

# 35th Board Meeting

## 2015 Annual Financial Report

### Including the 2015 Consolidated Financial Statements and 2015 Statutory Financial Statements

GF/B35/09

Board Decision

**PURPOSE:** This report outlines the Audit and Ethics Committee's recommendation of the following for approval and issuance by the Board:

1. The Global Fund's 2015 Annual Financial Report, which includes the 2015 Consolidated Financial Statements that have been audited by Ernst & Young SA; and
2. The Global Fund's 2015 Statutory Financial Statements, which have been audited by Ernst & Young SA.

## I. Decision Point

1. Based on the rationale described below, the following decision points are recommended to the Board:

**1. Decision Point: GF/B35/DPXX: 2015 Annual Financial Report**

*The Board authorizes the issuance of, and therefore approves, the Global Fund's 2015 Annual Financial Report, which includes the 2015 Consolidated Financial Statements that have been audited by Ernst & Young SA, as set forth in GF/B35/09 Annex 1.*

**2. Decision Point: GF/B35/DPXX: 2015 Statutory Financial Statements**

*The Board authorizes the issuance of, and therefore approves, the Global Fund's 2015 Statutory Financial Statements, which have been audited by Ernst & Young SA, as set forth in GF/B35/09 Annex 2.*

## II. Relevant Past Decisions

2. Pursuant to the Governance Plan for Impact as approved at the Thirty-Second Board Meeting,<sup>1</sup> the following summary of relevant past decision points is submitted to contextualize the decision point proposed in Section I above.

Relevant past Decision Point	Summary and Impact
<b>1. Decision Point: GF/B33/DP04: Annual Financial Report 2014 (April 2015)</b>	The Board authorizes the issuance of, and therefore approves, the Global Fund's 2014 Annual Financial Report, which includes the 2014 Consolidated Financial Statements that have been audited by Ernst & Young SA, as set forth in Annex 1 to GF/B33/03- Revision 1.
<b>2. Decision Point: GF/B33/DPX05: 2014 Statutory Financial Statements (April 2015)</b>	The Board authorizes the issuance of, and therefore approves, the Global Fund's 2014 Statutory Financial Statements, which have been audited by Ernst & Young SA, as set forth in Annex 2 to GF/B33/03 - Revision1.

## III. Action Required

3. Upon the approval of the decision point proposed in this paper:

<sup>1</sup> GF/B32/DP05: Approval of the Governance Plan for Impact as set forth in document GF/B32/08 Revision 2.

- a. The Secretariat will publish the 2015 Annual Financial Report which includes the audited 2015 Consolidated Financial Statements on its external organizational website to be accessed by its stakeholders.
- b. The audited 2015 Statutory Financial Statements will be filed in Switzerland in accordance with the Swiss law and the Global Fund's by-laws.

## IV. Executive Summary

4. Ernst & Young SA (the "External Auditor") has completed the audit of the Global Fund consolidated and statutory financial statements. Upon conclusion of the audit, the External Auditor confirmed that it is in a position to issue unqualified audit opinions on the consolidated and statutory financial statements.
5. The Secretariat and the External Auditor presented their overview of the external audit results to the Audit and Ethics Committee (the "AEC"). The AEC accepted the:
  - a. Final version of the 2015 Consolidated Financial Statements, which have been prepared by the Secretariat and audited by Ernst & Young SA;
  - b. Final version of the 2015 Statutory Financial Statements, which have been prepared by the Secretariat and audited by Ernst & Young SA;
  - c. 2015 Audit Results Report prepared by Ernst & Young SA;
  - d. Conclusion and statement from Ernst & Young SA that they are in a position to issue an unqualified audit opinion on both the 2015 Consolidated Financial Statements and the 2015 Statutory Financial Statements;
  - e. Final Draft of Management's Letter of Representation to Ernst & Young SA; and
  - f. Comments and responses by the Secretariat and Ernst & Young SA to the questions and topics of discussion during the AEC's deliberations.

## V. Background

### 01 External Audit for fiscal year 2015

6. In accordance with its Charter, the AEC has the advisory function to recommend the annual audited financial statements of the Global Fund to the Board for approval.<sup>2</sup>
7. For the 2015 financial year, the AEC recommends two sets of information to the Board for issuance and approval, as follows:
  - a. The 2015 Annual Financial Report, that includes the 2015 Consolidated Financial Statements, which have been audited by the External Auditor; and
  - b. The 2015 Statutory Financial Statements, which have been audited by the External Auditor.
8. The 2015 Consolidated Financial Statements and its related discussion, analysis and commentary have been combined into one report (the "2015 Annual Financial Report"), as set forth in Annex 1 to GF/B35/09. The 2015 Statutory Financial Statements, as set forth in Annex 2 to GF/B35/09, is an independent document meant to be used only for Swiss statutory financial reporting purposes.
9. The 2015 Consolidated Financial Statements include the financial statements for the US Fund for the Global Fund whereas the 2015 Statutory Financial Statements do not. As such the financial information in the

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<sup>2</sup> Section B.2.2.f of the Charter of the Audit and Ethics Committee.

2015 Statutory Financial Statements is a subset of the consolidated information reflected in the 2015 Consolidated Financial Statements. This is consistent with the approval of the 2014 audited financial results.

10. At its 14<sup>th</sup> Meeting, the AEC reviewed the final drafts of the 2015 Annual Financial Report, which includes the 2015 Consolidated Financial Statements; the 2015 Statutory Financial Statements and the 2015 Audit Reports on the consolidated and statutory financial statements, which included the External Auditor's conclusion that it was in a position to sign an unqualified audit opinion for both sets of financial statements.

11. Based on this review, as outlined below in greater detail, the AEC recommends the following to the Board for approval and issuance:

- a. The Global Fund's 2015 Annual Financial Report, which includes the 2015 Consolidated Financial Statements; and
- b. The Global Fund's 2015 Statutory Financial Statements.

## VI. Discussion

### 01 2015 Audit Results

12. The External Auditor confirmed it performed its work in accordance with the audit scope approved by the AEC.

13. The External Auditor confirmed its acceptance of the judgments, estimates and assumptions made by the Secretariat in preparing the 2015 Consolidated Financial Statements and 2015 Statutory Financial Statements.

14. Based on discussions and audit procedures, the External Auditor confirmed to the AEC it did not identify any matters regarding fraud or illegal acts.

15. The External Auditor reported that the 2015 financial closure process was robust and effective.

16. The External Auditor and the OIG shared their respective audit plans and results.

17. All open issues from the Management Letters as at 31 December 2014 were cleared in 2015. As at 31 December 2015 there are no outstanding management letter points.

18. Altogether, the External Auditor confirmed:

- a. They are in a position to sign an unqualified audit opinion for both the 2015 Consolidated Financial Statements and 2015 Statutory Financial Statements;
- b. With respect to the 2015 Consolidated Financial Statements, the final draft of the consolidated financial statements for the year ended 31 December 2015 gives a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS;
- c. With respect to the 2015 Statutory Financial Statements:
  - i. The final draft of the statutory financial statements for the year ended 31 December 2015 comply with Swiss law and the Global Fund's Bylaws;
  - ii. The External Auditor meets legal requirements on licensing and independence and there are no circumstances incompatible with their independence; and
  - iii. An internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Global Fund Board.

## 02 14th AEC Meeting Deliberations

19. At the 14<sup>th</sup> AEC Meeting on 08-10 March 2016, the AEC completed the following work to formulate a recommendation to the Board on the Global Fund's 2015 Annual Financial Report, which includes the 2015 Consolidated Financial Statements, and the 2015 Statutory Financial Statements:
  - a. Review and acceptance of the final draft of the 2015 Annual Financial Report, which included the:
    - i. 2015 Consolidated Financial Statements prepared by the Secretariat and presented to the External Auditor for audit purposes;
    - ii. Discussion, analysis and commentary with respect to the 2015 Consolidated Financial Statements; and
    - iii. Report of the External Auditor on the 2015 Consolidated Financial Statements.
  - b. Review and acceptance of the final drafts of the 2015 Statutory Financial Statements, which have been prepared by the Secretariat and presented to the External Auditor for audit purposes, and the Report of the External Auditor of the 2015 Statutory Financial Statements;
  - c. Review and acceptance of the 2015 Audit Results Report which included the External Auditor's conclusion and statement they are in a position to:
    - i. Sign an unqualified audit opinion with respect to the 2015 Consolidated Financial Statements;
    - ii. Sign an unqualified audit opinion with respect to the 2015 Statutory Financial Statements; and
    - iii. Confirm the existence of an internal control system;
  - d. Review and acceptance of the 2015 Comprehensive Report of the External Auditor to the Board;
  - e. Listening to and accepting commentary on management representations made by the Secretariat to the External Auditor;
  - f. Listening to and accepting the statement of assurance with respect to the 2015 Annual Financial Report, which includes the 2015 Consolidated Financial Statements, and 2015 Statutory Financial and the annual assurance statement from the Office of the Inspector General; and
  - g. Additional discussion with and questioning of the Secretariat, Office of the Inspector General and the External Auditor, including open- and executive-session discussions with the External Auditor, on their views and opinions and acceptance of satisfactory responses from the parties.
20. Accordingly, the AEC recommends the 2015 Annual Report, which includes the 2015 Consolidated Financial Statements, as well as the 2015 Statutory Financial Statements, to the Board for issuance and approval.

## VII. Recommendation

21. Based on the discussion presented above, the AEC recommends to the Board approve the decision points proposed in this paper to approve the 2015 Annual Financial Report, which includes the 2015 Consolidated Financial Statements, and the 2015 Statutory Financial Statements.

**2015 Annual Financial Report  
Including 2015 Consolidated Financial Statements**

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**ANNUAL FINANCIAL REPORT**



**2015**

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# MANAGEMENT REPORT

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## Year under review

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### Letter from the Chair and Vice-Chair

The Annual Financial Report illustrates an effective and efficient use of financial resources by the Global Fund Secretariat, which the Board Leadership highly commends.

The context of Sustainable Development Goals calls for a strategic repositioning of the Global Fund and adaptability to new challenges, while keeping its focus on eliminating the three diseases as epidemics as a major contribution to building resilient and sustainable systems for health. These considerations have been at the heart of the development of the new Global Fund's strategy for 2017-2022.

We need to be able to welcome new emerging donors, support health care interventions in challenging operating environments, and ensure a patient-centered approach in migrating populations. An increased demand of flexibility of Global Fund's interventions requires more innovative modalities of channeling funds to those in need. We welcome Secretariat's efforts to pursue concessional loans, debt conversion (Debt2Health), co-financing, and blended financing with a variety of actors. Some additional efforts to increase and broaden fundraising should also be possible, given the large unmet need illustrated by the register of Unfunded Quality Demand.

In 2015, the Secretariat has taken major steps to differentiate its approaches to portfolio management, streamlining its internal procedures and strengthening the coordination of partners on the ground to facilitate program implementation. We welcome an increased focus on national disease strategies as basis for applications, a wise distribution of human resources across portfolios of various complexities while not losing key oversight requirements, and a joint accountability of partners for increasing domestic financing, strengthening national leadership and ownership of programs, which ultimately contribute to the sustainability of Global Fund-supported activities.

Differentiation of approaches will help to discuss risk tolerance at the Board level and embed risk management and oversight in the Global Fund's operations. Similarly, the Global Fund and its partners need to strengthen its engagement with a wider range of in-country stakeholders, such as members of parliament and health financing actors, to support sustainability-related planning and advocacy.

We would like to congratulate the Executive Director, the Chief Financial Officer, and all those very engaged and committed staff and stakeholders who have contributed to the achievements presented in this report.

Norbert Hauser  
Chair of the Board

Aida Kurtovic  
Vice-Chair of the Board

## Financial Highlights

Statement of activity (in millions of USD)	2015	2014	2013
Contributions	2,189	3,460	5,061
Grant expenditure	4,389	2,563	3,310
Operating expenses (including Provident Fund valuation)	298	285	272
Foreign exchange result, net	(110)	(292)	66
Financial (loss)/ income, net	17	44	4
Loss on actuarial valuation of employee benefits	(6)	(7)	-
Increase/ (decrease) in funds	(2,597)	357	1,549

Statement of financial position (in millions of USD)	2015	2014	2013
Cash and cash equivalent, including Trust Fund assets	3,069	4,403	4,397
Contributions receivable	2,881	3,172	3,348
Other assets	233	131	103
Grants payable	2,656	1,555	1,985
Other liabilities	214	241	310
Funds	3,313	5,910	5,553

Statement of cash flow (in millions of USD)	2015	2014	2013
Cash receipts from donors	2,255	3,277	3,333
Grants disbursed	3,318	2,979	4,058
Cash paid for other operating activities	275	229	263
Hedging cash flow, net of financial income	27	41	5
Cash paid for investing activities	15	14	16
FX (loss)/ gains on cash	(8)	(49)	30
Increase/ (decrease) in cash and cash equivalent	(1,334)	6	(974)
<b>Other key information</b>			
Grant contingent liability (in millions of USD)	5,453	4,601	4,852
Number of active grants	340	343	429
Number of employees	702	682	639

Key Performance Indicators (KPI)			Performance	
Strategic Objective	KPI	2015 Actual	2015 Target	Commentary
Invest more strategically	Efficiency of Global Fund investment decisions	56%	57%	14% improvement since 2014 Alignment between investment decisions and country "need"; with need defined in terms of disease burden and ability to pay
	Grant portfolio performance: Funding absorption rate at annual funding decision (Annual grant expenses / Annual Grant Agreement budget)	84%	85%-100%	84% 2015 grant agreement budgets were committed by end-2015.
Evolve the funding model	Grant expenses forecast: Corporate Expenditure Rate (CER): Proportion of forecast grant expenses made to schedule	110%	90%-110%	110%; USD 4.3 billion 2015 Actual Grant Expense / USD 3.9 billion Grant Expense Corporate Budget
Sustain the gains, mobilize resources	Pledge conversion rate- Actual Fourth Replenishment contributions as a percentage of forecast	76%	2014-2016 Target was USD 15 billion	76% of expected 2015 contributions were converted in 2015. Cumulatively since launch of NFM, 78% of total contributions expected to date have been converted
Strategic Enablers Enhance partnerships & Improve operations	Efficiency of grant management operations: Operating expenses as a percentage of grants under management	2.3%	2.8%	USD 296 million Stable operating expenses; well within budget.

## Organisational Background

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### 1- VISION, MISSION AND STRATEGY

The Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Global Fund”) is an international financing institution that fights AIDS, tuberculosis and malaria with a 21st century approach, applying three core principles:

- 1- **Country Ownership** – The countries determine their own solutions to fighting these three diseases, and take full responsibility for ensuring the implementation of these solutions in light of their own political, cultural and epidemiological context.
- 2- **Partnership** – Governments, civil society, communities living with the disease, technical partners and the private sector are involved in the decision-making process and collaborate in the implementation of programs funded by the Global Fund.
- 3- **Performance-based funding** – Continued funding is dependent upon the demonstration of proven results.

For the period 2012-2016, the Global Fund aims to save 10 million lives and prevent 140-189 million new infections, by pursuing a strategy centred on the following strategic objectives:

- i. **Invest More Strategically** in areas with high potential for impact and strong value for money, and fund based on countries’ national strategies;
- ii. **Evolve the Funding Model** to provide funding in a more proactive, flexible, predictable and effective way;
- iii. **Actively Support Grant Implementation Success** through more active grant management and better engagement with partners;
- iv. **Promote and Protect Human Rights** in the context of the three diseases;
- v. **Sustain the gains, mobilise resources** by increasing the sustainability of supported programs and attracting additional funding from current and new sources;

The 2012-2016 Strategy also recognizes the two following strategic enablers: enhancing partnerships to deliver results; and transforming to improve governance, operations and fiduciary controls.

Progress on the strategic objectives is tracked through a Corporate Key Performance Indicators (KPI) Framework, initially approved at the 30th Board Meeting in November 2013 and subsequently updated at the 32<sup>nd</sup> Board Meeting in November 2014 after an extensive consultative process. The Secretariat periodically reports performance on the Corporate KPIs to the Board and its standing committees.

### 2- LEGAL STATUS

The Global Fund was established as a Swiss foundation in 2002. In addition, the following recognition has also been provided to the Global Fund:

- The Swiss Confederation granted the Global Fund a status comparable to that of UN organisations through the 2004 Headquarters Agreement;

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- The United States of America, through an executive order in 2006, designated the Global Fund as a public international organisation; and the Internal Revenue Service considers the Global Fund as a public charity that is exempt from taxes under Section 501 (c)(3) of the Internal Revenue Code of the United States of America: and
- The European Commission decided to treat the Global Fund as an International Organisation for the purposes of managing EU funds.

## 3- CORE STRUCTURES

The Global Fund operates within the following core structures:

1. **The Board and its standing committees** - The Global Fund Board is composed of representatives from donor and implementer governments, civil society, the private sector, private foundations, and communities living with and affected by the diseases. The Board is responsible for the organisation's governance, including establishing strategies and policies, making funding decisions and setting operating budgets. The Board also works to advocate and mobilize resources for the organisation.

The Board's three standing committees are:

- Strategy Investment and Impact Committee (SIIC);
- Finance and Operational Performance Committee (FOPC); and
- Audit and Ethics Committee (AEC)

These committees have Board-delegated decision-making, advisory and oversight responsibilities, outlined in their respective charters, to facilitate and oversee the Secretariat's implementation of the Board's strategy and policies.

At its 32nd meeting in November 2014, the Board approved a Governance Plan for Impact (GF/B32/DP05), which recommends both short and longer term improvements to the Global Fund governance systems and performance. The implementation of the Governance Plan will be finalized in April 2016.

2. **The Secretariat** - The Global Fund Secretariat is responsible for the day-to-day operations of the Global Fund as stated in the By-laws. Under the leadership of the Executive Director, who is appointed by and reports to the Global Fund Board, the Secretariat manages the grant portfolio; executes Board policies; mobilizes resources; provides strategic, policy, financial, legal and administrative support; and oversees monitoring and evaluation of results. The Secretariat is based in Geneva, Switzerland and has no office or employees located outside its headquarters.
3. **The Office of the Inspector General** - The Global Fund has an Office of the Inspector General (the "OIG") that was established by the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria in July 2005. Under the leadership of the Inspector General, the OIG operates as an independent unit from the Secretariat, reporting to the Board through the AEC for strategic direction, reinforcement and accountability.

## 4- PROGRAM STRUCTURE

Programs funded by the Global Fund are implemented by Principal Recipients, in collaboration with in-country partners. The Global Fund does not have offices in implementing countries. The key in-country structures involved in programs funded by the Global Fund are:

1. The Country Coordinating Mechanism (CCM), a partnership composed of key stakeholders in a country's response to the three diseases, responsible for submitting funding requests to the Global Fund, nominating the entities accountable for administering the funding, and overseeing grant implementation.
2. The Principal Recipient (PR), designated by the CCM, is the prime recipient of Global Fund financing and utilises it to implement programs, either directly or through other organisations (sub-recipients).
3. The Local Fund Agent (LFA), is responsible for monitoring in-country grant implementation and providing recommendations to the Secretariat on key decisions relating to grants.

## 5- GLOBAL FUND STRATEGY 2017-2022

In 2015, the Global Fund embarked on a highly consultative process to develop its 2017-2022 strategy. Under the leadership of the SIIC, a series of consultations took place to shape the strategic focus of the Global Fund.

Three partnerships forums, organized in Addis Ababa, Bangkok and Buenos Aires, a global e-forum and several technical consultations allowed key stakeholders to express their views and proposals. Following these consultations, in November 2015 the Global Fund Board approved the Strategic Framework which will guide the 2017-2022 strategy that will be presented to the Board in April 2016.

Under the overarching goal to end the epidemics, the Strategic Framework set out four strategic objectives:

- i. maximize impact against, HIV, TB and malaria;
- ii. build resilient and sustainable systems for health;
- iii. promote and protect human rights and gender equality; and
- iv. mobilize increased resources.

## 2015 OPERATIONAL REVIEW

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### 1- THE REPLENISHMENT MECHANISM

Under its replenishment mechanism, every three years, the Global Fund convenes donors and other key partners to discuss funding for the ensuing three-year period (the “Replenishment Period”). This mechanism allows for greater predictability and enables both the Global Fund and implementing countries to establish long-term plans for fighting the three diseases.

In December 2015, the Global Fund convened donors and partners to the Preparatory Meeting of the Fifth Global Fund Replenishment in Tokyo, Japan. The purpose of the Preparatory Meeting was to present results and impact achieved to date as well as to present and discuss the Investment Case for the Fifth Replenishment which sets the Global Fund’s resource mobilization target at USD 13 billion over the 2017-19 period. Overall, there was a strong push from participants for the Global Fund to continue its lifesaving work and acknowledgement that significant additional resources, both domestic and international, will be needed over the coming years to achieve the goal of ending the epidemics.

As a public-private partnership, the Global Fund actively engages in fundraising with the private sector and other non-government partners. At the Tokyo Meeting, private sector organisations, charities and foundations made commitments to support the Global Fund through announcement of pledges amounting to USD 37 million for the current Fourth Replenishment period. These additional pledges came from (RED), Comic Relief and the Children's Investment Fund Foundation (CIFF).

An overview of key developments during 2015 relating to fundraising has been included in the financial commentary.

### 2- THE FUNDING MODEL

The Global Fund’s allocation-based model, rolled out in 2014, aims to invest for impact by focusing resources where they are needed most. In the current allocation period covering 2014-2016, 113 eligible countries received a funding allocation for each disease component for which the individual countries were eligible. The allocation formula was based on disease burden and the level of income of eligible countries. USD 14.7 billion was allocated to eligible countries in 2014 including existing funds). In 2014 and 2015, the Global Fund Board approved grants representing 71 percent of funding available for allocation (see figure 1).

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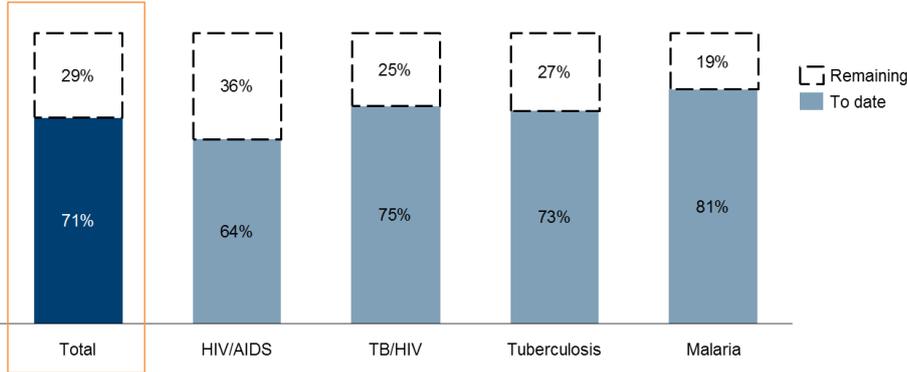


Figure 1: Board approval of 2014-2016 allocation funding for grants as of 24 December 2015

To access their 2014 - 2016 funding allocations, countries submit concept notes during a submission “window” of their choice over the 2014 – 2016 period. In 2015, four windows occurred in which 116 country concept notes were submitted and subsequently, reviewed by the Global Fund’s independent Technical Review Panel (TRP) and Secretariat’s Grant Approvals Committee (GAC). Of these submissions 113 were approved for grant-making. Their value totalled USD 5.3 billion, representing 36 percent of 2014-2016 allocation funding and USD 329 million in incentive funding – additional funding for which eligible countries may apply – was also awarded. Additionally, 13 regional concept notes were approved for grant-making in 2015. The maximum value of funding available for the resultant regional programs is USD 120 million.

The Board approved 221 grants in 2015, representing USD 8.9 billion of allocation funding. These grants originated from concept notes submitted during 2014-2015. Due to the need for program continuity, 133 grant extensions were also reviewed and approved in 2015, representing USD 225 million of allocation funding.

Overall, since the beginning of the 2014-2016 allocation period:

- The TRP and GAC have approved USD13.7 billion of allocation funds for grant-making, representing 93 percent of allocation funding.
- The GAC has awarded USD 918 million in incentive funding.<sup>1</sup>
- USD 2.9 billion is on the Register of Unfunded Quality Demand.<sup>2</sup>
- The Board has approved 282 grants.<sup>3</sup>

<sup>1</sup> Incentive funding awarded by the GAC is listed on the [incentive funding page](#).  
<sup>2</sup> The register is available for download on the [Register of Unfunded Quality Demand page](#).  
<sup>3</sup> All grants approved under the allocation model are listed on the [funding decision page](#).

## 3- GRANT MANAGEMENT

During 2015 the Secretariat has taken up three important projects that aim to deliver key enhancements for better grant management. The projects have robust objectives that will require timely decision-making, coordination across departments, data for monitoring progress and impact, and a nuanced understanding of the risks of both action and inaction.

### Accelerated Integration Management

The Accelerated Integration Management project, (“Project AIM”) is building upon the successful implementation of a major transformation initiative of the organisation’s financial systems under the Step-Up project. To accelerate progress through grant management, it is essential to operate with up-to-date and robust portfolio data, aligned business processes and integrated systems to support them.

Currently the grant management business processes and IT systems are still dependent on multiple solutions, manual operations (data entries, workflows etc.) and are not fully aligned, integrated and automated. In addition, the existing systems are not able to accommodate and support adequately the functionalities and data requirements linked to the current funding model. Hence, the project seeks to re-design, optimize, integrate and enhance the capabilities of the grant management processes and deliver an integrated, fully enhanced solution to support efficient portfolio management.

The objectives of Project AIM are:

1. Enable portfolio management with improved visibility of performance results, impact data and enhanced facilities for portfolio monitoring and reporting
2. Programmatic data integrity and consistency through the implementation of an aligned data model, standardized data collection and reporting abilities
3. Organisational alignment through aligned cross-functional processes
4. Organisational efficiency through clarified roles and responsibilities
5. Integrated and simplified systems through an updated architecture, automatic interfaces between applications and transparent and user-friendly data management

### Implementation through Partnership

The Implementation through Partnership (ITP) project, launched on 1 October 2015, aims to increase the effectiveness and efficiency of grant implementation for 20 country portfolios through shared ownership and mutual accountability. These countries were identified based on a financial and programmatic assessment of the status of implementation and planned across the Global Fund’s grant portfolio. In the initial stage, country-focused meetings have been held to address bottlenecks and propose relevant targeted solutions through an inclusive approach. Subsequently, specific and prioritized actions were identified per country. In determining the actions it was ensured that they fit the scope of ITP, can be delivered within the immediate term and have measurable results.

ITP’s approach and focus on 20 countries creates an opportunity for increased impact through coordinated, results oriented support. With actions already beginning, this one-year project will continue to keep stakeholders updated on what is working and how the project is learning to further streamline processes into existing structures, both internally to the Global Fund as well as with partners. Ultimately, this project aims to attain the following outcomes across all 20 countries:

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1. Improved use of funds in key countries as measured by programmatic and financial targets
2. Increased number of implementation bottlenecks addressed with partners through collectively identified, specific actions
3. Improved processes in place for planning and coordinating technical support with countries and partners (this includes transparently measuring quality and results of investments)

## **Differentiation for Impact**

The Global Fund partnership has operated since its inception with an understanding that each challenge must be met with its own solution, and that efforts to generalize or use a “one-size-fits-all” approach would be ineffective. However, to date, procedures and processes have been used in a standard and uniform manner across the portfolio. Innovative approaches to meet diverse country needs are essential to accelerate the end of the epidemics. The need to differentiate our operational approach seems more pressing today than ever before and investing for maximum impact means we must consider the specificities of each environment. Country context must be a key pillar of our investment approach which allows a differentiated approach for different country needs.

In the Global Fund’s Strategy 2012-2016, evolving the funding model was a fundamental change to enable investment for greater impact. The current allocation-based funding model more effectively supports the countries with the highest disease burden and with the least economic capacity. To take differentiation to the next level, we must also consider each country’s position in the development continuum by taking into account epidemiologic context, financing gaps, fiscal space, absorptive capacity, risk and the potential for the Global Fund partnership to have the most catalytic impact.

In managing our grants, we need to find innovative ways to differentiate our investments and processes guided by the unique circumstances along the development continuum including:

- Engagement at federal or state levels in large and high disease burden countries, where appropriate;
- Concentrated epidemics that disproportionately affect key populations, including in upper-middle income countries;
- The needs of challenging operating environments and emergency situations; and
- The need to support sustainability across the portfolio and the unique needs of countries approaching transition from Global Fund or external financing.

## **4- SOURCING AND PROCUREMENT INITIATIVES**

During 2015, the Global Fund continued the Procurement for impact (P4i) transformation started in 2014. As part of this transformation, sourcing at the Global Fund shifted from a market based to a Cost of Goods Sold (COGS) based pricing model, facilitated by creating specific capabilities around the chemistry and formulation of drugs. Through the implementation of P4i, the Global Fund has changed how it engages, collaborates and coordinates with stakeholders across the supply chain. This transformation has now reached a level of maturity where the commodities are entering their second annual cycle. For example, a second global bed net tender that was a follow-up to one started two years ago has delivered USD 96 million in cumulative savings upon conclusion in 2015. A new Sourcing team that serves the administrative and non-health product procurement under grants was put

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in place during 2015. This new team has started to concentrate on previously under developed spend areas.

The role of Procurement Service Agents (“PSA”) has evolved with the in-sourcing of supplier allocation. During 2015, the Global Fund began to evaluate relationships with and performance of logistics providers. This will be followed by a tender process in 2016 which could further modify the scope of PSA engagements.

The increased focus on Supply Chain has led to an “on time and in full” performance which consistently exceeds 80 percent. The Supply Chain project catalyzed by the Global Fund in Nigeria has led to greater coordination among in-country stakeholders, this presents opportunities to explore application in other countries.

During 2015 the Sourcing department documented a revised Market Shaping strategy with a view to ensuring sustainability. This was approved by the Board in November 2015.

The key objectives of the new Strategy are:

- i. Ensure continued availability and affordability;
- ii. Promote consistent quality standards;
- iii. Support efforts to stimulate innovation;
- iv. Accelerate adoption of new and/or cost effective products;
- v. Prepare for country transition and long-term market viability; and
- vi. Strengthen key foundational elements for market-shaping.

During 2015, the Secretariat worked on an online procurement platform that was conceived in 2014. The project aims to establish more efficient access to and procurement of quality-assured health products on an e-platform that facilitates health product procurement through grants financed by the Global Fund. It has undergone further development during 2015, in collaboration with a number of countries and partners, with the aim to launch in 2016.

## 2015 FINANCIAL REVIEW

The overall financial position of the Global Fund is affected by the following core components:

1. Donor pledges and contribution agreements;
2. Treasury Management;
3. Grant Liabilities and Contingent Liabilities;
4. Losses and recoveries from grants;
5. Operating costs of the Global Fund; and
6. The Global Fund Provident Fund.

### 1- DONOR PLEDGES AND CONTRIBUTION AGREEMENTS

During the financial year ended 31 December 2015 new contributions of USD 2,189 million (2014: USD 3,460 million) were received of which 98 percent was received from government donors. The key donors included United States (USD 538 million), European Commission (USD 436 million), Canada (USD 337 million), France (USD 329 million) and Japan (USD 190 million). The contribution income includes USD 45 million (2014: USD 86 million) towards the AMFm co-payments made during the year.

During 2015 contribution receipts amounted to USD 2,256 million (2014: USD 3,277 million). The foreign exchange loss resulting from the realization of cash and revaluation of outstanding non-USD contributions receivable was USD 178 million. This loss was partly compensated by the USD 55 million of gains made on foreign exchange forward hedges secured contracted since May 2015. Accordingly the net foreign exchange loss on assets was reduced to USD 123 million (2014: 277 million).

As at 31 December 2015 total contributions recognised for the Fourth Replenishment 2014-2016 amounted to USD 6.4 billion. This includes contribution agreements with long-term encashment schedules that can be matched towards grant expenditures over a similar time horizon. When measured at the historical foreign exchange rate of the Fourth Replenishment the total value of pledges converted into contributions is USD 7.8 billion.

The preferred mode of contributions continued to be cash pledges through signed contribution agreements including multi-year payment schedules. An increasing number of donors are opting for multi-year contribution agreements.

The Global Fund continues to engage with donors to optimize cash management and foreign exchange aspects of its operations. During 2015 the Global Fund actively worked with a wide donor base to pursue bilateral contribution agreements rather than the traditional tri-partite contribution agreements involving the donor, International Bank for Reconstruction and Development (“World Bank”) acting as the Trustee and the Global Fund. Bilateral contribution agreements enable the Global Fund to enter into a foreign exchange contract to mitigate foreign exchange risks and thus protect the value of donor contributions and country allocations. During 2015 the Global Fund signed bilateral contribution agreements with the European Commission, France, United Kingdom and Australia. Discussions are currently ongoing with other donors to switch to bilateral agreements preferably in time for the Fifth Replenishment. The Global Fund has reached agreements with certain donors to delay the encashment of contributions under the existing donor agreements. This is a cash management strategy and has no impact on the financial commitment made by the respective donors.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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Emerging economies continued to make new contributions during 2015, having pledged 13 percent more in the Fourth Replenishment than they did in the Third Replenishment period (2011-2013).

During 2015, the Global Fund expanded its network of private sector partners and supporters, to implement a new strategy to gain additional contributions by high-net worth individuals.

The Global Fund is determined to continue its resource mobilisation efforts to ensure full conversion of Fourth Replenishment pledges despite challenging priorities in donor countries while working intensely towards securing significant pledges for the Fifth Replenishment (2017-19) in 2016.

## **Statement of Pledges and Contributions for the Replenishment Period 2014- 2016**

**As at 31 December 2015**

**In thousands of donor source currency**

The Statement of Pledges & Contributions measures the value of contributions received against the pledges made by the donors at each Replenishment Conference. When measured in equivalent US dollars<sup>4</sup>, the total value of the pledges, including additional pledges announced after the Replenishment Conference, made under the Fourth Replenishment period stands at USD 12.4 billion, of which USD 6.4 billion has been received in cash and other financial instruments deposited with the Global Fund Trustee.

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<sup>4</sup>At the replenishment rate for each donor currency.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

Donors	Currency	Pledges (Announced)	Donor source currency	
			Total Contributions received during 2014-2015	Contributions received in 2015
<b>A Contributions for the current Replenishment Period 2014-2016</b>				
<b>A.1 Governments</b>				
Australia	AUD	200'000	104'000	69'000
Belgium	EUR	38'000	38'000	19'000
Canada	CAD	650'000	433'333	433'333
China	USD	15'000	10'000	5'000
Denmark	DKK	315'000	265'000	100'000
Estonia	EUR	3	3	
European Commission	EUR	370'000	101'894	101'894
France	EUR	1'040'000	636'000	302'000
Germany	EUR	655'000	455'000	210'000
Iceland	USD	50	50	
India	USD	13'500	9'000	4'500
Ireland	EUR	30'000	20'000	10'000
Italy	EUR	100'000	60'000	30'000
Japan	USD	800'000	479'257	190'233
Kenya	USD	2'000	2'000	2'000
Korea (Republic of)	USD	12'068	7'792	3'724
Kuwait	USD	1'500	500	500
Liechtenstein	CHF	200	200	100
Luxembourg	EUR	8'000	5'500	2'500
Malawi	USD	500		
Namibia	USD	1'000	1'000	750
Netherlands	EUR	184'000	126'300	53'000
Nigeria	USD	30'000		
Norway	NOK	1'700'000	1'100'000	600'000
Portugal	EUR	50	50	
Saudi Arabia	USD	25'000	17'000	8'000
South Africa	USD	1'500		
Sweden	SEK	2'500'000	1'650'000	850'000
Switzerland	CHF	60'000	40'000	20'000
Thailand	USD	4'500	4'289	2'789
United Kingdom	GBP	1'000'000	800'000	100'000
United States	USD	4'107'000	1'551'876	538'143
Zimbabwe	USD	1'000	1'000	
Côte d'Ivoire (D2H Germany)	EUR	4'740	3'160	1'580
Indonesia (D2H Australia)	AUD	14'816	14'358	9'302
<b>A.2 Private Foundations</b>				
Gates Foundation	USD	500'000	300'000	
Children Investment Fund Foundation	USD	10'000	6'160	6'160
Comic Relief	GBP	8'000	2'800	1'800
Comic Relief	USD	14'900	2'625	2'625
MAC Aids Fund	USD	2'000	2'000	
Tahir Foundation	USD	39'000	5'944	5'944
Takeda Pharmaceutical	USD	3'000	1'682	777
<b>A.3 Corporations</b>				
BHP Billiton Sustainable Communities	USD	10'000	10'000	
Vale International	USD	3'000	3'000	1'000
Chevron Corporation	USD	5'000	5'000	2'500
Ecobank	USD	3'000	500	250
Others	USD	20	20	
<b>A.4 Others</b>				
LMI (Lutheran Malaria Initiative)	USD	144	144	
United Methodist Church	USD	19'900	11'743	9'643
UNF Donors (non RED)	USD	523	523	347
RED	USD	100'000	87'618	24'037
Others	USD	5'000	301	16
<b>A.5 Affordable medicines facilities- malaria (AMFm)</b>				
United Kingdom	GBP	64'000	64'000	

## 2. TREASURY MANAGEMENT

The financial management framework includes policies, processes, practices and systems that stipulate the financial rules on which the Global Fund must adhere to in the administration and management of its assets and liabilities.

### **Amended and Restated Comprehensive Funding Policy**

In March 2014, the Global Fund Board approved and the Secretariat implemented the Amended and Restated Comprehensive Funding Policy (“Amended CFP”). While being specifically designed to support the implementation of the allocation-based funding model, the Amended CFP also includes three distinct financial safeguards:

- the maintenance of an optimum balance between notional assets (Sources of Funds) and notional liabilities (Uses of Funds) over a fixed three-year period for the purposes of Asset-Liability Management;
- the matching of eligible assets and eligible liabilities, in value and over a rolling one-year period for the purposes of Cash Management; and
- a minimum liquidity reserve to enable full and timely payment of liabilities for the purposes of Liquidity Management.

At the end of 2015 the Global Fund had on hand sufficient confirmed financial resources to meet its funding commitments. Moreover, for the purpose of ALM monitoring and as approved by its governance bodies, the Global Fund takes into account adjusted donor pledges and contribution agreements that are not included in financial statements, the latter being prepared based on applicable and prudent accounting rules. The Global Fund uses all announced gross donor pledges of USD 12.4 billion as a starting point for such an assessment.

The Global Fund Secretariat monitors and reports to the FOPC and to the Board on a regular basis on the three above-mentioned topics and in general on the implementation status of the Amended CFP.

### **Treasury systems and capabilities**

Building on the implementation and development of treasury systems in 2014, in particular the implementation of Kyriba as the Treasury management system, the use of SWIFT as a payment channel was consolidated in 2015, with the switch of all payments to the Global Fund’s commercial banks. The cash management operations have been successful and have run smoothly since go-live, further improving the Global Fund’s secure payment capabilities. Therefore, the Global Fund is now fully autonomous for its direct grant disbursements, which were previously handled by the World Bank as the Trustee for the Trust Fund of the Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Trustee”).

This is building on the strategic cash management optimization processes launched in 2014, which included :

- implementation of a quarterly cycle of disbursements to Principal Recipients and milestone-based cash transfers to procurement agents;
- regular collection of information from program implementers regarding available cash and anticipated cash requirements; and
- improved alignment between cash inflows from donors and the Secretariat’s cash outflows.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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The Secretariat engaged with specific Principal Recipients with a view to optimize the payment terms of procured goods in country, hence reducing the cash advances required. This will be an ongoing process which will continue in 2016.

Changes to working capital management processes concerning the two major procurement service agents (PSAs) - The Partnership for Supply Chain Management (PFSCM) and International Dispensary Association (commonly called IDA Foundation) were introduced. The Secretariat has substantially decreased the funds paid in advance to the agents to secure future orders and now applies a rolling working capital advance for the services provided under PPM.

In addition to the cash management functions, an online trading platform, 360T, has been activated, which enables the Global Fund to ensure the execution of standard foreign exchange transactions.

## **Investment Management**

During 2015, the Global Fund has operationalized certain treasury management policies, including the investment framework for funds held in the Trust Fund (GF/FOPC11/DP01), approved by the FOPC. These policies further clarified certain roles and responsibilities between the Secretariat and the World Bank.

The investment framework provides a clear guidance for the Trustee as it implements the investment procedures and practices. Under this framework, the Secretariat plays a key role in the strategic asset allocation with the strong executional support of the Trustee.

During 2015 the Global Fund Trust Fund investment portfolio, which totalled approximately USD 2,540 million at end December 2015, returned 0.52 percent as the annual rate of return.

For 2015 USD 17 million (2014: USD 37 million) was accounted for as the net investment income on Trust Funds. The decrease in the investment income reflects the dynamic market conditions during 2015 and the lowering of the trust fund base at the World Bank from USD 4.3 billion in 2014 to USD 2.5 billion in 2015.

In addition, and as part of the investment framework managed by the Trustee, the Global Fund reduced the number of trust fund tranches to two, being Tranche 0 and Tranche 5, and requested the Trustee to invest USD 100 million in equities with the aim of diversifying the investment portfolio and therefore achieving a better risk/return profile.

## **Foreign Exchange Management**

The Global Fund uses US dollars as its functional and reporting currency. Foreign exchange risk arises due to a net open position in currencies other than US dollars resulting primarily from cash and cash equivalents, donor contributions, grant liabilities and a portion of the Global Fund's operating expenses.

During 2015, foreign exchange banking contracts were signed with several banks. As a result, starting in May 2015, the Secretariat was in a position to roll-out its hedging operations as set forth in the foreign exchange policy approved by the FOPC in 2014 (GF/FOPC11/DP02).

The year 2015 proved to be a challenging year with the appreciation of the USD versus most of the currencies in which a few donor contributions are denominated, most notably the GBP and the EUR. Since May 2015, the Secretariat was able to hedge all new contributions signed with a hedge ratio of 100%. However, the portion of the foreign exchange exposure related to transactions booked prior to that date has been entered at rates much higher than rates prevailing in 2015. These positions have been gradually hedged, which protected from further devaluations and also fixed losses compared to the rate at which these transactions were initially booked. Overall, it should be noted that, as should be expected, hedging activities have significantly mitigated foreign exchange losses in 2015.

For the year ended 31 December 2015, a net foreign exchange loss of USD 110 million (2014: USD 292 million) was reported on non-USD assets and liabilities. Of which, USD 93 million (2014: USD 76 million) is exchange loss realised on cash balances, cash receipts from donors and forward contracts and EUR grants paid. The remaining foreign exchange loss of USD 17 million (2014: USD 216 million) remains unrealised on open financial positions as at year-end. The foreign exchange loss reflected a reduction in the value of non-USD cash balances and contribution receivables by USD 187 million (2014: USD 326 million). This was partially compensated by a gain of USD 55 million (2014: NIL) resulting from the hedging activities. A net foreign exchange gain of USD 22 million (2014: USD 34 million) was reported on grant liabilities denominated in EUR.

When analysed by currency, the foreign exchange losses, net of hedging activities, were derived mainly from net financial positions denominated in:

- EUR: USD 68 million (2014: USD 171 million);
- GBP: USD 28 million (2014: USD 73 million);
- SEK: USD 15 million (2014: USD 47 million); and
- Others: USD -1 million (2014: USD 1 million).

A detailed analysis on the net foreign exchange movement is included in Note 5.7 to the consolidated annual financial statements.

### 3- GRANT LIABILITIES

The Global Fund grant expenditure of USD 4,389 million (2014: USD 2,563 million) during 2015 included:

- USD 4,327 million as grant commitments to Principal Recipients (2014: USD 2,461 million);
- USD 45 million as AMFm co-payments (2014: USD 86 million); and
- USD 17 million as Special Initiatives project expenses (2014: USD 16 million).

During 2015 the Secretariat made new grant commitments for USD 4,327 million, 76 percent higher than the grant commitments made during 2014.

USD 3,318 million was disbursed to implementers during 2015 (2014: USD 2,979 million). This represents an increase of 11 percent.

The increase in grant expenses and disbursements compared to 2014 is mainly driven by the acceleration in grant making resulting from the full transition to the Funding Model.

The value of contingent liabilities has increased from USD 4,601 million as at 31 December 2014 to USD 5,453 million as at 31 December 2015, an increase of 19 percent.

In March 2014, the Board approved USD 100 million to be spent on Special Initiatives. As at 31 December 2015 the cumulative utilization of Special Initiatives projects was USD 55.6 million (2014: USD 24.7 million). Of which USD 16 million (2014: USD 8.6 million) was spent through grants and the remaining USD 33.2 million (2014: USD 16.1 million) was spent through partnership or other agreements.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

The following table provides the status of Special Initiatives as at 31 December 2015:

Special Initiatives (In millions of USD)	Approved by the Board	Total Utilised
<b>Applied through grants</b>		
Humanitarian Emergency Fund	30.0	11.7
In-country Data Systems	17.0	10.7
Principal Recipient Capacity Building	0.5	-
<b>Total: applied through grants</b>	<b>47.5</b>	<b>22.4</b>
<b>Applied through project partners</b>		
Technical Assistance for Strong Concept Notes	29.0	23.7
TA on Community, Rights and Gender	15.0	5.6
Value for Money	8.5	3.9
<b>Total: Applied through partners</b>	<b>52.5</b>	<b>33.2</b>
<b>Total: Special Initiatives</b>	<b>100.0</b>	<b>55.6</b>

## 4- LOSSES AND RECOVERIES FROM GRANTS

During 2015, further progress was made in the recovery of non-compliant expenditures or misused funds as overseen by the Secretariat's Recoveries Committee. The outstanding recoverable balance reduced by USD 11 million, from USD 64.1 million in 2014 to USD 53.1 million in 2015. The total outstanding recoverable, net of written commitments to repay, improved by USD 10.9 million to USD 38.2 million, even after new OIG-reported cases representing USD 17.8 million in recoverable amounts being added during 2015. The intent is that, by mid-2016, all older legacy cases dating to pre-2014 will have been resolved so that the recoverable balance will consist only of current cases.

During 2015, a full-time Recoveries Officer was hired, to further regularize the recoveries process and ensure it is as expedient and effective as possible.

2015 also saw the first application of the "2-for-1 allocation reduction" method, whereby a country's allocation is reduced by an amount equal to twice the outstanding recoverable amount, in certain instances. The approach allowed the Secretariat to close cases aggregating USD 6.3 million. These funds can then be utilized to fund other country programs.

In addition to recoveries reported from OIG audits and investigations the Secretariat has now also begun tracking potential recoverable that are identified and managed as part of regular grant management procedures. As at 31 December 2015, the outstanding balance of non-OIG recoverable amounts equalled USD 16 million. This will be monitored and reported by the Recoveries Committee on a periodic basis.

As at 31 December 2015, the Recoveries Committee reported USD 53 million as net grants recoverable from Principal Recipients, of which USD 31 million has been recognised as net grants recoverable in the statement of financial position based on formal letters of recovery sent to the Principal Recipients.

## 5- OPERATING EXPENSES

The Global Fund has continued to tightly monitor its operating expenses whilst enabling the implementation of its key strategic initiatives. 2015 operating expenses of USD 296 million (2014: USD 283 million) increased by 4.6 percent over 2014, and remained within the 2015 Board approved budget ceiling of USD 299.8 million. The increase over 2014 was mainly driven by the efforts to support 2015 priorities, including the development of the new online procurement platform, the integration and automation of IT infrastructure, the development of the Supply Chain Strategy, preparatory activities for the Fifth Replenishment and the development of the Global Fund's post-2016 Strategy.

The ratio of operating costs to underlying activity decreased in 2015, mainly as a result of a 71 percent increase in grant expenditure from 2014. Operating costs as a percentage of Total Expenditure decreased to 6.7 percent in 2015 from 10.4 percent in 2014.

For the year 2016, the Board has approved an annual operating cost budget of USD 305 million, a 3.0 percent increase over 2015 expenditure. The total of this budgeted amount and the actual expenditures in 2014 and 2015 remain under the approved allocation for operating expenses of USD 900 million over the 2014–2016 period.

## 6- POOLED PROCUREMENT MECHANISM

As mentioned earlier under the Treasury Management Framework on page 18, the Secretariat established a working capital advance mechanism for the PSAs to enable improved cash and credit risk management and at the same time ensure timely delivery of pharmaceutical commodities to its Principal Recipients.

During 2015, USD 823 million was issued in working capital advance to the PSAs. Of which the PSAs paid USD 782 million to the manufacturers for pharmaceutical orders placed by the Principal Recipients. As at 31 December 2015 the outstanding balance of the PPM working capital advance was USD 41 million (2014: N.A).

## 7- THE GLOBAL FUND PROVIDENT FUND

The Global Fund maintains a Provident Fund scheme for the benefit of its employees. The Provident Fund is administered in Swiss Francs (CHF) consistent with the other employee remuneration. As at 31 December 2015, when measured in CHF, the administration currency, the Provident Fund assets fully cover the underlying employee benefit liability.

For the purposes of the consolidated financial statements the Provident Fund assets are translated into USD. The Provident Fund qualifies as a defined benefit obligation under IAS-19 Employee Benefits and accordingly is subject to an annual actuarial valuation. Following the technical valuation by an external actuary, the net employee benefit obligation was valued at USD 118 million (2014: USD 99 million). This obligation is composed of USD 112 million towards the actual liability for Provident Fund employee benefit reserves and USD 6 million as the actuarial reserve for defined benefit obligation.

As at 31 December 2015, the Provident Fund asset base was USD 112 million (2014: USD 99 million) which included USD 101 million of Provident Fund investments measured at fair value and USD 11 million in cash and cash equivalents. These assets are held and invested solely for funding future employee benefits under the Provident Fund constitution.

# FINANCIAL STATEMENTS

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## **Responsibility for the consolidated financial statements**

The Secretariat is responsible for the preparation of the consolidated financial statements and related information that is presented in this report. The consolidated financial statements are prepared in conformity with accounting principles under the International Financial Reporting Standards (IFRS). The consolidated financial statements include amounts based on estimates and judgments made by the Secretariat. Ernst & Young SA were appointed as the statutory auditors by the Global Fund Board upon the recommendation of its Audit and Ethics Committee to audit and opine on the consolidated financial statements of the Global Fund.

The Secretariat designs and maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorised use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organisational structure providing division of responsibilities, careful selection and training of qualified personnel, and a program of external reviews.

The Global Fund Board (“the Board”), through its Audit and Ethics Committee, meets periodically with the Secretariat and Ernst & Young SA to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting.

These consolidated financial statements were approved by the Board on XX April 2016.

## REPORT OF THE INDEPENDENT AUDITOR

with consolidated financial statements as of 31 December 2015 of  
The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier

To the Board of

**The Global Fund to fight Aids, Tuberculosis and Malaria, Vernier**

Lancy, 26 April 2016

## **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 consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in funds and notes, for the year ended 31 December 2015.

### **Global Fund Board and Secretariat's responsibility**

The Global Fund Board and the Secretariat are responsible for the preparation of these consolidated financial statements in accordance with IFRS and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Global Fund 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 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.

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### **Opinion**

In our opinion, the consolidated financial statements for the year ended 31 December 2015 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.

### **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 with 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 financial statements according to the instructions of the Global Fund 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

### **Enclosure**

- ▶ Consolidated financial statements (consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in funds and notes)

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# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### Consolidated statement of income for the year ended 31 December

USD millions	Notes	2015	2014
		<hr/>	<hr/>
<b>Income</b>			
Contributions	4.1	2,189	3,460
<b>Expenditure</b>			
Grants	3.2	(4,389)	(2,563)
Operating expenses	6.1	(298)	(285)
		<hr/>	<hr/>
		<b>(4,687)</b>	<b>(2,848)</b>
		<hr/>	<hr/>
<b>Net operating (loss) / income</b>		<b>(2,498)</b>	<b>612</b>
Foreign exchange result, net	5.7	(110)	(292)
Financial income, net	5.8	17	44
		<hr/>	<hr/>
<b>(Decrease) / increase in funds</b>		<b>(2,591)</b>	<b>364</b>
		<hr/> <hr/>	<hr/> <hr/>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### Consolidated statement of comprehensive income for the year ended 31 December

USD millions	Notes	2015	2014
	<hr/>	<hr/>	<hr/>
(Decrease) / increase in funds		(2,591)	364
Re-measurement (losses) on defined benefit plan that will not be reclassified to the statement of income	6.3	(6)	(7)
<b>Total comprehensive (loss) / income for the year</b>		<hr/> <b>(2,597)</b> <hr/>	<hr/> <b>357</b> <hr/>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### Consolidated statement of financial position

At 31 December

USD millions	Notes	2015	2014
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets</b>			
<i>Current assets</i>			
Cash and cash equivalents	5.1	529	59
Trust Fund assets	5.2	2,540	4,344
Contributions receivable	4.2	1,532	1,076
Advances for pooled procurement mechanism	3.4	41	-
Other receivables	3.3	35	30
Forward currency contracts at fair value	5.6	45	-
		<u>4,722</u>	<u>5,509</u>
<i>Non-current assets</i>			
Contributions receivable	4.2	1,349	2,096
Provident Fund investments	5.3	101	92
Tangible and intangible assets		11	9
		<u>1,461</u>	<u>2,197</u>
<b>Total assets</b>		<b><u>6,183</u></b>	<b><u>7,706</u></b>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Grants payable	3.3	2,656	1,555
Accounts payable and accrued expenses		54	56
Deferred contributions	4.4	42	86
		<u>2,752</u>	<u>1,697</u>
<i>Non-current liabilities</i>			
Employee benefit liabilities	6.3	118	99
<b>Total liabilities</b>		<b><u>2,870</u></b>	<b><u>1,796</u></b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### Funds

Temporarily restricted funds	7.3	19	14
Unrestricted funds	7.3	3,294	5,896
<b>Total funds</b>		<u>3,313</u>	<u>5,910</u>
<b>Total liabilities and funds</b>		<u>6,183</u>	<u>7,706</u>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### Consolidated statement of cash flows for the year ended 31 December

USD millions	Notes	2015	2014
<b>Operating activities</b>			
Cash received from donors	4	2,255	3,277
Grant disbursements	3	(3,318)	(2,979)
Operating expenses		(275)	(270)
Forward contracts on net positions		10	-
Financial income, net		17	41
<b>Net cash flow (used in) / from operating activities</b>		<b>(1,311)</b>	<b>69</b>
<b>Investing activities</b>			
Purchase of Provident Fund investments		(28)	(74)
Proceeds from sale of Provident Fund investments		19	65
Purchase of tangible and intangible assets		(6)	(5)
<b>Net cash flow used in investing activities</b>		<b>(15)</b>	<b>(14)</b>
Effect of exchange rate changes on cash and cash equivalents		(8)	(49)
<b>Net change in cash and cash equivalents</b>		<b>(1,334)</b>	<b>6</b>
Cash and cash equivalents at beginning of the year	5.1	4,403	4,397
<b>Cash and cash equivalents at end of the year</b>	5.1	<b>3,069</b>	<b>4,403</b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### Consolidated statement of changes in funds for the year ended 31 December

USD millions

	Foundation capital (1)	Temporarily restricted funds	Unrestricted funds	Total
<b>As at 1 January 2014</b>	-	20	5,533	5,553
Increase / (decrease) in funds for the period	-	(6)	370	364
Other comprehensive loss	-	-	(7)	(7)
<b>At 31 December 2014</b>	-	14	5,896	5,910
<b>As at 1 January 2015</b>	-	14	5,896	5,910
(Decrease) / increase in funds for the period	-	5	(2,596)	(2,591)
Other comprehensive loss	-	-	(6)	(6)
<b>At 31 December 2015</b>	-	19	3,294	3,313

1) The Global Fund maintains CHF 50,000 as statutory foundation capital.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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### Explanatory notes to these consolidated financial statements

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In response to the International Accounting Standards Board's ("IASB") project "Disclosure Initiative" the Global Fund has made important changes to the way it organises and presents its financial statements and in particular the explanatory notes to the consolidated financial statements in order to increase focus on what drives the Secretariat's performance. Accordingly a few financial positions have been regrouped to enhance content disclosure. The notes have been grouped into seven sections related to the core activities of the Global Fund.

Each section presents the financial information and any material accounting policies that are relevant to understanding the activities and accounting principles of the Global Fund. A consequence of this change is that information has been prioritised to ensure that important information is presented in a clearer way to the users of the consolidated financial statements.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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### Section 1: Activities and organisation

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The Global Fund to Fight AIDS, Tuberculosis and Malaria (“the Global Fund”) is an international financing institution that fights AIDS, tuberculosis and malaria with a 21st century approach applying the three core principles: country ownership, partnership and performance-based funding.

The Global Fund has been registered as an independent, non-profit foundation under the laws of Switzerland since 22 January 2002 with its headquarters in Geneva, Switzerland. The registered address is 8, Chemin de Blandonnet, 1214 Vernier, Switzerland. It is monitored by the Swiss Federal Supervisory Board for Foundations.

### Section 2: Basis of reporting

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#### **Basis of preparation**

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Currently, IFRS does not contain specific guidelines for non-profit organisations 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 Conceptual Framework for Financial Reporting.

These consolidated financial statements were approved by the Global Fund Board on XX April 2016.

#### **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 million, unless otherwise stipulated.

Transactions in foreign currencies are recognised in USD at rates prevailing at the date of the transaction. Assets and liabilities denominated in foreign currency are translated to USD at the exchange rates at the reporting date. All differences are recognised in the consolidated statement of income.

#### **Basis of consolidation**

The consolidated financial statements of the Global Fund cover the activities of the Global Fund in Switzerland and the US Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the “US Fund”). The US Fund is a special-purpose entity that facilitates US donations to provide support and future variable returns for the mission of the Global Fund. Taking into consideration the activities, decision-making processes, benefits and related risks associated with the US Fund, the Global Fund concluded that, in substance, the US Fund should be consolidated. The Global Fund does not consolidate any other entity. The Provident Fund does not have a separate legal personality from the Global Fund. It enjoys the same privileges and immunities accorded to the Global Fund under (i)

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headquarters agreement between the Global Fund and the Swiss Federal Council dated 13 December 2004 (ii) any national laws including but not limited to the United States of America's International Organisations Immunities Act (22 Unites States Code 288) and (iii) national and international law.

### **Significant management judgment, estimates and assumptions**

All significant accounting policies, judgments, estimates and assumptions that are relevant to the understanding of the consolidated financial statements are provided through the notes to the financial statements. In particular the Global Fund has applied judgment in developing its accounting policies with respect to grants (Section 3), contributions (Section 4) and the determination of cash and cash equivalents for the presentation in the Statement of Cash Flows (Section 5.1).

The Global Fund is subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively. Specific financial risks for the Global Fund are discussed in Section 4 and Section 5.

### **Changes in accounting policies and disclosures**

The Global Fund has adopted all new or amended IFRS standards and interpretations which are effective for the financial year ended 31 December 2015. The implementation of the new or amended standards has not had any material impact on the Global Fund's consolidated financial statements.

The Global Fund has made important changes to the way it has organised and presented its consolidated financial statements and especially the explanatory notes. Comparative figures have been re-presented accordingly. These changes were guided by the IASB's technical work on the "Disclosure Initiative".

### **Standards issued but not yet effective**

The IASB has issued a number of new and amended IFRS standards and interpretations, which are not yet effective for the financial year ended 31 December 2015. The Global Fund is currently assessing the effect of implementing IFRS 16 "Leases" effective for annual periods beginning on or after 1 January 2019, and IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments", both effective for annual periods beginning on or after 1 January 2018.

All other new or amended IFRS standards and interpretations not yet effective are not expected to have any material impact on the Global Fund's consolidated financial statements.

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### Section 3: Grant activities

Grant making is the core operation of the Global Fund and forms the major source of expenditure and cash outflow. The accounting for grants uses the principles of IAS 37: “Provisions, Contingent Liabilities and Contingent Assets”, together with the Conceptual Framework for Financial Reporting to determine when the grants are recognised as liabilities, contingent or otherwise.

The table below summarises the accounting results for grant activities, excluding<sup>5</sup> AMFm and Special Initiatives, based on the accounting principles underlined in this section:

<b>For the year ended 31 December</b>	<b>Contingent liability</b>	<b>Expenditure as reported in the statement of income</b>	<b>Disbursements as reported in the statement of cash flows</b>	<b>Foreign-exchange adjustments</b>	<b>Net grants payable as reported on statement of financial position</b>
<b>Grant terminology</b>	Board approved but not committed	Annual commitment	Disbursement of committed amounts	Foreign exchange gains on EUR grant liabilities	Annual commitments not disbursed to date
<b>Notes</b>	<b>3.1</b>	<b>3.2</b>		<b>5.7</b>	<b>3.3</b>
2015	5,453	4,327	3,252	22	2,656
2014	4,601	2,461	2,979	34	1,555

In the following notes each stage of the grant lifecycle has been analysed in detail:

#### 3.1 Contingent liability

The first point of recognition for grants is at the point of the Global Fund Board approval, where the maximum liability of the grant becomes clear and is agreed with the Principal Recipient. A management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

Based on these principles and the substantive ability of the Global Fund to restrict funds there is determined to be no constructive obligation and hence no recognition of the liability in the consolidated statement of financial position. However, the Global Fund Board approval does represent a point at which a contingent liability can be reported, as it represents a potential obligation that can be

<sup>5</sup> The table is intended to show summarize the results of grant portfolio typically starting from board approval to disbursement. The expenditure on AMFm and Special Initiatives follow a different point of recognition than grants and are reported under Note 3.2 below.

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reliably measured and is dependent on future events (the performance of the Principal Recipient and the availability of funding).

Following the Global Fund Board approval, all grants are governed by a written grant agreement that includes substantive conditions based on performance and availability of funding. Accordingly, an obligation only arises once all criteria have been considered and the annual funding decision is made and communicated to the Principal Recipient.

The contingent liability represents the maximum potential liability of the Global Fund for individual grants as approved by the Global Fund Board. During grant implementation, the contingent liability of a grant is reduced by the cumulative amount of grant expenses. Essentially contingent liabilities include the value of board approvals for grants that are not yet signed and grants that have been signed but have not been subject to annual funding decision.

The following table summarises the contingent liability for grants at 31 December

<b>By category</b>	<b>2015</b>	<b>2014</b>
Grants approved but not signed	1,051	1,357
Grants signed but not committed	4,402	3,244
<b>Total</b>	<b>5,453</b>	<b>4,601</b>
<b>By region</b>		
Asia, Europe, Latin America and the Caribbean	684	637
Africa and Middle East	1,391	992
High Impact Africa I	1,351	820
High Impact Africa II	953	1,371
High Impact Asia	1,074	781
<b>Total</b>	<b>5,453</b>	<b>4,601</b>

### 3.2 Grant expenditure

The recognition of grant liabilities is determined to be the point at which the annual funding decision is made by the Global Fund. The annual funding decision provides the Principal Recipient with a firm disbursement schedule, together with a statement that conditions have been met and that the funding is available. At this point the Global Fund has a constructive obligation to the Principal Recipient to fulfil amounts committed and the full amount of the annual commitment resulting from the annual funding decision is recognised as a grant payable in the statement of financial position and recorded as expenditure within the consolidated statement of income.

During the year of the commitment, funds are disbursed on the basis of the annual funding decision and the level of remaining funds held by the Principal Recipient. As amounts are disbursed there will be a subsequent reduction in the level of grants payable.

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The following table summarises grant expenditure for the years ended 31 December:

	<u>2015</u>	<u>2014</u>
<b>By category</b>		
Grants to Principal Recipients	4,327	2,461
AMFm co-payments	45	86
Special Initiatives	17	16
<b>Total grants</b>	<u>4,389</u>	<u>2,563</u>
<b>By disease</b>		
HIV-AIDS	1,915	1,476
Malaria	1,384	585
Tuberculosis	571	410
HIV & TB	357	9
Health Systems Strengthening	100	(19)
<b>Total grants to Principal Recipients</b>	<u>4,327</u>	<u>2,461</u>
<b>By region</b>		
Asia, Europe, Latin America and the Caribbean	465	373
Africa and Middle East	870	595
High Impact Africa I	822	499
High Impact Africa II	1,527	585
High Impact Asia	643	409
<b>Total grants to Principal Recipients</b>	<u>4,327</u>	<u>2,461</u>

### 3.3 Grants payable

The following table summarises grant payable at 31 December:

	<u>2015</u>	<u>2014</u>
<b>By Grants source currency</b>		
USD	2,418	1,321
EUR	190	172
Total grants payable in equivalent USD	2,625	1,528
Grants under recovery, net	31	27
<b>Net Grants Payable</b>	<u>2,656</u>	<u>1,555</u>

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Grants under recovery from Principal Recipients are recognised at nominal value upon a formal notification to the Principal Recipient subject to the same policy of valuation, risk assessment and asset impairment as contributions recoverable from donors outlined in Note 4.2.

As at 31 December 2015 a net recoverable of USD 53 million (2014: USD 64 million) was determined as grants recoverable from the Principal Recipients by the Recoveries Committee, of which USD 23 million (2014: USD 41 million) is not recorded in the consolidated financial statements in the absence of formalized terms of recovery with the relevant Principal Recipients.

As at 31 December 2015, other receivables also include USD 4 million (2014: USD 7 million) in prepayments for cash paid in advance to external service providers under contractual terms.

### 3.4 Advances for pooled procurement mechanism

The Global Fund facilitates the procurement of health products for Principal Recipients through PSA PPM.

In 2015, the Global Fund has formalized the level of working capital required by the PSA and issued advances that can be drawn down to meet their financing requirements. These advances are shown as an asset on the statement of financial position, until they are used by the PSA to meet procurement liabilities. The advances are provided to cover two to three months value of forecasted shipment of pharmaceutical products ordered by the Principal Recipients directly with the PSA. The PSA provides a monthly statement of payments made to the manufacturers for shipments to Principal Recipients, these are subsequently charged back to the grant.

The grant payable and expenditure for PPM follows the same accounting policy as grants directly administered by Principal Recipients.

As at 31 December 2015, USD 41 million (31 December 2014: NIL) of PPM advances were outstanding at the two PSAs. Following a due diligence review of both PSAs the Global Fund confirms that these are established supply chain agents with good commercial standing. The working capital advances outstanding with them are considered good and fully recoverable. Accordingly no provision for impairment is deemed necessary.

The following table summarises advances for pooled procurement mechanism at 31 December:

	<u>2015</u>
Opening working capital advance	-
Advances issued during the year	823
Advances reconciled as a charge back to grants for executed shipments	<u>(782)</u>
<b>Total</b>	<b><u>41</u></b>

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Working capital advances for PSA commenced during 2015 and therefore no comparative for 2014 is reported.

### Section 4: Donor activities

The Global Fund follows a three-year replenishment cycle to secure funding for its grants and administrative operations. Since inception, approximately 95 percent of financial support to the Global Fund has come from donor governments and the remaining 5 percent from private foundations, corporate donors and individuals. More than 50 countries have, to date, contributed significant resources to support the work of the Global Fund.

At the time of replenishment, donors make public announcements of their intended future contributions. These announcements are termed as pledges. Pledges do not trigger an accounting event for the Global Fund as the conversion of pledges into firm contributions will require further substantive actions to be taken. However, pledges are treated as key management information and are disclosed in the management report section on page 17 (*unaudited information*).

The table below summarises the accounting results for contributions based on the accounting principles underlined in this section:

For the year ended 31 December	Opening contributions receivable	Contributions per the statement of income	Non-receivable contribution- (incl AMFm)	Contributions received per the statement of cash flow	Foreign exchange fluctuation on contributions	Contributions receivable on the statement of financial position
<u>Note</u>	<u>4.2</u>	<u>4.1</u>	<u>4.4</u>		<u>5.7</u>	<u>4.2</u>
2015	3,172	2,189	(45)	(2,256)	(178)	2,882
2014	3,348	3,460	(82)	(3,277)	(277)	3,172

In the following sections the financial impact of each stage in the donor contribution process has been analysed in detail:

#### 4.1 Contribution income / Revenue recognition

The first point of revenue recognition is the signing of a formal contribution agreement with a donor. All contributions governed by a written contribution agreement that do not have any substantive conditionality bearing on future receipts are recorded as income at the date of signature of the agreement.

Contributions with a substantive conditionality on the likelihood of future receipt of cash are recorded as income upon receipt of cash or cash equivalents.

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For the purposes of cash flows, contributions are considered as received when remitted in cash or cash equivalent.

The following table summarizes the source of revenue recognised for the year ended 31 December:

	<u>2015</u>	<u>2014</u>
<b>Donor contributions</b>		
<b>By donor category</b>		
Governments	2,173	3,322
Foundations	16	13
Product (RED)	18	64
Corporations	1	6
International non-profit organisations	12	39
Discounted	(31)	16
<b>Total</b>	<u>2,189</u>	<u>3,460</u>
<b>By donor intent</b>		
Unrestricted	2,094	3,295
Restricted- AMFm	45	86
Restricted- Others	50	79
<b>Total</b>	<u>2,189</u>	<u>3,460</u>

### 4.2 Contributions receivable

Contributions receivable are agreements signed where income has been recognised but the cash has not been received. Contribution receivables are stated at nominal value net of a provision for uncollectible contributions to cover the risk of non-payment as described below under the section for provision for uncollectible contributions.

Promissory notes and contributions receivable maturing later than one year after the date of the consolidated statement of financial position are discounted at fair value (LIBOR rates for GBP, EUR and USD) and subsequently measured using the amortised cost method.

The following table summarises contributions receivable at 31 December:

	<u>2015</u>	<u>2014</u>
Promissory notes maturing within one year	772	580
Contributions receivable within one year	760	496
<b>Total</b>	<u>1,532</u>	<u>1,076</u>
Promissory notes maturing after one year	641	798
Contributions receivable after one year	709	1,298

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<b>Total</b>	<u>1,350</u>	<u>2,096</u>
<b>Total value of contributions receivable</b>	<u>2,882</u>	<u>3,172</u>
Receivable in 2015	-	1,076
Receivable in 2016	1,532	985
Receivable in 2017	711	441
Receivable after 2017	<u>750</u>	<u>750</u>
	2,993	3,252
Discounted	(111)	(80)
<b>Net present value of contributions receivable</b>	<u>2,882</u>	<u>3,172</u>

The Global Fund reviews all contributions receivable as at the reporting date to assess for any potential collection risk. This assessment is based on a review of the donor credit profile, the in-country economic and political situation and other known factors that may potentially result in reduced future cash receipts. Where the Global Fund determines there to be a collection risk then an appropriate risk premium is deducted from receivable balances to reflect this risk. The risk premiums held are maintained as a provision for uncollectible contributions. As at 31 December 2015 all contributions recoverable are considered good and accordingly no risk premium was provided.

### 4.3 Conditional revenue

During 2015 new multi-year contribution agreements with sovereign donors were signed wherein the future payment schedule was conditional on the pre-approval of their respective parliament. Accordingly the revenue recognition of these contribution agreements was limited to the contributions received in cash during 2015. The remaining value of contributions receivable of USD 234.2 million (2014: USD 118.6 million) will be recognised on the earlier of the receipt of cash or confirmation of the parliamentary approval by the donor.

### 4.4 Deferred contribution

Donor contributions received in cash for specific project expenditures are treated as deferred contributions until the underlying related expenses have been incurred. This ensures the recorded income is matched to the expenditure it relates to. Deferred contributions include contributions received for AMFm co-payments where the application of donor funds is directly linked with the co-payment subsidy for the malaria drugs procured by the Principal Recipients.

Deferred contributions represent restricted contributions received for donor specified project expenditure. Any unspent portion of the contribution received will need to be refunded to the donor.

As at 31 December 2015, the deferred contribution balance on the consolidated statement of financial position was USD 42 million (2014: USD 86 million).

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### Section 5: Management of funds

The Global Fund is a financing institution and hence the management of its financial assets and liabilities is integral to the successful mission of the organisation. The Global Fund has built relationships with commercial banks and the World Bank to manage its financial assets and provide appropriate liquidity and risk management.

#### 5.1 Cash and cash equivalents

The following table summarises cash and cash equivalents at 31 December:

	<u>2015</u>	<u>2014</u>
Amounts held in commercial banks	529	59

Amounts are held in commercial banks that have a long-term credit rating of A or higher.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents also include Trust Fund assets, defined in section 5.2 below, since these are an integral part of the cash management of the Global Fund:

As at 31 December	<u>2015</u>	<u>2014</u>
Amounts held in commercial banks	529	59
Amounts held in the Trust Fund	<u>2,540</u>	<u>4,344</u>
Cash and cash equivalents as shown in the Consolidated Statement of Cash Flows	<u>3,069</u>	<u>4,403</u>

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

#### 5.2 Trust Fund assets

The World Bank acts as the Trustee for the Global Fund. Most financial contributions are received directly and held in a trust fund which is administered by the World Bank. The funds are held in a shared pool of cash and investments 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 framework of the Global Fund as approved by the FOPC. In accordance with the terms of the management agreement between the Global Fund and the World Bank, the Global Fund is the legal beneficial 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.

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The financial statements of the Trust Fund are not consolidated and the funds held in the Trust Fund are presented separately in the statement of financial position but presented as part of cash and cash equivalents in the consolidated statement of cash flows.

The Trust Fund is partitioned into two sub-portfolios: tranches 0 and 5 these have different investment horizons and aim to enhance returns subject to the over-arching goal of capital preservation and liquidity requirements. The tranches have the following characteristics:

- **Tranche 0:** cash portfolios in USD and EUR with an investment horizon of less than three months that aim to ensure timely availability of funds to meet the short-term cash flow needs of the Global Fund, and which comprise short-term bank deposits and highly liquid money-market instruments; and
- **Tranche 5:** longer horizon portfolio in USD that has an investment horizon of up to three years, and which is invested primarily in highly rated government, government agency, corporate and asset-backed securities, including mortgage-backed securities. This tranche also includes the new equity component (asset class added to the tranche) of up to USD 100 million.

Monthly 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.

The following table summarises the Global Fund Trust Fund allocation across World Bank investment tranches:

<b>Tranche</b>	<u><b>2015</b></u>	<u><b>2014</b></u>
Tranche 0 USD	7	540
Tranche 5 USD	2,517	3,680
Tranche 0 EUR	16	124
<b>Total</b>	<u><b>2,540</b></u>	<u><b>4,344</b></u>

The Trust Fund's assets consist of its share of cash and investments in a Pool. As at 31 December 2015 the Pool had a fair value measurement of USD 24,100 million (2014: USD 25,955 million) as confirmed by the World Bank.

The following table reflects the asset allocation in the pool:

<b>Types of financial instruments</b>	<u><b>2015</b></u>	<u><b>2014</b></u>
Government and agency obligations	68%	55%
Time deposits and money market securities	5%	27%
Asset-backed securities	26%	16%
Equity securities	3%	-%
Derivatives, net	1%	2%
Securities purchased under resale agreements and securities sold under repurchase agreements	(3%)	-%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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### 5.3 Provident Fund Investments

The assets of the Global Fund Provident Fund (the “Provident Fund”) are invested for the purpose of the investment policy of the Provident Fund in accordance with the principles and responsibilities established in the Constitutional Declaration and Benefits Rules, as it may be amended from time to time, and under article 6 of the Provident Fund 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 diversified global equity, bond and real estate funds. Funds are regulated, open-ended investment funds.

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 recognised in the consolidated statement of income.

Fair value measurements are categorized based on the inputs to the valuation techniques as follows (in the order of priority placed on the inputs):

- Level 1: Financial instruments whose values are based on unadjusted quoted prices for identical instruments in active markets;
- Level 2: Financial instruments whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the instrument; and
- Level 3: Financial instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The net gain or loss recognised in the consolidated 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.

The following table summarises Provident Fund investments at 31 December:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2015</b>				
<b>Provident Fund investments</b>	<b>76</b>	<b>25</b>	-	<b>101</b>
Equity	26	-	-	26
Fixed income	49	-	-	49
Real estate	1	15	-	16
Private sector hedge	-	10	-	10

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2014</b>				
<b>Provident Fund investments</b>	<b>61</b>	<b>31</b>	-	<b>92</b>
Equity	26	-	-	26
Bonds	35	16	-	51
Real estate	-	15	-	15

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As at 31 December 2015 the value of the Provident Fund investments includes foreign currency exposure in Euros (EUR) and Swiss Francs (CHF). The sensitivity of the investments to exchange rate fluctuations is analysed as at the end of each reporting period.

### 5.4 Financial risk management objectives and policies

The Global Fund has various financial assets, such as cash and cash equivalents and the Trust Fund assets, Provident Fund assets, contribution receivables, other receivables and derivative financial instruments. The main financial liabilities comprise grants payable and accrued expenses.

The main risks arising from these financial assets and liabilities are interest risk, currency risk, credit/counterparty risk and liquidity risk, which are summarised below. These risks are managed through a defined treasury policy. Compliance with these policies is monitored by the Treasurer and reported to the Global Fund Board through its standing committee FOPC

In respect of these financial instruments the following categories of risks are actively managed:

i. Interest rate risk

The market value of the all financial instruments subject to interest rate risk and will fluctuate in response to changes in interest rates. 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 movements in interest rate and credit spreads. This approach takes into account historical market observations for three years while giving more weight to recent market volatility. The VAR of the Trust Fund's share of the portfolio over a twelve month horizon, at a 95% confidence level as at 31 December 2015 is estimated to be USD 34 million (2014: USD 31 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 currency risk covers all categories of financial instruments that carry non-USD financial positions. Note 5.5 on Foreign exchange exposures provides an overview of the net position of major currencies holdings.

The Trust Fund's currency risk arises from the portion of cash and investments in the Pool that are denominated in currencies other than in USD. In accordance with the Trust Fund 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.

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The percentage movement applied is based on the average movements in the previous three annual reporting periods.

### Credit risk/counterparty 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 consolidated statement of financial position. In respect of Funds held in Trust the Trustee does not hold any collateral or credit enhancements except for the repurchase agreements and resale agreements with counterparties. The Trustee identifies concentrations of credit risk based mainly on the extent to which the cash and investments in the Pool 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.

The following table presents the investment holdings in the sub-portfolio in terms of the counterparty credit risk exposure and investment categories at December:

<b>Counterparty credit ratings</b>	<b>2015</b>	<b>2014</b>
AA or greater	81%	71%
A- or greater	97%	100%
BBB+ or greater	100%	100%

### 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 credit terms agreed with the suppliers 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.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### 5.5 Foreign exchange exposures

In preparing the financial statements, transactions in currencies other than the functional currency are recognised at the rates of exchange prevailing at the dates of the transactions, which creates an exposure to foreign exchange risk for these particular assets or liabilities. 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. The currency risk associated with the foreign exchange exposure has been detailed in Note 5.4 above.

The following table summarises exchange rates for significant foreign currency exposures at 31 December:

	<u>2015</u>	<u>2014</u>	<u>% FX fluctuation</u>
EUR	1.0927	1.2156	(10)
CHF	1.0099	1.0107	-
GBP	1.4821	1.5609	(5)
SEK	0.1189	0.1293	(8)

*[Source: Effective July 2015 the Global Fund uses Reuters FX rates subscription]*

In line with IFRS 7.B24 the Global Fund regularly undertakes the sensitivity analysis for each currency in which it holds significant exposure. The significant foreign currency exposures include Euros (EUR), Pound Sterling (GBP), Swedish Kroners (SEK) and Swiss Francs (CHF).

The following table gives the nominal amounts in millions of the net consolidated position of all foreign currency exposure, net of assets and liabilities. The 2015 non-USD currencies are reported net of hedged foreign exchange forward contracts:

<u>Currency</u>	<u>2015</u>	<u>2014</u>
CHF	121	(19)
EUR	77	716
GBP	400	797
SEK	850	1,700

The following table reflects the sensitivity of the consolidated statement of income to a strengthening or weakening of these non-USD net positions as at 31 December:

<u>Currency</u>	<u>2015</u>		<u>2014</u>	
	Change %	Amount USD million	Change %	Amount USD million
CHF	4%	(+/-) 5	5%	(+/-) 1
EUR	10%	(+/-) 8	6%	(+/-)52
GBP	4%	(+/-) 24	4%	(+/-)50
SEK	10%	(+/-) 10	9%	(+/-)20

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### 5.6 Foreign exchange risk management

The Global Fund has implemented a strategy to mitigate the foreign exchange fluctuation risks as follows:

- Maximise the natural hedge of currency holdings by matching assets and liabilities by currency; and
- Monitor volatility and exposure by currency and engage in active hedging with levels of 50% to 100% through approved financial instruments.

A majority of the contribution receipts to the Trust Fund are denominated and predominantly held in USD. However, a portion of funds are held in EUR to maintain a natural hedge for grant and other liabilities denominated in EUR. In addition, cash in EUR and CHF are held at a commercial bank to cover the operating expenses of the following year.

The following table outlines the cash balances held in currencies other than USD in the source currency of cash holding:

As at 31 December	<u>2015</u>	<u>2014</u>
Amounts held in CHF	152	8
Amount held in EUR	175	103

The Global Fund also enters into a variety of derivative financial instruments, including forward, swaps and options, to manage its exposure to foreign exchange fluctuations for net positions held in non-USD currencies. The forward foreign exchange contracts used by the Global Fund to mitigate foreign exchange risk are recognised at fair value with subsequent movements in value reported through the consolidated statement of income.

The following table presents the notional value and the fair value of forward contracts by currency as at 31 December 2015 (31 December 2014: nil):

<b>Currency (Level 2)</b>	<b>Notional value in millions</b>	<b>Forward contracts at fair value in USD millions</b>
GBP	400	34
EUR	676	11
AUD	91	-
<b>Total</b>		<b>45</b>

The fair value of forward foreign exchange contracts is bank-provided and based on price models using observable exchange rates, described as Level 2 in the fair value hierarchy. All forward contracts expire within twelve months, hence they are classified as current assets in the statement of financial position.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### 5.7 Foreign exchange accounting

Realised and unrealised gains or losses on exchange differences are reported in the consolidated statement of income for the years ended 31 December were as follows:

	<u>2015</u>	<u>2014</u>
<b>By net position</b>		
Net foreign exchange loss on assets	(132)	(326)
Net foreign exchange gains on liabilities	22	34
<b>Total: Net foreign exchange loss</b>	<b>(110)</b>	<b>(292)</b>
<b>By category</b>		
Net realised foreign exchange loss	(93)	(76)
Net unrealised foreign exchange loss	(17)	(216)
<b>Total: Net foreign exchange loss</b>	<b>(110)</b>	<b>(292)</b>
<b>By source</b>		
Cash and cash equivalents	(9)	(49)
Contributions receivable	(178)	(277)
Forward contracts	55	-
Grants	22	34
<b>Total: Net foreign exchange loss</b>	<b>(110)</b>	<b>(292)</b>
<b>By currency</b>		
EUR	(68)	(171)
GBP	(28)	(73)
SEK	(15)	(47)
Others	1	(1)
<b>Total: Net foreign exchange loss</b>	<b>(110)</b>	<b>(292)</b>

### Section 5.8 Financial income, net

The investment of financial assets across the Trust Fund and the Provident Fund provides an investment return in line with the risks highlighted previously. The investment returns, net of financial costs, are summarised in the table below:

	<u>2015</u>	<u>2014</u>
Trust Fund gains, net	17	37
Provident Fund (losses) / gains	(-)	7
<b>Total</b>	<b>17</b>	<b>44</b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### Section 6: Operating activities

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#### 6.1 Operating expenses

Operating expenses are costs incurred by the Global Fund Secretariat for maintaining a sustainable administrative structure in order to deliver its mission. The Global Fund Board approves an annual budget for operating expenses. All expenses are monitored and reported on a periodic basis to the FOPC.

The following table summarises the Secretariat's operating costs under the main categories of expenditure for the years ended 31 December:

	<u>2015</u>	<u>2014</u>
Staff	142	141
Local fund agent fees	48	48
Professional fees	44	41
Others	64	55
<b>Total</b>	<b><u>298</u></b>	<b><u>285</u></b>

The Secretariat's operating expenditure without the impact of the Provident Fund actuarial valuation of the employee benefit obligation is USD 296 million (2014: USD 283 million). The 2015 consolidated operating expenditure for Global Fund includes USD 33,000 as the operating expenditure for the US Fund (2014: USD 59,000).

Staff costs include all personnel costs incurred by the Global Fund in accordance with its human resource guidelines.

Local Fund Agents fees include the service costs incurred by the Global Fund to assess the in-country capacity prior to and during grant negotiation in addition to managing and monitoring implementation of funded programs as grants are disbursed to Principal Recipients.

Professional fees represent the engagement cost of external consultants, technical partners and professional firms in providing management and technical services as needed by the Global Fund.

Other operating expenses include operating costs for Secretariat travel, meetings, communication materials, office rent and maintenance, depreciation and disbursements for Country Coordination Mechanism (CCM) and Board Constituencies.

At 31 December 2015 there were 702 (2014: 682) personnel employed by the Global Fund.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### 6.2 Lease commitments

The Global Fund has a long term, non-cancellable operating lease for its office premises in Geneva where the headquarters are located. The current lease term ends in 2017. Payments made under operating leases are recognised in the consolidated statement of income on a “straight line” basis over the term of the lease. The future lease payments are estimated to be USD 11 million per annum during 2016-17. Effective 2018 the future lease payments are estimated to be USD 7 million per annum for a period of ten years.

Non-cancellable operating lease payments recognised as an expense in 2015 amounted to USD 12 million (2014: USD 13 million).

### 6.3 Employee benefit liabilities

The Global Fund maintains a Provident Fund for the purposes of providing retirement, death and disability benefits to its employees 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.

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 below.

#### Actuarial valuation of defined benefit obligation

The measurement of net defined benefit liability requires the application of an actuarial valuation method, the attribution of benefits to periods of service, and the use of actuarial assumptions. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the net deficit or surplus.

The actuarial valuation of the defined benefit obligation for the Provident Fund scheme administered by the Global Fund is reported in the following table:

<b>Change in benefit obligation</b>	<b>2015</b>	<b>2014</b>
Benefit obligation at beginning of year	99	85
Current service cost	23	22
Translation difference	-	(9)
Interest cost	1	1
Actuarial (gain)/ loss	6	7
Benefits paid from plan/company	(9)	(7)
Premiums and expenses paid	(2)	-
<b>Benefit obligation at end of year</b>	<b>118</b>	<b>99</b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

**Current service costs:** include contributions made by the Global Fund to the Provident Fund scheme as a part of monthly employment cost. It also includes employee contributions that are deducted under the monthly payroll.

**Translation difference:** The Global Fund employment costs and defined benefits obligations are administered in CHF and translated to USD for the reporting purposes in the consolidated financial statements. Translation costs represent the exchange rate difference arising on the re-measurement of the opening balance of defined benefit obligation administered in CHF in equivalent USD at the end of the current reporting period.

<b>Components of pension cost</b>	<b>2015</b>	<b>2014</b>
Amounts recognised in the statement of income		
Current service cost	23	22
Interest cost	1	1
<b>Total pension cost recognised in the statement of income</b>	<b>24</b>	<b>23</b>
Actuarial valuation recognised in other comprehensive income		
a. Effect of changes in demographic assumptions	-	-
b. Effect of changes in financial assumptions	(2)	8
c. Effect of experience adjustments	8	(1)
<b>Total actuarial valuation recognised in other comprehensive income</b>	<b>6</b>	<b>7</b>
Total defined benefit cost recognised in the statements of income and other comprehensive income	30	30
<b>Principal actuarial assumptions</b>		
Weighted-average assumptions to determine benefit obligations		
Discount rate	0.50%	0.80%
Rate of compensation increase	3.00%	3.00%
<b>Weighted-average assumptions to determine pension cost</b>		
Discount rate	0.80%	1.80%
Rate of compensation increase	3.00%	3.00%
<b>Other required disclosure amounts</b>		
Contributions expected to be paid to the plan during the annual period beginning after the reporting period	11	10
Average duration of the plan liabilities (in years)	9	9

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Consolidated Financial Statements

### Section 7: Other disclosures

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#### 7.1 Related party transactions

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 2015.

During 2014 the Global Fund entered into a Special Initiatives project with a partner organisation represented by a fund management agent whose senior management includes a member of the Global Fund Board. The total value of the project is USD 4.0 million. During 2015 USD 0.2 million has been incurred by the partner organisation's agent for project management services and USD 2.6 million for project activities. As at 31 December 2015 there was no advance outstanding with the partner organisation (2014: USD 2.6 million).

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 2015, an aggregate of USD 62,000 (2014: USD 65,000 ) was paid to Board committee members as honoraria for the governance services performed during the course of the year.

#### 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, members of the Management Executive Committee and the Inspector General, amounted to:

<b>Remuneration category</b>	<b>2015</b>	<b>2014</b>
Short-term benefits including salary and allowances	4.4	3.6
Long-term benefits including contributions to the Provident Fund	0.6	0.5
<b>Total Remuneration</b>	<b>5.0</b>	<b>4.1</b>

#### 7.2 Taxation

The Global Fund has received tax exemptions from Switzerland and the US.

#### 7.3 Unrestricted and temporarily restricted 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 recognised as unrestricted funds.

# Glossary

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AEC	Audit and Ethics Committee
ACD	Annual Commitment Decision
ADMF	Annual commitment Decision Making Form
AMFm	Affordable Medicines Facility-malaria
CER	Corporate Expenditure Rate
CHF	Swiss Francs
EUR	Euro
FOPC	Finance and Operational Performance Committee
GBP	Pound Sterling
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
KPI	Key Performance Indicator
LFA	Local Fund Agent
PPM	Pooled Procurement Mechanism
PSA	Procurement Service Agent
SEK	Swedish Kroners
SIIC	Strategy Investment and Impact Committee
USD	United States Dollars

## 2015 Statutory Financial Statements

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**STATUTORY FINANCIAL STATEMENTS**



**2015**

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**STATUTORY  
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## **Responsibility for the statutory financial statements**

The Secretariat is responsible for the preparation of the statutory financial statements and related information that is presented in this report. The statutory financial statements are prepared in conformity with accounting principles under the Swiss law. The statutory financial statements include amounts based on estimates and judgments made by the Secretariat. Ernst & Young SA were appointed as the statutory auditors by the Global Fund Board upon the recommendation of its Audit and Ethics Committee to audit and opine on the statutory financial statements of the Global Fund.

The Secretariat designs and maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorised use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organisational structure providing division of responsibilities, careful selection and training of qualified personnel, and a program of external reviews.

The Global Fund Board, through its Audit and Ethics Committee, meets periodically with the Secretariat and Ernst & Young SA to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting.

These statutory financial statements were approved by the Global Fund Board (“the Board”) on xx April 2016.

**REPORT OF THE STATUTORY AUDITOR**

with statutory financial statements as of 31 December 2015 of

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

To the Board of

**The Global Fund to fight Aids, Tuberculosis and Malaria, Vernier**

Lancy, 26 April 2016

## **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, which comprise the statement of income, statement of financial position, statement of changes in funds and notes, for the year ended 31 December 2015.

### **Global Fund Board and Secretariat's responsibility**

The Global Fund Board and Secretariat are responsible for the preparation of the financial statements in accordance with 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 Board and 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 financial statements based on our audit. We conducted our audit in accordance with Swiss law and 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 2015 comply with Swiss law and the Global Fund's by-laws.

DRAFT

## 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 with 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 financial statements according to the instructions of the Global Fund Board.

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

Ernst & Young Ltd

Laurent Bludzien  
Licensed audit expert  
(Auditor in charge)

Thomas Madoery  
Licensed audit expert

### Enclosures

- ▶ Financial statements (statement of income, statement of financial position, statement of changes in funds and notes)

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# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Statement of income

for the year ended 31 December

CHF millions	Notes	2015	2014
		<hr/>	<hr/>
<b>Income</b>			
Contributions	4.1	2,166	3,423
<b>Expenditure</b>			
Grants	3.2	(4,346)	(2,536)
Operating expenses	6.1	(299)	(289)
		<hr/>	<hr/>
		<b>(4,645)</b>	<b>(2,825)</b>
		<hr/>	<hr/>
<b>Net operating (loss) / income</b>		<b>(2,479)</b>	<b>597</b>
Foreign exchange result, net	5.6	(109)	(289)
Financial income, net	5.7	16	44
		<hr/>	<hr/>
<b>(Decrease) / increase in funds</b>		<b>(2,572)</b>	<b>353</b>
		<hr/> <hr/>	<hr/> <hr/>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Statement of financial position

As at 31 December

CHF millions	Notes	2015	2014
<b>Assets</b>			
<i>Current assets</i>			
Cash and cash equivalents	5.1	524	58
Trust Fund assets	5.2	2,515	4,298
Contributions receivable	4.2	1,517	1,064
Advances for pooled procurement mechanism	3.4	40	-
Other receivables		34	30
Forward currency contracts at fair value	5.4	45	-
		<u>4,675</u>	<u>5,450</u>
<i>Non-current assets</i>			
Contributions receivable	4.2	1,336	2,074
Provident Fund investments	5.3	100	91
Tangible and intangible assets		10	9
		<u>1,446</u>	<u>2,174</u>
<b>Total assets</b>		<u><b>6,121</b></u>	<u><b>7,624</b></u>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Statement of financial position (continued)

As at 31 December

CHF millions

#### Liabilities

##### *Current liabilities*

Grants payable	3.3	2,630	1,539
Accounts payable and accrued expenses		53	54
Deferred contributions	4.4	42	85
		<u>2,725</u>	<u>1,678</u>

##### *Non-current liabilities*

Employee benefit liabilities	6.3	117	98
<b>Total liabilities</b>		<u>2,842</u>	<u>1,776</u>

#### Funds

Temporarily restricted funds	7.2	19	14
Unrestricted funds	7.2	3,684	6,260
Foreign currency translation reserve		(424)	(426)
<b>Total liabilities and funds</b>		<u>6,121</u>	<u>7,624</u>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Statement of changes in funds

for the year ended 31 December

CHF millions

	Foreign currency translation reserve	Temporarily restricted funds	Unrestricted funds	Total
<b>As at 1 January 2014</b>	(983)	18	5,903	5,921
Increase / (decrease) in funds for the period	-	(4)	357	353
Currency translation adjustment reserve	557	-	-	
<b>At 31 December 2014</b>	<b>(426)</b>	<b>14</b>	<b>6,260</b>	<b>6,274</b>
<b>As at 1 January 2015</b>	<b>(426)</b>	<b>14</b>	<b>6,260</b>	<b>6,274</b>
(Decrease) / increase in funds for the period	-	5	(2,577)	(2,572)
Currency translation adjustment reserve	2	-	-	-
<b>At 31 December 2015</b>	<b>(424)</b>	<b>19</b>	<b>3,684</b>	<b>3,703</b>

The Global Fund has nominated and maintains a foundation capital of CHF 50,000 by virtue of being registered as a non-profit foundation under the laws of Switzerland.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

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# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Section 1: Activities and organisation

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The Global Fund to Fight AIDS, Tuberculosis and Malaria (“the Global Fund”) is an international financing institution that fights AIDS, tuberculosis and malaria with a 21st century approach applying the three core principles: country ownership, partnership and performance-based funding.

The Global Fund has been registered as an independent, non-profit foundation under the laws of Switzerland since 22 January 2002 with its headquarters in Geneva, Switzerland. The registered address is 8, Chemin de Blandonnet, 1214 Vernier, Switzerland. It is monitored by the Swiss Federal Supervisory Board for Foundations.

### Section 2: Basis of reporting

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#### **Basis of preparation**

The statutory financial statements have been prepared in compliance with Swiss law and presented in accordance with the Global Fund’s Bylaws. These have been prepared in conformity with the applicable commercial accounting and financial reporting provisions of the Swiss Code of Obligations.

Previous year figures have been regrouped to be in line with the current year presentation.

These statutory financial statements for the year ended 31 December 2015 were approved by the Global Fund Board on xx April 2016.

#### **Functional and presentation currency**

The statutory financial statements are presented in Swiss Francs (“CHF”), by translating the financial statements presented in the Global Fund’s functional currency the United States Dollars (“USD”) at the foreign exchange rate prevailing at the end of the year as specified in Note 5.4.

All financial information have been rounded to the nearest million, except when otherwise indicated.

#### **Foundation capital**

The Global Fund has nominated and maintains a foundation capital of CHF 50,000 by virtue of being a non-profit foundation under the laws of Switzerland.

#### **Significant management judgment, estimates and assumptions**

All significant accounting policies, judgments, estimates and assumptions that are relevant to the understanding of the financial statements are provided through the notes to the financial statements. In particular the Global Fund has applied judgment in developing its accounting policies with respect to grants (Section 3) and contributions (Section 4). The Global Fund is subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Section 3: Grant activities

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Grant making is the core operation of the Global Fund and forms the major source of expenditure and cash outflow.

#### 3.1 Contingent liability

The first point of recognition for grants is at the point of the Global Fund Board approval, where the maximum liability of the grant becomes clear and is agreed with the Principal Recipient. A management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

Based on these principles and the substantive ability of the Global Fund to restrict funds there is determined to be no constructive obligation and hence no recognition of the liability in the statement of financial position. However, the Global Fund Board approval does represent a point at which a contingent liability can be reported, as it represents a potential obligation that can be reliably measured and is dependent on future events (the performance of the Principal Recipient and the availability of funding).

Following the Global Fund Board approval, all grants are governed by a written grant agreement that includes substantive conditions based on performance and availability of funding. Accordingly, an obligation only arises once all criteria have been considered and the annual funding decision is made and communicated to the Principal Recipient.

The contingent liability represents the maximum potential liability of the Global Fund for individual grants as approved by the Global Fund Board. During grant implementation, the contingent liability of a grant is reduced by the cumulative amount of grant expenses. Essentially contingent liabilities include the value of board approvals for grants that are not yet signed and grants that have been signed but have not been subject to annual funding decision.

The following table summarises the contingent liability for grants at 31 December:

<b>By category</b>	<b>2015</b>	<b>2014</b>
Grants approved but not signed	1,041	1,343
Grants signed but not committed	4,359	3,210
<b>Total</b>	<b>5,400</b>	<b>4,553</b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### 3.2 Grant expenditure

The recognition of grant liabilities is determined to be the point at which the annual funding decision is made by the Global Fund. The annual funding decision provides the Principal Recipient with a firm disbursement schedule, together with a statement that conditions have been met and that the funding is available. At this point the Global Fund has a constructive obligation to the Principal Recipient to fulfil amounts committed and the full amount of the annual commitment resulting from the annual funding decision is recognised as a grant payable in the statement of financial position and recorded as expenditure within the statement of income.

During the year of the commitment, funds are disbursed on the basis of the annual funding decision and the level of remaining funds held by the Principal Recipient. As amounts are disbursed there will be a subsequent reduction in the level of grants payable.

The following table summarises grant expenditure for the years ended 31 December:

	<u>2015</u>	<u>2014</u>
<b>By category</b>		
Grants to Principal Recipients	4,284	2,435
AMFm co-payments	45	85
Special Initiatives	17	16
<b>Total</b>	<u>4,346</u>	<u>2,536</u>

### 3.3 Grants payable

The following table summarises grants payable at 31 December:

	<u>2015</u>	<u>2014</u>
<b>By grant source currency</b>		
USD	2,418	1,321
EUR	190	172
Total grants payable in equivalent CHF	2,599	1,512
Grants under recovery	31	27
<b>Net grants payable</b>	<u>2,630</u>	<u>1,539</u>

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### 3.4 Advances for pooled procurement mechanism

The Global Fund facilitates the procurement of health products for Principal Recipients through PSA PPM.

In 2015, the Global Fund has formalized the level of working capital required by the PSA and issued advances that can be drawn down to meet their financing requirements. These advances are shown as an asset on the statement of financial position, until they are used by the PSA to meet procurement liabilities. The advances are provided to cover two to three months value of forecasted shipment of pharmaceutical products ordered by the Principal Recipients directly with the PSA. The PSA provides a monthly statement of payments made to the manufacturers for shipments to Principal Recipients, these are subsequently charged back to the grant liability.

The grant payable and expenditure for PPM follows the same accounting policy as grants directly administered by Principal Recipients.

As at 31 December 2015, CHF 40 million (31 December 2014: NIL) of PPM advances were outstanding at the two PSAs. Following a due diligence review of both PSAs the Global Fund confirms that these are established supply chain agents with good commercial standing. The working capital advances outstanding with them are considered good and fully recoverable. Accordingly no provision for impairment is deemed necessary.

The following table summarises advances for pooled procurement mechanism at 31 December:

	<u>2015</u>
Opening working capital advance	-
Advances issued during the year	815
Advances reconciled as charge back to grants for executed shipments	<u>(775)</u>
<b>Total</b>	<u><b>40</b></u>

Working capital advances for PSA commenced during 2015 and therefore no comparative for 2014 is reported.

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### Section 4: Donor activities

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The Global Fund follows a three-year replenishment cycle to secure funding for its grants and administrative operations. Since inception, approximately 95 percent of financial support to the Global Fund has come from donor governments and the remaining 5 percent from private foundations, corporate donors and individuals. More than 50 countries have, to date, contributed significant resources to support the work of the Global Fund.

At the time of replenishment, donors make public announcements of their intended future contributions. These announcements are termed as pledges. Pledges do not trigger an accounting event for the Global Fund as the conversion of pledges into firm contributions will require further substantive actions to be taken.

#### 4.1 Contribution income / Revenue recognition

The first point of revenue recognition is the signing of a formal contribution agreement with a donor. All contributions governed by a written contribution agreement that do not have any substantive conditionality bearing on future receipts are recorded as income at the date of signature of the agreement.

Contributions with a substantive conditionality on the likelihood of future receipt of cash are recorded as income upon receipt of cash or cash equivalents.

For the purposes of cash flows, contributions are considered as received when remitted in cash or cash equivalent.

The following table summarises the source of revenue recognised for the year ended 31 December:

	<u>2015</u>	<u>2014</u>
<b>By donor category</b>		
Governments	2,151	3,287
Others	15	135
<b>Total</b>	<u>2,166</u>	<u>3,422</u>

#### 4.2 Contribution receivables

Contributions receivable are agreements signed where income has been recognised but the cash has not been received. Contribution receivables are stated at nominal value net of a provision for uncollectible contributions to cover the risk of non-payment as described below under the section for provision for uncollectible contributions.

Promissory notes and contributions receivable maturing later than one year after the date of the statement of financial position are discounted at fair value (LIBOR rates for GBP, EUR and USD) and subsequently measured using the amortised cost method.

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The following table summarises contributions receivable at 31 December:

	<u>2015</u>	<u>2014</u>
Receivable in 2015	-	1,064
Receivable in 2016	1,517	975
Receivable in 2017	703	435
Receivable after 2017	743	742
	<u>2,963</u>	<u>3,216</u>
Discounted	(110)	(79)
<b>Net present value of contributions receivable</b>	<u><b>2,853</b></u>	<u><b>3,137</b></u>

### 4.3 Conditional revenue

During 2015 new multi-year contribution agreements with sovereign donors were signed wherein the future payment schedule was conditional on the pre-approval of their respective parliament.

Accordingly the revenue recognition of these contribution agreement was limited to the contributions received in cash during 2015. The remaining value of contributions receivable for CHF 231.9 million (2014: CHF 117.3 million) will be recognised on the earlier of the receipt of cash or confirmation of the parliamentary approval by the donor.

### 4.4 Deferred contribution

Donor contributions received in cash for specific project expenditures are treated as deferred contributions until the underlying related expenses have been incurred. This ensures the recorded income is matched to the expenditure it relates to. Deferred contributions include contributions received for AMFm co-payments where the application of donor funds is directly linked with the co-payment subsidy for the malaria drugs procured by the Principal Recipients.

Deferred contributions represent restricted contributions received for donor specified project expenditure. Any unspent portion of the contribution received will need to be refunded to the donor.

As at 31 December 2015, the deferred contribution balance on the statement of financial position was CHF 42 million (2014: CHF 85 million).

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### Section 5: Management of funds

The Global Fund is a financing institution and hence the management of its financial assets and liabilities is integral to the successful mission of the organisation. The Global Fund has built relationships with commercial banks and the World Bank to manage its financial assets and provide appropriate liquidity and risk management.

#### 5.1 Cash and cash equivalents

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. The financial statements of the Trust Fund are not consolidated.

The following table summarises cash and cash equivalents and Trust Fund assets at 31 December:

	<b>2015</b>	<b>2014</b>
Amounts held in commercial banks	524	58
Amounts held in the Trust Fund	2,515	4,298
	<u>3,039</u>	<u>4,356</u>

The carrying amounts of cash and cash equivalents and of funds held in Trust Fund approximate their fair value. Amounts are held in commercial banks that have a long-term credit rating of A or higher.

#### 5.2 Trust Fund assets

The World Bank acts as the Trustee for the Global Fund. Most financial contributions are received directly and held in a trust fund which is administered by the World Bank. The funds are held in a shared pool of cash and investments 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 framework of the Global Fund as approved by the FOPC. In accordance with the terms of the management agreement between the Global Fund and the World Bank, the Global Fund is the legal beneficial 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 Trust Fund is partitioned into two sub-portfolios: tranches 0 and 5 these have different investment horizons and aim to enhance returns subject to the over-arching goal of capital preservation and liquidity requirements. The tranches have the following characteristics:

- **Tranche 0:** cash portfolios in USD and EUR with an investment horizon of less than three months that aim to ensure timely availability of funds to meet the short-term cash flow needs of the Global Fund, and which comprise short-term bank deposits and highly liquid money-market instruments; and

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- **Tranche 5:** longer horizon portfolio in USD that has an investment horizon of up to three years, and which is invested primarily in highly rated government, government agency, corporate and asset-backed securities, including mortgage-backed securities. This tranche also includes the new equity component (asset class added to the tranche) of up to USD 100 million.

Monthly 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.

The following table summarises the Global Fund Trust Fund allocation across World Bank investment tranches:

<b>Tranche</b>	<b>2015</b>	<b>2014</b>
Tranche 0 USD	7	534
Tranche 5 USD	2,492	3,641
Tranche 0 EUR	16	123
<b>Total</b>	<b>2,515</b>	<b>4,298</b>

### 5.3 Provident Fund investments

The assets of the Global Fund Provident Fund (the "Provident Fund") are invested for the purpose of the investment policy of the Provident Fund in accordance with the principles and responsibilities established in the Constitutional Declaration and Benefits Rules, as it may be amended from time to time, and under article 6 of the Provident Fund 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 diversified global equity, bond and real estate funds. Funds are regulated, open-ended investment funds.

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 recognised in the statement of income.

### 5.4 Foreign exchange exposures

In preparing the financial statements, transactions in currencies other than the functional currency are recognised at the rates of exchange prevailing at the dates of the transactions, this creates an exposure to foreign exchange risk for these particular assets or liabilities. 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.

The exchange rates for foreign currency with significant exposure were as follows:

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	<u>2015</u>	<u>2014</u>
USD	1.0099	1.0107
EUR	1.0927	1.2156
GBP	1.4821	1.5609
SEK	0.1189	0.1293

*[Source: Effective July 2015 the Global Fund uses Reuters FX rates subscription]*

The following table gives the nominal amounts in millions of the net consolidated position of all foreign currency exposure, net of assets and liabilities. The 2015 non-USD currencies are reported net of hedged foreign exchange forward contracts:

Currency	<u>2015</u>	<u>2014</u>
EUR	77	716
GBP	400	797
SEK	850	1,700

### 5.5 Foreign exchange risk management

The Global Fund has implemented a strategy to mitigate the foreign exchange fluctuation risks as follows:

- Maximise the natural hedge of currency holdings by matching assets and liabilities by currency; and
- Monitor volatility and exposure by currency and engage in active hedging with levels of 50% to 100% through approved financial instruments.

A majority of the contribution receipts to the Trust Fund are denominated in USD. However, a portion of funds are held in EUR to maintain a natural hedge for grant and other liabilities denominated in EUR. In addition, cash in EUR and CHF are held at a commercial bank to cover the operating expenses in January of the following year.

The Global Fund also enters into a variety of derivative financial instruments, including forward, swaps and options, to manage its exposure to foreign exchange fluctuations for net positions held in non-USD currencies. The forward foreign exchange contracts used by the Global Fund to mitigate foreign exchange risk are recognised at fair value with subsequent movements in value taken through the statement of income.

The following table presents the notional value and the fair value of forward contracts by currency as at 31 December 2015 (31 December 2014: nil):

Currency	Notional value in millions	Forward contracts at fair value in CHF millions
GBP	400	34
EUR	676	11
AUD	91	-
<b>Total</b>		<b>45</b>

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The fair value of forward foreign exchange contracts is bank-provided and based on price models using observable exchange rates. All forward contracts expire within twelve months, hence they are classified as current assets on the statement of financial position.

### 5.6 Foreign exchange accounting

Realised and unrealised gains or losses on exchange differences are reported in the statement of income as follows:

For the years ended 31 December	<u>2015</u>	<u>2014</u>
<b>By net position</b>		
Net foreign exchange loss on assets	(131)	(323)
Net foreign exchange gains on liabilities	22	34
<b>Total</b>	<u><b>(109)</b></u>	<u><b>(289)</b></u>

### Section 5.7 Financial result, net

The investment of financial assets across the Trust Fund and the Provident Fund provides an investment return in line with the risks highlighted previously. The investment returns, net of financial costs, are summarised in the table below:

	<u>2015</u>	<u>2014</u>
Trust Fund gains, net	16	37
Provident Fund (losses) / gains	(-)	7
<b>Total</b>	<u><b>16</b></u>	<u><b>44</b></u>

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### Section 6: Operating activities

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#### 6.1 Operating expenses

Operating expenses are costs incurred by the Global Fund Secretariat for maintaining a sustainable administrative structure in order to deliver its mission. The Global Fund Board approves an annual budget for operating expenses. All expenses are monitored and reported on a periodic basis to the FOPC.

The following table summarises the Secretariat's operating costs under the main categories of expenditure for the years ended 31 December:

	<u>2015</u>	<u>2014</u>
Staff	141	139
Local fund agent fees	48	48
Professional fees	44	41
Others	62	54
<b>Total</b>	<u><b>295</b></u>	<u><b>282</b></u>

Staff costs include all personnel costs incurred by the Global Fund in accordance with its human resource guidelines.

Local Fund Agents fees include the service costs incurred by the Global Fund to assess the in-country capacity prior to and during grant negotiation in addition to managing and monitoring implementation of funded programs as grants are disbursed to Principal Recipients.

Professional fees represent the engagement cost of external consultants, technical partners and professional firms in providing management and technical services as needed by the Global Fund.

Other operating expenses include operating costs for Secretariat travel, meetings, communication materials, office rent and maintenance, depreciation and disbursements for Country Coordination Mechanism (CCM) and Board Constituencies.

At 31 December 2015 there were 702 (2014: 682) personnel employed by the Global Fund which amounted to 687 (2014: 665) full-time equivalents.

#### 6.2 Leases

The Global Fund has a long term, non-cancellable operating lease for its office premises in Geneva where the headquarters are located. The current lease term ends in 2017. Payments made under operating leases are recognised in the statement of income on a "straight line" basis over the term of the lease. The future lease payments are estimated to be CHF 11 million per annum during 2016-17.

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Effective 2018 the future lease payments are estimated to be CHF 7 million per annum for a period of ten years.

Non-cancellable operating lease payments recognised as an expense in 2015 amounted to CHF 12 million (2014: CHF 13 million).

### 6.3 Employee benefit liabilities

The Global Fund maintains a Provident Fund for the purposes of providing retirement, death and disability benefits to its employees 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.

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 below.

The actuarial valuation of the defined benefit obligation for the Provident Fund scheme administered by the Global Fund is reported in the following table:

<b>Change in benefit obligation</b>	<b>2015</b>	<b>2014</b>
Benefit obligation at beginning of year	98	84
Current service cost	23	22
Translation difference	-	(9)
Interest cost	1	1
Actuarial (gain)/ loss	4	7
Benefits paid from plan/company	(7)	(7)
Premiums and expenses paid	(2)	-
<b>Benefit obligation at end of year</b>	<b>117</b>	<b>98</b>

## Section 7: Other disclosures

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### 7.1 Taxation

The Global Fund has received tax exemptions from Switzerland and the US.

### 7.2 Unrestricted and temporarily restricted funds

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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 recognised as unrestricted funds.

# Glossary

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AEC	Audit and Ethics Committee
ACD	Annual Commitment Decision
ADMF	Annual commitment Decision Making Form
AMFm	Affordable Medicines Facility-malaria
CER	Corporate Expenditure Rate
CHF	Swiss Francs
EUR	Euro
FOPC	Finance and Operational Performance Committee
GBP	Pound Sterling
KPI	Key Performance Indicator
LFA	Local Fund Agent
PPM	Pooled Procurement Mechanism
PSA	Procurement Service Agent
SEK	Swedish Kroners
SIIC	Strategy Investment and Impact Committee
USD	United States Dollars