

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim Financial Report

INTERIM FINANCIAL REPORT



30 June 2014

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim Financial Report

Contents

Key activities of the Global Fund in the six months ended 30 June 2014..... 3

FINANCIAL COMMENTARY 3

 Financial Summary..... 3

 Donor pledges and contributions 3

 Bank and Trust Fund Income 4

 Grant commitments and disbursements..... 4

 Losses and recoveries from grants..... 4

 Operating expenditure 5

 Foreign exchange..... 5

REPORT OF THE INDEPENDENT AUDITOR 6

 Responsibility for the interim condensed consolidated financial statements 9

 Interim condensed consolidated statement of income 10

 Interim condensed consolidated statement of comprehensive income 10

 Interim condensed consolidated statement of financial position 11

 Interim condensed consolidated statement of cash flow 12

 Interim condensed consolidated statement of changes in funds 13

 Notes to the interim condensed consolidated financial statements..... 14

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim Financial Report

KEY ACTIVITIES OF THE GLOBAL FUND IN THE SIX MONTHS ENDED 30 JUNE 2014

Update on the New Funding Model

In March 2014 at its 31st Board Meeting, based on the joint recommendation of the Finance and Operational Performance Committee (“the FOPC”) and the Strategy, Investment and Impact Committee (the “SIIC”), the Global Fund Board approved a “Total Allocation” comprised of the following amounts:

- USD 10.22 billion under “Initial Allocation” for new grants during the replenishment period 2014-2016; and
- USD 5.55 billion of undisbursed funds as at 31 December 2013 (the “Existing Funds”) from the Third Replenishment Period (2011 – 2013), or earlier.

Each grant applicant’s portion of the Total Allocation must be requested by the applicant and approved by the Board prior to 31 December 2016.

Since then the first ten concept notes in the New Funding Model (NFM) were reviewed by the Technical Review Panel in June 2014 to provide an independent assessment of the viability of each funding application.

FINANCIAL COMMENTARY

Financial Summary

The interim condensed consolidated statement of financial position shows total assets of USD 7,824 million as at 30 June 2014 (USD 7,848 million as at 31 December 2013). Current assets accounted for USD 5,413 million (2013: USD 5,183 million) of which USD 4,064 million (2013: USD 4,397 million) was in cash or cash equivalents. Contributions Receivable increased by USD 301 million to reach USD 3,655 million (2013: 3,354 million) at the half year.

Total liabilities as at 30 June 2014 amounted to USD 2,432 million (USD 137 million more than at 31 December 2013) which included USD 2,182 million of Grants payable under current liabilities (USD 197 million more than at 31 December 2013). In addition to the Grants Payable recorded in the interim condensed consolidated statement of financial position, contingent liabilities for future grant expenditure as approved by the Board stands at USD 4,360 million (31 December 2013: USD 4,852 million).

Donor pledges and contributions

The interim condensed consolidated statement of income shows a contribution income of USD 1,509 million (2013: USD 754 million). This is an increase of USD 755 million, twice the value of revenue recognized over the same period in 2013. The contributions from government donors increased by USD 693 million following the signing of new contribution agreements from the pledges made at the IV Replenishment Period concluded in December 2013. The contributions received from non-government donors which includes Product [RED] campaign, public corporations, international non-profit organizations and private foundations increased by USD 62 million over the same period in 2013.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim Financial Report

As at 30 June 2014, 96% of pledges made in the III replenishment period (2011-2013) have now been moved into regular contribution agreements. The IV Replenishment has reached 26% fulfillment of pledges. The following table provides a summary of the pledges and contributions as at 30 June 2014:

In millions of USD	Pledges	Contributions
Third Replenishment	10,680	10,291
Fourth Replenishment	12,289	3,137

Bank and Trust Fund Income

During the reporting period the World Bank has reported an investment income of USD 28 million (2013: investment loss of USD 9 million) on the funds held in trust. The improvement in the investment returns is mainly driven by the high grade fixed income portfolios, including the Global Fund Trust Fund Investment Portfolio (“Portfolio”) that posted moderately positive returns during the first half of the year, with relatively strong performance at the longer end of the yield curve. The Portfolio saw gains of 0.35% for the second quarter of 2014, and 0.65% for year-to-date 2014, with the main performance drivers coming from holdings in the US Agency Mortgage Backed Securities (MBS), European and US sovereigns.

Grant commitments and disbursements

During the half-year ended 30 June 2014, new grant commitments of USD 1,586 million (2013: USD 858 million) were made. This is a significant increase of USD 728 million over the same reporting period in 2013. Up to June 2013 the grants commitment decisions were made on multi-year basis, mostly ending during 2013. Since then the grant commitments have transitioned to annual commitment decisions. The increased rate of grant commitments is mainly due to the introduction of a new annual funding decision in the first half of 2013 which resulted in a subsequent increase in the grant commitments made during the first half of 2014, specifically relating to countries like Nigeria, Mozambique, South Africa, Kenya, and the Democratic Republic of Congo, which are among the grant portfolio’s high-impact countries.

The grant disbursement value during the first half-year was USD 1,337 million (2013: USD 1,314 million), an increase of USD 23 million over the same reporting period in 2013.

The value of contingent liabilities reduced from USD 4,852 million as at 31 December 2013 to USD 4,360 million as at 30 June 2014. This is due to a lower rate of approval of new grants in the first half of 2014 as countries begin their process of new grant applications under the New Funding Model.

Losses and recoveries from grants

The Global Fund continues to pursue actively the recovery of any misappropriated funds during the process of grant implementation. The value of net recoverable from grants reduced marginally during the first half of 2014 to USD 74 million (2013: USD 76 million) and the recovery processes for negotiating and finalizing the recoverable value with its principal recipients have further accelerated. During the first half of 2014, USD 10 million (2013: USD 6 million) was recognized as net additional recoverable from grants recognized based on communicated recoveries to the principal

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim Financial Report

recipients.

Operating expenditure

The total operating expenditure in the first half-year of 2014 amounted to USD 132 million (2013: USD 115 million). This is a net increase of USD 17 million over 2013. This increase reflects the low level of activity in the Secretariat during the first half of 2013 as a result of the restructuring exercise conducted at the end of 2012. The first half of 2014 reflects the impact of increased staff activity and project costs.

Foreign exchange

During the half-year ended 30 June 2014 USD 14 million was reported as net foreign exchange gains on cash and contributions receivable held in currencies other than USD; of which USD 21 million was primarily on account of unrealized foreign exchange gains on contributions receivable held in GBP that have strengthened approx. 3% against USD since 2013. The unrealized gains were partially off-set by USD 8 million in foreign exchange losses realized on cash held in EUR. During the first half of 2014, EUR 2 million was reported as unrealized gains on the value of outstanding grants payable in EUR.

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim condensed consolidated financial statements

REPORT OF THE INDEPENDENT AUDITOR

With the interim condensed consolidated financial statements as of 30 June 2014 of the Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier.

To the Global Fund Board of

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

Geneva, 15 September 2014

Report on review of the independent auditor on the interim condensed consolidated financial statements

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria as of 30 June 2014 and the related interim condensed consolidated statements of statement of income, statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in funds on pages 10 to 18 for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Ltd

Laurent Bludzien
Licensed audit expert
(Auditor in charge)

Thomas Madoery
Licensed audit expert

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim condensed consolidated financial statements

**Interim condensed consolidated
financial statements (unaudited)**

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim condensed consolidated financial statements

Responsibility for the interim condensed consolidated financial statements

The Secretariat is responsible for the preparation of the interim condensed consolidated financial statements and related information that is presented in this report. The consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting.”

The interim condensed consolidated financial statements include amounts based on estimates and judgments made by the Secretariat. Ernst & Young SA was appointed as the statutory auditors by the Global Fund Board upon the recommendation of its Audit and Ethics Committee to review the interim condensed 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 Board, through its Audit and Ethics Committee, meets periodically with the Secretariat and Ernst & Young to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting.

These interim condensed consolidated financial statements were approved by the Global Fund Audit and Ethics Committee (“the AEC”) on 15 September 2014.

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim condensed consolidated financial statements

Interim condensed consolidated statement of income

For the six months ended 30 June	<u>Notes</u>	<u>2014</u>	<u>2013</u>
In millions of USD			
Income			
Contributions	4	1,509	754
Foreign currency gain/(loss) on contributions		14	(30)
Bank and Trust Fund income/(loss)		28	(9)
Provident Fund investment valuation gain/(loss)		4	(1)
Total Income		<u>1,555</u>	<u>714</u>
Expenditure			
Grants	5	1,586	858
Foreign currency gains on grants and other expenses		(2)	(5)
Operating expenses	6	132	115
Total Expenditure		<u>1,716</u>	<u>968</u>
Decrease in funds for the period		<u>(161)</u>	<u>(254)</u>

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June	<u>2014</u>	<u>2013</u>
In millions of USD		
Decrease in funds for the period	(161)	(254)
Remeasurement employee benefits gain	-	1
Total comprehensive loss for the period	<u>(161)</u>	<u>(253)</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim condensed consolidated financial statements

Interim condensed consolidated statement of financial position

As at	Notes	30.06.2014	31.12.2013
In millions of USD			
Assets			
Current assets			
Cash and cash equivalents	7	4,064	4,397
Contributions receivable	8	1,254	697
Provident fund investments		89	84
Prepayments and other receivables		6	5
		<u>5,413</u>	<u>5,183</u>
Non-current assets			
Contributions receivable	8	2,401	2,657
Plant, property and equipment		2	2
Intangible assets		8	6
		<u>2,411</u>	<u>2,665</u>
Total Assets		<u>7,824</u>	<u>7,848</u>
Liabilities and funds			
Liabilities			
Current liabilities			
Grants payable	9	2,182	1,985
Accrued expenses		33	37
Accounts payable		16	18
Deferred contributions		107	170
		<u>2,338</u>	<u>2,210</u>
Non-current liabilities			
Employee benefit liability		94	85
Total Liabilities		<u>2,432</u>	<u>2,295</u>
Funds			
Foundation capital		-	-
Temporarily restricted funds		13	20
Unrestricted funds		5,379	5,533
Total Funds		<u>5,392</u>	<u>5,553</u>
Total liabilities and funds		<u>7,824</u>	<u>7,848</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim condensed consolidated financial statements

Interim condensed consolidated statement of cash flow

For the six months ended 30 June	<u>Notes</u>	<u>2014</u>	<u>2013</u>
In millions of USD			
Operating activities			
Cash receipts from donors		1,179	528
Bank and Trust Fund income/ (loss)		29	(9)
		<u>1,208</u>	<u>519</u>
Cash paid for grants		(1,337)	(1,314)
AMFm co-payments disbursed		(61)	(55)
Payments to suppliers and personnel		(132)	(128)
		<u>(1,530)</u>	<u>(1,497)</u>
Net cash flow used in operating activities		<u>(322)</u>	<u>(978)</u>
Investment activities			
Purchase of Provident Fund investments		-	(5)
Purchase of fixed assets and intangible assets		(4)	(2)
Net cash flow used in investment activities		<u>(4)</u>	<u>(7)</u>
Net effect of exchange rate fluctuations		(7)	(13)
Net decrease in cash and cash equivalents		<u>(333)</u>	<u>(998)</u>
Cash and cash equivalents			
at beginning of the period	7	4,397	5,370
at end of the period	7	<u>4,064</u>	<u>4,372</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim condensed consolidated financial statements

Interim condensed consolidated statement of changes in funds

For the six months ended 30 June

In millions of USD

	Foundation capital	Temporarily restricted funds	Unrestricted funds	Total
As at 1 January 2013	-	33	3,971	4,004
Increase/ (decrease) in funds for the period	-	14	(268)	(254)
Other comprehensive income	-	-	1	1
At 30 June 2013	-	47	3,704	3,751
As at 1 January 2014	-	20	5,533	5,553
Decrease in funds for the period	-	(7)	(154)	(161)
Other comprehensive income	-	-	-	-
At 30 June 2014	-	13	5,379	5,392

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

Interim condensed consolidated financial statements

Notes to the interim condensed consolidated financial statements

1. ACTIVITIES AND ORGANIZATION

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

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

2. BASIS OF PREPARATION

Statement of compliance

These unaudited consolidated financial statements for the six months ended on 30 June 2014 have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting.”

They do not include all the information and disclosures presented in the annual consolidated financial statements, and should therefore be read in conjunction with the audited consolidated financial statements as at 31 December 2013, which have been prepared in accordance with the International Financial Reporting Standards (IFRS).

These interim condensed consolidated financial statements were approved by the Global Fund Audit and Ethics Committee (“the AEC”) on 15 September 2014.

3. APPLICATION OF NEW AND REVISED IFRS

New standards, interpretations and amendments adopted during 2014

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2013.

During the half-year ended 30 June 2014 several new standards and amendments became applicable for the first time in 2014. However, these do not impact the annual consolidated financial statements or the interim condensed consolidated financial statements of the Global Fund. Accordingly no restatement of previous financial statements was required.

The nature and the impact of each new standard or amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through the Statement of Income. These amendments have no impact to the Global Fund.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim condensed consolidated financial statements

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Global Fund.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Global Fund.

4. CONTRIBUTIONS

In millions of USD

For the six months ended 30 June	<u>2014</u>	<u>2013</u>
BY DONOR CATEGORY		
Governments	1,423	730
Foundations	8	1
Product (RED)	34	9
Corporations	5	-
International non-profit organizations	39	14
Total	<u>1,509</u>	<u>754</u>

5. GRANTS

In millions of USD

For the six months ended 30 June	<u>2014</u>	<u>2013</u>
BY CATEGORY		
Grants to principle recipients	1,522	799
AMFm co-payments	64	59
Total	<u>1,586</u>	<u>858</u>

BY DISEASE

HIV-AIDS	880	412
Malaria	439	178
Tuberculosis	219	176
Health Systems Strengthening (HSS)	(16)	33
AMFm co-payments	64	59
Total	<u>1,586</u>	<u>858</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim condensed consolidated financial statements

For the six months ended 30 June	<u>2014</u>	<u>2013</u>
BY REGION		
Asia, Europe, Latin America and the Caribbean	241	209
Africa and Middle East	183	132
High Impact Africa I	550	132
High Impact Africa II	299	166
High Impact Asia	250	160
AMFm co-payments	64	59
Total	<u>1,586</u>	<u>858</u>

6. OPERATING EXPENDITURE

In millions of USD

For the six months ended 30 June	<u>2014</u>	<u>2013</u>
Staff	66	57
Local fund agent fees	19	20
Professional fees	18	13
Travel and meetings	10	9
Communication materials	1	1
Office Infrastructure, including depreciation	11	10
Country coordination mechanism funding	6	4
Board constituency funding	1	1
Total	<u>132</u>	<u>115</u>

7. CASH AND CASH EQUIVALENT

In millions of USD

As at	<u>30.06.2014</u>	<u>31.12.2013</u>
Amounts held in commercial banks	39	34
Amounts held in the Trust Fund	4,025	4,363
Total	<u>4,064</u>	<u>4,397</u>

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 International Bank for Reconstruction and Development (“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 and investment objectives approved by the Global Fund’s Finance and Operational Performance Committee. Disbursements of funds occur only on, and in accordance with, the written direction of the Global Fund.

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

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim condensed consolidated financial statements

Fund considers cash on hand, demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash, as cash and cash equivalents.

8. CONTRIBUTIONS RECEIVABLE

In millions of USD

As at	<u>30.06.2014</u>	<u>31.12.2013</u>
Promissory notes maturing within one year	518	283
Contributions receivable within one year	736	414
Total	<u>1,254</u>	<u>697</u>
Promissory notes maturing after one year	555	739
Contributions receivable after one year	1,846	1,918
Total	<u>2,401</u>	<u>2,657</u>
Total value of contributions receivable	<u>3,656</u>	<u>3,354</u>
Receivable until June 2015	1,254	697
Receivable until June 2016	1,012	849
Receivable after June 2016	1,472	1,904
	<u>3,738</u>	<u>3,450</u>
Discounted at LIBOR as at	(82)	(96)
Total present value of contributions receivable	<u>3,656</u>	<u>3,354</u>

9. GRANTS PAYABLE

In millions of USD

As at	<u>30.06.2014</u>	<u>31.12.2013</u>
Asia, Europe, Latin America and the Caribbean	195	179
Africa and Middle East	483	540
High Impact Africa I	626	387
High Impact Africa II	534	599
High Impact Asia	344	280
Total	<u>2,182</u>	<u>1,985</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim condensed consolidated financial statements

10. CONTINGENT LIABILITY FOR GRANTS

In millions of USD

As at	<u>30.06.2014</u>	<u>31.12.2013</u>
Grants approved by the Board but not signed	912	976
Grants signed but not committed	3,448	3,876
Total	<u>4,360</u>	<u>4,852</u>

BY REGION

Asia, Europe, Latin America and the Caribbean	678	728
Africa and Middle East	1,321	1,387
High Impact Africa I	470	979
High Impact Africa II	1,012	820
High Impact Asia	879	939
	<u>4,360</u>	<u>4,852</u>