2019 Annual Financial Statements

Electronic Report to the Board

GF/B42/ER07

42nd Board Meeting

31 March 2020, Geneva, Switzerland

Board Decision

Purpose of the paper: This report presents an overview of the Global Fund's 2019 Annual Financial Report, including the Consolidated Financial Statements, and the 2019 Statutory Financial Statements. Such financial statements have been audited by KPMG SA. The Audit and Finance Committee has recommended such financial statements to the Board for approval and issuance.

The Global Fund

Decision

i. ***Decision Point: GF/B42/EDP07: 2019 Annual Financial Report***   ***The Board authorizes the issuance of, and therefore approves, the Global Fund's 2019 Annual Financial Report, including the 2019 Consolidated Financial Statements which have been audited by KPMG SA, as set forth in Annex 1 to GF/B42/ER07.***   *ii.* ***Decision Point: GF/B42/EDP08: 2019 Statutory Financial Statements***   ***The Board authorizes the issuance of, and therefore approves, the Global Fund's 2019 Statutory Financial Statements, which have been audited by KPMG SA, as set forth in Annex 2 to GF/B42/ER07.***   ***Budgetary implications (included in OPEX budget)***

A summary of relevant past decisions providing context to the proposed Decision Point can be found in Annex 3.

Executive Summary

Context

1. The Global Fund undertakes external audits of its annual financial statements each year pursuant to the Policy for Financial Administration as well as its initial establishment as a non-profit foundation under Swiss law, prior to entry into force of the Headquarters Agreement with the Swiss Federal Council.

2. For the 2019 financial year, two sets of financial statements are provided to the Board for issuance and approval, as follows:
   i. The 2019 Annual Financial Report, which includes the 2019 Consolidated Financial Statements audited by KPMG SA (the “External Auditor”); and
   ii. The 2019 Statutory Financial Statements audited by the External Auditor.

Input Sought

- Decision Point: GF/B42/EDP07: 2019 Annual Financial Report
- Decision Point: GF/B42/EDP08: 2019 Statutory Financial Statements

Input Received

1. In accordance with its Charter, the Audit and Finance Committee (the “AFC”) has the advisory function to recommend the annual audited financial statements of the Global Fund to the Board for approval.

2. At its 12th meeting in March 2020, the AFC deliberated upon the 2019 Annual Financial Report, including the 2019 Consolidated Financial Statements, and the 2019 Statutory Financial Statements. In accordance with the AFC’s advisory authority, Committee members made enquiries of the Secretariat, the Inspector General and the External Auditor. The ensuing discussion is summarized in Annex 3 to this paper. At the conclusion of the session, the AFC voted unanimously to recommend such financial statements to the Board for approval pursuant to Decision Point GF/AFC12/DP05.

3. The External Auditor provided its independent advice and views to the AFC, in line with its role as assurance provider to the Global Fund Board, at such meeting and to the Secretariat during the conduct of the audit.

Report

External audit for financial year 2019

1. The External Auditor is responsible for delivering a written report of its audit findings arising from the audit of the Global Fund's annual financial statements to the Board and the AFC.

2. The Secretariat is responsible for reporting to the Board, through the AFC, all audit findings in a timely manner, as well as management's response to audit findings including implementations of recommendations.

3. For the 2019 financial year, the Secretariat presents two sets of information to the Board for its issuance and approval in accordance with the AFC's recommendation, as follows:

    i. The 2019 Annual Financial Report, including the 2019 Consolidated Financial Statements, which have been audited by the External Auditor; and

    ii. The 2019 Statutory Financial Statements, which have been audited by the External Auditor.

4. The 2019 Annual Report, comprising the 2019 Consolidated Financial Statements and its related discussion, analysis and commentary is set forth in Annex 1. The 2019 Statutory Financial Statements, as set forth in Annex 2, is an independent document prepared only for Swiss statutory financial reporting purposes.

5. As such the financial information in the 2019 Statutory Financial Statements is a subset of the consolidated information reflected in the 2019 Consolidated Financial Statements, with three main points of differences:

    i. Basis of reporting: The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The statutory financial statements have been prepared in conformity with the applicable accounting and financial reporting provisions of the Swiss Code of Obligations and presented in accordance with the Global Fund's Bylaws.

    ii. Scope of operations: The 2019 Consolidated Financial Statements include the financial statements for the U.S. Fund for the Global Fund whereas the 2019 Statutory Financial Statements do not. The U.S. Fund is an independent legal entity and is not affiliated with the Global Fund.

    iii. Reporting currency: The 2019 Consolidated Financial Statements are reported in USD, the functional currency of the Global Fund. The 2019 Statutory Financial Statements are reported in CHF by translating the non-U.S. Fund financial results incorporated in the 2019 Consolidated Financial Statements.

6. Based on its discussions with audit procedures conducted, the External Auditor reported for the year ended 31 December 2019:
   i. no matters regarding fraud or illegal acts;
   ii. no material findings or audit adjustments during this period;
   iii. no management letter points on material weaknesses; and
   iv. no material impact of subsequent events resulting from COVID19 situation on the financial positions reported in the financial statements presented for approval.

7. Financial Audit Findings:

   Current year observations mainly relate to grant processes. One of which is a consolidation of recurring observations from prior years on manual controls performed by country teams around the submission of notification letter to Principal Recipients and consistent documentation for key decisions.

   Summary of Financial Audit Findings

Year	MW	CD	PIO	Total	Outstanding
2019	-	-	3	3	3
2018	-	-	1	1	1
2017	-	-	0	0	0
2016	-	-	1	1	0

8. IT General Control Findings:

   The two control deficiencies identified during 2019 relate to assurance provided by IT services organizations used by the Global Fund for its grants (Salesforce) and treasury & cash management (Kyriba). The Secretariat has compensating controls which mitigates the risk on the completeness and accuracy of the financial statements. Accordingly, the auditors have concluded no material impact on the financial and accounting records which form the basis for the financial statements.

   Summary of IT General Control Findings

Year	MW	CD	PIO	Total	Outstanding
2019	-	2	3	5	5
2018	-	3	-	3	1
2017	-	2	1	3	1
2016	-	-	1	1	1

9. Additional disclosure on subsequent event impact assessment arising from COVID-19 outbreak has been included in the management commentary on page 33 of the 2019 Annual Financial Report. As required under IFRS Note 7.4 has also been added on page 80 of the 2019 Annual Financial Report.

10. Following the external audit review, the External Auditor has confirmed they are able to issue unqualified audit opinions on the 2019 Annual Consolidated Financial Statements and 2019 Statutory Financial statements, also confirming:

    i. The 2019 Consolidated Financial Statements give a true and fair view of the financial position, the results of operations and the cash flows of the Global Fund in accordance with IFRS;
    ii. With respect to the 2019 Statutory Financial Statements:
        a. The 2019 Statutory Financial Statements comply with Swiss law and the Global Fund's Bylaws;
        b. The External Auditor meets legal requirements on licensing and independence and there are no circumstances incompatible with their independence; and
        c. An internal control system exists, which has been designed for the preparation of financial statements and complies with the Swiss law.

Next steps

11. Following the approval of the Decision Points proposed in this paper the Secretariat will:

    i. publish the 2019 Annual Financial Report which includes the audited 2019 Consolidated Financial Statements, on the Global Fund's external website accessible by its stakeholders; and

    ii. file the audited 2019 Statutory Financial Statements with the Surveillance des fondations under the Département fédéral de l'intérieur, in accordance with Swiss law and the Global Fund's Bylaws.

Recommendation

The Audit and Finance Committee has recommended the Decision Points presented on page 2 to the Board.

Annexes

The following items can be found in Annex:

- Annex 1: 2019 Annual Financial Report including 2019 Consolidated Financial Statements
- Annex 2: 2019 Statutory Financial Statements
- Annex 3: Relevant Past Board and Committee Decisions

Annex 1 – 2019 Annual Financial Report including 2019 Consolidated Financial Statements

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ANNUAL FINANCIAL REPORT

The Global Fund

2019

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MANAGEMENT REPORT

Year under review

The Global Fund partnership truly stepped up the fight in 2019, achieving an unprecedented level of global solidarity by securing pledges of USD 14.02 billion at the Sixth Replenishment Conference, the largest amount ever raised for a multilateral health organization and an increase of 15 percent compared with the previous three-year period.

The success of our Replenishment signaled strong commitment to further increase investment in health to deliver a better and healthier world to the next generation, fighting inequality and strengthening social justice, in line with Sustainable Development Goal 3 to ensure healthy lives and promote well-being for all. Looking forward, we are determined to meet rising expectations about what we can deliver with available resources, by improving our overall effectiveness and our collaboration with partners.

In 2019, financial management at the Global Fund Secretariat was overseen by the Chief Financial Officer, Jacques Le Pape, who subsequently decided to leave the Global Fund and who took up a new role in the financial sector in Paris early in 2020. While we engage in a competitive search process for the Global Fund's next CFO, Adda Faye is serving as Interim CFO.

This Annual Financial Report 2019 provides an overview of the Global Fund's financial results and a review of operations during 2019. In that year, the Global Fund made grant disbursements of USD 3.5 billion, in line with the grant forecast approved by the Board's Audit and Finance Committee in March 2019. While slightly lower than the overall grant disbursement of USD 3.9 billion in 2018, the 2019 rate of disbursement reflects a mid-cycle implementation rate and is projected to accelerate in 2020 and 2021.

In 2019, the Global Fund Secretariat's operating expenses totaled USD 292 million at spot rate, within the Board-approved budget and slightly below the 2018 operating expenses of USD 297 million.

All of these are strong financial indicators for our core operations and support our mission towards ending the three epidemics. In terms of audited financial results, we are pleased to report yet another year of clean audit opinion by KPMG SA. This reflects the growing maturity of the organization, strong internal controls and robust financial management practices.

Adda Faye	Peter Sands
Chief Financial Officer, a.i.	Executive Director

Letter from the Chair and Vice-Chair of the Board

The 2019 Annual Financial Report provides the consolidated financial statements for the Global Fund, reflecting the effective and efficient use of financial resources to support programs in more than 100 countries that prevent, treat and care for people affected by AIDS, tuberculosis and malaria. The report also demonstrates the continuous evolution and improvement of work that is needed to achieve our mission of accelerating the end of epidemics.

Strong financial operations are essential for the Global Fund partnership to achieve our collective goals. It is the collective responsibility of all stakeholders in the Global Fund partnership to deliver value for money and to maximize the impact of every resource available. Ending the epidemics and achieving related Sustainable Development Goals by 2030 is highly ambitious, and we will only succeed if we work together.

We began serving as Board Chair and Vice-Chair of the Global Fund in May 2019, and we rely on all Board members to ultimately oversee financial operations, led by colleagues who serve on the Board's Audit & Finance Committee, with a commitment to financial responsibility and sensible management of resources.

We would like to thank Peter Sands, the Global Fund's Executive Director, and Jacques Le Pape, Chief Financial Officer during 2019, for their excellent financial management and oversight. We are aware that the 2019 Annual Financial Report represents a culmination of outstanding work by many Finance colleagues in the Secretariat, together with members of the broader Global Fund partnership.

Sincerely,

Dr. Donald Kaberuka	Lady Roslyn Morauta
Chair of the Board	Vice-Chair of the Board

Overview financial results 2017-2019

cumulative basis (in millions of USD)

Key Financial Results	**Ref** *See below*	**Management reporting** (unaudited)	**Consolidated Financial Statements**	**Variance**	**FX difference** (between spot vs reference rates)	**Other factors**
Contribution receipts	1	11,220	11,015	205	165	40; refers to prior-period pledge adjustment
Grant disbursements	2	11,020	10,910	110	110	
Operating expenses	3	892	884	8	8	
Strategic Initiatives	4	122	130	(8)	-	(8); refers to SI expenses for the allocation period 2014-16 booked in 2017 FS, excluded in the management reporting
Financial income	5	269	269	-	-	-
Foreign exchange	6	268	268	-	-	-

Statement of activity ***(in millions of USD)***	**Ref**	**2019**	**2018**	**2017**	**Total**
Contributions		3,916	2,108	4,153	10,177
Grant expenditure		(3,097)	(3,923)	(3,019)	(10,039)
Strategic Initiatives	4	(61)	(44)	(25)	(130)
Operating expenses	3	(292)	(297)	(295)	(884)
Provident Fund valuation as per Note 6.1		13	(4)	6	15
Foreign exchange result, net		(82)	74	(54)	(62)
Financial income, net	5	148	23	98	269
Discounting of long-term positions		80	(35)	-	45
Loss on actuarial valuation of defined benefit obligation towards employee benefits		(8)	(4)	(4)	*N.A*
(Decrease)/Increase in funds		617	(2,102)	860	*N.A*
Statement of financial position ***(in millions of USD)***					
Cash and cash equivalent, including Trust Fund assets		3,232	3,243	3,121	*N.A*
Contributions receivable		2,790	2,416	3,981	*N.A*
Other assets		305	292	268	*N.A*
Grants payable		2,163	2,563	1,877	*N.A*
Other liabilities		469	310	313	*N.A*
Funds		3,695	3,078	5,180	*N.A*
Statement of cash flows ***(in millions of USD)***					
Cash receipts from donors	1	3,674	3,485	3,856	11,015
Grants disbursed		(3,562)	(3,173)	(4,258)	(10,993)
Grants disbursed to Principal Recipients & 3rd parties (incl in line above)	2	*(3,497)*	*(3,176)*	*(4,237)*	*(10,910)*
Cash paid for other operating activities		(281)	(272)	(280)	(833)
Cash on settlement of derivative financial instruments		33	86	(110)	9
Cash used for investing activities		172	(122)	311	*N.A*
Cash paid for lease liability		(7)	(5)	-	*(12)*
Increase/ (decrease) in operational cash position including cash at commercial banks and Trust Fund		29	(1)	(481)	*N.A*
FX (loss)/ gain on cash		(4)	(7)	20	*N.A*
Other key information					
Grant contingent liability *(in millions of USD)*		3,077	6,035	7,986	*N.A*
Net ALM FX results *(in millions of USD)*	6	82	36	150	268
Number of active grants		338	363	401	*N.A*
Number of employees		772	759	758	*N.A*

Organizational Background

1- VISION, MISSION AND STRATEGY

The Global Fund is a 21st-century partnership organization designed to accelerate the end of HIV, tuberculosis and malaria as epidemics.

As a partnership between governments, civil society, the private sector and people affected by the diseases, the Global Fund mobilizes and invests more than USD 4 billion a year to support programs run by local experts in more than 100 countries. By challenging barriers and embracing innovative approaches, we are working together to better serve people affected by the diseases.

The Global Fund Strategy 2017-2022: Investing to End Epidemics

The core objectives of the Global Fund 2017-2022 Strategy (GF/B35/DP04) are to:

- Maximize impact against HIV, tuberculosis (TB) and malaria
- Build resilient and sustainable systems for health
- Promote and protect human rights and gender equality
- Mobilize increased resources

Successfully implementing the strategy depends on two additional and fundamental elements:

- Innovating and differentiating along the development continuum,
- Supporting mutually accountable partnerships.

The Global Fund Strategy 2017-2022, Investing to End Epidemics, was developed under the leadership of the Board of the Global Fund, with contributions from numerous partners and stakeholders who share common goals in global health. Effective 2017, the Secretariat works to implement the Strategy and reports progress against KPIs and performance to the Strategy Committee, Audit and Finance Committee and Board on a semi-annual basis and holds deep dive sessions on specific topics at Strategy Committee meetings.

2- LEGAL STATUS

The Global Fund is an international financing institution recognized as an international organization, initially formed as a Swiss foundation in 2002. Its status has been elaborated through an ongoing process of legal recognition by various national governments and international organizations:

- The Swiss Federal Council accorded the Global Fund international organization status, which is comparable to that of UN organizations, through the 2004 Headquarters Agreement;
- Effective November 2002, as a tax-exempt organization in the United States of America, under Section 501 (c) (3) of the Internal Revenue Code;
- The United States of America, through an executive order in 2006, designated the Global Fund as a public international organization in accordance with the United States International Organizations Immunities Act; and
- The European Commission, through a 2014 Commission Decision, assimilated the Global Fund to the status of an international organization for the purposes of managing European Union funds.

3- CORE STRUCTURES

The Global Fund operates within the following core structures:

1. **The Board and its standing committees –** The Board is responsible for strategy, institutional governance and approving all program-funding decisions. It is also responsible for assessing organizational performance, overall risk management, partner engagement, resource mobilization and advocacy. It is composed of representatives from donor and implementer governments, civil society, the private sector, private foundations, and communities living with and affected by the three diseases.

   The Board's three standing committees are:
   - the Audit and Finance Committee (AFC);
   - the Ethics and Governance Committee (EGC); and
   - the Strategy Committee (SC).

   These committees have Board-delegated decision-making, advisory and oversight responsibilities, outlined in their respective charters, to facilitate and oversee the Secretariat's implementation of the Board's strategy and policies. A Coordinating Group, comprised of the Chairs and Vice Chairs of the Board and its three standing committees, serves as a collaborative body to coordinate important business of the Board.

2. **The Secretariat -** The Global Fund Secretariat is responsible for the day-to-day operations of the Global Fund as stated in the Bylaws (approved by the Board pursuant to GF/B34/EDP07 on 28 January 2016 and last amended pursuant to GF/B38/DP05 on 14 November 2017). Under the leadership of the Executive Director, who is appointed by and reports to the Global Fund Board, the Secretariat manages the grant portfolio; executes Board policies; mobilizes resources; provides strategic, policy, financial, legal and administrative support; and oversees monitoring and evaluation of results. The Secretariat is based in Geneva, Switzerland and has no office or employees located outside its headquarters.

3. **The Office of the Inspector General -** The Global Fund has an Office of the Inspector General (the "OIG") that provides independent and objective assurance over the design and effectiveness of controls or processes in place to manage the key risks impacting the Global Fund's programs and operations, including the quality of such controls and processes. Under the leadership of the Inspector General, the OIG operates as an independent unit from the Secretariat, reporting to the Board through the AFC.

4- PROGRAM STRUCTURE

Programs funded by the Global Fund are implemented by Principal Recipients, in collaboration with in-country partners. The Global Fund does not have field offices in implementing countries. The key in-country structures involved in programs funded by the Global Fund are:

1. The Country Coordinating Mechanism (CCM), a partnership composed of key stakeholders in a country's response to the three diseases, is responsible for submitting funding requests to the Global Fund, nominating the entities accountable for administering the funding, and overseeing grant implementation. CCMs are national committees that are convened independently and are not part of the Global Fund's organizational structure.

2. The Principal Recipient (PR), designated by the CCM, is the recipient of Global Fund financing and utilizes it to implement programs, either directly or through other organizations (sub-recipients). PRs are independent legal entities and are not part of the Global Fund's organizational structure.

3. The Local Fund Agent (LFA) is a key external service provider responsible for monitoring and verifying in-country grant implementation and providing recommendations to the Secretariat on key decisions relating to grants.

I. 2019 OPERATIONAL REVIEW

1. THE REPLENISHMENT MECHANISM

Under its replenishment mechanism, the Global Fund convenes donors, implementers and other key partners for a Replenishment Conference once every three years to discuss funding for the succeeding three-year "Replenishment Period". This mechanism allows for predictability and enables both the Global Fund and implementing countries to establish long-term plans for fighting the three diseases. The Pledging Conference for the Global Fund's Sixth Replenishment, hosted by President Emmanuel Macron, took place on 9-10 October 2019 in Lyon, France.

Outcome of the Sixth Replenishment Pledging Conference

The Global Fund achieved its goal of securing at least USD 14 billion in donor pledges for the Sixth Replenishment (2020-22) period during the Pledging Conference. This amount is the largest amount ever pledged to a multilateral health organization and represents an increase of 15 percent compared to the amount pledged during the 2017-19 period. The outcome of the Replenishment Pledging Conference demonstrates the international community's willingness to accelerate progress towards ending the epidemics by 2030 in line with SUSTAINABLE DEVELOPMENT GOAL 3: *Ensure healthy lives and promote well-being for all at all ages*. Along with firm assurances from countries implementing programs to significantly increase domestic co-financing in the health sector as well as strong commitment from all partners to innovate more, collaborate better and implement programs more effectively, these funds will help save 16 million lives, avert 234 million infections and strengthen health systems. The full list of pledges for the Sixth Replenishment announced in Lyon can be found here.

An unprecedented number of donors made pledges for 2020-22, including 58 public donors, of which 21 are new or returning, and 16 private sector/non-government donors, of which 9 are new or returning. Members of the G7, alongside the European Union, continue to increase their support to the Global Fund and account for 80% of the amount pledged. Significant progress was made in relation to emerging donors: existing and new donors from the Gulf region pledged a total of USD141 million (compared to USD 32 million over 2017-19) and other emerging donors in the G20 grouping pledged USD 65 million (compared to USD 50 million over 2017-19). In addition to committing increased domestic investments in health, 24 African implementing countries pledged a total of USD 76 million, a welcome expression of global solidarity and an increase of 138% compared to the last replenishment.

With increased commitments from long-standing private sector donors such as the Bill and Melinda Gates Foundation, (RED) and Takeda, as well as pledges from new and returning donors like the Children Investment Fund Foundation (CIFF) and the Rockefeller Foundation, the private sector exceeded its target of raising at least USD1 billion for the 2020-22 period. In addition, 11 private sector partnerships for innovation and improved implementation were launched, including with new partners such as Google Cloud, Mastercard, Microsoft, Société

Générale and the Thomson Reuters Foundation. The full list of private sector innovation partnerships launched in Lyon can be found here.

Ongoing resource mobilization efforts

The Global Fund will continue to mobilize funds throughout the Sixth Replenishment period. In Lyon, President Macron committed to support these efforts alongside Mr. Bill Gates and Bono to secure USD 100 million for the Global Fund within the 2020-22 period. These efforts focus on public donors that did not pledge for the 2020-2022 period, pledged annually or only for 2020-2021, and the monitoring of budgetary processes to identify other opportunities; as well as continued efforts to mobilize private sector contributions.

Converting Fifth Replenishment pledges into contributions

Conversion of pledges into contributions remains key during the final year of the Fifth Replenishment cycle (2017-2019). The encashment of all contributions receivable is on track. The effective management of donor and stakeholder relationships continues to be prioritized. The management closely monitors the changes in the donor landscape and risks related to future funding.

As at 31 December 2019 total value of pledges converted into contributions for the Fifth Replenishment 2017-2019 amounted to USD 10.2 billion.

2. THE FUNDING MODEL

Update on 2014-2016

The Secretariat through the established grant closure process of the Fourth Replenishment, USD 447.8 million of closing cash balances have been identified of which USD 350.4 million is used as the opening balance of the Fifth Replenishment grants and USD 97.4 million directly refunded to the Secretariat.

Update on 2017-2019

With 70% of grants ending in December 2020, as part of a mid-term analysis (as of June 2019), USD 3.2 billion represent in-country expenditure incurred by the Principal Recipients against a cumulative grant budget of USD 5.3 billion. This reflects an in-country absorption ratio of 61 percent under the 2017-2019 allocation period. This is in line with absorption dynamics experienced at the mid-cycle point of the previous allocation period. Through Portfolio Optimization, reprogramming and acceleration in implementation of programmatic activities projected for years 2020 and 2021. The organizational target for in-country absorption under the 2017-2019 allocation period has been set at 85% compared to the strategic KPI of 75%.

3. THE GLOBAL HEALTH CAMPUS OVERSIGHT RESULTS

Effective February 2018, the Global Health Campus (GHC) serves as the official headquarters for the Global Fund and other key players in the area of global public health. The project was completed on time and with substantial savings compared to the estimated costs approved by the Global Fund Board. The timely delivery and effective execution have ensured cost savings beyond the original plan. The OIG review provided assurance on the achievability of the projected savings over a ten-year period as estimated by the secretariat of USD 28.6 million. An effective governance structure, regular monitoring and timely mitigation of emerging issues and risks, and an efficient office move contributed to these results.

The project construction costs were subject to a detailed review by the external auditors. The scope of their work included:

- accuracy of project costs and the completeness of the supporting documentation;
- accuracy of construction costs, lease rental for the land, ancillary costs and development fees vis-à-vis the underlying contracts;
- compliance of actual costs incurred towards shared investments, variable costs, other running costs and IT costs against the project plan; and
- accuracy of charge-back of agreed lease and cost components to sub-tenants vis-à-vis the sub-lease agreements.

Later during the year, the GHC project was also subject to an internal OIG review which besides the operational aspects also looked at the project governance. The audit concluded effective management of key risks related to the GHC project (before and after the move), including assessment of related cost efficiencies associated with the building construction and relocation. The Secretariat will continue to invest in improving the operational effectiveness of GHC management processes including asset management, contract and performance management of contractors and suppliers, and business continuity planning.

4. Equal Pay Certification

The EQUAL-SALARY certification is a process that allows organizations to verify and communicate that they pay their female and male employees equally for the same job or for job of the same value. It is aimed at organizations in all countries and across all industries with 50 or more employees (of which at least 10 are women) that are committed to closing the salary gap.

On 25 June 2019, the Equal-Salary Foundation, a non-profit organization, confirmed that The Global Fund is an Equal Salary Certified organization based on the results of an in-depth PwC audit. The process followed was:

Salary analysis: To certify organizations, the EQUAL-SALARY Foundation collects employee salary data securely and anonymously. The data are then analyzed to see if the wage difference was less than or equal to 5%, and if the R-squared value is greater than or equal to 90%.

On-site review: Following international quality standards, PwC made sure EQUAL-SALARY requirements were met while assessing the following:

- Executive Director, Chief of Staff and Head of Human Resources commitment to equal pay for all;
- How well equal pay strategies are integrated into HR processes and policies; and
- Employees' perception of the company's pay practices – these employees were directly selected by PwC for this exercise.

Certification: At the end of the process the Global Fund was awarded the EQUAL-SALARY certificate from the EQUAL-SALARY Foundation.

Monitoring reviews: The certification is valid for three years and during this period, there will be two monitoring reviews, to show ongoing commitment to a fair and non-discriminatory salary policy.

5. ISO/IEC 27001 CERTIFICATION

The Global Fund relies on information and information systems to support its daily operations and help fulfil its mandate. The organization recognizes that effective and proactive management of information security is essential given the ever-changing cyber security threat landscape. In 2019, the Global Fund secured ISO/IEC 27001 certification for the information security management system (ISMS) of its Treasury cash payments data and processes, as well as the related IT operational management process and facilities including HR, Administration and Sourcing. This certification culminates a two-year effort over which the organization strengthened its ISMS to improve the availability, integrity and confidentiality of information and reduce the risk of information security breaches. ISO 27001 certification will increase stakeholder confidence in the Global Fund's ability to securely support investments in the fight against the three diseases. Going forward, the exercise will also provide a springboard for the development of a robust ISMS across the entire Global Fund Secretariat. In 2020, the Secretariat will expand the scope of its certification to cover the audit and investigation processes of the OIG, the integrity due diligence and case management processes of the Ethics Office.

6. PRIVATE SECTOR EARMARKED FUNDING

Private Sector partners may provide earmarked funding to undertake specific projects to be performed by the Secretariat. The Bill and Melinda Gates Foundation is funding up to USD 18 million for the period 2019-2022 for strategic work covering key areas such as adolescent girls and young women, innovative and domestic finance, national strategic plan application and resilient and sustainable systems for health. The expenditure for such projects would be recognized as operating expenditure when the costs are incurred and will be neutralized by the earmarked funding.

7. OPERATIONAL INSIGHTS ON GRANTS

As a part of Secretariat's on-going efforts to enhance the visibility of management oversight and reporting included in the Annual Financial Report, each year a few select country case studies will be presented to reflect the Global Fund's management of financial decision-making for grants implemented by Principal Recipients.

As part of the annual audit, the external auditor examined key controls designed and implemented at the country-team level that support management assertions governing grant financial decision-making. The key objective of this review is to confirm the existence of the internal control system, as required by the Swiss law.

The external auditors selected India and Ethiopia in 2019, following a review of the risk profiles based on the Integrated Risk Module (IRM) and the OIG audit engagement pipeline for 2019-2020. This facilitated increased sharing of information and completeness of review across the Secretariat's assurance providers.

The external auditor did not identify any significant control deficiencies in the selected portfolios. Performance improvement observations were noted and shared with management. The management is committed to put in place appropriate mitigation measures during 2020.

India

India is the second largest country in the world in terms of population size, predicted to surpass China within the coming decade. The country has achieved significant progress in fighting the three diseases – HIV/AIDS, Tuberculosis and Malaria but still remains a high-burden state. The Global Fund's support to the country dates back to 2003 amounting to a total of USD 2.2 billion disbursed to the country until the end of 2019.

Tuberculosis

India has the highest Tuberculosis burden in the world. About 27% of the estimated global TB cases, and a quarter of the estimated Drug Resistant TB patients, are in India. It shares 36% of the global TB related mortality (440 thousand out of 1.2 million (excluding TB-HIV). In 2018 more than half million out of 2.7 million estimated TB patients in India were still not notified.

The Government of India, with direct support from the Prime Minster, has shown unprecedented momentum to fight infectious diseases, especially Tuberculosis, based on an ambitious National Strategic Plan (NSP) committing to end TB five years ahead of the global target, i.e. by 2025. The program has significantly increased TB case detection with total number of 1.99 million new and relapse cases notified in 2018 compared to 1.3 million in 2010 (Global TB report).

Malaria

India has achieved a remarkable decline in malaria cases. According to WHO, the country has nearly halved the number of reported malaria cases from 2 million in 2000 to 1.17 million in 2015. World malaria report 2019 indicates that India and Uganda were the only two high burden malaria countries who had reported substantial reduction in malaria cases in 2018 over the previous year.

India has distributed 29.8 million LLINs through mass campaigns from October 2015 to 31 January 2018 in seven North Eastern States, Orissa, Jharkhand and Chhattisgarh, and 9.3 million LLINs were distributed in Madhya Pradesh in 2018. The program attributes its success in reducing malaria cases mainly to LLINs distribution and utilization by affected communities, in addition to the countries signature health workforce i.e. ASHAs.

HIV/AIDS

India has the 3rd largest number of PLHIV in the world. There are an estimated 2.4 million people living with HIV and 104,000 people newly infected in 2018. Latest results show that 1.4 million people have been put on ART, representing 57% of the PLWHA. The PMTCT coverage remains low at 63.9% stagnating since 2016. India adopted Fast Track Approach in its 2017-24 National Strategy. The purpose is to achieve the 90-90-90 targets, accelerating HIV Prevention in 'at risk' population, achieve dual Elimination of Parent to Child transmission of HIV and Syphilis and address the critical enablers in HIV Programming such as supply chain strengthening, viral load scale-up and data systems.

India's strong commitment towards eliminating the three diseases is evidenced by significant increase in domestic funding allocated to the three programs. This has enabled a shift in the implementation model for the three government Principle Recipients from a pre-financing disbursement model to a reimbursement model for all in-country expenditures under the current grants which has made India a pioneer and currently the only country in the Global Fund which operates under this model. The same helps in avoiding excessive cash balance for the grants with the government PRs.

The political commitment of the Government of India to eliminate the diseases is further evidenced through the 5-year Loan Agreement signed in June 2019 between the Government of India and IBRD-World Bank Group for a program towards elimination of tuberculosis for a total amount of USD 400 million. The loan will leverage an additional USD 934 million of domestic funding. The Global Fund has collaborated with IBRD and the Government of India to establish a ground-breaking innovative financing initiative to accelerate tuberculosis elimination in India and make progress towards Global End TB Strategy targets through the financing of a partial buy-down of the principal of the IBRD-Government of India USD 400 million loan. In May 2019, the Global Fund signed an Administration Agreement with IBRD for a total amount of USD 41.6 million, of which USD 40 million will finance the partial buy-down of the principal of the IBRD's loan to the Government of India. This has allowed for the mobilization of additional resources, whilst fostering sustainability, maximizing impact, and harmonizing donor funding and technical assistance for TB elimination efforts in India. As at 31 December 2019, USD 21 million has already been disbursed to IBRD.

Signing ceremony for USD 400 million between IBRD-GOI for Program Towards Elimination of Tuberculosis

During the current implementation cycle, including the past year, the Global Fund continued its support to the Government of India in its progress towards full roll-out and implementation of the public financial management system. This is a Government of India integrated financial management information system to capture both fund flows and accounting across central-state-district levels. The roll-out will result in improved programme administration and management, direct payments to beneficiaries and greater transparency and accountability in the use of public funds. The Global Fund, through one of the private Principal Recipients, is providing support to State and District National Health Missions in the form of District consultants through trainings and capacity building currently being implemented in 22 States in India.

The Global Fund has also aligned the current signed grant agreement cycle with the country's fiscal cycle by extending the current implementation period by three months until 31 March 2021. This has helped to address the previous encountered challenges related to implementation and reporting of the Global Fund's government grants which are fully embedded in the national budget, hence dependent on the government timelines and reporting cycles.

The Global Fund's strong commitment to continue to support the country in its fight towards elimination of the three diseases will continue during the next implementation period (2021-2024) by further extending funding to the amount of USD 500 million.

Ethiopia

Ethiopia, the fastest growing economy in the region, is considered Africa's new growth engine. With a population of about 105 million, Ethiopia is the 2nd most populous nation in Africa. Ethiopia has a federal structure with 9 regional states and 2 city administrative councils, 68 zones, 920 districts (woredas) and over 17,000 municipalities (kebeles) which can be quite complex in the context of grant implementation. Alongside the federal structure lies a health system with budgetary responsibility decentralized to the woreda level. Ethiopia is also home to one of the largest refugee populations in eastern Africa, with estimates of over 750,000 refugees in the country.

Superior gains have been made against HIV, tuberculosis, malaria and health system strengthening with significant achievements such as reducing child deaths and improving maternal health care. The Global Fund investments have supported the following country led results:

- Distributed 41,578,407 long-lasting insecticidal nets (LLINs) with malaria mortality rate decreased by 46% between 2012 and 2017 from 14 to 8 deaths per 100,000 population at risk;

- Tuberculosis mortality rate decreased by 31% between 2012 and 2017 from 35 to 24 deaths per 100,000 population;

- Increasing to 439,138 patients enrolled on anti-retroviral treatment, and HIV incidence rate decreasing by 19% between 2013-2018 from 30 to 24 per 100,00 population. AIDS-related mortality rate also decreased by 30% between 2013 and 2018 from 16 to 11 per 100,000 population; and

- Completion of large-scale projects under the resilient and sustainable systems for health (RSSH) portfolio include 17 warehouses and fleet under procurement and supply chain, construction of numerous health posts and health centers to increase accessibility to health infrastructure and training of Health Extension Workers that led to improved coverage of health services. The grants also continued to strengthen data systems for improved and evidence-based decision making.

Responding to People Migration

Beyond the successes achieved across the three diseases and RSSH, the Global Fund Board has responded to the refugee crisis by approving an emergency grant with UNICEF in 2019 focused on distributing bed nets/LLINs to Sudanese refugees in the Gambella and Benishangul-Gumuz regions, known for high malaria prevalence.

Universal Health Coverage (UHC)

The government of Ethiopia has developed a second health financing strategy, which includes the launch of the Social Health Insurance and a scale up of community-based health insurance coverage to 80% of districts by 2020. This complements domestic resource mobilization efforts such as prioritizing health in the national budget and innovative financing interventions.

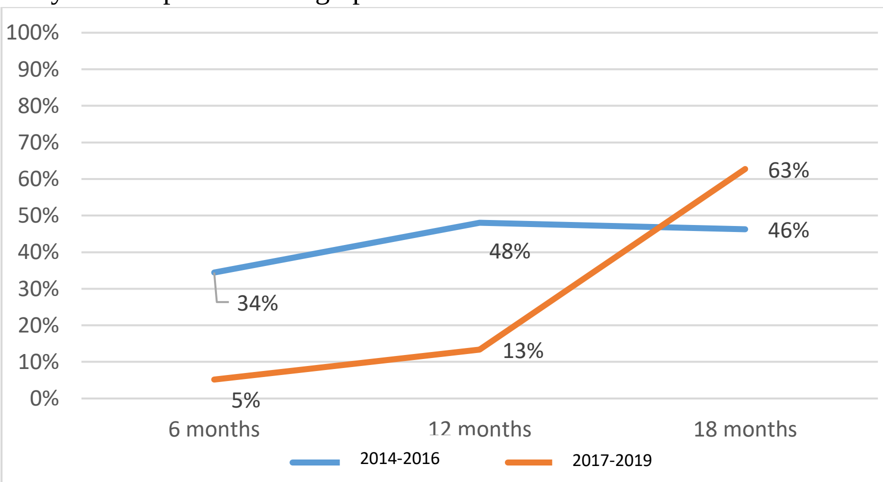
To advance the UHC goals, Ethiopia launched the Health Extension Programme (HEP) in 2003, intended to reach the poor and deliver preventive and basic curative high-impact interventions to every Ethiopian. The HEP is an ambitious government-led community health service delivery program designed to improve access to and utilization of preventive, wellness, and basic curative services. At the heart of this program is the deployment of up to 40,000 Health Extension Workers (HEW) at the primary health care level, with Global Fund grants currently supporting 11,544 HEWs.

A health extension worker in Ethiopia

Financial assurance as an enabler for impactful program delivery and optimization of absorption

During the 2014-2016 allocation period, grants in Ethiopia achieved a 91% absorption rate because of strong in-country leadership, sustained country team engagement, and flexibilities from the Global Fund focused on delivering impact. Strong partnerships with the Global Fund, and the Ethiopian Ministry of Finance and Economic Cooperation (MOFEC), Federal Ministry of Health (FMOH), the Federal HIV/AIDS Prevention and Control Office (HAPCO) and the Audit Service Corporation (ASC) have allowed the grants to leverage good assurance and financial reporting practices to deliver on the following:

- Reduction in open advances from USD 200 million to USD 25 million over 3 years with improvements in the absorption rate for the 2017-2019 allocation period based on comparative analysis as depicted in the graph below



- Strengthened assurance-related mechanisms at the ASC leading to improved quality and timeliness of external audit reports;

- Improving financial management capacity and strengthening of internal control mechanisms through upgrades to the Financial Management Handbook for Grant Implementers, including enhanced asset management practices and procedures;
- Strong donor coordination, which included a joint risk workshop in Addis Ababa in June 2019 resulting in comprehensive risk assessments and focused actions for the achievement of financial and programmatic results;
- Better alignment of financial assurance providers to eliminate duplications has been achieved by the Global Fund connecting our assurance providers (i.e. the Local Fund Agent and the Audit Services Corporation) during planning stage and to share best practices. This has led to better alignment of risk assessments, verifications, and improved robustness of financial reviews;
- In collaboration with partners including the Global Financing Facility, USAID, FMOH and MOFEC, conducted resource mapping as part of the domestic resource mobilization agenda health financing reform; and
- As part of the Global Fund's broader initiative to enhance implementer's financial management systems (Co-Link) and as part of building RSSH, the Global Fund continues to engage with MOFEC, FMOH, EPSA, and HAPCO on the roll-out of IFMIS and on the strengthening of financial management processes and systems. Further, a review of financial and internal controls in the Procurement & Supply Chain Management processes at the Ethiopian Pharmaceuticals Supply Agency (EPSA) was conducted, laying out a solid roadmap for sustained capacity building and system strengthening efforts. In collaboration with partners (USAID, JSI and GATES), the Global Fund continues to provide technical support in the areas of warehousing, logistics, distribution, and financial systems management as part of EPSA's business reengineering project.

II. 2019 FINANCIAL PERFORMANCE

The Secretariat maintains a dynamic portfolio management under its Asset Liability Management ("ALM") framework to enhance secretariat agility and reinforce timely decision making.

During 2019, the Secretariat undertook the following proactive steps and actions for impactful absorption:

- Incorporated 5% additional allocation to facilitate proactive planning and grant execution;
- Began planning for portfolio optimisation for the next grant cycle as early as AFC-14 due in October 2020 – 12 months ahead compared to the Fifth Replenishment planning;
- Implemented a range of process improvements to grant budgeting, grant reporting, advanced procurement planning in grant-making; integration of Prioritized Above Allocation Request ("PAAR") in grant budgets to facilitate reprogramming upon identification of savings and/or availability of portfolio optimisation;
- Initiated training and webinars with LFAs to improve guidance and enhance monitoring of funds utilisation and optimisation at country level; and
  At Secretariat level, refocused MEC priorities and prioritised OPEX allocation to enhance programmatic oversight in prevention, RSSH, and CRG related activities for proactive identification and mitigation of critical barriers and bottlenecks in grant implementation.

A dynamic portfolio management has resulted in 23% additional funds for the Sixth Replenishment cycle.

The in-country allocation of US 12.7 billion as approved at the 11th AFC meeting in November 2019:

- USD +650 million initial carry-over from current cycle – this was deliberately noted as a conservative amount to avoid another ALM deficit (USD 509 million) from Fourth to the Fifth Replenishment period; and
- USD +600 million (5% additional allocation). This will be excluded from the KPI denominator, since the purpose is to improve absorption.

The overall financial position of the Global Fund is affected by the following core components of the Asset Liability Management model (ALM):

1. **Uses of Funds**
   1.1 Grant Liabilities
   1.2 Strategic Initiatives (SI)
   1.3 Operating costs of the Global Fund

2. **Sources of Funds**
   2.1 Donor Pledges and Contribution Agreements
   2.2 Treasury Management

Besides the Global Fund ALM, this section also provides an overview on the Global Fund Provident Fund.

II.1 Uses of Funds

1.1 Grant Liabilities

The following sections provide an overview of grant activities during 2019:

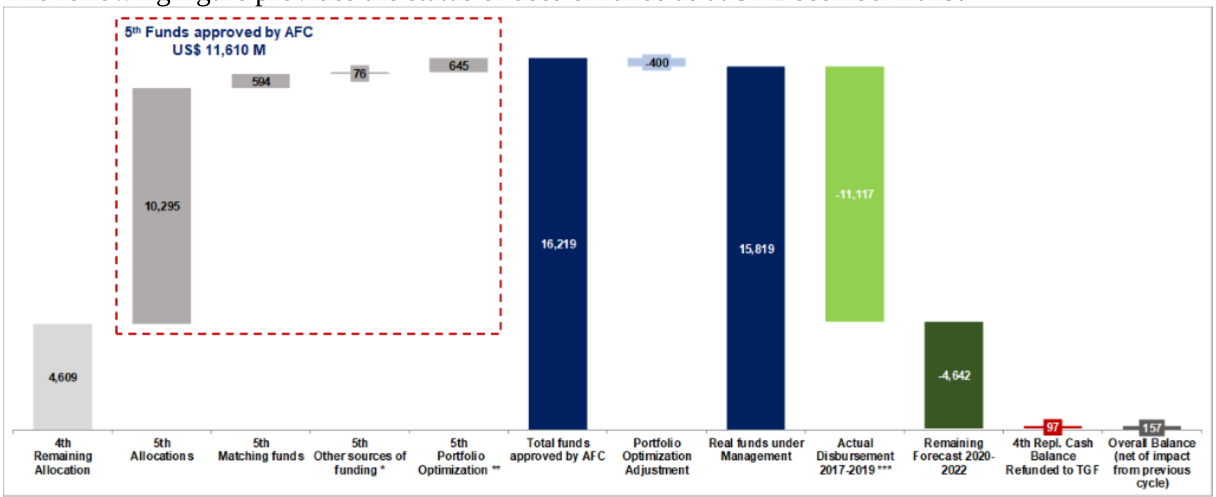
- When measured at the respective allocation rates, 2019 grant expenses of USD 3,117 million (2018: USD 3,923 million) are 20% lower than the grant commitments made during 2018. This is reflective of the mid-cycle implementation rate and is projected to accelerate in 2020 and 2021.

- When measured at the respective allocation rates, actual grant disbursements during 2019 for the grant portfolio amounted to USD 3,502 million.

- At spot rate, USD 3,562 million was reported as grant disbursements on the audited statement of cash flows. This includes:
    - USD 3,497 of grants disbursed to Principal recipients and their third parties,
    - USD 54 million towards Strategic Initiatives,
    - USD 7 million towards private sector co-payments and
    - USD 4 million of net working capital advances for Pool Procurement activities.

  For the financial years 2017-2019, USD 10,910 million have been disbursed to Principal Recipients and their third parties. When measured at respective allocation rate, USD 11,020 million was reported as grant disbursements thereby yielding a foreign exchange gain of USD 110 million.

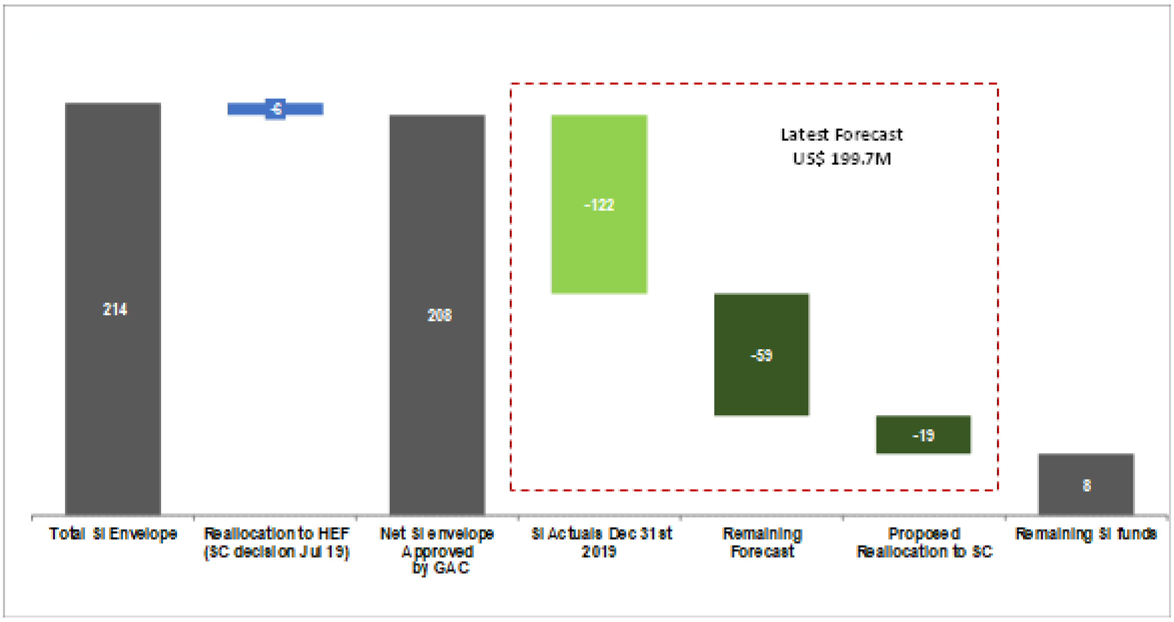
The following figure provides the status of uses of funds as at 31 December 2019.



* Complementary Restricted Financial Contributions
**Off the US$ 645M PO approved by the AFC, US$ 245M relates to new sources of funds, and the remaining US$ 400M is the forecasted under-absorption for already approved uses of funds
*** Exclude actual cash balance (US$ 97M) that implementers have directly refunded to the TGF

F3 projected allocation utilization amounts to 92% (respectively 93% and 92 % for 2014-2016 and 2017-2019 allocation cycle. Such level of allocation utilization for the 2017-2019 allocation period is consistent with the in-country absorption target of at least 85% set by the organization to be achieved by the end of the cycle.

1.2 Strategic Initiatives (SI)



Status of Strategic Initiatives - at 31 December 2019 (In USD million)

Reporting on Strategic Initiatives excludes the Emergency Fund which is integrated with the underlying grants. It integrates the joint initiative with UNITAID on funding new generation LLINs. The cumulative fund utilization at 31 December 2019 for 2017-19 allocation period reached USD 122 million.

Following the reallocation of USD 6 million to the Emergency Funds as part of Strategy Committee decision in July 2019, the Strategic Initiatives envelope has decreased from USD 214 million to USD 208 million, with 100% of available funding approved as Strategic Initiatives Budget by GAC. Thus, fund utilization reached 59% with less than 1 year left for implementation.

The Secretariat has launched the SI Boost 2020 initiative to accelerate the implementation of initiatives during the last year of implementation and optimize the level of funds utilization.

Based on last forecast in 2019, USD 27 million was projected to remain unused by the end of 2020. The Secretariat would be requesting the Strategy Committee in March 2020 for the reallocation of USD 18.5 million.

1.3 Operating costs of the Global Fund

The Global Fund has continued to proactively monitor its operating expenses whilst enabling the implementation of its priority projects in support of its 2017-2022 Strategy. Foreign exchange impact on operating costs are managed centrally as part of treasury management.

Performance against the budget

During 2019, the Global Fund incurred USD 292 million at spot rate for its operating costs (2018: USD 297 million). This is USD 10 million lower, (3.5) % against the approved 2019 budget. When measured at the 2019 budget rate it resulted in USD 296 million of operating expenses at budget rate (2018: USD 298 million) thereby yielding a foreign exchange gain of USD 4 million (2018: USD 1 million). The following table provides an overview of 2019 operating expenses against the approved budget:

	Actual	Budget	Variances	
	December 2019 YTD @ Budget Rate	December 2019 YTD @ Budget Rate	2019 Actuals @ Budget Rate vs Budget	
	kUSD	kUSD	kUSD	%
LFA costs	**46,958**	**48,300**	**(1,342)**	**(3%)**
CCM Costs	**9,038**	**9,500**	**(462)**	**(5%)**
Costs Secretariat and OIG	**237,560**	**236,389**	**1,170**	**0%**
Staff	147,313	154,474	(7,161)	(5%)
Professional fees	41,070	29,279	11,791	40%
Travel	16,430	16,824	(394)	(2%)
Meetings	3,494	3,122	372	12%
Communications	1,491	1,352	139	10%
Office Infrastructure	22,858	23,222	(364)	(2%)
Board Constituency	1,074	1,100	(26)	(2%)
Depreciation	5,968	7,418	(1,450)	(20%)
External Co-Funding	(2,139)	(402)	(1,738)	
Total Opex before non-recurring	**293,555**	**294,189**	**(634)**	**(0%)**
Non-recurring non-staff costs	**(2,927)**	**(824)**	**(2,103)**	**255%**
Non-recurring staff costs	**5,143**	**8,940**	**(3,797)**	**(42%)**
Non-recurring costs	**2,216**	**8,116**	**(5,900)**	**(73%)**
Total operating costs	**295,771**	**302,305**	**(6,534)**	**(2.2%)**

In 2019, the Secretariat's efforts had been focused on maintaining budget discipline to stay within an initial envelope of USD 900 million over the 2017-2019 period while delivering on key priorities. When measured at budget rate, the cumulative operating expenditure is USD 892 million, which is USD 8 million lower than such envelope translating into a 99% absorption.

The 2019 budget was designed to address peaks in activity related to the Sixth Replenishment effort, preparation for the next cycle of investments and the crucial period of full implementation for the current cycle of grants.

During budget execution, the Secretariat has been focused on the above-mentioned key priorities even increasing the level of investment while maintaining financial discipline and identifying efficiencies in other components of the budget. This is 98% execution rate. Key variance drivers at budget rate for 2019 are as follows:

Amount in USD millions	Items Impacted	Remarks
(7)	Recurring Staff Costs	Staff cost: delays in recruiting following organizational changes related to onboarding of new leadership.
7	Recurring Non-Staff Costs	Mostly in Professional Fees: additional resourcing provided on support to Sixth Replenishment, launch strategic workforce planning across the organization, increased support for travel security in high risk countries, and acceleration in investment in IT enablers (e.g., data analytics, dashboard & reporting Additional travel to support implementation and replenishment
(6)	Non-Recurring Costs	Mainly driven by release of excess HR related provisions and potential underspend across the Secretariat factored in F2 forecasts

Operating costs as a percentage of total expenditure increased to 8.5% in 2019 (2018: 6.9%) driven by a 20% reduction in grant expenditure compared to 2018.

For the year 2020, the Board has approved an annual operating cost budget of USD 305 million.

II.2 Sources of Funds

2.1 Donor Pledges and Contribution Agreements

The Statement of Pledges and Contributions measures the contributions received against the pledges made by the donors for a given replenishment period.

The following table summarizes the pledges and contributions for the Fifth and Sixth Replenishment periods as at 31 December 2019:

STATEMENT OF PLEDGES AND CONTRIBUTIONS							
REPLENISHMENT PERIOD			**2020-2022**			**2017-2019**	
In donor source currency							
In thousands							
Donors	**Donor currency**		**Total Pledges**	**Total Contributions received**		**Total Pledges**	**Total Contributions received**
Governments							
Armenia	USD		15,000	-		-	
Australia	AUD		242,000	-		220,000	212,930
Azerbaijan	USD		20,000	-			
Belgium	EUR		15,000	-		45,000	45,000
Benin	USD		1,000	-		2,000	2,000
Burkina Faso	USD		1,000	-			
Burundi	USD		1,000	-			
Cameroon	XAF		3,000,000	-			
Canada	CAD		930,400	-		804,000	804,000
Central African Republic	XAF		600,000	-		-	-
Chad	EUR		500	-		-	-
China	USD		18,000	-		18,000	18,000
Congo	USD		5,500	-		-	-
Congo (Democratic Republic)	USD		6,000	-		-	-
Côte d'Ivoire	EUR		-	-		915	915
Côte d'Ivoire	USD		1,500	-		-	-
Denmark	DKK		350,000	-		300,100	300,100
Equatorial Guinea	EUR		2,000	-		-	-
Eswatini	USD		6,000	-		-	-
European Commission	EUR		550,000	-		475,000	474,315
France	EUR		1,296,000	-		1,080,000	1,004,400
Germany	EUR		1,000,000	-		840,000	725,000
Greece	EUR		50	-		-	-

India	USD		22,000	-		20,000	20,000
Ireland	EUR		50,000	2,500		30,000	30,000
Italy	EUR		161,000	-		140,000	133,000
Japan	USD		840,000	1,001		800,000	800,000
Kenya	USD		6,000	-		5,000	5,000
Korea (Republic of)	KRW		-	-		1,957,000	1,957,000
Korea (Republic of)	USD		25,000	-		10,740	10,740
Kuwait	USD		6,000	-		6,500	6,500
Liechtenstein	CHF		-	-		200	200
Luxembourg	EUR		9,315	-		8,100	8,100
Madagascar	USD		1,000	-		-	-
Mali	EUR		500	-		-	-
Malta	EUR		300	-		-	-
Monaco	EUR		400	-		-	-
Namibia	USD		1,500	-		1,500	800
Netherlands	EUR		156,000	10,000		166,000	161,200
New Zealand	NZD		2,500	-		1,500	1,500
Niger	USD		1,000	-		-	-
Nigeria	USD		12,000	-		10,000	9,580
Norway	NOK		2,040,000	-		2,000,000	2,000,000
Portugal	EUR		1,000	250		227	227
Qatar	USD		50,000	-		10,000	10,000
Rwanda	USD		2,500	-		-	-
Saudi Arabia	USD		30,000	-		15,000	15,000
Senegal	USD		1,000	-		1,000	-
Senegal	EUR		-	-		-	762
South Africa	USD		10,000	-		5,000	5,000
Spain	EUR		100,000	-		-	-
Sweden	SEK		2,850,000	-		2,500,000	2,500,000
Switzerland	CHF		64,000	-		57,000	57,000

Thailand	USD		4,500	-		4,500	4,500
Togo	USD		1,000	-		1,000	878
Uganda	USD		2,000	-		1,500	884
Ukraine	USD		80	-		-	-
United Arab Emirates	EUR		50,000	-		-	-
United Kingdom	GBP		1,400,000	-		1,200,000	1,200,000
United States	USD		4,680,000	-		4,300,000	2,557,854
Zambia	USD		5,500	-		3,000	750
Zimbabwe	USD		1,000	-		1,000	775
Commitments to be personally secured by Bill Gates and Bono with the active support of France for the period 2020-2022	USD		99,724	-		-	-
Other Public	USD		64,485	-		-	-
Debt2Health: Côte d'Ivoire/Germany	EUR		-	-		1,081	1,081
Debt2Health: Cameroon/Spain	EUR		-	-		9,318	9,318
Debt2Health: Ethiopia/Spain	EUR		-	-		3,191	3,191
Debt2Health: DRC/Spain	USD		-	-		3,160	3,160
Debt2Health: DRC/Spain	EUR		-	-		217	217
Debt2Health: El Salvador/Germany	EUR		-	-		10,000	4,825
Private Foundations							
Gates Foundation	USD		760,000,000	-		650,743,170	637,710,202
Children's Investment Fund Foundation	USD		25,000,000	-		4,000,000	3,954,564
Rockefeller Foundation	USD		15,000,000	-		-	-
Tahir Foundation	IDR		-	-		500,862,400,000	161,850,417,360
Tahir Foundation	USD		30,000,000	-		-	-
Corporations							
Duet Group	USD		-	-		2,600,000	-
Ecobank	USD		-	-		3,000,000	750,000
Le Nu Thuy Dong	USD		1,000,000	-		-	-
Munich RE	USD		-	-		751,500	751,500

Standard Bank	USD		-	-		4,000,000	2,000,000
Takeda Pharmaceutical	JPY		564,000,000	188,000,000		277,500,000	277,500,000
Others							
Catholic Relief Services	USD		3,000,000	-		5,000,000	2,500,000
Co-Impact	USD		5,050,000	-		2,950,000	700,000
Comic Relief	GBP		-	-		12,000,000	11,400,000
Comic Relief	USD		17,000,000	-		9,000,000	8,975,000
Cordaid	USD		5,000,000	-		-	-
Goodbye Malaria	USD		5,500,000	-		4,000,000	3,501,405
Human Crescent	USD		10,000,000	-		-	-
Plan International and Plan Canada	CAD		3,900,000	-		-	-
Rotary Australia World Community Service and Rotarians Against Malaria	USD		7,200,000	-		-	-
United Methodist Church	USD		-	-		7,914,183	3,770,000
RED	USD		150,000,000	58,649,378		100,000,000	100,000,000
YMCA and Y's Men International	USD		500,000	-		-	-
Others	USD		86,378,970	-		36,000,000	14,057,438

2.2 Treasury Management

Financial Management Framework
The main financial framework and principles for the management of the Global Fund's Sources and Uses of Funds are set out in the Comprehensive Funding Policy (CFP) approved by the Global Fund Board in November 2016 (GF/B36/DP04). The CFP defines asset-liability management principles and makes provisions for foreign exchange risk management and investment management.

The Global Fund Secretariat monitors and reports to the Board and the Audit and Finance Committee on a regular basis on the three above-mentioned topics.

Asset-liability management
The Global Fund's asset-liability management ("ALM"), defined in the CFP, aims at ensuring the balance of Sources and Uses of Funds, as well as maximizing the amount, optimizing the timing and increasing the certainty of resources for recipients with a sufficient degree of advance visibility.

At the end of 2019, the Global Fund had sufficient confirmed financial resources as Sources of Funds to meet funding allocated by the Global Fund Board under Uses of Funds. In addition to assets included in the Global Fund's balance sheet, Sources of Funds include adjusted donor pledges and contribution agreements that are not included in financial statements.

Investment Management
The World Bank, acting as the Trustee of the Global Fund Trust Fund, manages the Global Fund's investments. The investment framework provides clear guidance for the Trustee as it manages the investment procedures and practices. Under this framework, the Global Fund defines the strategic asset allocation with the support of the Trustee.

At 31 December 2019, the Global Fund Trust Fund investment balance pool was valued at USD 3,167 million (2018: USD 3,203 million) and returned 5.65% as the annual rate of return (2018: 1.05%). In absolute terms, the Trustee reported USD 148 million as the net investment income on the Trust Fund (2018: USD 23 million). The increase in investment income, compared to negative returns in 2018, was the result of positive performance of fixed income strategies, which benefited from falling yields in the course of 2019 and of very strong returns in equity markets in 2019.

Foreign Exchange Management
The Global Fund uses the US dollar (USD) as its functional and reporting currency. Foreign exchange risk arises due to a net open position in currencies other than USD in the Global Fund's Sources and Uses of Funds as defined in the Comprehensive Funding Policy.

The Global Foreign-Exchange (FX) Management Framework aims at effective management of risk arising from FX exposures to elements included in the Global Fund's asset-liability management framework. The hedging policy operates at a portfolio level and controlled with a specific risk metric utilizing value-at-risk (VaR). FX losses and gains on FX hedging instruments are set against FX losses and gains on on-balance sheet items. As a result, effects on FX hedging instruments may more than compensate for FX effects on other balance sheet items.

The key principles of hedging followed under the FX Management Framework can be summarized as follows:

- Role of hedging: reduce volatility of FX effects on the ALM (i.e. from starting point of the replenishment); and
- Hedging should produce FX effects in a direction opposite to FX effects before hedges.

In the period under consideration, the currencies in which the Global Fund's assets and liabilities are denominated generally increased in value against the Global Fund's functional currency, the US dollar. This led to significant FX gains on assets and limited FX gains on liabilities. Conversely, fluctuations in FX rates led to losses on FX hedging instruments. For 2019, hedges have produced negative FX effects, consistent with the positive FX effects before hedges.

For the year ended 31 December 2019, a net foreign exchange loss of USD 82 million is reported on the net balance sheet positions (2018: USD 74 million net gain). The following table summarizes the impact of hedging on net FX results, including economic FX results (off-balance sheet).

USD million	Before hedges	Hedges	Net
Accounting FX results (on-balance sheet)	39	(121)	(82)
Economic FX results (off-balance sheet)	164	-	164
Net FX results 2019	**203**	**(121)**	**82**
Net FX results 2018	*(173)*	*209*	*36*

A detailed analysis on the net foreign exchange results are included in Note 5.7 to the consolidated annual financial statements.

III. THE GLOBAL FUND PROVIDENT FUND

The Global Fund maintains a Provident Fund scheme for the benefit of its employees. The Provident Fund is administered in Swiss Francs (CHF) consistent with other employee remuneration. As at 31 December 2019, when measured in CHF, the Provident Fund assets fully cover the underlying employee benefit liability.

For the purposes of the consolidated financial statements, the Provident Fund assets are translated into USD. The Provident Fund qualifies as a defined benefit obligation under IAS-19 *Employee Benefits* and accordingly is subject to an annual actuarial valuation. Following the technical valuation by an external actuary, the net employee benefit obligation was valued at USD 188 million (2018: USD 168 million). This includes USD 183 million of Provident Fund reserves and USD 5 million of cumulative actuarial valuation reserve.

As at 31 December 2019, the Provident Fund asset base was USD 184 million (2018: USD 158 million) which included USD 171 million (2018: USD 144 million) of Provident Fund investments measured at fair value and USD 13 million (2018: USD 14 million) in cash and cash equivalents. These assets are held and invested solely for funding future employee benefits under the Provident Fund Constitutional Declaration and Benefits Rules. During 2019, a net fair valuation gains on Provident Fund investments for USD 15 million (2018: USD 4 million net loss) was reported. The annual rate of return on Provident Fund investments was 8.8% against a benchmark of 12.1% [2018: (2%) against benchmark of (3.9%)]. In 2018 and 2019, the volatility of the actual Provident Fund portfolio was lower than that of the benchmark. This is reflected in the portfolio's lower performance than the benchmark in a year of high investment performance (2019) and the portfolio's higher performance than the benchmark when performance was negative (2018).

IV. LOOKING FORWARD

LFA TRAININGS

Between the end of October 2019 and the end of January 2020, close to 350 Local Fund Agent experts visited the Global Health Campus, to participate in four, week-long training sessions, to prepare them for the grant-making period of the new implementation cycle to follow.

The training represents another step in the evolution of the Global Fund relationship with the people who act as the 'eyes and ears' of Country Teams, across the grant portfolio.

From the establishment of the Global Fund, the role of the LFA has been evolving from a mostly compliance function – checking that things have been done and processes have been followed – to establishing a more advisory, partnering role, that can help the Global Fund navigate issues at the most local level, to deliver impact.

The focus of LFA work has long moved from 'counting' to investing for impact – making sure the Global Fund investments are aligned at the country level and will be sustainable after countries transition.

The training sessions reinforced this understanding. In addition to focusing on key LFA service and reporting requirements, the training sessions also explored cross-functional topics, including Community, Rights and Gender, RSSH and Sustainability. A key theme for the participants was breaking down silos and working together as one multi-disciplinary team mirroring the way country teams work at the Global Fund.

Certain countries, Mozambique, South Africa, Kenya, Uganda, stand out as having particularly mature and strategic relationships with their LFA, LFAs are also the keepers of a rich store of data, increasingly important to helping inform the Global Fund's decisions.

The Global Fund needs to go beyond "disbursement-ready" grants and advance to "implementation-ready" grants. As we look at grant-making the greatest value lies in detailed and country-specific knowledge of the LFAs and their network of relationships with governments and implementers.

RISK MANAGEMENT PREPAREDNESS

After the success of the Sixth Replenishment, the Global Fund has a significant responsibility to ensure we employ the USD 14 billion pledged as effectively as possible. The Secretariat has already started mobilizing its efforts to be more ambitious and invest in mission-critical activities in the countries where change is needed but might fail. Simultaneously the Secretariat has started prioritizing internal resource allocation in terms of surge positions, innovation and measured risk-taking measured risks to deliver impact.

The Secretariat recognizes the need to be even more nimble and adapt to the rapidly changing context. A robust risk management and control framework has been developed and operationalized to identify, measure and manage risks, make informed trade-off decisions and monitor progress.

Particularly in 2020, the Global Fund has a dual focus of accelerating implementation of the current grants under the 2017-2019 allocation and building a strong foundation for the 2020-2022 allocation cycle to deliver maximum impact. Ensuring optimal absorption across the portfolio will require careful planning, regular monitoring and nimbler and more frequent portfolio optimization throughout the cycle.

As the epidemiological context evolves and strategic objectives become more ambitious, the relative prioritization and significance of risks will change. As the level of risk depends on the level of ambition and difficulty in achieving strategic objectives, the trajectory to get to target risk levels is expected to be more varied than the past two years. Some of the prioritized risks in the past may not be the most relevant when looking forward. Equally, the level of risks we accept and how we manage them will need to be adapted to deliver impact.

The Secretariat is acting rapidly to increase absorption and impact in the countries in Western and Central Africa that bear some of the highest risks. Following the OIG advisory report, the Secretariat has launched a focused initiative in this region with the purpose of improving program results through increased absorption, effective health program financing, better stakeholder collaboration and improved in-country program and grant management. In doing this, the Secretariat is devising specific, practical and prioritized action plans to reduce operational bottlenecks and optimally balance the programmatic ambition for impact and fiduciary controls to mitigate related risks.

From a fiduciary risk environment standpoint, the risk of fraud continues to evolve, as demonstrated by recent cases of procurement and data fraud at the implementer level. Procurement fraud in the Democratic Republic of Congo highlighted the need for continued vigilance, including amongst international organizations, which are usually engaged as implementing partners in high risk context and as part of additional safeguard measures. The financial and fiduciary risk management will need to adapt to these changes by further prioritizing preventive measures over detective controls.

In the context of a changing epidemiological situation, the importance of program quality, monitoring and evaluation as key drivers of risk becomes much higher, requiring the Global Fund to engage in more complex interventions based on a far more granular understanding of the epidemics and a more targeted approach. Reinforcing the integration of human rights and gender considerations explicitly into program delivery will also be critical in maximizing the impact on the three diseases.

COVID-19 Response

Following the COVID-19 outbreak in early 2020, countries around the world work to contain the COVID-19 pandemic. The Global Fund is committed to helping the most vulnerable countries fight the three infectious diseases currently killing the most people across the world – HIV, TB and malaria – and to helping the same countries and communities respond to COVID-19. In March 2020, we announced new guidelines enabling countries to provide flexibility for countries to use up to 5% of approved grants to fight COVID-19 and to mitigate the potential consequences of the pandemic on existing programs to fight HIV, TB and malaria.

As at 31 March 2020, the Global Fund has approved USD 23 million in COVID-19 grant flexibilities across 32 countries and one regional grant. Rapid response mechanisms have enabled approving country request in less than five working days.

At the Secretariat, a Situation Response Team has been set-up that meets on a daily basis to monitor the evolving situation and oversee a Business Contingency Plan for the Global Fund’s changing work in response to Covid-19—both for its core operations and its enabling functions.

The Global Fund remains committed to achieve our mission, despite the enormous disruption we face on a global, organizational and individual basis with a spirit of upbeat determination.

FINANCIAL STATEMENTS

Responsibility for the consolidated financial statements

The Secretariat is responsible for the preparation of the consolidated financial statements and related information that is presented in this report. The consolidated financial statements are prepared in conformity with accounting principles under the International Financial Reporting Standards (IFRS). The consolidated financial statements include amounts based on estimates and judgments made by the Secretariat. KPMG SA was appointed as the independent auditors by the Global Fund Board upon the recommendation of the Audit and Finance Committee to audit and opine on the consolidated financial statements of the Global Fund.

The Secretariat designs and maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorised use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organizational structure providing division of responsibilities, careful selection and training of qualified personnel, and a program of external reviews.

The Global Fund Board, through its Audit and Finance Committee, meets periodically with the Secretariat and KPMG SA to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting.

These consolidated financial statements as at and for the year ended 31 December 2019 were approved by the Board on 8 April 2020.

REPORT OF THE INDEPENDENT AUDITOR

with consolidated financial statements as at and for the year ended 31 December 2019 of

The Global Fund to Fight AIDS, Tuberculosis and Malaria.

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The Global Fund to Fight AIDS, Tuberculosis and Malaria, Le Grand-Saconnex

Independent Auditor's Report to the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria

Consolidated Financial Statements as at
and for the year ended 31 December 2019

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Independent Auditor's Report to the Board of

The Global Fund to Fight AIDS, Tuberculosis and Malaria, Le Grand-Saconnex

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund"), which comprise the consolidated statement of financial position as at 31 December 2019, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in funds and consolidated statement of cash flows for the year ended 31 December 2019 and notes, comprising significant accounting policies and other explanatory information.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Global Fund as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Global Fund in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information in the Annual Financial Report

The Global Fund Board is responsible for the other information in the annual financial report. The other information comprises all information included in the annual financial report, but does not include the consolidated financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual financial report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual financial report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Global Fund Board and Secretariat for the Consolidated Financial Statements
The Global Fund Board and Secretariat are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Global Fund Board and the Secretariat are responsible for assessing the Global Fund'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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Global Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

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- Conclude on the appropriateness of the Global Fund Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Global Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Global Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Global Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Global Fund audit. We remain solely responsible for our audit opinion.

We communicate with the Global Fund Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Global Fund Board.

KPMG SA

Pierre-Henri Pingeon	Karina Vartanova
Licensed Audit Expert	*Licensed Audit Expert*

Geneva, 08 April 2020

Enclosure:

- Consolidated financial statements, which comprise the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of change in funds, consolidated statement of cash flows and notes to the consolidated financial statements.

Consolidated statement of income

for the year ended 31 December

USD millions	Notes	2019	2018
Operating activities			
Income			
Contributions	4.1	3,916	2,108
Expenditure			
Grants	3.2	(3,158)	(3,967)
Operating expenses	6.1	(279)	(301)
Total		**(3,437)**	**(4,268)**
Net operating activities		**479**	**(2,160)**
Financing and Investing Activities			
Foreign exchange result, net	5.7	(82)	74
Financial income, net	5.8	148	23
Discounting on long-term financial positions	5.9	80	(35)
Total		**146**	**62**
Increase/ (decrease) in funds		**625**	**(2,098)**

Consolidated statement of comprehensive income

for the year ended 31 December

USD millions	**Notes**	**2019**	**2018**
Increase/ (decrease) in funds		625	(2,098)
Other comprehensive income			
Re-measurement losses on defined benefit plan that will not be reclassified to the statement of income	6.4	(8)	(4)
Total comprehensive income for the year		**617**	**(2,102)**

Consolidated statement of financial position

In millions of USD

As at	Notes	31.12.2019	31.12.2018
Assets			
Current assets			
Cash and cash equivalents	5.1	65	40
Trust Fund	5.2	3,167	3,203
Contributions receivable	4.2	1,073	1,489
Derivative financial instruments at fair value	5.6	13	27
Other receivables	4.2	46	31
		4,364	4,790
Non-current assets			
Contributions receivable	4.2	1,717	927
Provident Fund investments	5.3	171	144
Tangible and intangible assets	6.2	75	87
Derivative financial instruments at fair value	5.6	-	1
Other receivables	4.2	-	2
		1,963	1,161
Total Assets		**6,327**	**5,951**
Liabilities			
Current liabilities			
Grants payable	3.3	2,156	2,545
Derivative financial instruments at fair value	5.6	150	11
Lease liability	6.3	7	7
Other current liabilities	6.5	74	67
		2,387	2,630
Non-current liabilities			
Grants payable	3.3	7	18
Employee benefit liabilities	6.4	188	168
Lease liability	6.3	50	57
		245	243
Total Liabilities		**2,632**	**2,873**

As at	Notes	31.12.2019	31.12.2018
Temporarily restricted funds	7.3	11	5
Unrestricted funds	7.3	3,684	3,073
Total Funds		**3,695**	**3,078**
Total liabilities and funds		**6,327**	**5,951**

Consolidated statement of cash flows

for the year ended 31 December

USD millions	Notes	2019	2018
Operating activities			
Cash received from donors	4	3,674	3,485
Grant disbursements		(3,562)	(3,173)
Payments for operating expenses		(281)	(272)
Cash realized on forward contracts settlements		33	86
Net cash flow (used in)/ from operating activities		(136)	126
Investing activities			
Financial income received, net	5.8	81	88
Purchases of Provident Fund investments		(44)	(11)
Sales of Provident Fund investments		35	10
Purchases of tangible and intangible assets	6.2	(3)	(13)
Net cash flow from investing activities before Trust Fund movements		69	74
Net cash rebalancing between commercial banks and Trust Fund		103	(196)
Net cash flow (used in)/ from investing activities		172	(122)
Financing activities			
Payment of lease liabilities	6.3	(7)	(5)
Net cash flow used in financing activities		**(7)**	**(5)**
Net increase/ (decrease) in cash and cash equivalents		29	(1)
Cash and cash equivalents			
- at beginning of the year	5.1	40	48
Effect of exchange rate changes		(4)	(7)
- at end of the year	5.1	**65**	**40**

In addition to the cash and cash equivalents reported in the statement of cash flows presented above, the Global Fund considers Trust Fund as an integral part of the cash management for its core operations. The following table provides an overall operational cash management position:

As at 31 December	Notes	2019	2018
Amounts held in commercial banks	5.1	65	40
Amounts held in Trust Fund	5.2	3,167	3,203
Total operational cash balance		**3,232**	**3,243**

Consolidated statement of changes in funds
for the year ended 31 December

USD millions

	Foundation capital (1)	**Temporarily restricted funds**	**Unrestricted funds**	**Total**
As at 1 January 2018	**-**	**18**	**5,162**	**5,180**
Decrease in funds for the period	**-**	(13)	(2,085)	**(2,098)**
Other comprehensive income	**-**	**-**	(4)	**(4)**
At 31 December 2018	**-**	**5**	**3,073**	**3,078**
As at 1 January 2019	**-**	**5**	**3,073**	**3,078**
Increase in funds for the period		6	619	**625**
Other comprehensive income			(8)	**(8)**
At 31 December 2019	**-**	**11**	**3,684**	**3,695**

1) The Global Fund maintains CHF 50,000 as statutory foundation capital.

Explanatory notes to the annual consolidated financial statements

The Global Fund presents its consolidated financial statements to include the following key financial statements:

1- Consolidated statement of financial position;
2- Consolidated statement of income;
3- Consolidated statement of comprehensive income;
4- Consolidated statement of cash flows; and
5- Consolidated statement of changes in funds.

The disclosure content in the financial statements and in particular the notes to the consolidated financial statements is carefully selected to increase focus on the net financial results of what drives the Global Fund's performance. Accordingly, a few financial positions have been regrouped to enhance content disclosure. The financial statements have been supported by detailed notes grouped into seven sections that provide a granular view of core activities of the Global Fund.

With the intent to enhance readability and understanding, each section presents the financial information and material accounting policies that are relevant to understanding the activities and accounting principles of the Global Fund.

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

Index for notes to the consolidated financial statements

Section 1: Activities and organization

The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund") is an international financing institution recognized as an international organization that fights HIV/AIDS, tuberculosis and malaria with a 21st century approach applying four core principles: country ownership, partnership, transparency and performance-based funding.

The Global Fund has been accorded the status of an international organization pursuant to its Headquarters Agreement with the Swiss Federal Council, prior to which it registered as an independent, not-for-profit foundation under the laws of Switzerland on 22 January 2002. Its headquarters is in Geneva, Switzerland. The registered address is Chemin du Pommier 40, Grand-Saconnex 1218, Geneva, Switzerland. Foundations are subject to monitoring by the Swiss Federal Supervisory Board for Foundations.

Section 2: Basis of reporting

Statement of compliance

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Currently, IFRS does not contain specific guidelines for not-for-profit organizations concerning the accounting treatment and presentation of the consolidated financial statements. Where the IFRS are silent or do not give guidance on how to treat transactions specific to the not-for-profit sector, accounting policies have been based on IFRS dealing with similar and related issues or the general IFRS principles, as detailed in the Conceptual Framework for Financial Reporting.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities which are measured at fair value, as explained in the respective sections of the foot note disclosures. For such items that are subject to measurement at fair value, the inputs and fair valuation techniques are described in the respective notes in the consolidated financial statements.

These consolidated financial statements as at and for the year ended 31 December 2019 were approved by the Global Fund Board on 8 April 2020.

Functional and presentation currency

The consolidated financial statements are presented in United States dollars ("USD"), the Global Fund's functional currency, and rounded to the nearest million, unless otherwise stipulated.

Transactions in foreign currencies are recognized in USD at rates prevailing at the date of the transaction. Assets and liabilities denominated in foreign currency are translated to USD at the exchange rates at the reporting date. All differences are recognized in the consolidated statement of income.

Basis of consolidation

The consolidated financial statements of the Global Fund cover the activities of the Global Fund in Switzerland and the US Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "US Fund"). The US Fund, which is incorporated in the United States and qualifies for federal tax-exemption under Section 501(c)(3) of the Internal Revenue Code, has the mission of encouraging individuals, corporations and charitable entities to provide support for the mission of the Global Fund. Taking into consideration the activities, decision-making processes, benefits and related risks associated with the US Fund, the Global Fund concluded that, in substance, the US Fund should be consolidated. The Global Fund does not consolidate any other entity. The Provident Fund does not have a separate legal personality from the Global Fund. It enjoys the same privileges and immunities accorded to the Global Fund under (i) the Headquarters Agreement between the Global Fund and the Swiss Federal Council dated 13 December 2004; (ii) any national laws including but not limited to the United States International Organizations Immunities Act (22 United States Code 288 et seq); and (iii) international laws, including customary international law, conventions, treaties and agreements

Significant management judgments, estimates and assumptions

All significant accounting policies, judgments, estimates and assumptions that are relevant to the understanding of the consolidated financial statements are provided through the notes to the financial statements. In particular, the Global Fund has applied judgment in accounting for certain transactions with respect to grants (Section 3) and contributions (Section 4).

The Global Fund is subject to risks and uncertainties that may lead to actual results differing from estimates. Specific financial risks for the Global Fund are discussed in Section 4 and Section 5.

Changes in significant accounting policies, estimates and judgments

The Global Fund has early adopted IFRS 16 *Leases* in 2018. A number of other standards became effective 1 January 2019, but they have not had a material impact on the Global Fund's consolidated financial statements.

Standards issued but not yet effective

The following table summarizes the assessment on new or amendments IFRS standards effective 1 January 2020.

New standards or amendments	***TGF assessment***
Amendments to References to the Conceptual Framework in IFRS Standards	No material impact
Definition of Material (amendments to IAS 1 and IAS 8)	No material impact

Financial instruments – Accounting classification

The following table shows the net carrying amounts of financial assets and financial liabilities. For financial assets and liabilities not measured at fair value, the carrying value is a reasonable approximation of fair value.

As at 31 December 2019

All amounts in USD million

		Carrying amount		
Global Fund financial position	Note	Mandatorily at FVTPL	At amortized cost	Other financial liabilities
Cash and cash equivalents	5.1	-	65	-
Trust Fund asset	5.2	3,167	-	-
Contributions receivable	4.2	-	2,790	-
Derivative financial instruments measured at fair value, net liability	5.6	137	-	-
Provident Fund Investments	5.3	171	-	-
Other receivables*1	4.2	-	38	-
Grants payable	3.3	-	-	2,163
Lease liability	6.3	-	-	57
Other liabilities*2	6.5	-	-	10

*1 Other receivables that are not financial assets are not included (prepaid expenses)

*2 Other liabilities that are not financial liabilities are not included (provisions and deferred contributions)

As at 31 December 2018

All amounts in USD million

		Carrying amount		
Global Fund financial position	Note	Mandatorily at FVTPL	At amortized cost	Other financial liabilities
Cash and cash equivalents	5.1	-	40	-
Trust Fund asset	5.2	3,203	-	-
Contributions receivable	4.2	-	2,416	-
Derivative financial instruments measured at fair value, net asset	5.6	28	-	-
Provident Fund Investments	5.3	144	-	-
Other receivables*1	4.2	-	26	-
Grants payable	3.3	-	-	2,563
Lease liability	6.3	-	-	64
Other liabilities*2	6.5	-	-	12

Section 3: Grant activities

Grant making is the core operation of the Global Fund and forms the major source of expenditure and cash outflow.

The table below summarizes the accounting results for core grant activities based on the accounting principles underlined in this section:

Grant stage for the year ended 31 December	*Contingent Liability: Board approved but not committed*	*Annual commitment*	*Disbursement of committed amounts As per statement of cash flow*	*Foreign exchange gains on EUR grant liabilities*	*Annual commitments not disbursed as at 31 December (Grants payable as per statement of financial position)*
Notes	**3.1**	**3.2**		**5.7**	**3.3**
2019	3,060	3,158	3,562	2	2,163
2018	6,004	3,967	3,173	28	2,563

In the following notes, each stage of the grant lifecycle has been analysed in detail:

3.1 Contingent liability

The first point of recognition for grants is at the point of the Global Fund Board approval, where the maximum liability of the grant becomes clear and is agreed with the Principal Recipient. A management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

Based on these principles and the substantive ability of the Global Fund to restrict funds there is determined to be no constructive obligation and hence no recognition of the liability in the consolidated statement of financial position. However, the Global Fund Board approval represents a point at which a contingent liability can be reported, as it represents a potential obligation that can be reliably measured and is dependent on future events (the performance of the Principal Recipient and the availability of funding).

Following the Global Fund Board approval, all grants are governed by a written grant agreement that includes substantive conditions based on performance and availability of funding. Accordingly, an obligation only arises once all criteria have been considered and the annual funding decision is made and communicated to the Principal Recipient.

The contingent liability represents the maximum potential liability of the Global Fund for individual grants as approved by the Global Fund Board. During grant implementation, the contingent liability of a grant is reduced by the cumulative amount of grant expenses. Essentially contingent liabilities include the value of Board approvals for grants that are not yet signed and grants that have been signed but have not been subject to annual funding decision.

During the grant implementation the contingent liability is reduced by cumulative grant expenditure and any funding identified for portfolio optimization for new grants.

The following table summarizes the contingent liability for grants at 31 December

By category	**2019**	**2018**
Grants approved but not signed	110	272
Grants signed but not committed	2,950	5,732
Total: Contingent liability for grants to Principal Recipients	3,060	6,004
Strategic initiatives	17	31
Total	**3,077**	**6,035**

Contingent liability for grants to Principal Recipients By region		
Asia (outside High Impact), Europe, Latin America and the Caribbean	337	491
Africa (outside High Impact) and Middle East	654	1,493
High Impact Africa I	531	978
High Impact Africa II	1,002	1,870
High Impact Asia	536	1,172
Total	**3,060**	**6,004**

3.2 Grant expenditure

The recognition of grant liabilities is determined to be the point at which the annual funding decision is made by the Global Fund. The annual funding decision provides the Principal Recipient with a firm disbursement schedule, together with a statement that conditions have been met and that the funding is available. At this point the Global Fund has a constructive obligation to the Principal Recipient to fulfil amounts committed and the full amount of the annual commitment resulting from the annual funding decision is recognized as a grant payable in the statement of financial position and recorded as expenditure within the consolidated statement of income.

During the year of the commitment, funds are disbursed on the basis of the annual funding decision and the level of remaining funds held by the Principal Recipient. As amounts are disbursed there will be a subsequent reduction in the level of grants payable.

Grants under recovery from Principal Recipients are recognized at the point of issuing a formal demand letter to the Principal Recipients for amounts stated in the letters as being owed by them to the Global Fund. The amounts determined as grants under recovery are recognized through the statement of income. Given the operational nature of these recoveries, these are reported as a reduction of grant expenditure. At each reporting period, each recoverable is reviewed for expected credit loss due to uncertainty in future cash inflows compared with the recovery schedule agreed by the Principal Recipients under the recovery protocol.

The following table summarizes grant expenditure for the years ended 31 December:

	2019	2018
By category		
Grants on behalf of Principal Recipients	2,260	2,876
Grants for PPM orders	857	1,047
Total grants for Principal Recipients	**3,117**	**3,923**
Grants under recovery	(20)	-
Strategic Initiatives	61	44
Total grants	**3,158**	**3,967**

	2019	2018
By disease		
HIV-AIDS (including HIV/TB)	1,664	1,938
Malaria	950	1,317
Tuberculosis	448	601
Others (including RSSH and multi-component)	55	67
Total grants for Principal Recipients	**3,117**	**3,923**
By region		
Asia (outside High Impact), Europe, Latin America and the Caribbean	318	334
Africa and Middle East	782	1,074
High Impact Africa I	528	858
High Impact Africa II	1,076	1,233
High Impact Asia	413	424
Total grants for Principal Recipients	**3,117**	**3,923**

3.3 Grants payable

The following table summarizes grants payable at 31 December

	2019	2018
Grants payable within one year		
USD	1,882	2,183
EUR	244	274
ZAR	25	422
Net grants payable within one year in equivalent USD	2,151	2,524
Grants under recovery, net	-	16
Strategic Initiatives	5	5
Net grants payable within one year	**2,156**	**2,545**

	2019	2018
Grants payable after one year		
Grants payable to Principal Recipients	7	16
Grants under recovery, net	-	2
Net grants payable after one year	**7**	**18**
Total grants payable in equivalent USD	**2,163**	**2,563**

The long-term portion represents amounts that are due to be disbursed later than one year after the date of the statement of financial position discounted to estimate their present value at this same date. The impact towards discounting of long-term grants payable is disclosed separately in the statement of income for the reporting period *(Note 5.9)*.

Section 4: Donor activities

The Global Fund follows a three-year replenishment cycle to secure funding for its grants and administrative operations. At the time of a Replenishment Conference, donors make public announcements of their intended future contributions. These announcements are termed as pledges. Pledges do not trigger an accounting event for the Global Fund as the conversion of pledges into firm contributions will require further substantive actions to be taken.

The table below summarizes the accounting results for contributions based on the accounting principles underlined in this section:

For the year ended 31 December	*Opening contributions receivable*	*Contributions per the statement of income*	*Discounting*	*Contributions received per the statement of cash flow*	*Foreign exchange fluctuation*	*Contributions receivable on the statement of financial position*
NOTE	4.2	4.1	5.9			4.2
2019	2,416	3,916	81	3,674	(41)	2,790
2018	3,981	2,108	(29)	3,485	(159)	2,416

In the following sections, the financial impact of each stage in the donor contribution process has been analyzed in detail:

4.1 Contribution income and revenue recognition

The revenue recognition policy of the Global Fund follows the general principles as detailed in the Conceptual Framework for Financial Reporting.

The first point of revenue recognition is the signing of a formal contribution agreement with a donor. All contributions governed by a written contribution agreement that do not have any substantive conditionality bearing on future receipts are recorded as income at the date of signature of the agreement.

A contribution agreement is considered “substantially conditional” when the future encashment of a contribution is subject to specified events, performance obligations and actions beyond the control of the Global Fund. Such contributions, or a part thereof, are recognized as income upon receipt of cash or cash equivalents.

For the purposes of the cash flow statement, contributions are considered as received when remitted in cash or cash equivalent.

The following table summarizes the source of revenue recognized for the year ended 31 December:

	2019	2018
Donor contributions		
By donor category		
Public	3,673	1,971
Foundations	153	87
Product (RED)	53	42
Corporations	5	3
International not-for-profit organizations	32	5
Total	**3,916**	**2,108**
By donor intent		
Unrestricted	3,667	1,968
Restricted- Others	249	140
Total	**3,916**	**2,108**

Key donors who have opted for a bilateral contribution agreement with the Global Fund include terms and conditions that require future encashment in compliance with the respective donor legislative and parliamentary requirements. The management has undertaken comprehensive evaluation to establish reasonable assurance on the probability of future economic benefits and degree of certainty for future encashments based on donor profile, political engagement and institutional relationship from such donors. Hence, in such cases the management recognizes revenue for the full value of the contribution at the time of signing of such agreements. Subsequently, at each reporting period, all outstanding portions of contributions receivable are subject to a risk review for potential impairment as defined in Section 4.2 below.

4.2 Contributions receivable

Contributions receivable are agreements signed where income has been recognized but the cash has not been received. Contribution receivables are stated at amortized cost net of a provision for expected credit losses to cover the risk of future non-payment.

Promissory notes and contributions receivable maturing later than one year after the date of consolidated statement of financial position are discounted at fair value using a rate of return reflecting the credit risk of the donor and subsequently measured at amortized cost using the effective interest method.

The impact towards discounting of long-term contribution receivable is disclosed separately in the statement of income for the reporting period *(Note 5.9)*.

The following table summarizes contributions receivable at 31 December:

	2019	**2018**
Promissory notes maturing within one year	485	457
Contributions receivable within one year	588	1,032
Total	**1,073**	**1,489**
Promissory notes maturing after one year	-	-
Contributions receivable after one year	1,717	927
Total	**1,717**	**927**
Total value of contributions receivable	**2,790**	**2,416**
Receivable in 2019	-	1,489
Receivable in 2020	1,073	366
Receivable in 2021	566	-
Receivable after 2021	1,259	750
Gross contributions receivable	2,898	2,605
Discounted	(108)	(189)
Net present value of contributions receivable	**2,790**	**2,416**

The Global Fund reviews all contributions receivable as at the reporting date to assess for any expected credit losses. This assessment is based on a review of the donor credit profile, the in-country economic and political situation and other known factors that may potentially result in reduced future cash receipts. Where the Global Fund determines there to be a collection risk then an appropriate risk premium is deducted from receivable balances to reflect this risk. The risk premiums held are maintained as a provision for expected credit losses. This includes USD 1 million of expected credit losses (2018: USD 2 million).

Other Receivables

The following table summarizes other receivables at 31 December:

	2019	**2018**
Grants under recovery	20	18
Working capital advance for pooled procurement mechanisms	10	-
Security deposit	8	8
Prepaid expenses for Opex and Strategic Initiatives	8	7
Total	**46**	**33**

Grants under recovery are recognized based on the demand letters formally issued to Principal Recipients. It includes expected credit loss of USD 12 million given the uncertainty of future cash inflows compared with the recovery schedule agreed by the Principal Recipients under the recovery protocol.

4.3 Conditional contribution

Under the Fifth Replenishment, the Global Fund had entered into certain contribution agreements that were subject to performance obligations to be measured and reported over the period of the agreement. As at 31 December 2019 there are no outstanding contributions receivable with such performance conditions leading to uncertainty towards future encashments (2018: USD 127 million).

4.4 Deferred contribution

Donor contributions received in cash for specific project expenditures are treated as deferred contributions until the underlying related expenses have been incurred. This ensures the recorded income is matched to the expenditure it relates to. Any unspent portion of the contribution received will need to be refunded to the donor.

For better understanding a detailed breakdown of deferred contributions is included under Note 6.5 and Note 6.6.

Section 5: Management of funds

The Global Fund is a financing institution and hence the management of its financial assets and liabilities is integral to the successful mission of the organization. In addition to its long-standing relationship with the World Bank, the Global Fund has built relationships with private sector banks to manage its financial assets and provide appropriate liquidity and risk management.

5.1 Cash and cash equivalents

The following table summarizes cash and cash equivalents at 31 December:

	2019	**2018**
Amounts held in commercial banks	65	40

Amounts are held in commercial banks that have a long-term credit rating of *A or higher*.

5.2 Trust Fund

The World Bank acts as the Trustee for the Global Fund. Assets held in trust by the World Bank are held in a pooled cash and investments portfolio, hereinafter called “the Pool”, established by the Trustee for all trust funds administered by the World Bank Group.

Most financial contributions are received directly by the Global Fund and subsequently held in a trust fund which is administered by the World Bank. The objectives of the investment portfolio strategy are to maintain adequate liquidity to meet foreseeable cash flow needs, preserve and optimize investment returns. The movement in fair value of funds held in trust is recognized in the Statement of Income. The cash is invested by the World Bank in accordance with the investment framework of the Global Fund as approved by the Finance and Operational Performance Committee of the Board (GF/FOPC11/DP01).

All disbursements out of the Trust Fund are duly authorized by the Global Fund. In accordance with the terms of the Trust Fund Agreement, as amended from time to time, between the Global Fund and the World Bank, the Global Fund is the legal beneficial owner of the funds, assets and receipts that constitute the Trust Fund. The agreement may be terminated at any time by either party on a 90-day written notice with all funds, assets and receipts reverting to the Global Fund upon termination. The funds held in the Trust Fund qualify as a single asset and as such are presented separately in the statement of financial position but form an integral part of the operational cash management.

The Trust Fund is partitioned into two sub-portfolios: tranches 0 and 5 which have different investment horizons and aim to enhance returns subject to the over-arching goal of capital preservation and liquidity requirements. The tranches have the following characteristics:

- **Tranche 0:** cash portfolios in USD and EUR with an investment horizon of less than three months that aim to ensure timely availability of funds to meet the short-term cash flow needs of the Global Fund, and which comprise short-term bank deposits and highly liquid money-market instruments; and

- **Tranche 5:** longer horizon portfolio in USD that has an investment horizon of up to three years, and which is invested primarily in highly rated government and agency obligations, asset-backed securities, including mortgage-backed securities.

Monthly re-balancing of the portfolio leads to the re-allocation of amounts among the different tranches to alter the duration of the overall portfolio in line with the Global Fund's projected grant funding needs. The ultimate purpose of the Trust Fund is to hold the funds to meet short-term cash needs of the Global Fund. The Trust Fund reports its share in the shared pool of investments as one class of financial assets and can be withdrawn upon demand.

The following table summarizes the Global Fund Trust Fund allocation across World Bank investment tranches:

Tranche	**2019**	**2018**
Tranche 0 USD	1,432	455
Tranche 5 USD	1,735	2,689
Tranche 0 EUR	-	59
Total	**3,167**	**3,203**

As at 31 December 2019 the Pool had a fair value measurement of USD 30,932 million (2018: USD 32,248 million) as confirmed by the World Bank. The following table reflects the asset allocation in the pool:

Types of financial instruments	**2019**	**2018**
Government and agency obligations	44%	55%
Time deposits and money market securities	33%	21%
Asset-backed securities	17%	21%
Equity securities	7%	6%
Securities purchased under resale agreements and securities sold under repurchase agreements	-	(3)%
Total	**100%**	**100%**

<u>Fair value of financial instruments held in Pool</u>

The Trust Fund's assets consist of its share of cash and investments in the Pool. The Pool is actively managed and invested in accordance with the investment strategy established for all trust funds administered by the World Bank Group. The objectives of the investment strategy are foremost to maintain adequate liquidity to meet foreseeable cash flow needs and preserve capital and then to maximize investment returns. The Trust Fund's share in the Pool is not traded in any market; however, the underlying assets within the Pool are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If an active market exists, the market price is applied. If an active market does not exist, generally accepted valuation techniques, based on observable market data at the reporting date, are used instead. All investment decisions are made and performance is monitored at the Pool level. The fair value amount of the Trust Fund's share of the cash and investments in the Pool at the end of each reporting period is also disclosed.

The International Bank for Reconstruction and Development, IBRD, on behalf of the World Bank Group, has an established and documented process for determining fair values. Fair value is based upon quoted market prices for the same or similar securities, where available. Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models. These models primarily use market-based or independently-sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves, and may incorporate unobservable inputs. Selection of these inputs involves judgment. The Pool may include financial instruments such as government and agency obligations, time deposits, money market securities, asset-backed securities, equity securities, securities purchased under resale agreements and securities sold under repurchase agreements, and derivatives.

The techniques applied in determining the fair values of financial instruments are summarized below.

Government and agency obligations, asset-backed securities and equity securities

Where available, quoted market prices are used to determine the fair value of government and agency obligations, asset-backed securities and exchange-traded equity securities. For securities for which quoted market prices are not readily available, fair values are determined using model-based valuation techniques, either internally-generated or vendor-supplied, that include discounted cash flow method using market observable inputs such as yield curves, credit spreads, prepayment speeds, foreign exchange rates, and funding spreads.

Time deposits and money market securities

Unless quoted prices are available, time deposits and money market securities are reported at face value, which approximates fair value.

Securities purchased under resale agreements and securities sold under repurchase agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are reported at face value, which approximates fair value.

Derivative contracts

Derivative contracts include currency forward contracts, currency swaps, interest rate swaps, and contracts to purchase or sell to-be-announced (TBA) securities. Derivatives are valued using model-based valuation techniques which include discounted cash flow method with market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

Fair valuation hierarchy

The Trustee undertakes a fair valuation of the financial instruments held in the shared pool of cash and investments. The fair value measurements are categorized based on the inputs to the valuation techniques as follows (in the order of priority placed on the inputs):

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

The Trust Fund's financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement of the instrument in its entirety.

Given that the Trust Fund's share in the Pool is not traded in any market it qualifies as a Level 2 asset given the observability and significance of the fair values of the underlying instruments and the fact that no adjustments for rights and obligations inherent with regard to ownership or frequency at which the organization can redeem its interest exists.

The following table shows the Trust Fund's share of financial instruments held in the Pool recognized at fair value, categorized between levels 1 and 2:

At 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Government and agency obligations	762	571	-	1,333
Asset and mortgage-backed securities	-	508	-	508
Equity	215	-	-	215
Time deposits	180	838	-	1,018
Repurchase/ resale agreements	-	(3)	-	(3)
Derivatives, net	-	(11)	-	(11)
Sub-total:	**1,157**	**1,903**	**-**	**3,060**
Cash, receivables & payables				107
Total	**1,157**	**1,903**	**-**	**3,167**

At 31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Government and agency obligations	937	750	-	1,687
Asset and mortgage-backed securities	-	630	-	630
Equity	187	-	-	187
Time deposits	102	547	-	649
Repurchase/ resale agreements	-	(125)	-	(125)
Derivatives, net	-	13	-	13
Sub-total:	**1,226**	**1,815**	**-**	**3,041**
Cash, receivables & payables				162
Total	**1,226**	**1,815**	**-**	**3,203**

The following table shows a comparative view of the Trust Fund and the cumulative value of the Shared Pool of cash and investments:

At 31 December 2019	**Shared Pool of cash and investments**	**Trust Fund**	**% share**
Level 1	9,536	1,157	12.13
Level 2	21,086	1,903	9.02
Level 3	-	-	-
Sub-total	**30,622**	**3,060**	**9.99**
Cash, receivables & payables	310	107	34.5
Total	**30,932**	**3,167**	**10.2**

At 31 December 2018	**Shared Pool of cash and investments**	**Trust Fund**	**% share**
Level 1	9,690	1,226	12.7
Level 2	21,986	1,815	8.3
Level 3	-	-	-
Sub-total	**31,676**	**3,041**	**9.6**
Cash, receivables & payables	572	162	28.3
Total	**32,248**	**3,203**	**9.9**

5.3 Provident Fund Investments

The Provident Fund is established as a segregated fund within the Global Fund with an autonomous governance structure. The Provident Fund does not have separate legal personality from the Global Fund. The assets of the Global Fund Provident Fund (the “Provident Fund”) are invested for the purpose of the investment policy of the Provident Fund in accordance with the principles and responsibilities established in the Constitutional Declaration and Benefits Rules, as it may be amended from time to time, and under article 6 of the Provident Fund Management Board Charter.

The Management Board through its Investment Committee makes the investment decisions for the Provident Fund assets. The Investment Committee has appointed an investment advisor, through which the Investment Committee has an established control framework to monitor the investment performance and fair valuation of the investment portfolio. The Provident Fund assets are managed by institutional fund managers in diversified global equity, bond and real estate funds. Funds are regulated, open-ended investment funds. The Management Board has appointed a custodian to maintain the physical custody of all Provident Fund investments.

There is a regular review of potential significant unobservable inputs and valuation adjustments as reported by the investment advisor. The respective investment managers are individually responsible for the fair valuation and performance measurement of their respective investment categories. The custodian collates the investment performance and fair valuation reporting monthly. On an annual basis the investment managers provide fair value hierarchy in which the valuations should be classified for their respective investments in compliance with the requirements of IFRS.

Any significant valuation issues are reported separately. The investment advisor oversees all fair value measurements, including potential Level 3 fair values, and reports to the Investment Committee and the Management Board. When measuring the fair value of an asset or a liability, the investment advisor uses observable market data as far as possible.

The Provident Fund investments are classified upon initial recognition as financial assets and at fair value through profit & loss ("FVTPL"), with any gains or losses arising on re-measurement recognized in the consolidated statement of income. The net gain or loss recognized in the consolidated statement of income incorporates any dividend or interest earned on the financial asset and is included in the Provident Fund investment fair valuation gain line item.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows (in the order of priority placed on the inputs):

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

The following table provides the fair valuation hierarchy of the Provident Fund investments:

At 31 December 2019	Level 1	Level 2	Level 3	Total
Total Provident Fund investments	**124**	**47**	**-**	**171**
Equity	30	-	-	30
Bonds	44	50	-	94
Real estate	-	47	-	47

At 31 December 2018	Level 1	Level 2	Level 3	Total
Total Provident Fund investments	**111**	**33**	**-**	**144**
Equity	31	-	-	31
Bonds	80	-	-	80
Real estate	-	33	-	33

The Provident Fund investments include foreign currency exposure in Euros (EUR) and Swiss Francs (CHF). The sensitivity of the investments to exchange rate fluctuations is analysed as at the end of each reporting period.

During 2019, USD 15 million was reported in net fair valuation gains on Provident Fund investments (2018: USD 4 million net fair valuation losses).

5.4 Financial risk management objectives and policies

The Global Fund has various financial assets, such as cash and cash equivalents, Trust Fund, Provident Fund assets, contribution receivables, other receivables and derivative financial instruments. The main financial liabilities comprise grants payable, accrued expenses, lease liability and derivative financial instruments.

The main risks arising from these financial assets and liabilities are market and liquidity risk, which are summarized below.

These risks are managed through a defined Treasury policy. Compliance with these policies is monitored by the Treasurer and reported to the Global Fund Board through the Audit and Finance Committee, its standing committee on financial matters.

Risk management in respect of Trust Fund included in the Shared Pool of cash and investments

The Pool is exposed to market, credit and liquidity risks. There has been no significant change during the financial year to the class of financial risks faced by the Trust Fund or the Trustee's approach to the management of those risks. The exposure and the risk management policies employed by the Trustee to manage these risks are discussed below:

Market risk – The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, currency rates or changes in interest rates. The Trust Fund is exposed to market risk, primarily related to foreign exchange rates and interest rates. The Trustee actively manages the Pool so as to minimize the probability of incurring negative returns over the applicable investment horizon.

i. Interest rate risk

The Trustee uses a value at risk (VaR) computation to estimate the potential loss in the fair value of the Pool's financial instruments with respect to unfavourable movements in interest rate and credit spreads. The VaR is measured using a parametric/analytical approach. It assumes that the movements in the market risk factors are normally distributed. In constructing the covariance matrix of market risk factors, a time decay factor is applied to weekly market data for the past three years with an exponential decay factor of 0.97. The covariance-variance matrix also includes the equity factor, where equity factor volatility is based on equity index returns. This approach takes into account three years' historical market observations, while giving more weight to recent market volatility.

The VaR of the Trust Fund's share of the portfolio over a twelve-month horizon, at a 95% confidence level as at 31 December 2019 is estimated to be USD 57 million (2018: USD 55 million).

ii. Currency risk

The risk that the value of a financial instrument will fluctuate because of changes in currency exchange rates when there is a mismatch between assets and liabilities denominated in any one currency. The currency risk covers all categories of financial instruments that carry non-USD financial positions. Note 5.5 on Foreign exchange exposures provides an overview of the net position of major currencies holdings.

The Trust Fund's currency risk arises from the portion of cash and investments in the Pool that are denominated in currencies other than in USD. In accordance with the Trust Fund Agreement and/or the instructions from the Global Fund, the Trustee maintains the Trust Fund's share of cash and investments in the Pool in USD and EUR. Cash contributions received are converted into USD on receipt, except when the Global Fund instructs the Trustee to hold selected cash contributions received in EUR.

The percentage movement applied is based on the average movements in the previous three annual reporting periods. The average movement in the current period is based on beginning and ending exchange rates in each period.

	2019		***2018***	
Currency	***Change %***	***Amount USD million***	***Change %***	***Amount USD million***
Euro	7%	-	8%	(+/-) 5.2

iii. Credit risk/counterparty risk

The risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk can be mitigated by limiting the amount of credit exposure to any individual issuer. Changes in the creditworthiness of an issuer can negatively impact the price of the securities. The portion of the investments held in securities that are rated below investment grade will be subject to a greater risk of default.

The Global Fund's maximum exposure to credit risk in relation to cash and bank balances, Provident Fund investments and contributions receivable is the carrying amount of those assets as indicated in the consolidated statement of financial position. In respect of funds held in the Trust Fund the Trustee does not hold any collateral or credit enhancements except for the repurchase agreements and resale agreements with counterparties. The Trustee identifies concentrations of credit risk based mainly on the extent to which the cash and investments in the Pool are held by an individual counterparty. The concentration of credit risk with respect to the Pool of cash and investments is limited because the Trustee has policies that limit the amount of credit exposure to any individual issuer.

The Trustee invests in liquid instruments such as time deposits and money market securities, government and agency obligations, and mortgage-backed securities and derivative contracts. The Trustee limits investments to those financial instruments with minimum credit ratings at the time of the purchase in the U.S. markets or equivalent as follows:

- Time deposits and money market securities: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-;
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organization or any other official entity require a minimum credit rating of AA-;
- Asset-backed securities: minimum rating must be AAA; and
- Derivatives: counterparties must have a minimum rating of A-.

The following table presents the investment holdings in the sub-portfolio in terms of the counterparty credit risk exposure and investment categories at December:

Counterparty credit ratings	**2019**	**2018**
AA or greater	62%	61%
A- or greater	100%	100%

Risks other than market risk, in respect of all other financial assets, including the Trust Fund are analysed below:

Liquidity risk- Liquidity is an indicator of how easily an investment may be converted into cash. An investment may be less liquid if it is not widely traded or if there are restrictions imposed by the exchange or the issuer. For the Global Fund, the risk is that the entity will encounter difficulty in raising liquid funds to meet its commitments. All the financial liabilities are payable based on the credit terms agreed with the suppliers in the underlying contractual agreements that are mostly short term. As a policy, the Global Fund makes commitments for operating expenditure budget, trustee fees and grants only if there are sufficient underlying assets.

Economic risk- In addition to the financial risks outlined on the financial assets and liabilities the Global Fund is also exposed to the economic risk on its off-balance sheet positions denominated in currencies other than USD. These mainly include pledges, allocated amounts, signed grant amounts that have not had a subsequent annual funding decision and approved operating expenditure budgets over the allocation period.

Effective 2016 the Global Fund implemented a dynamic hedging strategy to preserve the net value of assets and liabilities against fluctuations of currency values and ensures the amounts from contributions and grants keep their economic value throughout their relevant periods of utilization.

The hedging strategy follows the general principles outlined below:

i. Role of hedging: reduce volatility of FX effects on the asset-liability model, i.e. from starting point of the replenishment; and
ii. Hedging should produce FX effects in a direction opposite to FX effects before hedges.

Under the guidance of the hedging principles, hedgeable exposures are determined as FX risks net of adjustments taken due to the uncertainty of the underlining amount and timing of inflows and outflows of funds. This includes:

i. Discount factor on donor contributions
ii. Discount factor on grants and other uses of funds
iii. Any other uncertainty factor

The FX risk limit is measured through VaR with a 99% probability on a monthly basis. Value at Risk is a statistical technique used to measure and quantify the level of financial risk over a specific period. It is measured in three variables: the amount of potential loss, the probability of that amount of loss and the period over which such potential loss could occur based on its probability. The VaR limit follows a two-risk metrics:

a. From the net FX exposure off-balance-sheet: a minimum of 50% of the resulting VaR (exposure at risk) shall be covered by the hedging strategy (i.e., VaR metric @ maximum 50% of the VaR arising); and
b. From the net FX exposure on-balance-sheet: a minimum of 75% of the resulting VaR (exposure at risk) shall be covered by the hedging strategy (i.e. VaR metric @ maximum 25% of VaR arising).

The risk metrics is reported under one combined VaR limit.

5.5 Foreign exchange exposures

In preparing the financial statements, transactions in currencies other than the functional currency are recognized at the rates of exchange prevailing at the dates of the transactions, which creates an exposure to foreign exchange risk for these particular assets or liabilities. At the end of each reporting period, monetary items such as contributions receivable in currencies other than USD and grants payable denominated in EUR are retranslated at the rates prevailing at that date. The currency risk associated with the foreign exchange exposure, both financial and economic, has been detailed in Note 5.4 above. The following table summarizes exchange rates per USD for major currencies in which the Global Fund held financial positions at 31 December:

Key foreign currencies	**2019**	**2018**	*fluctuation*
AUD	0.7010	0.7068	*-1%*
CAD	0.7662	0.7344	*4%*
CHF	1.0331	1.0149	*2%*
EUR	1.1204	1.1432	*-2%*
GBP	1.3109	1.2694	*3%*
SEK	0.1069	0.1115	*-4%*
NOK	0.1134	0.1150	*-1%*

[TGF sources its corporate FX rates through Thompson Reuters FX rates subscription]

The Global Fund regularly undertakes the sensitivity analysis for each currency in which it holds significant exposure. The significant foreign currency exposures include Euros (EUR), Pound Sterling (GBP), Swedish kronor (SEK), Canadian dollars (CAD) and Swiss Francs (CHF).

The following table outlines, the nominal amounts in millions, of the management of the net consolidated position of main foreign currency exposures, including financial and economic, net of assets and liabilities:

	As at 31 December 2019			***As at 31 December 2018***		
Currency	*Net FX exposure*	*Hedges at nominal value*	*% Hedging ratio*	*Net FX exposure*	*Hedges at nominal value*	*% Hedging ratio*
AUD	207	203	98	119	109	92
CAD	888	888	100	266	266	100
CHF	(480)	(426)	89	(36)	(84)	(233)
DKK	333	332	100	150	75	50
EUR	1,584	1,561	99	194	261	135
GBP	1,627	1,627	100	631	552	87
SEK	2,708	2,708	100	850	600	71
NOK	1,938	1,938	100	700	600	86

The Global Fund undertakes the sensitivity analysis based on a percentage change in exchange rates over immediately preceding three financial years. The Global Fund actively manages its foreign currency exposure through derivative financial instruments as described in Note 5.4. The following table reflects the sensitivity of the consolidated statement of income and statement of changes in funds to a strengthening or weakening of these non-USD net positions as at 31 December:

Currency	***2019*** Change	***2019*** Amount USD million	***2018*** Change	***2018*** Amount USD million
CHF	2	-	3	-
EUR	7	-	8	-
GBP	6	-	12	(+/-) 9
SEK	8	(+/-) 1	9	(+/-) 2

5.6 Foreign exchange risk management

The Global Fund has implemented a strategy to mitigate the foreign exchange fluctuation risks as follows:

- Maximize the natural hedge of currency holdings by matching assets and liabilities by currency; and
- Monitor volatility and exposure by currency and engage in active hedging with levels of 50 to 100 through approved financial instruments.

A majority of the contribution receipts to the Trust Fund are denominated and predominantly held in in USD. However, a portion of funds are held in EUR to maintain a natural hedge for grant and other liabilities denominated in EUR. In addition, cash in EUR and CHF are held at a commercial bank to cover the operating expenses of the following year. Other currency balances are maintained for short time intervals in line with the cash management policy.

The following table outlines the cash balances held in currencies other than USD in the source currency of cash holding:

As at 31 December	**2019**	**2018**
Amounts held in CHF	18	15
Amount held in EUR	13	67

During the year the Global Fund used derivative financial instruments, notably forwards and swaps to manage its exposure to foreign exchange fluctuations for net positions held in non-USD currencies. These financial instruments are used by the Global Fund to mitigate foreign exchange risk and are recognized at fair value with subsequent movements in value reported through the consolidated statement of income. The following tables present the notional value and the fair value of derivative financial instruments by settlement date and by currency:

BY SETTLEMENT DATE

As at 31 December	2019	2018
Assets		
- within 12 months	13	27
- beyond 12 months	-	1
	13	28
Liabilities		
- within 12 months	(150)	(11)
Net (liability)/ asset for derivative financial instruments at fair value	**(137)**	**17**

BY CURRENCY

As at 31 December 2019

Currency (Level 2)	*Notional value in millions*	*Forward contracts at fair value in USD millions*
AUD	203	(5)
CAD	888	(12)
CHF	(426)	8
DKK	332	(1)
EUR	1,561	(19)
GBP	1,627	(89)
NOK	1,938	(8)
SEK	2,708	(12)
Net liability for derivative financial instruments at fair value		**(137)**

As at 31 December 2018

Currency (Level 2)	*Notional value in USD millions*	*Forward contracts at fair value in USD millions*
AUD	109	2
CAD	266	9
CHF	(84)	-
EUR	261	(7)
GBP	552	10
NOK	600	2
SEK	600	1
Net asset for derivative financial instruments at fair value		**17**

The fair value of derivative financial instruments is provided by the counterparty bank and based on price models using observable exchange rates, described as Level 2 in the fair value hierarchy.

5.7 Foreign exchange accounting

Foreign exchange gains or losses on non-USD positions are reported in the consolidated statement of income for the years ended 31 December were as follows:

	2019		2018	
By currency	*Before derivative instrument*	*After derivative instrument*	*Before derivative instrument*	*After derivative instrument*
AUD	(2)	(5)	(14)	-
CAD	6	(11)	(30)	4
CHF	(1)	7	2	6
EUR	14	3	(3)	51
GBP	19	(66)	(74)	6
SEK	4	(3)	(16)	-
NOK	-	(7)	(1)	4
Others	(1)	-	1	3
Total	**39**	**(82)**	**(135)**	**74**

	2019	2018
By net position		
Net foreign exchange (loss)/ gain on assets	(84)	46
Net foreign exchange gain on liabilities	2	28
Total: Net foreign exchange (loss)/ gain	**(82)**	**74**

5.8 Financial income, net

The investment of financial assets in the Trust Fund provides an investment return in line with the risks highlighted previously. The investment returns and related financial costs, are summarized in the table below:

	2019	2018
Trust Fund gains, net	150	25
Financial costs	(2)	(2)
Total	**148**	**23**

The following tables provide a detailed view of the composition of Trust Fund gains:

For the financial year ended 31 December 2019

	Realized	Unrealized	Total
Investment gains	83	74	**157**
Investment losses	(2)	(5)	**(7)**
Total	**81**	**69**	**150**

For the financial year ended 31 December 2018

	Realized	Unrealized	Total
Investment gains	110	5	**115**
Investment losses	(22)	(68)	**(90)**
Total	**88**	**(63)**	**25**

5.9 Discounting of long-term financial positions

By financial position	2019	2018
Contributions receivable	81	(29)
Grants payable	(1)	(6)
Total	**80**	**(35)**

Section 6: Operating activities

6.1 Operating expenses

Operating expenses are costs incurred by the Global Fund Secretariat for maintaining a sustainable administrative structure in order to deliver its mission. The Global Fund Board approves an annual budget for operating expenses. All expenses are monitored and reported on a periodic basis to the Board through its Audit and Finance Committee. The following table summarizes the Global Fund's operating costs under the main categories of expenditure for the years ended 31 December:

	2019	**2018**
Staff	149	157
External assurance	46	44
Professional fees	40	35
Others	57	61
Total Secretariat costs	292	297
Provident Fund valuation	(13)	4
Total	**279**	**301**

The 2019 consolidated operating expenditure for Global Fund includes USD 92,360 as the operating expenditure for the US Fund (2018: USD 93,449).

Staff costs represents all personnel costs incurred by the Global Fund in accordance with its human resource guidelines. USD 19 million was included as notional internal taxation (2018: USD 19 million). No Swiss Tax is paid by The Global Fund, nor by the employee on Global Fund employment income. At 31 December 2019 there were 772 (2018: 759) personnel employed by the Global Fund.

The external assurance costs have been represented by Local Fund Agent fees representing service costs incurred by the Global Fund to assess the in-country capacity prior to and during grant negotiation in addition to monitoring implementation of funded programs as grants are disbursed to Principal Recipients.

Professional fees represent the engagement cost of external consultants, technical partners and professional firms in providing management and technical services as needed by the Global Fund.

Other operating expenses include operating costs for Secretariat travel, meetings, communication materials, depreciation of right of use asset and maintenance, depreciation and disbursements for Country Coordinating Mechanisms (CCMs) and Board Constituencies.

6.2 Tangible and Intangible assets

The Global Fund moved its headquarters office to the Global Health Campus in February 2018. The Global Fund is the primary lessee of the entire building, and sub-leases a portion of the office space to other public health organizations. Accordingly, the head lease has been fully recognized as a Right-of-Use asset in the Global Fund statement of financial position. The sub-leases are treated as operating leases. A detailed note on the accounting treatment for the GHC lease arrangements has been reported under note 6.3.

Asset category	*Net assets at 01 Jan 2019*	*Additions*	*Depreciation*	*Net asset value at 31 Dec 2019*
Leased assets				
Head lease: ROU-GHC	67	-	(7)	60
Tangible assets	9	2	(3)	8
Intangible assets	11	-	(4)	7
Total	**87**	**2**	**(14)**	**75**

Asset category	*Net assets at 01 Jan 2018*	*Additions*	*Depreciation*	*Net asset value at 30 June 2018*
Leased assets				
Head lease: ROU-GHC	-	78	- 2	77
Tangible assets	2	6	- 0	8
Intangible assets	10	-	- 1	9
Total	**12**	**84**	**- 3**	**93**

6.3 Lease liability

As a lessee

The Global Fund recognizes the right-of-use of asset and a lease liability at the commencement date. The right-of-use asset is measured at cost, which includes the initial amount of the lease liability, initial direct costs incurred to restore the underlying asset and less any incentives received.

All ancillary costs regarding office maintenance and amenities are regarded as non-lease components and as such are recognized as expense in the period in which these ancillary costs are incurred. Any subsequent capital investments made by the Global Fund in the nature of leasehold improvements will be capitalized as leasehold assets and not as the increase in GHC RoU asset.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to earlier of the end of the useful life of the right-of-use asset or end of the lease term which is 10 years. It is tested for impairment under IAS 36.

The lease liability is recognized as a financial liability on the statement of financial position, initially measured at the present value of the unpaid portion of lease. The details of the GHC head lease are included in Note 6.2.

After the initial recognition the lease liability is measured at amortized cost using effective interest method. Any re-measurement of the lease liability will be reflected in the RoU asset value. For the GHC lease, in accordance with IFRS 16.39 a re-measurement in the lease liability may be required due to a change in the lease payments resulting from a change in the Swiss CPI with respect to leasehold rent or a change in the lease term.

The financial liability represents the Global Fund's liability for future lease payments towards the head lease agreement for the right to use GHC as its office space. The following table outlines the undiscounted value of the maturity profile of GHC lease recognized as a financial liability of the unpaid portion of the lease.

As a lessor

The Global Fund acts as a lessor for part of GHC sublet to other international public health organizations. These sub-leases are classified as operating leases because the Global Fund in its role as the primary lessor, centralizes the risks and rewards to the ownership of the underlying asset from the head lease. Under this arrangement, the Global Fund recognizes the operating lease payments as income on a straight-line basis. During 2019, USD 2 million (2018: USD 2 million) have been recognized as miscellaneous income grouped under operating expenses towards the sub-lease rentals from sub-tenants.

Maturity analysis of lease payments

As at 31 December 2019

Maturity period	Financial lease outflows	Sub-lease inflows	Net outflows
Within one year	7	3	4
Within two and five years	28	11	17
After five years	22	8	14
Total	**57**	**22**	**35**

As at 31 December 2018

Maturity period	Financial lease outflows	Sub-lease inflows	Net outflows
Within one year	7	3	4
Within two and five years	28	11	17
After five years	29	11	18
Total	**64**	**25**	**39**

6.4 Employee benefit liabilities

The Global Fund maintains a Provident Fund for the purposes of providing retirement, death and disability benefits to its employees and their qualifying dependents and beneficiaries. The Provident Fund is the same legal entity as the Global Fund. It is a segregated fund with an autonomous governance structure. Consequently, the assets in the Provident Fund are disclosed within non-current assets in the statement of financial position and excluded from the pension plan assets under IAS 19.

The assets of the Provident Fund are received, invested and disbursed wholly and exclusively for the purposes of the Provident Fund and in accordance with the investment strategy established by the Provident Fund Management Board with the approval of the Audit and Finance Committee.

The Provident Fund provides retirement, death and disability benefits for the employees of the Global Fund and their qualifying dependents and beneficiaries. The cost of the plan is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates, employee rotation and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, estimates relating to pension, and other post-employment benefits are highly sensitive to changes in these assumptions, all of which are reviewed at each reporting date as described below.

Actuarial valuation of defined benefit obligation

The measurement of net defined benefit liability requires the application of an actuarial valuation method, the attribution of benefits to periods of service, and the use of actuarial assumptions. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the net deficit or surplus. Given the unfunded status of the Provident Fund as outlined above, the actuarial valuation does not include any plan assets.

The actuarial valuation of the defined benefit obligation for the Provident Fund scheme administered by the Global Fund is reported in the following table:

Change in benefit obligation	**2019**	**2018**
Benefit obligation at beginning of year	168	155
Current service cost	28	27
FX translation impact	3	(2)
Interest cost	1	1
Actuarial loss	8	4
Benefits paid from plan/company	(18)	(15)
Premiums and expenses paid	(2)	(2)
Benefit obligation at end of year	**188**	**168**

Current service costs: include contributions made by the Global Fund to the Provident Fund scheme as a part of monthly employment cost. It also includes employee contributions that are deducted under the monthly payroll.

FX translation impact: The Global Fund employment costs and defined benefits obligations are administered in CHF and translated to USD for the reporting purposes in the consolidated financial statements. Translation costs represent the exchange rate difference arising on the re-measurement of the opening balance of defined benefit obligation administered in CHF in equivalent USD at the end of the current reporting period.

Components of pension cost	**2019**	**2018**
Amounts recognized in the statement of income		
Current service cost	28	27
Interest cost	1	1
Total pension cost recognized in the statement of income	**29**	**28**
Actuarial valuation recognized in other comprehensive income		
a. Effect of changes in demographic assumptions	(2)	-
b. Effect of changes in financial assumptions	12	(5)
c. Effect of experience adjustments	(2)	9
Total actuarial valuation recognized in other comprehensive income	**8**	**4**
Total defined benefit cost recognized in the statements of income and other comprehensive income	37	32
Principal actuarial assumptions		
Weighted-average assumptions to determine benefit obligations at 31 December		
Discount rate	0.10	0.80
LPP interest rate	1.00	1.00
Weighted-average assumptions to determine pension expense for the year ended		
Discount rate	0.80	0.50
LPP interest rate	1.00	1.00
Sensitivity analysis		
Discount rate -25 basis points	193	172
Assumption	(0.15)	0.55
Discount rate +25 basis points	183	164
Assumption	0.35	1.05
Mortality assumptions	100 LPP 2015 Generational	100 LPP 2015 Generational
Other required disclosure amounts		
Contributions expected to be paid to the plan during the annual period beginning after the reporting period	14	13
Average duration of the plan liabilities (in years)	10	10

6.5 Other current liabilities

	2019	2018
Accounts payable for operating expenditure	10	12
Provisions and accrued expenses for operating expenditure	43	47
Deferred contribution *(Note 6.6)*	21	8
Total	**74**	**67**

6.6 Deferred contributions

	2019	2018
External co-funding for operating expenditure	8	7
Donor contributions received in advance	13	1
	21	**8**

Section 7: Other disclosures

7.1 Related party transactions

Related parties include the members of the Board, Board committees and close family members of senior management.

An honorarium is paid to the independent members to the standing committees of the Board. Effective 2017, the Chair and the Vice-Chair of the Board are also entitled to receive honoraria as per Board's decision (GF/BR2017/DP05). All other transactions with the Board and its committees are made at terms equivalent to arm's length transactions and within the operational framework of the Secretariat. During 2019, an aggregate of USD 67,000 (2018: USD 113,503) was paid to the eligible Board and Committee members as honoraria for their governance services performed during the course of the year. There was no loan to or from related parties outstanding as at 31 December 2019 (2018: nil).

Compensation of key management personnel: Key management, in common with all personnel employed by the Global Fund, are remunerated according to the Global Fund salary scale. Remuneration consists of salary, allowances and employer contributions towards Provident Fund and health insurance benefits. The remuneration of key management, comprising the Executive Director, members of the Management Executive Committee and the Inspector General, amounted to:

Remuneration category	2019	2018
Short-term benefits including salary and allowances	5.8	5.6
Long-term benefits including contributions to the Provident Fund	0.8	0.7
Total Remuneration	**6.6**	**6.3**

7.2 Taxation

As an international organization with privileges and immunities, the Global Fund has received tax exemptions from Switzerland and the United States.

7.3 Unrestricted and temporarily restricted funds

All contributions received where the application of funds is limited by statutory restrictions, donor-imposed purpose or time restrictions, have been classified as temporarily restricted funds. All other funds are recognized as unrestricted funds.

7.4 Subsequent events

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with most affected countries now under social isolation and lock-down. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

For the reporting date 31 December 2019, the Coronavirus outbreak and the related measures are non-adjusting events. Consequently, there is no impact on recognition and measurement of assets and liabilities. This view is based on a comprehensive assessment of operational matters and economic factors on financial positions.

Glossary

AFC	Audit and Finance Committee
ALM	Asset Liability Management
AUD	Australian Dollar
CAD	Canadian Dollar
CFP	Comprehensive Funding Policy
CHF	Swiss Franc
CRG	Community, Rights & Gender
ECL	Expected Credit Loss
EUR	Euro
FVTPL	Fair value through profit & loss
GBP	Pound Sterling
GHC	Global Health Campus
HEF	Health Emergency Fund
NOK	Norwegian Krone
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
LLIN	Long lasting insecticidal net
PPM	Pooled Procurement Mechanism
PSA	Procurement Service Agent
RoU	Right-of-use
RSSH	Resilient & Sustainable Systems for Health
SEK	Swedish Krona
USD	United States Dollar

Annex 2 – 2019 Statutory Financial Statements

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STATUTORY FINANCIAL STATEMENTS

The Global Fund

2019

Contents

Responsibility for the statutory financial statements

The Secretariat is responsible for the preparation of the statutory financial statements and related information that is presented in this report. The statutory financial statements are prepared in conformity with accounting principles under the applicable accounting and financial reporting provisions of the Swiss Code of Obligations. The statutory financial statements include amounts based on estimates and judgments made by the Secretariat. KPMG SA were appointed as the statutory auditors by the Global Fund Board (the “Board”) upon the recommendation of its Audit and Finance Committee to audit and opine on the statutory financial statements of the Global Fund.

The Secretariat designs and maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organizational structure providing division of responsibilities, careful selection and training of qualified personnel, and a program of external reviews.

The Board, through its Audit and Finance Committee, meets periodically with the Secretariat and KPMG SA to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting.

These statutory financial statements were approved by the Global Fund Board on 08 April 2020.

The Global Fund to Fight AIDS, Tuberculosis and Malaria, Le Grand-Saconnex

Report of the Statutory Auditor

on the Financial Statements

to the Board

Financial Statements 31.12.2019

Independent Auditor's to the Board of

The Global Fund to Fight AIDS, Tuberculosis and Malaria, Le Grand-Saconnex

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Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund"), which comprise the statement of financial position, statement of income, statement of changes in funds and notes for the year ended 31 December 2019.

Board's and Secretariat's Responsibility

The Global Fund Board and the Secretariat are responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Global Fund's Bylaws. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Global Fund Board is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2019 comply with Swiss law and the Global Fund's Bylaws.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

KPMG SA

Pierre-Henri Pingeon
Auditor in Charge
Licensed Audit Expert

Karina Vartanova
Licensed Audit Expert

Geneva, 08 April 2020

Enclosure(s):

- Financial statements (statement of financial position, statement of income, statement of changes in funds, and explanatory notes)

Statement of Income

for the year ended 31 December

In millions of CHF	Notes	2019	2018
Operating activities			
INCOME			
Contributions	4.1	3,790	2,077
EXPENDITURE			
Grants	3.2	(3,057)	(3,910)
Personnel expenses	7.3	(143)	(155)
Other operating expenses	6.1	(127)	(142)
Total		(3,327)	(4,207)
Net operating income/ (loss)		**463**	**(2,130)**
Financing and investing activities			
Net foreign exchange (loss)/ income	5.6	(100)	73
Financial income, net	5.7	144	23
Discounting on long-term financial positions	5.8	76	(34)
Total		120	62
Increase/ (decrease) in funds		**583**	**(2,068)**

Statement of Financial Position

As at 31 December

In millions of CHF	Notes	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	5.1	63	38
Trust Fund	5.2	3,066	3,155
Contributions receivable	4.2	1,032	1,461
Other receivables		45	31
Derivate financial instruments at fair value	5.5	12	27
		4,218	4,712
Non-current assets			
Contributions receivable	4.2	1,652	907
Provident Fund Investments	5.3	165	142
Tangible and intangible assets	6.2	73	86
Other receivables		-	2
Derivative financial instruments at fair value	5.5	-	1
		1,890	1,138
Total Assets		**6,108**	**5,850**

As at 31 December

In millions of CHF	Notes	2019	2018
LIABILITIES			
Current liabilities			
Grants payable	3.3	2,087	2,508
Other liabilities		143	65
Derivative financial instruments at fair value	5.5	72	11
Lease liability	6.2	7	7
Total		2,309	2,591
Non-current liabilities			
Grants payable	3.3	7	18
Employee benefit liabilities	6.3	173	162
Lease liability	6.2	50	56
Unrealized foreign exchange gains		21	-
Total		251	236
Total Liabilities		**2,560**	**2,827**

FUNDS	Notes	2019	2018
Temporarily restricted funds	7.2	11	5
Unrestricted funds	7.2	4,057	3,480
Currency translation adjustment	7.4	(520)	(462)
Total Funds		3,548	3,023
Total Liabilities and Funds		**6,108**	**5,850**

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Chief Financial Officer

Date:08.04.2020

Executive Director

Date: 08.04.2020

Statement of Changes in Funds

for the year ended 31 December
In millions of CHF

	As at 1 January 2019	Increase/ (decrease)	At 31 December 2019
Temporarily restricted funds	5	6	11
Unrestricted funds	3,480	577	4,057
Currency translation adjustment	(462)	(58)	(520)
Total Funds	**3,023**	**525**	**3,548**

	As at 1 January 2018	Increase/ (Decrease)	At 31 December 2018
Temporarily restricted funds	18	(13)	5
Unrestricted funds	5,532	(2,052)	3,480
Currency translation adjustment	(518)	56	(462)
Total Funds	**5,032**	**2,009**	**3,023**

The Global Fund has nominated and maintains a foundation capital of CHF 50,000 by virtue of its initial registration as a non-profit foundation under the laws of Switzerland.

Index to notes to the statutory financial statements

Section 1: Activities and organization

The Global Fund is designed to accelerate the end of AIDS, tuberculosis and malaria as epidemics. Founded in 2002, it is a global partnership between governments, civil society, the private sector and people affected by the diseases. As an international organization, the Global Fund raises and invests USD 4 billion a year to support programs run by local experts in countries and communities most in need.

The Global Fund is an international financing institution recognized as an international organization, initially formed as a Swiss foundation on 22 January 2002. It was created in response to calls from the United Nations Secretary-General and General Assembly (Resolution A/RES-S26/2 adopted on 2 August 2001). Its status has been elaborated through an ongoing process of legal recognition by various national governments and international organizations:

- On 13 December 2004, the Swiss Federal Council accorded the Global Fund international organization status and related privileges and immunities, through the signing of the Headquarters Agreement;
- On 13 January 2006, the United States of America issued Executive Order No. 13395, designating the Global Fund a public international organization in accordance with the United States International Organizations Immunities Act;
- On 16 December 2009, the United Nations General Assembly adopted Resolution A/RES/64/122 granting the Global Fund observer status, as an eligible intergovernmental organization whose activities cover matters of interest to the General Assembly; and
- On 17 December 2014, the European Commission adopted Commission Decision C(2014) 9598, assimilated the Global Fund to the status of an international organization for the purposes of managing European Union funds.

Section 2: Basis of reporting

Basis of preparation

The statutory financial statements have been prepared in conformity with the applicable accounting and financial reporting provisions of the Swiss Code of Obligations and presented in accordance with the Global Fund's Bylaws.

Previous year figures have been reclassified to be in accordance with the current year's presentation.

These statutory financial statements as at and for the year ended 31 December 2019 were approved by the Global Fund Board on 08 April 2020.

Functional and presentation currency

The statutory financial statements are presented in Swiss Francs ("CHF"), by translating the consolidated financial statements, after eliminating the US Fund operations, presented in the Global Fund's functional currency at the foreign exchange rate between USD: CHF prevailing at the end of the year as specified in Note 5.4, except for the funds which are presented at the historical rate. For the differences resulting from this translation ("CTA") refer to note 7.4. Taking the imparity principle into consideration, the unrealized foreign exchange gains are deferred to the balance sheet whereas the unrealized foreign exchange losses are charged to the statement of income.

All financial results and financial positions have been rounded to the nearest million.

Foundation capital

The Global Fund has nominated and maintains a foundation capital of CHF 50,000 by virtue of its initial registration as a non-profit foundation under the laws of Switzerland.

Significant management judgment, estimates and assumptions

Information on significant accounting policies, judgments, estimates and assumptions that are relevant to the understanding of the statutory financial statements are provided through the notes to the financial statements. In particular, the Global Fund has applied judgment in accounting for certain transactions with respect to grants (Section 3) and contributions (Section 4).

The Global Fund is subject to risks and uncertainties that may lead to actual results differing from estimates, both positively and negatively. Specific financial risks for the Global Fund are discussed in Section 4 and Section 5.

Section 3: Grant Activities

Grant making is the core operation of the Global Fund and forms the major source of expenditure and cash outflow. The following sections describe the accounting policy and the annual financial results in in respect of major stages in the grant lifecycle.

3.1 Contingent Liability

The first point of recognition for grants is at the point of the Global Fund Board approval, where the maximum liability of the grant becomes clear and is agreed with the Principal Recipient. A management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

Based on these principles and the substantive ability of the Global Fund to restrict funds there is determined to be no constructive obligation and hence no recognition of the liability in the statement of financial position. However, the Global Fund Board approval does represent a point at which a contingent liability can be reported, as it represents a potential obligation that can be reliably measured and is dependent on future events (the performance of the Principal Recipient and the availability of funding).

Following the Global Fund Board approval, all grants are governed by a written grant agreement that includes substantive conditions based on performance and availability of funding. Accordingly, an obligation only arises once all criteria have been considered and the annual funding decision is made and communicated to the Principal Recipient.

The contingent liability represents the maximum potential liability of the Global Fund for individual grants as approved by the Global Fund Board. During grant implementation, the contingent liability of a grant is reduced by the cumulative amount of grant expenses. Essentially contingent liabilities include the value of Board approvals for grants that are not yet signed and grants that have been signed but have not been subject to annual funding decision.

Contingent liability for grants as at 31 December:

	CHF millions	CHF millions
BY CATEGORY	**2019**	**2018**
Grants approved but not signed	106	268
Grants signed but not committed	2,856	5,648
Total: Contingent liability for grants to Principal Recipients	2,962	5,916
Strategic initiatives	16	31
Total	**2,978**	**5,947**

3.2 Grant expenditure

The recognition of grant liabilities is determined to be the point at which the annual funding decision is made by the Global Fund. The annual funding decision provides the Principal Recipient with a firm disbursement schedule, together with a statement that conditions have been met and that the funding is available. At this point the Global Fund has a constructive obligation to the Principal Recipient to fulfil amounts committed and the full amount of the annual commitment is recognized as a grant payable in the statement of financial position and recorded as expenditure within the statement of income.

During the year of the commitment, funds are disbursed on the basis of the annual funding decision and the level of remaining funds held by the Principal Recipient. As amounts are disbursed there will be a subsequent reduction in the level of grants payable.

Grants under recovery from Principal Recipients are recognized at the point of issuing a formal demand letter to the Principal Recipients for amounts stated in the letters as being owed by the Global Fund. The amounts determined as grants under recovery are recognized through the statement of income. Given the operational nature of these recoveries, these are reported as a reduction of grant expenditure. At each reporting period, each recoverable is reviewed for expected credit loss due to uncertainty in future cash inflows compared with the recovery schedule agreed by the Principal Recipients under the recovery protocol.

The following table summarizes grant expenditure for the years ended 31 December:

	CHF millions **2019**	CHF millions **2018**
BY CATEGORY		
Grants for Principal Recipients	3,017	3,867
Grants under recovery	(19)	-
Strategic Initiatives	59	43
Total: Grants	**3,057**	**3,910**

3.3 Grants Payable

Grants Payable within one year

As at 31 December	**2019**	**2018**
By grant source currency		
USD	1,882	2,183
EUR	244	274
ZAR	25	422
Net grants payable within one year in equivalent CHF	2,082	2,487
Grants under recovery, net	-	16
Strategic initiatives	5	5
Net Grants Payable within one year	**2,087**	**2,508**

Grants Payable after one year

Net grants payable beyond one year in equivalent CHF	7	16
Grants under recovery, net	-	2
Net Grants Payable after one year	**7**	**18**
Total grants payable in equivalent CHF	**2,094**	**2,526**

Section 4: Donor activities

The Global Fund follows a three-year replenishment cycle to secure funding for its grants and administrative operations. At the time of a Replenishment Conference, donors make public announcements of their intended future contributions. These announcements are termed as pledges. Pledges do not trigger an accounting event for the Global Fund as the conversion of pledges into firm contributions will require further substantive actions to be taken.

4.1 Contribution Income

The first point of revenue recognition is the signing of a formal contribution agreement with a donor. All contributions governed by a written contribution agreement that do not have any substantive conditionality bearing on future receipts are recorded as income at the date of signature of the agreement.

A contribution agreement is considered "substantially conditional" when the future encashment of contribution is subject to specified events, performance obligations and actions beyond the control of the Global Fund. Such contributions, or a part thereof, are recognized as income upon receipt of cash or cash equivalents.

The following table summarizes the sources of revenue recognized for the year:

For the years ended 31 December	CHF millions **2019**	CHF millions **2018**
DONOR CONTRIBUTIONS		
By donor category		
Governments	3,555	1,941
Others	235	136
Total	**3,790**	**2,077**

4.2 Contributions receivable

Contributions receivable are agreements signed where income has been recognised but the cash has not been received. Contribution receivables are stated at nominal value net of a provision for uncollectible contributions to cover the risk of non-payment.

Promissory notes and contributions receivable maturing later than one year after the date of the statement of financial position are initially recognised at fair value and subsequently measured at amortized cost using the effective interest method.

The following table summarizes contributions receivable at 31 December:

Contributions Receivable

As at 31 December	CHF millions **2019**	CHF millions **2018**
Receivable in 2019	-	1,461
Receivable in 2020	1,032	367
Receivable in 2021 or after	1,757	726
Gross contributions receivable	2,789	2,554
Discounted	(105)	(186)
Net present value of contributions receivable	**2,684**	**2,368**

The impact towards discounting of long-term contribution receivable is disclosed separately in the statement of income for the reporting period.

4.3 Conditional contribution

For the Fifth Replenishment, the Global Fund had entered into several contribution agreements that were subject to performance obligations to be measured and reported over the period of the agreement. As at 31 December 2019 there are no outstanding contributions receivable with such performance conditions leading to uncertainty towards future encashments (2018: CHF 125 million).

Section 5: Management of funds

The Global Fund is a financing institution and hence the management of its financial assets and liabilities is integral to the successful mission of the organization. In addition to its long-standing relationship with the World Bank, the Global Fund has built relationships with private sector banks to manage its financial assets and provide appropriate liquidity and risk management.

5.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand and in commercial banks as well as funds held in the Trust Fund at the World Bank. The financial statements of the Trust Fund are not consolidated and the funds held in the Trust Fund are classified as cash equivalents in the consolidated financial statements.

As at 31 December	CHF millions **2019**	CHF millions **2018**
Amounts held in commercial banks	63	38

Amounts are held in commercial banks that have a long-term credit rating of *A or higher.*

5.2 Trust Fund

Most financial contributions are received directly and held in a trust fund ("Trust Fund"") which is administered by the World Bank as trustee ("Trustee"). Assets held in trust by the World Bank are held in a pooled cash and investments portfolio, hereinafter called the "Pool", established by the Trustee for all trust funds administered by the World Bank Group.

The cash is invested by the World Bank in accordance with the investment framework of the Global Fund as approved by the Finance and Operational Performance Committee of the Board (GF/FOPC11/DP01). The objectives of the investment portfolio strategy are to maintain adequate liquidity to meet foreseeable cash flow needs, preserve and optimize investment returns. The movement in fair value of funds held in trust is recognized in the Statement of Income.

All disbursements out of the Trust Fund are authorized by the Global Fund. In accordance with the terms of the Trust Fund Agreement, as amended from time to time, between the Global Fund and the World Bank, the Global Fund is the beneficial owner of the funds, assets and receipts that constitute the Trust Fund. The agreement may be terminated at any time by either party on a 90-day written notice with all funds, assets and receipts reverting to the Global Fund upon termination.

The funds held in the Trust Fund qualify as a single asset and as such are presented separately in the statement of financial position but form an integral part of the operational cash management.

The Trust Fund is partitioned into two sub-portfolios: tranches 0 and 5 which have different investment horizons and aim to enhance returns subject to the over-arching goal of capital preservation and liquidity requirements. The tranches have the following characteristics:

- **Tranche 0:** cash portfolios in USD and EUR with an investment horizon of less than three months that aim to ensure timely availability of funds to meet the short-term cash flow needs of the Global Fund, and which comprise short-term bank deposits and highly liquid money-market instruments; and
- **Tranche 5:** longer horizon portfolio in USD that has an investment horizon of up to three years, and which is invested primarily in highly rated government, government agency, corporate and asset-backed securities, including mortgage-backed securities.

Monthly re-balancing of the portfolio leads to the re-allocation of amounts among the different tranches to alter the duration of the overall portfolio in line with the Global Fund's projected grant funding needs. The Trust Fund reports its share in the shared pool of investments as one class of financial assets and can be withdrawn upon demand.

The following table summarises, in reporting currency CHF, the Global Fund Trust Fund allocation across World Bank investment tranches:

	CHF millions	CHF millions
Tranche	**2019**	**2018**
Tranche 0 USD	1,387	448
Tranche 5 USD	1,679	2,649
Tranche 0 EUR	-	58
Total	**3,066**	**3,155**

The Trust Fund includes assets with a stock exchange price or another observable market price in an active market and as such may be valued at that price as of the date of statement of financial position, even if the price exceeds the nominal value or the acquisition value.

5.3 Provident Fund Investments

The Provident Fund is established as a segregated fund within the Global Fund with an autonomous governance structure. The Provident Fund does not have separate legal personality from the Global Fund and is governed by a Management Board comprising Global Fund and employee representatives. The assets of the Global Fund Provident Fund (the "Provident Fund") are invested in accordance with the Investment Strategy approved by the Audit and Finance Committee of the Global Fund Board and the principles and responsibilities established in the Constitutional Declaration and Benefits Rules and under article 6 of the Provident Fund Management Board Charter. The Provident Fund assets are managed by institutional fund managers in diversified global equity, bond and real estate funds. Both funds are regulated, open-ended investment funds.

The Provident Fund investments include assets with a stock exchange price or another observable market price in an active market and as such may be valued at that price as of the date of statement of financial position, even if the price exceeds the nominal value or the acquisition value.

The following table summarizes the nature of Provident Fund Investments:

Nature of investment	CHF millions 2019	CHF millions 2018
Equity	29	30
Fixed income	91	79
Real estate funds	45	33
Total	**165**	**142**

5.4 Foreign Exchange Exposures

In preparing the financial statements, transactions in currencies other than the functional currency are recognized at the rates of exchange prevailing at the dates of the transactions which creates an exposure to foreign exchange risk for these particular assets or liabilities. At the end of each reporting period, monetary items such as contributions receivable in currencies other than USD and grants payable denominated in EUR are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

The exchange rates for foreign currency with significant exposure were as follows:

Key foreign currencies	2019	2018	% Fluctuation
AUD	0.7010	0.7068	-1%
EUR	1.1204	1.1432	-2%
CAD	0.7662	0.7344	4%
CHF	1.0331	1.0149	2%
GBP	1.3109	1.2694	3%

[Source: The Global Fund uses Thompson Reuters FX rates subscription]

5.5 Foreign Exchange Risk Management

The Global Fund has implemented a strategy to mitigate the foreign exchange fluctuation risks as follows:

- Maximize the natural hedge of currency holdings by matching assets and liabilities by currency; and
- Monitor volatility and exposure by currency and engage in active hedging with levels of 50% to 100% through approved financial instruments

A majority of the contribution receipts to the Trust Fund are denominated and predominantly held in USD. However, a portion of funds are held in EUR to maintain a natural hedge for grant and other liabilities denominated in EUR. In addition, cash in EUR and CHF are held at a commercial bank to cover the operating expenses of the following year. Other currency balances are maintained for short time intervals in line with the cash management policy.

During the year the Global Fund used derivative financial instruments, notably forwards and swaps, to manage its exposure to foreign exchange fluctuations for net positions held in non-USD currencies. The forward foreign exchange contracts are used by the Global Fund to mitigate foreign exchange risk and are recognized at fair value with subsequent movements in value reported through the Statement of Income.

BY SETTLEMENT DATE

	CHF millions	CHF millions
As at 31 December	**2019**	**2018**
Assets		
Within 12 months	12	27
Beyond 12 months	-	1
	12	28
Liabilities		
Within 12 months	(145)	(11)
Total	**(133)**	**17**

The following table presents the notional value and the fair value of derivative financial instruments by currency as at 31 December 2019:

Currency	**Notional value in millions**	**Forward contracts at fair value in CHF millions**
AUD	203	(5)
CAD	888	(12)
CHF	(462)	8
DKK	332	(1)
EUR	1,561	(18)
GBP	1,627	(86)
NOK	1,938	(8)
SEK	2,708	(11)
Total		**(133)**

The following table presents the notional value and the fair value of derivative financial instruments by currency as at 31 December 2018:

Currency	**Notional value in millions**	**Forward contracts at fair value in CHF millions**
AUD	109	2
CAD	266	9
CHF	(84)	-
EUR	261	(7)
GBP	552	10
NOK	600	2
SEK	600	1
Total		**17**

5.6 Foreign Exchange Accounting

Realized gains or losses and unrealized losses on exchange differences are reported in the statement of income as follows:

	CHF millions	CHF millions
For the years ended 31 December	**2019**	**2018**
BY NET POSITION		
Net foreign exchange (loss)/ gain on assets	(102)	45
Net foreign exchange gain on liabilities	2	28
Total: Net foreign exchange (loss)/ gain	**(100)**	**73**

5.7 Financial income, net

The investment of financial assets across the Trust Fund and the Provident Fund provides an investment return in line with the risks highlighted previously. The investment returns, net of financial costs, are summarized in the table below:

	CHF millions	CHF millions
	2019	**2018**
Trust Fund gains, net	146	25
Trustee fees	(2)	(2)
Total	**144**	**23**

5.8 Discounting on long-term financial positions

	CHF millions	CHF millions
By financial position	**2019**	**2018**
Contributions receivable	77	(28)
Grants payable	(1)	(6)
Total	**76**	**(34)**

Section 6: Operating activities

6.1 Operating expenses

Operating expenses are costs incurred by the Global Fund Secretariat for maintaining a sustainable administrative structure in order to carry out the core grant financing activities. The Global Fund Board approves an annual budget for operating expenses. All expenses are monitored and reported on a periodic basis to the Board through its Audit and Finance Committee.

The following table summarizes the Secretariat's other operating costs under the main categories of expenditure:

For the years ended 31 December	CHF millions **2019**	CHF millions **2018**
External assurance	46	43
Professional fees	39	35
Others	55	60
Total Secretariat costs	**140**	**138**
Provident Fund valuation	(13)	4
Total	**127**	**142**

6.2 Leases

Tangible and Intangible assets

The Global Fund moved its headquarters to the Global Health Campus in March 2018. The Global Fund is the primary lessee for the right-to use the GHC. Accordingly, the head lease has been fully recognized as a Right-of-Use asset in the Global Fund statement of financial position.

All ancillary costs regarding office maintenance and amenities are regarded as non-lease components and as such are recognized as expense in the period in which these ancillary costs are incurred. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to earlier of the end of the useful life of the right-of-use asset or end of the lease term which is 10 years.

Asset category	**Net assets at 01 Jan 2019**	**Additions**	**Depreciation**	**Net asset value at 31 Dec 2019**
Leased assets				
Head lease: ROU-GHC	66	-	(8)	58
Tangible assets	9	2	(3)	8
Intangible assets	11	-	(4)	7
Total	**86**	**2**	**(15)**	**73**

Asset category	Net assets at 01 Jan 2018	Additions	Depreciation	Net asset value at 31 Dec 2018
Leased assets				
Head lease: ROU-GHC	-	71	(5)	66
Tangible assets	2	9	(2)	9
Intangible assets	10	5	(4)	11
Total	**12**	**85**	**(11)**	**86**

The sub-leases are treated as operating leases. During 2019, CHF 5 million has been recognized as miscellaneous income grouped under operating expenses towards the sub-lease rentals from sub-tenants.

Lease liability

The financial liability represents the Global Fund's liability for future lease payments towards the head lease agreement for the right to use GHC as its office space.

The following table outlines the undiscounted value of the maturity profile of GHC lease recognized as a financial liability of the unpaid portion of lease.

As of 31 December 2019

Maturity period	Financial lease outflows	Sub-lease inflows	Net outflows
Within one year	7	3	4
Within two and five years	28	11	17
After five years	22	8	14
Total	**57**	**22**	**35**

As of 31 December 2018

Maturity period	Financial lease outflows	Sub-lease inflows	Net outflows
Within one year	7	3	4
Within two and five years	28	11	17
After five years	28	11	17
Total	**63**	**25**	**38**

6.3 Employee benefits

The Global Fund maintains a Provident Fund for the purposes of providing retirement, death and disability benefits to its employees and their qualifying dependents and beneficiaries. The Provident Fund is a segregated fund with an autonomous governance structure but does not have separate legal personality. Consequently, the assets in the Provident Fund are disclosed within non-current assets in the statement of financial position.

The assets of the Provident Fund are received, invested and disbursed wholly and exclusively for the purposes of the Provident Fund and in accordance with the investment strategy established by the Provident Fund Management Board with the approval of the Audit and Finance Committee.

	CHF millions	CHF millions
Change in benefit obligation	**2019**	**2018**
Benefit obligation at beginning of year	162	151
Contributions during the year	29	27
Exit benefits paid	(16)	(14)
Premiums and expenses paid	(2)	(2)
Benefit obligation at end of year	**173**	**162**

Section 7: Other disclosures

7.1 Taxation

The Global Fund has received tax exemptions from Switzerland and the US as an international organization with privileges and immunities.

Staff costs includes CHF 18 million towards notional internal taxation for staff personal taxation (2018: CHF 18 million). No Swiss Tax is paid by The Global Fund, nor by the employee on Global Fund employment income.

7.2 Unrestricted and temporarily restricted funds

All contributions received where the use is limited by statutory restrictions, donor-imposed purpose or time restrictions have been classified as temporarily restricted funds. All other funds are recognized as unrestricted funds.

7.3 Full-time equivalent

The average number of full-time equivalent employees for 2019 and 2018 exceeded 250.

7.4 Currency translation adjustment

The currency translation adjustments represent foreign exchange difference resulting from the translation of funds. Such translation differences are not recognized in the statement of income but disclosed separately under funds in the statement of financial position and in the statement of changes in funds.

7.5 Subsequent events

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with most affected countries now under social isolation and lock-down. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

For the reporting date 31 December 2019, the Coronavirus outbreak and the related measures are non-adjusting events. Consequently, there is no impact on recognition and measurement of assets and liabilities. This view is based on a comprehensive assessment of operational matters and economic factors on financial positions.

Annex 3 – Relevant Past Board and Committee Decisions

Relevant past Decision Point	Summary and Impact
GF/B43/DP08: Appointment of the External Auditor (May 2019)[1]	**Based on the recommendation of the Audit and Finance Committee, as set forth in GF/AFC09/DP03, the Board authorized the reappointment of KPMG SA as the Global Fund's independent external auditor for a second term of three years beginning with the 2019 financial year.**
GF/AFC02/DP09: Approval of Advanced Payment Mechanism (June 2016)	**The Audit and Finance Committee approved the amended and restated Policy for Financial Administration, as set forth in Annex 2 to GF/AFC02/04.**
GF/B38/DP05: Integration of Additional Public Donors into the Global Fund Governance Structure and Amendment of the Global Fund Bylaws (November 2017)[2]	**The Board approved the most recent amendments to the Global Fund Bylaws.**
GF/B34/EDP07: Enhanced Governance Structure (January 2016)[3]	**The Board approved the amended and restated Global Fund Bylaws, as set forth in Annex 5 to GF/B34/ER06.**

[1] https://www.theglobalfund.org/board-decisions/b41-dp08/
[2] https://www.theglobalfund.org/board-decisions/b38-dp05/
[3] https://www.theglobalfund.org/board-decisions/b34-edp07/