depósito de valores inscritos en el Registro Nacional de Valores e Intermediarios mantenido por la SDV, para su custodia y administración.

El **DEPOSITARIO** será jurídicamente responsable por la custodia y administración de los **BONOS**, y distribuirá los pagos efectuados por el **AGENTE DE PAGOS** (a nombre del **EMISOR**), en calidad de mandatario, del capital e intereses de los **BONOS** a los Tenedores de Bonos. También llevará a cabo todas las actividades operativas que puedan derivarse del depósito del Macro título, incluidas, pero sin limitarse a ellas, las siguientes:

- (a) Registrar los **BONOS** en sus libros y registros. Dicha función incluye el registro, custodia, administración y control del Macro título incluido el control del monto total en circulación de los **BONOS** de cada Serie. El Macro título así registrado y administrado le permitirá al **DEPOSITARIO** reportar diariamente el monto de los **BONOS** en circulación de cada Serie.
- (b) Llevar un registro de:
 1. La colocación individual de los **BONOS** informada por el Agente Líder, o por la entidad que el **EMISOR** designe para dicho propósito.
 2. Cualquier enajenación o traspaso de **BONOS**, según se registren en las cuentas y subcuentas de depósito mantenidas por o a nombre de los Tenedores de Bonos ante el **DEPOSITARIO**. Para el registro de la enajenación y el traspaso de **BONOS** en depósito, se seguirá el procedimiento establecido en las normas y procedimientos del **DEPOSITARIO**. Los **BONOS** de cada Serie podrán traspasarse únicamente en su integridad, y no por partes ni por fracciones de los mismos. El monto mínimo de **BONOS** de cualquier Serie que puede ser transferido es diez (10), equivalente a COP\$ 10.000.000.
 3. La anulación de los **BONOS**, en virtud de las instrucciones del **EMISOR**.
 4. Cualesquiera pignoraciones, embargos o



BONDS, in accordance with the **DEPOSITARY'S** rules and procedures.

5. The number of **BONDS** of each Series and the principal amount thereof outstanding, by means of accounting entries.
- (c) To receive from the **ISSUER** or from the **PAYING AGENT**, acting as an agent, the amounts due to the Bondholders as recorded in the accounts maintained by it on behalf of the respective Bondholders, when they are direct depositors with securities administration services with the **DEPOSITARY** or are represented by a direct depositor, and notified by the **DEPOSITARY** to IBRD and the **PAYING AGENT** prior to the date on which such amounts are due. The distribution of payments due to the Bondholders shall proceed in accordance with the **DEPOSITARY'S** rules and procedures. On the date of payment, IBRD or the **PAYING AGENT** shall transfer to the **DEPOSITARY** the amount to be paid in respect of the **BONDS** due on such date. Upon the duly and timely transfer IBRD shall have validly paid the Bondholders.
- (d) To inform the Bondholders and the **BONDHOLDERS LEGAL REPRESENTATIVE**, in the event that IBRD or the **PAYING AGENT** do not provide the full amount due under the **BONDS** on any payment date.
- (e) To submit reports to IBRD, within five **BUSINESS DAYS** following the respective end of each month, setting out:
1. The payments made to the Bondholders;
 2. The amount of any **BONDS** cancelled pursuant to the instructions provided by or on behalf of the **ISSUER**, affecting the issue's circulating limit, in accordance with the Terms and Conditions of the Bonds and the Agreements;
 3. The number of **BONDS** and the aggregate principal amount of the **BONDS** of each Series outstanding.

Neither the IBRD, the **PAYING AGENT** nor any other agent will have responsibility for the performance by the **DEPOSITARY** of its obligations under the Depositary Agreement and the rules and procedures governing its operations. The **DEPOSITARY** shall not be liable for any delay or failure by the **ISSUER** or the **PAYING AGENT** to transfer any funds for payment under the **BONDS** on the **MATURITY DATE**, nor for any omissions or mistakes in the information provided by the Lead Manager or any direct depositor to the **DEPOSITARY** pursuant to any instructions regarding the subscription, transfer, encumbrance or attachment of any **BONDS**.

gravámenes que afecten a cualquier Bono, de conformidad con las normas y procedimientos del **DEPOSITARIO**.

5. El número de **BONOS** de cada Serie y el monto de capital de los mismos pendiente de pago, mediante asientos contables.
- (c) Recibir del **EMISOR** o de su **AGENTE DE PAGOS**, en calidad de mandatario, las sumas adeudadas a los Tenedores de Bonos, según figuren en las cuentas mantenidas por el **DEPOSITARIO** a nombre de los respectivos Tenedores de Bonos, cuando éstos sean depositantes directos con servicios de administración de valores ante el **DEPOSITARIO**, o sean representados por un depositante directo, y según se hayan notificado por el **DEPOSITARIO** a BM y al **AGENTE DE PAGOS** con anterioridad a la fecha en que dichas sumas se hagan exigibles. La distribución de pagos adeudados a los Tenedores de Bonos se hará de acuerdo con las normas y procedimientos del **DEPOSITARIO**. En la fecha de pago, BM o el **AGENTE DE PAGOS** transferirán al **DEPOSITARIO** el monto a pagar respecto de los **BONOS** en esa fecha. Al efectuarse dicha transferencia en forma completa, en la fecha indicada y de acuerdo con lo establecido por el **DEPOSITARIO**, BM pagará validamente a los Tenedores de Bonos.
- (d) Informar a los Tenedores de Bonos y al **REPRESENTANTE LEGAL DE LOS TENEDORES DE BONOS**, en el evento en que BM o el **AGENTE DE PAGOS** no suministren el monto total adeudado en relación con los **BONOS** en cualquier fecha de pago.
- (e) Presentar informes a BM, dentro de los cinco **DÍAS HÁBILES** siguientes al respectivo fin de cada mes, señalando:
1. Los pagos efectuados a los Tenedores de Bonos;
 2. El monto de cualesquiera **BONOS** anulados en virtud de las instrucciones suministradas por o a nombre del **EMISOR** que afecten el límite circulante de la emisión, de conformidad con los Términos y Condiciones de los Bonos y los Contratos;
 3. El número de **BONOS** y el monto total de capital de los **BONOS** de cada Serie en circulación.

Ni BM, ni el **AGENTE DE PAGOS** ni ningún otro agente serán responsables por el cumplimiento por parte del **DEPOSITARIO** de sus obligaciones en virtud del Contrato de Depósito y de las normas y procedimientos que rigen sus operaciones. El **DEPOSITARIO** no será responsable por ninguna demora o incumplimiento del **EMISOR** o el **AGENTE DE PAGOS** en cuanto a la transferencia de cualquier tipo de fondos destinados a realizar los pagos en relación con los **BONOS** en su **FECHA DE VENCIMIENTO**, ni por ninguna omisión o error en la información suministrada por el Agente Líder, o cualquier depositante directo al **DEPOSITARIO** en



virtud de cualquier tipo de instrucciones relativas a la suscripción, traspaso, gravamen o embargo de cualquiera de los **BONOS**.

USE OF PROCEEDS

The net proceeds of the sale of the **BONDS** will be used for the general operations of IBRD.

DESTINACIÓN DE LOS RECURSOS

El producto neto de la venta de los **BONOS** se utilizará para las operaciones generales de BM.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

IBRD is an international organization established in 1945 pursuant to Articles of Agreement, which constitute IBRD's governing charter. As of June 30, 2003, 184 countries, including the Republic of Colombia, were IBRD shareholders.

THE BONDS ARE NOT OBLIGATIONS OF ANY GOVERNMENT.

IBRD's headquarters are located at 1818 H Street, N.W. Washington, DC 20433 United States of America.

1. Principal Purpose

IBRD's main goals are promoting sustainable economic development and reducing poverty. It pursues these goals primarily by providing loans, guarantees and related technical assistance for projects and programs in its developing member countries. IBRD intermediates funds from international capital markets for lending to its developing member countries to achieve its development goals. IBRD's objective is not to maximize profit, but to earn adequate net income to ensure its financial strength and to sustain its development activities.

2. Legal Status, Privileges and Immunities

The Articles contain provisions which accord to IBRD, in the territories of each of its members, legal status and certain privileges and immunities. The following is a summary of the more important of these provisions.

IBRD has full juridical personality with capacity to make contracts, to acquire and dispose of property and to sue and be sued. Actions may be brought against IBRD in a court of competent jurisdiction in territories of any member in which IBRD has an office, has appointed an agent for accepting service or notice of process or has issued or guaranteed securities, but no actions against IBRD may be brought by its members or persons acting for or deriving claims from its members.

The Governors and Executive Directors, and their Alternates, and the officers and employees of IBRD are immune from legal process for acts performed by them in their official capacity, except when IBRD waives such immunity.

The archives of IBRD are inviolable. The assets of IBRD are immune from seizure, attachment or execution prior to

BANCO INTERNACIONAL DE RECONSTRUCCIÓN Y FOMENTO

El BM es una organización internacional constituida en 1945 en virtud de un Convenio Constitutivo que rige sus operaciones. A 30 de junio de 2003, los accionistas del BM son 184 países, incluida la República de Colombia.

LOS BONOS NO CONSTITUYEN OBLIGACIONES DE GOBIERNO ALGUNO.

La sede principal de BM está localizada en 1818 H Street, N.W. Washington, DC 20433 Estados Unidos de América.

1. Propósito Principal

El propósito principal del BM es promover desarrollo económico sostenido y la reducción de la pobreza. Estos propósitos se logran principalmente a través de otorgar préstamos, garantías y asistencia técnica para proyectos y programas en los países miembros en desarrollo. El BM hace intermediación de recursos de los mercados de capitales internacionales para otorgar préstamos a los países miembros en desarrollo con el fin de alcanzar sus objetivos de desarrollo. El propósito del BM no es maximizar utilidades, sino lograr unos ingresos adecuados para garantizar su fortaleza financiera y lograr el sostenimiento de sus actividades de desarrollo.

2. Estatus, Privilegios e Inmunidades

El Convenio Constitutivo contiene disposiciones mediante las cuales se establece que el BM, tiene personalidad jurídica, privilegios e inmunidades en los territorios de sus países miembros. El siguiente es un resumen de las disposiciones más importantes.

El BM tiene plena capacidad jurídica para suscribir contratos, adquirir propiedades, demandar y ser demandado. El BM podrá ser demandado sólo ante un tribunal de jurisdicción competente en los territorios de un país participante donde el BM tuviere oficina, hubiere designado un apoderado con el objeto de aceptar emplazamiento o notificación de demanda judicial, o hubiere emitido o garantizado valores. Sin embargo, no instituirán demandas los países participantes, ni personas que los representen o que deriven de ellos sus reclamaciones.

Todos los Gobernadores, Directores Ejecutivos, sus Suplentes, funcionarios y empleados del BM gozarán de inmunidad respecto a acciones judiciales por actos realizados en su capacidad oficial, excepto cuando el BM renuncie a dicha inmunidad.

Los archivos del BM son inviolables. Los activos del BM gozan de inmunidad respecto a secuestros, embargos y

delivery of final judgment against IBRD.

IBRD, its assets, property and income, and its operations and transactions authorized by the Articles, are immune from all taxation and from all customs duties. IBRD is also immune from liability for the collection or payment of any tax or duty.

3. Organization and Administration

IBRD's administration is composed of the Board of Governors, the Executive Directors, the President, other officers and staff.

All the powers of IBRD are vested in the Board of Governors, which consists of a Governor and an Alternate Governor appointed by each member of IBRD, who exercise the voting power to which that member is entitled. Each member is entitled to 250 votes plus one vote for each share held. The Board of Governors holds regular annual meetings.

There are 24 Executive Directors. Five of these are appointed, one by each of the five members having the largest number of shares of capital stock at the time of such appointment (the United States, Japan, Germany, France and the United Kingdom), and 19 are elected by the Governors representing the other members. The Board of Governors has delegated to the Executive Directors authority to exercise all the powers of IBRD except those reserved to the Governors under the Articles. The Executive Directors function as a board, and each Executive Director is entitled to cast the number of votes of the member or members by which such person is appointed or elected.

The following is a list, as of June 30, 2003, showing the eleven largest members of IBRD, the voting power of each such member.

| Member | Number of votes | Percentage of total |
|--------------------|-----------------|---------------------|
| United States | 265,219 | 16.40% |
| Japan | 127,250 | 7.87% |
| Germany | 72,649 | 4.49% |
| France | 69,647 | 4.31% |
| United Kingdom | 69,647 | 4.31% |
| China | 45,049 | 2.79% |
| Canada | 45,045 | 2.79% |
| India | 45,045 | 2.79% |
| Italy | 45,045 | 2.79% |
| Russian Federation | 45,045 | 2.79% |
| Saudi Arabia | 45,045 | 2.79% |
| All other members | 742,726 | 45.88% |

The President is selected by the Executive Directors. Subject to their direction on questions of policy, the President is responsible for the conduct of the ordinary business of IBRD and for the organization, appointment and

ejecución mientras no se dicte sentencia definitiva en contra del BM.

El BM, sus activos, bienes, ingresos, operaciones y transacciones autorizadas por su Convenio Constitutivo gozan de inmunidad respecto al pago de toda clase impuestos y derechos de aduana. Así mismo, el BM goza de inmunidad respecto de la responsabilidad por el cobro o pago de cualquier contribución o impuesto.

3. Organización y Administración

La administración del BM está compuesta por la Junta de Gobernadores, los Directores Ejecutivos, el Presidente, otros oficiales y el personal.

El poder del BM radica en la Junta de Gobernadores, que consiste de un Gobernador y un Gobernador Suplente nombrados por cada miembro del BM, quienes ejercen el poder de voto con que cuenta dicho miembro. Cada miembro tiene derecho a 250 votos más un voto por cada acción ostentada. La Junta de Gobernadores se reúne anualmente.

Hay 24 Directores Ejecutivos, cinco de los cuales son nombrados por cada uno de los cinco accionistas principales al momento de dicho nombramiento (Estados Unidos, Japón, Alemania, Francia y Reino Unido), y los 19 restantes son elegidos por los Gobernadores en representación de los demás miembros. La Junta de Gobernadores ha delegado a los Directores Ejecutivos el ejercicio de las facultades del BM excepto aquellas reservadas exclusivamente para los Gobernadores en el Convenio Constitutivo. Los Directores Ejecutivos funcionan como una junta, en la cual cada Director Ejecutivo debe representar el número de votos de los miembros que lo nombraron.

La siguiente es una lista, a 30 de junio de 2003, que muestra los once mayores accionistas del BM y el poder de voto de cada uno de ellos:

| Miembro | No. de Votos | Porcentaje del Total |
|-----------------|--------------|----------------------|
| Estados Unidos | 265,219 | 16.40% |
| Japón | 127,250 | 7.87% |
| Alemania | 72,649 | 4.49% |
| Francia | 69,647 | 4.31% |
| Reino Unido | 69,647 | 4.31% |
| China | 45,049 | 2.79% |
| Canadá | 45,045 | 2.79% |
| India | 45,045 | 2.79% |
| Italia | 45,045 | 2.79% |
| Federación Rusa | 45,045 | 2.79% |
| Arabia Saudita | 45,045 | 2.79% |
| Otros Miembros | 742,726 | 45.88% |

El Presidente es elegido por los Directores Ejecutivos. Dependiendo de su decisión en cuestión de política, el Presidente es responsable por los negocios habituales del BM y por la organización, nombramiento y despidos



dismissal of its officers and staff.

4. Capitalization

IBRD's capitalization as of June 30, 2003 and December 31, 2003 is shown below:

| | December 31, 2003 (unaudited) (in millions of US dollars) | June 30, 2003 (audited) |
|--|--|-------------------------------|
| Borrowings | | |
| Borrowings from market sources ^{1/} | \$110,200 | \$108,554 |
| Capital and retained earnings | | |
| Paid-in capital | \$11,483 | \$11,478 |
| Retained earnings | \$25,836 | \$27,031 |
| Other | \$85 | \$(591) |
| Total capitalization | \$147,604 | \$146,472 |

1/ Exclude swaps payable of \$64,970 and swaps receivable of \$71,164 as of December 31, 2003 and swaps payable of \$64,779 and swaps receivable of \$70,316 as of June 30, 2003.

As of June 30, 2003 IBRD's net worth (presented as Total Capital in IBRD's audited balance sheet) amounted to \$37.9 billion, up from the June 30, 2002 level of \$32.3 billion. As of December 31, 2003, IBRD's net worth (presented as Total Capital in IBRD's unaudited balance sheet) amounted to \$37.4 billion.

5. Key Financial Policies

IBRD currently operates under the following key financial policies, which have been approved by its Board of Directors:

Callable Capital and Limits on Lending

IBRD's shareholders have subscribed to USD 189.6 billion of capital as of June 30, 2003, USD 11.5 billion of which has been paid in and the remainder of which is callable if needed. Under the Articles of Agreement, callable capital may be called only to meet IBRD's obligations for borrowings or guarantees; it may not be used for making loans.

Under IBRD's Articles of Agreement, the total amount outstanding of loans and callable guarantees may not exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank (statutory lending limit).

Country Credit Risk

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. IBRD has never written off a loan.

de sus oficiales y personal.

4. Capitalización

A continuación se muestra la capitalización a 30 de junio y 31 de diciembre de 2003:

| | Diciembre 31, 2003 (no-auditado) (en millones de USD) | Junio 30, 2003 (auditado) |
|---------------------------------------|--|---------------------------------|
| Empréstitos | | |
| Empréstitos ^{1/} | \$110,20 | \$108,554 |
| Capital y utilidades retenidas | | |
| Superávit de Capital | \$11,483 | \$11,478 |
| Utilidades Retenidas | \$25,836 | \$27,031 |
| Otros | \$85 | \$(591) |
| Capitalización Total | \$147,604 | \$146,472 |

1/ Excluye swaps por pagar por \$64,970 y swaps por cobrar por \$71,164 a 31 de diciembre de 2003 y swaps por pagar por \$64,779 y swaps por cobrar por \$70,316 a 30 de junio de 2003.

A 30 de junio de 2003, el patrimonio de BM (presentado como Capital Total en el balance general auditado del BM) ascendió a \$37.9 miles de millones contra los \$32.3 miles de millones a junio 30 de 2002. A 31 de diciembre de 2003 el patrimonio (presentado como Capital Total en el balance general no-auditado del BM) del BM ascendió a \$37.4 miles de millones.

5. Políticas Financieras Claves

Actualmente, el BM opera bajo las siguientes políticas financieras claves, las cuales han sido aprobadas por la Junta de Directores:

Capital Exigible y Límites de Préstamos

Los accionistas del BM han suscrito capital por USD 189.6 miles de millones, de los cuales USD 11.5 miles de millones han sido pagados y el resto es exigible de ser necesario. Bajo el Convenio Constitutivo, dicho capital puede ser exigido sólo para cumplir con las obligaciones de préstamos o garantías del BM; no puede ser usado para otorgar préstamos.

Bajo el Convenio Constitutivo del BM, el monto total de los créditos vigentes y garantías exigibles no deben exceder el ciento por ciento del capital suscrito disponible (*unimpaired subscribed capital*), reservas y excedentes del Banco (límite estatutario de crédito).

Riesgo de Crédito País

Es política del BM no reestructurar pagos de intereses o de capital en sus créditos o participar en acuerdos de reestructuración con respecto a sus créditos. El BM jamás ha tenido un crédito irrecuperable.

It is IBRD's policy that if a payment of principal, interest or other charges on an IBRD loan becomes 30 days overdue, no new loans to that member country, or to any other borrower in that country, will be presented for approval, nor will any previously approved loan be signed, until payment for all amounts 30 days overdue or longer has been received. In addition, if such payment becomes 60 days overdue, disbursements on all loans to or guaranteed by that member country are suspended until all overdue amounts have been paid. (Where the member country is not the borrower, the time period for suspension of the approval and signing of new loans is 45 days and the time period for suspension of disbursements is 60 days.) It is the policy of IBRD to place all loans made to or guaranteed by a member of IBRD in nonaccrual status, if principal, interest or other charges on any such loan are overdue by more than six months, unless IBRD determines that the overdue amount will be collected in the immediate future.

IBRD maintains an accumulated provision for losses on loans and guarantees to recognize the probable losses inherent in both the accrual and nonaccrual portfolios. The appropriate level of provisions for each borrower is estimated as the sum product of its expected default frequency (or probability of default to IBRD), its loans outstanding (plus the present value of guarantees), and the assumed severity of loss given default.

Portfolio concentration risk is carefully managed, in part, through a single borrower exposure limit which is set at the lower of an equitable access limit (10% of IBRD's subscribed capital, reserves and unallocated surplus) and a concentration risk limit (estimated by stress testing IBRD's income-generating capacity and risk-bearing capital). For FY04, the concentration risk limit is USD 13.5 billion.

Currency and Interest Rate Risk

In order to minimize exchange rate risk in a multicurrency environment, IBRD matches its borrowing obligations in any one currency (after swap activities) with assets in the same currency, as prescribed by the Articles of Agreement.

In addition, IBRD's policy is to minimize the exchange rate sensitivity of its equity-to-loans ratio. It carries out this policy by undertaking currency conversions periodically to align the currency composition of its equity to that of its outstanding loans.

Interest rate risk is managed by using interest rate swaps to closely align the rate sensitivity characteristics of the loan portfolio with those of the underlying funding.

Es política del BM que si los pagos de capital, intereses u otros cargos en un crédito del BM están en mora por 30 días, no se presentarán para aprobación nuevos créditos a ese país o a otro deudor de dicho país, ni se suscribirán créditos previamente aprobados hasta que el pago en mora por 30 días o más sea recibido. Adicionalmente, si dicho pago entra en mora por 60 días, los desembolsos de todos los créditos o garantías de ese país serán suspendidos hasta que todos los pagos moratorios sean efectuados. (Cuando el país miembro no es el deudor, el plazo de suspensión para aprobaciones y suscripción de nuevos créditos es 45 días y el plazo de suspensión para desembolsos es 60 días). Es política del BM colocar los créditos para o garantizados por un país miembro del BM en estatus de no-causación de intereses si los pagos a capital, intereses u otros cargos de dicho crédito están vencidos por más de seis meses, a menos que el BM determine que la cantidad vencida sea recuperada en el futuro inmediato.

BM mantiene una provisión acumulada para pérdidas en créditos y garantías para reflejar las pérdidas probables inherentes al portafolio de créditos en causación y no-causación de intereses. El nivel apropiado de provisiones de cada deudor es estimado como la suma de la frecuencia esperada de incumplimiento (o probabilidad de incumplimiento al BM), el saldo de los créditos vigentes (más el valor presente de las garantías) y el impacto de las pérdidas en el evento de incumplimiento (*loss given default*).

El riesgo de concentración del portafolio es manejado cuidadosamente, en parte, a través de un límite de exposición por deudor el cual es establecido por el más bajo entre el acceso patrimonial (10% del capital suscrito del BM, reservas y utilidades) y el límite de concentración de riesgo (estimado mediante pruebas de capacidad de generación de ingresos del BM y capital de riesgo). Para el año fiscal 2004, el límite de concentración de riesgo es USD 13.5 miles de millones.

Riesgo de Moneda y Tasa de Interés

Con el fin de minimizar el riesgo de tasa de cambio en un ambiente multi-moneda, el BM equipara sus obligaciones de préstamos en una moneda (después de *swaps*) con activos en la misma moneda, según se establece en el Convenio Constitutivo.

Adicionalmente, la política del BM es minimizar la sensibilidad a la tasa de cambio en su relación capital-créditos. Implementa dicha política al asumir periódicamente la conversión de monedas con el fin de compensar la composición de monedas de su capital con aquella de sus créditos vigentes.

El riesgo de tasa de interés es moderado utilizando swaps de tasa de interés para alinear la sensibilidad a la tasa del portafolio de crédito con aquella del fondeo.



Liquidity Policy

Under IBRD's liquidity management policy, aggregate liquid asset holdings should be kept at or above a specified prudential minimum. That minimum is equal to the highest consecutive six months of expected debt service obligations for the fiscal year, plus one-half of net approved loan disbursements as projected for the fiscal year. The interest rate risk on IBRD's liquid portfolio is managed within specified duration-mismatch limits and is further limited by stop-loss limits. Liquid assets are concentrated in debt instruments issued by sovereign governments, agencies, banks, and corporate entities. The majority of these investments are in AAA and AA rated instruments.

Counterparty Credit Risk

Counterparty credit risk is managed by application of eligibility criteria, under which IBRD deals with a list of authorized dealers and counterparties, by volume limits for transactions with individual counterparties, and by mark-to-market collateral arrangements.

Financial Reporting and Internal Controls

IBRD financial statements are prepared in conformity with the accounting principles generally accepted in the US (GAAP) and with International Financial Reporting Standards. IBRD's financial statements are audited by an independent external auditor, Deloitte & Touche Tohmatsu (International Firm), which also has issued an attestation report that IBRD's system of internal control over its external financial reporting has met the criteria for COSO (Committee of Sponsoring Organizations of the Treadway Commission's Internal Control-Integrated Framework, which provided a common definition of internal control and guidance on judging its effectiveness).

6. Development Activities

IBRD offers loans, related derivative products, and guarantees to its borrowing member countries to help meet their development needs. It also provides technical assistance and other advisory services to support poverty reduction in these countries.

Loans

From its establishment through June 30, 2003, IBRD had approved loans, net of cancellations, totaling \$333,501 million to borrowers in 129 countries. A summary of cumulative lending is contained in the following table:

Política de Liquidez

Bajo la política de manejo de liquidez del BM, el agregado de la posición de activos líquidos debe ser mayor o igual que el límite prudencial mínimo. Ese mínimo es igual al servicio de la deuda máximo esperado de seis meses consecutivos durante el año fiscal más la mitad de los desembolsos netos aprobados que se proyecten para el año fiscal. El riesgo de tasa de interés del portafolio líquido del BM es manejado a través de límites de *duration-mismatch* y adicionalmente limitado por límites *stop-loss*. Los activos líquidos están concentrados en instrumentos de deuda emitidos por gobiernos soberanos, agencias, bancos y entidades corporativas. La mayoría de estas inversiones están en instrumentos calificados AAA y AA.

Riesgo de Crédito de Contraparte

El riesgo de crédito de contraparte es manejado a través de la aplicación de criterios de elegibilidad, bajo los cuales el BM maneja una lista de contrapartes y negociadores autorizados, por límites de volumen de transacciones con contrapartes individuales y valor de mercado de acuerdos colaterales.

Reportes Financieros y Control Interno

Los estados financieros del BM son preparados de conformidad con los principios de contabilidad generalmente aceptados en los EE.UU. y con Estándares Internacionales de Reporte Financiero. Los estados financieros del BM son auditados por un auditor externo independiente, Deloitte&Touche Tohmatsu International Firm, quien también emite un reporte acerca del cumplimiento del sistema de control interno del BM sobre el COSO (*Committee of Sponsoring Organizations of the Treadway Commission's Internal Control Integrated Framework*, el cual provee una definición común de control interno y una guía para calificar su efectividad).

6. Actividades de Desarrollo

BM ofrece créditos, productos derivados y garantías a sus miembros deudores para ayudarlos a alcanzar sus metas de desarrollo. También provee asistencia técnica y servicios de asesoría para apoyar la reducción de la pobreza en estos países.

Créditos

Desde su constitución hasta el 30 de junio de 2003, el BM aprobó créditos, netos de cancelaciones, por un total de \$333.501 millones a 129 países.

Lending Status as of June 30
In millions of U.S. dollars

| | 2003 | 2002 |
|-------------------------------------|------------|------------|
| Cumulative Approvals ^{a/} | \$ 333,501 | \$ 325,333 |
| Cumulative Repayments ^{b/} | \$ 184,493 | \$ 164,007 |

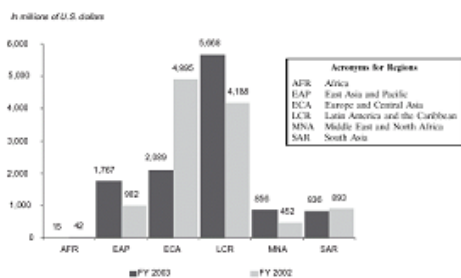
a/ Net of cancellations.

b/ Multicurrency pool loan repayments are included at exchange rates in effect on the date of original disbursement. All other amounts are based on U.S. dollar equivalents at the time of receipt.

At June 30, 2003, the total volume of outstanding loans was \$116,240 million, \$5,349 million lower than the \$121,589 million of outstanding loans at June 30, 2002.

During FY 2003, commitments of new loans to member countries were \$11,231 million (\$11,452 million – FY 2002). In FY 2003, Latin America and the Caribbean accounted for the largest share of commitments. In contrast, Europe and Central Asia accounted for the largest share of commitments in FY 2002. The following table presents the regional composition of commitments for FY 2003 and FY 2002.

Commitments by Region



Lending Cycle

The process of identifying and appraising a project and approving and disbursing a loan often extends over several years. However, on numerous occasions IBRD has shortened the preparation and approval cycle in response to emergency situations such as natural disasters. Generally, the appraisal of projects is carried out by IBRD's operational staff (economists, engineers, financial analysts, and other sector and country specialists). With certain exception, each loan must be approved by IBRD's Executive Directors.

Loan disbursements are subject to the fulfillment of conditions set out in the loan agreement. During

Estado de los Créditos a Junio 30
En millones de USD

| | 2003 | 2002 |
|---------------------------------------|------------|------------|
| Aprobaciones Acumuladas ^{a/} | \$ 333,501 | \$ 325,333 |
| Repagos Acumulados ^{b/} | \$ 184,493 | \$ 164,007 |

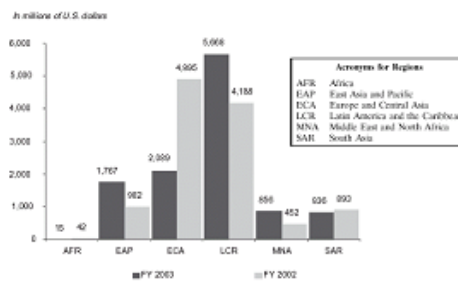
a/ Neto de cancelaciones.

b/ Los repagos de créditos en canasta de monedas se calculan utilizando la tasa de cambio de dicha canasta a USD a la fecha del desembolso original. Los demás montos se calculan a sus equivalentes en USD a la fecha de su recibo.

A 30 de junio de 2003, el valor total de los saldos de créditos vigentes era \$116.240 millones, \$5.349 millones menos que el saldo de \$121.589 millones a junio 30 de 2002.

Durante el año fiscal 2003, el valor de los compromisos de nuevos créditos a los países miembros fue de \$11.231 millones (\$11.452 millones en el año fiscal 2002). En el año fiscal 2003, América Latina y el Caribe obtuvieron el mayor número de compromisos, mientras Europa y Asia Central obtuvieron el mayor número de compromisos en el año fiscal 2002. La siguiente gráfica muestra la composición regional de compromisos de crédito para los años fiscales 2002 y 2003.

Compromisos Regionales



Ciclo de Créditos

El proceso de identificación y evaluación de un proyecto y la aprobación y desembolso de un crédito frecuentemente tarda varios años. No obstante, en numerosas ocasiones, BM ha disminuido el ciclo de preparación y aprobación en respuesta a situaciones de emergencia tales como desastres naturales. Generalmente, la evaluación de proyectos es llevada a cabo por el personal operativo del BM (economistas, ingenieros, analistas financieros, y otros especialistas sectoriales). Con algunas excepciones, cada crédito debe ser aprobado por los Directores Ejecutivos.

Los desembolsos de créditos dependen del cumplimiento de las condiciones establecidas en el contrato de crédito.



implementation of IBRD-supported operations, experienced IBRD staff review progress, monitor compliance with IBRD policies and assist in resolving any problems that may arise. An independent IBRD unit, the Operations Evaluation Department, evaluates the extent to which operations have met their major objectives, and these evaluations are reported directly to the Executive Directors.

Lending Instruments

IBRD lending generally falls into one of two categories: investment or adjustment lending. Investment lending is generally used to finance goods, works, and services in support of economic and social development projects in a broad range of sectors. In contrast, adjustment lending generally supports social, structural, and institutional reforms. In the past, the majority of IBRD loans were for investment projects or programs. However, the percentage of IBRD loans approved for adjustment lending over the past seven years occasionally exceeded 50 percent. In FY 2003, new IBRD commitments for adjustment lending accounted for 37% of total commitments (64%—FY 2002; 38%—FY 2001).

Derivative Products

IBRD also offers derivative products to borrowers to respond to their needs for access to better risk management tools in connection with existing IBRD loans. These derivative products include currency and interest rate swaps, and interest rate caps and collars.

Guarantees

IBRD offers partial risk guarantees and partial credit guarantees. These guarantees are generally offered on loans from private investors for projects in countries eligible to borrow from IBRD, although they can also be offered on securities issued by entities eligible for IBRD loans. IBRD applies the same country creditworthiness and project evaluation criteria to guarantees as it applies to loans.

Each guarantee requires the counter-guarantee of the member government. Guarantees are priced within a limited range to reflect the risks involved, and preparation fees may be charged where there are exceptional costs involved for IBRD.

Durante la ejecución de operaciones apoyadas por BM, personal calificado del BM revisa el progreso, monitorea el cumplimiento de las políticas del BM y asesora en la resolución de problemas que puedan surgir. Una unidad independiente de BM, el Departamento de Evaluación de Operaciones, evalúa el cumplimiento de los principales objetivos del proyecto y reporta directamente a los Directores Ejecutivos.

Instrumentos de Crédito

Generalmente, los créditos del BM corresponden a una de dos categorías: inversión o ajuste. Los créditos de inversión son generalmente utilizados para financiar bienes, obras y servicios apoyando proyectos de desarrollo económico y social en una amplia gama de sectores. En contraste, los créditos de ajuste generalmente apoyan reformas sociales, estructurales e institucionales. En el pasado, la mayoría de los créditos del BM eran para proyectos o programas de inversión. Sin embargo, el porcentaje de créditos de ajuste aprobados durante los últimos siete años ocasionalmente ha superado el 50 por ciento. En el año fiscal 2003, nuevos compromisos de créditos de ajuste alcanzaron el 37% del total de compromiso (64% en 2002 y 38% en 2001).

Productos Derivados

El BM también ofrece productos derivados a los deudores para responder a sus necesidades de herramientas de manejo de riesgo en relación con créditos existentes del BM. Estos productos derivados incluyen *swaps* de moneda y de tasa de interés y *topes* y *bandas* de tasa de interés.

Garantías

El BM ofrece garantías parciales de riesgo y garantías parciales de crédito. Estas garantías son generalmente ofrecidas sobre créditos de inversionistas privados para proyectos en países elegibles para recibir créditos del BM; éstas también pueden ser ofrecidas sobre valores emitidos por entidades elegibles para recibir créditos del BM. El BM aplica los mismos criterios de elegibilidad de créditos y evaluación de proyectos a las garantías que emite.

Cada garantía requiere una contragarantía del gobierno del país miembro. Las garantías son valoradas según la categoría que refleje el riesgo asociado, pueden cargarse comisiones de preparación en los casos que involucren costos excepcionales para el BM.

FINANCIAL STATEMENTS

ESTADOS FINANCIEROS

Los estados financieros en español no hacen parte de este Prospecto. Se incluye un glosario de términos.

MANAGEMENT'S REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING

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

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

Management's Report Regarding Effectiveness of Internal Controls Over External Financial Reporting

July 31, 2003

The management of the International Bank for Reconstruction and Development (IBRD) is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and International Financial Reporting Standards and, as such, include amounts based on informed judgments and estimates made by management.

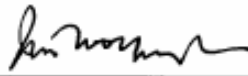
Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting, which are subject to scrutiny by management and the internal auditors, and are revised as considered necessary, support the integrity and reliability of the external financial statements.

The financial statements have been audited by an independent accounting firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Executive Directors and committees of the board. Management believes that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditors' report is presented herein in the Annual Report.

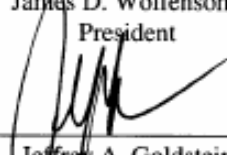
The Board of Executive Directors of IBRD has appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IBRD. The Audit Committee is comprised entirely of Executive Directors who are independent of IBRD's management. The Audit Committee is responsible for recommending to the Board of Executive Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of IBRD in addition to reviewing IBRD's reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over external financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

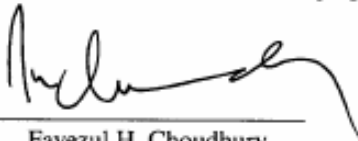
IBRD assessed its internal control over external financial reporting for financial presentations in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards as of June 30, 2003. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IBRD maintained effective internal control over external financial reporting presented in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards.



James D. Wolfensohn
President



Jeffrey A. Goldstein
Managing Director and Chief Financial Officer



Fayezul H. Choudhury
Vice President and Controller



Charles A. McDonough
Director, Accounting Department

REPORT OF INDEPENDENT ACCOUNTANTS ON MANAGEMENT'S ASSERTION REGARDING EFFECTIVENESS OF INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING

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**Deloitte
Touche
Tohmatsu
(International Firm)**

President and Board of Governors
International Bank for Reconstruction and Development

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Controls Over External Financial Reporting*, that the International Bank for Reconstruction and Development met the criteria for effective internal control over external financial reporting presented in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards as of June 30, 2003, based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO report). Management is responsible for maintaining effective control over external financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of internal control over financial reporting, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over external financial reporting to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies may deteriorate.

In our opinion, management's assertion that, the International Bank for Reconstruction and Development met the criteria for effective internal control over external financial reporting presented in conformity with both accounting principles generally accepted in the United States of America and International Financial Reporting Standards as of June 30, 2003, is fairly stated in all material respects, based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte Touche Tohmatsu (International Firm)

July 31, 2003

BALANCE SHEET

June 30, 2003 and June 30, 2002

Expressed in millions of U.S. dollars

| | 2003 | 2002 |
|---|-------------------------|-------------------------|
| Assets | | |
| <i>Due from Banks</i> | | |
| Unrestricted currencies | \$ 1,259 | \$ 415 |
| Currencies subject to restrictions—Note B | 670 | 668 |
| | <u>1,929</u> | <u>1,083</u> |
| <i>Investments—Trading (including securities transferred under repurchase or security lending agreements of \$153 million—June 30, 2003; \$nil million June 30, 2002)—Notes C and G</i> | 27,919 | 24,256 |
| <i>Securities Purchased Under Resale Agreements—Note C</i> | 212 | 1,820 |
| <i>Nonnegotiable, Noninterest-bearing Demand Obligations on Account of Subscribed Capital</i> | 1,794 | 1,632 |
| <i>Receivable from Currency and Interest Rate Swaps</i> | | |
| Investments—Notes C and G | 10,301 | 9,940 |
| Borrowings (including \$7,084 million due to FAS 133—June 30, 2003; \$2,821 million—June 30, 2002)—Notes E and G | 70,316 | 66,052 |
| Other Asset/Liability (including \$nil million due to FAS 133—June 30, 2003; \$1 million—June 30, 2002)—Notes F and G | 726 | 727 |
| | <u>81,343</u> | <u>76,719</u> |
| <i>Receivable to Maintain Value of Currency Holdings on Account of Subscribed Capital</i> | 166 | 355 |
| <i>Other Receivables</i> | | |
| Receivable from investment securities traded | 272 | 427 |
| Accrued income on loans | 1,248 | 1,632 |
| | <u>1,520</u> | <u>2,059</u> |
| <i>Loans Outstanding (see Summary Statement of Loans, Notes D and G)</i> | | |
| Total loans | 149,271 | 157,942 |
| Less undisbursed balance | 33,031 | 36,353 |
| Loans outstanding | <u>116,240</u> | <u>121,589</u> |
| Less: | | |
| Accumulated provision for loan losses | 4,045 | 5,053 |
| Deferred loan income | 433 | 389 |
| Net loans outstanding | <u>111,762</u> | <u>116,147</u> |
| <i>Other Assets</i> | | |
| Unamortized issuance costs of borrowings | 455 | 473 |
| Prepaid pension cost—Note K | 2,014 | 2,090 |
| Miscellaneous | 1,238 | 1,160 |
| | <u>3,707</u> | <u>3,723</u> |
| Total assets | <u><u>\$230,352</u></u> | <u><u>\$227,794</u></u> |

| | <u>2003</u> | <u>2002</u> |
|--|------------------|------------------|
| Liabilities | | |
| <i>Borrowings—Notes E and G</i> | | |
| Short-term | \$ 3,432 | \$ 4,918 |
| Medium- and long-term (including \$1,559 million due to FAS 133—June 30, 2003; \$354 million—June 30, 2002). | 105,122 | 105,345 |
| | <u>108,554</u> | <u>110,263</u> |
| <i>Securities Sold Under Repurchase Agreements, Securities Lent Under Securities Lending Agreements, and Payable for Cash Collateral Received—Note C</i> | 153 | — |
| <i>Payable for Currency and Interest Rate Swaps</i> | | |
| Investments—Notes C and G | 11,862 | 10,827 |
| Borrowings (including \$1,875 million due to FAS 133—June 30, 2003; \$1,254 million—June 30, 2002)—Notes E and G | 64,779 | 66,994 |
| Other Asset/Liability (including \$(1) million due to FAS 133—June 30, 2003, \$(1) million—June 30, 2002)—Notes F and G | 810 | 758 |
| | <u>77,451</u> | <u>78,579</u> |
| <i>Payable to Maintain Value of Currency Holdings on Account of Subscribed Capital</i> | 64 | 61 |
| <i>Other Liabilities</i> | | |
| Payable for investment securities purchased | 1,328 | 975 |
| Accrued charges on borrowings | 1,633 | 2,316 |
| Payable for Board of Governors-approved transfers—Note H | 1,474 | 1,437 |
| Liabilities under other postretirement benefits plans—Note K | 157 | 144 |
| Accounts payable and miscellaneous liabilities—Note D | 1,620 | 1,706 |
| | <u>6,212</u> | <u>6,578</u> |
| Total liabilities | <u>192,434</u> | <u>195,481</u> |
| Equity | | |
| <i>Capital Stock (see Statement of Subscriptions to Capital Stock and Voting Power, Note B)</i> | | |
| Authorized capital (1,581,724 shares—June 30, 2003 and June 30, 2002) | | |
| Subscribed capital | | |
| (1,571,412 shares—June 30, 2003; 1,570,895 shares—June 30, 2002) | 189,567 | 189,505 |
| Less uncalled portion of subscriptions | 178,089 | 178,029 |
| | <u>11,478</u> | <u>11,476</u> |
| <i>Amounts to Maintain Value of Currency Holdings—Note B</i> | (331) | (641) |
| <i>Retained Earnings (see Statement of Changes in Retained Earnings, Note H)</i> | 27,031 | 22,227 |
| <i>Accumulated Other Comprehensive Loss—Note M</i> | (260) | (749) |
| Total equity | <u>37,918</u> | <u>32,313</u> |
| Total liabilities and equity | <u>\$230,352</u> | <u>\$227,794</u> |

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

STATEMENT OF INCOME

For the fiscal years ended June 30, 2003, June 30, 2002 and June 30, 2001

Expressed in millions of U.S. dollars

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|----------------|----------------|-----------------|
| <i>Income</i> | | | |
| Loans—Note D | | | |
| Interest | \$5,659 | \$6,779 | \$ 8,052 |
| Commitment charges | 83 | 82 | 91 |
| Investments—Trading—Note C | | | |
| Interest | 413 | 725 | 1,476 |
| Net gains (losses) | | | |
| Realized | 11 | 39 | (10) |
| Unrealized | (21) | (48) | 51 |
| Securities purchased under resale agreements—Note C | 15 | 22 | 29 |
| Staff Retirement Plan and other postretirement benefit plans—Note K | — | 93 | 155 |
| Other income—Notes I and J | 202 | 184 | 171 |
| Total income | <u>6,362</u> | <u>7,876</u> | <u>10,015</u> |
| <i>Expenses</i> | | | |
| Borrowing expenses—Note E | | | |
| Interest | 3,509 | 4,793 | 7,021 |
| Amortization of issuance and other borrowing costs | 85 | 110 | 131 |
| Interest on securities sold under repurchase agreements and payable for cash collateral received—Note C | — | 4 | 6 |
| Administrative expenses—Notes I, J, and K | 882 | 876 | 881 |
| Contributions to special programs—Note I | 156 | 176 | 147 |
| Provision for losses on loans and guarantees (decrease) increase—Note D | (1,300) | (15) | 676 |
| Other expenses | 9 | 8 | 9 |
| Total expenses | <u>3,341</u> | <u>5,952</u> | <u>8,871</u> |
| <i>Operating Income</i> | 3,021 | 1,924 | 1,144 |
| <i>Effects of applying FAS 133—Note N</i> | <u>2,323</u> | <u>854</u> | <u>126</u> |
| <i>Income before cumulative effect of change in accounting principle</i> | 5,344 | 2,778 | 1,270 |
| <i>Cumulative effect of change in accounting principle—Note N</i> | <u>—</u> | <u>—</u> | <u>219</u> |
| <i>Net Income</i> | <u>\$5,344</u> | <u>\$2,778</u> | <u>\$ 1,489</u> |

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

STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2003, June 30, 2002 and June 30, 2001

Expressed in millions of U.S. dollars

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|----------------|----------------|----------------|
| Net income | \$5,344 | \$2,778 | \$1,489 |
| Other comprehensive income—Note M | | | |
| Cumulative effect of change in accounting principle | — | — | 500 |
| Reclassification of cumulative effect of change in accounting principle to net income | (117) | (128) | (169) |
| Currency translation adjustments | 606 | 224 | (535) |
| Total other comprehensive income (loss) | <u>489</u> | <u>96</u> | <u>(204)</u> |
| Comprehensive income | <u>\$5,833</u> | <u>\$2,874</u> | <u>\$1,285</u> |

STATEMENT OF CHANGES IN RETAINED EARNINGS

For the fiscal years ended June 30, 2003, June 30, 2002 and June 30, 2001

Expressed in millions of U.S. dollars

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-----------------|-----------------|-----------------|
| Retained earnings at beginning of the fiscal year | \$22,227 | \$19,851 | \$19,027 |
| Board of Governors-approved transfers to—Note H | | | |
| International Development Association | (300) | (302) | (320) |
| Heavily Indebted Poor Countries Debt Initiative Trust Fund | (240) | (100) | (250) |
| Capacity building in Africa | — | — | (30) |
| Trust Fund for Kosovo | — | — | (35) |
| Trust Fund for Federal Republic of Yugoslavia (now Serbia and Montenegro) | — | — | (30) |
| Net income for the fiscal year | <u>5,344</u> | <u>2,778</u> | <u>1,489</u> |
| Retained earnings at end of the fiscal year | <u>\$27,031</u> | <u>\$22,227</u> | <u>\$19,851</u> |

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

STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2003, June 30, 2002 and June 30, 2001

Expressed in millions of U.S. dollars

| | 2003 | 2002 | 2001 |
|---|------------------------|------------------------|------------------------|
| Cash flows from Investing (lending) activities | | | |
| Loans | | | |
| Disbursements | \$(11,809) | \$(11,154) | \$(11,707) |
| Principal repayments | 12,945 | 10,745 | 9,623 |
| Principal prepayments | 6,972 | 1,323 | 70 |
| Loan origination fees received | 8 | 7 | 1 |
| Net cash provided by (used in) investing (lending) activities | <u>8,116</u> | <u>921</u> | <u>(2,013)</u> |
| Cash flows from Board of Governors-approved transfers to | | | |
| International Development Association | (300) | (2) | (20) |
| Debt Reduction Facility for IDA-Only Countries | — | (3) | 3 |
| Trust Fund for Gaza and West Bank | (13) | — | (17) |
| Heavily Indebted Poor Countries Debt Initiative Trust Fund | (240) | (100) | (250) |
| Trust Funds for Kosovo, and Federal Republic of Yugoslavia (now Serbia and Montenegro), and capacity building in Africa | — | — | (95) |
| Net cash used in Board of Governors-approved transfers | <u>(553)</u> | <u>(105)</u> | <u>(379)</u> |
| Cash flows from financing activities | | | |
| Medium- and long-term borrowings | | | |
| New issues | 17,246 | 22,803 | 17,223 |
| Retirements | (24,136) | (21,691) | (18,027) |
| Net short-term borrowings | (1,525) | (2,112) | 1,870 |
| Net currency and interest rate swaps—Borrowings | 357 | (656) | (1,402) |
| Net capital stock transactions | 59 | 75 | 72 |
| Net cash used in financing activities | <u>(7,999)</u> | <u>(1,581)</u> | <u>(264)</u> |
| Cash flows from operating activities | | | |
| Net income | 5,344 | 2,778 | 1,489 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Effects of applying FAS 133 | (2,323) | (854) | (126) |
| Cumulative effect of change in accounting principle | — | — | (219) |
| Depreciation and amortization | 668 | 189 | 979 |
| Amortization of deferred loan income | (83) | (65) | (49) |
| Provision for losses on loans and guarantees (decrease) increase | (1,300) | (15) | 676 |
| Income from Staff Retirement Plan and other postretirement benefit plans | — | (93) | (155) |
| Changes in other assets and liabilities | | | |
| Decrease in accrued income on loans | 413 | 400 | 138 |
| (Increase) decrease in miscellaneous assets | (116) | (7) | 82 |
| Decrease in accrued charges on borrowings | (709) | (947) | (49) |
| (Decrease) increase in accounts payable and miscellaneous liabilities | (16) | (62) | 54 |
| Net cash provided by operating activities | <u>1,878</u> | <u>1,324</u> | <u>2,820</u> |
| Effect of exchange rate changes on unrestricted cash and liquid investments | 122 | 90 | (88) |
| Net increase in unrestricted cash and liquid investments | 1,564 | 649 | 76 |
| Unrestricted cash and liquid investments at beginning of the fiscal year | <u>25,056</u> | <u>24,407</u> | <u>24,331</u> |
| Unrestricted cash and liquid investments at end of the fiscal year | <u><u>\$26,620</u></u> | <u><u>\$25,056</u></u> | <u><u>\$24,407</u></u> |

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|-----------------|-----------------|-----------------|
| Composition of unrestricted cash and liquid investments: | | | |
| Investments—Trading | \$27,919 | \$24,256 | \$24,168 |
| Unrestricted currencies | 1,259 | 415 | 50 |
| Net payable for investment securities traded/purchased—Trading | (1,056) | (548) | (178) |
| Net (payable) receivable from currency and interest rate swaps— Investments | (1,561) | (887) | 252 |
| Net receivable from securities purchased/sold under resale/repurchase agreements and payable for cash collateral received | 59 | 1,820 | 115 |
| | <u>\$26,620</u> | <u>\$25,056</u> | <u>\$24,407</u> |
| Supplemental disclosure | | | |
| Increase (decrease) in ending balances resulting from exchange rate fluctuations | | | |
| Loans outstanding | \$ 2,647 | \$ 2,736 | \$ (3,329) |
| Borrowings | 4,922 | 4,093 | (5,530) |
| Currency and interest rate swaps—Borrowings | (3,194) | (2,230) | 3,164 |
| Capitalized loan origination fees included in total loans | 112 | 102 | 77 |
| Capitalized interest and charges related to loans for which Serbia and Montenegro undertook responsibility | — | 799 | — |

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

SUMMARY STATEMENT OF LOANS

June 30, 2003

Expressed in millions of U.S. dollars

| <i>Borrower or guarantor</i> | <i>Total loans</i> | <i>Loans approved but not yet effective^a</i> | <i>Undisbursed balance of effective loans^b</i> | <i>Loans outstanding</i> | <i>Percentage of total loans outstanding</i> |
|------------------------------|--------------------|---|---|--------------------------|--|
| Algeria | \$ 1,590 | \$ 95 | \$ 363 | \$ 1,132 | 0.97% |
| Argentina | 9,553 | — | 1,630 | 7,923 | 6.82 |
| Armenia | 8 | — | — | 8 | 0.01 |
| Bahamas, The | * | — | — | * | * |
| Bangladesh | 10 | — | — | 10 | 0.01 |
| Barbados | 23 | — | 14 | 9 | 0.01 |
| Belarus | 107 | — | 21 | 86 | 0.07 |
| Belize | 47 | — | 4 | 43 | 0.04 |
| Bosnia and Herzegovina | 535 | — | — | 535 | 0.46 |
| Botswana | 6 | — | — | 6 | 0.01 |
| Brazil | 11,877 | 732 | 2,486 | 8,659 | 7.45 |
| Bulgaria | 1,463 | 73 | 196 | 1,194 | 1.03 |
| Cameroon | 166 | — | 14 | 152 | 0.13 |
| Chad | 40 | — | 14 | 26 | 0.02 |
| Chile | 719 | 25 | 157 | 537 | 0.46 |
| China | 16,289 | 850 | 4,609 | 10,830 | 9.32 |
| Colombia | 3,570 | 300 | 421 | 2,849 | 2.45 |
| Congo, Republic of | 6 | — | — | 6 | 0.01 |
| Costa Rica | 122 | — | 38 | 84 | 0.07 |
| Côte d'Ivoire | 492 | — | — | 492 | 0.42 |
| Croatia | 920 | — | 295 | 625 | 0.54 |
| Cyprus | 15 | — | — | 15 | 0.01 |
| Czech Republic | 174 | — | — | 174 | 0.15 |
| Dominica | 5 | — | 1 | 4 | * |
| Dominican Republic | 486 | 72 | 61 | 353 | 0.30 |
| Ecuador | 1,054 | 114 | 117 | 823 | 0.71 |
| Egypt, Arab Republic of | 760 | 12 | 216 | 532 | 0.46 |
| El Salvador | 602 | 161 | 75 | 366 | 0.32 |
| Estonia | 57 | — | 13 | 44 | 0.04 |
| Fiji | 11 | — | — | 11 | 0.01 |
| Gabon | 52 | — | 4 | 48 | 0.04 |
| Ghana | 4 | — | — | 4 | * |
| Grenada | 18 | 4 | 8 | 6 | 0.01 |
| Guatemala | 808 | 80 | 315 | 413 | 0.36 |
| Guyana | 2 | — | — | 2 | * |
| Honduras | 95 | — | — | 95 | 0.08 |
| Hungary | 281 | — | 14 | 267 | 0.23 |
| India | 9,333 | 348 | 3,844 | 5,141 | 4.42 |
| Indonesia | 11,658 | 439 | 950 | 10,269 | 8.83 |
| Iran, Islamic Republic of | 775 | 200 | 197 | 378 | 0.32 |

| <i>Borrower or guarantor</i> | <i>Total loans</i> | <i>Loans approved but not yet effective^a</i> | <i>Undisbursed balance of effective loans^b</i> | <i>Loans outstanding</i> | <i>Percentage of total loans outstanding</i> |
|--|--------------------|---|---|--------------------------|--|
| Iraq | \$ 46 | \$ — | \$ — | \$ 46 | 0.04% |
| Jamaica | 593 | — | 110 | 483 | 0.42 |
| Jordan | 1,218 | — | 197 | 1,021 | 0.88 |
| Kazakhstan | 1,490 | 40 | 232 | 1,218 | 1.05 |
| Kenya | 9 | — | — | 9 | 0.01 |
| Korea, Republic of | 5,895 | — | 7 | 5,888 | 5.07 |
| Latvia | 309 | — | 41 | 268 | 0.23 |
| Lebanon | 699 | 140 | 228 | 331 | 0.28 |
| Lesotho | 36 | — | 17 | 19 | 0.02 |
| Liberia | 142 | — | — | 142 | 0.12 |
| Lithuania | 352 | — | 67 | 285 | 0.25 |
| Macedonia, former Yugoslav Republic of | 207 | — | 57 | 150 | 0.13 |
| Malawi | 2 | — | — | 2 | * |
| Malaysia | 789 | — | 66 | 723 | 0.62 |
| Mauritius | 98 | — | 9 | 89 | 0.08 |
| Mexico | 13,347 | 905 | 1,773 | 10,669 | 9.18 |
| Moldova | 190 | — | 4 | 186 | 0.16 |
| Morocco | 2,996 | 77 | 287 | 2,632 | 2.26 |
| Nigeria | 1,224 | — | — | 1,224 | 1.05 |
| Pakistan | 2,742 | — | 36 | 2,706 | 2.33 |
| Panama | 377 | — | 97 | 280 | 0.24 |
| Papua New Guinea | 354 | — | 85 | 269 | 0.23 |
| Paraguay | 284 | — | 65 | 219 | 0.19 |
| Peru | 2,785 | 93 | 143 | 2,549 | 2.19 |
| Philippines | 4,134 | 34 | 748 | 3,352 | 2.88 |
| Poland | 2,711 | — | 351 | 2,360 | 2.03 |
| Romania | 3,000 | 170 | 604 | 2,226 | 1.91 |
| Russian Federation | 8,190 | 481 | 1,280 | 6,429 | 5.53 |
| St. Kitts and Nevis | 25 | — | 14 | 11 | 0.01 |
| St. Lucia | 21 | — | 13 | 8 | 0.01 |
| St. Vincent and the Grenadines | 5 | — | 4 | 1 | * |
| Serbia and Montenegro | 2,388 | — | — | 2,388 | 2.05 |
| Seychelles | 3 | — | — | 3 | * |
| Slovak Republic | 399 | 6 | 190 | 203 | 0.17 |
| Slovenia | 85 | — | 14 | 71 | 0.06 |
| South Africa | 39 | — | 25 | 14 | 0.01 |
| Sri Lanka | 4 | — | — | 4 | * |
| Swaziland | 27 | — | 18 | 9 | 0.01 |
| Syrian Arab Republic | 8 | — | — | 8 | 0.01 |
| Tanzania | 4 | — | — | 4 | * |

SUMMARY STATEMENT OF LOANS (Continued)

June 30, 2003

Expressed in millions of U.S. dollars

| Borrower or guarantor | Total loans | Loans approved but not yet effective ^a | Undisbursed balance of effective loans ^b | Loans outstanding | Percentage of total loans outstanding |
|--|------------------|---|---|-------------------|---------------------------------------|
| Thailand | \$ 2,305 | \$ — | \$ 86 | \$ 2,219 | 1.91% |
| Trinidad and Tobago | 121 | 20 | 11 | 90 | 0.08 |
| Tunisia | 2,255 | 131 | 534 | 1,590 | 1.37 |
| Turkey | 7,825 | — | 2,552 | 5,273 | 4.54 |
| Turkmenistan | 38 | — | 8 | 30 | 0.03 |
| Ukraine | 2,795 | 300 | 291 | 2,204 | 1.90 |
| Uruguay | 1,199 | — | 451 | 748 | 0.64 |
| Uzbekistan | 495 | 35 | 177 | 283 | 0.24 |
| Venezuela, Republica Bolivariana de | 701 | — | 125 | 576 | 0.50 |
| Zambia | 10 | — | — | 10 | 0.01 |
| Zimbabwe | 433 | — | — | 433 | 0.37 |
| Subtotal ^a | 149,137 | 5,937 | 27,094 | 116,106 | 99.89 |
| Caribbean Development Bank ^c | 1 | — | — | 1 | * |
| International Finance Corporation ^d | 133 | — | — | 133 | 0.11 |
| Total—June 30, 2003 ^e | <u>\$149,271</u> | <u>\$5,937</u> | <u>\$27,094</u> | <u>\$116,240</u> | <u>100.00%</u> |
| Total—June 30, 2002 | <u>\$157,942</u> | <u>\$6,634</u> | <u>\$29,719</u> | <u>\$121,589</u> | |

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

NOTES

- Loans totaling \$4,333 million (\$3,705 million—June 30, 2002) have been approved by IBRD, but the related agreements have not been signed. Loan agreements totaling \$1,604 million (\$2,929 million—June 30, 2002) 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 \$579 million (\$811 million—June 30, 2002).
- 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.
- Loans to the International Finance Corporation have a weighted average interest rate of 6.54% and a weighted average maturity of 2.03 years. These loans are not eligible for IBRD's interest waivers.
- May differ from the sum of individual figures shown due to rounding.

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

June 30, 2003

Expressed in millions of U.S. dollars

| Member | Subscriptions | | | | Voting Power | | |
|-------------------------------|---------------|---------------------|---------------|------------------------------|--|-----------------|---------------------|
| | Shares | Percentage of total | Total amounts | Amounts paid in ^a | Amounts subject to call ^{a,b} | 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 | 0.45 |

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

June 30, 2003

Expressed in millions of U.S. dollars

| Member | Subscriptions | | | | | Voting Power | |
|--|---------------|---------------------|---------------|------------------------------|--|-----------------|---------------------|
| | Shares | Percentage of total | Total amounts | Amounts paid in ^a | Amounts subject to call ^{a,b} | 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 ^a | Amounts subject to call ^{a,b} | 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 |
| Serbia and Montenegro | 1,597 | 0.10 | 192.7 | 16.9 | 175.7 | 1,847 | 0.11 |

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

June 30, 2003

Expressed in millions of U.S. dollars

| Member | Subscriptions | | | | Voting Power | | |
|-------------------------------------|------------------|---------------------|------------------|------------------------------|--|------------------|---------------------|
| | Shares | Percentage of total | Total amounts | Amounts paid in ^a | Amounts subject to call ^{a,b} | Number of votes | Percentage of total |
| 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 |
| 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 |
| Timor-Leste | 517 | 0.03 | 62.4 | 1.9 | 60.4 | 767 | 0.05 |
| 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 | 16.86 | 31,964.5 | 1,998.4 | 29,966.2 | 265,219 | 16.40 |
| 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, Republica 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 |
| 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, 2003 ^b | <u>1,571,412</u> | <u>100.00%</u> | <u>\$189,567</u> | <u>\$11,478</u> | <u>\$178,089</u> | <u>1,617,412</u> | <u>100.00%</u> |
| Total—June 30, 2002 | <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> | |

^a Indicates amounts less than 0.005 percent.

NOTES

- a. See Notes to Financial Statements—Note B.
b. 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, guarantees 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. Transactions with these affiliates are disclosed in the notes that follow. IDA's main goal is to reduce poverty through promoting sustainable economic development in the less developed areas of the world included in IDA's membership by providing a combination of grants and 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 between member countries and, in particular, to developing member countries by providing guarantees against noncommercial risks for foreign investment in its developing member countries.

NOTE A—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 Financial Reporting Standards. On July 31, 2003, the Board of Executive Directors approved these financial statements for issue.

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 valuation of certain financial instruments, the determination of the adequacy of the accumulated provision for losses on loans and guarantees, 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 with the current year's presentation.

Accounting for Derivatives: IBRD complies with the derivative accounting requirements of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", along with its amendments, as well as International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement". These standards, collectively referred to as FAS 133 in this document, require that derivative instruments, as defined by these standards, be recorded on the balance sheet at fair value.

IBRD uses derivative instruments in its investments and borrowings portfolios and for asset/liability management purposes. In applying FAS 133 for the 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 fair value have been recognized in net income. 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 strategies that IBRD employs.

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 net loans outstanding.

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 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 B), 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 as a component of equity under 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, Surplus and Cumulative FAS 133 Adjustments) 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—Trading, and comprise 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 the cumulative actual funding of the Staff Retirement Plan (SRP) and other postretirement benefits plans, and the cumulative accounting income for these plans, from prior fiscal years. This Pension Reserve will be reduced in future fiscal years if pension accounting expenses exceed the actual funding of these plans.

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.

The Cumulative FAS 133 Adjustments consist of the effects associated with the application of FAS 133 from prior years. At June 30, 2003, this amount includes the one-time cumulative effect of the adoption of FAS 133 on July 1, 2000, the reclassification and amortization of the transition adjustments for prior

fiscal years, and the unrealized gains or losses on certain derivative instruments, as defined by FAS 133, for prior fiscal years.

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 insignificant. 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, during fiscal years 1996 and 2002, exceptions were made to that practice with regard to Bosnia and Herzegovina (BiH) and Serbia and Montenegro (SAM), formerly the Federal Republic of Yugoslavia, respectively, in connection with their succession to membership of the former Socialist Federal Republic of Yugoslavia (SFRY). One component of the financial assistance packages for BiH and SAM, was a plan for the clearance of arrears under all loans to the former SFRY for which they undertook responsibility. Under the arrears clearance plans, the accumulated arrears on loans to the former

SFRY which were assumed by BiH and SAM were cleared through the issuance of new loans extended by IBRD.

IBRD's treatment of BiH and SAM was based on criteria approved by the Executive Directors in connection with the financial assistance package for BiH in fiscal year 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. This treatment was based on a precedent established in 1975 after Bangladesh became independent from Pakistan. IBRD does not believe that any other borrowers with loans in nonaccrual status currently meet these eligibility criteria.

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 into 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.

Guarantees: IBRD provides guarantees of loans undertaken for, or securities issued in support of, projects located within a member country eligible for IBRD loans, as well as loans undertaken or securities

issued by entities eligible for IBRD adjustment lending. These financial guarantees are commitments issued by IBRD to guarantee payment performance by a borrower to a third party.

Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred, and called when a guaranteed party demands payment under the guarantee. IBRD would be required to perform under its guarantees if the payments guaranteed were not made by the debtor and the guaranteed party called the guarantee by demanding payment from IBRD in accordance with the terms of the guarantee. In the event that a guarantee is called, IBRD has the contractual right to require payment from the member country in whose territory the project is located, on demand, or as IBRD may otherwise direct.

Prior to January 1, 2003, IBRD recorded a liability for the probable losses related to guarantees outstanding. In addition, fee income received from these guarantees was deferred and amortized over the period of benefit. The provision for losses on guarantees as well as the unamortized balance of the deferred guarantee fee income are included in Accounts Payable and Other Liabilities on the balance sheet. For guarantees issued or modified after December 31, 2002, in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others", IBRD will record the fair value of the obligation to stand ready in the financial statements. IBRD has not issued or modified any guarantees after December 31, 2002.

Accumulated Provision for Losses on Loans and Guarantees: 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 of interest and charges made according to the related loan's contractual terms and the present value of its expected future cash flows. IBRD has not written off any of its loans.

Management determines the appropriate level of accumulated provisions for losses on loans and guarantees on a borrower-by-borrower basis for both

the nonaccrual and accrual portfolios at the balance sheet date. The appropriate level of provisions for each borrower is estimated as the sum product of its expected default frequency (or probability of default to IBRD), its loans outstanding (plus the present value of guarantees), and the assumed severity of loss given default. This methodology considers the present value of expected cash flows relative to the contractual cash flows for each borrower.

Judgments on borrowers' expected default frequencies and severities are based on many factors such as assessments of borrowers' past and prospective economic performance and economic policy framework. IBRD periodically reviews such factors and reassesses the adequacy of the accumulated provision for losses on loans and guarantees accordingly. Adjustments to the accumulated provision are recorded as a charge or addition to income.

Cash and Liquid Investments: IBRD considers unrestricted cash, as well as financial instruments held in the investment portfolio as elements of liquidity in the Statement of Cash Flows, since they are readily convertible to known amounts of cash within ninety days.

Investments: Investment securities are classified based on management's intention on the date of purchase, their nature, and IBRD's policies governing the level and use of such investments. At June 30, 2003 and June 30, 2002, all investment securities were held in a trading portfolio. Investment securities and related financial instruments held in IBRD's Trading portfolio are carried and reported at fair value, using trade-date accounting. The first-in first-out (FIFO) method is used to determine the cost of securities sold in computing the realized gains and losses on these instruments. Unrealized gains and losses for investment securities and related financial instruments held in the Trading portfolio are included in income. Derivative instruments are used in liquidity management to take advantage of profitable trading opportunities and as a proxy for cash securities. These derivatives are carried at fair 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, securities lent under securities lending 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.

Nonnegotiable noninterest-bearing Demand Obligations on Account of Subscribed Capital: Payments on these instruments are due to IBRD upon demand and are held in bank accounts which bear IBRD's name. Accordingly, these instruments are carried and reported at face value as assets on the balance sheet.

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 mitigate risks as well as lower its funding costs. These derivatives are used to modify the interest rate and/or currency characteristics of the borrowing portfolio, and are carried at fair value in accordance with FAS 133. 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.

Valuation of Financial Instruments: Derivative financial instruments and investment securities are recorded in IBRD's financial statements at fair value.

Disclosures related to the fair value of these, and other financial instruments are included in Note O. Fair value is based on market quotations when possible. Financial instruments for which market quotations are not readily available have been valued based on discounted cash flow models using market estimates of cash flows and discount rates. All the financial models used for valuing IBRD's financial instruments are subject to both internal and periodic external verification and review by qualified personnel. These models use market sourced inputs such as interest rate yield curves, exchange rates, and option volatilities. Selection of these inputs may involve some judgement, as does estimating prices when no external parameters exist.

Accounting and Reporting Developments: In January 2003 and April 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" and Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on derivative Instruments and Hedging Activities", respectively. These Standards did not have a material impact on IBRD's financial statements for the fiscal year ended June 30, 2003.

There were no significant changes in the relevant International Financial Reporting Standards that would have an impact on IBRD's financial statements.

NOTE B—CAPITAL STOCK, RESTRICTED CURRENCIES, MAINTENANCE OF VALUE, AND MEMBERSHIP

Capital Stock: At June 30, 2003, IBRD's capital comprised 1,581,724 authorized shares (1,581,724 shares—June 30, 2002), of which 1,571,412 shares had been subscribed (1,570,895 shares—June 30, 2002). 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, \$11,478 million (\$11,476 million—June 30, 2002) has been paid in, and the remaining \$178,089 million (\$178,029 million—June 30, 2002) 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 \$331 million (\$641 million—June 30, 2002) included in Amounts to Maintain Value of Currency Holdings,

Liquid Portfolio: A summary of IBRD's position in trading and other liquid portfolio instruments at June 30, 2003 and June 30, 2002 is as follows:

In millions of U.S. dollars

| | <u>FY 2003</u> | <u>FY 2002</u> |
|---|-----------------------|-----------------------|
| | <u>Carrying Value</u> | <u>Carrying Value</u> |
| Investments—Trading | | |
| Government and agency obligations | \$ 10,061 | \$ 8,959 |
| Time deposits | 13,363 | 10,196 |
| Asset-backed securities | 4,492 | 5,100 |
| Options and futures | 3 | 1 |
| Total | <u>27,919</u> | <u>24,256</u> |
| Securities purchased under resale agreements | 212 | 1,820 |
| Repurchase agreements and securities loans | (153) | — |
| Investment holdings excluding swaps | <u>27,978</u> | <u>26,076</u> |
| Receivable from currency and interest rate swaps | | |
| Currency swaps | 2,631 | 2,497 |
| Cross-currency interest rate swaps | 7,620 | 7,435 |
| Interest rate swaps | 50 | 8 |
| Total | <u>10,301</u> | <u>9,940</u> |
| Payable for currency and interest rate swaps | | |
| Currency swaps | (2,651) | (2,664) |
| Cross-currency interest rate swaps payable | (9,117) | (8,106) |
| Interest rate swaps | (94) | (57) |
| Total | <u>(11,862)</u> | <u>(10,827)</u> |
| Investment holdings including swaps | <u>\$26,417</u> | <u>\$ 25,189</u> |

A summary of IBRD's outstanding loans by currency and product at June 30, 2003 and June 30, 2002 follows:

In millions of U.S. dollars equivalent

| | 2003 | | | | | | | | | | | |
|---|----------|-----------|--------------|----------|--------------|-----------|--------|----------|-------------------|-----------|------------|-------------------|
| | Euro | | Japanese yen | | U.S. dollars | | Others | | Loans Outstanding | | Total | |
| | Fixed | Adjust. | Fixed | Adjust. | Fixed | Adjust. | Fixed | Adjust. | Fixed | Adjust. | | |
| Multicurrency loans^{a,b} | | | | | | | | | | | | |
| Amount | \$ 99 | \$ 7,538 | \$ 54 | \$ 6,878 | \$ 169 | \$ 6,668 | \$ 93 | \$ 1,644 | \$ 415 | \$ 22,728 | \$ 23,143 | |
| Weighted average rate (%) ^c | 8.16 | 4.62 | 7.68 | 4.62 | 7.98 | 4.62 | 7.67 | 4.62 | 7.92 | 4.62 | 4.68 | |
| Single currency pools | | | | | | | | | | | | |
| Amount | \$ — | \$ 2,703 | \$ — | \$ 31 | \$ — | \$ 17,756 | \$ — | \$ — | \$ — | \$ 20,490 | \$ 20,490 | |
| Weighted average rate (%) ^c | — | 5.67 | — | 1.07 | — | 7.15 | — | — | — | 6.95 | 6.95 | |
| Average Maturity (years) | — | 3.41 | — | 2.54 | — | 3.44 | — | — | — | 3.43 | 3.43 | |
| Single currency loans | | | | | | | | | | | | |
| Amount | \$ 685 | \$ 2,694 | \$ — | \$ 157 | \$ 14,630 | \$ 41,897 | \$ — | \$ 2 | \$ 15,315 | \$ 44,750 | \$ 60,065 | |
| Weighted average rate (%) ^c | 5.44 | 2.66 | — | 0.29 | 6.49 | 1.89 | — | 0.63 | 6.45 | 1.93 | 3.08 | |
| Average Maturity (years) | 3.81 | 6.05 | — | 6.58 | 3.79 | 5.58 | — | 3.47 | 3.79 | 5.61 | 5.15 | |
| Fixed-spread loans | | | | | | | | | | | | |
| Amount | \$ 2,216 | \$ 1,468 | \$ * | \$ — | \$ 1,974 | \$ 6,884 | \$ — | \$ — | \$ 4,190 | \$ 8,352 | \$ 12,542 | |
| Weighted average rate (%) ^c | 5.72 | 2.85 | — | — | 5.31 | 1.86 | — | — | 5.53 | 2.04 | 3.20 | |
| Average maturity (years) | 13.68 | 12.50 | — | — | 9.26 | 8.07 | — | — | 11.60 | 8.85 | 9.77 | |
| Total Loans | | | | | | | | | | | | |
| Amount | \$ 3,000 | \$ 14,403 | \$ 54 | \$ 7,066 | \$ 16,773 | \$ 73,205 | \$ 93 | \$ 1,646 | \$ 19,920 | \$ 96,320 | \$ 116,240 | |
| Weighted average rate (%) ^c | 5.73 | 4.27 | 7.68 | 4.51 | 6.37 | 3.41 | 7.67 | 4.61 | 6.28 | 3.64 | 4.09 | |
| Total loans | | | | | | | | | | | | \$ 116,240 |
| Less accumulated provision for loan losses and deferred loan income | | | | | | | | | | | | 4,478 |
| Net loans outstanding | | | | | | | | | | | | <u>\$ 111,762</u> |

Note: For footnotes see following page.

In millions of U.S. dollars equivalent

| | 2002 | | | | | | | | | | | |
|---|----------|-----------|--------------|----------|--------------|-----------|--------|----------|-------------------|------------|------------|-------------------|
| | Euro | | Japanese yen | | U.S. dollars | | Others | | Loans Outstanding | | Total | |
| | Fixed | Adjust. | Fixed | Adjust. | Fixed | Adjust. | Fixed | Adjust. | Fixed | Adjust. | | |
| Multicurrency loans^{a,b} | | | | | | | | | | | | |
| Amount | \$ 120 | \$ 8,586 | \$ 82 | \$ 9,022 | \$ 197 | \$ 8,785 | \$ 102 | \$ 1,683 | \$ 501 | \$ 28,076 | \$ 28,577 | |
| Weighted average rate (%) ^c | 8.17 | 5.03 | 7.84 | 5.03 | 7.77 | 5.03 | 7.66 | 5.03 | 7.85 | 5.03 | 5.08 | |
| Single currency pools | | | | | | | | | | | | |
| Amount | \$ — | \$ 2,835 | \$ — | \$ 40 | \$ 1 | \$ 22,710 | \$ — | \$ — | \$ 1 | \$ 25,585 | \$ 25,586 | |
| Weighted average rate (%) ^c | — | 6.65 | — | 1.72 | 11.60 | 8.32 | — | — | 11.60 | 8.12 | 8.12 | |
| Average Maturity (years) | — | 3.72 | — | 2.86 | 0.47 | 3.86 | — | — | 0.47 | 3.84 | 3.84 | |
| Single currency loans | | | | | | | | | | | | |
| Amount | \$ 623 | \$ 2,045 | \$ — | \$ 139 | \$ 15,250 | \$ 42,350 | \$ — | \$ 2 | \$ 15,873 | \$ 44,536 | \$ 60,409 | |
| Weighted average rate (%) ^c | 5.47 | 3.82 | — | 0.28 | 6.64 | 2.86 | — | 1.71 | 6.59 | 2.90 | 3.87 | |
| Average Maturity (years) | 4.33 | 6.40 | — | 6.48 | 4.26 | 5.70 | — | 3.97 | 4.26 | 5.73 | 5.35 | |
| Fixed-spread loans | | | | | | | | | | | | |
| Amount | \$ 1,903 | \$ 990 | \$ — | \$ 1 | \$ 565 | \$ 3,558 | \$ — | \$ — | \$ 2,468 | \$ 4,549 | \$ 7,017 | |
| Weighted average rate (%) ^c | 5.72 | 4.10 | — | 0.59 | 6.64 | 2.63 | — | — | 5.93 | 2.95 | 4.00 | |
| Average maturity (years) | 14.74 | 14.44 | — | 13.34 | 9.56 | 8.34 | — | — | 13.55 | 9.67 | 11.04 | |
| Total Loans | | | | | | | | | | | | |
| Amount | \$ 2,646 | \$ 14,456 | \$ 82 | \$ 9,202 | \$ 16,013 | \$ 77,403 | \$ 102 | \$ 1,685 | \$ 18,843 | \$ 102,746 | \$ 121,589 | |
| Weighted average rate (%) ^c | 5.77 | 5.12 | 7.84 | 4.95 | 6.65 | 4.70 | 7.66 | 5.03 | 6.54 | 4.79 | 5.06 | |
| Total loans | | | | | | | | | | | | \$ 121,589 |
| Less accumulated provision for loan losses and deferred loan income | | | | | | | | | | | | 5,442 |
| Net loans outstanding | | | | | | | | | | | | <u>\$ 116,147</u> |

a. Includes loans issued prior to 1980, and loans to IFC, in addition to multicurrency pool loans.

b. **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. 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.

c. Excludes effects of any waivers of loan interest.

* Less than \$0.5 million.

amount represents the maximum potential amount of undiscounted future payments that IBRD could be required to make under these guarantees, and are not included in the balance sheet. Most of these guarantees have maturities ranging between 10 and 15 years, and expire in decreasing amounts through 2012.

At June 30, 2003, liabilities related to IBRD's obligations under guarantees of \$33 million (\$55 million—June 30, 2002), have been included in Accounts Payable and Miscellaneous Liabilities on the balance sheet. These include the accumulated provision for guarantee losses of \$24 million (\$41 million—June 30, 2002).

During the second quarter of fiscal year 2003, IBRD's guarantee of certain bonds that had been issued by Argentina was called and, in accordance with the terms of the guarantee, IBRD made a payment of \$250

million to the holders of such guarantee on October 15, 2002. Pursuant to the terms of the reimbursement agreement between IBRD and Argentina, IBRD directed Argentina to reimburse IBRD for the entire \$250 million in four equal semi-annual installments, commencing October 15, 2005, and to repay interest on the outstanding amount at LIBOR plus 400 basis points. The outstanding amount of \$250 million is included in Loans Outstanding on the balance sheet at June 30, 2003. No other guarantees provided by IBRD have been called as of June 30, 2003.

Overdue Amounts

At June 30, 2003, no loans payable to IBRD, other than those referred to in the following table, were overdue by more than three months. The following table provides a summary of selected financial information related to loans in nonaccrual status as of June 30:

In millions of U.S. dollars

| | 2003 | 2002 | 2001 |
|--|---------------|---------------|----------------|
| Recorded investment in nonaccrual loans ^a | \$3,012 | \$2,755 | \$2,832 |
| Overdue amounts of nonaccrual loans: | | | |
| Principal payments | \$ 319 | \$ 336 | \$1,331 |
| Interest and charges | 310 | 313 | 1,087 |
| | <u>\$ 629</u> | <u>\$ 649</u> | <u>\$2,418</u> |
| Average recorded investment in nonaccrual loans | \$2,793 | \$2,897 | \$2,424 |
| Accumulated provision for loan losses on nonaccrual loans ^b | \$1,269 | \$1,523 | \$1,237 |
| Interest income recognized on nonaccrual loans during fiscal year | \$ 113 | \$ 84 | \$ 136 |
| Interest income not earned as a result of loans being in nonaccrual status | \$ 28 | \$ 34 | \$ 80 |

a. A loan loss provision has been made against each of the loans in the nonaccrual portfolio.

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

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

In millions of U.S. dollars

| Borrower | 2003 | | |
|-------------------------|-----------------------|-------------------------------|------------------|
| | Principal outstanding | Principal and charges overdue | Nonaccrual since |
| With overdues | | | |
| Iraq | \$ 46 | \$ 90 | December 1990 |
| Liberia | 142 | 348 | June 1987 |
| Seychelles | 3 | 1 | August 2002 |
| Zimbabwe | 433 | 190 | October 2000 |
| Total | 624 | 629 | |
| Without overdues | | | |
| Serbia and Montenegro | 2,388 | — | September 1992 |
| Total | <u>\$3,012</u> | <u>\$629</u> | |

In July 2002, the Syrian Arab Republic and the Democratic Republic of Congo cleared all of their overdue payments with IBRD, and all IBRD loans to, or guaranteed by, these two countries were restored to accrual status. As a result, income from loans for the fiscal year ended June 30, 2003 increased by \$57 million, representing income that would have been accrued in previous fiscal years had these loans not been in nonaccrual status. These events were considered in determining the adequacy of the provision for loan losses at June 30, 2002.

The arrears clearance of \$131 million by the Democratic Republic of Congo, was accomplished using bridge financing provided by an international financial institution. On the same day of the arrears clearance, IDA disbursed a development credit to this country in support of economic reform and poverty reduction programs. Part of the proceeds of this development credit was used to repay the bridge financing. The development credit was funded by IDA resources other than transfers from IBRD.

On January 8, 2002, the accumulated arrears on loans for which SAM undertook responsibility were cleared through six new loans extended by IBRD. These new loans included the loan principal outstanding assumed by SAM as part of its conditions for succession to membership, as well as all unpaid interest and charges related to the SFYR loans for which SAM undertook responsibility.

During the fiscal year ended June 30, 2002, all IBRD loans to or guaranteed by BiH, Cote d'Ivoire, and the Republic of Congo were restored to accrual status. Income from loans for the fiscal year ended June 30, 2002 increased by \$48 million, representing income that would have been accrued in previous fiscal years had these loans not been in nonaccrual status.

Each of the arrears clearances of \$25 million for Cote d'Ivoire, and \$34 million for the Republic of Congo, was accomplished using bridge financing provided by an international financial institution. On the same day that the international financial institution provided financing, IDA disbursed development credits to the respective country in support of economic reform and poverty reduction programs. Some or all of the proceeds from these development credits were used to repay the bridge financing. The development credits were funded by IDA resources other than transfers from IBRD.

Accumulated Provision for Losses on Loans and Guarantees

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 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 probable losses inherent in its loan and guarantee portfolio, IBRD maintains an accumulated provision for losses on loans and guarantees.

During June 1996 and January 2002, the accumulated arrears on loans to the former SFRY, for which BiH and SAM undertook responsibility, were cleared through the issuance of new loans extended by IBRD to the two countries. These loans included unpaid interest and charges related to SFRY's loans. This

resulted in an increase in loans outstanding of \$168 million for BiH and \$799 million for SAM. The offset to these amounts was initially classified as deferred loan income, which is presented along with the accumulated provision for loan losses as a determinant of net loans outstanding on the balance sheet.

During fiscal year 2003, IBRD determined that these reductions should be reclassified as accumulated provision for loan losses to better reflect the nature of these amounts. Accordingly, prior year amounts have been reclassified to conform with the current year's presentation.

Changes to the accumulated provision for losses on loans and guarantees for the fiscal years ended June 30, 2003, June 30, 2002 and June 30, 2001 are summarized below:

In millions of U.S. dollars

| | <i>June 30, 2003</i> | <i>June 30, 2002</i> | <i>June 30, 2001</i> |
|--|----------------------|----------------------|----------------------|
| Accumulated provision for losses on loans and guarantees, beginning of the fiscal year | \$5,094 | \$4,106 | \$3,554 |
| Additional amounts held for loans to Serbia and Montenegro | — | 799 | — |
| Provision for losses on loans and guarantees—(decrease) increase | (1,300) | (15) | 676 |
| Translation adjustment | 275 | 204 | (124) |
| Accumulated provision for losses on loans and guarantees, end of the fiscal year | <u>\$4,069</u> | <u>\$5,094</u> | <u>\$4,106</u> |
| Composed of: | | | |
| Accumulated provision for guarantee losses | 24 | 41 | 32 |
| Accumulated provision for loan losses | 4,045 | 5,053 | 4,074 |
| Total | <u>\$4,069</u> | <u>\$5,094</u> | <u>\$4,106</u> |

Reported as Follows

| | <i>Balance Sheet</i> | <i>Statement of Income</i> |
|---------------------------------|--|--|
| Allowance for Losses on: | | |
| Loans | Accumulated Provision for Loan Losses | Provision for Losses on Loans and Guarantees |
| Guarantees | Accounts Payable and Miscellaneous Liabilities | Provision for Losses on Loans and Guarantees |

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 not entered into any commitments to provide debt relief under this initiative. However, IDA is expected under the HIPC debt initiative, to extend new credits to certain IDA-eligible countries no longer able to borrow on IBRD terms, but with outstanding IBRD debt. These credits will be funded by IDA resources other than transfers from IBRD. In determining the adequacy of the accumulated provision for losses on loans and guarantees, IBRD has taken the situation of these countries into account.

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 development 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 development 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 development 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 development credit from the program, a member country cannot be more than 60 days overdue on its debt-service payments to IBRD or IDA.

A summary of cumulative IDA development credits committed and disbursed under this program from

inception, at June 30, 2003 and June 30, 2002 is presented below:

In millions of U.S. dollars

| | <u>2003</u> | <u>2002</u> |
|---------------------------|-----------------------|-----------------------|
| Commitments | \$1,711 | \$1,706 |
| Less undisbursed | <u>12</u> | <u>16</u> |
| Disbursed and outstanding | <u><u>\$1,699</u></u> | <u><u>\$1,690</u></u> |

NOTE E—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 initiates swap transactions with a list of authorized counterparties. Credit limits have been established for each counterparty.

Medium- and Long-term Borrowings and Swaps at June 30, 2002

In millions of U.S. dollars equivalent

| Currency/ Rate type | Direct borrowings | | | Currency swap agreements ^a | | | Interest rate swap agreements | | | Net currency obligations | | |
|--|-------------------|------------------------------|--------------------------------|--|------------------------------|--------------------------------|---|------------------------------|--------------------------------|-----------------------------------|------------------------------|---|
| | Amount | Wgtl. avg. cost (%) | Average maturity (years) | Amount payable (receivable) | Wgtl. avg. cost (%) | Average maturity (years) | Notional amount payable (receivable) | Wgtl. avg. cost (%) | Average maturity (years) | Amount payable (receivable) | Wgtl. avg. cost (%) | Average maturity ^b (years) |
| Euro | | | | | | | | | | | | |
| Fixed | \$ 13,218 | 6.19 | 4.64 | \$ 1,145 (11,539) | 6.07 6.21 | 2.63 4.19 | \$ 3,129 (1,117) | 6.05 6.26 | 7.64 3.37 | \$ 17,492 (12,656) | 6.16 6.21 | 5.05 4.12 |
| Adjustable | 4,777 | 5.52 | 7.92 | 9,620 (5,782) | 3.55 5.10 | 4.23 7.61 | 1,105 (3,128) | 3.31 3.83 | 2.32 7.64 | 15,502 (8,910) | 4.14 4.65 | 5.23 7.62 |
| Japanese yen | | | | | | | | | | | | |
| Fixed | 7,437 | 4.57 | 4.90 | 127 (5,979) | 5.48 4.85 | 1.75 3.46 | 2,283 (1,757) | 0.37 2.65 | 1.32 3.90 | 9,847 (7,736) | 3.61 4.35 | 4.03 3.56 |
| Adjustable | 9,037 | 5.69 | 24.14 | 5,221 (9,265) | 0.09 5.24 | 2.42 22.73 | 1,757 (2,283) | (0.07) (0.01) | 3.90 1.32 | 16,015 (11,548) | 3.23 4.20 | 14.84 18.50 |
| U. S. dollars | | | | | | | | | | | | |
| Fixed | 52,039 | 5.66 | 4.21 | 10,009 (314) | 8.95 6.49 | 2.01 0.66 | 18,506 (50,647) | 5.92 5.31 | 7.37 3.84 | 80,554 (50,961) | 6.13 5.32 | 4.66 3.82 |
| Adjustable | 1,146 | 3.51 | 3.23 | 39,013 (13,477) | 1.86 1.93 | 11.20 3.59 | 52,288 (20,156) | 1.93 2.17 | 3.35 6.68 | 92,447 (33,633) | 1.92 2.07 | 6.66 5.44 |
| Others | | | | | | | | | | | | |
| Fixed | 17,107 | 6.95 | 8.54 | 169 (16,201) | 2.52 6.88 | 0.08 8.17 | — (154) | — 6.66 | — 4.26 | 17,276 (16,355) | 6.91 6.88 | 8.46 8.13 |
| Adjustable | 192 | 3.58 | 22.88 | — (345) | — 4.97 | — 14.60 | 154 (—) | 2.80 — | 4.26 — | 346 (345) | 3.23 4.97 | 14.59 14.60 |
| Total | | | | | | | | | | | | |
| Fixed | 89,801 | 5.89 | 5.16 | 11,450 (34,033) | | | 23,918 (53,675) | | | 125,169 (87,708) | 6.04 5.65 | 5.19 4.64 |
| Adjustable | 15,152 | 5.44 | 17.43 | 53,854 (28,869) | | | 55,304 (25,567) | | | 124,310 (54,436) | 2.37 2.96 | 7.56 8.63 |
| Principal at face value | <u>104,953</u> | <u>5.83</u> | <u>6.93</u> | 2,402 | | | (20) | | | <u>107,335</u> | <u>3.67</u> | |
| Net unamor- tized pre- mium | 38 | | | 61 | | | 72 | | | 171 | | |
| Effects of applying FAS 133 | 354 | | | (347) | | | (1,220) | | | (1,213) | | |
| Total | <u>\$105,345</u> | | | <u>\$2,116</u> | | | <u>\$(1,168)</u> | | | <u>\$106,293</u> | | |

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

b. At June 30, 2002, the average repricing period of the net currency obligations for adjustable rate borrowings was three months.

Short-term Borrowings and Swaps at June 30, 2003 and June 30, 2002^a

In millions of U.S. dollars equivalent

| Currency/ Rate type | 2003 | | 2002 | | | |
|------------------------------------|---------------------------------------|----------------------------|--------------------------|---|---|----------------------------|
| | Principal outstanding ^b | Wgt'd. avg. cost (%) | Principal outstanding | Currency swap ^c payable (receivable) | Net currency obligations ^b | Wgt'd. avg. cost (%) |
| U. S. dollars | | | | | | |
| Fixed | \$2,833 | 1.06 | \$3,964 | \$ — | \$3,964 | 1.82 |
| Adjustable | 600 | 1.19 | 896 | 60 | 956 | 1.83 |
| Others | | | | | | |
| Fixed | — | — | 66 | — | 66 | 10.13 |
| | | | | (66) | (66) | 10.13 |
| Total | | | | | | |
| Fixed | 2,833 | 1.06 | 4,030 | — | 4,030 | 1.96 |
| Adjustable | 600 | 1.19 | 896 | (66) | (66) | 10.13 |
| | | | | 60 | 956 | 1.83 |
| Principal at face value | 3,433 | 1.08 | 4,926 | (6) | 4,920 | 1.82 |
| Net unamortized discount | (1) | | (8) | — | (8) | |
| Effects of applying FAS 133 | — | | — | * | * | |
| Total | <u>\$3,432</u> | <u>1.08</u> | <u>\$4,918</u> | <u>\$ (6)</u> | <u>\$4,912</u> | <u>1.82</u> |

- a. As of June 30, 2003, there were no currency or interest rate swap agreements. As of June 30, 2002 there were no interest rate swap agreements.
- b. At June 30, 2003, the average repricing period of the principal outstanding (net currency obligations) for short-term borrowings was less than one month (less than one month—June 30, 2002.)
- c. Currency swap agreements include cross-currency interest rate swaps.
- * Less than \$0.5 million

The maturity structure of IBRD's Medium- and Long-term borrowings outstanding at June 30, 2003 and June 30, 2002 is as follows:

In millions of U.S. dollars

| Period | 2003 |
|------------------------------------|------------------|
| July 1, 2003 through June 30, 2004 | \$ 12,266 |
| July 1, 2004 through June 30, 2005 | 19,206 |
| July 1, 2005 through June 30, 2006 | 12,695 |
| July 1, 2006 through June 30, 2007 | 8,884 |
| July 1, 2007 through June 30, 2008 | 9,438 |
| July 1, 2008 through June 30, 2013 | 15,965 |
| Thereafter | 27,338 |
| Total | <u>\$105,792</u> |

In millions of U.S. dollars

| Period | 2002 |
|------------------------------------|------------------|
| July 1, 2002 through June 30, 2003 | \$ 17,498 |
| July 1, 2003 through June 30, 2004 | 11,773 |
| July 1, 2004 through June 30, 2005 | 17,937 |
| July 1, 2005 through June 30, 2006 | 11,206 |
| July 1, 2006 through June 30, 2007 | 6,917 |
| July 1, 2007 through June 30, 2012 | 16,566 |
| Thereafter | 23,056 |
| Total | <u>\$104,953</u> |

Line of credit: IBRD maintains a line of credit with an independent financial institution. This facility was created for the benefit of both IBRD and IDA. The available line of credit to each institution is \$500 million, but usage from both institutions cannot exceed \$500 million in aggregate. The line of credit is used to cover any overnight overdrafts that may occur due to failed trades. At June 30, 2003, IBRD had drawn down \$1 million under this facility. At June 30, 2002, IBRD maintained a \$400 million line of credit with an independent financial institution and IDA maintained a \$100 million line of credit with the same

institution. No amounts were drawn down under these facilities as of June 30, 2002.

NOTE F—OTHER ASSET/LIABILITY SWAPS

As part of asset/liability management, IBRD has entered into a number of currency swaps to better align its currency composition of Equity with that of Loans Outstanding. A summary of IBRD's other asset/liability swaps at June 30, 2003 and June 30, 2002 is presented below:

In millions of U.S. dollars equivalent

| | June 30, 2003 | | | June 30, 2002 | | |
|--------------|---------------------------------------|---------------------------|--------------------------|---------------------------------------|---------------------------|--------------------------|
| | Other Asset/Liability Swap Agreements | | | Other Asset/Liability Swap Agreements | | |
| | Amount Receivable (payable) | Weighted Average Cost (%) | Average Maturity (years) | Amount Receivable (payable) | Weighted Average Cost (%) | Average Maturity (years) |
| U.S. dollars | \$726 | 1.26 | 3.72 | \$727 | 2.30 | 4.72 |
| Euro | \$(360) | 2.49 | 3.71 | \$(312) | 3.53 | 4.71 |
| Japanese yen | (450) | (0.06) | 3.73 | (446) | (0.03) | 4.73 |
| | <u>\$810</u> | <u>1.07</u> | <u>3.72</u> | <u>\$(758)</u> | <u>1.43</u> | <u>4.72</u> |

NOTE G—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 losses on loans and guarantees. 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 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, 2003, IBRD had received collateral of \$5,110 million in connection with swap agreements (\$764 million—June 30, 2002). 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 further reduced under these agreements to the extent that payments and receipts with the counterparty are netted at settlement. The reduction in exposure as a result of these netting provisions can vary as additional transactions are entered into under these

agreements. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date.

The contract value/notional amounts and credit risk exposure, as applicable, of these financial instruments at June 30, 2003 and June 30, 2002 (prior to taking into account any master derivatives or collateral arrangements that have been entered into) are given below:

In millions of U.S. dollars

| | 2003 | 2002 |
|---|----------|----------|
| INVESTMENTS - TRADING PORTFOLIO | | |
| Options and futures | | |
| • Long position | \$ 9,590 | \$ 6,300 |
| • Short position | 222 | 976 |
| • Credit exposure due to potential nonperformance by counterparties | * | 1 |
| Currency swaps ^a | | |
| • Credit exposure due to potential nonperformance by counterparties | 92 | 51 |
| Interest rate swaps | | |
| • Notional principal | 4,575 | 10,705 |
| • Credit exposure due to potential nonperformance by counterparties | 50 | 8 |
| BORROWING PORTFOLIO | | |
| Currency swaps | | |
| • Credit exposure due to potential nonperformance by counterparties | 6,949 | 2,092 |
| Interest rate swaps | | |
| • Notional principal | 82,112 | 82,533 |
| • Credit exposure due to potential nonperformance by counterparties | 5,079 | 3,084 |
| OTHER ASSET/LIABILITY | | |
| Currency swaps | | |
| • Credit exposure due to potential nonperformance by counterparties | — | * |

* Less than \$0.5 million.

a. Includes cross-currency interest rate swaps.

**NOTE H—RETAINED EARNINGS,
ALLOCATIONS AND TRANSFERS**

Retained Earnings: Retained Earnings comprises the following elements at June 30, 2003 and June 30, 2002:

In millions of U.S. dollars

| | 2003 | 2002 |
|-----------------------------------|-----------------|-----------------|
| Special reserve | \$ 293 | \$ 293 |
| General reserve | 19,132 | 17,841 |
| Pension reserve | 963 | 870 |
| Surplus | 100 | 100 |
| Cumulative FAS 133 Adjustments | 1,199 | 345 |
| Unallocated net income | 5,344 | 2,778 |
| Total | <u>\$27,031</u> | <u>\$22,227</u> |

The aggregate transfers and amounts payable for these Board of Governors-approved transfers at June 30, 2003 and June 30, 2002 are included in the following table:

In millions of U.S. dollars

| Transfers to | Aggregate Transfers through June 30, 2002 | Transfers from Fiscal Year 2002 Unallocated Net Income | Amount Payable at June 30 | |
|--|--|---|------------------------------|----------------|
| | | | 2003 | 2002 |
| International Development Association | \$7,057 | \$300 | \$1,293 | \$1,243 |
| Debt Reduction Facility for IDA-only Countries | 300 | — | 81 | 81 |
| Trust Fund for Gaza and West Bank | 380 | — | — | 13 |
| Heavily Indebted Poor Countries Debt Initiative Trust Fund | 1,400 | 240 | 100 | 100 |
| | | | <u>\$1,474</u> | <u>\$1,437</u> |

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

Administrative Expenses for the fiscal year ended June 30, 2003 are net of the share of administrative expenses allocated to IDA of \$846 million (\$654 million—June 30, 2002, \$551 million—June 30, 2001). The allocation of expenses between IBRD and IDA is based on an agreed cost sharing formula that reflects the administrative costs of service delivery to countries that are eligible for lending from IBRD and IDA.

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

On August 8, 2002, the Executive Directors allocated \$1,291 million of the net income earned in the fiscal year ended June 30, 2002 to the General Reserve and \$93 million to the Pension Reserve, representing the difference between actual funding of the Staff Retirement Plan and its accounting income for the fiscal year 2002. In addition, the Executive Directors allocated \$854 million of fiscal year 2002 net income to Cumulative FAS 133 Adjustments.

On September 29, 2002, the Board of Governors approved the following transfers out of fiscal year 2002 unallocated Net Income: \$300 million as an immediate transfer to IDA and \$240 million as an immediate transfer to the Heavily Indebted Poor Countries Debt Initiative Trust Fund. These amounts were paid on September 30, 2002.

IBRD recovers certain of its administrative expenses by billing third parties, including IFC and MIGA, for services rendered. These amounts are included in Other Income. For the fiscal years ending June 30, 2003, June 30, 2002, and June 30, 2001, the amount of fee revenue associated with administrative services is as follows:

In millions of U.S. dollars

| | 2003 | 2002 | 2001 |
|---|-------|-------|-------|
| Service fee revenue | \$178 | \$155 | \$146 |
| Included in these amounts are the following: | | | |
| Fees charged to IFC | 28 | 26 | 19 |
| Fees charged to MIGA | 3 | 3 | 1 |

At June 30, 2003 and June 30, 2002, 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 of U.S. dollars

| | 2003 | | | 2002 | | |
|------|--------------------------------|--|--------------|--------------------------------|--|--------------|
| | <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 | \$(310) | \$698 | \$388 | \$(252) | \$ 726 | \$474 |
| IFC | (23) | 277 | 254 | (16) | 286 | 270 |
| MIGA | (3) | 15 | 12 | (3) | 16 | 13 |
| | <u>\$(336)</u> | <u>\$990</u> | <u>\$654</u> | <u>\$(271)</u> | <u>\$1,028</u> | <u>\$757</u> |

NOTE J—MANAGEMENT OF EXTERNAL FUNDS

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 with IBRD and/or IDA, and are held in a separate investment portfolio which is not commingled with IBRD's funds, nor are they included in the assets of IBRD. The trust fund assets by executing agent at June 30, 2003 and June 30, 2002 are summarized below:

| | 2003 | | 2002 | |
|--------------------|---|--|---|--|
| | <i>Total fiduciary assets (in millions of U.S. dollars)</i> | <i>Number of trust fund accounts (unaudited)</i> | <i>Total fiduciary assets (in millions of U.S. dollars)</i> | <i>Number of trust fund accounts (unaudited)</i> |
| IBRD executed | \$2,647 | 1,996 | \$1,665 | 1,754 |
| Recipient executed | 2,576 | 1,232 | 2,049 | 1,273 |
| Total | <u>\$5,223</u> | <u>3,228</u> | <u>\$3,714</u> | <u>3,027</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, 2003, IBRD received \$14 million (\$11 million—June 30, 2002 and \$14 million—June 30, 2001) as fees for administering trust funds. These fees have been recorded as Other Income.

Investment Management Services

IBRD offers 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.

In addition, IBRD offers asset management and technical advisory services to Central Banks of member countries, under the Reserves Advisory and Management Program, for capacity building and other development purposes. One objective of this program is to assist these Central Banks in developing their portfolio management skills. IBRD receives a quarterly fee based on the percentage of assets under management.

The fee income from all of these investment management activities is included in service fee revenues described in Note L.

At June 30, 2003, the assets managed under these agreements had a value of \$6,450 million (\$5,319 million—June 30, 2002). These funds are not included in the assets of IBRD.

NOTE K—PENSION AND OTHER POSTRETIREMENT BENEFITS

IBRD has a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of its staff members as well as the staff of IFC and MIGA.

The SRP provides regular pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides pension benefits administered outside the SRP.

During the fiscal year ended June 30, 2003, there were minor amendments to the SRP, RSBP, and PEBP. These amendments included the extension of retroactive pension credit (on a contributory basis) to eligible current staff members; the lowering of the service eligibility requirement for RSBP benefits from ten years to five years; and the extension of retiree medical coverage to all staff, including those in country field offices.

All costs associated with these plans are allocated between IBRD, IFC, and MIGA based upon their employees' respective participation in the plans. In addition, IFC and MIGA reimburse IBRD for their share of any contributions made to these plans by IBRD. Contributions to these plans are calculated as a percentage of salary.

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, 2003, June 30, 2002, and June 30, 2001:

In millions of U.S. dollars

| | SRP | | | RSBP | | | PEBP | | |
|--|-------------|----------------|----------------|-------------|-------------|--------------|-------------|-------------|-------------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Benefit Cost | | | | | | | | | |
| Service cost | \$203 | \$202 | \$228 | \$28 | \$28 | \$23 | \$8 | \$13 | \$8 |
| Interest cost | 451 | 412 | 448 | 57 | 54 | 52 | 8 | 6 | 6 |
| Expected return on plan assets | (587) | (761) | (829) | (57) | (72) | (79) | — | — | — |
| Amortization of prior service cost | 13 | 7 | 7 | (1) | — | — | * | — | — |
| Amortization of unrecognized net (gain) loss | — | (26) | (113) | 17 | 5 | — | (1) | (2) | (1) |
| Amortization of Transition Asset | (11) | (11) | (11) | — | — | — | — | — | — |
| Net periodic pension cost (income) | \$69 | \$(177) | \$(270) | \$44 | \$15 | \$(4) | \$15 | \$17 | \$13 |
| of which: | | | | | | | | | |
| IBRD's Share | \$31 | \$(93) | \$(153) | \$20 | \$8 | \$(2) | \$7 | \$9 | \$7 |
| IDA's Share | \$38 | \$(84) | \$(117) | \$24 | \$7 | \$(2) | \$8 | \$8 | \$6 |

IDA's share of the net periodic pension income/cost is included as a payable to/receivable from IDA in Miscellaneous Assets and Accounts Payable and Miscellaneous liabilities on the balance sheet.

The expenses for the SRP, RSBP and PEBP are included in Administrative Expenses. The income from the SRP and RSBP for prior fiscal years is included as a separate line item on the Statement of Income.

For the fiscal year ended June 30, 2003, expenses for these plans of \$24 million were allocated to IFC and \$2 million was allocated to MIGA. For the fiscal years ended June 30, 2002 and June 30, 2001, net income from these plans of \$31 million and \$47 million, respectively, was allocated to IFC, and \$2 million in each fiscal year was allocated to MIGA.

The following table summarizes the benefit obligations, plan assets, and funded status associated

with the SRP, RSBP, and PEBP for the fiscal years ended June 30, 2003, June 30, 2002, and June 30, 2001. Since the assets for the PEBP are not held in an

irrevocable trust, they do not qualify for off-balance sheet accounting and are therefore included in IBRD's investment portfolio.

In millions of U.S. dollars

| | SRP | | | RSBP | | | PEBP | | |
|---|---------|----------|----------|-------|-------|-------|---------|---------|---------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Benefit Obligation | | | | | | | | | |
| Beginning of year | \$8,263 | \$ 7,277 | \$ 6,951 | \$929 | \$867 | \$731 | \$133 | \$103 | \$ 89 |
| Service cost | 250 | 244 | 271 | 34 | 32 | 26 | 9 | 15 | 10 |
| Interest cost | 553 | 499 | 536 | 63 | 60 | 57 | 9 | 7 | 7 |
| Employee contributions | 75 | 65 | 64 | 8 | 8 | 6 | 1 | * | * |
| Amendments | 77 | 19 | — | 24 | (38) | — | 5 | — | — |
| Benefits paid | (306) | (304) | (312) | (29) | (30) | (20) | (5) | (5) | (5) |
| Actuarial (gain) loss | (55) | 463 | (233) | (58) | 30 | 67 | (13) | 13 | 2 |
| End of year | 8,857 | 8,263 | 7,277 | 971 | 929 | 867 | 139 | 133 | 103 |
| Fair value of plan assets | | | | | | | | | |
| Beginning of year | 9,413 | 10,364 | 11,562 | 818 | 894 | 975 | — | — | — |
| Employee contributions | 75 | 65 | 64 | 8 | 8 | 6 | — | — | — |
| Actual return on assets | 193 | (712) | (950) | 16 | (70) | (70) | — | — | — |
| Employer contributions | 40 | — | — | 21 | 16 | 3 | — | — | — |
| Benefits paid | (306) | (304) | (312) | (29) | (30) | (20) | — | — | — |
| End of year | 9,415 | 9,413 | 10,364 | 834 | 818 | 894 | — | — | — |
| Funded status | | | | | | | | | |
| Plan assets in excess of (less than) projected benefit obligation | 558 | 1,150 | 3,087 | (137) | (111) | 27 | (139) | (133) | (103) |
| Unrecognized net loss (gain) from past experience different from that assumed and from changes in assumptions | 1,185 | 714 | (1,415) | 314 | 344 | 170 | (23) | (11) | (26) |
| Unrecognized prior service cost | 105 | 44 | 33 | (12) | (38) | — | 5 | — | — |
| Remaining unrecognized net transition asset | — | (13) | (26) | — | — | — | — | — | — |
| Prepaid (accrued) pension cost | \$1,849 | \$1,895 | \$ 1,679 | \$165 | \$195 | \$197 | \$(157) | \$(144) | \$(129) |

* Less than \$0.5 million.

The \$1,849 million prepaid SRP cost at June 30, 2003 (\$1,895 million—June 30, 2002) is included in Prepaid Pension Cost on the balance sheet. Of this amount \$909 million was attributable to IDA, IFC, and MIGA (\$938 million—June 30, 2002) and is included in Accounts Payable and Miscellaneous Liabilities on the balance sheet.

The \$165 million prepaid RSBP cost at June 30, 2003 (\$195 million—June 30, 2002), is included in Prepaid Pension Cost on the balance sheet. Of this amount \$68 million was attributable to IDA, IFC, and MIGA (\$85 million—June 30, 2002) and is included in Accounts Payable and Miscellaneous Liabilities on the balance sheet.

There are differences between the prepaid (accrued) pension cost calculated under the accounting standards generally accepted in the United States of America and the relevant International Accounting Standard. These differences are not significant.

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. Actuarial gains and losses occur when actual results are different from expected results. Amortization of these unrecognized gains and losses will be included in income if, at the beginning of the

fiscal year, they exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If required, the unrecognized

gains and losses are amortized over the expected average remaining service lives of the employee group.

The weighted-average assumptions used in determining expense and benefit obligations for the fiscal years ended June 30, 2003, June 30, 2002, and June 30, 2001 are as follows:

In percent

| | SRP | | | RSBP | | | FEBP | | |
|--|----------------|----------------|----------------|------|------|------|------|------|------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Discount rate | 5.75 | 6.75 | 7.00 | 5.75 | 6.75 | 7.00 | 5.75 | 6.75 | 7.00 |
| Expected return on plan assets | 7.75 | 7.75 | 9.00 | 7.75 | 7.75 | 9.00 | | | |
| Rate of compensation increase ^a | 3.75- 10.25 | 4.75- 11.25 | 5.00- 11.50 | | | | | | |
| Health care growth rates | | | | | | | | | |
| - at end of fiscal year | | | | 5.75 | 6.75 | 7.00 | | | |
| - to year 2011 and thereafter | | | | 3.75 | 4.75 | 5.00 | | | |

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 10.25% (11.25%—June 30, 2002; 11.50%—June 30, 2001) at age 20 and decreasing to 3.75% (4.75%—June 30, 2002; 5.00%—June 30, 2001) 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 of U.S. dollars

| | One percentage point increase | One percentage point decrease |
|---|-------------------------------|-------------------------------|
| Effect on total service and interest cost | \$ 22 | \$ (18) |
| Effect on postretirement benefit obligation | 187 | (149) |

NOTE L—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 2003, loans to each of two countries generated in excess of 10 percent of loan income. Loan income from these two countries was \$767 million and \$632 million.

NOTE M—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 cumulative effects of a change in accounting principle related to 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 for the fiscal years ended June 30, 2003, June 30, 2002, and June 30, 2001:

In millions of U.S. dollars

| | 2003 | | | Total Accumulated Other Comprehensive Loss |
|---------------------------------------|---|--|-------------------------------|--|
| | Cumulative Translation Adjustment | Cumulative Effect of Change in Accounting Principle | Reclassification ^a | |
| Balance, beginning of the fiscal year | \$ (952) | \$500 | \$(297) | \$(749) |
| Changes from period activity | 606 | — | (117) | 489 |
| Balance, end of the fiscal year | <u>\$ (346)</u> | <u>\$500</u> | <u>\$(414)</u> | <u>\$(260)</u> |

In millions of U.S. dollars

| | 2002 | | | Total Accumulated Other Comprehensive Loss |
|---------------------------------------|---|--|-------------------------------|--|
| | Cumulative Translation Adjustment | Cumulative Effect of Change in Accounting Principle | Reclassification ^a | |
| Balance, beginning of the fiscal year | \$(1,176) | \$500 | \$(169) | \$(845) |
| Changes from period activity | 224 | — | (128) | 96 |
| Balance, end of the fiscal year | <u>\$ (952)</u> | <u>\$500</u> | <u>\$(297)</u> | <u>\$(749)</u> |

In millions of U.S. dollars

| | 2001 | | | Total Accumulated Other Comprehensive Loss |
|---------------------------------------|---|--|-------------------------------|--|
| | Cumulative Translation Adjustment | Cumulative Effect of Change in Accounting Principle | Reclassification ^a | |
| 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> |

a. *Reclassification of Cumulative effect of change in accounting principle to net income.*

NOTE N—EFFECTS OF APPLYING FAS 133

On July 1, 2000, IBRD adopted FAS 133. These standards require that derivative instruments, as defined by FAS 133, be recorded on the balance sheet at fair value.

Prior to the adoption of FAS 133, the derivative instruments in the borrowing portfolio were recorded using synthetic accounting. The derivative instruments in the investment portfolio were, and continue to be, recorded at fair value in accordance with the requirements of Statement of Financial

Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

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.

The \$500 million difference between the carrying value and the fair value of those derivatives that were

hedging a cash flow exposure prior to the initial application of FAS 133, was included in Other Comprehensive Income at the time FAS 133 was implemented. IBRD has not defined any qualifying hedging relationships under this standard. This amount is being reclassified into earnings in the same period or periods in which the hedged forecasted transactions affect earnings.

Any gains or losses on those borrowings for which a fair value exposure was being hedged prior to

adoption of FAS 133 were recorded in income at the time of implementation, and were offset by the mark-to-market adjustments on the related derivative instruments. The mark-to-market adjustments on the bonds are being amortized over the remaining lives of the related bonds.

The cumulative effect of the change in accounting principle of \$219 million, includes the difference between the carrying value and the fair value of the embedded derivatives.

The following table reflects the components of the effects of applying FAS 133 for the fiscal years ended June 30, 2003, June 30, 2002, and June 30, 2001.

In millions of U.S. dollars

| | 2003 | 2002 | 2001 |
|---|----------------|--------------|--------------|
| <i>Net unrealized gains on derivative instruments, as defined by FAS 133</i> | \$2,302 | \$783 | \$ 46 |
| <i>Reclassification and amortization of transition adjustment</i> | | | |
| Redassification from Other Comprehensive Income—Cash Flow Hedges | 117 | 128 | 169 |
| Amortization of mark-to-market on borrowings associated with fair value hedges | (96) | (57) | (89) |
| <i>Effects of applying FAS 133</i> | <u>\$2,323</u> | <u>\$854</u> | <u>\$126</u> |
| <i>Cumulative effect of change in accounting principle</i> | <u>\$ —</u> | <u>\$ —</u> | <u>\$219</u> |

NOTE O—ESTIMATED AND FAIR VALUE DISCLOSURES

The Condensed Balance Sheets below present IBRD's estimates of fair value of its assets and liabilities along with their respective carrying amounts as of June 30, 2003 and 2002.

In millions of U.S. dollars

| | <i>June 30, 2003</i> | | | <i>Fair Value*</i> |
|---|-----------------------|------------------------------------|--------------------------------------|--------------------|
| | <i>Carrying Value</i> | <i>Reversal of FAS 133 Effects</i> | <i>Carrying Value Before FAS 133</i> | |
| Due from Banks | \$ 1,929 | | \$ 1,929 | \$ 1,929 |
| Investments | 28,131 | | 28,131 | 28,131 |
| Loans Outstanding | 116,240 | | 116,240 | 122,593 |
| Less Accumulated Provision for Loan Losses and Deferred Loan Income | (4,478) | | (4,478) | (4,478) |
| Net Loans Outstanding | 111,762 | | 111,762 | 118,115 |
| Swaps Receivable | | | | |
| Investments | 10,301 | | 10,301 | 10,301 |
| Borrowings | 70,316 | \$(7,084) | 63,232 | 70,316 |
| Other Asset/Liability | 726 | | 726 | 726 |
| Other Assets | 7,187 | | 7,187 | 6,732 |
| Total Assets | \$230,352 | \$(7,084) | \$223,268 | \$236,250 |
| Borrowings | \$108,554 | \$(1,559) | \$106,995 | \$116,695 |
| Swaps Payable | | | | |
| Investments | 11,862 | | 11,862 | 11,862 |
| Borrowings | 64,779 | (1,875) | 62,904 | 64,779 |
| Other Asset/Liability | 810 | 1 | 811 | 810 |
| Other Liabilities | 6,429 | | 6,429 | 6,429 |
| Total Liabilities | 192,434 | (3,433) | 189,001 | 200,575 |
| Paid in Capital Stock | 11,478 | | 11,478 | 11,478 |
| Retained Earnings and Other Equity | 26,440 | (3,651) | 22,789 | 24,197 |
| Total Liabilities and Equity | \$230,352 | \$(7,084) | \$223,268 | \$236,250 |

* Except for loans, which are on an estimated value (current value) basis.

In millions of U.S. dollars

| | June 30, 2002 | | | Fair Value* |
|--|----------------|-----------------------------|-------------------------------|-------------|
| | Carrying Value | Reversal of FAS 133 Effects | Carrying Value Before FAS 133 | |
| Due from Banks | \$ 1,083 | | \$ 1,083 | \$ 1,083 |
| Investments | 26,076 | | 26,076 | 26,076 |
| Loans Outstanding | 121,589 | | 121,589 | 126,454 |
| Less: Accumulated Provision for Loan Losses and Deferred Loan Income | (5,442) | | (5,442) | (5,442) |
| Net Loans Outstanding | 116,147 | | 116,147 | 121,012 |
| Swaps Receivable | | | | |
| Investments | 9,940 | | 9,940 | 9,940 |
| Borrowings | 66,052 | \$(2,821) | 63,231 | 66,052 |
| Other Asset/Liability | 727 | (1) | 726 | 727 |
| Other Assets | 7,769 | | 7,769 | 7,296 |
| Total Assets | \$227,794 | \$(2,822) | \$224,972 | \$232,185 |
| Borrowings | \$110,263 | \$ (354) | \$109,909 | \$114,502 |
| Swaps Payable | | | | |
| Investments | 10,827 | | 10,827 | 10,827 |
| Borrowings | 66,994 | (1,254) | 65,740 | 66,994 |
| Other Asset/Liability | 758 | 1 | 759 | 758 |
| Other Liabilities | 6,639 | | 6,639 | 6,639 |
| Total Liabilities | 195,481 | (1,607) | 193,874 | 199,720 |
| Paid In Capital Stock | 11,476 | | 11,476 | 11,476 |
| Retained Earnings and Other Equity | 20,837 | (1,215) | 19,622 | 20,990 |
| Total Liabilities and Equity | \$227,794 | \$(2,822) | \$224,972 | \$232,185 |

* Except for loans which are on an estimated value (current value) basis.

Valuation Methods and Assumptions

Due from Banks

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

Investments

IBRD's investment securities and related financial instruments held in the trading portfolio are carried and reported at fair value. Fair value is based on market quotations. Instruments for which market quotations are not readily available have been valued using market-based methodologies and market information. (See Note A).

Net Loans Outstanding

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 current value of loans outstanding incorporates management's best estimate of the

probable expected cash flows of these instruments to IBRD.

The current value of all loans is based on a discounted cash flow method. The estimated cash flows from principal repayments and interest are discounted using the market yield curves applicable to IBRD funding plus IBRD's relevant basis point lending spread adjusted for waivers.

The current value of net loans outstanding also includes IBRD's assessment of the appropriate credit risk, considering its history of collections from borrowers. This is reflected in the accumulated provision for loan losses.

Swaps Receivable and Swaps Payable

Certain derivatives, as defined by FAS 133, are recorded in the balance sheet at estimated fair value. The fair value of swaps is based on market prices, where such prices are available. Where no quoted market price is available, the fair value is estimated using a discounted cash flow method representing the

estimated cost of replacing these contracts on that date. (See Note A).

Borrowings

The fair value of borrowings is predominantly based on discounted cash flow techniques using appropriate market yield curves.

Other Assets and Other Liabilities

These amounts are generally short-term in nature. Therefore, the carrying value is a reasonable estimate of fair value. The difference between the carrying value and fair value of other assets is due to the carrying value of debt issuance costs being included in other assets while the fair value of these costs is included as part of the fair value of borrowings.

Glossary of Key Terms Included in the World Bank's Balance Sheet and Income Statement
(English to Spanish)

Glosario de Términos Claves Incluidos en el Balance General y el Estado de Ingresos del Banco Mundial
(Inglés a Español)

This Glossary has been prepared for convenience only. It does not form a part of the Financial Statements of the IBRD, and it has not been prepared or confirmed in any way by the IBRD's Independent Accountants nor is it intended to be a complete glossary.

Este Glosario ha sido preparado solo para conveniencia. El mismo no forma parte de los Estados Financieros del BM, y no ha sido preparado o confirmado de modo alguno por los Auditores Independientes del BM ni tampoco intenta ser un glosario completo.

| Letter | English term | Término en español |
|--------------------|--|---|
| A | Accounts payable | Cuentas por pagar |
| | Accrued charges on borrowings | Cargos acumulados sobre empréstitos |
| | Accrued income on loans | Ingresos acumulados sobre préstamos |
| | Accumulated other comprehensive loss | Otras pérdidas integrales acumuladas |
| | Accumulated provisions for loan losses | Provisión para pérdidas en préstamos |
| | Administrative expenses | Gastos administrativos |
| | Amortization of issuance and other borrowing costs | Amortización de costos de emisión y otros gastos de los empréstitos |
| | Amounts to maintain value of currency holdings | Sumas requeridas para mantener el valor de las tenencias de monedas |
| | Assets | Activos |
| | Asset-backed securities | Títulos valores respaldados por activos |
| | Authorized capital | Capital autorizado |
| | Average maturity | Maduración promedio |
| | B | Balance sheet |
| Borrowing expenses | | Gastos de empréstitos |
| Borrowings | | Empréstitos |
| C | Capital stock | Capital social |
| | Commitment charges | Cargos por comisión por mantenimiento |
| | Contributions to special programs | Contribuciones a programas especiales |



| | | |
|----------|--|--|
| | Cumulative effect of change in accounting principle | Efecto acumulado por cambio de método contable |
| | Currencies subject to restrictions | Monedas sujetas a restricciones |
| | Currency swaps | Swap (intercambio) de divisas |
| D | Deferred loan income | Ingreso diferido de préstamos |
| | Disbursed and outstanding | Desembolsado y vigente |
| | Due from banks | Deuda de bancos |
| E | Effects of applying FAS 133 | Efectos de la aplicación de FAS 133 |
| | Equity | Capital |
| I | Income | Ingreso |
| | Interest | Intereses |
| | Interest on securities sold under repurchase agreements and payable for cash collateral received | Intereses sobre valores vendidos bajo acuerdos de recompra y montos por pagar por efectivo recibido como colateral |
| | Interest rate swap | Swap (intercambio) de tasa de interés |
| | Investments | Inversiones |
| | Investments holdings excluding swaps | Posición de inversiones excluyendo swaps |
| L | Liabilities | Pasivos |
| | Liabilities under other postretirement benefits plans | Pasivos bajo otros beneficios del plan de posjubilación |
| | Loans outstanding | Préstamos pendientes de pago |
| N | Net gains (losses) | Ingresos (pérdidas) netas |
| | Net income | Utilidad Neta |
| | Net unrealized gains on derivative instruments | Ganancias no realizadas sobre derivados |
| | Non-negotiable, noninterest-bearing demand obligations on account of subscribed capital | Obligaciones no negociables sin intereses a cuenta del capital suscrito |
| O | Operating income | Ingreso operacional |
| | Others assets/liabilities swap agreements | Otros activos/pasivos por contratos de swap |

| | | |
|----------|--|--|
| | Other receivables | Otras cuentas por cobrar |
| P | Payable for Board of Governors-approved transfers | Transferencias por pagar aprobadas por la Junta de Gobernadores |
| | Payable for cash collateral received | Cuentas por pagar por efectivo recibido como colateral |
| | Payable (receivable) for currency and interest rate swaps | Cuentas por pagar (cobrar) por intercambios de monedas y tasas de interés |
| | Payable for investment securities purchased | Cuentas por pagar por compra de valores de inversión |
| | Payable (receivable) to maintain value of currency holdings on account of subscribed capital | Cuentas por pagar (cobrar) para mantener el valor de las tenencias de monedas por concepto de capital suscrito |
| | Prepaid pension cost | Costos de jubilación pagados por anticipado |
| | Principal at face value | Valor nominal del capital |
| | Principal outstanding | Capital en circulación |
| | Provision for losses on loans and guarantees | Provisión para pérdidas en préstamos y garantías |
| R | Realized | Realizado |
| | Receivable from currency and interest rate swaps | Cuentas por cobrar por swaps (intercambios) de monedas y tasas de interés |
| | Receivable from investment securities traded | Cuentas por cobrar por valores de inversión mercadeados |
| | Retained earnings | Utilidades retenidas |
| S | Securities lent under securities lending agreements | Valores prestados bajo acuerdos de préstamo de valores |
| | Securities purchased under resale agreements | Valores comprados bajo acuerdos de reventa |
| | Securities sold under repurchase agreements | Valores vendidos bajo acuerdos de recompra |
| | Staff Retirement Plan and other postretirement benefit plans | Plan de Jubilación del personal y otros beneficios de posjubilación |
| | Subscribed capital | Capital suscrito |
| T | Time deposits | Depósitos a Término |
| | Trading | Transacciones de compra y venta |
| U | Unallocated net income | Utilidad neta sin distribuir |



| | | |
|----------|---|--|
| | Unamortized issuance costs of borrowings | Costos de emisión de empréstitos no amortizados |
| | Uncalled portion of capital subscriptions | Porción exigible de las suscripciones de capital |
| | Undisbursed balance | Balance pendiente de desembolso |
| | Unrealized | No realizado |
| | Unrestricted currencies | Monedas no sujetas a restricciones |
| W | Weighted average cost (Wgtd.avg.cost) | Costo promedio ponderado |

ISSUER'S MATERIALITY CERTIFICATE

Pursuant to article 1.2.4.78(11)(h) of Resolution 400 of 1995 of the Superintendency of Securities, I hereby confirm that we have undertaken all reasonable inquiries in order to confirm that, as of today, the prospectus for the issue of the Bonds by the International Bank for Reconstruction and Development denominated in Colombian pesos issued in 2004, contains all relevant information for the issue of the bonds, and that the information contained in the prospectus is true and accurate in all material respects and is not misleading and that there are no other facts the omission of which, makes the prospectus as a whole or any such information misleading in any material respect, provided however that the information in the prospectus relating to the sale and placement of the Bonds (contained in Section 14 and elsewhere) was supplied by ABN AMRO BANK N.V. and CORFINSURA S.A., acting as Arranger and Lead Manager respectively, and this certification does not relate to any such information.

ORIGINAL DOCUMENT SIGNED**DORIS HERRERA-POL**

Manager, Banking, Capital Markets and Financial
Engineering Department
Treasury

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

CERTIFICADO DE MATERIALIDAD DEL EMISOR

De acuerdo con lo dispuesto en el artículo 1.2.4.78(11)(h) de la Resolución 400 de 1995 de la Sala General de la Superintendencia de Valores, me permito confirmar que hemos efectuado todas las averiguaciones razonables que nos permiten confirmar que, a la fecha de hoy, el prospecto de colocación para la emisión de los bonos del Banco Internacional de Reconstrucción y Fomento denominados en pesos colombianos emitidos en el año 2004, contiene información relevante en el contexto de la emisión de los bonos y que la información contenida en el prospecto de colocación es verídica y precisa en todos sus aspectos sustanciales y no es engañosa y que no existen otros hechos cuya omisión haga el prospecto en su totalidad o dicha información engañosa en cualquier aspecto relevante. No obstante, la información en Prospecto relacionada con la colocación y negociación de los Bonos (incluida en la Sección 14) fue suministrada por ABN AMRO BANK N.V. y CORFINSURA S.A. actuando como Estructurador y Agente Líder respectivamente, por lo tanto esta certificación no se relaciona con dicha información.

ORIGINAL FIRMADO**DORIS HERRERA-POL**

Gerente, Operaciones Bancarias, Mercados de
Capital & Ingeniería Financiera
Tesorería

**BANCO INTERNACIONAL DE RECONSTRUCCIÓN
Y FOMENTO**



| GENERAL INFORMATION | INFORMACIÓN GENERAL |
|--|--|
| <p>1. The Bonds have been registered at the National Securities and Intermediaries Register (<i>Registro Nacional de Valores e Intermediarios</i>) maintained by the SDV pursuant to Resolution No. 0287 dated March 24, 2004 of the SDV.</p> <p>2. Copies of (a) the Articles of Agreement and the By-Laws of IBRD, (b) the most recent Annual Report and financial statements of IBRD and (c) the declaration made by an authorized officer of IBRD in connection with the information contained in this Prospectus, will be available for inspection by potential investors at the National Securities and Intermediaries Register (Registro Nacional de Valores e Intermediarios) during usual business hours on any weekday (Saturdays and public holidays excepted) until maturity of the Bonds.</p> | <p>1. Los Bonos han sido registrados ante el Registro Nacional de Valores e Intermediarios que administra la SDV de conformidad con la Resolución No. 0287 del 24 de marzo de 2004 de la SDV.</p> <p>2. Copias del (a) Convenio Constitutivo y de los Estatutos del Banco Mundial, (b) del Informe Anual y de los estados financieros más recientes del BM, y (c) la declaración del funcionario competente del BM en relación con la información contenida en este Prospecto, se encuentran disponibles para inspección por parte de los posibles inversionistas en el Registro Nacional de Valores e Intermediarios hasta la redención de los Bonos.</p> |



| SPECIFIED ADDRESSES | OFICINAS ESPECIFICADAS |
|---|---|
| PAYING AGENT ABN AMRO BANK Colombia Cra. 7 # 115-33 Piso 16 Bogotá D.C. (Colombia) | AGENTE DE PAGOS ABN AMRO BANK Colombia Cra. 7 # 115-33 Piso 16 Bogotá D.C. (Colombia) |
| DEPOSITARY DECEVAL S.A. Carrera 10 No. 72 — 33 Torre B Piso 5 Bogotá D.C. (Colombia) | DEPOSITARIO DECEVAL S.A. Carrera 10 No. 72 — 33 Torre B Piso 5 Bogotá D.C. (Colombia) |
| BONDHOLDER LEGAL REPRESENTATIVE HELM TRUST S.A Carrera 7 No. 27-18 Piso 19 Bogotá D.C. (Colombia) | REPRESENTANTE LEGAL DE TENEDORES DE BONOS HELM TRUST S.A Carrera 7 No. 27-18 Piso 19 Bogotá D.C. (Colombia) |
| LEGAL ADVISORS TO THE ISSUE BRIGARD & URRUTIA Calle 70 No. 4-60 Bogotá D.C. (Colombia) | ASESORES LEGALES PARA LA EMISIÓN BRIGARD & URRUTIA Calle 70 No. 4-60 Bogotá D.C. (Colombia) |