



# **The International Finance Facility for Immunisation**

**Annual Report of the Trustees  
Annual Financial Statements**

**Year Ended 31 December 2010**

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## **Legal and Administrative Information**

## Legal and Administrative Information

### Trustees

Sean Carney  
Didier J. Cherpitel  
John Cummins  
Alan R. Gillespie, Chairman  
Dayanath Chandrajith Jayasuriya  
Arunma Oteh

### Registered Address

2 Lambs Passage  
London EC1Y 8BB  
United Kingdom

### Company Secretary

Trusec Limited  
2 Lambs Passage  
London EC1Y 8BB  
United Kingdom

### Solicitors

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY  
United Kingdom

### Auditors

KPMG LLP  
1 Forest Gate  
Brighton Road  
Crawley RH11 9 PT  
United Kingdom

### Treasury Manager

International Bank for Reconstruction and Development  
1818 H Street NW  
Washington, DC 20433  
United States

### Legal Status

The International Finance Facility for Immunisation Company ("IFFIm") is a multilateral development institution, established as a charity registered with the Charity Commission for England and Wales. IFFIm was incorporated as a private company, limited by guarantee, without share capital and for indefinite duration, under the Companies Act 1985. IFFIm is governed by its Memorandum and Articles of Association dated 26 June 2006. Amended Articles of Association were adopted on 22 December 2008. IFFIm's company registration number is 5857343 and its charity registration number is 1115413.

# Statement of Trustees' Responsibilities

## **Statement of Trustees' Responsibilities in Respect of the Annual Report of the Trustees and the Financial Statements**

The trustees are responsible for preparing the Annual Report of the Trustees and the financial statements in accordance with applicable law and regulations.

Company law requires the trustees to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and of the excess of expenditure over income for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue its activities.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charitable company and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Annual Report of the Trustees

## Structure and Governance

### Structure

The International Finance Facility for Immunisation Company (“IFFIm”) is a multilateral development institution incorporated as a private company, with company registration number 5857343, and registered as a charity in England and Wales, with charity registration number 1115413. In order to achieve its objectives, IFFIm works with the following organisations:

- The GAVI Alliance (“GAVI”): GAVI is a not-for-profit organisation based in Switzerland and granted privileges and immunities in Switzerland similar to those accorded to other international intergovernmental organisations. It uses funds raised by IFFIm to finance immunisation related charitable activities in many of the world’s poorest countries. GAVI’s charitable activities are described further in the *Programmes Funded by IFFIm* section of this report. GAVI also provides administrative support to IFFIm.
- The GAVI Fund Affiliate (“GFA”): GFA is a charity based in the United Kingdom. GFA enters into pledge agreements with donors and then assigns to IFFIm the right to receive cash payments under those agreements. Also, all cash payments from IFFIm to GAVI are channelled through GFA.
- The International Bank for Reconstruction and Development (the “World Bank”): The World Bank is a global development organisation based in the United States. It provides treasury management, risk management and accounting services to IFFIm. IFFIm’s relationship and interactions with the World Bank are described further in the *Financial Overview* and *Hedging IFFIm’s Market Risks* sections of this report.

### Governance

IFFIm’s trustees, who are also the directors of IFFIm for the purposes of company law, are responsible for determining IFFIm’s strategic plans, overseeing the implementation of such plans, and monitoring functions outsourced to GAVI and the World Bank. During the year ended 31 December 2010, IFFIm’s directors were as follows:

- Sean Carney: Mr Carney is the Executive Director of Finance and Operations at the Children’s Investment Fund Foundation, London. Formerly, he was Chief Operating Officer of Investment Banking at HSBC Investment and Global Banking in London.
- Didier J. Cherpitel: Mr Cherpitel is a former Managing Director at JP Morgan in London and Paris. He is also a former Secretary General and Chief Executive Officer of the International Federation of Red Cross and Red Crescent Societies, Geneva, Switzerland.
- John Cummins: Mr Cummins is the Group Treasurer of the Royal Bank of Scotland Group. Formerly he was the Group Treasurer of the Standard Life Assurance Company, the largest mutual assurer in Europe.
- Alan R. Gillespie, IFFIm Board Chairman: In 2009, Dr Gillespie was appointed Chairman of the United Kingdom’s Economic and Social Research Council. From 2001 until 2008, he served as Group Chairman of Ulster Bank Group, Northern Ireland, a member of the Royal Bank of Scotland Group.
- Dayanath Jayasuriya: Dr Jayasuriya, President’s Counsel, is Senior Partner of Asian Pathfinder Legal Consultancy and Drafting Services, a firm specialising in medical law, and Visiting Professor of Law at the University of the Free State, South Africa.
- Arunma Oteh: Ms Oteh is the Director-General of the Securities and Exchange Commission of Nigeria and former Vice President of Corporate Services at the African Development Bank.

All trustees serve on a voluntary basis and have a duty to avoid conflicts of interest. Trustees are chosen for their skills and expertise in areas relevant to IFFIm. Induction procedures introduce trustees to the specifics of IFFIm’s operations and provide an overview of entities related to IFFIm. Details of trustee expenses are disclosed in Note 4 to the financial statements.

## Objectives and Public Benefit

### Objectives

IFFIm was created to accelerate the availability of predictable, long-term funds for health and immunisation programmes through GAVI in 70 of the poorest countries around the world. IFFIm was created as a development financing tool to help the international community achieve the Millennium Development Goals and it promotes the effective use of GAVI's resources for charitable purposes, and for the benefit of the public, by providing services and facilities that assist GAVI in raising funds. Such services and facilities include, but are not limited to, borrowing money or entering into agreements whereby sovereign government donors (the "Grantors") promise funds for charitable purposes.

Every year, in the world's poorest countries, millions of children miss out on vaccinations against common diseases, making them vulnerable to sickness, disability and death. Millions of children die from easily preventable diseases such as diphtheria, pneumonia, diarrhoea, meningitis and yellow fever. IFFIm was created to help avert such deaths by accelerating the availability and increasing the predictability of funds for immunisation, vaccine procurement and health systems strengthening ("HSS") programmes. GAVI uses funds raised by IFFIm to reduce the number of worldwide vaccine-preventable deaths and illnesses. GAVI achieves this by funding the purchase and delivery of vaccines and strengthening health systems in the poorest countries in the world.

IFFIm raises funds by issuing bonds in the international capital market under its *Global Debt Issuance Programme*. IFFIm then disburses the funds to GFA which, in turn, disburses the funds to GAVI to support various GAVI vaccine procurement, immunisation and HSS programmes. Through its bond issuances, IFFIm converts long-term government pledges into immediately available cash resources. IFFIm uses grant payments from the Grantors to, among other things, pay the principal and interest on its bonds.

The World Health Organization ("WHO") has estimated that use of IFFIm funds for GAVI programmes could lead to the vaccination of more than 500 million people by 2015. This could be achieved by employing new and underutilised vaccines, implementing targeted immunisation campaigns, and strengthening health and immunisation services in poor countries.

### Public Benefit

IFFIm's directors have considered the Charity Commission's general guidance on public benefit and have paid due regard to it when planning IFFIm's activities and assessing how IFFIm's activities further its objectives.

### Programmes Funded by IFFIm

GAVI programmes funded by IFFIm are categorised into Country-Specific Programmes and Investment Cases. Each of these categories is described below.

#### Country-Specific Programmes

Governments of eligible developing countries apply for vaccine procurement, immunisation and HSS support by submitting applications to GAVI. Once it has reviewed and approved the applications, GAVI requests funding from IFFIm. IFFIm funds have supported the following GAVI Country-Specific programmes:

New and Underused Vaccine Support ("NVS") programmes: GAVI supported developing countries in introducing vaccines and associated vaccine technology. GAVI's support was aimed at accelerating the countries' vaccine uptake and improving their vaccine supply security. NVS programmes funded by IFFIm related primarily to the following diseases:

- Hepatitis B: This is a viral infection that attacks the liver and can cause both acute and chronic disease. Approximately two billion people worldwide have been infected with the virus and more than 350 million live with chronic infection. Approximately 600 thousand people die each year due to the acute or chronic consequences of hepatitis B.
- Haemophilus Influenzae Type B ("Hib"): This is a bacterial infection estimated to be responsible for approximately three million serious illnesses and an estimated 386 thousand deaths per year, mainly through meningitis and pneumonia. Almost all victims are children under the age of five.
- Yellow Fever: This is a viral disease that has caused large epidemics in Africa and the Americas. Infection causes a wide spectrum of disease, from mild symptoms to severe illness and death. Although an effective vaccine has

been available for 60 years, the number of people infected over the last two decades has increased and yellow fever is again a serious public health issue.

- **Pneumococcal Disease:** This is a bacterial infection. Each year, pneumococcal disease takes the lives of up to one million children under five years of age, making it the leading vaccine-preventable cause of death among young children. The most effective way to prevent these deaths is to ensure access to effective, safe and affordable vaccines. Approximately 800 thousand children under five years of age die each year from this disease.
- **Diphtheria:** This is a bacterial infection transmitted from person to person through close physical and respiratory contact. The disease can be fatal. Between 5% and 10% of diphtheria patients die, even if properly treated. If left untreated, the disease claims even more lives.
- **Tetanus:** Also known as lockjaw, tetanus is a bacterial infection. Tetanus affects newborn babies and their mothers, usually as a result of unsafe delivery in unhygienic conditions, often without skilled birth attendants. WHO estimated that tetanus caused 59 thousand deaths in 2008.
- **Pertussis:** Also known as whooping cough, pertussis is a disease of the respiratory tract caused by bacteria that live in the mouth, nose, and throat. Many children who contract pertussis have coughing spells that last four to eight weeks. The disease is most dangerous in infants. WHO estimated that pertussis caused 195 thousand deaths in 2008.

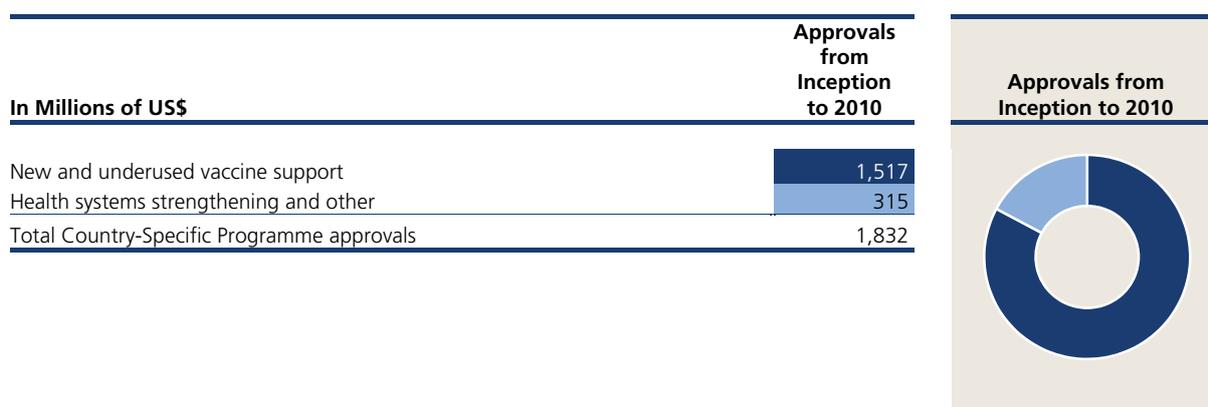
**Health Systems Strengthening (“HSS”) programmes:** The objective of HSS programmes is to achieve and sustain increased immunisation coverage, through strengthening the capacity of countries’ systems to provide immunisation and other health services. Countries are encouraged to use HSS funding to target the bottlenecks or barriers in their health systems.

**Immunisation Services Support (“ISS”) programmes:** GAVI provides developing countries with flexible reward payments for strengthening their immunisation systems. These payments are subject to strict performance requirements and GAVI works with governments and inter-agency coordinating committees to set goals and monitor progress.

**Injection Safety Support (“INS”) programmes:** GAVI contributes to the provision of auto-disable syringes, reconstitution syringes and safety boxes. These syringes and safety boxes facilitated the administering of vaccines in developing countries.

**Vaccine Introduction Grant:** Recognising that introduction of a new vaccine can imply additional costs for a country’s health system, GAVI provides additional support to bridge this resource gap. This support takes the form of an upfront cash grant and is used by implementing countries to pay for costs such as training, social mobilisation, programme management surveillance and monitoring.

From its inception to 31 December 2010, IFFIm approved the following amounts for disbursement to help fund GAVI’s Country-Specific Programmes:



## Investment Cases

From time to time, IFFIm funds one-time tactical investments in disease prevention and control. These investments are made through GAVI partners such as the United Nations Children’s Fund (“UNICEF”) and WHO. Each investment targeted a disease that constrains progress towards the United Nations Millennium Development Goals for improved child and maternal health. To date, IFFIm has helped to fund the following Investment Cases:

Yellow Fever Stockpiles: GAVI supported the creation and maintenance of yellow fever vaccine stockpiles to ensure that vaccines are ready for deployment as soon as an outbreak is identified. The stockpiles also help to secure supply for routine programmes. IFFIm funds were used for both outbreak response and preventative campaigns.

Polio Eradication: GAVI supported intensified eradication activities that were implemented to interrupt wild and vaccine-derived poliovirus transmission. These activities included sustaining polio surveillance and laboratory activities, improving social mobilisation and enhancing technical assistance.

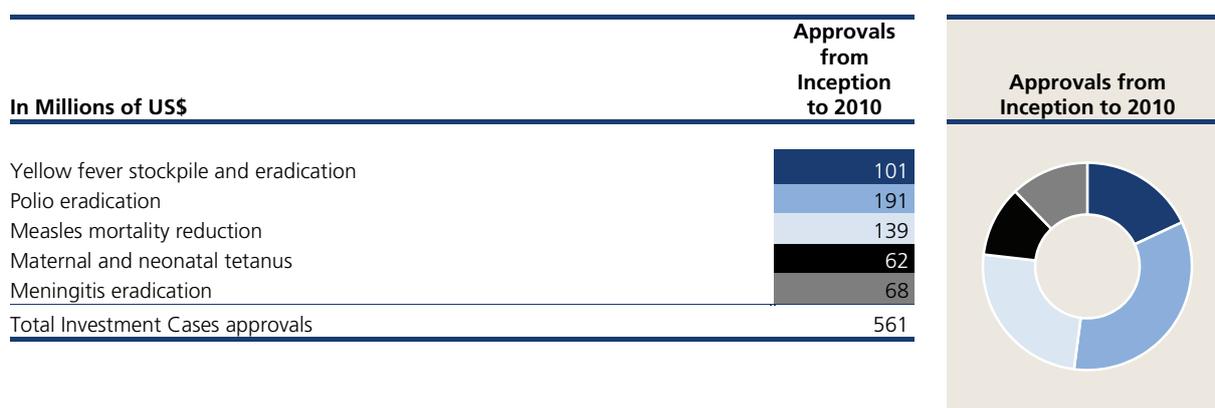
Measles Mortality Reduction: GAVI supported efforts to reduce the level of mortality from measles. Each year, measles kills nearly 200 thousand people globally, including many children under the age of five. The measles mortality reduction campaign is a partnership among several global health and development agencies to address this major childhood disease. Measles vaccination campaigns have become a channel for the delivery of other life-saving interventions, such as bed nets, de-worming medicine and vitamin supplements.

Maternal and Neonatal Tetanus: GAVI supported a campaign to eliminate maternal and neonatal tetanus. Maternal and neonatal tetanus continues to burden the most poorly served populations in the poorest countries of the world. The campaign was implemented to build on existing efforts to improve clean delivery practices and immunisation services in these populations.

Yellow Fever Continuation: In March 2009, GAVI, IFFIm and GFA boards approved funding for an extension and expansion of GAVI’s original yellow fever investment case described above. The additional funds allowed for increased and extended yellow fever vaccine coverage and also helped offset higher than expected vaccine prices.

Meningitis Eradication: GAVI supported efforts to eliminate meningococcal A meningitis epidemics in 25 African countries that were estimated to be home to approximately 95% of the world’s meningococcal meningitis burden. Meningococcal meningitis is a bacterial disease that mainly affects children and can result in death or permanent disability.

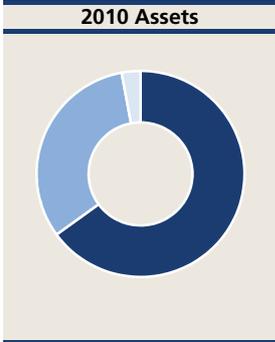
From its inception to 31 December 2010, IFFIm approved the following amounts for disbursement to help fund GAVI’s Investment Cases:



## Financial Overview

### Overview of Assets and Liabilities

The following table summarises IFFIm's assets and liabilities as of 31 December 2010 and 2009:

In Millions of US\$	2010	2009	Change	2010 Assets	2010 Liabilities
Sovereign pledges	3,172	2,882	290		
Funds held in trust	1,565	1,082	483		
Other assets	143	23	120		
<b>Total assets</b>	<b>4,880</b>	<b>3,987</b>	<b>893</b>		
Bonds payable	3,409	2,609	800		
Grants payable	517	437	80		
Other liabilities	1	3	(2)		
<b>Total liabilities</b>	<b>3,927</b>	<b>3,049</b>	<b>878</b>		

**Sovereign Pledges:** IFFIm's asset base consists primarily of irrevocable and legally binding multi-year sovereign pledges from the Grantors. As of 31 December 2010, the Grantors were the Republic of France, the Republic of Italy, the State of the Netherlands, the Kingdom of Norway, the Republic of South Africa, the Kingdom of Spain, the Kingdom of Sweden and the United Kingdom. The amounts pledged by the Grantors, along with the pledge dates, are listed in Note 2 to the financial statements.

Each Grantor committed to provide scheduled grant payments to GFA, a United Kingdom charity. GFA then assigned, to IFFIm, the right to receive these grant payments. In turn, IFFIm agreed to review and, if it deems appropriate, approve vaccine procurement, immunisation and HSS programmes submitted by GFA. IFFIm has also agreed to raise funds for the programmes it approves.

During 2010, IFFIm's sovereign pledges increased by US\$ 290 million due to the following:

- **New Sovereign Pledges:** In August 2010, IFFIm received new sovereign pledges from the United Kingdom and the Kingdom of Norway. The initial fair values of these pledges were US\$ 226 million and US\$ 176 million, respectively.
- **Fair Value Gains:** During 2010, the fair value of sovereign pledges was impacted by, among other things, changes in foreign exchange rates, changes in estimated Grant Payment Condition ("GPC") reductions. Fair value gains resulted in a US\$ 73 million increase in the value of sovereign pledges. IFFIm's GPC and method for valuing sovereign pledges are described in Note 15 to the financial statements.
- **Receipts from Grantors:** The abovementioned fair value increases were partially offset by payments received from the Grantors totalling US\$ 185 million during 2010, bringing the net increase in sovereign pledges to US\$ 290 million. From inception through 31 December 2010, cumulative payments received from the Grantors totalled US\$ 596 million.

**Funds Held in Trust and Investment Strategy:** IFFIm's funds held in trust represent an investment portfolio denominated in United States dollars and managed by the World Bank. IFFIm has established liquidity and investment policies based on recommendations made by the World Bank.

The World Bank maintains a single, commingled investment portfolio (the "Pool") for IFFIm, certain trust funds and other entities administered by the World Bank, as well as assets held in trust for other World Bank Group institutions. The Pool's assets are maintained separate from the funds of the World Bank Group.

The Pool is divided into sub-portfolios to which allocations are made based on funding specific investment horizons, risk tolerances and other eligibility requirements set by the World Bank. Under IFFIm's investment strategy approved by the trustees, IFFIm's liquid assets are invested in high-grade fixed-income instruments with interest rate sensitivity matching that of the liabilities funding IFFIm's investment portfolio.

IFFIm holds sufficient funds in trust to satisfy investor expectations and rating agency requirements that a sufficient balance be available to meet interest and principal payments to debt holders. Consistent with these purposes, IFFIm keeps funds available for a one-year time horizon. IFFIm's US\$ 1 billion inaugural bond matures in November 2011

and, therefore, to ensure that IFFIm has sufficient funds to redeem this bond as well as meet GAVI programme funding requirements for 2011, IFFIm's funds held in trust were increased to US\$ 1.6 billion as of 31 December 2010.

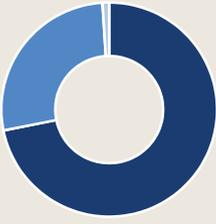
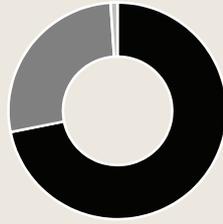
**Bonds Payable:** IFFIm has continued to raise funds on the global capital market. From its inception to 31 December 2010, IFFIm had raised US\$ 3.2 billion through bond issuances and had disbursed a total of US\$ 1.9 billion to GFA.

During 2010, IFFIm's bonds payable increased by US\$ 800 million primarily due to the following:

- **Bond Issuances and Redemptions:** During 2010, IFFIm issued six new bonds. The aggregate fair value of these six bonds was US\$ 940 million as of 31 December 2010. The increase due to new bond issuances was partially offset by the redemption of a US\$ 230 million bond in March 2010.
- **Fair Value Losses:** Over two thirds of IFFIm's borrowings are now denominated in currencies other than the United States dollar. As such, the fair value of these borrowings is highly sensitive to exchange rate movements. During 2010, IFFIm incurred value losses of US\$ 161 million on its borrowings.

## Overview of Income and Expenses

The following table summarises IFFIm's income and expenses for the years ended 31 December 2010 and 2009:

In Millions of US\$	2010	2009	Change	2010 Income	2010 Expenses
Contribution revenue	402	88	314		
Net fair value gains	152	70	82		
Investment income	6	11	(5)		
<b>Total income</b>	<b>560</b>	<b>169</b>	<b>391</b>		
Programme grants	400	620	(220)		
Financing costs	139	119	20		
Other expenses	5	5	-		
<b>Total expenses</b>	<b>544</b>	<b>744</b>	<b>(200)</b>		

**Contribution Revenue:** Contribution revenue is comprised of new sovereign pledges received from Grantors. In August 2010, the United Kingdom and the Kingdom of Norway pledged £ 250 million and kr 1.5 billion respectively, to GFA. GFA assigned the pledges to IFFIm in the same month and IFFIm recorded the US\$ 402 million aggregate fair value of the pledges as contribution revenue for the year ended 31 December 2010.

**Net Fair Value Gains:** As described above, IFFIm incurred significant fair value adjustments on its sovereign pledges and bonds payable. These adjustments were, however, hedged through currency and interest rate swaps. The *Hedging IFFIm's Market Risks* section below describes these hedges and summarises their impact on IFFIm income.

**Investment Income:** IFFIm's investment income decreased by US\$ 5 million from 2009 to 2010. This lower level of investment income earned during 2010 reflects the significantly lower interest rates experienced during 2010 compared to 2009.

**Programme Grants:** During 2010, GAVI continued to experience strong demand for vaccines and vaccine related support. To help fund this demand, GAVI requested a total of US\$ 400 million from IFFIm during the year. The *Programmes Funded by IFFIm* section above describes the various GAVI programmes that IFFIm has helped to fund.

**Financing Costs:** As described above, IFFIm issued six new bonds during 2010. As a result of these bond issuances, IFFIm incurred issuance costs and additional interest expense. These two factors increased financing costs by an aggregate of US\$ 20 million in 2010. The increase in financing costs was, however, partially mitigated using currency and interest rate swaps. IFFIm's use of swaps is described in the *Hedging IFFIm's Market Risks* section below.

**Other Expenses:** IFFIm's other expenses are comprised primarily of treasury management fees billed by the World Bank, legal fees, and administrative support services donated to IFFIm by GAVI. As there were no significant changes in the nature of IFFIm operations, its other expenses remained flat at US\$ 5 million from 2009 to 2010.

## Risk Management

The major risks, to which IFFIm is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage these risks as required by the *Statement of Recommended Practice: Accounting and Reporting by Charities*, issued in March 2005.

IFFIm has two main areas of risk; programme risks and financial risks:

- **Managing Programme Risks:** Programme risks include: (1) the risk that implementing countries may misuse funds they receive from IFFIm, and (2) the performance risk that IFFIm funds may not be efficiently and effectively applied by implementing countries to meet GAVI's programme objectives.

The programme risk related to misuse of funds is addressed by financial and management controls, put in place at the World Bank and GAVI, which control the IFFIm funds disbursement process. The programme performance risk is mitigated through the GAVI programme monitoring process, which is a multi-step monitoring and evaluation process that includes an initial project assessment and approval, as well as annual monitoring reviews.

- **Managing Financial Risks:** IFFIm's activities expose it to three principal types of financial risk: (1) credit risk, (2) liquidity risk, and (3) market risk. IFFIm seeks to mitigate each of these risks based on a risk management strategy approved by its Board.

IFFIm's market risk is comprised primarily of interest rate and foreign exchange rate risks. IFFIm mitigated these risks through the use of interest rate and currency swaps. Sovereign pledges were swapped into United States dollar floating rate assets and, at issuance, IFFIm's bonds payable were swapped into United States dollar floating rate liabilities. IFFIm's activities to hedge market risks are described further in the Hedging IFFIm's Market Risks section below.

Notes 12, 13 and 14 to the financial statements describe IFFIm's financial risks and related risk management activities in more detail.

## Credit Rating and Reserves Policy

IFFIm seeks to maintain an adequate level of liquidity to meet its operational requirements, provide predictability of programme funding and support its AAA credit rating. Taking these factors into account, IFFIm maintains a minimum liquidity equivalent to its cumulative contracted debt service payments for the next twelve months. This minimum liquidity level is recalculated and reset on a quarterly basis. Based on factors such as the strength of its financial base, its conservative financial policies and the strong support of the Grantors, IFFIm's Global Debt Issuance Programme is rated AAA by Standard & Poor's Ratings Service ("S&P") and Fitch Ratings, and Aaa by Moody's Investor Service.

## Hedging IFFIm's Market Risks

Several of IFFIm sovereign pledges and bonds payable are denominated in currencies other than the United States dollar. Therefore, IFFIm is exposed to the risk of financial loss or unpredictable cash flows resulting from fluctuations in foreign exchange rates. Since all of IFFIm's programme expenses are incurred in United States dollars and predictability of funding is essential to GAVI's mission, IFFIm has entered into currency swap contracts with the World Bank to mitigate the aforementioned risks. Under these contracts, IFFIm has effectively swapped foreign currency receipts from Grantors and payments to bond holders with United States dollar receipts from, and payments to, the World Bank.

In addition to the abovementioned foreign exchange risks, IFFIm is also exposed to potential adverse changes in the value of its sovereign pledges and bonds payable resulting from fluctuation in interest rates. In order to mitigate this risk, IFFIm has entered into interest rate swap contracts with the World Bank. Under these contracts, IFFIm has effectively swapped sovereign pledges into dollar floating rate receivables from the World Bank and bonds payable into floating rate payables to the World Bank.

The following table shows how IFFIm's use of currency and interest rate swaps hedged against the significant impacts that changes in interest and foreign exchange rates would otherwise have had on IFFIm's income for the years ended 31 December 2010 and 2009:

In Millions of US\$	2010		2009	
	Pledges	Bonds	Pledges	Bonds
Interest and fair value adjustments before impact of swaps	73	(300)	219	(333)
Impact of currency and interest rate swaps	(54)	294	(229)	294
Net interest and fair value adjustments after impact of swaps	19	(6)	(10)	(39)
Interest expense on bonds before impact of swaps		132		111
Impact of bond swaps on interest expense		(125)		(99)
Net interest expense on bonds after impact of swaps		7		12

## Recent Developments

In March 2011, GFA received a new sovereign pledge from the Commonwealth of Australia. GFA assigned the pledge to IFFIm in the same month. The pledge was in the amount of AU\$ 250 million and is payable over 19 years, commencing on 30 June 2011 and ending on 31 March 2030.

In March 2011, IFFIm completed its fourth bond issuance arranged by Daiwa Securities Group ("Daiwa"), raising R\$ 371 million or approximately US\$ 225 million. The previous, highly successful issuances arranged by Daiwa were completed in March 2008, February 2009 and March 2010. Since IFFIm's inception, the total amount of bond issuances arranged by Daiwa is over US\$ 1 billion.

## Future Plans

IFFIm has proven very successful in helping to align Grantors' pledges with demand for vaccines and immunisation related services. The multi-year nature of current sovereign pledges has also helped to facilitate long-term planning by Grantors, GAVI and implementing countries. However, the trustees believe that IFFIm has not yet reached its full potential and they are, in collaboration with GAVI and the World Bank, currently executing the following strategies for the future:

- **IFFIm Extension:** Grantors may be willing to extend the terms of their existing pledges by adding payments to these pledges. Due to currently low interest rates, these pledge extensions could have significant value even though they would be payable only in sixteen to twenty years' time.
- **IFFIm Expansion:** GAVI is expanding into new vaccine programmes for diseases such as pneumonia and, therefore, a case can be made for approaching new donors to make multi-year pledges for targeted funding campaigns. IFFIm could then leverage these new multi-year pledges to provide short and medium-term funding for GAVI's new vaccine programmes.

## Declarations by IFFIm's Directors

In accordance with section 418 of the Companies Act 2006, each person who is a director of IFFIm at the date of approval of this report confirms that:

- so far as he or she is aware, there is no relevant audit information of which IFFIm's auditors are unaware, and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that IFFIm's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

So far as each of the trustees is aware, applicable accounting standards have been followed.

## **Independent Auditors**

KPMG LLP was appointed as IFFIm's independent auditor for the financial years ended 31 December 2010 and 2009.

This report has been prepared in accordance with the *Statement of Recommended Practice: Accounting and Reporting by Charities*, issued in March 2005, and in accordance with the provisions of the Companies Act 2006.

Approved by the trustees and signed on their behalf by:

/s/ Alan R. Gillespie

Alan R. Gillespie  
IFFIm Board Chairman  
10 June 2011

# Financial Statements

## Statements of Income and Expenditures

In Thousands of US\$	Note	Year Ended 31 December 2010 Restricted Funds	Year Ended 31 December 2009 Restricted Funds
<u>Turnover</u>			
Contribution revenue	2	401,608	87,137
<u>Operating expenses</u>			
Programme grants to GFA	4	400,000	620,485
Treasury manager's fees	4	2,212	1,965
Governance costs	4	2,934	2,985
Total operating expenses		405,146	625,435
<u>Other operating income</u>			
Donated services	2	835	842
Operating loss		(2,703)	(537,456)
<u>Financing and investment income (expenses)</u>			
<u>Financing income (expenses) on bonds and bond swaps:</u>			
Net fair value gains on bonds and bond swaps	5	132,589	80,186
Interest expense on bonds		(132,437)	(110,554)
Net financing income (expenses) on bonds and bond swaps		152	(30,368)
<u>Other financing income (expenses):</u>			
Net fair value gains (losses) on pledges and pledge swaps	5	18,074	(9,522)
Other foreign exchange gains (losses)	5	940	(1,255)
Other financing charges		(6,586)	(8,091)
Net other financing income (expenses)		12,428	(18,868)
<u>Investment income:</u>			
Investment and interest income	3	5,670	10,773
Fair value gain on interest rate overlay swap	5	285	-
Total financing and investment income (expenses)		18,535	(38,463)
Surplus (Deficit) for the year		15,832	(575,919)

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

## Statements of Financial Activities

In Thousands of US\$	Note	Year Ended 31 December 2010 Restricted Funds	Year Ended 31 December 2009 Restricted Funds
<u>Incoming resources from generated funds</u>			
<u>Voluntary income:</u>			
Contribution revenue	2	401,608	87,137
Donated services	2	835	842
Total voluntary income		402,443	87,979
Investment and interest income	3	5,670	10,773
Total incoming resources from generated funds		408,113	98,752
<u>Resources expended</u>			
<u>Cost of generating funds:</u>			
Treasury manager's fee	4	2,212	1,965
Financing charges	4	139,023	118,645
Total cost of generating funds		141,235	120,610
Charitable activities	4	400,000	620,485
Governance costs	4	2,934	2,985
Total resources expended		544,169	744,080
Net resources expended		(136,056)	(645,328)
Net fair value gains on pledges, bonds and swaps	5	151,888	69,409
Net change in funds		15,832	(575,919)
Total funds as of the beginning of the year		937,343	1,513,262
Total funds as of the end of the year		953,175	937,343

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

All incoming resources and resources expended derive from continuing operations and there are no gains or losses other than those included in this statement.

## Balance Sheets

In Thousands of US\$	Note	As of 31 December 2010	As of 31 December 2009
<u>Noncurrent assets</u>			
Sovereign pledges due after more than one year	6	3,007,991	2,731,679
<u>Current assets</u>			
Derivative financial instruments	8	460,740	326,648
Sovereign pledges due within one year	6	163,588	150,424
Prepayments		424	396
<u>Cash and funds held in trust:</u>			
Cash		2,442	772
Funds held in trust	7	1,565,302	1,082,285
Total cash and funds held in trust		1,567,744	1,083,057
Total current assets		2,192,496	1,560,525
<u>Current liabilities</u>			
Derivative financial instruments	8	320,270	305,048
Creditors falling due within one year	9	1,079,932	267,490
Grants payable to GFA		517,064	437,064
Total current liabilities		1,917,266	1,009,602
Net current assets		275,230	550,923
Total assets less current liabilities		3,283,221	3,282,602
Creditors falling due after more than one year	10	2,330,046	2,345,259
Net assets		953,175	937,343
Restricted funds		953,175	937,343

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

Approved by the trustees and signed on their behalf by:

/s/ Alan R. Gillespie

Alan R. Gillespie  
IFFIm Board Chairman  
10 June 2011

## Statements of Cash Flows

In Thousands of US\$	Note	Year Ended 31 December 2010 Restricted Funds	Year Ended 31 December 2009 Restricted Funds
Net cash outflows from operating activities		(22,984)	(69,551)
<u>Returns on investments and servicing of financing</u>			
Investment and interest income received	3	5,670	10,773
Interest paid on bonds		(132,437)	(110,554)
<u>Management of liquid resources</u>			
Increase in funds held in trust	16	(483,017)	(936,923)
Net cash outflows before financing activities		(609,784)	(1,036,704)
<u>Cash inflows from financing activities</u>			
Proceeds from bond issuances	16	634,438	1,106,635
Net change in cash		1,670	380
Cash as of the beginning of the year		772	392
Cash as of the end of the year		2,442	772

Reconciliation of net change in funds to net cash outflows from operating activities:

In Thousands of US\$	2010	2009
Net change in funds	15,832	(575,919)
Investment and interest income	(5,670)	(10,773)
Bond interest expense	132,437	110,554
Fair value gains on sovereign pledges	(72,561)	(219,445)
Fair value losses on bonds	161,136	213,980
Initial fair value of pledges	(401,608)	(87,137)
Payments received from donors	184,693	165,662
(Increase) decrease in prepayments	(28)	46
(Increase) decrease in derivative financial instruments	(118,870)	19,066
Increase in trade creditors, amounts due to related parties, and accrued bond interest	894	23,957
Increase in advances received on pledges	761	-
Increase in grants payable to GFA	80,000	290,458
Net cash outflows from operating activities	(22,984)	(69,551)

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

## Notes to the Annual Financial Statements

### 1. Significant Accounting Policies

The principal accounting policies of the International Finance Facility for Immunisation Company (“IFFIm”) are summarised below. These accounting policies were consistently applied from prior years. IFFIm’s financial statements have been prepared on a going concern basis and approved by its trustees in accordance with applicable law and United Kingdom Accounting Standards.

Basis of Accounting: The financial statements are prepared:

- on the accruals basis of accounting, under the historical cost convention, with the exception of sovereign pledges, funds held in trust, derivative financial instruments, bonds payable and grants payable, which are included at fair value,
- in accordance with the *Statement of Recommended Practice: Accounting and Reporting by Charities*, issued in March 2005, applicable United Kingdom Accounting Standards and the Companies Act 2006,
- in accordance with FRS26 *Financial Instruments: Recognition and Measurement*, sovereign pledges, funds held in trust, derivative financial instruments, bonds payable and grants payable are measured at fair value with changes in fair value recognised in the income statement. These assets and liabilities are recorded at fair value based on the methodologies described in Note 15.

Contribution Revenue: Voluntary income received by way of contributions and grants that are for a defined portfolio of programme implementing countries or specified purposes is recognised as revenue in the restricted net asset class when there is a contractual obligation, certainty of receipt and when it can be reliably measured. Contributions and grants are reported as contribution revenue at fair value in the year in which payments are received or unconditional promises to give or pledges are made. See Notes 2 and 6 for more details on revenue calculation and recognition of pledges.

Donated Services: Donated services are included at the value to IFFIm of the service provided.

Charitable Activities: Charitable expenses comprise the direct costs of immunisation, vaccine procurement and health systems strengthening (“HSS”) grants by IFFIm. They are recognised as expenses in the Statements of Financial Activities when indicative funding confirmations to the GAVI Fund Affiliate (“GFA”) have been signed by any trustee on behalf of IFFIm’s board.

Governance Costs: Governance costs include the expenditure associated with meeting the constitutional and statutory requirements of IFFIm and include audit fees, legal fees as well as the costs of providing strategic direction to IFFIm.

Costs of Generating Funds: Any costs of securing the sovereign pledges that are borne by IFFIm are expensed through its Statements of Financial Activities in the periods in which they are incurred. IFFIm is allocated a percentage of the fundraising costs with the assignment of the pledges from GFA to IFFIm. Consequently, IFFIm’s costs of generating funds comprise the treasurer manager’s fees for managing IFFIm’s funds held in trust that generate its investment income and for managing IFFIm’s borrowings that generate the funds that IFFIm grants to GFA for immunisation, vaccine procurement and HSS programmes of the GAVI Alliance (“GAVI”).

The bond issuance costs are presented as finance charges in the Statements of Financial Activities.

Interest Income and Expense: Investment and interest income is recognised during the period in which it is earned. Interest expense is recognised during the period in which it is incurred.

Sovereign Pledges: Sovereign pledges are recognised as contribution revenue and as receivables upon assignment of donor contributions to IFFIm by GFA. Sovereign pledges are initially recognised at fair value then subsequently remeasured at fair value as of each reporting date. Gains and losses due to changes in fair market values are reported in fair value gains (losses) in the Statements of Financial Activities. Contribution amounts received from donors depend on a Grant Payment Condition (“GPC”) which allows the donors to reduce such amounts. See Note 15 for details of the GPC.

**Funds Held in Trust:** IFFIm's share in the pooled investment portfolio is measured at fair value on initial recognition, and then subsequently remeasured at fair value at the reporting date in accordance with FRS 26 *Financial Instruments: Measurements* and FRS 29 *Financial Instruments: Disclosure*. Gains or losses due to changes in fair market values are reported in fair value gains (losses) in the Statements of Financial Activities. See Notes 7 and 15 for further details.

**Cash:** Cash consists of cash at depository bank accounts. Cash does not include IFFIm's pooled investment portfolio, which is presented separately as funds held in trust in the Balance Sheets.

**Derivative Financial Instruments:** IFFIm uses derivatives to manage its assets and liabilities. Derivative financial instruments are accounted for at fair value. Changes in the fair values of derivatives are recognised as changes in restricted net assets in the periods of the changes and reported in fair value gains (losses) in the Statements of Financial Activities.

In applying FRS 26 *Financial Instruments: Measurements*, IFFIm has elected not to apply hedge accounting.

IFFIm has both: (1) a master netting agreement with the International Bank for Reconstruction and Development (the "World Bank") that legally provides for net settlement of receivables and payables on IFFIm's currency and interest rate swaps, and (2) the intention to settle such receivables and payables on a net basis. As such, IFFIm offsets derivative assets against derivative liabilities and presents the net amounts in the Balance Sheets.

**Bonds Payable:** Bonds payable are recognised at fair value at the time of issuance and subsequently remeasured at fair value at each reporting date. Bonds payable have been elected to be fair valued as IFFIm manages all its assets and liabilities on a fair value basis. The bond issuance costs are written off in the year of issue and are reported in other resources expended as finance charges in the Statements of Financial Activities. Gains or losses due to changes in fair market values are reported in fair value gains (losses) in the Statements of Financial Activities.

As IFFIm's bonds payable are measured at fair value with changes in fair value recognised in the income statement, bond issuance costs are expensed as incurred.

**Grants Payable:** Grants payable are recognised at fair value when an indicative funding confirmation to GFA has been signed by one of IFFIm's trustees on behalf of the IFFIm's board. They are subsequently remeasured at fair value at each reporting date. Gains or losses due to changes in fair market values are reported in fair value gains (losses) in the Statements of Financial Activities.

**Funds:** Funds, revenues, gains and losses are classified based on the existence of grantor-imposed restrictions. IFFIm receives its funding from grantors or by raising funds by borrowing in worldwide capital markets. Proceeds are used to fund programmes for a defined portfolio of eligible countries or specified purposes. Therefore all funds are treated as restricted funds. See Note 15 for IFFIm's defined portfolio of eligible countries.

**Foreign Currency Remeasurement:** The financial statements are presented in United States dollars which is IFFIm's functional and reporting currency. All financial assets are monetary assets. As such, foreign currency transactions are translated into the functional currency using the exchange rates in effect on the dates on which they occur. Exchange gains and losses arising on settled transactions are included in other incoming funds in the Statements of Financial Activities. Gains and losses on the translation of foreign currency denominated assets and liabilities at year end exchange rates are included in fair value gains (losses) in the Statements of Financial Activities.

**Use of Estimates:** The preparation of the annual financial statements in conformity with United Kingdom accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from these estimates.

Significant estimates are used in determining the fair values of IFFIm's sovereign pledges receivable, bonds payable and derivative financial instruments. The natures of these significant estimates are described in Note 15.

## 2. Contribution Revenue

**Contribution Revenue:** Several governments (the "Grantors") have entered into legally binding obligations to make scheduled grant payments to GFA over periods of up to 20 years. GFA has assigned the right to receive these grant payments to IFFIm in consideration for IFFIm's agreement to assess for approval immunisation, vaccine procurement and HSS programmes presented to IFFIm by GFA, and to use its reasonable endeavours to raise funds for such programmes if approved.

The details of the grant obligations entered into by the Grantors are as follows:

Grantor	Grant Date	Payment Period	Grant Amount, in Thousands
Republic of France <sup>1</sup>	2 October 2006	15 years	€ 372,800
Republic of France <sup>2</sup>	7 December 2007	19 years	€ 867,160
Republic of Italy	2 October 2006	20 years	€ 473,450
State of the Netherlands	18 December 2009	7 years	€ 80,000
Kingdom of Norway	2 October 2006	5 years	US\$ 27,000
Kingdom of Norway	31 August 2010	10 years	kr 1,500,000
Republic of South Africa	13 March 2007	20 years	US\$ 20,000
Kingdom of Spain	2 October 2006	20 years	€ 189,500
Kingdom of Sweden	2 October 2006	15 years	kr 276,150
United Kingdom	2 October 2006	20 years	£ 1,380,000
United Kingdom	5 August 2010	19 years	£ 250,000

<sup>1</sup> Acting through Agence Française de Développement.

<sup>2</sup> Acting through the Ministry of Economy, Industry and Employment.

Contribution revenue recognised was comprised of:

In Thousands of US\$	2010	2009
Initial fair value of pledge received from the Kingdom of Norway	175,868	-
Initial fair value of pledge received from the State of the Netherlands	-	87,137
Initial fair value of pledge received from the United Kingdom	225,740	-
Total contribution revenue	401,608	87,137

Donated Services: IFFIm received donated administrative services from GAVI in 2010 and 2009. The services donated by GAVI were valued by using a comprehensive cost allocation model to calculate a single administrative support amount.

The following donated services were recorded as both income and expense and valued at an amount equal to the cost incurred by GAVI and the GAVI Campaign:

In Thousands of US\$	2010	2009
Administrative support	835	842
Total donated services	835	842

### 3. Investment and Interest Income

In Thousands of US\$	2010	2009
Income from funds held in trust	5,653	10,758
Bank account interest	17	15
Total investment and interest income	5,670	10,773

#### 4. Total Resources Expended

In Thousands of US\$	2010	2009
<u>Cost of generating funds</u>		
<u>Treasury manager's fees:</u>		
Financial operations management	2,212	1,965
<u>Finance charges:</u>		
Bond issuance costs	6,586	8,091
Bond interest expense	132,437	110,554
<b>Total cost of generating funds</b>	<b>141,235</b>	<b>120,610</b>
<u>Charitable activities</u>		
<u>Country-specific programmes:</u>		
New and underused vaccines	400,000	445,788
Health systems strengthening and immunisation services	-	57,611
Injection safety supplies	-	5,486
<u>Investment cases:</u>		
Yellow fever continuation	-	43,881
Meningitis eradication	-	67,719
<b>Total charitable activities</b>	<b>400,000</b>	<b>620,485</b>
<u>Governance costs</u>		
<u>Professional services:</u>		
Consultancy fees	510	234
GAVI administrative support fee	835	842
Legal fees	783	877
<u>Auditor's remuneration:</u>		
Statutory audit	136	174
Taxation services and group reporting	130	158
<u>Other governance costs:</u>		
Trustees' indemnity insurance premiums	469	488
Trustees' meeting and travel expenses	71	195
Other trustees' expenses	-	17
<b>Total governance costs</b>	<b>2,934</b>	<b>2,985</b>

Administrative and Financial Management Support: Pursuant to the Finance Framework Agreement entered into by IFFIm, the Grantors, the World Bank, the GAVI Alliance and GFA, IFFIm has no employees. IFFIm outsources all administrative support to the GAVI Alliance, and outsources its treasury function, together with certain accounting and financial reporting support, to the World Bank.

Trustees' Expenses: IFFIm's trustees are not remunerated. They are, however, reimbursed for expenses they incur in attending meetings and performing other functions directly related to their duties as trustees. IFFIm also incurs professional indemnity insurance premium expenses for the trustees. IFFIm had six trustees as of 31 December 2010.

Consultancy Fees: IFFIm incurs fees for services received from various external consultants. Consultancy fees for 2010 included a US\$ 294 thousand one-time fee for the evaluation of IFFIm's financial management policies and practices. This one-time fee resulted in higher than normal consultancy fees during 2010.

## 5. Fair Value Gains and Losses

In Thousands of US\$	2010	2009
<u>Fair value gains (losses) on bonds</u>		
Fair value losses on bonds	(161,136)	(213,980)
Net fair value gains on bond swaps	293,725	294,166
Net fair value gains on bonds and bond swaps	132,589	80,186
<u>Fair value gains (losses) on pledges and pledge swaps</u>		
Fair value gains on sovereign pledges	72,561	219,444
Net fair value losses on pledge swaps	(54,487)	(228,966)
Net fair value gains (losses) on pledges and pledge swaps	18,074	(9,522)
Fair value gain on interest rate overlay swap	285	-
Other foreign exchange gains (losses)	940	(1,255)
Net fair value gains on pledges, bonds and swaps	151,888	69,409

The above fair value gains on bonds and bond swaps of US\$ 133 million exclude the impact of interest expense on bonds. Interest expense on bonds is presented on the Statement of Income and Expenditures, along with IFFIm's net financing income (expenses) after the impact of bond interest.

Note 8 provides details of IFFIm's interest rate overlay swap.

## 6. Sovereign Pledges

IFFIm's sovereign pledges represent grants from the Grantors. These legally binding payment obligations are irrevocable by the Grantors and are paid in several instalments according to predetermined fixed payment schedules.

The total amounts paid by the Grantors to IFFIm are impacted by the GPC. See Note 15 for further details.

Sovereign pledges, like contribution revenue, are recognised upon assignment of the Grantor contributions to IFFIm by GFA. Fair value adjustments due to changes in interest rates, the GPC, discounting and exchange rates are recognised from inception until year end.

Sovereign pledges were comprised of:

In Thousands of US\$	2010	2009
Balance as of the beginning of the year	2,882,103	2,741,183
Initial fair value of pledges	401,608	87,137
Payments received from donors	(184,693)	(165,662)
Fair value gains	72,561	219,445
Balance as of the end of the year	3,171,579	2,882,103
Sovereign pledges due within one year	163,588	150,424
Sovereign pledges due after more than one year	3,007,991	2,731,679
Total sovereign pledges	3,171,579	2,882,103

Note 5 provides details on fair value gains from interest rate and currency swaps that were recognised related to the sovereign pledges due.

## 7. Funds Held in Trust

Funds held in trust represent cash, money market instruments, government and agency obligations, asset-backed securities and corporate securities (together "Liquid Assets") that are managed by the World Bank. The World Bank maintains a single investment portfolio (the "Pool") for IFFIm, GFA and other trust funds it administers. The World Bank maintains the Pool's assets separate and apart from the funds owned by the World Bank Group.

The Pool is divided into sub-portfolios to which allocations were made based on fund specific investment horizons, risk tolerances and other eligibility requirements set by the World Bank. Under an investment strategy approved by IFFIm's trustees, IFFIm's Liquid Assets were invested in high-grade fixed-income instruments with interest rate sensitivity matching that of the liabilities funding the portfolio.

In Thousands of US\$	2010	2009
IFFIm's share in the Pool's fair value	1,565,302	1,082,285

The Pool's fair value is based on market quotations. Gains, losses and investment income are recognised in the period in which they occurred and are allocated to IFFIm on a daily basis. These net gains totalled US\$ 5.7 million and US\$ 10.8 million for the years ended 31 December 2010 and 2009, respectively, and were reported as investment income in the Statements of Financial Activities.

## 8. Derivative Financial Instruments

IFFIm entered into interest rate and currency swaps that economically hedged certain risks as discussed below.

For financial reporting purposes, IFFIm elected not to define any qualifying hedge relationships as defined by FRS 26 *Financial Instruments: Measurements*. All derivatives were valued at fair value recognising the resulting gains and losses in the Statements of Financial Activities during the period in which they occur. Net gains on derivatives were recognised as changes in restricted net assets.

The World Bank, as IFFIm's treasury manager, executed certain swaps to lock in the total present value of pledges. The locked-in values of the pledges were determined: (1) using the market exchange and interest rates at the time the swap contracts were written, (2) considering the different payment profiles in different grant currencies and, (3) assuming that the reduction amounts due to the GPC will remain at the levels they were as of the time the swap contracts were written, (4) assuming no Grantor defaults.

At issuance, IFFIm's fixed rate bond obligations have been swapped simultaneously on a back-to-back basis into United States dollar 3-month LIBOR, floating-rate liabilities.

As described in Note 13, IFFIm maintains a minimum liquidity equivalent to its cumulative contracted debt service payments for the next twelve months. Therefore, as of 31 December 2010, IFFIm maintained US\$ 1 billion in Liquid Assets to cover the redemption of its US\$ 1 billion inaugural bond in November 2011. In December 2010, the World Bank executed, on IFFIm's behalf, an interest rate overlay swap contract to lock in an 11-month fixed rate for the US\$1 billion in additional Liquid Assets. Under this contract, IFFIm makes interest payments at 3-month LIBOR floating rates and receives fixed-rate interest payments totalling US\$ 4 million.

The notional amounts and fair values of the interest rate and currency swaps were:

In Thousands of US\$	31 December 2010		31 December 2009	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Currency and interest rate swaps receivable related to sovereign pledges	464,858	10,085	2,161,247	38,500
Currency and interest rate swaps receivable related to bonds payable	4,255,788	450,370	2,827,137	288,148
Interest rate overlay swap	1,000,000	285	-	-
<b>Total currency and interest rate swaps receivable</b>		<b>460,740</b>		<b>326,648</b>
Currency and interest rate swaps payable related to sovereign pledges	4,297,327	(317,434)	2,413,971	(292,388)
Currency and interest rate swaps payable related to bonds payable	603,768	(2,836)	808,144	(12,660)
<b>Total currency and interest rate swaps payable</b>		<b>(320,270)</b>		<b>(305,048)</b>
<b>Total fair value of interest rate and currency swaps</b>		<b>140,470</b>		<b>21,600</b>

## 9. Creditors Falling Due within One Year

In Thousands of US\$	2010	2009
Trade creditors	458	2,791
Amounts due to the GAVI Campaign	-	308
Amounts due to the GAVI Alliance	250	192
Advances received on pledges	761	-
Bonds payable falling due within one year	1,078,463	264,199
Total creditors falling due within one year	1,079,932	267,490

## 10. Creditors Falling Due after More than One Year

Creditors falling due after more than one year are comprised of bonds payable. IFFIm issues bonds on worldwide capital markets to meet IFFIm's primary objective of funding GAVI's immunisation, vaccine procurement and HSS programmes. IFFIm's outstanding bonds payable were:

Issue Date	Maturity Date	Coupon Interest Rate	Nominal Amount, in Thousands of US\$	Fair Value as of 31 December 2010, in Thousands of US\$	Fair Value as of 31 December 2009, in Thousands of US\$
14 November 2006	14 November 2011	5.00%	1,000,000	1,048,155	1,073,886
18 March 2008	18 March 2010	9.90%	-	-	237,348
19 February 2009	21 February 2012	2.60%	45,736	44,885	38,493
19 February 2009	21 February 2012	2.65%	139,083	139,226	125,083
19 February 2009	21 February 2012	6.26%	477,503	491,078	422,546
15 May 2009	15 May 2014	3.38%	388,200	414,272	416,519
15 May 2009	13 June 2014	0.00%	29,280	27,333	26,458
27 May 2009	25 May 2012	3.51%	50,818	49,796	43,020
27 May 2009	25 May 2012	1.00%	105,000	105,880	103,335
24 June 2009	24 June 2013	4.36%	71,746	69,616	60,159
24 June 2009	24 June 2013	6.85%	36,001	36,527	30,551
24 June 2009	24 June 2024	0.50%	120,506	42,019	32,060
23 March 2010	27 March 2013	7.15%	376,580	391,485	-
28 June 2010	27 June 2014	4.77%	17,481	16,875	-
28 June 2010	27 June 2014	8.30%	62,246	63,286	-
28 June 2010	29 June 2020	0.50%	64,772	31,604	-
15 October 2010	15 October 2015	5.50%	35,572	34,960	-
8 December 2010	8 December 2015	5.75%	406,540	401,512	-
Total bonds payable				3,408,509	2,609,458
Due within one year				(1,078,463)	(264,199)
Due after more than one year				2,330,046	2,345,259

## 11. Movement of Funds

In Thousands of US\$	As of 31 December 2009	Incoming Resources	Resources Expended	As of 31 December 2010
Sovereign pledges assigned from GFA	2,897,668	401,608	(2,099)	3,297,177
Investment and interest income	44,230	5,670	-	49,900
Other gains (losses) and other income (expenses)	(11,807)	151,888	(141,235)	(1,154)
<u>Donated services:</u>				
Administrative support	-	835	(835)	-
<u>Programme funding to GFA:</u>				
Country-specific programmes	(1,251,058)	-	(400,000)	(1,651,058)
Yellow fever stockpile investment case	(57,140)	-	-	(57,140)
Polio eradication investment case	(191,280)	-	-	(191,280)
Measles mortality reduction investment case	(139,000)	-	-	(139,000)
Maternal and neonatal tetanus investment case	(61,620)	-	-	(61,620)
Pentavalent payment guarantee	(181,050)	-	-	(181,050)
Yellow fever continuation investment case	(43,881)	-	-	(43,881)
Meningitis eradication investment case	(67,719)	-	-	(67,719)
<b>Total restricted funds</b>	<b>937,343</b>	<b>560,001</b>	<b>(544,169)</b>	<b>953,175</b>

In Thousands of US\$	As of 31 December 2008	Incoming Resources	Resources Expended	As of 31 December 2009
Sovereign pledges assigned from GFA	2,812,674	87,137	(2,143)	2,897,668
Investment and interest income	33,457	10,773	-	44,230
Other gains (losses) and other income (expenses)	39,394	69,409	(120,610)	(11,807)
Administrative support	-	842	(842)	-
Country-specific programmes	(742,173)	-	(508,885)	(1,251,058)
Yellow fever stockpile investment case	(57,140)	-	-	(57,140)
Polio eradication investment case	(191,280)	-	-	(191,280)
Measles mortality reduction investment case	(139,000)	-	-	(139,000)
Maternal and neonatal tetanus investment case	(61,620)	-	-	(61,620)
Pentavalent payment guarantee	(181,050)	-	-	(181,050)
Yellow fever continuation investment case	-	-	(43,881)	(43,881)
Meningitis eradication investment case	-	-	(67,719)	(67,719)
<b>Total restricted funds</b>	<b>1,513,262</b>	<b>168,161</b>	<b>(744,080)</b>	<b>937,343</b>

## 12. Credit Risk

Credit risk is the risk that IFFIm may suffer financial loss should the Grantors, market counterparties or implementing countries fail to fulfil their contractual obligations. The carrying amounts of financial assets represent IFFIm's maximum credit exposures. These maximum exposures were:

In Thousands of US\$	2010	2009
Sovereign pledges	3,171,579	2,882,103
Cash, investments and derivatives	1,708,214	1,104,657
<b>Total credit exposure</b>	<b>4,879,793</b>	<b>3,986,760</b>

Credit Risk Related to Sovereign Pledges: IFFIm was exposed to Grantor credit risk on pledges from highly rated governments. This exposure is detailed by Grantor in Note 2 above. With the exception of the Republic of South Africa, all of the Grantors' credit ratings were between A+ and AAA as of 31 December 2010.

The Grantors' credit ratings as of 31 December 2010 and 2009, as determined by Standard and Poor's Ratings Service ("S&P"), were:

Grantor	2010	2009
Republic of France	AAA	AAA
Republic of Italy	A+	A+
State of the Netherlands	AAA	AAA
Kingdom of Norway	AAA	AAA
Republic of South Africa	BBB+	BBB+
Kingdom of Spain	AA	AA+
Kingdom of Sweden	AAA	AAA
United Kingdom	AAA	AAA

IFFIm was also indirectly exposed to implementing country credit risk embodied in the GPC. IFFIm took this risk into account when determining the fair value of sovereign pledges. See Note 15 for details.

Credit Risk Related to Cash, Investments and Derivatives: The World Bank, an AAA credit-rated institution, managed IFFIm's credit risk related to cash, investments and derivatives. The World Bank managed the risk on derivative contracts by serving as the counterparty for all IFFIm's swaps.

To manage credit risk related to investments, the World Bank invests in highly rated Liquid Assets. The World Bank was limited to investments with the following minimum credit ratings:

- Investments in money market instruments were limited to instruments issued or guaranteed by financial institutions whose senior debt securities were rated at least A- by the major rating agencies.
- Investments in government and agency obligations were limited to obligations issued or unconditionally guaranteed by government agencies rated at least AA- by the major rating agencies if denominated in a currency other than the issuers' home currencies. Obligations denominated in issuers' home currencies required no rating. Obligations issued by an agency or instrumentality of a government, a multilateral organisation or any other official entity required a minimum credit rating of AA-.
- Investments in asset-backed securities and corporate securities were limited to securities with a minimum rating of AAA.

IFFIm's investments in money market instruments, government and agency obligations, asset-backed securities and corporate securities had the following credit ratings:

In Thousands of US\$	2010	2009
Instruments and securities rated AAA	561,196	413,710
Instruments and securities rated AA-	644,096	352,092
Instruments and securities rated AA	318,827	97,102
Instruments and securities rated A+	41,174	214,655
Instruments and securities rated A-	-	1,252
Instruments and securities rated A	-	3,474
Instruments and securities rated BB+	9	-
Total funds held in trust	1,565,302	1,082,285

### 13. Liquidity Risk

Liquidity risk is the risk that IFFIm may be unable to meet its obligations, when they fall due, as a result of a sudden, and potentially protracted, increase in cash outflows. Under its liquidity policy, IFFIm seeks to maintain an adequate level of liquidity to meet its operational requirements, provide predictability of programme funding and support its AAA credit rating. Taking these factors into account, IFFIm maintains a minimum liquidity equivalent to its cumulative contracted debt service payments for the next twelve months. This minimum liquidity level is recalculated and reset on a quarterly basis. As of 31 December 2010, the calculated minimum liquidity was US\$ 1 billion and the value of IFFIm's Liquid Assets was US\$ 1.6 billion. As of 31 December 2009, the calculated minimum liquidity was US\$ 235 million and the value of IFFIm's Liquid Assets was US\$ 1.1 billion.

Based on factors such as the strength of its financial base, its conservative financial policies and the strong support of the Grantors, IFFIm's Global Debt Issuance Programme is rated AAA by S&P and Fitch Ratings, and Aaa by Moody's Investor Service.

Also, from time to time, IFFIm's trustees set a limit on IFFIm's gearing ratio. The gearing ratio is calculated using IFFIm's net financial liabilities as a percentage of the net present value of pledges due from the Grantors, after the impact of amounts due on swaps held.

The following were the contractual undiscounted maturities of IFFIm's financial liabilities, including estimated interest payments:

<b>As of 31 December 2010, in Thousands of US\$</b>	<b>Total Cash Outflows</b>	<b>Due in Less than One Year</b>	<b>Due in 2012</b>	<b>Due in 2013</b>	<b>Due from 2014 through 2029</b>
Bonds payable	(3,808,573)	(1,165,142)	(913,944)	(545,093)	(1,184,394)
Grants payable to GFA	(517,064)	(517,064)	-	-	-
Derivative financial liabilities	(383,803)	(9,821)	(17,910)	(22,402)	(333,670)
<b>Total undiscounted maturities</b>	<b>(4,709,440)</b>	<b>(1,692,027)</b>	<b>(931,854)</b>	<b>(567,495)</b>	<b>(1,518,064)</b>

<b>As of 31 December 2009, in Thousands of US\$</b>	<b>Total Cash Outflows</b>	<b>Due in Less than One Year</b>	<b>Due in 2011</b>	<b>Due in 2012</b>	<b>Due from 2013 through 2026</b>
Bonds payable	(2,907,423)	(344,172)	(1,103,120)	(784,824)	(675,307)
Grants payable to GFA	(437,064)	(437,064)	-	-	-
Derivative financial liabilities	(315,465)	(13,864)	(20,913)	(21,852)	(258,836)
<b>Total undiscounted maturities</b>	<b>(3,659,952)</b>	<b>(795,100)</b>	<b>(1,124,033)</b>	<b>(806,676)</b>	<b>(934,143)</b>

The trustees' expect that IFFIm will receive cash inflows upon maturity of its derivative financial assets. The following are the expected undiscounted inflows from derivative financial assets and the expected undiscounted net cashflows from all of IFFIm's derivative financial instruments:

<b>As of 31 December 2010, in Thousands of US\$</b>	<b>Total Cash Inflows (Outflows)</b>	<b>Due in Less than One Year</b>	<b>Due in 2012</b>	<b>Due in 2013</b>	<b>Due from 2014 through 2029</b>
Derivative financial assets	748,545	161,845	331,250	121,365	134,085
Derivative financial liabilities	(383,803)	(9,821)	(17,910)	(22,402)	(333,670)
<b>Net cash inflows (outflows)</b>	<b>364,742</b>	<b>152,024</b>	<b>313,340</b>	<b>98,963</b>	<b>(199,585)</b>

<b>As of 31 December 2009, in Thousands of US\$</b>	<b>Total Cash Inflows (Outflows)</b>	<b>Due in Less than One Year</b>	<b>Due in 2011</b>	<b>Due in 2012</b>	<b>Due from 2013 through 2026</b>
Derivative financial assets	521,487	113,398	67,938	194,634	145,517
Derivative financial liabilities	(315,465)	(13,864)	(20,913)	(21,852)	(258,836)
<b>Net cash inflows (outflows)</b>	<b>206,022</b>	<b>99,534</b>	<b>47,025</b>	<b>172,782</b>	<b>(113,319)</b>

The trustees do not expect that the cash flows included in the above maturity analyses could occur significantly earlier, or at significantly different amounts.

## 14. Market Risk

Market risk is the risk that IFFIm's net assets or deficit for the year, or its ability to meet its objectives, may be adversely affected by changes in the level of, or volatility in, market rates or prices. IFFIm's market risk objectives are: (1) understanding the components of IFFIm's market risk, (2) controlling IFFIm's market risk through the use of currency and interest swaps, and (3) facilitating predictable funding of GAVI programmes within a controlled and transparent risk management framework.

IFFIm's market risk is comprised primarily of foreign exchange rate risk and interest rate risk. Each of these is described further below.

**Foreign Exchange Rate Risk:** IFFIm was exposed to foreign exchange risks from currency mismatches as well as timing differences between receipt of Grantor payments, payment of bond obligations, disbursements to GFA and issuance of IFFIm bonds. To mitigate these risks, Grantor pledges were swapped into United States dollar floating rate assets and, at issuance, IFFIm's bonds payable were swapped into United States dollar floating rate liabilities.

The carrying amounts of IFFIm's foreign currency assets and liabilities were:

As of 31 December 2010, in Thousands of US\$	Foreign Currency Assets	Foreign Currency Liabilities	Net Exposure
Australian dollar	619,938	(617,577)	2,361
Brazilian real	63,425	(63,286)	139
Euro	1,456,402	(1,757,151)	(300,749)
British pound	1,981,617	(2,203,767)	(222,150)
Norwegian krone	173,910	(194,332)	(20,422)
New Zealand dollar	138,955	(139,226)	(271)
Swedish krona	22,027	(24,258)	(2,231)
South African rand	997,019	(992,712)	4,307

As of 31 December 2009, in Thousands of US\$	Foreign Currency Assets	Foreign Currency Liabilities	Net Exposure
Australian dollar	141,945	(141,671)	274
Euro	1,599,951	(1,864,456)	(264,505)
British pound	1,705,351	(1,906,777)	(201,426)
New Zealand dollar	125,154	(125,083)	71
Swedish krona	22,145	(24,894)	(2,749)
South African rand	726,314	(722,505)	3,809

The following exchange rates applied during the year:

In US\$	Average Rate for the Year Ended 31 December 2010	Spot Rate as of 31 December 2010	Average Rate for the Year Ended 31 December 2009	Spot Rate as of 31 December 2009
Australian dollar	0.9198	1.0164	0.7910	0.8995
Brazilian real	0.5681	0.6026	-	-
Euro	1.3270	1.3384	1.3944	1.4398
British pound	1.5458	1.5528	1.5636	1.6195
Norwegian krone	0.1654	0.1714	-	-
New Zealand dollar	0.7215	0.7770	0.6344	0.7259
Swedish krona	0.1388	0.1491	0.1306	0.1403
South African rand	0.1365	0.1506	0.1200	0.1351

Sensitivity to Foreign Exchange Rates: Strengthening of the above currencies, against the United States dollar, as of 31 December 2010 and 2009 would have increased (decreased) IFFIm's net assets and deficits for those years by the amounts shown below. This analysis is based on foreign currency exchange rate variances that IFFIm considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain unchanged:

In Thousands of US\$	Increase (Decrease) in Deficit for the Year Ended and Net Assets as of 31 December 2010		Increase (Decrease) in Deficit for the Year Ended and Net Assets as of 31 December 2009	
	10% Strengthening against US\$	10% Weakening against US\$	10% Strengthening against US\$	10% Weakening against US\$
Australian dollar	(208)	255	(25)	30
Brazilian real	(13)	15	-	-
Euro	27,497	(33,607)	25,366	(31,002)
British pound	20,270	(24,775)	18,340	(22,416)
Norwegian krone	1,857	(2,269)	-	-
New Zealand dollar	25	(30)	(6)	8
Swedish krona	206	(251)	250	(306)
South African rand	(391)	478	65,682	(80,278)

Interest Rate Risk: IFFIm was exposed to interest rate risk from differences in the interest rate bases of the bonds payable and funds held in trust. IFFIm used interest rate swaps to mitigate this exposure. The interest rate profiles of IFFIm's interest-bearing financial instruments, including derivatives, with the exception of funds held in trust, were:

In Thousands of US\$	2010 Carrying Amount	2009 Carrying Amount
<u>Fixed rate instruments</u>		
Financial assets	2,217,012	1,506,693
Financial liabilities	(7,030,868)	(5,946,657)
Net fixed rate instruments	(4,813,856)	(4,439,964)
<u>Variable rate instruments</u>		
Financial assets	3,315,594	2,945,454
Financial liabilities	(2,044,375)	(1,372,909)
Net variable rate instruments	1,271,219	1,572,545

Sensitivity to Interest Rates: Changes of 25 basis points in interest rates as of 31 December 2010 and 2009 would have increased (decreased) IFFIm's net assets and deficits for those years by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain unchanged:

In Thousands of US\$	Increase (Decrease) in Deficit for the Year Ended and Net Assets as of 31 December 2010	Increase (Decrease) in Deficit for the Year Ended and Net Assets as of 31 December 2009
25 basis point increase	(26,675)	7,654
25 basis point decrease	27,519	(7,982)

Values at Risk ("VARs") for Funds Held in Trust: VARs measure, in terms of fair value changes, the potential losses due to adverse market movements over a given interval at a given confidence level. VARs are conceptually applicable to all financial risk types with valid regular price histories. The 95% annualised VARs for IFFIm's funds held in trust were US\$ 5 million and US\$ 7 million for the years ended 31 December 2010 and 2009, respectively.

## 15. Fair Values of Financial Instruments

Fair Values Compared to Carrying Amounts: The fair values of IFFIm's financial assets and liabilities, together with the carrying amounts shown in the statements of financial position, were as follows:

In Thousands of US\$	31 December 2010		31 December 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets carried at fair value</u>				
Sovereign pledges	3,171,579	3,171,579	2,882,103	2,882,103
Funds held in trust	1,565,302	1,565,302	1,082,285	1,082,285
Derivative financial instruments	140,470	140,470	21,600	21,600
Total assets carried at fair value	4,877,351	4,877,351	3,985,988	3,985,988
<u>Assets carried at amortised cost</u>				
Prepayments	424	424	396	396
Cash	2,442	2,442	772	772
Total assets carried at amortised cost	2,866	2,866	1,168	1,168
<u>Liabilities carried at fair value</u>				
Bonds payable	3,408,509	3,408,509	2,609,458	2,609,458
Grants payable to GFA	517,064	517,064	437,064	437,064
Total liabilities carried at fair value	3,925,573	3,925,573	3,046,522	3,046,522
<u>Liabilities carried at amortised cost</u>				
Accounts payable	1,469	1,469	3,291	3,291
Total liabilities carried at amortised cost	1,469	1,469	3,291	3,291

Fair Value Hierarchy: The table below analyses IFFIm's financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Financial instruments that were valued using unadjusted prices quoted in active markets for identical assets and liabilities.
- Level 2: Financial instruments that were valued using inputs, other than quoted prices included with Level 1, which were observable for the asset or liability, either directly or indirectly.
- Level 3: Financial instruments whose valuation incorporated inputs for the asset or liability that were not based on observable market data.

As of 31 December 2010, in Thousands of US\$	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Sovereign pledges	-	-	3,171,579	3,171,579
Funds held in trust	23,370	1,541,932	-	1,565,302
Derivative financial instruments	-	140,470	-	140,470
<b>Total financial assets</b>	<b>23,370</b>	<b>1,682,402</b>	<b>3,171,579</b>	<b>4,877,351</b>
<b>Financial liabilities</b>				
Bonds payable	-	3,408,509	-	3,408,509
Grants payable to GFA	-	517,064	-	517,064
<b>Total financial liabilities</b>	<b>-</b>	<b>3,925,573</b>	<b>-</b>	<b>3,925,573</b>

As of 31 December 2009, in Thousands of US\$	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Sovereign pledges	-	-	2,882,103	2,882,103
Funds held in trust	6,852	1,075,335	98	1,082,285
Derivative financial instruments	-	21,600	-	21,600
<b>Total financial assets</b>	<b>6,852</b>	<b>1,096,935</b>	<b>2,882,201</b>	<b>3,985,988</b>
<b>Financial liabilities</b>				
Bonds payable	-	2,609,458	-	2,609,458
Grants payable to GFA	-	437,064	-	437,064
<b>Total financial liabilities</b>	<b>-</b>	<b>3,046,522</b>	<b>-</b>	<b>3,046,522</b>

The changes in the aggregate fair value of IFFIm's Level 3 financial assets and liabilities were:

In Thousands of US\$	2010	2009
Balance as of the beginning of the year	2,882,103	2,741,183
Initial fair value of pledges	401,608	87,137
Donor payments	(184,693)	(165,662)
Fair value gains (losses)	72,561	219,445
<b>Balance as of the end of the year</b>	<b>3,171,579</b>	<b>2,882,103</b>

The bases for techniques that IFFIm applied in determining the fair values of financial assets and liabilities are summarised below.

**Funds Held in Trust:** The World Bank, as treasury manager, maintains IFFIm's investments on a pooled accounting basis and the pooled investments are reported at fair value. IFFIm's share in pooled cash and investments represents IFFIm's allocated share of the Pool's fair value at the end of the reporting period. The fair value is based on market quotations where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The corresponding proportionate interest income and investment gains or losses are recognised by IFFIm in the year in which they occur.

**Sovereign Pledges Receivable:** Fair values are estimated using a discounted cash flow method. Each cash flow is reduced by an estimated reduction amount due to the GPC and the reduced cash flows are discounted to present value using observable Grantor-specific interest rates.

The GPC allows the Grantors to reduce their payments in the event that an IFFIm-eligible country falls into protracted arrears on its obligations to the International Monetary Fund (the "IMF"). Each implementing country has been ascribed a weight in a reference portfolio that will remain static for the life of IFFIm. Donors reduce the amounts they pay IFFIm by the aggregate percentage weights of countries that are in protracted arrears to the IMF. When countries clear their arrears to the IMF, future amounts payable by donors to IFFIm are increased by the respective weights of those clearing countries. The reference portfolio comprises 70 predetermined IFFIm-eligible countries. Each implementing country has been given a weighting of either 1%, 3% or 5%, totalling of 100%, as shown in the table below. The amount of each Grantor payment is determined 25 business days prior to the due date of such payment.

The reference portfolio is as follows:

Country	Country Weighting	Total Share
Afghanistan, Angola, Armenia, Azerbaijan, Benin, Bhutan, Bolivia, Burkina, Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo, Republic of Cote d'Ivoire, Djibouti, Eritrea, The Gambia, Georgia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Kenya, Kiribati, Kyrgyzstan, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Papua New Guinea, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sri Lanka, Sudan, Tajikistan, Tanzania, Timor-Leste, Togo, Uganda, Ukraine, Uzbekistan, Yemen Republic, Zambia, Zimbabwe	1%	62%
Vietnam	3%	3%
Bangladesh, Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria, Pakistan	5%	35%

The fair values of the contributions receivable are estimated using a discounted cash flow method. Each cash flow is reduced by an estimated reduction amount due to the grant payment condition and the reduced cash flows are discounted to present value at donor-specific risk-free interest rates. The reduction amount is calculated using a probabilistic model, which estimates the likelihood and duration that any implementing country might fall into arrears with the IMF. This probabilistic model is based on the assumption that the performance of the implementing countries since 1981 is a reasonable proxy for their future performance.

The initial GPC reduction rate used in October 2006 was 17.6%. The rate was 15.5% and 16.3% as of 31 December 2010 and 2009 respectively. 1% decreases in the GPC reduction rates as of 31 December 2010 and 2009 would have resulted in increases in the fair values of sovereign pledges of US\$ 38 million and US\$ 34 million, respectively. 1% increases in the GPC reduction rates would have had equal but opposite effects on the fair values of sovereign pledges.

During the reporting period ending December 31, 2010, three reference portfolio countries, each with 1% weighting, were in protracted arrears to the IMF. Those countries were Somalia, Sudan and Zimbabwe. No reduction to cash flows has been made to reflect the credit risk of donors themselves, due to the overall high credit quality of IFFIm's donors.

For the above sovereign pledges as of December 31, 2010, market based discount rates ranging from 0.3% to 5.9% were applied, as appropriate, depending on the donor, payment schedule and currency of the grant payments.

**Bonds Payable:** The fair values of IFFIm's bonds payable were determined using a discounted cash flow method, which relied on market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

For the years ended 31 December 2010 and 2009, the changes in the fair values of bonds payable that were attributable to IFFIm's own credit spreads were decreases of US\$ 5 million and US\$ 7 million, respectively.

**Grants Payable to GFA:** These liabilities are short-term in nature and, therefore, their carrying values are deemed to be reasonable estimates of their fair values.

**Derivative Financial Instruments:** The fair values of derivatives were estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on that date. All model inputs are based on readily observable market parameters such as yield curves, foreign exchange rates, and basis spreads.

## 16. Notes to the Statements of Cash Flows

The following table analyses changes in net debt:

In Thousands of US\$	Fair Value as of 31 December 2009	Cash Flows	Fair Value Movement	Fair Value as of 31 December 2010
Cash	772	1,670	-	2,442
Bonds payable	(2,576,101)	(634,438)	(161,136)	(3,371,675)
Funds held in trust	1,082,286	483,017	-	1,565,303
Total	(1,493,043)	(149,751)	(161,136)	(1,803,930)

In Thousands of US\$	Fair Value as of 31 December 2008	Cash Flows	Fair Value Movement	Fair Value as of 31 December 2009
Cash	392	380	-	772
Bonds payable	(1,255,486)	(1,106,635)	(213,980)	(2,576,101)
Funds held in trust	145,362	936,924	-	1,082,286
Total	(1,109,732)	(169,331)	(213,980)	(1,493,043)

The following table reconciles net cash flows to movement in net debt:

In Thousands of US\$	2010	2009
Increase in cash	1,670	380
Cash inflow from debt issuance	(634,438)	(1,106,635)
Cash outflows from funds held in trust	483,017	936,924
Fair value movement in the period	(161,136)	(213,980)
Movement in net debt in the period	(310,887)	(383,311)
Net debt as of the beginning of the year	(1,493,043)	(1,109,732)
Net debt as of the end of the year	(1,803,930)	(1,493,043)

## 17. Related Party Transactions

IFFIm's related parties are:

- GAVI: GAVI is a not-for-profit organisation based in Switzerland. GAVI is IFFIm's sole member.
- The GAVI Campaign: The GAVI Campaign is a not-for-profit organisation based in the United States. The GAVI Campaign was IFFIm's sole member until November 2009.
- GFA: GFA is a private company limited by guarantee and incorporated in the United Kingdom under the Companies Act 1985. GFA receives irrevocable and legally binding pledges from donor governments and assigns the pledges to IFFIm.

Balances due to or from related parties are non-interest bearing and do not have specific terms of repayment.

IFFIm's related party transactions were:

In Thousands of US\$	2010	2009
<u>GAVI</u>		
Accounts payable to GAVI	250	192
In-kind contributions received from GAVI	835	842
<u>The GAVI Campaign</u>		
Accounts payable to the GAVI Campaign	-	308
<u>GFA</u>		
Assignment of donor pledges from GFA	401,608	87,137
Program grants to GFA	400,000	620,485
Program grants payable to GFA	517,064	437,064
Administrative support fees to the GAVI Campaign	-	842

## 18. Commitment and Contingencies

The trustees are not aware of any commitments or contingencies as of 31 December 2010 or 2009.

## 19. Current Tax

IFFIm is a registered United Kingdom charity and, as such, is exempt from United Kingdom taxation of income and gains falling within s478-489 Corporation Tax Act 2010 and s256 Taxation of Chargeable Gains Act 1992 on its charitable activities. No tax charges arose during the years ended 31 December 2010 or 2009.

## 20. Subsequent Events

In March 2011, GFA received a new sovereign pledge from the Commonwealth of Australia. GFA assigned the pledge to IFFIm in the same month. The pledge was in the amount of AU\$ 250 million and is payable over 19 years, commencing on 30 June 2011 and ending on 31 March 2030.

In March 2011, IFFIm completed a bond issuance arranged by Daiwa Securities Group, raising R\$ 371 million.

# Independent Auditors' Report



## **Independent Auditor's Report**

### **To the Members of the International Finance Facility for Immunisation Company**

We have audited the financial statements of the International Finance Facility for Immunisation Company for the year ended 31 December 2010. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and its members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of Trustees and Auditors**

As explained more fully in the Statement of Trustees' Responsibilities set out on page 5, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the Audit of the Financial Statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on Financial Statements**

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 December 2010 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- the charitable company has not kept adequate accounting records or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**/s/ M.G. Fallon**

**M.G. Fallon (Senior Statutory Auditor)  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants**

**1 Forest Gate  
Brighton Road  
Crawley RH11 9PT  
23 June 2011**