MOODY'S
INVESTORS SERVICE

Announcement: Moody's affirms Aaa rating for International Finance Facility for Immunisation; outlook stable

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New York, June 06, 2012 -- Moody's Investors Service has today affirmed the Aaa long-term issuer rating and P-1 short-term issuer rating of the International Finance Facility for Immunisation (IFFIm). The outlook remains stable.

The key drivers of the affirmation are: 1) the legal framework mandating adherence to IFFIm's risk-management policies, namely its gearing ratio limit and liquidity policy, which provide a cushion against deterioration in the credit quality of its sovereign donors and is managed by the International Bank for Reconstruction and Development; and 2) the demonstrated continuing support for IFFIm and its charitable mandate by its sovereign donors.

RATING RATIONALE

The main driver underlying Moody's decision to affirm IFFIm's Aaa rating despite negative developments in the ratings of its donor governments is the presence and quality of the active risk-management function. IFFIm is a financing facility whose purpose is to accelerate and facilitate funding for immunization programs carried out by the GAVI Alliance (GAVI) in the world's poorest countries. IFFIm issues bonds to provide up to USD 4 billion to finance GAVI programs, and sovereign donor payments are used to repay the bonds. Although the amount and timing of donor payments are predetermined and outlined in legally binding grant agreements, the amounts and maturities of bonds issued are set according to the recommendation of the treasury manager, which has been, from inception, the International Bank for Reconstruction and Development (IBRD). Its risk-management function means that IFFIm is not a straight pass-through facility, and that there is a cushion sufficient to absorb a substantial shortfall if sovereign donor pledges are not fulfilled. IFFIm's Aaa rating is therefore resilient to a one-notch downgrade of the rating of either of its two largest sovereign donors, the UK and France.

Important in Moody's consideration of the risk-management function is the quality of the manager. The IBRD (Aaa stable) is considered to have sufficient capacity and resources of high enough quality to be able to conduct a similar function for IFFIm, which operates on a much smaller scale. The risk-management function is therefore adequate to create some distance between IFFIm's rating and the ratings of its sovereign donors. While IFFIm's rating is strongly connected to the ratings of its sovereign donors, it is not directly tied to them. On 3 February 2012, Moody's took action on several European sovereigns that are IFFIm donors: the outlook on the Aaa ratings of the UK and France was changed to negative and the ratings of Spain and Italy were downgraded to A3, with a continuing negative outlook. The deterioration in the creditworthiness of these sovereign donors was not significant enough to render the financial cushion inadequate to absorb a shortfall in their pledges consistent with a Aaa expected loss on IFFIm bonds.

The financial cushion is determined by IFFIm's gearing ratio limit and liquidity policy. The IBRD is responsible for monitoring and managing IFFIm's cash flows in accordance with these policies, as specified in the Treasury Management Agreement and the Finance Framework Agreement. The gearing ratio limit model is a solvency model that extends over IFFIm's life; it establishes a limit on the ratio of net debt to the present value of sovereign donor pledges, and has stood at about 70% since IFFIm's inception (compared with the actual level of 41.2%).

The cushion is maintained at a level to be able to absorb a significant shortfall in donor pledges arising from the Grant Payment Condition, whereby sovereign donor pledge payments are reduced by a specified amount (1%, 3% or 5%) if a recipient country of GAVI immunization programs goes into protracted arrears with the IMF. GAVI's programs are carried out in the world's poorest countries, whose creditworthiness is significantly weaker than that of the donor countries. However, Moody's notes that there has been a low level of IMF protracted arrears for many years, and currently only three 1%-reduction countries are in arrears. The result is that the approximately 30% gearing cushion can absorb increases in risk from a deterioration in a donor's creditworthiness, given the very high levels at which they started (only one donor did not have a Aaa rating with a stable outlook at the time of IFFIm's inception). While the rating downgrades of some of the donors may appear to imply a significant increase in the risk that donor pledges may fall short, it is Moody's opinion that the gearing cushion remains sufficient to absorb the increased risk commensurate with a top-notch Aaa rating. The weighted median rating (weighted by share of total sovereign pledges and based on the probability of default associated with the rating) of all sovereign donors remains at Aaa, but would fall to Aa1 if all donors that currently have a negative outlook were downgraded by one notch.

Supporting this assessment is the strength of the gearing ratio limit mandate, as specified in the legal framework for IFFIm's operations. IFFIm and the treasury manager are required to adhere to the gearing limit and the treasury manager has the flexibility to manage cash flows in order to maintain adherence. Bond issuance or grant disbursements to GAVI that would cause IFFIm to breach the gearing ratio limit must be resized or put on hold until such time that the limit will not be breached. The current gearing ratio level of 41.2% indicates that there is room to manage the limit well in advance of the limit coming close to being met.

Moody's notes the importance of the liquidity policy that requires IFFIm to hold a rolling 12 months of debt service (both interest and principal payments) in liquid assets. IFFIm's structure is dependent on its ability to access the bond markets. The sovereign donor pledges are paid in small annual installments that, while the total annual amount is sufficient to cover interest payments, are not sufficient to cover both interest and bond repayment in any given year. However, since inception, IFFIm's market access has been uninterrupted and its rates are very close to those at which the IBRD itself borrows. In 2011, during the significant turmoil among European sovereigns, including IFFIm's donors, IFFIm maintained market access at affordable rates. In this way, it benefits from treasury representation by the IBRD, a frequent and large issuer on the international bond markets for several decades. Given this association, Moody's deems the 12 months liquidity policy as sufficient to maintain debt service while working out alternative funding sources at sustainable rates in the unlikely scenario that IFFIm is completely cut off from the bond markets.

The other key driver in the decision to affirm IFFIm's Aaa rating with a stable outlook is the sovereign donors' continuing and demonstrated support for IFFIm and its charitable mandate. Spain and Italy, the donors whose ratings have recently come under the most pressure, have continued to make scheduled pledge payments on a timely basis. Furthermore, in 2011, Italy pledged, signed the legal agreement and began making payments on a new contribution to IFFIm. The UK subsequently pledged to match Italy's new pledge, and is currently finalizing the relevant legal documentation. In addition, Australia (Aaa stable) became a donor in June 2011. Given the charitable mandate and the role that IFFIm and GAVI are playing in the UN Millenium Development Goal Target Four, Moody's deems it unlikely that a sovereign donor will fail to meet its pledge payments. Supporting this is the legally binding, enforceable, unconditional and irrevocable status of the pledge payments, as well as the affordability of the annual installments. In addition, while there is no legal mandate to do so, Moody's believes it likely that the other sovereign donors would make up the shortfall if one fails to meet its obligations.

WHAT COULD MOVE THE RATING DOWN

IFFIm's rating could come under downward pressure if there were continued and substantial deterioration in the creditworthiness of the sovereign donors (as reflected by a change in Moody's ratings of these donors). In this context, IFFIm's rating is sensitive to changes in the rating of its largest donor, the UK. If the UK were to experience a rating downgrade with a continuing negative outlook, Moody's would re-evaluate the adequacy of the gearing ratio limit model to absorb the increased risk of a shortfall in sovereign donor pledge payments.

IFFIm's rating would also come under downward pressure if the gearing ratio limit were to weaken. This could happen if IFFIm changed the treasury manager to an institution not considered to have the necessary capacity and resources to conduct the risk-management function. Or if the legal framework guiding IFFIm's financial decisions were amended in a manner that weakened the mandate to adhere to the gearing ratio limit or the cash flow flexibility in order to facilitate adherence to the limit.

METHODOLOGY

IFFIm's ratings were assigned by evaluating factors that Moody's considers relevant to the credit profile of the issuer, such as the company's (i) business risk and competitive position compared with others within the industry; (ii) capital structure and financial risk; (iii) projected performance over the near to intermediate term; and (iv) management's track record and tolerance for risk. Moody's compared these attributes against other issuers both within and outside IFFIm's core industry and believes IFFIm's ratings are comparable to those of other issuers with similar credit risk.

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