IFFIm SUPPORTING GAVI

GAVI ALLIANCE

THE WORLD BANK

The International Finance Facility for Immunisation

Annual Report of the Trustees
Annual Financial Statements

Year Ended 31 December 2011

Table of Contents

Legal and Administrative Information

Legal and Administrative Information

Trustees

Sean Carney
Didier J. Cherpitel
John Cummins
Alan R. Gillespie. Concluded term in February 2012.
Dayanath Chandrajith Jayasuriya
René Karsenti, Board Chair. Took office in February 2012.
Arunma Oteh. Concluded term in December 2011.

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
15 Canada Square
Canary Wharf
London E14 5GL
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.

Filing of Reports

Copies of IFFIm's Annual Report of the Trustees and Annual Financial Statements are available to the public and may be obtained from the Registrar of Companies for England and Wales at Companies House, Cardiff.

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 Swiss foundation that is accorded international institution status in Switzerland with certain privileges and immunities 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 2011, there were ten meetings of the IFFIm board of directors.

The IFFIm audit committee is a standing committee of the IFFIm board consisting of at least two members and was established by the board to assist the board in fulfilling its responsibilities in respect to the corporate accounting and financial practices of IFFIm. During 2011, there were three meetings of the IFFIm audit committee.

During the year ended 31 December 2011, IFFIm's directors were as follows:

- Sean Carney, Audit Committee Chair: 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. He became a member of the audit committee in February 2012.

- 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, Board Chair: 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. Mr Gillespie concluded his term as Board Chair and a director in February 2012.

- 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. He is a member of the audit committee.

- René Karsenti, Board Chair-Elect: Dr Karsenti joined the board on 23 December 2011. He was elected Chair on that date but took office in February 2012. Dr. Karsenti is the President of the International Capital Market Association (ICMA), has served as Director General of Finance of the European Investment Bank and was the first Treasurer of the European Bank for Reconstruction and Development.

- 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. Ms Oteh concluded her term as a director and as a member of the audit committee on 31 December 2011.

The trustees have commenced a board refreshment process which will result in new trustees joining the IFFIm board as some of the current trustees conclude their terms.

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 over 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.

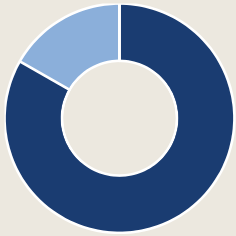
Injection Safety Support ("INS") programmes: GAVI contributes to the provision of auto-disable syringes, reconstitution syringes and safety boxes. These syringes and safety boxes facilitated the administering of vaccines in developing countries.

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 2011, IFFIm approved the following amounts for disbursement to help fund GAVI's Country-Specific Programmes:

In Millions of US$	Approvals from Inception to 2011
New and underused vaccine support	1,692
Health systems strengthening and other	340
Total Country-Specific Programme approvals	2,032

Approvals from Inception to 2011



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.

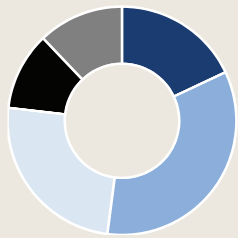
Yellow Fever Continuation: In March 2009, GAVI, IFFIm and GFA boards approved funding for an extension and expansion of GAVI's original yellow fever investment case described above. The additional funds allowed for increased and extended yellow fever vaccine coverage and also helped offset higher than 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 2011, IFFIm approved the following amounts for disbursement to help fund GAVI's Investment Cases:

In Millions of US$	Approvals from Inception to 2011
Yellow fever stockpile and eradication	101
Polio eradication	191
Measles mortality reduction	139
Maternal and neonatal tetanus	62
Meningitis eradication	68
Total Investment Cases approvals	561

Approvals from Inception to 2011



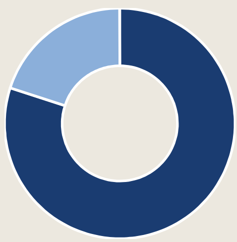
Financial Overview

Overview of Assets and Liabilities

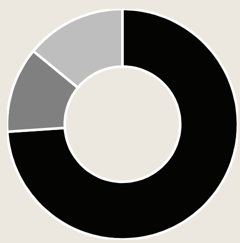
The following table summarises IFFIm's assets and liabilities as of 31 December 2011 and 2010:

In Millions of US$	2011	2010	Change
Sovereign pledges	3,404	3,172	232
Funds held in trust	851	1,565	(714)
Other assets	1	143	(142)
Total assets	4,256	4,880	(624)
Bonds payable	2,573	3,409	(835)
Grants payable	417	517	(100)
Other liabilities	489	1	487
Total liabilities	3,479	3,927	(448)

2011 Assets



2011 Liabilities



Sovereign Pledges: IFFIm's asset base consists primarily of irrevocable and legally binding multi-year sovereign pledges from the Grantors. As of 31 December 2011, 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, the United Kingdom and the Commonwealth of Australia. 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 2011, IFFIm's sovereign pledges increased by US$ 232 million due to the following:

- New Sovereign Pledges: In March and November 2011, IFFIm received new sovereign pledges from the Commonwealth of Australia and the Republic of Italy of A$ 250 million and € 25.5 million, respectively. The initial fair values of these pledges were US$ 124 million and US$ 20 million, respectively.

- Fair Value Gains: IFFIm recorded US$ 290 million in fair value gains on sovereign pledges during 2011. These gains were primarily the result of lower interest rates that resulted in lower discount rates as of 31 December 2011 and, therefore, higher fair values of sovereign pledges. IFFIm's methodology for fair valuing sovereign pledges is described in Notes 1 and 15 to the financial statements

- Receipts from Grantors: The abovementioned fair value increases were partially offset by payments received from the Grantors totalling US$ 202 million during 2011, bringing the net increase in sovereign pledges to US$ 232 million. From inception through 31 December 2011, cumulative payments received from the Grantors totalled US$ 798 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 liquidity 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 matured in November 2011 and, therefore, to ensure IFFIm had sufficient funds available to redeem the bond while still meeting GAVI programme funding requirements, IFFIm's funds held in trust were increased to US$ 1.6 million as of 31 December 2010. During 2011, IFFIm's funds held in trust decreased by US$ 714 million, primarily due to the redemption of the inaugural bond during the year.

Bonds Payable: IFFIm has continued to raise funds on the global capital market. From its inception to 31 December 2011, IFFIm had raised US$ 3.6 billion through bond issuances and had disbursed a total of US$ 2.2 billion to GFA.

During 2011, IFFIm's bonds payable decreased by US$ 835 million primarily due to the following:

- Bond Issuances and Redemptions: During 2011, IFFIm issued four new bonds. Total proceeds from these four bond issuances were US$ 378 million. The increase due to these new bond issuances was more than offset by the redemption of a US$ 1 billion bond in November 2011.

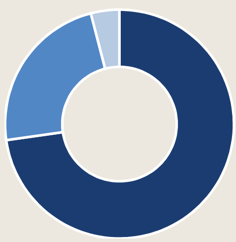
- Fair Value Gains: Over two thirds of IFFIm's borrowings are now denominated in currencies other than the United States dollar. As such, the fair value of these borrowings is highly sensitive to exchange rate movements. During 2011, IFFIm recorded value gains of US$ 209 million on its borrowings.

Overview of Income and Expenses

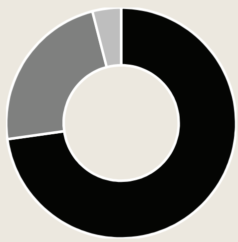
The following table summarises IFFIm's income and expenses for the years ended 31 December 2011 and 2010:

In Millions of US$	**2011**	**2010**	**Change**
Contribution revenue	145	402	(257)
Net fair value gains	46	152	(106)
Investment income	8	6	2
Total income	199	560	(361)
Programme grants	200	400	(200)
Financing costs	171	139	32
Other expenses	5	5	-
Total expenses	376	544	(168)

2011 Income



2011 Expenses



Contribution Revenue: Contribution revenue is comprised of US$ 144 million of new sovereign pledges received from Grantors and US$1 million of services donated by GAVI. In March and November 2011, the Commonwealth of Australia and the Republic of Italy pledged AU$ 250 million and € 25.5 million, respectively, to GFA. GFA assigned the pledges to IFFIm in the same month and IFFIm recorded the US$ 144 million aggregate fair value of the pledges as contribution revenue for the year ended 31 December 2011.

Net Fair Value Gains: As described above, IFFIm recorded 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: As described in the *Overview of Assets and Liabilities* section above, IFFIm maintained high cash and investment balances throughout most of 2011 in preparation for the redemption of its US$ 1 billion inaugural bond in November 2011. As a result, IFFIm's average funds held in trust balance was much higher in 2011 than in 2010 and this higher average balance increased investment income despite low interest rates during the year.

Programme Grants: During 2011, GAVI continued to experience strong demand for vaccines and vaccine related support. To help fund this demand, GAVI requested a total of US$ 200 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 in the *Overview of Assets and Liabilities* section above, IFFIm issued four new bonds during 2011. 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$ 32 million in 2011. 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, audit fees, consulting 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 2010 to 2011.

It is IFFIm's policy that payments to suppliers of the abovementioned services are made in accordance with those terms and conditions agreed between IFFIm and its suppliers. Payments for services received are usually processed within 30 days from receipt of invoices.

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 Fitch Ratings, Aaa by Moody's Investor Service, and AA+ by Standard & Poor's Ratings Service ("S&P").

Hedging IFFIm's Market Risks

The majority 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 2011 and 2010:

	2011		2010	
In Millions of US$	**Pledges**	**Bonds**	**Pledges**	**Bonds**
Interest and fair value adjustments before impact of swaps	290	38	73	(300)
Impact of currency and interest rate swaps	(420)	(35)	(54)	294
Net interest and fair value adjustments after impact of swaps	(130)	3	19	(6)
Interest expense on bonds before impact of swaps		166		132
Impact of bond swaps on interest expense		(160)		(125)
Net interest expense on bonds after impact of swaps		6		7

During 2011, IFFIm recorded a US$ 130 million net fair value loss on its pledges and pledge swaps. This loss was due to differences between the methodology used to value pledges and the methodology used to value pledge swaps. These valuation differences are likely of a temporary nature and resulted primarily from the following:

- Differences in discount rates used between pledges and pledge swaps: Both pledges and pledge swaps are valued using the discounted cash flow method. However, as described in Note 15 to the financial statements, pledges are discounted using Grantor-specific interest rates while pledge swaps are discounted using swap yield curves. This is because IFFIm's counterparties on pledges are the Grantors, while its counterparty on pledge swaps is the World Bank. During 2011, there was a widening in the spread between the euro swap rate and the Grantor-specific rates for certain euro-zone IFFIm Grantors. This widening in the spread was due to elevated credit risk on those Grantors and generated accounting fair value losses associated with that elevated risk. However, going forward, each time a payment is received from a Grantor, the credit risk associated with that payment is eliminated. Therefore, as the Grantors make payments to IFFIm, the recorded fair value loss associated with Grantor credit will reverse over the life of IFFIm and create no permanent loss to IFFIm.

- Grant Payment Condition ("GPC") reduction in expected future cash flows: Due to the GPC reduction, which is explained in Note 15 to the financial statements, during 2011 expected future cash inflows from pledges were estimated at 84.6% of the standard payment amounts stated in the grant agreements between IFFIm and the Grantors. By contrast, pledge swap cash flows were estimated at 97% of grant agreement payment amounts. This mismatch in estimated future cash flows led the fair values of pledge swaps to be more sensitive to changes in discount rates than the fair values of pledges. Therefore, as a result of interest rates falling during 2011, the fair value losses on pledge swaps exceeded the fair value gains on pledges. However, going forward, as IFFIm receives cash from Grantors, the difference between the cash received (at 97%) and the recorded pledge receivable (at 84.6%) is recognised as a fair value gain by IFFIm. Therefore, as long as no additional implementing countries fall into arrears with the IMF, the recorded losses associated with the GPC will reverse over the life of IFFIm and create no permanent loss to IFFIm.

Recent Developments

In February 2012, René Karsenti took office as the new Board Chair of IFFIm, replacing Alan Gillespie, who had served as Board Chair since IFFIm was established six years ago. He joined the board and was elected Chair on 23 December 2011.

In January 2012, S&P downgraded IFFIm by one notch from AAA to AA+ with a negative outlook, following S&P's rating actions announced on 13 January 2012 for certain euro zone countries that provide grants to IFFIm. Details of these actions are included in Note 20 to the financial statements. S&P had earlier stated in an analysis of IFFIm that it considers IFFIm's credit rating to be closely associated with the rating of its largest Grantors. As of 28 June 2012, IFFIm was rated Aaa by Moody's Investor Services, AAA with negative outlook by Fitch Ratings, and AA+ with negative outlook by S&P.

The abovementioned downgrades of IFFIm's and Grantors' credit ratings have not had any significant adverse impact on IFFIm's current ability to raise funds, approve programmes or make disbursements to GFA for GAVI programmes. The trustees shall continue to monitor Grantors' credit ratings and manage the related risk in collaboration with GAVI and the World Bank.

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. The trustees believe that IFFIm can, and should, continue to contribute significantly to GAVI mission. To this end, and in collaboration with GAVI and the World Bank, the trustees are currently executing the following strategies for the future:

- IFFIm Expansion: GAVI is presently developing its long term funding strategy. A case can be made for approaching new donors to make multi-year pledges to IFFIm in support of GAVI's strategy. IFFIm could then utilise these new multi-year pledges to provide predictable and flexible funding to GAVI.

- IFFIm Extension: Grantors may be willing to expand or extend the terms of their existing pledges by adding payments to these pledges.

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 2011 and 2010.

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/ Sean Carney

Sean Carney
Audit Committee Chair
28 June 2012

IFFIm Financial Statements

Statements of Income and Expenditures

In Thousands of US$	Note	Year Ended 31 December 2011 Restricted Funds	Year Ended 31 December 2010 Restricted Funds
Turnover			
Contribution revenue	2	144,137	401,608
Operating expenses			
Programme grants to GFA	4	200,000	400,000
Treasury manager's fees	4	2,569	2,212
Governance costs	4	2,749	2,934
Total operating expenses		205,318	405,146
Other operating income			
Donated services	2	820	835
Operating loss		(60,361)	(2,703)
Financing and investment income (expenses)			
Financing income (expenses) on bonds and bond swaps:			
Net fair value gains on bonds and bond swaps	5	174,027	132,589
Interest expense on bonds	5	(166,399)	(132,437)
Net financing income (expenses) on bonds and bond swaps		7,628	152
Other financing income (expenses):			
Net fair value gains (losses) on pledges and pledge swaps	5	(130,291)	18,074
Other foreign exchange gains (losses)	5	1,068	940
Other financing charges		(4,209)	(6,586)
Net other financing income (expenses)		(133,432)	12,428
Investment income:			
Investment and interest income	3	8,046	5,670
Fair value gain on interest rate overlay swap	5	1,437	285
Total financing and investment income (expenses)		(116,321)	18,535
Surplus (Deficit) for the year		(176,682)	15,832

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

Statements of Financial Activities

In Thousands of US$	Note	Year Ended 31 December 2011 Restricted Funds	Year Ended 31 December 2010 Restricted Funds
Incoming resources from generated funds			
Voluntary income:			
Contribution revenue	2	144,137	401,608
Donated services	2	820	835
Total voluntary income		144,957	402,443
Investment and interest income	3	8,046	5,670
Total incoming resources from generated funds		153,003	408,113
Resources expended			
Cost of generating funds:			
Treasury manager's fee	4	2,569	2,212
Financing charges	4	170,608	139,023
Total cost of generating funds		173,177	141,235
Charitable activities	4	200,000	400,000
Governance costs	4	2,749	2,934
Total resources expended		375,926	544,169
Net resources expended		(222,923)	(136,056)
Net fair value gains on pledges, bonds and swaps	5	46,241	151,888
Net change in funds		(176,682)	15,832
Total funds as of the beginning of the year		953,175	937,343
Total funds as of the end of the year		776,493	953,175

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 2011	As of 31 December 2010
Noncurrent assets			
Sovereign pledges due after more than one year	6	3,192,651	3,007,991
Derivative financial instruments due after more than one year	8	97,329	413,821
Current assets			
Sovereign pledges due within one year	6	211,286	163,588
Derivative financial instruments due within one year	8	171,778	46,919
Prepayments		272	424
Cash and funds held in trust:			
Cash		692	2,442
Funds held in trust	7	850,958	1,565,302
Total cash and funds held in trust		851,650	1,567,744
Total current assets		1,234,986	1,778,675
Current liabilities			
Creditors falling due within one year	9	766,565	1,079,932
Derivative financial instruments due within one year	8	2,023	692
Grants payable to GFA		417,064	517,064
Total current liabilities		1,185,652	1,597,688
Net current assets		49,334	180,988
Total assets less current liabilities		3,339,314	3,602,799
Creditors falling due after more than one year	10	1,809,050	2,330,046
Derivative financial instruments due after more than one year	8	753,771	319,578
Net assets		776,493	953,175
Restricted funds		776,493	953,175

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

Approved by the trustees and signed on their behalf by:

/s/ Sean Carney

Sean Carney
Audit Committee Chair
28 June 2012

Statements of Cash Flows

In Thousands of US$	Note	Year Ended 31 December 2011 Restricted Funds	Year Ended 31 December 2010 Restricted Funds
Net cash outflows from operating activities		68,784	(26,461)
Returns on investments and servicing of financing			
Investment and interest income received	3	8,046	5,670
Interest paid on bonds		(170,743)	(128,960)
Management of liquid resources			
(Increase) decrease in funds held in trust	16	714,344	(483,017)
Net cash outflows before financing activities		551,647	(606,307)
Cash inflows (outflows) from financing activities			
Proceeds from bond issuances	16	377,819	866,904
Redemption of bonds	16	(1,000,000)	(232,466)
Net change in cash		(1,750)	1,670
Cash as of the beginning of the year		2,442	772
Cash as of the end of the year		692	2,442

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

In Thousands of US$	2011	2010
Net change in funds	(176,682)	15,832
Investment and interest income	(8,046)	(5,670)
Bond interest expense	166,399	132,437
Fair value gains on sovereign pledges	(289,831)	(72,561)
Fair value (gains) losses on bonds	(208,570)	161,136
Initial fair value of pledges	(144,137)	(401,608)
Payments received from donors	201,610	184,693
(Increase) decrease in prepayments	152	(28)
(Increase) decrease in derivative financial instruments	627,157	(118,870)
Increase (decrease) in trade creditors and amounts due to related parties	390	(2,583)
Increase in advances received on pledges	342	761
Increase (decrease) in grants payable to GFA	(100,000)	80,000
Net cash outflows from operating activities	68,784	(26,461)

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 year. 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	
Commonwealth of Australia	28 March 2011	19 years	A$	250,000
Republic of France[1]	2 October 2006	15 years	€	372,800
Republic of France[2]	7 December 2007	19 years	€	867,160
Republic of Italy	2 October 2006	20 years	€	473,450
Republic of Italy	14 November 2011	14 years	€	25,500
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	Nkr	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	Skr	276,150
United Kingdom	2 October 2006	20 years	£	1,380,000
United Kingdom	5 August 2010	19 years	£	250,000

[1] Acting through Agence Française de Développement.
[2] Acting through the Ministry of Economy, Industry and Employment.

Contribution revenue recognised was comprised of:

In Thousands of US$	2011	2010
Initial fair value of pledge received from the Commonwealth of Australia	124,303	-
Initial fair value of pledge received from the Republic of Italy	19,834	-
Initial fair value of pledge received from the Kingdom of Norway	-	175,868
Initial fair value of pledge received from the United Kingdom	-	225,740
Total contribution revenue	144,137	401,608

<u>Donated Services</u>: IFFIm received donated administrative services from GAVI in 2011 and 2010. 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$	2011	2010
Administrative support	820	835
Total donated services	820	835

3. Investment and Interest Income

In Thousands of US$	2011	2010
Income from funds held in trust	8,040	5,653
Bank account interest	6	17
Total investment and interest income	8,046	5,670

4. Total Resources Expended

In Thousands of US$	2011	2010
Cost of generating funds		
Treasury manager's fees:		
Financial operations management	2,569	2,212
Finance charges:		
Bond interest expense	166,399	132,437
Other financing charges	4,209	6,586
Total finance charges	170,608	139,023
Total cost of generating funds	173,177	141,235
Charitable activities		
Country-specific programmes:		
New and underused vaccines	175,000	400,000
Health systems strengthening and immunisation services	25,000	-
Total charitable activities	200,000	400,000
Governance costs		
Professional services:		
Consultancy fees	590	510
GAVI administrative support fee	820	835
Legal fees	450	783
Auditor's remuneration:		
Statutory audit	137	122
Audit related assurance services	165	136
Tax compliance services	20	8
Other assurance services	13	-
Other governance costs:		
Trustees' indemnity insurance premiums	470	469
Trustees' meeting and travel expenses	84	71
Total governance costs	2,749	2,934

Administrative and Financial Management Support: Pursuant to the *Finance Framework Agreement* entered into by IFFIm, the Grantors, the World Bank, GAVI and GFA, IFFIm has no employees. IFFIm outsources all administrative support to GAVI, 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 seven trustees as of 31 December 2011.

5. Fair Value Gains and Losses

In Thousands of US$	2011	2010
Fair value gains (losses) on bonds		
Fair value gains (losses) on bonds	208,570	(161,136)
Net fair value gains (losses) on bond swaps	(34,543)	293,725
Interest expense on bonds	(166,399)	(132,437)
Net fair value gains on bonds and bond swaps	7,628	152
Fair value gains (losses) on pledges and pledge swaps		
Fair value gains on sovereign pledges	289,831	72,561
Net fair value losses on pledge swaps	(420,122)	(54,487)
Net fair value gains (losses) on pledges and pledge swaps	(130,291)	18,074
Fair value gain on interest rate overlay swap	1,437	285
Other foreign exchange gains	1,068	940
Net fair value gains on pledges, bonds and swaps	(120,158)	19,451

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$	2011	2010
Balance as of the beginning of the year	3,171,579	2,882,103
Initial fair value of pledges	144,137	401,608
Payments received from donors	(201,610)	(184,693)
Fair value gains	289,831	72,561
Balance as of the end of the year	3,403,937	3,171,579
Sovereign pledges due within one year	211,286	163,588
Sovereign pledges due after more than one year	3,192,651	3,007,991
Total sovereign pledges	3,403,937	3,171,579

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$	2011	2010
IFFIm's share in the Pool's fair value	850,958	1,565,302

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$ 8 million and US$ 5.7 million for the years ended 31 December 2011 and 2010, 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.

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

	31 December 2011		31 December 2010	
In Thousands of US$	Notional Amount	Fair Value	Notional Amount	Fair Value
Currency and interest rate swaps receivable related to sovereign pledges	76,629	2,232	464,858	10,085
Currency and interest rate swaps receivable related to bonds payable	3,425,309	266,875	4,255,788	450,370
Interest rate overlay swap	-	-	1,000,000	285
Total currency and interest rate swaps receivable		269,107		460,740
Currency and interest rate swaps payable related to sovereign pledges	4,685,100	(713,032)	4,297,327	(317,434)
Currency and interest rate swaps payable related to bonds payable	1,227,671	(42,762)	603,768	(2,836)
Total currency and interest rate swaps payable		(755,794)		(320,270)
Total fair value of interest rate and currency swaps		(486,687)		140,470

9. Creditors Falling Due within One Year

In Thousands of US$	2011	2010
Bonds payable falling due within one year	764,364	1,078,463
Trade creditors	732	458
Amounts due to GAVI	366	250
Advances received on pledges	1,103	761
Total creditors falling due within one year	766,565	1,079,932

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		Fair Value as of 31 December 2011, in Thousands of US$	Fair Value as of 31 December 2010, in Thousands of US$
14 November 2006	14 November 2011	5.00%	US$	1,000,000	-	1,048,155
19 February 2009	21 February 2012	2.60%	A$	45,000	46,085	44,885
19 February 2009	21 February 2012	2.65%	NZ$	179,000	139,733	139,226
19 February 2009	21 February 2012	6.26%	R	3,170,000	400,654	491,078
15 May 2009	15 May 2014	3.38%	£	250,000	414,620	414,272
15 May 2009	13 June 2014	0.00%	£	16,227	28,329	27,333
27 May 2009	25 May 2012	3.51%	A$	50,000	50,929	49,796
27 May 2009	25 May 2012	1.00%	US$	105,000	105,360	105,880
24 June 2009	24 June 2013	4.36%	A$	70,592	72,179	69,616
24 June 2009	24 June 2013	6.85%	R	239,000	30,026	36,527
24 June 2009	24 June 2024	0.50%	R	800,000	40,226	42,019
23 March 2010	27 March 2013	7.15%	R	2,500,000	319,671	391,485
28 June 2010	27 June 2014	4.77%	A$	17,200	17,755	16,875
28 June 2010	27 June 2014	8.30%	R$	103,300	57,167	63,286
28 June 2010	29 June 2020	0.50%	R	430,000	30,762	31,604
15 October 2010	15 October 2015	5.50%	A$	35,000	37,288	34,960
8 December 2010	8 December 2015	5.75%	A$	400,000	427,537	401,512
30 March 2011	24 March 2014	7.81%	R$	371,100	206,332	-
28 September 2011	26 September 2014	6.00%	R$	105,000	55,273	-
29 September 2011	30 September 2015	3.40%	A$	12,000	11,892	-
29 September 2011	29 September 2016	6.10%	R	650,000	81,596	-
Total bonds payable					2,573,414	3,408,509
Due within one year					(764,364)	(1,078,463)
Due after more than one year					1,809,050	2,330,046

11. Movement of Funds

In Thousands of US$	As of 31 December 2010	Incoming Resources	Resources Expended	As of 31 December 2011
Sovereign pledges assigned from GFA	3,297,177	144,137	(1,929)	3,439,385
Investment and interest income	49,900	8,046	-	57,946
Other gains (losses) and other income (expenses)	(1,154)	46,241	(173,177)	(128,090)
Donated services:				
Administrative support	-	820	(820)	-
Programme funding to GFA:				
Country-specific programmes	(1,651,058)	-	(200,000)	(1,851,058)
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)
Total restricted funds	953,175	199,244	(375,926)	776,493

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)
Donated services:				
Administrative support	-	835	(835)	-
Programme funding to GFA:				
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)
Total restricted funds	937,343	560,001	(544,169)	953,175

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$	2011	2010
Sovereign pledges	3,403,937	3,171,579
Cash, investments and derivatives	364,963	1,708,214
Total credit exposure	3,768,900	4,879,793

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 2011.

The Grantors' credit ratings as of 31 December 2011 and 2010, as determined by Standard and Poor's Ratings Service ("S&P"), were:

Grantor	2011	2010
Commonwealth of Australia	AAA	AAA
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$	2011	2010
Instruments and securities rated AAA	485,364	561,196
Instruments and securities rated AA+	57,720	-
Instruments and securities rated AA-	244,824	644,097
Instruments and securities rated AA	2,976	318,826
Instruments and securities rated A+	59,717	41,174
Instruments and securities rated A	358	-
Instruments and securities rated BB+	-	9
Total funds held in trust	850,959	1,565,302

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 2011, the calculated minimum liquidity was US$ 595 million and the value of IFFIm's Liquid Assets was US$ 852 million. 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.

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:

As of 31 December 2011, in Thousands of US$	**Total Cash Outflows**	**Due in Less than One Year**	**Due in 2013**	**Due in 2014**	**Due from 2015 through 2029**
Bonds payable	(2,816,497)	(842,610)	(490,350)	(754,881)	(728,656)
Grants payable to GFA	(417,064)	(417,064)	-	-	-
Derivative financial liabilities	(954,402)	(12,171)	(19,096)	(97,249)	(825,886)
Total undiscounted maturities	(4,187,963)	(1,271,845)	(509,446)	(852,130)	(1,554,542)

As of 31 December 2010, in Thousands of US$	**Total Cash Outflows**	**Due in Less than One Year**	**Due in 2012**	**Due in 2013**	**Due from 2014 through 2026**
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)
Total undiscounted maturities	(4,709,440)	(1,692,027)	(931,854)	(567,495)	(1,518,064)

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 cash flows from all of IFFIm's derivative financial instruments:

As of 31 December 2011, in Thousands of US$	**Total Cash Inflows (Outflows)**	**Due in Less than One Year**	**Due in 2013**	**Due in 2014**	**Due from 2015 through 2029**
Derivative financial assets	474,050	264,519	79,745	57,977	71,809
Derivative financial liabilities	(954,402)	(12,171)	(19,096)	(97,249)	(825,886)
Net cash inflows (outflows)	(480,352)	252,348	60,649	(39,272)	(754,077)

As of 31 December 2010, in Thousands of US$	**Total Cash Inflows (Outflows)**	**Due in Less than One Year**	**Due in 2012**	**Due in 2013**	**Due from 2014 through 2026**
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)
Net cash inflows (outflows)	364,742	152,024	313,340	98,963	(199,585)

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, including derivatives, were:

As of 31 December 2011, in Thousands of US$	Foreign Currency Assets	Foreign Currency Liabilities	Net Exposure
Australian dollar	815,116	(821,433)	(6,317)
Brazilian real	319,352	(318,772)	580
Euro	1,384,339	(1,811,037)	(426,698)
British pound	2,149,091	(2,381,302)	(232,211)
Norwegian krone	175,679	(194,179)	(18,500)
New Zealand dollar	139,735	(139,733)	2
Swedish krona	21,348	(23,238)	(1,890)
South African rand	909,751	(902,935)	6,816

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

The following exchange rates applied during the year:

In US$	Average Rate for the Year Ended 31 December 2011	Spot Rate as of 31 December 2011	Average Rate for the Year Ended 31 December 2010	Spot Rate as of 31 December 2010
Australian dollar	1.0327	1.0174	0.9198	1.0164
Brazilian real	0.5977	0.5360	0.5681	0.6026
Euro	1.3925	1.2938	1.3270	1.3384
British pound	1.6037	1.5454	1.5458	1.5528
Norwegian krone	0.1784	0.1664	0.1654	0.1714
New Zealand dollar	0.7916	0.7734	0.7215	0.7770
Swedish krona	0.1540	0.1451	0.1388	0.1491
South African rand	0.1377	0.1235	0.1365	0.1506

Sensitivity to Foreign Exchange Rates: Strengthening of the above currencies, against the United States dollar, as of 31 December 2011 and 2010 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 year. The analysis assumes that all other variables, in particular interest rates, remain unchanged:

	Increase (Decrease) in Deficit for the Year Ended and Net Assets as of 31 December 2011		Increase (Decrease) in Deficit for the Year Ended and Net Assets as of 31 December 2010	
In Thousands of US$	10% Strengthening against US$	10% Weakening against US$	10% Strengthening against US$	10% Weakening against US$
Australian dollar	574	(702)	(208)	255
Brazilian real	(53)	64	(13)	15
Euro	39,915	(48,785)	27,497	(33,607)
British pound	21,189	(25,898)	20,270	(24,775)
Norwegian krone	1,682	(2,056)	1,857	(2,269)
New Zealand dollar	-	-	25	(30)
Swedish krona	174	(213)	206	(251)
South African rand	(620)	757	(391)	478

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$	2011 Carrying Amount	2010 Carrying Amount
Fixed rate instruments		
Financial assets	2,160,825	2,217,012
Financial liabilities	(6,365,099)	(7,030,868)
Net fixed rate instruments	(4,204,274)	(4,813,856)
Variable rate instruments		
Financial assets	3,794,576	3,315,594
Financial liabilities	(2,650,402)	(2,044,375)
Net variable rate instruments	1,144,174	1,271,219

Sensitivity to Interest Rates: Changes of 25 basis points in interest rates as of 31 December 2011 and 2010 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 2011	Increase (Decrease) in Deficit for the Year Ended and Net Assets as of 31 December 2010
25 basis point increase	13,012	(26,675)
25 basis point decrease	(13,451)	27,519

Value at Risk ("VaR") for Funds Held in Trust: VaR measures, in terms of fair value changes, the potential losses due to adverse market movements over a given interval at a given confidence level. VaR is conceptually applicable to all financial risk types with valid regular price histories. The annual VaR at 95% confidence level for IFFIm's funds held in trust was US$ 2.6 million and US$ 5.0 million for the years ended 31 December 2011 and 2010, respectively. IFFIm uses a three-year historical dataset to compute VaR.

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:

	31 December 2011		31 December 2010	
In Thousands of US$	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets carried at fair value				
Sovereign pledges	3,403,937	3,403,937	3,171,579	3,171,579
Funds held in trust	850,958	850,958	1,565,302	1,565,302
Derivative financial instruments	269,107	269,107	460,740	460,740
Total assets carried at fair value	4,524,002	4,524,002	5,197,621	5,197,621
Assets carried at amortised cost				
Prepayments	272	272	424	424
Cash	692	692	2,442	2,442
Total assets carried at amortised cost	964	964	2,866	2,866
Liabilities carried at fair value				
Bonds payable	2,573,414	2,573,414	3,408,509	3,408,509
Grants payable to GFA	417,064	417,064	517,064	517,064
Derivative financial instruments	755,794	755,794	320,270	320,270
Total liabilities carried at fair value	3,746,272	3,746,272	4,245,843	4,245,843
Liabilities carried at amortised cost				
Accounts payable	2,201	2,201	1,469	1,469
Total liabilities carried at amortised cost	2,201	2,201	1,469	1,469

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 2011, in Thousands of US$	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign pledges	-	-	3,403,937	3,403,937
Funds held in trust	26,952	824,006	-	850,958
Derivative financial instruments	-	269,107	-	269,107
Total financial assets	26,952	1,093,113	3,403,937	4,524,002
Financial liabilities				
Bonds payable	-	2,573,414	-	2,573,414
Grants payable to GFA	-	417,064	-	417,064
Derivative financial instruments	-	755,794	-	755,794
Total financial liabilities	-	3,746,272	-	3,746,272

As of 31 December 2010, in Thousands of US$	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign pledges	-	-	3,171,579	3,171,579
Funds held in trust	23,370	1,541,932	-	1,565,302
Derivative financial instruments	-	460,740	-	460,740
Total financial assets	23,370	2,002,672	3,171,579	5,197,621
Financial liabilities				
Bonds payable	-	3,408,509	-	3,408,509
Grants payable to GFA	-	517,064	-	517,064
Derivative financial instruments	-	320,270	-	320,270
Total financial liabilities	-	4,245,843	-	4,245,843

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

In Thousands of US$	2011	2010
Balance as of the beginning of the year	3,171,579	2,882,103
Initial fair value of pledges	144,137	401,608
Donor payments	(201,610)	(184,693)
Fair value gains (losses)	289,831	72,561
Balance as of the end of the year	3,403,937	3,171,579

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 year. 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, Aserbaijan, 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 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 15.4% and 15.5% as of 31 December 2011 and 2010 respectively. 1% decreases in the GPC reduction rates as of 31 December 2011 and 2010 would have resulted in increases in the fair values of sovereign pledges of US$ 40 million and US$ 38 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 year ended 31 December 2011, three reference portfolio countries, each with 1% weighting, were in protracted arrears to the IMF. Those countries were Somalia, Sudan and Zimbabwe.

For the above sovereign pledges as of 31 December 2011, market based discount rates ranging from 0% to 7.3% 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 are determined using a discounted cash flow method, which relies on market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

For the years ended 31 December 2011 and 2010, the changes in the fair values of bonds payable that were attributable to IFFIm's own credit spreads were decreases of US$ 11 million and US$ 5 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 are 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 2010	Cash Flows and Fair Value Movements	Fair Value as of 31 December 2011
Cash	2,442	(1,750)	692
Bonds payable	(3,371,675)	830,751	(2,540,924)
Funds held in trust	1,565,303	(714,344)	850,959
Total	(1,803,930)	114,657	(1,689,273)

In Thousands of US$	Fair Value as of 31 December 2009	Cash Flows and Fair Value Movements	Fair Value as of 31 December 2010
Cash	772	1,670	2,442
Bonds payable	(2,576,101)	(795,574)	(3,371,675)
Funds held in trust	1,082,286	483,017	1,565,303
Total	(1,493,043)	(310,887)	(1,803,930)

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

In Thousands of US$	2011	2010
Increase (Decrease) in cash	(1,750)	1,670
Increase (Decrease) in funds held in trust	(714,344)	483,017
Cash (inflows) outflows from financing activities	622,181	(634,438)
Fair value gains (losses) on bonds	208,570	(161,136)
Movement in net debt in the period	114,657	(310,887)
Net debt as of the beginning of the year	(1,803,930)	(1,493,043)
Net debt as of the end of the year	(1,689,273)	(1,803,930)

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.
- 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 balances and transactions were:

In Thousands of US$	2011	2010
GAVI		
Accounts payable to GAVI	366	250
In-kind contributions received from GAVI	820	835
GFA		
Assignment of donor pledges from GFA	144,137	401,608
Program grants to GFA	200,000	400,000
Program grants payable to GFA	417,064	517,064

18. Commitment and Contingencies

The trustees are not aware of any commitments or contingencies as of 31 December 2011 or 2010.

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 2011 or 2010.

20. Subsequent Events

On 17 January 2012, S&P downgraded its credit rating on IFFIm to AA+ from AAA. The action was the result of its 13 January 2012 downgrade of the sovereign credit ratings on France to AA+ from AAA, Italy to BBB+ from A and Spain to A from AA-.

On 27 January 2012, Fitch Ratings downgraded its credit ratings on Italy to A- from A+ and Spain to A from AA-.

On 13 February 2012, Moody's Investor Service downgraded its credit ratings on Italy to A3 from A2 and Spain to A3 from A1.

On 26 April 2012, S&P further downgraded its credit rating on Spain to BBB+ from A.

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 2011. 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.

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 2011 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
28 June 2012