MOODY'S
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CREDIT ANALYSIS

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International Finance Facility for Immunisation

Supranational

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Rating Rationale and Outlook

The International Finance Facility for Immunisation's (IFFIm) Aa1 long-term and Prime-1 short-term issuer ratings reflect credit strengths arising from (1) the firm commitment of the donor governments to make payments to IFFIm on specified dates over periods of up to 20 years; (2) the track record of adherence to gearing and liquidity policies; and (3) the involvement of the International Bank for Reconstruction and Development (IBRD or World Bank) as Treasury Manager to carry out its financial and risk management functions. These considerations are partially offset by credit challenges arising from (1) the concentration of donor pledges; (2) high correlation in credit risk among euro area donors combined with protracted euro area instability; and (3) the possibility of a large number of recipient countries going into arrears with the International Monetary Fund (IMF).

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. In addition to the legally binding nature of pledges, we assess donors' overall commitment to IFFIm to be very strong given their ability and willingness to honour pledges. Using government bond ratings as a proxy of ability, the weighted median government bond rating of donors is Aa1. Reinforcing this robust ability is donors' very strong willingness to honour pledges based on IFFIm's success in fulfilling its mandate to accelerate and facilitate funding for immunisations carried out by the GAVI Alliance (GAVI) and help the international community achieve the United Nations' Millennium Development Goals. As a result, we assess there to be a low likelihood of a donor breaking a pledge contract. In addition, IFFIm's gearing ratio and liquidity policy provide a financial cushion against adverse developments in the full and timely receipt of donor payments.

A key source of credit strength for IFFIm is the IBRD's role as the Treasury Manager to help establish prudent financial policies, effectively monitor the underlying risks, and make adjustments when necessary. As an innovation in financing, IFFIm started as an untested structure. The IBRD's capacity, experience, and proven track record of timely debt servicing adds institutional strength to the structure.

THIS REPORT WAS REPUBLISHED ON 10 DECEMBER 2013 WITH A CORRECTED VALUE ON PAGE 3.

In addition to a donor failing to comply with its pledge contract, donors' scheduled pledge payments can be reduced by the high-level financing condition, which systematically and automatically reduces scheduled payments when grant recipient countries are in arrears with the IMF. To ensure that there are sufficient funds to repay bondholders, IFFIm monitors and limits its indebtedness through the gearing ratio[1] and adheres to a liquidity policy that requires liquid assets to equal one year's debt service. Current data from IFFIm puts the actual gearing ratio at 45% and liquid assets at 1.2x the prudential minimum.

The concentration of donor pledges, especially regarding the UK's roughly 50% share, is a credit weakness as it exposes IFFIm to a material loss of incoming payments based on the creditworthiness of one donor. Further significant concentration results from our belief that there is correlation among three of IFFIm's euro area donors: France, Italy, and Spain pledge 26.8%, 8.6%, and 3.0%, respectively, of the remaining donor payments. As a result of our correlation assumption, we consider these three sovereigns' combined 38.4% of remaining pledges to be a concentration risk. Therefore, IFFIm's donor structure is 89.7% concentrated around two donors, the UK and France, both rated Aa1. France's rating maintains a negative outlook due to the protracted euro area instability, as does Italy's rating.

In assessing the credit risk profile of IFFIm, a highly rated entity, we consider its resilience to stress scenarios that would seriously undermine the capacity of its sovereign donors to fulfil their commitments to it. The European instability marginally increases the likelihood of such an extreme scenario materialising. We do not consider the 45% gearing position to be a substantial enough solvency buffer to absorb the increased event risk represented by the deterioration, and potential further deterioration, in creditworthiness of IFFIm's largest donors.

IFFIm has four donors with a Aaa rating (the Netherlands, which has a negative outlook, and Australia, Norway, and Sweden which have stable outlooks), and there is an exceptionally low chance that these four sovereigns would renege on their commitments to IFFIm. However, as there is no additional legal requirement for the donors to support IFFIm above and beyond their individual contractual commitments, we do not consider the strength of the four remaining Aaa-rated donors as a rationale for IFFIm's rating exceeding those of the UK and France.

The negative outlook on IFFIm's long-term rating reflects the continuing euro area instability. The deterioration in creditworthiness of IFFIm's largest euro area sovereign donors indicates a marginal reduction in the certainty that these sovereigns will fulfil their financial obligations, which, among other things, could negatively affect IFFIm's market access.

Given that IFFIm does not have paid-in capital, its structure is dependent on market access in order to obtain the funds with which to operate. As a result of front-loading bond issuance at the start of its operations and a relatively shorter-term maturity structure of its debt (around four to five years), it is essential that IFFIm retains access to markets in order to service its debt, including for refinancing. Whilst IFFIm has not experienced funding stress to date, and has maintained strong market access during the global financial crisis and throughout the prolonged euro area instability, we consider there to be non-negligible refinancing risk if a tail risk event were to occur. Namely, should one of the sovereign donors renege on its commitment to IFFIm, it is possible that IFFIm's market access could be negatively affected. While its liquidity policy protects bondholders for one year, should IFFIm be unable to regain market access quickly enough to refinance the following years' debt service, bondholders could face a loss after the liquid funds and other resources were exhausted.

[1] Ratio of net debt to the present value of remaining donor pledge payments.

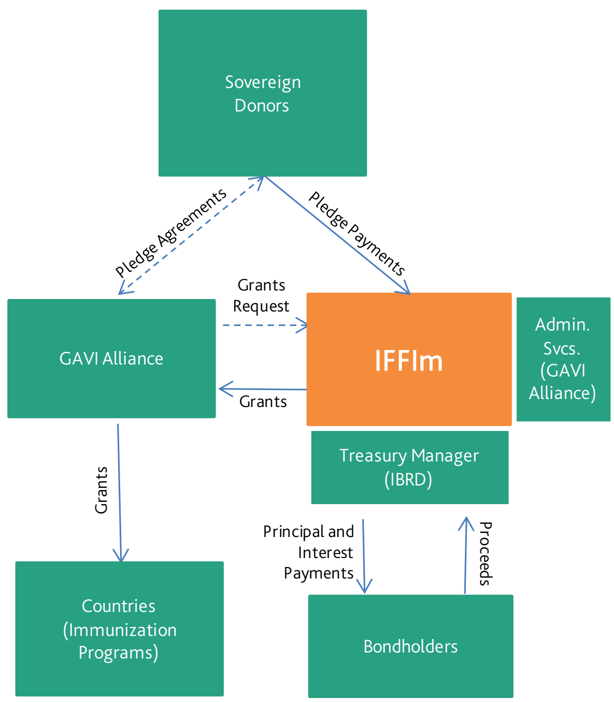
Organisational Structure

IFFIm is a multilateral development institution,[2] which was created in 2006 as a financing tool to accelerate and facilitate funding for immunisations carried out by GAVI[3] 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.[4] IFFIm has no employees and therefore receives administrative support from GAVI. Moreover, the 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 grants 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



[2] The Basel Committee on Banking Supervision's Newsletter No. 10 in October 2006 stated that supervisors may allow banks to apply a 0% risk weight to claims on IFFIm in a similar way as a multilateral development bank, in accordance with paragraph 59 of the document *International Convergence of Capital Measurement and Capital Standards, A Revised Framework*, June 2004 (Basel II Framework).

[3] A charity established in 2000. As a public-private partnership, GAVI's donors are governments, corporations, foundations and private individuals.

[4] The world's poorest countries are defined as those with per capita GNI of less than $1,550. GAVI currently supports 73 countries and 56 of those countries are 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.

Since grants bear no credit risk, our analysis of IFFIm is different from the analysis of other supranationals in which loan portfolio quality is integral. Instead, we focus on the risks, and management of risks, associated with reductions in donors' scheduled payments, which could affect IFFIm's ability to service debt.

Sovereign Donors

Sovereign commitments to GAVI are legally valid, binding and enforceable payment obligations. The six original donor governments to IFFIm were the UK, France, Italy, Norway, Spain, and Sweden. Since inception, four donors pledged additional amounts and three new donors finalised pledges. In 2011, Brazil pledged the equivalent of $20 million over 20 years; a grant agreement is pending. Exhibit 2 breaks down the $6.3 billion in total original commitments.

EXHIBIT 2

Sovereign Donors and Pledges as of December 2013

			Original Pledge				
	Date		Time Period (Years)	Amount ($ mil)	Share of Total (%)	Share of Remaining Pledges 2014-2030 (%)	Rating** as of Dec 6, 2013
United Kingdom	Oct 2006	*	23	2,980	47.6	51.3	Aa1/stable
France	Oct 2006	*	20	1,719	27.4	26.8	Aa1/negative
Italy	Oct 2006	*	20	635	10.1	8.6	Baa2/negative
Norway	Oct 2006	*	15	264	4.2	3.4	Aaa/stable
Australia	June 2011		20	256	4.1	5.0	Aaa/stable
Spain	Oct 2006		20	240	3.8	3.0	Baa3/stable
Netherlands	Dec 2009		8	114	1.8	1.2	Aaa/negative
Sweden	Oct 2006		15	38	0.6	0.4	Aaa/stable
South Africa	Mar 2007		20	20	0.3	0.3	Baa1/negative
				6,266			

* Additional pledge made by UK in August 2010; France in December 2007; Italy in November 2011; Norway in August 2010.

** Government bond rating

Source: IFFIm and Moody's

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 and the total pledged amount reaches the target figure of $7.0 billion.

Overall, however, the concentration, especially the UK's almost 50% share, is a credit weakness as it exposes IFFIm to a material loss of incoming payments based on the creditworthiness of one donor. In addition, there is a high correlation in credit risk of four donors, France, Italy, Spain, and the Netherlands, who are all members of the euro area. This is 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,[5] whose ratings have been downgraded during the past few years, could be expected to exhibit a high correlation in their credit standings and behaviour

[5] This list excludes the Netherlands because it is rated higher at Aaa.

towards their IFFIm commitment, which would put 38.4% of IFFIm's remaining payments[6] at risk in extreme stress scenarios.

This is partially mitigated by 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. These factors are discussed in detail in the remainder of this report.

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 eligible for GAVI programmes 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. 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.

Small Portion of Donor Payments Released after South Sudan joins 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 that 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 beneficial.

Donor Commitment

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.

[6] France, Spain, and Italy's original total pledges comprised 41.4% of the total pledges over IFFIm's full life.

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.

Legality of Pledges Underscores Strong Donor Commitment

Each donor signs an unconditional and irrevocable grant agreement with GAVI, which specifies the total commitment and the payment schedule. Each grant agreement is supported by a legal opinion stating that it is indeed legal, valid, binding, and enforceable.

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 more than 50% of remaining pledges, this calculation is largely determined by the UK's bond rating, which was changed from Aaa to Aa1 in February 2013. In addition, several other donors' creditworthiness have 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 £650,000 million in 2012). 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 immunization 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 are 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've 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 2006-2012, IFFIm funded 47.5% of GAVI's disbursements for immunization programmes, or $2.19 billion out of $4.61 billion, enabling GAVI to almost double its programmatic expenditure.

Treasury Operations and Risk Management

One of IFFIm's key credit strengths is its very strong treasury management services conducted by the IBRD, which follows very prudent debt and liquidity guidelines.

World Bank Involvement 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 donor's 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[7] 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 is for one year from July 2013 through June 2014, in line with the IBRD's current fiscal year and with the possibility of annual renewal.

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

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 added, 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 as 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.

Gearing Ratio and Limit Conservatively Manages Solvency

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 net debt/present value of donor pledges.[8] At end-2012, this ratio was 43.2% and had increased further to 45.0% by October 2013. The ratio has increased from 20.0% at end-2006 and will continue to increase to close to the guiding limit of around 57% (including the 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[9] 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 some risk that

8 Debt is net of cash holdings.

9 Net of cash holdings.

donors' payments will fall short of the committed amount. However, given the heavy concentration of donors' pledges, we do not believe the Gearing Ratio Limit is sufficient to delink IFFIm's creditworthiness from its donors' creditworthiness.

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 GAVI-eligible countries 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. 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.

The IMF no longer has exposure to Vietnam or Laos, as of 2012 and 2013, respectively. Vietnam is a 3%-reduction country while Laos is a 1%-reduction country. Unless and until the IMF builds exposure to Vietnam and Laos again, IFFIm has no reduction risk stemming from them. Both countries remain in the list of reference countries for the grant payment condition.

In our view, the strength of the gearing ratio limit is not only a function of how well the risks are modelled in order to set the limit, but a function 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

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 as it would ensure the ability to service debt for one year in the unlikely event that IFFIm loses market access and is unable to rollover existing debt.

IFFIm has consistently held more liquid assets than the prudential minimum set by the policy. At the end of 2012, the prudential minimum was $419 million while holdings were $547 million. The position in November 2013 remains strong with liquid assets equalling 1.2x the prudential minimum.

For the five-year period 2008-12, the actual liquid asset holdings were on average 2.8x greater than the prudential minimum.

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

» Local-currency government obligations carry no rating minimum

» 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 49% of IFFIm's liquid assets portfolio is invested in sovereign bonds; about 15% of the total portfolio is invested in emerging market sovereign bonds, with no holdings having a rating below Baa. Euro area exposure (both sovereign and bank) is low and primarily to Germany, with some investments in France and the Netherlands. There is no exposure to the peripheral euro area.

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 nine months and the average maturity of deposits being one month.

Borrowing programme

IFFIm's borrowing programme can be characterised as modest in size and diversified, given its size. By end-June 2013, total bond issuance since inception amounted to $4.5 billion[10] with most of that issued in 2006, 2009, 2010, and 2013 (roughly $1 billion each year). The 2014 borrowing programme is expected to be smaller at around $310 million.

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 organisation has returned to this market repeatedly. During 2013, as a part of its goal to diversify funding, IFFIm issued its first US dollar floating rate note benchmark bond in addition to further issuances in the Uridashi market. It attracted new investors with one-third of them coming from Europe (primarily asset managers and central banks). In order to hedge currency and interest-rate risk, all bonds are swapped at issuance into US dollar floating rate.

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 throughout the ongoing European sovereign debt crisis. In fact, during the third quarter of 2011, amid euro area sovereign financial stress (which affected two of IFFIm's donors, Spain and Italy) IFFIm's spreads tightened. This

[10] As compared to approximately $1.3 billion paid in so far from donors' pledges, which exemplifies IFFIm's structure to frontload bond issuance now based on long-term donor pledges paid in over time.

compared favourably to other European supranationals and can be largely attributed to the reputational benefits of having the World Bank as its Treasury Manager. 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.

Rating History

International Finance Facility for Immunisation

	Issuer Rating				
	Long-term	Short-term	Senior unsecured	Outlook	Date
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)

	2006 [1]	2007	2008	2009	2010	2011	2012
ASSETS							
Cash	499	667	392	772	2,442	692	549
Funds held in trust	498,682	96,520	145,362	1,082,285	1,565,302	850,958	546,648
Prepayments	498	469	442	396	424	272	337
Derivative financial instruments	**0**	**0**	**40,667**	**326,648**	**460,740**	**269,107**	**133,239**
o/w due within one year						171,778	17,535
o/w due after more than one year						97,329	115,704
Sovereign pledges	**2,149,262**	**2,976,828**	**2,741,183**	**2,882,103**	**3,171,579**	**3,403,937**	**3,562,142**
o/w due within one year	60,209	127,048	130,706	150,424	163,588	211,286	235,081
o/w due after more than one year	2,089,052	2,849,780	2,610,477	2,731,679	3,007,991	3,192,651	3,327,061
TOTAL ASSETS	**2,648,940**	**3,074,485**	**2,928,045**	**4,292,204**	**5,200,487**	**4,524,966**	**4,242,915**
LIABILITIES							
Creditors	**1,010,483**	**1,045,846**	**1,268,177**	**2,612,749**	**3,409,978**	**2,575,615**	**1,959,716**
o/w falling due within one year	3,525	2,768	12,691	267,490	1,079,932	766,565	420,567
o/w falling due after more than one year	1,006,958	1,043,078	1,255,486	2,345,259	2,330,046	1,809,050	1,539,149
Grants payable to GAVI Fund Affiliate	**336,341**	**94,125**	**146,606**	**437,064**	**517,064**	**417,064**	**707,064**
o/w within one year						417,064	200,000
o/w after more than one year						0	507,064
Derivative financial instruments	71,965	106,762	0	305,048	320,270	755,794	1,145,828
o/w due within one year						2,023	24,518
o/w due after more than one year						753,771	1,121,310
TOTAL LIABILITIES	**1,418,788**	**1,246,733**	**1,414,783**	**3,354,861**	**4,247,312**	**3,748,473**	**3,812,608**
NET ASSETS/RESTRICTED FUNDS	**1,230,152**	**1,827,752**	**1,513,262**	**937,343**	**953,175**	**776,493**	**430,307**
TOTAL LIABILITIES AND RESTRICTED FUNDS	**2,648,940**	**3,074,485**	**2,928,045**	**4,292,204**	**5,200,487**	**4,524,966**	**4,242,915**

[1] IFFIm was incorporated on 26 June 2006.

Income Statement (US$ thousands)

	2006 [1]	2007	2008	2009	2010	2011	2012
INCOME							
Contribution revenue	2,109,970	679,709	0	87,137	401,608	144,137	0
Donated services	1,084	105	171	842	835	820	974
Investment and interest income	3,602	16,675	4,501	10,773	5,670	8,046	6,282
TOTAL INCOME	**2,114,656**	**696,488**	**4,672**	**98,752**	**408,113**	**153,003**	**7,256**
EXPENSES							
Programme grants to GAVI	861,090	186,053	325,120	620,485	400,000	200,000	390,000
Treasury manager's fees	1,903	1,298	1,779	1,965	2,212	2,569	2,377
Governance costs	1,595	2,160	2,786	2,985	2,934	2,749	2,997
Interest on bonds	8,141	50,000	65,344	110,554	132,437	166,399	103,947
Other financing charges	--	245	3,877	8,091	6,586	4,209	629
TOTAL EXPENSES	**872,729**	**239,756**	**398,906**	**744,080**	**544,169**	**375,926**	**499,950**
SURPLUS BEFORE FAIR VALUE	**1,241,928**	**456,732**	**-394,234**	**-645,328**	**-136,056**	**-222,923**	**-492,694**
FAIR VALUE GAINS (LOSSES)							
Net fair value gains (losses)	-11,924	140,405	78,688	70,664	150,663	43,736	146,068
On pledges and pledge swaps	-10,442	140,322	23,567	-9,522	18,074	-130,291	54,084
On bonds and bond swaps	-1,481	83	55,121	80,186	132,589	174,027	91,984
Other unrealised FX gains	148	463	1,057	-1,255	940	1,068	440
On interest rate overlay swap	--	--	--	--	285	1,437	0
TOTAL FAIR VALUE GAINS (LOSSES)	**-11,776**	**140,868**	**79,745**	**69,409**	**151,888**	**46,241**	**146,508**
SURPLUS (DEFICIT) FOR YEAR	**1,230,152**	**597,600**	**-314,489**	**-575,919**	**15,832**	**-176,682**	**-346,186**

[1] IFFIm was incorporated on 26 June 2006.

Financial Ratios

	2006 [1]	2007	2008	2009	2010	2011	2012
LIQUIDITY (%)							
Liquid assets/total assets	18.8	3.2	5.0	25.2	30.1	18.8	12.9
Liquid assets/total liabilities	35.2	7.8	10.3	32.3	36.9	22.7	14.4
Liquid assets/debt	49.4	9.3	11.5	41.5	46.0	33.1	27.9
Liquid assets/prudential minimum (X) [2]	12.5	2.0	5.1	4.6	1.6	1.4	1.3
CAPITAL ADEQUACY (%)							
Sovereign pledges due after more than one year/ Financial liabilities falling due after more than one year	207.5	273.2	207.9	116.5	129.1	176.5	216.2
Restricted funds/grants payable to GAVI	365.7	1941.8	1032.2	214.5	184.3	186.2	60.9
Gearing ratio [3]	20.0	35.5	33.1	40.9	40.6	44.0	43.2

Notes:

[1] IFFIm was incorporated on 26 June 2006.

[2] IFFIm maintains a prudential minimum level of liquidity equivalent to its cumulative contracted debt service payments for the next twelve months.

[3] Net debt as percent of the present value of donor pledges; guiding maximum is around 57%.

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Websites

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» IFFIm: www.iffim.org

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