MOODY'S RATINGS

Rating Action: Moody's Ratings assigns Aaa first-time rating to the International Finance Facility for Education, with a stable outlook

09 Aug 2024

New York, August 09, 2024 -- Moody's Ratings (Moody's) has today assigned for the first-time a Aaa long-term foreign currency issuer rating to the International Finance Facility for Education (IFFEd). The outlook is stable.

IFFEd's Aaa issuer rating reflects the following key assessments:

1. Robust capital adequacy, reflecting a strong capital position as IFFEd's guarantee commitments will not exceed its useable equity cushion. Its asset quality and asset performance will benefit from the guarantee recipient multilateral development banks' (MDBs) preferred creditor status.

2. High liquidity buffers, supported by IFFEd's contractual ability to request additional capital from its sovereign donors in case of need. IFFEd will not borrow.

3. Strong support from highly-rated sovereign contributors and their commitment to IFFEd because of its mission and innovative financing approach to support MDBs' education loans.

The stable outlook reflects our expectation that IFFEd will maintain its strong capital buffers to ensure a strong coverage of its guarantee commitments as it extends guarantees to the participating MDBs. We also expect that in an unlikely scenario where it would need to call on the contingent capital from its contributors, these governments will provide the required resources in a timely basis as established in the legal agreements.

IFFEd is an independent non-profit foundation established under the domestic laws and jurisdiction of Switzerland. IFFEd seeks to increase the quality and quantity of support of MDBs to the education systems of lower-middle-income countries (LMICs). It aims to achieve this mainly by providing partial first-loss portfolio guarantees to participating MDBs – initially the African Development Bank (Aaa stable) and the Asian Development Bank (Aaa stable) and potentially a larger group of MDBs within the next few years – which in turn allows these MDBs to provide more loans specifically for education projects in LMICs. In addition, IFFEd can provide grants to the MDBs with the purpose of lowering the cost of eligible education projects. IFFEd's guarantees/grants are backed/funded by contributions from the governments of the United Kingdom (Aa3 stable), Sweden (Aaa stable), and Canada (Aaa stable) and IFFEd expects a larger group of contributors over the next few years.

RATINGS RATIONALE

ROBUST CAPITAL ADEQUACY WITH LOW LEVERAGE AND STRONG ASSET PERFORMANCE

IFFEd's capital adequacy will be very strong, supported by low leverage under our definition (development related assets to equity) – as stated in the IFFEd's foundational documents – that will remain below 100% over the coming years. IFFEd's guarantees will be fully covered by the paid-in capital that is provided by its contributors ($18 million from the UK and $22 million from Canada) and the contingent capital that is backed by legal agreements with these sovereigns. Initially, IFFEd will have a contingent contribution agreement with the UK's Foreign, Commonwealth and Development Office for $102 million and a guarantee agreement from the Swedish International Development Cooperation Agency for $200 million. We consider these facilities as similar to paid-in equity in our calculations of useable equity, based on the structure of the legal agreements and the short timeline in which contributors would have to provide additional capital, in a situation where IFFEd's cash buffer drops below covering 10% of its total outstanding guarantees. In such circumstances, the additional paid-in equity provided would bring the cash buffer back to 15% of IFFEd's total outstanding guarantees. Moreover, as also stated in the IFFEd's foundational documents, IFFEd will not incur any indebtedness.

Meanwhile, its development asset credit quality will be moderate, in line with the credit quality of the participating MDBs. While the ultimate borrowers from the MDBs tend to have a low credit quality (likely with a weighted average borrower rating in the B-category), IFFEd will indirectly benefit from the MDBs' preferred creditor status. Also, we expect IFFEd's portfolio of guarantees to be well diversified as its guarantees cover loans and guarantees to sovereigns from all around the world. This will also benefit IFFEd's asset performance, and inform our expectation that IFFEd's non-performing assets (i.e., guarantees called) will be low relative to its total development-related assets and that, as evidenced by past events at MDBs, the level of collections on any defaulted loans and guarantees that IFFEd guarantees will be for the full nominal amounts of pay-outs.

HIGH LIQUIDITY BUFFERS AND NO BORROWING

In terms of liquidity, we expect that IFFEd will maintain a strong buffer to cover its net outflows, including potential guarantee calls, even in a stress scenario. This is further bolstered by the nature of its contingent capital agreements, which would provide additional liquid resources should the coverage of its cash buffer decline below 10% of its total guarantees. At the same time, we assume a moderate quality of funding given IFFEd's business model that does not require the issuance of any debt.

STRONG SUPPORT FROM GROUP OF HIGHLY-RATED CONTRIBUTORS

Regarding strength of member support, based on the credit quality of its initial contributors, IFFEd's initial weighted average shareholder rating is Aa1, among the highest of rated MDBs. We expect any potential additional contributors to also be highly rated, ensuring that the ability of members to provide support to IFFEd will remain high. Although IFFEd does not benefit from additional contractual support as we count its contingent capital as equity, we consider that its contributors display a high propensity to support the entity both because of the legal nature of their agreements to promptly provide it with additional resources if needed and because of the contributors' commitment to IFFEd because of its mission and innovative financial approach to support MDBs' education loans. This is exemplified by the fact that Sida's $200 million guarantee to IFFEd is one of the Swedish institution's largest to date.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects our expectation that IFFEd will maintain ample capital and liquidity buffers to support the guarantees it will provide. This will be supported by the capital adequacy, liquidity and risk appetite policies that have been put in place that will help ensure that IFFEd's financial metrics remain robust relative to other highly-rated supranational peers. We also expect that in an adverse scenario where IFFEd is forced to trigger the top-up event clause of its contingent capital agreements, the contributors will make their payments in a timely manner, thus ensuring that IFFEd will be able to fulfill its guarantee commitments.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

IFFEd's credit impact score of CIS-2 reflects the limited exposure of its credit profile to environmental and social risks, and our expectation that its governance will be robust and aligned with the high standards that characterize multilateral development banks.

The E-2 score points to an exposure to environmental risks that is limited because of IFFEd's highly diversified guarantee portfolio, as its guarantees will cover other multilateral development banks' loans to sovereigns in various regions across the world.

IFFEd's S-2 score reflects limited exposure to social risks. IFFEd's mission to bolster the financing of education-related projects by other multilateral development banks leads to a positive exposure to demographic and societal trends. The entity's innovative way to support this additional financing for education-related loans has led to strong support provided by its original contributing governments and will also help secure additional contributions in the coming years, which in turn will help IFFEd expand its mandate.

The governance issuer profile score of G-2 is supported by a prudent risk management framework that will allow IFFEd to ensure that it will be able to fulfill its guarantee commitments. Over time, we expect that IFFEd will build a track record of credible risk management that will also support its developmental mission and strong financial standing.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

IFFEd's long-term issuer rating is Aaa, which is already at the top of our rating scale. An upgrade to a higher rating is therefore not possible.

Downward pressure would emerge if IFFEd's capital and liquidity metrics seemed increasingly likely to deteriorate beyond the established policy limits, thus making it more difficult for the entity to fulfill its guarantee commitments. Additional negative pressure would emerge if the contributing governments delayed the payment of their agreed contingent capital contributions beyond the periods established in their legal agreements with IFFEd.

The principal methodology used in this rating was Multilateral Development Banks and Other Supranational Entities published in February 2024 and available at https://ratings.moodys.com/rmc-documents/414557 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

This rating is solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Renzo Merino
Vice President - Senior Analyst
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Mauro Leos
Associate Managing Director
Sovereign Risk Group
JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

© 2024 Moody’s Corporation, Moody’s Investors Service, Inc., Moody’s Analytics, Inc. and/or their licensors and affiliates (collectively, “MOODY’S”). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY’S (COLLECTIVELY, “PUBLICATIONS”) MAY INCLUDE SUCH CURRENT OPINIONS. MOODY’S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY’S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY’S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS (“ASSESSMENTS”), AND OTHER OPINIONS INCLUDED IN MOODY’S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY’S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY’S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE

SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is

advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.