

2022 Annual Financial Report and External audit results

Electronic Report to the Board

GF/B48/ER12

Board Decision

Purpose of the paper: This report presents an overview of the Global Fund's 2022 Annual Financial Report, including the 2022 Annual Financial Statements, and the 2022 Statutory Financial Statements, for Audit and Finance review and recommendation to the Board for approval. Such financial statements have been audited by KPMG SA. The Audit and Finance Committee recommends such financial statements to the Board for approval and issuance.

Decision

Decision Point: GF/B48/EDP13: 2022 Annual Financial Report

The Board authorizes the issuance of, and therefore approves, the Global Fund's 2022 Annual Financial Report, including the 2022 Annual Financial Statements which have been audited by KPMG SA, as set forth in Annex 1 to GF/B48/ER12.

Decision Point: GF/B48/EDP14: 2022 Statutory Financial Statements

The Board authorizes the issuance of, and therefore approves, the Global Fund's 2022 Statutory Financial Statements, which have been audited by KPMG SA, as set forth in Annex 2 to GF/B48/ER12.

Budgetary implications (included in OPEX budget)

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

Executive Summary

Context

The Secretariat has prepared the 2022 Annual Report, including the 2022 Annual Financial Statements, and the 2022 Statutory Financial Statements which have been subject to an independent external audit by KPMG SA (the External Auditor). Following the external audit KPMG SA has confirmed it is in a position to issue unmodified audit opinions on the two sets of financial statements.

Following the approval by the Board of the Board decision points recommended by the AFC, the Secretariat will:

- publish the 2022 Annual Financial Report, which includes the audited 2022 Annual Financial Statements, on the Global Fund's external website accessible by its stakeholders; and
- file the audited 2022 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.

Input Sought

The Board is requested to approve the decision points presented on page 2:

- Decision Point: GF/B48/EDP13: 2022 Annual Financial Report including the 2022 Annual Financial Statements
- Decision Point: GF/B48/EDP14: 2022 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 21st meeting in March 2023, the AFC deliberated upon the 2022 Annual Financial Report, including the 2022 Annual Financial Statements, and the 2022 Statutory Financial Statements. In accordance with the AFC's advisory authority, Committee members made enquiries of the External Auditor during their executive session, including in relation to their findings on grant assurance and Strategic Initiatives. 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.
3. There was discussion of the data and analytics tool which allowed for more extensive testing and identification of process improvements, items identified and proactively disclosed by the Secretariat to the External Auditor, and procedures to safeguard independence and avoid conflict

of interest during the open session. There was a general consensus that there are no material concerns with the Global Fund financial statements presented to the AFC and the Secretariat's management processes in connection therewith.

4. 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/AFC21/DP02.

Report

External audit for financial year 2022

1. In accordance with the Global Fund Bylaws, approval of the annual financial report and financial statements is a core function of the Global Fund Board.
2. 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.
3. The External Auditor has been reappointed by the Board in May 2022 pursuant to decision point GF/B46/EDP24 in alignment with the Global Fund strategy 2023-2028 (grant cycles GC7 2023-2025 and, subject to an independent performance assessment, GC8 2026-2028).
4. The 2022 External Audit Plan approved by the AFC pursuant to decision point GF/AFC19/02 (July 2022) includes an extension in the scope of work for the External Audit mandate to cover:
 - i. Fiduciary oversight activities – Grant external audit;
 - ii. Grant financial closure of GC5 grants;
 - iii. Strategic Initiatives- SI project deep-dive; and
 - iv. Recoveries management process (follow up of 2021 mandate).
5. The Secretariat is responsible for reporting to the AFC all audit findings in a timely manner, as well as management's response to audit findings including implementations of recommendations.
6. For the 2022 financial year, the Secretariat presents two sets of information for the Board for its issuance and approval in accordance with the AFC's recommendation, as follows:
 - i. The 2022 Annual Financial Report, including the 2022 Annual Financial Statements, which have been audited by the External Auditor; and
 - ii. The 2022 Statutory Financial Statements, which have been audited by the External Auditor.
7. The 2022 Annual Financial Report, comprising the 2022 Annual Financial Statements and its related discussion, analysis and commentary is set forth in Annex 1. The 2022 Statutory Financial Statements, as set forth in Annex 2, is an independent document prepared only for Swiss statutory financial reporting purposes.
8. As such the financial information in the 2022 Statutory Financial Statements is a subset of the annual information reflected in the 2022 Annual Financial Statements, with two main points of differences:

- i. **Basis of reporting:** The Annual 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. **Reporting currency:** The Annual Financial Statements are reported in USD, the functional currency of the Global Fund, while the Statutory Financial Statements are reported in CHF by translating the financial results incorporated in the Annual Financial Statements for the reporting financial year under consideration.
9. Based on its discussions with audit procedures conducted, the External Auditor reported for the year ended 31 December 2022:
- i. no matters regarding fraud or illegal acts;
 - ii. one presentation misstatement, related to reporting contribution revenue net of discounting, resulting in a net neutral impact on financial statements. The impact would have been a compensating reduction of income and long-term discount expense by USD 43 million;
 - iii. one unadjusted cut-off audit misstatement, resulting from non-transmission of a commitment notification letter for grant expenditure by USD 9 million to the PR before 31 December 2022. This, compensated by the uncorrected cut-off adjustment from 2021 for USD 7.9 million, results in a net overstatement of grant expenditure by USD 1.1 million;
 - iv. no management letter points on material weaknesses; and
 - v. the summary of financial audit findings¹ in the following paragraph:
10. Financial audit findings: The following chart summarizes the type of financial audit findings arising in the external audit during the last five years:



The Secretariat continues to report no material weakness (MW) in an operating environment filled with resource constraints and competing priorities emanating from the seventh replenishment, scale-up of GC6 and C19RM implementation, increased grant implementation risk landscape including

¹ The external audit findings are rated according to the following scale:

- **MW-Material Weakness**-A deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the organization's financial reporting will not be prevented, or detected and corrected, on a timely basis.
- **CD-Control Deficiency**-A control weakness exists that requires prompt remediation and potentially could have a significant and material impact on the business and integrity of the financial reporting. A combination of control deficiencies could result in a significant deficiency in internal controls however the impact is less severe than a material weakness, yet important enough to merit the attention of those responsible for oversight of the organization's financial reporting (i.e. those charged with governance).
- **PIO-Performance Improvement Observation**-A minor control gap that exists in the business process. These findings are considered to improve efficiency or performance of internal controls. PIOs are designated as low risk and therefore referred to as performance improvement observations to align with industry best practices.

cybersecurity and IT environment. One control deficiency (CD) related to GC5 grant closures has been identified for which the Secretariat has implemented corrective measures. 4 Performance Improvement Observations (PIO) have been reported, of which 2 relate to grant expenditure reported in the financial statements and the remaining 2 PIOs related to grant external audit. During 2022, the Secretariat closed 10 financial and IT audit findings reported in previous years.

An overview of financial audit findings identified during 2022 is summarized as follows:

2022 findings	Classification
1. Gaps in grant closure monitoring	CD
2. Control performed by Country Teams on Grant external audit reports	PIO
3. External Audit Reviews – Assurance over UNDP grants at PR-level	PIO
4. Wambo expenses decommitment	PIO
5. Grant expenses cut-off	PIO

11. Altogether, the External Auditor confirmed that they are in a position to issue unmodified audit opinions for the 2022 Annual Financial Statements and 2022 Statutory Financial Statements.

12. Given the regulatory nature of the audit for the 2022 Annual Financial Report, including the 2022 Annual Financial Statements, performed by the External Auditor and the unmodified audit results, the executive management believes that standard information is being reported in the 2022 Annual Financial Report and as such it does not bear any compliance or operational risk.

Recommendation

The Audit and Finance Committee recommends the Decision Points presented on page 2 to the Board for approval.

Document Classification: Internal.

Document Circulation: Board Members, Alternate Board Members, Constituency Focal Points and Committee Members.

This document may be shared by the Focal Points within their respective Board constituency. The document must not however be subject to any further circulation or otherwise be made public.

Annexes

The following items can be found in Annex:

- Annex 1: 2022 Annual Financial Report including 2022 Annual Financial Statements
- Annex 2: 2022 Statutory Financial Statements
- Annex 3: Relevant Past Board and Committee Decisions

**Annex 1 – 2022 Annual Financial Report including 2022 Annual
Financial Statements**

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ANNUAL FINANCIAL REPORT

2022

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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MANAGEMENT REPORT

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Year under review

2022 was marked by the Seventh Replenishment, which hailed a record-breaking pledge announcement of US\$15.67 billion. This represents the largest funding amount ever raised by the Global Fund partnership in a replenishment year, an 12% increase compared to the previous replenishment cycle, excluding funds for the COVID-19 Response Mechanism (C19RM). This will contribute towards the ambitions to boost the fight against HIV, TB and malaria, as well as for strengthening systems for health.

For the first 18 months of implementation of the core HIV, TB and malaria grants during the 2020-2022 allocation period, disbursement and expenditure levels demonstrated improved performance compared to the same period in the previous cycle. Financial performance remains on track towards meeting the current cycle's in-country absorption target.

Since 2020, the Global Fund has demonstrated agility in its global, emergency response to COVID-19, while simultaneously mitigating the pandemic's impact on HIV, TB and malaria. Mobilization of C19RM contributions and their subsequent conversion into grant awards has been highly successful. Implementation has encountered several challenges, including lockdown disruptions, supply chain issues and shifting country priorities as the emergency pandemic response gave way to longer-term investment needs. In November 2022, the Global Fund Board extended C19RM until December 2025, providing strategic opportunities to reorient investments towards resilient and sustainable systems for health and pandemic preparedness, focusing on labs, surveillance, oxygen, community health workers and supply chain; which in turn will also improve C19RM absorption.

The Annual Financial Report for 2022 provides an overview of the Global Fund's sound financial results and a review of operations during 2022. As of December 2022, operating assets exceeded operating liabilities by US\$4.6 billion. The year also experienced a high level of grant expenditure of US\$4.6 billion and disbursements of US\$5.3 billion for the core HIV, TB and malaria portfolio and C19RM activities.

Looking ahead, 2023 will be another critical year. Around 70% of HIV, TB and malaria grants will embark on their final year of implementation of Grant Cycle 6. Simultaneously, stakeholders across the partnership will mobilize around planning for the 2023-2025 allocation period.

Within the Secretariat, an ongoing focus on organizational maturity and internal controls continue to be seen through strong financial indicators in Global Fund operations – which support our mission toward ending the three epidemics. In 2022, overall operating expenditures cost US\$327 million. This remains within the three-year Board-approved ceiling for 2020-2022, though it represents the highest operating expenses in the history of the Global Fund. Additionally, we are pleased to report yet another year of clean audit opinion by our external auditor, KPMG SA.

Adda Faye

Chief Financial Officer

Peter Sands

Executive Director

Letter from the Chair and Vice-Chair of the Board

The 2022 Annual Financial Report provides the Global Fund's financial statements, reflecting an effective and judicious use of resources to support hundreds of programs around the world.

In 2022, the Global Fund continued to work to counter the impact of COVID-19 on HIV, tuberculosis (TB) and malaria programs. While there is much work still to be done, key metrics for some diseases in several countries returned to near or above 2019 levels. We collaborated with countries to implement extensive reprogramming and portfolio optimization of COVID-19 Response Mechanism (C19RM) awards. This, coupled with intensive investment in building stronger and more inclusive systems for health, is critical for not only continuing to combat COVID-19 but also for strengthening global capacity to prepare and respond to future pandemics.

2022 was a year of immense challenges. Disease outbreaks, conflicts, climate change, and food and energy price hikes hit poor and marginalized communities hard. The Global Fund partnership ensured funding for essential services remained available during multiple crises, such as those in Ukraine and Pakistan, by reprogramming and releasing emergency funds to a greater extent than ever before.

Amid an immensely challenging geopolitical and macroeconomic context, the Global Fund's Seventh Replenishment secured more money in donor pledges than in any previous Replenishment – US\$15.7 billion. Thanks to this outcome, the Board approved ambitious investments totaling US\$13.7 billion for more than 120 countries over the next grant cycle to support countries to fight HIV, TB and malaria and strengthen their systems for health.

Strong financial operations are essential for progress in achieving the mission of the Global Fund partnership. In 2022, the Board endorsed the rollout of a new monitoring and evaluation framework that will measure the impact of the investments and ensure performance is rigorously tracked and reported throughout the 2023-2028 Strategy period. The Board will continue to rely on the support of all Board Members, the guidance of the Audit and Finance Committee and the valuable input from diverse members of staff in our effort to see that we manage the investments and the risks involved in the best possible manner.

We thank Peter Sands, the Global Fund's Executive Director, Adda Faye, Chief Financial Officer, the management, and the whole Secretariat team for their hard work in achieving a remarkable Seventh Replenishment outcome in challenging circumstances, and for their excellent financial stewardship throughout 2022. This financial report shows the collective success of our partnership in making sure that we maximize the impact of every resource available.

As the outgoing Chair and Vice Chair of the Board, we thank every individual in this partnership for the immense support you have given us as we led the organization in navigating increasing challenges, including the COVID-19 pandemic, compounding crises and a tough global economic environment. Together, we have steadied the ship and continued our trajectory of fighting HIV, TB and malaria even as we play our part in preparing the world for

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the next pandemic. By continuing to work together, we will defeat these diseases and deliver on the promise of a healthier, safer and equitable future for all.

Sincerely,

Dr. Donald Kaberuka
Chair of the Board

Lady Roslyn Morauta
Vice-Chair of the Board

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Overview: Financial Results¹, (in millions of USD including C19RM related activities)

Key Financial Results	Ref See below	Management reporting (unaudited)	Annual Financial Report	Variance	Explanation		
Contribution receipts <i>Slide 28</i>	1	18,170	18,370	(200)	11m contribution received in advance for 6 th Replenishment in Dec-19 + (211) FX		
Grant disbursements <i>Slide 21</i>	2	14,442	14,456	(14)	Realized FX loss		
Operating expenses <i>Slide 21</i>	3	992	1,017	(25)	Realized FX loss		
Strategic Initiatives <i>Slide 21</i>	4	242	243	(1)	Realized FX loss		
Financial income <i>Slide 21</i>	5	114	114	-	n.a.		
Foreign exchange, net <i>Slide 25</i>	6	26	26	-	n.a.		
Closing Cash Balance <i>Slide 44</i>	7	5,867	5,878	(11)	AFR includes Provident Fund cash which is not included in Global Fund ALM		
Statement of activity (in millions of USD)			Ref	2022	2021	2020	Total
Contributions				6,970	3,928	6,754	17,652
Grant expenditure, including grants under recovery				(4,578)	(6,737)	(4,078)	(15,393)
Strategic Initiatives	4			(106)	(51)	(86)	(243)
Operating expenses	3			(374)	(336)	(307)	(1,017)
Provident Fund valuation as per Note 6.1				(25)	11	5	N.A
Foreign exchange result, net				(298)	27	144	(127)
Financial income, net	5			(73)	74	113	114
Discounting of long-term positions				(126)	(28)	74	(80)
Loss on actuarial valuation of defined benefit obligation towards employee benefits				29	(2)	(11)	N.A
Total comprehensive income for the year				1,420	(3,114)	2,607	N.A
Statement of financial position (in millions of USD)							
Cash and cash equivalent, including Trust Fund assets	7			5,878	4,398	4,244	N.A
Contributions receivable				2,004	2,429	4,384	N.A
Other assets				386	391	336	N.A
Grants payable				3,043	3,655	2,054	N.A
Other liabilities				617	375	609	N.A
Funds				4,608	3,188	6,302	N.A
Statement of cash flows (in millions of USD)							
Cash receipts from donors	1			7,142	5,754	5,474	18,370
Grants disbursed				(5,279)	(5,150)	(4,264)	(14,693)
Grants disbursed to Principal Recipients & 3 rd parties (incl in line above)	2			(5,177)	(5,078)	(4,201)	(14,456)
Cash paid for other operating activities				(350)	(297)	(286)	(933)
Cash on settlement of derivative financial instruments				71	(193)	(8)	(130)
Cash (used in)/ from investing activities				(1,663)	63	(927)	N.A
Cash paid for lease liability				(7)	(8)	(7)	(22)
(Decrease)/ increase in operational cash position including cash at commercial banks and Trust Fund				(86)	168	(18)	N.A
FX gain/ (loss) on cash				3	(3)	7	N.A
Other key information							
Grant contingent liability (in millions of USD)				5,093	9,044	9,182	N.A
Net ALM FX results (in millions of USD)	6			(19)	14	31	26
Number of active grants				306	413	328	N.A
Number of employees				1,075	982	866	N.A

¹ All amounts are rounded to the nearest millions. Some numbers presented may not add up precisely due to rounding.

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ORGANIZATIONAL BACKGROUND

1. VISION, MISSION AND STRATEGY

The Global Fund is a 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 its key performance indicators (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.

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3. CORE STRUCTURES

The Global Fund operates within the following core structures:

- i. **The Board and its standing committees** – The Board is responsible for strategy, institutional governance and approving 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, communities living and affected by the three diseases, as well as international organizations which are Global Fund partners.

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.

- ii. **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/B46/DP06 on 10 November 2021 and effective as of 31 December 2021). 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.
- iii. **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:

- i. 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.
- ii. 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.

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- iii. 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. 2022 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 Seventh Replenishment, hosted by President Joe Biden of the United States, took place on 21 September 2022 in New York in the margins of the Seventy-Seventh Session of the United Nations General Assembly.

Outcome of the Seventh Replenishment Pledging Conference

In an unprecedented demonstration of global solidarity and commitment to health and ending the three deadliest infectious disease threats, donors pledged a record-breaking USD14.3 Bn at the Global Fund’s Seventh Replenishment Pledging Conference. Thanks in large part to the United States’ convening power and despite the last-minute change in the event’s date, an unprecedented 18 heads of state and government, twenty-two Ministers from donor and implementing countries, 32 senior representatives of private sector partners, several heads of multilateral partner organizations, and representatives of civil society and communities living with or affected by the diseases attended the Conference.

Several of the Global Fund’s donors that were not able to announce their pledge in New York have since made their Seventh Replenishment commitments and, as of 31 December 2022, donor pledges for the Seventh Replenishment period (2023-2025) reached a total of USD 15.7 Bn, an increase of 12 percent compared to the Sixth Replenishment². 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 to save 20 million lives, avert 450 million new infections, and bring new hope for ending AIDS, TB and malaria. This investment will also strengthen health and community systems to leave no one behind and be resilient to future shocks. TB and malaria. This investment will also strengthen health and community systems to leave no one behind and be resilient to future shocks.

A total of 50 public donors, of which 9 are new or returning, and 27 private sector/non-governmental donors, of which 16 are new or returning, pledged to the Global Fund for the Seventh Replenishment. Members of the G7 and the European Union continue to increase their support and account for 82.5 percent of the total amount mobilized. In addition to committing increased domestic investments in health, 18 implementing countries from the African continent pledged a total of USD 62.4 million, a welcome expression of global solidarity. With increased commitments from long-standing private sector donors such as the Bill and Melinda Gates Foundation, (RED), the Children’s Investment Fund Foundation (CIFF), and contributions from new donors, the private sector pledged a total of USD 1.247 billion, an increase of 10 percent compared to the Sixth Replenishment.

By 31 December 2022, conversion of pledges was already under way with 12 pledges signed into contribution agreements (6 public sector and 6 private sector) with almost USD 500 million received in cash.

² Excluding pledges made to C19RM counted under the Sixth Replenishment

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Ongoing resource mobilization efforts

In New York, President Joe Biden called on donors and partners not to leave money on the table and reminded them that the United States' commitment of up to USD 6 billion over 2023 to 2025 requires a 1-to-2 match by other donors to be fully unlocked. The Global Fund will continue to mobilize funds throughout the Seventh Replenishment period, including to further leverage the United States' matching pledge. These efforts focus on donors that did not pledge for the 2020-2022 period, pledged annually or only for part of the cycle; monitoring of budgetary processes to identify other opportunities; and continued efforts to mobilize private sector contributions.

Converting Sixth Replenishment Pledges into contributions³

The conversion of the Sixth Replenishment pledges into contributions has progressed well with 92% of adjusted pledges received in cash (2% higher compared to the same period of the Fifth Replenishment). Conversion of outstanding pledges remains a focus for the Sixth Replenishment cycle (2020-2022), which is being actively pursued. The Global Fund has signed agreements with 90% (52 of 58) of public donors as of 31 December 2022. For the most part, public donors signed agreements with multi-year payment schedules (40 of 52). Signed contribution agreements remain in place for 91% of the value of private sector pledges. Contributions of USD 15 billion from public donors and USD 16 billion overall have been secured in cash, with expectation to fully convert remaining forecasted pledges.

Resource mobilization efforts under C19RM

The Global Fund's resource mobilization efforts for the COVID-19 Response Mechanism (C19RM) concluded on 30 September 2022. Since the beginning of the response in 2020, more than USD 4.2 billion has been raised for investment to support countries in combating COVID-19 and mitigating its impact on the three diseases. This was possible due to extraordinary support from donors such as Canada, Germany, the European Commission, Luxembourg, the Netherlands, New Zealand, Norway, Switzerland, the United Kingdom and the United States. As at 31 December 2022, all donors have signed agreements and contributions of USD 4.1 billion (98%) are already secured in cash. To enable maximization of impact from investments in resilient and sustainable systems for health, the Global Fund Board approved that any C19RM funds may be implemented through 31 December 2025 and will finance interventions across the Sixth and Seventh Replenishment periods.

The effective management of donor and stakeholder relationships continues to be prioritized, closely monitoring the changes in the donor landscape and risks related to future funding.

2. THE GRANT FUNDING CYCLE

The Global Fund allocates funding to countries to support HIV, TB and malaria programs and to build resilient and sustainable systems for health. These allocations are made every three years at the beginning of a new allocation period. Each allocation cycle is aligned with its respective replenishment period. Allocations to individual countries are calculated using a formula that is predominantly based on each country's disease burden and economic capacity. Initial allocations are then refined to take into account important contextual factors through a transparent and accountable qualitative adjustment process, after which final allocation amounts are communicated to countries.

The following sections provide an update on each active grant cycle at allocation rates:

³ Encashments for C19RM are included in figures reported for the Sixth Replenishment

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Grant cycle GC5: 2017-2019

Based on the most recent validated expenditure reports until 30 June 2022, in-country expenditure for all grants of the 2017-2019 cycle of USD 10.9 billion was incurred by the Principal Recipients (“PR”) against a cumulative grant budget of USD 12.1 billion. This reflects an in-country absorption ratio of 89% under the 2017-2019 allocation period.

Through portfolio optimization and the COVID-19 Response Mechanism 2020 (“C19RM2020”), reprogramming an acceleration in the implementation of programmatic activities has been achieved. The organizational target for in-country absorption under the 2017-2019 allocation period of 85% within +/- 4-5% volatility (depending on COVID-19’s impact on program implementation compared to the strategic KPI of 75%) has been met.

Of the grants due for financial closure, 89% have been validated with USD 377 million in closing cash balance. The estimated closing cash balance for the Fifth Replenishment is USD 450 million with remaining grants in closure process. This may include potential recoverable amounts.

Grant cycle GC6: 2020-2022

The Global Fund has allocated a total of USD 12.71 billion to fund country allocations for the 2020-2022 allocation period. Of these funds, the Global Fund had approved a cumulative amount of USD 12.64 billion at 31 December 2022. This represents 99% of allocation already approved with the Secretariat having accelerated its grant-making efforts in 2021 and 2022.

Based on the most recent validated expenditure reports until 30 June 2022, in-country expenditure as incurred by the PRs for all grants for the 2020-2022 cycle totalled of USD 4.0 billion against a cumulative grant budget of USD 6.0 billion. This reflects an in-country absorption ratio of 67% under the 2020-2022 allocation period, after 18 months of implementation. This is USD 762 million, 8% higher expenditure than the 59% absorption rate after 18 months of implementation during the 2017-2019 cycle. The improved absorption levels can be explained by the decision to allocate additional amount of forecasted underutilized funds (an “over-allocation” of USD 600 million) and an early portfolio optimization process (USD 250 million).

Impact of COVID-19 pandemic

C19RM2020 – Funding Approved of USD 991 million (including grant flexibilities of USD 232 million)

In 2020, the Global Fund established the C19RM, to combat the pandemic and its devastating impact on the Global Fund programs to fight HIV, TB and malaria around the world. The amount of funding approved under the C19RM2020 mechanism, as at 31 December 2022, was USD 991 million, including USD 232 million of approved grant flexibilities.

All C19RM2020 approved funding was integrated into existing grants to leverage implementation, assurance and reporting mechanisms of these grants. Once approved, the funds are fungible and as such cannot be differentiated into the underlying source of funding (i.e., regular grants, grant flexibilities or C19RM funding). A separate cost module was created in the grant expenditure reports which are submitted by the Principal Recipients. Accordingly, it is not possible for the Secretariat to differentiate grant commitments and disbursements made for COVID-19 activities under the C19RM2020 funding from regular grant funding.

C19RM2021 – Funding Approved of USD 3.9 billion

As the pandemic continued to unfold in severity and impact in 2021, the Global Fund extended the C19RM funding mechanism to establish the C19RM 2021 mechanism, raising over USD 4.2 billion. At 31 December 2022, the Investment Committee had approved USD 3.9 billion in new awards of

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C19RM2021 funding for over 100 countries, with eligibility for C19RM investments evaluated on the basis of the following objectives:

1. Actions to reinforce the response to COVID-19.
2. COVID-19 related adaptation of programs to fight HIV, TB and malaria.
3. Strengthening health and community systems.

The three areas also incorporate cross-cutting activities that bolster community responses to COVID-19.

C19RM is the primary channel for providing grant support to low- and middle-income countries for COVID-19 tests, treatments (including medical oxygen), personal protective equipment (PPE) and critical elements of health system strengthening – everything except vaccines. Implementation partners are leveraging the Global Fund’s extensive health and community networks and well-established health procurement and distribution systems to distribute new COVID-19 tools, medical supplies, and training at scale in more than 100 countries.

Based on the most recent validated expenditure reports until 30 June 2022, in-country expenditure for C19RM 2021 grants of USD 0.6 billion was incurred against a cumulative grant budget of USD 2.1 billion. This reflects an in-country absorption of 28%. The absorption of the C19RM funding is expected to accelerate now that the implementation period has been extended until 31 December 2025, and taking into consideration the additional C19RM awards made during 2022, as well as C19RM portfolio optimization process. Tactical reorientation of C19RM investments, reprogramming and budget rephasing are under consideration in 2023 with the objective of reducing the gap between forecast ambition and in-country execution. This will contribute towards accelerating scale-up of implementation until the end of the implementation period that has been extended by two years.

3. OPERATIONAL INSIGHTS ON GRANTS

As part of the annual audit, the external auditor examines 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.

For 2022, because of developments in the risk landscape at the country level, the Global Fund’s external auditors selected two countries for enhanced review: the Federal Republic of Nigeria and the Islamic Republic of Afghanistan. The external auditor did not identify any significant deficiencies in the control systems operating in the selected portfolios. The following is a brief overview of these two portfolios.

The Federal Republic of Nigeria

Background

Total Global Fund investment in Nigeria since the creation of the Global Fund totals USD 3.8 billion to support HIV, TB, malaria, resilient and sustainable systems for health and Covid-19 response interventions.

In the current three-year cycle (2021-2023), the Global Fund has allocated approximately USD 1.2 billion (including USD 267 million for C19RM) - the most significant investment in a single country by the Global Fund to date. This reflects the importance of our partnership with Nigeria.

HIV program: With an estimated 1.9 million people living with HIV, Nigeria has the second largest HIV burden in sub-Saharan Africa (following South Africa). With the collaborative effort in Nigeria under the government’s leadership, significant progress has been made in terms of the impact, outcome and coverage levels in the last 10 years. New HIV infections have declined by 39% since 2010, and AIDS-

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related deaths have declined by 62%. Antiretroviral treatment (ART) coverage scaled up from 20% in 2010 to over 90% in 2022.

TB Program: Nigeria, with an estimated incidence of 467,000 TB cases in 2021, is the country with the highest TB burden in Africa. Nigeria is also one of the high-burden countries for TB, MDR/RR-TB and TB/HIV. TB treatment coverage has been consistent (about 25% or less) for the last ten years prior to 2019. With strategic shifts in implementation and approach, as described below, TB treatment coverage has massively increased in the last two to three years.

Malaria Program: Nigeria accounts for about a quarter (27%) of malaria cases and close to a third (31%) of malaria deaths globally (World Malaria Report, 2022). There is evidence that investments over the last year are demonstrating results. For example, malaria prevalence fell from 42% in 2010 to 22% in 2021 and ownership of insecticide treated nets (ITNs) increased from 42% in 2010 to 56% in 2021. Usage of ITNs also improved during this period (2010 to 2021), from 29% to 41% for children and from 34% to 50% for pregnant women (MIS 2021).

Achievements in 2022:

HIV successes:

The differentiated service delivery model scaled up and ART coverage reached over 90% nationally. All partners are prioritizing efforts for the prevention of mother-to-child transmission (PMTCT), and the government taking greater leadership in this area. In this regard, the National HIV Program conducted a PMTCT mapping nationally and developed a plan to scale up service delivery through a hub-and-spoke model.

By aligning the efforts of the Government of Nigeria with the programs funded by the Global Fund and programs supported by the President's Emergency Plan for AIDS Relief (PEPFAR), there has been significant scale up of services across the country, particularly for adult ART service. A second wave (Alignment 2.0) has been initiated to build on the success of the initial project (Alignment 1.0).

TB successes:

Among other factors, the massive scale-up of TB service delivery points (from about 7,400 in 2017 to over 20,000 sites currently), intensified TB case finding in health facilities through systematic and routine screening of outpatients and attendees, and more engagement of the private sector contributed to TB treatment coverage scale-up in Nigeria.

Other achievements included a steady increase in case notification in the country (13% in 2019, 15% in 2020 and 50% in 2021, with another 26% increase expected in 2022). There has been a high treatment success rate both on DS-TB and MDR/RR-TB. Nigeria has also achieved a diversification from GeneXpert to other molecular tests such as TB lamp, Truenat (reducing downtime issue with GeneXpert).

Malaria successes:

In 2022 specifically, critical programmatic successes have been recorded. This includes the largest distribution of long-lasting insecticidal nets ever conducted by a Global Fund-supported program – 32 million nets.

More than 13 million children reached with seasonal malaria chemoprevention (SMC) during the high-transmission season in 2022. And nationally, in 2022 all suspected malaria cases were tested (based on January-June 2022 results).

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Challenges during 2022

HIV:

While ART coverage among adults has been scaled up nationally, significant service coverage gaps persist in PMTCT and pediatric ART coverage. In this regard, ARV coverage among HIV positive pregnant women has been consistently low (less than 40%), early infant diagnosis is less than 20% and pediatric ART coverage is only about 31%. The PMTCT scale-up plan was initiated in 2022, and the Alignment 2.0 work has prioritized these areas and is expected to improve the situation.

TB:

MDR/RR-TB case notification and treatment are far below the overall need (15,000 estimated cases annually). There is also low service coverage on childhood TB.

Malaria:

Routinely keeping very low quantities of LLINs in stock, resulting in low "keep-up" strategy and stock-outs in SPs because of delays in compliance with commitments around counterpart funding.

Another challenge is that there are states within Nigeria that receive no support from other international partners support, leading to low service coverage and potentially increasing malaria prevalence in those states. This issue is currently being addressed with the commencement of the IMPACT project by the World Bank in conjunction with the Islamic Bank.

Impact on COVID-19 emergency response:

Since the start of the pandemic, Nigeria has cumulatively reported about 266,500 Covid-19 cases and 3,155 covid-related deaths. Four pandemic waves have been recorded in the country (around June-July 2020, Dec.2020- Feb.2021, Aug-Sept 2021 and Dec.2021-Jan.2022).

These have directly or indirectly affected access to and delivery of health services – linked to lockdowns, fear of accessing health facilities or provide services, limited vaccine coverage, and limited IPC coverage. During the Covid-19 period, programs attempted service adaptations – such as multi-month dispensing of ART for stable clients, expanding community-level re-fill centres, and expansion of TB/Covid-19 bi-directional testing. The program adaptations demonstrated results – including ART and TB cases notification scale-up during the covid-19 period.

Preparedness of the country for the upcoming new grant cycle:

Despite the challenges discussed above, the Global Fund Secretariat and grant implementers were able to ensure smooth program implementation and funding and support to the people most in need. All disease components are on track for their scheduled funding request and all GC7-related processes.

The Islamic Republic of Afghanistan

Background

The Global Fund has been one of the key partners of the Afghanistan Ministry of Health since 2004. Since the creation of the Global Fund, Afghanistan has been allocated USD 334 million in total, of which USD 274 million has been disbursed until December 2022.

The increase in the overall international financial and technical support for public health services in Afghanistan since 2001 has led to tremendous progress in some relevant major health indicators, including an increase in overall life expectancy of eight years. Other indicators which have improved include a 70% coverage rate for the diphtheria, tetanus toxoid and pertussis (DTP3) vaccine, up from 24%; and coverage rate for the MCV vaccine increasing from 2% to 43%. Infant mortality has been

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reduced by 48%; the under five by 53%; and maternal mortality by 60% (from 1,450 to 638 per 100,000 live births).

The main achievements of Global Fund supported programs were as follows:

HIV:

There has been a significant increase in the number of services for key populations, particularly for people who use drugs - including opioid substitution treatment and harm reduction services. In addition, the national HIV program has been able to keep prevalence low among the general population.

TB:

Notifications for TB increased from 34 to 118 between 2000 and 2020 (per 100,000), while mortality decreased from 72 to 26 (per 100,000).

Malaria:

In Afghanistan, almost 100% of cases in 2019-2020 were parasitologically confirmed and zero malaria deaths were reported in this period (as compared to an average of 32 deaths per year between 2010-2017). As of 2020, an estimated of 169,000 lives were saved in Afghanistan, thanks to programs supported by the Global Fund.

Challenges faced during 2022:

Afghanistan faced some serious challenges in 2022, a result of the collapse of the elected government in August 2021. Serious concerns were raised about the adverse effects on, and risks to, the entire health system in Afghanistan. The sudden political changes have also impacted grant implementation: HIV programs have been the most affected. Most outreach and peer education work targeting men who have sex with men, female sex workers and people who inject drugs have stopped. TB, malaria and COVID-19 activities are relatively less affected but are still facing the same challenges that all service providers are now facing, such as cash scarcity due to sanctions affecting the banking system in the country, reduced availability of primary and secondary level health care services, scarcity of skilled workforce, and supply chain bottlenecks due to the closed borders and limited air travel.

Achievements in 2022:

Despite all challenges on the ground, the Global Fund reacted swiftly to ensure that the funding and programs continued their operations to support the people most in need. All grants were consolidated into one grant under the management of the United Nations Development Program (UNDP), to ensure that the PR would have sufficient flexibility to be able to continually adapt program implementation as the situation changes. In addition, the Global Fund's Additional Safeguards Policy was invoked, to ensure accountability and enable the management of known and unforeseen risks going forward. As a result of these actions, Global Fund grant programs continue to provide services to the people in need and have reached:

HIV:

The HIV program continues to be the most affected, and coverage indicators are below 60% (range 45% - 56%). As of mid-August 2021, the HIV prevention programs for men with high-risk behaviors and women with high-risk behaviors have been suspended.

The current political situation is impacting the performance of the HIV prevention and testing programs for people who inject drugs and for prisoners as well. The number of people who inject drugs who are reached with HIV prevention programs (n=5,373) is only 50% of the target. Compared with the previous period, performance decreased by 23% while compared with the same period in 2021, the decrease is 13%. The main reasons for this are, first, the forceful detention of people who inject drugs in

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detoxification centers, making them inaccessible to outreach workers; and, second, the suspension of services in co-financed drop-in centers.

TB:

In the first half of 2022, 27,349 cases of TB were detected and put on treatment, an increase of 13% compared to the previous period. TB preventive treatment coverage increased by 15% as compared to the same period in 2021, thus showing signs of continuous recovery from the COVID-19 related disruptions.

Malaria:

Despite the challenges noted above, the performance of the malaria program and indicators for the reporting period were excellent. The performance was above 100% for all coverage indicators. The program's performance is reflected by a reduced disease burden: in the last four years, the number of estimated cases of malaria declined by 76% from the 798,871 cases in 2018 to 193,232 cases in 2021. Consequently, the number of reported cases declined by 72% (in 2018 total number of reported malaria cases was 299,863 compared to 82,851 in 2021), with almost 100% of reported cases of malaria being confirmed through testing.

Impact on COVID-19 emergency response:

The Global Fund continued to support the country in addressing the COVID-19 pandemic by allocating USD 15.5 million for the period of October 2021 to December 2023. The focus of these activities includes a number of services, such as provision of COVID diagnostics and testing, case management and clinical operations, as well as lab systems strengthening, with the biggest investment being in oxygen plants.

Preparedness of the country for the upcoming new grant cycle:

The Global Fund has allocated an amount of approximately USD 65.5 million to Afghanistan for AIDS, TB, malaria and building resilient and sustainable systems for health for the 2023-2025 allocation period. Due to the significant funding gap, strategic prioritization of Global Fund grants and maximization of the impact will be critical. Key areas of focus include an increase in case-finding and early treatment for TB patients, aim for universal coverage for ITN distribution, full integration of HIV service delivery and exploring innovative options for the provision of services to key populations, as well as investments in data systems, supply chain management and laboratories. Despite the challenges and issues of on-the-ground access, the country dialogue with the relevant stakeholders in country as well as with partners is taking place either virtually or physically, in locations outside of Afghanistan. A combined funding request is expected for submission in the first half of 2023.

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II. 2022 FINANCIAL PERFORMANCE⁴

The Secretariat dynamically manages its financial position under its Asset Liability Management (“ALM”) framework, to ensure timely decision making. The overall financial position of the Global Fund ALM is constituted of the following core components:

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

Key financial highlights for grant activities during 2022 are outlined below:

- Grant expenditure: When measured at the respective allocation rates, 2022 grant expenses, including C19RM, of USD 4,631million (2021: USD 6,666 million) are 31% lower than the grant expenses incurred during 2021. The 2022 annual grant expense include USD 4,688 million for grants under 2020-2022 allocation cycle, reduced by USD 57 million of decommitment for grants under previous cycles. 2022 is the second year of GC6 implementation period. When compared with the grant expenditure incurred during 2019, the second year of GC5 implementation period, the 2022 grant expenditure shows an increase of 40 percent (which includes C19RM).
- Grant disbursements: when measured at the respective allocation rates, grant disbursements during 2022 amounted to USD 5,213 million, of which USD 4,052 million was towards HIV, TB and malaria and USD 1,162 million was towards C19RM.

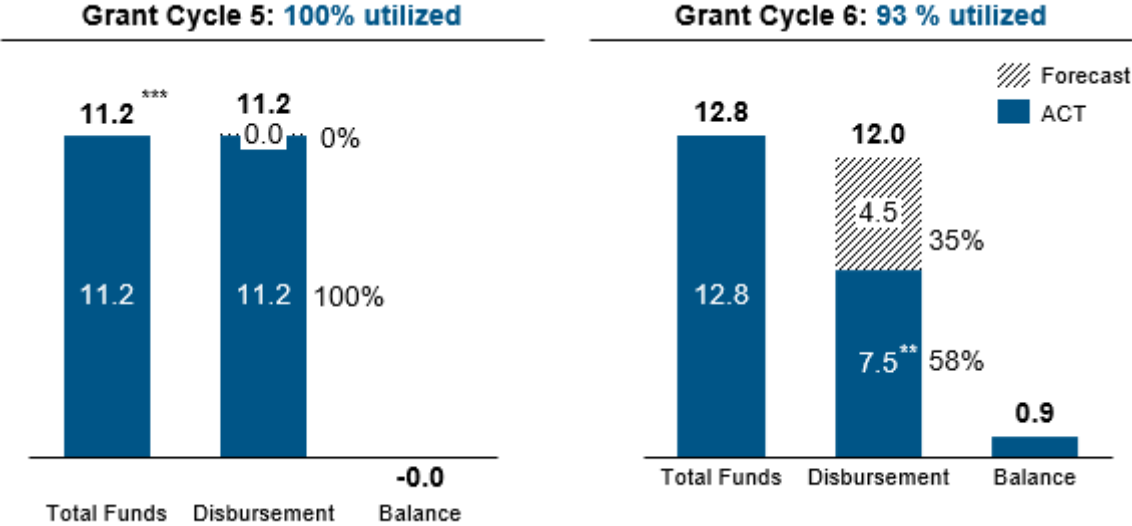
⁴ All amounts are rounded to the nearest millions. Some numbers presented may not add up precisely due to rounding.

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The following chart provides the status of uses of funds as of 31 December 2022.
 Amounts in million USD, unless otherwise stipulated:

Figure 1: Uses of funds as of 31 December 2022



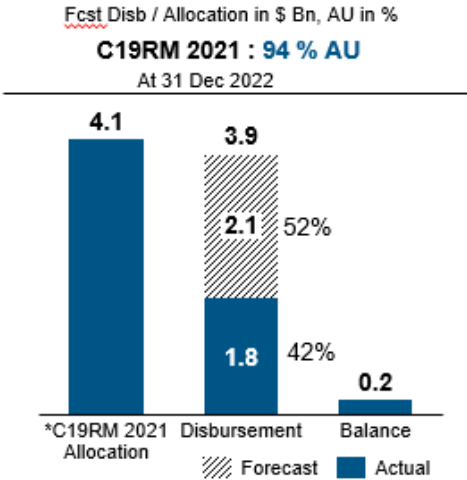
** Includes extensions reclassification from 5th to 6th Replenishment
 *** Includes C19RM2020 roll-over to C19RM2021

Strong Allocation Utilization for both GC 5 and GC6:

- GC5 ends with a strong Allocation Utilization at 100% with USD 11.2 billion already disbursed, with the grant closure process in progress.
- High Allocation Utilization of 93% for GC6 with USD 7.5 billion disbursed after 2 years of implementation (as at 31 December 2022) representing 58% of the allocation, versus 53% for GC5 after two years of implementation.

C19RM 2021 Allocation Utilization of 98% including actual disbursement of USD 1.8 billion as at 31 December 2022 and forecasted disbursement of USD 2.1 billion for the next three years until 31 December 2025. The extension of the implementation period until 31 December 2025 will provide space to meet the forecasted disbursement level over the three remaining years.

Figure 2: C19RM 2021 Allocation Utilization



*Includes C19RM2020 estimated roll over for USD 204M.

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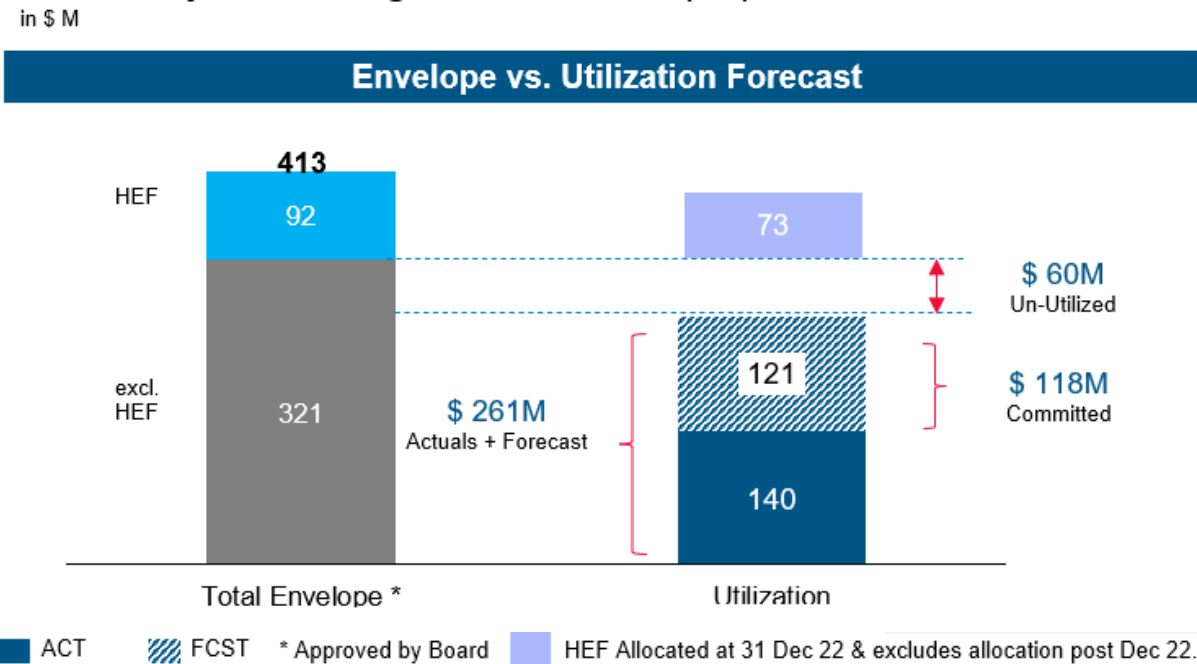
1.2 Strategic Initiatives

The cumulative fund utilization for Strategic Initiatives⁵ (“SI”) at 31 December 2022 for the 2020-2022 allocation period reached USD 140 million, of which USD 95 million was utilized in 2022. The increase in SI disbursements during 2022 was driven by an increase in project implementation following the operationalization of partnership agreements with technical partners and workforce onboarding.

The total envelope available for the 2020-2022 SI cycle has been reduced reflecting the GAC's decision on 16 September 2022, within its delegated authority, to reallocate USD 1,970 million from the IEP/TERG SI to the Emergency Fund. Therefore, the total available envelope for the SI cycle 2020-2022 amounts to USD 321 million of which USD 320 million, 99% has been approved by GAC. This excludes the Emergency Fund which is eventually integrated with the underlying grants.

The following figure provides an overview on the status of Strategic Initiatives at 31 December 2022 based on latest forecast assumptions.

Figure 3: Strategic Initiatives Utilization
Amounts in millions of USD at allocation rate



The SI cumulative fund utilization at 31 December 2022 for the 2017-19 allocation period (previous cycle) reached USD 209 million, or 99%. This excludes the Emergency Fund, which is integrated with the underlying grants, but includes the joint initiative with UNITAID on funding new generation LLINs that has an implementation end date of December 2023.

1.3 Operating Costs of the Global Fund

The Global Fund has continued to proactively monitor its operating expenses while enabling the implementation of its priority projects in support of its 2017-2022 Strategy.

⁵ Strategic initiatives of 2020-2022 cycle excluding, private sector SI, CMLI and previous cycle.

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Performance against the budget

The total operating expenditure for 2022 at spot rate amounts to USD 374 million (2021- 336 million), of which USD 331 million is for opex (2021: USD 316 million) and USD 43 million (2021: USD 15 million) is towards C19RM incremental management and operating costs. This is the highest level of spend in the history of the Global Fund.

When measured at the 2022 budget rate, this results in USD 327 million of operating expenses (2021: USD 304 million) thereby yielding a foreign exchange loss of USD 3 million (2021: USD 12 million), which is integrated into the ALM. The following table provides an overview of 2022 operating expenses against the approved budget:

Figure 4: 2022 Actuals by nature of cost

in US\$ M	YTD	YTD December	Var. YTD Actuals vs	
	December	Revised	Budget	
	Actuals	Budget	abs	%
LFA Fees	44.8	48.7	(3.9)	(8.0%)
CCM Funding	7.6	9.8	(2.2)	(22.8%)
Costs Secretariat and OIG	262.9	260.7	2.2	0.8%
Workforce	176.6	179.5	(2.9)	(1.6%)
Staff	165.1	171.5	(6.4)	(3.7%)
Individual / Temp Consultants	11.5	8.0	3.5	43.8%
Professional fees	37.8	35.0	2.8	7.9%
Travel	10.9	11.1	(0.1)	(1.0%)
Meetings	5.0	3.2	1.7	53.1%
Communications	1.8	1.5	0.3	22.0%
Office Infrastructure	25.0	23.2	1.7	7.4%
Board Constituency	1.1	1.6	(0.5)	(33.9%)
Depreciation	4.9	5.6	(0.7)	(12.5%)
External Co-Funding	(0.1)	0.0	(0.1)	
Opex before non-recurring costs	315.3	319.2	(4.0)	(1.2%)
Total Non-recurring costs	10.7	2.9	7.8	266.2%
Total operating costs	326.0	322.2	3.8	1.2%
Extraordinary costs	0.7		0.7	
Total OPEX incl. extraordinary costs	326.7	322.2	4.5	1.4%

In 2022, the Secretariat's effort was focused on maintaining budget discipline to stay within an initial envelope of USD 930 million over the 2020-2022 period while delivering on key priorities. When measured at budget rate, the cumulative operation expenditure is USD 929.3 million, USD 0.7 million below the approved envelope.

Total recurrent cost savings were realized in cost categories such as external assurance and staff costs which allowed reallocation of resources for tactical reinvestments particularly in resource mobilization for the Seventh Replenishment Conference, IT systems' agility, inflationary pressures on Global Health Campus costs and the Future of Work adaptation post-COVID. With the funeral of Her Majesty the Queen of England initially coinciding with the timing of the replenishment conference, the Seventh Replenishment date was rescheduled, resulting in unforeseen additional spend and an extraordinary loss of USD 0.7 million as a result of cancellation fees and penalties.

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The following tables summarizes the key variances:

Amount in USD millions at budget rate	Items Impacted	Remarks
(2.9)	Recurring Workforce	Delays in recruiting and overall onboarding of new staff.
(1.1)	Recurring Non-Workforce	Lower disbursement versus budget on assurance mechanisms (LFA/CCM USD -6.1M) and other savings in Travel, Depreciation, Board constituency funding, Meeting, Professional Fees (USD - 5.0M) enabled reinvestment decisions mostly on Resource Mobilization of (USD +4.9 M), IT systems' agility (USD +3.5M) and office infra structure. (USD +1.7 M) mainly due to incremental Global Health Campus costs and Future of Work implementation.
7.8	Non-Recurring Costs	Mainly driven by investment in staff cost incurred to address incremental resourcing needs, sick leave, leave provisions and performance awards.
0.7	Extraordinary Costs	Extraordinary loss due to cancellation fees/penalties following date changes of Seventh Replenishment Conference.

Operating costs, at spot rate, as a percentage of total expenditure increased to 7.4% in 2022 (2021: 4.7%) driven by a 32% decrease in grant expenditure compared to 2021.

For the year 2023, the Board has approved an annual operating expenses budget of USD 340 million.

During 2022, the Global Fund incurred USD 43.5 million of C19RM Management and Operating Costs at spot rate. When measured at the 2022 budget rate it resulted in USD 43.0 million of operating expenses yielding a foreign exchange loss of USD 0.5 million, which is integrated into the ALM. As at 31 December 2022, the cumulative C19RM Management and Operating Costs since 2021 inception totalled USD 62.6 million (at budget rate).

Figure 5: Cumulative C19RM Management Operating Costs at budget rate

in M USD	YTD Dec 2022 Actuals	ITD Actuals 2021 - 2022
	2022	2021 - 2022
LFA Fees	12.9	19.5
Other Assurances (SO)	3.2	5.7
CCM Funding	0.2	2.1
Secretariat Costs	25.4	33.9
Workforce	18.0	24.4
Staff	15.5	20.2
Consultants	2.4	4.1
Professional Fees	2.9	4.9
Travel	2.0	2.0
Meetings	0.0	0.0
Communications	-	0.1
Office Infrastructure	2.6	2.6
Total Opex before non-recurring	41.7	61.3
Non-recurring costs	1.3	1.3
Total Operating Costs	43.0	62.6
Total Envelope	190.0	190.0
Total Utilization	23%	33%

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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 Sixth and Seventh Replenishment period as at 31 December 2022:

STATEMENT OF PLEDGES AND CONTRIBUTIONS		2020-2022		2023-2025	
REPLENISHMENT PERIOD		in Donor Source Currency		in Donor Source Currency	
In thousands					
Donors	Currency	Total Pledges	Total Contributions received	Total Pledges	Total Contributions received
A	Contributions for the 6th replenishment				
A.1	Governments				
Armenia	USD	15'000	-	-	-
Australia	AUD	242'000	217'800	266'000	-
Azerbaijan	USD	20'000	5'800	-	-
Belgium	EUR	45'000	45'000	30'000	-
Benin	USD	1'000	-	-	-
Burkina Faso	USD	1'001	1'001	1'000	-
Burundi	USD	1'000	596	-	-
Cameroon	XAF	3'000'000	-	-	-
Canada	CAD	1'155'400	1'055'400	1'209'600	-
Central African Republic	XAF	600'000	254'064	-	-
Central African Republic	USD			1'000	-
Chad	EUR	500	500	-	-
China	USD	18'000	18'000	-	-
Congo	USD	5'500	-	-	-
Congo (Democratic Republic)	USD	6'000	4'000	6'000	-
Côte d'Ivoire	USD	1'500	1'419	2'000	-
Cyprus	EUR	-	-	100	-
Denmark	DKK	375'000	375'000	375'000	-
Equatorial Guinea	EUR	2'000	-	-	-
Eswatini	USD	6'000	6'000	1'000	-
European Commission	EUR	700'000	700'000	715'000	473'000
France	EUR	1'296'000	1'109'280	1'596'000	-
Germany	EUR	1'465'000	1'465'000	1'300'000	-
Ghana	USD	-	-	2'000	-

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Greece	EUR	50	50	-	-
Guinea	USD	-	-	200	-
India	USD	22'000	22'000	25'000	-
Indonesia	USD	-	-	10'000	-
Ireland	EUR	50'000	50'000	65'000	-
Italy	EUR	161'000	153'243	185'000	-
Japan	USD	840'000	840'000	1'080'000	-
Kenya	USD	6'000	4'000	10'000	-
Korea (Republic of)	USD	25'000	17'000	100'000	-
Kuwait	USD	6'500	6'500	8'000	-
Luxembourg	EUR	11'000	11'000	14'700	-
Madagascar	USD	1'000	-	-	-
Malawi	USD	-	-	1'000	-
Mali	EUR	500	-	-	-
Malta	EUR	300	300	150	-
Monaco	EUR	400	400	400	-
Morocco	EUR	-	-	1'292	-
Namibia	USD	1'500	-	-	-
Netherlands	EUR	183'000	183'000	180'000	-
New Zealand	NZD	10'500	10'500	2'500	-
Niger	USD	1'000		1'000	-
Niger	EUR		500		-
Nigeria	USD	12'000	10'167	13'200	-
Norway	NOK	2'765'200	2'765'200	2'000'000	-
Paraguay	USD			50	-
Portugal	EUR	1'116	1'116	1'500	15
Qatar	USD	50'000	50'000	50'000	-
Rwanda	USD	2'500	1'700	3'250	-
Saudi Arabia	USD	30'000	30'000	39'000	-
Senegal	USD	1'000		-	-
Senegal	EUR		960		-
Singapore	USD	-	-	600	-
South Africa	USD	10'000	10'000	13'000	-
Spain	EUR	100'000	90'100	130'000	-
Sweden	SEK	2'950'000	2'650'000	3'000'000	-
Switzerland	CHF	114'000	114'000	64'000	-
Tanzania	USD	-	-	1'000	-
Thailand	USD	4'500	4'500	3'000	-
Togo	USD	1'000	1'000	1'500	-
Uganda	USD	2'000	1'082	3'000	-
Ukraine	USD	80	80	-	-
United Arab Emirates	EUR	50'000	50'000	-	-
United Kingdom	GBP	1'460'000	1'290'000	1'000'000	-
United States	USD	8'180'000	6'475'499	6'000'000	-
Zambia	USD	5'500	-	-	-
Zimbabwe	USD	1'000	1'000	1'000	-

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Commitments to be personally secured by Bill Gates and Bono with the active support of France for the period 2020-2022

	USD	96'724	-	-	-
Other Public	USD	30'896	-	14'903	-

A.2 Private Foundations

Abbott Fund	USD	-	-	5'000	-
Aids Healthcare Foundation	USD	-	-	6'000	-
Children's Investment Fund Foundation	USD	25'000	25'000	33'000	-
FIFA Foundation	USD	1'500	-	-	-
Fondation Chanel	USD	1'500	1'000	-	-
Gates Foundation	USD	760'000	758'375	926'000	-
J.C. Flowers Foundation	USD	-	-	1'000	-
Johnson & Johnson Foundation	USD	-	-	15'000	1'500
McGovern Foundation	USD	-	-	1'000	1'000
Outcomes Fund for Fevers	USD	-	-	25'000	-
Rockefeller Foundation	USD	15'000	14'500	15'000	-
Skoll Foundation	USD	-	-	10'000	2'000
SMJR Foundation	USD	-	-	1'000	-
Tahir Foundation	USD	30'000	-	-	-
Tanoto Foundation	USD	-	-	1'000	-

A.3 Corporations

Absa Group Ltd	USD	-	-	150	-
Anglo American plc	USD	-	-	15'500	-
GlaxoSmithKline plc and Viiv Healthcare	GBP	-	-	2'000	-
Medtronic LABS	USD	-	-	100	-
KN Cam Ranh Co., Ltd.	USD	1'000	600	3'000	-
PT. Kalbe Farma TBK	USD	-	-	1'500	-
Takeda Pharmaceutical	JPY	564'000	564'000	376'000	188'000

A.4 Others

Catholic Relief Services	USD	3'000	3'000	3'000	-
Co-Impact	USD	5'050	2'250	-	-
Comic Relief	USD	17'000	6'101	6'000	-
Comic Relief	GBP	-	5'778	-	-
Cordaid	USD	5'000	-	-	-
Goodbye Malaria	USD	5'500	2'798	5'500	-
Human Crescent	USD	10'000	-	-	-
Plan International and Plan Canada	CAD	3'900	1'400	3'000	-
Rotary Australia World Community Service and Rotarians Against Malaria	USD	7'200	-	4'800	-

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(RED)	USD	150'000	137'694	150'000	-
United Nations Foundation	USD	140	140	-	-
YMCA and Y's Men International	USD	500	300	-	-
Others	USD	86'390	11'977	11'000	-

2.2 Financial management framework

The core 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), as approved by the Global Fund Board in November 2016 (GF/B36/DP04). The CFP defines asset-liability management principles and makes provisions for the management of foreign exchange risk and investments.

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") framework, 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.

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. At the end of 2022, 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.

2.3 Treasury Management

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 2022, the Global Fund Trust Fund investment balance pool was valued at USD 5,743 million (2021: USD 4,175 million) and returned (2.05 %) as the annual rate of return (2021: 2.31%). In absolute terms, the Trustee reported a USD 73 million net investment loss on the Trust Fund (2021: USD 76 million investment gain). The negative investment return is a result of a tumultuous and challenging year, as the war in Ukraine, rising global inflation, and tightening monetary policy affected all markets. The aggressive interest rate hikes performed by central banks around the globe had negative effects on the portfolio. Geopolitical tensions coupled with inflation expectations (including oil price spikes) kept most asset classes under pressure for most part of the year.

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

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framework. The hedging policy operates at a portfolio level and is 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 and off-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 reference point of the replenishment); and
- Hedging should produce FX effects in a direction opposite to FX effects before hedges.

Specifically in the period under review, hedges have produced, per currency, results of sign opposed to FX results before hedges. Overall FX effects before hedges, and effects of hedges, are limited as a result of hedging.

For the year ended 31 December 2022, a net foreign exchange loss of USD 19 million is reported on the net ALM positions (2021: USD 14 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)	(117)	(181)	(298)
Economic FX results (off-balance sheet)	279	-	279
Net FX results 2022	162	(181)	(19)
<i>Net FX results 2021</i>	(70)	84	14
<i>Net FX results 2020</i>	126	(95)	31

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

III. THE GLOBAL FUND PROVIDENT FUND

The Global Fund maintains a Provident Fund scheme for the benefit of its employees, the Global Fund Provident Fund (GFPPF). The Provident Fund is administered in Swiss Francs (CHF) consistent with employee remuneration. As at 31 December 2022, when measured in CHF, the Provident Fund assets fully cover the underlying employee benefit liability.

For the purposes of the annual 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 244 million (2021: USD 252 million).

As at 31 December 2022, the Provident Fund asset base was USD 246 million (2021: USD 251 million) which included USD 235 million (2021: USD 239 million) of investments measured at fair value and USD 11 million (2021: USD 12 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 2022, a net fair valuation loss on Provident Fund investments for USD 24.6 million (2021: USD 11 million net gain) was reported.

In CHF, the currency in which the Provident Fund is managed, the annual rate of return on investments was (10.9%) against a benchmark of (10.3%) (2021: 4.6% against benchmark of 4.5%). Compared to the same pension funds the Strategic Asset Allocation of the Provident Fund GFPPF is more conservative (with less exposure to equities) and more liquid (with less exposure to unlisted assets). In 2022, this led

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to a lower effective diversification effect, due to the correlated negative evolution of equity and bond investments. The increasing inflation and the war in Ukraine had a strong impact on the equities market and negatively affected the fixed income side.

Since its inception in 2009, the Provident Fund has distributed surplus in eight years amounting to a cumulative value of CHF 48.6 million.

2023 Looking Forward

More than twenty years after its creation, the Global Fund's mission remains the same: to defeat HIV, TB and malaria while reinforcing resilient and sustainable systems for health.

Global Fund funding cycle runs in three-year periods that directly correspond with donor Replenishment periods, where governments, the private sector and nongovernmental organizations pledge funds to support the Global Fund's mission. In each funding period, the Global Fund allocates donor funds to eligible countries. Countries then apply for their funding after engaging in an inclusive consultation at the country level. After technical review and approval, countries implement their grants. Evaluation and oversight continue throughout implementation to monitor progress and performance.

Since establishment, more than USD 55.4 billion has been disbursed in the fight against HIV, TB and malaria and for programs to strengthen systems for health across more than 155 countries, including regional grants, making the Global Fund one of the largest funders of global health.

The new Global Fund' Strategy 2023-2028; Fighting Pandemics and Building a Healthier and More Equitable World was approved by the Board in November 2021 following an intense, inclusive and rigorous process which involved the entire Global Fund partnership. This ambitious new Strategy covers the next six years across two three-year grant cycles. To complement the primary goal of ending AIDS, TB and malaria, the Strategy adds four mutually reinforcing contributory objectives around people-centred integrated systems for health; the engagement and leadership of affected communities to leave no one behind; maximizing health equity, gender equality and human rights; and mobilizing increased resources for our mission.

Translating this Strategy into reality requires significant changes and efforts to ensure we achieve our goal of ending AIDS, TB and malaria by 2030. Over the last 20 years, the Global Fund and its partners have demonstrated their ability to work together and implement significant changes to address continuously evolving needs, learning and realities.

As the Secretariat enters the Seventh Grant Cycle (GC7), the Global Fund has already launched several key initiatives to support country teams, implementing partners and assurance providers on work they are already doing including:

- Operational webinars for PRs on Performance Updates/Disbursement Request, Performance Framework, Detailed Budget Template
- Information sessions and trainings for country teams on the grant life cycle, revised Budgeting Guidelines, lessons learnt from previous grant-making and in-country missions
- Dedicated training sessions for assurance providers including LFAs and external auditors
- Health webinars series for CCMs and PRs
- A series of webinars and e-learning modules has been created for those interested in learning more about applying for funding in the 2023-2025 allocation period, available on the Global Fund's iLearn platform. Finally, communication directly with countries is managed centrally by the Global Fund's Communications Department which sends quarterly Operational Update, in March, June, September and December.

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Responsibility for the financial statements

The Secretariat is responsible for the preparation of the financial statements and related information that is presented in this report. The financial statements are prepared in conformity with accounting principles under the International Financial Reporting Standards (IFRS). The financial statements include amounts based on estimates and judgments made by the Secretariat. KPMG SA was appointed as the statutory auditors by the Global Fund Board upon the recommendation of the Audit and Finance Committee to audit and opine on the 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 financial statements as at and for the year ended 31 December 2022 were approved by the Board on xx April 2023.

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Statement of income
for the year ended 31 December

USD millions	Notes	2022	2021
		<hr/>	<hr/>
Operating activities			
Income			
Contributions	4.1	6,970	3,928
Expenditure			
Grants	3.2	(4,684)	(6,788)
Operating expenses	6.1	(398)	(325)
Total		<hr/> (5,082) <hr/>	<hr/> (7,113) <hr/>
Net operating activities		1,888	(3,185)
Financing and Investing Activities			
Foreign exchange result, net	5.7	(298)	27
Financial income, net	5.8	(73)	74
Discounting on long-term financial positions	5.9	(126)	(28)
Total		<hr/> (497) <hr/>	<hr/> 73 <hr/>
Increase/(decrease) in funds		<hr/> 1,391 <hr/>	<hr/> (3,112) <hr/>

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Statement of comprehensive income
for the year ended 31 December

USD millions	Notes	2022	2021
	<u> </u>	<u> </u>	<u> </u>
Increase/ (decrease) in funds		1,391	(3,112)
Other comprehensive income			
Remeasurement gains/ (losses) on defined benefit liability that will not be reclassified to the statement of income	6.3	29	(2)
		<u> </u>	<u> </u>
Total comprehensive income for the year		<u> 1,420 </u>	<u> (3,114) </u>

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Statement of financial position
In millions of USD

As at 31 December	Notes	2022	2021
Assets			
<i>Current assets</i>			
Cash and cash equivalents	5.1	135	218
Trust Fund	5.2	5,743	4,180
Contributions receivable	4.2	575	1,707
Derivative financial instruments at fair value	5.6	69	59
Other receivables	4.2	40	43
		6,562	6,207
<i>Non-current assets</i>			
Contributions receivable	4.2	1,429	722
Provident Fund investments	5.3	235	239
Tangible and intangible assets	6.2	42	50
		1,706	1,011
Total Assets		8,268	7,218
Liabilities			
<i>Current liabilities</i>			
Grants payable	3.3	3,031	3,607
Derivative financial instruments at fair value	5.6	268	6
Other current liabilities	6.4	74	78
		3,373	3,691
<i>Non-current liabilities</i>			
Grants payable	3.3	12	48
Employee benefit liabilities	6.3	244	252
Lease liability	6.2	31	39
		287	339
Total Liabilities		3,660	4,030

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As at 31 December	Notes	2022	2021
Temporarily restricted funds	7.3	50	66
Unrestricted funds	7.3	4,566	3,159
Remeasurement of defined benefit liability	2.2	(8)	(37)
Total Funds		4,608	3,188
Total liabilities and funds		8,268	7,218

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Statement of cash flows for the year ended 31 December

USD millions	Notes	2022	2021
Operating activities			
Cash received from donors	4	7,142	5,754
Grant disbursements		(5,279)	(5,150)
Payments for operating expenses		(350)	(298)
Proceeds from the settlement of forward contracts	2.2	221	100
Payments from the settlement of forward contracts	2.2	(150)	(293)
Net cash flow from operating activities		1,584	113
Investing activities			
Financial income received, net	5.8	96	94
Purchases of Provident Fund investments		(46)	(30)
Sales of Provident Fund investments		22	8
Purchases of tangible and intangible assets	6.2	(4)	(1)
Net cash flow from investing activities before Trust Fund movements		68	71
Net cash rebalancing between commercial banks and Trust Fund		(1,731)	(8)
Net cash flow (used in)/ from investing activities		(1,663)	63
Financing activities			
Payment of lease liabilities	6.2	(7)	(8)
Net cash flow used in financing activities		(7)	(8)
Net (decrease)/ increase in cash and cash equivalents		(86)	168
Cash and cash equivalents			
- at beginning of the year	5.1	218	53
Effect of exchange rate changes		3	(3)
- at end of the year	5.1	135	218

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	2022	2021
Amounts held in commercial banks	5.1	135	218
Amounts held in Trust Fund	5.2	5,743	4,180
Total operational cash balance		5,878	4,398

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Statement of changes in funds for the year ended 31 December

USD millions

	Foundation capital (1)	Temporarily restricted funds	Unrestricted funds	Remeasu rements of defined benefit liability	Total
As at 1 January 2021	-	19	6,318	(35)	6,302
Increase/ (decrease) in funds for the period		47	(3,159)	-	(3,112)
Other comprehensive income	-	-	-	(2)	(2)
At 31 December 2021	-	66	3,159	(37)	3,188
As at 1 January 2022	-	66	3,159	(37)	3,188
Increase/ (decrease) in funds for the period		(16)	1,407	-	1,391
Other comprehensive income	-	-	-	29	29
At 31 December 2022	-	50	4,566	(8)	4,608

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

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Explanatory notes to the annual financial statements

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

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

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

Index for notes to the financial statements

Section 1: Activities and organization

Section 2: Basis of reporting

Section 3: Grant activities

3.1: Contingent liability

3.2: Grant expenditure

3.3: Grants payable

Section 4: Donor activities

4.1: Contribution income and revenue recognition

4.2: Contributions receivable

4.3: Conditional contribution

Section 5: Management of funds

5.1: Cash and cash equivalents

5.2: Trust Fund

5.3: Provident Fund investments

5.4: Financial risk management objectives and policies

5.5: Foreign exchange exposures

5.6: Foreign exchange risk management

5.7 Foreign exchange accounting

5.8 Financial income, net

5.9 Discounting of long-term financial positions

Section 6: Operating activities

6.1: Operating expenses

6.2: Tangible and intangible assets

6.3: Employee benefit liabilities

6.4: Other current liabilities

Section 7: Other disclosures

7.1: Related party transactions

7.2: Taxation

7.3: Unrestricted and temporarily restricted funds

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Section 1: Activities and organization

The Global Fund to Fight AIDS, Tuberculosis and Malaria (“the Global Fund”) is a partnership designed to accelerate the end of HIV/AIDS, tuberculosis and malaria as epidemics. It applies four core principles: country ownership, partnership, transparency and performance-based funding.

The Global Fund is recognized as an international organization, initially formed as a Swiss foundation. It commenced operations on 22 January 2002 and Geneva authorities accepted its registration on 24 January 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. 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. 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.

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. It does not have a separate legal personality from the Global Fund. It enjoys the same privileges and immunities accorded to the Global Fund in line with the organizational status outlined above.

The Global Fund headquarters is in Geneva, Switzerland. The registered address is Chemin du Pommier 40, Grand-Saconnex 1218, Geneva, Switzerland. Foundations may be subject to monitoring by the Swiss Federal Supervisory Board for Foundations. The Global Fund does not have any in-country offices, branches or affiliates.

Section 2: Basis of reporting

2.1 Statement of compliance

The 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 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.

2.2 Basis of preparation

The 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 financial statements.

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Due to rounding, numbers presented throughout these financial statements may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

Effective 2022, the remeasurement of defined benefit liability on the statement of financial position and in the statement of change in funds, has been presented separately from unrestricted funds as a result of the significant increase in the discount rate (refer to note 6.3). In addition, proceeds and payments on settlements of forward contracts have been presented separately in the statement of cash flows. Previous year comparatives were reclassified for consistency.

These financial statements as at and for the year ended 31 December 2022 were approved by the Global Fund Board on xx April 2023.

2.3 Functional and presentation currency

The 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. Monetary 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 statement of income.

2.4 Significant management judgments, estimates and assumptions

All significant accounting policies, judgments, estimates and assumptions that are relevant to the understanding of the 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.

2.5 Changes in significant accounting policies, estimates and judgments and standards issued and not yet effective

A number of new standards, amendments and interpretations either became effective 1 January 2022 or were issued but not yet effective. These are either not applicable to the Global Fund or these do not have a material impact on the Global Fund’s financial statements.

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2.6 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 2022

Global Fund financial position	Note	Carrying amount		
		Mandatorily at FVTPL	At amortized cost	Other financial liabilities
Cash and cash equivalents	5.1	-	135	-
Trust Fund asset	5.2	5,743	-	-
Contributions receivable	4.2	-	2,004	-
Derivative financial instruments measured at fair value, net liability	5.6	(199)	-	-
Provident Fund Investments	5.3	235	-	-
Other receivables*1	4.2	-	29	-
Grants payable	3.3	-	-	3,043
Lease liability	6.2	-	-	38
Other liabilities*2	6.4	-	-	10

As at 31 December 2021

Global Fund financial position	Note	Carrying amount		
		Mandatorily at FVTPL	At amortized cost	Other financial liabilities
Cash and cash equivalents	5.1	-	218	-
Trust Fund asset	5.2	4,180	-	-
Contributions receivable	4.2	-	2,429	-
Derivative financial instruments measured at fair value, net asset	5.6	53	-	-
Provident Fund Investments	5.3	239	-	-
Other receivables*1	4.2	-	37	-
Grants payable	3.3	-	-	3,655
Lease liability	6.2	-	-	46
Other liabilities*2	6.4	-	-	8

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

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

2.7 Impact of significant global events

Since the escalation of the conflict between Ukraine and Russia, the Global Fund has approved emergency funding of USD15 million to enable the continuity of HIV and TB prevention, testing and treatment services in Ukraine, in partnership with UNICEF as Principal Recipient. This was in addition to the USD 135.7 million in TB and HIV grants and catalytic matching funds over the 2020-2022 period and USD 54.5 million for the country's COVID-19 response. As the Global Fund does not have assets in these countries, Global Fund's assessment noted no significant impact on the financial statements.

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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 Global Fund uses three portfolio categories to ensure that operational policies and processes reflect contextual needs for countries. The list of countries in each of these categories is updated for each allocation period based on the allocation amount, the disease burden, and opportunity for strategic impact of the country:

- i. Focused Portfolios are generally smaller portfolios, with a lower disease burden, and a lower mission risk.
- ii. Core Portfolios are generally larger portfolios, with a higher disease burden, and a higher mission risk.
- iii. High Impact Portfolios are generally very large portfolios with mission-critical disease burdens.

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

<i>Grant stage for the year ended 31 December</i>	<i>Contingent Liability: Board approved but not committed</i>	<i>Annual commitment</i>	<i>Disbursement of committed amounts As per statement of cash flow</i>	<i>Foreign exchange gains on EUR grant liabilities</i>	<i>Annual commitments not disbursed as at 31 December (Grants payable as per statement of financial position)</i>
<i>Notes</i>	3.1	3.2			3.3
2022	5,093	4,684	5,279	2	3,043
2021	9,044	6,788	5,150	44	3,655

Impact of COVID-19 pandemic on grant operations

Since the onset of the pandemic in 2020, the Global Fund works with partners, countries and communities to fight COVID-19, adapt lifesaving HIV, TB and malaria programs, and reinforce fragile systems for health.

During 2022, the Global Fund has approved USD 666 million (2021: 3,204 million) in grant funding to 32 countries and 1 multicountry program to support their responses to COVID-19 in line with the COVID-19 Response Mechanism.

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

3.1 Contingent liability

Contingent liabilities for grants are reported when the possible maximum obligation under the grant becomes clear and is communicated to the Principal Recipient. They represent a possible obligation that can be reliably measured but is still dependent on future events like the performance of the Principal Recipient and the availability of funding.

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At the time contingent liabilities are reported, the Global Fund does not yet have a present obligation that it has no practical ability to avoid because it still has a substantive ability to manage the use of grant funds and accordingly restrict the future obligations and cash flows.

Following each replenishment cycle (as mentioned under Section 4: Donor Activities), the Global Fund determines the grant allocation cycle by country and by disease. These allocations represent the maximum eligible funds available to any country for the next three years. In order to access this funding, the Principal Recipients in these countries submit funding applications which transform into operational grants. These grants are subject to technical, risk and operational evaluations. Each grant is ultimately approved by the Global Fund Board following the recommendation of the Secretariat's Grants Approval Committee ("GAC").

A contingent liability for grants is reported at the earlier of the following two milestones:

- (i) the transmission of the draft grant agreement, which is conditional to the Board approval, to the Principal Recipient following the GAC recommendation, and
- (ii) the Global Fund Board approval, this written grant agreement includes substantive conditions based on performance and availability of funding.

During grant implementation, the contingent liability of a grant is reduced by the cumulative amount of grant expenses. The following table summarizes the contingent liability for grants at 31 December:

By category	2022	2021
Grants approved by the Board but not signed	422	1,070
Grants agreements signed but not committed	4,671	7,974
Total: Contingent liability for grants to Principal Recipients	5,093	9,044
Strategic initiatives	-	8
Total	5,093	9,052

At 31 December 2022, all grants for which draft grant agreements were transmitted to the Principal Recipients were fully approved by the Board. The following table provides an overview of contingent liability for grants by programmatic region defined by the Global Fund according to the risk and geographical classification of each country for a given allocation period:

Contingent liability for grants to Principal Recipients	2022	2021
By region		
Asia (outside High Impact), Europe, Latin America and Caribbean	454	718
Africa (outside High Impact) and Middle East	1,167	2,140
High Impact Africa I	848	1,964
High Impact Africa II	1,754	2,578
High Impact Asia	870	1,644
Total	5,093	9,044

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3.2 Grant expenditure

Grants on behalf of Principal Recipients

The recognition of grant expenditure and liability is determined to be the point at which the annual funding decision is made and communicated by the Global Fund to the Principal Recipient. 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 present 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 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 for Pooled Procurement Mechanisms

In 2022, approximately one-third of the total grant expenditure is towards procurement expenditure made through the Global Fund Board-approved Pooled Procurement Mechanisms (“PPM”). The Global Fund provides an online platform called wambo.org to its registered Principal Recipients who elect to use PPM to purchase health supplies. At the point when the Global Fund approves a purchase order in wambo.org, a grant expenditure and the corresponding liability are recorded. The Global Fund pays the procurement service agent, which in turn forwards the payment to the manufacturer on behalf of the Principal Recipients in line with the underlying delivery terms, thereby reducing the liability.

Strategic Initiatives

Besides the main grants, the Global Fund provides separate funding for Strategic Initiatives that support the success of country allocations but cannot be funded through disease-specific components of grants. These initiatives are implemented through partners and suppliers for which individual multi-year projects that extend through a three-year allocation period are approved by the GAC. The recognition of expenditure and liability are linked to service delivery.

Grants under recovery

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:

	<u>2022</u>	<u>2021</u>
By category		
Grants on behalf of Principal Recipients	2,986	4,618
Grants for PPM orders	1,595	2,123
Total grants for Principal Recipients	4,581	6,741
Grants under recovery	(3)	(4)
Strategic Initiatives	106	51
Total grants	4,684	6,788

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By disease		
HIV-AIDS (including HIV/TB)	2,161	3,530
Malaria	1,448	1,916
Tuberculosis	656	830
Others (including RSSH and multi-component)	316	465
Total grants for Principal Recipients	4,581	6,741

By region		
Asia (outside High Impact), Europe, Latin America and the Caribbean	461	546
Africa (outside High Impact) and Middle East	961	1,484
High Impact Africa I	1,048	1,380
High Impact Africa II	1,348	2,304
High Impact Asia	763	1,027
Total grants for Principal Recipients	4,581	6,741

3.3 Grants payable

The following table summarizes grants payable at 31 December:

	<u>2022</u>	<u>2021</u>
Grants payable within one year		
Grants payable to Principal Recipients		
- In USD	2,552	3,076
- In EUR	439	460
Net grants payable to Principal Recipients in USD equivalent	3,022	3,597
Strategic Initiatives	9	10
Net grants payable in equivalent USD within one year	3,031	3,607
Grants payable after one year		
Grants payable to Principal Recipients		
In USD	12	44
In EUR	-	3
Net grants payable in equivalent USD after one year	12	48
Total grants payable in equivalent USD	3,043	3,655

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 and that are 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*).

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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 described as pledges. Pledges do not trigger an accounting event for the Global Fund. The first accounting impact is recognized following the conversion of pledges into formal contributions that require further substantive actions to be taken between the Secretariat and the donor.

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

<i>For the year ended 31 December</i>	<i>Opening contributions receivable</i>	<i>Contributions per the statement of income</i>	<i>Discounting</i>	<i>Contributions received per the statement of cash flow</i>	<i>Foreign exchange fluctuation</i>	<i>Contributions receivable on the statement of financial position</i>
<i>NOTE</i>	4.2	4.1	5.9			4.2
2022	2,429	6,970	(127)	7,142	(125)	2,004
2021	4,384	3,928	(28)	5,754	(101)	2,429

Impact of COVID-19 pandemic on contributions

Following the Board decision on April 9, 2020, the Global Fund launched an appeal to raise additional funding for COVID-19 emergency response and created the COVID-19 Response Mechanism (“C19RM”), which was extended successively through further Board decisions in 101§, including the award of C19RM funds through 30 June 2023. During 2022, the Board approved an additional extension of C19RM, and enabling implementation of C19RM funds through 31 until December 2025. Donor contributions recognized in 2022 in the statement of income include USD 2.3 billion (2021: USD 1.8 billion) received in response to this appeal and allocated by the Board decision to C19RM, in accordance with pledges received through 30 September 2022, follow the Comprehensive Funding Policy.

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.

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The management has undertaken a 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. For cases where the management concluded there is no substantial conditionality, revenue is recognised for the corresponding value of the signed contribution agreements, discounted where appropriate. Note 4.3 provides further detail on contribution agreements that bear substantial conditionalities. The following table summarizes the source of revenue recognized for the year ended 31 December:

	<u>2022</u>	<u>2021</u>
Donor contributions		
By donor category		
Public	6,647	3,873
Foundations	284	21
Product (RED)	27	18
Corporations	1	3
International not-for-profit organizations	11	13
Total	<u>6,970</u>	<u>3,928</u>
By donor intent		
Unrestricted	6,879	3,824
Restricted- Others	91	104
Total	<u>6,970</u>	<u>3,928</u>

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.

Contributions receivable maturing later than one year after the date of 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:

	<u>2022</u>	<u>2021</u>
Contributions receivable within one year	575	1,707
Contributions receivable after one year	1,429	722
Total value of contributions receivable	<u>2,004</u>	<u>2,429</u>
Receivable in 2022	-	1,707
Receivable in 2023	575	17
Receivable in 2024	466	17
Receivable after 2024	1,152	750
Gross contributions receivable	2,193	2,491
Discounted	(189)	(62)
Net present value of contributions receivable	<u>2,004</u>	<u>2,429</u>

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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 detailed review of individual donor credit profile, in-country economic and political situation and other known factors that may potentially have an adverse impact on the 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. For 2022, USD 34 million (2021: USD 10 million) in risk premiums are maintained as provision towards expected credit losses.

Other Receivables

The following table summarizes other receivables at 31 December:

	<u>2022</u>	<u>2021</u>
Grants under recovery, net	18	15
Working capital advance for pooled procurement mechanisms	2	11
Security deposit	9	9
Prepaid expenses for Opex and Strategic Initiatives	11	8
Total	<u>40</u>	<u>43</u>

Grants under recovery are recognized based on the demand letters formally issued to Principal Recipients. This includes expected credit loss of USD 13 million given the uncertainty of future cash inflows compared with the recovery schedule agreed by the Principal Recipients under the recovery protocol (2021: USD 15 million).

4.3 Conditional contributions

The Global Fund may enter into contribution agreements with donors that are subject to performance obligations or conditions to be realized and reported over the period of the agreement. Given the uncertainty associated with the future encashments in respect of such donor agreements, USD 41.1 million (2021: USD 338 million) will be recognized as revenue in the financial year in which the related performance obligations are satisfactorily fulfilled.

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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:

	<u>2022</u>	<u>2021</u>
Amounts held in commercial banks	135	218

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 its Audit and Finance Committee regularly.

All disbursements out of the Trust Fund require authorization from 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.

As at 31 December 2022, the Pool had a fair value measurement of USD 42,744 million (2021: USD 36,857 million) as confirmed by the World Bank. The share of the Global Fund assets held in the Pool is 13.44 %. The following table reflects the asset allocation in the Pool:

Types of financial instruments	<u>2022</u>	<u>2021</u>
Government and agency obligations	68%	53%
Time deposits and money market securities	20%	33%
Asset-backed securities	9%	8%
Equity securities	3%	5%
Derivatives, net	-	1%
Total	100%	100%

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Fair value of financial instruments held in Pool

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 the respective trust funds. 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, 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.

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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:

<i>At 31 December 2022</i>	Level 1	Level 2	Level 3	Total
<i>Government and agency obligations</i>	1,943	1,968	-	3,911
<i>Asset and mortgage-backed securities</i>	-	493	-	493
<i>Equity</i>	196	-	-	196
<i>Time deposits</i>	290	884	-	1,174
<i>Repurchase/ resale agreements</i>	-	(33)	-	(33)
<i>Derivatives, net</i>	1	(6)	-	(5)
<i>Sub-total:</i>	2,430	3,306	-	5,736
<i>Cash, receivables & payables</i>	-	-	-	7
<i>Total</i>	2,430	3,306	-	5,743

<i>At 31 December 2021</i>	Level 1	Level 2	Level 3	Total
<i>Government and agency obligations</i>	1,183	1,203	-	2,386
<i>Asset and mortgage-backed securities</i>	-	349	-	349
<i>Equity</i>	213	-	-	213
<i>Time deposits</i>	74	1,405	-	1,479
<i>Repurchase/ resale agreements</i>	-	(18)	-	(18)
<i>Derivatives, net</i>	-	33	-	33
<i>Sub-total:</i>	1,470	2,972	-	4,442
<i>Cash, receivables & payables</i>	-	-	-	(262)
<i>Total</i>	1,470	2,972	-	4,180

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

<i>At 31 December 2022</i>	Shared Pool of cash and investments	Trust Fund	% share
<i>Level 1</i>	14,882	2,430	16.33
<i>Level 2</i>	28,092	3,306	11.77
<i>Level 3</i>	-	-	-
Sub-total	42,974	5,736	13.35
<i>Cash, receivables & payables</i>	(230)	7	
Total	42,744	5,743	13.44

<i>At 31 December 2021</i>	Shared Pool of cash and investments	Trust Fund	% share
<i>Level 1</i>	10,148	1,470	14.49
<i>Level 2</i>	26,466	2,972	11.23
<i>Level 3</i>	-	-	-
Sub-total	36,614	4,442	12.13
<i>Cash, receivables & payables</i>	243	(262)	
Total	36,857	4,180	11.34

5.3 Provident Fund Investments

The Global Fund Provident Fund (“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 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 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.

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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 statement of income.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as outlined in Note 5.2 above. The following table provides the fair valuation hierarchy of the Provident Fund investments:

<i>At 31 December 2022</i>	Level 1	Level 2	Level 3	Total
Total Provident Fund investments	64	171	-	235
<i>Equity</i>	20	32	-	52
<i>Bonds</i>	44	85	-	129
<i>Real estate</i>	-	54	-	54

<i>At 31 December 2021</i>	Level 1	Level 2	Level 3	Total
Total Provident Fund investments	97	142	-	239
<i>Equity</i>	21	31	-	52
<i>Bonds</i>	76	60	-	136
<i>Real estate</i>	-	51	-	51

The Provident Fund investments are held in Swiss Francs (CHF). During 2022, USD 24.6 million was reported in net fair valuation losses on Provident Fund investments (2021: USD 11.3 million, net fair valuation gains).

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 risks, which are summarized below. A detailed description of financial risk management on the Trust Funds is being reported given the materiality of the investments held. Similar risk management and oversight is done for Provident Fund investments and other financial assets and liabilities.

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

The Trust Fund assets held in the Shared Pool of cash and investments are 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.

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i. Interest rate risk

The interest rate risk of the Trust Fund and Provident Fund assets are assessed and managed as part of each respective performance monitoring framework (refer to note 5.2 and 5.3 respectively).

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. 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 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 2022 is estimated to be USD 82 million (2021: USD 63 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. Given the insignificant portion of Trust Fund assets held in EUR, there would be no material impact on the statement of income and statement of changes in funds from fluctuations in exchange rates as at 31 December 2022 and 2021.

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 fixed income investments and contributions receivable is the carrying amount of those assets as indicated in the 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

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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:

<i>Counterparty credit ratings</i>	2022	2021
<i>AA or greater</i>	66%	61%
<i>A- or greater</i>	100%	100%

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. The Global Fund makes commitments for operating expenditure budget, trustee fees and grants only if there are sufficient underlying assets. Long term financial liabilities are settled mostly between one and two years.

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.

Hedging strategy

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.

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The hedging strategy aims at preserving the economic value of future cash flows and as such the Global Fund does not apply hedge accounting principle. The general principles of hedging are 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. The VaR limit follows a two-risk metrics for the hedging strategy:

- 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 at 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 at 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 Global Fund regularly undertakes the sensitivity analysis for each currency in which it holds significant exposure. The significant foreign currency exposures include Australian Dollars (AUD), Canadian dollars (CAD), Swiss Francs (CHF), Danish Krone (DKK), Euros (EUR), Pound Sterling (GBP), Swedish Krona (SEK), and Norwegian Krone (NOK). The following table outlines the net foreign currency exposures for these key currencies:

Currency	As at 31 December 2022			As at 31 December 2021		
	Net FX exposure in nominal value	Hedges at nominal value	% hedge ratio	Net FX exposure in nominal value	Hedges at nominal value	% hedge ratio
AUD	241	242	100	118	107	91
CAD	1,312	1,310	100	580	533	92
CHF	(540)	(455)	84	(251)	(222)	88
DKK	375	375	100	125	108	86
EUR	1,530	1,106	72	97	(162)	(167)
GBP	1,051	998	95	427	394	92
SEK	2,700	2,700	100	950	807	85
NOK	2,000	2,000	100	800	698	87

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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. As a result of the high hedging ratio, there would be no material impact towards the unhedged exposure on the statement of income and statement of changes in funds of a strengthening or weakening of non-USD currencies as at 31 December 2022 and 2021.

The following table summarizes exchange rates per USD for major currencies in which the Global Fund held financial positions at 31 December:

<i>Key foreign currencies</i>	2022	2021	%	<i>Average FX Rates</i>	
			fluctuation	2022	2021
<i>AUD</i>	0.6814	0.7257	(6)	0.6956	0.7513
<i>CAD</i>	0.7380	0.7856	(6)	0.7678	0.7979
<i>CHF</i>	1.0815	1.0937	(1)	1.0524	1.0941
<i>EUR</i>	1.0704	1.1313	(5)	1.0586	1.1831
<i>GBP</i>	1.2098	1.3503	(10)	1.2413	1.3756
<i>SEK</i>	0.0959	0.1105	(13)	0.0996	0.1166
<i>NOK</i>	0.1021	0.1133	(10)	0.1049	0.1164

[The Global Fund sources its corporate FX rates from Refinitiv]

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 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	2022	2021
Amounts held in CHF	19	11
Amount held in EUR	66	7
Amount held in CAD	-	245

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

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recognized at fair value with subsequent movements in value reported through the 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

<i>As at 31 December</i>	<u>2022</u>	<u>2021</u>
Assets, settlement within 12 months	69	59
Liabilities, settlement within 12 months	(268)	(6)
Net liability for derivative financial instruments at fair value	(199)	53

BY CURRENCY

As at 31 December 2022

<i>Currency (Level 2)</i>	<i>Notional value in millions</i>	<i>Forward contracts at fair value in USD millions</i>
AUD	242	(6)
CAD	1,310	0
CHF	(455)	19
DKK	375	(5)
EUR	1,106	(149)
GBP	998	(34)
NOK	2,000	(10)
SEK	2,700	(13)
Net liability for derivative financial instruments at fair value		(198)

As at 31 December 2021

<i>Currency (Level 2)</i>	<i>Notional value in millions</i>	<i>Forward contracts at fair value in USD millions</i>
AUD	107	2
CAD	533	13
CHF	(222)	(1)
DKK	108	1
EUR	(162)	20
GBP	394	12
NOK	698	1
SEK	807	5
Net liability for derivative financial instruments at fair value		53

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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 statement of income for the years ended 31 December were as follows:

<i>By currency</i>	2022		2021	
	<i>Before derivative instrument</i>	<i>After derivative instrument*</i>	<i>Before derivative instrument</i>	<i>After derivative instrument*</i>
AUD	(4)	(6)	(9)	(1)
CAD	(20)	(5)	1	1
CHF	(1)	10	2	(12)
EUR	(28)	(231)	(30)	44
GBP	(45)	(31)	(3)	(4)
SEK	(13)	(17)	(16)	(1)
NOK	(5)	(13)	1	-
Others	(1)	(5)	(3)	-
Total	(117)	(298)	(57)	27

*including on and off balance sheet items

	2022	2021
By net position		
Net foreign exchange (loss)/ gain on assets	(302)	(21)
Net foreign exchange gain/ (loss) on liabilities	4	48
Total: Net foreign exchange (loss)/ gain	(298)	27

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:

	2022	2021
Trust Fund (losses)/ gains, net	(70)	76
Financial costs	(3)	(2)
Total	(73)	74

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

For the financial year ended 31 December 2022

	Realized	Unrealized	Total
Investment gains	133	8	141
Investment losses	(35)	(176)	(211)
Total	98	(168)	(70)

For the financial year ended 31 December 2021

	Realized	Unrealized	Total
Investment gains	115	15	130
Investment losses	(19)	(35)	(54)
Total	96	(20)	76

5.9 Discounting of long-term financial positions

By financial position

	<u>2022</u>	<u>2021</u>
Contributions receivable	(127)	(28)
Grants payable	1	-
Total	<u>(126)</u>	<u>(28)</u>

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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:

	<u>2022</u>	<u>2021</u>
Workforce costs	215	206
External assurance	57	52
Professional fees	39	36
Others	63	42
Total Secretariat costs	<u>374</u>	<u>336</u>
Provident Fund valuation	25	(11)
Total	<u>399</u>	<u>325</u>

Workforce costs include the regular human resources costs and compensation for individual and agency consultants who are engaged for specific projects and/or as surge capacity associated with the delivery of the Global Fund's mission. This includes USD 198 million (2021: USD 159 million) in employee benefits expense in accordance with the applicable human resource requirements. A notional internal taxation amount of USD 26.0 million has been calculated on the reported staff costs (2021: USD 23.0 million). No Swiss tax is paid by the Global Fund, nor by the employee, on Global Fund employment income, in accordance with the Headquarters Agreement with the Swiss Federal Council. At 31 December 2022, there were 1,075 staff personnel (2021: 982) employed by the Global Fund.

The external assurance costs include 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 ("GHC") 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 ("RoU") asset in the Global Fund statement of financial position. 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

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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 sub-leases are treated as operating leases.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the useful life of the right-of-use asset or end of the lease term which is 10 years.

All other assets are recognized at cost and depreciated over its useful life.

The following table provides an overview on the tangible and intangible assets:

<i>Asset category</i>	<i>Net assets at 01 Jan 2022</i>	<i>Additions</i>	<i>Depreciation</i>	<i>Net asset value at 31 Dec 2022</i>
<i>Leased assets</i>	45	-	(8)	37
<i>Head lease: ROU-GHC</i>				
	3	4	(3)	4
<i>Tangible assets</i>				
	2	-	(1)	1
<i>Intangible assets</i>				
Total	50	4	(12)	42

<i>Asset category</i>	<i>Net assets at 01 Jan 2021</i>	<i>Additions</i>	<i>Depreciation</i>	<i>Net asset value at 31 Dec 2021</i>
<i>Leased assets</i>	53	-	(8)	45
<i>Head lease: ROU-GHC</i>				
	5	1	(3)	3
<i>Tangible assets</i>				
	5	-	(3)	2
<i>Intangible assets</i>				
Total	63	1	(14)	50

The Global Fund carries USD 38 million (2021: USD 46 million) of the lease liability on the statement of financial position towards lease payments of the head lease agreement for the right to use GHC as its office space. As outlined in note 6.4 a portion of USD 7 million, payable in the next 12 months, is considered short term and remaining USD 31 million is the long-term part to be repaid until February 2028.

6.3 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 do not qualify as pension plan assets under IAS 19.

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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	2022	2021
Benefit obligation at beginning of year	252	240
Current service cost	40	37
FX translation impact	(4)	(9)
Interest cost	1	-
Actuarial (gain)/ loss	(28)	3
Benefits paid from plan/company	(14)	(17)
Premiums and expenses paid	(2)	(2)
Benefit obligation at end of year	244	252

Current service cost: 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 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	2022	2021
Current service cost – employer contribution	25	23
Interest cost	1	-
Total pension cost recognized in the statement of income	26	23
Current service cost – Employee contribution	14	14
Total	40	37

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a. Effect of changes in demographic assumptions		-
b. Effect of changes in financial assumptions	(39)	(5)
c. Effect of experience adjustments	11	7
Total actuarial valuation recognized in other comprehensive income	(28)	3

Total defined benefit cost recognized in the statements of income and other comprehensive income	12	40
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Principal actuarial assumptions

Weighted-average assumptions to determine benefit obligations at 31 December

Discount rate	2.30	0.30
LPP interest rate	1.00	1.00

Weighted-average assumptions to determine pension expense for the year ended

Discount rate	0.30	0.30
LPP interest rate	1.00	1.00

Sensitivity analysis

Discount rate -25 basis points Assumption	248	258
	2.05	0.05
Discount rate +25 basis points Assumption	244	247
	2.55	0.55

Mortality assumptions	BVG 2020 CMI 1.25%	BVG 2020 CMI 1.25%
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Other required disclosure amounts

Contributions expected to be paid to the plan during the annual period beginning after the reporting period	21	18
Average duration of the plan liabilities (in years)	10	10

6.4 Other current liabilities

	Note	2022	2021
Accounts payable for operating expenditure		10	8
Provisions and accrued expenses for operating expenditure		52	52
Deferred contribution		5	11
Current lease liability	6.2	7	7
Total		74	79

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 in accordance with the Honorarium Framework approved by the Global Fund Board (GF/B48/EDP01). Under this framework, the Chair and the Vice-Chair of the Board and the standing committees of the Board are also entitled to receive honoraria as per Board's decision. 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 2022, an aggregate of USD 148,000 (2021: USD 110,500) was incurred 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 2022 (2021: 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	2022	2021
Short-term benefits including salary and allowances	4.7	5.4
Long-term benefits including contributions to the Provident Fund	0.8	0.8
Total remuneration to key management personnel	5.5	6.2

7.2 Taxation

As an international organization with privileges and immunities, the Global Fund has received tax exemptions from Switzerland and the United States, as well as certain grant implementing countries.

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.

Glossary

AFC	Audit and Finance Committee
ALM	Asset Liability Management
CFP	Comprehensive Funding Policy
CHF	Swiss Franc
EUR	Euro
FVTPL	Fair value through profit & loss
GAC	Grants Approval Committee
GHC	Global Health Campus
IFRS	International Financial Reporting Standards
LLIN	Long lasting insecticidal net
PR	Principal Recipient
PPM	Pooled Procurement Mechanism
RoU	Right-of-use
RSSH	Resilient & Sustainable Systems for Health
USD	United States Dollar

Annex 2 – 2022 Statutory Financial Statements

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STATUTORY FINANCIAL STATEMENTS

2022

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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 xx April 2023.

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Statutory Financial Statements

**The Global Fund to Fight AIDS, Tuberculosis
and Malaria, Geneva**

Report of the Statutory Auditor
on the Financial Statements
to the Board

Financial Statements 31.12.2022

The Global Fund to Fight AIDS, Tuberculosis and Malaria Statutory Financial Statements

Independent Auditor's to the Board of

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

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 income, statement of financial position, statement of changes in funds and explanatory notes as at and for the year ended 31 December 2022.

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.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Statutory Financial Statements

Opinion

In our opinion, the financial statements as at and for the year ended 31 December 2022 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 Global Fund Board.

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

KPMG SA

Alexandra Depoire

Auditor in Charge

Licensed Audit Expert

Elodie Elloy

Licensed Audit Expert

Geneva, xx April 2023

Enclosure(s):

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

The Global Fund to Fight AIDS, Tuberculosis and Malaria Statutory Financial Statements

Statement of Income

for the year ended 31 December

In millions of CHF	Notes	2022	2021
		<hr/>	<hr/>
Operating activities			
INCOME			
Contributions	4.1	6,623	3,591
EXPENDITURE			
Grants	3.2	(4,450)	(6,206)
Personnel expenses	7.3	(204)	(188)
Other operating expenses	6.1	(174)	(109)
Total		<hr/> (4,828) <hr/>	<hr/> (6,503) <hr/>
Net operating income/(loss)		1,795	(2,912)
Financing and investing activities			
Net foreign exchange (expense)/ income	5.6	(289)	25
Foreign exchange translation difference	5.7	-	293
Financial (expense)/ income, net	5.8	(69)	68
Discounting on long-term financial positions	5.9	(120)	(26)
Total		<hr/> (478) <hr/>	<hr/> 360 <hr/>
Increase/(Decrease) in funds		1,317	(2,552)
		<hr/> <hr/>	<hr/> <hr/>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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Statement of Financial Position

As at 31 December

In millions of CHF	Notes	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents	5.1	125	199
Trust Fund	5.2	5,310	3,822
Contributions receivable	4.2	532	1,561
Other receivables		37	39
Derivate financial instruments at fair value	5.5	64	54
		<u>6,068</u>	<u>5,675</u>
Non-current assets			
Contributions receivable	4.2	1,321	660
Provident Fund Investments	5.3	217	218
Tangible and intangible assets	6.2	39	46
		<u>1,577</u>	<u>924</u>
Total Assets		<u>7,645</u>	<u>6,599</u>

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Statutory Financial Statements

As at 31 December

In millions of CHF	Notes	<u>2022</u>	<u>2021</u>
LIABILITIES			
Current liabilities			
Grants payable	3.3	2,803	3,298
Other liabilities		61	65
Derivative financial instruments at fair value	5.5	248	5
Lease liability		7	7
Total		<u>3,119</u>	<u>3,375</u>
Non-current liabilities			
Grants payable	3.3	11	44
Employee benefit liabilities	6.3	219	228
Lease liability		29	36
Unrealized foreign exchange and translation gains		63	29
Total		<u>322</u>	<u>337</u>
Total Liabilities		<u>3,441</u>	<u>3,712</u>
FUNDS			
	Notes	<u>2022</u>	<u>2021</u>
Temporarily restricted funds	7.2	46	60
Unrestricted funds	7.2	4,158	2,827
Total Funds		<u>4,204</u>	<u>2,887</u>
Total Liabilities and Funds		<u>7,645</u>	<u>6,599</u>

Chief Financial Officer

Date:

Executive Director

Date:

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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Statement of Changes in Funds

for the year ended 31 December

In millions of CHF

	As at 1 January 2022	Increase/ (decrease)	At 31 December 2022
Temporarily restricted funds	60	(14)	46
Unrestricted funds	2,827	1,331	4,158
Total Funds	2,887	1,317	4,204

	As at 1 January 2021	Increase	At 31 December 2021
Temporarily restricted funds	17	43	60
Unrestricted funds	5,422	(2,595)	2,827
Total Funds	5,439	(2,552)	2,887

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.

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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The Global Fund to Fight AIDS, Tuberculosis and Malaria

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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.

Due to rounding, numbers presented throughout these financial statements may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

These statutory financial statements as at and for the year ended 31 December 2022 were approved by the Global Fund Board on xx April 2023.

Functional and presentation currency

The statutory financial statements are presented in Swiss Francs ("CHF"), by translating the IFRS financial statements, after eliminating IFRS operations, reported in the Global Fund's functional currency (USD) at the foreign exchange rate between USD: CHF prevailing at the end of the year for the Statement of Financial positions as specified in Note 5.4. Funds are presented at the historical rate. Starting 2022, statement of Financial Income is translated at the average rate of the year.

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The differences resulting from this translation (refer to note 5.7) are recorded 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 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.

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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	2022	2021
Grants approved but not signed	391	978
Grants signed but not committed	4,319	7,291
Total: Contingent liability for grants to Principal Recipients	4,710	8,269
Strategic initiatives	-	7
Total	4,710	8,276

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	CHF millions
BY CATEGORY	2022	2021
Grants for Principal Recipients	4,353	6,163
Grants under recovery	(3)	(4)
Strategic Initiatives	100	47
Total: Grants	4,450	6,206

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3.3 Grants payable

Grants payable within one year

As at 31 December	<u>2022</u>	<u>2021</u>
By grant source currency		
USD	2,552	3,076
EUR	439	460
Net grants payable within one year in equivalent CHF	2,795	3,289
Strategic initiatives	8	9
Net Grants payable within one year	<u>2,803</u>	<u>3,298</u>

Grants payable after one year

Net grants payable beyond one year in equivalent CHF	<u>11</u>	<u>44</u>
Net Grants payable after one year	<u>11</u>	<u>44</u>
Total grants payable in equivalent CHF	<u>2,814</u>	<u>3,342</u>

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Notes to Statutory Financial Statements

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 <u>2022</u>	CHF millions <u>2021</u>
DONOR CONTRIBUTIONS		
By donor category		
Governments	6,315	3,541
Others	<u>308</u>	<u>50</u>
Total	<u>6,623</u>	<u>3,591</u>

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 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:

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Contributions receivable

	CHF millions	CHF millions
As at 31 December	<u>2022</u>	<u>2021</u>
Receivable in 2022	-	1,567
Receivable in 2023	532	15
Receivable in 2024 or after	1,496	705
Gross contributions receivable	<u>2,028</u>	<u>2,278</u>
Discounted	(175)	(57)
Net present value of contributions receivable	<u>1,853</u>	<u>2,221</u>

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

4.3 Conditional contribution

The Global Fund entered into several contribution agreements that are subject to performance obligations to be measured and reported over the period of the agreement.

Given the uncertainty associated with the future encashments in respect of such donor agreements, CHF 37 million (2021: CHF 309 million) will be recognized as revenue in the financial year in which such conditions are satisfactorily fulfilled.

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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 financial statements.

As at 31 December	CHF millions 2022	CHF millions 2021
Amounts held in commercial banks	125	199

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.

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

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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	CHF millions
	2022	2021
Equity	48	48
Fixed income	119	124
Real estate funds	50	46
Total	217	218

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:

	2022	2021	% Fluctuation
Key foreign currencies			
AUD	0.6814	0.7257	(6)
EUR	1.0704	1.1313	(5)
CAD	0.7380	0.7856	(6)
CHF	1.0815	1.0937	(1)
GBP	1.2098	1.3503	(10)

[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

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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
<i>As at 31 December</i>	<u>2022</u>	<u>2021</u>
Assets		
Within 12 months	<u>64</u>	<u>54</u>
Liabilities		
Within 12 months	<u>(248)</u>	<u>(5)</u>
Total	<u>(184)</u>	<u>48</u>

The following table presents the notional value and the fair value of derivative financial instruments by currency as at 31 December 2022:

Currency	Notional value in millions	Forward contracts at fair value in CHF millions
AUD	242	(6)
CAD	1,310	-
CHF	(455)	18
DKK	375	(5)
EUR	1,186	(138)
GBP	998	(31)
NOK	2,000	(8)
SEK	2,700	(12)
Total		(184)

The following table presents the notional value and the fair value of derivative financial instruments by currency as at 31 December 2021:

Currency	Notional value in millions	Forward contracts at fair value in CHF millions
AUD	107	2
CAD	533	12
CHF	-222	-
DKK	108	1
EUR	-162	18
GBP	394	11
NOK	689	1
SEK	807	5
Total		48

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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	<u>2022</u>	<u>2021</u>
BY NET POSITION		
Net foreign exchange (loss) on assets	(292)	(19)
Net foreign exchange gain on liabilities	<u>3</u>	<u>44</u>
Total: Net foreign exchange (loss)/ gain	<u>(289)</u>	<u>25</u>

5.7 Foreign exchange translation

The foreign exchange translation represents foreign exchange differences resulting from the translation of accounts from functional currency to presentation currency.

5.8 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
	<u>2022</u>	<u>2021</u>
Trust Fund gains, net	(67)	70
Trustee fees	<u>(2)</u>	<u>(2)</u>
Total	<u>(69)</u>	<u>68</u>

5.9 Discounting on long-term financial positions

	CHF millions	CHF millions
By financial position	<u>2022</u>	<u>2021</u>
Contributions receivable	(121)	(26)
Grants payable	<u>1</u>	<u>-</u>
Total	<u>(120)</u>	<u>(26)</u>

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Notes to Statutory Financial Statements

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 <u>2022</u>	CHF millions <u>2021</u>
External assurance	54	48
Professional fees	37	33
Others	60	38
Total Secretariat costs	151	119
Provident Fund valuation	23	(10)
Total	174	109

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 2022	Additions	Depreciation	Net asset value at 31 Dec 2022
Leased assets				
Head lease: ROU-GHC	41	-	(7)	34
Tangible assets	3	4	(3)	4
Intangible assets	2	-	(1)	1
Total	46	4	(11)	39

Asset category	Net assets at 01 Jan 2021	Additions	Depreciation	Net asset value at 31 Dec 2021
Leased assets				
Head lease: ROU-GHC	48	-	(7)	41
Tangible assets	4	-	(1)	3
Intangible assets	4	-	(2)	2
Total	56	-	(10)	46

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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	2022	2021
Benefit obligation at beginning of year	228	202
Previous year adjustments	(31)	10
Contributions during the year	37	34
Exit benefits paid	(13)	(16)
Premiums and expenses paid	(2)	(2)
Benefit obligation at end of year	219	228

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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 24 million towards notional internal taxation for staff personal taxation (2021: CHF 21 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 2022 and 2021 exceeded 250.

Annex 3 – Relevant Past Board and Committee Decisions

Relevant past Decision Point	Summary and Impact
<u>GF/B47/DP07: Board Leadership Term</u> ²	The Bylaws provide, in relevant part, that the Audit and Finance Committee shall have oversight of the external audit, that the Board or a Committee with delegated authority shall select an external, independent auditor to annually audit the accounts of the Global Fund, and such auditor shall deliver a written report of its audit findings to the Board or a Committee with delegated authority. The Bylaws were last amended to extend the Board Leadership term.
<u>GF/AFC19/DP02: External Audit Plan and Fees (July 2022)</u>	Based on its review and discussion, the Audit and Finance Committee approves the External Audit Plan for the year ending 31 December 2022 and the related fee arrangements for the 2022-2024 term.
<u>GF/B47/DP08 (May 2022): Leveraging the Work of the Standing Committees</u> ³	Based on the recommendation of the Ethics and Governance Committee, the Board approved amendments to the Charter of the Audit and Finance Committee.
<u>GF/B46/EDP24 (May 2022): Appointment of the External Auditor</u> ⁴	Based on the recommendation of the Audit and Finance Committee, the Board authorized the appointment of KPMG SA as the Global Fund’s external auditor.

² <https://www.theglobalfund.org/kb/board-decisions/b47/b47-dp07/>

³ <https://www.theglobalfund.org/kb/board-decisions/b47/b47-dp08/>

⁴ <https://www.theglobalfund.org/kb/board-decisions/b46/b46-edp24/>