



World Bank Amazon Reforestation-Linked Bond QUESTIONS & ANSWERS

How does the bond work?

The Amazon Reforestation-Linked Bond is a USD 225 million 9-year principal protected outcome bond issued by the International Bank for Reconstruction and Development (“IBRD” or the “World Bank”) with a unique feature, whereby the return for investors is linked to the issuance and monetization of Carbon Removal Units (“CRU”) from the reforestation of degraded lands in the Amazon rainforest regions of Brazil.

Investors earn a fixed guaranteed coupon that is lower than the ordinary coupon earned in regular World Bank bonds of similar maturity. The foregone coupons of approximately USD 36 million (the differential between the World Bank ordinary coupon and the guaranteed coupon) are channeled to a project developer - Mombak (through HSBC) to support reforestation projects. In return, in addition to the smaller fixed coupon, investors receive a variable coupon linked to the value of the CRUs – if any – generated and monetized by the reforestation projects. The bond will offer investors an enhancement over the yield of regular World Bank issuance of similar maturity if the projects perform as expected.

Who is the issuer of the bond?

The bond is issued by the International Bank for Reconstruction and Development (“IBRD” or the “World Bank”).

Will the bond be listed?

The Bond will be listed on the Luxembourg Stock Exchange.

Who are the investors?

A variety of institutional investors from around the world purchased the bond. Certain lead investors are quoted in the Press Release, and, when the bond settles August 20, 2024, we expect to provide additional quotes from a number of other investors.

How will the 225 million bond proceeds be used?

The bond issuance proceeds of USD 225 million will be used for the World Bank's sustainable development activities. World Bank bonds support the financing of a combination of green and social, i.e., "sustainable development" projects, programs, and activities in IBRD member countries. See IBRD's Sustainable Development Bond Framework for examples of eligible projects, programs, and activities.

What is the maximum return investors can expect?

The bond was issued at par and provides investors with a minimum guaranteed annual return of approx. 1.745%. In addition, if the projects perform as expected (in terms of generating and monetizing the expected value of CRUs) investors can expect to earn up to a total annualized yield of 4.362%.

Are investors exposed to carbon credit price risk?

Bond investors are not expected to be exposed to carbon credit price risk since the CRU Linked Interest Amounts payable to investors are entirely driven by the number of CRUs issued and monetized through a carbon removal purchase agreement with Microsoft. However, if the Microsoft contract were to be terminated for any reason, thereafter the investors would be exposed to carbon price risk.

What risks are investors in the bond exposed to?

The return on the bond could be lower than the return on a conventional IBRD bond if fewer CRUs than expected are issued by the projects and transferred to Microsoft, if either Mombak or Microsoft fail to perform their obligations under the carbon removal purchase agreement, the carbon removal purchase agreement is terminated or if HSBC fails to perform its obligations in the transaction. These risks and other risks investors are exposed to are explained in more detail in the bond documentation under the section titled "Additional Risk Factors".

Irrespective of the CRUs issued and monetized by the projects, investors will receive their principal investment back at maturity plus a minimum return from the World Bank, providing investors a highly rated investment with the potential for an additional return if the projects are successful.

What are CRUs?

“CRUs” represent a verified carbon removal unit, with each unit representing the removal of one tone of carbon dioxide equivalent (CO₂e) achieved by the projects.

How will CRUs be generated by the projects and who is responsible for the verification?

CRUs will be generated by reforesting degraded land: once planted, trees will grow and capture carbon from the atmosphere, storing it in wood. The amount of CO₂e sequestered will be assessed through innovative and dynamic methodologies by Mombak and verified by accredited third parties as specified by an independent Carbon Credit Registry such as Verra or Gold Standard.

Will the bond give CRUs to investors?

No. The bond will pay investors a variable coupon from time to time linked to the number of CRUs generated and sold by the projects (the “CRU Linked Interest Amount”).

How does IBRD hedge the CRU exposure?

IBRD has entered into a Forward Flow Agreement (FFA) with HSBC to hedge the CRU exposure. Under the FFA, subject to the achievement of milestones by Mombak, IBRD will make payments to HSBC of up to approximately USD 36 million (the differential between the fixed rate coupon on the bond and an ordinary IBRD coupon) to support Mombak’s projects. In return, under the FFA, HSBC will pay IBRD an amount equivalent to the CRU Linked Interest Amount due to the bond investors.

Who will buy the CRUs?

Prior to the issuance of the Amazon Reforestation-Linked Bond, Mombak entered into a carbon removal purchase agreement with Microsoft to purchase the CRUs. A portion of the revenue generated from the sale of the CRUs to Microsoft will be paid to the bond holders in the form of the CRU Linked Interest Amount.

Who is the project developer?

Mombak, a Brazilian Limited Liability Company. Mombak develops native reforestation projects for the purpose of removing carbon dioxide from the atmosphere.¹ Mombak, acquires through a Brazilian fund (called The Amazon Reforestation Fund Fundo de Investimento em Participações Multiestratégia) or

¹ THE PROJECTS ARE NOT FINANCED BY IBRD AND THEREFORE IBRD’S POLICIES AND PROCEDURES RELATED TO PROJECTS FINANCED DO NOT APPLY TO THE PROJECTS.

enters into partnerships with landowners of deforested land in the Amazon to reforest these areas with native tree species to rebuild native biodiverse forests.

How are disbursements of the foregone coupons made to Mombak?

Subject to the achievement of agreed milestones, Mombak will receive (via HSBC) up to USD 36 million across 11 expected disbursements between August 20, 2024 and December, 31 2026. Any undisbursed amounts will be returned to bond investors in January 2027.

What is the potential for replication of similar outcome-linked bond structures?

Mobilizing private capital to support projects that aim to abate CO₂e emissions and/or capture carbon from the atmosphere is critical to achieving the world's climate targets. Furthermore, by reforesting degraded land, similar efforts help protect and preserve ecosystems that have been severely impacted by mass deforestation. These projects have potential future revenue from CRU sales but often lack the financing required to get off the ground or to scale. Outcome bonds like the Amazon Reforestation-Linked Bond can help such projects raise needed funding from capital markets by securitizing future carbon credit sales revenue. These bonds blend project risk with triple-A principal protection provided by the World Bank, and are listed, tradable securities of a size large enough to interest institutional investors.

Disclaimer

Net proceeds of the bonds described herein are not committed or earmarked for lending to, or financing of, any particular World Bank projects or programs. Payments on the bonds are not funded by any particular World Bank project or program.

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