GF/B19/6
Attachment 1

2008 AUDITED FINANCIAL STATEMENTS

Financial Statements of

The Global Fund to Fight AIDS, Tuberculosis & Malaria

as of 31 December 2008

prepared in accordance with International Financial Reporting Standards

together with the Report of the Independent Auditors

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To the Foundation Board of

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

Geneva, [DD MMMM YYYY]

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund"), which comprise the statement of financial position, statements of activities, cash flows and changes in funds, and notes for the year then ended.

The Global Fund's secretariat responsibility
The Global Fund's secretariat is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards, the requirements of Swiss law and the Global Fund's by-laws. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Global Fund's secretariat is 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 financial statements based on our audit. We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISA) as well as Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 of the 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 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 financial statements for the year ended 31 December 2008 present a fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards, comply with Swiss law and the Global Fund's 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 (Art. 728 Code of Obligations (CO) and that there are no circumstances incompatible with our independence.

In accordance with 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 financial statements according to the instructions of the Global Fund's secretariat.

Ernst & Young Ltd

Mark Hawkins
Licensed audit expert
(Auditor in charge)

Thomas Madoery
Licensed audit expert

Financial Statements

Statement of Financial Position
at 31 December 2008

In thousands of US dollars	Notes	2008	2007
ASSETS			
Cash and bank balances	2.4, 3.1	60	279
Funds held in trust	2.4, 2.5, 3.1, 3.2	5'156'053	4'337'357
Promissory notes maturing within one year	2.6, 3.3	298'266	356'102
Contributions receivable within one year	2.6, 3.4	665'095	270'209
Prepayments and miscellaneous receivables		2'803	108
		6'122'277	4'964'055
Promissory notes maturing after one year	2.6, 3.3	154'282	140'039
Contributions receivable after one year	2.6, 3.4	777'563	404'234
		931'845	544'273
Total ASSETS		**7'054'122**	**5'508'328**
LIABILITIES and FUNDS			
Liabilities			
Undisbursed grants payable within one year	2.7, 3.6.1	2'472'111	2'053'863
Accrued expenses	3.6.2	49'341	3'808
		2'521'452	2'057'671
Undisbursed grants payable after one year	2.7, 3.6.1	585'542	893'288
Total LIABILITIES		**3'106'994**	**2'950'959**
FUNDS at the end of the year		**3'947'128**	**2'557'369**
Total LIABILITIES and FUNDS		**7'054'122**	**5'508'328**

Statement of Activities
for the year ended 31 December 2008

In thousands of US dollars	Notes	2008	2007
INCOME			
Contributions	2.6, 3.5	3'714'202	2'963'751
Foreign currency exchange (loss)	2.6	(83'711)	(50'870)
Trust fund income	2.5	289'722	240'502
Total INCOME		**3'920'213**	**3'153'383**
EXPENDITURE			
Grants	2.7, 3.7	2'369'752	2'582'474
Foreign currency exchange (gain)/ loss	2.7	(4'941)	13'555
Operating expenses	3.8	165'643	117'242
Total EXPENDITURE		**2'530'454**	**2'713'271**
INCREASE IN FUNDS for the year		**1'389'759**	**440'112**

Statement of Cash Flows
for the year ended 31 December 2008

In thousands of US dollars	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributions received		2'905'030	2'802'496
Trust fund income	2.5	289'722	240'502
		3'194'752	**3'042'998**
Grants disbursed in the year		(2'254'308)	(1'724'365)
Payments to suppliers and personnel		(121'967)	(117'375)
		(2'376'275)	**(1'841'740)**
CASH FLOWS FROM OPERATING ACTIVITIES being the net increase in cash and cash equivalents		**818'477**	**1'201'258**
CASH AND CASH EQUIVALENTS at beginning of the year	2.4	**4'337'636**	**3'136'378**
CASH AND CASH EQUIVALENTS at end of the year	2.4, 3.1	**5'156'113**	**4'337'636**

Statement of Changes in Funds
at 31 December 2008

In thousands of US dollars	Notes	2008	2007
FUNDS at the beginning of the year		**2'557'369**	**2'117'257**
INCREASE IN FUNDS for the year		**1'389'759**	**440'112**
FUNDS at the end of the year		**3'947'128**	**2'557'369**
Attributed as follows:			
Foundation capital		50	50
Temporarily restricted funds	2.6	46'251	12'452
Unrestricted funds		3'900'827	2'544'867
		3'947'128	**2'557'369**

1. Activities and Organization

The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund") is an independent, non-profit foundation that was incorporated in Geneva, Switzerland on 22 January 2002. The purpose of the Global Fund is to attract and disburse additional resources to prevent and treat AIDS, tuberculosis and malaria. The Global Fund provides grants to locally-developed programs, working in close collaboration with governments, non-governmental organizations, the private sector, development agencies and the communities affected by these diseases.

The Global Fund has been founded on the following principles:

- Rely on local experts to implement programs directly;
- Make available and leverage additional financial resources to combat the three diseases;
- Support programs that reflect national ownership and respect country-led formulation and implementation processes;
- Operate in a balanced manner in terms of different regions, diseases and interventions;
- Pursue an integrated and balanced approach covering prevention, treatment and care, and support in dealing with the three diseases;
- Evaluate proposals through independent review processes based on the most appropriate scientific and technical standards that take into account local realities and priorities;
- Seek to establish a simplified, rapid, innovative grant-making process and operate in a transparent and accountable manner based on clearly defined responsibilities. One accountability mechanism is the use of Local Fund Agents to assess local capacity to administer and manage the implementation of funded programs.

Financial contributions to the Global Fund are held in the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Trust Fund") until disbursed as grants or for operating expenses. The Trust Fund is administered by the International Bank for Reconstruction and Development (the "World Bank"), as Trustee. The responsibilities of the Trustee include management of contributions and investment of resources according to its own investment strategy. The Trustee makes disbursements from the Trust Fund only upon written instruction of the Global Fund.

Most contributions are received directly in the Trust Fund. Some contributions for the benefit of Global Fund are also received by the United Nations Foundation and are held in trust for the Global Fund until subsequently transferred to the Trust Fund.

Personnel and administrative services to support the operations of the Global Fund are provided by the World Health Organization ("WHO") under an agreement between WHO and the Global Fund. The Global Fund bears in full the cost of these personnel and services. Funds remitted to WHO for this purpose are treated as funds held in trust by WHO for the benefit of the Global Fund until an expenditure obligation is incurred.

These financial statements were authorized for issuance by the Board on 6 May 2009.

Financial Statements

2. Significant Accounting Policies

2.1 Statement of Compliance

The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These standards currently do not contain specific guidelines for non-profit organizations concerning the accounting treatment and presentation of the financial statements. Consequently Statement of Financial Accounting Standard ("SFAS") 116: "Accounting for Contributions Received and Contributions Made" has been applied in respect of the recognition of contributions and grants, and SFAS 117: "Financial Statements of Not-for-Profit Organizations" has been applied in respect of temporarily restricted contributions and funds balance.

2.2 Basis of Presentation

The financial statements are presented in US dollars, the Global Fund's operating currency, 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 US dollars.

The financial statements are prepared under the historical cost convention, except for the following assets and liabilities:

- funds held in trust as indicated in Note 2.5;
- non-current contributions receivable and promissory notes as indicated in Note 2.6; and
- non-current undisbursed grants as indicated in Note 2.7.

The preparation of the financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and reported amounts of income and expenses during the reporting period. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified through the statement of activities as appropriate in the year in which the circumstances change.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date and 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 portions of Assets and Liabilities : Valued based on the expected cash flows discounted using the rates of investment returns on funds held in trust respectively in US dollars and Euros and applied to long-term assets and liabilities denominated in those currencies. Long-term assets and liabilities are held in the currency of the trust fund to which these will be eventually applied. This valuation requires the Global Fund to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty.

2. Significant Accounting Policies (continued)

2.3 Foreign Currency

All transactions in other currencies are translated into US dollars at the exchange rate prevailing at the time of the transaction. Financial assets and liabilities in other currencies are translated into US dollars at the year-end rate.

2.4 Cash and cash equivalents

The Global Fund considers that cash and cash equivalents include cash and bank balances and funds held in trust that are readily convertible to cash within three months.

2.5 Funds held in trust

The financial statements include funds that are held in trust solely for the benefit of the Global Fund by the World Bank, World Health Organization (and United Nations Foundation until 2007).

Assets held in trust by the World Bank are held in a pooled cash and investments portfolio established by the Trustee for all trust funds administered by the World Bank Group. These investments are actively managed and invested in high-grade instruments according to the risk management strategy adopted by the World Bank. The objectives of the investment portfolio strategy are to maintain adequate liquidity to meet foreseeable cash flow needs, preserve capital (low probability of negative total returns over the course of a fiscal year) and optimize investment returns.

The movement of fair value of funds held in trust is recognised in the Statement of Activities.

2.6 Contributions

In accordance with SFAS 116 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, letter of credit or similar financial instrument.

Contributions receivable under written contribution agreements signed on or before the date of the statement of financial position but which have not been received at that date are recorded as an asset and as income. 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. The movement in valuation of promissory notes and contributions receivable is recognised in the Statement of Activities.

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 reported separately in the Statement of Activities.

In accordance with SFAS 117 contributions received whose use is limited by donor-imposed purpose or time restrictions have been classified as temporarily restricted contributions.

2. Significant Accounting Policies (continued)

2.6 Contributions (continued)

Non-cash contributions donated in the form of goods or services (in-kind contributions) are recognized at the time of receipt and reported as equal contributions and expenses in the Statement of Activities, at their estimated economic value to the Global Fund.

2.7 Grants

All grants are governed by a written grant agreement and, in accordance with SFAS 116, are expensed in full 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. The long-term portion of such liabilities represents amounts that are to be disbursed later than one year after the date of the statement of financial position, discounted to estimate its present value at this same date. The movement in valuation of undisbursed grants is recognised in the Statement of Activities.

Foreign currency exchange gains and losses realized between the date of the written grant agreement and the date of the actual disbursement of cash and those unrealized at the date of the statement of financial position are reported separately in the Statement of Activities.

2.8 Impairment of financial assets

The Global Fund assesses at the date of statement of financial position whether a financial asset or group of financial assets is impaired. This assessment identified no impaired financial assets, but the following policy would apply in the event of impairment:

Contributions receivable and Promissory Notes at amortised cost: If there were objective evidence that an impairment loss on assets carried at amortised cost had been incurred, the amount of the loss would be measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not been incurred) discounted at the financial asset's original effective rate of investment return (i.e. the effective rate of investment return computed at initial recognition). The carrying amount of the asset would be reduced through use of an allowance account and the loss would be recognised in the Statement of Activities.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease could be related objectively to an event occurring after the impairment had been recognised, the previously recognised impairment loss would be reversed, to the extent that the carrying value of the asset would not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss would be recognised in the Statement of Activities.

In relation to promissory notes and contributions receivable, a provision for impairment would be made if there were objective evidence (such as the probability of insolvency or significant financial difficulties of the donor or debtor) that the Global Fund would not be able to collect all of the amounts due under the terms of the written contribution agreement or the invoice. The carrying amount of the promissory note or contribution receivable would be reduced through use of an allowance account. Impaired debts would be derecognised if they were assessed as uncollectible.

2. Significant Accounting Policies (continued)

2.8 Impairment of financial assets (continued)

Available-for-sale financial investments: The Global Fund has no available-for-sale financial instruments at the reporting date.

2.9 Local Fund Agent Fees

Fees 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 completed.

2.10 Employee Benefits

All personnel and related costs, including current and post employment benefits are managed by the WHO and charged in full to the Global Fund. A provision for US$12 million has been created to compensate staff for the loss of the value of employer contributions to retirement benefits resulting from the early withdrawal from UNJSPF.

2.11 Changes in Accounting and Reporting

2.11.1 Current Year Changes in Accounting and Reporting

Foreign exchange gains and losses are presented separately in the Statement of Activities. Comparative information in the financial statements has been reclassified where necessary. Also, the Global Fund adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of TGF. Foreign exchange gains and losses are presented separately in the Statement of Activities. Comparative information in the financial statements has been reclassified where necessary.

- IFRIC 11 IFRS 2 *Group and Treasury Share Transactions*

  This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

- IFRIC 12 *Service Concession Arrangements*

  This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

- IFRIC 14 IAS 19 *The Limit on a Defined – Benefit Asset, Minimum Funding Requirements and their Interaction*

This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits.

2.11.2 Future Changes in Accounting and Reporting:

The IASB and IFRIC issued a number of new standards and interpretations through May 2009 as follows, none of which will impact the Global Fund's financial statements when implemented:

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements*- amendments issued in May 2008 and become effective for financial years beginning on or after 1 January 2009. The amendments to IFRS 1 relate to opening IFRS financial statements. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement.

- IFRS 2 *Share-based Payment (Revised)*- amendment issued in January 2008 and become effective for financial years beginning on or after 1 January 2009. The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

- IFRS 3R *Business Combinations* and IAS 27R *Consolidated and Separate Financial Statements*- issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

- IFRS 8 Operating Segments- issued in November 2006 and becomes effective for financial years beginning on or after 1 January 2009. The standard requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's financial decision makers.

- IAS 1 *Presentation of Financial Statements* revised in September 2007 for implementation on 1 January 2009. The Standard separates owner and non-owner changes in equity.

- IAS 23 *Borrowing Costs*- issued in March 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

- IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* These amendments were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features.

- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*- issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations.

Financial Statements

- IFRIC *13 Customer Loyalty Programmes* issued in June 2007 and becomes effective for financial years beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.
- IFRIC *15 Agreement for the Construction of Real Estate*- issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. . It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*- issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. IFRIC 16 provides guidance on the accounting for a hedge of a net investment.
- IFRIC 17 *Distributions of non-cash assets to owners*- issued in October 2008 and becomes effective for financial years beginning on or after 1 July 2009. IFRIC 17 provides guidance on the treatment of distributing assets other than cash to owners.
- IFRIC 18 *Transfers of assets from customers*- issued in October 2008 and becomes effective for financial years beginning on or after 1 July 2009. . IFRIC 18 provides guidance on how to treat the transfer of asset that provide access to utility networks.

3. Details relating to the financial statements
In thousands of US dollars unless otherwise stipulated

3.1 Cash and Cash Equivalents

	2008	2007
Cash and bank balances	60	279
Funds held in trust	5'156'053	4'337'357
	5'156'113	**4'337'636**

3.2 Funds held in trust

	2008	2007
World Bank	5'080'968	4'301'895
World Health Organization	75'085	32'612
United Nations Foundation	-	2'850
	5'156'053	**4'337'357**

3.3 Promissory Notes

	2008	2007
Maturing in 2008	-	356'102
Maturing in 2009	298'266	140'039
Maturing in 2010	154'282	-
	452'548	**496'141**

3.4 Contributions receivable *

	2008	2007
Receivable within one year	665'095	270'209
Receivable after one year	777'563	404'234
	1'442'658	**674'443**

* Comprises amounts receivable under written contribution agreements signed on or before 31 December 2008 and 2007 respectively that had not been received at that date.

3. Details relating to the financial statements (continued)

In thousands of US dollars unless otherwise stipulated

3.5 Contributions

	2008	2007
Governments	3'562'999	2'867'303
Private sector	1'533	49'224
Temporarily restricted- Governments	8'006	-
Temporarily restricted- Others	141'664	47'224
	3'714'202	**2'963'751**

	2008	2007
Contributions received including encashed promissory notes	2'830'714	2'853'366
Increase in promissory notes to be encashed	13'517	76'735
Increase in contributions receivable	869'131	32'053
Contributions in kind	840	1'597
	3'714'202	**2'963'751**

3.6 Liabilities

3.6.1 Undisbursed grants payable

	2008	2007
Payable within one year	2'472'111	2'053'863
Payable after one year	585'542	893'288
	3'057'653	**2'947'151**

	2008	2007
Undisbursed grants due in 2008	-	2'053'863
Undisbursed grants due in 2009	2'472'111	841'567
Undisbursed grants due in 2010	614'683	156'598
Undisbursed grants due in 2011	28'427	-
	3'115'221	**3'052'028**

Discounted at the Trust Fund average rate of return	(57'568)	(104'877)

In addition to the grant agreements entered into as outlined above, the Board has approved US$ 4.9 billion (2007: US$ 2.3 billion) of new grants which will become liabilities upon signature of the grant agreements.

3.6.2 Accrued expenses

	2008	2007
Payable on demand	49'341	3'808
	49'341	**3'808**

3.7 Grants expenditure

	2008	2007
Grants disbursed in the year	2'259'250	1'710'810
Movement in undisbursed grants	110'502	871'664
	2'369'752	**2'582'474**

Financial Statements

3. Details relating to the financial statements (continued)
In thousands of US dollars unless otherwise stipulated

3.8 Operating expenses

	2008	2007
Secretariat expenses		
Personnel	71'650	41'054
Trustee fee	2'400	2'250
Administrative services fee	2'505	1'971
Other professional services	24'787	15'002
Travel and meetings	12'340	10'932
Communication materials	4'017	2'570
Office rental	7'140	4'683
Office infrastructure costs	10'971	5'036
Other	1'369	871
	137'179	84'369
ocal Fund Agent fees	27'069	32'873
ountry Coordination Mechanism Funding	1'395	-
	165'643	**117'242**

Included in Operating expenses above are contributions in kind attributed as follows:

	2008	2007
Contributions in kind		
Other professional services	536	1'422
Travel and meetings	16	34
Communication materials	288	141
	840	**1'597**

3.9 Personnel

As described in Note 1, personnel to support the operations of the Global Fund are provided by the WHO under an agreement between the WHO and the Global Fund. At 31 December 2008 there were 392 personnel assigned to the Global Fund (2007: 337). Of these, 323 (2007: 228) were assigned under fixed-term contracts, typically of two years duration. All other personnel are assigned under contracts of shorter duration.

3.10 Remuneration of key management

Key management, in common with all personnel assigned to the Global Fund, are remunerated according to the WHO salary scale. Remuneration consists of salary, allowances and employer contributions towards pension and benefit schemes. Remuneration of key management, comprising the Executive Director, the Deputy-Executive Director, heads of the Global Fund's six business units, and the Inspector General, amounted to US$ 2.0 million in 2008
(2007: US$ 2.1 million).

The Global Fund does not remunerate its Board members.

3.11 Taxation

The Global Fund is exempt from tax on its activities in Switzerland.

Financial Statements

3. Details relating to the financial statements (continued)
In thousands of US dollars unless otherwise stipulated

3.12 Lease Commitments

At 31 December 2008, the Global Fund has the following outstanding operating lease commitments:

Year	Office space	Office equipment	Vehicle
2009	8'292	73	7
2010	8'292	73	-
2011	8'292	73	-
2012	8'292	73	-
2013	8'292	8	-
	41'460	**300**	**7**

4. Financial Instruments

The Global Fund employs the following risk management policies to financial instruments:

Market risk: The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, in interest rates or in 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 Global Fund has assigned the management of market risk primarily to the Trustee, and does not use derivative financial instruments to reduce its market risk exposure on other financial instruments.

Interest rate risk: The risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Global Fund does not use derivative financial instruments to reduce its exposure risk on interest from variable rate bank balances and funds held in trust.

Currency risk: The risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Global Fund hedges its exposure to currency risk by matching grant liabilities in Euros with assets in the same currency to the extent possible.

Credit risk: Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Global Fund does not use derivative financial instruments to reduce its credit risk exposure.

The Global Fund's maximum exposure to credit risk in relation to cash and bank balances, funds held in trust, promissory notes and contributions receivable is the carrying amount of those assets as indicated in the statement of financial position. The Global Fund places its available funds with high quality financial institutions to mitigate the risk of material loss in this regard. With respect to the Global Fund's promissory notes and contributions receivable, management believes these will be collected as they result from mutually signed contribution agreements primarily with governments.

As described in Note 2.5, those funds held in trust by the World Bank, acting as Trustee for the Global Fund, are held together with other trust fund assets administered by the World Bank in a pooled cash and investments portfolio ("the Pool"). The Pool is actively managed and invested in accordance with the investment strategy established by the Trustee for all trust funds administered by the World Bank Group. The objectives of the investment strategy are foremost to maintain adequate liquidity to meet foreseeable cash flow needs and preserve capital and then to optimize investment returns. The Pool is exposed to market, credit and liquidity risks. Promissory notes and contributions receivable are exposed to credit, currency and liquidity risks. There has been no significant change during the financial year or since the end of the year to the types of financial risks faced by the Trust Fund or the Trustee's approach to the management of those 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 that the probability of incurring negative returns is no more than 1% over the applicable investment horizon. The asset allocation of the Pool is managed so as to optimize the Pool's total returns within the specified risk tolerance.

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 unfavourable movement in interest rate and credit spreads. The VAR is measured using a

4. Financial Instruments (continued)

parametric/analytical approach. It assumes that the movements in the market risk factors are normally distributed. In constructing the covariance matrix of market risk factors, a time decay factor is applied to weekly market data for the past three years. This approach takes into account three years' historical market observations, 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% confidence level at 31 December 2008 is estimated to be US$ 106 million (2007: US$ 107.3 million). The computation does not purport to represent actual losses in fair value of the Trust Fund's share in the Pool. The Trustee cannot predict actual future movements in such market rates and does not claim that these VAR results are indicative of future movements in such market rates or to be representative of the actual impact that future changes in market rates may have on the Trust Fund's future results or financial position.

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. In accordance with the Agreement and/or the instructions from the Global Fund, the Trustee maintains the share in pooled cash and investments of the Trust Fund in U.S. dollars and Euros. Cash contributions received are converted into U.S. dollars on receipt, except when the Global Fund instructs the Trustee to hold selected cash contributions received in Euros. Commitments for administrative budgets, trustee fee and majority of the grants are denominated in U.S. dollars.

The following table details the sensitivity of the Statement of Activities to a strengthening or weakening of the major currencies in which the Trust Fund holds financial instruments. The percentage movement applied in each currency is based on the average movements in the previous three reporting periods. The average movement in the current period is based on beginning and ending exchange rates in each period.

	2008		2007	
Currency	Change %	Amount US$ millions	Change %	Amount US$ millions
Euro	7%	(+/-) 95	11%	(+/-) 78
Pound Sterling	16%	(+/-) 83	8%	(+/-) 19

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. The Trust Fund's maximum exposure to credit risk at 31 December 2008 is equivalent to the gross value of the assets (excluding discount on promissory notes and contributions receivable) amounting to US$ 6,951.9 million (2007:US$ 5,507.9 million). The Trustee does not hold any collateral or credit enhancements except for the following repurchase agreements and resale agreements repurchase agreements with other counterparties. The Trust
Fund's proportionate share of the fair value of those securities at 31 December 2008 was US$ 199.4 million (2007 US$ 951.0 million). There are no significant terms and conditions associated with the use of collateral. As at 31 December 2008 the Trustee did not hold collateral that is permitted to sell or re-pledge in the absence of default. In addition, the trustee has not re-sold or re-pledged any collateral during the year. The terms and conditions associated with collaterals have no significant unusual requirements from the usual practice of recourse when a default occurs.

4. Financial Instruments (continued)

The Trustee invests in liquid instruments such as money market deposits, government and agency obligations, and mortgage-backed securities. The Trustee is limited to investments with minimum credit ratings as follows:

- Money market deposits: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organization or any other official entity require a minimum credit rating of AA-.
- Mortgage-backed securities, Asset-backed securities and corporate securities: minimum rating must be AAA.

At the reporting date, approximately 94% (2007: 92%) of the Trust Fund's share of the investment pool is held in securities rated at least AA and 6% (2007: 8%) is held in securities rated at least A+. At the reporting date, the Trust Fund's proportionate share is: Money market deposits: 14% (2007: 42%) Government and agency obligations: 46% (2007: 23%), Mortgage-backed securities, Asset-backed securities and corporate securities: 40% (2007: 35%).

The Trustee identifies the concentration of credit risk based mainly on the extent to which the pool of cash and investments are held by an individual counterparty. The concentration of credit risk with respect to the pool of cash and investments is limited because the Trustee has policies that limit the amount of credit exposure to any individual issuer.
Notes and contributions receivable result from mutually signed contribution agreements. None of these financial assets are deemed uncollectible. Further, there was no renegotiation of terms to financial assets that would otherwise be impaired.

Liquidity risk: The risk that an entity will encounter difficulty in raising liquid funds to meet its commitments. As a policy, the Global Fund makes commitments for administrative budgets, trustee fees and grants only if there are sufficient underlying assets. The Trustee maintains a significant portion of the Pool in short-term money market deposits to meet disbursement requirements.