Annual Financial Report 2013

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DISCUSSION AND ANALYSIS

STRUCTURE AND GOVERNANCE

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: partnership, transparency, constant learning and performance-based funding.

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 organization's governance, including establishing strategies and policies, making funding decisions and setting budgets. The Board also works to advocate and mobilize resources for the organization. The Board's three standing Committees have Board-delegated decision-making, advisory and oversight responsibilities to facilitate the Secretariat's implementation of the Board's strategy and policies.

2. **The Secretariat -** The Secretariat - The Global Fund Secretariat manages the grant portfolio, including screening funding applications submitted, issuing instructions to disburse money to grant recipients and implementing performance-based funding of grants. The Secretariat executes Board policies; mobilizes resources; provides strategic, policy, financial, legal and administrative support; and oversees monitoring and evaluation. It is based in Geneva and has no office or employees located outside its headquarters.

3. **Office of the Inspector General -** The Global Fund has an Office of the Inspector General (OIG) that was established by the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria in July 2005. The OIG operates as an independent unit from the Secretariat, reporting directly to the Board through its Audit and Ethics Committee for strategic direction, reinforcement and accountability.

Besides these core structures, the in-country grant implementation partners include:

   a. The Country Coordinating Mechanism (CCM) is a partnership composed of all key stakeholders in a country's response to the three diseases. The CCM does not handle Global Fund financing itself, but is responsible for submitting funding applications to the Global Fund, nominating the entities accountable for administering the funding, and overseeing grant implementation.
   b. The Global Fund signs a grant agreement with a Principal Recipient (PR), which is designated by the CCM. The PR receives Global Fund financing directly, and then uses it to implement prevention, care and treatment programs or passes it on to other organizations (sub-recipients) who provide those services. Many PRs both implement and make sub-grants. There are often multiple PRs in one country. The PR also makes regular requests for disbursements from the Global Fund based on demonstrated progress towards the intended results.
   c. The Local Fund Agents (LFA) are responsible for monitoring in-country grant implementation and providing recommendations to the Secretariat on the capacity of the entities chosen to manage Global Fund financing and on the soundness of regular requests for the disbursement of funds and result reports submitted by PRs.

4. **Funding:** The Global Fund convenes donor governments and other key partners to discuss continued funding, known as replenishment, on a three-year cycle. The Replenishment

mechanism is a multiyear financial cycle that allows for greater predictability and enables both the Global Fund and implementing countries to establish long-term plans for fighting the three diseases.

Sovereign governments form the largest source of financing for the Global Fund. As a public-private partnership, the Global Fund actively engages in fundraising with the private sector and other non-government partners.

MISSION AND PRINCIPLES

The Mission:

The mission of the Global Fund is “Investing the world’s money to save lives”.

Organisational Principles:

In achieving this, the Global Fund applies the following 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 this way, each country can tailor their response to their own political, cultural and epidemiological context.
2- **Partnership** – Under the Global Fund business model, the work is carried out by all stakeholders working together, including government, civil society, communities living with the disease, technical partners and the private sector. All those involved in the fight should be involved in the decision-making process.
3- **Performance-based funding** – The ongoing financing is dependent upon performance achieved by the PRs. While initial funding is awarded based on the strength of a proposal, continued funding is dependent upon the demonstration of proven results. In essence, countries must be able to show where the funds have been spent and what results have been achieved with those funds in order to continue to receive future funding.

Together, country ownership, performance-based funding and partnership form the foundation of the Global Fund model.

Strategy:

The Global Fund’s 2012-2016 Strategy set goals to save 10 million lives and prevent 140-189 million new infections over the 2012-2016 period by providing funding for key life-saving interventions, including antiretroviral therapy for HIV, treatment for TB and long-lasting insecticidal bed nets to prevent malaria.

These goals will be realised through the following strategic objectives:

i. Invest More Strategically:

Invest more strategically in areas with high potential for impact and strong value for money, and fund based on countries’ national strategies;

- Focus on the highest-impact countries, interventions and populations while keeping the Global Fund global
- Fund based on national strategies and through national systems
- Maximize the impact of Global Fund investments on strengthening health systems
- Maximize the impact of Global Fund investments on improving the health of mothers and children

ii. Evolve the Funding Model

Evolve the funding model to provide funding in a more proactive, flexible, predictable and effective way;

- Replace the rounds system with a more flexible and effective model
- Facilitate the strategic refocusing of existing investments

iii. Actively Support Grant Implementation Success

Actively support grant implementation success through more active grant management and better engagement with partners;

- Actively manage grants based on impact, value for money and risk
- Enhance the quality and efficiency of grant implementation
- Make partnerships work to improve grant implementation

iv. Promote and Protect Human Rights

Promote and protect human rights in the context of the three diseases

- Integrate human rights considerations throughout the grant cycle
- Increase investments in programs that address human rights-related barriers to access
- Ensure that the Global Fund does not support programs that infringe human rights

v. Sustain the gains, mobilise resources

Sustains the gains, mobilize resources – by increasing the sustainability of supported programs and attracting additional funding from current and new sources.

- Increase the sustainability of Global Fund-supported programs
- Attract additional funding from current and new sources

The Strategy also aims to change the way in which the Global Fund operates through strategic enablers enhancing partnerships to deliver results; and transforming to improve governance, operations and fiduciary controls.

Corporate Performance

As from 2014, performance in achieving the aims of the Strategy will be monitored and assessed against the recently revised Corporate Key Performance Indicators (KPI) Framework. After a process of extensive consultation with Board Constituencies and Committees a revised Global Fund Corporate KPI Framework 2014-2016 was approved at the 30th Board Meeting in November 2013.[1]

The Framework consists of 16 indicators split across Strategic Goals, Targets and Objectives.

Strategic	Strategic goals	Strategic targets	
	KPI 1 Performance against strategic goals	KPI 2 Quality and coverage of services	KPI 3 Performance against strategic service delivery targets

Activity specific	Strategic objective 1 – Invest more strategically		
	KPI 4 Efficiency of Global Fund investment decisions	KPI 5 Health System Strengthening	KPI 6 Alignment of supported programs with national systems

[1] Source : The Global Fund Corporate KPI Framework 2014-2016

	Strategic objective 2 – Evolve the funding model		
	KPI 7 Access to funding	KPI 8 New Funding Model implementation [Temporary KPI]	
	Strategic objective 3 – Actively support grant implementation success		
	KPI 9 Effective operational risk management	KPI 10 Value for money	KPI 11 Grant expenses forecast
	Strategic objective 4 – Promote and protect human rights		
	KPI 12 Human rights protection		
	Strategic objective 5 – Sustain the gains, mobilize resources		
	KPI 13 Resource mobilization	KPI 14 Domestic financing for AIDS, TB & Malaria	
	Implementing operational excellence		
	KPI 15 Efficiency of grant management operations	KPI 16 Quality of management & leadership	

Formal reporting to the Board on these performance metrics will start in 2015.

OPERATIONAL ACTIVITIES

The New Funding Model

The implementation of the new funding model (NFM) is a cornerstone of the 2012 – 2016 Strategy approved at the Twenty-Fifth Board Meeting in November 2011. The key elements of the new funding model were approved by the Board at its Twenty-Eighth Meeting in November 2012 which was put to operational planning in 2013 for full implementation in 2014.

Key aspects of the change have included:

- Creation of a methodology to allocate funds to countries according to disease burden and income levels.
- Design of new processes to allow countries the flexibility to structure grants that are aligned to National Strategic Plans (Country Dialogue and Concept Note stages)
- Introduction of assessments of Willingness to Pay and Counterpart Financing Policy.
- Enhanced risk based assessments of implementer capacity and focus on ensuring that implementers meet minimum standards.
- Communication and training plans to help inform stakeholders and Global Fund staff ensure the about requirements of the process.

The new funding model was applied with six single-country early applicants and three regional programs in 2013. Three of these countries went through the new funding model process from allocation decision to grant signing in just over 4 months. The other grants are expected to be signed early in 2014.

Country funding requests for interim applicants are on track, with most proceeding through the Grants Approval Committee (GAC) review by March 2014. Of the interim applicants, 33 of 61 grant programs completed GAC reviews in 2013 and the others are expected to do so in 2014. Overall, the Board has approved USD 832 million in interim funding in 2013.

Forward planning preparations for the full roll-out of the new funding model are well underway, with a focus on the following areas:

a. Identifying when countries are likely to require funding;
b. Ensuring sufficient partner and Secretariat resources are available to support countries; and
c. Providing training.

The implementation of the new funding model is the largest, most complex change process the Global Fund has ever undertaken, requiring not just new policies, procedures and processes, but also quite significant shifts in the operational culture and stakeholder commitments, including implementers, partners and the Secretariat.

Implementation of the Finance Step-Up Project

During 2013 there has been a significant investment in time and resources to improve the financial systems of the organisation. The core objectives of these changes have been:

- Streamlined processes
- Financial data integrity and efficiency
- Integrated and simplified systems
- Organisational efficiency

To achieve these changes there has been a significant level of change management, including:

- Re-design of core financial processes (grant agreement, annual commitment and disbursement processes)
- Re-configuration of core financial systems (Oracle Financials and Hyperion Planning)
- Training of 80 business and finance users of systems
- Migration of >1000 grants to the new system

The changes will create a highly automated process that provides more accurate, reliable and timely financial information for the Global Fund. This will provide several key advantages:

- Improved budgetary control over expenditure
  The system will now provide an automated check of expenditure both in grants and operating costs of the Secretariat that will prevent budget overruns without prior appropriate approval.

- Improved financial management
  As part of the development and implementation of new financial systems within the Global Fund, and the setup of a dedicated Treasury department, measures to mitigate foreign exchange exposure are currently underway. Moreover, a review of all foreign exchange exposures is currently in process which will, in connection with the deployment of Treasury Management software, enable the Global Fund to implement a foreign exchange policy to mitigate the impact of variations on exchange rates on main donor contributions, notably EUR, GBP and AUD. The implementation of such policy has the ultimate aim to safeguard donor funds and serve as insurance on the assets held.

In addition, the Global Fund has decided to automate the key disbursement processes by using dedicated treasury software and by implementing and connecting to SWIFT, which will enable the Secretariat to disburse funds in the safest, most reliable and speedy route while increasing the overall controls. The most noticeable stream of work is the internalization of the commitment and disbursement processes currently handled by the World Bank. To that end, a joint workplan has been put in place and a detailed hand-over for the transfer of these processes has been agreed and will be implemented throughout 2014.

The Global Fund Fourth Replenishment

The Global Fund Fourth Replenishment launched in Washington D.C. on 2-3 December 2013 to secure financing for 2014-2016.

At the replenishment conference the donors pledged USD 12,007 million for the next three years (2014-2016), the largest amount ever committed to the fight against AIDS, tuberculosis and malaria. This represents a 32 percent increase over the USD 9,220 million in firm pledges secured for the 2011-2013 replenishment period. In the remarks made at the pledging session, several partners echoed the Global Fund’s leadership and determination to attract further commitments during the coming three years in order to defeat the diseases. The pledges announced include funding from twenty-five countries, as well as the European Commission, private foundations and corporations.

Since the Washington pledging conference, a number of donors who did not or could not pledge at the conference have subsequently announced their pledges, which has resulted in an overall net increase in amounts pledged for 2014-2016 to reach USD 12,214 million as at 31 December 2013.

Activities of the Office of the Inspector General

The Office of the Inspector General (OIG) completed 2013 in a stronger place than a year previously. The senior management team is complete. Staff levels rose by 37% in 2013 with the recruitment of 13 new staff allowing the OIG to concentrate on developing long-term skills and knowledge rather than relying on external, temporary resources. This shift is reflected in the 2013 cost base with a 62.5% decrease in external consultant fees compared to 2012.

The 2013 Key Performance Indicators set for the Office were broadly met. Specifically, a comprehensive communications strategy was developed, feedback on audits in 2013 showed a high level of satisfaction (average score of 3.5 out of 4), the cost of the office was managed more carefully, quality reviews of the OIG departments took place, the tracking of management actions was systematized, and 95% of the audit workplan was completed.

Significant progress was made with clearing the backlog of 2005 to 2012 investigations cases. The Office is publishing more investigation reports than at any other time in its history and this trend will continue as the backlog is cleared. In particular, the investigation report of Global Fund grants to Cambodia, published in November 2013, highlights the OIG’s strong commitment to clear the backlog and report in a transparent and independent manner. It also demonstrates the OIG’s commitment to the Global Fund’s philosophy of zero tolerance to fraud and abuse within Global Fund financed programs. Investigations priorities going forward include stronger alignment with the Secretariat in the structure of Investigations teams, the development of an intelligence building capacity in the OIG, and actively promoting a speak-up culture which will further strengthen our ethical foundation.

2013 was also the year in which the OIG’s audit unit received external independent validation with an assessment that it now “generally conforms” to International Internal Auditing Standards. The team materially completed its 2013 work plan with over 30 reports released or published. In 2013, 40% of audit time was spent in and on country level activities and this will increase to 60% in 2014. Priorities going forward include greater alignment with the Management Executive Committee’s priorities, a continued emphasis on advisory support, and the provision of an overall assurance statement by early 2015.

The OIG recently introduced a robust issue tracking mechanism and is working with the Secretariat to ensure that key recommendations are implemented in a timely manner. The emphasis is on high priority recommendations linked to the achievement of strategic objectives. With respect to issues identified in prior periods, over 1,500 recommendations have been condensed and grouped by due date, priority level and business process category. At this time, 204 open actions relating to grant recipients and the Secretariat are being tracked. Progress thus far puts the OIG and the Secretariat in a strong position to be able to validate the closure of important issues going forward, including recoveries of funds identified as misused by the OIG.

To ensure the highest professional standards, OIG activities are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors and the Uniform Guidelines for Investigations of the Conference of International Investigators. In 2013, following an external independent review, the OIG audit unit received an upgraded assessment that it now 'generally conforms' to the International Internal Auditing Standards. As of 2014 both the OIG audit and investigations units will be reviewed on an annual basis by an external quality assurance provider.

In conclusion, the OIG is now an independent, well-staffed office that reports directly to the Board, through the AEC, and compiles regular, publicly available audit and investigation reports of financial, programmatic, and reporting aspects of the Global Fund, its grantees and the Local Fund Agents.

FINANCIAL COMMENTARY 2013

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

- Donor pledges and contribution agreements, including the Statement of Pledges and Contributions;
- Grant commitments and disbursements;
- Losses and recoveries from grants;
- Operating costs of the Global Fund;
- The Comprehensive Funding policy of the Global Fund;
- Foreign exchange policy; and
- Investment Policy.

Donor pledges and contribution agreements

The financial year of 2013 has seen the Fourth Replenishment Conference, where all major donors have pledged funds in the fight against HIV/AIDS, Tuberculosis and Malaria for the next three years. Financially this has resulted in a significant increase in the level of income recognized through contribution agreements linked to the Fourth Replenishment for example: United Kingdom, Germany and Sweden.

These new contributions were additional to the fulfilment of previous pledges. The Third Replenishment has now reached 90% fulfilment of pledges. The following table provides a summary of pledges and contributions by replenishment period as at 31 December 2013:

In millions of USD unless otherwise stipulated

	Pledges	**Contributions**
Third Replenishment	10,680	9,683
Fourth Replenishment	12,214	2,235

Cash pledges continue to be the preferred mode of payment in which donors make contributions to the Global Fund, amounting for 59 percent of the 2014-2016 portfolio of donor pledges. Upfront donor cash contributions provide the Global Fund with increased flexibility in matching them to the timing and amount of cash payments to grant recipients. Such upfront donor cash payments are made through regular, payment-specific contribution agreements that are usually entered into in conjunction with the transfer of the funds.

About 24 percent of pledged amounts for the 2014-2016 replenishment period are expected to be received in the form of promissory notes. Under the new funding model that is being rolled out, promissory notes with a maturity of up to three years and a predetermined regular encashment schedule will allow the Global Fund to match cash inflows from donors to grant cash outflow needs. Promissory notes of such maturity also provide donors with the flexibility to defer some cash transfers to a later date rather than pay the full contribution amount upfront.

Following the 2013 pledging conference in Washington, the number of government donors which have chosen the use of multiyear contribution agreements (“MYCAs”) increased significantly compared to the Third Replenishment and amounts to 37 percent of the overall pool of resources pledged for 2014-2016.

The new contribution agreements that were provided to The Global Fund towards the end of the year had a significant proportion in long-term contributions receivable. The cash inflow will occur during 2014-2017 based on the encashment schedule defined in the underlying contribution agreements. This means that whilst the available funds for The Global Fund have grown by USD 1,549 million, the actual cash balance has decreased by USD 974 million.

Statement of Pledges and Contributions

As at 31 December 2013
In thousands of USD

DONORS	III Replenishment Period 2011-2013	
	Contributions Pledged	Contributions Received to date
GOVERNMENTS		
Australia	198,712	198,712
Belgium	69,579	69,579
Brunei Darussalam	100	100
Canada	532,988	532,988
China	14,000	14,000
Denmark	81,178	81,178
European Commission	438,028	397,417
Finland	13,024	13,024
France	1,459,756	1,383,151
Georgia	40	20
Germany	796,785	796,785
India	3,000	-
Japan	579,379	579,379
Korea (Republic of)	8,100	8,100
Kuwait	1,500	1,500
Liechtenstein	326	326
Luxembourg	9,913	9,913
Malaysia	32	32
Monaco	330	-
Namibia	750	500
Netherlands	209,655	209,655
Nigeria	10,000	-
Norway	228,240	228,240
Romania	142	142
Russia	60,000	60,000
Rwanda	1,000	1,000
Saudi Arabia	25,000	25,000
South Africa	1,525	1,525
Sweden	297,992	297,992
Switzerland	27,935	27,935
Thailand	2,000	2,000
Tunisia	2,000	2,000
United Kingdom	847,928	847,928
United States	4,000,000	3,075,151
Total	**9,920,939**	**8,865,274**

DONORS	III Replenishment Period 2011-2013	
	Contributions Pledged	Contributions Received to date
FOUNDATIONS/ PRIVATE SECTOR/ INNOVATIVE PRODUCTS		
Bill & Melinda Gates Foundation	450,000	450,000
Debt2Health		
Australia		
realized as restricted contribution from:		
Indonesia	10,171	10,171
Germany		
realized as restricted contribution from:		
Côte d'Ivoire	4,224	4,224
Egypt	4,807	4,807
Indonesia	13,257	13,257
Pakistan	13,307	13,307
Anglo American plc.	3,000	2,000
Chevron Corporation	25,000	25,000
Exchange-Traded Funds (ETF)	9	9
Gift From Africa	3,000	1,496
M·A·C AIDS Fund	375	375
(PRODUCT) RED™ and Partners: American Express, Apple, Bugaboo International, Converse, Dell + Windows, GAP, Giorgio Armani, Hallmark, Motorola Foundation, Motorola Inc. & Partners, Starbucks Coffee, Media Partners and (RED) Supporters		59,896
Takeda Pharmaceutical	3,216	3,216
LMI (Lutheran Malaria Initiative)	1,511	1,511
United Methodist Church	6,419	6,419
Other UNF Donors		1,437
Other Donors		86
Total	**538,295**	**597,209**
Grand Total	**10,459,238**	**9,462,487**
	-	-

Affordable Medicines Facility - Malaria (AMFm)		
Canada	39,597	39,597
Gates Foundation	5,000	5,000
UNITAID	70,000	70,000
United Kingdom	106,243	106,243
AMFm - Total	**220,840**	**220,840**
TOTAL PLEDGES AND CONTRIBUTIONS	**10,680,075**	**9,683,327**

Grant Commitments and disbursements

There has been a significant increase in the level of commitments made to grant implementers during the year. This has reflected an improved financial control environment across the grant portfolio that has enabled an increase in disbursable grants, together with the approval of interim arrangements for the New Funding Model.

The increase in grant commitments has also been a key driver for the level of cash disbursed to grants. During the year, cash paid to grant implementers amounted to USD 3,946 million (2012: USD 3,305 million), 19.4 percent increase over the period. As the number of multi-year commitments reduces we would expect to see the disbursement value more closely align to previous year's commitments.

Losses and recoveries from grants

Grant funds are not always spent by recipients in accordance with the grant agreements. Lack of proper bookkeeping; spending on activities that, although in the health sector, were not what was agreed up front, and in a minority of the cases outright theft, all constitute 'misused funds'. As part of its zero-tolerance for such misuse, the Global Fund has in place very elaborate checks and balances that seek to prevent and detect misuse. When misuse is found, all efforts are made to recover the funds as fully and as quickly as possible. The process for doing so was significantly strengthened during 2013. As of the end of the year 2013, a net amount of USD 76 million (2012: USD 84 million) was being pursued for recovery.

Operating expenses

The operating costs of the business continue to be optimised to ensure that funds provided by donors are used for their highest impact, whilst ensuring that they are held within an appropriate control environment.

Overall operating costs fell by 10.4 percent, although the majority of this represented a reduction in restructuring costs that were incurred during 2012. The ratio of operating costs to underlying activity continued to improve with operating costs as a percent of Total Expenditure reducing from 2012: 14.7 percent to 2013: 7.6 percent and similarly operating costs as a percent of Grants Under Management fell from 2012: 2.6 percent to 2013 2.3 percent..

Looking forward, the Board have approved an annual operating cost budget of USD 299 million for 2014, an 8.7 percent increase over the 2013 expenditure. The increase largely represents a significant investment in ensuring that the new funding model processes are rolled out effectively. Specific funds have been highlighted that will ensure grant implementers have sufficient support from the Global Fund and its partners in aligning with these new processes.

Funding Policy

The funding policies of the Global Fund largely relate to the following key areas:

Comprehensive Funding Policy

The Comprehensive Funding Policy, CFP, regulates the level of notional assets that should be in the possession of The Global Fund to cover anticipated financial liabilities over a given allocation period. In 2013, the Global Fund has started the process of revising the CFP, which was originally prepared for the rounds-based funding approach. This work was finalized in 2014 with the approval of an amended CFP at the Board Meeting in March 2014.

The amended CFP fully supports the implementation of the newly introduced, allocation-based funding model by providing applicants with predictable and maximized funding allocations that can be accessed at any time during the three-year allocation period. It relies on a robust financial management framework that facilitates universal applicability of the CFP across allocation periods, while providing for an orderly transition from one allocation period to the next.

Foreign Exchange Policy

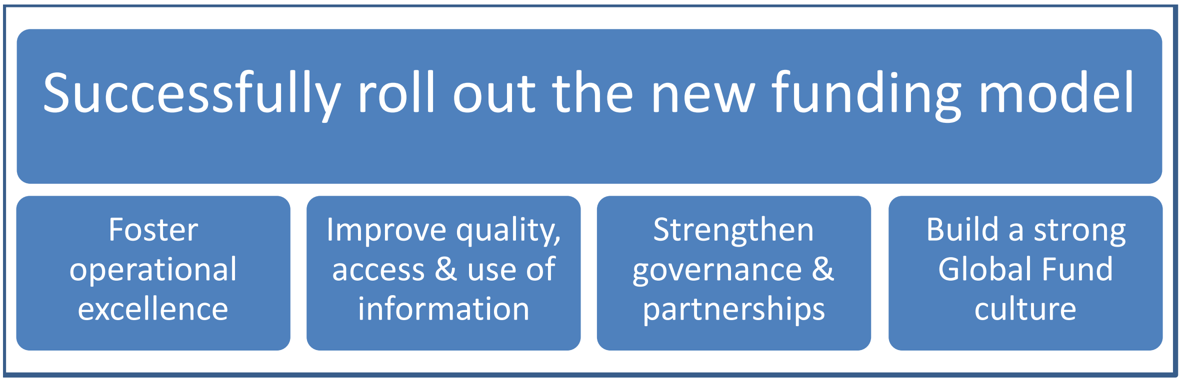
A standalone framework that establishes measures to minimize the risks linked to fluctuations in foreign exchange rates, while ensuring that required amounts are available at the right time and in the required currency.

Investment Policy

A revision of the current investment practices has been started in 2013 and will be adapted to meet the new cash management following the requirements of the New Funding Model. Moreover the primary investment objective of the Global Fund is to ensure that funds are available as needed to make good on commitments on a timely basis. The secondary investment objective is to maximize returns subject to prudent risk limits.

GLOBAL FUND PRIORITIES FOR 2014

The clear priority for the Global Fund in 2014 is a successful roll out the new funding model. With the foundations for the new model put in place in 2013 the other priorities identified by the Secretariat's Management Executive Committee for 2014 focus on implementation and optimizing performance to ensure that the model is able to deliver the ambitious goals set for the 2012-2016 Strategy.[2]



Priority 1: Successfully roll-out the new funding model

Strengthen cross functional operations and resources to support the new funding model roll-out: The Global Fund expects to receive 321 component[3] applications for funds over the 2014-2016 period. To cope with the additional workload inherent in the new funding model and the peak in activity in 2014 and 2015 need for an additional 49 full time equivalent positions was identified. Half will be realized through redeployment of existing staff and half through secondments or consultancies.

[2] Further detail: Add link to Board Workplan paper
[3] Component refers to the focus of the application on either HIV, TB, Malaria or Health Systems Strengthening

Operationalize strategic enablers within the new funding model: A new team was established in 2013 to further develop the work of the organization on the cross-cutting critical enablers of Gender, Human Rights and Community System Strengthening. Full implementation of the Gender Equality Strategy and the Human Rights workplan are priorities for 2014.

Enhance strategic investments and cost effectiveness of funded programs: A key question faced by applicants is given the country context and the best available country evidence on costs and benefits, what mix of interventions and which service modalities represents the most cost-effective investment. Further development work on methodology tested in 2013 is scheduled in 2014 before roll out more widely across the portfolio. In addition, a broad consultation will be held to inform a Development Approach to the Global Fund's engagement with countries; a position paper will be submitted to the October 2014 SIIC.

Priority 2: Foster operational excellence at Secretariat and country level

Establish the required systems and processes (Step-Up/NFM portal) to roll-out the new funding model: The introduction of the new funding model has provided an opportunity for the Global Fund to review and streamline its major systems and processes. Work started on grant management, procurement and financial systems in 2013 and will continue in 2014.

Strengthen internal controls and mitigate risk: Work on internal controls cuts across the Secretariat, involving among others Legal & Compliance Dept, Risk Department, Finance Division and OIG. Strengthening and streamlining operations is key and ground work started in 2013 will be further developed and realized in 2014.

Re-focus the organization, skills and incentives towards the Global Fund priorities and results: As noted above a new Corporate KPI framework was approved by the Board in November 2013 to enable high level reporting. Implementing this new performance monitoring system will be realized in 2014 and complemented by the introduction of an Operational KPI focused on the management needs of the Secretariat.

Foster innovation within the Global Fund: Developing and testing results base financing models will form a major part of the Secretariat's innovation work.

Priority 3: Improve the quality, consistency, access and use of information

The Management Executive Committee of the Global Fund has no consolidated management dashboard of key figures to inform decision making or monitor progress on key activities. The work developing the Finance Step-Up system and the new funding model portal will provide important parts of the dashboard, but considerable additional work will be required on implementation of processes, systems and ownership for continuity and consistency of data, and a more formal data governance structure. The launch of an improved intranet will further enhance these developments.

Priority 4: Strengthen governance and partnerships

Improve our contribution to the functioning of the governance model towards efficiency and more effective decision-making: The Board leadership has undertaken an initiative to improve the way that the Board works and interacts with the Secretariat. Based on the results of a review being undertaken by the OIG, the Board leadership will propose initiatives to improve the efficiency of Board functioning.

Develop key strategic and technical partnerships to support countries through the new funding model: The Secretariat will develop with partners a series of deliverable based agreements for the provision of technical support to implementers to ensure the quality of funding applications. At the country level, a new annual Eligibility and Performance Assessment will be rolled out to cover Country Coordinating Mechanisms. This will consist of a self-assessment complemented by stakeholder interviews conducted by an approved technical assistance provider; and where necessary an improvement plan jointly developed by the CCM and the technical assistance provider.

Priority 5: Build a strong Global Fund culture

A major program of management and leadership training will be conducted in 2014 to strengthen mangers' basic skill set in people and team management. Other key components of the training will work on building trust, "living the values" with respect to acceptable and unacceptable behaviors, and ensuring fairness and accountability throughout the practices and processes of Human Resources. Other activities will seek to better identify and develop talent through the roll out of talent management and implementing an updated reward and recognition architecture.

LETTER FROM THE CHAIR AND VICE-CHAIR OF THE BOARD

We present this letter to reflect on key foundational decisions and events in 2013.

New Funding Model

Last year, we adopted a new funding model. In 2013, together with the Secretariat and our three standing committees, we continued to develop strategic, financial and operational policies to facilitate its full implementation in 2014.

Fourth Replenishment

In December, our partners in the fight against HIV/AIDS, tuberculosis and malaria convened in Washington D.C. to pledge financial contributions over the next three years. We thank our donors for their partnership and support as we work to achieve our 2012 – 2016 strategic goals.

Financial Framework

We have seen significant progress in the development of new systems and processes aimed at establishing financial disciplines, controls, information and accountability commensurate with the nature and level of our financial operations.

We commend the work and achievements to date, and are committed towards building on the foundations set in 2013, as we implement our new funding model and achieve our strategic goals.

....	....
Nafsiah Mboi	Mireille Guigaz
Chair of the Board	Vice-Chair of the Board

REPORT OF THE INDEPENDENT AUDITOR

with consolidated financial statements as of 31 December 2013 of
The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier

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To the Global Fund Board of

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

Geneva, 25 April 2014

Report of the independent auditor on the consolidated financial statements

As auditor and in accordance with your instructions, we have audited the consolidated financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria, which comprise the statement of income, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in funds and notes on pages 21 to 51 for the year ended 31 December 2013.

Board's and Secretariat's responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and 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 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 existence and effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS.

Ernst & Young Ltd

Laurent Bludzien	Thomas Madoery
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Enclosure

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

CONSOLIDATED FINANCIAL STATEMENTS

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 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 was 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 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 consolidated financial statements were approved by the Global Fund Board ("the Board") on 25 April 2014.

Consolidated Statement of Income

for the year ended 31 December

In millions of USD	Notes	2013	2012 (Restated*)
INCOME			
Contributions	6	5,059	3,356
Foreign currency gain on contributions		82	49
Bank and Trust Fund income	7	5	56
Provident Fund investment valuation gain		2	4
Total INCOME		**5,148**	**3,465**
EXPENDITURE			
Grants	8	3,310	1,763
Foreign currency loss on grants		16	11
Un-collectible contributions	9	(2)	28
Operating expenses	10	275	307
Total EXPENDITURE		**3,599**	**2,109**
INCREASE IN FUNDS for the year		**1,549**	**1,356**

Consolidated Statement of Comprehensive Income
for the year ended 31 December

		2013	2012 (Restated*)
Increase in funds for the year		1,549	1,356
Remeasurement of employee benefits loss items not to be reclassified to the Statement of Income in the subsequent period	20	-	(4)
Total COMPREHENSIVE INCOME for the year		**1,549**	**1,352**

*** Certain amounts shown here do not correspond to the annual consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 20.2 related to IAS 19 (R)**

Consolidated Statement of Financial Position

As at 31 December

In millions of USD	Notes	2013	2012	As at 1 January 2012
ASSETS			(Restated*)	(Restated*)
Current assets				
Cash and cash equivalents	11	4,397	5,371	5,453
Contributions receivable	13	697	669	722
Provident fund investments	12	84	72	60
Prepayments and other receivables		5	4	7
		5,183	6,116	6,242
Non-current assets				
Contributions receivable	13	2,657	813	1,061
Property, plant and equipment	15	2	1	1
Intangible assets	16	6	1	1
		2,665	815	1,063
Total ASSETS		**7,848**	**6,931**	**7,305**
LIABILITIES and FUNDS				
LIABILITIES				
Current liabilities				
Grants payable	17	1,985	2,711	3,457
Accrued expenses		37	38	61
Accounts payable		18	23	31
Deferred contributions	14	170	85	59
		2,210	2,857	3,608
Non-current liabilities				
Grants payable		-	-	941
Employee benefit liability	20.1	85	70	60
Deferred contributions		-	-	44
		85	70	1,045
Total LIABILITIES		**2,295**	**2,927**	**4’653**
FUNDS				
Foundation capital		-	-	-
Temporarily restricted funds		20	33	17
Unrestricted funds		5,533	3,971	2,635
Total FUNDS		**5,553**	**4,004**	**2,652**
Total LIABILITIES and FUNDS		**7,848**	**6,931**	**7,305**

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Daniel Camus
Chief Financial Officer

Mark Dybul
Executive Director

*** Certain amounts shown here do not correspond to the annual consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 20.2 related to IAS 19 (R)**

Consolidated Statement of Cash Flows

for the year ended 31 December

In millions of USD	Notes	2013	2012
OPERATING ACTIVITIES			
Cash receipts from donors		3,333	3,646
Bank and Trust Fund income		5	57
		3,338	3,703
Cash paid for grants		(3,946)	(3,305)
AMFm co-payments disbursed		(112)	(140)
Payments to suppliers and personnel		(268)	(323)
		(4,326)	(3,768)
NET CASH FLOW USED IN OPERATING ACTIVITIES		**(988)**	**(65)**
INVESTMENT ACTIVITIES			
Purchase of Provident Fund investments		(8)	(9)
Proceeds from sale of Provident Fund investments		-	4
Purchase of property, plant and equipment and Intangible assets		(8)	(2)
NET CASH FLOW USED IN INVESTMENT ACTIVITIES		**(16)**	**(7)**
Net effect of exchange rate fluctuations		30	(10)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(974)**	**(82)**
CASH AND CASH EQUIVALENTS			
at beginning of the year		**5,371**	**5,453**
at end of the year	11.1	**4,397**	**5,371**

Consolidated Statement of Changes in Funds

for the year ended 31 December
In millions of USD unless otherwise stipulated

	Foundation capital	**Temporarily restricted funds**	**Unrestricted funds**	**Total**
As at 1 January 2012	-	**17**	**2,628**	**2,645**
Restatement*	-	-	7	7
As at 1st January 2012 (restated)*	-	17	2,635	2,652
Increase in funds for the period	-	16	1,340	1,356
Other comprehensive loss	-	-	(4)	(4)
As at 31 December 2012 (restated*)	-	**33**	**3,971**	**4,004**
As at 1 January 2013	-	**33**	**3,971**	**4,004**
Increase/ (Decrease) in funds for the period	-	(13)	1,562	1,549
Other comprehensive income	-	-	-	-
At 31 December 2013	-	**20**	**5,533**	**5,553**

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.

*** Certain amounts shown here do not correspond to the annual consolidated financial statements as at 31 December 2012 and reflect adjustments made as detailed in Note 20.2 related to IAS 19 (R)**

Notes to the Consolidated Financial Statements

1. ACTIVITIES AND ORGANIZATION

The Global Fund to Fight AIDS, Tuberculosis and Malaria ("Global Fund") is an international financing institution that fights AIDS, tuberculosis and malaria with a 21st century approach: partnership, transparency, constant learning and performance-based funding.

The Global Fund is 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.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

These consolidated financial statements were approved by the Global Fund Board ("Board") on 25 April 2014.

2.2 Basis of measurement

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

2.3 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. Management elected not to operate and report in Swiss Francs, the domestic currency, as its cash flows are primarily in USD.

2.4 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 for the mission of the Global Fund. Therefore its financial statements are consolidated in these consolidated financial statements. The Global Fund does not consolidate any other entity.

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

The Provident Funds holding the defined benefit plan of the Global Funds is a reporting entity and as such is not a separate legal entity.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash and cash equivalents

The Global Fund considers cash on hand and demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash, as cash and cash equivalents. This includes amounts held in the Trust Fund, which are subject to market risks that are defined in note 11.2.

Funds held in the Trust Fund

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.

The financial statements of the Trust Fund are not consolidated, as discussed above in Note 2.4, as the Global Fund does not control the investment strategy of the World Bank. The funds held in the Trust Fund are classified as cash equivalents in the consolidated financial statements.

The Trust Fund is maintained predominantly in USD. A small portion of the Trust Fund is held in EUR. The World Bank promptly applies a majority of the contribution receipts to the Trust Fund denominated in USD. A portion of the contributions received in Euros ("EUR") are retained in EUR in the EUR denominated part of the Trust Fund.

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

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

Allocations of the cash balances are made to different underlying instruments with different investment horizons and risk profiles among three different tranches as outlined below. Further details are described in Note 11 to the consolidated financial statements.

- **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;

- **Tranche 1:** short horizon portfolios in USD and EUR that have an investment horizon of one year, and which are invested in highly rated money-market instruments and government securities; and
- **Tranche 2:** longer horizon portfolio in USD that has an investment horizon of three years, and which is invested primarily in highly rated government, government agency, corporate and asset-backed securities, including mortgage-backed securities.

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

3.2 Contributions

Revenue Recognition

All contributions governed by a written contribution agreement that do not have any conditionality bearing on the future receipts are recorded as income at the date of signature of the agreement. Other contributions 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.

Contribution Receivables

Contribution receivables are agreements signed where income has been recognized but the cash has not been received. Contribution receivables are stated at their cost 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 to estimate their present value at this same date. Multi-year contribution agreements with long-term receipt schedules are included as contributions receivable since these extend immediate commitment authority for all funding commitments. The movement in the valuation of promissory notes and contributions receivable is recognized in the consolidated statement of income.

Deferred Contribution

Donor contributions received in cash for specific project expenditure are treated as deferred contribution. The revenue recognition for such contributions is deferred to future periods in order to match the underlying related expense. The revenue is realized in the statement of income on a systematic basis in the period during which the underlying related expenses are incurred.

Provision for Uncollectible Contributions

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

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

a) Contributions receivable from sovereign governments:

- 50% write-down of the contribution receivable if not received within 24 months from the due date of receipt as stipulated in the contribution agreement;
- 75% write-down of the contribution receivable if not received within 36 months from the due date of receipt as stipulated in the contribution agreement; and
- 100% write-off of the contribution receivable if not received within 48 months from the due date of receipt as stipulated in the contribution agreement.

b) Contribution receivable from non-government agencies:

- 50% write-down of the contribution receivable if not received within 12 months from the due date of receipt as stipulated in the contribution agreement; and
- 100% write-off of the contribution receivable if not received within 18 months from the due date of receipt as stipulated in the contribution agreement.

c) Receivable from employees and others: 100% write-off of the balance recoverable if not received within 12 months of the cessation of the employee's service agreement or contractual agreement with the Global Fund.

3.3 Grants

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, liabilities and contingent liabilities, together with the "general framework" document to determine when the grants should be recognized as contingent liabilities, grant payables and subsequently recorded in the consolidated statement of income.

Contingent Liability

The first point of recognition for grants is at the point of Board approval, where the maximum liability of the grant becomes clear and is agreed with the principal recipient. The accounting treatment at this point is to recognize the grant as a contingent liability due to the uncertainty over the amount of the grant and the substantive ability of the Global Fund to decommit funds if conditions are not met or funding is not available. Accordingly the point of Board approval is not considered to be a constructive obligation as defined under IAS 37.

Following the Board approval, all grants are governed by a written grant agreement that includes substantive conditions based on performance and availability of funding. There is no constructive obligation for the full value of the grant at the signing date of the grant agreement. Accordingly, an obligation only arises once all criteria have been considered and the annual funding decision is made and communicated to the principal recipient.

Multi-year grant agreements include staggered commitments that have been made with the principal recipients under a signed grant agreement. These staggered commitments will become liabilities in the future based on the finalizing of the annual funding decision and other terms and conditions stipulated in the grant agreement. As a result these follow the same accounting treatment as identified above and accordingly staggered commitments are reported as contingent liabilities.

Recognition of Grants payable and expenditure

The recognition of the grants payable is determined to be the point at which the annual funding decision is made by the Global Fund. At this point the Global Fund has a constructive obligation to the principal recipient and the amount of the annual commitment is therefore recognized as a grant payable and recorded as expenditure within the consolidated statement of income. Over the year funds are disbursed as per the annual funding decision that results in the reduction of the grants payable. The Global Fund provides the principle recipient with a firm disbursement schedule, together with a statement that conditions have been met and that the funding is available.

During 2013 the new funding model was introduced to change the process of grant making to enable strategic investment with maximum impact. A transition to the new funding model is underway and full implementation will begin in early 2014 once the level of available funding for the 2014-2016 cycle is established. The accounting policy adopted will not change as a result of this transition and therefore the accounting treatment as described in this note will be consistently applied in future years.

Recoverable from Grants

During the implementation period, a part of the funds disbursed for grants may be determined as recoverable from the principal recipients based on the audits and investigations conducted by the Office of the Inspector General. Such amounts are treated as grants recoverable and are also recorded as an increase in the liability of the grants payable in the consolidated statement of financial position. The cancellation of the liability will be determined upon the final settlement of the recoverable. Grants recoverable are recognized at fair value upon notification to the principal recipient and are subject to the same policy of valuation, risk assessment and asset impairment as contributions recoverable from donors outlined in Note 3.2.

3.4 Foreign-currency transactions

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

3.5 Financial Instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: Cash and cash equivalents within the Trust Fund, Provident fund investments, contribution receivables, other receivables and derivative financial instruments.

Financial liabilities

The Global Fund's financial liabilities include the grants payable and accounts payable.

3.6 Provident Fund investments

The assets of the Global Fund Provident Fund (the "Provident Fund") are invested for the purposes of the investment policy of the Provident Fund in accordance with the principles and responsibilities established in the Constitutional Declaration and Benefits Rules and under article 6 of the 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 and bond funds. Both 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 recognized in the consolidated statement of income. The net gain or loss recognized 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. Additional information about the Provident Fund is detailed in Note 12.

3.7 Prepayments and other receivables

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

3.8 Property, Plant and Equipment

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

3.9 Intangible assets

Intangible assets consist of software purchases and applications development costs. Intangible assets are amortized over the useful economic life of the underlying asset and are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3.10 Employee benefits

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.

3.11 Leases

The Global Fund has a long term, non-cancellable operating lease for its headquarters office premises in Geneva where the headquarters are located. The current lease term ends in July 2015. The Global Fund does not have an option to purchase the building at the expiry of the lease period. Payments made under operating leases are recognized in the consolidated statement of income on a "straight line" basis over the term of the lease. The long-term portion of the lease is included in Note 23.

3.12 Funds

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

<u>Funds</u>
The Global Fund has assessed the relationship it has with certain funds. Taking into consideration the activities, decision-making processes, benefits and related risks associated with the funds, the Global Fund concluded that under IFRS the US Fund should be consolidated into the financial statements as stated in Note 2.4.

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

For purposes of reporting under IFRS, the US Fund is considered a special purpose entity. It has been consolidated because the Global Fund may receive future variable returns from its relationship with the US Fund.

<u>Contingent liabilities</u>
The contingent liability is the maximum potential liability of the Global Fund for individual grants and reflects the Board Approved Amount. 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.

Estimates and assumptions

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

Valuation of long-term portion of financial assets and liabilities
The carrying value of long-term contribution receivables and grant payables is based on the expected future cash flows discounted using the LIBOR rates for GBP, EUR and USD as quoted on the Wall Street Journal as at the last trading of the financial year. This valuation requires the Global Fund to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty.

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

Provision for uncollectible contributions
The Global Fund maintains a provision for uncollectible contributions in respect of estimated losses resulting from the inability of donors to make required payments. Additional provision may be required in the future if the said donors, financial situation were to deteriorate, resulting in impairment in their ability to make payments. Management specifically analyses contributions receivable, historical trends and current economic trends when assessing the adequacy of the provision for uncollectible contributions as described in Note 3.2.

Provident Fund and other post-employment benefits
The Provident Fund provides retirement, death and disability benefits for the employees of the Global Fund and their qualifying dependents and beneficiaries. The cost of the plan is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates, employee rotation and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, estimates relating to pension and other post-employment benefits are highly sensitive to changes in these assumptions, all of which are reviewed at each reporting date as described in Note 20.

Subsequent events

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

5. APPLICATION OF NEW AND REVISED IFRS

New standards, interpretations and amendments adopted during 2013
The accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2013 are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

The Global Fund applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 19 (Revised 2011) Employee Benefits, IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements. As required by IAS 34, the nature and the effect of these changes are disclosed in Note 20.2. In addition, the application of IFRS 12 Disclosure of Interest in Other Entities would result in additional disclosures in the annual consolidated financial statements. Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Global Fund.

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*
The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. The amendment affected presentation only and had no impact on the Global Fund's financial position or performance.

IAS 19 *Employee Benefits* (Revised 2011) (IAS 19R)
IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from the consolidated statement of income and unvested past service costs are now recognised in the statement of income at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

This presentation improves the disclosure of the nature of net interest since it corresponds to the compounding effect of the long-term net defined benefit liability. The change was applied retrospectively in accordance with IAS 8. The effect of the adoption of IAS 19R is explained in Note 20.2.

Adoption of new IFRS for the 2013 financial statements

The following new or revised IFRS adopted had no effect on the Global Fund's consolidated financial statements:

- IFRS 1 *Government loans - Amendments to IFRS 1*,
- IAS 34 *Interim financial reporting and segment information for total assets and liabilities (Amendment)*
- IFRS 7 *Financial Instruments: Disclosures -Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*
- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*
- IFRS 11 *Joint Arrangements* and IAS 28 *Investment in Associates and Joint Ventures*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*

The Global Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New and revised IFRSs issued but not yet effective

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements. The Global Fund plans to adopt these pronouncements when they become effective. Only those new or amended standards that may have an impact on The Global Fund reporting are listed below, with their potential effect on the consolidated financial statement:

IFRS to be applied in the 2014 financial year

- Amendments to IAS 32 "*Offsetting Financial Assets and Financial Liabilities*" (December 2011) : The amendments to IAS 32 clarify the requirements for offsetting financial instruments and the notion of legally enforceable right of set-off. The Global Fund expects a limited impact on its disclosures, given the possible netting arrangements on derivative assets and liabilities.

IFRS to be applied in the 2015 financial year

- IFRS 9 "*Financial Instruments: Classification and Measurement*" (November 2009 and October 2010) : The first phase of IFRS 9 deals with the classification and measurement of the financial instruments. Based on its financial assets and liabilities at 31 December 2013, the Global Fund expects a limited impact on its consolidated financial statements. It will nonetheless quantify the effect in conjunction with the other phases relating to impairment and hedging, when issued.

Future changes in IFRS

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

6. CONTRIBUTIONS

In millions of USD

For the years ended 31 December	2013	2012
BY DONOR CATEGORY		
Governments	4,922	3,178
Foundations	68	89
Product (RED)	25	18
Corporations	30	6
International non-profit organizations	14	65
Total	**5,059**	**3,356**
BY DONOR INTENT		
Unrestricted	4,899	3,194
Restricted- AMFm	111	133
Restricted- Others	49	29
Total	**5,059**	**3,356**

7. BANK AND TRUST FUND INCOME

The Global Fund earns income on the returns of the investments managed within the Trust Fund. The Trust Fund has an allocated share of interest income earned by the World Bank on a shared pool of cash and investments. The financial income recognized in the consolidated statement of income includes the interest income earned on balances held with the commercial banks as well as the realized and unrealized gains and losses on the Trust Fund investments.

For the years ended 31 December 2013 and 2012 Trust Fund income as reported in the consolidated statement of income is as follows, bank interest being nominal:

For the years ended 31 December	**2013**	**2012**
In millions of USD		
Trust Fund income	5	56
Total	**5**	**56**

8. GRANTS

In millions of USD

For the years ended 31 December	**2013**	**2012**
BY CATEGORY		
Grants to principle recipients	3,199	1,629
AMFm co-payments	111	134
Total: Grants	**3,310**	**1,763**
BY DISEASE		
HIV-AIDS	1,693	812
Malaria	858	534
Tuberculosis	588	315
Health Systems Strengthening (HSS)	60	(32)
Total: Grants to Principle Recipients	**3,199**	**1,629**
BY REGION		
Asia, Europe, Latin America and the Caribbean	352	270
Africa and Middle East	353	506
High Impact Africa I	528	447
High Impact Africa II	1,194	292
High Impact Asia	772	114
Total: Grants to Principle Recipients	**3,199**	**1,629**

9. UNCOLLECTIBLE CONTRIBUTIONS

In millions of USD

For the years ended 31 December	2013	2012
Governments		
Impaired	(5)	17
Cancelled	-	11
Others- Cancelled	-	4
Default discount premium on:		
- Contributions recoverable	(1)	(7)
- Grants recoverable	4	3
Total	**(2)**	**28**

In accordance with Note 3.2 the fair valuation of assets recoverable is done at the end of each reporting period. The default discount premium on contributions receivable reflects the fair valuation of the donors for whom the revenue has been recognized in the consolidated statement of income. The fair valuation assessment is based on the review of the donor credit profile, in-country economic and political situation and other known factors that may potentially result in reduced future cash receipts.

The default discount premium on grants recoverable represents the fair valuation of the amounts confirmed as recoverable from the principle recipients as described in Note 3.3.

10. OPERATING EXPENSES

In millions of USD unless otherwise stipulated

For the years ended 31 December	2013	2012
Staff	128	138
Local fund agent fees	59	76
Professional fees	38	53
Travel and meetings	19	16
Communication materials	1	1
Office infrastructure, including depreciation	21	18
Country coordination mechanism funding	8	4
Board constituency funding	1	1
Total	**275**	**307**

The Secretariat's operating expenditure without the Provident Fund valuation is USD 274 million (2012: USD 306 million). The 2013 consolidated operating expenditure for Global Fund includes USD 12k as the operating expenditure for the US Fund (2012: USD 72k).

At 31 December 2013 there were 639 (2012: 598) personnel employed by the Global Fund. Of these, 300 (2012: 342) were employed under on-going contracts. All other personnel were employed under contracts of defined duration which range between three months and two years. 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.

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.

11. CASH AND CASH EQUIVALENTS

In millions of USD unless otherwise stipulated

11.1 Cash position

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

As at 31 December	**2013**	**2012**
Amounts held in commercial banks	34	38
Amounts held in the Trust Fund	4,363	5,333
	4,397	5,371

The carrying amounts of cash and cash equivalents and of funds held in Trust Fund approximate their fair value. Amounts held in commercial banks are with banking institutions that have a long-term credit rating of A or higher *(Source: Standard & Poor Rating Services: July 2013*.

The Global Fund hedges its exposure to currency risk by matching grant liabilities in EUR with assets in the same currency to the extent possible. A portion of funds are held in EUR in the Trust Fund to maintain a natural hedge for grants denominated in EUR. In addition, cash in EUR and CHF are also held at a commercial bank to cover the operating expenses in January 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	**2013**	**2012**
Amounts held in CHF	4	6
Amount held in EUR	718	630

11.2 Amounts held in the Trust Fund

The Trust Fund's assets consist of its share of cash and investments in a Pool. The Pool is actively managed by the World Bank and invested in accordance with the investment strategy established for all trust funds administered by the World Bank group. As at 31 December 2013 the Pool had a fair value measurement of USD 27,466 million (2012: USD 26,060 million) according to the World Bank.

The following table reflects the asset allocation in the pool:

Types of financial instruments	**2013**	**2012**
Government and agency obligations	56%	51%
Time deposits and money market securities	28%	38%
Asset-backed securities	11%	11%
Securities purchased under resale agreements and securities sold under repurchase agreements	5%	0%
Total	**100%**	**100%**

The Trust Fund reports its share in the shared pool of investments as one class of financial assets and can be withdrawn upon demand. The Trust Fund's share in the Pool is not traded in any market. The table below shows the distribution of the Global Fund liquid assets by type of asset as presented by the Trust Fund (see definitions of Tranches in Note 3.1):

Global Fund Trust Fund Allocation across World Bank Investment Tranches

Tranche	**2013**	**2012**
Tranche 0 USD	543	210
Tranche 1 USD	1	784
Tranche 2 USD	2,832	3,285
Tranche 0 EUR	472	360
Tranche 1 EUR	515	470
Tranche 0 Other	-	224
Total	**4,363**	**5,333**

11.3 Risk exposure of the Pool

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

Market risk –The Trust Fund is exposed to market risk, primarily related to foreign exchange rates and interest rates. The Trustee actively manages the Pool so as to minimize the probability of incurring negative returns over the applicable investment horizon.

i. Interest rate risk

The Trustee uses a value at risk (VAR) computation to estimate the potential loss in the fair value of the Pool's financial instruments with respect to unfavourable movements in interests and credit spreads. This approach takes into account historical market observations for three years while giving more weight to recent market volatility. The absolute VAR of the Trust Fund's share of the portfolio over a twelve month horizon at a 95% confidence level at 31 December 2013 is estimated to be USD 32 million (2012: 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 Trust Fund's currency risk arises from the portion of cash and investments in the Pool that are denominated in currency other than in USD. In accordance with the Agreement and/or the instructions from the Global Fund, the Trustee maintains the Trust Fund's share of cash and investments in the Pool in USD and EUR. Cash contributions received are converted into USD on receipt, except when the Global Fund instructs the Trustee to hold selected cash contributions received in EUR.

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

	2013		**2012**	
Currency	Change %	Amount USD million	Change %	Amount USD million
EUR	3%	(+/-) 30	4%	(+/-) 38

Credit risk

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

Counterparty credit ratings of the World Bank	**2013**	**2012**
AA or greater	62%	64%
A- or greater	98%	99%
BB+ or greater	100%	100%

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

12. Financial instruments and fair value measurement (other than the Trust Fund)

12.1 Financial risk management objectives for Provident Fund investments

The Provident Fund's assets are primarily invested in two institutional funds ("Investments") which aim at implementing the strategic asset allocation within their diversified global equity and bond portfolios. Both funds are regulated, open-ended investment funds. The objectives of the investment strategy are foremost (i) to maintain adequate liquidity to meet foreseeable cash flow needs, (ii) to preserve capital and then (iii) to optimize investment returns given a pre-defined level of risk.

12.2 Risk Factors

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

i. Market Risk

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

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

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

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

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

ii. Credit risk

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

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

iii. 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.

12.3 Fair Value

Financial instruments carried at amortized cost

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

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts; and

- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Fair value measurements recognized in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

In millions of USD

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2013				
Provident Fund Investments				**84**
Equity	22	-	-	22
Bonds	1	61	-	62

	Level 1	Level 2	Level 3	Total
31 December 2012				
Provident Fund Investments				**72**
Equity	15	-	-	15
Bonds	-	57	-	57

As at 31 December 2013 the value of the Provident Fund investments includes foreign currency exposure in Euros (EUR) and Swiss Francs (CHF). The sensitivity of exchange rate is analysed as at the end of each reporting period.

13. CONTRIBUTIONS RECEIVABLE
In millions of USD

As at 31 December	2013	2012
Promissory notes maturing within one year	283	272
Contributions receivable within one year	414	397
	697	**669**
Promissory notes maturing after one year	739	128
Contributions receivable after one year	1’918	685
	2,657	**813**
Total value of contributions receivable	**3,354**	**1,482**
Receivable in 2013	-	669
Receivable in 2014	697	163
Receivable in 2015	849	13
Receivable in and after 2016	1’904	759
	3,450	1,604
Discounted at LIBOR for EUR, USD and GBP as at 31 December	(96)	(122)
Present value of contributions receivable	**3,354**	**1,482**

As at 31 December 2013 the value of contribution recoverable included foreign currency exposure in Euros (EUR), Australian Dollars (AUD) and Great British Pound (GBP).

The following table gives the foreign currency exposure for contributions receivables:

	2013	2012
AUD	13	128
EUR	949	416
GBP	830	20
NOK	-	450

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

	2013		**2012**	
Currency	Change %	Amount USD million	Change %	Amount USD million
AUD	6%	(+/-) 1	4%	(+/-) 5
EUR	3%	(+/-) 39	4%	(+/-) 22
GBP	2%	(+/-) 27	3%	(+/-) 1
NOK	6%	-	4%	(+/-) 3

In addition to the sensitivity of the non-USD currencies, the expected future cash flows from the long-term contributions receivable are sensitive to the LIBOR rates for GBP, EUR and USD as quoted on the Wall Street Journal on the last trading of the financial year that are used for discounting the carrying value of the long-term portion of contributions receivable. The sensitivity on discounting of the long-term contributions receivable due to the change in the LIBOR rate in 2013 is analysed below. The LIBOR rate for GBP is being applied for the first time in 2013 and hence does not represent a change over 2012.

	2013		**2012**	
Currency	Change %	Amount million	Change %	Amount million
USD	(0.55%)	(4.2)	(0.65%)	(5)
EUR	(0.09%)	(0.4)	(0.67%)	(0.9)
GBP	(0.91%)	7.3	-	-

14. DEFERRED CONTRIBUTIONS
In millions of USD

Deferred contribution represents restricted contributions received for the donor specified project expenditure. Any unspent portion of the contribution received will need to be refunded to the donor. This includes contributions received for Affordable Medical Facilities for malaria (“AMFm”) where the application of donor funds is directly linked with the co-payment subsidy for the malaria drugs procured by the principal recipients.

In addition deferred contribution also includes restricted contributions from the US Fund which is linked to underlying grants in the donor agreement. As at 31 December 2013 all restricted contributions received from the US Fund were applied to the underlying grants.

As at 31 December	**2013**	**2012**
AMFm	170	67
US Fund	-	18
	170	**85**

Deferred contributions- movement during the year

	2013	**2012**
At 1 January	85	103
Contribution income deferred during the year	215	120
Trust Fund investment (loss)/ income deferred during the year	-	1
Deferred contributions released to the consolidated statement of income	(130)	(141)
Movement in discounted value of deferred contributions released to the consolidated statement of income	-	1
Revaluation	-	1
At 31 December	**170**	**85**

As at 31 December 2013 there is no non-USD currency held as deferred contribution hence no revaluation was required. The balance held as deferred contribution is expected to be paid within the course of the following year hence classified as short-term liability requiring no discounting.

15. PROPERTY, PLANT AND EQUIPMENT

In millions of USD

Property, plant and equipment includes computer equipment and office furniture and equipment. Depreciation is calculated using the straight-line method over the useful life of these assets determined to be 3 years.

	2013	**2012**
As at 1 January	1	-
Additions during the year	2	1
Depreciation during the year	(1)	-
As at 31 December	**2**	**1**

16. INTANGIBLE ASSETS

In millions of USD

Intangible assets consist of software applications purchased externally or developed and capitalized in-house. This includes investment costs in project development during the financial year but not released for business use. Amortization is calculated using the straight-line method over the useful life of the asset determined to be three years. Development costs for assets held as work-in-progress are not amortized.

	2013	**2012**
As at 1 January	1	1
Additions during the year	6	1
Depreciation during the year	(1)	(1)
As at 31 December	**6**	**1**

17. GRANTS PAYABLE
In millions of USD

As at 31 December	2013	2012
Asia, Europe, Latin America and the Caribbean	179	421
Africa and Middle East	539	1,020
High Impact Africa I	385	506
High Impact Africa II	596	327
High Impact Asia	280	437
Grants recoverable from Principle Recipients	6	-
Net Grants Payable	**1,985**	**2,711**

During the year 2013 USD 13 million (2012: USD 228 million) has been decommitted in respect of inactive grants.

As at 31 December 2013 grant payables include EUR denominated liabilities for EUR 205 million (2012: EUR 367 million). The following table reflects the sensitivity of the consolidated statement of income to a strengthening or weakening of EUR for these liabilities:

Currency	2013 Change %	2013 Amount USD million	2012 Change %	2012 Amount USD million
EUR	3%	(+/-) 8	4%	(+/-) 19

18. GRANTS RECOVERABLE
In millions of USD

	2013	2012
As per the annual consolidated financial statements		
Gross recoverable from grants	7	8
Allowance for doubtful recoverable from grants	(1)	(4)
Net recoverable from grants	**6**	**4**

The recoveries process for grants recoverable from the principal recipients is managed by a Recoveries Committee comprising the Chief Risk Officer (Chair), the Head of Grant Management, the Treasurer and the Head of Legal and Compliance. The Office of the Inspector General is invited to each Committee meeting as an observer. As at 31 December 2013 a net recoverable of USD 76 million (2012: USD 80 million) was determined as recoverable from grants from the principle recipients by the Recoveries Committee which is not recorded in the consolidated financial statements in the absence of formalized terms of recovery with the principle recipients.

19. MATURITY PROFILE OF UNDISCOUNTED FINANCIAL LIABILITIES

In millions of USD unless otherwise stipulated

Year ended 31 December 2013	Less than 3 months	3 to 12 months	More than 12 months	Total
Grants payable	264	1,721	-	1,985
Accounts payable	18	-	-	18
	282	**1,721**	**-**	**2,003**

Year ended 31 December 2012	Less than 3 months	3 to 12 months	More than 12 months	Total
Grants payable	270	2,441	-	2,711
Accounts payable	23	-	-	23
	293	**2,441**	**-**	**2,734**

20. EMPLOYEE BENEFIT LIABILITY

In millions of USD unless otherwise stipulated

20.1 Actuarial valuation of defined benefit obligation

Under IAS 19-Employee Benefits 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.

During 2013 the following changes have been introduced under IAS 19 R which has necessitated the remeasurement of employee benefit obligations for the Global Fund:

(i) Recognition of changes in the net defined benefit liability including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements;

(ii) Enhanced disclosures about defined benefit plans requiring clarification of miscellaneous issues including the classification of employee benefits, current estimates of mortality rates, administration costs and risk-sharing and conditional indexation features; and

(iii) Modify accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits

The revision to IAS 19R is effective retrospectively to 1 January 2012. Accordingly the audited balance of employee benefit liability as at 31 December 2012 and 1 January 2012 were restated during 2013. The corresponding impact on employment costs was recognized in the Statement of Income and the recognition of defined benefit costs resulting from the Remeasurement was disclosed in the Statement of Other Comprehensive Income.
The actuarial valuation of the defined benefit obligation for the Provident Fund scheme administered by the Global Fund is reported in the following table:

Change in benefit obligation	**2013**	**2012 (Restated)**
Benefit obligation at beginning of year	70	60
Current service cost	22	20
Translation difference	2	2
Amendments	-	5
Interest cost	1	1
Actuarial (gain)/ loss	-	4
Benefits paid from plan/company	(8)	(19)
(Settlements paid from plan/ company	-	(1)
Premiums paid	(1)	(1)
Expenses paid	(1)	(1)
Benefit obligation at end of year	**85**	**70**

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 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 remeasurement of the opening balance of defined benefit obligation administered in CHF in equivalent USD at the end of the current reporting period.

Components of pension cost	**2013**	**2012**
Amounts recognized in the statement of income		
Current service cost	22	21
Interest cost	1	1
Recognition of past service cost	-	5
Settlement gain recognized	-	(1)
Total pension cost recognized in the statement of income	**23**	**26**

	2013	**2012**
Remeasurements recognized in other comprehensive income		
a. Effect of changes in demographic assumptions	(1)	-
b. Effect of changes in financial assumptions	1	3
c. Effect of experience adjustments	-	1
Total remeasurements recognized in other comprehensive income	**(-)**	**4**
Total defined benefit cost recognized in the statement of income and other comprehensive income	**23**	**30**

Principal actuarial assumptions	**2013**	**2012**
Weighted-average assumptions to determine benefit obligations		
Discount rate	1.80%	1.70%
Rate of compensation increase	3.00%	1.50%

Weighted-average assumptions to determine pension cost	**2013**	**2012**
Discount rate	1.70%	2.50%
Rate of compensation increase	1.50%	1.50%

Other required disclosure amounts	**2013**	**2012**
Contributions expected to be paid to the plan during the annual period beginning after the reporting period	9	8

The discount rates applied above follow the standard professional actuarial valuation methods and the use of actuarial assumptions that are in conformity with IAS 19(2011).

20.2 Restatement of defined benefit obligation

Due to the implementation of IAS 19R the impacts on the relevant positions in the statement of financial position, the statement of income and the statement of comprehensive income are shown below:

Consolidated Statement of Financial Position as of 1 January 2012 In millions of USD	**Reported**	**Adjustment**	**Restated**
Funds			
Unrestricted funds	2,628	7	2,635
Total Funds	2,645	7	2,652

Consolidated Statement of Financial Position as of 31 December 2012 In millions of USD	**Reported**	**Adjustment**	**Restated**
Non-current liability			
Employee benefit liability	71	(1)	70
Total Funds	4,003	1	4,004

Consolidated Statement of Income for 31.12.2012 In millions of USD	**Reported**	**Adjustment**	**Restated**
Operating expenses	306	(1)	307

Consolidated Statement of Comprehensive Income 31.12.2012 In millions of USD	**Reported**	**Adjustment**	**Restated**
Remeasurement employee benefits (loss)	-	(4)	(4)

This restatement resulting from the remeasurement did not have an impact on statement of cash flow.

21. RELATED PARTIES

In millions of USD unless otherwise stipulated

Related parties include the members of the Board, Board committees and close family members of senior management. There was no loan to or from related parties outstanding as at 31 December 2013.

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 2013 an aggregate of USD 48K (2012: USD 65K) was paid to Board committee members.

Compensation of key management personnel

Key management, in common with all personnel employed by the Global Fund, are remunerated according to the Global Fund salary scale. Remuneration consists of salary, allowances and employer contributions towards provident fund and health insurance benefits. The remuneration of key management, comprising the Executive Director, members of the Management Executive Committee and the Inspector General, amounted to:

Remuneration category

	2013	**2012**
Short-term benefits including salary and allowances	4	3
Long-term benefits including contributions to the Provident Fund	1	-
Termination benefits	-	1
Total remuneration	**5**	**4**

22. TAXATION

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

23. LEASE COMMITMENTS

In millions of USD

Non-cancellable operating lease payments recognized as an expense in 2013 amounted to USD 12 million (2012: USD 12 million).

Future lease payments		2013	2012
	Year		
	2013	-	12
	2014	12	12
	2015	7	7
		19	**31**

24. CONTINGENT LIABILITIES

24.1 STATEMENT OF CONTINGENT LIABILITIES FOR GRANTS

In millions of USD

The staggered commitments for uncommitted portions of signed grant agreements will be recognized as liabilities in the future based on the needs of the principal recipients and the availability of funds.

The estimated maturity profile of contingent liabilities for grants is analysed below based on the budgets approved by the Board or included in the uncommitted portion of the grant agreements:

BY CATEGORY	**2013**	**2012**
Grants approved by the Board but not signed	976	1,646
Grants signed but not committed	3,876	2,724
Total	**4,852**	**4,370**
BY REGION		
Asia, Europe, Latin America and the Caribbean	728	675
Africa and Middle East	1,387	1,184
High Impact Africa I	979	516
High Impact Africa II	820	1,023
High Impact Asia	938	972
Total	**4,852**	**4,370**

24.2 CONTINGENT LIABILITY OTHER THAN GRANTS

As at 31 December 2013 the net estimated value of contingent liabilities other than contingencies on grants as disclosed above is USD 1 million (2012: USD 3 million). This represents the estimated value of possible obligations depending on the future outcome of known cases of litigations between the Global Fund and third-party suppliers and employees.