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CREDIT OPINION
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Update

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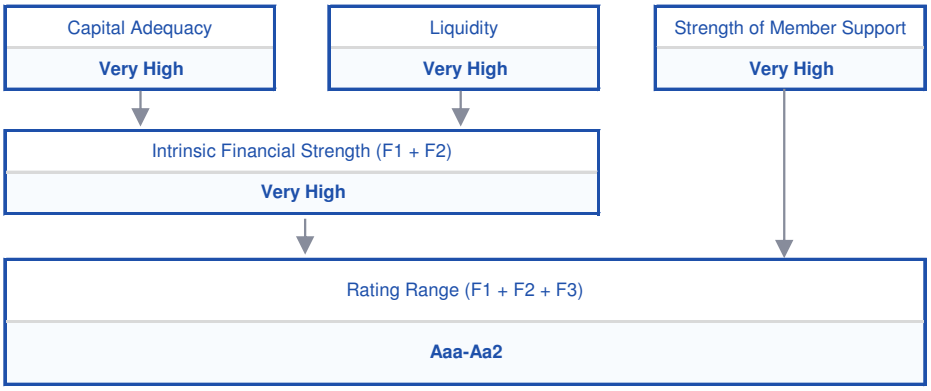
IBRD (World Bank) – Aaa Stable

Regular update

Summary

The International Bank for Reconstruction and Development (IBRD, Aaa stable) is the original World Bank institution and key member of the World Bank Group (WBG). The IBRD's credit fundamentals reflect its very high capital adequacy, supported by strong risk management and asset performance, along with ample liquidity buffers. The bank's very high intrinsic financial strength is complemented by a substantial cushion of callable capital, combined with very strong willingness and ability of global 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 strong risk management framework that contributes to strong asset performance

» Ample liquidity buffers and conservative asset/liability management policies

» Large cushion of callable capital and very strong willingness and ability of global members to provide extraordinary support

Credit challenges

» Maintaining capital adequacy through a rise in leverage and relatively low asset coverage

Rating outlook

The stable outlook reflects our view that the IBRD will maintain its very high capital adequacy and liquidity, very strong shareholder support, and conservative risk management policies, 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 prudent risk management, a decline in shareholder support would also be credit negative.

Key indicators

Exhibit 2

IBRD (World Bank)	2012	2013	2014	2015	2016	2017
Total Assets (USD million)	338,178	325,601	358,883	343,225	371,260	405,898
Return on Average Assets (%)	-0.2	0.1	-0.3	-0.2	0.1	-0.1
Usable Equity/Gross Loans Outstanding + Equity Operations (%) [1]	26.9	27.5	25.3	24.6	21.8	22.2
Gross NPLs/Gross Loans Outstanding (%) [2]	0.3	0.3	0.3	0.3	0.3	0.2
ST Debt + CMLTD/Liquid Assets (%) [3]	55.9	85.8	78.6	74.1	63.1	52.9
Total Debt/Discounted Callable Capital (%) [4]	98.8	89.3	92.2	87.4	96.1	107.0

[1] Usable equity is total shareholder's equity and excludes callable capital

[2] Non performing loans

[3] Short-term debt and currently-maturing long-term debt

[4] Callable capital pledged by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings

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 asset performance, portfolio diversification, ample liquidity buffers, and the high creditworthiness and commitment from global members to provide extraordinary support.

IBRD's **capital adequacy** is underpinned by prudent financial policies, a diversified portfolio composition, relatively low proportion of nonperforming loans (NPLs) and stable asset quality which ensures that the bank has sufficient capital to absorb the shocks inherent to business risk. For example, IBRD caps the amount of risk it takes by setting lending limits: its total outstanding loans and callable guarantees cannot exceed the sum of subscribed capital, reserves and surplus.

In addition, IBRD's assets continue to perform very well, with only 0.3% of total gross loans outstanding classified as NPLs, on average from the financial years ending on June 30, 2011 (FY2011) to June 30, 2017 (FY2017). The extremely wide breadth of lending across countries and sectors provides very high diversification that reduces the risk that a significant proportion of assets become NPLs.

These strengths offset the credit impact of the bank's increasing leverage. The IBRD's asset coverage ratio (ACR) and leverage ratios are weaker than the Aaa median. Moody's ACR measures usable equity against total loans outstanding and risk-weighted liquid assets, where usable equity excludes callable capital. IBRD's ACR has steadily trended downward to 22.2% in FY2017 from 41.9% in FY2008, and below the Aaa-rated MDB median level of 32.3%.

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Meanwhile, leverage has increased substantially and will likely increase further as the bank continues to pursue its Board-mandated development policy objectives. Indeed, in 2014 the World Bank Executive Directors lowered the IBRD's minimum equity-to-loans ratio from 23% to 20% in order to maximize the bank's overall development impact through increased lending and optimization of its balance sheet. As of FY2017, the ratio stood at 22.8%, indicating scope to raise leverage further. However, Moody's does not expect the ratio to decline below the 20% threshold.

IBRD's ample **liquidity** provides further credit strength. The bank's very high liquidity reflects its large liquidity buffer and conservative asset/liability management policies. The bank uses derivatives to manage its exposure to interest and currency risks, manage the duration of equity and manage repricing between loans and borrowing.

The bank's policy requires liquid assets to cover a minimum of 12 months of projected debt service and net loan disbursement needs by liquid assets. The ratio of debt maturing within one year to liquid assets is consistently strong in the 60%-100% range. This helps to limit the bank's exposure to potential market disruptions that might affect its funding. In addition, conservative asset/liability management policies greatly reduce financial risks.

Furthermore, IBRD benefits from strong and regular access to funding markets reflected by the frequency of debt issuance, range of funding instruments, including local currency bond issues, and its stable, diversified investor base.

IBRD's very strong **member support** stems from the presence of a substantial callable capital buffer and the high likelihood of extraordinary support from members. Although the IBRD has never called capital, if it was unable to service its own debt — an event Moody's considers to be extremely remote, given the bank's intrinsic financial strength — the bank would have the option of making capital calls on all member countries in proportion to their subscribed shares. Moody's believes that it is very likely that members would fully meet any call on capital given the global importance of the bank to both shareholders and borrowers.

Beside contractual support through callable capital, Moody's also assesses the ability and willingness of shareholders to provide extraordinary capital. Moody's believes that in extremely low probability scenarios that support is needed and callable capital is exhausted or otherwise unavailable, IBRD would receive extraordinary support from its members. Willingness to support would be very high, given the strategic role played by the bank around the world, and shareholders' average creditworthiness points to high capacity to provide extraordinary support.

Recent developments

Shareholder endorsement of capital increase will boost IBRD's financial strength and lending capacity

On 21 April, shareholders endorsed a combined package that will provide the IBRD with $7.5 billion of additional paid-in capital and a $52.6 billion increase in callable capital. We expect the new agreement to be voted on and to receive final approval from at least 75% of the shareholder base (the threshold for final approval) by the end of this year. Shareholders will have up to five years to pay for the capital increase.

We believe that the approval of the latest capital increase affirms the US' (Aaa stable) endorsement of the IBRD and mitigates the risk of a potential decline in US support. Under this latest agreement, the US' shareholding will decline very slightly to 16.77% (voting power 15.87%) from the current level of 16.89% (voting power 15.98%). Meanwhile, China's (A1 stable) IBRD shareholding will increase to 6.01% (voting power 5.71%) from 4.68% (voting power 4.45%), reflecting its increasing voice in the institution.

Financial performance has improved in FY2018 on reported and allocable income basis

On a reported basis, IBRD registered net income of $220 million for the first nine months of FY2018, compared to a net loss of $738 million during the same period in FY2017. The improvement was driven mainly by unrealized mark-to-market performance of the non-trading portfolios and lower approved transfers, following implementation of the new Board-approved formula-based approach for determining IBRD transfers to IDA[1].

After standard adjustments to arrive at "allocable income,"[2] the IBRD's preferred measurement of profitability and metric for making net income allocation decisions, the bank registered income of $708 million for the first nine months of FY2018, compared with $461 million during the same period in FY2017. Among the drivers of the stronger performance were increases in IBRD's business revenues[3] and lower net non-interest expenses.

Capitalization remains adequate despite increasing leverage

Through the first nine months of FY2018, the bank's capitalization ratio, measured by ACR, decreased to 21.9% from 22.2% in FY2017, due to growth in loans that was faster than that of equity. During this period the loan portfolio, net of provisions, grew by 4.5% since FY2017 and total equity grew by 3.4%. However, the current equity-to-loans ratio remains adequate and above the bank's policy minimum of 20%.

The bank's overall leverage ratio, gross debt-to-usable equity, increased to 525% in the first nine months of FY2018 from 518% in FY2017, compared to the Aaa-rated MDB median of 282%. Total debt outstanding increased to about $216 billion during this period compared to about $206 billion in FY2017.

Very strong asset quality continues

As of March 2018, 0.2% of IBRD's loans were in non-accrual status - unchanged from the end of FY2017, all related to Zimbabwe (not rated). Meanwhile, the bank's top 10 largest exposures, including guarantees, represented 62% of the total portfolio - consistent with the end of FY2017.

Among the bank's 10 largest exposures by country, only two carry negative outlooks - Turkey (Ba2 RUR-) and Colombia (Baa2 negative) - with the remainder on stable, reflecting our view that near-term credit risk in the IBRD's loan portfolio is balanced.

Rating methodology and scorecard factors

Exhibit 3

Rating Factors - IBRD (World Bank)

Rating Factors	Factor Weight	Factor Score
Factor 1: Capital Adequacy	60%	Very High
Factor 2: Liquidity	40%	Very High
Intrinsic Financial Strength (F1 + F2)	**Preliminary Rating Range**	**Very High**
Factor 3: Strength of Member Support	+3, +2, +1, 0 notches	Very High
Rating Range (F1 + F2 + F3)		**Aaa-Aa2**
Assigned 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. 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.

Footnotes:
(1) Rating Range: Factor 1, Capital Adequacy, and Factor 2, Liquidity, combine according to the weights indicated into a construct we designate as Intrinsic Financial Strength (IFS). A notching system combines IFS and Factor 3, Strength of Member Support.
(2) 5 Ranking Categories: Very High, High, Medium, Low, Very Low.

Source: Moody's Investors Service

Moody's related publications

» **Rating Action**: Moody's affirms IBRD's Aaa rating, maintains stable outlook, 10 November 2017

» **Credit Analysis**: IBRD (World Bank), 1 February 2018

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 29 March 2017

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 During FY2017, the Board-approved a new formula-based approach for determining IBRD's transfers to IDA. While IBRD's strong support will continue, the new formula-based approach links such transfers to IBRD's allocable income level for that given year, ensuring that the majority of allocable income is retained by IBRD.

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.

3 Business revenues include: loan interest margin, net investment revenue, commitment and guarantee fees, and fee based reimbursable revenue

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