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RATINGS

IBRD (World Bank)

	Rating	Outlook
Long-term Issuer	Aaa	STA
Short-term Issuer	P-1	--

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IBRD (World Bank) - Aaa stable

Annual credit analysis

OVERVIEW AND OUTLOOK

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 institution provides a combination of financial and technical resources to developing countries and is one of the most active Multilateral Development Bank (MDB) issuers in the international capital market. Despite a steady rise in leverage over the past decade, the IBRD's very high intrinsic financial strength and large cushion of callable capital support its Aaa rating and stable outlook and provide substantial credit protection to the bank's bondholders.

The IBRD's credit fundamentals reflect its prudent financial policies and effective risk management strategy. The bank's key credit strengths include: (1) high capital adequacy, supported by a strong risk management framework that contributes to strong asset performance; (2) ample liquidity buffers and conservative asset/liability management policies; and (3) a large cushion of callable capital and very strong willingness and ability of global members to provide extraordinary support.

The IBRD's credit challenges stem from its development mandate and global scope, which require it to lend to riskier sovereigns, some of which have no or very limited access to capital markets. As a result, maintaining capital adequacy through a policy-driven rise in leverage and relatively low asset coverage is a challenge.

The stable outlook reflects our view that the IBRD will maintain its high capital adequacy, very high liquidity, very strong shareholder support and conservative risk management policies, thus keeping its credit profile in line with its Aaa rating. Downward pressure on the credit profile could emerge 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.

This credit analysis elaborates on the IBRD's credit profile in terms of capital adequacy, liquidity and strength of member support, which are the three main analytical factors in Moody's Supranational Rating Methodology.

Organizational structure and strategy

World Bank Group's public sector lender

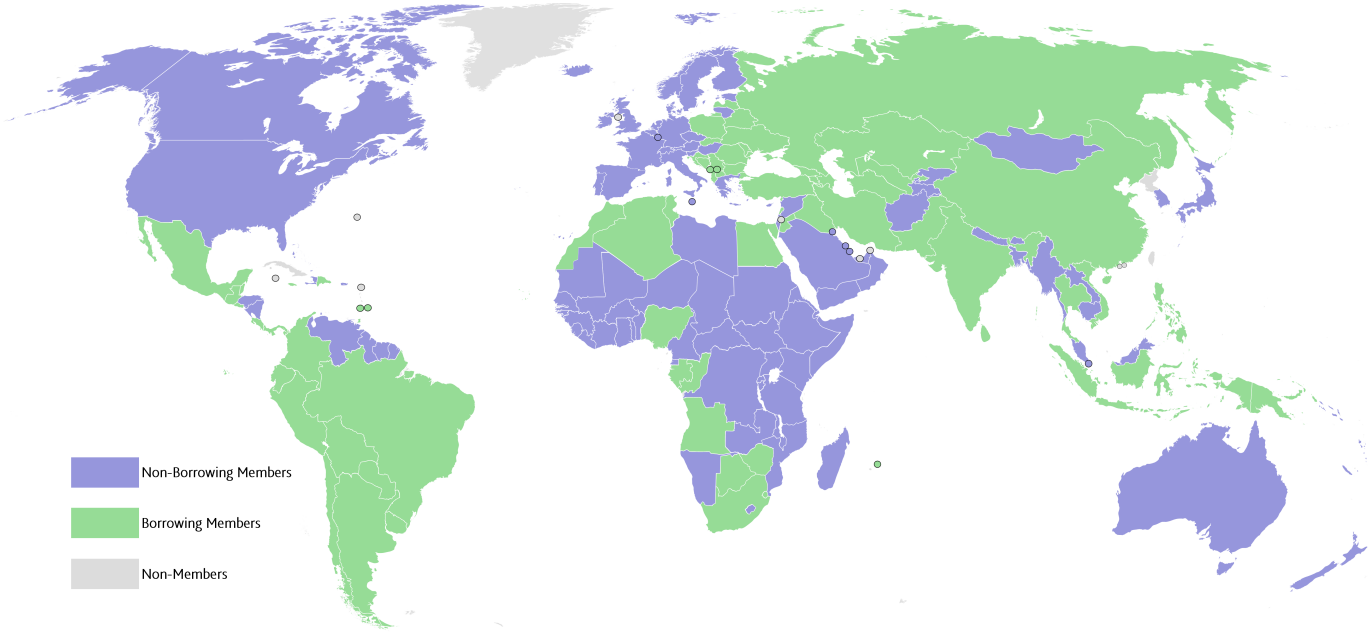
The IBRD was established in 1945 to help rebuild Europe after World War II. Today, its main goals are to end poverty and to promote sustainable economic development. It does so by providing loans and guarantees to the public sector and serving as a catalyst for additional external financial flows through cofinancing arrangements. The bank does not aim to maximize profit, although it earns significant allocable income.[1]

The IBRD is the largest of the WBG entities, which includes: the International Development Association (IDA, Aaa stable), the group's mainly concessional window; the International Finance Corporation (IFC, Aaa stable), a vehicle for lending to or investing in private sector companies in emerging markets without the benefit of host country government guarantees; the Multilateral Investment Guarantee Agency (MIGA, unrated), which insures certain investments against political risks in emerging markets; and the International Center for Settlement of Investment Disputes (ICSID, unrated).

Very large global membership with targeted borrower criteria

With 189 members, all of which are sovereigns, the IBRD's member base is the largest in the MDB universe. While the IBRD does not lend to all of its members, it does have a comparably larger number of borrowing members than do other MDBs. Member countries with 2017 per capita Gross National Income (GNI) of $1,145 or more are eligible to borrow from the IBRD. As of the fiscal year ending on 30 June 2018 (FY 2018), 85 members were eligible to borrow from the IBRD (see Exhibit 1). In FY2018, commitments in lower- and middle-income countries represented 53% of total commitments, up from 39% in FY2017. Geographically, countries in the Middle East and North Africa received 26% of FY2018 commitments, followed by South Asia (20%) and Latin America and the Caribbean (17%).

Exhibit 1
IBRD members include both borrowing and non-borrowing sovereigns



Sources: IBRD and Moody's Investors Service

Mission and goals advance development agenda

The WBG defines its mission through two specific goals: (i) to end extreme poverty by reducing the percentage of people living on less than $1.90 per day to no more than 3% globally by 2030 (compared to 10.7% as of 2013); and (ii) to promote shared prosperity in a sustainable manner by fostering income growth for the bottom 40% of the population of every developing country.

Prudent lending ensures financial strength and progress toward development goals

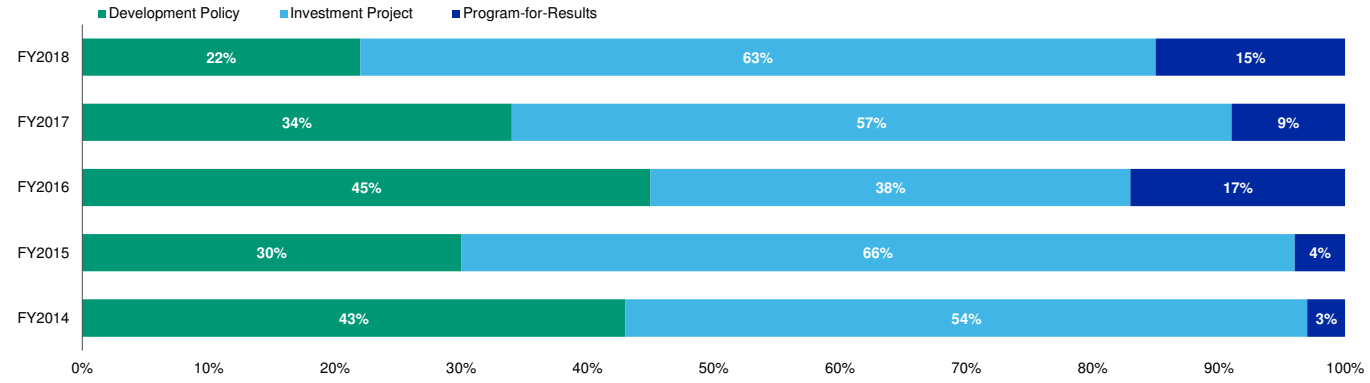
The IBRD pursues its development goals by providing loans, guarantees and knowledge for development-focused projects and programs to creditworthy middle-income and lower-income countries. The bank's objective is to earn adequate income to ensure its financial strength and sustain its development activities – not to maximize profit. As such, it seeks to generate sufficient revenue to conduct its operations and to be able to set aside funds in reserves to strengthen its financial position.

The IBRD's main business activity is extending loans to eligible member countries by offering long-term loans that can have a final maturity of up to 35 years. Borrowers may customize their repayment terms to meet their debt management or project needs, and loans are offered on fixed and variable terms in multiple currencies (although borrowers generally tend to prefer loans denominated in US dollars and euros).

Lending is classified within three instruments: investment project financing (creation of physical and social infrastructure); development policy financing (support for achieving sustainable policy and institutional actions); and program-for-results (design and implementation of development programs). The proportionate share of each category has shifted modestly as its borrowing members' needs have evolved (see Exhibit 2).

Exhibit 2

Lending consists mostly of investment project and development policy financing
(% of total commitments by instruments)



Sources: IBRD and Moody's Investors Service

The IBRD also supports its borrowers by providing access to risk management tools, such as derivative instruments, including currency and interest rate swaps and interest rate caps and collars.

CREDIT PROFILE

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and strength of member support. For MDBs, the first two factors combine to form the assessment of intrinsic financial strength, which provides a preliminary rating range. The strength of member support can provide uplift to the preliminary rating range. For more information, please see our Supranational Rating Methodology.

Capital adequacy: High

Factor 1

Scale	Very High	High	Medium	Low	Very Low
+					-

Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the degree to which the institution is leveraged and the risk that these assets could result in capital losses.

The resources that an MDB has available to absorb credit or market losses stemming from its operations and preserve its ability to repay debtholders are an important element of its financial fundamentals and overall creditworthiness. MDBs hold capital because they face potential credit losses as a consequence of their lending and investment operations in sectors or regions that are relatively risky, in line with their mandates.

Capital position remains strong

Despite a plateauing capital base and elevated leverage, the IBRD's strict lending limitations, diversified portfolio composition and stable asset quality ensure that the bank has sufficient capital to cope with its business risk.

During FY2018, a total of $5.8 billion was subscribed as a part of the FY2011 general capital increase (GCI) and subsequent special capital increase (SCI), leading to a cumulative total of $84.5 billion, with the paid-in portion amounting to $4.9 billion. Of the paid-in capital, $0.3 billion was contributed during FY2018. The subscription period for the FY2011 GCI ended on 16 March 2018.

This capital increase has served to maintain the bank's total equity in a relatively narrow corridor amid generally negative financial results on a reported net income (not allocable income) basis. On 1 October 2018, the Board of Governors approved a total capital increase package of $60.1 billion, comprised of $7.5 billion of paid in capital and $52.6 billion of callable capital, over the next five years (see more in Strength of Member Support section below).

During FY2018, the IBRD reported net income of $698 million as higher net interest revenue, lower mark-to-market losses and lower shareholder-agreed transfers to IDA positively affected the year's financial performance. During FY2017, the Board approved a new formula-based approach for determining IBRD's transfers to IDA, which links the amount transferred to IBRD's allocable income level for that given year. As this ensures that most allocable income is retained by IBRD, it will allow IBRD to slowly grow its balance sheet through higher retained earnings, providing further support to its financial sustainability.

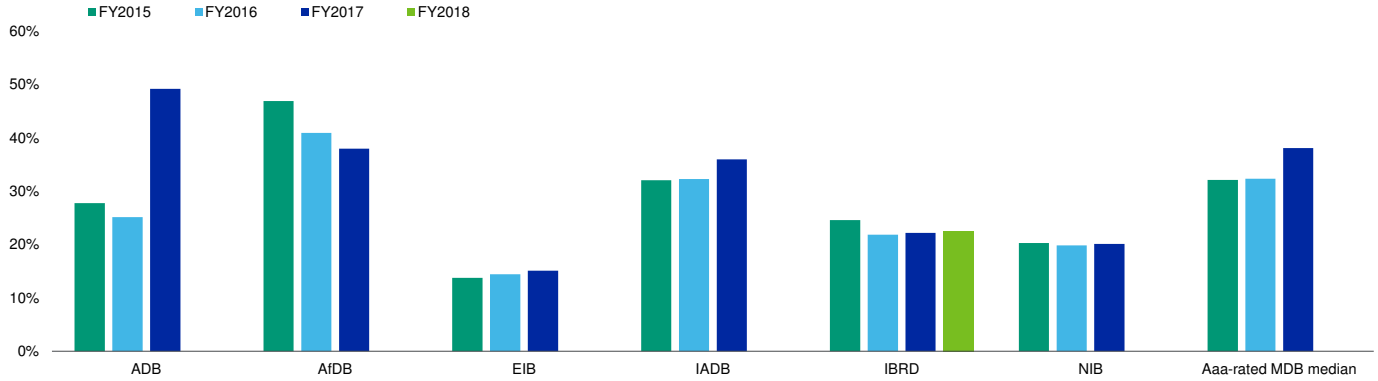
The bank views its capital adequacy as the degree to which its equity is sufficient to withstand unexpected shocks and uses the equity-to-loans ratio as its key metric. However, we measure the strength of an MDB's capital position using a narrower definition of capital.

Our asset coverage ratio assesses usable equity against total loans outstanding and risk-weighted liquid assets, where usable equity excludes callable capital. In FY2018, the bank experienced a moderate improvement in this ratio, to 22.5% from 22.2% in FY2017.

The second consecutive uptick occurred following a steady downward trend in the ratio from a ten-year high of 41.9% in FY2008. On a relative basis, the IBRD retains the third lowest capital adequacy ratio score in the Aaa MDB peer group, behind the European Investment Bank (Aaa stable) and the Nordic Investment Bank (Aaa stable) (see Exhibit 3).

Exhibit 3

IBRD's capitalization ratio is lower than that of most peers, yet remains comfortable
(Usable equity as a % of loans + equity operations)



Note: FY2018 data not yet available for most other Aaa-rated MDB's
Sources: MDB audited financial statements and Moody's Investors Service

To protect its capital position, the bank uses various safeguards, including statutory lending limits, to ensure strong capital adequacy and limit concentration risk. The statutory lending limit is defined in the IBRD charter and stipulates that the total amount of outstanding disbursed loans, participations in loans and callable guarantees may not exceed the total value of subscribed capital (which includes callable capital), reserves and surplus. As of FY2018, the bank's total exposure to borrowing countries was approximately 62%, well below the 100% statutory limit, up marginally from 61% at the end of FY2017.

Borrower quality remains high through changes in global credit conditions

The bank's capital adequacy has been largely unaffected by asset quality deterioration in emerging markets in recent years. Although conditions in emerging markets were relatively stable during FY2018, the outlook for global growth has moderated and continued gradual tightening of global financial conditions will likely contribute to higher volatility in emerging markets.

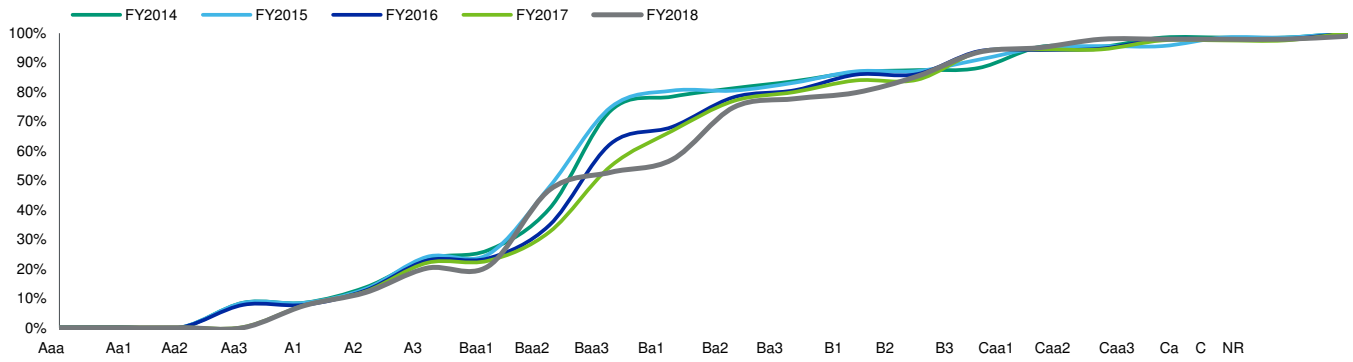
While the creditworthiness of many of the bank's largest borrowers improved between 2008 and 2013, resulting in a loan portfolio weighted average borrower rating of Ba1, it declined to Ba2 in FY2014 and has since remained steady.

As of the end of FY2018, the weighted average borrower rating was anchored firmly in the Ba2 territory, reflecting improvements in the Baa-space and deteriorations in the Ba-space (see Exhibit 4). Specifically, during FY2018 we upgraded the sovereign ratings of Argentina (B2 stable) and India (Baa2 stable) in November 2017, and Indonesia (Baa2 stable) in April 2018. Meanwhile, we downgraded Turkey (Ba3 negative) and Tunisia (B2 negative) over the course of the 2018 calendar year.

The bank's exposure to sovereigns rated Caa1 or lower amounted to $8.4 billion (4.5% of total loans outstanding) as of the end of FY2018, up from $7.2 billion (4.0% of total loans outstanding) as of the end of FY2018. Additionally, the bank had a further $1.8 billion in exposure to countries not rated by Moody's. The IBRD's preferred creditor status and global scope help to mitigate the risks associated with exposures to such distressed borrowers, through low financial and economic linkages, which limits contagion risk among members.

Exhibit 4

Strong borrower quality remains anchored amid changing global credit conditions
(Cumulative distribution of credit exposures by rating, % of total gross exposure)



Sources: IBRD and Moody's Investors Service

Diversified portfolio mitigates risk and minimizes performance volatility

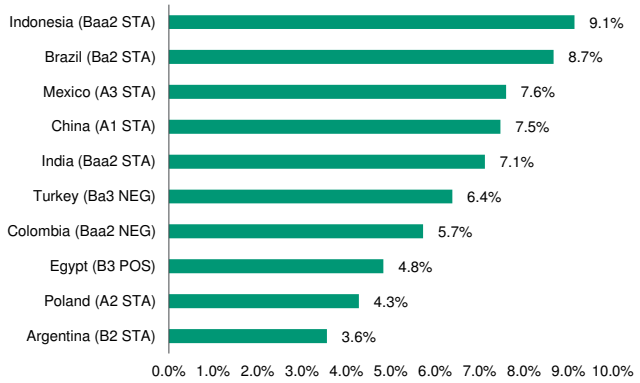
As of February 2019, seven of the bank's 10 largest exposures had stable outlooks. Of the remaining three, Turkey and Colombia (Baa2 negative) had negative outlooks and Egypt (B3 positive) had the sole positive outlook (see Exhibit 5). In the long run, we do not expect the current global macroeconomic environment to pose a serious threat to the IBRD's asset quality, as probability of default among its borrowers remains remote and portfolio diversification mitigates concentration risk.

Overall, portfolio concentration is not a credit concern. Altogether, the IBRD's 10 largest exposures, including guarantees, represent 64.8% of its total portfolio, which we consider to be a moderate level of concentration.

Given that the IBRD lends to sovereigns, the bank has fewer borrowers than MDBs that lend to the private sector. However, as the only truly global public sector MDB, the IBRD has very low country and regional concentration risk (see Exhibit 6). Its regional concentration is the second lowest in the MDB universe, following the IFC (which lends globally to the private sector). The balance of moderate concentration of top 10 exposures and low regional concentration results in a net positive impact of our assessment of concentration risk on the bank's capital adequacy score.

Exhibit 5

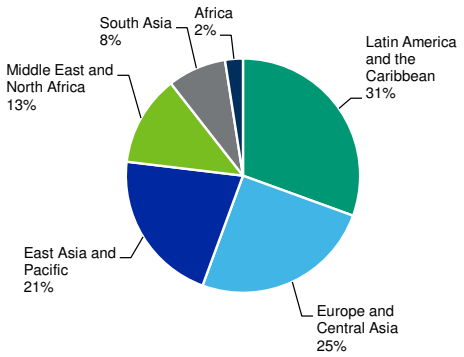
Moderate level of portfolio concentration by country...
(% of total exposure* by country)



*Note: Total exposure measured as Loans, Equity and Non-EEA Guarantees
Sources: IBRD and Moody's Investors Service

Exhibit 6

...counterbalanced by a geographically diverse portfolio
(% of outstanding loan balance by region)



Sources: IBRD and Moody's Investors Service

The IBRD limits its exposure concentration risk (both development-related lending and treasury investments) to individual borrowers based on its risk-bearing capacity. Effective for FY2018, the World Bank's executive directors approved a dual Single Borrower Limit (SBL) system, which differentiates between countries below the Graduation Discussion Income (GDI) threshold ($6,795 as of the beginning of FY2019). Under this new system, the SBL for countries below and above the GDI is $21 billion and $19.5 billion, respectively. There are two countries below-GDI and two above-GDI, all of which have their exposure limits set at the respective SBLs.

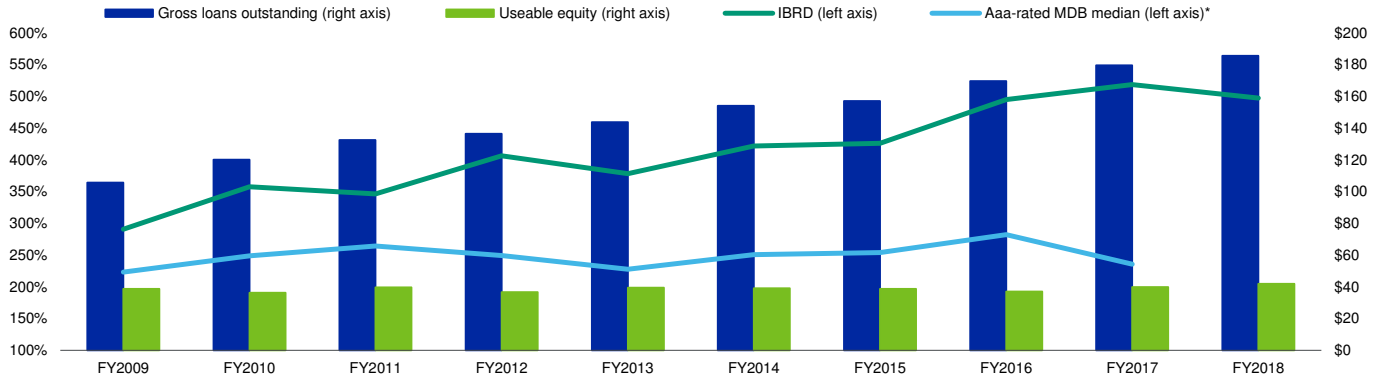
Leverage moderated following steady rise from development policy mandate and increased demand for loans

The IBRD's leverage has increased substantially in recent years as demand for loans continues to grow. As a result, the bank's overall leverage ratio, gross debt-to-usable equity, reached an all-time high of 518.4% in FY2017 from 290.7% in FY2009. However, the ratio moderated to 497.4% in FY2018, as usable equity increased to its highest nominal amount in over 10 years (see Exhibit 7).

The rise in leverage was accelerated following the World Bank Executive Directors' policy decision to lower the IBRD's minimum equity-to-loans ratio to 20% from 23% during FY2014-15 to maximize the bank's development impact through increased lending and optimization of its balance sheet. As of FY2018, the ratio stood at 22.9%, indicating scope to raise leverage further; however, we do not expect the bank to reduce the ratio below the 20% threshold.

Exhibit 7

Strong demand for loans and lowering of the minimum equity-to-loans ratio has led to an increase in leverage
(Gross debt as a % of usable equity - left axis; billions of USD - right axis)



Note: FY2018 data not yet available for other Aaa-rated MDBs
Sources: MDB audited financial statements and Moody's Investors Service

Over the past decade, the increase in the leverage ratio has been driven by both numerator and denominator effects, as demonstrated in the previous exhibit. Despite the positive impact of the bank's ongoing capital increase on paid-in capital, usable equity declined for three consecutive years between FY2014 and FY2016 before rising to a ten-year high at the end of FY2018. The declines were primarily due to the unfunded status of benefit plans and currency translation adjustments.

Meanwhile, in FY2018 leverage moderated as the bank raised $36 billion in debt issuance, down from $56 billion in FY2017 and $63 billion in FY2016, because of smaller net loan disbursements and lower debt servicing and refinancing requirements. The IBRD's borrowing needs have been evolving in proportion to rising demand for its loans. In the run-up to the global financial crisis, the IBRD's borrowing needs declined because it was experiencing negative net loan disbursements as annual loan repayments from borrowers exceeded loan disbursements to borrowers. Since the crisis, it has consistently reported positive yet declining net disbursements of $5.6 billion in FY2018, $8.7 billion in FY2017 and $13.2 billion in FY2016.

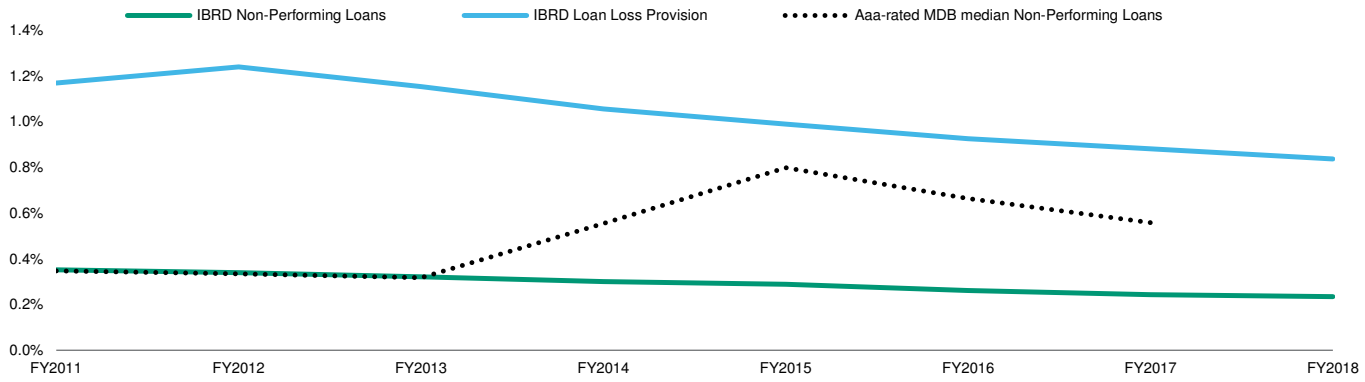
Asset quality continues to be very strong

The IBRD's assets continue to perform very well, with only one country, Zimbabwe (unrated), in nonaccrual status as of the end of FY2018. The IBRD does not reschedule its loans and it has never written off a loan. Instead, it continues to seek full recovery of all arrears.

Zimbabwe has been in nonaccrual status since FY2001, and as of FY2018, the principal in nonaccrual status amounted to approximately $435 million, or about 0.2% of total gross loans and guarantees outstanding. This decreased from $444 million in FY2016 due to principal payments of $9 million from Zimbabwe during FY2017. This was amply covered by the bank's accumulated loan loss provisions of $1.6 billion, about 0.8% of gross loans and guarantees (see Exhibit 8).

Exhibit 8

The IBRD's strong asset quality has led to a steady decline in the ratio of nonperforming loans
(Percent of gross loans)



Note: FY2018 data not yet available for other Aaa-rated MDBs
Sources: IBRD and Moody's Investors Service

Although the IBRD places its loans on nonperforming status when a country is overdue on its payments by more than six months, the figures do not change if one applies a more conservative and standard period of 90 days.

Notably, the bank placed all loans outstanding from Iran (unrated), a total of $697 million in gross terms, on nonaccrual status in FY2013. However, the situation was resolved within three months and all overdue amounts were cleared. No new non-accruals have been reported since that episode.

Problem loans have steadily decreased since FY2005 when the ratio of nonperforming loans (NPLs) to total loans outstanding reached 3.4%. This is notable given the IBRD's countercyclical lending during the global financial crisis.

The IBRD has historically experienced higher NPL levels than other Aaa-rated MDBs, such as the Asian Development Bank (ADB, Aaa stable), European Investment Bank, the IADB and the Nordic Investment Bank, all of which have long-term histories of zero or near-zero NPL ratios. Nonetheless, the bank's strong asset quality has continued to push this metric below the Aaa-rated MDB median over the last few years.

Preferred creditor status supports asset performance

Similar to its MDB peers, the IBRD's asset performance remains well-anchored by its preferred creditor status, in which borrowing members pledge to prioritize debt service to the IBRD over debt service to market and official bilateral creditors.

That said, despite its preferred creditor status, the IBRD has had periods of higher NPLs due to its development mandate and broad lending scope, which results in lending to financially weaker sovereigns, often with limited access to market-based funding and across all regions. In situations where countries only borrow from MDBs, there are no market creditors to subordinate to the IBRD, only bilateral creditors. Given the bank's lending distribution, with 5.4% of loans outstanding to sovereigns rated Caa1 or lower, or not rated, its NPL ratio would likely be higher without the benefit of preferred creditor status.

Liquidity: Very High

Factor 2

Scale	Very High	High	Medium	Low	Very Low
+					-

A financial institution's liquidity is important in determining its shock absorption capacity. We evaluate the extent to which liquid assets cover debt service requirements and the stability of the institution's access to funding.

Illiquidity is most often the proximate cause of a financial institution's failure. Liquidity assumes particular importance for MDBs because these entities rely on their own resources in the face of shocks, before shareholder support materializes. Moreover, most MDBs do not have access to the liquidity facilities that central banks provide to commercial banks. The primary aim of holding liquid assets is to meet financial obligations, in particular debt service, by investing in assets that can be quickly converted to cash. In this respect, we look at the extent to which liquid assets cover debt service requirements. We also evaluate the stability of access to funding, which is an essential element of maintaining liquidity.

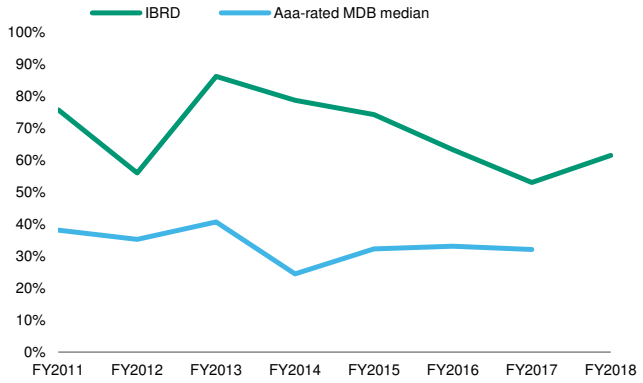
Strong liquidity position is supported by conservative liquidity management strategy

The IBRD has a strong liquidity position as measured by its debt service coverage ratio (DSCR). Despite annual fluctuations, this ratio consistently falls in the 50%-90% range (see Exhibit 9). The IBRD's liquidity management strategy influences the debt service coverage ratio, as the bank ensures that cash flows are available to meet all financial commitments. Effective for FY2017, the bank changed its official liquidity policy to require a minimum of 12 months of projected debt service and net loan disbursement needs. 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. As a result, we expect the DSCR to remain strong and within our "High" assessment.

Both the maturity profile of the IBRD's borrowings, historical precedence of over-compliance with its liquidity policy and recent further tightening of its liquidity policy support our assessment of expected stability in the bank's liquidity position. Average contractual maturity of the bank's medium- and long-term borrowings stood at 5.7 years in FY2018, down modestly from 6.3 years in FY2017, as the bank slightly increased its overall share of short-term borrowing (see Exhibit 10). The average maturity is within the 4-7 year range observed across its peer group and consistent with the bank's strategy to maximize affordability and stability of its debt issuance through effective debt management.

Exhibit 9

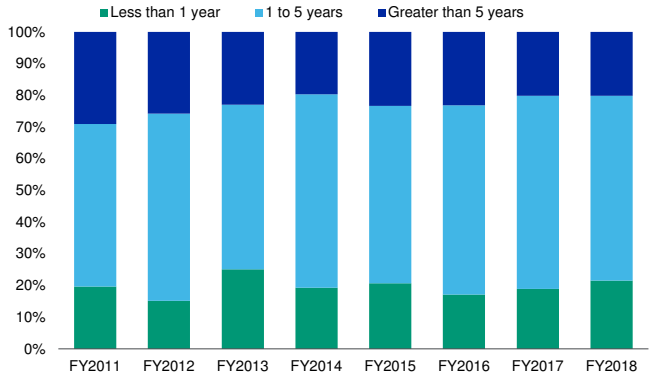
DSCR demonstrates stability within a range...
(ST + CMLTD as a % of discounted liquid assets*)



*Note: ST = Short term; CMLTD = Currently maturing long-term debt; liquid assets are discounted by Moody's five-year expected loss
Sources: IBRD and Moody's Investors Service

Exhibit 10

...supported by primarily medium- to long-term borrowing
(% of outstanding borrowings by maturity*)



*Note: IBRD's borrowings have original maturities ranging from 3 days to 50 years, with the final maturity in 2068
Sources: IBRD and Moody's Investors Service

Before the adoption of the new official liquidity policy, the IBRD's actual liquidity tended to be comfortably above the minimum set by its own policy and was conservatively managed to protect the principal amount of the investments while generating a reasonable return. For FY2019, the target liquidity level is set at $56 billion, compared to a target level of $52 billion in FY2018. IBRD's policies also establish a soft corridor for the size of its liquid portfolio, which generally should fluctuate up to 150% of the target liquidity level. As of the end of FY2018, liquid assets were $72 billion or 138% of the target liquidity level for FY2018.

Asset/liability management minimizes liquidity risk

The objective of the IBRD's asset/liability management framework is to provide adequate funding for each loan and liquid asset at the lowest available cost and to manage the portfolio of liabilities supporting each loan and liquid asset within the prescribed risk management guidelines. The bank uses derivatives to manage its exposure to interest and currency risks; manage re-pricing between loans and borrowing; manage the duration of equity; and assist borrowing member countries in managing their interest and currency risks. The IBRD does not enter into derivatives for speculative purposes and is mandated to match borrowings in any one currency with assets in the same currency.

Exceptional market access underpinned by strong brand and global benchmark status

The 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.

The bank's "Very High" Market Funding score, based on strong bond-implied ratings (Aa1) and two notches of uplift to account for a very large and diversified investor base, supports the overall assessment of liquidity as "Very High." The IBRD meets its borrowing needs via bond issuance in the international capital markets, where it has a proven track record of very strong market access. This is supported by its long history of market debt issuance and brand recognition as a premier MDB and global benchmark credit.

The strength of its market access has been tested and proven in numerous episodes of market stress. For example, when developed nations were hit hard by the global financial crisis and several of the IBRD's largest members experienced a deterioration in creditworthiness, the IBRD did not experience market dislocation and benefitted from the market's risk aversion as investors sought its bonds as a safe haven investment during the sovereign turmoil. We expect the IBRD's market access to remain very strong over the medium term.

The IBRD has a sizable annual borrowing program and regularly issues benchmark bonds. In FY2018, the bank raised a total of $36 billion in medium- and long- term debt in 27 different currencies, a $19.5 billion reduction from FY2017, primarily because of a decrease in net loan disbursements and lower debt service and refinancing requirements. Since 1947, the bank has issued bonds in 63 different currencies and most borrowings are swapped into short-term variable rates in US dollars. Since the first green bond was issued by IBRD in 2008, the bank has issued about $13 billion in green bonds through 150 transactions in 20 currencies.

In August 2018, the IBRD issued an AUD$110 million, two-year bond using blockchain technology. The bond, dubbed "bond-i" (Blockchain Operated New Debt Instrument), is the world's first bond to be created, allocated, transferred and managed through the use of distributed ledger technology. Although the issuance was small, accounting for less than 1% of the IBRD's average annual borrowing program, and has no impact on the bank's credit profile, the transaction's success exemplifies the IBRD's leading role as a sophisticated capital markets issuer.

The IBRD strategically calls its debt to reduce the cost of borrowings; it may also repurchase its debt to meet such other operational or strategic needs as providing liquidity to its investors. After accounting for the effects of swaps, the IBRD's weighted average cost of borrowing increased to 1.8% in FY2018, up from 1.2% in FY2017, reflecting an increase in short-term interest rates during the year. The change in rates also resulted in an increase in the IBRD's weighted average loan rates, therefore the bank's lending spread was not impacted negatively by the rise in short-term rates.

Strength of member support: Very High

Factor 3

Scale	Very High	High	Medium	Low	Very Low
+					-

Contractual support primarily manifests itself in the callable capital pledge, which is a form of emergency support. Extraordinary support is a function of shareholders' ability and willingness to support the institution in ways other than callable capital. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Contractual support mechanisms, which for MDBs often involve callable capital (CC) pledges, support an institution's ability to service its debt in times of particular financial stress. Presence of a substantial callable capital buffer is often among the key strengths supporting MDB credit ratings at the top end of the rating spectrum.

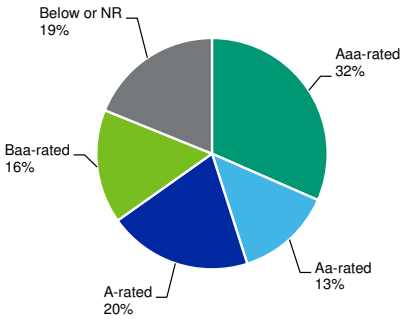
Callable capital complements the IBRD's own resources

If the IBRD were unable to service its own debt — an event we consider to be extremely remote, as reflected in our "Very High" assessment of its intrinsic financial strength — it would have the option of making capital calls on all member countries in proportion to their subscribed shares. Although the bank has never called capital, we believe 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.

We assess the strength of contractual support in light of the CC coverage of the debt stock, whereby we measure the bank's gross outstanding debt against the CC pledged by members rated Aaa through Baa3, discounted for the expected loss associated with each rating category. The IBRD scores "Very High" on this measure, with an FY2018 ratio of 107% that has improved from an almost 10-year low of 87.4% in FY2015. The high portion of CC pledged (and thus vote allocations) by members rated Aaa through Baa3 (see Exhibits 11 and 12) supports the stability of the contractual support assessment. In particular, the United States (Aaa stable) has legislation in place (including the Bretton Woods Agreements Act) that allows the Secretary of Treasury to pay up to $7.7 billion of the $43.5 billion in CC pledged to the IBRD, without need for further congressional approval.

Exhibit 11

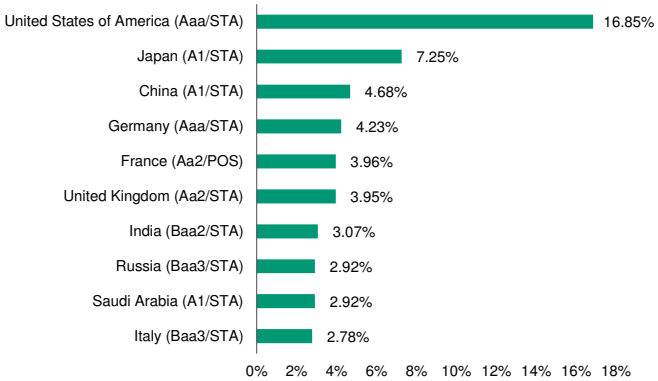
Highly rated sovereigns provide majority of callable capital...
(% of subscribed capital by Moody's rating*)



*Note: Moody's foreign-currency government bond ratings as of 14 February 2019
Sources: IBRD and Moody's Investors Service

Exhibit 12

...with a majority of callable capital provided by 10 sovereigns
(% of callable capital provided)



*Note: Moody's foreign-currency government bond ratings as of 14 February 2019
Sources: IBRD and Moody's Investors Service

CC is an unconditional and full faith obligation of each member country, the fulfillment of which is independent of the action of other shareholders. Should one or more of the member countries fail to meet this obligation, successive calls on the other members would be made until the full amount needed is obtained. However, no country would be required to pay more than its total callable subscription. As a result, we do not consider the IBRD to have support pledged on a joint-and-several basis.

In April 2018, shareholders endorsed a capital increase package that will provide the IBRD with a total of $60.1 billion in capital, comprised of $7.5 billion of additional paid-in capital and a $52.6 billion increase in callable capital. On 1 October 2018, the Board of Governors approved the capital increase and shareholders will have up to five years to pay.

The approval of the latest capital increase affirms the US endorsement of the IBRD and mitigates the risk of a material decline in US support. Under this latest agreement, the US' shareholding will decline marginally to 16.77% (voting power 15.87%) from the current level of 16.89% (voting power 15.98%). Meanwhile, China's IBRD shareholding will increase to 6.01% (voting power 5.71%) from 4.68% (voting power 4.45%), reflecting its increasing voice in the bank.

Members' willingness complements strong ability to provide extraordinary support

Besides contractual support through callable capital, we also assess the ability and willingness of shareholders to provide extraordinary capital. We believe that in extremely low probability scenarios that support is needed and callable capital is exhausted or otherwise unavailable, the 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. Creditworthiness of the bank's largest members is very high (see Exhibit 13). Overall, the weighted median shareholder rating of its 189 members was A1 in FY2018, level with that of FY2017. This figure, while remaining strong, has trended downward over the past 10 years from Aaa in 2008. We expect members' ability to support the bank to remain stable.

Exhibit 13
Largest members exemplify strength of contractual support
($ millions, unless otherwise specified)

	Rating*	Par Value of Shares				Voting Power
		% of Total	Total	Paid-In	Callable	
United States	Aaa/STA	16.9%	$46,384	$2,864	$43,521	16.0%
Japan	A1/STA	7.3%	$19,958	$1,222	$18,736	6.9%
China	A1/STA	4.7%	$12,859	$775	$12,084	4.5%
Germany	Aaa/STA	4.2%	$11,650	$718	$10,932	4.0%
France	Aa2/POS	4.0%	$10,906	$672	$10,234	3.8%
United Kingdom	Aa2/STA	4.0%	$10,906	$692	$10,214	3.8%
India	Baa2/STA	3.1%	$8,435	$508	$7,927	2.9%
Russian Federation	Baa3/STA	2.9%	$8,023	$484	$7,539	2.8%
Saudi Arabia	A1/STA	2.9%	$8,023	$485	$7,538	2.8%
Italy	Baa3/STA	2.8%	$7,645	$469	$7,176	2.7%
Canada	Aaa/STA	2.6%	$7,040	$433	$6,607	2.5%
Other		44.8%	$122,901	$7,135	$115,766	47.5%
Total		100.0%	$274,730	$16,456	$258,274	100.0%

*Note: Moody's foreign-currency government bond ratings as of 14 February 2019; all other data as of 30 June 2018
Sources: IBRD and Moody's Investors Service

Global status and separation of credit risk ensures materialization of support

Favorable characteristics of the IBRD's member base support our "Very High" assessment of the strength of member support. In view of the IBRD's largest shareholders and very large global membership base, we consider the concentration of members and financial/economic linkages among members to be low. Regional MDBs with smaller membership bases and narrower geographic mandates tend to have higher concentration of capital. As a global MDB with broad geographic distribution of members, the IBRD does not face the risk that isolated regional crises would materially impair its members' ability to provide support.

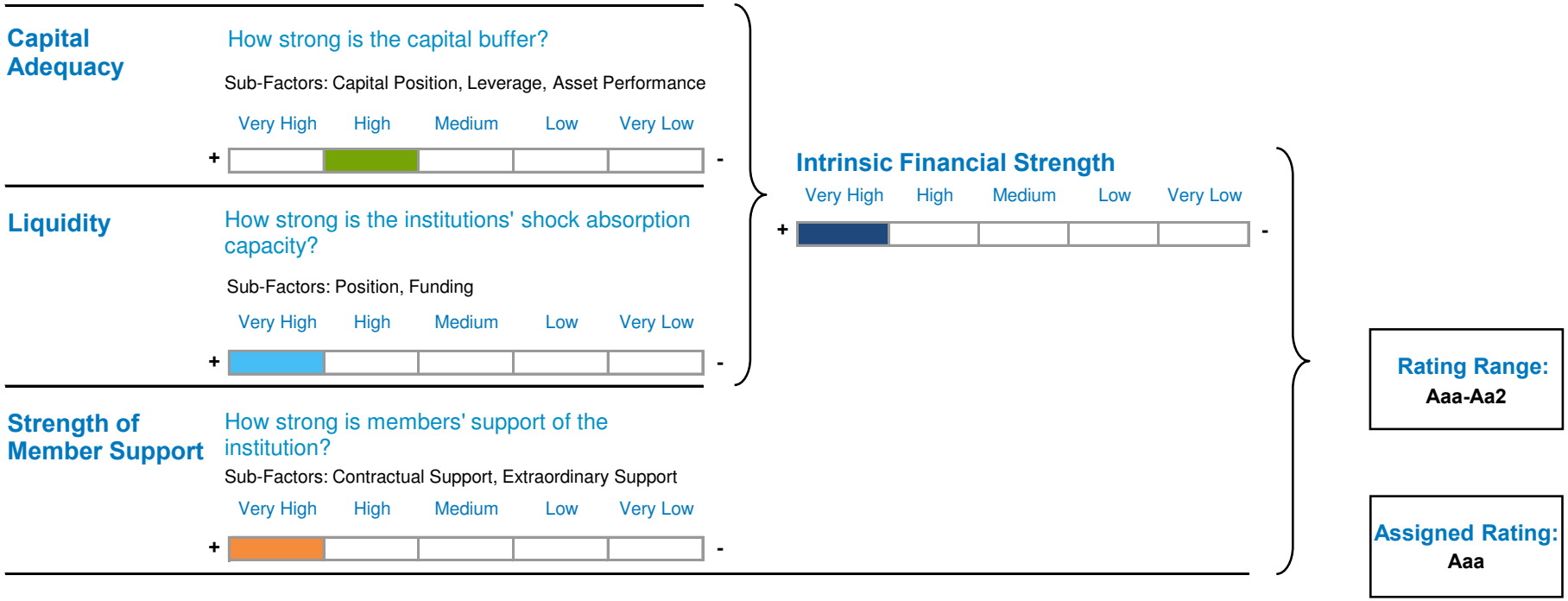
In addition, the IBRD's membership base has the added diversity of both borrowing and non-borrowing members. Only three of the top 10 shareholders – China, India and Russia (Ba1 positive) – are borrowers; the remainder have never borrowed, or no longer borrow from the bank. Meanwhile, membership includes highly rated non-borrowers outside of the top 10 largest shareholders. As the bank's largest risk is credit risk from lending activities, diversification of borrowing and non-borrowing members ensures a high number of large shareholding members that can be called upon to provide financial assistance that are not the sources of the financial stress at hand.

Rating range

Combining the scores for individual factors provides an indicative rating range. 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 Supranational Rating Methodology.

Exhibit 14

Supranational rating metrics: IBRD (World Bank)



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding IBRD with other supranational entities that we rate. It focuses on a comparison with supranationals within the same rating range and shows the relevant credit metrics and factor scores.

As the second largest institution in our rated universe, IBRD ranks at the upper end of its peer group in terms of asset base. Meanwhile, the bank's capital adequacy, liquidity and member support indicators are in line with its comparables, consistent with its "Very High" intrinsic financial strength assessment.

Exhibit 15

IBRD's (World Bank) key peers

	Year[5]	IBRD	ADB	AfDB	EIB	IADB	NIB	Aaa Median
Rating/Outlook		Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	--
Total Assets (US$ million)	2017	403,056	182,381	46,108	658,782	126,240	35,921	67,556
Factor 1		**High**	**Very High**	**High**	**Very High**	**Very High**	**Very High**	**--**
Usable Equity/Gross Loans Outstanding + Equity Operations (%)[1]	2017	22.5	49.2	38.1	15.1	36.2	20.1	38.1
Debt/Usable Equity (%)[1]	2017	497.4	174.4	326.8	651.7	274.2	697.3	235.5
Gross NPLs/Gross Loans Outstanding (%)[2]	2017	0.2	0.0	2.4	0.1	0.5	0.6	0.6
Factor 2		**Very High**	**Very High**	**Very High**	**Very High**	**Very High**	**Very High**	**--**
ST Debt + CMLTD/Liquid Assets (%)[3]	2017	61.3	50.8	41.0	94.1	53.9	50.2	41.0
Bond-Implied Ratings (Long-Term Average)	2011-2017	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aaa
Intrinsic Financial Strength (F1+F2)		**Very High**	**Very High**	**Very High**	**Very High**	**Very High**	**Very High**	**--**
Factor 3		**Very High**	**Very High**	**Very High**	**High**	**Very High**	**Medium**	**--**
Total Debt/Discounted Callable Capital (%)[4]	2017	106.5	68.9	94.1	215.7	82.6	370.7	88.3
Weighted Median Shareholder Rating (Year-End)	2017	A1	A1	Ba1	Aa2	A3	Aaa	Aa2
Rating Range (F1+F2+F3)		**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**--**

[1] Usable equity is total shareholder's equity and excludes callable capital
[2] Nonperforming loans
[3] Short-term debt and currently maturing long-term debt
[4] Callable capital pledge by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings
[5] IBRD data are as of its most recent fiscal year end, 30 June 2018
Sources: MDB financial statements and Moody's Investors Service

DATA AND REFERENCES

Rating history

Exhibit 16

IBRD (World Bank)

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-term	Short-term			
Rating Affirmed	Aaa	P-1	Aaa	Stable	November-17
Rating Assigned	--	P-1	--	--	August-10
Outlook Assigned	--	--	--	Stable	March-97
Rating Assigned	Aaa	--	--	--	December-94
Rating Assigned	--	--	Aaa	--	March-93

Source: Moody's Investors Service

Annual statistics

Exhibit 17
IBRD (World Bank)

	2012	2013	2014	2015	2016	2017	2018
Balance Sheet, USD Millions							
Assets							
Cash & Equivalents	5,806	4,763	3,701	388	1,284	683	619
Securities	33,675	36,874	45,482	49,951	53,522	72,973	72,569
Derivative Assets	160,819	138,846	154,070	134,325	144,488	150,112	141,716
Net Loans	134,209	141,692	151,978	155,040	167,643	177,422	183,588
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	3,669	3,426	3,652	3,521	4,323	4,708	4,564
Total Assets	**338,178**	**325,601**	**358,883**	**343,225**	**371,260**	**405,898**	**403,056**
Liabilities							
Borrowings	149,039	149,434	164,416	164,555	183,408	206,315	208,131
Derivative Liabilities	144,837	131,131	146,885	132,324	141,741	153,129	147,096
Other Liabilities	7,617	5,513	8,597	7,709	9,048	6,656	5,985
Total Liabilities	**301,493**	**286,078**	**319,898**	**304,588**	**334,197**	**366,100**	**361,212**
Equity							
Subscribed Capital	205,394	223,181	232,791	252,821	263,329	268,937	274,730
Less: Callable Capital	192,976	209,747	218,786	237,629	247,524	252,828	258,274
Equals: Paid-In Capital	12,418	13,434	14,005	15,192	15,805	16,109	16,456
Retained Earnings (Accumulated Loss)	29,047	29,265	28,287	27,501	27,996	27,759	28,457
Accumulated Other Comprehensive Income (Loss)	(4,417)	(2,921)	(3,062)	(3,213)	(6,126)	(3,376)	(2,422)
Other Equity	(363)	(255)	(245)	(843)	(612)	(694)	(647)
Total Equity	**36,685**	**39,523**	**38,985**	**38,637**	**37,063**	**39,798**	**41,844**

Sources: IBRD and Moody's Investors Service

Exhibit 18
IBRD (World Bank)

	2012	2013	2014	2015	2016	2017	2018
Income Statement, USD Millions							
Net Interest Income	**2,229**	**2,113**	**1,735**	**1,320**	**1,828**	**1,667**	**1,716**
Interest Income	3,881	2,728	2,122	1,712	2,614	3,512	4,635
Interest Expense	1,652	615	387	392	786	1,845	2,919
Net Non-Interest Income	**-302**	**654**	**-114**	**658**	**1,560**	**792**	**1,218**
Net Commissions/Fees Income	13	599	672	739	835	890	969
Other Income	-315	55	-786	-81	725	-98	249
Other Operating Expenses	**2,415**	**2,572**	**2,659**	**2,774**	**2,836**	**2,685**	**2,267**
Administrative, General, Staff	1,631	1,480	1,568	1,701	1,822	1,751	1,777
Grants & Programs	783	811	838	825	772	519	196
Other Expenses	1	281	253	248	242	415	294
Pre-Provision Income	**-488**	**195**	**-1,038**	**-796**	**552**	**-226**	**667**
Loan Loss Provisions (Release)	189	-22	-60	-10	57	11	-31
Net Income (Loss)	**-676**	**218**	**-978**	**-786**	**495**	**-237**	**698**
Other Accounting Adjustments and Comprehensive Income	-2,998	1,496	-141	-151	-2,913	2,750	954
Comprehensive Income (Loss)	**-3,674**	**1,714**	**-1,119**	**-937**	**-2,418**	**2,513**	**1,652**

Sources: IBRD and Moody's Investors Service

Exhibit 19
IBRD (World Bank)

	2012	2013	2014	2015	2016	2017	2018
Financial Ratios							
Capital Adequacy, %							
Usable Equity / (Loans + Equity)	26.9	27.5	25.3	24.6	21.8	22.2	22.5
Debt/Usable Equity	406.3	378.1	421.7	425.9	494.9	518.4	497.4
Allowance For Loan Losses / Gross NPLS	365.8	359.1	351.9	343.8	353.8	363.7	357.0
NPL Ratio: Non-Performing Loans / Gross Loans	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Return On Average Assets	-0.2	0.1	-0.3	-0.2	0.1	-0.1	0.2
Interest Coverage Ratio (X)	0.6	1.4	-1.5	-1.0	1.6	0.9	1.2
Liquidity, %							
St Debt + CMLTD / Liquid Assets	55.9	85.8	78.6	74.1	63.1	52.9	61.3
Bond-Implied Rating	Aaa	Aaa	Aa1	Aa1	Aa1	Aa1	Aa1
Liquid Assets / Total Debt	26.5	27.9	29.9	30.6	29.9	35.7	35.2
Liquid Assets / Total Assets	11.7	12.8	13.7	14.7	14.8	18.1	18.2
Strength of Member Support, %							
Callable Capital (CC) of Baa3-Aaa Members/Total CC	82.6	84.1	85.2	82.7	80.7	79.5	77.9
Total Debt/Discounted Callable Capital	98.8	89.3	92.2	87.4	96.1	107.0	106.5
Weighted Median Shareholder Rating (Year-End)	Aa3	Aa3	Aa3	Aa3	Aa3	A1	A1

Sources: IBRD and Moody's Investors Service

Moody's related publications

Issuer Comment

» IBRD (World Bank): Success of blockchain bond demonstrates potential of distributed ledger technology, September 2018

Credit Opinion

» IBRD (World Bank) - Aaa Stable: Regular update, July 2018

Rating Methodology

» Multilateral Development Banks and Other Supranational Entities, September 2018

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.

Related websites and information sources

» Sovereign and supranational risk group web page

» Sovereign and supranational rating list

» The IBRD (World Bank) website

Endnotes

1 Allocable income, a non-GAAP financial measure, is the IBRD's preferred metric for profitability which reflects income available for allocation. IBRD's definition of allocable income starts with net income on a reported basis and includes certain adjustments, including unrealized mark-to-market losses/gains in non-trading portfolio positions and transfers to the International Development Association (IDA, Aaa stable), which are approved by the Board at the end of every fiscal year.

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