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CREDIT OPINION
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Update

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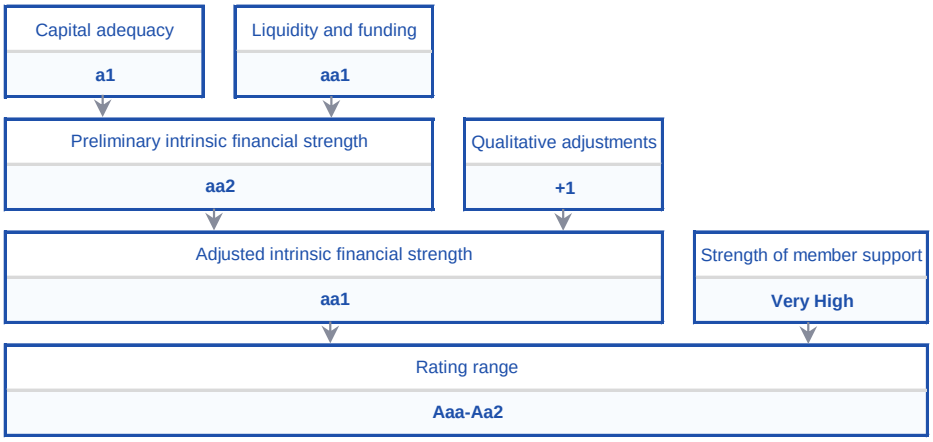
IBRD (World Bank) – Aaa stable

Regular update

Summary

The credit profile of the International Bank for Reconstruction and Development (IBRD, Aaa stable) reflects very high intrinsic financial strength that is supported by very high capital adequacy, underpinned by a robust risk management framework and strong asset performance, and ample liquidity buffers. As the original World Bank institution and key member of the World Bank Group (WBG), IBRD also benefits from a substantial cushion of callable capital, combined with very high willingness of members to provide extraordinary support.

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



Source: Moody's Investors Service

Credit strengths

» Very high capital adequacy, supported by a conservative risk management framework that contributes to strong asset performance

» Ample liquidity buffers and very strong access to funding markets

» Large cushion of callable capital and strong willingness and ability of global members to provide extraordinary 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 conservative risk management policies the IBRD will maintain its very strong capital adequacy and liquidity, along with very high shareholder 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 Aaa rating is based on its very high intrinsic financial strength and large cushion of callable capital, which provides substantial credit protection to the bank's bondholders. In particular, IBRD's financial strength is supported by very strong capital adequacy and liquidity, and very strong commitment from global members to provide support to the bank when needed.

IBRD's "a1" **capital adequacy** score reflects its strong capital position, high development asset credit quality (DACQ), and very low non-performing assets (NPAs). The bank's strong capital position is underpinned by its conservative risk management policies and preferred creditor status that support strong asset performance, and provides a buffer to absorb shocks inherent to business risk. For example, the bank uses various safeguards, including statutory lending limits, to ensure strong capital adequacy and limit concentration risk.

In addition, 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, on average, only 0.2% of total outstanding development assets qualifying as NPAs over the past three fiscal years.

These strengths offset the credit impact of the bank's increasing leverage, which we measure as the ratio of development-related assets to useable equity (total shareholder equity, excluding callable capital). As of the fiscal year ending in June 2019 (fiscal 2019), the leverage ratio stood at 4.7, up from 4.5 in fiscal 2018. This is significantly higher than the median of 2.5 for Aaa-rated MDB peers. The rise in leverage has been driven by the bank's pursuit of its Board-mandated development policy objectives. Indeed, in 2014 the World

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Bank Executive Directors lowered the IBRD's minimum equity-to-loans ratio from 23% to 20% in order to reflect the significant long-term improvement in IBRD's loan portfolio credit quality.

IBRD's "aa1" **liquidity and funding** score balances the bank's more moderate availability of liquid assets (measured as a percentage of net cash outflows) with its exceptional access to market funding.

IBRD'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. The bank's official liquidity policy requires liquid assets to cover a target level of 12 months of projected debt service and net loan disbursement needs, which helps to limit the bank's exposure to potential market disruptions that might affect its funding. Its availability of liquid resources over a longer 18-month period is lower, but generally consistent with that of large regional Aaa-rated MDBs.

The bank fulfills most of its borrowing needs through frequent bond issuance in the international capital markets in major trading currencies. It issues in other less liquid currencies, as well as in 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 intrinsic financial strength 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 its adherence to its internal policy requirements.

Our assessment of IBRD's "aa2" intrinsic financial strength is complemented by our assessment of its **strength of member support** score, which is set at "Very High," above the scorecard-indicated outcome of "High." This reflects the stronger ability of the bank's shareholders to support the institution than is reflected in its Weighted Average Shareholder Rating (WASR), and a very strong assessment of willingness to support from its diverse global membership.

At "baa2," the ability of the bank's membership to provide support—as proxied by the WASR—is strong but slightly lower than the peer median of "baa1." Nonetheless, IBRD benefits from the presence of a substantial callable capital buffer and the high likelihood of non-contractual support from its members. The bank's amount of 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.

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 bank's lending 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 IBRD's financial strength.

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

New accounting practices adopted in fiscal 2019

In fiscal 2019[1], IBRD changed the presentation of derivative instruments on its balance sheet to align with the prevailing market practice of netting derivative asset and liability positions, and the related cash collateral received, by counterparty when a legally enforceable master netting agreement exists. This is a change from the previous presentation, where interest rate swaps were presented on a net basis by instrument, and currency swaps were presented on a gross basis. IBRD uses interest rate and currency swaps to match the interest rate and currency exposures of its assets with that of its liabilities. As a result of this accounting change, IBRD's reported assets and liabilities declined substantially in fiscal 2019, and in the restated period of fiscal 2018 (see Key Indicators table above).

In addition, starting in the fourth quarter of fiscal 2019, IBRD changed its functional currencies from all the currencies of its members, to US dollars and euro. As a result, while translation gains/losses relating to euro-denominated balances continue to be reflected in equity, translation gains/losses on non-euro (non-functional currencies) balances, are reflected in reported net income. IBRD does not expect this change to have any impact on its equity.

Financial performance lower on a reported basis but in line with last year using allocable income

In fiscal 2019, IBRD reported a net income of $505 million, which was 28% lower than net income reported in fiscal 2018. The volatility in reported net income was mostly driven by unrealized mark-to-market gains and losses of derivative instruments in the bank's non-trading portfolio. However, fiscal year performance was mostly driven by strong net interest revenue and cost containment, somewhat offset by transfers and mark-to-market losses. After standard adjustments to arrive at "allocable income[2]," the IBRD's internal measurement of profitability and metric for making net income allocation decisions, the bank registered income of $1,190 million, in line with that of fiscal 2018 ($1,161 million). The main drivers were loan spread revenue, equity contribution, and loan loss provisioning.

Despite higher leverage, capitalization remains strong

On a gross basis, IBRD raised $54 billion in medium- and long-term notes for its lending operations and to meet liquidity requirements. On a net basis, IBRD's debt increased by $15 billion to $229 billion from $214 billion in fiscal 2018. The average final contractual maturity of the new notes issued was 5.3 years, and the funding came from a diverse set of investors, both in terms of geography and investor type.

Useable equity increased to $45 billion from $43 billion in fiscal 2018. Under the new General and Selective Capital Increases that were approved by the Board of Governors in October 2018, the bank received $605 million of paid in capital as of fiscal year end. The new capital increases are part of the institutional and financial reforms package endorsed by the Governors in April 2018. Over the next five years, the capital increases will result in additional subscribed capital of up to $60.1 billion, of which $7.5 billion will be paid in capital and $52.6 billion will be callable capital.

Asset performance and ample liquidity remain key credit strengths

In fiscal 2019, NPAs were 0.2% of loans for IBRD and were all related to Zimbabwe. This was unchanged from 2018. The bank's total exposure to Zimbabwe was $434 million, compared to $435 million in 2018. Zimbabwe made a $1.5 million payment that included interest to the bank in 2019.

The top 10 loan exposures for the bank, which include countries such as Indonesia (Baa2 stable), Brazil (Ba2 stable), China (A1 stable), Mexico (A3 negative), India (Baa2 stable), represented 62% of the total portfolio. Among these top 10 exposures, only three sovereigns have negative outlooks (Mexico, Turkey (B1 negative) and Argentina (Caa2 RUR-) and the others have stable outlooks, reflecting our view that near-term credit risk to the loan portfolio remains balanced.

IBRD's liquid asset investment portfolio consists mostly of sovereign government bonds, debt instruments issued by sovereign government agencies, and bank time deposits. Liquid assets as a percentage of the investment portfolio increased in fiscal 2019 compared to fiscal 2018, driven by higher expected debt service and disbursements of loans in 2020.

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	
Rating range			Aaa-Aa2
Rating			Aaa

Note: While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Additional considerations that may not be currently captured by the metrics used in the scorecard can be reflected in differences between the adjusted and assigned factor scores. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range.
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), 15 February 2019

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 25 June 2019

Endnotes

1 IBRD has a June 30 fiscal year-end.

2 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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