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CREDIT OPINION
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Update

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Contacts

William Foster +1.212.553.4741
VP-Sr Credit Officer
william.foster@moodys.com

Serra Battal +1.212.553.0300
Associate Analyst
serra.battal@moodys.com

Mauro Leos +1.212.553.1947
Associate Managing Director
mauro.leos@moodys.com

Alejandro Olivo +1.212.553.3837
Managing Director
alejandro.olivo@moodys.com

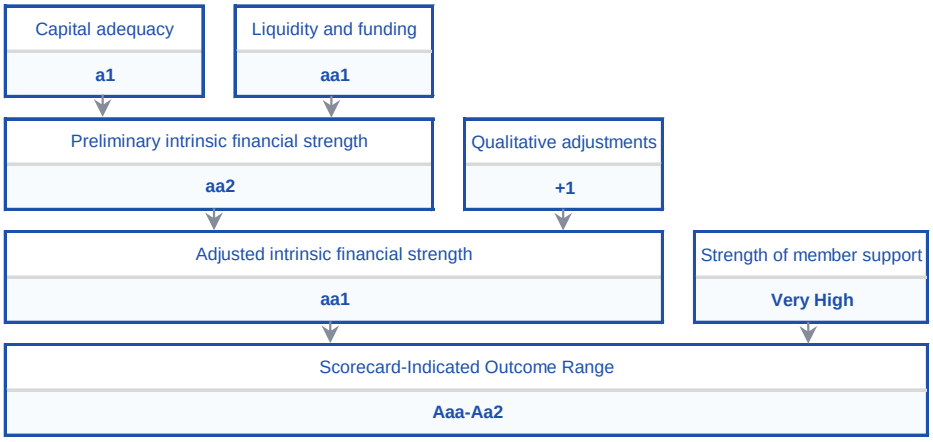
IBRD (World Bank) – Aaa stable

Regular update

Summary

The credit profile of the International Bank for Reconstruction and Development (IBRD) reflects very high intrinsic financial strength that is supported by high capital adequacy, underpinned by a robust risk management framework and very strong asset performance, along with ample liquidity buffers and exceptional access to global funding markets. As the original World Bank institution and key member of the World Bank Group (WBG), IBRD also benefits from a very high level of member support, including through a large cushion of callable capital.

Exhibit 1
IBRD's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

» High capital adequacy, supported by a robust risk management framework and preferred creditor status that contributes to very strong asset performance

» Ample liquidity buffers and exceptional access to global funding markets

» Large cushion of callable capital and very high willingness and ability of global shareholders to provide support

Credit challenges

» Maintaining capital adequacy through a rise in leverage

Rating outlook

The stable outlook reflects our view that despite a rise in leverage, through prudent and comprehensive risk management policies the IBRD will maintain its very strong capital adequacy and liquidity, along with very high member support, thus keeping its credit profile in line with its Aaa rating.

Factors that could lead to a downgrade

Downward pressure on the rating could occur in the event of substantial deterioration in capital adequacy, which could result from a rapid expansion in leverage combined with a decline in asset quality resulting from sovereign credit stress among its largest borrowing countries. Despite the IBRD's intrinsic financial strength derived from its strong financials and conservative risk management, a decline in shareholder support would also be credit negative.

Key indicators

IBRD (World Bank)	2014	2015	2016	2017	2018[2]	2019[2]
Total Assets (USD million)	358,883.0	343,225.0	371,260.0	405,898.0	263,800.0	283,031.0
Development-related Assets (DRA) / Usable Equity [1]	399.5	409.7	461.8	455.9	449.9	471.5
Non-Performing Assets / DRA	0.3	0.3	0.3	0.2	0.2	0.2
Return on Average Assets	-0.3	-0.2	0.1	-0.1	0.2	0.2
Liquid Assets / ST Debt + CMLTD [3]	127.3	135.0	158.4	189.2	163.1	163.9
Liquid Assets / Total Assets	13.7	14.7	14.8	18.1	27.7	29.1
Callable Capital / Gross Debt	133.1	144.4	135.0	122.5	124.1	114.2

[1] Usable equity is total shareholder's equity and excludes callable capital
[2] In fiscal 2019, IBRD changed the presentation of its derivative instruments on its balance sheet to netting of derivative assets and liability positions, from presentation of interest rate swaps on a net basis and currency swaps on a gross basis. This resulted in reported assets and liabilities declining substantially in fiscal 2019 and the restated period of fiscal 2018.
[3] Short-term debt and currently-maturing long-term debt

Source: Moody's Investors Service

Detailed credit considerations

IBRD's "a1" **capital adequacy** score reflects its high development asset credit quality (DACQ), very low nonperforming assets (NPAs) and strong capital position. The "a1" score is set one notch above the adjusted score of "a2" to reflect our view that IBRD's leverage ratio will not increase significantly beyond current levels because of the bank's own internal risk management practices and guidelines, higher expected future retained earnings from lower expected income transfers to the International Development Association (IDA, Aaa stable), future inflows of shareholder paid-in capital from the bank's 2018 general capital increase and a relatively stable outlook for loan disbursements.

We assess IBRD's DACQ as "aa" based on relatively moderate borrower credit quality, significant credit support from the bank's preferred creditor status and high diversification among international sovereign borrowers. In addition, the bank's robust risk management framework supports its strong asset performance and provides a buffer to absorb shocks inherent to business risk. For example, the IBRD uses various safeguards, including statutory lending limits, to ensure strong capital adequacy and limit concentration risk. The wide breadth of lending across countries and sectors provides very high diversification that reduces the risk that a significant proportion of the bank's assets become NPAs. This has led to a very strong record of asset performance with, as of the fiscal year ending in June 2020 (fiscal 2020), only 0.2% of total outstanding development assets qualifying as NPAs, on average, over the past three fiscal years. This consistently very low level of NPAs supports our "aaa" assessment of asset performance.

These strengths offset the credit impact of the recent rise in the bank's leverage ratio, which we measure as development-related assets and liquid assets rated A3 or lower divided by usable equity. As of fiscal 2020, IBRD's leverage ratio increased to 5.2, up from 4.7 in fiscal 2019. The rise in leverage has been driven by the bank's pursuit of its Board-mandated development policy objectives

and increased demand for its resources by member countries to support pandemic relief efforts. Looking ahead, we do not expect the leverage ratio to increase significantly beyond current levels.

IBRD's "aa1" **liquidity and funding** score balances the bank's ample availability of liquid assets with its exceptional quality of funding.

IBRD's ample availability of liquidity supports our "a1" assessment of liquid resources. We measure the availability of liquid resources as the percentage of liquid assets of estimated net cash outflows over the next 18 months. With a ratio of about 111% as of fiscal 2020, IBRD's liquid resources more than fully covered potential outflows. We expect them to remain ample despite a gradual rise in leverage. The bank's liquidity is underpinned by its conservative asset and liability management policies, which include the use of derivatives to manage exposure to interest and currency risks, and repricing between loans and borrowing. IBRD's official liquidity policy requires liquid assets to target a level of 12 months of projected debt service and net loan disbursement needs, which helps to limit its exposure to potential market disruptions that might affect funding. IBRD's liquid asset investment portfolio consists mostly of short-term, highly rated sovereign government bonds, debt instruments issued by sovereign government agencies and bank time deposits.

IBRD's access to international funding markets is truly exceptional, which is reflected in our "aaa" assessment of its quality of funding. The bank is a benchmark issuer in the MDB space and fulfills most of its borrowing needs through frequent bond issuance in the international capital markets in major trading currencies. In addition, it issues in other less liquid currencies and different thematic formats, such as green and sustainable development bonds, to help deepen and develop capital markets. IBRD's investor base is diversified by both investor type and geography, demonstrating global support for its development mandate and the Basel Committee's classification of IBRD securities as a high quality liquid asset with zero risk weight.

We have applied a "+1" upward adjustment to IBRD's preliminary intrinsic financial strength of "aa2" on account of its strong **quality of management**, consistent with assessments for other large, well-established MDBs, including the European Bank for Reconstruction and Development (EBRD, Aaa stable), Inter-American Development Bank (IADB, Aaa stable) and Asian Development Bank (ADB, Aaa stable). The adjustment reflects IBRD's comprehensive policy framework and strong risk management culture, including adherence to its internal policy requirements.

Our assessment of IBRD's "aa1" adjusted intrinsic financial strength is complemented by our assessment of its **strength of member support**, which is set at an assigned score of "Very High," above the adjusted score of "High." This reflects the stronger ability of the bank's shareholders to support the institution than is reflected in its "baa2" weighted average shareholder rating (WASR), and a very strong assessment of willingness to support from its diverse global membership. The IBRD benefits from the presence of a substantial callable capital buffer and the high likelihood of non-contractual support from its members. With a coverage ratio of around 111%, the bank's total callable capital more than fully covers its outstanding debt stock. At the same time, IBRD's strong track record of consistent general capital increases, including the most recent increase in 2018, implies a very strong willingness of support by its members. The bank's role in supporting international economic development remains an important dimension of its shareholders' foreign policy goals, which has been reinforced by the coronavirus pandemic.

ESG considerations

How environmental, social and governance risks inform our credit analysis of IBRD

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing a supranational issuers' credit profile. In the case of IBRD, the materiality of ESG to the credit profile is as follows:

Environmental considerations are not material for IBRD's rating. Although IBRD's borrowers are exposed to the negative impact of climate trends, the geographically diverse structure of the institution's development portfolio offsets this risk.

Social considerations are not material for IBRD's rating. We do not expect social risks affecting IBRD's borrowers to impact the bank's financial strength.

Governance is very strong for IBRD and is a key driver of its Aaa rating. The quality of management score is adjusted up by one notch from the level indicated in the scorecard to reflect IBRD's high quality of risk and liquidity management.

All of these considerations are further discussed in the "detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Rating Methodology for Multilateral Development Banks and other Supranational Entities.

Recent developments

IBRD reported net loss on accounting basis but allocable income remains strong

In fiscal 2020, IBRD reported a net loss of $42 million, compared to net income of $505 million in fiscal 2019. The change was primarily due to higher net unrealized mark-to-market losses on IBRD's non-trading portfolios in fiscal 2020, mainly from derivatives in the loan portfolio. Given IBRD's intention to maintain its non-trading portfolio positions, unrealized mark-to-market gains and losses are not included in its "allocable income."[1] After standard adjustments to arrive at allocable income, the IBRD's internal measurement of profitability and metric for making net income allocation decisions, the bank registered income of $1,381 million, higher than that of fiscal 2019 ($1,190 million). Out of the total, $950 million was allocated to the General Reserve and the remaining $431 million was registered as Surplus, including the $331 million formula based transfer to IDA. The increase in allocable income was primarily driven by higher net interest revenue.

IBRD's fiscal 2020 lending operations resulted in $28 billion of net loan commitments (net of full terminations and cancellations approved in the same fiscal year) and $11 billion of net loan disbursements. Net loans outstanding increased to $202 billion from $193 billion in fiscal 2019.

New lending commitments were comprised of 152 operations, which included 10 IBRD and IDA blended operations. Regionally, the top three destinations for net loan commitments in fiscal 2020 were Latin America and the Caribbean (24% of total), Europe and Central Asia (21%), and South Asia (20%). The largest percentage increase in commitments went to Africa, up to $1.7 billion (6% of total) in fiscal 2020 from $820 million in fiscal 2019. In terms of sectoral breakdown, health and social protection sectors had the largest increases in commitments, driven by the bank's pandemic response. Together, IBRD and IDA approved 76 operations amounting to $3.8 billion as a direct response to the pandemic.

Asset performance and ample liquidity demonstrate key credit strengths

In fiscal 2020, the bank's NPA ratio stood at 0.2% of total loans, all related to Zimbabwe. This was effectively unchanged from 2019 with a total exposure to Zimbabwe of $433 million, compared to $434 million in 2019.

The top 10 loan exposures for the bank represented 62% of the total portfolio and included such countries as Indonesia (Baa2 stable), Brazil (Ba2 stable), India (Baa3 negative), China (A1 stable) and Mexico (Baa1 negative). Among its top 10 exposures, only three sovereigns have negative outlooks (India, Mexico, Turkey (B2 negative)) and the others have stable outlooks, reflecting our view that near-term credit risk to the loan portfolio remains balanced.

IBRD's investment portfolio increased by $1 billion to $82 billion in fiscal 2020, from $81 billion in fiscal 2019. Investments remain concentrated in the upper end of the credit spectrum, with 75% rated AA or above, reflecting IBRD's objective of principal protection and its preference for high quality investments. IBRD's liquid asset investment portfolio consists mostly of sovereign government bonds, debt instruments issued by sovereign government agencies and bank time deposits.

Despite rise in leverage, capitalization remains strong

IBRD raised medium and long-term debt of $75 billion during fiscal 2020, an $8 billion increase in the borrowings portfolio to $237 billion from $229 billion in fiscal 2019. The average final contractual maturity of the debt issuances was 5.3 years, and funding came from a diverse set of investors, both in terms of geography and investor type.

Usable equity increased by $2 billion to $47 billion in fiscal 2020 from $45 billion in fiscal 2019. IBRD received $973 million of paid-in capital under the General and Selective Capital Increases (GCI and SCI) in fiscal 2020, bringing the cumulative amounts received to $1.6 billion, 21% of the total amount expected from these increases.

Rating methodology and scorecard factors

Rating factor grid - International Bank for Reconstruction and Development	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)		a2	a1
Capital position (20%)		ba2	
Leverage ratio	ba2		
Trend	0		
Impact of profit and loss on leverage	0		
Development asset credit quality (10%)		aa	
DACQ assessment	aa		
Trend	0		
Asset performance (20%)		aaa	
Non-performing assets	aaa		
Trend	0		
Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)		aa1	aa1
Liquid resources (10%)		a1	
Availability of liquid resources	a1		
Trend in coverage outflow	0		
Access to extraordinary liquidity	0		
Quality of funding (40%)		aaa	
Preliminary intrinsic financial strength			aa2
Other adjustments			1
Operating environment	0		
Quality of management	+1		
Adjusted intrinsic financial strength			aa1
Factor 3: Strength of member support (+3,+2,+1,0)		High	Very High
Ability to support - weighted average shareholder rating (50%)		baa2	
Willingness to support (50%)			
Contractual support (25%)	aaa	aaa	
Strong enforcement mechanism	0		
Payment enhancements	0		
Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range			Aaa-Aa2
Rating Assigned			Aaa

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Moody's related publications

» **Credit Analysis**: IBRD (World Bank) - Aaa stable: Annual credit analysis, 13 February 2020

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 28 October 2020

Endnotes

1 Given the IBRD's intention to maintain its non-trading portfolio positions, unrealized mark-to-market losses and gains are not included in IBRD's allocable income, which is the income measure used as the basis for making net income allocation decisions.

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