# Thirty-Third Board Meeting

## Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements, and 2014 Statutory Financial Statements

GF/B33/03 – Revision 1
Board Decision

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

1. The Global Fund's Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements that have been audited by Ernst & Young SA; and
2. The Global Fund's 2014 Statutory Financial Statements, which have been audited by Ernst & Young SA.

# I. Decision Point

1. Based on the rationale described below, the following decision point is recommended to the Board:

> ***1. Decision Point: GF/B33/DP04: Annual Financial Report 2014***
>
> ***The Board authorizes the issuance of, and therefore approves, the Global Fund's Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements that have been audited by Ernst & Young SA, as set forth in Annex 1 to GF/B33/03 - Revision 1.***
>
> ***2. Decision Point: GF/B33/DP05: 2014 Statutory Financial Statements***
>
> ***The Board authorizes the issuance of, and therefore approves, the Global Fund's 2014 Statutory Financial Statements, which have been audited by Ernst & Young SA, as set forth in Annex 2 to GF/B33/03 - Revision 1.***

# II. Relevant Past Decisions

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

| Relevant past Decision Point | Summary and Impact |
|---|---|
| **Decision Point GF/B31/EDP02: Approval of the 2013 Annual Financial Report** | The Board authorizes the issuance of, and therefore approves, the Global Fund's 2013 Annual Financial Report, which includes the 2013 Consolidated Financial Statements that have been audited by Ernst & Young SA, as set forth in GF/B31/ER02 Annex 1. |
| **Decision Point GF/B31/EDP03: Approval of the 2013 Statutory Financial Statements** | The Board authorizes the issuance of, and therefore approves, the Global Fund's 2013 Statutory Financial Statements, which have been audited by Ernst & Young SA, as set forth in GF/B31/ER02 Annex 2. |

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

# III. Action Required

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

   a. The Secretariat will publish the Annual Financial Report 2014 which includes the audited 2014 Consolidated Financial Statements on its external organizational website to be accessed by its stakeholders.

   b. The audited 2014 Statutory Financial Statements will be filed in Switzerland in accordance with relevant Swiss law and the Global Fund's By Laws.

# IV. Background

## 01 External Audit for fiscal year 2014

4. In accordance with its Charter, the Audit and Ethics Committee (the "AEC") has the advisory function to recommend the annual audited financial statements of the Global Fund to the Board for approval.[2]

5. For the 2014 financial year, the AEC recommends two sets of information to the Board for issuance and approval, as follows:

   a. The Annual Financial Report 2014, that includes the 2014 Consolidated Financial Statements, which have been audited by Ernst & Young SA (the "External Auditor"); and
   b. The 2014 Statutory Financial Statements, which have been audited by the External Auditor.

6. The 2014 Consolidated Financial Statements and its related discussion, analysis and commentary have been combined into one report (the "Annual Financial Report 2014"), as set forth in Annex 1 to GF/B33/03 - Revision 1. The 2014 Statutory Financial Statements, as set forth in Annex 2 to GF/B33/03 – Revision 1, is an independent document meant to be used only for Swiss statutory financial reporting purposes.

7. The 2014 Consolidated Financial Statements include the financial statements for the US Fund (with assets of $59,000) whereas the 2014 Statutory Financial Statements do not. As such, the financial information in the 2014 Statutory Financial Statements is a subset of the consolidated information reflected in the 2014 Consolidated Financial Statements. This is consistent with the approval of the 2014 audited results.

8. At its 11th Meeting in March 2015, the AEC reviewed the final drafts of the Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements; the 2014 Statutory Financial Statements; and the 2014 Audit Report on the consolidated and statutory financial statements, which included the External Auditor's conclusion that it was in a position to sign an unqualified audit opinion for both sets of financial statements.

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

   a. The Global Fund's Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements; and
   b. The Global Fund's 2014 Statutory Financial Statements.

[2] Section B.2.2.f of the Charter of the Audit and Ethics Committee.

# V. Discussion

## 01 2014 Audit Results

10. The External Auditor confirmed they performed their work in accordance with the audit scope approved by the AEC.

11. The External Auditor confirmed their acceptance of the judgments, estimates and assumptions made by the Secretariat in preparing the 2014 Consolidated Financial Statements and 2014 Statutory Financial Statements.

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

13. The External Auditor reported that the 2014 financial closure process was robust and effective. In particular, the closing and audit processes had been brought forward by six weeks. The External Auditor changed the audit approach on grant expenditure from substantive to a control-based approach.

14. The External Auditor placed reliance on the Office of the Inspector General's testing for grants and IT General Controls.

15. All of the nine issues from the Management Letters as at 31 December 2013 were cleared in 2014.

16. During 2014, eight new management letter points were reported, of which four were closed and the remaining four have an implementation plan for being completed during 2015.

17. Altogether, the External Auditor confirmed:

   a. They are in a position to sign an unqualified audit opinion for both the 2014 Consolidated Financial Statements and 2014 Statutory Financial Statements;
   b. With respect to the 2014 Consolidated Financial Statements, the final draft of the consolidated financial statements for the year ended 31 December 2014 gives a true and fair view of the financial position in accordance with IFRS;
   c. With respect to the 2014 Statutory Financial Statements:

      i. The final draft of the statutory financial statements for the year ended 31 December 2014 comply with relevant Swiss law and the Global Fund's By Laws;

      ii. The External Auditor meets legal requirements on licensing and independence and there are no circumstances incompatible with their independence; and

      iii. An internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Global Fund Board.

## 02 11th AEC Meeting Deliberations

18. At the 11th AEC Meeting on 17-18 March 2015, the AEC completed the following work to formulate a recommendation to the Board on the Global Fund's Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements, and on the 2014 Statutory Financial Statements:

   a. Review and acceptance of the final draft of the Annual Financial Report 2014, which included the:

i. 2014 Consolidated Financial Statements prepared by the Secretariat and presented to the External Auditor for audit purposes;

ii. Discussion, analysis and commentary with respect to the 2014 Consolidated Financial Statements; and

iii. Report of the External Auditor on the 2014 Consolidated Financial Statements.

b. Review and acceptance of the final drafts of the 2014 Statutory Financial Statements, which have been prepared by the Secretariat and presented to the External Auditor for audit purposes, and the Report of the External Auditor of the 2014 Statutory Financial Statements;

c. Review and acceptance of the 2014 Audit Results Report which included the External Auditor's conclusion and statement they are in a position to:

i. Sign an unqualified audit opinion with respect to the 2014 Consolidated Financial Statements;

ii. Sign an unqualified audit opinion with respect to the 2014 Statutory Financial Statements; and

iii. Confirm the existence of an internal control system;

d. Review and acceptance of the 2014 Comprehensive Report of the External Auditor to the Board;

e. Listening to and accepting commentary on management representations made by the Secretariat to the External Auditor;

f. Listening to and accepting the statement of assurance from the Office of the Inspector General with respect to the Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements, and with respect to the 2014 Statutory Financial Statements; and

g. Additional discussion with and questioning of the Secretariat, Office of the Inspector General and the External Auditor, including open- and executive-session discussions with the External Auditor and the Chief Financial Officer, on their views and opinions and acceptance of satisfactory responses from the parties.

19. Accordingly, the AEC recommends the Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements, as well as the 2014 Statutory Financial Statements, to the Board for approval and issuance.

# VI. Recommendation

20. Based on the discussion presented above, the AEC recommends that the Board approve the decision points proposed in this paper to (1) approve the Annual Financial Report 2014, which includes the 2014 Consolidated Financial Statements, and (2) approve the 2014 Statutory Financial Statements.

GF/B33/03 – Revision 1
Annex 1

# Annual Financial Report 2014

The Global Fund

**31 December 2014**

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# MANAGEMENT DISCUSSION AND ANALYSIS

## VISION, MISSION AND STRATEGY

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

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

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

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

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

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

## STRUCTURE AND GOVERNANCE

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

- The Swiss Confederation granted the Global Fund a status comparable to that of UN organizations through the 2004 Headquarters Agreement. The United States did the same under relevant legislation in 2006.

- After an audit performed in 2014, the European Commission has decided to assimilate the Global Fund to an International Organisation for the purposes of managing EU funds.

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

   These committees have Board-delegated decision-making, advisory and oversight responsibilities from the Board, to facilitate the Secretariat's implementation of the Board's strategy and policies.

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

   The three standing Committees underwent leadership and membership changes in 2014.

   The following changes were made to the Committee Leadership as approved by the Board at the Thirtieth Board Meeting in November 2013, vide decision point GF/B30/DP0. These new leadership appointees commenced office on 10 March 2014.

| **Name** | **Designation** |
|---|---|
| Claude Rubinowicz | Vice-Chair, AEC |
| Soltan Mammadov | Chair, FOPC |
| Jason Lawrence | Vice-Chair, FOPC |
| David Stevenson | Chair, SIIC |
| Anita Asiimwe | Vice-Chair, SIIC |

   The leadership and membership terms are for a minimum duration of two years.

2. **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 of results. It is based in Geneva and has no office or employees located outside its headquarters.

3. **The Office of the Inspector General -** The Global Fund has an Office of the Inspector General (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[1].

[1] See document GF/B32/06 for an overview of 2014 activities of the OIG.

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

1. The Country Coordinating Mechanism (CCM), a partnership composed of all key stakeholders in a country's response to the three diseases, responsible for submitting funding applications to the Global Fund, nominating the entities accountable for administering the funding, and overseeing grant implementation.

2. The Principal Recipient (PR), designated by the CCM, is the prime recipient of Global Fund financing and utilises it to implement programs, either directly or through other organizations (sub-recipients)

3. The Local Fund Agent (LFA), is responsible for monitoring in-country grant implementation and providing recommendations to the Secretariat on key decisions relating to grants.

During 2014 the Global Fund has designed a new Risk and Assurance framework that defines the layers of assurance that will be relied upon to monitor grant implementation. The project to implement the new framework will commence in 2015 with pilot approaches in several countries[2].

# 2014 KEY OPERATIONAL ACTIVITIES

## 1- THE REPLENISHMENT MECHANISM

The Replenishment mechanism is a multi-year financial cycle whereby, every three years, the Global Fund convenes donor governments and other key partners to discuss continued funding. This mechanism allows for greater predictability and enables both the Global Fund and implementing countries to establish long-term plans for fighting the three diseases.

As a public-private partnership, the Global Fund actively engages in fundraising with the private sector and other non-government partners. The Amended and Restated Global Fund Policy for Restricted Financial Contributions, approved by the Board in November 2014[3], is expected to greatly facilitate the Global Fund's resource mobilization efforts and will provide a mechanism to attract new private donors such as High Net-Worth Individuals (HNWI), businesses and foundations with geographic and component-specific interests.

An overview of key developments during 2014 relating to fundraising has been included in the financial commentary.

## 2- THE FUNDING MODEL

The purpose of the Global Fund's funding model is to invest for impact by reaching as many people affected by the diseases as possible. The funding model ensures predictable funding for countries, by providing a financial 'allocation' for each disease component the country is eligible for. The funding level is based on disease burden, income level, availability of alternative financing and a consideration

[2] See document GF/B32/15.
[3] See document GF/B32/20.

of historical funding levels. In addition to the allocation, countries can apply for incentive funding, which aims to encourage ambitious requests for programs with a high potential for increased impact. At the beginning of 2014 the Global Fund implemented the allocation methodology for the first time, and determined appropriate allocations for 113 eligible countries, with 302 allocation components[4]. The individual allocation amounts were communicated to CCMs in early March 2014. In total USD14.8 billion was available for allocation funding to countries (including funds already granted) as of January 1, 2014.

Between May-December 2014, 111 new concept notes, representing a total of USD 8.6 billion or 58 percent of allocation funding, were submitted through 4 'windows' (May 15, June 15, August 15 and October 15) and reviewed by the Global Fund's independent Technical Review Panel (TRP) and the Grant Approvals Committee (GAC). 85 percent of concept notes submitted in 2014, representing 53 percent of allocated funds, are now in grant-making or have progressed to grant signing. In addition, the GAC awarded USD 525 million in incentive funding to applicants in windows 1-4 based on the recommendation of the TRP. By the end of 2014 the Board has approved 33 new grant agreements.

Due to the need to sustain continuity in programming, 106 grant extensions have been reviewed and approved over 2014, representing USD 356 million in additional incremental funding within the allocation envelope.

As part of the allocation funding, the Board also approved USD 100 million for Special Initiatives, defined as programs, activities and strategic investments not adequately accommodated through the distribution of funding to the Country Bands. An overview on the implementation status of Special Initiatives is provided in the financial commentary.

## 3- ASSURANCE MECHANISMS

**Risk and Assurance Framework:** During 2014 the Secretariat has been actively engaged in the first phase of the work on the revision to the Global Fund's risk and assurance model, one of the five key priorities for 2014 and affirmed as a key organizational priority for 2015. The project addresses some of the limitations in the current assurance model identified during the diagnostic stage of the project.

The first diagnostic phase of the work involved three separate work streams: finance, procurement & supply-chain management and program & data quality. This phase culminated in a presentation given to all three committees of the Board and the Board itself at its November 2014 meeting in Geneva. The proposals for change were well received and the initiative now moves towards a second pilot phase in 2015. The findings from the pilots will be integrated into the final phase of rolling out changes to the whole portfolio. The pilots, and the other work necessary to implement and then maintain the defined changes, will now be managed by the Risk Management Department.

The proposed new approaches on obtaining assurance will be tested across seven countries. The testing will look at assurance from both ends of the country spectrum. It will question assurance obtained in challenging operating environments where physical access is restricted and also in countries with strong local institutions.

**Risk Management Policy:** At its November 2014 Board meeting, the Board approved a new Risk Management Policy to replace the existing one from 2009. Along with the new policy, the Board also

[4] For a list of all allocations please refer to Global Fund Allocations on the funding model web site. http://www.theglobalfund.org/en/fundingmodel/allocationprocess/

approved a proposal from the Secretariat on the application of risk differentiation, both in the grant portfolio as well as in the Secretariat's supporting processes.

**Pillars Assessment by the European Commission**
During 2014, following an onsite audit, the European Commission has decided to classify the Global Fund to an International Organisation for the purposes of managing EU funds. The Global Fund will now be able to assume full responsibility for the use of EU funds under indirect management. This will allow the Global Fund to use EU contributions more effectively.

The Global Fund is only the second organisation to be classified as an international organisation by the European Commission, following the International Federation of the Red Cross.

This decision reflects the confidence in the capacity of the Global Fund to manage EU grants for the 2014-2016 period.

## 4- CONTINUING IMPROVEMENTS TOWARDS OPERATIONAL EXCELLENCE

**Financial systems and processes:** Throughout 2013, the Global Fund embarked on an ambitious project to modernize the financial systems, striving for a high level of transparency, accountability and reliability. The new systems, processes and controls were introduced in January 2014 and the migration of the required financial information into the new Enterprise Resource Planning tool was completed without major issues. All financial information is now held in one single integrated data platform.

As a result of the enhancement of financial data an online financial dashboard has been developed. The dashboard includes information on the status of contributions, grant expenses and disbursements, and operating expenditures, allowing a user to customize a view of data in a variety of ways and to look at different levels of detail. This tool enhances the availability of standard consistent reports for decision making (including Managers, Senior Executives, Board/Committees and Partners) and is planned to be made available to external stakeholders in 2015.

Ultimately, the finance transformation is much more than systems, processes and tools – it is about building and developing a culture of enhanced transparency, accountability, innovation and operational excellence both internally and with grant implementers.

**Grant management platform**: During 2014, the Global Fund has undertaken a wider systems integration project. The new portal, based on Salesforce technology, is being released in phases and implementation will continue in 2015. As of the end of 2014, the portal:

- Supports countries in concept note submissions and subsequent assessment processes of the country teams, TRP and GAC;
- Supports the creation of new grants, including the design of the reporting framework, which can now be stored and updated in the online application.
- Provides a real-time platform for information related to Local Fund Agents (LFA), including information on LFA services planned and completed. This facilitates multi-year budgeting for LFA services and costs.

In addition, major changes to the set-up of the contact management systems were delivered during 2014. This creates a single representation of the organisation including its key partners and affiliates. This consolidation has already had significant benefits in the quality of data being used in the business applications and processes. This will have additional transparency benefits and positive information security benefits for the future. Further releases of functionality are planned over the course of 2015.

## 5- SOURCING AND PROCUREMENT INITIATIVES

During 2014, the Global Fund continued the Procurement for impact (P4i) transformation. As part of the transformation, sourcing at the Global Fund shifted from a market based to a Cost of Goods Sold (COGS) based pricing model, facilitated by creating specific capabilities around the chemistry and formulation of drugs. Further, several responsibilities in supplier management have been brought within the Secretariat, reducing the reliance on procurement service agents (PSAs). As a result, the Global Fund has been able to consolidate procurement volumes and directly administer related procurement tenders. PSAs are in-turn able to focus on supply chain logistics, with beneficial effect on performance in this area.

Major procurement tenders were concluded in 2014 for LLIN’s, ACT’s and HIV ARV’s with a further tender launched later in the year on diagnostics. The spend penetration of the Pooled Procurement Mechanism (PPM) resulted in efficiencies to the grant portfolio and increased impact.

Additional mechanisms have been established to track supplier performance in the supply chain. Track and trace processes that have been established for Malaria and HIV are now supplemented with online access, with a positive impact on delivery performance as a whole: the delivery performance measure of “on-time delivery” (OTD) improved greatly during the course of 2014. A Rapid Supply Mechanism was conceived and is in the process of being implemented to create a small buffer to alleviate stock-outs within the grant portfolio.

During 2014, the Global Fund also worked to support the improvement of in-country supply chains, starting with a supply chain integration project in Nigeria. A joint supply chain strategy has been completed with the aim to expand this strategy to other complex countries.

At the end of 2014, the Global Fund began investigating the concept for an ‘e-marketplace’, with the potential to further transform the sourcing and procurement of non-health products within HIV, Malaria and TB programs and global health overall.

# 2014 FINANCIAL COMMENTARY

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

1. Donor pledges and contribution agreements, including the Statement of Pledges and Contributions;
2. Financial Management framework;
3. Grant Liabilities;
4. Losses and recoveries from grants;
5. Operating costs of the Global Fund; and
6. The Global Fund Provident Fund.

## 1- DONOR PLEDGES AND CONTRIBUTION AGREEMENTS

The financial year 2014 has seen further progress in the delivery of contribution agreements linked to the Fourth Replenishment. During 2014, USD 3,449 million of contributions were raised, a net reduction of 32 percent compared to 2013. This is primarily a result of a high level of contribution agreements signed soon after the announcement of pledges at the Fourth Replenishment Conference concluded in December 2013, and hence reported as revenue in 2013. Post replenishment, a number of donors, including Germany, Iceland, Namibia, Russia and Switzerland, who did not or could not pledge at the launch of the Fourth Replenishment in December 2013 have subsequently announced their pledges. The Global Fund is determined to continue its resource mobilisation efforts to ensure full conversion of pledges and secure additional pledges for the current period.

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

Besides the established government donors, leading emerging economies also made significant contributions during 2014, pledging 13 percent more in the Fourth Replenishment than they did in the 2011-2013 replenishment period.

The contributions raised through the partnership with (RED) also increased significantly, with a total of USD 64 million raised during 2014 campaigns. In addition, USD 39 million was recognized as revenue from international non-profit organizations towards Affordable Medicine Facility-malaria (“AMFm”) co-payments paid during 2014. The cash was paid by donors during 2013 but deferred until the underlying AMFm co-payments had been made to the pharmaceutical companies. During 2014, the Global Fund also expanded its network of private sector partners and supporters[5] and worked closely with the Bill and Melinda Gates Foundation to expand the engagement with HNWI, particularly in Indonesia and Viet Nam.

[5] New partnerships included: Goodbye Malaria consumer marketing grass roots campaign, Comic Relief Foundation, MAC AIDS Fund partnership, as well as a number of other pro-bono based partnerships, including pro-bono based engagements with Munich Re and Ecobank.

**Statement of Pledges and Contributions for the Replenishment Period 2014- 2016**
**As at 31 December 2014**
**In thousands of donor source currency**

The Statement of Pledges & Contributions measures the value of contributions received against the pledges made by the donors at a Replenishment Conference. When measured in equivalent US dollars[6], the total value of the pledges made under the Fourth Replenishment period stands at USD 12.2 billion, of which USD 4.1 billion has been received in cash and other financial instruments deposited with the Global Fund Trustee.

[6]At the replenishment rate for each donor currency updated for the FX rate when the contribution is considered received.

| | Donors | Currency | Cumulative Pledges 2014-2016 (Announced) | Cumulative Contributions received during 2013-2014 |
|---|---|---|---|---|
| **A** | **Contributions for the current Replenishment Period 2014-2016** | | | |
| **A.1** | **Governments and Representative Bodies** | | | |
| | Australia | AUD | 200,000 | 35,000 |
| | Belgium | EUR | 38,000 | 19,000 |
| | Canada | CAD | 650,000 | - |
| | China | USD | 15,000 | 5,000 |
| | Denmark | DKK | 495,000 | 165,000 |
| | Estonia | EUR | 3 | 3 |
| | European Commission | EUR | 370,000 | - |
| | France | EUR | 1,080,000 | 334,000 |
| | Germany | EUR | 645,000 | 245,000 |
| | Iceland | USD | 50 | 50 |
| | India | USD | 13,500 | 4,500 |
| | Ireland | EUR | 30,000 | 10,000 |
| | Italy | EUR | 100,000 | 30,000 |
| | Japan | USD | 800,000 | 289,024 |
| | Kenya | USD | 2,000 | - |
| | Korea (Republic of) | USD | 12,000 | 4,068 |
| | Kuwait | USD | 1,500 | - |
| | Liechtenstein | CHF | 200 | 100 |
| | Luxembourg | EUR | 8,000 | 3,000 |
| | Malawi | USD | 500 | - |
| | Namibia | USD | 250 | 250 |
| | Netherlands | EUR | 185,000 | 73,300 |
| | Nigeria | USD | 30,000 | - |
| | Norway | NOK | 1,700,000 | 500,000 |
| | Portugal | EUR | 50 | 50 |
| | Russia | USD | 60,000 | - |
| | Saudi Arabia | USD | 25,000 | 9,000 |
| | Sweden | SEK | 2,500,000 | 800,000 |
| | Switzerland | CHF | 60,000 | 20,000 |
| | Thailand | USD | 4,500 | 1,500 |
| | United Kingdom | GBP | 1,000,000 | 700,000 |
| | United States | USD | 4,002,300 | 1,013,733 |
| | Zimbabwe | USD | 1,000 | 1,000 |
| | Côte d'Ivoire (D2H Germany) | EUR | 4,740 | 1,580 |
| | Indonesia (D2H Australia) | AUD | 13,205 | 5,056 |
| **A.2** | **Private Foundations** | | | |
| | Gates Foundation | USD | 500,000 | 300,000 |
| | Comic Relief | GBP | 4,000 | 1,000 |
| | MAC Aids Fund | USD | 2,000 | 2,000 |
| | Tahir Foundation | USD | 39,000 | - |
| | Takeda Pharmaceutical | USD | 3,000 | 905 |
| **A.3** | **Corporations** | | | |
| | BHP Billiton Sustainable Communities | USD | 10,000 | 10,000 |
| | Vale International | USD | 3,000 | 2,000 |
| | Chevron Corporation | USD | 5,000 | 2,500 |
| | Ecobank | USD | 3,000 | 250 |
| | Others | USD | 20 | 20 |
| **A.4** | **Others** | | | |
| | LMI (Lutheran Malaria Initiative) | USD | 144 | 144 |
| | United Methodist Church | USD | 19,900 | 2,100 |
| | UNF Donors (non RED) | USD | 176 | 176 |
| | RED | USD | 70,000 | 63,581 |
| | Others | USD | 5,000 | 285 |
| **A.5** | **Affordable medicines facilities- malaria (AMFm)** | | | |
| | United Kingdom | GBP | 64,000 | 64,000 |

## 2. FINANCIAL MANAGEMENT FRAMEWORK

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

**Amended Comprehensive Funding Policy**

In March 2014, the Global Fund Board approved and the Secretariat implemented the Amended and Restated Comprehensive Funding Policy (Amended CFP). While being specifically designed to support the implementation of the allocation-based funding model, the Amended CFP also includes three specific financial safeguards. The three specific safeguards, which aim at promoting robust financial management practices at the Global Fund, include:

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

At the end of 2014 the Global Fund had on hand sufficient confirmed financial resources to meet the funding commitments approved by the Board. The Global Fund Secretariat reports to the Finance and Operational Performance Committee (FOPC) and to the Board on a regular basis on the three above-mentioned topics and in general on the implementation status of the Amended CFP.

**Treasury Systems and capabilities**

The Amended CFP and related policies mandate the Secretariat to transfer selected treasury management activities from the World Bank, its Trustee, to an in-house team. This has been finalized during 2014.

As part of the Finance Step-Up project, aiming at the enhancement of financial capabilities, the Secretariat has completed the implementation of the Kyriba Treasury Management System along with SWIFT, a secure and internationally-recognized payments platform. This implementation provides the Global Fund with a state-of-the-art, automated, straight-through processing and secure payment system.

**Investment Management**

With the endorsement of the FOPC at its June 2014 meeting and the continued support of the World Bank as Trustee, the Secretariat implemented an investment framework which guides investment strategies that preserve asset value and maximize investment returns based on a defined risk profile and investment horizon. The investment framework provides for a clear guidance for the Trustee as it implements the investment procedures and practices. Under this framework, the Secretariat plays a key role in the strategic asset allocation with the strong executional support of the World Bank as its Trustee.

During 2014 the Global Fund Trust Fund investment portfolio, which totalled approximately USD 4,344 million at end December 2014, returned 0.93 percent as the annual rate of return, including 1.4

percent and 0.4 percent annual rate of return on funds held in trust in USD and EUR respectively. For 2014 USD 40 million (2013: USD 5 million) was accounted for as the net investment income on Trust Funds. The increase was driven by a stronger performance of fixed income instruments relative to 2013. There was a marked performance improvement in the market segments in which Global Fund liquidity is invested. In addition, and as part of the investment framework managed by the Trustee, the Global Fund reduced the number of tranches to two and introduced a new asset class for USD 100 million in equities with the aim of diversifying the investment portfolio and therefore achieving the most efficient risk /return balance.

**Foreign Exchange Management**

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

In June 2014, the FOPC reviewed and endorsed Part I[7] of the Foreign Exchange Policy. The Policy introduces a framework to analyse foreign exchange risk borne by the Global Fund at the global level and authorizes the Secretariat to make use of selected foreign exchange management measures, including using authorized instruments, to minimize risks related to fluctuations in the foreign exchange rates.

The operationalization of Part I of the Foreign Exchange Policy requires establishing new contractual relationships with commercial banks. During the second half of 2014, regulatory changes in the US have resulted in longer and more complex processes at most global banks, including those with which the Global Fund was negotiating. As a result of this, the operationalization of Part I of the Foreign Exchange Policy was significantly delayed.

For the year ended 31 December 2014, a net foreign exchange loss of USD 292 million was reported on account of a revaluation of non-USD assets and liabilities. The foreign exchange loss reflected a reduction in the value of non-USD cash balances and contributions receivables by USD 326 million which was partially compensated by a gain of USD 34 million related to grant liabilities denominated in EUR. The foreign exchange loss on contributions receivable included an unrealized exchange loss of USD 237 million on the outstanding portion of non-USD contributions receivable, mainly held in EUR, GBP, AUD and SEK – currencies which experienced a reduction in value against USD during 2014. A detailed analysis on the net foreign exchange movement is included in Note 7 to the consolidated financial statements.

**Cash Management**

In 2014, the Global Fund Secretariat launched a cash management optimization process, which includes:

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

[7] Part II of the policy, addressing financial risks in implementing countries, was reviewed and endorsed by the Board in November 2014.

## 3- GRANT LIABILITIES

During 2014 the Secretariat made new grant commitments for USD 2,461 million, 23 percent lower than the grant commitments made during 2013. The value of annual grant disbursements in 2014 was USD 2,895 million which included USD 2,880 million paid directly for grants and USD 15 million for Special Initiatives projects. The annual disbursement for grants during 2014 have reduced by 27 percent when compared to USD 3,946 million disbursed for grants during 2013.

The reduction in grant expenses and disbursement compared to 2013 is mainly driven by the transition to the new funding model, improvements to the payment terms agreed with the PPM suppliers and fund absorption issues in countries. In addition, the high value of disbursements in 2013 created a surplus of cash held in country which, through effective cash management procedures within the Global Fund during 2014, has been reduced significantly.

The value of contingent liabilities was reduced from USD 4,852 million as at 31 December 2013 to USD 4,601 million as at 31 December 2014. During the second half of 2014, a significant number of the new funding model concept notes have been submitted and then reviewed by the Technical Review Panel (TRP) and Grant Approval Committee (GAC). The cumulative value of the grants signed but not committed as at 31 December 2014 is USD 3,243 million which is a reduction of 16 percent when compared with the 2013 closing balance of grants signed but not committed.

Since the implementation of the grant automation processes under the Finance Step-Up project, the process of grant closures and de-commitment of unutilized grant funds has been improved and aligned to the Amended and Restated Comprehensive Funding Policy.

In addition to grants, USD 100 million was approved by the Board towards Special Initiatives. A portion of Special Initiatives projects are not directly related to any specific grant and are implemented through project partners.

**Status of Special Initiatives as at 31 December 2014**
(In millions of USD)

| **Special Initiatives** | **Approved by the Board** | **Total Utilised** |
|---|---|---|
| **Applied through grants** | | |
| Humanitarian Emergency Fund | 30.0 | 4.9 |
| In-country Data Systems | 17.0 | 3.7 |
| Pre-financing for grants | 0.5 | - |
| Total: applied through grants | 47.5 | 8.6 |
| **Applied through project partners** | | |
| Technical Assistance for Strong Concept Notes | 29.0 | 15.3 |
| TA on Community, Rights and Gender | 15.0 | 0.4 |
| Value for Money | 8.5 | 0.3 |
| Total: Applied through partners | 52.5 | 16.1 |
| **Total: Special Initiatives** | **100.0** | **24.7** |

## 4- LOSSES AND RECOVERIES FROM GRANTS

During 2014, progress continued towards recovery of funds deemed to have been misused as reported by the OIG in its published reports on audits and investigations. By October, almost half of such funds had been recovered in cash, or firm written commitments for payment were in place. Efforts continue to recover the remainder as fully as possible; where necessary, access to new funding for implementers is being made contingent on satisfactory progress towards resolution of outstanding amounts. Also, new policies and procedures have been put in place in 2014 to guide the recoveries process. Lastly, the Secretariat has created a full-time position in the budget for 2015 that will coordinate and support the recoveries work that is typically carried out by the Secretariat's country teams.

As at 31 December 2014, the Recoveries Committee reported USD 64 million as net grants recoverable from principal recipients, of which USD 23 million has been recognized as net grants recoverable in the Statement of Financial Position based on formal letters of recovery served upon the principal recipients.

## 5- OPERATING EXPENSES

The Global Fund has continued to manage tightly its operating expenses, enabling it to execute its ambitious priorities agenda, while consolidating the trend initiated in the prior year that curtailed the historical trend of increase in the period prior to 2013. Monitoring, reporting, and control of operating expenses has been further reinforced in 2014 thanks to a strengthened controlling team, a maturing culture of financial accountability across the organization and enhanced reporting and controlling system capabilities - reaping the benefits from the Finance Step-up project. Full use of the dashboard potential will further add monitoring capability in 2015.

2014 operating costs increased by 5.0 percent from 2013, and remained well within the 2014 Board approved Budget. The increase from 2013 was mainly driven by the efforts to support the 2014 priorities, including the New Funding Mechanism roll-out and the transformation of the Global Fund to improve its governance, operations and fiduciary controls. The ratio of operating costs to underlying activity increased in 2014, mainly as a result of the reduction of grant expenditure from 2013; operating costs as a percent of Total Expenditure increased to 10.4 percent in 2014 from 7.9 percent in 2013. The operating costs as a percent of Grants under Management remained at 2.3 percent in 2014.

For the year 2015, the Board has approved an annual operating cost budget of USD 299.8 million, a 4.9 percent increase over the 2014 expenditure, consistent with the replenishment allocation assumption.

## 6- THE GLOBAL FUND PROVIDENT FUND

As at 31 December 2014 USD 99 million (2013: USD 88 million) was held as investments and cash for the Global Fund Provident Fund for funding the future employee benefit obligations. The investment return on the total value of Provident Fund assets for 2014 is 8.7 percent. During 2014 UBS A.G was appointed as the custodian for a majority of the provident fund investment portfolio. The Provident Fund investment policy was also diversified to add new investments in equity, bonds and real-estate fund.

At the end of 2014 the employee benefit obligation was valued at USD 99 million (2013: USD 85 million). This increase is primarily due to a 1.0 percent point reduction in the discount rate used for determining the present value of future employee benefit obligations. The liability for employee benefit obligation is subject to an annual actuarial valuation.

## GLOBAL FUND PRIORITIES FOR 2015

A cross-Secretariat process was undertaken to identify Corporate Priorities for 2015, based on reflections on the current status of implementation of the 2012-2016 Strategy and needs for the development of the post 2016 Strategy. This input was reviewed and synthesized by the Management Executive Committee (MEC) into eight corporate priorities, summarized as follows:

i. Implement & optimize the funding model

   2015 will see continuous improvement of the funding model and implementation of key learning from 2014. Full implementation of the later stages of the access to funding process, and further development of processes with an eye on the next Strategy will be the major focus of this priority in 2015.

ii. Greatly improve results & impact measurement

   The methodology employed by the Global Fund for measuring the results and impact of supported programs will be reviewed to deal with potential ambiguities in approach. Development of revised approaches with partners in 2014 through the KPI development process has mapped a route forward. Implementation of short and medium term recommendations resulting from these consultations will be carried forward in 2015.

iii. Increase value for money & synergies of investments

   Value for money is a key component of the Global Fund's work. Aims for 2015 are to further the important gains made on sourcing and procurement and to extend the scope of the work on value for money to each stage of the grant lifecycle.

iv. Implement the risk and assurance framework

   Development of a Risk and Assurance Framework, an integrated approach to the operational risk and assurance work of the Secretariat, was a key priority for 2014. With the completion of analytical and design work, the aim in 2015 will be to commence implementation.

v. Expand scope of work on sustainability

   The 2012-16 Strategy focuses the question of sustainability primarily on financial sustainability. This work will be further expanded in 2015, setting out thinking around how the Global Fund can better meet the needs of countries at different stages of the development continuum.

vi. Strengthen governance

   Two important streams of work led by the Board in 2014 will likely lead to changes in the organization's governance structures, policies and practices. Work to implement recommendations of the Board's Ad Hoc Working Group on Governance and the Ethics Steering Committee will be undertaken in 2015.

vii. Upgrade capabilities & efficiency of Global Fund resources

   Further enhancement of the Secretariat's information technology platforms will continue in 2015, with a particular focus on the Salesforce grant management portal. This will be complemented by additional work to develop how the organisation makes best use of its human capital.

viii. Prepare for New Strategy and 5th Replenishment

   With submission of the post-2016 Strategy for Board approval scheduled for early 2016 and the 5th Replenishment scheduled for mid-2016, most of the development and preparatory work for these major events will be undertaken in 2015.

**LETTER FROM THE CHAIR AND VICE-CHAIR OF THE BOARD**

When we took up our responsibilities as Board Leadership in 2013 we underlined the importance of the Global Fund's various roles as a finance mechanism and actor in the field of global health, with the specific mission of fighting AIDS, tuberculosis, and malaria. We noted the breadth of our partnerships, involving governments, civil society, communities of affected people, the private sector, and technical partners. In our letter of 1 August 2013 to the Board, we indicated our conviction that the Board would "need to focus more of its attention on its fiscal strategies and practices – to ensure that resources are managed by the Fund as effectively and efficiently as possible."

We have been pleased to see the serious commitment of many players to a variety of efforts which strengthen effective financial management of Global Fund assets. Working together and in their respective roles, the Board, Committees, and Secretariat have given birth to and approved a revised Comprehensive Funding Policy. This gave the Global Fund the framework, tools and flexibility to manage resources for its allocation-based funding model. Additionally, developments in our financial systems have enabled a more robust process for both accounting and forecasting of grant expenditure. These tools increase understanding of Global Fund resource management for staff, implementers and donors.

In 2014, the Global Fund also overhauled its approach to risk and assurance, identifying this as one of its five key priorities. A diagnostic project looked at strengthening assurance in three areas: finance, procurement and supply chain management as well as program and data quality. Proposed changes to assurance processes will now be piloted in seven countries. These changes to the assurance methods follow a year in which the Board also approved a new risk management policy at its November 2014 meeting.

Significant improvements were also made possible through further utilization of the Global Fund's pooled procurement mechanism in 2014 by grant implementers. It is estimated that savings totaling more than US$270 million were delivered through the mechanism while improving the quality and on-time delivery of essential medicines and health products.

Special efforts are being directed towards securing contributions from non-traditional resources. Following the announcement of the largest ever pledge made to the Global Fund by a private foundation in an emerging economy from Dato Sri Prof. Dr. Tahir of Indonesia in 2013, similar initiatives are underway in Vietnam and the Philippines. Likewise contributions from RED and other non-governmental organizations increased.

We welcome the attention of the Executive Director, Chief Finance Officer and their teams to Board guidance, international financial reporting standards, and ongoing improvements to the financial management of the fund. The achievements presented in this report demonstrate the Global Fund's continuing efforts to achieve and maintain operational excellence.

We would like to congratulate the Executive Director, the Chief Financial Officer as well as all the other stakeholders who have contributed to the achievements presented in this report.

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

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

The 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 31 March 2015.

**REPORT OF THE INDEPENDENT AUDITOR**

with consolidated financial statements as of 31 December 2014 of
The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier

Building a better working world

To the Global Fund Board of

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

Geneva, 31 March 2015

## 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 24 to 52 for the year ended 31 December 2014.

**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 2014 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) | |

**Consolidated Statement of Income**

**for the year ended 31 December**

| In millions of USD | Notes | 2014 | 2013 |
|---|---|---|---|
| **INCOME** | | | |
| Contributions | 6 | 3,460 | 5,061 |
| Foreign currency (loss)/ gain on assets | 7 | (326) | 82 |
| Bank and Trust Fund income | | 40 | 5 |
| Provident Fund investment valuation gain | | 7 | 2 |
| **Total INCOME** | | **3,181** | **5,150** |
| **EXPENDITURE** | | | |
| Grants | 8 | 2,563 | 3,310 |
| Foreign currency (gain)/ loss on liabilities | 7 | (34) | 16 |
| Operating expenses | 9 | 288 | 275 |
| **Total EXPENDITURE** | | **2,817** | **3,601** |
| **INCREASE IN FUNDS for the year** | | **364** | **1,549** |

**Consolidated Statement of Comprehensive Income**
**for the year ended 31 December**

| | | 2014 | 2013 |
|---|---|---|---|
| Increase in funds for the year | | 364 | 1,549 |
| Loss on actuarial valuation of employee benefits | 19 | (7) | - |
| **Total COMPREHENSIVE INCOME for the year** | | **357** | **1,549** |

## Consolidated Statement of Financial Position

**As at 31 December**

| In millions of USD | **Notes** | **2014** | **2013** |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | 4,403 | 4,397 |
| Contributions receivable | 12 | 1,076 | 691 |
| Provident fund investments | 11 | 92 | 84 |
| Prepayments and other receivables | 13 | 30 | 11 |
| | | 5,601 | 5,183 |
| **Non-current assets** | | | |
| Contributions receivable | 12 | 2,096 | 2,657 |
| Property, plant and equipment | 14 | 2 | 2 |
| Intangible assets | 15 | 7 | 6 |
| | | 2,105 | 2,665 |
| **Total ASSETS** | | **7,706** | **7,848** |
| **LIABILITIES and FUNDS** | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Grants payable | 16 | 1,555 | 1,985 |
| Accrued expenses | | 45 | 37 |
| Accounts payable | | 11 | 18 |
| Deferred contributions | 18 | 86 | 170 |
| | | 1,697 | 2,210 |
| **Non-current liabilities** | | | |
| Employee benefit liability | 19 | 99 | 85 |
| **Total LIABILITIES** | | **1,796** | **2,295** |
| **FUNDS** | | | |
| Foundation capital | | - | - |
| Temporarily restricted funds | | 14 | 20 |
| Unrestricted funds | | 5,896 | 5,533 |
| **Total FUNDS** | | **5,910** | **5,553** |
| **Total LIABILITIES and FUNDS** | | **7,706** | **7,848** |

……………………………… ……………………………………..

Daniel Camus
Chief Financial Officer

Mark Dybul
Executive Director

**Consolidated Statement of Cash Flows**

**for the year ended 31 December**

| In millions of USD | Notes | 2014 | 2013 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Cash receipts from donors | | 3,277 | 3,333 |
| Bank and Trust Fund income | | 41 | 5 |
| | | 3,318 | 3,338 |
| Cash paid for grants | | (2,895) | (3,946) |
| AMFm co-payments disbursed | | (84) | (112) |
| Payments to suppliers and personnel | | (270) | (268) |
| | | (3,249) | (4,326) |
| **NET CASH FLOW PROVIDED BY/ (USED IN) OPERATING ACTIVITIES** | | **69** | **(988)** |
| **INVESTMENT ACTIVITIES** | | | |
| Purchase of Provident Fund investments | | (74) | (8) |
| Proceeds from sale of Provident Fund investments | | 65 | - |
| Purchase of property, plant and equipment and intangible assets | | (5) | (8) |
| **NET CASH FLOW USED IN INVESTMENT ACTIVITIES** | | **(14)** | **(16)** |
| Net effect of exchange rate fluctuations | | (49) | 30 |
| **NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **6** | **(974)** |
| **CASH AND CASH EQUIVALENTS** | | | |
| **at beginning of the year** | | **4,397** | **5,371** |
| **at end of the year** | 10.1 | **4,403** | **4,397** |

**Consolidated Statement of Changes in Funds**

**for the year ended 31 December**

| | **Foundation capital** | **Temporarily restricted funds** | **Unrestricted funds** | **Total** |
|---|---|---|---|---|
| As at 1st January 2013 | - | **33** | **3,971** | **4,004** |
| Increase/ (Decrease) in funds for the period | - | (13) | 1,562 | 1,549 |
| Other comprehensive loss | - | - | - | - |
| **As at 31 December 2013** | - | **20** | **5,533** | **5,553** |
| **As at 1 January 2014** | - | **20** | **5,533** | **5,553** |
| Increase/ (Decrease) in funds for the period | - | (6) | 370 | **364** |
| Other comprehensive loss | - | - | (7) | **(7)** |
| **At 31 December 2014** | - | **14** | **5,896** | **5,910** |

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.

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

## 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 31 March 2015.

### 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 Fund, which holds the defined employee benefits plan of the Global Fund, is a reporting entity and not a separate legal entity, hence its results are incorporated rather than consolidated into the financial statements.

## 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 10.2.

**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 which was revised by the Global Fund and approved by the Global Fund’s Finance and Operational Performance Committee in 2014. The revised investment framework as defined by the Global Fund drives the investment strategy and sets Conditional Value-at-Risk (the “CVaR”) as the new investments risk-measurement parameter. It also authorizes the rebalancing of the investment portfolio to permit the inclusion of new asset classes in the asset allocation, including a restricted portion of equity securities in the long-term investment sub-portfolio. 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 and 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 to meet short-term liquidity needs.

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 two different tranches as outlined below. Further details are described in Note 10 to the consolidated financial statements.

The Global Fund Trust Fund portfolio is partitioned into cash, short-term and long-term investments and invested across two sub-portfolios called tranches 0 and 5 (2013: three sub-portfolios called Tranches 0,1 and 2) that have different investment horizons and which aim to enhance returns subject to the over-arching goal of capital preservation and liquidity requirements. These tranches have the following characteristics:

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

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

During 2014, the Global Fund, at the request of the FOPC, reviewed the scope of services provided by the Trustee and it was agreed that the Trustee would transfer funds directly to the Global Fund, which, in turn, would make disbursements to the principle recipients. This transition of services is in line with the Global Fund's cash management strategy and will be completed once the relevant banking arrangements have been finalized. It should be noted that the transition of these functions will be performed through a staggered approach to ensure a smooth operational implementation and is expected to happen in the first half year 2015.

### 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 in accordance with the accounting rules.

***Contingent Assets***

The Global Fund discloses conditional contributions under signed donor contribution agreements as contingent assets in the notes to the consolidated financial statements. Pledges from donors made during replenishment events and grants recoverable from the Principal Recipients for which no formal letter of recovery has been served are not disclosed within the consolidated financial statements. However in order to give the readers of the financial statements a comprehensive view of the sources of funding, these elements are discussed in the management analysis section in the Annual Financial Report.

### 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 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. This 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.

### *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. 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.

## 3.4 Foreign-currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency 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, bond and real estate 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 11.

### 3.7 Prepayments and other receivables

Prepayments and other receivables are stated at their cost. Other receivables mainly include grants recoverable from Principal Recipients which are recognized at fair value upon a formal 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.

### 3.8 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 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. While there is no lock-in long-term commitment for the lease after July 2015, the Global Fund has the office lease until 2018 with a breakaway clause every six months starting July 2015. The future lease payments are reported in Note 22.

### 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. If the revision affects both current and future periods it can be recognized in both the 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 preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, funds and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of the statement of income during the year. Actual results could differ from these estimates. 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.

<u>Valuation of long-term portion of financial assets and liabilities</u>

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 financial situation of the said donors 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 2014

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2013.
During 2014 several new standards and amendments became applicable for the first time in 2014. However, these do not impact the annual consolidated financial statements of the Global Fund.

### Standards 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 2014, 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 Funds reporting are listed below, with their potential effect on the consolidated financial statement:

Changes in IFRS to be applied in the 2017 - IFRS 15 “Revenue from Contracts with Customers” (May 2014): Based on its current sources of income, the Global Fund expects a limited impact on its consolidated financial statements.

Changes in IFRS to be applied in the 2018 - IFRS 9 “Financial Instruments” (July 2014): The Global Fund expects a limited impact on the classification and measurement of its financial assets and liabilities. The application of the new impairment requirements might result in possible changes of current accounting and systems.

## 6. CONTRIBUTIONS

In millions of USD

| For the years ended 31 December | 2014 | 2013 |
|---|---|---|
| Donor contributions | 3,449 | 5,059 |
| Reversal of provision for un-collectible contributions | 15 | 6 |
| Risk provision on recoverable from grants | (4) | (4) |
| **Total** | **3,460** | **5,061** |

In accordance with Note 3.2 the fair valuation of assets recoverable is done at the end of each reporting period. 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. During 2014 USD 15 million (2013: USD 6 million) of provision for un-collectible contributions recognized in the previous financial years has been cancelled or reduced due to favourable changes in the risk factors considered for fair valuation.

The risk provision on recoverable from grants represents the fair valuation of the amounts confirmed as recoverable from the Principal Recipients as described in Note 3.3.

### DONOR CONTRIBUTIONS

| | | |
|---|---|---|
| **By donor category** | | |
| Governments | 3,327 | 4,922 |
| Foundations | 13 | 68 |
| Product (RED) | 64 | 25 |
| Corporations | 6 | 30 |
| International non-profit organizations | 39 | 14 |
| **Total** | **3,449** | **5,059** |
| | | |
| **By donor intent** | | |
| Unrestricted | 3,284 | 4,899 |
| Restricted- AMFm | 86 | 111 |
| Restricted- Others | 79 | 49 |
| **Total** | **3,449** | **5,059** |

During 2014 new multi-year contribution agreements with sovereign donors were signed wherein the future payment schedule was conditional to the pre-approval of their respective parliament. Accordingly the revenue recognition on these contribution agreement was limited to the contributions received in cash during 2014. The remaining value of contributions receivable for USD 118.6 million (2013: NIL) will be recognized on receipt of cash in the following years or confirmation of the parliamentary approval by the donor.

**7. FOREIGN EXCHANGE GAIN/ (LOSS)**
In millions of USD

| For the years ended 31 December | 2014 | 2013 |
|---|---|---|
| **BY NET POSITION** | | |
| Net foreign exchange (loss)/ gain on assets | (326) | 82 |
| Net foreign exchange gain/ (loss) on liabilities | 34 | (16) |
| **Total: Net foreign exchange (loss)/ gain** | **(292)** | **66** |
| **BY CATEGORY** | | |
| Net realized foreign exchange (loss)/ gain | (76) | 40 |
| Net unrealized foreign exchange (loss)/ gain | (216) | 26 |
| **Total: Net foreign exchange (loss)/ gain** | **(292)** | **66** |
| **BY SOURCE** | | |
| Cash and cash equivalents | (49) | 30 |
| Contributions | (277) | 52 |
| Grants | 34 | (16) |
| **Total: Net foreign exchange (loss)/ gain** | **(292)** | **66** |
| **BY CURRENCY** | | |
| EUR | (171) | 65 |
| GBP | (73) | 16 |
| SEK | (47) | - |
| Others | (1) | (15) |
| **Total: Net foreign exchange (loss)/ gain** | **(292)** | **66** |

**8. GRANTS**
In millions of USD

| For the years ended 31 December | 2014 | 2013 |
|---|---|---|
| **BY CATEGORY** | | |
| Grants to Principal Recipients | 2,461 | 3,199 |
| AMFm co-payments | 86 | 111 |
| Special Initiatives | 16 | - |
| **Total: Grants** | **2,563** | **3,310** |

**BY DISEASE**

| | | |
|---|---|---|
| HIV-AIDS | 1,477 | 1,693 |
| Malaria | 585 | 858 |
| Tuberculosis | 411 | 588 |
| Health Systems Strengthening | (12) | 60 |
| **Total: Grants to Principal Recipients** | **2,461** | **3,199** |

**BY REGION**

| | | |
|---|---|---|
| Asia, Europe, Latin America and the Caribbean | 373 | 352 |
| Africa and Middle East | 595 | 353 |
| High Impact Africa I | 499 | 528 |
| High Impact Africa II | 585 | 1,194 |
| High Impact Asia | 409 | 772 |
| **Total: Grants to Principal Recipients** | **2,461** | **3,199** |

**9. OPERATING EXPENSES**

In millions of USD unless otherwise stipulated

| For the years ended 31 December | **2014** | **2013** |
|---|---|---|
| Staff | 141 | 128 |
| Local fund agent fees | 48 | 59 |
| Professional fees | 44 | 38 |
| Travel and meetings | 21 | 19 |
| Communication materials | 1 | 1 |
| Office infrastructure, including depreciation | 22 | 21 |
| Country coordination mechanism funding | 10 | 8 |
| Board constituency funding | 1 | 1 |
| **Total** | **288** | **275** |

The Secretariat’s operating expenditure without the Provident Fund valuation is USD 286 million (2013: USD 274 million). The 2014 consolidated operating expenditure for Global Fund includes USD 59 thousand as the operating expenditure for the US Fund (2013: USD 12 thousand).

At 31 December 2014 there were 682 (2013: 639) personnel employed by the Global Fund. Of these 22 represent surge positions that have been engaged to support the full transition to the new funding model. These positions are expected to phase out through 2015-2016.

During 2014 the MEC decided to replace all defined duration contracts, on which the majority of Global Fund staff were employed, with open-ended contracts. This decision underlines the approach that employment tenure is based on performance and need for the role. The new contracts became effective on 1 October 2014 and apply to all existing two-year contract positions and new appointments that are Board approved and budgeted and relate to a role designed to be ongoing in nature. Meanwhile, a few defined duration contracts designed only for short-term positions will move to a new temporary contract.

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

## 10. CASH AND CASH EQUIVALENTS

In millions of USD

### 10.1 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 | **2014** | **2013** |
|---|---|---|
| Amounts held in commercial banks | 59 | 34 |
| Amounts held in the Trust Fund | 4,344 | 4,363 |
| | 4,403 | 4,397 |

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.

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 | **2014** | **2013** |
|---|---|---|
| Amounts held in CHF | 8 | 4 |
| Amount held in EUR | 103 | 718 |

### 10.2 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 2014 the Pool had a fair value measurement of USD 25,955 million (2013: USD 27,466 million) according to the World Bank.

The following table reflects the asset allocation in the pool:

| Types of financial instruments | 2014 | 2013 |
|---|---|---|
| Government and agency obligations | 55% | 56% |
| Time deposits and money market securities | 27% | 28% |
| Asset-backed securities | 16% | 11% |
| Equity securities | - | - |
| Derivatives, net | 2% | - |
| Securities purchased under resale agreements and securities sold under repurchase agreements | -% | 5% |
| **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 | 2014 | 2013 |
|---|---|---|
| Tranche 0 USD | 540 | 543 |
| Tranche 1 USD | - | 1 |
| Tranche 2 USD | - | 2,832 |
| Tranche 5 USD | 3,680 | - |
| Tranche 0 EUR | 124 | 472 |
| Tranche 1 EUR | - | 515 |
| **Total** | **4,344** | **4,363** |

### 10.3 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 interest rate and credit spreads. This approach takes into account historical market observations for three years while giving more weight to recent market volatility. The VAR of the Trust Fund's share of the portfolio over a twelve month horizon, at a 95% confidence level as at 31 December 2014 is estimated to be USD 31 million (2013: USD 32 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.

| | **2014** | | **2013** | |
|---|---|---|---|---|
| Currency | Change % | Amount USD million | Change % | Amount USD million |
| EUR | 6% | (+/-) 8 | 3% | (+/-) 30 |

Credit risk

The risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Trustee does not hold any collateral or credit enhancements except for the repurchase agreements and resale agreements with counterparties. The Trustee identifies concentrations of credit risk based mainly on the extent to which the cash and investments in the Pool are held by an individual counterparty. The concentration of credit risk with respect to the Pool of cash and investments is limited because the Trustee has policies that limit the amount of credit exposure to any individual issuer.

| Counterparty credit ratings of the World Bank | 2014 | 2013 |
| --- | --- | --- |
| AA or greater | 71% | 62% |
| A- or greater | 100% | 98% |
| BB+ or greater | 100% | 100% |

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

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

### 11.1 Financial risk management objectives for Provident Fund investments

The Provident Fund’s assets are primarily invested in 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.

### 11.2 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.

### 11.3 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 are 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 inputs to the valuation techniques as follows (in order of priority placed on the inputs):

- Level 1 Financial instruments whose values are based on unadjusted quoted prices for identical instruments in active markets;

- Level 2 Financial instruments whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the instrument; and

- Level 3 Financial instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

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 2014** | | | | |

| | | | | |
|---|---|---|---|---|
| **Provident Fund Investments** | | | | **92** |
| Equity | 26 | - | - | 26 |
| Bonds | 35 | 16 | - | 51 |
| Real estate | - | 15 | - | 15 |

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

As at 31 December 2014 the value of the Provident Fund investments includes foreign currency exposure in Euros (EUR) and Swiss Francs (CHF). The sensitivity of the investments to exchange rate fluctuations is analysed as at the end of each reporting period.

## 12. CONTRIBUTIONS RECEIVABLE

In millions of USD

| As at 31 December | 2014 | 2013 |
|---|---|---|
| Promissory notes maturing within one year | 580 | 283 |
| Contributions receivable within one year | 496 | 408 |
| | **1,076** | **691** |
| Promissory notes maturing after one year | 798 | 739 |
| Contributions receivable after one year | 1,298 | 1’918 |
| | **2,096** | **2,657** |
| Total value of contributions receivable | **3,172** | **3,348** |
| Receivable in 2014 | - | 691 |
| Receivable in 2015 | 1,076 | 849 |
| Receivable in 2016 | 985 | 719 |
| Receivable after 2016 | 1,191 | 1185 |
| | 3,252 | 3,444 |
| Discounted at LIBOR as at 31 December | (80) | (96) |
| Present value of contributions receivable | **3,172** | **3,348** |

As at 31 December 2014 the value of contribution receivable included foreign currency exposure in Euros (EUR), Great British Pound (GBP), Swedish Kroners (SEK) and Australian Dollars (AUD).

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

| | 2014 | 2013 |
|---|---|---|
| AUD | 8 | 13 |
| EUR | 788 | 949 |
| GBP | 797 | 830 |
| SEK | 1,700 | - |

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:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Currency | Change % | Amount USD million | Change % | Amount USD million |
| AUD | 9% | (+/-)1 | 6% | (+/-) 1 |
| EUR | 6% | (+/-)57 | 3% | (+/-) 39 |
| GBP | 4% | (+/-)50 | 2% | (+/-) 27 |
| SEK | 9% | (+/-)20 | - | - |

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.

## 13. PREPAYMENTS AND OTHER RECEIVABLE

In millions of USD

| As at 31 December | 2014 | 2013 |
|---|---|---|
| Prepayments | 7 | 5 |
| Net recoverable from grants | 23 | 6 |
| **Total:** | **30** | **11** |

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 2014 a net recoverable of USD 64 million (2013: USD 76 million) was determined as recoverable from grants from the Principal Recipients by the Recoveries Committee, of which USD 41 million (2013: USD 70 million) is not recorded in the consolidated financial statements in the absence of formalized terms of recovery with the Principal Recipients.

## 14. 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 three years.

| | **2014** | **2013** |
|---|---|---|
| As at 1 January | 2 | 1 |
| Additions during the year | 1 | 2 |
| Depreciation during the year | (1) | (1) |
| **As at 31 December** | **2** | **2** |

**15. 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.

| | **2014** | **2013** |
|---|---|---|
| As at 1 January | 6 | 1 |
| Additions during the year | 3 | 6 |
| Depreciation during the year | (2) | (1) |
| **As at 31 December** | **7** | **6** |

**16. GRANTS PAYABLE**
In millions of USD

| As at 31 December | **2014** | **2013** |
|---|---|---|
| Asia, Europe, Latin America and the Caribbean | 116 | 179 |
| Africa and Middle East | 422 | 539 |
| High Impact Africa I | 342 | 385 |
| High Impact Africa II | 443 | 596 |
| High Impact Asia | 205 | 280 |
| | 1,528 | 1,980 |
| Grants recoverable from Principal Recipients | 27 | 6 |
| **Net Grants Payable** | **1,555** | **1,985** |

As at 31 December 2014 grant payables include EUR denominated liabilities for EUR 172 million (2013: EUR 205 million). The following table reflects the sensitivity of the consolidated statement of income to a strengthening or weakening of EUR for these liabilities:

| Currency | 2014 Change % | 2014 Amount USD million | 2013 Change % | 2013 Amount USD million |
|---|---|---|---|---|
| EUR | 6% | (+/-)13 | 3% | (+/-) 8 |

## 17. MATURITY PROFILE OF UNDISCOUNTED FINANCIAL LIABILITIES

In millions of USD

| Year ended 31 December 2014 | Less than 3 months | 3 to 12 months | More than 12 months | Total |
|---|---|---|---|---|
| Grants payable | 602 | 953 | | 1,555 |
| Accounts payable | 11 | - | | 11 |
| | **613** | **953** | **-** | **1,566** |

| 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** |

## 18. DEFERRED CONTRIBUTIONS

In millions of USD

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

**Deferred contributions- movement during the year**

| | 2014 | 2013 |
|---|---|---|
| At 1 January | 170 | 85 |
| Contribution income deferred during the year | - | 215 |
| Trust Fund investment (loss)/ income deferred | 1 | - |
| Deferred contributions released to the consolidated statement of income | (86) | (130) |
| Realized foreign exchange gain deferred | 1 | - |
| At 31 December | **86** | **170** |

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.

## 19. EMPLOYEE BENEFIT LIABILITY

In millions of USD

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.

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** | **2014** | **2013** |
|---|---|---|
| Benefit obligation at beginning of year | 85 | 70 |
| Current service cost | 22 | 22 |
| Translation difference | (9) | 2 |
| Interest cost | 1 | 1 |
| Actuarial (gain)/ loss | 7 | - |
| Benefits paid from plan/company | (7) | (8) |
| Premiums paid | - | (1) |
| Expenses paid | - | (1) |
| **Benefit obligation at end of year** | **99** | **85** |

**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 re-measurement 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** | **2014** | **2013** |
|---|---|---|
| Amounts recognized in the statement of income | | |
| Current service cost | 22 | 22 |
| Interest cost | 1 | 1 |
| **Total pension cost recognized in the statement of income** | **23** | **23** |

| | 2014 | 2013 |
|---|---|---|
| Actuarial valuation recognized in other comprehensive income | | |
| a. Effect of changes in demographic assumptions | - | (1) |
| b. Effect of changes in financial assumptions | 8 | 1 |
| c. Effect of experience adjustments | (1) | - |
| **Total actuarial valuation recognized in other comprehensive income** | **7** | **(-)** |

| | 2014 | 2013 |
|---|---|---|
| **Total defined benefit cost recognized in the statement of income and other comprehensive income** | **30** | **23** |

| **Principal actuarial assumptions** | **2014** | **2013** |
|---|---|---|
| Weighted-average assumptions to determine benefit obligations | | |
| Discount rate | 0.80% | 1.80% |
| Rate of compensation increase | 3.00% | 3.00% |
| **Weighted-average assumptions to determine pension cost** | **2014** | **2013** |
| Discount rate | 1.80% | 1.70% |
| Rate of compensation increase | 3.00% | 1.50% |

| **Other required disclosure amounts** | **2014** | **2013** |
|---|---|---|
| Contributions expected to be paid to the plan during the annual period beginning after the reporting period | 10 | 9 |

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

## 20. 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 2014.

During 2014 the Global Fund entered into a Special Initiatives project with a partner organization represented by a fund management agent whose senior management includes a member of the Global Fund Board. The total value of the project is USD 4.0 million of which USD 3.7 million will be disbursed to project sub-grantees jointly selected by the Global Fund and the partner organization. Approximately USD 0.2 million will be paid to the partner organization's agent for project management services. As at 31 December 2014, USD 2.6 million was outstanding as advance for future project activities.

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 2014, an aggregate of USD 65 thousand (2013: USD 48 thousand) was paid to Board committee members as honoraria for the governance services performed during the course of the year.

**Compensation of key management personnel**

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

**Remuneration category**

| | **2014** | **2013** |
|---|---|---|
| Short-term benefits including salary and allowances | 3.6 | 4.0 |
| Long-term benefits including contributions to the Provident Fund | 0.5 | 1.0 |
| **Total Remuneration** | **4.1** | **5.0** |

## 21. TAXATION

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

## 22. LEASE COMMITMENTS

In millions of USD

Non-cancellable operating lease payments recognized as an expense in 2014 amounted to USD 13 million (2013: USD 12 million).

| Future lease payments | **2014** | **2013** |
|---|---|---|
| Year | | |
| 2014 | - | 12 |
| 2015 | 6 | 7 |
| | **6** | **19** |

## 23. CONTINGENT LIABILITIES

## 23.1 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 | 2014 | 2013 |
|---|---|---|
| Grants approved but not signed | 1,357 | 976 |
| Grants signed but not committed | 3,244 | 3,876 |
| **Total** | **4,601** | **4,852** |

| BY REGION | 2014 | 2013 |
|---|---|---|
| Asia, Europe, Latin America and the Caribbean | 637 | 728 |
| Africa and Middle East | 992 | 1,387 |
| High Impact Africa I | 820 | 979 |
| High Impact Africa II | 1,371 | 820 |
| High Impact Asia | 781 | 938 |
| **Total** | **4,601** | **4,852** |

## 23.2 CONTINGENT LIABILITY OTHER THAN GRANTS

As at 31 December 2014 the net estimated value of contingent liabilities other than contingencies on grants as disclosed above is USD 1 million (2013: USD 1 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.

GF/B33/03 - Revision 1
Annex 2

The Global Fund

**31 December 2014**

**Statutory Financial Statements**

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## STATUTORY FINANCIAL STATEMENTS

### Responsibility for the statutory financial statements

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

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

The 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 statutory financial statements were approved by the Global Fund Board (“the Board”) 31 March 2015.

**REPORT OF THE STATUTORY AUDITOR**

with statutory financial statements as of 31 December 2014 of
The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier

To the Global Fund Board of

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

Geneva, 31 March 2015

## Report of the statutory auditor on the statutory financial statements

As statutory auditor, we have audited the accompanying statutory financial statements of the Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Global Fund”), which comprise the statement of income, statement of financial position and notes for the year ended 31 December 2014.

### Board’s and Secretariat’s responsibility

The Board and Secretariat are responsible for the preparation of the statutory financial statements in accordance with the requirements of Swiss law and the Global Fund’s articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of statutory financial statements that are free from material misstatement, whether due to fraud or error. The Board and Secretariat are further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Auditor’s responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the statutory 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 statutory financial statements for the year ended 31 December 2014 comply with Swiss law and the Global Fund's By-laws.

## Report on other legal requirements

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

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

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

Ernst & Young Ltd

| | |
|---|---|
| Laurent Bludzien<br>Licensed audit expert<br>(Auditor in charge) | Thomas Madoery<br>Licensed audit expert |

**Enclosure**
Statutory financial statements (statement of income, statement of financial position and notes)

**Statement of Income**

**for the year ended 31 December**

| In millions of USD | Notes | 2014 | 2013 |
|---|---|---|---|
| **INCOME** | | | |
| Contributions | | 3,459 | 5,061 |
| Foreign currency (loss)/ gain on assets | | (326) | 82 |
| Bank and Trust Fund income | | 40 | 6 |
| Provident Fund investment valuation gain | | 7 | 2 |
| **Total INCOME** | | **3,180** | **5,151** |
| **EXPENDITURE** | | | |
| Grants | | 2,563 | 3,310 |
| Foreign currency (gain)/ loss on liabilities | | (34) | 16 |
| Operating expenses | | 288 | 275 |
| **Total EXPENDITURE** | | **2,817** | **3,601** |
| **INCREASE IN FUNDS for the year** | | **363** | **1,550** |

**Statement of Comprehensive Income**
**for the year ended 31 December**

| | 2014 | 2013 |
|---|---|---|
| Increase in funds for the year | 363 | 1,550 |
| Loss on actuarial valuation of employee benefits | (7) | - |
| **Total COMPREHENSIVE INCOME for the year** | **356** | **1,550** |

## Statement of Financial Position

**As at 31 December**

| In millions of USD | Notes | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 4,403 | 4,397 |
| Contributions receivable | | 1,075 | 691 |
| Provident fund investments | | 92 | 84 |
| Prepayments and other receivables | | 30 | 11 |
| | | 5,600 | 5,183 |
| **Non-current assets** | | | |
| Contributions receivable | | 2,096 | 2,657 |
| Property, plant and equipment | | 2 | 2 |
| Intangible assets | | 7 | 6 |
| | | 2,105 | 2,665 |
| **Total ASSETS** | | **7,705** | **7,848** |
| **LIABILITIES and FUNDS** | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Grants payable | | 1,555 | 1,985 |
| Accrued expenses | | 45 | 37 |
| Accounts payable | | 11 | 18 |
| Deferred contributions | | 86 | 170 |
| | | 1,697 | 2,210 |
| **Non-current liabilities** | | | |
| Employee benefit liability | | 99 | 85 |
| **Total LIABILITIES** | | **1,796** | **2,295** |
| **FUNDS** | | | |
| Foundation capital | | - | - |
| Temporarily restricted funds | | 14 | 20 |
| Unrestricted funds | | 5,895 | 5,533 |
| **Total FUNDS** | | **5,909** | **5,553** |
| **Total LIABILITIES and FUNDS** | | **7,705** | **7,848** |

………………………………
Daniel Camus
Chief Financial Officer

……………………………………..
Mark Dybul
Executive Director

**Statement of Changes in Funds**

**for the year ended 31 December**

| | Foundation capital | Temporarily restricted funds | Unrestricted funds | Total |
|---|---|---|---|---|
| As at 1st January 2013 | - | **33** | **3,970** | **4,003** |
| Increase/ (Decrease) in funds for the period | - | (13) | 1,563 | 1,550 |
| Other comprehensive loss | - | - | - | - |
| **As at 31 December 2013** | - | **20** | **5,533** | **5,553** |
| **As at 1 January 2014** | - | **20** | **5,533** | **5,553** |
| Increase/ (Decrease) in funds for the period | - | (6) | 369 | **363** |
| Other comprehensive loss | - | - | (7) | **(7)** |
| **At 31 December 2014** | - | **14** | **5,895** | **5,909** |

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.

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

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

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

These statutory financial statements for the year ended 31 December 2014 were approved by the Global Fund Board on 31 March 2015.

### 2.2 Functional and presentation currency

The statutory 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.

### 2.3 Foundation capital

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