

## ISSUER IN-DEPTH

13 February 2020



### 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) is the original World Bank institution and key member of the World Bank Group (WBG). The IBRD 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. The bank's Aaa rating is based on its very high intrinsic financial strength and large cushion of callable capital, which provides substantial credit protection to its shareholders.

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 robust risk management framework and preferred creditor status, which support very strong asset performance; (2) ample liquidity buffers and exceptional access to global funding markets; and (3) a large cushion of callable capital and very high willingness and ability of global shareholders to provide 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 is a challenge.

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 shareholder support, thus keeping its credit profile in line with its Aaa rating. Downward pressure on the rating 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 conservative 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 funding 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.<sup>1</sup>

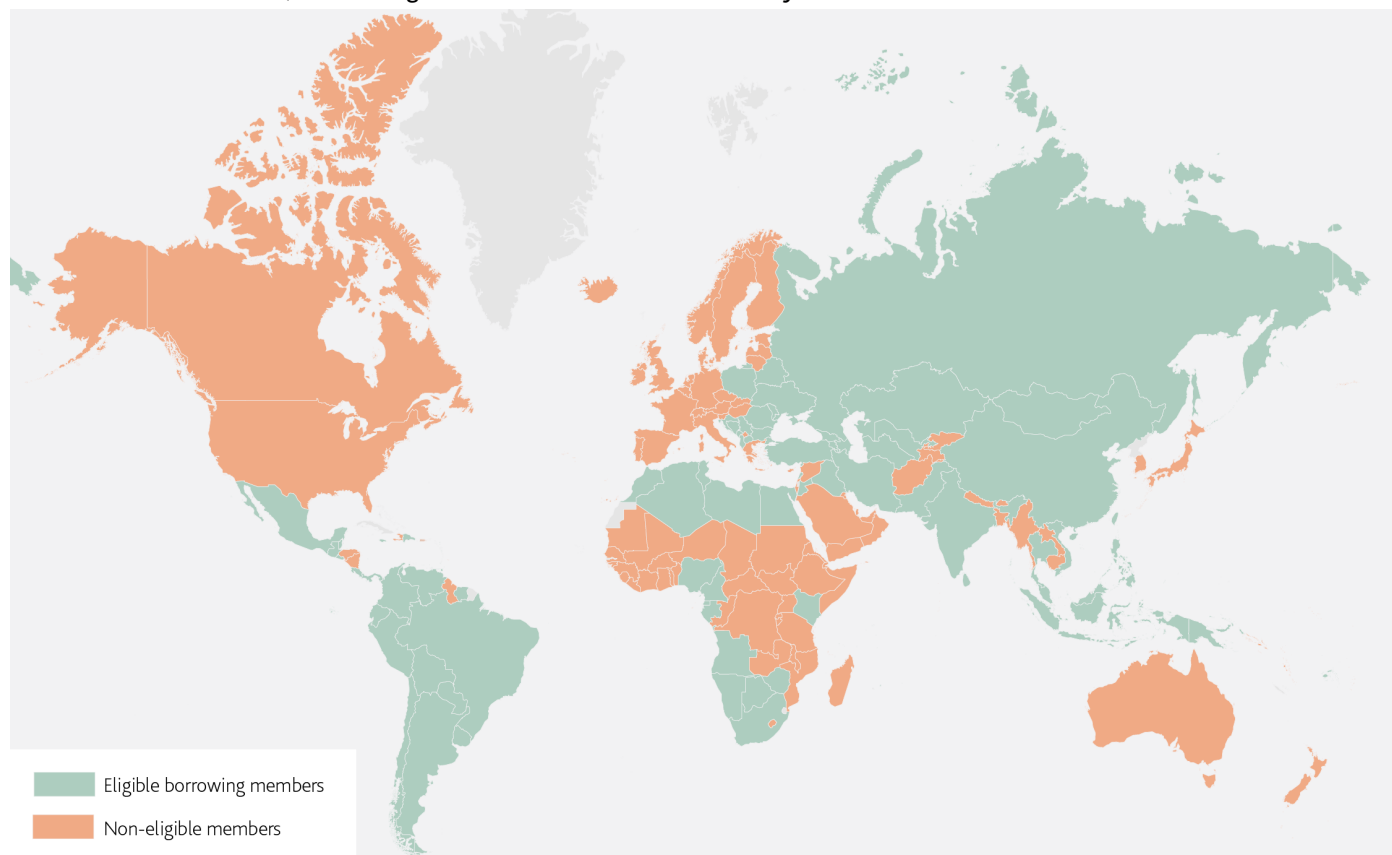
The IBRD is the largest of the WBG entities, which includes: the [International Development Association](#) (IDA, Aaa stable), the group's mainly concessional window; the [International Finance Corporation](#) (IFC, Aaa stable), a vehicle for lending to or investing in private sector companies in emerging 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 comparatively larger number of borrowing members than do other MDBs. Member countries with 2018 per capita gross national income (GNI) of \$1,175 or more are eligible to borrow from the IBRD. As of the fiscal year ending on 30 June 2019 (FY2019), 85 members were eligible to borrow from the IBRD (see Exhibit 1). Geographically, countries in Latin America and the Caribbean received 25% of FY2019 commitments, followed by the Middle East and North Africa (21%), East Asia and the Pacific (17%), and South Asia (17%).

Exhibit 1

**Out of IBRD's 189 members, 85 were eligible to borrow from IBRD as of fiscal year-end 2019**



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

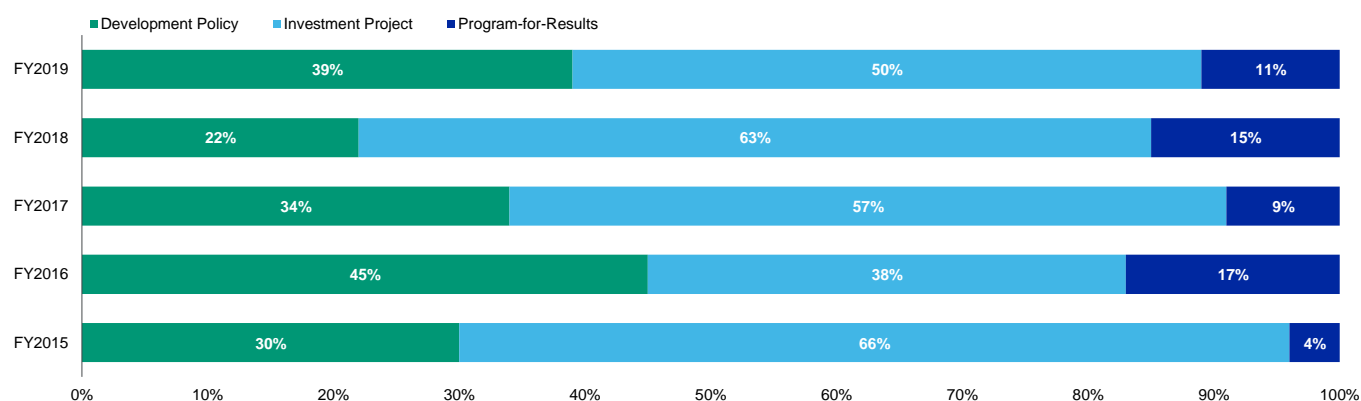
The IBRD pursues its development goals by providing loans, guarantees and knowledge for development-focused projects and programs to creditworthy middle-income and lower-income countries. The bank's objective is to earn adequate income to ensure its financial strength and sustain its development activities – not to maximize profit. As such, it seeks to generate sufficient revenue to conduct its operations and 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 funding, and strength of member support. For MDBs, the first two factors combine to form the assessment of intrinsic financial strength. Additional factors that can impact the intrinsic financial strength, including risks stemming from the operating environment or the quality of management, are also considered. The strength of member support is then incorporated to yield a rating range. For more information please see our [Supranational Rating Methodology](#).

### Capital adequacy score: a1

#### Factor 1: Capital adequacy

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c
+					Assigned	Adjusted															-

#### Sub-factor scores

Capital position

Development asset credit quality

Asset performance

ba2
aa
aaa

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 credit quality of the institution's development assets and the risk that these assets could result in capital losses.

*Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.*

The resources that an MDB has available to absorb credit or market losses stemming from its operations and preserve its ability to repay debt holders 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.

IBRD's "a1" capital adequacy score reflects its strong capital position, high development asset credit quality (DACQ), and very low nonperforming assets (NPAs). 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, due to higher expected future retained earnings from lower expected income transfers to IDA, increased future inflows of shareholder paid-in capital from the bank's 2018 general capital increase, and a relatively stable outlook for loan disbursements.

#### Capital position is strong, despite rise in leverage

The bank's strong capital position is underpinned by its robust risk management framework and preferred creditor status, which supports strong asset performance and provides a buffer to absorb shocks inherent to business risk.

In FY2019, the IBRD reported a net income of \$505 million, which was 28% lower than the net income reported in FY2018. 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, 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 FY2018 (\$1,161 million). The main drivers were loan spread revenue, equity contribution, and loan loss provisioning. The IBRD also introduced new accounting changes in FY2019 to align with prevailing market practices (see highlight box).

### New accounting practices adopted in FY2019

In FY2019, the 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. The 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, the IBRD's reported assets and liabilities declined substantially in FY2019, and in the restated period of FY2018.

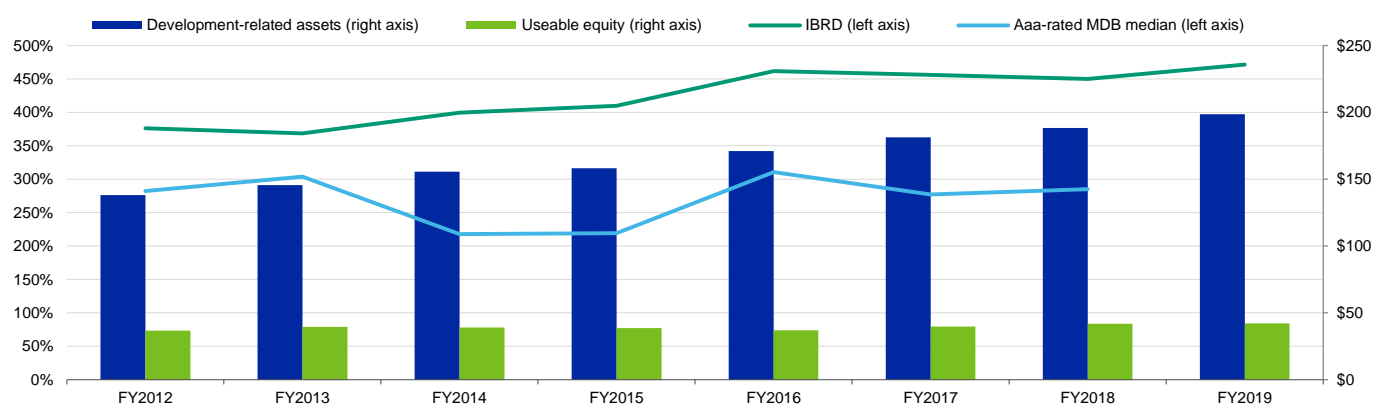
In addition, starting in the fourth quarter of FY2019, the bank changed its functional currencies from all the currencies of its members, to US dollars and euros. As a result, while translation gains/losses relating to euro-denominated balances continue to be reflected in equity, translation gains/losses on non-euro (non-functional currencies) balances are reflected in reported net income. The IBRD does not expect this change to have any impact on its equity.

In addition to retained earnings from its operations, the bank's capital position is further supported by periodic equity contributions from shareholders. On 1 October 2018, the shareholders approved a new capital increase package of \$60.1 billion, comprised of \$7.5 billion of paid-in capital and \$52.6 billion of callable capital, which would be paid in over the next five years. According to Moody's definition of usable equity, IBRD's usable equity remained stable at about \$42 billion in fiscal 2019.<sup>2</sup> Under the new General and Selective Capital Increases that were approved by the shareholders in October 2018, the bank received \$605 million of paid-in capital as of the fiscal year-end 2019. The new capital increases are part of the institutional and financial reforms package endorsed by the Governors in April 2018.

The bank views the adequacy of its capital as the degree to which its equity is sufficient to withstand unexpected shocks, and measures this through an equity-to-loans ratio. However, we measure the strength of an MDB's capital position by using a different leverage ratio: development-related assets-to-useable equity (total shareholder equity, excluding callable capital). As of FY2019, this leverage ratio stood at 4.7, up marginally from 4.5 in FY2018 (and 4.6 in FY2017 and FY2016), but significantly higher than the median of 2.5 for Aaa-rated MDB peers (see Exhibit 3). Looking ahead, we do not expect the leverage ratio to increase significantly beyond current levels.

Exhibit 3

**Strong demand for loans and lowering of the minimum equity-to-loans ratio has led to an increase in leverage**  
(Development-related assets % of useable equity - left axis; billions of US\$ - right axis)



Note: FY2019 data not available for all Aaa-rated MDBs

Sources: MDB audited financial statements and Moody's Investors Service

The rise in leverage has been driven by the bank's pursuit of its Board-mandated development policy objectives. In 2014, the World Bank Executive Directors lowered the IBRD's minimum equity-to-loans ratio to 20% from 23% to reflect the significant long-term improvement in the IBRD's loan portfolio credit quality, while maximizing the bank's development impact. As of FY2019, the bank's

equity-to-loans ratio stood at 22.8%, indicating scope to raise leverage further. However, we do not expect the bank to reduce the ratio materially beyond its current level, as changes to the bank's retained earnings formula (which reduces the amount of capital that is required to be transferred to IDA) and future inflows from paid-in capital from the 2018 general capital increase will support the bank's equity base. Meanwhile, loan disbursements are not expected to increase significantly beyond current levels.

In FY2019, leverage increased as the bank raised \$54 billion in debt issuances, up from \$36 billion in FY2018 and near the \$56 billion raised in FY2017. This was done to finance lending operations and meet increased liquidity requirements. The IBRD's borrowing needs have been evolving in proportion to rising demand for its loans since the global financial crisis. 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 had consistently reported positive yet declining net disbursements until FY2019 (\$10.1 billion in FY2019, \$5.6 billion in FY2018, \$8.7 billion in FY2017 and \$13.2 billion in FY2016).

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 FY2019, the bank's total exposure to borrowing countries was approximately 64%, well below the 100% statutory limit but up a bit from 62% at the end of FY2018.

### Development asset quality remains high through changes in global credit conditions

We assess the IBRD's DACQ as "aa" based on moderate borrower credit quality, which receives significant credit support from the bank's preferred creditor status and high diversification among international sovereign borrowers.

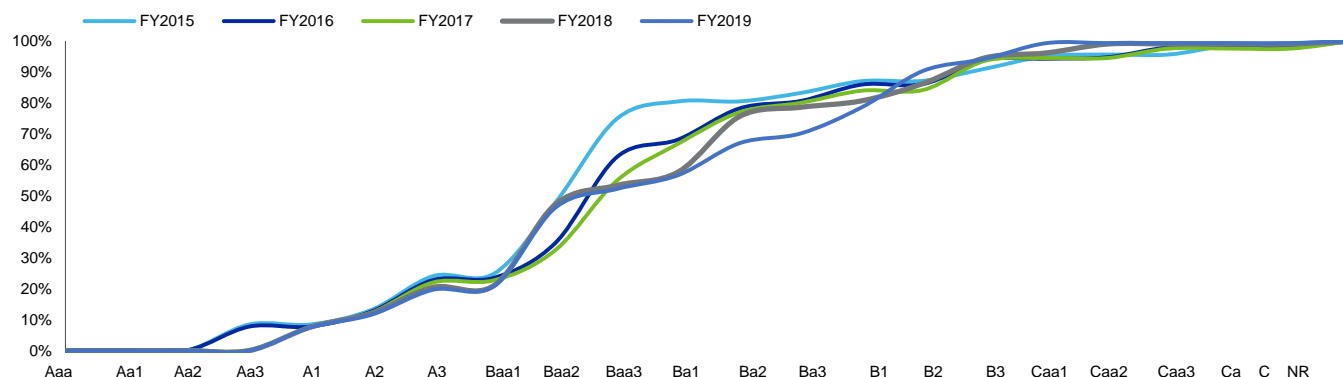
IBRD's capital adequacy has been largely unaffected by asset quality deterioration in emerging markets in recent years. While the creditworthiness of many of the bank's largest borrowers improved between FY2008 and FY2013, resulting in a loan portfolio weighted average borrower rating (WABR) of Ba1, in FY2014 the WABR declined to Ba2 and has remained there since. As of the end of FY2019, the WABR was anchored firmly in Ba2 territory, reflecting improvements in the 'Baa', 'Ba' and 'B' space (see Exhibit 4).

Over the course of the year, we upgraded several sovereign ratings, including [Russia](#) (Baa3 stable), [Vietnam](#) (Ba3 negative) and [Egypt](#) (B2 stable). We also downgraded some sovereigns, including [Turkey](#) (B1 negative). The bank's exposure to sovereigns rated Caa1 or lower amounted to \$10.1 billion (5.1% of total loans outstanding) as of the end of FY2019, up from \$8.4 billion (4.5% of total loans outstanding) as of the end of FY2018. The bank had a further \$1.3 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

Although 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, the bank has had periods of higher nonperforming assets (NPAs) 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). Given the bank's lending distribution, with 5.8% of loans outstanding to sovereigns rated Caa1 or lower, or not rated, its NPA ratio would likely be higher without the benefit of preferred creditor status. Nevertheless, IBRD's global and public policy importance helps to offset this risk.

### Diversified portfolio mitigates risk and minimizes performance volatility

As of December 2019, six of the bank's 10 largest exposures had stable outlooks. Of the remaining four, [Mexico](#) (A3 negative), [India](#) (Baa2 negative) and Turkey had negative outlooks, while [Argentina](#) (Caa2 RUR-) had the sole rating under review for downgrade (see Exhibit 5). In the long run, we do not expect the current global macroeconomic environment to pose a material threat to the IBRD's asset quality, as the probability of default among its borrowers remains remote and portfolio diversification mitigates concentration risk.

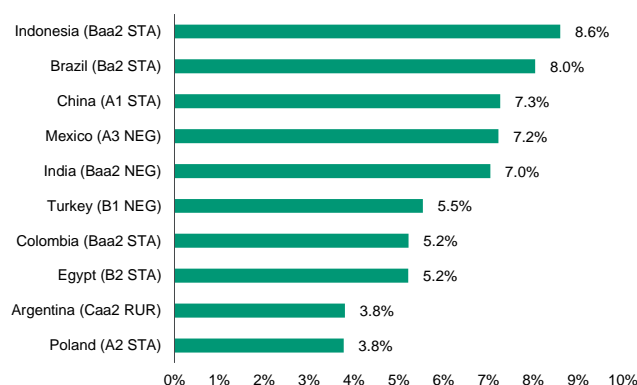
Overall, portfolio concentration is not a credit concern. Altogether, the IBRD's 10 largest exposures, including guarantees, represent 62.4% of its total portfolio, which we consider to be a moderate level of concentration.

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 on our assessment of concentration risk for the bank's capital adequacy score.

The IBRD limits its concentration risk exposure (both development-related lending and treasury investments) to individual borrowers based on its risk-bearing capacity. Effective from FY2019 onward, the World Bank's executive directors approved a dual Single Borrower Limit (SBL) system, which differentiates between countries below and above the Graduation Discussion Income (GDI) threshold (\$6,795 as of the beginning of FY2019). Under this new system, the GDI threshold for FY2020 is \$6,975 and the SBL for countries below and above the GDI is \$21.5 billion and \$19.5 billion, respectively. During FY2019, there were two countries below-GDI and two above-GDI, all of which have their exposure limits set at the respective SBLs.

Exhibit 5

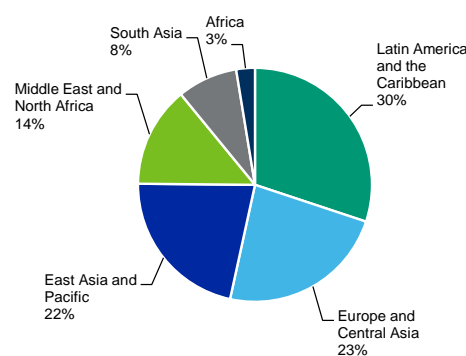
#### Moderate level of portfolio concentration by country... (% of total exposure\* by country)



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

Exhibit 6

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



Sources: IBRD and Moody's Investors Service



## Asset performance is a key credit strength

Asset performance continues to be very strong, with levels of NPAs consistent with an assessment of “aaa.” The IBRD's assets continue to perform very well, with only one country, Zimbabwe (unrated), in non-accrual status as of the end of FY2019. 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 non-accrual status since FY2001, and as of FY2019, the principal in non-accrual status amounted to approximately \$434 million, or about 0.2% of total gross loans and guarantees outstanding. This has decreased from \$444 million in FY2016, due to principal payments of \$9 million from Zimbabwe during FY2017 and \$1.5 million in FY2019. This non-accrual is amply covered by the bank's accumulated loan loss provisions of \$1.6 billion, or about 0.8% of gross loans and guarantees (see Exhibit 7).

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.

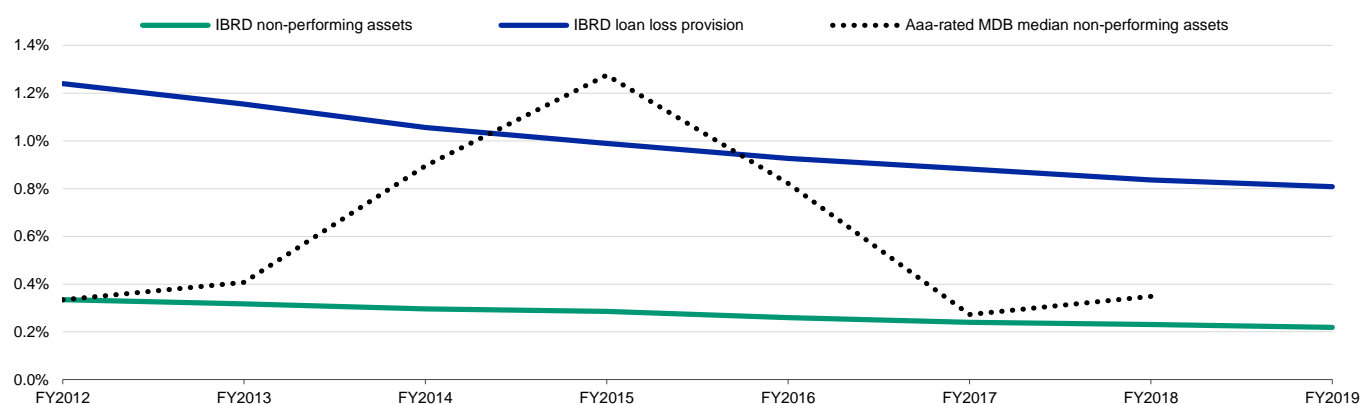
Notably, the bank placed all loans outstanding from [Iran](#) (unrated), a total of \$697 million in gross terms, on non-accrual status in FY2013. However, the situation was resolved within three months and all overdue amounts were cleared. No new non-accruals have been reported since that episode.

Problem loans have steadily decreased since FY2005, when the ratio of nonperforming loans 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 NPA levels than other Aaa-rated MDBs, such as the [Asian Development Bank](#) (ADB, Aaa stable) and the [European Investment Bank](#) (Aaa stable), all of which have long-term histories of zero or near zero NPA ratios. Nevertheless, the bank's strong asset quality has continued to push this metric below the Aaa-rated MDB median for more than five years.

Exhibit 7

### IBRD's strong asset quality has led to a steady decline of the NPA ratio (% of development assets)



Note: FY2019 data not yet available for all Aaa-rated MDBs

Sources: MDB audited financial statements and Moody's Investors Service



## Liquidity and funding score: aa1

### Factor 2: Liquidity and funding

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c
+		Assigned																			-

#### Sub-factor scores

Liquid resources

Quality of funding

a1
aaa

An entity's liquidity is important in determining its ability to meet its financial obligations. We evaluate the extent to which liquid assets cover net cash flows over the coming 18 months and the stability and diversification of the institution's access to funding.

*Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.*

We consider an MDB's availability of liquid assets in our assessment of its intrinsic financial strength because 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, as most do not have access to the liquidity facilities that central banks provide to commercial banks. We also evaluate the quality of an MDB's access to funding, which is an essential element of maintaining liquidity.

IBRD's "aa1" liquidity and funding score balances its ample availability of liquid assets with its exceptional access to market funding.

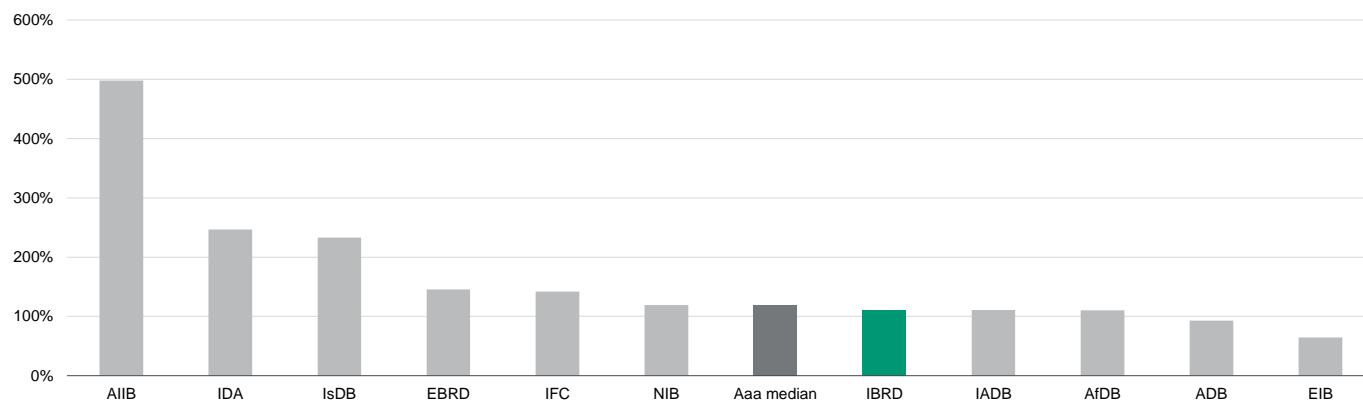
### IBRD's strong liquidity position is supported by its conservative liquidity management strategy

We assess IBRD's liquidity as "a1." We measure an MDB's availability of liquid resources as the percentage of liquid assets of estimated net cash outflows over a period of 18 months. With a ratio of about 111% in FY2019, IBRD's liquid resources more than fully covered potential outflows, and we expect them to remain relatively stable given the bank's internal liquidity management policies, policy restrictions on leverage, and pending paid-in capital contributions.

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 (see Exhibit 8).

Exhibit 8

**IBRD's availability of liquid resources ratio is in line with that of large, regional Aaa-rated MDBs**  
(Liquid assets as % of net cash outflows)



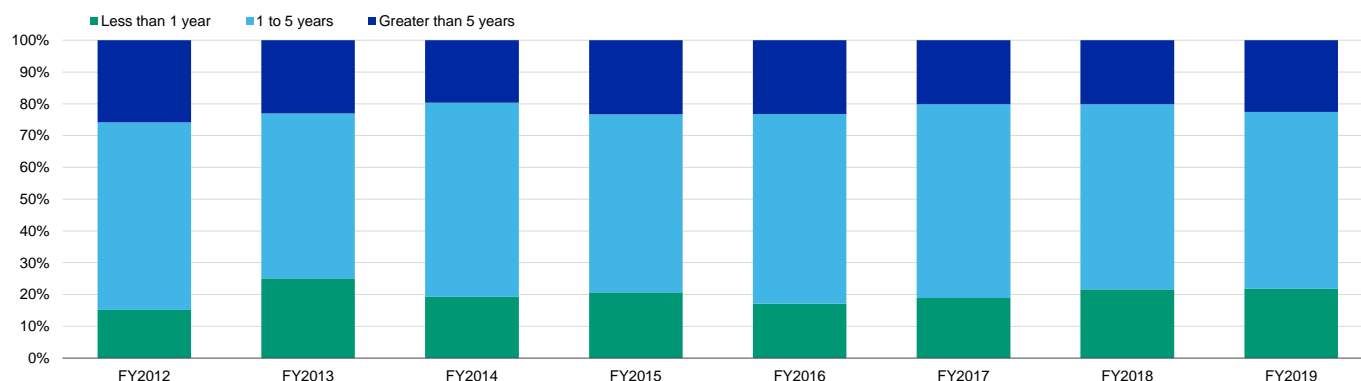
Note: All Aaa-rated MDBs included except for EIF, which is excluded because of ratio size (915%)

Sources: MDB audited financial statements and Moody's Investors Service

The average contractual maturity of the bank's medium- and long-term borrowings stood at 5.3 years in FY2019, down from 5.7 years in FY2018, and modestly lower than the 6.3 years in FY2017, as the bank slightly increased its overall share of short-term borrowing (see Exhibit 9). The average maturity is consistent with the bank's strategy to maximize affordability and stability of its debt issuance through effective debt management.

Exhibit 9

**Average maturity of medium- and long-term borrowings has decreased over the last few years**  
(% of outstanding borrowings by maturity)\*



\*Note: IBRD's borrowings have original maturities ranging from 27 days to 50 years, with the final maturity in 2069

Sources: IBRD and Moody's Investors Service

The IBRD's liquidity management strategy ensures that cash flows are available to meet all financial commitments. Effective in FY2017, the bank changed its official liquidity policy to target 12 months of projected debt service and net loan disbursement needs. This policy 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.

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 investments while generating a reasonable return. For FY2020, the target liquidity level is set at \$66 billion, compared to a target level of \$56 billion in FY2019. IBRD's policies also establish a soft corridor for the size of its liquid portfolio, which typically fluctuates up to 150% of the target liquidity level. As of the end of FY2019, liquid assets were \$79 billion or 141% of the target liquidity level for FY2019.

Overall, 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 all serve to support our assessment of the bank's stable and robust liquidity position.

### 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 very strong and regular access to funding markets, reflected in the frequency of its debt issuance, range of funding instruments, including local currency bonds, and its stable, diversified investor base. The bank's "aaa" Quality of Funding score, reflects this exceptional market access, which supports our overall assessment of Liquidity and Funding at "aa1."

The IBRD meets its borrowing needs via bond issuances in the international capital markets, where it has a long proven track record as a benchmark MDB issuer with exceptionally strong market access. 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 FY2019, the bank raised a total of \$54 billion in medium- and long-term debt, a \$18 billion increase from FY2018, primarily because of an increase in net loan disbursements and lower debt service and refinancing requirements. Since 1947 the bank has issued bonds in more than 60 different currencies, and most borrowings are swapped into short-term variable rates in US dollars. Since the first green bond was issued by the IBRD in 2008, the bank has issued over \$13 billion in green bonds through 158 transactions in 21 currencies. In FY2019, the bank issued \$2.7 billion in green bonds through 24 transactions in 10 currencies.

In August 2018, the IBRD issued an AUD\$110 million, two-year bond using blockchain technology. The bond, dubbed "bondi" (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. In August 2019, the bank issued a second tranche of the blockchain bond for AUD\$50 million.

The IBRD strategically calls its debt to reduce its cost of borrowing; it may also repurchase its debt to meet other operational or strategic needs such as providing liquidity to its investors. After accounting for the effects of swaps, the IBRD's weighted average cost of borrowing increased to 2.2% in FY2019, up from 1.8% in FY2018, 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 rate, thus the bank's lending spread was not impacted negatively by the rise in short-term rates.

The IBRD's investor base is diversified by both investor type and geography, demonstrating global support for its development mandate from official and institutional investors. Moreover, the Basel Committee classifies IBRD securities as a high quality liquid assets with zero risk weight.

## Qualitative adjustments

### Qualitative adjustments to intrinsic financial strength

#### Adjustments

Operating environment  
Quality of management

0
+1

The capital adequacy and liquidity and funding factors represent the key drivers of our assessment of an institution's intrinsic financial strength (IFS). However, assessments of the operating environment and the quality of management are also important components of our analysis. To capture these considerations, we may adjust the preliminary IFS outcome that results from the capital adequacy factor and the liquidity and funding factor. The result of this analysis is the adjusted IFS outcome.

The IBRD's intrinsic financial strength score of "aa1" reflects a "+1" upward adjustment to its preliminary intrinsic financial strength score of "aa2" to account for the bank's 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. The adjustment reflects IBRD's comprehensive policy framework and strong risk management culture, including its adherence to its internal policy requirements.

## Strength of member support score: Very High

### Factor 3: Strength of member support

Scale	Very High	High	Medium	Low	Very Low
+	Assigned	Adjusted			-

#### Sub-factor scores

Ability to support

Willingness to support: Contractual

Willingness to support: Non-contractual

baa1
aaa
Very High

Shareholders' support for an institution is a function of their ability and willingness. Ability to support is reflected by the shareholders' credit quality. Willingness to support takes into consideration (1) the members' contractual obligations that primarily manifest in the callable capital pledge, a form of emergency support, and (2) other non-contractual manifestations of support to the institution's financial standing and mission. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

*Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.*

The resources that an MDB has available to absorb credit or market losses stemming from its operations and preserve its ability to repay debt holders 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.

Our assessment of the 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 Baa1 Weighted Average Shareholder Rating (WASR), and a very strong assessment of willingness to support from its diverse global membership.

### Members' ability to support is strong

Overall, the IBRD's Ability to Support score is "baa1," driven by the Baa1 WASR of the bank's 189 members, which is in line with the MDB Aaa peer median of Baa1. The bank'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. Shareholders' high capacity to provide support is also underpinned by the high creditworthiness of the bank's largest members (see Exhibit 10).

Exhibit 10

#### Largest members exemplify strength of shareholder support (\$ millions, unless otherwise specified)

	Rating*	Par Value of Shares				Voting Power
		% of Total	Total	Paid-In	Callable	
United States of America	Aaa/STA	16.6%	\$46,384	\$2,864	\$43,521	15.68%
Japan	A1/STA	8.3%	\$23,280	\$1,585	\$21,695	7.88%
China	A1/STA	4.6%	\$12,859	\$775	\$12,084	4.37%
Germany	Aaa/STA	4.2%	\$11,650	\$718	\$10,932	3.96%
France	Aa2/POS	3.9%	\$10,906	\$672	\$10,234	3.71%
United Kingdom	Aa2/NEG	3.9%	\$10,906	\$692	\$10,214	3.71%
India	Baa2/NEG	3.1%	\$8,803	\$554	\$8,249	3.00%
Canada	Aaa/STA	3.0%	\$8,499	\$620	\$7,880	2.90%
Russia	Baa3/STA	2.9%	\$8,023	\$484	\$7,539	2.74%
Saudi Arabia	A1/STA	2.9%	\$8,023	\$485	\$7,538	2.74%
Italy	Baa3/STA	2.7%	\$7,645	\$469	\$7,176	2.61%
Other		43.9%	\$122,975	\$7,145	\$115,830	46.70%
Total		100.0%	\$279,953	\$17,061	\$262,892	100.00%

\*Note: Moody's foreign-currency government bond ratings as of 7 February 2020

Sources: IBRD and Moody's Investors Service

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](#) (A1 stable), India and Russia – 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.

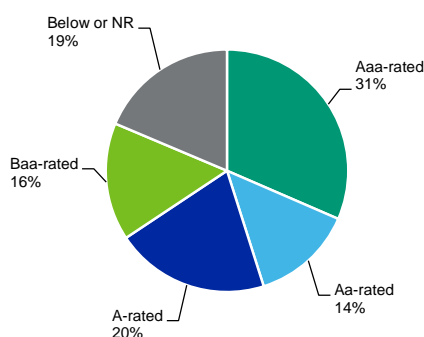
### Very high willingness to support, underpinned by contractual and non-contractual support

If the IBRD were unable to service its own debt — an event we consider to be extremely remote, as reflected in our “aa1” 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 callable capital coverage of the debt stock, whereby we measure the bank's gross outstanding debt against the callable capital pledged. The IBRD scores “aaa” in this ratio, with a FY2019 ratio of 114%, which has improved from an almost 10-year low of 87.4% in FY2015. The high portion of callable capital pledged (and thus vote allocations) by members rated Aaa through Baa3 (see Exhibits 11 & 12) supports the stability of the contractual support assessment. In particular, the [US](#) (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 callable capital pledged to the IBRD, without need for further congressional approval.

Exhibit 11

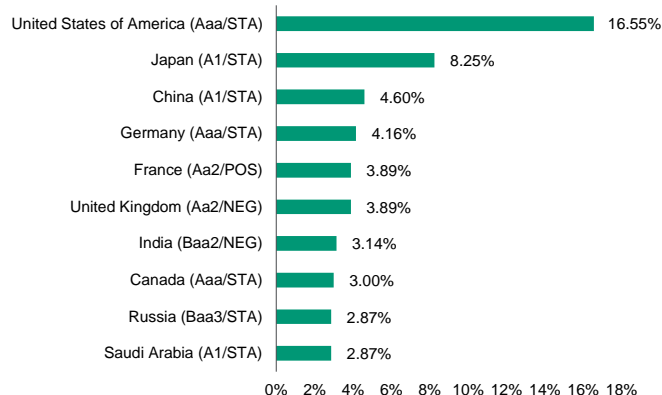
**Highly rated sovereigns provide majority of callable capital...**  
(% of subscribed capital by Moody's rating\*)



\*Note: Moody's foreign-currency government bond ratings as of 7 February 2020  
Sources: MDB audited financial statements 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 20 December 2019  
Sources: IBRD and Moody's Investors Service

Callable capital 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, the Governors 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 shareholders approved the capital increase and shareholders will have up to five years to pay.

The approval of the latest capital increase affirms the endorsement of the IBRD by its largest shareholder, the US, and mitigates the risk of a material decline in US support. Under this latest agreement, the US' shareholding has declined moderately to 16.57% (voting power 15.68%) from 16.88% (voting power 15.98%). Meanwhile, China's shareholding is expected to increase to 6.01% (voting power 5.71%) from its current 4.59% (voting power 4.37%), reflecting an increase in voice for the sovereign in the bank.

Besides contractual support through callable capital, we also believe willingness of shareholders to provide extraordinary, non-contractual support to be "Very High." We believe that in extremely low probability scenarios, when support is needed and callable capital is exhausted or otherwise unavailable, the IBRD would receive extraordinary support from its members. This is because of the strategic role played by the bank around the world and complements the bank's ability to provide that support, for which we use shareholders' weighted average creditworthiness as a proxy.

## 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 supranational issuers' credit profile. In the case of the 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 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 its financial strength.

Governance considerations are material. The IBRD adheres to robust and conservative risk management practices, which we believe limits the risks associated with its development lending to sovereigns in emerging and frontier markets.

All of these considerations are further discussed in the "Credit profile" 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 [Supranational Rating Methodology](#).





## 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. The bank's capital adequacy, liquidity and funding, and member support indicators are in line with peers, consistent with its "aa1" intrinsic financial strength assessment.

Exhibit 14

### IBRD (World Bank) key peers

	Year	IBRD	IDA	ADB	AfDB	EIB	IADB	Aaa Median
<b>Rating/Outlook</b>		<b>Aaa/STA</b>	<b>Aaa/STA</b>	<b>Aaa/STA</b>	<b>Aaa/STA</b>	<b>Aaa/STA</b>	<b>Aaa/STA</b>	
Total assets (US\$ million)	2018	263,800	184,666	191,860	46,712	636,383	129,459	82,546
<b>Factor 1: Capital adequacy</b>		<b>a1</b>	<b>a1</b>	<b>aa3</b>	<b>baa1</b>	<b>a2</b>	<b>a1</b>	
DRA / Usable equity <sup>[1] [2] [4]</sup>	2018	449.9	91.5	211.7	285.0	632.4	284.9	248.3
Development assets credit quality score (year-end)	2018	aa	baa	a	baa	aa	baa	baa
Non-performing assets / DRA <sup>[1]</sup>	2018	0.2	1.7	0.1	2.5	0.0	0.4	0.4
Return on average assets <sup>[4]</sup>	2018	0.2	-2.7	0.4	0.1	0.5	0.7	0.4
Net interest margin (X) <sup>[4]</sup>	2018	0.7	0.9	1.0	1.3	0.6	1.2	1.3
<b>Factor 2: Liquidity and funding</b>		<b>aa1</b>	<b>aaa</b>	<b>aa1</b>	<b>aa1</b>	<b>aa1</b>	<b>aa1</b>	
Quality of funding score (year-end)	2018	aaa	aaa	aaa	aaa	aaa	aaa	aaa
Liquid assets / ST debt + CMLTD <sup>[3] [4]</sup>	2018	163.1	1,439.2	--	325.4	112.9	191.5	230.6
Liquid assets / Total assets <sup>[4]</sup>	2018	27.7	19.8	19.2	37.1	14.5	24.2	29.1
<b>Preliminary intrinsic financial strength (F1+F2)</b>		<b>aa2</b>	<b>aa2</b>	<b>aa2</b>	<b>a1</b>	<b>aa3</b>	<b>aa3</b>	
<b>Adjusted intrinsic financial strength</b>		<b>aa1</b>	<b>aa1</b>	<b>aa1</b>	<b>aa3</b>	<b>aa2</b>	<b>aa2</b>	
<b>Factor 3: Strength of member support</b>		<b>VH</b>	<b>H</b>	<b>VH</b>	<b>VH</b>	<b>VH</b>	<b>VH</b>	
Weighted average shareholder rating (year-end)	2018	Baa2	Aa3	A3	Ba2	A2	Baa3	a3
Callable capital / Total debt	2018	124.1	--	155.3	250.7	48.7	183.4	155.3
Callable capital (CC) of Baa3-Aaa members/Total CC <sup>[4]</sup>	2018	77.9	--	91.3	47.1	98.3	66.8	87.4
<b>Rating range (F1+F2+F3)</b>		<b>Aaa-Aa2</b>	<b>Aaa-Aa2</b>	<b>Aaa-Aa2</b>	<b>Aaa-Aa2</b>	<b>Aaa-Aa2</b>	<b>Aaa-Aa2</b>	

[1] Development related assets; [2] Usable equity is total shareholder's equity and excludes callable capital; [3] Short-term debt and currently-maturing long-term debt; [4] Ratio not used in Scorecard

Source: Moody's Investors Service

## DATA AND REFERENCES

### Rating history

Exhibit 15

IBRD (World Bank) <sup>[1]</sup>

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-term	Short-term			
Rating Assigned	Aaa	P-1	Aaa	Stable	Nov-17
Rating Assigned	--	P-1	--	--	Aug-10
Outlook Assigned	--	--	--	Stable	Mar-97
Rating Assigned	Aaa	--	--	--	Dec-94
Rating Assigned	--	--	Aaa	--	Mar-93

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for IBRD for the full rating history.

Source: Moody's Investors Service

## Annual statistics

Exhibit 16

## IBRD (World Bank)

Balance Sheet, USD Millions	2013	2014	2015	2016	2017	2018	2019
<b>Assets</b>							
Cash & Equivalents	4,763	3,701	388	1,284	683	619	895
Securities	36,874	45,482	49,951	53,522	72,973	72,569	81,415
Derivative Assets	138,846	154,070	134,325	144,488	150,112	2,460	2,840
Net Loans	141,692	151,978	155,040	167,643	177,422	183,588	192,752
Other Assets	3,426	3,652	3,521	4,323	4,708	4,564	5,129
<b>Total Assets</b>	<b>325,601</b>	<b>358,883</b>	<b>343,225</b>	<b>371,260</b>	<b>405,898</b>	<b>263,800</b>	<b>283,031</b>
<b>Liabilities</b>							
Borrowings	149,434	164,416	164,555	183,408	206,315	208,039	230,190
Derivative Liabilities	131,131	146,885	132,324	141,741	153,129	7,932	3,053
Other Liabilities	5,513	8,597	7,709	9,048	6,656	5,985	7,673
<b>Total Liabilities</b>	<b>286,078</b>	<b>319,898</b>	<b>304,588</b>	<b>334,197</b>	<b>366,100</b>	<b>221,956</b>	<b>240,916</b>
<b>Equity</b>							
Subscribed Capital	223,181	232,791	252,821	263,329	268,937	274,730	279,953
Less: Callable Capital	209,747	218,786	237,629	247,524	252,828	258,274	262,892
Equals: Paid-In Capital	13,434	14,005	15,192	15,805	16,109	16,456	17,061
Retained Earnings (Accumulated Loss)	29,265	28,287	27,501	27,996	27,759	28,457	28,807
Accumulated Other Comprehensive Income (Loss)	-2,921	-3,062	-3,213	-6,126	-3,376	-2,422	-3,103
Other Equity	-255	-245	-843	-612	-694	-647	-650
<b>Total Equity</b>	<b>39,523</b>	<b>38,985</b>	<b>38,637</b>	<b>37,063</b>	<b>39,798</b>	<b>41,844</b>	<b>42,115</b>

Note: 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.

Source: Moody's Investors Service

Exhibit 17

## IBRD (World Bank)

Income Statement, USD Millions	2013	2014	2015	2016	2017	2018	2019
<b>Net Interest Income</b>	<b>2,113</b>	<b>1,735</b>	<b>1,320</b>	<b>1,828</b>	<b>1,667</b>	<b>1,716</b>	<b>1,787</b>
Interest Income	2,728	2,122	1,712	2,614	3,512	4,635	6,565
Interest Expense	615	387	392	786	1,845	2,919	4,778
<b>Net Non-Interest Income</b>	<b>654</b>	<b>-114</b>	<b>658</b>	<b>1,560</b>	<b>792</b>	<b>1,218</b>	<b>1,204</b>
Net Commissions/Fees Income	599	672	739	835	890	969	1,015
Income from Equity Investments	0	0	0	0	0	0	0
Other Income	55	-786	-81	725	-98	249	189
<b>Other Operating Expenses</b>	<b>2,572</b>	<b>2,659</b>	<b>2,774</b>	<b>2,836</b>	<b>2,685</b>	<b>2,267</b>	<b>2,436</b>
Administrative, General, Staff	1,480	1,568	1,701	1,822	1,751	1,777	2,119
Grants & Programs	811	838	825	772	519	196	356
Other Expenses	281	253	248	242	415	294	-39
<b>Pre-Provision Income</b>	<b>195</b>	<b>-1,038</b>	<b>-796</b>	<b>552</b>	<b>-226</b>	<b>667</b>	<b>555</b>
Loan Loss Provisions (Release)	-22	-60	-10	57	11	-31	50
<b>Net Income (Loss)</b>	<b>218</b>	<b>-978</b>	<b>-786</b>	<b>495</b>	<b>-237</b>	<b>698</b>	<b>505</b>
Other Accounting Adjustments and Comprehensive Income	1,496	-141	-151	-2,913	2,750	954	-836
<b>Comprehensive Income (Loss)</b>	<b>1,714</b>	<b>-1,119</b>	<b>-937</b>	<b>-2,418</b>	<b>2,513</b>	<b>1,652</b>	<b>-331</b>

Source: Moody's Investors Service

Exhibit 18

## IBRD (World Bank)

Financial Ratios	2013	2014	2015	2016	2017	2018	2019
<b>Capital Adequacy, %</b>							
DRA / Usable Equity	368.5	399.5	409.7	461.8	455.9	449.9	471.5
Development Assets Credit Quality (Year-End)	--	--	--	--	--	aa	aa
Non-Performing Assets / DRA	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Return On Average Assets	0.1	-0.3	-0.2	0.1	-0.1	0.2	0.2
Net Interest Margin	1.1	0.9	0.6	0.8	0.7	0.7	0.6
<b>Liquidity, %</b>							
Quality of Funding Score (Year-End)	--	--	--	--	--	aaa	aaa
Liquid Assets / ST Debt + CMLTD	116.6	127.3	135.0	158.4	189.2	163.1	163.9
Liquid Assets / Total Debt	27.9	29.9	30.6	29.9	35.7	35.2	35.8
Liquid Assets / Total Assets	12.8	13.7	14.7	14.8	18.1	27.7	29.1
<b>Strength of Member Support, %</b>							
Weighted Average Shareholder Rating (Year-End)	Baa1	Baa1	Baa2	Baa2	Baa2	Baa2	Baa1
Callable Capital / Gross Debt	140.4	133.1	144.4	135.0	122.5	124.1	114.2
Callable Capital (CC) of Baa3-Aaa Members/Total CC	84.1	85.2	82.7	80.7	79.5	81.0	81.4

Note: 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.

Source: Moody's Investors Service

## Moody's related publications

- » **Credit Opinion:** [IBRD \(World Bank\) – Aaa stable: Update following rating affirmation, outlook unchanged](#), 21 January 2020
- » **Rating Action:** [Moody's affirms IBRD's Aaa rating, maintains stable outlook](#), 17 January 2020
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 25 June 2019

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](#)

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## Endnotes

- <sup>1</sup> Allocable income, a non-GAAP financial measure, is the IBRD's internal measurement of profitability and metric for making net income allocation decisions. Given the IBRD's intention to maintain its non-trading portfolio positions, unrealized mark-to-market losses and gains are not included in the IBRD's allocable income.
- <sup>2</sup> We define usable equity as total shareholder's equity and exclude callable capital. In FY2019, the IBRD's measurement of usable equity was \$45 billion, including a proposed transfer to the General Reserve.

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REPORT NUMBER

1209625