THE INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION COMPANY

ANNUAL REPORT OF THE TRUSTEES AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

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TRUSTEES

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London EC1Y 8BB
United Kingdom

SOLICITOR

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

AUDITOR

KPMG LLP
15 Canada Square
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United Kingdom

TREASURY MANAGER

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

LEGAL STATUS

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

FILING OF REPORTS

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

STATEMENT OF TRUSTEES' RESPONSIBILITIES

Statement of 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 have elected 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 their excess 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;
- assess the group and charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the charitable company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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, the Vaccine Alliance, in over 70 of the poorest countries around the world. IFFIm was created as a development financing tool to help the international community achieve global 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 had 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. IFFImSC was dissolved on 30 April 2018. IFFIm 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 2017:

- The GAVI Alliance ("Gavi"): Gavi is a Swiss foundation that is accorded international institution status in Switzerland with certain privileges and immunities similar to those accorded to other international intergovernmental organisations. It uses funds raised by IFFIm to finance immunisation related charitable activities in many of the world's poorest countries. Gavi's charitable activities are described further in the *Programmes Funded by IFFIm* section of this report. Gavi also provides administrative support to IFFIm.
- The International Bank for Reconstruction and Development (the "World Bank"): The World Bank is a global development organisation based in the United States. It provides treasury management, risk management and accounting services to IFFIm. IFFIm's relationship and interactions with the World Bank are described further in the *Financial Overview* and *Hedging IFFIm's Market Risks* sections of this report.

GOVERNANCE 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 2017, there were seven meetings of the IFFIm board.

The IFFIm audit committee is a standing committee of the IFFIm board of directors consisting of three members of the board 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 2017, there were two meetings of the audit committee.

During the year ended 31 December 2017, IFFIm's directors were as follows:

- René Karsenti, Board Chair: Dr Karsenti is the President of the International Capital Markets 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 (EBRD). Dr Karsenti concluded his term as Board Chair and a director on 31 December 2017.
- Cyrus Ardalan: Mr Ardalan is Chairman of Citigroup Global Markets Limited and OakNorth Bank. He is also Chairman of the Financial Services Advisory Board of Alvarez and Marsal. Previously he was a Vice Chairman of Barclays Bank and has also held senior roles at BNP Paribas and the World Bank. He has served as Chairman of the board of the ICMA and as a member of the board of the Dubai International Financial Centre. Mr Ardalan was appointed as Chair of the IFFIm board effective 1 January 2018.
- 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 EBRD and worked at the World Bank and in derivatives, starting his career at Deutsche Bank. He is a member of the supervisory board of TCX Fund.
- 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 is a member of the Audit Committee.

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. KPMG LLP did not seek reappointment as IFFIm's independent auditor for the financial year commencing on 1 January 2018. At its meeting on 4 June 2018, the IFFIm board appointed Deloitte LLP as its independent auditor for the financial year commencing on 1 January 2018.
- 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:

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

- Pneumococcal Disease: 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.
- Hepatitis B: This is a viral infection which claims more than 880 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. More than 250 million people worldwide are chronically infected with hepatitis B.
- Haemophilus Influenzae Type B ("Hib"): 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.
- Diphtheria: This is a bacterial infection transmitted from person to person through close physical and respiratory contact. The disease can be fatal. Between 5% and 10% of diphtheria patients die, even if properly treated. If left untreated, the disease claims even more lives.
- Tetanus: Also known as lockjaw, tetanus is a bacterial infection. Tetanus affects new-born babies and their mothers, usually as a result of unsafe delivery in unhygienic conditions, often without skilled birth attendants.
- Pertussis: Also known as whooping cough, pertussis is a disease of the respiratory tract caused by bacteria that live in the mouth, nose, and throat. Many children who contract pertussis have coughing spells that last four to eight weeks. The disease is most dangerous in infants.
- Yellow Fever: 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 130 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 500 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 targets a disease that constrains progress towards improved child and maternal health. IFFIm funds have supported 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 2017. 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 close to 640 million children since Gavi's creation and prevented more than 9 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 2017, IFFIm approved the following amounts for disbursement to help fund Gavi's Country-Specific Programmes:

In Millions of US$	**Approvals from Inception to 2017**
New and underused vaccine support	2,052
Health systems strengthening and other	470
Total Country-Specific Programme approvals	2,522

Approvals from Inception to 2017

From its inception to 31 December 2017, IFFIm approved the following amounts for disbursement to help fund Gavi's Investment Cases:

In Millions of US$	**Approvals from Inception to 2017**
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 2017

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 20.0 basis points over USD LIBOR. This is 7.0 basis points higher than the weighted average cost of borrowing of its donors of 13.0 basis points over USD LIBOR as calculated at the time of the latest IFFIm bond issuance in November 2017. 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 2 basis points over USD LIBOR. This is 8.0 basis points lower than the weighted average cost of borrowing of its donors, which is 10 basis points over 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 2017, 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, Gavi did not drawdown on IFFIm funding in 2017 and deferred any drawdowns to the period from 2018 to 2020.

- 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 2017, IFFIm returned to the international United States dollar benchmark market raising US$ 300 million through the issuance of 3-year floating rate vaccine bonds. The issuance provided investors worldwide with an opportunity to invest in socially responsible bonds that will help protect tens of millions of children from preventable diseases. The bonds were oversubscribed demonstrating IFFIm's continued effectiveness in capturing investor attention to support Gavi's life-saving mission.

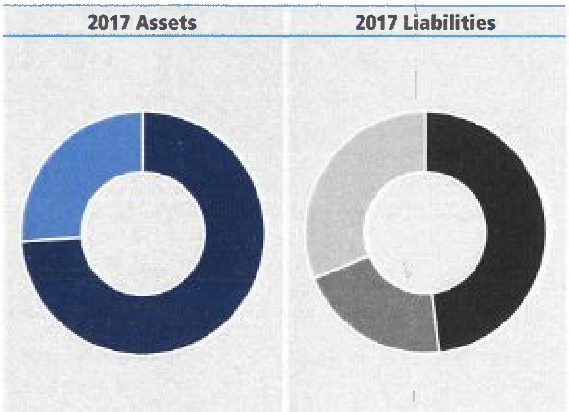
At Gavi's pledging conference that was held in January 2015, the Republic of France, the State of the Netherlands, and the Commonwealth of Australia announced their intentions to make future pledges to IFFIm that would total € 150 million, € 60 million, and A$ 37.5 million, respectively. These new pledges 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. IFFIm continues to engage with existing and prospective Grantors to attract further pledges. Gavi will hold its mid-term review meeting in December 2018 to take stock of its performance halfway through its current 2016-2020 strategic period, including its accomplishments through IFFIm's flexible mechanism, and lay a vision for the future of the Gavi model.

FINANCIAL OVERVIEW

Overview of Assets and Liabilities

The following table summarises IFFIm's assets and liabilities as of 31 December 2017 and 2016:

In Millions of US$	2017	2016	Change
Sovereign pledges	2,588	2,355	233
Funds held in trust	912	863	49
Other assets	-	-	-
Total assets	3,500	3,218	282
Bonds payable	1,181	1,382	(201)
Grants payable	507	457	50
Other liabilities	768	567	201
Total liabilities	2,456	2,406	50
Net assets	1,044	812	232
Total liabilities and net assets	3,500	3,218	282



Sovereign Pledges: IFFIm's asset base consists primarily of irrevocable and legally binding multi-year sovereign pledges from the Grantors. As of 31 December 2017, 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 of Great Britain and Northern Ireland, 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 2017, IFFIm's sovereign pledges increased by US$ 233 million due to the following:

- Fair Value Gains: IFFIm recorded US$ 330 million in fair value gains on sovereign pledges during 2017. These gains were primarily the result of a weaker United States dollar in 2017, which resulted in higher fair values of IFFIm's foreign currency denominated sovereign pledges, and the decrease in the GPC Fair Value Adjustment. The increase in fair values of sovereign pledges due to a weaker United States dollar and the decrease in the GPC Fair Value Adjustment more than offset decreases in fair values due to higher interest rates in 2017. 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 Pledges: In May 2017, IFFIm received a new sovereign pledge from the Republic of France in the amount of € 150 million, with an initial fair value of US$ 132 million, and a new sovereign pledge from the State of the Netherlands in the amount of US$ 67 million, resulting in a total initial fair value of new sovereign pledges of US$ 199 million.

- Receipts from Grantors: IFFIm received payments from Grantors totalling US$ 296 million during 2017, bringing the net increase in sovereign pledges to US$ 233 million. From inception through 31 December 2017, cumulative payments received from the Grantors totalled US$ 2.5 billion.

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 2017, funds held in trust increased by US$ 49 million primarily as a result of bond issuance proceeds of US$ 300 million, receipts from donors of US$ 296 million, and investment income of US$ 15 million. These proceeds were partially offset by redemptions of matured bonds of US$ 530 million, interest paid on bonds of US$ 22 million, net swap settlement payments of US$ 7 million, and general administrative expenses of US$ 3 million.

Other assets: IFFIm's other assets represent its cash balance held at depository bank accounts. Cash balances are moved to the investment portfolio on a regular basis.

Bonds Payable: IFFIm has continued to raise funds on the global capital markets. From its inception to 31 December 2017, IFFIm had raised US$ 6 billion through bond issuances.

During 2017, IFFIm's bonds payable decreased by US$ 201 million primarily due to the following:

- Bond Issuances and Redemptions: During 2017, bond redemptions exceeded proceeds from a new bond issuance. The decrease in bonds payable resulted from the redemption of two bonds totaling US$ 530 million, which was partially offset by the issuance of a new bond of US$ 300 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 2017, IFFIm recorded fair value losses of US$ 30 million on its borrowings.

As of 31 December 2017, IFFIm's bonds payable balance of US$ 1,181 million comprised bonds payable falling due within one year of US$ 292 million and bonds payable falling due after more than one year of US$ 889 million.

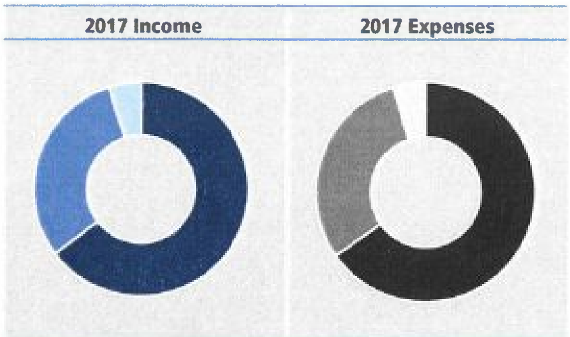
Grants payable: Grants payable represent board approved commitments made by IFFIm to fund Gavi programmes. Each of these commitments is recognised when an indicative funding confirmation to Gavi is signed by one of IFFIm's trustees on behalf of the IFFIm board. As of 31 December 2017, IFFIm's grants payable balance of US$ 507 million comprised grants payable within one year of US$ 50 million and grants payable after more than one year of US$ 457 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 increased from US$ 567 million, as of 31 December 2016, to US$ 767 million, as of 31 December 2017, primarily due to interest rate and foreign currency rate fluctuations during 2017. As of 31 December 2017, IFFIm's net liability balance on its interest rate and currency swap contracts of US$ 767 million comprised net amounts due within one year of US$ 60 million and net amounts due after more than one year of US$ 707 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 2017 and 2016:

In Millions of US$	2017	2016	Change
Contribution revenue	200	24	176
Net fair value gains	94	89	5
Investment income	15	8	7
Total income	309	121	188
Programme grants	50	50	-
Financing costs	23	18	5
Other expenses	4	4	(0)
Total expenses	77	72	5



Contribution Revenue: Contribution revenue for 2017 was comprised of a new sovereign pledge from the Republic of France in the amount of € 150 million, with an initial fair value of US$ 132 million, a new sovereign pledge from the State of the Netherlands in the amount of US$ 67 million, 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: IFFIm's investment income was US$ 7 million higher during 2017 than 2016 as IFFIm's investments in high-grade fixed income instruments outperformed their benchmark.

Programme Grants: IFFIm received a US$ 50 million funding request from Gavi during 2017 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$ 800 million to support Gavi programmes from 2018 to 2020. The *Programmes Funded By IFFIm* section above describes the various Gavi programmes that IFFIm has helped to fund.

Financing Costs: IFFIm's outstanding bonds payable are predominantly comprised of floating rate bonds with coupon interest rates that are based on three-month USD LIBOR. The three-month USD LIBOR rates were higher in 2017 than 2016. Therefore, while IFFIm's bonds payable decreased during 2017, IFFIm's financing costs were US$ 5 million higher in 2017 than 2016 primarily because of higher LIBOR rates. IFFIm's financing costs are also sensitive to foreign currency exchange rate movements as some of IFFIm's bonds are denominated in currencies other than the United States Dollar, mainly the South African rand. The South African rand strengthened against the United States dollar during 2017, resulting in higher financing costs.

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 2017.

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 twenty IFFIm-eligible countries. The estimated total IFFIm and Gavi funds misused in these countries since 2006 is US$ 23.6 million, which is less than 0.22% 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$ 20.8 million of the US$ 23.6 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. IFFIm's credit ratings by Fitch Ratings, Moody's Investor Service, and by Standard and Poor's Ratings Service ("S&P") remained unchanged during 2017. 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 2017, the GRL model had established that, at a triple-A equivalent confidence level, 70.2% 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 2017 and 2016, the calculated minimum liquidity was US$ 366.5 million and US$ 568.6 million, respectively, and the value of IFFIm's Liquid Assets was US$ 912 million and US$ 863 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 2017 and 2016, before and after the impact of IFFIm's currency and interest rate swaps:

	2017		2016	
In Millions of US$	**Pledges**	**Bonds**	**Pledges**	**Bonds**
Interest and fair value adjustments before impact of swaps	330	(53)	(120)	(50)
Impact of currency and interest rate swaps	(238)	30	207	33
Net interest and fair value adjustments after impact of swaps	92	(23)	87	(17)
Interest expense on bonds before impact of swaps		23		18
Impact of bond swaps on interest expense		(1)		(5)
Net interest expense on bonds after impact of swaps		22		13

As shown above, 2017 fair value gains on pledges were partially offset by fair value losses 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:

	2017			2016		
In Millions of US$	**Pledges**	**Pledge Swaps**	**Total**	**Pledges**	**Pledge Swaps**	**Total**
Unrealised fair value gains due to GPC Fair Value Adjustment	12	-	12	21	-	21
Realised fair value gains due to GPC Fair Value Adjustment	46	-	46	43	-	43
Interest rate fair value (losses) gains	(8)	39	31	103	(92)	11
Foreign currency fair value gains (losses)	280	(276)	4	(287)	304	17
Net debit valuation adjustment	-	(1)	(1)	-	(5)	(5)
Net fair value gains (losses)	330	(238)	92	(120)	207	87

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 by the World Bank 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 2017, the GPC Fair Value Adjustment decreased from 12.5% to 11.7%. This 0.8% decrease in the GPC Fair Value Adjustment translated to unrealised fair value gains on pledges of US$ 12 million.
- Realised fair value gains due to GPC Fair Value Adjustment: As described above, the GPC Fair Value Adjustment, which decreased from 12.5% to 11.7% during 2017, is included in the calculation of the fair values of donor pledges. However, Grantor payments are only reduced by the actual GPC level on the date that they are received. As described in Note 15 to the financial statements, two reference portfolio countries, Somalia and Sudan, with country weightings of 1% and 0.5%, respectively, were in protracted arrears to the IMF during 2017. Therefore, Grantor payments in 2017 were reduced by an actual GPC level of 1.5%. The difference between the GPC Fair Value Adjustment and the actual GPC level translated to realised fair value gains on pledges of US$ 46 million upon receipt of payments from Grantors during 2017.
- 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 remained flat at 1.5% as of 31 December 2016 and 31 December 2017.
- Interest rate fair value (losses) gains: As described in Note 15, both pledges and pledge swaps are valued using the discounted cash flow method. Due to higher sovereign interest rates for France and the United Kingdom in 2017, higher discount factors were applied to the associated pledges, which resulted in fair value losses on pledges. Due to higher euro and British pound interest rates in 2017, higher discount factors were applied to the associated pledge swaps, which resulted in fair value gains on pledge swaps. However, the gains on pledge swaps were US$ 31 million higher than the losses on pledges. 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 gains (losses): The majority of IFFIm's pledges are denominated in euros and British pounds. The United States dollar weakened against both the euro and the British pound during 2017, which resulted in significant fair value gains 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 gains due to the United States dollar weakening against these currencies during 2017. The total effect of all the aforementioned was a gain on pledges of US$ 280 million due to foreign currency movements, which more than offset a US$ 276 million foreign currency loss 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$ 1 million was included in the valuation of pledge swaps in 2017.

As shown above, 2017 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$	2017 Bonds	2017 Bond Swaps	2017 Total	2016 Bonds	2016 Bond Swaps	2016 Total
Interest (expense) income	(23)	2	(21)	(18)	5	(13)
Interest rate fair value (losses) gains	(14)	13	(1)	(18)	15	(3)
Foreign currency fair value (losses) gains	(16)	15	(1)	(14)	15	1
Net debit valuation adjustment	-	(0)	(0)	-	(2)	(2)
Net fair value (losses) gains	(53)	30	(23)	(50)	33	(17)

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

- Interest (expense) income: Interest expense on bonds was US$ 23 million in 2017 and was partially offset by interest income on bond swaps of US$ 2 million.
- Interest rate fair value (losses) gains: As described in Note 15 to the financial statements, both bonds and bond swaps are valued using the discounted cash flow method. Due to lower South African interest rates in 2017, lower discount factors were applied to IFFIm's bonds denominated in South African rand and the associated bond swaps in 2017, which resulted in significant fair value losses on bonds and significant fair value gains on bond swaps. However, the losses on bonds were US$ 1 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 and Turkish lira. IFFIm also had an Australian dollar denominated bond, which matured in July 2017. The United States dollar weakened against the South African rand and Australian dollar during 2017, which resulted in significant fair value losses on bonds of US$ 18 million, and strengthened against the Turkish lira during 2017, which resulted in fair value gains on bonds of US$ 2 million. The net effect of all the aforementioned was a loss on bonds of US$ 16 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$ 0.3 million was included in the valuation of bond swaps in 2017.

Fair value adjustments on bonds due to IFFIm's own credit spreads were not significant in 2017 as there was no significant appreciation or deterioration of IFFIm's credit during the year.

RECENT DEVELOPMENTS

In November 2017, IFFIm issued US$ 300 million in 3-year floating rate vaccine bonds in a transaction that was jointly lead-managed by Citi, Crédit Agricole, and Goldman Sachs International. This transaction marked IFFIm's second visit to the international United States dollar benchmark market during the last two years. The issuance, maturing on 16 November 2020, had a re-offer price of 100% and carries a quarterly coupon of 13 basis points over three-month USD LIBOR. The regional distribution of investors was 57% in Europe, 17% in the Americas, 13% in the Middle East and Africa, and 13% in Asia. Central banks and other official institutions took 70%, banks took 27%, and fund managers took 3% of the transaction.

In December 2017, Dr René Karsenti concluded his term as Board Chair and a director of IFFIm. Dr René Karsenti served on the IFFIm board since his appointment in December 2011. Mr Cyrus Ardalan was appointed as IFFIm's new Board Chair effective 1 January 2018, for a period of three years to 31 December 2020.

In December 2017, IFFIm Sukuk Company Limited made the final payment to the holders of its certificates and, in April 2018, IFFIm Sukuk Company Limited was dissolved.

Effective 18 May 2018, the IFFIm board appointed Mr Bertrand de Mazières to a three-year term as a director of IFFIm. Mr de Mazières is the Director General for Finance at the European Investment Bank and currently serves as a member of the board of the International Capital Markets Association (ICMA). Mr de Mazières has previously held senior roles in the French government, including his tenure as the Chief Executive of Agence France Trésor, the division of the French Ministry for the Economy and Finance responsible for the management of the government's debt and cash positions.

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.

The 3rd edition of the Charity Governance Code, intended for use by charities registered in England and Wales, was launched in July 2017. The Code provides a clear set of governance standards which charities and their trustees can aspire to and work toward. The Code is made up of seven principles which build on the assumption that a charity is meeting its legal and regulatory responsibilities. The seven principles are: (1) organisational purpose, (2) leadership, (3) integrity, (4) decision-making, risk, and control, (5) board effectiveness, (6) diversity, and (7) openness and accountability. IFFIm will undertake a comprehensive review of the Code and, where appropriate, will adopt its principles and recommended practice.

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, KPMG LLP did not seek reappointment as IFFIm's independent auditor for the financial year commencing on 1 January 2018. At its meeting on 4 June 2018, the IFFIm board appointed Deloitte LLP as its independent auditor for the financial year commencing on 1 January 2018.

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:

Cyrus Ardalan
IFFIm Board Chair
4 June 2018

Marcus Fedder
IFFIm Audit Committee Chair
4 June 2018

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL ACTIVITIES

In Thousands of US$	Note	Year Ended 31 December 2017 Restricted Funds	Year Ended 31 December 2016 Restricted Funds
Income from:			
Contribution revenue	2	198,817	22,701
Donated services	2	892	1,048
Investments	3	15,043	8,224
Total income		214,752	31,973
Expenditure on:			
Raising funds	4	24,913	20,099
Charitable activities	4	51,785	52,008
Total expenditure		76,698	72,107
Net income (expenditure)		138,054	(40,134)
Net fair value gains on pledges, bonds, and swaps	5	94,044	88,850
Net movement in funds		232,098	48,716
Reconciliation of funds:			
Total funds as of the beginning of the year		811,970	763,254
Total funds as of the end of the year		1,044,068	811,970

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 2017 Restricted Funds	Year Ended 31 December 2016 Restricted Funds
Turnover			
Contribution revenue	2	198,817	22,701
Operating expenses			
Programme grants	4	50,000	50,000
Treasury manager's fees	4	1,961	2,018
Governance costs	4	1,785	2,008
Total operating expenses		53,746	54,026
Other operating income			
Donated services	2	892	1,048
Total operating income		892	1,048
Operating income (loss)		145,963	(30,277)
Financing and investment income (expenses)			
Financing income (expenses) on bonds and bond swaps:			
Net fair value gains on bonds and bond swaps	5	250	1,213
Interest expense on bonds	4	(22,585)	(17,854)
Net financing expenses on bonds and bond swaps		(22,335)	(16,641)
Other financing income (expenses):			
Net fair value gains on pledges and pledge swaps	5	92,750	86,579
Other foreign exchange gains	5	1,044	1,058
Other financing charges		(367)	(227)
Net other financing income		93,427	87,410
Investment income:			
Investment and interest income	3	15,043	8,224
Total financing and investment income		86,135	78,993
Surplus for the year		232,098	48,716

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 2017	As of 31 December 2016
Current assets			
Sovereign pledges due after more than one year	6	2,290,090	2,115,000
Derivative financial instruments due after more than one year	8	1,255	6,310
Sovereign pledges due within one year	6	297,994	239,783
Derivative financial instruments due within one year	8	562	4,517
Prepayments		239	353
Funds held in trust	7	911,776	863,214
Cash		14	81
Total current assets		3,501,930	3,229,258
Liabilities			
Creditors falling due within one year	9	342,780	632,981
Derivative financial instruments due within one year	8	61,152	11,101
Creditors falling due after more than one year	10	1,346,393	1,206,789
Derivative financial instruments due after more than one year	8	707,537	566,417
Total liabilities		2,457,862	2,417,288
Net assets		1,044,068	811,970
Restricted funds		1,044,068	811,970

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

Approved by the trustees and signed on their behalf by:

Cyrus Ardalan
IFFIm Board Chair
4 June 2018

Marcus Fedder
IFFIm Audit Committee Chair
4 June 2018

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands of US$	Note	Year Ended 31 December 2017 Restricted Funds	Year Ended 31 December 2016 Restricted Funds
Cash flows from operating activities			
Cash provided by operating activities		286,348	143,019
Net cash provided by operating activities		286,348	143,019
Cash flows from investing activities			
Investment and interest income received	3	15,043	8,224
(Increase) decrease in funds held in trust	16	(48,562)	121,894
Net cash (used in) provided by investing activities		(33,519)	130,118
Cash flows from financing activities			
Proceeds from bond issuances	16	299,700	499,500
Redemption of bonds	16	(530,271)	(755,492)
Interest paid on bonds		(22,325)	(18,261)
Net cash used in financing activities		(252,896)	(274,253)
Net change in cash		(67)	(1,116)
Cash as of the beginning of the year		81	1,197
Cash as of the end of the year		14	81

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

In Thousands of US$	2017	2016
Net change in funds	232,098	48,716
Investment and interest income	(15,043)	(8,224)
Bond interest expense	22,585	17,854
Fair value (gains) losses on sovereign pledges	(330,304)	119,928
Fair value losses on bonds	29,783	32,084
Initial fair value of pledges	(198,817)	(22,701)
Payments received from donors	295,820	283,652
Decrease (increase) in prepayments	114	(318)
Increase (decrease) in amounts due under derivative financial instruments	200,181	(278,297)
(Increase) decrease in trade creditors and amounts due to related parties	(69)	325
Increase (decrease) in grants payable	50,000	(50,000)
Net cash provided by operating activities	286,348	143,019

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. As IFFIm's credit rating is AA, the World Bank has the right to call collateral and protect its derivative exposure to IFFIm. However, 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.

Basis of Accounting: 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 2017, and of IFFIm's incoming resources and application of resources for the year then ended; 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.

Basis of Consolidation: 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 had 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. IFFImSC was dissolved on 30 April 2018. IFFIm 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 2017, IFFImSC had cash of US$ 440, 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$ 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. 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 surplus for the year ended 31 December 2017 was US$ 232 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	195,500
Commonwealth of Australia[4]	3 June 2016	5 years	A$	(AUD)	37,500	29,325
Republic of France[1]	2 October 2006	15 years	€	(EUR)	372,800	446,875
Republic of France[2]	7 December 2007	19 years	€	(EUR)	867,160	1,039,465
Republic of France[1]	4 May 2017	5 years[6]	€	(EUR)	150,000	179,805
Republic of Italy	2 October 2006	20 years	€	(EUR)	473,450	567,525
Republic of Italy	14 November 2011	14 years	€	(EUR)	25,500	30,567
State of the Netherlands	18 December 2009	7 years	€	(EUR)	80,000	95,896
State of the Netherlands	2 May 2017	4 years	US$	(USD)	66,667	66,667
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	182,931
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	227,154
Kingdom of Sweden	2 October 2006	15 years	Skr	(SEK)	276,150	33,671
United Kingdom	2 October 2006	20 years	£	(GBP)	1,380,000	1,864,380
United Kingdom	5 August 2010	19 years	£	(GBP)	250,000	337,750
Cumulative contribution revenue since inception						5,344,511

[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 2017.

[6] Corresponds to a payment period from 31 March 2022 to 31 March 2026.

Contribution revenue recognized was comprised of:

In Thousands of US$	2017	2016
Initial fair value of pledge received from the Commonwealth of Australia	-	22,701
Initial fair value of pledge received from the Republic of France	140,350	-
Initial fair value of pledge received from the State of the Netherlands	58,467	-
Total contribution revenue	198,817	22,701

Donated Services: IFFIm received donated administrative services from Gavi in 2017 and 2016. 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$	2017	2016
Administrative support	892	1,048
Total donated services	892	1,048

3. INVESTMENT AND INTEREST INCOME

In Thousands of US$	2017	2016
Income from funds held in trust	15,045	8,232
Bank account interest	(2)	(8)
Total investment and interest income	15,043	8,224

4. TOTAL EXPENDITURE

In Thousands of US$	2017	2016
Expenditure on raising funds		
Treasury manager's fees:		
Financial operations management	1,961	2,018
Finance charges:		
Bond interest expense	22,585	17,854
Other financing charges	367	227
Total finance charges	22,952	18,081
Total expenditure on raising funds	24,913	20,099
Expenditure on charitable activities		
Country-specific programmes:		
New and underused vaccines	45,000	-
Health systems strengthening and immunisation services	5,000	50,000
Professional services:		
Consultancy fees	190	194
Gavi administrative support fee	892	1,048
Legal fees	170	206
Tax compliance services	15	19
Auditor's remuneration:		
Statutory audit	209	193
Audit related assurance services	181	204
Other governance costs:		
Trustees' indemnity insurance premiums	9	14
Trustees' meeting and travel expenses	119	87
Other administrative expenses	-	43
Total expenditure on charitable activities	51,785	52,008

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$ 16 thousand higher in 2017 than 2016 primarily as a result of incremental fees for additional audit procedures following audit reforms on European Public Interest Entities that were effected by the Financial Reporting Council's revised Ethical Standard. Audit related assurance services were US$ 13 thousand lower in 2017 than 2016 primarily as a result of incremental valuation work incurred in 2016. Other financing charges include fees of US$ 20 thousand and US$ 15 thousand that were paid to IFFIm's auditor in 2017 and 2016, 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 2017.

5. FAIR VALUE GAINS AND LOSSES

In Thousands of US$	2017	2016
Fair value gains (losses) on bonds and bond swaps		
Fair value losses on bonds	(29,783)	(32,084)
Net fair value gains on bond swaps	30,033	33,297
Net fair value gains on bonds and bond swaps	250	1,213
Fair value gains (losses) on pledges and pledge swaps		
Fair value gains (losses) on sovereign pledges	330,304	(119,928)
Net fair value (losses) gains on pledge swaps	(237,554)	206,507
Net fair value gains on pledges and pledge swaps	92,750	86,579
Other foreign exchange gains	1,044	1,058
Net fair value gains on pledges, bonds, and swaps	94,044	88,850

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$	2017	2016
Balance as of the beginning of the year	2,354,783	2,735,662
Initial fair value of pledges	198,817	22,701
Payments received from donors	(295,820)	(283,652)
Fair value gains (losses)	330,304	(119,928)
Balance as of the end of the year	2,588,084	2,354,783
Sovereign pledges due within one year	297,994	239,783
Sovereign pledges due after more than one year	2,290,090	2,115,000
Total sovereign pledges	2,588,084	2,354,783

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$**	**2017**	**2016**
IFFIm's share in the Pool's fair value	911,776	863,214

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$ 15 million and US$ 8 million for the years ended 31 December 2017 and 2016, 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 2017 Notional Amount	31 December 2017 Fair Value	31 December 2016 Notional Amount	31 December 2016 Fair Value
Currency and interest rate swaps receivable related to sovereign pledges	39,442	1,822	137,590	10,827
Total currency and interest rate swaps receivable		1,822		10,827
Currency and interest rate swaps payable related to sovereign pledges	2,634,958	(652,703)	2,527,857	(432,987)
Currency and interest rate swaps payable related to bonds payable	633,952	(115,991)	1,203,068	(144,531)
Total currency and interest rate swaps payable		(768,694)		(577,518)
Total fair value of interest rate and currency swaps		(766,872)		(566,691)

The World Bank is counterparty on all of IFFIm's currency and interest rate swap contracts and, therefore, the above US$ 767 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$	2017	2016
Bonds payable falling due within one year	291,812	531,944
Grants payable within one year	50,000	100,000
Trade creditors	648	705
Amounts due to Gavi	320	332
Total creditors falling due within one year	342,780	632,981

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 2017, in Thousands of US$	Fair Value as of 31 December 2016, in Thousands of US$
24 June 2009	24 June 2024	0.50%	R (ZAR)	800,000	39,548	30,691
28 June 2010	29 June 2020	0.50%	R (ZAR)	430,000	29,426	23,716
28 June 2012	29 June 2027	0.50%	R (ZAR)	520,000	19,360	14,989
30 July 2012	24 July 2017	3.10%	A$ (AUD)	38,000	-	28,026
27 March 2013	19 March 2018	5.31%	R (ZAR)	801,000	65,784	57,402
27 March 2013	19 March 2018	5.34%	₺ (TRY)	90,000	23,783	24,431
4 December 2014	4 December 2017	Libor+15bps	US$ (USD)	500,000	-	501,693
29 September 2015	29 September 2018	Libor+14bps	US$ (USD)	200,000	200,331	199,995
26 October 2016	1 November 2019	Libor+26bps	US$ (USD)	500,000	502,586	500,726
16 November 2017	16 November 2020	Libor+13bps	US$ (USD)	300,000	300,323	-
Total bonds payable					1,181,141	1,381,669
Bonds payable falling due within one year					(291,812)	(531,944)
Bonds payable falling due after more than one year					889,329	849,725
Grants payable after more than one year					457,064	357,064
Total creditors falling due after more than one year					1,346,393	1,206,789

As of 31 December 2017 and 2016, the fair values of creditors falling due after more than five years totalled US$ 59 million and US$ 46 million, respectively.

As of 31 December 2017 and 2016, the undiscounted maturities of IFFIm's bonds payable totalled US$ 1.2 billion and US$ 1.5 billion, respectively, as shown in Note 13. This was US$ 64 million and US$ 110 million higher than the fair value of IFFIm's bonds payable as of 31 December 2017 and 2016, respectively.

Total bonds payable by the parent company included amounts due to IFFImSC of US$ 0 and US$ 502 million as of 31 December 2017 and 31 December 2016, respectively, and amounts due to IFFImSC II of US$ 200 million as of 31 December 2017 and 2016.

11. MOVEMENT OF FUNDS

In Thousands of US$	As of 31 December 2016	Incoming Resources	Resources Expended	As of 31 December 2017
Sovereign pledges assigned from Gavi	3,455,013	198,817	(893)	3,652,937
Investment and interest income	83,938	15,043	-	98,981
Other gains (losses) and other income (expenses)	305,767	94,044	(24,913)	374,898
Donated services:				
Administrative support	-	892	(892)	-
Programme funding to Gavi:				
Country-specific programmes	(2,291,058)	-	(50,000)	(2,341,058)
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	811,970	308,796	(76,698)	1,044,068

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

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$	2017	2016
Sovereign pledges	2,588,084	2,354,783
Cash and investments	911,790	863,295
Total credit exposure	3,499,874	3,218,078

IFFIm's derivative assets are excluded from its credit exposure as they would be netted against its derivative liabilities. As of 31 December 2017 and 2016, IFFIm had a net liability balance on its interest rate and currency swap contracts of US$ 767 million and US$ 567 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 2017.

The Grantors' credit ratings as of 31 December 2017 and 2016, as determined by Standard and Poor's Ratings Service ("S&P"), were:

Grantor	**2017**	**2016**
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	BB	BBB-
Kingdom of Spain	BBB+	BBB+
Kingdom of Sweden	AAA	AAA
United Kingdom	AA	AA

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$	**2017**	**2016**
Instruments and securities rated AAA	375,510	408,645
Instruments and securities rated AA+	24,002	23,704
Instruments and securities rated AA	91,355	100,616
Instruments and securities rated AA-	84,779	122,812
Instruments and securities rated A+	293,314	195,139
Instruments and securities rated A	38,470	(9,192)
Instruments and securities rated A-	4,346	21,490
Total funds held in trust	911,776	863,214

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.

IFFIm's credit ratings by Fitch Ratings, Moody's Investor Service, and by Standard and Poor's Ratings Service ("S&P") remained unchanged during 2017. 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 2017, the calculated minimum liquidity was US$ 366.5 million and the value of IFFIm's Liquid Assets was US$ 912 million. 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.

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 2017, 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 2017, in Thousands of US$	**Total Cash Outflows**	**Due in Less than One Year**	**Due in 2019**	**Due in 2020**	**Due from 2021 through 2030**
Bonds payable	(1,244,646)	(298,561)	(500,798)	(335,553)	(109,734)
Grants payable to Gavi	(507,064)	(50,000)	(400,000)	(57,064)	-
Derivative financial liabilities	(1,024,303)	(97,022)	(82,885)	(117,723)	(726,673)
Total undiscounted maturities	(2,776,013)	(445,583)	(983,683)	(510,340)	(836,407)

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)

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 2017, in Thousands of US$	Total Cash Inflows (Outflows)	Due in Less than One Year	Due in 2019	Due in 2020	Due from 2021 through 2030
Derivative financial assets	62,266	10,808	11,890	7,023	32,545
Derivative financial liabilities	(1,024,303)	(97,022)	(82,885)	(117,723)	(726,673)
Net cash outflows	(962,037)	(86,214)	(70,995)	(110,700)	(694,128)

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)

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 2017, in Thousands of US$	Foreign Currency Assets	Foreign Currency Liabilities	Net Exposure
Australian dollar	126,682	(122,519)	4,163
Swiss franc	66	-	66
Euro	1,182,161	(1,153,857)	28,304
British pound	1,174,072	(1,285,094)	(111,023)
Japanese yen	1	-	1
Norwegian krone	48,185	(52,754)	(4,569)
New Zealand dollar	1	-	1
Swedish krona	7,930	(8,656)	(726)
Turkish lira	23,772	(23,783)	(12)
South African rand	156,582	(154,117)	2,465

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

The following exchange rates applied during the year:

In US$	Average Rate for the Year Ended 31 December 2017	Spot Rate as of 31 December 2017	Average Rate for the Year Ended 31 December 2016	Spot Rate as of 31 December 2016
Australian dollar	0.7820	0.7666	0.7441	0.7225
Brazilian real	0.3019	0.3131	-	-
Swiss franc	1.0251	1.0154	1.0149	0.9825
Euro	1.1987	1.1297	1.1068	1.0560
British pound	1.3510	1.2884	1.3557	1.2303
Japanese yen	0.0089	0.0089	0.0092	0.0086
Norwegian krone	0.1220	0.1209	0.1190	0.1162
New Zealand dollar	0.7122	0.7106	0.6974	0.6963
Swedish krona	0.1219	0.1170	0.1168	0.1104
Turkish lira	0.2644	0.2740	0.3307	0.2834
South African rand	0.0812	0.0751	0.0680	0.0729

Sensitivity to Foreign Exchange Rates: Strengthening of the above currencies, against the United States dollar, as of 31 December 2017 and 2016 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 2017		Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2016	
	10% Strengthening against US$	10% Weakening against US$	10% Strengthening against US$	10% Weakening against US$
Australian dollar	(387)	473	(583)	713
Euro	(2,608)	3,187	14,268	(17,439)
British pound	10,155	(12,412)	12,123	(14,817)
Norwegian krone	(3,594)	4,392	(4,586)	5,605
Swedish krona	4,074	(4,979)	5,244	(6,409)
Turkish lira	1	(1)	(1)	1
South African rand	(224)	274	(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$	2017 Carrying Amount	2016 Carrying Amount
Fixed rate instruments		
Financial assets	180,354	182,812
Financial liabilities	(2,808,648)	(2,828,796)
Net fixed rate instruments	(2,628,294)	(2,645,984)
Variable rate instruments		
Financial assets	1,982,621	2,240,626
Financial liabilities	(1,303,276)	(1,544,775)
Net variable rate instruments	679,345	695,851

Sensitivity to Interest Rates: Changes of 25 basis points in interest rates as of 31 December 2017 and 2016 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 2017	Increase (Decrease) in Surplus for the Year Ended and Net Assets as of 31 December 2016
25 basis point increase	(1,181)	4,174
25 basis point decrease	1,171	(4,264)

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$ 0.6 million and US$ 1.7 million for the years ended 31 December 2017 and 2016, 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 2017, in Thousands of US$	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Sovereign pledges	-	-	2,588,084	2,588,084
Funds held in trust	360,265	551,511	-	911,776
Derivative financial instruments	-	1,817	-	1,817
Total financial assets	360,265	553,328	2,588,084	3,501,677
Financial liabilities				
Bonds payable	-	1,181,141	-	1,181,141
Grants payable to Gavi	-	507,064	-	507,064
Derivative financial instruments	-	768,689	-	768,689
Total financial liabilities	-	2,456,894	-	2,456,894

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

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

In Thousands of US$	**2017**	**2016**
Balance as of the beginning of the year	2,354,783	2,735,662
Initial fair value of pledges	198,817	22,701
Donor payments	(295,820)	(283,652)
Fair value losses	330,304	(119,928)
Balance as of the end of the year	2,588,084	2,354,783

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 2017 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, 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 11.7% and 12.5% as of 31 December 2017 and 2016 respectively. 1% decreases in the GPC Fair Value Adjustment as of 31 December 2017 and 2016 would have resulted in increases in the fair values of sovereign pledges of US$ 29 million and US$ 27 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 2017, 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 2017, market based discount rates ranging from 0% to 4.5% 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 2017 and 2016, the portions of the fair values of bonds payable that were attributable to IFFIm's own credit spreads were an increase of US$ 5 million and a decrease of US$ 8 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 2016	Cash Flows and Fair Value Movements	Fair Value as of 31 December 2017
Cash	81	(67)	14
Bonds payable	(1,378,679)	200,788	(1,177,891)
Funds held in trust	863,214	48,562	911,776
Total	(515,384)	249,283	(266,101)

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)

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

In Thousands of US$	2017	2016
Decrease in cash	(67)	(1,116)
Decrease in funds held in trust	48,562	(121,894)
Proceeds from bond issuances	(299,700)	(499,500)
Redemption of bonds	530,271	755,492
Fair value (losses) gains on bonds	(29,783)	(32,084)
Movement in net debt in the period	249,283	100,898
Net debt as of the beginning of the year	(515,384)	(616,282)
Net debt as of the end of the year	(266,101)	(515,384)

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 was 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. On 4 December 2017, IFFImSC made the final payment in relation to its certificates and, on 30 April 2018, IFFImSC was dissolved. 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$	2017	2016
Gavi		
Accounts payable to Gavi	320	332
Programme grants payable to Gavi	507,064	457,064
In-kind contributions received from Gavi	892	1,048

18. COMMITMENT AND CONTINGENCIES

The trustees are not aware of any commitments or contingencies as of 31 December 2017 or 2016.

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. 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 2017 or 2016. IFFImSC II 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.

21. SUBSEQUENT EVENTS

On 30 April 2018, IFFIm Sukuk Company Limited was dissolved.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report

to the members of The International Finance Facility For Immunisation Company

1. Our opinion is unmodified

We have audited the financial statements of The International Finance Facility For Immunisation Company ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Statement of Financial Activities, the Consolidated Statement of Income and Expenditure, the Consolidated and Company Balance Sheets, the Consolidated Statements of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the charitable Company's affairs as at 31 December 2017 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 accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Trustees in July 2008. The period of total uninterrupted engagement is for the 10 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	$18.0m (2016:$15.0m) 0.5% (2016: 0.5%) of total assets	
Risks of material misstatement		**vs 2016**
Recurring risks (applicable to both the group and parent charitable company)	- Valuation of pledges and contribution revenue	◄►
	- Fair value of bonds and derivatives	◄►

◄► *no change*

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key Audit Matter	The risk	Our response
Valuation of pledges and contribution revenue Valuation of pledges ($2,588.1m 2016: $2,354.8m) Contribution revenue ($198.8m; 2016; $22.7m) *Refer to page 34 (accounting policy) and page 38 (financial disclosures).*	**Subjective estimate** Sovereign pledges are recognised as contribution revenue and as receivables upon assignment of donor contributions to IFFIm by GAVI. They are recognised at fair value at inception and are subsequently re-measured at fair value at each reporting date. The fair value of the pledges and contribution revenue is calculated by calculating the expected future cash flows and discounting for restrictions on payment conditions as well as for the time value of money. As described in Note 15, the discount factor relating to the restrictions on payment condition involves the use of a complex model and expert judgement. The discount factor is a significant unobservable input used in the valuation of the Sovereign pledges, which are therefore classified as Level 3.	Our procedures included: — **Accounting Analysis:** We have considered IFFIm's basis for the determination of expected future cash flows and the discount calculation. — **Methodology assessment:** We assessed the reasonableness of IFFIm's valuation methodology, model calculation, inputs and assumptions used for a sample of the Sovereign pledges. — **Tests of Detail:** We have engaged valuation specialists and independently calculated the fair value of the pledges and contribution revenue and we have compared this value to IFFIm's carrying value. — **Disclosure:** We assessed the transparency of IFFIm's financial statement disclosures, including whether sensitivity to key inputs reflects IFFIm's exposure to valuation risk. Certain of the procedures in relation to testing the fair value of pledges and contribution revenue were undertaken by the KPMG member firm in Washington DC ("KPMG Washington DC") who are the external auditors of the World Bank. This involved both the general audit team and valuation specialists. **Our results** — As a result of the work performed, we considered the fair value of pledges and contribution revenue to be acceptable (2016: acceptable).

Key Audit Matter	The risk	Our response
Fair value of bonds and derivatives Bonds ($1,181.1m 2016: $1,381.7m) Derivatives ($761.0m; 2016; $566.7m) *Refer to page 35 (accounting policy) and page 39 (financial disclosures).*	**Subjective estimate** Bonds and derivatives are accounted for in accordance with IAS39, as permitted by FRS 102. They are recognised at fair value at inception / date of issuance and are subsequently re-measured at fair value at each reporting date. The fair value of the bonds and the derivatives is driven by underlying components linked to both market conditions as well as IFFIm's own credit rating, and that of its counterparty. Except for where there is an active, observable market for a financial instrument, management is required to exercise judgement in determining fair value. For both the bonds and the derivatives, management has had to exercise judgement in calculating the fair value.	Our procedures included: — **Accounting Analysis:** We have assessed management's judgements made in respect of the fair value of the bonds and derivatives. — **Methodology assessment:** We assessed the reasonableness of IFFIm's valuation methodology, inputs and assumptions used for a sample of the bonds and derivatives. For derivatives this included the consideration of the core valuation basis of OIS (Overnight Indexed Swap) discounting and the application of Credit and Debit Valuation adjustments (CVA & DVA). — **Tests of Details:** We have engaged valuation specialists and independently calculated the fair value of the bonds and derivatives and we have compared this value to IFFIm's carrying value. — **Disclosure:** We challenged management's classification of bonds and derivatives as Level 2 assets, this included determining whether these instruments met the pre-requisite criteria to be classified as Level 2, rather than Level 3. Certain of the procedures in relation to testing the fair value of bonds and derivatives were undertaken by KPMG Washington DC who are the external auditors of the World Bank. This involved both the general audit team and valuation specialists. **Our results** — As a result of the work performed, we considered the fair value of bonds and derivatives to be acceptable (2016: acceptable).

3. Our application of materiality and an overview of the scope of our audit

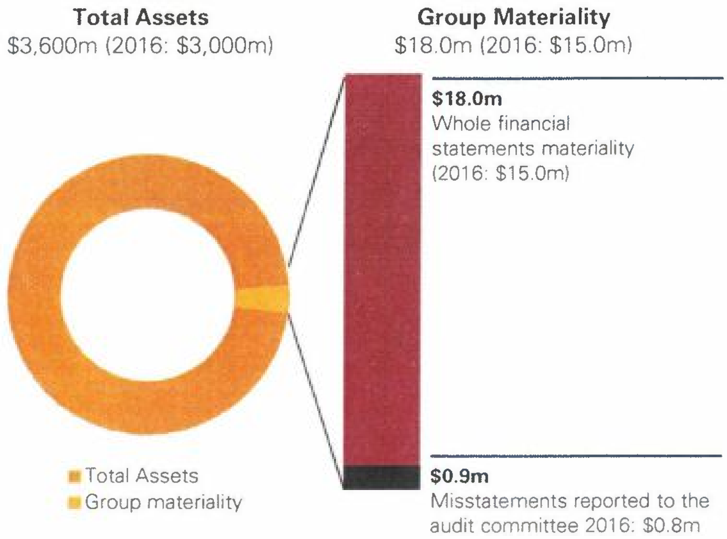
Materiality for the Consolidated financial statements as a whole was set at $18.0m (2016: $15.0m), determined with reference to a benchmark of Total Assets (of which it represents 0.5% (2016 0.5%)). Materiality for the parent charitable company financial statements as a whole was set at £18.0m (2016: £15.0m), determined with reference to company total assets, of which it represents 0.5% (2016: 0.5%).

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding $0.9m (2016: $0.8m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected all of the group's 3 (2016: 3) components to full scope audits for group purposes. We performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above.

As set out on page 10, in the Structure, Governance and management section, IFFIm is reliant upon treasury management, risk management and accounting services provided by the World Bank. As such we instructed KPMG Washington DC (being the auditor of the World Bank) to perform procedures on our behalf. These procedures involved tests of control and tests of detail and, where relevant, the engagement of KPMG valuation specialists. As part of this work KPMG Washington DC performed procedures over certain aspects of the Key Audit Matters set out in Section 2 of this auditor's report.

We were involved in setting the direction of their audit work, and we considered their reporting to us and their working papers on site in Washington DC. We frequently communicated with them throughout the audit to monitor their progress and deal with any issues arising.



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report of the Trustees

The directors are responsible for the other information, which comprises the Annual Report of the Trustees. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

— we have not identified material misstatements in the other information;

— in our opinion the information given in the Trustees' Annual Report, which constitutes the strategic report and the directors' report for the financial year, is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the charitable Company, 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.

We have nothing to report in these respects.

7. Respective responsibilities

Trustees' responsibilities

As explained more fully in their statement set out on page 8, 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group's and the charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company and charity legislation and regulations) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations recognising the charitable and financial nature of the group's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to the KPMG Washington DC audit team of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Mike Peck

Michael Peck (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
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E14 5GL

4 June 2018