

35th Board Meeting

2015 Annual Financial Statements & 2015 Financial performance, and 2016/2017 perspectives

For Board Information

GF/B35/20

Abidjan, Côte d'Ivoire

26-27 April 2016

The Global Fund 35th Board Meeting

Contents

- **2015 Annual Financial Statements**
- 2015 Financial Performance & 2016-2017 Perspectives

Key highlights- 2015 external audit results

- **Clean, unqualified** audit opinion; robust preparation.
- **No outstanding management letter points at 31 December 2015.**
- Financial statements reorganized to prioritize disclosure on material financial positions in accordance with IAS 1.
- No material adjustments or misstatements identified during the audit.

Financial Statements- Statement of Income

Income and Expenditure USD millions	2015	2014
Contribution income	2,189	3,460
Grant expenditure	4,389	2,563
Operating expenses	296	283
Provident Fund liability valuation loss	2	2
Net operating (loss)/income	(2,498)	612
Foreign exchange results, net	(110)	(292)
Financial income, net	17	44
(Decrease)/ increase in funds	(2,591)	364
<u>Adjustments not classified through Statement of Income</u>		
Including re-measurement loss on actuarial valuation of employee benefit liability	(6)	(7)
Total comprehensive (loss)/ income for the year	<u>(2,597)</u>	<u>357</u>

- 37% decrease in contribution income compared to 2014. Decrease mainly driven by major government donors shifting their 2015 pledge to 2016 for technical factors on donor side. (US: USD 0.8 billion; France USD 0.1 billion)
- A net foreign exchange loss of USD 110 million incurred on non-USD balance sheet positions. Reflects strengthening of USD against the other major currencies. Losses mitigated by hedges since May 2015.
- Grant expenditure increased by 71%, reflecting the acceleration in new grants being approved at the Board and ability to commit new funds within the portfolio.
- Operating expenditures of the Secretariat increased by 5% over 2014, driven by the efforts to support 2015 priorities. Overall opex is within the USD 900 million allocation for 2014-16.

Financial Statements- Balance Sheet

Balance Sheet (USD millions)	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	529	59
Trust Fund assets	2,540	4,344
Contributions receivable (<1 year)	1,532	1,076
Forward currency contracts at fair value	45	-
Advances for Pooled Procurement Mechanism (PPM)	41	-
Prepayments and other receivables	35	30
NON- CURRENT ASSETS		
Contributions receivable (>1 year)	1,349	2,096
Provident Fund investments	101	92
Tangible and intangible assets	11	9
Total Assets	<u>6,183</u>	<u>7,706</u>

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- Change in disclosure since 2014: Funds held in trust at the World Bank disclosed separately from Cash and cash equivalent.
- Two new balance sheet positions:
 - Effective May 2015 forward foreign exchange contracts have been used to mitigate foreign exchange risk. As at 31 December 2015 the fair value of the hedges on the balance sheet was USD 45 million.
 - Advance for PPM. During 2015, USD 823 million was issued as PPM advances to PSAs, of which shipments valued at USD 782 million were completed, leaving USD 41 million of outstanding PPM advance.

Financial Statements- Balance Sheet

Balance Sheet (USD millions) LIABILITIES AND FUNDS	2015	2014
LIABILITIES		
Grants payable	2,656	1,555
Other creditors	54	56
Deferred contributions	42	86
Employee benefit liability	118	99
FUNDS		
Restricted Funds	19	14
Unrestricted Funds	3,294	5,896
Total Liabilities and Funds	<u>6,183</u>	<u>7,706</u>

- Grants payable: 71% increase, in line with the grant expenditure, following the acceleration of grant signings and annual funding decisions during 2015.
- Employee benefit liability: when measured in source currency CHF- USD 112 million of Provident Fund assets, including USD 11 million of cash at bank and USD 101 million in investments, fully cover USD 112 million of employee benefit reserves under the GFPF constitution. For the purposes of IFRS compliance the employee benefit liability includes USD 6 million of actuarial valuation reserve- a highly technical valuation for employer's defined benefit obligation.

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Financial Statements- Statement of Cash Flows

Cash Flow Statement (\$m)	2015	2014
OPERATING ACTIVITIES		
Cash receipts from donors	2,255	3,277
Cash paid to grant recipients	(3,318)	(2,979)
Operating expenses	(275)	(270)
Forward contracts on net positions	10	-
Financial income, net	17	41
Net cash flow from operating activities	(1,311)	69
INVESTMENT ACTIVITIES		
Purchase of Provident Fund investments	(28)	(74)
Sales of Provident Fund investments	19	65
Purchase of fixed assets and intangibles	(6)	(5)
Net cash flow from investment activities	(15)	(14)
Realised foreign exchange rate (loss) on cash and cash equivalent	(8)	(49)
Net (decrease)/ increase on cash and cash equivalents	<u>(1,334)</u>	<u>6</u>

- 30% reduction in cash balance primarily driven by reduced donor receipts during 2015. Includes the impact of negotiations for realignment of donor encashment schedule with future liability payments.
- 11% increase in grant disbursements over 2014 as grant making progressed to grant implementation in 2015.
- Reduction in financial income is primarily driven by a progressive reduction in the cash balance during the year.

Proposed decision point

Decision Point: GF/B35/DPXX: 2015 Annual Financial Report

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

Decision Point: GF/B35/DPXX: 2015 Statutory Financial Statements

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

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- 2015 Annual Financial Statements

- **2015 Financial Performance & 2016-2017 Perspectives**

Pledges & Contributions

Grant expenses & disbursements

Asset - Liability Management

Operating expenditures

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Pledges & contributions

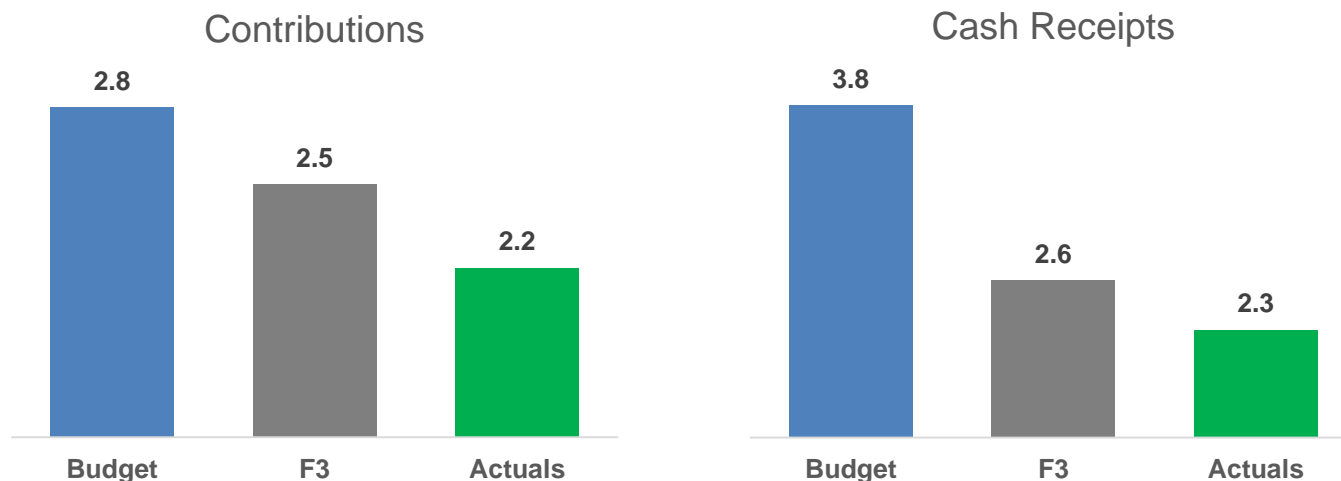
Grant expenses & disbursements

Asset Liability Management

Operating Expenditures

Donor Contributions and Cash Receipts in 2015

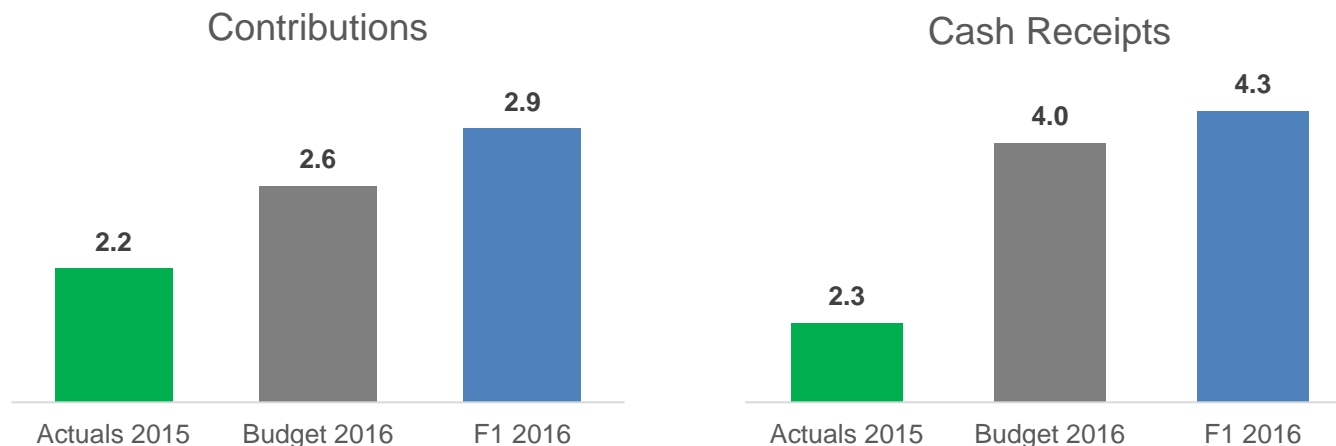
billion US Dollars, rounded, not to scale



- Mostly shift of contributions and cash receipts to 2016 due to technical factors on donor side
- In certain cases and in agreement with the Secretariat, cash payments from donors have been delayed to align with the anticipated grants disbursement pattern

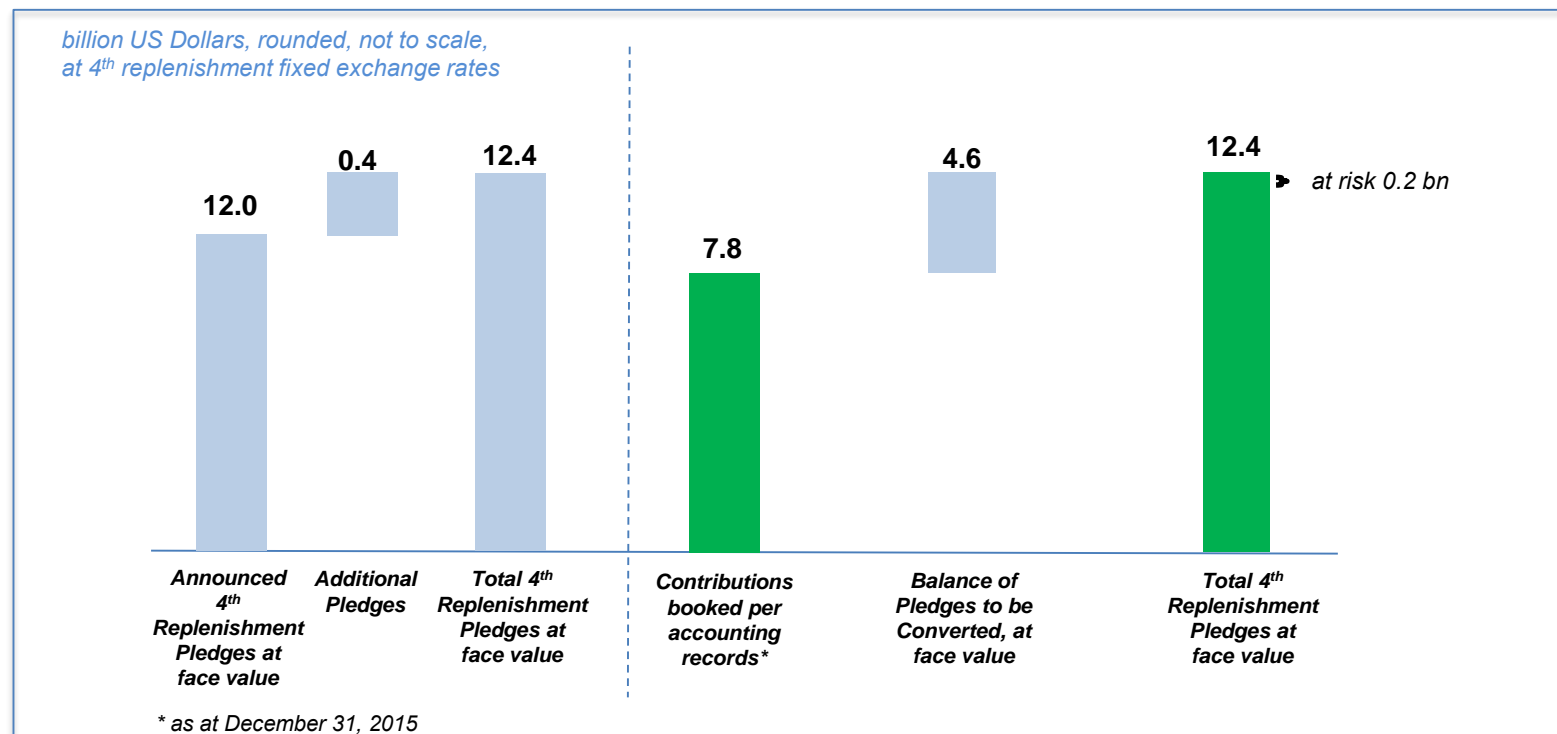
Donor Contributions and Cash Receipts in 2016

billion US Dollars, rounded, not to scale



- Increase due to shift of contributions and cash receipts to 2016 due to technical factors on donor side

Evolution of 4th replenishment pledges



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Grant expenses & disbursements

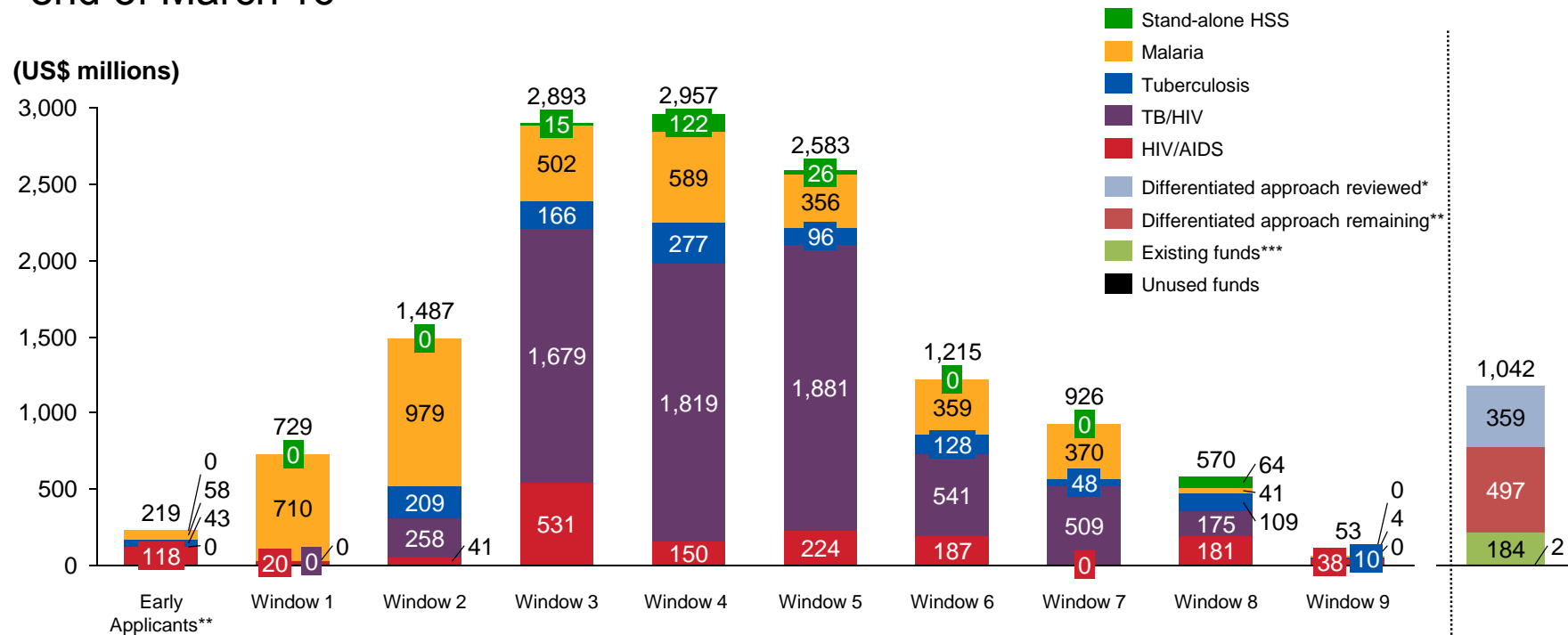
Asset Liability Management

Operating Expenditures

Grant financials: summary

- > **2015 actuals** highlight a significant increase in grant making activities, compensating for delays in concept note submission experienced in 2014.
- > NFM update: 97% of the allocation has now been through the TRP/GAC review, with 89% approved by the board.
- > **2015 commitment and disbursement have consequently increased** by respectively 76% and 11% compared to 2014 level.
- > Grant expenses and disbursement actuals are respectively 11% above and 21 % below 2015 Budget targets
- > The end of 2015 in country cash balance **has stabilized** at USD 1.1 Bn thanks to strict monitoring

TRP/GAC has reviewed US\$14.2 billion of allocation funding for grant-making as of end of March '16



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*Includes simplified approaches, reprogramming requests.

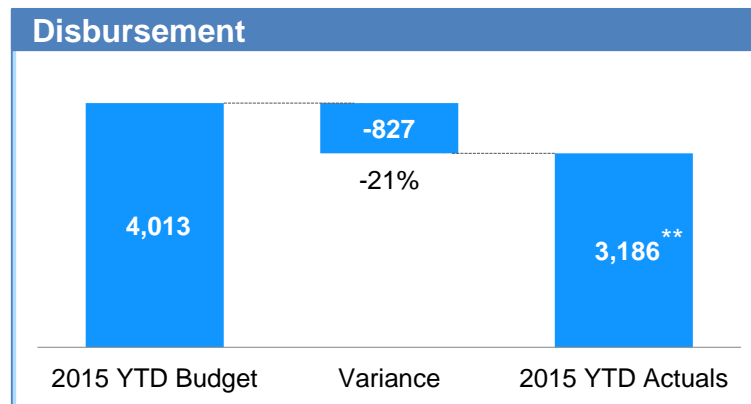
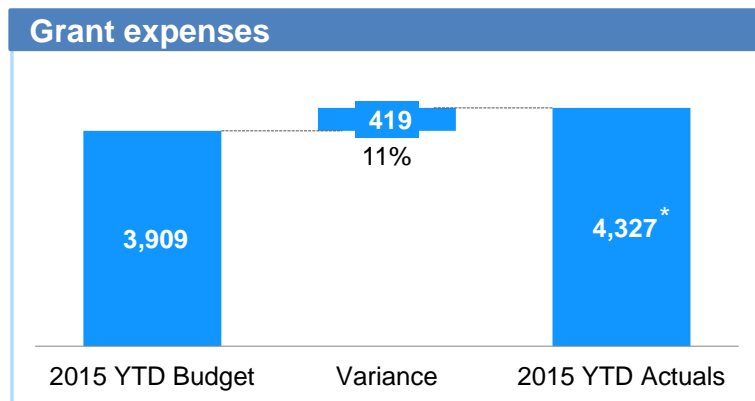
**Includes Kazakhstan TB, Myanmar HIV and Myanmar TB. These components did not come back for TRP review in windows 1-9.

***Includes components that had only existing funds and did not submit a concept note.

Grant expenses and disbursements

2015 Full year Actuals versus Budget

Data in Millions USD equivalent



- Grant-making:** the process for grant-making and approval has taken longer than forecasted but thanks to a very strong second half year, 2015 grant expense actuals end up being above budget target
- Pooled Procurement Mechanism:** 40% of the positive variance on grant expenses (\$170 M) due to anticipated booking for 2016 orders
- Non-PPM:** the remaining 60% is due to timing shift on grant making from Q4 2014 to Q1/Q2 2015. Continuous low absorption levels on key grants translates into a reduced level of financial disbursements.
- Disbursement variances:** critical countries are Nigeria \$205 M, Tanzania \$149 M, Uganda \$79 M and Malawi \$66 M

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* Grant expense excludes Special Initiatives and AMFm

** Disbursement includes PPM charge back but excludes cash advances to PSAs

In-country cash balance optimization: start of phase 2

\$ 1.1 Bn at end of Q4 2015

ILLUSTRATIVE

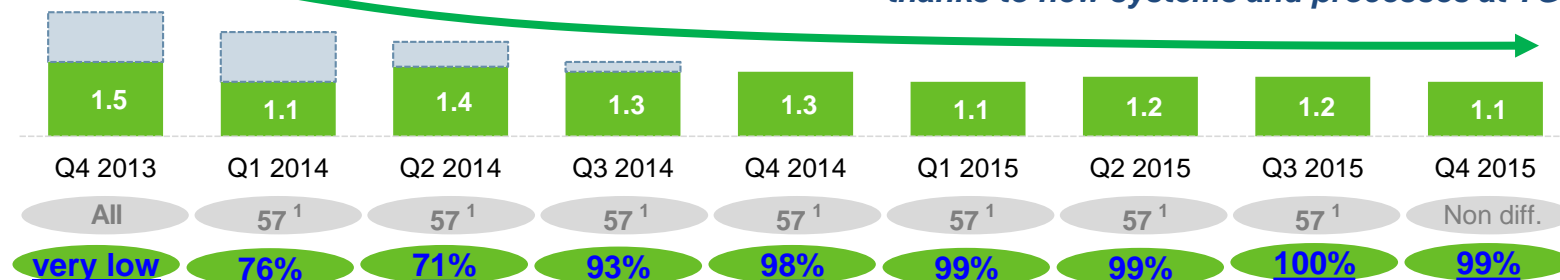
USD Billions

Beyond scope of review
x% Reporting compliance, % of PRs addressed responding

Reported

Dynamics of cash balance in countries

Improved visibility and “stabilization” of in-country cash balance thanks to new systems and processes at TGF level



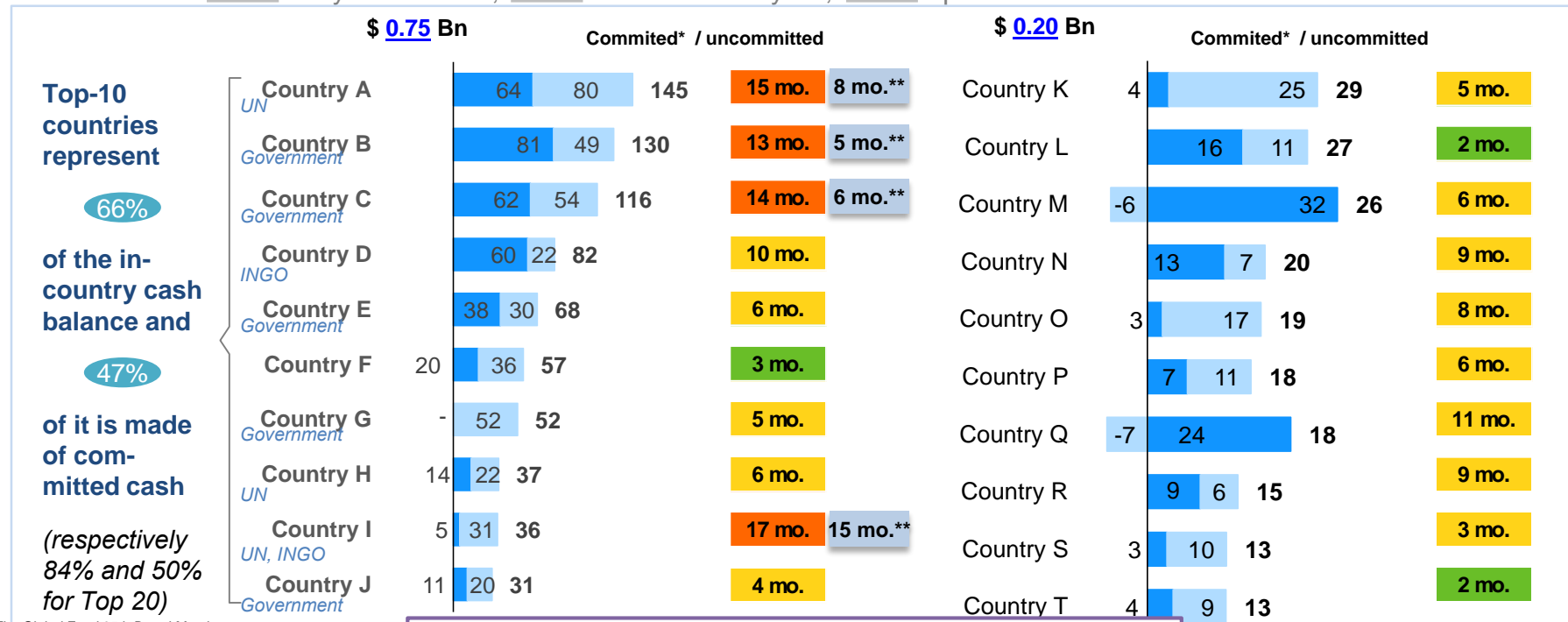
- > The stabilization of cash balances in-country highlights that the slowdown in disbursement levels is not a result of tighter cash controls from the Secretariat.
- > Further measures to improve cash management are on track in future quarters that will have a “one-off” impact on the level of cash to be disbursed. These measures will include the improvement in credit/collateral requirements of INGO’s and some major governmental implementers

End of Q4 2015 - Top 20 in country cash balances

USD million

= equivalent number of months worth of cash flow based on 2014 actual disbursements

: 1 year or more; 3 months to 1 year; up to 3 months



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Total cash balance¹: USD ~1.1 billion (inc \$ 0.95 Bn for top 20)

The MTP 2016-2018 reflects the latest view of financials for the next 3 years based off funding from the current allocation

Underlying Assumptions

- > Revised view of MTP 2016-2018 taking into account 2015 actuals and mostly based on in-house analysis since annual PUDR were not available at time of reforecast

2016-2017 scale up

- > Implementation Through Partnership: all country action plans finalized with the support of partners. Phased roll out of actions in the second half of 2016
- > More progressive scale up thus embedded in the reforecast compared to Budget assumptions

Shortened grants

- > Stability of additional funding need to cover 2017 programmatic gaps: \$ 0.7 Bn
- > Need of additional fund as early as end of Q1 2016 (Mozambique)

End of 2017 situation: shortened grant funding gap

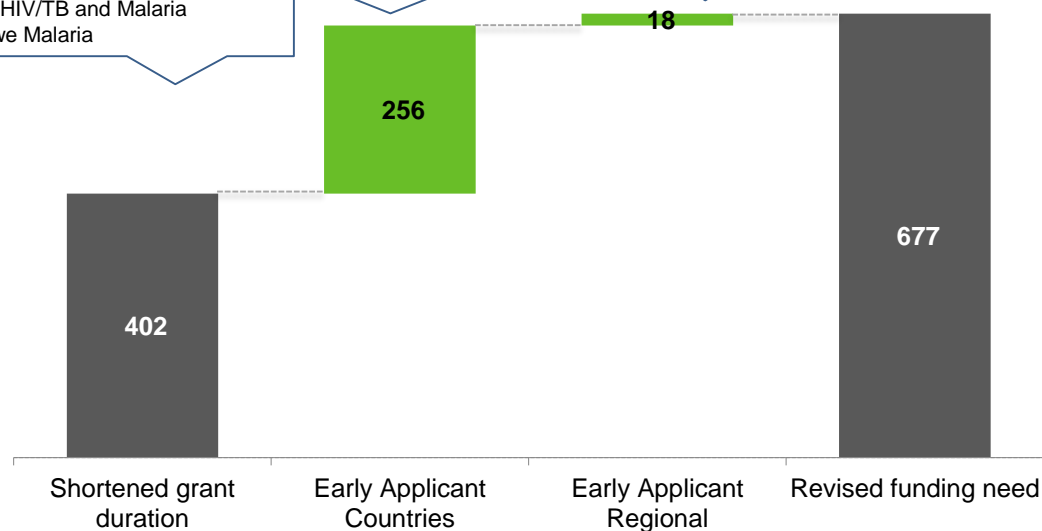
Updated assessment of shortened grant funding gap reflecting:

- Latest view on country absorption
- Priorization of savings to cover 2017 funding gap
- GAC to formally review all cases

- Sudan Malaria approved \$28.5M
- Kenya Malaria
- Mozambique HIV/TB
- **Mozambique Malaria approved \$63M**
- Tanzania HIV/TB
- Uganda HIV/TB and Malaria
- Zimbabwe Malaria

- Zimbabwe HIV/TB
- Myanmar HIV, Malaria, TB
- Philippines TB

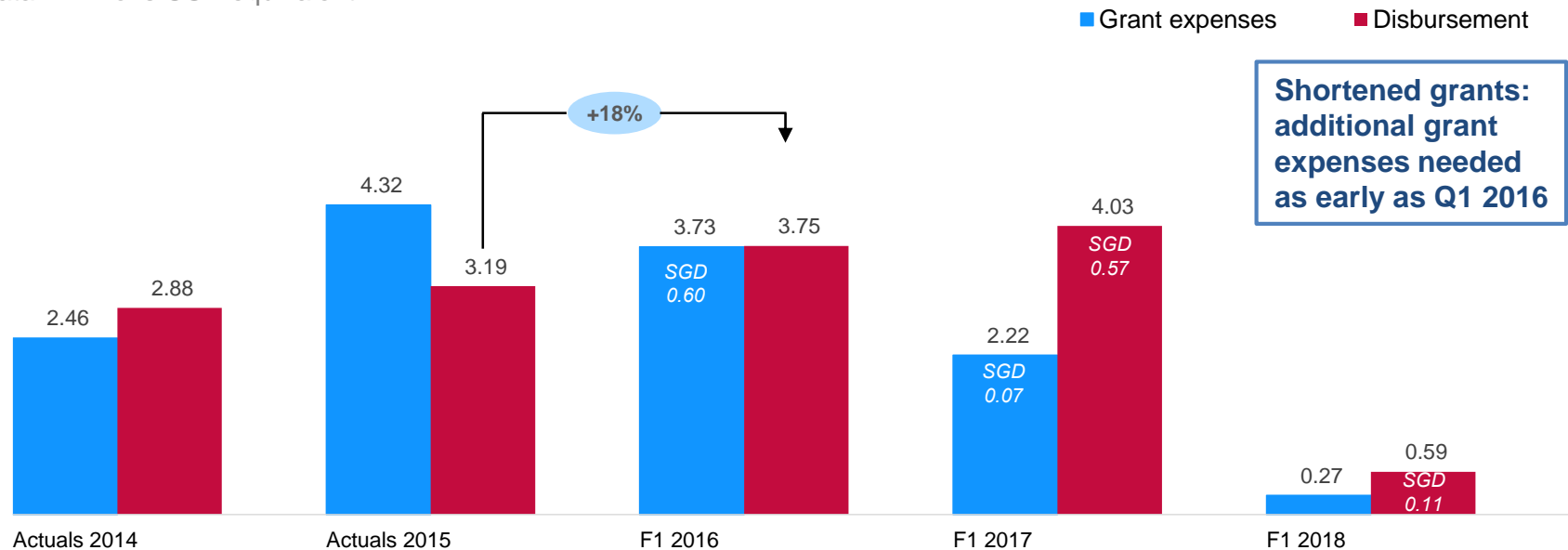
- EHRN HIV
- Meso Malaria
- RAI Malaria



Since first estimate provided to FOPC in September 2014, SGD funding need has decreased from \$1.8 Bn to \$ 0.7 Bn

2014-2018 Grant expenses & disbursement

Data in Billions USD equivalent



At spot rate

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Pledges & contributions

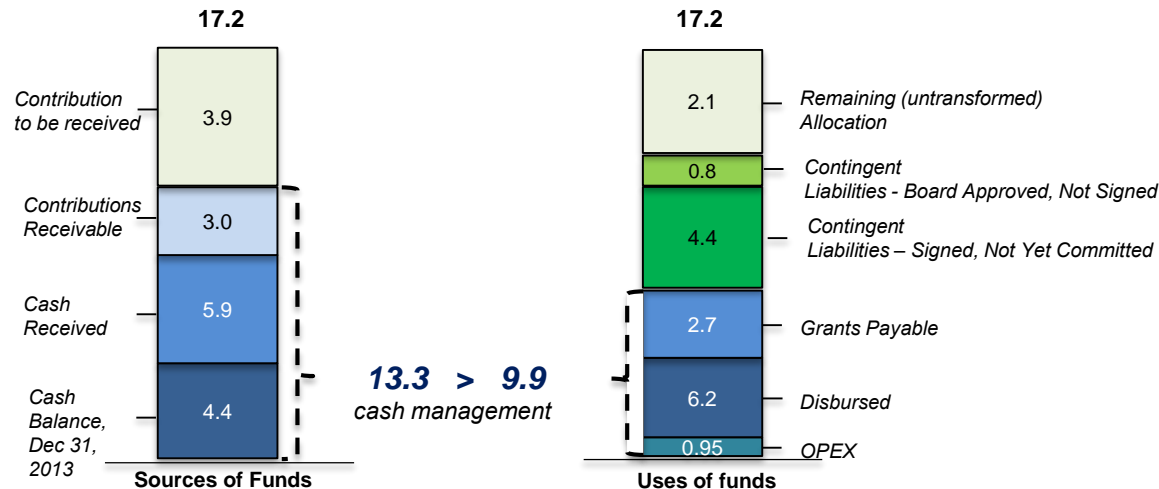
Grant expenses & disbursements

Asset Liability Management

Operating Expenditures

ALM : Pipeline Transformation Status for Sources and Uses of Funds as at December 31, 2015

billion US Dollars, rounded, not to scale



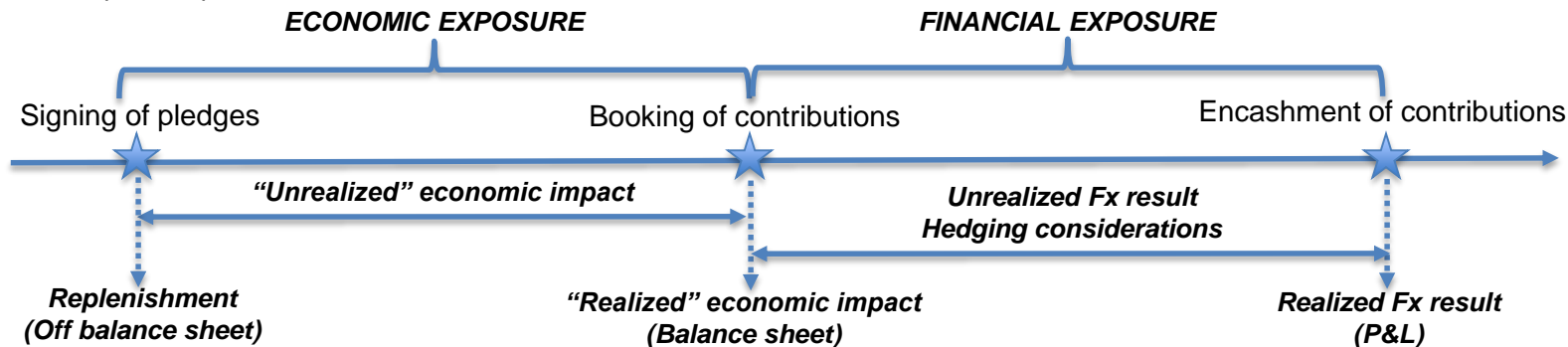
- Consolidated ALM is balanced as measured at comparable replenishment rates
- The pace of conversion of allocations at 15.1bn continues to exceed that of pledges at 13.3bn

** billion US Dollars, at 4th replenishment exchange rates, rounded, not to scale*

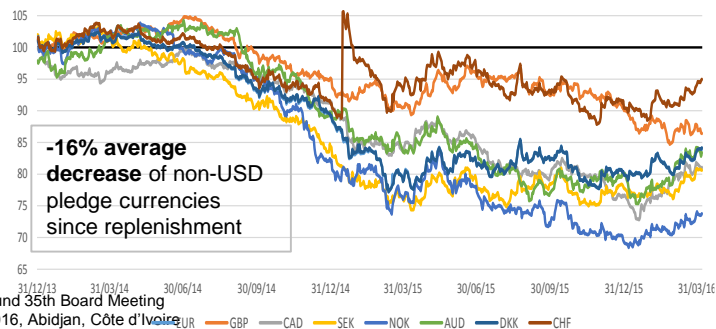
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FX and Sources of Funds - Economic and financial impacts: reminder

The currency impact on Sources of Funds is the result of the difference in FX rate between the time of the pledge and the time that an encashment is received. The FX impact is split as follows:

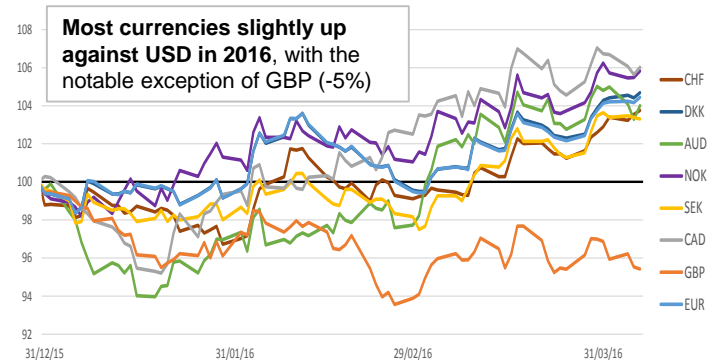


Since replenishment: non-USD currencies relative value against USD
(pledge rate = 100)



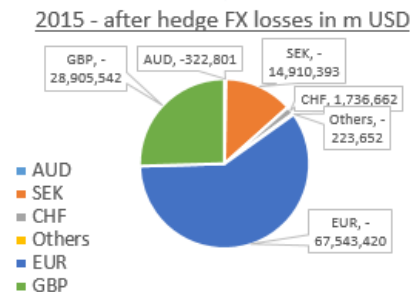
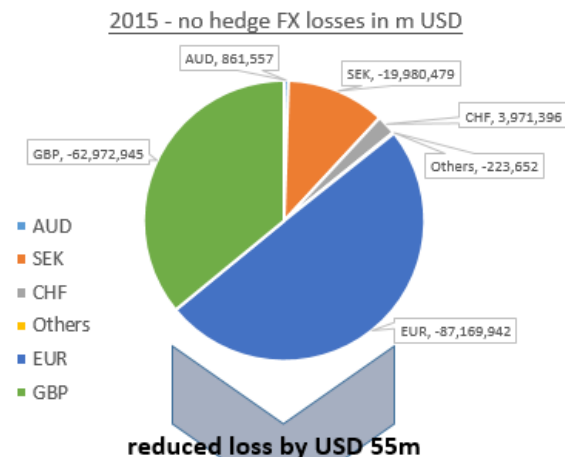
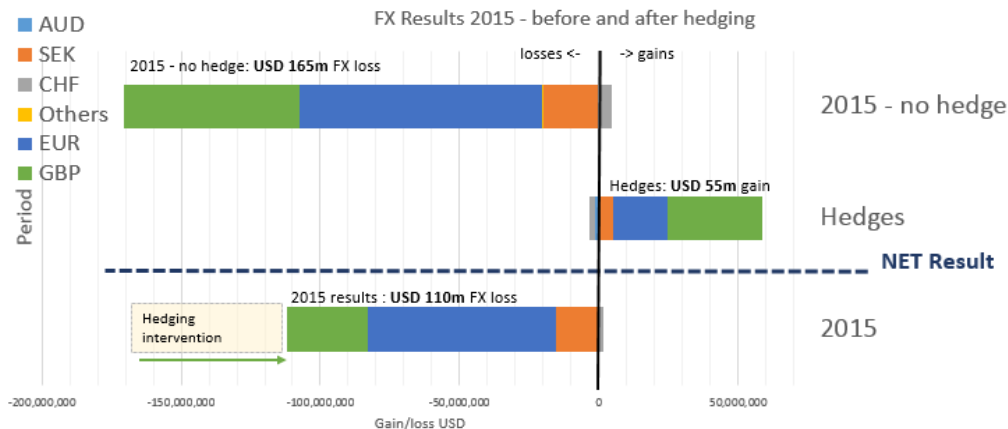
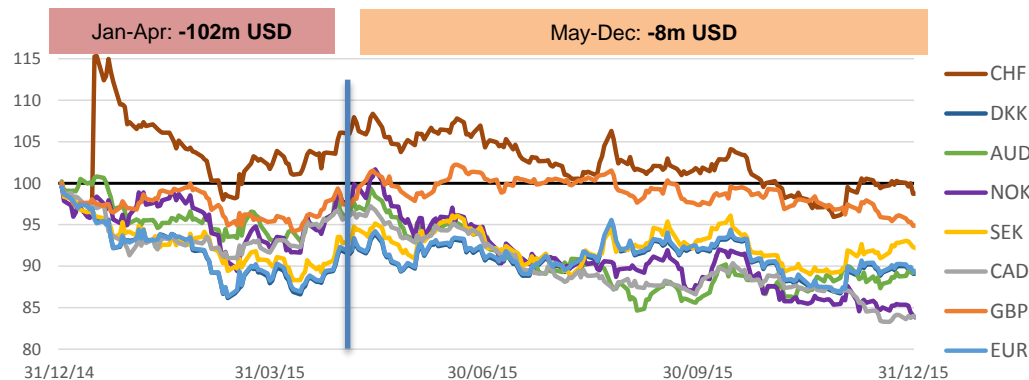
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2016: non-USD currencies relative value against USD (2015 YE rate = 100)



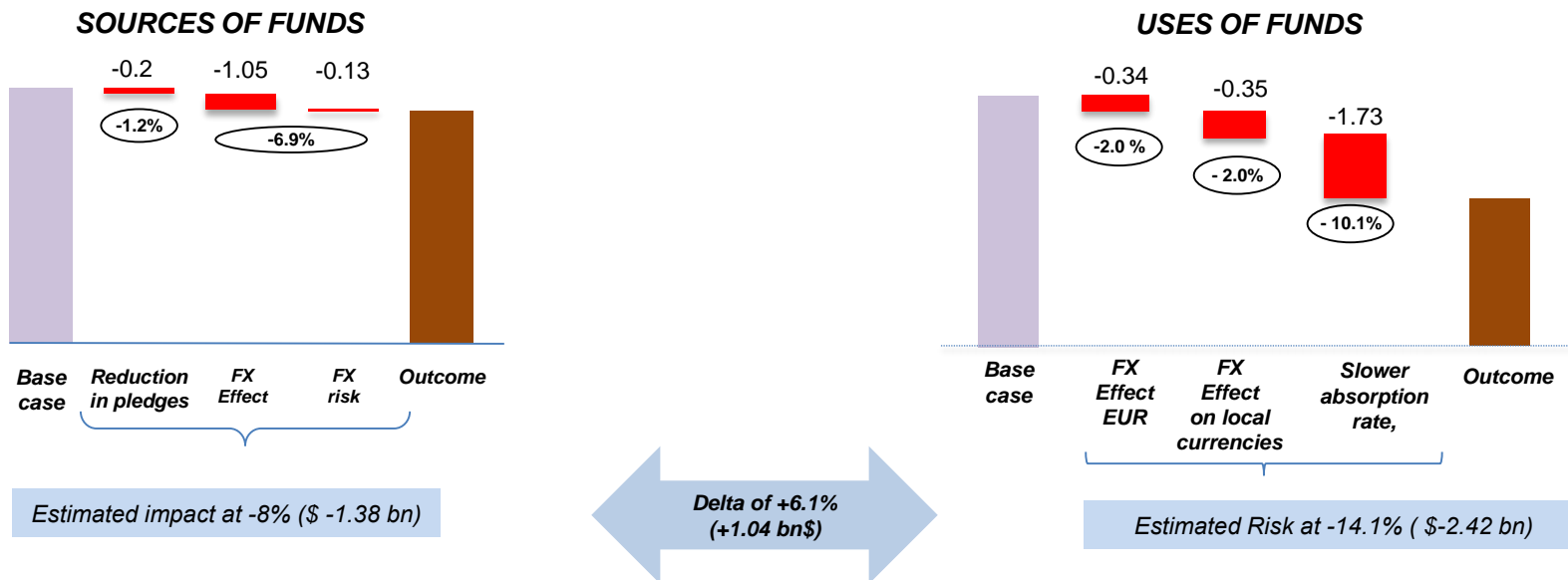
FX Update – Results for 2015 (as per financial results)

Hedging operations stabilized the FX results after April with a 55m USD gain and mitigated the financial exposure



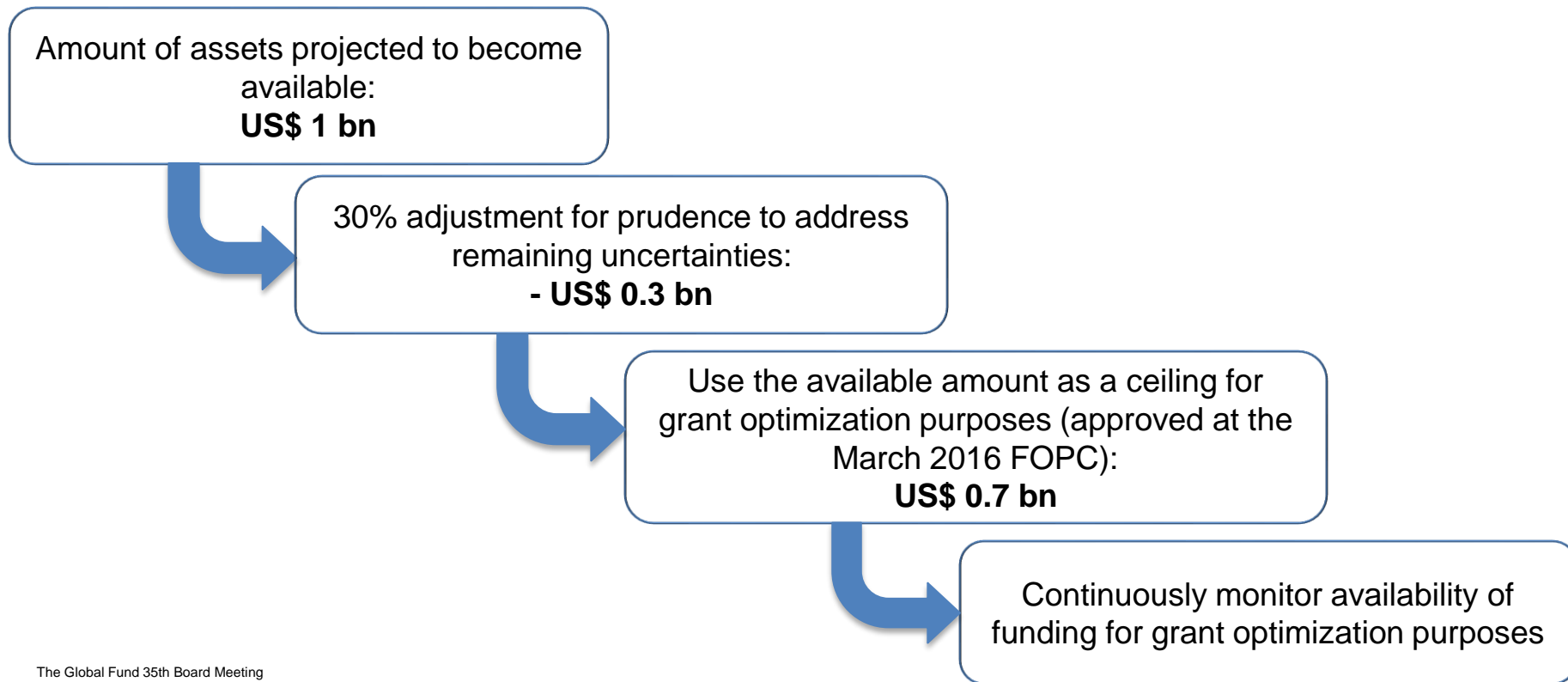
Overall positive ALM balance with sources of funds exceeding uses of funds as a basis for portfolio optimization

rounded, not to scale



- Significant influence of macroeconomic factors such as foreign exchange
- Any positive balance of funds are to be monitored for allocation through portfolio optimization

FOPC decisions and sequence to fund portfolio optimization



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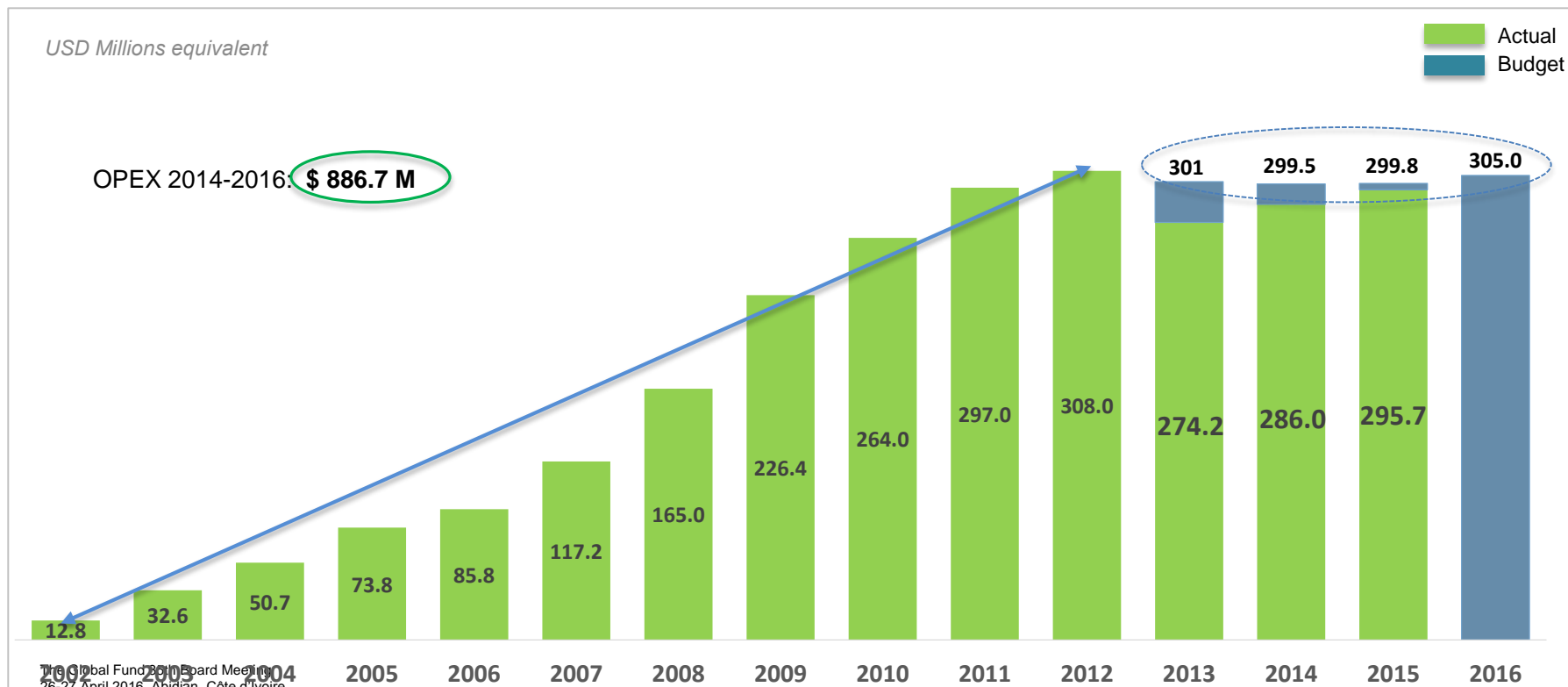
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Operating Expenditures

Development of operational expenses of the Global Fund



2015 Operating Expenditure by Nature vs Budget

In thousands equivalent USD, at budget rates

	2015		Variances	
	Actual	Budget		
LFA costs	51,355	54,000	(2,645)	(5%)
CCM Costs	9,762	9,500	262	3%
Costs Secretariat	238,194	232,663	5,531	2%
Staff	136,704	137,540	(836)	(1%)
Professional fees	45,676	38,430	7,247	19%
Travel	20,364	23,060	(2,696)	(12%)
Meetings	3,422	3,097	324	10%
Communications	1,818	1,446	371	26%
Office Infrastructure	24,877	24,114	762	3%
Board Constituency	1,027	1,000	27	3%
Depreciation	4,881	3,976	905	23%
External Co-Funding	(574)	0	(574)	
Total Opex before non-recurring	299,310	296,163	3,147	1%
Non-recurring costs	5,339	3,658	1,681	46%
Total Opex before FX impact	304,649	299,821	4,828	1.6%
FX impact	(8,964)	0	(8,964)	
Total operating costs	295,685	299,821	(4,137)	(1%)

2015 Operating Expenditure by Function vs Budget

In thousands equivalent USD, at budget rates

	2015		Variance	
	Actual	Budget		
General Management	4,568	3,919	648	17%
Office of ED/DED	4,568	3,919	648	17%
Operations	169,658	169,864	(207)	(0%)
External Relations and Partnerships Division	9,577	9,161	415	5%
Grant Management	132,908	136,779	(3,871)	(3%)
LFA	51,339	54,000	(2,661)	(5%)
CCM	9,762	9,500	262	3%
Opex	71,807	73,279	(1,472)	(2%)
Strategy Investment & Impact	27,173	23,924	3,249	14%
LFA	0	0	0	
Opex	27,173	23,924	3,249	14%
Support Functions	102,452	98,752	3,700	4%
Communications	7,972	8,555	(582)	(7%)
Human Resources	7,397	8,060	(663)	(8%)
Legal & Compliance	4,531	5,320	(789)	(15%)
Risk Management	2,269	3,899	(1,630)	(42%)
Finance, IT, Admin, Sourcing excl projects	72,583	72,918	(335)	(0%)
Wambo.org & AIM projects	7,700	0	7,700	
OIG	16,268	16,439	(171)	(1%)
Office of the Board Affairs	6,366	7,190	(824)	(11%)
Total recurring costs	299,310	296,163	3,147	1%
Non-recurring costs	5,339	3,658	1,681	46%
Total operating costs before FX impact	304,649	299,821	4,828	2%
FX impact	(8,964)	0	(8,964)	
Total operating costs	295,685	299,821	(4,137)	(1%)

Proposed decision point

Decision Point: GF/B35/DP05 : 2015 Annual Financial Report

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

Decision Point: GF/B35/DP06 :2015 Statutory Financial Statements

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