THE INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION COMPANY

ANNUAL REPORT OF THE TRUSTEES AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

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Cyrus Ardalan
Didier J. Cherpitel. Concluded term on 31 December 2016.
Fatimatou Zahra Diop
Christopher Egerton-Warburton
Doris Herrera-Pol
Marcus Fedder
René Karsenti, Board Chair

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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 responsibilities of the Trustees of the International Finance Facility for Immunisation Company in respect of the Trustees' annual report and the financial statements

The trustees are responsible for preparing the Trustees' Annual Report 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 group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 group and charitable company and of the group's excess of income over expenditure for that period. In preparing each of the group and charitable company 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 group and 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 its 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 group 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

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 that are backed by legally binding funding commitments from sovereign government donors (the "Grantors").

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 markets under its *Global Debt Issuance Programme*. IFFIm then 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.

PUBLIC BENEFIT

IFFIm is a public benefit entity. 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.

STRUCTURE, GOVERNANCE AND MANAGEMENT

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. IFFIm has control over IFFIm Sukuk Company Limited ("IFFImSC"), a Cayman Islands company with limited liability, which was incorporated on 3 November 2014 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 293422. IFFIm also has control over IFFIm Sukuk Company II Limited ("IFFImSC II"), a Cayman Islands company with limited liability, which was incorporated on 25 August 2015 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 303397. IFFImSC and IFFImSC II were established for the sole purpose of issuing sukuk certificates in support of IFFIm's operations. IFFIm's consolidated financial statements include the accounts of IFFImSC and IFFImSC II.

In order to achieve its objectives, IFFIm worked with the following organisations during 2016:

- <u>The GAVI Alliance ("Gavi")</u>: 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.

- <u>The International Bank for Reconstruction and Development (the "World Bank")</u>: 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 AND MANAGEMENT

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 2016, there were seven meetings of the IFFIm board.

The IFFIm audit committee is a standing committee of the IFFIm board of directors consisting of at least two members and was established by the IFFIm board to assist the board in fulfilling its responsibilities in respect to the corporate accounting and financial practices of IFFIm. During 2016, there were two meetings of the audit committee.

During the year ended 31 December 2016, IFFIm's directors were as follows:

- Cyrus Ardalan: Mr Ardalan is Chairman of OakNorth Bank. He is also Chairman of the Financial Services Advisory Board of Alvarez and Marsal and a senior advisor to the Rock Creek Group. Previously he was a Vice Chairman of Barclays Bank where he was responsible for a number of areas including global head of Public Policy and Government Relations. Mr. Ardalan has served as Chairman of the board of the International Capital Markets Association (ICMA) and as a member of the board of the Dubai International Financial Centre.
- 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. Mr Cherpitel concluded his term as director and member of the Audit Committee in December 2016.
- Fatimatou Zahra Diop: Ms Diop is a former Secretary-General of the Central Bank of West African States (BCEAO) where she was responsible for the coordination and management of the bank in its eight member countries as well as offices in Dakar and Paris. She co-founded and currently serves as Vice President of the board of Afrivac, a public-private partnership whose mission is to work with public and private sector partners to promote the need to strengthen the budgets of African countries with a view toward becoming independent from multilateral support. Ms Diop is a member of the Audit Committee.
- Christopher Egerton-Warburton: Mr Egerton-Warburton is an expert in the structuring and execution of innovative financing solutions and was instrumental in the creation of IFFIm. He is a partner with Lion's Head Capital Partners, a merchant bank that provides advisory, financial structuring, capital raising and asset management services. Prior to that, he was Head of the Sovereign, Supranational and Agency team within the Debt Capital Markets group at Goldman Sachs International.
- Marcus Fedder, Audit Committee Chair: Mr Fedder is a former banker, having served as a Vice Chair of TD Securities, the Toronto Dominion Bank, with responsibility for all businesses in Europe and Asia-Pacific. Prior to that he was Treasurer of the European Bank for Reconstruction and Development (EBRD) and worked at the World Bank and in derivatives, starting his career at Deutsche Bank.
- Doris Herrera-Pol: Ms Herrera-Pol retired from the World Bank where she was the global head of capital markets. Her team was responsible for designing the World Bank's funding strategy and managing its multi-currency funding program in global money, capital and derivatives markets. From 2002 to 2007, she led the team responsible for the World Bank's plain-vanilla debt products, including global bonds and emerging market bond issues. Ms Herrera-Pol was appointed as a member of the Audit Committee effective December 2016.
- René Karsenti, Board Chair: 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.

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.

REFERENCE AND ADMINISTRATIVE INFORMATION

Pursuant to the Finance Framework Agreement entered into among IFFIm, the Grantors, the World Bank, and Gavi, 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. The responsibilities of IFFIm's trustees, as well as brief descriptions of Gavi and the World Bank, are provided in the *Structure, Governance, and Management* section above.

IFFIm also receives professional services from the following organisations:

- Trusec Limited is IFFIm's company secretary. Its registered address is 2 Lambs Passage, London, EC1Y 8BB, United Kingdom.
- Slaughter and May is IFFIm's solicitor. Its registered address is One Bunhill Row, London, EC1Y 8YY, United Kingdom.
- KPMG LLP is IFFIm's independent auditor. Its registered address is 15 Canada Square, Canary Wharf, London E14 5GL, United Kingdom.
- MaplesFS Limited is the administrator of IFFImSC and IFFImSC II. Its registered address is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

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:

<u>New and Underused Vaccine Support ("NVS") programmes</u>: 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:

- <u>Pneumococcal Disease</u>: This is a bacterial infection and is the leading cause of pneumonia – the world's biggest killer of children under five years of age. WHO estimates that more than 500 thousand young children die each year from pneumococcal infection, with the vast majority of these deaths occurring in developing countries. In addition to pneumonia, pneumococcal disease is also responsible for meningitis, which can leave survivors with permanent disabilities, including mental retardation and seizures.
- <u>Hepatitis B</u>: This is a viral infection which claims more than 600 thousand lives every year, through chronic or acute liver infections. Babies and young children are most at risk, with the virus often passing from mother to child before or shortly after birth, and putting victims at high risk of death from cirrhosis of the liver and liver cancer in later life. An estimated 240 million people worldwide are chronically infected with hepatitis B.
- <u>Haemophilus Influenzae Type B ("Hib")</u>: This is a bacterial infection which causes meningitis and pneumonia. It is considered the third biggest cause of vaccine-preventable death in children under five years of age. It is estimated that Hib accounts for approximately 200 thousand child deaths every year, most of them in low-income countries. The majority of survivors suffer paralysis, deafness, mental retardation and learning disabilities.
- <u>Diphtheria</u>: 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.
- <u>Tetanus</u>: Also known as lockjaw, tetanus is a bacterial infection. Tetanus affects new-born babies and their mothers, usually as a result of unsafe delivery in unhygienic conditions, often without skilled birth attendants.
- <u>Pertussis</u>: 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.
- <u>Yellow Fever</u>: As an acute viral haemorrhagic disease transmitted by mosquitoes, yellow fever causes devastating epidemics in areas where infected mosquitoes can come in contact with non-immunised populations. Up to 50% of people severely affected by yellow fever will die. Yellow fever virus poses the greatest threat to 900 million people in Africa, Central and South America. Together, deforestation,

urbanisation, climate change and low population immunity have contributed to its re-emergence since the 1980s.

- Measles: This is a highly contagious virus, whose symptoms include a high fever, severe skin rash, and a cough. Measles still kills an estimated 145 thousand people each year, mostly children under five years of age. Because it is so contagious, measles remains a significant threat to child health even in those areas where the rates of measles are reduced. By weakening the immune system, measles can also lead to other health problems such as pneumonia, blindness, diarrhoea, and encephalitis.

- Rotavirus: This virus is the leading cause of severe and fatal diarrhoea in children under five years of age. More than 700 thousand children under five die from diarrhoeal disease each year. Nearly every child in the world will suffer a rotavirus infection by their third birthday. While rotavirus infects children in every country, more than 95% of rotavirus deaths occur in low-income countries in Africa and Asia, where access to treatment for severe rotavirus-related diarrhoea is limited or unavailable.

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 facilitate 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.

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. 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 and IFFIm 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.

STRATEGIC REPORT

This Strategic Report relates to the year ended 31 December 2016. It forms part of the Annual Report of the Trustees, which contains all the information that company law requires to be provided in the directors' report. IFFIm's trustees are also the directors of IFFIm for the purposes of company law.

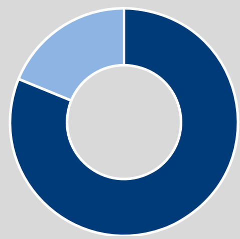
ACHIEVEMENTS AND PERFORMANCE

With the help of IFFIm funds, Gavi programmes led to the vaccination of more than 500 million children since Gavi's creation and prevented more than 8 million deaths in the process. This was achieved by accelerating the uptake and use of new and underused vaccines, strengthening the capacity of integrated health systems to deliver immunisation in poor countries, increasing the predictability of global financing and improving the sustainability of national financing for immunisation, and through shaping vaccine markets to ensure adequate supply of appropriate, quality vaccines at low and sustainable prices for developing countries. Looking ahead, Gavi's vision is to reach an additional 300 million children between 2016 and 2020 and prevent a further 5-6 million more deaths in the process.

From its inception to 31 December 2016, IFFIm approved the following amounts for disbursement to help fund Gavi's Country-Specific Programmes:

In Millions of US$	**Approvals from Inception to 2016**
New and underused vaccine support	2,007
Health systems strengthening and other	465
Total Country-Specific Programme approvals	2,472

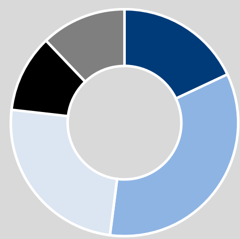
Approvals from Inception to 2016



From its inception to 31 December 2016, IFFIm approved the following amounts for disbursement to help fund Gavi's Investment Cases:

In Millions of US$	**Approvals from Inception to 2016**
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 2016



The Country-Specific Programmes and Investment Cases that are supported by Gavi with the help of IFFIm's funding are described in the *Programmes Funded By IFFIm* section above.

Since its inception in 2006, IFFIm has consistently demonstrated its performance as an efficient and flexible mechanism for Gavi to accelerate access to life-saving vaccines for children in the world's lowest-income countries. This continued performance is demonstrated by the following key indicators:

- Funding cost: IFFIm's cost of funding compared to that of its donors serves as an indicator of IFFIm's efficiency. IFFIm's current weighted average cost of its outstanding bonds is 18.6 basis points over three-month USD LIBOR. This is 5.2 basis points higher than the weighted average cost of borrowing of its donors of 13.4 basis points over three-month USD LIBOR as calculated in November 2016. However, since its inception, IFFIm has accessed the capital markets at a weighted average cost of borrowing that is in total lower than that of its donors. IFFIm's weighted average cost of all its bonds issued since its inception is 1.2 basis points over three-month USD LIBOR. This is 8.8 basis points lower than the weighted average cost of borrowing of its donors, which is 10 basis points over three-month USD LIBOR calculated over the same period.

- Maximising value for money: IFFIm aims to deliver maximum value for money to Gavi for every dollar invested by its donors. As a measure of value for money, the estimated total of IFFIm's disbursements to Gavi is expected to exceed 90% of the estimated total of Grantor pledges over IFFIm's lifetime, a measure that IFFIm has historically achieved, including in 2016, despite varying market conditions. It is expected that IFFIm will continue to represent good value for money barring any significant market downturns.

- Flexibility: One of IFFIm's core values is the financial flexibility that it provides Gavi by allowing it to de-link its immunisation programmes from when Grantor payments are received and link them to when funding is needed. This means that Gavi is able to determine the timing and amount of drawdown from IFFIm based on its needs, for example, whether to frontload resources over a short period of time or draw down on smaller amounts over a longer period of time, without incurring significant costs in either situation. Because of this flexibility, in 2016, Gavi was able to drawdown a total of US$ 100 million in IFFIm funds that had been previously deferred until the funding need arose. Gavi will make more drawdowns from IFFIm in the period from 2017 to 2020 as programmatic needs arise.

- Strategic market access: IFFIm's funding strategy is premised on the intention to optimise the following three objectives: (1) funding cost; (2) diversification; and (3) raising the profiles of IFFIm and Gavi and increasing awareness of Gavi's immunisation mission. IFFIm continues to achieve this strategy by issuing bonds in different currencies and regions, attracting new investors and broadening its geographical reach. In 2016, IFFIm re-entered the international US dollar benchmark market raising US$ 500 million through the issuance of 3-year floating rate vaccine bonds. In addition to participation from traditional bond investors, the transaction also generated demand from a growing socially responsible investor base. The bonds were oversubscribed demonstrating IFFIm's continued effectiveness in outreaching diverse investors in a variety of markets to support Gavi's life-saving mission.

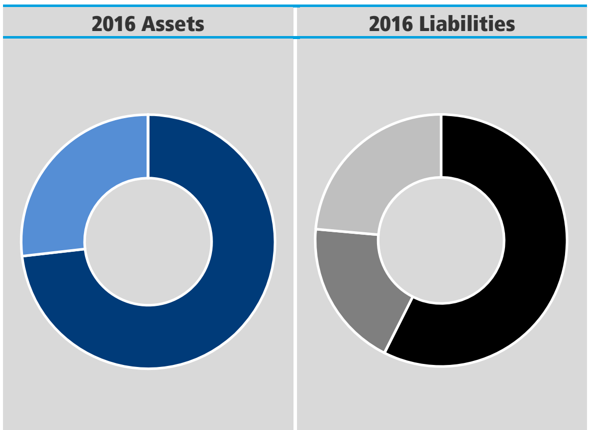
At Gavi's pledging conference that was held in January 2015, the Republic of France, the State of the Netherlands, and the Commonwealth of Australia announced their intentions to make future pledges to IFFIm that would total € 150 million, € 60 million, and A$ 37.5 million, respectively. These new pledges to IFFIm were in addition to already existing long-term pledges from these Grantors of € 1.2 billion, € 80 million, and A$ 250 million, respectively. IFFIm received the new sovereign pledge from the Commonwealth of Australia in May 2016 and received the new sovereign pledges from the Republic of France and the State of the Netherlands in May 2017, as further described in the *Recent Developments* section of this report. IFFIm continues to engage with existing and prospective Grantors to attract further pledges.

FINANCIAL OVERVIEW

Overview of Assets and Liabilities

The following table summarises IFFIm's assets and liabilities as of 31 December 2016 and 2015:

In Millions of US$	2016	2015	Change
Sovereign pledges	2,355	2,736	(381)
Funds held in trust	863	985	(122)
Other assets	-	1	(1)
Total assets	3,218	3,722	(504)
Bonds payable	1,382	1,606	(224)
Grants payable	457	507	(50)
Other liabilities	567	846	(279)
Total liabilities	2,406	2,959	(553)
Net assets	812	763	49
Total liabilities and net assets	3,218	3,722	(504)



Sovereign Pledges: IFFIm's asset base consists primarily of irrevocable and legally binding multi-year sovereign pledges from the Grantors. As of 31 December 2016, 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.

During 2016, IFFIm's sovereign pledges decreased by US$ 381 million due to the following:

- Receipts from Grantors: Payments received from Grantors totalled US$ 284 million during 2016. From inception through 31 December 2016, cumulative payments received from the Grantors totalled US$ 2.2 billion.
- Fair Value Losses: IFFIm recorded US$ 120 million in fair value losses on sovereign pledges during 2016. These losses were primarily the result of a stronger United States dollar in 2016, which resulted in lower fair values of IFFIm's foreign currency denominated sovereign pledges. The decrease in fair values of sovereign pledges due to a stronger United States dollar more than offset the increases in fair values due to lower interest rates and the decrease in the the GPC Fair Value Adjustment. The GPC Fair Value Adjustment is discussed further in the *Hedging IFFIm's Market Risks* section of this report and the methodology for estimating the GPC Fair Value Adjustment is described in Note 15 to the financial statements.
- New Sovereign Pledge: The abovementioned receipts from grantors and fair value losses were partially offset by a new sovereign pledge in June 2016 from the Commonwealth of Australia in the amount of A$ 37.5 million, and had an initial fair value of US$ 23 million, bringing the net decrease in sovereign pledges to US$ 381 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 while remaining in compliance with gearing ratio limits negotiated with the World Bank as counterparty on IFFIm's swap contracts. Consistent with these purposes, IFFIm keeps funds available for a one-year time horizon.

During 2016, funds held in trust decreased by US$ 122 million primarily as a result of redemptions of matured bonds of US$ 755 million, interest paid on bonds of US$ 18 million, programme grants paid of US$ 100 million, and net swap settlement payments of US$ 38 million during the year. These payments more than offset the total of bond issuance proceeds of US$ 500 million and receipts from donors of US$ 284 million during the year.

Other assets: IFFIm's other assets represent its cash balance held at depository bank accounts. IFFIm's cash balance at 31 December 2016 was US$ 1 million lower than its cash balance at 31 December 2015. Cash balances are moved to the investment portfolio on a regular basis.

Bonds Payable: IFFIm has continued to raise funds on the global capital market. From its inception to 31 December 2016, IFFIm had raised US$ 5.7 billion through bond issuances.

During 2016, IFFIm's bonds payable decreased by US$ 224 primarily due to the following:

- Bond Issuances and Redemptions: During 2016, bond redemptions exceeded proceeds from a new bond issuance. The decrease in bonds payable resulted from the redemption of three bonds totaling US$ 755 million, which was partially offset by the issuance of a new bond of US$ 500 million.
- Fair Value Losses: Some of IFFIm's borrowings are denominated in currencies other than the United States dollar. As such, the fair value of these borrowings is highly sensitive to yield and exchange rate movements of the respective foreign currency borrowings, which are some of the market observable inputs that are used to fair value IFFIm's borrowings. During 2016, IFFIm recorded fair value losses of US$ 32 million on its borrowings.

As of 31 December 2016, IFFIm's bonds payable balance of US$ 1,382 million comprised bonds payable falling due within one year of US$ 532 million and bonds payable falling due after more than one year of US$ 850 million.

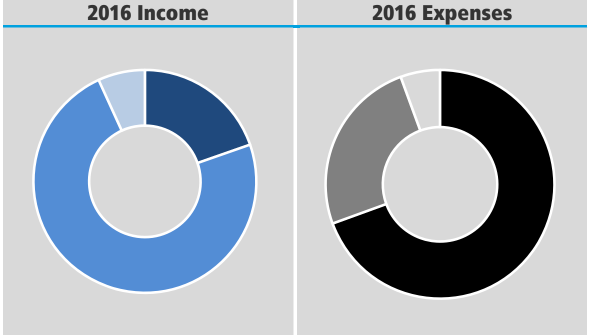
Grants payable: Grants payable represent board approved commitments made by IFFIm to fund Gavi programmes. Each of these commitments is recognised when an indicative funding confirmation to Gavi is signed by one of IFFIm's trustees on behalf of the IFFIm board. As of 31 December 2016, IFFIm's grants payable balance of US$ 457 million comprised grants payable within one year of US$ 100 million and grants payable after more than one year of US$ 357 million.

Other Liabilities: IFFIm's other liabilities primarily represent IFFIm's net liability position on interest rate and currency swap contracts and are also comprised of trade creditors and amounts due to Gavi. IFFIm's net liability position on interest rate and currency swap contracts decreased from US$ 845 million, as of 31 December 2015, to US$ 567 million, as of 31 December 2016, primarily due to interest rate and foreign currency rate fluctuations during 2016. As of 31 December 2016, IFFIm's net liability balance on its interest rate and currency swap contracts of US$ 567 million comprised net amounts due within one year of US$ 7 million and net amounts due after more than one year of US$ 560 million. IFFIm's hedging strategy is described in the *Hedging IFFIm's Market Risks* section of this report and IFFIm's net liability position is discussed further in Note 8 to the financial statements.

Overview of Income and Expenses

The following table summarises IFFIm's income and expenses for the years ended 31 December 2016 and 2015:

In Millions of US$	2016	2015	Change
Contribution revenue	24	1	23
Net fair value gains	89	115	(26)
Investment income	8	5	3
Total income	121	121	(0)
Programme grants	50	-	50
Financing costs	18	34	(16)
Other expenses	4	4	(0)
Total expenses	72	38	34



Contribution Revenue: Contribution revenue for 2016 was comprised of a new sovereign pledge of US$ 23 million from the Commonwealth of Australia and US$ 1 million of services donated to IFFIm by Gavi.

Net Fair Value Gains: As described in the *Overview of Assets and Liabilities* section 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 further describes fair value adjustments on pledges, bonds and swaps, and summarises their impact on IFFIm income.

Investment Income: While IFFIm's average funds held in trust balance was lower during 2016 than 2015, IFFIm's investments in high-grade fixed income instruments outperformed their benchmark. As a result, IFFIm's investment income was US$ 3 million higher during 2016 than 2015.

Programme Grants: IFFIm received a US$ 50 million funding request from Gavi during 2016 and issued its indicative funding confirmation for the full amount requested. IFFIm continues to be an important source of funding for Gavi's programmes and forecasts that it will disburse over US$ 1.1 billion to support Gavi programmes from 2017 to 2020. 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's bond redemptions exceeded proceeds from a new bond issuance during 2016. As a result, IFFIm's bonds payable decreased by US$ 224 million during 2016, which resulted in lower financing costs in 2016. IFFIm's financing costs are sensitive to foreign currency exchange rate movements as some of IFFIm's bonds are denominated in currencies other than the United States Dollar, such as the Australian dollar and the South African rand. Therefore, financing costs also decreased due to a strengthening of the United States dollar relative to these currencies.

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's operations or suppliers, its other expenses remained at the same level during 2016.

IFFIm's policy is to pay its suppliers of the abovementioned services in accordance with those terms and conditions agreed between IFFIm and its suppliers. Payments for services received are usually processed within 30 days upon 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 performance risk that IFFIm funds may not be efficiently and effectively applied by implementing countries to meet Gavi's programme objectives, and (2) the risk that implementing countries may misuse funds they receive from IFFIm.

  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.

  Gavi has identified cases of misuse of funds in thirteen IFFIm-eligible countries. The estimated total IFFIm and Gavi funds misused in these countries since 2006 is US$ 17.7 million, which is less than 0.19% of total funds disbursed by IFFIm and Gavi during that period. Gavi has a zero-tolerance policy with respect to misuse of funds and actively works to bring all these identified cases to resolution and recover the misused funds from the countries. To date, US$ 12.2 million of the US$ 17.7 million in misused funds has been recovered from the countries.

- 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 mitigation of each type of financial risk is described below:

  (1) Credit Risk: IFFIm's credit ratings are closely tied to the credit ratings of Grantors. A change in the outlook for, or a downgrade of, the credit rating of one of the major Grantors may cause one or more of the credit rating agencies to review its outlook or credit rating for IFFIm and to amend such outlooks or credit ratings accordingly. A change in the credit rating of IFFIm may affect the market value of IFFIm's debt. On 27 June 2016, Standard and Poor's Ratings Service ("S&P") and Fitch Ratings downgraded the United Kingdom from AAA to AA with a negative outlook and from AA+ to AA with a negative outlook, respectively. On 13 December 2016, Fitch Ratings affirmed IFFIm's credit rating at AA and changed its outlook from stable to negative. IFFIm's credit ratings by Moody's Investor Service and by Standard and Poor's Ratings Service ("S&P") remained unchanged during 2016. The IFFIm board, working with the World Bank, has put in place measures to manage credit risk. These measures are described in the *Credit Rating and Reserves Policy* section below. Note 12 to the financial statements describes IFFIm's credit risk and related risk management activities in more detail.

      IFFIm's ability to make principal and interest payments to investors, and programme payments to Gavi, depends primarily on receipt by IFFIm of payments from Grantors under the grant agreements. IFFIm does not have any other significant sources of funds available to meet these obligations. In connection with this risk, each Grantor has represented and warranted to IFFIm, and to the other parties to IFFIm's Finance Framework Agreement, that the grant agreement to which it is a party constitutes valid and binding obligations of that Grantor. IFFIm has experienced occasional payment delays by some Grantors, but these have not been material and have not adversely affected IFFIm's credit ratings nor IFFIm's financial condition.

  (2) Liquidity Risk: 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 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.

      IFFIm's bond issuances are managed against the present value of expected future cash flows from Grantor pledges, in view of the GPC and other credit factors. IFFIm only raises bonds against a percentage of the present value of Grantor pledges. The residual, which is still available to IFFIm over time, creates a cushion to protect bond holders against adverse credit events such as a large number of countries entering into protracted arrears to the IMF. The cushion is a percentage of the present value of Grantor pledges, and is established through the Gearing Ratio Limit ("GRL") model. As of 31 December 2016, the GRL model had established that, at a triple-A equivalent confidence level, 69.8% of the present value of Grantor pledges may be used to support the issuance of IFFIm bonds.

      The World Bank continues to have the right to call for collateral to protect against its exposure on IFFIm's derivative positions under the terms of the Credit Support Annex ("CSA") to the ISDA

Agreement between IFFIm and the World Bank. The World Bank has not exercised this right. In order to mitigate the risk that the World Bank may call collateral, an agreement is in place between the World Bank and IFFIm to apply an additional buffer to the gearing ratio limit to manage the World Bank's exposure under the derivative transactions entered into between IFFIm and the World Bank (the "Risk Management Buffer"). The Risk Management Buffer may be adjusted by the World Bank in its sole discretion. In addition, the World Bank, as IFFIm's Treasury Manager, shall continue to monitor IFFIm's funding needs to ensure that at all times IFFIm maintains sufficient available resources to be able to meet its financial obligations, including debt-service payments and obligations under the CSA and ISDA Agreement. Note 13 to the financial statements describes IFFIm's liquidity risk and related risk management activities in more detail.

(3) Market Risk: IFFIm's market risk is comprised 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. Note 14 to the financial statements describes IFFIm's market risk 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 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 2016 and 2015, the calculated minimum liquidity was US$ 568.6 million and US$ 823.9 million, respectively, and the value of IFFIm's Liquid Assets was US$ 863 million and US$ 986 million, respectively. 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 AA by Fitch Ratings, Aa1 by Moody's Investor Service, and AA by Standard and Poor's Ratings Service.

IFFIm receives its funding from Grantor contributions and borrowings on worldwide capital markets, and disburses its funds only to Gavi to finance programmes for a defined portfolio of eligible countries. Therefore, all IFFIm's funds are treated as restricted funds.

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 fluctuations 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 IFFIm's fair value adjustments and interest expense, for the years ended 31 December 2016 and 2015, before and after the impact of IFFIm's currency and interest rate swaps:

	2016		2015	
In Millions of US$	**Pledges**	**Bonds**	**Pledges**	**Bonds**
Interest and fair value adjustments before impact of swaps	(120)	(50)	(140)	90
Impact of currency and interest rate swaps	207	33	226	(93)
Net interest and fair value adjustments after impact of swaps	87	(17)	86	(3)
Interest expense on bonds before impact of swaps		18		33
Impact of bond swaps on interest expense		(5)		(24)
Net interest expense on bonds after impact of swaps		13		9

As shown above, 2016 fair value losses on pledges were more than offset by fair value gains on pledge swaps as a result of several factors as discussed below. The following table further analyses fair value adjustments on pledges and pledge swaps:

In Millions of US$	2016 Pledges	2016 Pledge Swaps	2016 Total	2015 Pledges	2015 Pledge Swaps	2015 Total
Unrealised fair value gains due to GPC Fair Value Adjustment	21	-	21	38	-	38
Realised fair value gains due to GPC Fair Value Adjustment	43	-	43	42	-	42
Interest rate fair value gains (losses)	103	(92)	11	26	(36)	(10)
Foreign currency fair value (losses) gains	(287)	304	17	(246)	283	37
Net debit valuation adjustment	-	(5)	(5)	-	(21)	(21)
Net fair value (losses) gains	(120)	207	87	(140)	226	86

Each component of fair value adjustments on pledges and pledge swaps is discussed below:

- Unrealised fair value gains due to GPC Fair Value Adjustment: As described in Notes 1 and 15 to the financial statements, the Grant Payment Condition (the "GPC") allows the Grantors to reduce their payments to IFFIm in the event that an IFFIm-eligible country falls into protracted arrears on its obligations to the International Monetary Fund (the "IMF"). Therefore, when calculating the fair values of donor pledges, the expected future cash inflows from Grantors are reduced by an estimated percentage due to the GPC (the "GPC Fair Value Adjustment"). The GPC Fair Value Adjustment is calculated using a probabilistic model, which estimates the likelihood and duration that any implementing country might fall into arrears with the IMF over the life of the Grantor pledges. During 2016, the GPC Fair Value Adjustment decreased from 13.4% to 12.5%. This 0.9% decrease in the GPC Fair Value Adjustment translated to unrealised fair value gains on pledges of US$ 21 million.

- Realised fair value gains due to GPC Fair Value Adjustment: In addition, IFFIm recorded realised fair value gains on pledges of US$ 43 million upon receipt of payments from Grantors during 2016.

- No fair value adjustments on pledge swaps due to GPC Fair Value Adjustment: Pledge swap contracts are written at the actual GPC level at the time that each contribution is assigned to IFFIm and, therefore, the GPC Fair Value Adjustment does not impact the valuation of pledge swaps. The actual GPC level decreased from 2.5% as of 31 December 2015 to 1.5% as of 31 December 2016 following Zimbabwe's payment of its arrears to the IMF in October 2016.

- Interest rate fair value gains (losses): As described in Note 15, both pledges and pledge swaps are valued using the discounted cash flow method. Due to lower interest rates in 2016, lower discount factors were applied to both pledges and pledge swaps in 2016, which resulted in fair value gains on pledges and fair value losses on pledge swaps. However, the gains on pledges were US$ 11 million higher than the losses on pledge swaps. This was due to the following: (1) pledges were discounted to their present value using Grantor-specific interest rates while pledge swaps were discounted using a swap yield curve, and (2) as described above, sovereign pledges were swapped into United States dollar floating rate assets to mitigate interest rate and foreign exchange rate risks associated with sovereign pledges. As a result, there is a United States dollar floating rate sensitivity on the receive legs of the pledge swaps, which is not present in the valuation of the pledges themselves.

- Foreign currency fair value (losses) gains: The majority of IFFIm's pledges are denominated in euros and British pounds. The United States dollar strengthened against both the euro and the British pound during 2016, which resulted in significant fair value losses on pledges denominated in these currencies. In addition, IFFIm has smaller foreign currency pledges denominated in Australian dollars, Norwegian krones and Swedish kronas. IFFIm recorded small fair value losses due to the United States dollar strengthening against these currencies during 2016. The total effect of all the aforementioned was a loss on pledges of US$ 287 million due to foreign currency movements which was more than offset by a US$ 304 million foreign currency gain on pledge swaps.

- Net debit valuation adjustment: IFFIm includes a credit valuation adjustment and a debit valuation adjustment in the valuation of its derivative portfolio to account for counterparty credit risk and its own credit risk, respectively. A net debit valuation adjustment of US$ 5 million was included in the valuation of pledge swaps in 2016.

As shown above, 2016 fair value losses on bonds were partially offset by fair value gains on bond swaps as a result of several factors as discussed below. The following table further analyses fair value adjustments on bonds and bond swaps:

In Millions of US$	2016 Bonds	2016 Bond Swaps	2016 Total	2015 Bonds	2015 Bond Swaps	2015 Total
Interest (expense) income	(18)	5	(13)	(33)	24	(9)
Interest rate fair value (losses) gains	(18)	15	(3)	10	(7)	3
Foreign currency fair value (losses) gains	(14)	15	1	110	(110)	-
Fair value gains (losses) due to IFFIm's own credit spreads	-	-	-	3	-	3
Net debit valuation adjustment	-	(2)	(2)	-	-	-
Net fair value (losses) gains	(50)	33	(17)	90	(93)	(3)

Each significant component of fair value adjustments on bonds and bond swaps is discussed below:

- Interest (expense) income: Interest expense on bonds was US$ 18 million in 2016 and was partially offset by interest income on bond swaps of US$ 5 million.
- Interest rate fair value (losses) gains: As described in Note 15, both bonds and bond swaps are valued using the discounted cash flow method. Due to lower interest rates in 2016, lower discount factors were applied to both bonds and bond swaps in 2016, which resulted in fair value losses on bonds and fair value gains on bond swaps. However, the losses on bonds were US$ 3 million higher than the gains on bond swaps. This was due to the following: (1) bonds were discounted to their present value using bond yield curves while bond swaps were discounted using a swap yield curve, and (2) as described above, bonds were swapped into United States dollar floating rate liabilities to mitigate interest rate and foreign exchange rate risks associated with bonds. As a result, there is a United States dollar floating rate sensitivity on the pay legs of the bond swaps, which is not present in the valuation of the bonds themselves.
- Foreign currency fair value (losses) gains: Some of IFFIm's bonds are denominated in South African rand, Australian dollars, and Turkish lira. The United States dollar weakened against the South African rand, which resulted in significant fair value losses on bonds of US$ 20 million, and strengthened against both the Australian dollar and the Turkish lira during 2016, which resulted in fair value gains on bonds of US$ 6 million. The net effect of all the aforementioned was a loss on bonds of US$ 14 million due to foreign currency movements which was offset by a US$ 15 million foreign currency gain on bond swaps.
- Net debit valuation adjustment: IFFIm includes a credit valuation adjustment and a debit valuation adjustment in the valuation of its derivative portfolio to account for counterparty credit risk and its own credit risk, respectively. A net debit valuation adjustment of US$ 2 million was included in the valuation of bond swaps in 2016.

Fair value adjustments on bonds due to IFFIm's own credit spreads were not significant in 2016 as there was no significant appreciation or deterioration of IFFIm's credit during the year.

RECENT DEVELOPMENTS

In October 2016, IFFIm issued US$ 500 million in 3-year floating rate vaccine bonds in a transaction that was jointly lead-managed by Citi, Deutsche Bank, and J.P. Morgan. This transaction marked IFFIm's first visit to the international United States dollar benchmark market since 2013, and was IFFIm's third transaction in the public dollar markets since 2013, following its two successful United States dollar denominated Sukuk transactions. The issue, maturing on 1 November 2019, had a re-offer price of 100% and carries a quarterly coupon of 26 basis points over three-month USD LIBOR. The regional distribution of investors was 65% in Europe, 24% in the Middle East and Africa, 10% in the United States, and 1% in Asia. Central banks and other official institutions took 53%, banks took 44%, and fund managers took 3% of the transaction. This issuance provided investors with a socially responsible investment that will help protect tens of millions of children against preventable diseases while giving Gavi the flexibility to deliver vaccines and other interventions when and where they are most needed.

In December 2016, Mr Didier J. Cherpitel concluded his term as a director of IFFIm and a member of the Audit Committee. Mr Cherpitel served on the IFFIm board since his appointment in June 2009.

In May 2017, IFFIm received a new sovereign pledge from the State of the Netherlands in the amount of US$ 66.7 million, which is payable to IFFIm in annual instalments of US$ 16.7 million over four years, commencing in December 2017 and ending in December 2020.

In May 2017, IFFIm received a new sovereign pledge from the Republic of France in the amount of € 150 million, which is payable to IFFIm in annual instalments of € 30 million over five years, commencing in March 2022 and ending in March 2026.

The abovementioned new sovereign pledges from the State of the Netherlands and the Republic of France were previously announced at Gavi's pledging conference that was held in January 2015. While the State of the Netherland's pledge to IFFIm was announced in Euros, both parties mutually agreed to denominate the grant agreement in US dollars.

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. IFFIm continues to engage with donors to develop potential future roles that deliver significant value to Gavi in achieving its broader strategic goals.

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 auditor is 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 auditor is 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 AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

This report has been prepared in accordance with the *Statement of Recommended Practice: Accounting and Reporting by Charities (Charities SORP (FRS 102))*, issued in July 2014, and in accordance with the provisions of the Companies Act 2006.

Approved by the trustees and signed on their behalf by:

/s/ Marcus Fedder

Marcus Fedder
IFFIm Audit Committee Chair
14 June 2017

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL ACTIVITIES

In Thousands of US$	**Note**	**Year Ended 31 December 2016 Restricted Funds**	**Year Ended 31 December 2015 Restricted Funds**
Income from:			
Contribution revenue	2	22,701	-
Donated services	2	1,048	1,117
Investments	3	8,224	4,784
Total income		31,973	5,901
Expenditure on:			
Raising funds	4	20,099	36,245
Charitable activities	4	52,008	1,898
Total expenditure		72,107	38,143
Net expenditure		(40,134)	(32,242)
Net fair value gains on pledges, bonds and swaps	5	88,850	115,098
Net movement in funds		48,716	82,856
Reconciliation of funds:			
Total funds as of the beginning of the year		763,254	680,398
Total funds as of the end of the year		811,970	763,254

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.

CONSOLIDATED STATEMENTS OF INCOME AND EXPENDITURES

In Thousands of US$	Note	Year Ended 31 December 2016 Restricted Funds	Year Ended 31 December 2015 Restricted Funds
Turnover			
Contribution revenue	2	22,701	-
Operating expenses			
Programme grants	4	50,000	-
Treasury manager's fees	4	2,018	2,265
Governance costs	4	2,008	1,898
Total operating expenses		54,026	4,163
Other operating income			
Donated services	2	1,048	1,117
Total operating income		1,048	1,117
Operating loss		(30,277)	(3,046)
Financing and investment income (expenses)			
Financing income (expenses) on bonds and bond swaps:			
Net fair value gains on bonds and bond swaps	5	1,213	30,607
Interest expense on bonds	4	(17,854)	(33,354)
Net financing expenses on bonds and bond swaps		(16,641)	(2,747)
Other financing income (expenses):			
Net fair value gains on pledges and pledge swaps	5	86,579	85,541
Other foreign exchange gains (losses)	5	1,058	(1,050)
Other financing charges		(227)	(626)
Net other financing income		87,410	83,865
Investment income:			
Investment and interest income	3	8,224	4,784
Total financing and investment income		78,993	85,902
Surplus for the year		48,716	82,856

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

BALANCE SHEETS

Group and Parent Company **In Thousands of US$**	**Note**	**As of 31 December 2016**	**As of 31 December 2015**
Current assets			
Sovereign pledges due after more than one year	6	2,115,000	2,478,767
Derivative financial instruments due after more than one year	8	6,310	9,043
Sovereign pledges due within one year	6	239,783	256,895
Derivative financial instruments due within one year	8	4,517	5,872
Prepayments		353	35
Funds held in trust	7	863,214	985,108
Cash		81	1,197
Total current assets		3,229,258	3,736,917
Liabilities			
Creditors falling due within one year	9	632,981	854,600
Derivative financial instruments due within one year	8	11,101	52,694
Creditors falling due after more than one year	10	1,206,789	1,259,160
Derivative financial instruments due after more than one year	8	566,417	807,209
Total liabilities		2,417,288	2,973,663
Net assets		811,970	763,254
Restricted funds		811,970	763,254

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

Approved by the trustees and signed on their behalf by:

/s/ Marcus Fedder

Marcus Fedder
IFFIm Audit Committee Chair
14 June 2017

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands of US$	Note	Year Ended 31 December 2016 Restricted Funds	Year Ended 31 December 2015 Restricted Funds
Cash flows from operating activities			
Cash provided by operating activities		143,019	162,948
Net cash provided by operating activities		143,019	162,948
Cash flows from investing activities			
Investment and interest income received	3	8,224	4,784
Decrease in funds held in trust	16	121,894	26,639
Net cash provided by (used in) investing activities		130,118	31,423
Cash flows from financing activities			
Proceeds from bond issuances	16	499,500	200,000
Redemption of bonds	16	(755,492)	(361,088)
Interest paid on bonds		(18,261)	(35,435)
Net cash used in financing activities		(274,253)	(196,523)
Net change in cash		(1,116)	(2,152)
Cash as of the beginning of the year		1,197	3,349
Cash as of the end of the year		81	1,197

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

In Thousands of US$	2016	2015
Net change in funds	48,716	82,856
Investment and interest income	(8,224)	(4,784)
Bond interest expense	17,854	33,354
Fair value losses on sovereign pledges	119,928	140,028
Fair value losses (gains) on bonds	32,084	(123,627)
Initial fair value of pledges	(22,701)	-
Payments received from donors	283,652	277,039
(Increase) decrease in prepayments	(318)	112
Decrease in derivative financial instruments	(278,297)	(241,479)
Decrease (increase) in trade creditors and amounts due to related parties	325	(551)
Decrease in grants payable	(50,000)	-
Net cash provided by operating activities	143,019	162,948

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The International Finance Facility for Immunisation Company ("IFFIm") is a private company limited by guarantee and incorporated and domiciled in the United Kingdom. The GAVI Alliance ("Gavi") is the sole member of IFFIm. Gavi is domiciled in Switzerland and its principal address is 2 Chemin des Mines 1202, Geneva, Switzerland. Gavi's mission is to save children's lives and protect people's health by increasing equitable use of vaccines in lower-income countries.

The principal accounting policies of IFFIm are summarised below. These accounting policies were consistently applied from prior years. IFFIm's consolidated financial statements have been prepared on a going concern basis and approved by its trustees in accordance with applicable law and United Kingdom Generally Accepted Accounting Standards. Following discussions and agreement with the World Bank, the trustees do not foresee the World Bank calling collateral that would cause IFFIm to be unable to meet its required financial obligations and, therefore, the trustees concluded that the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about IFFIm's ability to continue as a going concern.

<u>Basis of Accounting</u>: The consolidated 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 (Charities SORP (FRS 102)), and the Financial Reporting Standard 102 applicable in the United Kingdom and Republic of Ireland (FRS 102) and the Charities Act 2011 and United Kingdom Generally Accepted Accounting Practice as it applies from 1 January 2015. The financial statements have been prepared to give a true and fair view of the state of IFFIm's affairs as of 31 December 2016, and of IFFIm's incoming resources and application of resources for the year then ended. The financial statements have departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide such a true and fair view. This departure has involved following the Charities SORP (FRS 102) issued on 16 July 2014 rather than the preceding Charities SORP (SORP 2005), which was effective from 1 April 2005 and has since been withdrawn; and
- in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39), as permitted by FRS 102, 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.

See note 20 for a description of the change in accounting policy, in the year ended 31 December 2015, as a result of IFFIm's transition to FRS 102 from old United Kingdom Generally Accepted Accounting Standards, effective 1 January 2015.

<u>Basis of Consolidation</u>: A subsidiary is an entity controlled by a group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances, and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

IFFIm has control over IFFIm Sukuk Company Limited ("IFFImSC"), a Cayman Islands company with limited liability, which was incorporated on 3 November 2014 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 293422. IFFIm also has control over IFFIm Sukuk Company II Limited ("IFFImSC II"), a Cayman Islands company with limited liability, which was incorporated on 25 August 2015 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 303397. IFFImSC and IFFImSC II were established for the sole purpose of issuing sukuk certificates in support of IFFIm's operations and their activities are conducted on behalf of IFFIm and according to IFFIm's business needs. IFFIm is the primary beneficiary of both entities, bears a significant level of risk incidental to their activities, and retains residual or ownership risks related to both entities or their assets. Therefore, these consolidated financial statements include the accounts of IFFImSC and IFFImSC II. As of 31 December 2016, IFFImSC had cash of US$ 470, share capital of US$ 250, and retained earnings of US$ 250, which are included in the group balance sheet but not included in the parent company balance sheet; IFFImSC II had cash of US$ 500, share capital of US$ 250, and retained earnings of US$ 250, which are included in the group balance sheet but not included in the parent company balance sheet. The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present separate parent company statements of income and expenditures. The parent company's profit for the year ended 31 December 2016 was US$ 56 million.

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 evidence of entitlement, it can be measured reliably, and receipt is probable. 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 Alliance ("Gavi") have been signed by any trustee on behalf of the IFFIm 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 Gavi to IFFIm. Consequently, IFFIm's costs of generating funds comprise the treasury 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 Gavi for immunisation, vaccine procurement and HSS programmes.

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 Gavi. 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 (the "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 IAS 39, as permitted by FRS 102. 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 IAS 39, as permitted by FRS 102, IFFIm has elected not to apply hedge accounting.

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 Gavi has been signed by one of IFFIm's trustees on behalf of the IFFIm 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 consolidated 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 consolidated 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 consolidated 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 Gavi over periods of up to 20 years. Gavi 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 Gavi, 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		Grant Amount, in Thousands of US$[5]
Commonwealth of Australia[3]	28 March 2011	19 years	A$ (AUD)	250,000	180,625
Commonwealth of Australia[4]	3 June 2016	5 years	A$ (AUD)	37,500	27,094
Republic of France[1]	2 October 2006	15 years	€ (EUR)	372,800	393,658
Republic of France[2]	7 December 2007	19 years	€ (EUR)	867,160	915,678
Republic of Italy	2 October 2006	20 years	€ (EUR)	473,450	499,940
Republic of Italy	14 November 2011	14 years	€ (EUR)	25,500	26,927
State of the Netherlands	18 December 2009	7 years	€ (EUR)	80,000	84,476
Kingdom of Norway	2 October 2006	5 years	US$ (USD)	27,000	27,000
Kingdom of Norway	31 August 2010	10 years	Nkr (NOK)	1,500,000	174,299
Republic of South Africa	13 March 2007	20 years	US$ (USD)	20,000	20,000
Kingdom of Spain	2 October 2006	20 years	€ (EUR)	189,500	200,103
Kingdom of Sweden	2 October 2006	15 years	Skr (SEK)	276,150	30,485
United Kingdom	2 October 2006	20 years	£ (GBP)	1,380,000	1,697,814
United Kingdom	5 August 2010	19 years	£ (GBP)	250,000	307,575
Cumulative contribution revenue since inception					4,585,674

[1] Acting through Agence Française de Développement.

[2] Acting through the Ministry of Economy, Industry and Employment.

[3] Acting through the Australian Agency for International Development.

[4] Acting through the Department of Foreign Affairs and Trade.

[5] These amounts represent the United States dollar equivalent amounts of Grantor pledges at the exchange rates as of 31 December 2016.

Contribution revenue recognized was comprised of:

In Thousands of US$	2016	2015
Initial fair value of pledge received from the Commonwealth of Australia	22,701	-
Total contribution revenue	22,701	-

Donated Services: IFFIm received donated administrative services from Gavi in 2016 and 2015. 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:

In Thousands of US$	2016	2015
Administrative support	1,048	1,117
Total donated services	1,048	1,117

3. INVESTMENT AND INTEREST INCOME

In Thousands of US$	2016	2015
Income from funds held in trust	8,232	4,768
Bank account interest	(8)	16
Total investment and interest income	8,224	4,784

4. TOTAL EXPENDITURE

In Thousands of US$	2016	2015
Expenditure on raising funds		
Treasury manager's fees:		
Financial operations management	2,018	2,265
Finance charges:		
Bond interest expense	17,854	33,354
Other financing charges	227	626
Total finance charges	18,081	33,980
Total expenditure on raising funds	20,099	36,245
Expenditure on charitable activities		
Country-specific programmes:		
Health systems strengthening and immunisation services	50,000	-
Professional services:		
Consultancy fees	194	82
GAVI administrative support fee	1,048	1,117
Legal fees	206	208
Tax compliance services	19	-
Auditor's remuneration:		
Statutory audit	193	278
Audit related assurance services	204	165
Tax compliance services	-	7
Other governance costs:		
Trustees' indemnity insurance premiums	14	6
Trustees' meeting and travel expenses	87	54
Other administrative expenses	43	(19)
Total expenditure on charitable activities	52,008	1,898

Administrative and Financial Management Support: Pursuant to the Finance Framework Agreement entered into among IFFIm, the Grantors, the World Bank, and Gavi, 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.

Auditor's Remuneration: Statutory audit fees were US$ 85 thousand lower in 2016 than 2015 primarily as a result of the following factors in 2015: (1) Increases in the scope of the 2015 audit due to IFFIm's second Sukuk issuance and new accounting standards that were effective in the United Kingdom in 2015; and (2) 2014 audit fees and overruns incurred in 2015 in relation to the review of IFFIm's first Sukuk issuance and derivative accounting. Audit related assurance services were US$ 39 thousand higher in 2016 than 2015 primarily as a result of incremental valuation work incurred in 2016. Other financing charges include fees of

US$ 15 thousand and US$ 15 thousand that were paid to IFFIm's auditor in 2016 and 2015, respectively, for services related to IFFIm's bond issuances.

Trustees' Expenses: IFFIm's trustees are not remunerated. They are, however, reimbursed for expenses they incur in attending meetings and performing other functions directly related to their duties as trustees. IFFIm also incurs professional indemnity insurance premium expenses for the trustees. IFFIm had six trustees as of 31 December 2016.

Other Administrative Expenses: The total of other administrative expenses in 2015 was negative due to the reversal of Sukuk related expenses that were expected to be incurred by IFFIm, and which were recorded as accruals, as of 31 December 2014. These accrued expense amounts were subsequently paid by a third party and were, therefore, reversed in 2015.

5. FAIR VALUE GAINS AND LOSSES

In Thousands of US$	2016	2015
Fair value gains (losses) on bonds and bond swaps		
Fair value (losses) gains on bonds	(32,084)	123,627
Net fair value gains (losses) on bond swaps	33,297	(93,020)
Net fair value gains on bonds and bond swaps	1,213	30,607
Fair value gains (losses) on pledges and pledge swaps		
Fair value losses on sovereign pledges	(119,928)	(140,028)
Net fair value gains on pledge swaps	206,507	225,569
Net fair value gains on pledges and pledge swaps	86,579	85,541
Other foreign exchange gains (losses)	1,058	(1,050)
Net fair value gains on pledges, bonds and swaps	88,850	115,098

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 Gavi. 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:

Group and Parent Company In Thousands of US$	2016	2015
Balance as of the beginning of the year	2,735,662	3,152,729
Initial fair value of pledges	22,701	-
Payments received from donors	(283,652)	(277,039)
Fair value losses	(119,928)	(140,028)
Balance as of the end of the year	2,354,783	2,735,662
Sovereign pledges due within one year	239,783	256,895
Sovereign pledges due after more than one year	2,115,000	2,478,767
Total sovereign pledges	2,354,783	2,735,662

Note 8 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

The World Bank maintains a single investment portfolio (the "Pool") for IFFIm 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. 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 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.

Group and Parent Company In Thousands of US$	2016	2015
IFFIm's share in the Pool's fair value	863,214	985,108

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 million for the years ended 31 December 2016 and 2015, respectively, and were reported as investment income in the Consolidated 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 IAS 39, as permitted by FRS 102. All derivatives were valued at fair value recognising the resulting gains and losses in the Consolidated Statements of Financial Activities during the period in which they occur. Net gains on derivatives were recognised as changes in restricted net assets. IFFIm applies overnight indexed swap discounting rates to value its interest rate and currency swaps for the major currencies. IFFIm includes a credit valuation adjustment and a debit valuation adjustment in the valuation of its derivative portfolio to account for counterparty credit risk and its own credit risk, respectively. These adjustments are determined by applying counterparty and own probabilities of default, based on the respective credit default swap spreads, to the market value of the derivative portfolio. The debit valuation adjustment is calculated based on the threshold amount, above which the World Bank, as counterparty on all of IFFIm's interest rate and currency swap contracts, has a right to call for collateral.

The World Bank, as IFFIm's treasury manager, executed a comprehensive swap programme to mitigate IFFIm's exposure to movements in foreign currency and interest rates. IFFIm's swap contracts under the comprehensive swap programme were executed: (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:

Group and Parent Company In Thousands of US$	31 December 2016		31 December 2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Currency and interest rate swaps receivable related to sovereign pledges	137,590	10,827	130,473	14,915
Total currency and interest rate swaps receivable		10,827		14,915
Currency and interest rate swaps payable related to sovereign pledges	2,527,857	(432,987)	3,128,074	(648,357)
Currency and interest rate swaps payable related to bonds payable	1,203,068	(144,531)	2,099,910	(211,546)
Total currency and interest rate swaps payable		(577,518)		(859,903)
Total fair value of interest rate and currency swaps		(566,691)		(844,988)

The World Bank is counterparty on all of IFFIm's currency and interest rate swap contracts and, therefore, the above US$ 567 million net liability on swaps is due to the World Bank. The World Bank has the right to call for collateral to protect against its exposure on IFFIm's derivative positions under the terms of the Credit Support Annex ("CSA") to the ISDA Agreement between IFFIm and the World Bank. The World Bank has not exercised this right. Note 13 describes measures in place to mitigate the risk that the World Bank may call collateral.

9. CREDITORS FALLING DUE WITHIN ONE YEAR

Group and Parent Company In Thousands of US$	2016	2015
Bonds payable falling due within one year	531,944	753,888
Grants payable within one year	100,000	100,000
Trade creditors	705	661
Amounts due to Gavi	332	51
Total creditors falling due within one year	632,981	854,600

10. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR

Creditors falling due after more than one year are comprised of bonds payable and grants 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 and grants payable were:

					Group and Parent Company	
Issue Date	Maturity Date	Coupon Interest Rate	Nominal Amount, in Thousands		Fair Value as of 31 December 2016, in Thousands of US$	Fair Value as of 31 December 2015, in Thousands of US$
24 June 2009	24 June 2024	0.50%	R (ZAR)	800,000	30,691	22,368
28 June 2010	29 June 2020	0.50%	R (ZAR)	430,000	23,716	18,299
29 September 2011	29 September 2016	6.10%	R (ZAR)	650,000	-	41,829
28 June 2012	28 December 2016	3.15%	A$ (AUD)	11,500	-	8,487
28 June 2012	29 June 2027	0.50%	R (ZAR)	520,000	14,989	10,412
30 July 2012	24 July 2017	3.10%	A$ (AUD)	38,000	28,026	28,409
27 March 2013	19 March 2018	5.31%	R (ZAR)	801,000	57,402	48,382
27 March 2013	19 March 2018	5.34%	₺ (TRY)	90,000	24,431	27,748
3 July 2013	5 July 2016	Libor+19bps	US$ (USD)	700,000	-	701,710
4 December 2014	4 December 2017	Libor+15bps	US$ (USD)	500,000	501,693	499,263
29 September 2015	29 September 2018	Libor+14bps	US$ (USD)	200,000	199,995	199,077
26 October 2016	1 November 2019	Libor+26bps	US$ (USD)	500,000	500,726	-
Total bonds payable					1,381,669	1,605,984
Bonds payable falling due within one year					(531,944)	(753,888)
Bonds payable falling due after more than one year					849,725	852,096
Grants payable after more than one year					357,064	407,064
Total creditors falling due after more than one year					1,206,789	1,259,160

As of 31 December 2016 and 2015, the fair values of creditors falling due after more than five years totalled US$ 46 million and US$ 33 million, respectively.

As of 31 December 2016 and 2015, the undiscounted maturities of IFFIm's bonds payable totalled US$ 1.5 billion and US$ 1.7 billion, respectively, as shown in Note 13. This was US$ 110 million and US$ 111 million higher than the fair value of IFFIm's bonds payable as of 31 December 2016 and 2015, respectively.

Total bonds payable by the parent company included amounts due to IFFImSC of US$ 502 million and US$ 499 million as of 31 December 2016 and 2015, respectively, and amounts due to IFFImSC II of US$ 200 million and US$ 199 million as of 31 December 2016 and 2015, respectively.

11. MOVEMENT OF FUNDS

In Thousands of US$	As of 31 December 2015	Incoming Resources	Resources Expended	As of 31 December 2016
Sovereign pledges assigned from Gavi	3,433,272	22,701	(960)	3,455,013
Investment and interest income	75,714	8,224	-	83,938
Other gains (losses) and other income (expenses)	237,016	88,850	(20,099)	305,767
Donated services:				
Administrative support	-	1,048	(1,048)	-
Programme funding to Gavi:				
Country-specific programmes	(2,241,058)	-	(50,000)	(2,291,058)
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	763,254	120,823	(72,107)	811,970

In Thousands of US$	As of 31 December 2014	Incoming Resources	Resources Expended	As of 31 December 2015
Sovereign pledges assigned from Gavi	3,434,053	-	(781)	3,433,272
Investment and interest income	70,930	4,784	-	75,714
Other gains (losses) and other income (expenses)	158,163	115,098	(36,245)	237,016
Donated services:				
Administrative support	-	1,117	(1,117)	-
Programme funding to Gavi:				
Country-specific programmes	(2,241,058)	-	-	(2,241,058)
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	680,398	120,999	(38,143)	763,254

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$	2016	2015
Sovereign pledges	2,354,783	2,735,662
Cash and investments	863,295	986,305
Total credit exposure	3,218,078	3,721,967

IFFIm's derivative assets are excluded from its credit exposure as they would be netted against its derivative liabilities. As of 31 December 2016 and 2015, IFFIm had a net liability balance on its interest rate and currency swap contracts of US$ 567 million and US$ 845 million, respectively. The World Bank, an AAA-credit rated institution, serves as the counterparty for all IFFIm's swaps.

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. The Grantors were rated between BBB- and AAA as of 31 December 2016.

The Grantors' credit ratings as of 31 December 2016 and 2015, as determined by Standard and Poor's Ratings

Service ("S&P"), were:

Grantor	2016	2015
Commonwealth of Australia	AAA	AAA
Republic of France	AA	AA
Republic of Italy	BBB-	BBB-
State of the Netherlands	AAA	AAA
Kingdom of Norway	AAA	AAA
Republic of South Africa	BBB-	BBB-
Kingdom of Spain	BBB+	BBB+
Kingdom of Sweden	AAA	AAA
United Kingdom	AA	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 and Investments: 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 at the time of purchase:

- 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.

In order to achieve greater diversification of portfolio risks and generate value, the World Bank has made investments in the short term domestic debt of new sovereign markets offering potential to generate excess yields over LIBOR, mainly from currency basis arbitrage. Investments in these sovereign markets are subject to specific approvals from the financial governing committees of the World Bank and prudent credit limits.

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$	2016	2015
Instruments and securities rated AAA	408,645	455,745
Instruments and securities rated AA+	23,704	13,925
Instruments and securities rated AA	100,616	71,737
Instruments and securities rated AA-	122,812	32,070
Instruments and securities rated A+	195,139	375,038
Instruments and securities rated A	(9,192)	30,566
Instruments and securities rated A-	21,490	3,171
Instruments and securities rated BBB+	-	979
Instruments and securities rated BBB-	-	1,877
Total funds held in trust	863,214	985,108

Cash, receivables and payables included in IFFIm's funds held in trust are reported in the AAA category as they are held by the World Bank, which is an AAA credit-rated institution.

On 13 December 2016, Fitch Ratings affirmed IFFIm's credit rating at AA and changed its outlook from stable to negative. IFFIm's credit ratings by Moody's Investor Service and by Standard and Poor's Ratings Service ("S&P") remained unchanged during 2016. The IFFIm board, working with the World Bank, has put in place measures to manage credit risk.

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 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 2016, the calculated minimum liquidity was US$ 568.6 million and the value of IFFIm's Liquid Assets was US$ 863 million. As of 31 December 2015, the calculated minimum liquidity was US$ 823.9 million and the value of IFFIm's Liquid Assets was US$ 986 million.

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 AA by S&P, AA by Fitch Ratings, and Aa1 by Moody's Investor Service.

In order to help maintain IFFIm's credit ratings and ensure the lowest possible cost of funds, bond issuances are managed against the present value of expected future cash flows from Grantor pledges, in view of the GPC and other credit factors. To provide comfort to the rating agencies and bond holders that IFFIm will always be able to service its bonds, IFFIm only raises bonds against a percentage of the present value of Grantor pledges. The residual, which is still available to IFFIm over time, creates a cushion to protect bond holders against adverse credit events such as a large number of countries entering into protracted arrears to the IMF. The cushion is a percentage of the present value of Grantor pledges, and is established through the Gearing Ratio Limit ("GRL") model. The present value of Grantor pledges used in the GRL model is not reduced by the GPC Fair Value Adjustment, which is described in Note 15.

In order to mitigate the risk that the World Bank may call collateral, an agreement is in place between the World Bank and IFFIm to apply an additional buffer to the GRL to manage the World Bank's exposure under the derivative transactions entered into between IFFIm and the World Bank (the "Risk Management Buffer"). The Risk Management Buffer may be adjusted by the World Bank in its sole discretion. As of 31 December 2016, the Risk Management Buffer was 12% of the present value of expected future cash flows from Grantor pledges.

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

As of 31 December 2016, in Thousands of US$	**Total Cash Outflows**	**Due in Less than One Year**	**Due in 2018**	**Due in 2019**	**Due from 2020 through 2030**
Bonds payable	(1,492,221)	(549,362)	(299,420)	(513,076)	(130,363)
Grants payable to Gavi	(457,064)	(100,000)	(350,000)	(7,064)	-
Derivative financial liabilities	(430,304)	(19,239)	(65,461)	(17,445)	(328,159)
Total undiscounted maturities	(2,379,589)	(668,601)	(714,881)	(537,585)	(458,522)

As of 31 December 2015, in Thousands of US$	**Total Cash Outflows**	**Due in Less than One Year**	**Due in 2017**	**Due in 2018**	**Due from 2019 through 2030**
Bonds payable	(1,717,150)	(769,490)	(544,541)	(287,785)	(115,334)
Grants payable to Gavi	(507,064)	(100,000)	(300,000)	(107,064)	-
Derivative financial liabilities	(803,975)	(72,053)	(40,736)	(94,226)	(596,960)
Total undiscounted maturities	(3,028,189)	(941,543)	(885,277)	(489,075)	(712,294)

The trustees expect that IFFIm will receive cash inflows over the lives of its derivative financial assets. The following are the expected undiscounted inflows from derivative financial assets and the expected undiscounted cash outflows from derivative financial liabilities:

As of 31 December 2016, in Thousands of US$	Total Cash Inflows (Outflows)	Due in Less than One Year	Due in 2018	Due in 2019	Due from 2020 through 2030
Derivative financial assets	63,456	18,663	10,440	10,679	23,674
Derivative financial liabilities	(430,304)	(19,239)	(65,461)	(17,445)	(328,159)
Net cash outflows	(366,848)	(576)	(55,021)	(6,766)	(304,485)

As of 31 December 2015, in Thousands of US$	Total Cash Inflows (Outflows)	Due in Less than One Year	Due in 2017	Due in 2018	Due from 2019 through 2030
Derivative financial assets	69,736	16,706	12,151	8,086	32,793
Derivative financial liabilities	(803,975)	(72,053)	(40,736)	(94,226)	(596,960)
Net cash outflows	(734,239)	(55,347)	(28,585)	(86,140)	(564,167)

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 foreign exchange rates and interest rates. 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 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 Gavi 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 2016, in Thousands of US$	Foreign Currency Assets	Foreign Currency Liabilities	Net Exposure
Australian dollar	153,840	(147,537)	6,303
Swiss franc	-	(49)	(49)
Euro	988,826	(1,146,416)	(157,590)
British pound	1,164,803	(1,298,473)	(133,670)
Japanese yen	1	(24)	(23)
Norwegian krone	60,282	(66,598)	(6,316)
New Zealand dollar	1	-	1
Swedish krona	8,892	(9,839)	(947)
Turkish lira	24,439	(24,431)	8
South African rand	130,321	(126,798)	3,523

As of 31 December 2015, in Thousands of US$	Foreign Currency Assets	Foreign Currency Liabilities	Net Exposure
Australian dollar	150,513	(164,418)	(13,905)
Euro	1,098,915	(1,274,633)	(175,718)
British pound	1,432,849	(1,615,832)	(182,983)
Japanese yen	24	(24)	-
Norwegian krone	72,628	(81,085)	(8,457)
New Zealand dollar	1	-	1
Swedish krona	11,315	(12,484)	(1,169)
Turkish lira	27,936	(27,748)	188
South African rand	144,811	(141,290)	3,521

The following exchange rates applied during the year:

In US$	Average Rate for the Year Ended 31 December 2016	Spot Rate as of 31 December 2016	Average Rate for the Year Ended 31 December 2015	Spot Rate as of 31 December 2015
Australian dollar	0.7441	0.7225	0.7527	0.7313
Swiss franc	1.0149	0.9825	-	-
Euro	1.1068	1.0560	1.1102	1.0892
British pound	1.3557	1.2303	1.5288	1.4819
Japanese yen	0.0092	0.0086	0.0083	0.0083
Norwegian krone	0.1190	0.1162	0.1240	0.1135
New Zealand dollar	0.6974	0.6963	0.7004	0.6844
Swedish krona	0.1168	0.1104	0.1186	0.1186
Turkish lira	0.3307	0.2834	0.3670	0.3423
South African rand	0.0680	0.0729	0.0783	0.0641

<u>Sensitivity to Foreign Exchange Rates</u>: Strengthening of the above currencies, against the United States dollar, as of 31 December 2016 and 2015 would have increased (decreased) IFFIm's net assets and surpluses 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:

In Thousands of US$	Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2016		Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2015	
	10% Strengthening against US$	10% Weakening against US$	10% Strengthening against US$	10% Weakening against US$
Australian dollar	(583)	713	1,258	(1,537)
Euro	14,268	(17,439)	15,921	(19,459)
British pound	12,123	(14,817)	16,598	(20,287)
Norwegian krone	(4,586)	5,605	(5,465)	6,680
Swedish krona	5,244	(6,409)	6,339	(7,748)
Turkish lira	(1)	1	(17)	21
South African rand	(320)	391	(320)	391

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$	2016 Carrying Amount	2015 Carrying Amount
Fixed rate instruments		
Financial assets	182,812	209,829
Financial liabilities	(2,828,796)	(3,327,148)
Net fixed rate instruments	(2,645,984)	(3,117,319)
Variable rate instruments		
Financial assets	2,240,626	2,511,084
Financial liabilities	(1,544,775)	(1,853,681)
Net variable rate instruments	695,851	657,403

Sensitivity to Interest Rates: Changes of 25 basis points in interest rates as of 31 December 2016 and 2015 would have increased (decreased) IFFIm's net assets and surpluses 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 Surplus for the Year Ended and Net Assets as of 31 December 2016	Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2015
25 basis point increase	4,174	3,131
25 basis point decrease	(4,264)	(3,240)

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$ 1.7 million and US$ 2.1 million for the years ended 31 December 2016 and 2015, respectively. IFFIm uses a three-year historical dataset to compute VaR.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of IFFIm's financial assets and liabilities are equal to their carrying amounts shown in IFFIm's statements of financial position.

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 2016, in Thousands of US$	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign pledges	-	-	2,354,783	2,354,783
Funds held in trust	292,309	570,905	-	863,214
Derivative financial instruments	-	10,827	-	10,827
Total financial assets	292,309	581,732	2,354,783	3,228,824
Financial liabilities				
Bonds payable	-	1,381,669	-	1,381,669
Grants payable to Gavi	-	457,064	-	457,064
Derivative financial instruments	-	577,518	-	577,518
Total financial liabilities	-	2,416,251	-	2,416,251

As of 31 December 2015, in Thousands of US$	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign pledges	-	-	2,735,662	2,735,662
Funds held in trust	338,843	646,265	-	985,108
Derivative financial instruments	-	14,915	-	14,915
Total financial assets	338,843	661,180	2,735,662	3,735,685
Financial liabilities				
Bonds payable	-	1,605,984	-	1,605,984
Grants payable to Gavi	-	507,064	-	507,064
Derivative financial instruments	-	859,903	-	859,903
Total financial liabilities	-	2,972,951	-	2,972,951

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

In Thousands of US$	2016	2015
Balance as of the beginning of the year	2,735,662	3,152,729
Initial fair value of pledges	22,701	-
Donor payments	(283,652)	(277,039)
Fair value losses	(119,928)	(140,028)
Balance as of the end of the year	2,354,783	2,735,662

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 0.5%, 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 as of 31 December 2016 was as follows:

Country	Country Weighting	Total Share
South Sudan, Sudan	0.5%	1%
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, Tajikistan, Tanzania, Timor-Leste, Togo, Uganda, Ukraine, Uzbekistan, Yemen Republic, Zambia, Zimbabwe	1%	61%
Vietnam	3%	3%
Bangladesh, Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria, Pakistan	5%	35%

The fair values of contributions receivable are estimated using the discounted cash flow method. Each cash flow is reduced by an estimated percentage due to the GPC (the "GPC Fair Value Adjustment") and the reduced cash flows are discounted to present value at donor-specific interest rates. The GPC Fair Value Adjustment is calculated using a probabilistic model, which estimates the likelihood and duration that any implementing country might fall into arrears with the IMF over the life of the Grantor pledges. 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 Fair Value Adjustment used in October 2006 was 17.6%, and it was 12.5% and 13.4% as of 31 December 2016 and 2015 respectively. 1% decreases in the GPC Fair Value Adjustment as of 31 December 2016 and 2015 would have resulted in increases in the fair values of sovereign pledges of US$ 27 million and US$ 32 million, respectively. 1% increases in the GPC Fair Value Adjustment would have had equal but opposite effects on the fair values of sovereign pledges.

During the year ended 31 December 2016, two reference portfolio countries were in protracted arrears to the IMF. Those countries were Somalia and Sudan.

For the above sovereign pledges as of 31 December 2016, market based discount rates ranging from 0% to 5% 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.

As of 31 December 2016 and 2015, the portions of the fair values of bonds payable that were attributable to IFFIm's own credit spreads were decreases of US$ 8 million and US$ 7 million, respectively.

Grants Payable to Gavi: 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 2015	Cash Flows and Fair Value Movements	Fair Value as of 31 December 2016
Cash	1,197	(1,116)	81
Bonds payable	(1,602,587)	223,908	(1,378,679)
Funds held in trust	985,108	(121,894)	863,214
Total	(616,282)	100,898	(515,384)

In Thousands of US$	Fair Value as of 31 December 2014	Cash Flows and Fair Value Movements	Fair Value as of 31 December 2015
Cash	3,349	(2,152)	1,197
Bonds payable	(1,887,302)	284,715	(1,602,587)
Funds held in trust	1,011,747	(26,639)	985,108
Total	(872,206)	255,924	(616,282)

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

In Thousands of US$	2016	2015
Decrease in cash	(1,116)	(2,152)
Decrease in funds held in trust	(121,894)	(26,639)
Proceeds from bond issuances	(499,500)	(200,000)
Redemption of bonds	755,492	361,088
Fair value (losses) gains on bonds	(32,084)	123,627
Movement in net debt in the period	100,898	255,924
Net debt as of the beginning of the year	(616,282)	(872,206)
Net debt as of the end of the year	(515,384)	(616,282)

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.
- IFFImSC: IFFImSC is a Cayman Islands company with limited liability, which was incorporated on 3 November 2014 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 293422. IFFImSC was established for the sole purpose of issuing sukuk certificates in support of IFFIm's operations. On 27 November 2014, IFFImSC issued sukuk certificates for a total amount of US$ 500 million. These consolidated financial statements include the accounts of IFFImSC.
- IFFImSC II: IFFImSC II is a Cayman Islands company with limited liability, which was incorporated on 25 August 2015 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 303397. IFFImSC II was established for the sole purpose of issuing sukuk certificates in support of IFFIm's operations. On 29 September 2015, IFFImSC II issued sukuk certificates for a total amount of US$ 200 million. These consolidated financial statements include the accounts of IFFImSC II.

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$	2016	2015
Gavi		
Accounts payable to Gavi	332	51
Programme grants payable to Gavi	457,064	507,064
In-kind contributions received from Gavi	1,048	1,117

18. COMMITMENT AND CONTINGENCIES

The trustees are not aware of any commitments or contingencies as of 31 December 2016 or 2015.

19. ACCOUNTING ESTIMATES AND JUDGEMENTS

Since the IFFIm board manages IFFIm's sovereign pledges, funds held in trust, derivative financial instruments, bonds payable and grants payable on a fair value basis, these assets and liabilities are measured at fair value on the balance sheets. When available, IFFIm generally uses quoted market prices to determine fair value. If quoted market prices are not available, fair value is determined using internally developed valuation models, which are often based on the discounted cash flow method and use market parameters such as interest rates and currency rates.

In preparing these financial statements, judgements were made in determining when to recognise revenue from Grantors. Factors considered, in line with IFFIm's accounting policy on revenue recognition, were whether there was evidence of entitlement and whether receipt was probable.

20. TRANSITION TO FRS 102

In the transition to the Financial Reporting Standard 102 applicable in the United Kingdom and Republic of Ireland (FRS 102) from old United Kingdom Generally Accepted Accounting Standards, effective 1 January 2015, IFFIm changed its accounting policy on recognition of revenue, in line with new requirements, to the effect that revenue is recognised when there is evidence of entitlement, it can be measured reliably, and receipt is probable. IFFIm made this change in accounting policy during the year ended 31 December 2015. IFFIm's previous policy was to recognise revenue when there was a contractual obligation, it could be measured reliably, and receipt was certain. IFFIm made no measurement and recognition adjustments as a result of this change in accounting policy and made no other changes to its accounting policies.

21. 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 2016 or 2015. IFFImSC is a Cayman Islands company with limited liability, incorporated under the Companies Law (2013 Revision) of the Cayman Islands. There are no taxes on income or gains in the Cayman Islands.

22. SUBSEQUENT EVENTS

In May 2017, IFFIm received a new sovereign pledge from the State of the Netherlands in the amount of US$ 66.7 million, which is payable to IFFIm in annual instalments of US$ 16.7 million over four years, commencing in December 2017 and ending in December 2020.

In May 2017, IFFIm received a new sovereign pledge from the Republic of France in the amount of € 150 million, which is payable to IFFIm in annual instalments of € 30 million over five years, commencing in March 2022 and ending in March 2026.

INDEPENDENT AUDITOR'S 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 2016, set out on pages 22 to 43. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the charitable 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 auditor's 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 auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 7, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the charitable company's affairs as at 31 December 2016 and of the group's 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 matters prescribed by the Companies Act 2006

In our opinion the information given in the Trustees' Annual Report, which constitutes the Annual Report of the Trustees and the Strategic Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Trustees' Annual Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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 charitable company 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/ Michael Peck

Michael Peck **(Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

14 June 2017