

THE GLOBAL FUND ANNUAL REPORT 2012



The Global Fund
To Fight AIDS, Tuberculosis and Malaria



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LETTER FROM THE CHAIR AND VICE-CHAIR OF THE BOARD

THE GLOBAL FUND MARKED ITS TENTH ANNIVERSARY IN 2012

It represented a decade of remarkable success in the fight against the three diseases with a dramatic expansion of programs that prevent, treat and provide care for people with HIV and AIDS, tuberculosis and malaria.

Few would have imagined back in 2002 that we would have been able to so successfully save millions of lives and prevent millions of infections and that we would bend the curve by halting and reversing the spread of each of these diseases. In last year's annual report we wrote that 2011 was a pivotal year for the organization, a turning point to build on past successes and reshape the Global Fund for the challenges ahead. Throughout 2012 we set about putting in place the changes we needed to implement our ambitious strategy. We have built a firm foundation to implement our new business model and raise the money we need to defeat the three diseases.

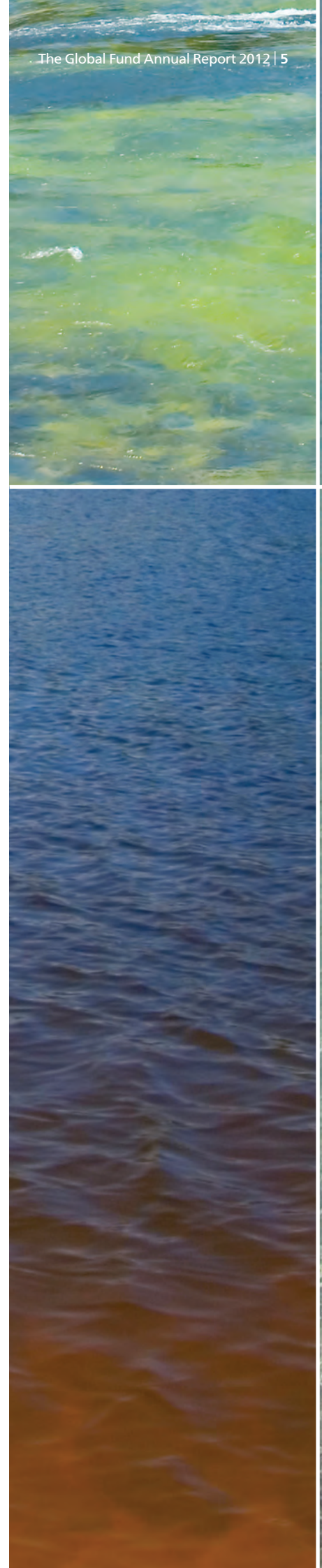
The Board set itself six priorities in 2012. The first was to oversee, under the direction of the newly appointed General Manager Gabriel Jaramillo, a transformation in the Secretariat. Mr Jaramillo was brought in by the Board to rebuild the confidence of donors and implementers alike by re-focusing the Global Fund on its core business, grant making.

In recognition that timely disbursement of funds and effective country partnerships are key to success, seventy-five percent of staff are now focused on grant management and related areas - up from less than fifty percent a year ago. There is a new senior management team in place, including a Chief Financial Officer with extensive experience in the private sector and, for the first time, a Treasurer to bring expert focus on how we manage our financial resources; a leading Communications expert; a Chief Risk Officer and a highly experienced new Head of Human Resources. Together with the newly appointed Executive Director, Mark Dybul, we are confident that this team provides excellent leadership to boldly and ably lead the Global Fund over the coming years.

Second, the Board needed to agree a new funding and business model that allocates financial resources based on need (burden of disease and ability to pay). This new business model would allow the Global Fund to deliver on key objectives around investing more strategically for impact, evolving the funding model and managing for success. Under the new funding model, countries truly function as a partner of the Global Fund. The rounds-based approach is no longer used. Instead, countries apply for funding in accordance with the timing that is best for them, and rather than submitting an application that has about the same prospect of being recommended for funding than not, the application process is approached as a dialogue between the Global Fund and country level partners. The full application, technical review and approval process is far more iterative to ensure that funds are utilized for strategic interventions that appropriately reflect value for money at country level.

The implementation of the new funding model has required that the Global Fund continue to work in a more collaborative and systematic way with all its partners. In this regard, a series of "disease committees" were set up at the Secretariat where experts in the three diseases come together and discuss opportunities to achieve greater impact. These discussions will further ensure that the Global Fund invests as strategically as possible to continue to maximize results in the fights against the three diseases.

It is still too early to tell how successful the new model will be. We are confident however, that working even more closely with countries and technical partners will both maximize the impact of investments and increase success rates. We will engage all country partners to be sure that



the Global Fund is easier to work with, better aligned with country priorities and working effectively with and through all its partners.

Third, 2012 was also a year of transition for the Board. In cementing the changes adopted through our governance reform in 2011, we put in place three newly formed committees. Our Strategy, Investment and Impact Committee is focused on providing oversight of the strategic direction of the Global Fund; and ensuring that we maximize our impact and the performance of the Global Fund's investments in health. The Finance and Operational Performance Committee oversees the financial management of Global Fund resources; and ensures optimal performance in the operations and corporate management of the Secretariat. Finally we have put in place an Audit and Ethics Committee that, in accordance with best practice, is composed of constituency-affiliated and a majority of external independent members. This committee is responsible for providing oversight of the internal and external assurance and investigation functions of the Global Fund, and the adherence by the Global Fund and its grant programs to appropriate standards of ethical behavior. These three committees met frequently in 2012 and their work is coordinated through routine meetings of the committee leadership. We are confident that this new committee structure will serve us well as we move forward implementing grants under the new strategy.

Fourth, we appointed a new Executive Director, Mark Dybul, in November 2012. The Board was presented with four exceptional candidates to choose from after a worldwide search. Through a rigorous and merit-based deliberative process the Board chose Mark to lead the Global Fund

in its next phase of development. Mark comes with excellent credentials, is well known in the global health community and has years of experience and expertise that will undoubtedly serve the Global Fund extremely well.

Fifth, the Board decided to change the leadership of the Office of the Inspector General. In December 2012 we welcomed Norbert Hauser as our interim Inspector General and the Board began work on the search process for a new Inspector General to be appointed in 2013. Norbert has worked diligently to ensure that the Global Fund continues to live up to the highest standards of accountability and transparency and to further strengthen our business and delivery models.

And finally, sixth, the Global Fund is entering in to a replenishment year in 2013 when it will want to raise the necessary resources for the coming three years to seize the opportunity that science and implementation innovation provide to finally control these three diseases. The Global Fund has an excellent foundation, confidence has steadily grown throughout 2012, and we have the best possible opportunity of making a lasting and sustained impact for millions of people.

Our best regards,

Simon Bland
Board Chair

Mphu Ramatlapeng,
Board Vice-Chair



2012 YEAR IN REVIEW

THE GLOBAL FUND AT TEN YEARS

The Global Fund marked its tenth anniversary in 2012. It has been a decade of remarkable achievement by partners of the Global Fund, with dramatic expansion of programs that prevent, treat and provide care for people with HIV and AIDS, tuberculosis and malaria. Few participants in global health could have imagined, in 2002, that the trajectory of each disease could be reversed, with new infection rates falling sharply.

As it turned out, 2012 was a year of transition at the Global Fund, as it changed to meet new challenges, embodying its role as a learning institution that constantly adjusts. A shift in leadership coincided with the development and adoption of new modes of operation, most notably a new funding model. The changes followed directives from the Board to invest more strategically, and for greater impact, in the context of tightening budgets around the world.

In January 2012, the Board appointed Gabriel Jaramillo, a former banker and experienced turnaround expert, to the role of General Manager. His brief was to implement a Consolidated Transformation Plan adopted by the Board in November 2011, with actions intended to improve the Global Fund's financial oversight and risk management. Above all, there was a clear need for a hands-on manager with experience at directing fast-moving change in a complex financial institution. Mr. Jaramillo agreed to serve one year, and to hand over a transformed organization to a new Executive Director at the end of his term.

Under the new General Manager's leadership and based on the High-level Panel's recommendations, the Global Fund Secretariat aggressively pursued three priority areas of internal transformation.

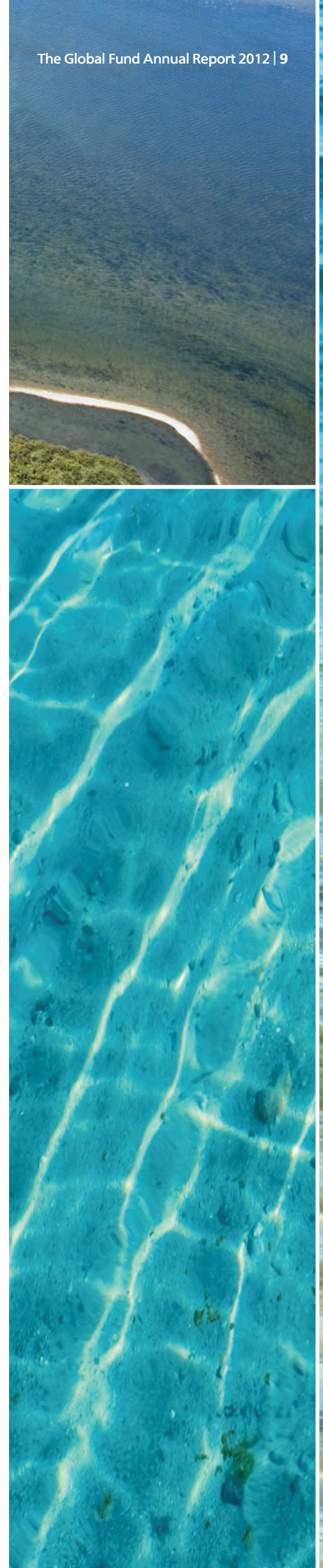
IMPLEMENTING THE CONSOLIDATED TRANSFORMATION PLAN

Mr. Jaramillo moved quickly to undertake a large-scale **organizational restructuring**, to concentrate the institution's capacity more strongly around its core function of grant management. At the completion of the restructuring, 75 percent of Secretariat staff was working in a grant management-oriented function. Many staff members were transferred to grant management roles from other support or control functions. A full 22 percent of staff

positions were abolished, and many staff members departed through voluntary or mutually agreed separation. At the same time, new staff members were hired through external recruitment. Overall, the Secretariat reduced its staff by 2.3 percent as of December 2012.

To complement the organizational restructuring, the Secretariat also implemented a **reorganization of its grant portfolio**. After broad consultations, the Secretariat identified 20 "high-impact countries" that account for 70 percent of the worldwide burden of HIV and AIDS, TB and malaria. These 20 countries include the top ten countries in terms of global burden for each disease, and they also account for a majority of the Global Fund's financial investments globally. More staff members were assigned to work on these 20 countries, enabling the Global Fund to focus its efforts on supporting the countries with the highest disease burden, and where Global Fund investments have the potential to produce the greatest results.

Mr. Jaramillo also reorganized the **governance structure within the Secretariat**, in order to more actively coordinate operations across divisions, make necessary course corrections and take advantage of new opportunities. He created a new Management Executive Committee, an Executive Grant Management Committee, a Funding and Finance Executive Committee and a Disease Committee for each of the three diseases. The Disease Committees were an entirely new component in the Global Fund's governance structure, providing guidance on strategic investments to optimize the grant portfolio for greater impact. The Disease Committees draw upon the technical expertise of partners, and their in-depth understanding of international and domestic resource flows and implementation arrangements at the global and regional levels.



THE TRANSITIONAL FUNDING MECHANISM

In order to mitigate the impact of funding disruptions following the cancellation of Round 11, protect the gains achieved and ensure essential programs are maintained until the new funding model is implemented, the Board established the Transitional Funding Mechanism at its Twenty-Fifth Board Meeting in November 2011.

The Transitional Funding Mechanism surpassed expectations, and met many of the most immediate funding needs. In total, the Global Fund received 61 proposals from 48 applicants for the Transitional Funding Mechanism. These proposals were reviewed by the Technical Review Panel in June 2012, which recommended 45 proposals for funding. The Board then requested that 11 additional applicants re-submit revised proposals for a second review by the Technical Review Panel.

THE NEW FUNDING MODEL

During its Twenty-Fifth Meeting in November 2011, the Board approved the Global Fund Strategy 2012-2016, calling for an evolving of the funding model of the Global Fund. The Secretariat worked intensively to develop a new funding model to enable it to work with implementing countries in a more responsive, predictable and flexible way. The overarching goal was to enable more strategic investment, so that more people could be reached for prevention, care and treatment of the three diseases.

The new funding model was designed to encourage each implementing country to develop an active national health strategy, and also to facilitate broad country dialogue between implementers, partners, the Global Fund

Secretariat and other stakeholders in national programs, which will provide an opportunity for greater engagement and feedback prior to grant approval, so that Global Fund investments are directed towards high-impact programs, in a way that builds upon past successes and addresses performance challenges.

A major new component of the new funding model will be to prepare an indicative funding range for each country, with a predictable amount of funding, in contrast to the previous rounds-based system. Adjustments were made to encourage implementing countries to make a full expression of demand when submitting applications for funding, so that the indicative funding amounts would not stifle or limit the ambition to meet the challenges posed by each disease.

Under the oversight of and in collaboration with the Board's Strategy, Investment and Impact Committee, and based on the findings and recommendations of the High-level Panel, the Secretariat proposed a framework for a new funding model, which was approved by the Board at its Twenty-Seventh Meeting in September 2012. Key elements of the new funding model were then approved by the Board its Twenty-Eighth Meeting in November 2012.

The transition to the new funding model is a top operational priority for the Global Fund in 2013, with a special focus on countries that in 2013 and 2014 have programs in a position to achieve rapid impact. The Secretariat is managing the transition in a way that maximizes opportunities for learning and testing aspects of the new funding model in preparation for its full implementation in 2014.

GRANT MANAGEMENT

Despite the challenging process of the organizational restructuring and the disruptions inherent in any such exercise, the Global Fund continued to deliver on its core function of grant management. In 2012, the Global Fund approved 161 grants for US\$ 3.3 billion of additional funding through the **grant renewals** process. These amounts represented efficiencies and reductions of 23 percent, including significant reductions through performance-based funding (median 50 percent reductions for "B2"- and "C"-rated grants, versus 23 percent and 17 percent median reductions for "A2"- and "A1"-rated grants, respectively).

The grant renewals process has been a key vehicle for the Global Fund's increasing focus on the impact of the Global Fund's investments in countries, with a shift in monitoring and evaluation efforts from output to outcome and impact indicators. Although changes in outcomes and impact are often unable to be observed on an annual or semi-annual disbursement cycle, the grant renewals process provides an excellent opportunity to review progress against the program goals and the overall impact being achieved.

Starting in 2012, the Global Fund began inviting partners to meetings of the grant renewals panel, in order to benefit from the insights and perspectives of technical partners and donors at both the global and the country levels. This is part of an important broader set of changes to the grant renewals process, in preparation for the transition to the new funding model, under which existing grants will be the primary vehicle for investing additional funding. These changes are being more comprehensively implemented in 2013, as the first requests for additional funding are reviewed under the new funding model.

AFFORDABLE MEDICINES FACILITY - MALARIA

At the Twenty-Eighth Board Meeting in November 2012, the Board examined the findings of the independent evaluation of the Affordable Medicines Facility – malaria (AMFm). This initiative, which was designed to make available the latest antimalarial medications in private sector outlets at an affordable price, had been piloted in eight countries. The decision by the Board was to integrate a co-payment system into grant management and financial proceedings, rather than operating it as a separate process.

EXTERNAL RELATIONS

The International AIDS Conference 2012, held in Washington D.C., was the occasion for the Global Fund to pursue advocacy and awareness-raising efforts. In addition to the corporate exhibition stand, the Global Fund was represented at a separate exhibition area through the efforts of the Global Fund Advocacy Network (GFAN). Members of the Global Fund team also presented or participated in a number of panels during the conference.

Resource mobilization efforts also focused on donor events held in and around the United Nations General Assembly held in New York in September. In the context of the UNGA, the Secretary-General held the second annual “Every Woman, Every Child” dinner which was co-hosted by the Global Fund. This dinner served as the occasion to launch, together with partners, the Global Fund’s awareness-raising campaign, “The Big Push.” The Big Push is a campaign to rally support to achieve global health goals that are now within reach. The campaign features a series of portraits of supporters and decision-makers, each delivering a message in support of the fight against the three diseases.

RESOURCE MOBILIZATION

A mid-term review of the Third Replenishment (2011-2013) was held in Geneva in November 2012. Donors were updated on the progress of donor contributions on the Third Replenishment. Other topics included an update on the progress of the reform process and preparations for the Fourth Replenishment.

The private sector continued to play an important role in resource mobilization efforts. Contributions from Product (RED), generated through sales of (RED)-branded products, reached the milestone of US\$ 201.5 million, of which US\$ 18 million was generated in 2012 alone. Chevron, a Global Fund Corporate Champion, continues to lead the fight against the three diseases at both the local and the global levels. Chevron has to date contributed US\$ 46 million out of a six-year, US\$ 55 million commitment.

As at 31 December 2012, contributions recoverable included US\$ 33 million of confirmed overdue receipts from the following donors: Ireland, Namibia and Nigeria. The Secretariat is in discussion with the respective donors to expedite the receipt of overdue contributions.

LEADERSHIP

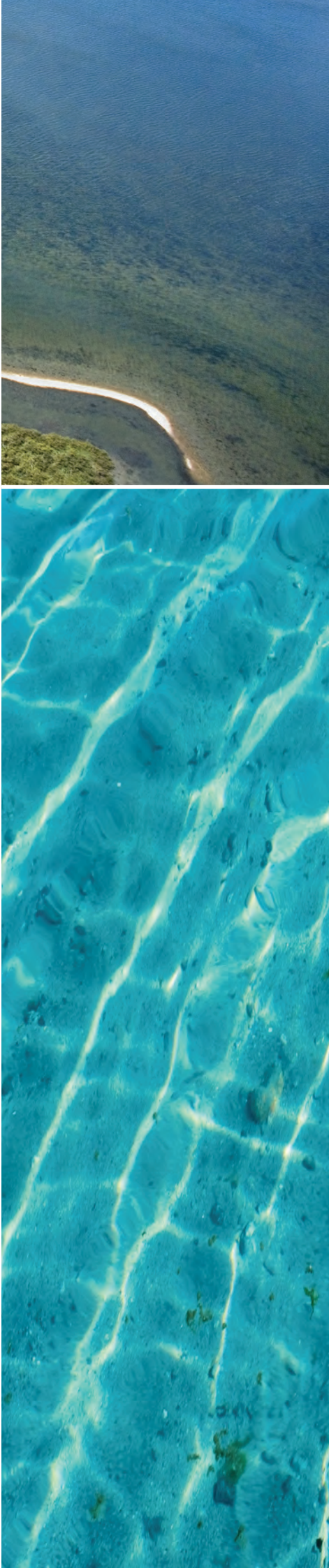
Following the resignation of Professor Michel Kazatchkine in March 2012, the Board launched an initiative to select a new Executive Director. This process was conducted by an ad hoc committee of the Board consisting of an equal number of members from implementing and donor constituencies, working with the executive search company Russell Reynolds. By Board decision, the short list of candidates was required to include at least as many women as men.

At its Twenty-Eighth Meeting in November 2012, the Board unanimously selected Mark Dybul, former head of the President’s Emergency Plan for AIDS Relief (PEPFAR), as the new Executive Director of the Global Fund. Dr. Dybul will take up his responsibilities in January 2013.

A new executive management team was bolstered by key leadership appointments in 2012, including Daniel Camus as Chief Financial Officer, Seth Faison as Head of Communications, Cees Klumper as Chief Risk Officer, Osamu Kunii as Head of Strategy, Investment and Impact, and Elizabeth O’Donnell as Head of Human Resources.

CONCLUSION

It was a year of significant change at the Global Fund, marked prominently by the implementation of the Consolidated Transformation Plan and the design and approval of the new funding model. It brought a number of structural, cultural and business model changes, which position the Global Fund to deliver more effectively and efficiently on its mandate to generate impact against AIDS, TB and malaria through strategic investments and partnerships.



LIST OF BOARD MEMBERS

LIST OF BOARD MEMBERS

CHAIR AND VICE-CHAIR OF THE BOARD

SIMON BLAND

Chair of the Board

Switzerland
Head of Global Funds Department, DFID
United Kingdom
Mission to the UN

MPHU RAMATLAPENG

Vice-Chair of the Board

Lesotho
Vice-Chair of the Board
The Global Fund to fight AIDS, Tuberculosis and Malaria

VOTING MEMBERS

Canada and Switzerland

DAVID STEVENSON

Canada
Director General, Global Initiatives Directorate, Multilateral and Global Programs Branch
Canadian International Development Agency

Communities (NGOs Representative of the Communities Living with the Diseases)

SHAUN MELLORS

South Africa
Head: Treatment, Care and Support Department - Treatment Cluster
Foundation for Professional Development (FPD)

Developed Country NGO

ALVARO BERMEJO

United Kingdom
Executive Director
International HIV/AIDS Alliance

Developing Country NGO

CHEICK TIDIANE TALL

Senegal
Executive Director
African Council of AIDS Service Organizations (Africaso)

Eastern Europe and Central Asia

AIDA KURTOVIC

Bosnia and Herzegovina
Executive Director
Partnership in Health

Eastern Mediterranean Region

BAHAR IDRIS ABU GARDA ABULGASSIM

Sudan
Minister of Health
Federal Ministry of Health

Eastern and Southern Africa

MOINAFOURAHA AHMED

Comoros
Minister
Ministry of Health, Solidarity, Social Cohesion and Gender Promotion

European Commission (Belgium, Finland, Italy, Portugal, Spain)

KRISTIAN SCHMIDT

Belgium
Director of Human and Society Development/ DG for Development and Cooperation DEVCO
European Commission

France

MIREILLE GUIGAZ

France
Ambassador for the fight against HIV/ AIDS and communicable diseases
French Ministry of Foreign and European Affairs

Germany

URSULA MÜLLER

Germany
Director General
German Federal Ministry for Economic Cooperation and Development (BMZ)

Japan

KOICHI AIBOSHI

Japan
Deputy Director General - International Cooperation Bureau
Ministry of Foreign Affairs

Latin America and the Caribbean

FLORENCE DUPERVAL GUILLAUME

Haiti
Minister of Health
Ministry of Health

Point Seven

MARTIN GREENE

Ireland
Consultant
Irish Aid

Private Foundations

STEFANO BERTOZZI

United States
Director, HIV
Bill & Melinda Gates Foundation

Private Sector

BRIAN BRINK

South Africa
Chief Medical Officer
Anglo American plc

South East Asia

PALITHA MAHIPALA

Sri Lanka
Additional Secretary
Ministry of Health

United Kingdom and Australia

CARLTON EVANS

United Kingdom
Policy and Programme Manager - Global Funds Department
Department for International Development

United States

ERIC GOOSBY

United States
U.S. Global AIDS Coordinator
Office of the U.S. Global AIDS Coordinator

West and Central Africa

ALBAN KINSFORD SUMANA BAGBIN

Ghana
Minister of Health
Ministry of Health

Western Pacific Region

JIEFU HUANG

China
Vice-Minister of Health
Ministry of Health

EX-OFFICIO NON-VOTING MEMBERS

Partners

DENIS BROUN

Switzerland

Executive Director

UNITAID

UNAIDS

MICHEL SIDIBÉ

Switzerland

Executive Director

UNAIDS

WHO

HIROKI NAKATANI

Switzerland

*Assistant Director General,
HIV/AIDS, TB Malaria
and Tropical Diseases*

World Health Organization

World Bank

AXEL VAN TROTSENBURG

United States

*Vice-President,
Concessional Finance
and Global Partnerships*

The World Bank

The Global Fund

GABRIEL JARAMILLO

Switzerland

*The Global Fund to
Fight AIDS, Tuberculosis
and Malaria*

Switzerland*

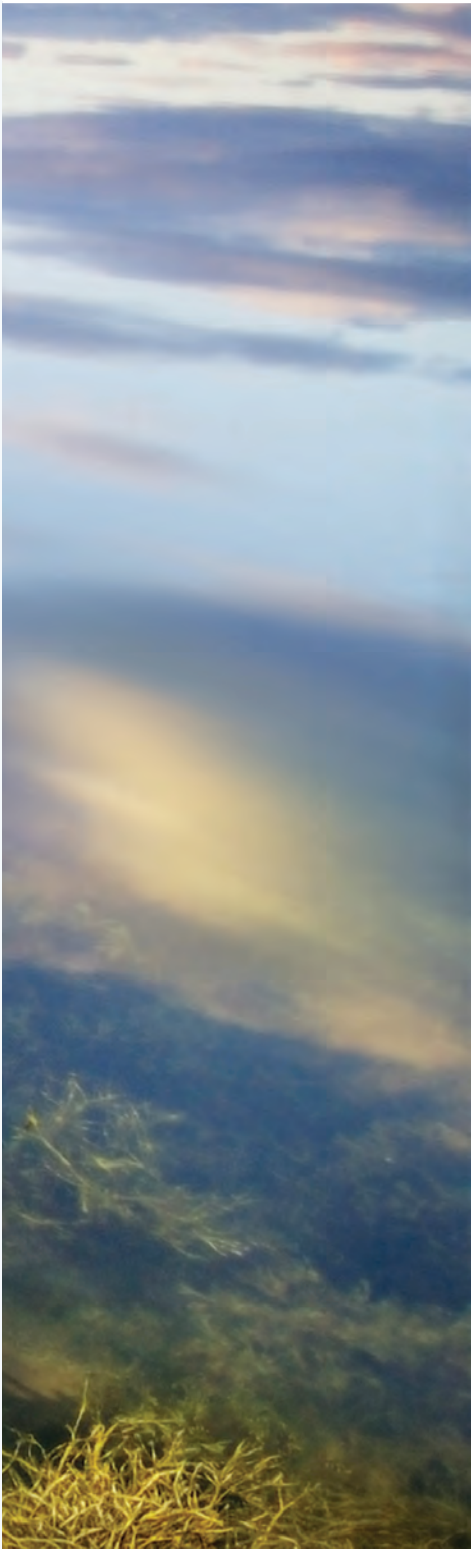
EDMOND TAVERNIER

Switzerland

Managing Partner

Tavernier Tschanz
(Avocates: Attorneys-
at-Law)

*Board-appointed non-voting member with Swiss citizenship and domicile



LIST OF TECHNICAL REVIEW PANEL MEMBERS

LIST OF TECHNICAL REVIEW PANEL MEMBERS

This list represents the membership of the Technical Review Panel for the Transitional Funding Mechanism application review.

Leadership

SHAWN BAKER

Chair

United States

Vice President and Regional Director for Africa

Helen Keller International

GEORGE GOTSADZE

Vice-Chair

Georgia

Director, Curatio International Foundation

Member of the Health Care Management Faculty, Tbilisi State University

LUCIE BLOK

Vice-Chair

Netherlands

Senior Health Advisor

The Royal Tropical Institute

HIV Members

AZIZBEK BOLTAEV

Uzbekistan

Regional Advisor

International Center for AIDS Treatment and Care Programs, Kazakhstan

TIM BROWN

USA

Senior Fellow

East-West Center (NGO), Hawaii

ANUPONG

CHITWARAKORN

Thailand

Senior Expert in Preventive Medicine (HIV/STI)

Ministry of Public Health Thailand

GINA DALLABETTA

USA

Senior Program Officer, Global Health Program / HIV Programs

Bill & Melinda Gates Foundation

MICHEL ETCHEPARE

France

Public Health Senior Consultant

MAZALENI

NOMATHEMBA

South Africa

Project Manager

Health Information Systems Programme

CRISTINA PIMENTA OLIVEIRA

Brazil

Executive Director ABIA

ABIA - Brazilian Interdisciplinary AIDS Association

SAMSON RADENY

Kenya

Chief of Party HIV/OVC program in Ethiopia

Save the Children USA

Tuberculosis Members

MARIJKE BLEUMINK

Netherlands

Consultant

CHEN-YUAN CHIANG

China

Director, Department of Lung Health and NCDs

International Union Against Tuberculosis and Lung Disease

CHRISTY HANSON

USA

Dean, Institute for Global Citizenship

Distinguished Lecturer, International Studies Macalester College

ICHIRO ITODA

Japan

Director, Head of Clinic Shirakaba Clinic, Tokyo

ALEXEI KOROBITSYN

Russian Federation

TB director

USAID Quality Health Care Project

MARINA TADOLINI

Italy

Consultant

Malaria Members**AHMED AWAD ADEEL
ADBEL-HAMEED**

Sudan

*Professor of medical
parasitology*College of Medicine,
King Saud University**PATRICIA GRAVES**

UK/Australia

*Senior Principal Research
Fellow/ Associate Professor*

James Cook University

EDITH LYIMO

Tanzania

*Consultant***AMBROSE TALISUNA**

Uganda

*Regional Scientific Director
East Africa WWARN***Cross-Cutting Members****ANNE AUSTEN**

UK

*Consultant***BEATRIZ AYALA-OSTROM**

UK/Mexico

*Freelance International
Procurement and Supply
Chain Consultant***KATYA BURNS**

USA/Canada

*Consultant***JOSE CARDONA**

Spain

*Senior Adviser, Social Health
Insurance, Micro-insurance
Innovations Programme
for Social Security*Philippine Health Insurance
Corporation / BMZ / GIZ**ELSIE LE FRANC**

Jamaica

*Adjunct Professorial
Research Fellow and
Professor Emeritus*Sir Arthur Institute of
Social and Economic
Studies, University of
the West Indies**ODILE FRANK**

France

*Health Services Officer
Population Services
International***ALISON HEYWOOD**

Australia

*Director*Heywood Public
Health Group**ALEXANDER KIRERIA**

Kenya

*Managing Consultant/Team
Leader. Health & Economics
Development Consortium*Private sector
consultancy firm**ONDINA LEAL**

Brazil

*Full Professor*Federal University of
Rio Grande do Sul**GRACE MURINDWA**

Uganda

*Director, Planning,
Monitoring and Evaluation
Uganda AIDS Commission***MARI NAGAI**

Japan

*Technical Advisor to
Minister's Cabinet, Ministry
of Health Senegal*Bureau of International
Medical Cooperation,
Japan**BOLA OYELEDUN**

Nigeria

*Regional Advisor*MTCTPlus Columbia
University/International
Center for AIDS Care and
Treatment Programs**SONYA RABENECK**

Ireland/Canada

*Senior MNCH/
Nutrition Advisor*Office of the President,
Canadian International
Development Agency**TORE ROSE**

Norway

*Consultant***MARIE SARDIE**

Australia

*Consultant***CLAUDIA SURJADJAJA**

Indonesia

*Executive Director
ALERTAsia***DANIEL TARANTOLA**

France

*Visiting Professorial Fellow,
Faculty of Medicine, School
of Public Health and
Community Medicine
UNSW, Australia***PHOONAM THAPA**

Nepal

*Management and
Development Consultant*

2012 FINANCIAL STATEMENTS

Consolidated financial statements of
the Global Fund to Fight AIDS, Tuberculosis and Malaria
as at and for the year ended December 2012
and report of the statutory auditor

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The Global Fund to Fight AIDS, Tuberculosis and Malaria

INTRODUCTION

Approval of the Consolidated Financial Statements

On 24 May 2013 the Board of the Global Fund approved the consolidated financial statements for 2012, which include an unqualified audit opinion from external auditor Ernst & Young Ltd. This decision was taken on the recommendation of the Audit and Ethics Committee which had reviewed with Ernst & Young and with the Secretariat the consolidated financial statements, the audit opinion, the audit results and recommendations and the letter of representation from senior management to the external auditor.

Overview of the Consolidated Financial Statements

The Global Fund's financial position remained strong during 2012. The consolidated statement of financial position shows total assets of USD 6.9 billion on 31 December 2012. "Current assets" accounted for USD 6.1 billion, of which USD 5.4 billion was in cash or cash equivalents. Cash or cash equivalents were lower than on 31 December 2011 due to higher disbursements than in previous years. Contributions receivable reached a level of USD 1.5 billion on 31 December 2012, slightly lower than on 31 December 2011 as a result of more cash received from donors during the year.

Total liabilities on 31 December 2012 amounted to USD 2.9 billion, of which USD 2.7 billion was "Grants payable" under "Current liabilities". They were lower than on 31 December 2011 due to the mechanical effect of the application of new commitment rules such as one-year instead of multiple-year commitments; other factors include the cancellation of Round 11 replaced by the Transitional Funding Model and the acceleration of de-commitments on inactive grants. In addition to the actual recorded liabilities, the Board had approved further contingent liabilities for future grant expenditure of USD 4.4 billion at the end of 2012 (2011: USD 2.8 billion). The increase in this category is due to staggered commitments (USD 2.7 billion at the end of 2012 versus USD 0.9 billion at the end of 2011). These staggered commitments will be recognised as liabilities in the future based on the needs of the Principal Recipients and the availability of funds.

The consolidated statement of income for 2012 shows total income of 3.5 billion, a decrease compared with 2011 due to several donors having shifted contributions from 2012 to 2013. Total expenditure in 2012 amounted to USD 2.1 billion, including grants of USD 1.8 billion. This amount corresponds to new grant commitments made during the year and is lower than 2011 due to the application of new commitment rules as explained above. Operating expenses in 2012 were USD 305.6 million, in line with 2011 level and below the budget which had been set for the year of USD 355.7 million.

The consolidated statement of cash flow shows a balance of USD 5.5 billion at the beginning of 2012 and USD 5.4 billion at the end of 2012. Net cash flow from operating activities mainly include USD 3.6 billion of cash receipts from donors and USD 3.3 billion of cash paid for grants. This is also the highest level of cash paid for grants in the history of the Global Fund.



Ernst & Young Ltd
Route de Chancy 59
P.O. Box
CH-1213 Lancy

Phone +41 58 286 56 56
Fax +41 58 286 56 57
www.ey.com/ch

The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier

Lancy, 24 May 2013

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria, which comprise the statement of financial position, statement of income, statement of comprehensive income, statement of cash flows, statement of changes in funds and notes on pages 24 to 53 for the year ended 31 December 2012.

Board's and Secretariat's responsibility

The Board and the Secretariat are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), the requirements of Swiss law as well as with the By-laws of the Global Fund to Fight AIDS, Tuberculosis and Malaria. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board and the Secretariat are further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation



of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law, as well as with the by-laws.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 83b paragraph 3 Swiss Civil Code (CC) in relation to article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 83b paragraph 3 CC in relation to article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Laurent Bludzien
Licensed audit expert
(Auditor in charge)

Thomas Madoery
Licensed audit expert

The Global Fund to Fight AIDS, Tuberculosis and Malaria

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

In thousands of USD	Notes	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents	6	5,370,717	5,452,501
Contributions receivable	8	669,152	722,405
Provident Fund investments	7	71,627	60,107
Prepayments and other receivables		4,828	7,369
		<u>6,116,324</u>	<u>6,242,382</u>
Non-current assets			
Contributions receivable	8	812,671	1,060,777
Plant, property and equipment	9	1,174	559
Intangible assets	10	1,162	1,092
		<u>815,007</u>	<u>1,062,428</u>
Total ASSETS		<u>6,931,331</u>	<u>7,304,810</u>
LIABILITIES and FUNDS			
LIABILITIES			
Current liabilities			
Grants payable	11	2,711,271	3,456,600
Accrued expenses		37,930	60,935
Accounts payable		22,402	31,683
Deferred contributions	13	85,442	58,821
		<u>2,857,045</u>	<u>3,608,039</u>
Non-current liabilities			
Grants payable	11	-	941,499
Employee benefit liability	14	71,505	66,518
Deferred contributions	13	-	43,868
		<u>71,505</u>	<u>1,051,885</u>
Total LIABILITIES		<u>2,928,550</u>	<u>4,659,924</u>
FUNDS			
Foundation capital		50	50
Temporarily restricted funds	3.8	33,168	17,048
Unrestricted funds	3.8	3,969,563	2,627,788
Total FUNDS		<u>4,002,781</u>	<u>2,644,886</u>
Total LIABILITIES and FUNDS		<u>6,931,331</u>	<u>7,304,810</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of USD	Notes	2012	2011
INCOME			
Contributions	15	3,355,913	4,184,869
Foreign currency gain/(loss) on contributions		48,584	(84,872)
Bank and Trust Fund income	6	56,090	80,214
Provident Fund investment valuation gain		4,481	2,217
Total INCOME		3,465,068	4,182,428
EXPENDITURE			
Grants	16	1,762,597	2,741,021
Foreign currency loss/ (gain) on grants		11,048	(12,953)
Un-collectible contributions	17	27,898	3,928
Operating expenses	18	305,630	304,764
Total EXPENDITURE		2,107,173	3,036,760
INCREASE IN FUNDS for the year		1,357,895	1,145,668

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of USD	2012	2011
Increase in funds for the year	1,357,895	1,145,668
Other comprehensive income	-	-
Total COMPREHENSIVE INCOME for the year	1,357,895	1,145,668

The Global Fund to Fight AIDS, Tuberculosis and Malaria

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of USD	Notes	2012	2011
OPERATING ACTIVITIES			
Cash receipts from donors		3,646,214	3,133,010
Bank and Trust Fund income		56,766	86,175
		<u>3,702,980</u>	<u>3,219,185</u>
Cash paid for grants		(3,304,725)	(2,628,033)
AMFm co-payments disbursed		(140,169)	(123,420)
Payments to suppliers and personnel		(322,902)	(274,958)
		<u>(3,767,796)</u>	<u>(3,026,411)</u>
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES		<u>(64,816)</u>	<u>192,774</u>
INVESTMENT ACTIVITIES			
Purchase of Provident Fund investments		(8,985)	(20,074)
Proceeds from sale of Provident Fund investments		3,676	-
Purchase of fixed assets		(1,456)	(1,938)
NET CASH FLOW (USED IN)/FROM INVESTMENT ACTIVITIES		<u>(6,765)</u>	<u>(22,012)</u>
Net effect of exchange rate fluctuations		(10,203)	(26,540)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		<u>(81,784)</u>	<u>144,222</u>
CASH AND CASH EQUIVALENTS			
at beginning of the year	6	<u>5,452,501</u>	<u>5,308,279</u>
at end of the year	6	<u>5,370,717</u>	<u>5,452,501</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

CONSOLIDATED STATEMENT OF CHANGES IN FUNDS FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of USD

	<u>Foundation capital</u>	<u>Temporarily restricted funds</u>	<u>Unrestricted funds</u>	<u>Total</u>
As at 1 January 2012	50	17,048	2,627,788	2,644,886
Increase in funds for the year	-	16,120	1,341,775	1,357,895
At 31 December 2012	50	33,168	3,969,563	4,002,781
As at 1 January 2011	50	13,449	1,485,719	1,499,218
Increase in funds for the year	-	3,599	1,142,069	1,145,668
At 31 December 2011	50	17,048	2,627,788	2,644,886

The Global Fund to Fight AIDS, Tuberculosis and Malaria

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACTIVITIES AND ORGANIZATION

The Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) is an independent, non-profit foundation duly formed under the laws of Switzerland on 22 January 2002. It is monitored by the Swiss Federal Supervisory Board for Foundations. The current address is:

Chemin de Blandonnet 8
1214 Vernier
Switzerland

The purpose of the Global Fund is to attract and disburse additional resources to prevent and treat AIDS, tuberculosis (TB) and malaria. The Global Fund provides grants to locally developed programs, working in close collaboration with governments, nongovernmental organizations, the private sector, civil society, development agencies and the communities affected by these diseases.

While donor governments continue to provide the largest source of financing, the Global Fund also relies on the private sector and other non-government donors for financing. The Global Fund channels the international financing for AIDS, TB and malaria. It funds local health systems, provides antiretroviral (ARV) therapy for people living with AIDS and TB as well as insecticide-treated nets to prevent the transmission of malaria. The Global Fund's strategic objectives are:

- Invest more strategically in areas with high potential for impact and strong value for money, on the basis of countries' national strategies and through national systems;
- Evolve the funding model to provide funding in a more proactive, flexible, predictable and effective way;
- Actively support grant implementation success through more active grant management and better engagement with partners;
- Promote and protect human rights in the context of the three diseases; and
- Sustain the gains: mobilize resources by increasing the sustainability of supported programs and attracting additional funding from current and new sources.

Most financial contributions are received directly in a trust fund, which is administered by the International Bank for Reconstruction and Development (the "World Bank"), as the Trustee for the Global Fund (the "Trust Fund") until disbursed as grants or transferred to the Global Fund for operating expenses. The funds held in the Trust Fund are managed and invested by the Trustee according to its own investment strategy, consistent with the framework agreed with the Global Fund. The Trustee makes disbursements from the Trust Fund only upon written instruction of the Global Fund.

The consolidated financial statements of the Global Fund cover the activities of the Global Fund in Switzerland and the U.S. Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "U.S. Fund") a special-purpose entity that facilitates U.S. donations to provide support for the mission of the Global Fund as discussed in Note 2. The Provident Fund holding the defined-benefit plan of the Global Fund is not a separate legal entity and as such is included in the Global Fund for reporting purposes. The financial statements of the Trust Fund are not consolidated as discussed in Note 3.2 as the Global Fund does not control the investment strategy of the World Bank. The funds held in the Trust Fund are classified as cash equivalents in the consolidated financial statements.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) and with interpretations issued by the IASB Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRIC).

Currently, the IFRS do not contain specific guidelines for non-profit organizations and nongovernmental organizations concerning the accounting treatment and presentation of the consolidated financial statements. Where the IFRS are silent or do not give guidance on how to treat transactions specific to the non-profit sector, accounting policies have been based on the general IFRS principles, as detailed in the IASB Framework for the Preparation and Presentation of Financial Statements.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

Functional and presentation currency

The consolidated financial statements are presented in United States Dollars (USD), the Global Fund's functional currency, and rounded to the nearest thousand. Management elected not to operate and report in Swiss Francs, the domestic currency, as its cash flows are primarily in USD.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Global Fund and the U.S. Fund.

The U.S. Fund facilitates U.S. donations to provide support for the mission of the Global Fund as discussed in Note 4 and its financial statements are therefore included in these consolidated financial statements. The Global Fund does not consolidate any other entity.

Balances and transactions between the consolidated entities, and any unrealized gains from such transactions, are eliminated in consolidation. The financial statements of the consolidated entities are prepared for the same reporting period as the Global Fund, using consistent accounting policies.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash and cash equivalents

The Global Fund considers cash on hand and demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash such as amounts held in the Trust Fund, and which are subject to an insignificant risk of change in value, as cash and cash equivalents. The Global Fund classifies the funds held in the Trust Fund as cash equivalents. A description of the Trust Fund is presented below.

3.2 Funds held in the Trust Fund

Funds held in the Trust Fund represent contributions received from donors. The funds are held in a cash pool established by the Trustee for all trust funds administered by the World Bank. The cash is invested by the World Bank in accordance with the investment strategy established by the World Bank. Disbursements of funds occur on the other hand only on and in accordance with the written direction of the Global Fund.

The Trust Fund is maintained predominantly in USD. The World Bank promptly applies all contribution receipts in USD and most contribution receipts in a currency other than USD to the Trust Fund denominated in USD. A portion of the contributions received in Euros (EUR) are retained in EUR in the EUR-denominated part of the Trust Fund.

In accordance with the terms of the management agreement between the Global Fund and the World Bank, the Global Fund is the legal owner of the funds, assets and receipts that constitute the Trust Fund. The agreement may be terminated at any time by either party on a 90-day written notice with all funds, assets and receipts reverting to the Global Fund upon termination.

The investment objectives for trust fund liquid balances are to (i) maintain adequate liquidity to meet foreseeable cash flow needs, (ii) preserve capital, and (iii) optimize investment returns, the return optimization objective being subject to risk tolerance, liquidity and the operational requirements of the underlying trust funds.

Allocations of the cash balances are made to different underlying instruments with different investment horizons and risk profiles, nonetheless with the highest ratings, among three different tranches:

- a cash portfolio comprised of bank deposits and investments in money market instruments with an investment horizon of less than three months (Tranche 0);
- a short-horizon portfolio with a broader range of securities and an investment horizon of up to one year (Tranche 1); and
- a longer-horizon portfolio with additional instruments and an investment horizon of up to three years (Tranche 2).

Quarterly re-balancing of the portfolio leads to the re-allocation of amounts among the different tranches to alter the duration of the overall portfolio in line with the Global Fund's projected grant funding needs. The ultimate purpose of the Trust Fund is to hold the funds to meet short-term cash needs of the Global Fund.

3.3 Prepayments and other receivables

Prepayments and other receivables are stated at their cost net of an allowance on outstanding amounts to cover the risk on non-payment as detailed at Note 3.4.1.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial Instruments

Financial assets are recognized when the Global Fund becomes a party to the contractual provisions of the instruments.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through the statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through gains or losses are recognized immediately in the statement of income.

3.4.1 Financial assets

Financial assets within the scope of IAS 39 are classified as “financial assets at fair value through profit and loss account”. These include loans and receivables and derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial assets include:

Provident Fund investments

Effective October 2010, assets of the Global Fund Provident Fund (Provident Fund) were invested for the purposes of the investment policy of the Provident Fund in accordance with the principles and responsibilities established in the Constitutional Declaration and Benefits Rules and under article 6 of the Management Board Charter. The Provident Fund is established as a segregated fund within the Global Fund with an autonomous governance structure. The Provident Fund does not have separate legal personality from the Global Fund. The Provident Fund assets are managed by institutional fund managers in their diversified global equity and bond funds. Both funds are regulated, open-ended investment funds. As the Global Fund includes the Provident Fund, these consolidated financial statements also present the fair value disclosures required by IFRS 7 *Financial Instruments: Disclosures*.

The Provident Fund investments are designated upon initial recognition as financial assets and initially stated at fair value, with any gains or losses arising on re-measurement recognized in the statement of income. The net gain or loss recognized in the statement of income incorporates any dividend or interest earned on the financial asset and is included in the “Provident Fund investment fair valuation gain” line item. Fair value is determined in the manner described in Note 7. Additional information about the Provident Fund is detailed in Note 14.

Contributions receivable

All contributions governed by a written contribution agreement are recorded as income when the agreement is signed. Other contributions are recorded as income upon receipt of cash or cash equivalents, at the amount received.

Contributions are considered received when remitted in cash or cash equivalent, or deposited by a sovereign state as a promissory note or similar financial instrument.

Contribution receivables are stated at their cost net of a provision for uncollectible contributions to cover the risk on non-payment as described in Note 17.

Promissory notes maturing and contributions receivable later than one year after the date of the statement of financial position are discounted to estimate their present value at this same date. This includes all multiyear contribution agreements with long-term receipt schedules that extend greater immediate commitment authority for establishing full asset coverage for all funding commitments. The movement in the valuation of promissory notes and contributions receivable is recognized in the statement of income.

The Global Fund reviews all contributions receivable as at the date of statement of financial position for any potential risk and uncertainty in the future cash flows resulting from the factors known to management. An appropriate risk premium is applied on receivable balances to reflect the inherent risk profile.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A provision for uncollectible contributions is made on the basis of a specific review of all significant outstanding positions. For those positions not specifically reviewed, it is made at different rates, using the age of the receivable and applying allowance rates based on past experience. The carrying value of receivable balance is reduced by creating a provision for uncollectible revenue as follows:

- a) Contributions receivable from sovereign governments:
 - 50 percent write-down of the contribution receivable if not received within 24 months from the due date of receipt as stipulated in the contribution agreement;
 - 75 percent write-down of the contribution receivable if not received within 36 months from the due date of receipt as stipulated in the contribution agreement; and
 - 100 percent write-off of the contribution receivable if not received within 48 months from the due date of receipt as stipulated in the contribution agreement.
- b) Contribution receivable from non-government agencies:
 - 50 percent write-down of the contribution receivable if not received within 12 months from the due date of receipt as stipulated in the contribution agreement; and
 - 100 percent write-off of the contribution receivable if not received within 18 months from the due date of receipt as stipulated in the contribution agreement.
- c) Receivable from employees and others:
 - 100 percent write-off of the balance recoverable if not received within 12 months of the cessation of the employee's service agreement or contractual agreement with the Global Fund.

Grants recoverable

The funds for grants recoverable from Principal Recipients resulting from the audits and investigations conducted by the Office of the Inspector General are treated as amounts recoverable. Grants recoverable are recognized at fair value upon notification to the debtor and are subject to the same policy of valuation, risk assessment and asset impairment as contributions recoverable from donors.

Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in the statement of income immediately as the Global Fund does not apply hedge accounting.

3.4.2 Financial liabilities

Grants payable

All grants are governed by a written grant agreement and are expensed when the agreement is signed. Grants or portions of grants that have not been disbursed at the date of the statement of financial position are recorded as liabilities. Over the period of the grant agreement funds are disbursed resulting in the reduction of the grants payable. The disbursement process is subject to performance review.

Multiyear grant agreements may include staggered commitments that have been made with the Principal Recipients under a signed grant agreement but have not been committed as at the year-end. These staggered commitments will become liabilities in the future based on terms and conditions stipulated in the grant agreement and as such are considered contingent liabilities disclosed at Note 11.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Contributions

Contributions received that relate to an expense item are recognized as deferred revenue and released as income to the statement of income over the period necessary to match the contributions on a systematic basis to the costs that they are intended to compensate.

Accrued expenses and accounts payable

Accrued expenses are recognized and carried at the anticipated amount to be invoiced. Accounts payable are recognized and carried at the original invoiced amount. Accounts payable are non-interest bearing and are normally settled on 30-day terms.

3.5 Property, Plant and Equipment

Plant, property and equipment consist mainly of computer equipment stated at cost, net of accumulated depreciation and impairment losses if any. Depreciation is calculated on a straight-line basis over three years. The Global Fund assesses at each reporting date whether there is an indication that an asset may be impaired.

3.6 Intangible assets

Intangible assets consist of purchased software whose useful life was determined to be three years. Intangible assets are amortized over the useful economic life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3.7 Employee benefits

Effective 1 January 2009, the Provident Fund was established for the purposes of providing retirement, death and disability benefits for the employees of the Global Fund and their qualifying dependents and beneficiaries. The Provident Fund is the same legal entity as the Global Fund. It is a segregated fund with an autonomous governance structure.

The assets of the Provident Fund are received, invested and disbursed wholly and exclusively for the purposes of the Provident Fund and in accordance with the Investment Policy established by the Provident Fund Management Board with the consent of the Global Fund Board.

Actuarial valuation

The cost of the Provident Fund defined-benefit plan and the present value of the Provident Fund obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined-benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Defined benefit obligation

The defined-benefit plan liability is calculated by projecting the current account balance to the expected future date of payment based on the assumed interest credit rate and future savings contributions. This is discounted back to the valuation date using the discount rate. The liability is then pro-rated by the ratio of accrued service to the expected total service. The retirement savings up to the first CHF 80,000 are accumulated in sub-account A which attracts a higher guaranteed minimum return (LPP+2%). The remaining contributions to the retirement savings are accumulated in sub-account B which attracts a standard guaranteed minimum return limited to LPP. The LPP for 2012 was 1.5% (2011: 2%). LPP rate is defined as the annual interest rate prescribed under the Swiss Federation of Occupational Retirement, Survivors and Disability Pension Plans.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk benefits

The fund provides death and disability benefits which exceed the amount of savings capital. The excess death benefit is a lump-sum equivalent to projected retirement contributions. The excess disability benefit is an income replacement together with a contributions waiver. These benefits are fully reinsured.

Employer/net service cost

Employer/net service cost is the total service cost less the amount of regular employee contributions. The total service cost includes an element based on savings, expenses to cover administration and premium to cover insurance. The resulting value can then be subject to a minimum of the actual employer contributions.

Amortization of gains/losses: use of corridor

A corridor of up to 10 percent of the defined benefit obligation (DBO) can be adopted. Only cumulative gains/losses outside the corridor are amortized through the statement of income.

Amortization of gains/losses

The actuarial gains or losses are spread over a period of expected future working lifetime to slow the recognition of unrecognized gains or losses through the statement of income.

Discount rate

The discount rate is based on market yields of high quality bonds at the end of the reporting period. Bonds should be comparable in terms of currency and duration with the liabilities.

3.8 Funds

All contributions received where the use is limited by statutory restrictions, donor-imposed purpose or time restrictions have been classified as temporarily restricted funds. All other funds are recognized as unrestricted funds.

3.9 Contributions

All contributions governed by a written contribution agreement, including multiyear contribution agreements, where there is no conditionality on the receipt of the funds are recorded as income when the agreement is signed.

Other contributions are recorded as income upon receipt of cash or cash equivalents, at the amount received.

Contributions that relate to expenses are recognized in the same financial year as the related expenditure is incurred and contractual obligations are fulfilled.

Foreign currency exchange gains and losses realized between the date of the written contribution agreement and the date of the actual receipt of cash and those unrealized at the date of the statement of financial position are recorded in the statement of income.

3.10 Grants

All grants are governed by a written grant agreement and are expensed when the agreement is signed. In the case of signed multiyear grant agreements with staggered commitments the recognition of expense is limited to the schedule of commitment stipulated in the grant agreement.

Foreign currency exchange gains and losses realized between the date of the grant agreement and the date of actual disbursement of cash and those unrealized as at the date of statement of financial position are recorded as part of the statement of income.

3.11 Leases

Payments made under operating leases are recognized in the statement of income on a "straight line" basis over the term of the lease.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Local Fund Agent fees

Fees paid to Local Fund Agents to assess local capacity prior to and during grant negotiation, and to manage and monitor implementation of funded programs as grants are disbursed, are expensed as the work is performed.

3.13 Foreign-currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency (USD) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items such as contributions receivable in currencies other than USD and grants payable denominated in EUR are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Realized and unrealized gains or losses on exchange differences are reported in the statement of income.

3.14 Subsequent events

The Global Fund has reviewed the events occurring after the date of the statement of financial position and all material implications have been incorporated.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Global Fund's accounting policies which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only this period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments

In the process of applying the Global Fund's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Funds

The Global Fund has applied SIC Interpretation No.12 and assessed the relationship it has with certain funds. Taking into consideration the activities, decision-making processes, benefits and related risks associated with the funds, the Global Fund concluded that under IFRS the U.S. Fund should be consolidated into the financial statements as stated in Note 2.

The U.S. Fund

The U.S. Fund has been incorporated by the Global Fund to increase private-donor contributions in the United States to provide support for the mission of the Global Fund. The Board of the U.S. Fund consists of seven members, of which two are Global Fund staff members. Each member has one vote at a meeting of members. A majority of the entire Board shall constitute a quorum for the transaction of business or of any specified item of business and, except as otherwise provided by law or for the election of directors for which a two-thirds majority is needed.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

For purposes of reporting under IFRS, the U.S. Fund is considered a special-purpose entity. It has been consolidated because the Global Fund expects to receive future economic benefits from the U.S. Fund.

Estimates and assumptions

The key assumptions concerning the future and other crucial sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of long-term portion of financial assets and liabilities

The carrying value of long-term contribution receivable and grants payable is based on the expected future cash flows discounted using the rates of investment returns on funds held in trust respectively in USD and EUR. This valuation requires the Global Fund to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty.

The movement in valuation of the long-term portion of financial assets and liabilities is recognized in the statement of income.

Multiyear contribution agreements

All multiyear contribution agreements with long-term receipt schedules are recognized as revenue in the year in which the contribution agreement is signed with the donor. Such contributions extend greater immediate commitment authority for establishing full asset coverage for all funding commitments.

Long-term grants payable

Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments.

Provision for uncollectible contributions

The Global Fund maintains a provision for uncollectible contributions in respect of estimated losses resulting from the inability of donors to make required payments. Additional provision may be required in the future if the said donors' financial situation were to deteriorate, resulting in an impairment in their ability to make payments. Management specifically analyses contributions receivable, historical trends and current economic trends when assessing the adequacy of the provision for uncollectible contributions as described in Note 3.4.1.

Pension and other post-employment benefits

The Provident Fund provides retirement, death and disability benefits for the employees of the Global Fund and their qualifying dependents and beneficiaries. The cost of the plan is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates, employee rotation and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, estimates relating to pension and other post-employment benefits are highly sensitive to changes in these assumptions, all of which are reviewed at each reporting date as described in Note 3.7.

Valuation of Provident Fund investments

As described in Note 7, management uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 7 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

5.1 Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

Amendments to IFRSs affecting presentation and disclosure only

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The Global Fund has applied the amendments to IFRS 7 Disclosures – Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

5.2 New and revised IFRSs issued but not yet effective

The list below does not purport to be exhaustive and only presents the standards applicable to the Global Fund in future years.

i. To be applied in 2013

Amendments to IAS 1, <i>“Presentation of Items of Other Comprehensive Income”</i>	<p>The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the “statement of comprehensive income” is renamed the “statement of profit or loss and other comprehensive income” and the “income statement” is renamed the “statement of profit or loss”. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.</p> <p>The Global Fund expects a limited impact on the statement of comprehensive income except for the IAS 19 amendment (see below).</p>
IFRS 10, <i>“Consolidated Financial Statements”</i>	<p>IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.</p> <p>The Global Fund does not believe that IFRS 10 will lead to more investees being consolidated.</p>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 13, <i>"Fair Value Measurement"</i>	<p>IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.</p> <p>The Global Fund anticipates that the application of the new standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.</p>
IAS 19 <i>"Employee Benefits (amendment)"</i>	<p>The amendments to IAS 19 change the accounting for defined-benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined-benefit obligations and plan assets. The amendments require the recognition of changes in defined-benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a "net-interest" amount, which is calculated by applying the discount rate to the net defined-benefit liability or asset.</p> <p>The amendments to IAS 19 will require retrospective application. The Global Fund believes that IAS 19 will have an impact on its consolidated financial statements, as a result of a number of adjustments: a) decrease in the net pension deficit because the cumulative actuarial gain as at 1 January 2012 will be recognized immediately; b) increase in 2012 expense as there would be no amortization of unrecognized gains, including for the settlement; the settlement would no longer be classified as such with the remaining actuarial gain passing through other comprehensive income.</p>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

ii. To be applied in 2015

<p>IFRS 9, "Financial Instruments: Classification and Measurement"</p>	<p>IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.</p> <p>Key requirements of IFRS 9:</p> <ul style="list-style-type: none"> - all recognized financial assets that are within the scope of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. - with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss. <p>The Global Fund does not anticipate that the application of the new standard will have a significant impact on the consolidated financial statements.</p>
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Future changes in IFRS

IFRS are undergoing a process of revision with a view to further harmonizing accounting rules internationally. Proposals to issue new or revised IFRS, as yet unpublished, on financial instruments, provisions, revenue recognition, leases and other topics may change existing standards and may therefore affect the accounting policies applied by the Global Fund in future periods. Transition rules for these potential future changes may require the Global Fund to apply them retrospectively to periods before the date of adoption of the new standards.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

6. CASH AND CASH EQUIVALENTS

In thousands of USD unless otherwise stipulated

Cash and cash equivalents include cash on hand and in commercial banks as well as funds held in the Trust Fund at the World Bank.

As at 31 December	2012	2011
Amounts held in a commercial bank	37,790	42,319
Amounts held in the Trust Fund	5,332,927	5,410,182
	<u>5,370,717</u>	<u>5,452,501</u>

The carrying amounts of cash and cash equivalents and of funds held in Trust approximate their fair value.

The Global Fund hedges its exposure to currency risk by matching grant liabilities in EUR with assets in the same currency to the extent possible.

A portion of funds are held in EUR in the Trust Fund to maintain a natural hedge for grants denominated in EUR.

As at 31 December 2012 cash balances held in EUR amounted to EUR 630.2 million (2011: EUR 386.4 million). A further CHF 5.5 million (2011: CHF 3.4 million) was held in Swiss Francs at a commercial bank to cover the operating expenses in January of the following year.

The Global Fund earns income based on the returns of the investments managed by the Trust Fund consisting of the Trust Fund's allocated share of interest income earned by the Pool, realized gains/losses from the sale of securities, and realized gains/losses resulting from recording the assets held by the Pool at fair value. For the years ended 31 December 2012 and 2011, bank interest and Trust Fund income as reported in the consolidated statement of income is as follows:

For the years ended 31 December	2012	2011
Bank interest income	4	9
Trust Fund income	56,086	80,205
Bank interest and trust fund income	<u>56,090</u>	<u>80,214</u>

Amounts held in the Trust Fund

The Trust Fund's assets consist of its share of cash and investments in a "Pool". The Pool is actively managed by the World Bank and invested in accordance with the investment strategy established for all trust funds administered by the World Bank group. As at 31 December 2012 the Pool had a fair value measurement of USD 26.1 billion (2011: USD 25.6 billion) according to the World Bank. The Trust Fund reports its share in the shared pool of investments as one class of financial assets and can be withdrawn upon demand.

The Trust Fund's share in the Pool is not traded in any market. The table below shows the distribution of the Global Fund liquid assets by type of asset as presented by the Trust Fund (see definitions of Tranches in Note 3.2):

Global Fund Trust Fund Allocation across World Bank Investment Tranches (USD equivalent millions)

Tranche	2012	2011
Tranche 0 USD	210	1,246
Tranche 1 USD	784	521
Tranche 2 USD	3,285	2,892
Tranche 0 EUR	360	459
Tranche 1 EUR	470	91
Tranche 0 Other	224	201
Total	<u>5,333</u>	<u>5,410</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

6. CASH AND CASH EQUIVALENTS (continued)

In thousands of USD unless otherwise stipulated

Trust Fund Asset Allocation of the Pool

Tranche	2012	2011	% change
Government and agency obligations	51%	53%	-2%
Time deposits and money market securities	38%	32%	6%
Asset-backed securities	11%	14%	-3%
Derivatives, net	0%	1%	-1%
Total	100%	100%	

The Pool is exposed to market, credit and liquidity risks. The exposure and the risk management policies employed by the Trustee to manage these risks are discussed below:

Market risk – The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, currency rates or changes in interest rates. The Trust Fund is exposed to market risk, primarily related to foreign exchange rates and interest rates. The Trustee actively manages the Pool so as to minimize the probability of incurring negative returns over the applicable investment horizon.

i. Interest rate risk

The Trustee uses a value at risk (VAR) computation to estimate the potential loss in the fair value of the Pool's financial instruments with respect to unfavorable movements in interests and credit spreads. This approach takes into account historical market observations for three years while giving more weight to recent market volatility. The absolute VAR of the Trust Fund's share of the portfolio over a twelve-month horizon at a 95 percent confidence level at 31 December 2012 is estimated to be USD 31 million (2011: USD 44 million).

ii. Currency risk

The risk that the value of a financial instrument will fluctuate because of changes in currency exchange rates when there is a mismatch between assets and liabilities denominated in any one currency. The Trust Fund's currency risk arises from the portion of share of cash and investments in the Pool when they are denominated in currency other than in USD. In accordance with the agreement and/or the instructions from the Global Fund, the Trustee maintains the Trust Fund's share of cash and investments in the Pool in USD and EUR. Cash contributions received are converted into USD on receipt, except when the Global Fund instructs the Trustee to hold selected cash contributions received in EUR.

The following table details the sensitivity of the share of cash and investments in the Pool to a strengthening or weakening of the EUR in which the Trust Fund holds its portion of share of cash and investments in the Pool. The percentage movement applied is based on the average movements in the previous three annual reporting periods. The average movement in the current period is based on beginning and ending exchange rates in each period.

	2012			2011	
	Currency	Change %	Amount USD million	Change %	Amount USD million
	EUR	4%	(+/-) 37.5	4%	(+/-) 40

Credit risk

The concentration of credit risk with respect to the Pool of cash and investments held in Trust is limited because the Trustee manages the Pool so as to limit the amount of credit exposure to any individual issuer.

Counterparty credit ratings of the World Bank	2012	2011
AA or greater	64%	81%
A- or greater	99%	100%
BB+ or greater	100%	-

Liquidity risk

The Trustee maintains a significant portion of the Pool in short-term money markets deposits to meet disbursement requirements.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

7. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT (OTHER THAN THE TRUST FUND)

In addition to the cash and cash equivalents held in the Trust Fund, the Global Fund has financial instruments such as foreign exchange forward contracts, and investments held by the Provident Fund, as well as other financial assets (contributions receivable, grants recoverable) and financial liabilities (grants payable, deferred contributions, accrued expenses and accounts payable).

7.1 Capital Management

By its nature, the Global Fund does not have "capital"; rather, it views the reserves as a proxy for capital in terms of IAS 1. The target and position of the various reserves are indicated in Notes 3.8.

7.2 Financial Risk Management Objectives

The Provident Fund's assets are primarily invested in two institutional funds ("Investments") which aim at implementing the strategic asset allocation within their diversified global equity and bond portfolios. Both funds are regulated, open-ended investment funds. The objectives of the investment strategy are foremost (i) to maintain adequate liquidity to meet foreseeable cash flow needs, (ii) to preserve capital and then (iii) to optimize investment returns given a pre-defined level of risk. Consequently the Investments are exposed to a number of significant risk factors which consist of, but are not limited to, market, interest rates, currency, credit and liquidity risks which are discussed below.

7.3 Risk Factors

The main risks arising from the Global Fund's financial instruments are market risk, credit risk and liquidity risk, the risk exposure depending on where those instruments are held. The list does not purport to be a complete enumeration of the risks involved in the Investments.

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, including interest rates and foreign exchange currency rates whether those changes are caused by factors specific to the individual security or its issuer, or factors affecting all securities traded in the market.

The Provident Fund's Investments are actively managed and invested in accordance with the investment strategy established by the Provident Fund Investment Policy, whose objectives were presented above.

Equity market risk: The risk that the value of exchange-traded financial instruments such as equities will fluctuate due to market, economic, political and other factors. The prices of many stocks are highly volatile and changes in market expectations can severely impact the underlying value of the stocks held by the Provident Fund.

Interest rate risk: The market value of fixed-income securities (government bonds, convertibles, corporate bonds, structured credit securities, etc.) will fluctuate in response to changes in interest rates.

Currency risk: The risk that the value of a financial instrument will fluctuate because of changes in exchange rates. Currency risks can be reduced with the use of derivative instruments such as forwards which can be used to "hedge" the currency risk. The use of forwards exposes the investments to other risks such as counterparty risk.

Credit risk

The risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk can be mitigated by limiting the amount of credit exposure to any individual issuer. Changes in the creditworthiness of an issuer can negatively impact the price of the securities. The portion of the Investments held in securities that are rated below investment grade will be subject to a greater risk of default.

The Global Fund's maximum exposure to credit risk in relation to cash and bank balances, Provident Fund investments and contributions receivable is the carrying amount of those assets as indicated in the statement of financial position.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

7. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT (OTHER THAN THE TRUST FUND) (continued)

Liquidity risk

Liquidity is an indicator of how easily an investment may be converted into cash. An investment may be less liquid if it is not widely traded or if there are restrictions imposed by the exchange or the issuer.

For the Global Fund, the risk is that the entity will encounter difficulty in raising liquid funds to meet its commitments. All the financial liabilities are payable based on the agreed credit terms in the underlying contractual agreements. As a policy, the Global Fund makes commitments for administrative budgets, trustee fees and grants only if there are sufficient underlying assets. With respect to the Provident Fund, the sale of thinly traded investments may be possible only at substantial discounts which may result in losses. The sale of open-ended fund shares of the investments might not be possible if the investments experience liquidity issues.

7.4 Fair Value

Financial instruments carried at amortized cost

The Global Fund considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate fair value.

Valuation techniques and assumptions applied for the purposes of measuring the fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts; and
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Fair value measurements recognized in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety. Thus, a Level 3 fair value measurement of the instrument may include inputs that are observable (Level 2) and unobservable (Level 3).

The Global Fund to Fight AIDS, Tuberculosis and Malaria

**7. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT
(OTHER THAN THE TRUST FUND)** (continued)

In millions of USD				
31 December 2012	Level 1	Level 2	Level 3	Total
<i>Provident Fund Investments</i>				71.6
Equity	14.4			
Bonds	0.1	57.1		
<i>Derivative Financial Instruments</i>				-
Foreign Exchange Forward Contract				

In millions of USD				
31 December 2011	Level 1	Level 2	Level 3	Total
<i>Provident Fund Investments</i>				60.1
Equity	12.3			
Bonds		47.8		
<i>Derivative Financial Instruments</i>				-
Foreign Exchange Forward Contract				

As at 31 December 2012, the value of the Provident Fund investments included foreign currency exposure in EUR and Swiss Francs (CHF). However, the sensitivity of exchange rate fluctuation is not significant at the end of each financial year.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

8. CONTRIBUTIONS RECEIVABLE

In thousands of USD unless otherwise stipulated

As at 31 December	2012	2011
Promissory notes maturing within one year	272,265	448,908
Contributions receivable within one year	396,887	273,497
	669,152	722,405
Promissory notes maturing after one year	127,830	93,568
Contributions receivable after one year	684,841	967,209
	812,671	1,060,777
Total value of contributions receivable	1,481,823	1,783,182
Receivable in 2012	-	722,405
Receivable in 2013	669,152	476,621
Receivable in 2014	162,938	18,113
Receivable in and after 2015	771,661	775,369
	1,603,751	1,992,508
Discounted at the average rate of return for Trust Fund	(121,928)	(209,326)
Present value of contributions receivable	1,481,823	1,783,182

As at 31 December 2012 the value of contribution recoverable included foreign currency exposure in EUR, Australian Dollars (AUD), Norwegian Kroners (NOK) and Great British Pound (GBP). However, only the value of contributions receivable in EUR is significant at the end of each financial year. The following table gives the foreign currency exposure in EUR in contributions receivable:

	2012	2011
EUR	415,873	527,110

The following table reflects the sensitivity of the statement of income to a strengthening or weakening of EUR as at 31 December 2012.

Currency	2012		2011	
	Change %	Amount USD million	Change %	Amount USD million
EUR	4%	(+/-) 21.9	4%	(+/-) 27.2

The Global Fund to Fight AIDS, Tuberculosis and Malaria

9. PROPERTY PLANT AND EQUIPMENT

In thousands of USD unless otherwise stipulated

Property, Plant and Equipment includes computer equipment and office furniture and equipment. Depreciation is calculated using the straight-line method over the useful life of these assets determined to be three years. The depreciation recognized in the statement of income in 2012 amounts to USD 184 (2011: USD 100) and the additions during the year amounted to USD 799 (2011: USD 659). The value of net assets as at 31 December 2012 is USD 1,174 (2011: USD 559).

10. INTANGIBLE ASSETS

In thousands of USD unless otherwise stipulated

Intangible assets consist in software applications purchased externally or developed and capitalized in-house. Amortization is calculated using the straight-line method over the useful life of the asset determined to be three years. The value of amortization charged recognized in the statement of income in 2012 amounts to USD 587 (2011: USD 187) and the additions during the year amounted to USD 657 (2011: USD 1,279). The value of net assets as at 31 December 2012 is USD 1,162 (2011: USD 1,092).

11. GRANTS PAYABLE

In thousands of USD unless otherwise stipulated

As at 31 December	2012	2011
Payable within one year	2,711,271	3,456,600
Payable after one year	-	941,499
	2,711,271	4,398,099
Grants due in 2012	-	3,456,600
Grants due in 2013	2,711,271	904,734
Grants due in 2014	-	79,004
	2,711,271	4,440,338
Discounted at the average rate of return for Trust Fund	-	(42,239)
Present value of grants payable	2,711,271	4,398,099

During the year 2012 USD 228.4 million has been decommitted in respect of inactive grants.

In addition to the grant payable balance as outlined above, USD 4.4 billion (2011: USD 2.8 billion) of grants have been approved by the Board until 31 December 2012 and are considered as contingent liabilities as at that date. This includes staggered commitments of USD 2.7 billion (2011: USD 0.9 billion) that have been signed with the Principal Recipients under a grant agreement. These staggered commitments will be recognized as liabilities in the future based on the needs of the Principal Recipients and the availability of funds. The remaining portion of USD 1.7 billion (2011: USD 1.9 billion) was approved by the Board for which no grant agreements were signed as at the balance sheet date.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

11. GRANTS PAYABLE (continued)

In thousands of USD unless otherwise stipulated

As at 31 December 2012 grants include EUR 367 million (2011: EUR 507.5 million). The following table reflects the sensitivity of the statement of income to a strengthening or weakening of EUR:

Currency	2012		Change %	Amount USD million
	Change %	Amount USD million		
EUR	4%	(+/-) 19.3	4%	(+/-) 26.3

12. MATURITY PROFILE OF UNDISCOUNTED FINANCIAL LIABILITIES

In thousands of USD unless otherwise stipulated

	Less than 3 months	3 to 12 months	More than 12 months	Total
Year ended 31 December 2012				
Grants payable	270,245	2,441,026	-	2,711,271
Accrued expenses	37,930	-	-	37,930
Accounts payable	22,402	-	-	22,402
	330,577	2,441,026	-	2,771,603
	Less than 3 months	3 to 12 months	More than 12 months	Total
Year ended 31 December 2011				
Grants payable	2,968,697	487,903	983,738	4,440,338
Accrued expenses	60,935	-	-	60,935
Accounts payable	31,683	-	-	31,683
	3,061,315	487,903	983,738	4,532,956

13. DEFERRED CONTRIBUTIONS

In thousands of USD unless otherwise stipulated

As at 31 December	2012	2011
Within one year	85,442	58,821
After one year	-	43,868
	85,442	102,689
AMFm	66,514	77,917
U.S. Fund	18,928	24,772
	85,442	102,689

The Global Fund to Fight AIDS, Tuberculosis and Malaria

13. DEFERRED CONTRIBUTIONS (continued)

In thousands of USD unless otherwise stipulated

Deferred contributions- movement during the year

	2012	2011
At 1 January	102,689	206,156
Contribution income deferred during the year	120,578	24,772
Trust Fund investment income deferred during the year	676	5,961
Deferred contributions released to the statement of income	(139,906)	(135,875)
Movement in discounted value of deferred contributions released to the statement of income	739	1,736
Revaluation during the year	666	(61)
At 31 December	85,442	102,689

14. EMPLOYEE BENEFIT LIABILITY

In thousands of USD unless otherwise stipulated

The Provident Fund scheme has been established on a defined-contribution basis which determines the rate of regular employee and employer contributions to be made in Swiss Francs (CHF). The Global Fund retains the actuarial and investment risk. The benefits for death and disability in service in excess of the savings account are fully reinsured.

Change in benefit obligation	2012	2011
Benefit obligation at beginning of year	59,613	33,606
Current service cost	20,451	21,595
Past service cost	-	10,198
Translation difference	1,713	-
Amendments	5,214	-
Interest cost	1,388	1,348
Unrecognized actuarial gain	4,108	(1,674)
Divestitures/transfers	-	56
Benefits paid from plan/company	(3,269)	(3,721)
Settlements paid from plan/company	(17,491)	-
Premiums paid	(1,140)	(1,074)
Expenses paid	(454)	(721)
Benefit obligation at end of year	70,133	59,613

Amounts recognized in the statement of financial position	2012	2011
Present value of unfunded obligations	70,133	59,613
Unrecognized net actuarial gain	1,372	6,905
Net liability	71,505	66,518

The Global Fund to Fight AIDS, Tuberculosis and Malaria

14. EMPLOYEE BENEFIT LIABILITY (continued)

In thousands of USD unless otherwise stipulated

Components of pension cost	2012	2011
Amounts recognized in the statement of income		
Current service cost	20,451	21,595
Interest cost	1,388	1,348
Recognition of past service cost	5,214	-
Amortization unrecognized gain	(108)	(426)
Settlement gain recognized	(2,975)	-
Total pension cost recognized in the statement of income	23,970	22,517

Principal actuarial assumptions	2012	2011
Weighted-average assumptions to determine benefit obligations		
Discount rate	1.70%	2.50%
Rate of compensation increase	1.50%	1.50%
Weighted-average assumptions to determine pension cost		
Discount rate	2.50%	2.60%
Rate of compensation increase	1.50%	1.50%

Other required disclosure amounts	2012	2011
Contributions expected to be paid to the plan during the annual period beginning after the reporting period	8,277	7,689

	2012	2011	2010	2009
History of defined benefit obligations, assets and experience gains and losses				
Defined benefit obligation	70,133	59,613	33,606	28,275
Experience (gain)/loss on plan liabilities				
Experience gains and losses on plan liabilities	1,053	(414)	(3,357)	(2,600)
Percentage of present value of plan liabilities	2%	(0%)	(8%)	(9%)

The Global Fund to Fight AIDS, Tuberculosis and Malaria

15. CONTRIBUTIONS

In thousands of USD unless otherwise stipulated

For the years ended 31 December	2012	2011
Governments	3,192,668	3,277,281
Private sector	787	755,082
AMFm restricted- governments	63,350	39,650
AMFm restricted- others	70,485	96,225
Temporarily restricted- others	28,623	16,631
	3,355,913	4,184,869

16. GRANT EXPENDITURE

In thousands of USD unless otherwise stipulated

For the years ended 31 December	2012	2011
Grants	1,628,763	2,605,146
AMFm co-payments	133,834	135,875
	1,762,597	2,741,021

17. UNCOLLECTIBLE CONTRIBUTIONS

In thousands of USD unless otherwise stipulated

For the years ended 31 December	2012	2011
Governments		
Impaired	16,353	-
Cancelled	10,756	-
Others - Cancelled	4,384	-
Default discount premium		
- Contributions recoverable	(6,919)	3,223
- Grants under investigation	3,324	705
	27,898	3,928

The Global Fund to Fight AIDS, Tuberculosis and Malaria

18. OPERATING EXPENSES

In thousands of USD unless otherwise stipulated

For the years ended 31 December	2012	2011
Staff	136,121	123,623
Local Fund Agent fees	76,158	76,522
Professional fees	53,104	55,742
Travel and meetings	16,229	22,515
Communication materials	952	2,613
Office infrastructure, including depreciation	17,964	17,843
Country Coordination Mechanism funding	4,480	5,209
Board constituency funding	622	697
	305,630	304,764

At 31 December 2012 there were 598 (2011: 612) personnel employed by the Global Fund. Of these, 342 (2011: 466) were employed under ongoing contracts. All other personnel were employed under contracts of defined duration which range between three months and two years.

On 10 January 2012, the Global Fund entered into a foreign exchange forward contract with a commercial bank to buy Swiss Francs (CHF) and sell USD in order to manage its exposure to foreign exchange rate risks with respect to its operating expenditures that are primarily denominated in CHF. As a pre-condition to establishing the hedge contract, the Global Fund also opened a loan facility with the commercial bank for the amount of CHF 25 million on 9 January 2012 as margin cover for the hedging contract. As there were no defaults by the Global Fund on meeting its payment obligations under the hedging contract, the loan facility was not utilized, and there were no cost implications to the Global Fund.

As a further pre-condition to establishing the hedging contract, the commercial bank requested the Global Fund to maintain a minimum balance of CHF 25 million at all times in its accounts at the bank. There was no restriction on which accounts or currency these funds should be held in at the commercial bank, and there was no lien given to the bank with respect to any part of the CHF 25 million balance.

The hedging transaction was concluded on 6 December 2012. As at 31 December 2012, the Global Fund had not utilized any credit facility and was not required to maintain a minimum cash balance.

During the year the Global Fund avoided additional operating expenses of USD 1.4 million (2011: USD 10.4 million) when measured in USD due to the hedging mechanism.

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19. RELATED PARTIES

In thousands of USD unless otherwise stipulated

Related parties include the members of the Board, Board committees and close family members of senior management. There was no loan to or from related parties outstanding as at 31 December 2012.

The Global Fund does not remunerate its Board Members. All transactions with the Board are made at terms equivalent to arm's-length transactions within the operational framework of the Secretariat.

During 2012 an aggregate of USD 65 (2011: NIL) was paid to Board committee members.

Compensation of key management personnel

Key management, in common with all personnel employed by the Global Fund, are remunerated according to the Global Fund salary scale. Remuneration consists of salary, allowances and employer contributions towards Provident Fund and health insurance benefits. The remuneration of key management, comprising the Executive Director, the General Manager, the Deputy Executive Director, heads of the Global Fund's key business functions, and the Inspector General, amounted to:

Remuneration category	2012	2011
Short-term benefits including salary and allowances	2,567	3,567
Long-term benefits including contributions to the Provident Fund	315	433
Termination benefits	1,165	18
Total remuneration	4,047	4,018

20. TAXATION

The Global Fund has received tax exemptions from Switzerland, the United States and the Republic of Moldova.

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21. LEASE COMMITMENTS

In thousands of USD unless otherwise stipulated

Operating leases relate to the non-cancellable lease of the office building in Geneva where the Global Fund headquarters are located and whose term ends in July 2015. The Global Fund does not have an option to purchase the building at the expiry of the lease period.

Non-cancellable operating lease payments recognized as an expense in 2012 amounts to USD 12,488 (2011: USD 12,102)

For the years ended 31 December	2012	2011
<i>Year</i>		
2012	-	11,462
2013	11,790	1,953
2014	11,790	1,089
2015	7,013	766
	30,593	15,270

22. CONTINGENCIES

As at 31 December 2012 the net estimated value of contingent liabilities other than contingencies on grants disclosed in note 11 is USD 2.8 million (2011: NIL).

23. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issuance by the Global Fund Board ("the Board") on 24 May 2013.

ACKNOWLEDGEMENTS

The following people contributed to this report: Christoph Benn, Karmen Bennett, Beatrice Bernescut, Ian Carter, Joseph Chiu, Stefan Emblad, Seth Faison, David Kim, Ilana Kirsztajn, and Purnima Mishra.

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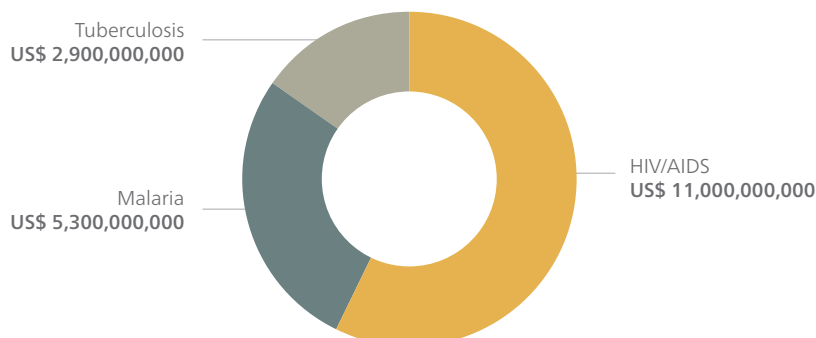
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This report was published in June 2013. All information in this report relates to data as of 31 December 2012.

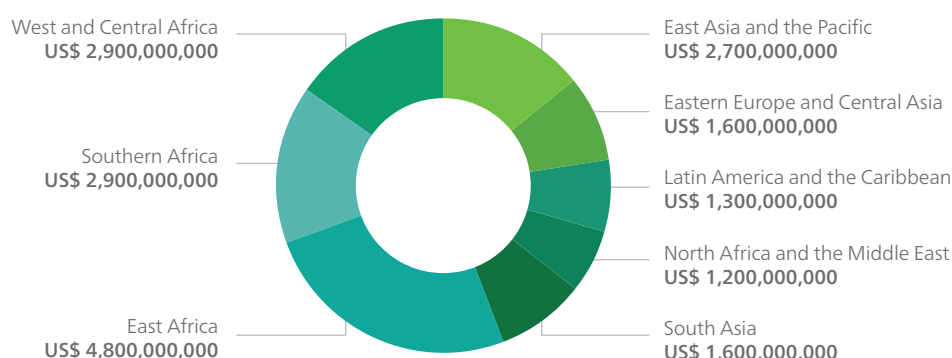
STATISTICS AT A GLANCE

Value of grant portfolio as of 31 December 2012: US\$ 25.2 billion

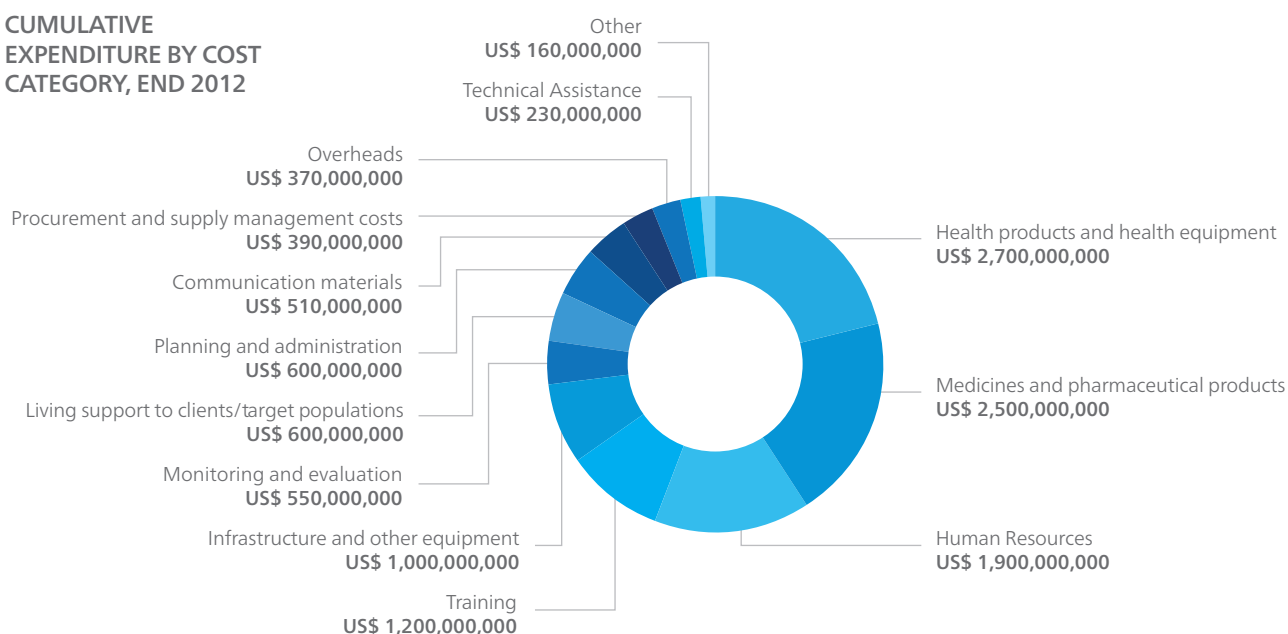
CUMULATIVE DISBURSEMENT BY DISEASE, END 2012



CUMULATIVE DISBURSEMENTS BY REGION, END 2012



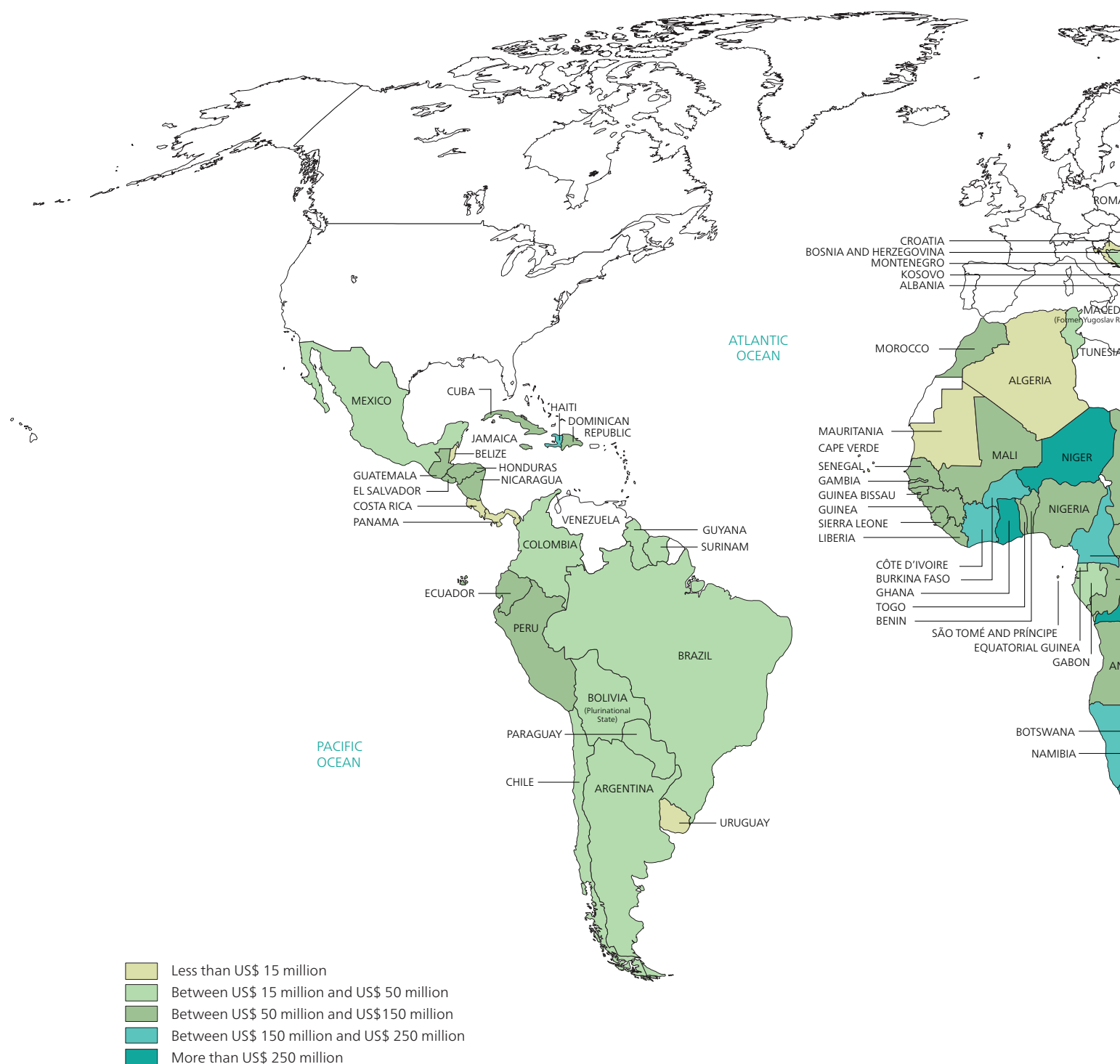
CUMULATIVE EXPENDITURE BY COST CATEGORY, END 2012

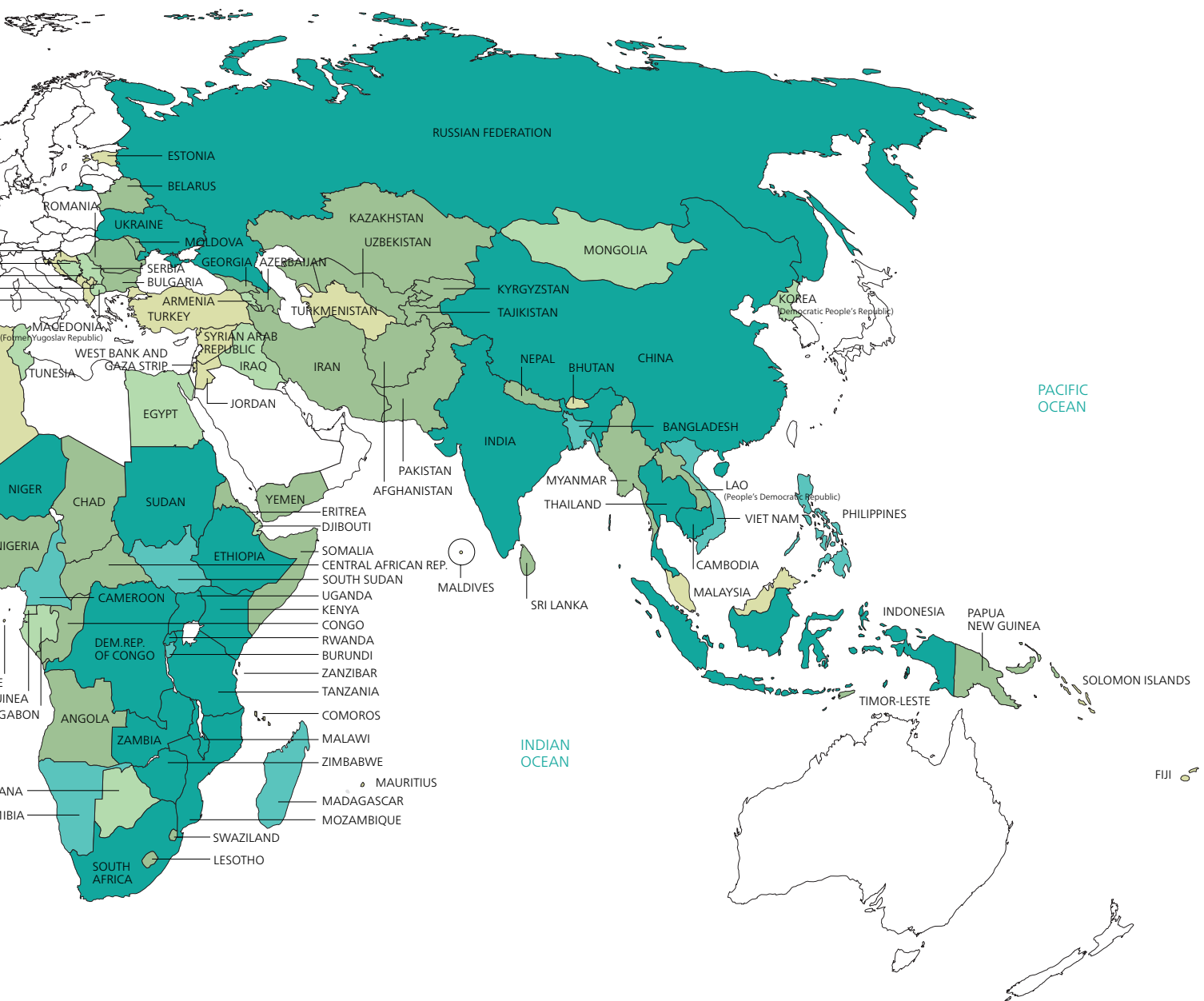


TOP 3 RESULTS

	Indicator	End 2012	End 2011
HIV - People currently on ARV therapy		4,200,000	3,300,000
Malaria - Nets distributed		310,000,000	230,000,000
TB - New smear-positive TB cases detected and treated		9,700,000	8,600,000

WORLD MAP OF GLOBAL FUND HEALTH INVESTMENT BY COUNTRY





THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA

Chemin de Blandonnet 8
1214 Vernier
Geneva, Switzerland

+ 41 58 791 1700 (phone)
+ 41 58 791 1701 (fax)

www.theglobalfund.org
info@theglobalfund.org

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