The Global Fund
2016 Annual Financial Report

The Global Fund

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MANAGEMENT REPORT

YEAR UNDER REVIEW

Over the course of 2016, the Global Fund continued to strengthen its financial management, improving policies, procedures and systems that are critically important to the implementation of core operations and that provide accurate and timely information to all stakeholders.

With 2016 being the final year of the 2014-2016 Allocation Period, clear guidance on asset and liability management and robust forecasting on sources and uses of funds was essential in order to establish the basis for determining the availability of funds for portfolio optimization and transition from one allocation period to the next. To achieve this, the Global Fund made important updates to its Comprehensive Funding Policy, the system by which it establishes the financial framework for management of *Sources and Uses of Funds.*

Grant operational procedures and systems were updated to integrate policy changes resulting from *Differentiation for Impact* and operational risk management. Our Country Teams continued to monitor in-country cash balances, our key financial drivers in making grant commitment and disbursement decisions.

This period also saw the launch of the new online procurement platform, wambo.org. This was developed to provide better visibility on prices and availability, increased transparency and improved reliability in the supply of quality-assured medical and non-health commodities. In just its first year of operations, wambo.org has processed procurement orders of over US$300 million.

The impact of the highly successful launch of the Fifth Replenishment, held in Montreal, Canada, is also considered in this report. Besides the volume of funding, the Global Fund encouraged more sovereign donors to formalize their funding support through bilateral contribution agreements which significantly enhance our ability to undertake effective cash and foreign-exchange management. The revised foreign exchange management framework expanded the Global Fund's mandate to protect not only its financial assets on the books, but also its net economic assets, from the adverse impact of foreign exchange fluctuations. The resulting impact has already reflected stable foreign exchange results in the accompanying audited financial statements.

Lastly, the Global Fund relentlessly pursued a culture of discipline and value for money in managing its operating expenditure. Over the course of 2016, we have been able to fund transformational initiatives and maintain the operating expenditure within the approved allocation. We also introduced modern budgeting practices, as part of an integrated planning cycle.

During 2016 the Global Fund appointed KPMG SA as statutory auditors for the period 2016-2018. Their audit opinion on the 2016 annual consolidated financial statements reflects the strong and steady financial position and internal controls that is expected of an international public health financing institution. In our last year in office, we are extremely pleased at the strong and mature organizational state of affairs, where the country-centric approach continuously drives implementation and impact.

Daniel Camus
Chief Financial Officer

Mark Dybul
Executive Director

LETTER FROM THE CHAIR AND VICE-CHAIR OF THE BOARD

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

The 2017-2022 Global Fund Strategy demands that we accelerate impact to end HIV, TB and malaria as epidemics, and measure impact better. This Annual Financial Report reflects an organization that has continued to enhance systems and processes to effectively direct funds toward that goal.

The Strategy was developed during a process that captured the expertise, diversity, and innovative spirit of the Global Fund Board, and integrated broader views and experience of partners.

In the past year, the Global Fund designed a refined allocation methodology which drives more funding to higher burden, lower income countries. The Secretariat also enhanced internal systems and processes to better monitor, assess and oversee Global Fund supported programs to achieve the new Strategy. We welcome an increased focus on supply chain, program quality and financial management, key areas for the Secretariat's delivery of impact.

Of particular importance is the Prioritized Action Plan to Accelerate Management for Impact (PAP), which will reinforce risk management culture over strategy implementation. Impact through Partnership is now mainstreaming lessons from Implementation through Partnership to maximize impact at country level through a country-centric approach. Project AIM is expected to deliver an integrated solution to support efficient portfolio management. Differentiation for Impact has already adapted country team work to the needs of each portfolio according to strategic priorities. Sustaining the gains and ensuring successful transition to domestic resources is proving to be challenging in countries transitioning out of the Global Fund's support.

Finally, the Global Fund's Fifth Replenishment in September 2016, where donors pledged over US$12.9 billion, is only the beginning of a three-year replenishment period. We support the Secretariat in its work to actively gain further contributions in the coming months and years, with strong advocacy by civil society and partners worldwide. From its side, the Board has to make every effort to broaden and diversify its donor base.

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

Norbert Hauser
Chair of the Board

Aida Kurtovic
Vice-Chair of the Board

KEY FINANCIAL RESULTS

Statement of activity (in millions of USD)	**2016**	**2015**	**2014**
Contributions	5,194	2,189	3,460
Grant expenditure	3,969	4,389	2,563
Operating expenses (including Provident Fund valuation)	277	298	285
Foreign exchange result, net	(4)	(110)	(292)
Financial income, net	64	17	44
Loss on actuarial valuation of employee benefits	(1)	(4)	(7)
Other OCI adjustments	(1)	(2)	-
Increase/ (decrease) in funds	**1,007**	**(2,597)**	**357**

Statement of financial position (in millions of USD)	**2016**	**2015**	**2014**
Cash and cash equivalent, including Trust Fund assets	3,828	3,069	4,403
Contributions receivable	3,407	2,881	3,172
Other assets	345	233	131
Grants payable	3,061	2,656	1,555
Other liabilities	199	214	241
Funds	**4,320**	**3,313**	**5,910**

Statement of cash flow (in millions of USD)	**2016**	**2015**	**2014**
Cash receipts from donors	4,404	2,255	3,277
Grants disbursed	(3,591)	(3,318)	(2,979)
Cash paid for other operating activities	(264)	(275)	(229)
Cash on settlement of forward contracts	146	10	-
Cash used for investing activities, before Trust Fund movements	54	2	(14)
FX gains/ (loss) on cash	10	(8)	(49)
Increase/ (decrease) in operational cash position (cash and cash equivalent and Trust Fund)	**759**	**(1,334)**	**6**
Other key information			
Grant contingent liability (in millions of USD)	3,412	5,453	4,601
Number of active grants	360	340	343
Number of employees	740	702	682

Key Performance Indicators (KPI)			PERFORMANCE	
Strategic Objective	**KPI**	**2016 Actual**	**2016 Target**	**Commentary**
Invest more strategically	Efficiency of Global Fund investment decisions	0.45	0.47 max	2016 target exceeded; 26% improvement from 2013 baseline.
	Grant portfolio performance: Funding absorption rate at annual funding decision (Annual grant expenses / Annual Grant Agreement budget)	78%	85%-100%	Absorption rates remain below target. The Impact of Implementation Through Partnership initiative established to address low absorption in country is not expected to be seen for some time yet.
Evolve the funding model	Grant expenses forecast: Corporate Expenditure Rate (CER): Proportion of forecast grant expenses made to schedule	106%	90%-110%	2016 target achieved; Continued strong performance.
Sustain the gains, mobilize resources	Pledge conversion rate- Actual Fourth Replenishment contributions as a percentage of forecast	149%	100%	149% of forecast 2016 contributions were converted in 2016; Higher than expected 2016 performance is due to large shifts of contributions from 2015 to 2016.
Strategic Enablers Enhance partnerships & Improve operations	Efficiency of grant management operations: Operating expenses as a percentage of grants under management	2.0%	2.75% max	OPEX rate has stabilized after a six year period of growth; Drop in ratio over 2015 due to an increase in the volume of grants under management.

ORGANISATIONAL BACKGROUND

1. VISION, MISSION AND STRATEGY

The Global Fund is a 21st-century organization designed to accelerate the end of AIDS, tuberculosis and malaria as epidemics.

As a partnership between governments, civil society, the private sector and people affected by the diseases, the Global Fund mobilizes and invests nearly USD 4 billion a year to support programs run by local experts in more than 140 countries. By challenging barriers and embracing innovative approaches, we are working together to better serve people affected by the diseases.

The Global Fund Strategy 2017-2022: Investing to End Epidemics

The core objectives of the Global Fund 2017-2022 Strategy are to:

- Maximize impact against HIV, TB and malaria
- Build Resilient and Sustainable Systems for Health
- Promote and Protect Human Rights and Gender Equality
- Mobilize Increased Resources

Successfully implementing the strategy depends on two additional and fundamental elements:

- Innovating and differentiating along the development continuum,
- Supporting mutually accountable partnerships.

The Global Fund Strategy 2017-2022, Investing to End Epidemics, was developed under the leadership of the Board of the Global Fund, with contributions from numerous partners and stakeholders who share common goals in global health. Over a two-year period, in 2014 and 2015, the Board's Strategy, Investment and Impact Committee led a broadly consultative process to collect the strongest ideas, perspective and guidance to formulate the Strategy.

The consultations included three regional Partnership Forums with over 300 participants from 128 countries, a 12-week consultation with over 1,200 participants from 143 countries, and dozens of focused meetings and consultations on specific aspects of the next Strategy.

The Strategy development process captured the expertise, diversity, and innovative spirit of the Global Fund Board, and integrated broader views and experience of partners.

2. LEGAL STATUS

The Global Fund is an international financing institution recognized as an international organization, initially formed as a Swiss foundation in 2002. Its status has been elaborated through an ongoing process of legal recognition by various national governments and international organizations:

- The Swiss Federal Council accorded the Global Fund international organization status, which is comparable to that of UN organizations, through the 2004 Headquarters Agreement;
- The United States of America, through an executive order in 2006, designated the Global Fund as a public international organization in accordance with the United States International Organizations Immunities Act; and
- The European Commission, through a 2014 Commission Decision, assimilated the Global Fund to the status of an international organization for the purposes of managing European Union funds.

3. CORE STRUCTURES

The Global Fund operates within the following core structures:

1. **The Board and its standing committees** – The Board is responsible for strategy, institutional governance and approving all funding decisions. It is also responsible for assessing organizational performance, overall risk management, partner engagement, resource mobilization and advocacy. It is composed of representatives from donor and implementer governments, civil society, the private sector, private foundations, and communities living with and affected by the three diseases.

The Board's three standing committees are:

- the Audit and Finance Committee (AFC);
- the Ethics and Governance Committee (EGC); and
- the Strategy Committee (SC).

These committees have Board-delegated decision-making, advisory and oversight responsibilities, outlined in their respective charters, to facilitate and oversee the Secretariat's implementation of the Board's strategy and policies. A Coordinating Group, comprised of the Chairs and Vice Chairs of the Board and its three standing committees, serves as a collaborative body to coordinate important business of the Board.

2. **The Secretariat** - The Global Fund Secretariat is responsible for the day-to-day operations of the Global Fund as stated in the By-laws. Under the leadership of the Executive Director, who is appointed by and reports to the Global Fund Board, the Secretariat manages the grant portfolio; executes Board policies; mobilizes resources; provides strategic, policy, financial, legal and administrative support; and oversees monitoring and evaluation of results. The Secretariat is based in Geneva, Switzerland and has no office or employees located outside its headquarters.

3. **The Office of the Inspector General** - The Global Fund has an Office of the Inspector General (the "OIG") that provides independent and objective assurance over the design and effectiveness of controls or processes in place to manage the key risks impacting the Global Fund's programs and operations, including the quality of such controls and processes. Under the leadership of the Inspector General, the OIG operates as an independent unit from the Secretariat, reporting to the Board through the AFC.

4. PROGRAM STRUCTURE

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

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

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

3. The Local Fund Agent (LFA) is a key external service provider responsible for monitoring and verifying in-country grant implementation and providing recommendations to the Secretariat on key decisions relating to grants. During 2016 the Global Fund started health facility and data quality assessments to further evaluate program and data quality.

2016 OPERATIONAL REVIEW

1. THE REPLENISHMENT MECHANISM

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

Fifth Replenishment Results

At the launch of the Global Fund's Fifth Replenishment, in September 2016, donors pledged over USD 12.9 billion[1] for the next three years, demonstrating extraordinary global commitment toward ending the epidemics of AIDS, tuberculosis and malaria for good.

The Replenishment Conference raised nearly USD 1 billion more than the previous replenishment conference in 2013, and benefitted from participation by leaders from countries all over the world, United Nations Secretary General Ban Ki-moon, and Bill Gates, Co-Chair of the Bill & Melinda Gates Foundation.

The amount raised will save 8 million lives, avert 300 million infections, and help build resilient and sustainable systems for health. The conference is only the beginning of a three-year replenishment period, and the Global Fund will actively work to gain further contributions in the coming months and years, with strong advocacy by civil society and partners worldwide.

All major government donors have either maintained or increased their pledges over the Fourth Replenishment period. African countries, in addition to increasing their domestic investments in health, pledged a total of USD 32 million to the Global Fund to benefit the broader work to end the epidemics globally. New African donors include Benin, Cote d'Ivoire, Senegal, Togo and Zambia. Qatar also joined the Global Fund donors with its first pledge, and Spain and New Zealand returned to the donor table. Pledges from private donors and innovative financing initiatives, in addition to the USD 600 million pledge from the Bill and Melinda Gates Foundation, reached USD 250 million for the coming three years, doubling the amount of private sector pledges from the previous period.

A majority of the public donors are signing bilateral contribution agreements with the Global Fund. During 2016, the number of donors that opted for a bilateral contribution agreement increased to 30 from 6 in 2015. This significantly enhances Secretariat's ability to perform effective cash and foreign-exchange management. By 31 December 2016, 11 contribution agreements had already been signed for the pledges made under the Fifth Replenishment.

Update on Fourth Replenishment

At 31 December 2016, the value of the Fourth Replenishment pledges reached of USD 12.4 billion. The encashment of open pledges from a few donors will continue during 2017, in line with the donor fiscal year. Pledges from a few donors include in-country technical assistance.

A detailed statement of pledges and contributions in presented further on page 18.

[1] The U.S. dollar equivalent value of pledges made in non-U.S. dollar currencies are calculated at an exchange rate based on a five-year moving average, computed on 15 September 2016 from spot rates listed on Thomson Reuters.

2. THE FUNDING MODEL

The Global Fund's allocation-based model, rolled out in 2014, aims to invest for impact by focusing resources where they are needed most.

2017-2019 Allocation

Following the successful Fifth Replenishment results achieved in September 2016, the Global Fund undertook a comprehensive and inclusive process to effectively direct the funds to eligible countries. In January 2017, the Global Fund launched its refined allocation methodology, to increase the impact of programs. The allocation methodology drives more funding to higher burden, lower income countries to maximize impact. It specifically accounts for HIV epidemics among key populations, the threat of MDR-TB, and for malaria elimination efforts. It also provides sustainable and paced reductions where funding is decreasing.

Country programs receiving increases from their 2014-2016 funding levels have allocations 15 percent higher on average than current and projected levels of spending. More funding is directed towards country programs with severe and extreme burdens of HIV, TB and malaria, towards sub-Saharan Africa, towards countries with high HIV infection rates in women and girls, countries with a high burden of multi-drug-resistant tuberculosis and to the top 15 high burden malaria countries.

The total amount of funds currently available for the 2017-2019 allocation period is USD 11.1 billion. That includes USD 10.3 billion for country allocations and USD 800 million for catalytic investments. Total available funding could increase over the coming years, as additional contributions are made to the Global Fund.

Update on 2014-2016 Allocation

As at 31 December 2016, the overall status on 2014-2016 allocation period is as follows:

- The Technical Review Panel (TRP) and the Secretariat's Grant Approvals Committee (GAC) have reviewed USD 14.7 billion of allocation funds for grant-making, representing 100 percent of allocation funding. This amount included both existing funds as well as incremental funds.
- The GAC has awarded USD 935 million in incentive funding.[2]
- USD 2.9 billion has been listed on the Register of Unfunded Quality Demand.[3]
- The Board has approved 396 grants.[4]

During 2016 there was one final submission window, in which 7 new country concept notes were submitted for the TRP and GAC review, that later approved all these concept notes for grant-making. The Board approved 133 country and regional grants in 2016 representing USD 2.4 billion of allocation funding. These grants originated from concept notes submitted during 2014-2016. Due to the need for program continuity, 49 grant extensions were also reviewed and approved in 2016, representing USD 268 million of allocation funding. Of this, 137 million was incremental funding, the rest were non-costed extensions using existing funding.

[2] Incentive funding awarded by the GAC is listed on the incentive funding page.
[3] The register is available for download on the Register of Unfunded Quality Demand page.
[4] All grants approved under the allocation model are listed on the funding decision page.

3. PRIORITIZED ACTION PLAN TO ACCELERATE MANAGEMENT FOR IMPACT

During 2016 the Global Fund developed a comprehensive *Prioritized Action Plan to Accelerate Management for Impact* (PAP), to help the Secretariat and the Board monitor, assess and oversee in real time the implementation of the Global Fund's strategy to achieve the best possible impact with the investments.

The Prioritized Action Plan reinforces a risk management culture by prioritizing initiatives and actions that will enhance mitigation of identified risks in supply chain, program quality and financial management in the Secretariat's delivery for impact. It further strengthens core internal control principles, consistency, accountability and responsibility as key drivers to effective risk management in decision-making. The Prioritized Action Plan presents a holistic view of interconnected initiatives at the Global Fund and supports implementation of strategy and guides operational excellence.

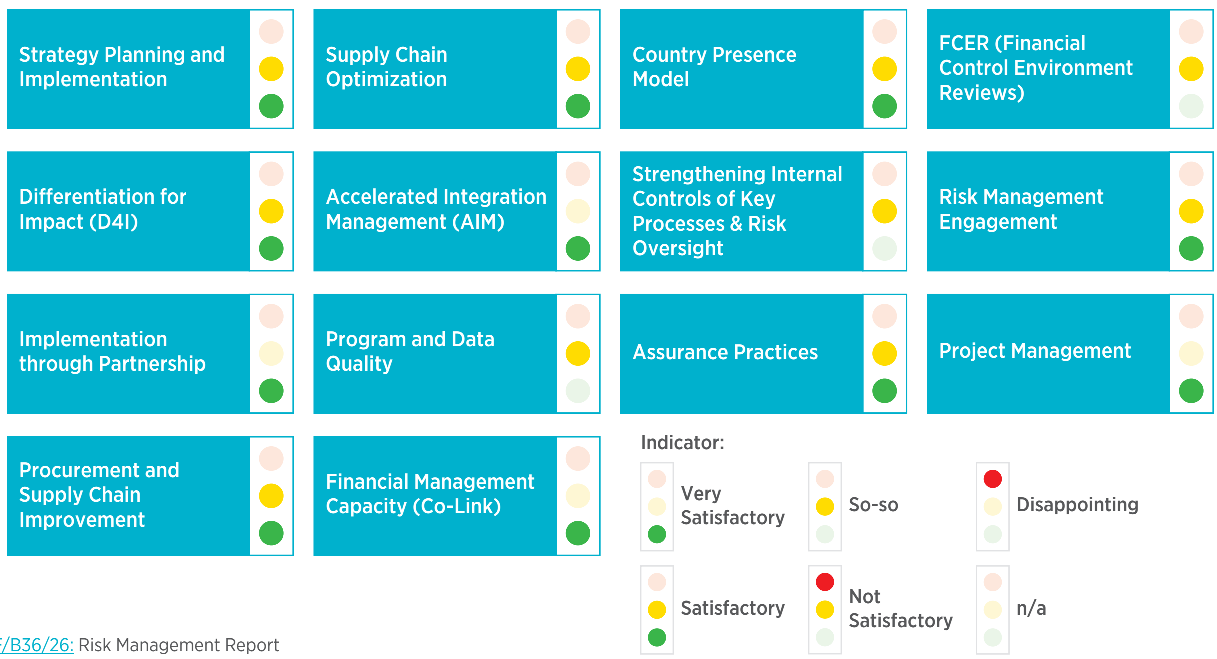
The result of Prioritized Action Plan initiatives will help to accelerate improvement in the maturity level of the Global Fund by 2018. The following figure (Figure 1) provides the trajectory and overall status of Prioritized Action Plan actions:

Besides these projects strengthening risk management has received intense focus as a key foundation for impact. As risk management is further strengthened, it provides a more solid basis for portfolio management and impact. The Prioritized Action Plan (PAP) is a key part of risk management. The PAP helps the entire Global Fund deeply embed risk and an impact-oriented culture throughout our work. A detailed progress report on Risk Management[5] was presented to the Board at its 36th meeting.

Differentiation for Impact

During 2016 *Differentiation for Impact* was successfully delivered and provided the Secretariat with a Differentiation Framework that adapts country team work to the needs of each portfolio according to strategic priorities and define the appropriate allocation of effort and resources. The operational guidance for applying the differentiated grant implementation approach and other related simplification initiatives were rolled out following extensive training and essential guidance to the country teams.

FIGURE 1:
Overview of PAP summary status



5 GF/B36/26: Risk Management Report

Focus on Impact: Improving Program Quality and Efficiency

Implementation through Partnership came to close at the end of 2016 following a year of intense focus on addressing implementation bottlenecks. The project now transforms into Impact through Partnership which aims at mainstreaming lessons from Implementation through Partnership into an enhanced way of working with the partners in order to sustain the gains and leverage their technical, financial and political strengths, shifting also Secretariat's internal processes to maximize impact.

The overall aim is to maximize impact at country level through a country-centric partnership approach. We will work through existing partnership mechanisms so that the best-placed partners in each country maximally leverage their strengths for an impact that is greater together than a sum of each part, including their political advocacy with leadership and key decision makers to improve program quality and outcomes.

Accelerated Integration Management

The Secretariat launched the Accelerated Integration Management (AIM) project in September 2015 to transform the grant management processes and systems. Following a Foundation Phase in Q4 of 2015, the implementation phase was launched in the first half of 2016. To accelerate progress towards impact, it is essential to operate with up-to-date and robust portfolio data, aligned business processes and integrated systems to support them. AIM is expected to deliver an integrated solution to support efficient portfolio management and enhance program performance for impact.

Supply Chain Improvements

During 2016 the Global Fund established a Supply Chain department within the Grant Management division that aims to provide national supply chain capabilities and capacity to implementing countries. The department will include three specialized teams: strategy design; tactical team; and MAP (metrics, analysis and performance). The Supply Chain Strategy development process started in October 2016 and is planned for completion at the end of June 2017.

4. ETHICS FUNCTION

During 2016 the accountabilities for ethics were consolidated into an Ethics Office, and a full time Ethics Officer was appointed to lead the function. With a dual reporting line to both the Board, through the Ethics and Governance Committee, and to the Executive Director, the mandate of the Ethics Officer is to promote conduct in line with ethical values, monitor implementation and respond to potential ethical misconduct. The Ethics Officer's responsibilities span governance, the Secretariat and operations.

5. LOOKING FORWARD

Overall, the Global Fund partnership is investing vigorously to build resilient and sustainable systems for health that can support the world in responding not only to AIDS, TB and malaria, but to many other diseases and emerging health threats as well. We have a reorientation to flexible and innovative approaches to challenging operating environments and playing a role in responding to crisis situations. We are keeping a strong focus on reaching marginalized people in society and will continue to invest strongly in universal health coverage. Working with partners, governments and civil society, we strive to see that no one is left behind. In essence, we are evolving to embrace the vision of the Sustainable Development Goals.

Over the 15 years since its foundation, the Global Fund has refined how it measures impact and uses the data to drive better investments to achieve the best possible performance. At the centre of the Global Fund partnership are the people we serve, and therefore our collective effort to support the communities and countries in which they live to achieve maximum impact.

The new 6-year Strategy also demands that we accelerate impact and to measure it better. We continue to enhance systems and processes to ensure the resources from the Fifth Replenishment put us on the path to achieve the goals of the new Strategy and complement the Global Fund's contribution to the Sustainable Development Goals.

2016 FINANCIAL REVIEW

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

1. Donor pledges and contribution agreements;
2. Treasury management;
3. Grant liabilities;
4. Operating costs of the Global Fund; and
5. The Global Fund Provident Fund.

1. DONOR PLEDGES AND CONTRIBUTION AGREEMENTS

During the financial year ended 31 December 2016 the Global Fund recognized USD 5,194 million in contribution income (2015: USD 2,189 million), net of present value discounting of USD 37 million (2015: USD 31 million). While the contribution from sovereign donors continued to be the lead source of revenue at 93 percent (2015: 98 percent), the contributions from international foundations increased to USD 289 million (2015: USD 16 million). This represents 6 percent of total contribution income (2015: 1 percent). The remaining 1 percent is made up of contributions from corporations, Product (RED) and international not-for-profit organizations.

During 2016 the Global Fund raised USD 5,231 million as gross revenue from donor contributions, before present value discounting. Of which, 55 percent - USD 2,907 million was against the settlement of open pledges under the Fourth Replenishment including key donors like the United States (USD 1,818 million), France (USD 304 million), Japan (USD 179 million) and the Bill and Melinda Gates Foundation (USD 184 million).

The remaining 45 percent- USD 2,324 million was recognized for the new contribution agreements signed towards the Fifth Replenishment pledges. This included donors like the United Kingdom (USD 1,217 million), Germany (USD 672 million), Sweden (USD 271 million) and the Bill and Melinda Gates Foundation (USD 100 million). New donors like India, Kenya and Qatar also signed unconditional contribution agreements for the full value of their pledges made at the Fifth Replenishment conference. The preferred mode of contributions continues to be cash pledges paid through signed contribution agreements including multi-year payment schedules. An increasing number of donors opted for bilateral contribution agreements which extend greater flexibility in cash and foreign exchange management.

During 2016 contribution receipts amounted to USD 4,404 million (2015: USD 2,255 million). The increase in cash receipts was driven by the encashment of last tranche of contributions due under donor agreements for the Fourth Replenishment pledges.

As at 31 December 2016 total contributions received for the Fourth Replenishment 2014-2016 amounted to USD 9.8 billion (2015: USD 6.4 billion).

Statement of Pledges and Contributions for the Replenishment Period 2014- 2016
As at 31 December 2016

In thousands of donor source currency

The Statement of Pledges & Contributions measures the value of contributions received against the pledges made by the donors at each Replenishment Conference. When measured in equivalent US dollars,[6] the total value of the pledges, including additional pledges announced after the Fourth Replenishment Conference, made under the Fourth Replenishment period stands at USD 12.4 billion.

At 31 December 2016 USD 9.8 billion has been received in cash and other financial instruments deposited with the Global Fund. This reflects the actual cash realized at the prevailing spot rate. A few donors will continue to encash their open pledges during 2017, in line with their respective financial year.

**A portion of the pledge is reserved for technical assistance and paid in-country directly by the donor.*

A. Contributions for the current Replenishment Period 2014-2016

Donors	Currency	Pledges (Announced)	Donor source currency Total Contributions received	Contributions received in 2016
A.1 Governements				
Australia	AUD	200,000	195,000	91,000
Belgium	EUR	57,000	57,000	19,000
Canada	CAD	650,000	650,000	216,667
China	USD	15,000	15,000	5,000
Denmark	DKK	315,000	315,000	50,000
Estonia	EUR	3	3	-
European Commission	EUR	370,000	344,000	242,106
France	EUR	1,080,000	926,685	290,685
Germany	EUR	665,000	665,000	210,000
Iceland	USD	50	50	-
India	USD	13,500	13,500	4,500
Ireland	EUR	30,000	30,000	10,000
Italy	EUR	100,000	100,000	40,000
Japan	USD	800,000	658,495	179,237
Kenya	USD	2,000	2,000	-
Korea (Republic of)	USD	12,000	11,536	3,745
Kuwait	USD	1,500	1,000	500
Liechtenstein	CHF	300	300	100
Luxembourg	EUR	8,000	8,000	2,500
Malawi	USD	500	-	-
Namibia	USD	1,000	1,000	-
Netherlands	EUR	185,000	179,300	53,000
Nigeria	USD	30,000	-	-
Norway	NOK	1,700,000	1,700,000	600,000
Portugal	EUR	100	100	50
Saudi Arabia	USD	25,000	25,000	8,000
South Africa	USD	1,500	-	-
Sweden	SEK	2,500,000	2,500,000	850,000
Switzerland	CHF	60,000	60,000	20,000
Thailand	USD	4,500	4,500	211
United Kingdom	GBP	1,000,000	800,000	-
United States	USD	4,107,000	3,370,158	1,818,282
Zimbabwe	USD	1,000	1,000	-
Côte d'Ivoire (D2H Germany)	EUR	4,740	4,740	1,580
Indonesia (D2H Australia)	AUD	23,149	23,149	8,791
A.2 Private Foundations				
Gates Foundation	USD	500,000	498,700	198,700
Children Investment Fund Foundation	USD	10,000	6,160	-
Comic Relief	GBP	8,000	2,800	-
Comic Relief	USD	8,900	2,625	-
MAC Aids Fund	USD	2,000	2,000	-
Tahir Foundation	USD	39,000	9,970	4,025
Takeda Pharmaceutical	JPY	277,500	277,500	92,500
A.3 Corporations				
BHP Billiton Sustainable Communities	USD	10,000	10,000	-
Vale International	USD	3,000	3,000	-
Chevron Corporation	USD	5,000	5,000	-
Ecobank	USD	3,000	750	250
Others	USD	20	20	-
A.4 Others				
LMI (Lutheran Malaria Initiative)	USD	144	144	-
United Methodist Church	USD	19,900	13,667	1,924
UNF Donors (non RED)	USD	776	776	253
RED	USD	100,000	100,000	12,382
Others	USD	5,000	3,424	3,124
A.5 Affordable medicines facilities- malaria (AMFm)				
United Kingdom	GBP	64,000	64,000	-

[6] At the replenishment rate for each donor currency.

2. TREASURY MANAGEMENT

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

Amended and Restated Comprehensive Funding Policy

During 2016, the Board approved the following revisions to the Amended and Restated Comprehensive Funding Policy ("Amended CFP") based on implementation experience gained during the 2014 – 2016 allocation period, as well as the refined allocation methodology adopted by the Board in April 2016:

i. Alignment of terminology and concepts with the allocation methodology adopted by the Board in April 2016.

ii. Incorporation of the mechanism for portfolio optimization, including clarification that during an allocation period, the availability of funds to re-optimize the portfolio may arise due to:

   a. Additional pledges and contributions by donors;

   b. Actual unutilized funds remaining at the end of grants from a previous allocation period; or

   c. Forecasted unutilized funds from grants arising from the current allocation period.

iii. Clarifying that the announced replenishment results are derived from a methodology that the Secretariat determines and shares with the Audit and Finance Committee for approval prior to its application, and including foreign-exchange among the existing adjustments that may be necessary to derive sources of funds for an allocation period.

iv. Updating the methodology for determining sources of funds for allocation, in particular when moving from one allocation period to the next to correspond with portfolio optimization principles under the asset and liability management framework, by clarifying both actual and forecasted unutilized funds from a prior allocation period may be included in the sources of funds for allocation for a subsequent allocation period.

At the end of 2016 the Global Fund had on hand sufficient confirmed financial resources to meet its funding commitments. Moreover, for the purpose of monitoring asset and liability management and as approved by its governance bodies, the Global Fund takes into account adjusted donor pledges and contribution agreements that are not included in financial statements, the latter being prepared based on applicable and prudent accounting rules. The Global Fund uses all announced gross donor pledges as a starting point for such an assessment. The Global Fund Secretariat monitors and reports to the Board and the Audit and Finance Committee on a regular basis on the three above-mentioned topics and in general on the implementation status of the Amended CFP.

Investment Management

The World Bank acting as the trustee of the Global Fund manages investments as per the investment framework. The investment framework provides clear guidance for the Trustee as it manages the investment procedures and practices. Under this framework, the Secretariat plays a key role in the strategic asset allocation with the strong executional support of the Trustee.

At 31 December 2016, the Global Fund Trust Fund investment balance pool was valued at USD 3,319 million (2015: USD 2,540 million), returned 2.29 percent (2015: 0.52 percent) as the annual rate of return. In absolute terms, the Trustee reported USD 64 million (2015: USD 17 million) as the net investment income on Trust Fund. The increase in the investment income reflects the dynamic market conditions during 2016 and on an average higher asset base held in Trust Fund.

As part of the investment framework managed by the Trustee, the Global Fund has two trust fund tranches (tranche 0 for operational cash and tranche 5 for medium-term investments). The Global Fund also requested the Trustee to invest USD 251 million in equities (2015: USD 103 million) with the aim of further diversifying the investment portfolio and therefore achieving a better risk and return profile. The annual rate of return on the equity portfolio increased from 3.95 percent in 2015 to 9.91 percent in 2016.

Foreign Exchange Management

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

During 2016, new foreign exchange banking contracts were signed with banks to maintain a diversified portfolio of foreign exchange management contracts. This enables the Global Fund to have a broader banking portfolio to trade foreign exchange with and to diversify its counterparty related risk.

Furthermore the Audit and Finance Committee approved the new Global FX Management Framework (GF/AFC01/06) which introduced a dynamic risk limit based on hedging on and off-balance sheet items. The policy stipulated the use of *Value-at-Risk* to measure risk and hedging on a portfolio hedging. The approval of this foreign exchange management policy enabled the Secretariat to perform necessary hedging activities for and following the Fifth Replenishment Conference. To note that the new policy did not change the accounting treatment of foreign exchange which now requires a distinction between on and off balance sheet foreign exchange effect for a fair and true view of the results.

For the year ended 31 December 2016, a net foreign exchange loss of USD 4 million (2015: USD 110 million) was reported on net non-USD hedgeable positions. The net hedgeable positions were carefully determined taking into account economic and financial exposures, adjusted for appropriate risks. Foreign exchange losses before hedging amounted to USD 210 million (2015: USD 165 million) which was compensated by USD 206 million (2015: USD 55 million) in fair valuation gains recorded on derivative financial instruments.

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

3. GRANT LIABILITIES

The Global Fund grant expenditure of USD 3,969 million (2015: USD 4,389 million) during 2016 included:

- USD 3,923 million as grant commitments to Principal Recipients for in-country and pooled procurement mechanism (PPM) activities (2015: USD 4,327 million);
- USD 32 million as Private Sector Co-payments, formerly known as the Affordable Medicines Facility – malaria (2015: USD 45 million); and
- USD 14 million as Special Initiatives project expenses (2015: USD 17 million).

During 2016 the Secretariat made new grant commitments for USD 3,923 million, 9 percent lower than the grant commitments made during 2015. USD 3,518 million was disbursed to implementers during 2016 (2015: USD 3,318 million). This represents an increase of 6 percent.

2016 was a key implementation year as the final grants for the 2014-2016 allocation period went through grant making and were approved by the Board. This increased focus on implementation resulted in the increase in disbursements compared to 2015 as well as the decrease in grant expenses as a smaller number of grants were making their first commitment in 2016.

In line with this focus on implementation in 2016, the value of contingent liabilities has decreased from USD 5,453 million as at 31 December 2015 to USD 3,412 million as at 31 December 2016, a decrease of 37 percent.

Included in the financial results for grant activities is Special Initiatives funding. USD 100 million was approved for this category by the Board in March 2014. As at 31 December 2016, USD 82.2 million (2015: USD 55.6 million) was utilized for the qualifying Special Initiatives projects. Of which, USD 35.1 million (2015: USD 22.4 million) was applied through grants and the remaining USD 47.1 million (2015: USD 33.2 million) was spent through partnership or other agreements. In addition firm commitments for USD 8 million is scheduled to be spent during 2017. The remaining unspent balance of USD 9.8 million is being released back to the unrestricted allocation pool.

The following table provides the status of Special Initiatives as at 31 December 2016:

Special Initiatives (In millions of USD)	**Approved by the Board For allocation period 2014-2016**	**Total Utilised As at 31.12.2016**
Applied through grants		
Humanitarian Emergency Fund	30.0	21.3
In-country Data Systems	17.0	13.6
Principal Recipient Capacity Building	0.5	-
Value for Money	0.2	0.2
Total: Applied through grants	**47.7**	**35.1**
Applied through project partners		
Technical Assistance for Strong Concept Notes	29.0	28.9
Technical Assistance on Community, Rights and Gender	15.0	10.4
In-country Data Systems	-	1.6
Value for Money	8.3	6.2
Total: Applied through partners	**52.3**	**47.1**
Total: Special Initiatives	**100.0**	**82.2**

Grants under recovery

The Global Fund continues to improve the on-going efforts of monitoring and recovering ineligible expenditure of grant funds identified under OIG audits and investigations. Turnaround times for new cases continue to improve compared to legacy cases from pre-2014. The improvement with respect to legacy cases reflects the more rigorous approach to recoveries referred to in previous reports, and the Global Fund is seeing considerable benefits.

During 2016 the Secretariat continued to improve the process to centrally identify and report on confirmed ineligible expenditures that arise in the ordinary course of grant management. Until 2015, the Global Fund only reported recoverable amounts that derived primarily from OIG reports but now reports both OIG-identified amounts and amounts identified in the ordinary course of grant management. As a result the grants under recovery increased from USD 31 million as at 31 December 2015 to USD 71 million as at 31 December 2016. The 2016 results include USD 34 million of recoverable amounts identified from the OIG reports and USD 37 million from non-OIG sources. Included in the non-OIG recoverable amount is USD 27 million of Global Fund grant-funded commodities destroyed in a fire incident at a Central Medical Stores facility. The recovery in this case is being pursued through sustainable supply-chain investments by the government.

4. OPERATING COSTS OF THE GLOBAL FUND

The Global Fund has continued to closely monitor its operating expenses whilst enabling the implementation of its key strategic initiatives. Foreign exchange impact on operating costs need to be isolated as they are now managed centrally as part of treasury management. 2016 operating expenses of USD 288 million at budget rate, or USD 281 million at spot rate (2015: USD 296 million), with a positive foreign exchange gain of USD 7 million. The decrease in 2016 was mainly driven by lower expenditure on professional services and underspend on travel. Additional underspend was reported on costs for Local Fund Agents fees due to delays in implementation of health facility assessment and streamlined level of effort for differentiated countries.

Operating costs as a percentage of Total Expenditure increased to 6.6 percent in 2016 (2015: 6.3 percent) driven by a 10 percent decrease in grant expenditure over 2015.

For the year 2017, the Board has approved an annual operating cost budget of USD 300 million. Based on the 2017 budget, an envelope of USD 600 million is projected to be available for 2018-19, with the aim to remain within the approved allocation for operating expenses of USD 900 million over the 2017–2019 period.

5. THE GLOBAL FUND PROVIDENT FUND

The Global Fund maintains a Provident Fund scheme for the benefit of its employees. The Provident Fund is administered in Swiss Francs (CHF) consistent with other employee remuneration. As at 31 December 2016, when measured in CHF, the Provident Fund assets fully cover the underlying employee benefit liability.

For the purposes of the consolidated financial statements, the Provident Fund assets are translated into USD. The Provident Fund qualifies as a defined benefit obligation under IAS-19 Employee Benefits and accordingly is subject to an annual actuarial valuation. Following the technical valuation by an external actuary, the net employee benefit obligation was valued at USD 132 million (2015: USD 118 million). This obligation is composed of USD 128 million (2015: USD 112 million) towards the actual liability for Provident Fund employee benefit reserves and USD 4 million (2015: USD 6 million) as the actuarial reserve for defined benefit obligation.

As at 31 December 2016, the Provident Fund asset base was USD 128 million (2015: USD 112 million) which included USD 109 million (2015: USD 101 million) of Provident Fund investments measured at fair value and USD 19 million (2015: USD 11 million) in cash and cash equivalents. These assets are held and invested solely for funding future employee benefits under the Provident Fund constitution. During 2016, USD 4 million was reported as fair valuation gains for Provident Fund investments.

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. KPMG SA were appointed as the statutory auditors by the Global Fund Board upon the recommendation of the former 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 organizational structure providing division of responsibilities, careful selection and training of qualified personnel, and a program of external reviews.

The Global Fund Board, through its Audit and Finance Committee (preceded by the Audit and Ethics Committee), meets periodically with the Secretariat and KPMG SA to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting.

These consolidated financial statements were approved by the Board on 03 May 2017.

REPORT OF THE INDEPENDENT AUDITOR

with consolidated financial statements at 31 December 2016 of The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier

KPMG

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

Independent Auditor's Report to the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria on the Consolidated Financial Statements as at 31 December 2016

KPMG SA
Geneva, 03 May 2017
Ref. PHP/HMW

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Independent Auditor's Report to the Board of
The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund"), which comprise the consolidated statement of financial position as at 31 December 2016, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in funds and consolidated statement of cash flows for the year ended 31 December 2016 and explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Global Fund as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended 31 December 2016 in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Global Fund in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter
The consolidated financial statements of the Global Fund for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 27 April 2016.

Other information in the Annual Report
The Global Fund Board is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Global Fund and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Global Fund Board and Secretariat for the Consolidated Financial Statements
The Global Fund Board and Secretariat are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Global Fund Board and the Secretariat are responsible for assessing the Global Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier
Independent Auditor's Report to the Board
on the Consolidated Financial Statements 2016

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 Global Fund's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Global Fund Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Global Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Global Fund to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Global Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Global Fund audit. We remain solely responsible for our audit opinion.

We communicate with the Global Fund Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements
In accordance with article 728a para. 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 consolidated financial statements according to the instructions of the Global Fund Board.

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

KPMG SA

Pierre-Henri Pingeon
Licensed Audit Expert
Auditor in Charge

Henri Mwaniki

Geneva, 03 May 2017

Enclosure:
- Consolidated financial statements, which comprise the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in funds, consolidated statement of cash flows and notes to the consolidated financial statements

Consolidated statement of income
for the year ended 31 December

USD millions	Notes	2016	2015
Income			
Contributions	4.1	5,194	2,189
Expenditure			
Grants	3.2	(3,969)	(4,389)
Operating expenses	6.1	(277)	(298)
		(4,246)	**(4,687)**
Net operating (loss) / income		**948**	**(2,498)**
Foreign exchange result, net	5.7	(4)	(110)
Financial income, net	5.8	64	17
Increase/ (decrease) in funds		**1,008**	**(2,591)**

Consolidated statement of comprehensive income
for the year ended 31 December

USD millions	Notes	2016	2015
Increase/ (decrease) in funds		1,008	(2,591)
Other comprehensive income			
Re-measurement (losses) on defined benefit plan that will not be reclassified to the statement of income	6.3	(1)	(6)
Total comprehensive income/ (loss) for the year		**1,007**	**(2,597)**

Consolidated statement of financial position
At 31 December

USD millions	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	5.1	509	529
Trust Fund	5.2	3,319	2,540
Contributions receivable	4.2	1,465	1,532
Advances for pooled procurement mechanism	3.4	41	41
Other receivables	3.3, 4.2	79	35
Derivative financial instruments at fair value	5.6	105	45
		5,518	**4,722**
Non-current assets			
Contributions receivable	4.2	1,942	1,349
Provident Fund investments	5.3	109	101
Tangible and intangible assets		10	11
		2,061	**1,461**
Total assets		**7,579**	**6,183**
Liabilities			
Current liabilities			
Grants payable	3.3	3,061	2,656
Other current liabilities	6.4	66	96
		3,127	**2,752**
Non-current liabilities			
Employee benefit liabilities	6.3	132	118
Total liabilities		**3,259**	**2,870**
Funds			
Temporarily restricted funds	7.3	10	19
Unrestricted funds	7.3	4,310	3,294
Total funds		**4,320**	**3,313**
Total liabilities and funds		**7,579**	**6,183**

Consolidated statement of cash flows
for the year ended 31 December

USD millions	Notes	2016	2015
Operating activities			
Cash received from donors	4	4,404	2,255
Grant disbursements		(3,591)	(3,318)
Payments for operating expenses		(264)	(275)
Cash realized on forward contracts settlements		146	10
Net cash flow from operating activities		**695**	**(1,328)**
Investing activities			
Financial income received, net		66	17
Purchase of Provident Fund investments		(6)	(28)
Proceeds from sale of Provident Fund investments		-	19
Purchase of tangible and intangible assets		(6)	(6)
Net cash flow from investing activities before Trust Fund movements		**54**	**2**
Net cash rebalancing between commercial banks and Trust Fund		(779)	1,804
Net cash flow from investing activities		**(725)**	**1,806**
Net (decrease)/ increase in cash and cash equivalents		(30)	478
Cash and cash equivalents			
- at beginning of the year	5.1	529	59
Effect of exchange rate changes commercial banks and Trust Fund		10	(8)
- at end of the year	**5.1**	**509**	**529**

In addition to the cash and cash equivalents reported in the Statement of cashflow presented above, the Global Fund considers Trust Fund as an integral part of the cash management of for its core operations. The following table provides an overall operational cash management position:

As at 31 December

USD millions	Notes	2016	2015
Amounts held in commercial banks	5.1	509	529
Amounts held in Trust Fund	5.2	3,319	2,540
Total Operational cash balance		**3,828**	**3,069**

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

USD millions	Foundation capital[1]	Temporarily restricted funds	Unrestricted funds	Total
As at 1 January 2015	**-**	**14**	**5,896**	**5,910**
(Decrease) / increase in funds for the period	-	**5**	(2,596)	**(2,591)**
Other comprehensive loss	-	**-**	(6)	**(6)**
At 31 December 2015	**-**	**19**	**3,294**	**3,313**
As at 1 January 2016	**-**	**19**	**3,294**	**3,313**
(Decrease) / increase in funds for the period	-	**(9)**	1,017	**1,008**
Other comprehensive loss	-	**-**	(1)	**(1)**
At 31 December 2016	**-**	**10**	**4,310**	**4,320**

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

EXPLANATORY NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The Global Fund presents its consolidated financial statements to include the follow key financial statements:

1- Consolidated statement of financial position;

2- Consolidated statement of income;

3- Consolidated statement of comprehensive income;

4- Consolidated statement of cash flow; and

5- Consolidated statement of changes in funds.

Effective 2015, following the International Accounting Standards Board's ("IASB") "Disclosure Initiative", the disclosure content in the financial statements and in particular the notes to the consolidated financial statements is carefully selected to increase focus on the net financial results of what drives the Global Fund's performance. Accordingly a few financial positions have been regrouped to enhance content disclosure. The financial statements have been supported by detailed notes grouped into seven sections that provide a granular view of core activities of the Global Fund.

The presentation of the statement of cash flows has been revised to present the funds held in the Trust Fund as separate from the cash held within the commercial banks, and included as part of investing activities. This presentation is consistent with the classification of the Trust Fund in the statement of financial position as a financial instrument fair valued through the statement of income. Comparative information has been re-presented accordingly.

With the intent to enhance readability and understanding, each section presents the financial information and material accounting policies that are relevant to understanding the activities and accounting principles of the Global Fund.

The accompanying notes are an integral part of these consolidated financial statements.

Index to notes to the consolidated financial statements

Section 1: Activities and organisation

The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund") is an international financing institution recognized as an international organization that fights HIV/AIDS, tuberculosis and malaria with a 21st century approach applying four core principles: country ownership, partnership, transparency and performance-based funding.

The Global Fund has been accorded the status of an international organization pursuant to its Headquarters Agreement with the Swiss Federal Council, prior to which it registered as an independent, not-for-profit foundation under the laws of Switzerland on 22 January 2002. Its headquarters is in Geneva, Switzerland. The registered address is 8, Chemin de Blandonnet, 1214 Vernier, Switzerland. Foundations are subject to monitoring by the Swiss Federal Supervisory Board for Foundations.

Section 2: Basis of reporting

Statement of compliance

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

Currently, IFRS does not contain specific guidelines for not-for-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 not-for-profit sector, accounting policies have been based on IFRS dealing with similar and related issues or the general IFRS principles, as detailed in the Conceptual Framework for Financial Reporting.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities which are measured at fair value, as explained in the respective sections of the foot note disclosures. For such items that are subject to measurement at fair value, the inputs and fair valuation techniques are described in the respective notes in the consolidated financial statements. Unless otherwise stipulated in the respective notes, these financial assets and liabilities are classified as Level 2.

These consolidated financial statements were approved by the Global Fund Board on 03 May 2017.

Functional and presentation currency

The consolidated financial statements are presented in United States dollars ("USD"), the Global Fund's functional currency, and rounded to the nearest million, unless otherwise stipulated.

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

Basis of consolidation

The consolidated financial statements of the Global Fund cover the activities of the Global Fund in Switzerland and the U.S. Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "US Fund"). The US Fund, which is incorporated in the United States and qualifies for federal tax-exemption under Section 501(c)(3) of the Internal Revenue Code, has the mission of encouraging individuals, corporations and charitable entities to provide support for the mission of the Global Fund. Taking into consideration the activities, decision-making processes, benefits and related risks associated with the US Fund, the Global Fund concluded that, in substance, the US Fund should be consolidated. The Global Fund does not consolidate any other entity. The Provident Fund does not have a separate legal personality from the Global Fund. It enjoys the same privileges and immunities accorded to the Global Fund under (i) the Headquarters Agreement between the Global Fund and the Swiss Federal Council dated 13 December 2004; (ii) any national laws including but not limited to the United States International Organizations Immunities Act (22 United States Code 288 et seq); and (iii) international laws, including customary international law, conventions, treaties and agreements

Significant management judgments, estimates and assumptions

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

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

Changes in accounting policies and disclosures

The Global Fund has adopted all new or amended IFRS standards and interpretations which are effective for the financial year ended 31 December 2016. The implementation of the new or amended standards has not had any material impact on the Global Fund's consolidated financial statements.

Standards issued but not yet effective

The IASB has issued a number of new and amended IFRS standards and interpretations, which are not yet effective for the financial year ended 31 December 2016.

- *IFRS 15 "Revenue from Contracts with Customers"*- effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- *IFRS 16 "Leases"* effective for annual periods beginning on or after 1 January 2019; and
- *IFRS 9 "Financial Instruments"* effective for annual periods beginning on or after 1 January 2018.

The Global Fund has undertaken an initial assessment of the potential impact of the adoption of these changes on its consolidated financial statements. Given the nature of Global Fund operations and the underlying financial activities, there is no significant impact on its financial statements. The Global Fund has entered into a new lease agreement for its new office premises effective 2018. At that point, the recognition, measurement and disclosure requirements under IFRS 16 in respect of the leased asset and the lease obligation will be incorporated into the consolidated financial statements.

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

Section 3: Grant activities

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

The table below summarizes the accounting results for grant activities, excluding[7] Private Sector Co-Payments and Special Initiatives, based on the accounting principles underlined in this section:

Grant stage for the year ended 31 December	Contingent Liability: Board approved but not committed	Annual commitment	Disbursement of committed amounts	Foreign exchange gains on EUR grant liabilities	Annual commitments not disbursed as at 31 December (Grants payable as per statement of financial position)
Notes	**3.1**	**3.2**		**5.7**	**3.3**
2016	3,412	3,923	3,518	13	3,061
2015	5,453	4,327	3,252	22	2,656

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

3.1 Contingent liability

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

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

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

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

[7] The table is intended to show summarize the results of grant portfolio typically starting from board approval to disbursement. The expenditure on Private Sector Co-Payments and Special Initiatives follow a different point of recognition than grants and reported under Note 3.2 below.

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

	2016	2015
By category		
Grants approved but not signed	294	1,051
Grants signed but not committed	3,118	4,402
Total	**3,412**	**5,453**
By region		
Asia (outside High Impact), Europe, Latin America and the Caribbean	502	608
Africa (outside High Impact) and Middle East	973	1,391
High Impact Africa I	765	1,350
High Impact Africa II	552	953
High Impact Asia	620	1,151
Total	**3,412**	**5,453**

3.2 Grant expenditure

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

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

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

	2016	2015
By category		
Grants to Principal Recipients	3,033	3,169
Grants for PPM orders	890	1,158
Total grants to Principal Recipients	**3,923**	**4,327**
Private Sector co-Payments	32	45
Special Initiatives	14	17
Total grants	**3,969**	**4,389**
By disease		
HIV-AIDS	1,395	1,915
Malaria	1,149	1,384
Tuberculosis	815	571
Multi-component	527	357
Health Systems Strengthening	37	100
Total grants to Principal Recipients	**3,923**	**4,327**
By region		
Asia (outside High Impact), Europe, Latin America and the Caribbean	418	465
Africa and Middle East	1,081	870
High Impact Africa I	821	822
High Impact Africa II	890	1,527
High Impact Asia	713	643
Total grants to Principal Recipients	**3,923**	**4,327**

Given the materiality of the grant expense for PPM orders, grant expenditure on PPM orders has been disclosed separate from the grants to Principal Recipients directly. Due to this disclosure enhancement, for 2015 audited grant expenditure, USD 1,158 million has been reclassified from grant to Principal Recipients which was reported as USD 4,327 million in the 2015 audited consolidated financial statements.

2016 grants for PPM orders include USD 307 million for PPM orders that were placed online through the electronic platform for the PPM - Wambo.org (2015- NIL).

3.3 Grants payable

The following table summarises grant payable at 31 December:

	2016	2015
By Grants source currency		
USD	2,722	2,418
EUR	257	190
Total grants payable in equivalent USD	2,990	2,625
Grants under recovery, net	71	31
Net Grants Payable	**3,061**	**2,656**

Of this, USD 11.9 million are long-term grants liabilities at 31 December 2016 (2015: NIL). The long-term portion represents amounts that are due to be disbursed later than one year after the date of the statement of financial position, discounted to estimate their present value at this same date. The movement in valuation of undisbursed grants is recognized in the statement of income. Given that a major part of grant liability is payable within one year of the date of the statement of financial position, no other fair valuation adjustment is deemed necessary.

Grants under recovery from Principal Recipients are recognized at nominal value upon a formal notification to the Principal Recipient subject to the same policy of valuation, risk assessment and asset impairment as contributions recoverable from donors outlined in Note 4.2. As at 31 December 2016 a net recoverable of USD 71 million (2015: USD 53 million) was determined as grants recoverable from the Principal Recipients by the Recoveries Committee, of which USD 3 million (2015: USD 22 million) is not recorded in the consolidated financial statements in the absence of formalized terms of recovery with the relevant Principal Recipients.

3.4 Advances for pooled procurement mechanism

The Global Fund facilitates the procurement of health products for Principal Recipients through the Procurement Service Agent (PSA) for the PPM. The Global Fund formalizes the level of working capital required by the PSA on an annual basis against which advances can be drawn down to meet their financing requirements. These advances are shown as an asset on the statement of financial position, until they are used by the PSA to meet procurement liabilities. The advances are provided to cover two to three months value of forecasted shipment of pharmaceutical products ordered by the Principal Recipients directly with the PSA. The PSA provides a monthly statement of payments made to the manufacturers for shipments to Principal Recipients, which are subsequently charged back to the grant. The grant payable and expenditure for PPM follows the same accounting policy as grants directly administered by Principal Recipients.

As at 31 December 2016, a net working capital advance of USD 41 million (2015: USD 41 million) was outstanding. The following table summarizes advances for pooled procurement mechanism at 31 December:

	2016	2015
Working capital advance as at 01 January	41	-
Advances issued during the year	884	823
Advances reconciled as a charge back to grants for executed shipments	(884)	(782)
Outstanding working capital advance	**41**	**41**

Section 4: Donor activities

The Global Fund follows a three-year replenishment cycle to secure funding for its grants and administrative operations. At the time of a Replenishment Conference, donors make public announcements of their intended future contributions. These announcements are termed as pledges. Pledges do not trigger an accounting event for the Global Fund as the conversion of pledges into firm contributions will require further substantive actions to be taken.

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

For the year ended 31 December	Opening contributions receivable	Contributions per the statement of income	Non-receivable contribution- (including Private Sector co-payments)	Contributions received per the statement of cash flow	Foreign exchange fluctuation on contributions	Contributions receivable on the statement of financial position
Note	**4.2**	**4.1**	**4.1, 4.4**			**4.2**
2016	2,882	5,194	(32)	(4,404)	(233)	3,407
2015	3,172	2,189	(45)	(2,256)	(178)	2,882

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

4.1 Contribution income and revenue recognition

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

A contribution agreement is considered “substantially conditional” when the future encashment of contribution is subject to specified events, performance obligations and actions beyond the control of the Global Fund. Such contributions, or a part thereof, are recognized as income upon receipt of cash or cash equivalents.

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

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

	2016	**2015**
Donor contributions		
By donor category		
Governments	4,871	2,173
Foundations	289	16
Product (RED)	35	18
Corporations	3	1
International not-for-profit organizations	33	12
Gross revenue	5,231	2,220
Discounted	(37)	(31)
Total	**5,194**	**2,189**
By donor intent		
Unrestricted	4,982	2,094
Restricted- Private Sector Co-payments	32	45
Restricted- Others	180	50
Total	**5,194**	**2,189**

Key donors who have opted for a bilateral contribution agreement with the Global Fund include terms and conditions that require future encashment in compliance with the respective donor legislative and parliamentary requirements. The management has undertaken comprehensive evaluation to establish reasonable assurance on the probability of future economic benefits and degree of certainty for future encashments based on donor profile, political engagement and institutional relationship from such donors. Hence in such cases the management has decided to recognize full revenue recognition at the time of signing of such contribution agreements. Subsequently, at each reporting period, all outstanding portions of contributions receivable are subject to a risk review for potential impairment as defined in Section 4.2 below.

4.2 Contributions receivable

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

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

The following table summarizes contributions receivable at 31 December:

	2016	2015
Promissory notes maturing within one year	740	772
Contributions receivable within one year	725	760
Total	**1,465**	**1,532**
Promissory notes maturing after one year	-	641
Contributions receivable after one year	1,942	709
Total	**1,942**	**1,350**
Total value of contributions receivable	**3,407**	**2,882**
Receivable in 2016	-	1,532
Receivable in 2017	1,465	711
Receivable in 2018	672	-
Receivable after 2018	1,419	750
Gross contribution receivable	3,556	2,993
Discounted	(149)	(111)
Net present value of contributions receivable	**3,407**	**2,882**

The Global Fund reviews all contributions receivable as at the reporting date to assess for any potential collection risk. This assessment is based on a review of the donor credit profile, the in-country economic and political situation and other known factors that may potentially result in reduced future cash receipts. Where the Global Fund determines there to be a collection risk then an appropriate risk premium is deducted from receivable balances to reflect this risk. The risk premiums held are maintained as a provision for uncollectible contributions.

As at 31 December 2016, except for one, all contributions recoverable are considered good and accordingly a risk premium of USD 30 million has been provided in the 2016 financial statements. (2015: NIL).

The accounting policy on recognition and measurement for contributions receivables is also applicable on Other Receivables. Other receivables include USD 71 million of Grants under recovery, as explained in Note 3.3 above, and USD 8 million of prepayments for operating expenditure and Special Initiatives.

4.3 Conditional contribution

During 2016 the Global Fund entered into certain contribution agreements that were subject to performance obligations to be measured and reported over the period of the agreement. Given the uncertainty associated with the future encashments in respect of such donor agreements, the management has decided to recognize USD 111 million as revenue in the financial year in which such performance obligations are satisfactorily delivered.

4.4 Deferred contribution

Donor contributions received in cash for specific project expenditures are treated as deferred contributions until the underlying related expenses have been incurred. This ensures the recorded income is matched to the expenditure it relates to. Deferred contributions include contributions received for Private Sector co-payments where the application of donor funds is directly linked with the co-payment subsidy for the malaria drugs procured by the Principal Recipients. Deferred contributions represent restricted contributions received for donor specified project expenditure. Any unspent portion of the contribution received will need to be refunded to the donor.

During 2016 the source of deferred contributions expanded. For better understanding of the composition of the respective elements of deferred contributions, a detailed note has been introduced under Note 6.5.

Section 5: Management of funds

The Global Fund is a financing institution and hence the management of its financial assets and liabilities is integral to the successful mission of the organization. In addition to its long-standing relationship with the World Bank, the Global Fund has built relationships with private sector banks to manage its financial assets and provide appropriate liquidity and risk management.

5.1 Cash and cash equivalents

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

	2016	**2015**
Amounts held in commercial banks	509	529

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

5.2 Trust Fund

The World Bank acts as the Trustee for the Global Fund. Assets held in trust by the World Bank are held in a pooled cash and investments portfolio, hereinafter called "the Pool", established by the Trustee for all trust funds administered by the World Bank Group.

Most financial contributions are received directly and held in a trust fund which is administered by the World Bank. The objectives of the investment portfolio strategy are to maintain adequate liquidity to meet foreseeable cash flow needs, preserve and optimize investment returns. The movement in fair value of funds held in trust is recognized in the Statement of Activities. The cash is invested by the World Bank in accordance with the investment framework of the Global Fund as approved by the Finance and Operational Performance Committee of the Board (GF/FOPC11/DP01).

All disbursements out of the Trust Fund are duly authorized by the Global Fund. In accordance with the terms of the Trust Fund Agreement, as amended from time to time, between the Global Fund and the World Bank, the Global Fund is the legal beneficial owner of the funds, assets and receipts that constitute the Trust Fund. The agreement may be terminated at any time by either party on a 90-day written notice with all funds, assets and receipts reverting to the Global Fund upon termination.

The funds held in the Trust Fund qualify as a single asset and as such are presented separately in the statement of financial position but form an integral part of the operational cash management.

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

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

Monthly re-balancing of the portfolio leads to the re-allocation of amounts among the different tranches to alter the duration of the overall portfolio in line with the Global Fund's projected grant funding needs. The ultimate purpose of the Trust Fund is to hold the funds to meet short-term cash needs of the Global Fund. The Trust Fund reports its share in the shared pool of investments as one class of financial assets and can be withdrawn upon demand.

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

Tranche	2016	2015
Tranche 0 USD	10	7
Tranche 5 USD	3,261	2,517
Tranche 0 EUR	48	16
Total	**3,319**	**2,540**

As at 31 December 2016 the Pool had a fair value measurement of USD 28,915 million (2015: USD 24,100 million) as confirmed by the World Bank.

The following table reflects the asset allocation in the pool:

Types of financial instruments	2016	2015
Government and agency obligations	63%	68%
Time deposits and money market securities	7%	5%
Asset-backed securities	23%	26%
Equity securities	7%	3%
Derivatives, net	2%	1%
Securities purchased under resale agreements and securities sold under repurchase agreements	(2%)	(3)%
Total	**100%**	**100%**

Fair value of financial instruments held in Pool

The Trust Fund's assets consist of its share of cash and investments in the Pool. The Pool is actively managed and invested in accordance with the investment strategy established for all trust funds administered by the World Bank Group. The objectives of the investment strategy are foremost to maintain adequate liquidity to meet foreseeable cash flow needs and preserve capital and then to maximize investment returns. The Trust Fund's share in the Pool is not traded in any market; however, the underlying assets within the Pool are reported at fair value. The fair value is the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties. If an active market exists, the market price is applied. If an active market does not exist, generally accepted valuation techniques, based on observable market data at the reporting date, are used instead. All investment decisions are made and performance is monitored at the Pool level. The fair value amount of the Trust Fund's share of the cash and investments in the Pool at the end of each reporting period is also disclosed.

The International Bank for Reconstruction and Development, IBRD, on behalf of the World Bank Group, has an established and documented process for determining fair values. Fair value is based upon quoted market prices for the same or similar securities, where available. Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models. These models primarily use market-based or independently-sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves, and may incorporate unobservable inputs. Selection of these inputs involves judgment. The Pool may include financial instruments such as government and agency obligations, time deposits, money market securities, asset-backed securities, equity securities, securities purchased under resale agreements and securities sold under repurchase agreements, and derivatives.

The techniques applied in determining the fair values of financial instruments are summarized below.

Government and agency obligations, asset-backed securities and equity securities

Where available, quoted market prices are used to determine the fair value of government and agency obligations, asset-backed securities and exchange-traded equity securities. For securities for which quoted market prices are not readily available, fair values are determined using model-based valuation techniques, either internally-generated or vendor-supplied, that include discounted cash flow method using market observable inputs such as yield curves, credit spreads, prepayment speeds, foreign exchange rates, and funding spreads.

Time deposits and money market securities

Unless quoted prices are available, time deposits and money market securities are reported at face value, which approximates fair value.

Securities purchased under resale agreements and securities sold under repurchase agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are reported at face value, which approximates fair value.

Derivative contracts

Derivative contracts include currency forward contracts, currency swaps, interest rate swaps, and contracts to purchase or sell TBA securities. Derivatives are valued using model based valuation techniques which include discounted cash flow method with market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

Fair valuation hierarchy

The Trustee undertakes a fair valuation of the financial instruments held in the shared pool of cash and investments. The fair value measurements are categorized based on the inputs to the valuation techniques as follows (in the order of priority placed on the inputs):

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

The Trust Fund’s financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3). 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 level input that is significant to the fair value measurement of the instrument in its entirety.

Given that the Trust Fund’s share in the Pool is not traded in any market it qualifies as a Level 2 asset given the observability and significance of the fair values of the underlying instruments and fact that no adjustments for rights and obligations inherent with regard to ownership or frequency at which the organization can redeem its interest exists.

The following table shows Trust Fund's share of financial instruments held in the Pool recognized at fair value, categorized between levels 1 and 2:

At 31 December 2016	Level 1	Level 2	Level 3	Total
Government and agency obligations	930	1,158	-	2,088
Asset and mortgage-backed securities	-	779	-	779
Equity	247	-	-	247
Time deposits	17	203	-	220
Repurchase/ resale agreements	-	(83)	-	(83)
Derivatives, net	-	68	-	68
Total	**1,194**	**2,125**	**-**	**3,319**

The following table shows a comparative view of the Trust Fund and the cumulative value of the Shared Pool of cash and investments:

At 31 December 2016	Shared Pool of cash and investments	Trust Fund	% share
Level 1	9,627	1,194	12.4
Level 2	19,288	2,125	11.0
Level 3	-	-	-
Total	**28,915**	**3,319**	**11.5**

Previous year comparative information on fair valuation hierarchy is not available.

5.3 Provident Fund Investments

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 assets of the Global Fund Provident Fund (the "Provident Fund") are invested for the purpose of the investment policy of the Provident Fund in accordance with the principles and responsibilities established in the Constitutional Declaration and Benefits Rules, as it may be amended from time to time, and under article 6 of the Provident Fund Management Board Charter.

The Management Board through its Investment Committee takes makes the investment decision for the Provident Fund assets. The Investment Committee has appointed investment advisor, through which the Investment Committee has an established control framework with to monitor the investment performance and fair valuation of the investment portfolio. The Provident Fund assets are managed by institutional fund managers in diversified global equity, bond and real estate funds. Funds are regulated, open-ended investment funds. The Management Board has appointed a custodian to maintain the physical custody of all Provident Fund investments.

There is a regular review of potential significant unobservable inputs and valuation adjustments as reported by the Investment Advisor. The respective investment managers are individually responsible for the fair valuation and performance measurement of their respective investment categories. The custodian collates the investment performance and fair valuation reporting on a monthly basis. On an annual basis the investment managers provide fair value hierarchy in which the valuations should be classified for their respective investments in compliance with the requirements of IFRS. Any significant valuation issues are reported separately. The Investment Advisor oversees all fair value measurements, including potential Level 3 fair values, and reports to the Investment Committee and the Management Board. When measuring the fair value of an asset or a liability, the investment advisor uses observable market data as far as possible.

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.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows (in the order of priority placed on the inputs):

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

The following table provides the fair valuation hierarchy of the Provident Fund investments:

At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Total Provident Fund investments	**81**	**28**	**-**	**109**
Equity	28	-	-	28
Fixed income	53	-	-	53
Real estate	-	19	-	19
Private sector hedge	-	9	-	9

At 31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Total Provident Fund investments	**76**	**25**	**-**	**101**
Equity	26	-	-	26
Bonds	49	-	-	49
Real estate	1	15	-	16
Private sector hedge	-	10	-	10

As at 31 December 2016 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.

During 2016, USD 4 million (2015: net loss of USD 121,000) was reported in fair valuation gains on Provident Fund investments.

5.4 Financial risk management objectives and policies

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

The main risks arising from these financial assets and liabilities are market risk and liquidity risk, which are summarized below.

These risks are managed through a defined Treasury policy. Compliance with these policies is monitored by the Treasurer and reported to the Global Fund Board through the Audit and Finance Committee, its standing committee on financial matters.

Risk management in respect of Trust Fund included in the Shared Pool of cash and investments

The Pool is exposed to market, credit and liquidity risks. There has been no significant change during the financial year to the class of financial risks faced by the Trust Fund or the Trustee's approach to the management of those risks. The exposure and the risk management policies employed by the Trustee to manage these risks are discussed below:

Market risk – The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, currency rates or changes in interest rates. 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. The VAR is measured using a parametric/analytical approach. It assumes that the movements in the market risk factors are normally distributed. In constructing the covariance matrix of market risk factors, a time decay factor is applied to weekly market data for the past three years with an exponential decay factor of 0.97. The covariance-variance matrix also includes the equity factor, where equity factor volatility is based on equity index returns. This approach takes into account three years' historical market observations, while giving more weight to recent market volatility. To calculate the contribution of equities to the total volatility, the Market Value of the equity portfolio is used as the exposure.

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 2016 is estimated to be USD 51 million (2015: USD 34 million).

ii. Currency risk

The risk that the value of a financial instrument will fluctuate because of changes in currency exchange rates when there is a mismatch between assets and liabilities denominated in any one currency. The currency risk covers all categories of financial instruments that carry non-USD financial positions. Note 5.5 on Foreign exchange exposures provides an overview of the net position of major currencies holdings.

The Trust Fund's currency risk arises from the portion of cash and investments in the Pool that are denominated in currencies other than in USD. In accordance with the Trust Fund Agreement and/or the instructions from the Global Fund, the Trustee maintains the Trust Fund's share of cash and investments in the Pool in USD and EUR. Cash contributions received are converted into USD on receipt, except when the Global Fund instructs the Trustee to hold selected cash contributions received in EUR.

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.

	2016		2015	
Currency	**Change %**	**Amount USD million**	**Change %**	**Amount USD million**
EUR	9%	(+/-) 4.5	10%	(+/-) 1.6

iii. Credit risk/counterparty risk

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

The Global Fund's maximum exposure to credit risk in relation to cash and bank balances, Provident Fund investments and contributions receivable is the carrying amount of those assets as indicated in the consolidated statement of financial position. In respect of Funds held in Trust the Trustee does not hold any collateral or credit enhancements except for the repurchase agreements and resale agreements with counterparties. The Trustee identifies concentrations of credit risk based mainly on the extent to which the cash and investments in the Pool are held by an individual counterparty. The concentration of credit risk with respect to the Pool of cash and investments is limited because the Trustee has policies that limit the amount of credit exposure to any individual issuer.

The Trustee invests in liquid instruments such as time deposits and money market securities, government and agency obligations, and mortgage-backed securities and derivative contracts. The Trustee limits investments to those financial instruments with minimum credit ratings at the time of the purchase in the U.S. markets or equivalent as follows:

- Time deposits and money market securities: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-;
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organization or any other official entity require a minimum credit rating of AA-;
- Asset-backed securities: minimum rating must be AAA; and
- Derivatives: counterparties must have a minimum rating of A-.

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

Counterparty credit ratings	2016	2015
AA or greater	74%	81%
A- or greater	100%	97%
BBB+ or greater	100%	100%

Risks other than market risk, in respect of all other financial assets, including the Trust Fund are analysed below:

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 which are mostly short term. As a policy, the Global Fund makes commitments for operating expenditure budget, trustee fees and grants only if there are sufficient underlying assets.

Economic risk- In addition to the financial risks outlined on the financial assets and liabilities the Global Fund is also exposed to the economic risk on its off-balance sheet positions denominated in currencies other than USD. These mainly include pledges, allocated amounts, signed grant amounts that have not had a subsequent annual funding decision and approved operating expenditure budgets over the allocation period. These exposures impact financial statements in terms of FX gains/losses only after their associated transactions are recorded in the financial statements. However, they present an economic risk upon the receipt of a pledge, allocation of available sources of funds, and signature of grant agreements (with respect to uncommitted portions). Such exposures, while not reflected in the financial accounts affect the Global Fund's asset-liability management in the same way as on-balance sheet exposures that affect the profit and loss statement.

Accordingly in June 2016 the Audit and Finance Committee approved the Global FX Management Framework (GF/AFC01/06) to preserve the net value of assets and liabilities against fluctuations of currency values and ensures the amounts from contributions and grants keep their economic value throughout their relevant periods of utilization. Following the governance mandate, the Secretariat implemented a dynamic hedging strategy to manage the different types of risks and states of exposure described above. The hedging strategy follows the general principles outlined below:

i. Mandates the Secretariat to cover economic exposures by stipulating risk metrics on a portfolio level in order to preserve the net value of assets and liabilities;

ii. Is flexible to accommodate potential future changes in terms of contribution / grant cycles;

iii. Links up to the Amended and Restated Comprehensive Funding Policy and its asset and liability management process;

iv. Considers the FX Part II which may affect the currency exposure once deployed;

v. Value-at-Risk (known as VaR and further explained in sections below) is used as an operational measure and to set a limit for the Secretariat to monitor the risk arising from economic exposure; and

vi. Is applicable as of the 1st of July 2016 after Audit and Finance Committee approval.

Under the guidance of the hedging principles, hedgeable exposures are determined as FX risks net of adjustments taken due to the uncertainty of the underlining amount and timing of inflows and outflows of funds. This includes:

i. Discount factor on donor contributions

ii. Discount factor on grants and other uses of funds

iii. Any other uncertainty factor

The FX risk limit is measured through VaR with a 99% probability on a monthly basis. Value at Risk is a statistical technique used to measure and quantify the level of financial risk over a specific period. It is measured in three variables: the amount of potential loss, the probability of that amount of loss and the period over which such potential loss could occur based on its probability. Effective 01 September 2016, the VaR limit follows a two-risk metrics:

a. From the net FX exposure off-balance-sheet: a minimum of 50% of the resulting VaR (exposure at risk) shall be covered by the hedging strategy (i.e., VaR metric @ maximum 50% of the VaR arising); and

b. From the net FX exposure on-balance-sheet: a minimum of 75% of the resulting VaR (exposure at risk) shall be covered by the hedging strategy (i.e., VaR metric @ maximum 25% of VaR arising).

The risk metrics will be reported under one combined VaR limit.

5.5 Foreign exchange exposures

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, which creates an exposure to foreign exchange risk for these particular assets or liabilities. At the end of each reporting period, monetary items such as contributions receivable in currencies other than USD and grants payable denominated in EUR are retranslated at the rates prevailing at that date. The currency risk associated with the foreign exchange exposure, both financial and economic, has been detailed in Note 5.4 above. The following table summarizes exchange rates for major currencies in which the Global Fund held financial positions at 31 December:

Key foreign currencies	2016	2015	% fluctuation
AUD	0.7216	0.7304	(1)
EUR	1.0515	1.0927	(4)
CAD	0.7444	0.7204	3
CHF	0.9819	1.0099	(3)
GBP	1.2343	1.4821	(17)
SEK	0.1098	0.1189	(8)
NOK	0.1157	0.1137	2

[Source: Effective July 2015 the Global Fund uses Thompson Reuters FX rate subscription]

The Global Fund regularly undertakes the sensitivity analysis for each currency in which it holds significant exposure. The significant foreign currency exposures include Euros (EUR), Pound Sterling (GBP), Swedish Krona (SEK), Canadian dollars (CAD) and Swiss Francs (CHF).

The following table outlines, the nominal amounts in millions, of the management of the net consolidated position of main foreign currency exposures, including financial and economic, net of assets and liabilities:

	As at 31 December 2016			As at 31 December 2015		
Currency	**Net FX exposure**	**Hedges at nominal value**	**% Hedging ratio**	**Net FX exposure**	**Hedges at nominal value**	**% Hedging ratio**
AUD	209	50	24	93	91	98
CAD	804	455	57	-	-	-
CHF	(458)	(320)	70	-	-	-
DKK	330	-	-	-	-	-
EUR	2,305	1,184	51	580	676	100
GBP	1,412	1,360	96	800	400	50
SEK	2,500	-	-	850	-	-
NOK	2,000	1,500	75	-	-	-

During 2015 the hedging mandate was limited to only balance sheet positions, hence the net FX exposure includes assets in source currency, net of liabilities as reported on the statement of financial position. The additional EUR hedge were intended to cover the liabilities denominated in CHF.

The Global Fund undertakes the sensitivity analysis based on a percentage change in exchange rates over immediately preceding three financial years. The Global Fund actively manages its foreign currency exposure through derivative financial instruments as described in Note 5.4. At 31 December 2016 the major foreign currency positions on the statement of financial position, except SEK, were fully hedged. The following table reflects the sensitivity of the consolidated statement of income and statement of changes in funds to a strengthening or weakening of these non-USD net positions as at 31 December:

	2016		2015	
Currency	**Change %**	**Amount USD million**	**Change %**	**Amount USD million**
CHF	4%	-	4%	(+/-) 5
EUR	9%	-	10%	(+/-)8
GBP	11%	-	4%	(+/-)24
SEK	12%	(+/-) 33	10%	(+/-)10

5.6 Foreign exchange risk management

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

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

A majority of the contribution receipts to the Trust Fund are denominated and predominantly held in in USD. However, a portion of funds are held in EUR to maintain a natural hedge for grant and other liabilities denominated in EUR. In addition, cash in EUR and CHF are held at a commercial bank to cover the operating expenses of the following year. Other currency balances are maintained for short time intervals in line with the cash management policy.

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

As at 31 December	2016	2015
Amounts held in CHF	22	152
Amount held in EUR	342	175

During the year the Global Fund used derivative financial instruments, notably forwards and swaps to manage its exposure to foreign exchange fluctuations for net positions held in non-USD currencies. These financial instruments are used by the Global Fund to mitigate foreign exchange risk and are recognized at fair value with subsequent movements in value reported through the consolidated statement of income.

The following table presents the notional value and the fair value of derivative financial instruments by currency:

As at 31 December 2016

Currency (Level 2)	Notional value in millions	Forward contracts at fair value in USD millions
AUD	50	2
CAD	455	5
CHF	(320)	5
EUR	1,184	41
GBP	1,360	42
NOK	1,500	10
Total		**105**

As at 31 December 2016, the settlement dates for some forward contracts are beyond 12 months. The fair valuation of such long-term forward contracts is USD 3 million.

As at 31 December 2015

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

All forward contracts have settlement dates within 12 months of the reporting date.

The fair value of derivative financial instruments is provided by the counter-party bank and based on price models using observable exchange rates, described as Level 2 in the fair value hierarchy.

5.7 Foreign exchange accounting

Foreign exchange gains or losses on non-USD positions are reported in the consolidated statement of income for the years ended 31 December were as follows:

	2016	2015
Foreign exchange losses before derivative instruments	(210)	(165)
Fair valuation gains on derivative financial instruments	206	55
Net foreign exchange losses	**(4)**	**(110)**
By net position		
Net foreign exchange loss on assets	(17)	(132)
Net foreign exchange gains on liabilities	13	22
Net foreign exchange loss	**(4)**	**(110)**
By currency		
CAD	18	-
EUR	50	(68)
GBP	(89)	(28)
SEK	3	(15)
NOK	10	-
Others	4	1
Net foreign exchange loss	**(4)**	**(110)**

5.8 Financial income, net

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

	2016	2015
Trust Fund gains, net	66	20
Financial costs	(2)	(3)
Total	**64**	**17**

Section 6: Operating activities

6.1 Operating expenses

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

The following table summarizes the Global Fund's operating costs under the main categories of expenditure for the years ended 31 December:

	2016	2015
Staff	139	140
External assurance	46	48
Professional fees	33	44
Others	63	64
Total Secretariat costs	281	296
Provident Fund valuation	(4)	2
Total	**277**	**298**

The 2016 consolidated operating expenditure for Global Fund includes USD 88,000 as the operating expenditure for the US Fund (2015: USD 33,000).

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

Historically the external assurance costs have been represented by Local Fund Agent fees. 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 monitoring implementation of funded programs as grants are disbursed to Principal Recipients. During 2016 the external assurance services were expanded by the introduction of new Health Service Assurance providers with the objective to strengthen assurance over program and data quality. 2016 external assurance fees of USD 46 million includes USD 45 million of Local Fund Agent costs and USD 1 million of costs attributable to the Health Service Assurance providers.

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

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

At 31 December 2016 there were 740 (2015: 702) personnel employed by the Global Fund.

6.2 Lease commitments

The Global Fund has a long term, non-cancellable operating lease for its office premises in Geneva where the headquarters are located. Payments made under operating leases are recognized in the consolidated statement of income on a “straight line” basis over the term of the lease. The current lease term ends in 2018, with estimated lease payments to be USD 11 million. Non-cancellable operating lease payments recognized as an expense in 2016 amounted to USD 11 million (2015: USD 12 million).

The Global Fund has entered into a new lease agreement for its new office premises effective 2018 for which the future lease payments are estimated to be USD 7 million per annum for a period of ten years.

6.3 Employee benefit liabilities

The Global Fund maintains a Provident Fund for the purposes of providing retirement, death and disability benefits to its employees and their qualifying dependents and beneficiaries. The Provident Fund is the same legal entity as the Global Fund. It is a segregated fund with an autonomous governance structure. Consequently the assets in the Provident Fund are disclosed within non-current assets in the statement of financial position and excluded from the pension plan assets under IAS 19.

The assets of the Provident Fund are received, invested and disbursed wholly and exclusively for the purposes of the Provident Fund and in accordance with the investment policy established by the Provident Fund Management Board with the consent of the Global Fund Board.

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

Actuarial valuation of defined benefit obligation

The measurement of net defined benefit liability requires the application of an actuarial valuation method, the attribution of benefits to periods of service, and the use of actuarial assumptions. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the net deficit or surplus. Given the unfunded status of the Provident Fund as outlined above, the actuarial valuation does not include any plan assets. 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	**2016**	**2015**
Benefit obligation at beginning of year	118	99
Current service cost	25	23
FX translation impact	(3)	-
Interest cost	1	1
Actuarial loss	1	6
Benefits paid from plan/company	(8)	(9)
Premiums and expenses paid	(2)	(2)
Benefit obligation at end of year	**132**	**118**

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.

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

Components of pension cost	**2016**	**2015**
Amounts recognized in the statement of income		
Current service cost	25	23
Interest cost	1	1
Total pension cost recognized in the statement of income	**26**	**24**
Actuarial valuation recognized in other comprehensive income		
a. Effect of changes in demographic assumptions	6	-
b. Effect of changes in financial assumptions	(4)	(2)
c. Effect of experience adjustments	(1)	8
Total actuarial valuation recognized in other comprehensive income	**1**	**6**
Total defined benefit cost recognized in the statements of income and other comprehensive income	27	30

Components of pension cost	2016	2015
Principal actuarial assumptions		
Weighted-average assumptions to determine benefit obligations at		
Discount rate	0.50%	0.50%
Rate of compensation increase	3.00%	3.00%
LPP interest rate	1.00%	1.25%
Weighted-average assumptions to determine pension expense for the year ended		
Discount rate	0.50%	0.80%
Rate of compensation increase	3.00%	3.00%
LPP interest rate	1.25%	1.75%
Sensitivity analysis		
Discount rate -25 basis points	136	122
Assumption	0.25%	0.25%
Discount rate +25 basis points	129	116
Assumption	0.75%	0.75%
Mortality assumptions	100% LPP 2015 Generational	100% LPP 2010 Generational
Other required disclosure amounts		
Contributions expected to be paid to the plan during the annual period beginning after the reporting period	9	11
Average duration of the plan liabilities (in years)	11	9

6.4 Other current liabilities

	2016	2015
Accounts Payable for operating expenditure	9	13
Accrued expenses for operating expenditure	41	41
Deferred contribution (Note 6.5)	16	42
Total	**66**	**96**

6.5 Deferred contributions

	2016	2015
Private Sector co-payments	10	41
External co-funding for operating expenditure	4	1
Donor contributions received in advance	2	-
Total	**16**	**42**

Section 7: Other disclosures

7.1 Related party transactions

Related parties include the members of the Board, Board committees and close family members of senior management. There was no loan to or from related parties outstanding as at 31 December 2016.

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 5.3 million of which USD 0.2 million has been incurred by the partner organization's agent for project management services and USD 5.1 million for project activities. As at 31 December 2016 there was no advance outstanding with the partner organization (2015: USD NIL million).

The Global Fund does not remunerate its Board members. All transactions with the Board are made at terms equivalent to arm's length transactions within the operational framework of the Secretariat. An honoraria is available for independent members to the standing committees of the Board. During 2016, an aggregate of USD 35,632 (2015: USD 62,000) was paid to independent 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	2016	2015
Short-term benefits including salary and allowances	4.6	4.4
Long-term benefits including contributions to the Provident Fund	0.8	0.6
Total Remuneration	**5.4**	**5.0**

7.2 Taxation

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

7.3 Unrestricted and temporarily restricted funds

All contributions received where the application of funds 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.

GLOSSARY

AFC	Audit and Finance Committee
ACD	Annual Commitment Decision
ADMF	Annual commitment Decision Making Form
ALM	Asset Liability Management
CAD	Canadian Dollar
CER	Corporate Expenditure Rate
CFP	Comprehensive Funding Policy
CHF	Swiss Franc
EUR	Euro
EGC	Ethics and Governance Committee
GBP	Pound Sterling
HSA	Health Service Assurance
NOK	Norwegian Krone
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
KPI	Key Performance Indicator
LFA	Local Fund Agent
PPM	Pooled Procurement Mechanism
PSA	Procurement Service Agent
SEK	Swedish Krona
USD	United States Dollar

The Global Fund is a 21st-century organization designed to accelerate the end of AIDS, tuberculosis and malaria as epidemics.

The Global Fund to Fight
AIDS, Tuberculosis and Malaria

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