

INTERIM FINANCIAL REPORT



30 June 2016

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

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

2016 KEY OPERATIONAL ACTIVITIES

1- 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. In the current allocation period covering 2014-2016, 113 eligible countries received a funding allocation for each disease component for which the individual countries were eligible. The allocation formula was based on disease burden and the level of income of eligible countries. USD 14.7 billion was allocated to eligible countries in 2014 (including existing funds). Since 2014 the Global Fund Board has approved grants representing 93 percent of funding available for allocation (see figure 1). This includes early applicants and differentiated approaches.

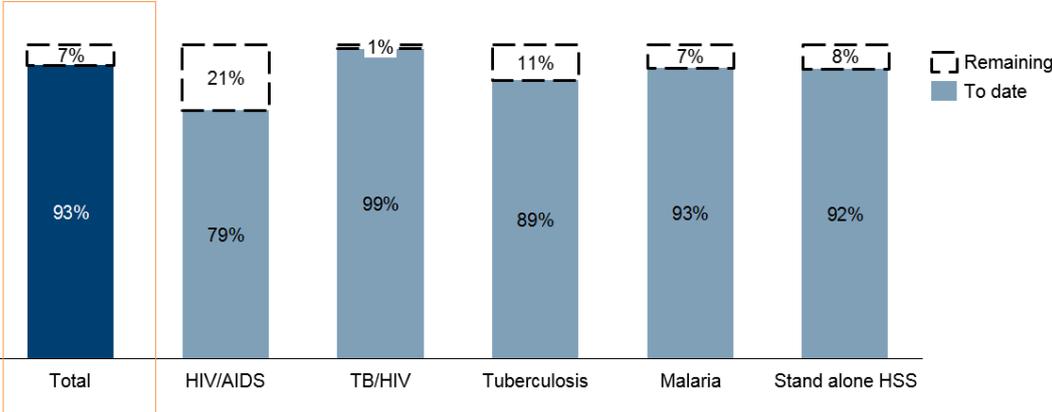


Figure 1: Board approval of 2014-2016 allocation funding for grants as of 30 June 2016

To access their 2014 - 2016 funding allocations, countries submit concept notes during a submission “window” of their choice over the 2014 – 2016 period. During the first six month of 2016 there was one final submission window in which 7 new country funding applications were submitted and subsequently reviewed by the Global Fund’s independent Technical Review Panel (TRP) and Secretariat’s Grant Approvals Committee (GAC). All of these submissions were approved for grant-making. Their value totalled USD 53 million, and USD 25 million in incentive funding – additional funding for which eligible countries may apply – was also awarded. Additionally, 11 regional concept notes were approved for grant-making in 2016. The maximum value of funding available for the resultant regional programs is USD 80 million.

During January-June 2016 the Board approved 71 grants representing USD 1.5 billion of allocation funding. These grants originated from concept notes submitted during 2014-2015. Due to the need for program continuity, 16 grant extensions have also been reviewed and approved in 2016, representing USD 63 million of allocation funding.

Overall, since the beginning of the 2014-2016 allocation period:

- The TRP and GAC have approved USD 14.3 billion of allocation funds for grant-making, representing 97 percent of allocation funding.
- The GAC has awarded USD 935 million in incentive funding.^[1]
- USD 2.9 billion is on the Register of Unfunded Quality Demand.^[2]
- The Board has approved 335 grants.^[3]

^[1] Incentive funding awarded by the GAC is listed on the [incentive funding page](#).

^[2] The register is available for download on the [Register of Unfunded Quality Demand page](#).

^[3] All grants approved under the allocation model are listed on the [funding decision page](#).

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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2- Replenishment update

Under its replenishment mechanism, every three years, the Global Fund convenes donors and other key partners to discuss funding for the ensuing 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.

Since the launch of the 4th Replenishment, additional pledges at replenishment rates reached USD 591.5 million and USD 63.4 million from public and private donors, respectively. The total pledged amount for the current replenishment as of mid-2016 is USD 12,664 million.

For its 5th Replenishment, to be hosted by the Government of Canada in Montreal on 16 September 2016, the Global Fund seeks to mobilize USD 13 billion for the period 2017-2019. The replenishment conference will be a unique opportunity for global leaders to come together to pledge for a fully funded Global Fund. Donor governments like Canada, France, Italy, Japan, the European Commission, Luxembourg and New Zealand have already announced their pledges ahead of the replenishment conference.

An overview of key developments relating to 2016 contributions has been included in the financial commentary.

FINANCIAL COMMENTARY

The interim condensed consolidated statement of financial position shows total assets of USD 6,311 million as at 30 June 2016 (USD 6,183 million as at 31 December 2015). Current assets accounted for USD 5,514 million (31 December 2015: USD 4,722 million), of which USD 3,485 million (31 December 2015: USD 3,069 million) was held as cash or cash equivalents.

Contributions receivable reduced by USD 298 million to reach USD 2,583 million during the first six months in 2016 (31 December 2015: 2,881 million).

Total liabilities as at 30 June 2016 amounted to USD 3,014 million (31 December 2015: USD 2,870 million) which included USD 2,820 million of Grants payable under current liabilities (31 December 2015: USD 2,656 million). In addition to the Grants payable recorded in the interim condensed consolidated statement of financial position, the total contingent liability for future grant expenditure stands at USD 4,698 million (31 December 2015: USD 5,453 million).

Key progress on the following core financial components achieved during the first half year of 2016 has been analysed below:

1. Financial Management framework
2. Donor pledges and contributions
3. Grant commitments and disbursements
4. Secretariat’s operating expenditure
5. The Global Fund Provident Fund

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1. Financial management framework:

During the first six months of 2016, the Global Fund has continued to expand its partner base with commercial banks and further strengthened its cash management operations. A detailed overview of progress on key aspects of financial management is outlined below:

Foreign exchange management

Following on the FX strategy put in place in 2015, all new contribution agreements that have been recognized as assets on the statement of financial position, in line with the revenue recognition policy, have been systematically hedged. In parallel, any past legacy positions are monitored and managed by the Treasury department.

During 2016 a new FX policy has been designed for effective FX management of future assets pending the signing of contribution agreements. The new FX policy has been designed in light of the upcoming 5th Replenishment and the specific impact such an event has on the asset liability management of the Global Fund. The policy is particularly important as it allows hedging of both on and off-balance sheet items on a portfolio level following specific risk metrics utilizing value-at-risk (VAR). This policy is called the Global FX Management Framework and has been approved by the Audit and Finance Committee in June 2016. The implementation is scheduled to start during the third quarter of this year to synchronize with the pledges announced under the Fifth Replenishment.

Cash management

The cash management activities continued to be executed fully with commercial banks, further consolidating the Global Fund's cash management capabilities. No major changes to the current modus operandi are expected with the upcoming replenishment. New banking partners may be added as required to support the execution of the Global FX Management Framework.

Furthermore, measures to monitor and minimize cash balances in country contribute to reduce counterparty risk towards certain in-country banks and generally maximize the local currency value conversion.

2. Donor pledges and contributions

The net revenue recognized during the first six months of 2016 was USD 1,810 million (2015: USD 1,320 million) which is USD 490 million higher than the first half of 2015, an increase of 37 percent. The major components of the 2016 contribution income is analysed below:

- USD 1,757 million net additional contributions under the existing pledges made for the 4th replenishment from key donors like United States, Canada, Japan, Norway, Italy, Switzerland, and Denmark;
- USD 33 million of contributions were recognized from new pledges made under the 4th replenishment; and
- Lastly, USD 20 million was recognized as revenue upon utilization of AMFm co-payment funds.

During the first six months of 2016, USD 40 million of pledges were withdrawn by donor governments following internal budgetary reclassifications by their respective parliaments. This included USD 35 million which was already recognized as contribution income in 2014 and hence resulted in a reduction of income during 2016.

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3. Grant commitments and disbursements

During the first half of 2016, the Secretariat reported USD 1,710 million (2015: 1,706 million) as grant expenditure which includes:

- Net new grant commitments for USD 1,682 million (2015: USD 1,672 million), a marginal increase of USD 10 million;
- USD 20 million for AMFm co-payments (2015: USD 26 million; reduction of USD 6 million); and
- USD 8 million for Special Initiatives projects (2015: USD 8 million).

The value of grant disbursements during the first half-year 2016 was USD 1,558 million (2015: USD 1,457 million), an increase of 7 percent. The grant disbursements can be analysed as follows:

- USD 1,130 million was paid to the Principal Recipients and third-party suppliers contracted by them (2015: USD 1,129 million);
- USD 403 million was paid as advances at the PSAs for grant pharmaceutical products to be delivered to the Principal Recipients under PPM (2015: USD 288 million). This includes USD 25 million paid to the PSAs remained outstanding as at 30 June 2016 (2015: USD 131 million).
- USD 17 million disbursed for AMFm co-payments (2015: USD 34 million); and
- USD 8 million was paid for Special Initiatives project partners (2015: USD 6 million).

As at 30 June 2016, the overall contingent liability for grants decreased by USD 755 million from 31 December 2015, following the new annual funding decisions during the first six months of the year.

4. Operating expenditure

During the first half year of 2016 the Secretariat spent USD 132 million (2015: USD 135 million) on operating expenditure, a marginal decrease of 2 percent over 2015 half-year. These results are based at spot rates in compliance with the accounting policy under the International Financial Reporting Standards (IFRS).

5. Global Fund Provident Fund

As at 30 June 2016, the Provident Fund asset base was USD 125 million (31 December 2015: USD 112 million). This included USD 104 million of Provident Fund investments measured at fair value and USD 21 million in cash and cash equivalents. These assets are held and invested solely for funding future employee benefits under the Provident Fund constitution. The increase in value of investments in represented by a net gain of USD 2.2 million (2015: net loss of USD 1.4 million) on fair valuation of Provident Fund investments. No new investments were made during 2016.

The liability for employee benefit obligation of USD 130 million includes USD 125 million for Provident Fund reserves (31 December 2015: USD 112 million). The increase in the reserves is represented by the payroll contributions to the provident fund during the first six months of 2016.

The difference of USD 5 million between the Provident Fund assets and liabilities in the consolidated financial statements represents the actuarial valuation of employee benefit obligations as mandated by IFRS. The last annual actuarial valuation was undertaken in 2015. When measured in the administration currency Swiss Francs (CHF), the Provident Fund assets fully cover the underlying employee benefit liability.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Responsibility for the interim condensed consolidated financial statements

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

The interim condensed consolidated financial statements include amounts based on estimates and judgments made by the Secretariat. KPMG SA was appointed as the statutory auditors by the Global Fund Board upon the recommendation of its Audit and Finance Committee to review the interim condensed consolidated financial statements of the Global Fund.

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

The Board, through its Audit and Finance Committee, meets periodically with the Secretariat and KPMG to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting.

These interim condensed consolidated financial statements were approved by the Global Fund Audit and Finance Committee (“the AFC”) on 14 October 2016.



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

**Review Report to
the Board of the Global Fund to Fight AIDS, Tuberculosis and
Malaria**

Interim Condensed Consolidated Financial Statements as at 30.06.2016



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Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund") as at 30 June 2016, the interim condensed consolidated statements of income and other comprehensive income, cash flows, changes in funds for the six month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information ("the interim condensed consolidated financial statements"). Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at 30 June 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

KPMG SA

Pierre-Henri Pingeon
Licensed Audit Expert
Auditor in Charge

Quynh-Anh Dang
Licensed Audit Expert

Geneva, 14 October 2016

Enclosure:

- Interim condensed consolidated financial statements (interim condensed consolidated statement of financial position and related interim condensed consolidated statements of income, comprehensive income, cash flows, changes in funds and selected explanatory notes)

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

Interim condensed consolidated statement of income

For the six months ended 30 June	<u>Notes</u>	<u>2016</u>	<u>2015</u>
In millions of USD			
Income			
Contributions	4.1	1,810	1,320
Expenditure			
Grants	3.2	(1,710)	(1,706)
Operating expenses	6.1	<u>(132)</u>	<u>(135)</u>
		<u>(1,842)</u>	<u>(1,841)</u>
Net operating loss		(32)	(521)
Foreign exchange losses, net	5.4	(26)	(77)
Financial income, net	5.5	<u>42</u>	<u>12</u>
Decrease in funds		<u>(16)</u>	<u>(586)</u>

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June	<u>2016</u>	<u>2015</u>
In millions of USD		
Decrease in funds	(16)	(586)
Other comprehensive income / (loss)	<u>-</u>	<u>-</u>
Total comprehensive loss	<u>(16)</u>	<u>(586)</u>

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

Interim condensed consolidated statement of financial position

As at	<u>Notes</u>	<u>30.06.2016</u>	<u>31.12.2015</u>
In millions of USD			
Assets			
Current assets			
Cash and cash equivalents	5.1	309	529
Trust Fund assets	5.1	3,176	2,540
Contributions receivable	4.2	1,900	1,532
Advances for Pooled Procurement Mechanism	3.4	25	41
Other receivables		56	35
Forward currency contracts at fair value	5.3	48	45
		<u>5,514</u>	<u>4,722</u>
Non-current assets			
Contributions receivable	4.2	683	1,349
Provident Fund investments		104	101
Tangible and intangible assets		10	11
		<u>797</u>	<u>1,461</u>
Total Assets		<u>6,311</u>	<u>6,183</u>
Liabilities and funds			
Liabilities			
Current liabilities			
Grants payable	3.3	2,820	2,656
Accrued expenses and accounts payable		42	54
Deferred contributions	4.3	22	42
		<u>2,884</u>	<u>2,752</u>
Non-current liabilities			
Employee benefit liability		130	118
Total Liabilities		<u>3,014</u>	<u>2,870</u>
Funds			
Foundation capital		-	-
Temporarily restricted funds		11	19
Unrestricted funds		3,286	3,294
Total Funds		<u>3,297</u>	<u>3,313</u>
Total liabilities and funds		<u>6,311</u>	<u>6,183</u>

Daniel Camus
Chief Financial Officer

Mark Dybul
Executive Director

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

Interim condensed consolidated statement of cash flow

For the six months ended 30 June	<u>Notes</u>	<u>30.06.2016</u>	<u>30.06.2015</u>
In millions of USD			
Operating activities			
Cash received from donors		1,995	1,454
Grant disbursements		(1,558)	(1,457)
Payments for operating expenses		(127)	(134)
Net inflows from forward positions		69	-
Financial income receipts, net		40	13
Net cash flow used in operating activities		<u>419</u>	<u>(124)</u>
Investing activities			
Purchase of Provident Fund investments		-	(28)
Sale of Provident Fund investments		-	18
Purchase of tangible and intangible assets		(2)	(2)
Net cash flow used in investing activities		<u>(2)</u>	<u>(12)</u>
Net increase / (decrease) in cash and cash equivalents		<u>417</u>	<u>(136)</u>
Cash and cash equivalents			
- at beginning of the period	5.1	3,069	4,403
Effect of exchange rate changes on cash and cash equivalents		(1)	(8)
- at end of the period	5.1	<u>3,485</u>	<u>4,259</u>

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

Interim condensed consolidated statement of changes in funds

For the six months ended 30 June

In millions of USD

	Foundation capital	Temporarily restricted funds	Unrestricted funds	Total
As at 1 January 2015	-	14	5,896	5,910
Decrease in funds	-	-	(586)	(586)
Other comprehensive income / (loss)	-	-	-	-
At 30 June 2015	-	14	5,310	5,324
As at 1 January 2016	-	19	3,294	3,313
Decrease in funds	-	(8)	(8)	(16)
Other comprehensive income / (loss)	-	-	-	-
At 30 June 2016	-	11	3,286	3,297

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

[Index: Notes to interim condensed consolidated financial statements](#)

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The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim condensed consolidated financial statements

Notes to the interim condensed consolidated financial statements

Section 1: Activities and organisation

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

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

Section 2: Basis of reporting

Statement of compliance

These unaudited consolidated financial statements for the six months ended on 30 June 2016 have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting.”

They do not include all the information and disclosures presented in the annual consolidated financial statements, and should therefore be read in conjunction with the audited consolidated financial statements as at 31 December 2015, which have been prepared in accordance with the International Financial Reporting Standards (IFRS).

These interim condensed consolidated financial statements were approved by the Global Fund Audit and Finance Committee (“the AFC”) on 14 October 2016.

Significant accounting policies, estimates and judgments

Effective January 2016 the Global Fund recognizes all donor contribution agreements, wherein the future receipts are subject to donor parliamentary approval, as asset and contribution income upon signing of such agreements. Such agreement will be subject to the same fair valuation rules as regular contributions.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements and all significant accounting estimates and other management judgments are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2015.

The Global Fund has adopted all new or amended standards (IFRS) and interpretations (IFRIC) which are effective for the financial year 2016. These IFRSs have not had any significant impact on the Global Fund’s interim financial report.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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Section 3: Grant activities

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.

Once grant commitment is made through the annual funding decision process, the constructive obligation to the Principal Recipient is recognized as a grant payable and recorded as an expenditure in the consolidated statement of income.

The following table summarizes the position of contingent liability for grants that will become future grants payable through the annual funding decision process.

By category	30.06.2016	31.12.2015
Grants approved but not signed	562	1,051
Grants signed but not committed	4,136	4,402
Total	4,698	5,453

By region		
Asia, Europe, Latin America and the Caribbean	586	684
Africa and Middle East	1,332	1,391
High Impact Africa I	1,107	1,351
High Impact Africa II	777	953
High Impact Asia	896	1,074
Total	4,698	5,453

3.2 Grant expenditure

	2016	2015
For the six months ended 30 June		
By category		
Grants to Principal Recipients	1,682	1,672
AMFm co-payments	20	26
Special Initiatives	8	8
Total	1,710	1,706

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3.3 Grants payable

The following table summarises grant payable at:

	<u>30.06.2016</u>	<u>31.12.2015</u>
By Grants source currency		
USD	2,526	2,418
EUR	265	190
Total grants payable in equivalent USD	2,770	2,625
Grants under recovery, net	50	31
Net Grants Payable	<u>2,820</u>	<u>2,656</u>

As at 30 June 2016 a net recoverable of USD 55 million (31 December 2015: USD 53 million) was determined as grants recoverable from the Principal Recipients by the Recoveries Committee, of which USD 5 million (31 December 2015: USD 22 million) is not recorded in the interim consolidated financial statements in the absence of formalized terms of recovery with the respective Principal Recipients.

3.4 Advances for pooled procurement mechanism

The Global Fund facilitates the procurement of health products for Principal Recipients through PSA PPM for which the liability and expenditure recognition follow the same accounting policy as grants directly administered by Principal Recipients.

As at 30 June 2016, USD 25 million (31 December 2015: USD 41 million) of PPM advances were outstanding at the two PSAs. The working capital advances outstanding with them are considered good and fully recoverable. Accordingly no provision for impairment is deemed necessary.

The following table summarises advances for pooled procurement mechanism at:

	<u>30.06.2016</u>	<u>31.12.2015</u>
Opening working capital advance	41	-
Advances issued during the year	403	823
Advances reconciled as a charge back to grants for executed shipments	(419)	(782)
Total	<u>25</u>	<u>41</u>

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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 replenishment, donors make public announcements called pledges of their intended future contributions. The following notes provide the summary of accounting results of revenue recognition policy during the reporting period.

4.1 Contributions

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. For the purposes of cash flows, contributions are considered as received when remitted in cash or cash equivalent. The following table summarizes the source of revenue recognised:

For the six months ended 30 June	<u>2016</u>	<u>2015</u>
By donor category		
Governments	1,790	1,296
Foundations	5	15
Product (RED)	11	9
International non-profit organizations	4	-
Total	<u>1,810</u>	<u>1,320</u>

4.2 Contributions receivable

Contributions receivable are agreements signed where income has been recognised 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.

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 using the amortised cost method.

The following table summarises contributions receivable at:

As at	<u>30.06.2015</u>	<u>31.12.2015</u>
Promissory notes	1,204	772
Contributions receivable	696	760
Total current contributions	<u>1,900</u>	<u>1,532</u>
Promissory notes	28	640
Contributions receivable	655	709
Total non-current contributions	<u>683</u>	<u>1,349</u>
Total value of contributions receivable	<u><u>2,583</u></u>	<u><u>2,881</u></u>

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Receivable until June 2016	-	1,532
Receivable until June 2017	1,900	710
Receivable after June 2017	782	750
	<u>2,682</u>	<u>2,992</u>
Discounted at LIBOR	(98)	(111)
Present value of contributions receivable	<u>2,583</u>	<u>2,881</u>

During the first six months of 2016, contribution income of USD 35 million was cancelled on donor advice due to parliamentary budget reallocation. As at 30 June 2016 (31 December 2015: NIL) all contributions recoverable are considered good and accordingly no risk premium was provided.

4.3 Deferred contribution

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.

As at 30 June 2016, the deferred contribution balance on the interim consolidated statement of financial position was USD 22 million (31 December 2015: USD 42 million).

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 organisation. The Global Fund engages with commercial banks and the World Bank to manage its financial assets and provide appropriate liquidity and risk management.

5.1 Cash and cash equivalents and Trust Fund assets

The following table summarises cash and cash equivalents at:

	<u>30.06.2016</u>	<u>31.12.2015</u>
Amounts held in commercial banks	309	529

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents also include Trust Fund assets since these are an integral part of the cash management of the Global Fund:

As at	<u>30.06.2016</u>	<u>31.12.2015</u>
Amounts held in commercial banks	309	529
Amounts held in the Trust Fund	<u>3,176</u>	<u>2,540</u>
Cash and cash equivalents as shown in the Consolidated Statement of Cash Flows	<u>3,485</u>	<u>3,069</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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The carrying amounts of cash and cash equivalents and of funds held in Trust Fund approximate their fair value.

5.2 Foreign exchange exposures

In preparing the financial statements, transactions in currencies other than the functional currency are recognised 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 following table summarises exchange rates for significant foreign currency exposures at 31 December:

	<u>30.06.2016</u>	<u>31.12.2015</u>	<u>% FX fluctuation</u>
EUR	1.1095	1.0927	2
CHF	1.0195	1.0099	1
GBP	1.3401	1.4821	(10)
SEK	0.1179	0.1189	(1)

[Source: Reuters FX rates subscription]

5.3 Foreign exchange risk management

The Global Fund has implemented a strategy to mitigate the foreign exchange fluctuation risks, a variety of derivative financial instruments are taken, including forward, swaps and options, to manage its exposure to foreign exchange fluctuations for net positions held in non-USD currencies. The forward foreign exchange contracts used by the Global Fund to mitigate foreign exchange risk are recognised at fair value with subsequent movements in value reported through the consolidated statement of income. As at 31 December 2015 the forward contracts were fair valued as Level 2 financial instruments. There have been no significant changes to the fair valuation techniques and the nature of instruments since the last valuation.

The following table presents the notional value and the fair value of forward contracts by currency:

As at 30 June 2016

Currency	Notional value in millions	Forward contracts at fair value in USD millions
GBP	500	45
CAD	217	3
EUR	400	2
SEK	550	(1)
Others (AUD; NZD)	-	(1)
Total		48

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As at 31 December 2015

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

5.4. Foreign exchange fluctuations

For the six months ended 30 June	<u>2016</u>	<u>2015</u>
BY NET POSITION		
Net foreign exchange (loss) / gain on assets	(94)	(96)
Net foreign exchange gain on grant liabilities	(4)	16
Total	<u>(98)</u>	<u>(80)</u>
Net gain on foreign exchange hedging instruments	<u>72</u>	<u>3</u>
Net foreign exchange fluctuations:	<u>(26)</u>	<u>(77)</u>

Assets include cash and cash equivalent and contributions receivable.

BY CATEGORY

Net realized foreign exchange (loss)	(49)	(31)
Net unrealized foreign exchange (loss) / gain	(49)	(49)
Total	<u>(98)</u>	<u>(80)</u>
Net gain on foreign exchange hedging instruments	<u>72</u>	<u>3</u>
Net foreign exchange fluctuations:	<u>(26)</u>	<u>(77)</u>

BY CURRENCY

GBP	(41)	8
EUR	-	(72)
CAD	14	-
SEK	-	(12)
Others	<u>1</u>	<u>(1)</u>
Net foreign exchange fluctuations:	<u>(26)</u>	<u>(77)</u>

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Section 5.5 Financial income, net

The financial income on trust funds and provident fund investments, net of financial costs, are summarised in the table below:

For the six months ended 30 June	<u>2016</u>	<u>2015</u>
Trust Fund gains, net	40	13
Provident Fund gains/ (losses), net	2	(1)
Total	<u>42</u>	<u>12</u>

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 following table summarises the Secretariat's operating costs under the main categories of expenditure:

For the six months ended 30 June	<u>2016</u>	<u>2015</u>
Staff	68	70
Local fund agent fees	17	16
Professional fees	16	18
Others	31	31
Total	<u>132</u>	<u>135</u>