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Update

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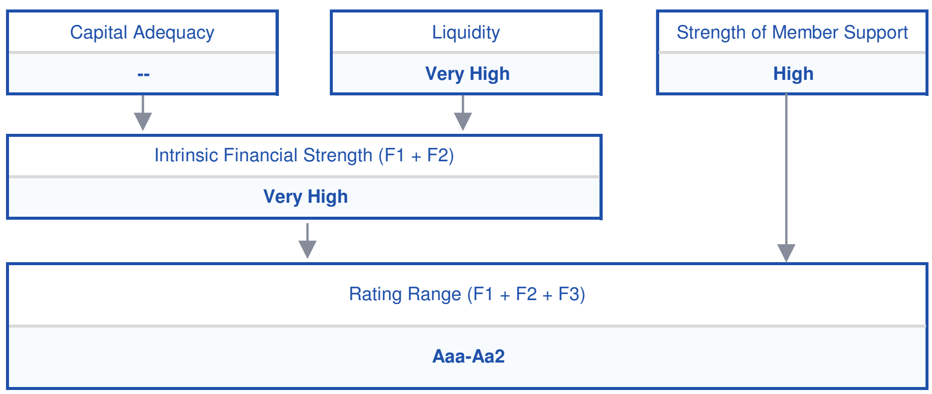
International Finance Facility for Immunisation – Aa1 Stable

Regular update

Summary

The International Finance Facility for Immunisation's (IFFIm) credit profile reflects very high liquidity, strong commitment from donor governments and a high concentration of pledges. The IBRD's role as risk manager of IFFIm's investment portfolio and its access to financial markets to issue bonds are credit strengths. These offset vulnerabilities from the relatively high concentration of donor pledges and credit risk among euro area donors.

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



Source: Moody's Investors Service

Credit strengths

» Strong commitment from donor governments to support programs financed by IFFIm

» Prudent liquidity policies provide financial cushion against adverse developments

Credit challenges

» Concentration of donor pledges

» High correlation in credit risk among euro area donors

» Conditions attached to donor disbursement - such as a large number of recipient countries going into arrears with the IMF - causing material reductions in donor payments

Rating outlook

The stable outlook balances the concentration and high credit risk correlation of IFFIm's donors against IFFIm's conservative liquidity and gearing policies, which will continue to partially mitigate concentration risks. Moreover, we expect IFFIm's market access to remain strong.

Factors that could lead to an upgrade

Given that IFFIm's rating is closely tied to that of its donors, positive ratings momentum would only emerge if the creditworthiness of its largest donors, the UK and France, were to improve. A significant decrease in the concentration of sovereign donors' pledges could also support upward ratings momentum.

Factors that could lead to a downgrade

A material deterioration in the creditworthiness of its sovereign donors is the most likely possible cause of downward pressure on IFFIm's rating, particularly if the deterioration led to a downgrade of the UK and/or France by more than one notch. A negative rating action could also be triggered by a weakening of the gearing ratio limit mandate or a change in treasury manager, neither of which Moody's considers likely.

Key indicators

Exhibit 2

International Finance Facility for Immunisation	2011	2012	2013	2014	2015	2016
Total Assets (USD million)	4,525	4,243	4,443	4,170	3,737	3,229
Return on Average Assets (%)	-3.6	-7.9	3.3	2.5	2.1	1.4
ST Debt + CMLTD/Liquid Assets (%) [3]	89.8	76.7	70.7	41.7	76.5	61.6
Total Debt/Discounted Callable Capital (%) [4]	48.5	40.5	46.2	42.9	39.4	37.4

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

[2] Net debt as percent of the present value of scheduled donor pledge payments

Source: Moody's Investors Service

Detailed credit considerations

IFFIm's Aa1 rating reflects "High" strength of member support and "Very High" liquidity.

Our "High" assessment for **strength of member support** balances the expectation of very high contractual and extraordinary support from IFFIm's donors against the relatively high concentration of pledges, one of the main sources of risk to IFFIm's creditworthiness. The donor governments are committed to make payments to IFFIm on specified dates over a period of around 20 years, conditional on adherence to its gearing and liquidity policies, and on the involvement of the International Bank for Reconstruction and Development (IBRD or World Bank) as Treasury Manager. IFFIm's rating is closely linked to the creditworthiness of its sovereign donors because its revenue structure is reliant on the receipt of donors' pledges. Although the amount and timing of donor payments is predetermined at the time they are pledged, the amounts and maturities of debt issuance are based on the recommendation of the Treasury Manager.

The UK is the single largest donor to IFFIm, pledging 53% of remaining donor payments. Further significant concentration results from our belief that there is correlation between three of IFFIm's euro area donors: France, Italy, and Spain pledge 27%, 8%, and 3%, respectively, of remaining donor payments. As a result of the correlation assumption, we consider these three sovereigns' combined 38% of remaining pledges to be an additional concentration risk. This donor concentration leads to a low-probability, but high-severity event risk in IFFIm's credit profile. Nevertheless, we believe that all donors have the capacity and willingness to meet their commitments on a timely basis. Supporting this assessment is the very high Aa1 weighted median government bond rating of the donors and the very small size of the scheduled annual payments relative to the donors' annual budgets.

Our "Very High" assessment of **liquidity** reflects prudent liquidity policy, the role of the IBRD as risk manager of its investment portfolio, as well as access to financial markets to issue bonds. To ensure there are sufficient funds to repay bondholders despite the risk of reductions in donors' scheduled payments, IFFIm has two key risk management policies. The first one is a solvency policy over the remaining life of IFFIm – a gearing ratio limit that restricts net debt to around 58% of the present value of remaining donor payment amounts. In our view, the strength of the gearing ratio limit is not only a function of how well the risks are modeled in order to set the limit, but a function of the flexibility of the limit to account for increasing risks; and, more importantly, the flexibility for the Treasury Manager to delay grant commitments and disbursements to Gavi in respect of the gearing ratio limit. The second policy is the liquidity policy, which requires a prudential minimum level of liquid assets to be held equal to at least one year's debt service (both interest and principal).

The IBRD's role as the Treasury Manager in helping to manage these prudent financial policies, monitor the underlying risks, and make adjustments when necessary, is a key factor in IFFIm's rating. As an innovation in financing, IFFIm started as an untested structure. The World Bank's capacity, experience, and proven track record of timely debt servicing adds necessary institutional strength to the new structure. As IFFIm's counterparty, the IBRD has committed to not call collateral following IFFIm's downgrade from Aaa in 2013. This commitment came in tandem with a structural change to the limits of IFFIm's indebtedness. A "Risk Management" buffer of 12% was added to the gearing ratio limit. We view this structural change positively as it reduces the overall risk taken on by IFFIM (i.e. a lower leverage level) and enables it to maintain regular financial operations. The structural change also displays the noncontractual support that IFFIm receives from the IBRD. This development supports our assessment that having the IBRD as Treasury Manager is a significant source of credit strength for IFFIm.

Recent developments

Solvency and liquidity remain strong despite negative pressures on UK rating

As of year-end 2016, the two largest donors, the UK and France, accounted for 80% of IFFIm's remaining pledges. This concentration could fall, albeit marginally, if new donors make new pledges or current donors make additional pledges.

Despite the current negative pressures on the UK's sovereign rating, IFFIm's solvency and liquidity buffers continue to provide significant protection to IFFIm's bondholders. The institution's gearing ratio stood at 29.7% at year-end 2016 down from 33.5% in 2015, and well below the five-year average of 38.2%, indicating significnatly stronger loss absorption buffer in the short run. We expect that over time the ratio will increase closer to the guiding Gearing Ratio Limit (GRL) of around 70% (or slightly more than 58% including the 12% assigned as a Risk Management Buffer), as set by the trustees on the advice of the Treasury Manager. This is a natural evolution of the ratio as intended by IFFIm's structure, which front-loads bond issuance for immediate immunization impact while the sovereign pledges are paid-in gradually over IFFIm's life. It is important to note that despite the existence of a maximum level, the Treasury Manager is under no obligation to reach that level.

IFFIm also remains highly liquid and continues to over-comply with its own liquidity policies. This minimum liquidity level is equivalent to the cumulative contracted debt service payments over the next twelve months. This level is recalculated and reset on a quarterly basis. As of year-end 2016, the calculated minimum liquidity level was $568.6 million, significantly below the value of IFFIm's liquid assests, which amounted to $863 million. IFFIm also enters into foreign exchange and interest rate swap contracts with the IBRD as a part of its asset/liability management. As of year-end 2016, IFFIm's net liability position on interest rate and currency swap contracts declined to $567 million from $845 million the year before, mainly as a result of interest rate and foreign currency rate fluctuations during 2016.

Stabilizing trends in Europe mitigate credit risks

From the member support perspective, even though the UK had already faced increased negative rating pressures, the government continued to display strong ability and willingness to honor its pledges to IFFIm. Furthermore, the stabilization in credit trends for Italy, France, the Netherlands and Spain, even if at lower rating levels than a few years ago, mitigates some of the risks seen for IFFIm in recent years. Combined with our lowered default correlation assessment for euro area members, we believe that IFFIm's rating would be less immediately affected were any one of its euro area donors to be downgraded.

In 2016, Australia finalized a $37.5 million pledge and this year, IFFIm has received two new sovereign pledges. In May, IFFIM received pledges from the Netherlands and France, in the amount of $66.7 million and €150 million, respectively.

Market funding access remains high amid diversified investor base

In October last year, IFFIm issued a $500 million bond with a three-year floating rate. The transaction was IFFIm's first since 2013. The bond holds a 2019 maturity and carries a quarterly coupon of 26 basis points over three-month USD LIBOR. The regional distribution of bond holders was diverse, with 65% of investors from Europe, 24% from the Middle East and Africa, 10% from the United States, and 1% from Asia. The transaction was divided between official institutions and central banks (53%), banks (44%), and fund managers (3%).

Rating methodology and scorecard factors

Rating Factors - International Finance Facility for Immunisation

Rating Factors	Factor Weight	Factor Score
Factor 1: Capital Adequacy	0%	--
Factor 2: Liquidity	100%	Very High
Intrinsic Financial Strength (F1 + F2)	**+2, +1, 0, -1 notches**	**Very High**
Factor 3: Strength of Member Support	Preliminary Rating Range	High
Rating Range (F1 + F2 + F3)		**Aaa-Aa2**
Assigned Rating		**Aa1**

Note: While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range.

For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

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

Moody's related publications

- **Issuer Comment**: International Finance Facility for Immunisation - Aa1 Stable: Annual Update, 03 August 2016
- **Issuer in-Depth**: International Finance Facility for Immunisation - Aa1 Stable: Annual Credit Analysis, 28 July 2016
- **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 29 March 2017

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