MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

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International Finance Facility for Immunisation

Supranational

RATINGS

IFFIm

	Rating	Outlook
Long-term Issuer	Aa1	STA
Short-term Issuer	P-1	STA
Senior Unsecured	Aa1	STA

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This Credit Analysis provides an in-depth discussion of credit rating(s) for IFFIm and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Overview and Outlook

IFFIm's Aa1 issuer rating is based on the firm commitment of the donor governments to make payments to IFFIm on specified dates over periods of around 20 years, on adherence to its gearing and liquidity policies, and on the involvement of the World Bank (IBRD) as Treasury Manager. IFFIm was established as a charity in the United Kingdom in 2006 with the purpose of accelerating and facilitating funding for immunization programs in the world's poorest countries. The programs are carried out by Gavi, the Vaccine Alliance, a public/private entity that is active in such immunization programs. IFFIm issues bonds to finance Gavi programs, and the donor payments will be used to repay the bonds. As such, 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 determined on the recommendation of the Treasury Manager.

Given that IFFIm lacks paid-in capital and does not make loans, it does not face the same credit risks as multilateral development banks (MDBs). Instead the main factor driving the creditworthiness of the entity is the support and commitment that it receives from its sovereign donors, which in Moody's view are high. Additionally, the IBRD's role as treasury manager and the policies it implements add institutional strength to IFFIm's credit profile and ensure appropriate levels of liquidity to cover upcoming debt service requirements. This contributes to reducing the risks emerging from IFFIm's front-loaded debt structure relative to the revenues derived from its sovereign donor pledges.

As 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.

A 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 or a multi-notch downgrade of France. 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 we consider likely.

This Credit Analysis elaborates on IFFIm's credit profile in terms of Capital Adequacy, Liquidity and Strength of Member Support, which are the three main analytic factors in Moody's Supranational Rating Methodology.

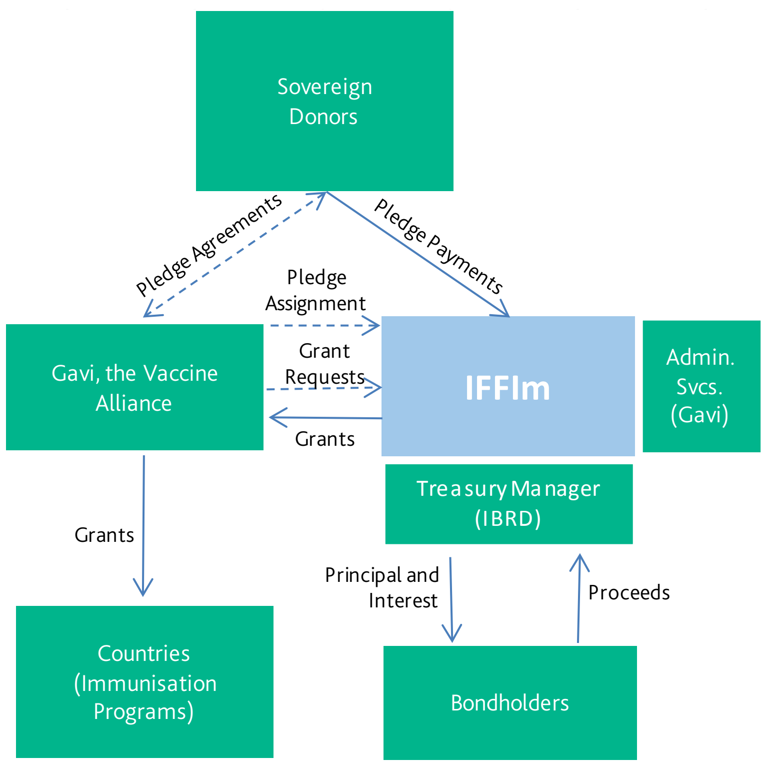
Organisational Structure and Strategy

IFFIm is a multilateral development institution, which was created in 2006 as a financing tool to accelerate and facilitate funding for immunisations carried out by Gavi, the Vaccine Alliance (Gavi)[1] and thereby helping the international community achieve the Millennium Development Goals. IFFIm serves as an additional funding vehicle for Gavi-approved programmes and does not have any operations other than making grants to Gavi to finance programmes in the world's poorest countries.[2] IFFIm has no employees and therefore receives administrative support from Gavi. Moreover, the International Bank for Reconstruction and Development (IBRD), as Treasury Manager, conducts IFFIm's financial affairs, including risk management. IFFIm is incorporated as a private company, registered as a charity in England and Wales, and is governed by its own board of directors.

Sovereign donors enter into pledge agreements with Gavi, setting a total amount to be paid according to a schedule over a set time period. Gavi assigns to IFFIm the right to receive the cash as it comes in and IFFIm uses this right to future cash flows in order to access the international debt markets. The proceeds from IFFIm's bond issues are granted to Gavi-approved immunisation programmes. IFFIm uses the cash from scheduled donor payments to service debt and cover operating expenses (see Exhibit 1 for a representation of IFFIm's organisational structure). The repayment of IFFIm's debt has priority over funding for immunisations, and the Treasury Manager is authorised to delay programme funding in order to repay debt obligations.

EXHIBIT 1

IFFIm's Organisational Structure



This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

1 A charity established in 2000. As a public-private partnership, Gavi's donors are governments, corporations, foundations and private individuals.

2 The world's poorest countries are defined as those with per capita GNI of less than $1,580. Gavi currently supports 73 countries and 53 of those countries are currently eligible to apply for new immunization programmes with Gavi. There are two countries supported by Gavi that are not part of IFFIm's reference portfolio.

Rating Rationale

Our determination of a supranational's rating is based on three rating factors: Capital Adequacy, Liquidity and Strength of Member Support. For Other Supranational Entities we place more emphasis on the Strength of Member Support such that it drives the preliminary rating range. Capital Adequacy and Liquidity combine to form the assessment of Intrinsic Financial Strength which can provide uplift to the preliminary rating range. For more information please see our Supranational Rating Methodology.

Capital Adequacy: Not applicable

The absence of capital gives Factor 1 zero weighting in the methodology

Factor 1

Scale		Very High	High	Medium	Low	Very Low	
	+						-

For an OSE, it is not relevant to discuss capital adequacy, which receives a weight of zero in the determination of the rating range. A defining characteristic of OSEs is the absence of capital. Their structure is more reliant on regular cash inflow from members, guarantees by members, grants from members, taxes levied on sovereign members' economies and other forms of member support. While some ability to maintain financial buffers may be possible, it is typically not enough to insulate the financial performance of the entity from the risk of underperformance from the sovereign members.

IFFIm's absence of paid-in capital in its balance sheet, and consequently its dependence on grants from its donors, limits the assessment of the institution's intrinsic financial strength and makes a capital adequacy analysis less relevant to determine its creditworthiness. Additionally, given that IFFIm only provides grants to Gavi, and thus lacks a loan portfolio, it is not exposed to the same sort of credit risk that other supranational entities experience in the form of borrower quality and asset performance.

Nonetheless, IFFIm's gearing policy provides a similar point of reference to assess the entity's solvency as the leverage ratio (debt over equity) does for multilateral development banks (MDBs). As such, even though these factors are not incorporated into the scorecard that accompanies the Supranational Rating Methodology, the gearing ratio and limit are important components of our analysis of IFFIm.

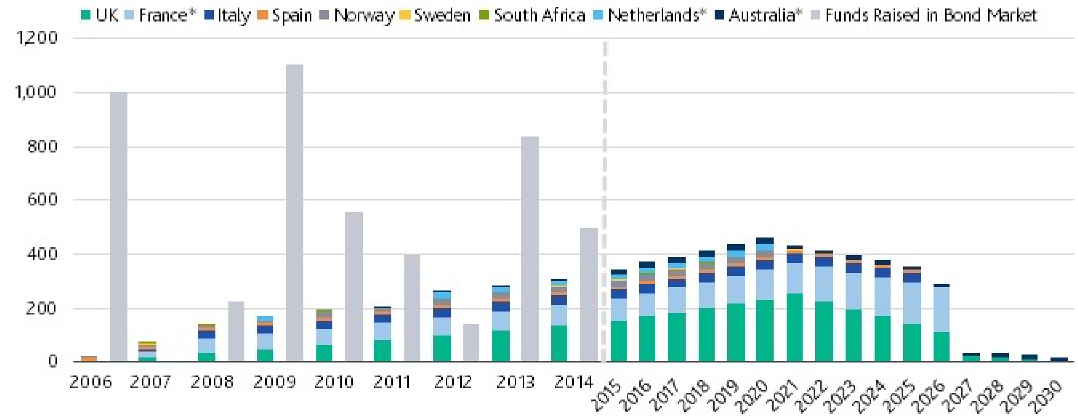
Gearing Ratio and Limit Conservatively Manage Leverage

As a financing vehicle, IFFIm's operations and leverage capability are largely dependent on the donors' payments. In order to determine an appropriate level of leverage, IFFIm manages bond issuances against the present value of expected future cash flows from grantor pledges, which allows IFFIm to frontload its debt issuance (see Exhibit 2). The residual, which is still available to IFFIm over time, creates a cushion to protect bond holders against adverse credit events such as a large number of countries entering into protracted arrears to the International Monetary Fund (IMF) – a condition that may diminish the total inflow of pledges.

EXHIBIT 2

Leverage Is Frontloaded, Supported by Future Cash Flows

(Donor commitments by year, US$ mn.)



*Includes indicative figures for Australia, France and the Netherlands, which have committed to additional pledges but have yet to sign grant agreements as of publication.

Sources: IFFIm, Moody's

Conditionality of Donors' Pledge Payments a Source of Risk in the Structure…

Under Eurostat accounting rules, if the payment obligations of the donors were unconditional the total pledge would have to be recognised all at once as a liability on donors' accounts. A high-level financing condition (also referred to as the grant payment condition) was added to ensure that donors are not required to report their entire pledge to Gavi as a liability immediately upon making the pledge. This conditionality does not alter the legally binding nature of the commitments.

The condition is that if any of the 71 countries in the IFFIm reference portfolio were to fall into protracted arrears with the IMF (i.e., more than six months), the amount of the donor disbursements to IFFIm would be reduced by a predetermined amount during the time that the country remains in arrears (Grant Payment Condition). If the country becomes current again, the donor payments would resume according to the original schedule. The Treasury Manager determines the reduction and coordinates the reduced payments from the donors on IFFIm's behalf.

For all but ten of the countries, the reduction would be 1% of scheduled grants. For South Sudan and Sudan the reduction would be 0.5%, for Vietnam 3%, and for Bangladesh, Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria and Pakistan it would be 5%. As a result, if enough countries were in arrears to the IMF at the same time, the amount of the payments to IFFIm could in some circumstances be less than the amount needed to service debt, depending on the actual amount of debt that had been issued and scheduled debt-service payments at the time.

However, IMF Arrears Are Historically Low

At present, three countries (Somalia, Sudan, and Zimbabwe) have protracted arrears with the IMF. Since 1975, there has been an average of five of the 71 countries in the IFFIm reference portfolio with protracted arrears at any one time, of which only one (Vietnam in the 1980s and through 1993) would trigger a reduction in payments of more than 1% per country. The highest number of countries in arrears in any single year was 11, in both 1988 and 1989, when Vietnam was one of those countries. Therefore, in those two years, the reduction in donor payments would have been 13% from the committed amounts, had IFFIm existed.

It is notable that the number of countries in arrears dropped considerably from 10 in the 11-year period through 1994, to three from 1994 onwards. Also, none of the countries that would trigger a 5% reduction in payments has ever been in protracted arrears, while the IMF no longer has exposure to Vietnam (3%-reduction) and Laos (1%-reduction), as of 2012 and 2013, respectively. Going forward, it seems likely that the number of countries going into arrears will remain low, in part because of the debt relief granted in 2005 to more than 30 of the most heavily indebted countries. In addition, the global financial crisis of 2008-09 was largely an advanced industrial crisis and, while there was an eventual spill over to the global macroeconomy, the 71 countries in consideration here were relatively financially insulated.

Small Portion of Donor Payments Released after South Sudan Joined IMF

Sudan has been in the reference portfolio of countries of the grant payment condition since IFFIm's inception. After seceding from Sudan, South Sudan joined the IMF in April 2012. While Sudan is in protracted arrears with the IMF, and therefore was causing a 1% reduction in donors payments to IFFIm, South Sudan is not in protracted arrears. Therefore, when the reference portfolio of countries was updated in February 2013, the newly included South Sudan was given a 0.5% weight and Sudan's weight was reduced from 1.0% to 0.5%. This caused 0.5% of the donor payments, which were being withheld under the grant payment condition as a result of Sudan's IMF arrears, to be released. We view this to be a positive development because it increases IFFIm's cash inflow. However, the small scale is not materially significant.

We deem it unlikely that reductions in donors' scheduled payments would occur to the extent that IFFIm's ability to service debt would be jeopardised. Supporting this view is the fact that the Treasury Manager oversees this risk by monitoring and setting a limit on IFFIm's gearing ratio.

The gearing ratio is defined as total debt net of cash holdings (net debt) over the present value of donor pledges. At end-2014, this ratio was 40.0% and had decreased to 36% by June 2015. The ratio has increased from 20.0% at end-2006, averaging 42.5% over the last five years. 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 frontloads bond issuance for immediate immunisation 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.

The IBRD models the risks associated with reductions in donors' scheduled payments, either stemming from recipient countries going into arrears with the IMF or due to donor default on the pledge contract with IFFIm. The model builds in the risk of either of these reductions and can be adjusted as risks increase, with the ultimate goal of minimising the potential that a shortfall in cash inflows would prevent the timely payment of debt obligations. It is a solvency model over the remaining life of IFFIm. The Treasury Manager calibrates the gearing limit model to maintain an Aaa expected loss on IFFIm's bonds.

The limit on the gearing ratio provides a cushion as it keeps the amount of net debt at a level that is below the present value of cash inflows from donors' scheduled pledge payments. This cushion can absorb a significant amount of risk stemming from the grant payment condition as well as some risk that donors' payments will fall short of the committed amount. However, given the heavy concentration of donors' pledges, we do not believe the GRL is sufficient to delink IFFIm's creditworthiness from its donors' creditworthiness.

In our view, the strength of the GRL is not only a function of how well the risks are modelled in order to set the limit, but also of (1) the flexibility of the limit to account for increasing risks and, more importantly, (2) the flexibility for the Treasury Manager to delay grant commitments and disbursements to Gavi in respect of the gearing ratio limit. If the Treasury Manager believes that a large number of countries will go into arrears or that donors' finances are facing stress that would hinder their ability to pay-in according to the pledge schedule, it could delay further approvals for Gavi grants until such time that the gearing ratio falls comfortably below the guiding limit. We view this to be a very strong credit enhancement as it can dynamically absorb a significant amount of the risks that IFFIm faces. The institutionalised priority on timely debt servicing plays a large role in IFFIm's Aa1 rating.

Liquidity: Very High

Liquidity policy and IBRD's involvement as Treasury Manager are important credit enhancements

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.

IFFIm's Liquidity is deemed to be 'Very High', involving a strong position that benefits from a prudent liquidity policy and the role the IBRD plays as risk manager for IFFIm's investment portfolio, as well as our view of high access to financial markets to issue bonds.

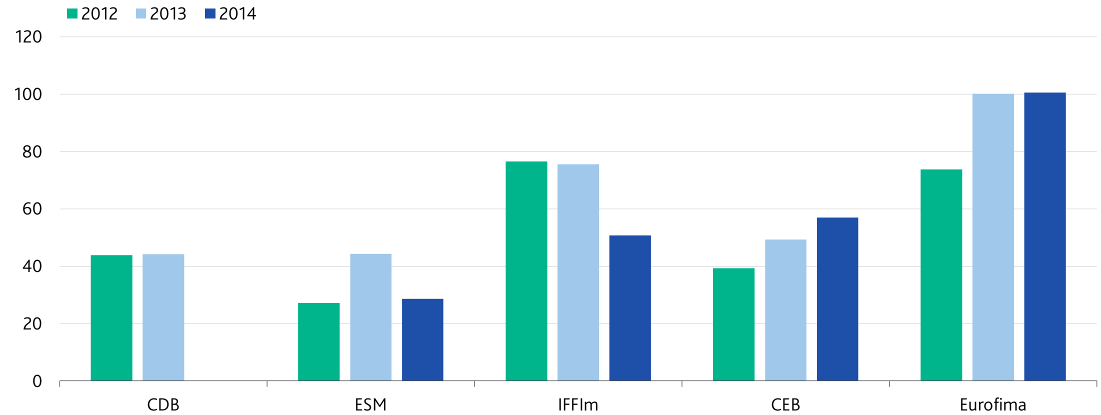
Liquidity Policy Ensures Ample Coverage of Upcoming Financial Obligations

As stated by IFFIm, its liquidity policy aims to ensure an adequate level of liquid assets in order to meet its operational requirements, provide predictability of programme funding, and support its credit rating. To this end, the policy sets a prudential minimum level of liquidity equivalent to IFFIm's cumulative contracted debt-service payments for the next 12 months, in line with the liquidity policies of other highly rated supranationals. The Treasury Manager recalculates and resets the prudential minimum once every quarter. We consider this policy to be very strong since it ensures the ability to service debt for one year in the unlikely event that IFFIm loses market access and is unable to rollover existing debt. Relative to other supranationals rated Aa1, IFFIm's debt service coverage compares well (see Exhibit 3), with the adjusted ratio scoring a 'High' assessment.

EXHIBIT 3

Debt Service Coverage Compares Well with Other Aa1-rated Peers

(Short-term and currently maturing debt over liquid assets, %)



Source: Moody's

IFFIm has consistently held more liquid assets than the prudential minimum set by the policy. At the end of 2014, the prudential minimum was $514.5 million while holdings were $1,015 million, or about 2.0x the prudential minimum. For the five-year period 2010-14, the actual liquid asset holdings were on average 1.5x greater than the prudential minimum. IFFIm's liquidity policy and the over-compliance demonstrated thus far, are particularly important given that the entity's debt maturity profile tends to be concentrated in the medium term (see Exhibit 4).

EXHIBIT 4

Maturity of Outstanding Borrowings

(% of total)

	2011	2012	2013	2014
1 year or less	29%	21%	33%	22%
1-5 years	68%	74%	64%	74%
Over 5 years	3%	5%	3%	4%

Source: IFFIm

World Bank Involvement in Treasury Operations and Risk Management Provides Institutional Strength

The IBRD provides IFFIm's financial management function under rules set forth in the Treasury Management Agreement (TMA). As such, there is active management of cash flows, investments and disbursements by a historically strong institution. During 2011, the original five-year TMA was renewed for another five-year period.

The IBRD's financial management is very strong, one factor in its own Aaa rating and a strong supporting factor of IFFIm's Aa1 rating. The IBRD's involvement in establishing and managing IFFIm's gearing ratio, liquidity policy and the maturity structure of debt provides confidence that debt repayments will be made on time. The Treasury Manager has flexibility in delaying commitments and disbursements for programmes in order to be within the desired gearing ratio and to maintain liquidity according to the established policy. Furthermore, it has, perhaps more than any other organisation, a sense of the credit quality of recipient countries. It will be able, therefore, to adjust IFFIm's financial metrics in advance of the time when a reduction in donors' scheduled payments, as a result of the grant payment condition, would endanger debt-repayment capacity.

Asset & Liability Management

As IFFIm's Treasury Manager, the IBRD carries out its asset & liability management, namely the management of IFFIm's market risk stemming from foreign-exchange rate and interest-rate risks. Almost all sovereign pledges are denominated in local currency and not US dollars[3] and some outstanding bonds are denominated in other currencies. In addition, interest-rate fluctuations can impact the value of sovereign pledges and bonds. To hedge the risk that fluctuations in foreign-exchange rates will impact cash flows and interest-rate fluctuations will adversely affect the value of its assets and liabilities, IFFIm enters into US dollar floating-rate swaps. Counterparty risk is low, as the swap contracts are with the IBRD.

Swap Collateral Posting Creatively Managed through Setting Additional Limits on IFFIm's Indebtedness

According to the swap agreement between IFFIm and the IBRD, after IFFIm's rating was changed from Aaa to Aa1 the IBRD has the right to call collateral above a threshold. However, and despite surpassing the threshold, the IBRD has not called collateral and has committed to not call if it would constrain IFFIm's ability to meets its debt obligations. The IBRD made this commitment in line with its responsibilities as Treasury Manager to ensure that IFFIm has the funding to fulfil its debt obligations. The commitment was first established for one year from July 2013 through June 2014, and has been renewed for a third time until May 2016.

The IBRD's commitment to not call collateral comes in tandem with a structural change to the limits of IFFIm's indebtedness. A "Risk Management Buffer" of 12% has been added to the gearing ratio limit. The gearing limit model itself (neither the inputs nor the parameters) has not changed. The IBRD will run the model in the same manner and set a gearing limit to absorb risks from the two main sources of risk (i.e. donor default on commitments and the grant payment condition). On top of that limit, an additional 12% will now be included, which will result in an effective gearing ratio limit lower than that output by the model. The IBRD has sole discretion to adjust the Risk Management Buffer.

We view this structural change positively since it reduces the overall risk taken on by the structure (i.e. a lower leverage level) and enables IFFIm to maintain regular financial operations. Posting collateral would lead to additional funding obligations, which would increase the demands on IFFIm's liquidity position. Since swap transactions are frequently marked to market, the collateral positions can change frequently, thus requiring more active management of liquidity.

The structural change also displays the non-contractual support that IFFIm receives from the IBRD. The financial and institutional strength of the IBRD allows it to innovate solutions like this, which ultimately benefit IFFIm. A weaker organisation or an organisation whose own mandate does not align with IFFIm's would be less able or willing to support IFFIm in this manner. This development supports our assessment that having the IBRD as Treasury Manager is a significant source of credit strength for IFFIm.

Conservative Investment Guidelines

The Treasury Manager invests liquid assets on IFFIm's behalf according to the following very conservative guidelines, which are similar to the IBRD's own guidelines, and whose goal is to preserve capital rather than generate earnings:

- Money market instruments must be issued or guaranteed by financial institutions rated A3 or higher
- Foreign-currency government and agency obligations must be rated Aa3 or higher

[3] Only South Africa's pledge is denominated in US dollars.

- Local-currency government obligations carry no rating minimum, but are subject to credit approval on a country by country basis
- Agency or instrumentality of a government, multilateral organisation, or other official entity must be rated Aa3 or higher
- Asset-backed securities must be rated Aaa
- Corporate securities must be rated Aaa

Currently around 43% of IFFIm's liquid assets portfolio is invested in sovereign bonds; about 11% of the total portfolio is invested in emerging market sovereign bonds, with no holdings having a rating below Baa. Regional exposure is fairly diversified, with Asia representing 40% of total sovereign and sovereign-guaranteed exposures, followed by Europe (25%), the Americas (22%), and Middle East/North Africa (13%).

While IFFIm's investment guidelines are the same as the IBRD's own guidelines, its actual investments are even more conservative than the IBRD's. Holdings are even shorter in maturity, with the weighted average maturity of securities holdings being 7 months and the average maturity of deposits being one month.

Market Funding Access Is High Due to Diversified Investor Base

IFFIm's borrowing programme can be characterised as modest in size and diversified, given its size. By end-2014, total bond issuance since inception amounted to $5 billion with most of that issued in 2006, 2009, 2010, and 2013 (roughly $1 billion each year). IFFIm did not receive any new funding requests from Gavi in 2014, but expects to disburse $1.3 billion in funds (including new, unsigned pledges) in 2016-20.

Bonds are issued in five markets: Uridashi, pound sterling, US dollar, Australian dollar and the private placement market. IFFIm bonds are well received in the deep Uridashi market and the organization has returned to this market repeatedly. In order to hedge currency and interest-rate risk, all bonds are swapped at issuance into US dollar floating rate.

During 2014, as a part of its goal to diversify funding, IFFIm entered the sukuk market with an issuance of a 3-year $500 million bond that complies with Islamic law. The sukuk was oversubscribed, maturing on 4 December 2017, carrying a quarterly coupon of +15 basis points over 3-month USD LIBOR. It attracted new investors with 68% of them coming from the Middle East and Africa.

Despite having a sovereign donor base that is mainly European, including several euro area members, IFFIm has been able to maintain its very low borrowing rates over recent years. Unlike European-based MDBs, IFFIm's borrowing costs were not stressed during the height of the European debt crisis. This can be largely attributed to the reputational benefits of having the IBRD as its Treasury Manager.

In 2014, IFFIm's sukuk issuance combined with fair value gains on its other borrowings and redemptions of six bonds (total value of $716 million) decreased bonds payable by $275 million, resulting in lower financing costs for the entity. IFFIm's borrowing costs are below its donors' composite cost. We view it as unlikely that there will be a dislocation in IFFIm's market access, but the liquidity policy discussed above provides additional protection for bondholders.

Strength of Member Support: High

Strong donors' ability and willingness to support counterbalanced by high concentration of pledges

Factor 3

Scale		Very High	High	Medium	Low	Very Low	
	+		■				-

Contractual support manifests itself in the form of explicit guarantees or legally-binding grant payments, among other things. Extraordinary support is a function of members' ability and willingness to support the institution in ways other than the contractual obligation. Strength of member support is the driver of the preliminary rating range.

Given IFFIm's structure and grant operations, our analysis focuses on the likelihood that donor pledges will fall short of what was originally contracted, thus potentially hampering its ability to service debt. A reduction in the amount paid-in could result from either a donor breaking its contract with Gavi or a substantial number of recipient countries going into arrears with the IMF, thereby causing significant reductions in donor payments via the grant payment condition. We view the likelihood that a donor would break its contract with Gavi to be very low due not only to the legally binding nature of the pledges, but also the very strong commitment of the donors. Incorporated in the assessment of commitment are measures of donors' ability and willingness to honour pledges.

We assess IFFIm's Strength of Member Support with a 'high' score that balances the expectation of very high contractual and extraordinary support from its donors with the relatively high concentration of pledges, one of the main sources of risk to IFFIm's creditworthiness.

IFFIm's Contractual Support Is Based On Its Donors' Pledges

The commitments made by IFFIm's donor governments constitute a legally binding contractual obligation that the entity can employ as backing to issue debt and as a financial resource to service it. The six original donors to IFFIm were the UK, France, Italy, Norway, Spain, and Sweden. Australia, the Netherlands and South Africa also finalised pledges. Since inception, four original donors and two subsequent donors have made additional pledges. In 2011, Brazil pledged the equivalent of $20 million over 20 years; a grant agreement is pending. In early 2015, France and the Netherlands pledged an additional €150 million and €60 million, respectively. Australia has also confirmed that it will make an additional pledge of A$37.5 million. Exhibit 5 breaks down the $6.3 billion in total original commitments but does not include the new commitments made by Australia, France and the Netherlands as these grant agreements are not yet finalised.

EXHIBIT 5

Sovereign Donors and Pledges as of December 2014

	Original Pledge Date		Time Period (Years)	Total Amount ($ mil)	Share of Total (%)	Share of Remaining Pledges 2015-2030 (%)	Rating** as of Jul 13, 2015
United Kingdom	Oct 2006	*	23	2,980	47.5	51.9	Aa1/stable
France	Oct 2006	*	20	1,720	27.4	27.0	Aa1/negative
Italy	Oct 2006	*	20	635	10.1	8.4	Baa2/stable
Norway	Oct 2006	*	15	264	4.2	3.1	Aaa/stable
Australia	June 2011	*	20	256	4.1	5.2	Aaa/stable
Spain	Oct 2006		20	240	3.8	2.9	Baa2/positive
Netherlands	Dec 2009	*	8	114	1.8	0.9	Aaa/stable
Sweden	Oct 2006		15	38	0.6	0.4	Aaa/stable
South Africa	Mar 2007		20	20	0.3	0.3	Baa2/stable
				6,268			

* Additional pledge made by UK in August 2010; France in December 2007 and January 2015 (not finalised); Italy in November 2011; Norway in August 2010; Australia in January 2015 (not finalised); Netherlands in January 2015 (not finalised).

** Government bond rating

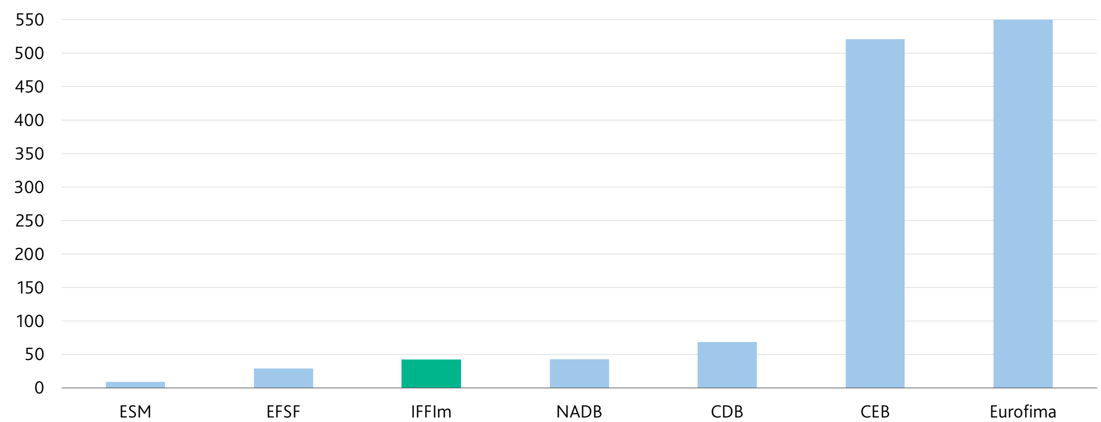
Source: IFFIm and Moody's

The sovereign commitments are legally valid, binding and enforceable payment obligations. Given the legal characteristics of these pledges, these contractual obligations can be considered analogous to the callable capital (CC) that most MDBs have. When assessing the strength of a supranational's contractual support we look at the coverage that CC provides over the entity's current stock of debt. In the specific case of IFFIm, we consider the nominal value of the donors' remaining pledges. When comparing this metric with other supranational's rated Aa1, IFFIm scores well since the coverage that the remaining pledges provide exceeds the total gross debt stock (see Exhibit 6).

EXHIBIT 6

Contractual Obligations Provide Ample Coverage of Debt

(Gross debt over discounted callable/committed capital pledged by members rated Baa3 or higher, %)



Sources: Moody's; Callable capital, or other contractual support, pledged by members rated Baa3 or higher, is discounted by Moody's 30-year expected loss rates associated with ratings; Eurofima's 2014 value is 1,253%.

Ability to Honour Pledges Remains Very Strong Despite Some Donors' Recent Weakness

The ability of the donors to honour their commitment can be measured using our government bond ratings, which assess the expected loss an investor may face when holding debt obligations issued by the sovereign. As bonds represent contracts that the sovereign enters into and commits to paying cash (interest and principal) on a set schedule, we view the government bond ratings as a good proxy and applicable to IFFIm's case.

The weighted median donor rating is Aa1. Since the UK pledges will come just under 50% of remaining pledges after the 2015 pledges are counted, this calculation is largely determined by the UK's government bond rating, which was changed from Aaa to Aa1 in February 2013. In addition, several other donors' creditworthiness experienced negative pressure over the past few years, namely the euro area donors and South Africa.

Despite recent weakness, all the donors have investment grade-ratings, and several members are very highly rated. This indicates that there is a very high likelihood that IFFIm will receive the pledges as promised from the sovereign donors with no, or minimal, delays or reductions.

In addition, the annual commitment for each donor is small in the context of the government's total budget. For example, the UK government's annual commitment, while varying by year, averages around £90 million, approximately 0.01% of its total annual revenues (around £694,000 million in 2014). Similarly, France's annual commitment to IFFIm represents an extremely small portion of its total annual budget at around 0.01% of revenues. It seems unlikely, given the relative affordability of the annual amounts, that donors will renege on their commitments.

Willingness to Honour Pledges Supported by Effectiveness in Achieving Mandate

With IFFIm, as with all supranationals, we assess the willingness of members to provide support in light of the importance of the institution to the member. Regional multilateral development banks, as enactors of economic public policy, are often of strong economic importance to their sovereign members. This is not the case for IFFIm since Gavi is a charity organisation and all immunisation programmes are located exclusively in non-donor countries. Therefore, the importance to the donors rests on the importance of the charity mandate and IFFIm's ability to help Gavi fulfil that mandate.

Gavi and the financing provided through IFFIm is an integral part of the United Nations' three Millennium Development Goals related to health, Targets 4, 5, and 6, which aim to reduce child mortality rates, improve maternal health, and combat HIV/AIDS, malaria and other diseases, respectively. The likelihood that a donor would abandon this goal once they have committed to it is very small, not just because of the gravity of the goal, but also because of the negative political repercussions stemming from a lawsuit over failure to honour commitments to fund immunisation.

In addition, there are no serious questions as to IFFIm's role in helping to reach this goal. Independent reviews conducted in recent years and separately commissioned by several different stakeholders spoke positively about IFFIm's effectiveness in accelerating and facilitating funding for Gavi. Gavi's disbursements for immunization programmes have more than doubled from $300-$400 million a year before IFFIm to $900 million as a result of IFFIm. From 2006-2014, IFFIm funded $2.5 billion of Gavi's disbursements for immunization programmes, equivalent to approximately 36% of the total over that period, enabling Gavi to significantly increase its programmatic expenditure and providing it with a long-term stable funding source.

Concentration of Pledges Is a Source of Credit Weakness

The two largest donors, the UK and France, account for more than 75% of IFFIm's remaining pledges. This concentration could fall, albeit marginally, if new donors make new pledges or current donors make additional pledges.

Overall, however, the concentration, especially the UK's almost 50% share, is a credit weakness since it exposes IFFIm to a material loss of incoming payments based on the creditworthiness of one donor. In addition, there is an expected high default correlation of four donors, France, Italy, Spain, and the Netherlands, who are all members of the euro area. This was evidenced by the evolution of the euro area debt crisis to date, and the close institutional, economic, and financial linkages between the major euro area sovereigns. As a result, France, Spain and Italy, whose ratings were downgraded during the past few years, could be expected to exhibit a high correlation in their credit standings and behaviour towards their IFFIm commitment, which would put 38% of IFFIm's remaining payments at risk in extreme stress scenarios.

We note, however, that this is partially mitigated by the improved credit standing of Italy (Baa2 rating affirmed and outlook changed to stable from negative in February 2014), the Netherlands (Aaa rating affirmed and outlook changed to stable from negative in March 2014) and Spain (upgraded to Baa2 with a positive outlook in February 2014). While the outlook on France's rating remains negative, we have lowered our assessment of default correlation among euro area states even in the event of a very severe crisis involving the defaults of even the strongest member states of the monetary union.

Two main factors drove our re-assessment of default correlation. First, while the credit pressures facing countries of the monetary union share common characteristics, there also exist some idiosyncratic elements that drive the rating trajectories of individual countries and which would imply a lower mutuality of risk than previously assumed. In particular, the currently negative outlook on France's rating is driven by our view of domestic vulnerabilities, which do not directly affect the creditworthiness of other euro area member states. Second, measures put in place since the start of the euro area crisis should improve the authorities' ability to manage contagion within the system, even that arising from the default of a very large euro area member.

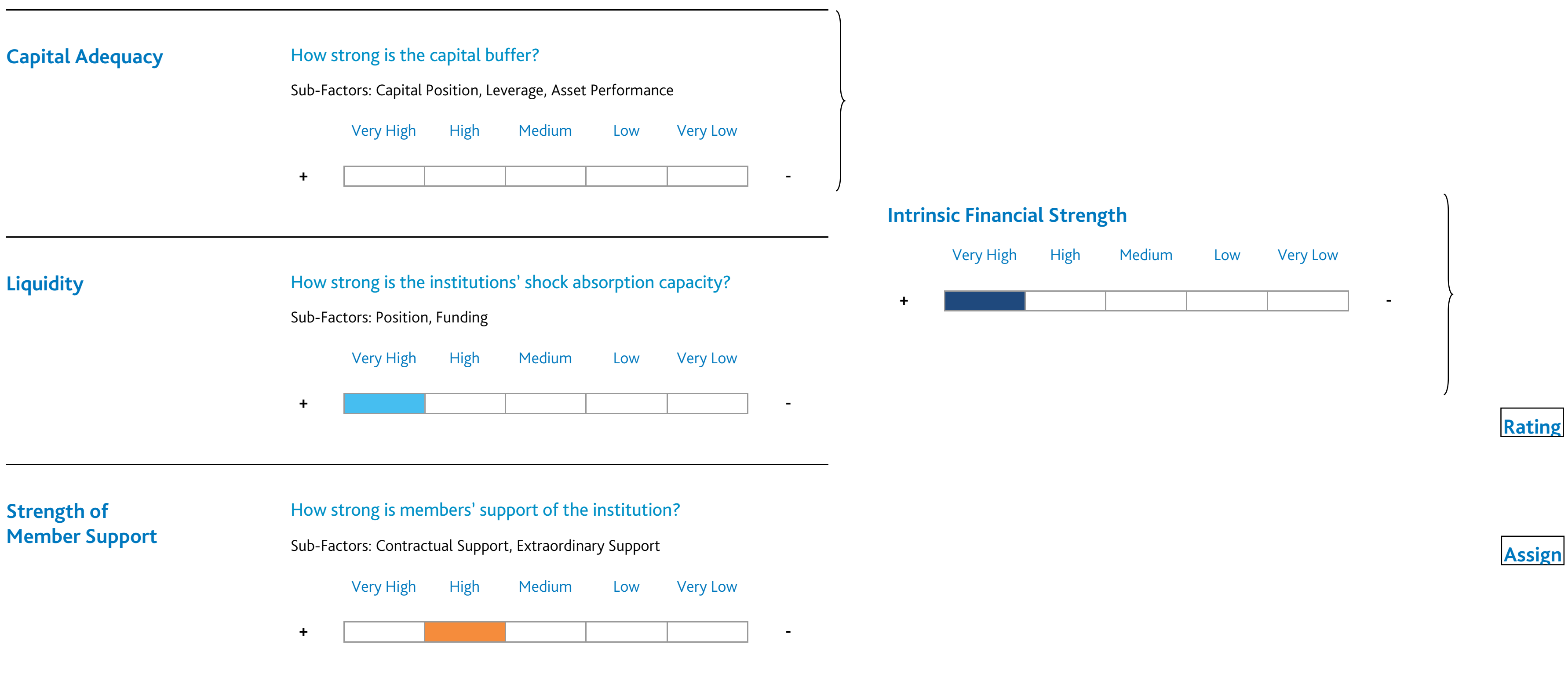
Taking these factors together – the improvement in and greater stability of donor creditworthiness and the lower default correlation assumption – we believe that IFFIm's rating would be less immediately affected were any one of its euro area donors to be downgraded.

Additional mitigating factors include the strong ability and willingness of the UK to continue honouring its pledges, the presence of Aaa-rated donors, and the active risk management function, through which IFFIm maintains solvency and liquidity buffers.

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.

Supranational Rating Metrics: International Finance Facility for Immunisation



Comparatives

This section compares credit relevant information regarding International Finance Facility for Immunisation with other supranationals rated by Moody's Investors Service. It focuses on a comparison with supranationals within the same rating range and shows selected credit metrics and factor scores.

As discussed previously, due to its lack of paid-in equity, capital adequacy analysis is of limited applicability in IFFIm's case. The European Financial Stability Facility, which relies on guarantees from its members to back its debt issuance, is another example of a supranational issuer operating with no paid-in capital. In both cases, intrinsic financial strength assessment is based solely on our liquidity factor score and receives a smaller weight in determination of the preliminary rating range, with member support becoming the primary rating factor.

Our 'very high' assessment of IFFIm's liquidity reflects the institution's ability to obtain debt financing at low cost, as indicated by the narrow spreads of its actively traded bonds. Although lower than those of EFSF, ESM and CEB, IFFIm's 7-year average bond-implied rating compares favourably to the Aa1-Aa3 median and is several notches above those of CDB and NADB. Conversely, IFFIm's debt service coverage ratio is somewhat weaker than those reported by its peers, which can be partially attributed to its front-loaded debt issuance program.

IFFIm shares the 'high' assessment for strength of member support with EFSF, ESM and NADB, with all four institutions benefiting from member pledges that exceed their total debt stock by at least 100%.

EXHIBIT 7

IFFIm Key Peers

	Year	IFFIm	EFSF	ESM	CDB	CEB	NADB	Aa Median
Rating/Outlook		Aa1/STA	Aa1/STA	Aa1/STA	Aa1/STA	Aa1/STA	Aa1/STA	--
Total Assets (US$ million)	2014	4,170	240,825	158,701	1,379	30,912	1,633	3,080
Factor 1		--	--	Very High	Very High	High	High	--
Usable Equity/Gross Loans Outstanding + Equity Operations (%)[1]	2014	N/A	N/A	178.9	83.1	19.6	45.8	65.1
Debt/Usable Equity (%)[1]	2014	--	--	60.5	64.5	803.6	194.9	56.5
Gross NPLs/Gross Loans Outstanding (%)[2]	2014	--	--	0.0	0.5	0.0	0.3	0.3
Factor 2		Very High	High	Very High	High	Very High	High	--
ST Debt + CMLTD/Liquid Assets (%)[3]	2014	41.9	N/A	28.6	9.4	57.0	0.6	28.6
Bond-Implied Ratings (Average)	2014	Aa2	Aaa	Aaa	Baa1	Aaa	A2	Aa2
Intrinsic Financial Strength (F1+F2)		Very High	High	Very High	Very High	Very High	High	--
Factor 3		High	High	High	Very High	Medium	High	--
Total Debt/Discounted Callable Capital (%)[4]	2014	43.2	28.9	8.7	68.4	521.3	42.7	42.7
Weighted Median Shareholder Rating (Year-End)	2014	Aa1	Aa1	Aa1	Baa1	Aa3	A1	Aa3
Rating Range (F1+F2+F3)		Aaa-Aa2	Aa1-Aa3	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	--

Notes:

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

[2] Non performing loans

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

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

Source: Moody's

Appendices

Rating History

IFFIm

	Issuer Rating		Senior Unsecured	Outlook	
	Long-term	Short-term			Date
Outlook changed	--	--	--	Stable	August-14
Rating lowered	Aa1	--	Aa1	--	March-13
Outlook changed	--	--	--	Negative	December-12
Rating assigned	--	P-1	Aaa	--	November-06
Changed to definitive from prospective	Aaa	--	--	--	October-06
Rating and outlook assigned	(P)Aaa	--	--	Stable	August-06

Annual Statistics

Balance Sheet (US$ Thousands)

	2008	2009	2010	2011	2012	2013	2014
ASSETS							
Cash	392	772	2,442	692	549	22	3,349
Funds held in trust	145,362	1,082,285	1,565,302	850,958	546,648	1,024,771	1,011,747
Prepayments	442	396	424	272	337	143	147
Derivative financial instruments	**40,667**	**326,648**	**460,740**	**269,107**	**133,239**	**55,692**	**2,494**
o/w due within one year				171,778	17,535	55,478	1,737
o/w due after more than one year				97,329	115,704	214	757
Sovereign pledges	**2,741,183**	**2,882,103**	**3,171,579**	**3,403,937**	**3,562,142**	**3,362,027**	**3,152,729**
o/w due within one year	130,706	150,424	163,588	211,286	235,081	260,031	260,413
o/w due after more than one year	2,610,477	2,731,679	3,007,991	3,192,651	3,327,061	3,101,996	2,892,316
TOTAL ASSETS	**2,928,045**	**4,292,204**	**5,200,487**	**4,524,966**	**4,242,915**	**4,442,655**	**4,170,466**
LIABILITIES							
Creditors	**1,268,177**	**2,612,749**	**3,409,978**	**2,575,615**	**1,959,716**	**2,168,746**	**1,894,043**
o/w falling due within one year	12,691	267,490	1,079,932	766,565	420,567	725,590	423,595
o/w falling due after more than one year	1,255,486	2,345,259	2,330,046	1,809,050	1,539,149	1,443,156	1,470,448
Grants payable to Gavi Fund Affiliate	**146,606**	**437,064**	**517,064**	**417,064**	**707,064**	**507,064**	**507,064**
o/w within one year				417,064	200,000	150,000	0
o/w after more than one year				0	507,064	357,064	507,064
Derivative financial instruments		**305,048**	**320,270**	**755,794**	**1,145,828**	**1,194,230**	**1,088,961**
o/w due within one year				2,023	24,518	105,262	81,223
o/w due after more than one year				753,771	1,121,310	1,088,968	1,007,738
TOTAL LIABILITIES	**1,414,783**	**3,354,861**	**4,247,312**	**3,748,473**	**3,812,608**	**3,870,040**	**3,490,068**
NET ASSETS/RESTRICTED FUNDS	**1,513,262**	**937,343**	**953,175**	**776,493**	**430,307**	**572,615**	**680,398**
TOTAL LIABILITIES AND RESTRICTED FUNDS	**2,928,045**	**4,292,204**	**5,200,487**	**4,524,966**	**4,242,915**	**4,442,655**	**4,170,466**

Income Statement (US$ Thousands)

	2008	2009	2010	2011	2012	2013	2014
INCOME							
Contribution revenue	0	87,137	401,608	144,137	0	0	0
Donated services	171	842	835	820	974	1,096	1,109
Investment and interest income	4,501	10,773	5,670	8,046	6,282	3,752	2,950
TOTAL INCOME	**4,672**	**98,752**	**408,113**	**153,003**	**7,256**	**4,848**	**4,059**
EXPENSES							
Programme grants to Gavi	325,120	620,485	400,000	200,000	390,000	0	0
Treasury manager's fees	1,779	1,965	2,212	2,569	2,377	2,276	2,298
Governance costs	2,786	2,985	2,934	2,749	2,997	2,701	2,813
Interest on bonds	65,344	110,554	132,437	166,399	103,947	77,712	51,328
Other financing charges	3,877	8,091	6,586	4,209	629	3,722	1,252
TOTAL EXPENSES	**398,906**	**744,080**	**544,169**	**375,926**	**499,950**	**86,411**	**57,691**
SURPLUS BEFORE FAIR VALUE	**-394,234**	**-645,328**	**-136,056**	**-222,923**	**-492,694**	**-81,563**	**-53,632**
FAIR VALUE GAINS (LOSSES)							
Net fair value gains (losses)	78,688	70,664	150,663	43,736	146,068	224,777	161,989
On pledges and pledge swaps	23,567	-9,522	18,074	-130,291	54,084	153,671	121,936
On bonds and bond swaps	55,121	80,186	132,589	174,027	91,984	71,106	40,053
Other unrealised FX gains	1,057	-1,255	940	1,068	440	-906	-574
On interest rate overlay swap	--	--	285	1,437			
TOTAL FAIR VALUE GAINS (LOSSES)	**79,745**	**69,409**	**151,888**	**46,241**	**146,508**	**223,871**	**161,415**
SURPLUS (DEFICIT) FOR YEAR	**-314,489**	**-575,919**	**15,832**	**-176,682**	**-346,186**	**142,308**	**107,783**

	2008	2009	2010	2011	2012	2013	2014
Financial Ratios							
Capital Adequacy (%)							
Usable Equity/Gross Loans Outstanding + Equity Operation	--	--	--	--	--	--	--
Gearing Ratio[1]	33.1	40.9	40.6	44.0	43.2	44.7	40.0
Gross NPLs/Gross Loans Outstanding[2]	--	--	--	--	--	--	--
Allowance for Loan Losses/Gross NPLs[2]	--	--	--	--	--	--	--
Liquidity (%)							
Liquid Assets/Total Assets	5.0	25.2	30.1	18.8	12.9	23.1	24.3
Liquid Assets/Total Debt	11.5	41.5	46.0	33.1	27.9	47.3	53.6
ST Debt + CMLTD/Liquid Assets[3]	19.6	21.7	63.8	69.9	76.6	75.5	50.7
Bond-Implied Ratings (Average)	Aa1	Aa1	Aaa	Aaa	A1	Baa2	Aa2
Strength of Member Support (%)							
Callable Capital of Aaa-Baa3 Members/Total Callable Capital	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Debt/Discounted Callable Capital[4]	25.7	53.2	71.8	48.8	40.7	46.4	43.2
Weighted Median Shareholder Rating (Year-End)	Aaa	Aaa	Aaa	Aaa	Aaa	Aa1	Aa1

Notes:

[1] Net debt as percent of the present value of donor pledges

[2] Non-performing loans

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

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

Source: Moody's

Moody's Related Research

Credit Opinion:

» International Finance Facility for Immunisation

Announcement:

» Moody's changes International Finance Facility for Immunisation's Aa1 rating outlook to stable from negative, August 2014

Rating Methodologies:

» Multilateral Development Banks and Other Supranational Entities, December 2013 (161372)

» Sovereign Bond Ratings, September 2013 (157547)

Moody's Website Links:

» Sovereign Risk Group Webpage

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Related Websites

For additional information, please see:

» The IFFIm's website: www.iffim.org

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