



December 31, 2012

# **Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria**

Administered by the International Bank for Reconstruction and Development as  
Trustee

**World Bank Reference: TF069001**

**Independent Auditors' Report and Statement of Receipts,  
Disbursements and Fund Balance**

**The World Bank Group**

Trust Funds Division, Client Services Department  
Controller's Vice Presidency

[www.worldbank.org](http://www.worldbank.org)

**Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria**

**Statement of Receipts, Disbursements and Fund Balance**

**December 31, 2012**

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**KPMG LLP**  
Suite 12000  
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## **Independent Auditors' Report**

The Board of Executive Directors of  
International Bank for Reconstruction and Development,  
as Trustee for the Trust Fund for the Global Fund to Fight Aids, Tuberculosis and Malaria:

We have audited the accompanying Statement of Receipts, Disbursements, and Fund Balance ("the Statement") of the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Trust Fund"), as administered by the International Bank for Reconstruction and Development ("IBRD") as Trustee ("the Trustee"), as of and for the year ended December 31, 2012.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of the Statement in accordance with the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the Statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the Statement, evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the Statement referred to above present fairly in all material respects, the receipts, disbursements and fund balance of the Trust Fund as of and for the year ended December 31, 2012, in accordance with the basis of accounting described in Note 2.

***Basis of Accounting***

As described in Note 2 to the Statement, the Statement is prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles or International Financial Reporting Standards. Our opinion is not modified with respect to this matter.

**KPMG LLP**

March 25, 2013

# STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

For The Fiscal Year Ended December 31, 2012

Expressed in U.S. dollars unless otherwise noted

	<u>Notes</u>	
Contributions received	3	\$ 4,247,254,914
Net Investment income	2	<u>56,744,370</u>
<b>Total receipts</b>		<b><u>4,303,999,284</u></b>
Disbursements for grants		3,473,803,316
Disbursements for administrative budgets and trustee fees		<u>327,443,433</u>
<b>Total disbursements</b>		<b><u>3,801,246,749</u></b>
Excess of receipts over disbursements before foreign currency adjustments		502,752,535
Foreign currency adjustments		13,880,516
Excess of receipts over disbursements after foreign currency adjustments		<u>516,633,051</u>
<b>Fund balance:</b>		
Beginning of the year	5	<u>4,809,493,169</u>
<b>End of the year</b>		<b><u>\$ 5,326,126,220</u></b>
Fund balance consists of:		
<b>Trust Fund's share of the cash and investments in the Pool of which, Unrestricted</b>		<b>5,275,023,211</b>
<b>Restricted (Note 3)</b>		<b><u>51,103,009</u></b>
	4	<b><u>\$ 5,326,126,220</u></b>

The accompanying notes are an integral part of the Statement of Receipts, Disbursements and Fund Balance.

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

*All amounts expressed in U.S. dollars unless otherwise noted*

## Note 1 – Organization, Operations, and Trustee Responsibilities

The Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Global Fund”) is an independent, non-profit foundation that was incorporated in Geneva, Switzerland on January 22, 2002. The purpose of the Global Fund is to attract, manage and disburse resources through public-private partnership that will make a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis, and malaria in countries in need, and contributing to poverty reduction.

On May 31, 2002, (date of inception, herein after referred to as “Inception”) the Global Fund and the International Bank for Reconstruction and Development (“IBRD”) entered into an agreement (the “Agreement”) to establish this trust fund (the “Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria” or the “Trust Fund”) administered by IBRD as trustee (the “Trustee”) on behalf of the Global Fund; the Agreement defines the Trustee’s responsibilities. In addition, as Trustee, IBRD is an ex officio member, without voting rights, of the Global Fund Board, and is a member, without voting rights, of the Board’s Finance and Operational Performance Committee.

Under the Agreement, the Trustee may accept contributions into the Trust Fund in the form of cash, promissory notes, letters of credit and similar obligations, which shall be acceptable to the Trustee, directly from public sector contributors, the United Nations Foundation (“UN Foundation”), the Global Fund and other private sector or non-governmental entities by entering into contribution agreements with contributors (the “Donors”). In 2009, the Global Fund established the Affordable Medicines Facility for Malaria (AMFm) aimed at attracting resources for co-payment of malaria related expenses. According to the contribution agreements between the Donors to AMFm and the Trustee, contributions and investment income earned on the contributions are restricted to the use of AMFm activities.

The Trustee disburses the funds from the Trust Fund, only on, and in accordance with, the written instructions of the Global Fund. In accordance with the Agreement, the Trustee has no responsibility to make any investigation into the facts or matters stated in any such written instructions and may rely solely on such written instructions. Upon written request from the Global Fund, the Trustee shall verify that the funds have been transferred to the payee specified in such written instructions. Accordingly, the Trustee does not have any further responsibility under the Agreement to the Donors or the Global Fund for the use by any recipient of any funds transferred from the Trust Fund in accordance with such instructions. Under the Agreement, the privileges and immunities accorded to the IBRD under its Articles of Agreement apply to the assets, operations and transactions of the Trust Fund.

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

## Note 2 – Significant Accounting Policies

*Basis of Presentation* – The Trust Fund’s financial statement is prepared on a modified cash basis. The financial statement for the prior year was prepared under a special purpose basis of accounting. However, in order to provide more relevant information and better reflect the operations of the Trust Fund, financial statements for the fiscal year ended December 31, 2012 and subsequent periods are and will be prepared under the modified cash basis of accounting as defined below.

This Statement of Receipts, Disbursements and Fund Balance (Statement) has been prepared on the cash receipts and disbursements basis of accounting, modified to record the Trust Fund’s share in the pooled cash and investments at fair value (modified cash basis of accounting). Accordingly, net investment income includes realized and unrealized investment income/loss.

The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP) or International Financial Reporting Standards (IFRS), therefore the Statement is not intended to be a presentation in conformity with U.S. GAAP or IFRS. Receipts, with the exception of net investment income, as described above, are reported when collected (i.e. when credited to the Trust Fund) rather than when pledged/ earned, and disbursements are reported when paid (i.e. when debited to the Trust Fund) rather than when incurred. Certain information, however, pertaining to fair value of financial instruments held in the pooled cash and investments is presented based on certain IFRS pronouncements described in Note 4.

In accordance with the modified cash basis of accounting, as described above, and with the policies adopted for the administration of the Trust Fund, certain transactions are reported in this Statement in the period in which the transaction is credited/debited to the Trust Fund, rather than in the period to which they relate. These may include contributions not credited to the Trust Fund at the period end date due to timing or other reasons, repostings of disbursements in the ordinary course of business, as deemed necessary, and any refunds of previous disbursements.

*Share of cash and investments in the Pool* – Amounts paid into the Trust Fund, but not yet disbursed, are managed by IBRD, which maintains an investment portfolio (the Pool) for all of the trust funds administered by IBRD, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes (collectively, the World Bank Group). IBRD, on behalf of the World Bank Group, maintains all trust fund assets separate and apart from the funds of the World Bank Group. The Pool is divided into sub-portfolios to which

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

allocations are made based on fund specific investment horizons, risk tolerances and/or other eligibility requirements for trust funds with common characteristics as determined by IBRD, on behalf of the World Bank Group. These sub-portfolios may hold all or a portion of the instruments held by the Pool.

Generally, the Pool includes cash and liquid financial instruments such as government and agency obligations, time deposits, money market securities, and asset-backed securities. The Pool may also include securities pledged as collateral under repurchase agreements and derivatives with other counterparties, and receivables from resale agreements as well as derivatives for which it has accepted collateral. Additionally, the Pool includes derivative contracts such as currency forward contracts, currency swaps, interest rate swaps, and the contracts to purchase or sell mortgage-backed securities to-be-announced (TBAs). Payables and receivables associated with the investment activities are also included in the Pool.

The Pool is a trading portfolio and is reported at fair value, with gains/losses included in net investment income. The share in pooled cash and investments represents the Trust Fund's share of the Pool's fair value at the end of each reporting period.

*Translation of Currencies* – This Statement is presented in U.S. dollars, which is the Trust Fund's functional and presentation currency. Transactions in currencies other than U.S. dollars are reported at the market rates of exchange in effect on the date of the transaction. At the end of each reporting period, fund balances that are not denominated in U.S. dollars are revalued at the market rates of exchange prevailing at the end of the respective reporting period. Any adjustment resulting from currency exchange rate changes is recognized as foreign currency adjustments in the Statements.

*Disbursements* – The Trustee disburses funds from the Trust Fund, only at, and in accordance with, the written instructions of the Global Fund. Disbursements for project grants and transfers for administrative budgets are recorded and reported when the cash transfer is made.

*Use of Estimates* – The preparation of the Statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions based upon information available as of the date of the Statements. Actual results could differ from these estimates. Areas in which management makes estimates and assumptions in determining the amounts to be recorded include the fair value of financial instruments.

*Net investment income* – Net investment income consists of the Trust Fund's allocated share of the following: interest income earned by the Pool, realized gains/losses from sales of securities, and unrealized gains/losses resulting from recording the assets held by the Pool at fair value.



# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

## Note 3 – Contributions

Contributions received by the Trust Fund in various currencies are generally converted into U.S. dollars by IBRD, as Trustee, upon receipt of funds and the countersigned agreements, unless the Global Fund has instructed the Trustee to not convert certain contributions into U.S. dollars. The amounts received by the Trust Fund for the year ended December 31, 2012, expressed in U.S. dollars are as follows:

<b>Donor</b>	<b>Amounts Received</b>
<b>Core project contributions</b>	<b>U.S. Dollars</b>
Australia	\$ 62,496,756
Belgium	53,976,300
Brazil	2,355
Brunei Darussalam	100,000
Canada	201,425,669
China	5,000,000
Cote d'Ivoire	2,342,491
Denmark	25,095,623
European Community	275,052,000
Finland	10,402,800
France	607,905,000
Germany	259,425,000
Georgia	20,000
Global Fund	24,962,425
Indonesia	10,238,602
Ireland	14,695,580
Japan	342,876,738
Kuwait	500,000
Korea	1,980,198
Liechtenstein	215,153
Luxembourg	3,123,500
Malaysia	32,217
Namibia	381,000
Netherlands	138,045,640
Norway	75,465,848
Pakistan	6,169,490
Portugal	1,141,266
Russian Federation	20,000,000
Rwanda	325,000

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

<b>Donor</b>	<b>Amounts Received</b>
<b>Core project contributions (continued)</b>	<b>U.S. Dollars</b>
Sweden	\$ 141,947,823
Switzerland	8,769,045
Thailand	1,000,000
United Kingdom	622,015,238
United Nations Foundation	3,506,429
United States of America	1,205,658,867
<b>Subtotal</b>	<b>3,965,417,271</b>
<b>AMFm contributions</b>	
Canada	20,022,024
United Kingdom	50,938,840
WHO	50,000,000
<b>Subtotal</b>	<b>281,837,643</b>
<b>Total contributions</b>	<b>\$ 4,247,254,914</b>

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

From Inception to December 31, 2012, the contribution amounts committed, net of canceled and conditional contributions, and paid by the Donors are as follows:

Donor	Currency	Amounts Committed	Paid in Cash from Inception to Date
<b>Core project<sup>1</sup> contributions</b>			
Australia <sup>3</sup>	Australian dollars	420,000,000	309,880,000
Andorra	U.S. dollars	100,000	100,000
Austria	Euro	1,000,000	1,000,000
Barbados	U.S. dollars	100,000	100,000
Belgium	Euro	143,365,756	143,365,756
Brazil	U.S. dollars	152,355	152,355
Brunei Darussalam	U.S. dollars	150,000	150,000
Burkina Faso	U.S. dollars	75,000	75,000
Canada	U.S. dollars	100,005,514	100,005,514
Canada	Canadian dollars	1,380,000,019	1,220,000,019
China	U.S. dollars	24,999,985	24,999,985
Cote d'Ivoire	Euro	9,500,000	2,271,533
Denmark	Danish kroner	1,560,000,000	1,560,000,000
Egypt	Euro	3,325,908	3,325,908
European Community	Euro	1,203,140,722	1,138,140,722
Finland	Euro	23,000,000	23,000,000
France <sup>2</sup>	Euro	2,499,854,130	2,220,000,000
Gates Foundation	U.S. dollars	1,400,000,000	650,000,000
Georgia	U.S. dollars	20,000	20,000
Germany	Euro	1,327,500,000	1,327,500,000
Global Fund	U.S. dollars	208,755,358	208,755,358
Greece	Euro	1,600,000	1,600,000
Hungary	U.S. dollars	55,000	55,000
Iceland	Icelandic kronur	30,000,000	30,000,000
Iceland	U.S. dollars	700,000	700,000
India	U.S. dollars	9,999,910	9,999,910
Indonesia	Australian dollars	37,500,000	9,733,150
Indonesia	Euro	25,000,000	25,000,000
Ireland	Euro	170,000,000	145,190,000
Italy	Euro	790,335,717	790,335,717

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

Donor	Currency	Amounts Committed	Paid in Cash from Inception to Date
<b>Core project<sup>1</sup> contributions</b>			
Japan	U.S. dollars	1,744,921,913	1,744,921,913
Kuwait	U.S. dollars	2,500,000	2,500,000
Korea	U.S. dollars	15,000,000	15,000,000
Korea	Korean Won	2,140,000,000	2,140,000,000
Latvia	U.S. dollars	10,000	10,000
Liechtenstein	U.S. dollars	502,190	502,190
Liechtenstein	Swiss Francs	500,000	500,000
Luxembourg <sup>4</sup>	Euro	23,550,000	23,550,000
Malaysia	Malaysian Ringgits	100,000	100,000
Malaysia	U.S. dollars	100,000	100,000
Mexico	Mexican peso	1,130,000	1,130,000
Mexico	U.S. dollars	100,000	100,000
Monaco	U.S. dollars	132,000	132,000
Namibia	U.S. dollars	750,000	381,000
Netherlands <sup>5</sup>	Euro	620,500,000	565,500,000
New Zealand	New Zealand dollars	4,450,000	4,450,000
Nigeria	U.S. dollars	19,080,914	19,044,210
Norway	Norwegian kroner	3,571,882,000	3,121,882,000
Pakistan	Euro	20,000,000	20,000,000
Poland	U.S. dollars	150,000	150,000
Portugal	U.S. dollars	13,000,000	13,000,000
Portugal	Euro	1,870,000	1,870,000
Russian Federation	U.S. dollars	317,000,000	297,000,000
Romania	Euro	575,000	575,000
Rwanda	U.S. dollars	1,000,000	675,000
Saudi Arabia	U.S. dollars	53,000,000	28,000,000
Singapore	U.S. dollars	1,000,000	1,000,000
Slovenia	Slovenian tolar	5,400,000	5,400,000
Slovenia	Euro	160,000	160,000
South Africa	U.S. dollars	10,145,985	10,145,985
South Africa	South African Rand	1,000,000	1,000,000

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

Donor	Currency	Amounts Committed	Paid in Cash from Inception to Date
<b>Core project<sup>1</sup> contributions</b>			
Spain	U.S. dollars	65,000,000	65,000,000
Spain	Euro	471,569,107	471,569,107
Sweden	Swedish kronor	5,406,000,000	5,406,000,000
Switzerland	Swiss francs	61,500,000	61,500,000
Switzerland	U.S. dollars	7,478,310	7,478,310
Thailand	U.S. dollars	10,000,000	10,000,000
Tunisia	U.S. dollars	2,000,000	2,000,000
Uganda	U.S. dollars	1,500,000	1,500,000
United Kingdom <sup>2</sup>	Pounds sterling	1,124,422,573	1,104,422,573
United Nations Foundation <sup>6</sup>	U.S. dollars	71,384,725	70,212,338
United States of America	U.S. dollars	7,285,519,430	7,285,519,430
World Health Organization (WHO)	U.S. dollars	38,897,279	38,897,279
Zimbabwe	U.S. dollars	158,462	158,462
<b>Affordable Medicines Facility for Malaria (AMFm)<sup>7</sup>- restricted</b>			
Canada	Canadian dollars	20,000,000	20,000,000
Gates Foundation	U.S. dollars	20,015,000	20,015,000
United Kingdom	Pounds Sterling	71,600,000	71,600,000
WHO	U.S. dollars	180,000,000	180,000,000

<sup>1</sup> Core projects are for AIDS, Tuberculosis and Malaria.

<sup>2</sup> Promissory notes receivable as of December 31, 2012 from France is €279,854,130 and United Kingdom is £20,000,000.

<sup>3</sup> During October 2005, Australia and the Trustee agreed on the cancellation of an outstanding contribution receivable of \$A5,000,000, equivalent to \$3,747,500.

<sup>4</sup> Excludes contribution of €2,500,000 that is payable upon fulfillment of certain conditions stipulated in the contribution agreement.

<sup>5</sup> During December 2004 and 2010, the Netherlands and the Trustee agreed on the cancellation of an outstanding contribution receivable of €46,000,000 (equivalent to \$61,311,100) and €13,600,000 (equivalent to \$17,829,600).

<sup>6</sup> Excludes contribution of \$42,465,100 that is payable at the discretion of the United Nations Foundation.

<sup>7</sup> Contributions to AMFm and investment income earned on AMFm funds are restricted to the use of AMFm activities. From January 1, 2009 to December 31, 2012, investment income of \$6,637,320 was attributed to the AMFm funds. Trust fund's share of the cash and investments in the Pool restricted to the use of AMFm activities at December 31, 2012, totaled \$51,103,009.

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

## Note 4 - Fair value of financial instruments

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. All investment decisions are made and performance is monitored at the Pool level. The disclosure on fair value measurement and fair value hierarchy is therefore 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.

### *Fair value measurements*

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, 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 and asset-backed securities*

Where available, quoted market prices are used to determine the fair value of government and agency obligations and asset-backed 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 the standard 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.

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

## *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 the standard discounted cash flow method with market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

## *Fair value hierarchy*

Financial instruments representing the pooled investments for all the trust funds administered by the World Bank Group are recorded at fair value and are categorized based on the inputs to the valuation techniques as follows (in order of priority placed on the inputs):

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

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

The following table presents the Pool's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2012. Payables and receivables associated with the investment activities and cash are not included in the fair value hierarchy tables and their carrying amounts approximate their fair values. The Trust Fund's share of the Pool's financial instruments may comprise varying proportions among the three levels.

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

In Millions of U.S. dollars	Fair Value Measurement			
	as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Government and agency obligations	\$ 4,266	\$ 9,016	\$ -	\$ 13,282
Time deposits and money market securities	108	9,733	-	9,841
Asset-backed securities	-	3,000	1	3,001
Securities purchased under resale agreements and securities sold under repurchase agreements	-	-	-	-
Derivatives, net	-	(64)	-	(64)
<b>Total of financial instruments in the Pool at fair value</b>	<b>\$ 4,374</b>	<b>\$21,685</b>	<b>\$ 1</b>	<b>\$ 26,060</b>

During the fiscal year ended December 31, 2012, neither transfers between levels nor changes in the fair value of Level 3 securities were significant. Therefore, no further disclosures on these items are included.

As of December 31, 2012, the fair value of securities pledged under derivative contracts is \$0.2 million. The Pool has no securities pledged under repurchase agreements with other counterparties. At December 31, 2012, the Trustee did not hold collateral that it is permitted to sell or re-pledge in the absence of default. In addition, at December 31, 2012, no securities received by the Trustee as collateral were sold or re-pledged.

### Trust Fund's share of cash and investments in the Pool

The Trust Fund's share of the cash and investments in the Pool, which was allocated to a sub-portfolio based on the specific investment horizons, risk tolerances and other eligibility requirements pursuant to the agreements, has a fair value of \$5,326,126,220 as of December 31, 2012. The Trust Fund reports its share in the shared pool of investments as one class of financial assets and is withdrawable upon demand.

The Trust Fund's share of the cash and investments in the Pool by funding source is as follows:

Funding source	December 31, 2012
Core project contributions	\$ 5,275,023,211
Affordable Medicine Facility for Malaria (AMFm)	51,103,009
<b>Total share of cash and investments in the Pool</b>	<b>\$ 5,326,126,220</b>

In accordance with the Agreement and/or the instructions from the Global Fund, the Trustee maintains the Trust Fund's share of cash and investments in the Pool in U.S. dollars and euros. The Trust Fund's Share of the cash and investments in the Pool held in euros, expressed in U.S. dollars equivalent is \$ 830,802,589.



# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

December 31, 2012

All amounts expressed in U.S. dollars unless otherwise noted

Investment income, net totaling \$56,744,370 was credited to the Trust Fund during the year ended December 31, 2012 based on the Trust Fund's allocated share of the cash and investments in the Pool. The investment income, net, by funding source is as follows:

<i>Funding source</i>	<i>For the year ended December 31, 2012</i>
Core project contributions	\$ 56,068,657
Affordable Medicine Facility for Malaria (AMFm)	675,713
<b>Total investment income, net</b>	<b>\$ 56,744,370</b>

According to the contribution agreements between the Donors to AMFm and the Trustee, contributions and investment income earned on the contributions are restricted to the use of AMFm activities.

## Risks Arising from Financial Instruments

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 Pool is exposed to market, credit and liquidity risks. There has been no significant change during the financial year, or since the end of the year, to the types 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 unfavorable 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. This approach takes into account three years' historical market observations, while giving more weight to recent market volatility. These inter-relationships are

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All amounts expressed in U.S. dollars unless otherwise noted

determined by observing interest rate and credit spreads over a three year period of weekly historical data for the calculation of VAR amount. The absolute VAR of the Trust Fund's share of the portfolio over a twelve month horizon, at a 95% confidence level at December 31, 2012 is estimated to be \$31 million. The computation does not purport to represent actual losses in fair value of the Trust Fund's share in the Pool. The Trustee cannot predict actual future movements in such market rates and does not claim that these VAR results are indicative of future movements in such market rates or to be representative of the actual impact that future changes in market rates may have on the Trust Fund's future results or financial position.

- ii. *Currency risk* – The risk that the value of a financial instrument will fluctuate because of changes in currency exchange rates when there is a mismatch between assets and liabilities denominated in any one currency. The Trust Fund's currency risk arises from the portion of share of cash and investments in the Pool when they are denominated in currency other than in U.S. dollars. In accordance with the Agreement and/or the instructions from the Global Fund, the Trustee maintains the Trust Fund's share of cash and investments in the Pool in U.S. dollars and euros. Cash contributions received are converted into U.S. dollars on receipt, except when the Global Fund instructs the Trustee to hold selected cash contributions received in euros.

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

<i>Currency</i>	<i>Change %</i>	<i>Amount \$ Million</i>
Euro	4%	(+/-) 37.5

*Credit Risk* – The risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Trustee does not hold any collateral or credit enhancements except for the repurchase agreements and resale agreements with counterparties.

The Trustee may require collateral in the form of cash or other approved liquid securities from individual counterparties in connection with resale agreements as well as derivatives. This collateral serves to mitigate the exposure to credit risk. The risk is also mitigated through the application of eligibility criteria and volume

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limits for transactions with individual counterparties and through the use of mark-to-market collateral arrangements for derivatives.

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 tables present investment holdings in the sub-portfolio in terms of the counterparty credit risk exposure and investment categories as of December 31, 2012.

<b>Counterparty credit ratings</b>	<b>As of December 31, 2012</b>
AA or greater	64%
A- or greater	99%
BBB+ or greater	100%

  

<b>Types of financial instruments</b>	
Government and agency obligations	53%
Time deposits and money market securities	34%
Asset-backed securities	13%
<b>Total</b>	<b>100%</b>

# NOTES TO STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

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*Liquidity risk* – The risk that an entity will encounter difficulty in raising liquid funds to meet its commitments. All the financial liabilities are payable on demand. The Trustee maintains a significant portion of the Pool in short-term money market deposits to meet disbursement requirements.

## Note 5 –Prior reporting basis

As described in Note 2, for the fiscal year ended December 31, 2012, the Statement of Receipts, Disbursements and Fund Balance for the Trust Fund is prepared under a modified cash basis of accounting. In order to conform to the current year’s presentation, the fund balance as of December 31, 2011 (Fund Balance, beginning of the year) has been restated to reflect the modified cash basis of accounting.

The effect of this change and the related impact on the end of year fund balance as of December 31, 2011 is as follows:

<b>Uncommitted Funds Held in Trust, as of December 31, 2011, Special purpose basis</b>	<b>\$ 3,046,858,774</b>
Adjustments required to present fund balance on the Modified cash basis:	
Less asset accruals	
Promissory notes receivable	544,323,200
Contributions receivable, net	1,441,835,710
Cash contributions <sup>8</sup>	605,867,384
Subtotal	<u>2,592,026,294</u>
Add payable accruals	
Committed for grants	4,311,374,195
Committed for administrative budgets and trustee fees	43,286,494
Subtotal	<u>4,354,660,689</u>
<b>Fund Balance as of December 31, 2011, Modified cash basis</b>	<b><u>\$ 4,809,493,169</u></b>

<sup>8</sup> Under modified cash basis, cash contributions are reported in the period in which the receipt is credited to the Trust Fund, rather than in the period to which they relate. As of December 31, 2011, cash contributions in the amount of \$605,867,384 had not been credited to the Trust Fund due to timing but were reported under special purpose basis because they related to that period.

## Note 6 –Approval of Financial Statements

Subsequent events have been evaluated through March 25, 2013, which is the date the financial statements were authorized to be issued by IBRD’s management, in its capacity as the Trustee.