The Global Fund
2017 Annual Financial Report

Contents

MANAGEMENT REPORT

YEAR UNDER REVIEW

In 2017, at the start of a new three-year grant cycle at the Global Fund, our most important development was moving forward with new grants. As many countries prepared and submitted requests for funding, our country teams worked closely with Principal Recipients. Designing grants to achieve impact on HIV, TB and malaria is a multi-faceted endeavor, where our partnership model can be highly effective. As this report shows, we were able to facilitate the preparation and approval of 86 percent of the 2017-2019 allocation, for 198 grants in nearly 100 countries. The remaining funds will be approved for activities in 2018. At the same time, we made impressive progress toward improving program impact, exploring innovative finance, developing sharper risk management, and performing extensive work to promote and protect gender equality and human rights.

While new grants were being prepared, the Global Fund continued to disburse planned amounts of funding in the closing year of the previous cycle. In 2017, the Global Fund disbursed $4.3 billion for programs that prevent, treat and care for people affected by AIDS, TB and malaria, while building resilient and sustainable systems for health.

During 2017, the Secretariat launched its Grant Operating System, a new data platform and a key enabler for strong delivery of programs in the fight against the three diseases. The organization can now leverage aligned and standardized templates, enhanced review and approval processes, end-to-end capabilities, strengthened controls and more timely and robust portfolio data. These are applicable to critical stages of the grant lifecycle, master data management, annual performance reviews, funding decisions and the disbursement process. In achieving these operational efficiencies the Secretariat is now in a better position to set new standards for transparency and effective use of grant portfolio data.

Another important event during 2017 was preparing for our move to the Global Health Campus. The new office space is designed to encourage increased effectiveness and collaboration, both across the different parts of the Global Fund, and with other partners who share the Campus.

With significant organizational maturity, and firm financial practices, business continuity was maintained. We are pleased to share these financial statements, which have been audited by KPMG SA. The Annual Financial report for 2017 not only demonstrates a strong financial position but also the solid internal control environment within which the Global Fund functions.

We remain committed to an on-going improvement through innovation and focused prioritization in order to drive implementation and impact.

Sylvie Billion
Interim Chief Financial Officer

Peter Sands
Executive Director

LETTER FROM THE CHAIR AND VICE-CHAIR OF THE BOARD

The 2017 Annual Financial Report provides the consolidated financial statements for the Global Fund, reflecting continuous improvement and the effective and efficient use of financial resources to support programs prevent, treat and care for people affected by AIDS, TB and malaria.

The essential financial operations that underpin the work of the Global Fund partnership in its collective efforts all over the world are outlined here. The report shows that the Global Fund continues to enhance operations and systems to maximize the impact of every dollar toward achieving our mission.

The 2017-2022 Global Fund Strategy to accelerate impact to end HIV, TB and malaria as epidemics is predicated on constant improvement of operations. While successfully implementing the Strategy requires the expertise, effort, and innovative spirit of many diverse stakeholders, effective financial management is the indispensable foundation. This report indicates that the financial foundation and its management by the Global Fund Secretariat remains strong.

Selected by the Board in 2017, we are honored to serve as Board Chair and Vice-Chair of the Global Fund. On behalf of the entire Board, we would like to congratulate Peter Sands, who was selected in November 2017 as the Global Fund's new Executive Director.

We would also like to extend special thanks to Sylvie Billion, the interim Chief Financial Officer, who has made numerous contributions to the Global Fund since she arrived in 2012, including setting up the treasury function, guiding the comprehensive funding policy and establishing a hedging policy. The 2017 Annual Financial Report represents a culmination of work led by Sylvie, with contributions of many colleagues in the Secretariat, working together with members of the broader Global Fund partnership.

Aida Kurtovic
Chair of the Board

Ambassador John Simon
Vice-Chair of the Board

KEY FINANCIAL RESULTS

Statement of activity (in millions of USD)	**2017**	**2016**	**2015**
Contributions	4,153	5,194	2,189
Grant expenditure	3,044	3,969	4,389
Operating expenses (including Provident Fund valuation)	289	277	298
Foreign exchange result, net	(54)	(4)	(110)
Financial income, net	98	64	17
Loss on actuarial valuation of defined benefit obligation towards employee benefits	(4)	(1)	(4)
Other OCI adjustments	-	(1)	(2)
Increase/ (decrease) in funds	**860**	**1,007**	**(2,597)**

Statement of financial position (in millions of USD)	**2017**	**2016**	**2015**
Cash and cash equivalent, including Trust Fund assets	3,121	3,828	3,069
Contributions receivable	3,981	3,407	2,881
Other assets	268	345	233
Grants payable	1,877	3,061	2,656
Other liabilities	313	199	214
Funds	**5,180**	**4,320**	**3,313**

Statement of cash flows (in millions of USD)	**2017**	**2016**	**2015**
Cash receipts from donors	3,856	4,404	2,255
Grants disbursed	(4,258)	(3,591)	(3,318)
Cash paid for other operating activities	(280)	(264)	(275)
Cash on settlement of derivative financial instruments	(110)	146	10
Cash used for investing activities, before Trust Fund movements	65	54	2
FX gains/ (loss) on cash	20	10	(8)
(Decrease)/ increase in operational cash position (cash and cash equivalent, and Trust Fund)	**(707)**	**759**	**(1,334)**

Other key information			
Grant contingent liability (in millions of USD)	7,986	3,412	5,453
Number of active grants	401	360	340
Number of employees	758	740	702

Key Performance Indicators ("KPI")			Performance	
Strategic Objective	**KPI**	**2017 Actual**	**2017 Target**	**Commentary**
Build resilient & sustainable systems for health	Allocation utilization: Portion of allocation that has been disbursed or is forecast to be disbursed	92%	New KPI (2018-2020 target is 91-100%)	Allocation utilization is 89% based on actuals only.
Mobilize increased resources	Actual pledges as a percentage of the 5th replenishment target	99%	100% by 2019	5th replenishment pledges total USD 12.9 billion; There has been no major announced pledge since replenishment.
	Pledge conversion rate – Actual & forecasted 5th replenishment contributions as a percentage of initial forecast	100%	100% by 2019	Since the baseline was established based on initial sources of funds approved by the AFC in October 2016, there have been no changes in pledges forecasted to be received.

ORGANIZATIONAL BACKGROUND

1. VISION, MISSION AND STRATEGY

The Global Fund is a 21st-century partnership organization designed to accelerate the end of HIV/AIDS, 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 nearly USD 4 billion a year to support programs run by local experts in more than 140 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, and
- 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. In early 2017, the Secretariat developed an internal Strategy Implementation Plan ("SIP") to operationalize the Strategy. The SIP is linked to the Board-approved Key Performance Indicator ("KPI") Framework (GF/B35/EDP05). Progress against the SIP is shared with the Strategy Committee and Board level through:

i. A semi-annual overview report that details progress on each sub-objective; and

ii. Deep-dive sessions at each Strategy Committee meetings. Progress against KPIs is shared with the Strategy Committee, Audit and Finance Committee and Board on a semi-annual basis.

2. LEGAL STATUS

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

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

3. CORE STRUCTURES

The Global Fund operates within the following core structures:

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

   The Board's three standing committees are:

   - the Audit and Finance Committee ("AFC");
   - the Ethics and Governance Committee ("EGC"); and
   - the Strategy Committee ("SC").

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

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

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

4. PROGRAM STRUCTURE

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

1. The Country Coordinating Mechanism ("CCM"), a partnership composed of key stakeholders in a country's response to the three diseases, is responsible for submitting funding requests to the Global Fund, nominating the entities accountable for administering the funding, and overseeing grant implementation.

2. The Principal Recipient ("PR"), designated by the CCM, is the recipient of Global Fund financing and utilizes it to implement programs, either directly or through other organizations (sub-recipients).

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

2017 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 greater predictability and enables both the Global Fund and implementing countries to establish long-term plans for fighting the three diseases.

Converting Fifth Replenishment pledges into contributions

As the first year of the Fifth Replenishment Cycle (2017-2019), the focus in 2017 was to sign contribution agreements for the pledges made at the launch of the Global Fund’s Fifth Replenishment in September 2016. In 2017, 21 contribution agreements with public donors were signed in addition to the 11 already signed at the end of 2016. The trend of donors increasingly opting for bilateral contribution agreements with the Global Fund (instead of tripartite agreements) continued with 31 bilateral agreements signed for the Fifth Replenishment period, compared to 6 in the previous one. This shift towards bilateral agreements significantly enhances Secretariat’s ability to perform effective cash and foreign-exchange management.

The net revenue recognized during 2017 was USD 4,153 million (2016: USD 5,194 million), a reduction of 20 percent. This reduction is in line with the expected trend of the Fifth Replenishment cycle 2017-2019 as a few key contribution agreements were already signed and recognized as revenue during 2016. The encashment of all contributions receivable are on track. The effective management of donor and stakeholder relationships continues to be prioritized, and changes in the donor landscape and risks related to future funding are very closely monitored and tightly managed. For 2017, no provision for impairment was deemed necessary for the reporting period.

The contribution income includes:

- USD 3,780 million from public donors (2016: USD 4,871 million);
- USD 312 million from private foundations (2016: USD 289 million);
- USD 59 million from Product (RED) (2016: USD 35 million);
- USD 14 million from private corporations (financial sector) and international not-for-profit organizations (2016: USD 36 million).

Ongoing resource mobilization efforts

The Global Fund also actively worked to mobilize new pledges throughout 2017, with strong advocacy by civil society and partners worldwide and in line with the Action Plan for Ongoing Resource Mobilization that the Secretariat presented to the Board in May 2017. The cumulative amount of new pledges received for the 2017 to 2019 period since the Replenishment Conference in September 2016 is USD 35.1 million.

Renewed interest in Debt2Health

In November 2017, Spain became the third creditor nation supporting Debt2Health. Debt2Health is an innovative financing mechanism designed to encourage domestic financing in health by converting debt repayments into lifesaving investments in health. Under individually negotiated debt swap agreements, a creditor foregoes repayment of a loan when the beneficiary nation agrees to invest part or all of the freed-up resources into a Global Fund-supported program. Under three new deals, Spain will cancel outstanding debts amounting to a total of EUR 36 million, which will allow Cameroon to invest EUR 9.3 million in programs to fight HIV; the Democratic Republic of Congo to invest USD 3.4 million in projects to fight malaria; and Ethiopia to invest EUR 3.2 million in initiatives to strengthen its health system.

Since its launch in 2007, Debt2Health has agreed debt conversions of more than EUR 200 million thanks to support by Germany, Australia and, more recently, Spain. During the Fifth Replenishment Conference, Germany announced that it would channel up to EUR 100 million to the Global Fund through new debt swap agreements. Discussion are currently ongoing with Germany and others on the creditor side, and potential beneficiary countries.

2. THE FUNDING MODEL

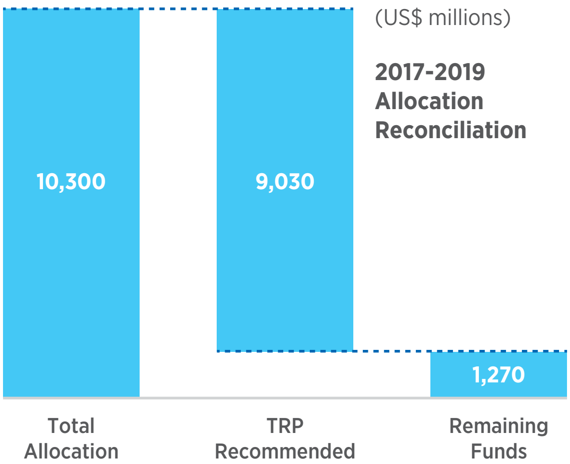
Update on 2017-2019 Allocation

For the 2017-2019 allocation period, the Global Fund Board has designated USD 10.3 billion in allocation funding and USD 800 million for catalytic funding (GF/B36/DP05). Of this catalytic funding USD 346 million has been designated for Matching Funds and USD 260 million for Multicountry Proposals. The remaining amount of USD 194 million is for Strategic Initiatives, which are managed by the Secretariat.

Applicants can apply for allocation funding, matching funds or multicountry funding, depending on eligibility.

Figure 1 below provides an update on the current status of the USD 10.3 billion 2017-2019 allocation:

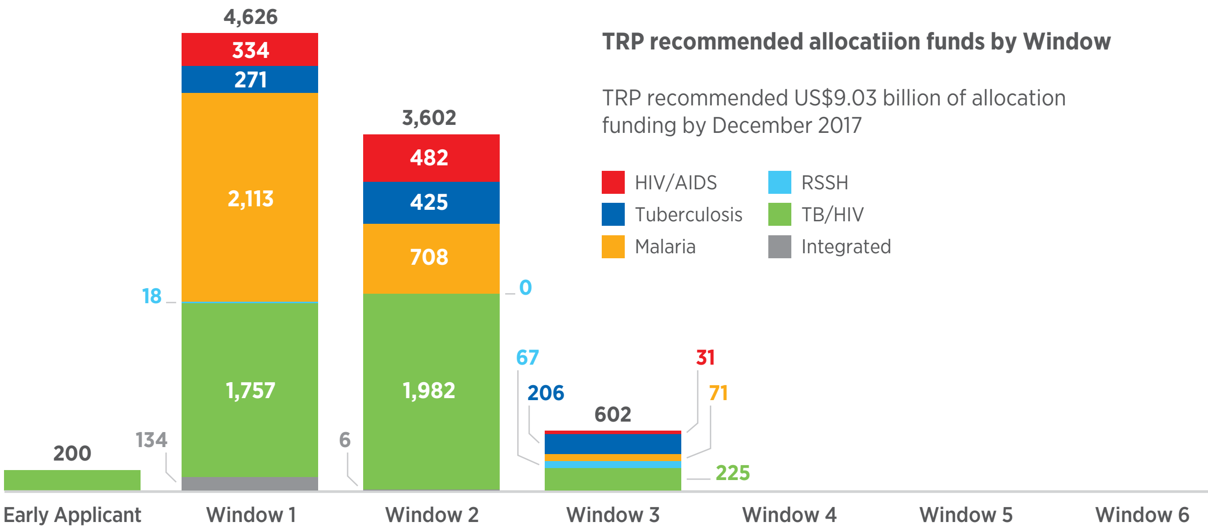
FIGURE 1:
2017-2019 Allocation



Source: Access to Funding database
As of 22 January 2018
Note: Includes Early applicant, Windows 1, 2 & 3

A detailed analysis of the 2017-2019 allocation by window and by the disease component is provided below:

FIGURE 2:
Allocation funding recommended for the period 2017-2019



Source: Access to Funding database
As of 22 February 2018

During 2017, there were three submission windows for funding requests. The outcome of review and evaluation of these funding requests is summarized below:

- In windows 1, 2 and 3 the Technical Review Panel ("TRP") reviewed requests for USD 9,514 million in allocation funding from a total of 164 new applications and 8 iterations[1]. From these submissions the TRP recommended USD 8,830 million representing 86% of allocation funding in 2017[2]. 198 grants[3] from these funding requests approved in 2017 had been recommended by the Grant Approvals Committee ("GAC") to the Board for approval by December 2017.

- The TRP has recommended three multicountry proposals in 2017, for a total of USD 148 million awarded in multicountry catalytic investments. One multicountry grant[4] had been recommended by the GAC to the Board for approval by December 2017.

- The TRP reviewed 67 requests (61 new submissions and 6 resubmissions) for matching funds from catalytic investments and recommended 55 matching fund requests for a total of USD 253 million.

- In 2017, USD 3,896 million in Prioritized Above Allocation Requests ("PAAR") were made in Windows 1, 2, 3 and remote reviews. The TRP recommended USD 3,100 million as quality demand, recorded on the Register of Unfunded Quality Demand[5].

As at 31 December 2017, the overall status of 2017-2019 allocation period[6] is as follows:

- The TRP recommended USD 9,030 million for grant making, representing 88% of allocation funding.

- The TRP also recommended USD 253 million of matching funds for grant making, representing 81% of total matching funds[7] available, and USD 148 million[8] of multicountry funds, representing 57% of total multicountry funds available.

- By 31 December 2017, the GAC recommended 203 grants amounting to USD 8,818[9] million to the Board for approval which included:

  - USD 179 million of matching funds

  - USD 142 million of multicountry funding

  In addition, there was USD 201 million in extensions to ensure program continuity.

- By 31 December 2017, the Board approved 169 grants amounting to USD 7,595[10] million which included:

  - USD 152 million of matching funds,

  - USD 119 million of multicountry funding

  In addition, there was USD 172 million in extensions to ensure program continuity.

- USD 2,391 million was listed on the Register of Unfunded Quality Demand as of 31 December 2017.

[1] The number of applications and allocation includes the multicountry East Asia and Pacific Regional Artemisinin-resistance Initiative ("RAI") application as it had both allocation and catalytic multicountry funding. Other multicountry applications are excluded as they do not contain allocation funding.

[2] In 2016, TRP also recommended USD 200 million representing 2% of allocation funding for Myanmar that was an early applicant, making the total TRP recommended amount from 2017-2019 allocation equal to USD 9,030 million.

[3] Includes multicountry East Asia and Pacific RAI grant as it had both allocation and multicountry funding. Excludes other multicountry grants submitted for GAC approval.

[4] Excluding multicountry East Asia and Pacific RAI grant as this has been included in the country funding requests using allocation funds.

[5] The Register is available for download on the Register of Unfunded Quality Demand page. Note: the amount in the register is the remaining UQD amount after grant-making and no longer corresponds to what was originally recommended as total quality demand by the TRP.

[6] Overall status includes data on Early Applicant, Windows 1-3, remote TRP reviews, and all GAC meetings and Board approvals in 2017.

[7] Matching funds that will be reviewed by the TRP excludes USD 33 million for malaria.

[8] TRP recommended multicountry funds include USD 119 million recommended for multicountry East Asia and Pacific RAI

[9] Amounts at allocation FX rate. At spot rate, the amounts are USD 8,881 million GAC recommended with USD 179 million of matching funds and USD 142 million of multicountry funds

[10] Amounts at Allocation FX rate. At spot rate, the amounts are USD 7,641 million Board approved with USD 152 million of matching funds and USD 119 million of multicountry funds.

3. OPERATIONAL INSIGHTS

As a part of Secretariat's on-going efforts to enhance the management report included in the Annual Financial Report, each year a few select country case studies will be presented to reflect the partnership between the Global Fund and its Principal Recipients augmenting financial management capacity.

INDIA:
Financing national disease programs

The Global Fund grants in India operate under a unique model of reimbursement basis, fully followed as of 2017. Unlike in other countries where the Global Fund advances funds for implementation, in India it is the government that pre-finances the entire HIV, TB and malaria national programs in anticipation of the cash flow from the signed grants, and post-implementation the Ministry of Finance request a reimbursement from the Global Fund for the expenditure that complies with the approved grant budgets and requirements.

This model is distinct to India, but at the same time an exemplary operational framework as it entails a number of advantages.

First and foremost, there is full alignment and integration of the Global Fund grant budgets within the disease strategic plans and national budgets; this ensures that the grants do not exceed or deviate from the budget approvals the Ministry of Finance grants to the Ministry of Health, and they strictly finance national priorities part of the annually approved program budgets; therefore in the long term interventions can be easily transferred back to domestic financing, an arrangement which paves the road for smooth sustainability and transition.

Second, from a risk and assurance perspective, the fact that the Government of India pre-finances the programs guarantees that all expenditures comply in the first place with the strict government of India rules, procedures and approval processes and at the same time they follow the Global Fund specific budget and grant requirements to allow for reimbursement – this set-up serves as a double assurance framework, and recognizing this the Global Fund has invested a lot in understanding the specifics of the Government of India's internal controls and the reliance that can be placed on them.

Last but not least, within this framework the Global Fund also places importance on leveraging for increased domestic contributions by assigning conditionality for certain reimbursements to take place subject to demonstrated government co-financing; this approach has advocated for minimum USD 55 million increased domestic contribution to multi-drug resistant ("MDR") TB in 2017/18, and similar approach is being applied to investments on viral load for HIV and on TB related procurement in the coming years.

Overall, the model of government pre-refinancing and post fact expenditure allocation comes with notable operational, assurance and sustainability advantages. The Global Fund will continue to explore this model with other growing economies.

In addition, the Global Fund supported the Government of India on rolling out Public Financial Management System ("PFMS") to facilitate improved visibility on the fund flows within the above described model. This is the Government of India's integrated financial management information system ("IFMIS") solution to capture both fund flows and accounting across centre-state-district level. Roll-out in 2017 was facilitated with support from the Global Fund and re-training on the job technical assistance will continue in the new implementation period. The roll out of PFMS across the disease programs is a way forward to improve the historically compromised timeliness and accuracy of financial data with impact on decision-making. This is due to the size of the country and the capability to capture data adequately at all levels; low system integration across various levels of the country (centre-state-district) and manual reporting process. With the roll out of PFMS, financial data across all levels from centre- state-district-block and even end user are being integrated and this obviously improves the transparency and controls over fund flows, as well as timeliness and accuracy of reporting. While this is still work in progress as it impacts multiple layers of government entities, there is already significant progress in the coverage across states and districts that have been trained and are using the system. Direct benefit from the PFMS roll out will be the launch of a huge patient support scheme for TB in the new implementation period. Cash transfers to all MDR TB patients will be executed through PFMS with direct link to patient accounts, which on its own will be a huge undertaking for the National TB program but also an important step in the use of PFMS and the transparency it provides.

MALAWI:
Multi-pronged financial management efficiencies

Besides the significant progress made by Malawi in its fight against the three diseases, the country is a strong partner for the Global Fund in the development of its core public health operational and financial management capacity. In 2016, Malawi moved away from a purely government-centric implementation arrangement by introducing two international NGOs ("INGO"). The INGOs are spearheading the implementation of community-led activities. The overall uptake of allocated resources to Malawi has since improved. Through these additions, Malawi has expanded its programming to include some Global Fund Strategy (2017-2022) priority interventions for adolescent girls and young women ("AGYW") and better data management systems.

During 2017, complementing support from the governments of United Kingdom and United States of America, Malawi used Global Fund resources to address the issue of limited and inefficient drug storage at health facilities by investing in more storage facilities. This helped to mitigate the risk of poor stock management. Under the project, 90 health facilities were equipped with more storage space using Global Fund support. This covered about a quarter of the need.

Since 2016, the Global Fund has been working closely on improving cashless transactions. During 2017, the Global Fund and all the in-country Principal Recipients launched a joint project of improving the in-country cash management processes through the cooperation with local banks like Ecobank, Standard Bank (donors to the Global Fund) and local mobile service providers. This has led to significant improvements in the overall cash management.

Similarly, in 2017, with Global Fund support, Malawi secured alternative energy (solar power) to provide and maintain uninterrupted, sustainable power to 85 health and storage facilities. Besides the immediate impact on the Global Fund supported programs, these investments are strengthening Malawi's access to cleaner, domestic and sustainable sources of energy.

RWANDA:
Alignment with the Principal Recipient's fiscal year

In 2014, The Global Fund partnered with the government of Rwanda to pilot a Results Based Financing ("RBF") model, encouraging Rwanda to maintain its high performance and sustain program impact despite reductions in funding thereby driving efficiencies, value for money and further strengthening national health systems.

RBF represented a major paradigm shift in how Global Fund resources were managed, moving from checking receipts to measuring results with mutual accountability and shared risks and thus reinforcing partnership and strategic engagement at key levels of government such as with the Ministry of Finance, Office of Auditor General and Ministry of Health.

A major achievement moving into the next implementation cycle is the agreement in principle to align the programmatic and financial audit reporting of the Global Fund grants with the national fiscal year. Misalignment delinks funding with performance measurement cycle and audit consequently creating an additional reporting burden and operational inefficiencies. Therefore it was agreed to align the global fund grants with the national system (programmatic reporting and audit reporting). This alignment will be effective as of 1 January 2018, to align with the 2017-2019 allocation period. This was accomplished by maintaining both a pragmatic mind-set and fostering innovative ideas among both parties throughout the process. And as a result, the partnership between both the Global Fund the Rwanda government for collaboration has further strengthened.

4. THE GLOBAL HEALTH CAMPUS

In March 2018, the Global Fund moved to its new home in the Global Health Campus. More than just a new building, the Global Health Campus is an environment designed to support collaboration with colleagues and partners, and to save money in delivering greater impact to the people we serve.

A key driver of the project has been value for money, a primary concern for the Global Fund, donors and partners. The Health Campus represents an overall investment for the Global Fund of about USD 28 million, and the Global Fund estimates to reduce recurrent spending by USD 57 million over the 10 years lease period compared to BIBC building recurring costs. It will yield an estimated return on investment of about USD 29 million for the Global Fund, with break-even expected to be achieved in under five years.

In bringing together five of Geneva's global health organizations – the Global Fund, Gavi, Roll Back Malaria, Stop TB and UNITAID – the vision is for the Global Health Campus to be a place that unlocks the collective potential of the organization's distinctive missions and inspires collaboration and innovation, so we can deliver greater impact for the people we serve. It also provides opportunities for additional operational efficiencies.

In March 2017, the respective leaderships of Gavi and the Global Fund agreed an equal partnership in the Health Campus. At one level, the agreement simply formalized the strong spirit of collaboration with which the respective project teams have already been working together over the past months. But the agreement also represents an important strategic milestone. Acting as joint investors in the Health Campus brings clarity to the way in which the Global Fund and Gavi make decisions together, and greater agility to the way these decisions are implemented and financed. This is hugely significant not only for the collective ability to deliver a successful move, but as the basis for a lasting partnership. This partnership creates a strong joint governance architecture to guide us and a real momentum and energy, borne of a shared commitment.

Delivering all of this is complex, requiring the creation of an inter-disciplinary, inter-departmental and multi-organizational project team. This has been established to manage everything from the practical aspects of the move, such as construction and IT infrastructure, to supporting some of the cultural changes ahead, such as working in an open-plan environment, and negotiating all the legal and contractual hurdles in between.

The Management Executive Committee of the Global Fund has also been closely engaged in the project, working closely with the campus project's Steering Committee in providing leadership and defining the ambition and vision for the Global Fund's new home. Meanwhile, a comprehensive change management strategy has been developed to help ensure a smooth move to the campus, and to fully realize the potential of the new building in driving efficiency, effectiveness and staff wellbeing.

5. ETHICS FUNCTION

The Global Fund made progress in embedding ethical considerations into decision-making at multiple levels. Headlines include: integrity due diligence and deeper conflict of interest assessment were deployed in a number of contexts, including Board Leadership, Executive Director and Committee Leadership selection. The Board approved the Policy to Combat Fraud and Corruption. The Code of Conduct for the members of Country Coordinating Mechanism ("CCM"), to be presented to the Board at its May 2018 meeting, and its enforcement became a core part of the CCM Evolution initiative and underwent significant consultation. There has been continued focus on upholding the accountability to behave in line with the Global Fund's existing codes of conduct. During 2017 the Ethics Office also become more established. Over 400 people were reached with awareness raising and training activities. Case statistics show that many individuals from Governance and the Secretariat are approaching the Ethics Office for advice on conflicts of interest, code of conduct topics and ethical dilemmas. The Ethics Office has handled over 150 advice cases of widely varying complexity.

2017 FINANCIAL REVIEW

The overall financial position of the Global Fund is affected by the following core components:

1. Donor pledges and contribution agreements;
2. Treasury management;
3. Grant liabilities;
4. Operating costs of the Global Fund; and
5. The Global Fund Provident Fund.

1. DONOR PLEDGES AND CONTRIBUTION AGREEMENTS

During the financial year ended 31 December 2017, the Global Fund recognized USD 4,153 million in contribution income (2016: USD 5,194 million), net of present value discounting of USD 12 million (2016: USD 37 million). While the contribution from sovereign donors continued to be the lead source of revenue at 91 percent (2016: 93 percent), the contributions from international foundations increased to USD 312 million (2016: USD 289 million). This represents 8 percent of total contribution income (2016: 6 percent). The remaining 1 percent is made up of contributions from corporations, Product (RED) and international not-for-profit organizations.

New donors like Uganda, Benin and Qatar also made unconditional contributions for the full value of their pledges made at the Fifth Replenishment Conference held in September 2016. The preferred mode of contributions continues to be cash pledges paid through signed contribution agreements including multi-year payment schedules. An increasing number of donors opted for bilateral contribution agreements which extend greater flexibility in cash and foreign exchange management.

During 2017, contribution receipts amounted to USD 3,856 million (2016: USD 4,404 million). The increase in cash receipts was driven by the encashment of last tranche of contributions due under donor agreements for the Fourth Replenishment pledges.

Statement of Pledges and Contributions for the Replenishment Period 2017-2019
As at 31 December 2017

In thousands of donor source currency

The Statement of Pledges and Contributions measures the value of contributions received against the pledges made by the donors at each Replenishment Conference. When measured in equivalent US dollars[11], the total value of the pledges, including additional pledges announced after the Fifth Replenishment Conference, made under the Fifth Replenishment period stands at USD 12.9 billion.

At 31 December 2017, USD 3.2 billion has been received in cash and other financial instruments deposited with the Global Fund. This reflects the actual cash realized at the prevailing spot rate.

**A portion of the pledge is reserved for technical assistance and paid in-country directly by the donor.*

A. Contributions for the current Replenishment Period 2017-2019

		Donor source currency		
Donors	Currency	Pledges (Announced)	Total Contributions received	Contributions received in 2017
A.1 Governements				
Australia	AUD	220,000	24,000	24,000
Belgium	EUR	57,000	15,000	15,000
Benin	USD	2,000	2,000	-
Canada	CAD	804,000	270,667	270,667
China	USD	18,000	6,000	6,000
Côte d'Ivoire	USD	1,000	-	-
Denmark	DKK	300,000	-	-
European Commission	EUR	475,000	181,315	181,315
France	EUR	1,080,000	342,000	342,000
Germany	EUR	810,000	230,000	230,000
India	USD	20,000	6,000	6,000
Ireland	EUR	30,000	10,000	10,000
Italy	EUR	140,000	38,000	38,000
Japan	USD	800,000	171,828	171,828
Kenya	USD	5,000	2,500	2,500
Korea (Republic of)	KRW	1,957,000	1,957,000	1,957,000
Korea (Republic of)	USD	10,000	2,000	2,000
Kuwait	USD	6,000	2,500	2,500
Liechtenstein	CHF	100	100	100
Luxembourg	EUR	8,100	2,700	2,700
Namibia	USD	1,500	-	-
Netherlands	EUR	166,000	53,733	53,733
New Zealand	NZD	1,000	500	500
Nigeria	USD	10,000	-	-
Norway	NOK	2,000,000	600,000	600,000
Portugal	EUR	100	100	50
Qatar	USD	10,000	3,333	3,333
Saudi Arabia	USD	15,000	5,000	5,000
Senegal	USD	1,000	-	-
South Africa	USD	5,000	2,000	2,000
Sweden	SEK	2,500,000	800,000	800,000
Switzerland	CHF	57,000	20,000	20,000
Thailand	USD	4,500	1,500	1,500
Togo	USD	1,000	-	-
Uganda	USD	1,500	-	-
United Kingdom	GBP	1,100,000	470,000	317,060
United States	USD	4,300,000	558,000	558,000
Zambia	USD	3,000	-	-
Zimbabwe	USD	1,000	100	100
Debt2Health: Côte d'Ivoire/Germany	EUR	1,082	1,047	1,047
Debt2Health: Cameroon/Spain	EUR	9,318	9,318	9,318
Debt2Health: Ethiopia/Spain	EUR	3,191	3,191	3,191
Debt2Health: DRC/Spain	USD	3,160	-	-
Debt2Health: DRC/Spain	EUR	217	-	-
A.2 Private Foundations				
Gates Foundation	USD	600,000	202,700	102,700
Comic Relief	GBP	12,000	4,900	1,700
Comic Relief	USD	9,000	5,800	3,200
Fullerton Health Foundation	SGD	7,500	-	-
Tahir Foundation	IDR	500,862,400	95,765,240	95,765,240
Takeda Pharmaceutical	JPY	300,000	92,500	92,500
A.3 Corporations				
Duet Group	USD	2,600	-	-
Ecobank	USD	3,000	250	250
Munich RE	USD	752	251	251
Standard Bank	USD	4,000	667	667
A.4 Others				
Catholic Relief Services	USD	5,000	-	-
Goodbye Malaria	USD	4,000	1,197	1,197
United Methodist Church	USD	7,914	3,770	1,270
RED	USD	100,000	67,330	61,221
Others	USD	34,460	8,682	6,682

[11] The U.S. dollar equivalent value of pledges made in non-U.S. dollar currencies are calculated at an exchange rate based on a five-year moving average, computed on 15 September 2016 from spot rates listed on Thomson Reuters.

2. TREASURY MANAGEMENT

Financial Management Framework

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

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

Asset-liability management

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

At the end of 2017, the Global Fund had sufficient confirmed financial resources-Sources of Funds to meet funding allocated by the Global Fund Board-Uses of Funds. In addition to assets included in the Global Fund's balance sheet, Sources of Funds include adjusted donor pledges and contribution agreements that are not included in financial statements.

Investment Management

The World Bank, acting as the Trustee of the Global Fund Trust Fund, manages the Global Fund's investments as per the investment framework approved by the Finance and Operational Performance Committee of the Board, as precursor to the AFC (GF/FOPC11/DP01). 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 2017, the Global Fund Trust Fund investment balance pool was valued at USD 3,073 million (2016: USD 3,319 million), returned 3.19 percent (2016: 2.29 percent) as the annual rate of return. In absolute terms, the Trustee reported USD 98 million (2016: USD 64 million) as the net investment income on the Trust Fund. The increase in investment income reflects dynamic equity markets in 2017, as well as rising interest rates in USD.

As part of the investment framework managed by the Trustee, the Global Fund has two trust fund tranches (tranche 0 for operational cash and tranche 5 for medium-term investments). As part of Tranche 5, the Trustee invested USD 301 million in equities (2016: USD 251 million), which diversifies the investment portfolio with a view to increase expected return and improve the portfolio's risk/return profile. The annual rate of return on the equity portfolio increased from 9.91 percent in 2016 to 19.77 percent in 2017.

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 approved by the AFC (GF/AFC01/06) was designed for the effective management of risk arising from FX exposures to elements included in the Global Fund's asset-liability management framework. This includes on-balance sheet items, as well as future assets and liabilities pending the signature and recognition of contribution agreements and grant funding decisions (off-balance sheet items), respectively. The hedging of both on and off-balance sheet items is made on a portfolio level and controlled with a specific risk metrics utilizing value-at-risk ("VaR").

FX losses and gains on FX hedging instruments are set against FX losses and gains on on-balance sheet items, i.e. on assets and liabilities, as well as FX effects on off-balance sheet items, which are not reported in the profit and loss accounts. As a result, effects on FX hedging instruments may more than compensate for FX effects on other balance sheet items.

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

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

In the period under consideration, the currencies in which the Global Fund's assets and liabilities are denominated generally increased in value against the Global Fund's functional currency, the US dollar. This led to significant FX gains on assets, as well as more FX losses on liabilities. Conversely, fluctuations in FX rates led to losses on FX hedging instruments. In the period under consideration, and due to the hedging of off-balance sheet items, FX losses on hedging instruments exceeded FX gains on assets and liabilities.

For the year ended 31 December 2017, a net foreign exchange loss of USD 54 million (2016: USD 4 million) is reported on the net balance sheet position. Foreign exchange gains before hedging amounted to USD 268 million (2016: net loss USD 210 million) which was compensated by USD 322 million in fair valuation losses recorded on derivative financial instruments (2016: net gain USD 206 million). The following table summarizes the impact of hedging on net FX results.

USD million	**Before hedges**	**Hedges**	**Net**
Accounting FX results (on-balance sheet)	268	(322)	(54)
Economic FX results (off-balance sheet)	204	-	204
Net FX results	**472**	**(322)**	**150**

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

3. GRANT LIABILITIES

The Global Fund grant expenditure of USD 3,044 million (2016: USD 3,969 million) during 2017 included:

- USD 3,011 million as grant commitments to Principal Recipients for in-country and pooled procurement mechanism ("PPM") activities (2016: USD 3,923 million);
- USD 8 million as Private Sector Co-payments, formerly known as the Affordable Medicines Facility – malaria (2016: USD 32 million); and
- USD 25 million as Strategic Initiatives project expenses (2016: USD 14 million).

During 2017, the Secretariat made new grant commitments for USD 3,011 million, 23 percent lower than the grant commitments made during 2016. It was mainly due to 2017 being the last year of implementation under the 2014-2016 allocation for most country-components. USD 4,258 million was disbursed to implementers during 2017 (2016: USD 3,518 million). This represents an increase of 21 percent. The continued acceleration of in-country implementation and the preparation to kick-off the new grants in early 2018 drove the disbursement increase in 2017.

2017 was also the first year of the 2017-2019 allocation. 84 percent of the new allocation implementing through new grants or extensions in 2018. During 2017 the focus was on getting new grants finalized and signed before year end. As such grant commitments for the new grant agreements will gain momentum in 2018.

The 2017 disbursement level represents a 13 percent compound annual growth rate ("CAGR") versus the annual disbursement level in the first year of the allocation. Cumulative disbursements over the 2014-2016 Allocation now reached USD 13,775 million which represents 85 percent utilization of the 2014-16 Allocation utilization which is on track to reach the 89 percent allocation utilization once the remaining grants end by 2019.

The last months of 2017 also saw the Board approval and signature of many new grants for the Fifth Replenishment. A total of 169 grants amounting to USD 7,986 million were approved by the Board in 2017. Of these grants, 102 were signed in 2017 amounting to USD 5,402 million.

Grants under recovery

The Global Fund made further progress on monitoring and recovering ineligible expenditure of grant funds identified under OIG audits and investigations. Turnaround times for new cases continue to improve compared to legacy cases from pre-2014. The improvement with respect to legacy cases reflects the more rigorous approach to recoveries referred to in previous reports, and the Global Fund is continuing to see considerable benefits.

In respect of ineligible expenditures that arise in the ordinary course of grant management, the Secretariat continued with its on-going efforts to centrally identify and report such expenditures. The internal distribution of an Operational Policy Note on recoveries has assisted in improving overall identification and reporting within the Secretariat. Until 2015, the Global Fund had only reported recoverable amounts that derived primarily from OIG reports, but now reports both OIG-identified amounts and amounts identified in the ordinary course of grant management. The grants under recovery decreased from USD 71 million as at 31 December 2016 to USD 52 million as at 31 December 2017. The 2017 results include USD 16 million of recoverable amounts identified from OIG reports and USD 36 million from non-OIG sources.

4. OPERATING COSTS OF THE GLOBAL FUND

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

During 2017, the Global Fund incurred USD 295 million at spot rate (2016: USD 281 million) for its operating costs. When measured at the 2017 budget rate it resulted in USD 298 million (2016: USD 288 million) thereby yielding a positive foreign exchange gain of USD 2.6 million (2016: USD 7 million).

2017 actual operating costs of USD 298 million represent highest absorption rate (99 percent) achieved on annual operating budget capped at USD 300 million. Included in the variance of (USD 2.4 million) against the budget at budget rate is USD 1.9 million relates to OIG costs.

Operating costs as a percentage of total expenditure increased to 8.9 percent in 2017 (2016: 6.6 percent) driven by a 5 percent increase in operating costs at spot rate and a much higher 23 percent decrease in grant expenditure over 2016.

For the year 2018, the Board has approved an annual operating cost budget of USD 312 million (GF/B38/DP06). This includes USD 12 million towards one-off cost for the Health Campus. Based on the 2018 budget and 2017 actual spend, mechanically, an amount of USD 290 million remains for the year 2019, to remain within the approved allocation for operating expenses of USD 900 million over the 2017–2019[12] period.

5. THE GLOBAL FUND PROVIDENT FUND

The Global Fund maintains a Provident Fund scheme for the benefit of its employees. The Provident Fund is administered in Swiss Francs (CHF) consistent with other employee remuneration. As at 31 December 2017, when measured in CHF, the Provident Fund assets fully cover the underlying employee benefit liability.

For the purposes of the consolidated financial statements, the Provident Fund assets are translated into USD. The Provident Fund qualifies as a defined benefit obligation under IAS-19 Employee Benefits and accordingly is subject to an annual actuarial valuation. Following the technical valuation by an external actuary, the net employee benefit obligation was valued at USD 155 million (2016: USD 132 million). This obligation is composed of USD 154 million (2016: USD 128 million) towards the actual liability for Provident Fund employee benefit reserves and USD 1 million (2016: USD 4 million) as the actuarial reserve for defined benefit obligation.

As at 31 December 2017, the Provident Fund asset base was USD 155 million (2016: USD 128 million) which included USD 148 million (2016: USD 109 million) of Provident Fund investments measured at fair value and USD 6 million (2016: USD 19 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 2017, a net fair valuation gain on Provident Fund investments for USD 6 million (2016: USD 4 million) was reported. The annual rate of return on Provident Fund investments was 4.08 percent.

[12] Subject to execution of the 2018 budget and actual results as at 31 December 2018.

FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

These consolidated financial statements as at and for the year ended 31 December 2017 were approved by the Board on 10 May 2018.

REPORT OF THE INDEPENDENT AUDITOR

with consolidated financial statements as at and for the year ended 31 December 2017 of The Global Fund to Fight AIDS, Tuberculosis and Malaria.

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

Independent Auditor's Report to the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria on the
Consolidated Financial Statements as at 31 December 2017

KPMG SA
Geneva, 10 May 2018
Ref. PHP/HMW

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Independent Auditor’s Report to the Board of
The Global Fund to Fight AIDS, Tuberculosis and Malaria, Grand-Saconnex

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria (“the Global Fund”), which comprise the consolidated statement of financial position as at 31 December 2017, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in funds and consolidated statement of cash flows for the year ended 31 December 2017 and explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Global Fund as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended 31 December 2017 in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

Other information in the Annual Report
The Global Fund Board is responsible for the other information in the annual financial report. The other information comprises all information included in the annual financial report, but does not include the consolidated financial statements, the stand-alone financial statements of the Global Fund and our auditor’s reports thereon.

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

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

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

In preparing the consolidated financial statements, the Global Fund Board and the Secretariat are responsible for assessing the Global Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

KPMG

The Global Fund to Fight AIDS, Tuberculosis and Malaria, Grand-Saconnex
Independent Auditor's Report to the Board
on the Consolidated Financial Statements 2017

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Global Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Global Fund Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Global Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Global Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Global Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Global Fund audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG SA

Pierre-Henri Pingeon
Licensed Audit Expert
Auditor in Charge

Henri Mwaniki

Geneva, 10 May 2018

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

Consolidated statement of income
for the year ended 31 December

USD millions	Notes	2017	2016
Income			
Contributions	4.1	4,153	5,194
Expenditure			
Grants	3.2	(3,044)	(3,969)
Operating expenses	6.1	(289)	(277)
		(3,333)	**(4,246)**
Net operating (loss) / income		**820**	**948**
Foreign exchange result, net	5.7	(54)	(4)
Financial income, net	5.8	98	64
Increase / (decrease) in funds		**864**	**1,008**

Consolidated statement of comprehensive income
for the year ended 31 December

USD millions	Notes	2017	2016
Increase in funds		864	1,008
Other comprehensive income			
Re-measurement losses on defined benefit plan that will not be reclassified to the statement of income	6.3	(4)	(1)
Total comprehensive income for the year		**860**	**1,007**

Consolidated statement of financial position
At 31 December

USD millions	Notes	2017	2016
Assets			
Current assets			
Cash and cash equivalents	5.1	48	509
Trust Fund	5.2	3,073	3,319
Contributions receivable	4.2	2,027	1,465
Working capital advances for Pooled Procurement Mechanisms	3.4	47	41
Other receivables	3.3, 4.2	55	79
Derivative financial instruments at fair value	5.6	-	105
		5,250	**5,518**
Non-current assets			
Contributions receivable	4.2	1,954	1,942
Provident Fund investments	5.3	148	109
Tangible and intangible assets		12	10
Other receivables		6	-
		2,120	**2,061**
Total assets		**7,370**	**7,579**
Liabilities			
Current liabilities			
Grants payable	3.3	1,625	3,061
Derivative financial instruments at fair value	5.6	70	-
Other current liabilities	6.4	52	66
		1,747	**3,127**
Non-current liabilities			
Grants payable	3.3	252	-
Employee benefit liabilities	6.3	155	132
Derivative financial instruments at fair value	5.6	36	-
Total liabilities		**2,190**	**3,259**
Funds			
Temporarily restricted funds	7.3	18	10
Unrestricted funds	7.3	5,162	4,310
Total funds		**5,180**	**4,320**
Total liabilities and funds		**7,370**	**7,579**

Consolidated statement of cash flows
for the year ended 31 December

USD millions	Notes	2017	2016
Operating activities			
Cash received from donors	4	3,856	4,404
Grant disbursements		(4,258)	(3,591)
Payments for operating expenses		(280)	(264)
Cash realized on forward contracts settlements		(110)	146
Net cash flow from operating activities		**(792)**	**695**
Investing activities			
Financial income received, net		98	66
Purchase of Provident Fund investments		(27)	(6)
Purchase of tangible and intangible assets		(6)	(6)
Net cash flow from investing activities before Trust Fund movements		65	54
Net cash rebalancing between commercial banks and Trust Fund		246	(779)
Net cash flow from investing activities		**311**	**(725)**
Net decrease in cash and cash equivalents		(481)	(30)
Cash and cash equivalents			
- at beginning of the year	5.1	509	529
Effect of exchange rate changes		20	10
- at end of the year	**5.1**	**48**	**509**

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

USD millions	Notes	2017	2016
Amounts held in commercial banks	5.1	48	509
Amounts held in Trust Fund	5.2	3,073	3,319
Total operational cash balance		**3,121**	**3,828**

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

USD millions	Foundation capital[1]	Temporarily restricted funds	Unrestricted funds	Total
As at 1 January 2016	**-**	**19**	**3,294**	**3,313**
(Decrease) / increase in funds for the period	-	**(9)**	1,017	**1,008**
Other comprehensive income	-	-	(1)	**(1)**
At 31 December 2016	**-**	**10**	**4,310**	**4,320**
As at 1 January 2017	**-**	**10**	**4,310**	**4,320**
Increase in funds for the period	-	**8**	856	**864**
Other comprehensive income	-	**-**	(4)	**(4)**
At 31 December 2017	**-**	**18**	**5,162**	**5,180**

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1- Consolidated statement of financial position;

2- Consolidated statement of income;

3- Consolidated statement of comprehensive income;

4- Consolidated statement of cash flows; and

5- Consolidated statement of changes in funds.

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

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

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

Index to notes to the consolidated financial statements

Section 1: Activities and organization

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

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

Section 2: Basis of reporting

Statement of compliance

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

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

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities which are measured at fair value, as explained in the respective sections of the foot note disclosures. For such items that are subject to measurement at fair value, the inputs and fair valuation techniques are described in the respective notes in the consolidated financial statements. Unless otherwise stipulated in the respective notes, these financial assets and liabilities are classified as Level 2.

These consolidated financial statements as at and for the year ended 31 December 2017 were approved by the Global Fund Board on 10 May 2018.

Functional and presentation currency

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

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

Basis of consolidation

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

Significant management judgments, estimates and assumptions

All significant accounting policies, judgments, estimates and assumptions that are relevant to the understanding of the consolidated financial statements are provided through the notes to the financial statements. In particular, the Global Fund has applied judgment in accounting for certain transactions with respect to grants (Section 3), contributions (Section 4) and the determination of cash and cash equivalents for the presentation in the statement of cash flows (Section 5.1).

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

Changes in accounting policies and disclosures

The Global Fund has adopted all new or amended IFRS standards and interpretations which are effective for the financial year ended 31 December 2017. The implementation of the new or amended standards has not had any material impact on the Global Fund's consolidated financial statements.

Standards issued but not yet effective

The following new and revised IFRS standards and interpretations have been issued, but are not yet effective for the period. Based on the technical assessments undertaken by the Global Fund the expected impact of all applicable new or amended standards and interpretations is presented below. All other new or amended IFRS standards and interpretations issued but not yet effective are not expected to have any material impact on the Global Fund's annual consolidated financial statements.

New Standards or Interpretations	Effective date	Planned application
IFRS 9 Financial Instruments	1 January 2018	Reporting year 2018. The standard requires an impairment provision to be created in respect of expected credit losses in the measurement of the financial assets measured at amortised cost. Financial assets measured at amortised cost comprise the contributions receivable. These contributions are due from sovereign governments and private foundations with good credit ratings. At reporting date no material credit losses are expected on these outstanding contributions receivable. All other financial assets are measured at fair value.
IFRS 16 Leases	1 January 2019	Early adoption in the reporting year 2018. IFRS 16 requires to present all leases on the balance sheet as a right of use asset and a lease liability. The major eligible item will the Health Campus lease. The lease will be effective for an initial period of 10 years starting in March 2018. A leasehold asset and obligation to pay for USD 107 million will be recognized on the statement of financial position. The Global Fund does not have any other significant long term operating leases at the reporting date. An ongoing assessment of all operating leases will confirm any new leased asset/ liability at each reporting date.

Section 3: Grant activities

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

The table below summarizes the accounting results for grant activities, excluding[2] Private Sector Co-Payments and catalytic investment funding, based on the accounting principles underlined in this section:

Grant stage for the year ended 31 December	Contingent Liability: Board approved but not committed	Annual commitment	Disbursement of committed amounts	Foreign exchange gains on EUR grant liabilities	Annual commitments not disbursed as at 31 December (Grants payable as per statement of financial position)
Notes	**3.1**	**3.2**		**5.7**	**3.3**
2017	7,986	3,011	4,258	(38)	1,877
2016	3,412	3,923	3,518	13	3,061

[2] The table is intended to show summarize the results of grant portfolio typically starting from board approval to disbursement. The expenditure on Private Sector Co-Payments and catalytic investment funding (includes Strategic Initiatives, Multicountry Proposals and Matching Funds) follow a different point of recognition than grants and reported under Note 3.2 below.

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

3.1 Contingent liability

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

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

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

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

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

	2017	2016
By category		
Grants approved but not signed	2,584	294
Grants signed but not committed	5,402	3,118
Total	**7,986**	**3,412**
By region		
Asia (outside High Impact), Europe, Latin America and the Caribbean	531	502
Africa (outside High Impact) and Middle East	1,779	973
High Impact Africa I	1,521	765
High Impact Africa II	2,908	552
High Impact Asia	1,247	620
Total	**7,986**	**3,412**

3.2 Grant expenditure

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

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

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

	2017	2016
By category		
Grants to Principal Recipients	2,442	3,033
Grants for PPM orders	569	890
Total grants to Principal Recipients	**3,011**	**3,923**
Private Sector Co-Payments	8	32
Strategic Initiatives	25	14
Total grants	**3,044**	**3,969**
By disease		
HIV-AIDS (including HIV/TB)	1,520	1,876
Malaria	953	1,149
Tuberculosis	462	815
Others (including RSSH and multi-component)	76	83
Total grants to Principal Recipients	**3,011**	**3,923**
By region		
Asia (outside High Impact), Europe, Latin America and the Caribbean	369	418
Africa and Middle East	732	1,081
High Impact Africa I	370	821
High Impact Africa II	701	890
High Impact Asia	839	713
Total grants to Principal Recipients	**3,011**	**3,923**

3.3 Grants payable

The following table summarizes grant payable at 31 December:

	2017	2016
Grants payable within one year		
USD	1,365	2,710
EUR	141	257
ZAR	556	-
Net grants payable within one year in equivalent USD	1,578	2,978
Grants under recovery, net	46	71
Net grants payable within one year	**1,625**	**3,049**

	2017	2016
Grants payable after one year		
USD	246	12
EUR	-	-
ZAR	-	-
Net grants payable in equivalent USD	246	12
Grants under recovery, net	6	-
Net grants payable after one year	**252**	**12**
Total grants payable in equivalent USD	**1,877**	**3,061**

The long-term portion represents amounts that are due to be disbursed later than one year after the date of the statement of financial position discounted to estimate their present value at this same date. The movement in valuation of undisbursed grants is recognized in the statement of income.

Grants under recovery from Principal Recipients are recognized at nominal value upon a formal notification to the Principal Recipient subject to the same policy of valuation, risk assessment and asset impairment as contributions recoverable from donors outlined in Note 4.2.

3.4 Working capital advances for Pooled Procurement Mechanism

Effective 2015, the Global Fund had established a working capital advance for its pooled procurement mechanism. During Q3 2017, the Global Fund introduced two additional advance mechanisms, namely:

- World Health Organization's Green Light Committee; and
- Community, Rights and Gender.

These pooled accounts are centrally managed allowing for disbursements to be charged to respective grants only upon proof of service delivery. These new advances are relatively much smaller in value but high on volume. A major advantage has been the optimization of administrative efforts for all stakeholders- the suppliers, the Secretariat and the Principal Recipients.

The Global Fund formalizes the level of working capital required by the grant suppliers on an annual basis against which advances can be drawn down to meet their respective financing requirements. These advances are shown as an asset on the statement of financial position, until these are used by the grant suppliers to meet their underlying procurement or service delivery obligations.

The advances typically represent a 2-3 month float. The procurement and underlying service delivery engagement happens directly between the Principal Recipients and the respective grant suppliers. These suppliers report back through a periodic statement of payments made to the manufacturers for shipments to Principal Recipients or services delivered for grants, which are subsequently charged back as grant disbursements. The payable and expenditure for grants benefitting from the working capital advance mechanism follow the same accounting policy as grants directly administered by Principal Recipients.

The following table provides a breakdown of working capital advances across the three categories of grant suppliers:

Working capital advance as at 31 December	**2017**	**2016**
Pooled procurement mechanism	46	41
WHO Green Light Committee	1	-
Community, Rights & Gender	-	-
Outstanding working capital advance	**47**	**41**

The following table summarizes advances for the pooled procurement mechanism at 31 December:

	2017	**2016**
Working capital advance as at 01 January	41	41
Advances issued during the year	599	884
Advances reconciled as a charge back to grants for executed shipments	(594)	(884)
Outstanding working capital advance	**46**	**41**

Section 4: Donor activities

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

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

For the year ended 31 December	Opening contributions receivable	Contributions per the statement of income	Non-receivable contribution (including Private Sector co-payments)	Contributions received per the statement of cash flow	Foreign exchange fluctuation on contributions	Contributions receivable on the statement of financial position
Note	**4.2**	**4.1**	**4.1, 4.4**			**4.2**
2017	3,407	4,153	(8)	3,856	285	3,981
2016	2,882	5,194	(32)	4,404	(233)	3,407

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

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

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

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

	2017	2016
Donor contributions		
By donor category		
Governments	3,780	4,871
Foundations	312	289
Product (RED)	59	35
Corporations	5	3
International not-for-profit organizations	9	33
Gross revenue	4,165	5,231
Discounted	(12)	(37)
Total	**4,153**	**5,194**
By donor intent		
Unrestricted	4,045	4,982
Restricted- Private Sector Co-payments	8	32
Restricted- Others	100	180
Total	**4,153**	**5,194**

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

4.2 Contributions receivable

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

Promissory notes and contributions receivable maturing later than one year after the date of the consolidated statement of financial position are discounted at fair value (LIBOR for GBP, EUR and USD) and subsequently measured at amortized cost using the effective interest method.

The following table summarizes contributions receivable at 31 December:

	2017	**2016**
Promissory notes maturing within one year	428	740
Contributions receivable within one year	1,599	725
Total	**2,027**	**1,465**
Promissory notes maturing after one year	-	-
Contributions receivable after one year	1,954	1,942
Total	**1,954**	**1,942**
Total value of contributions receivable	**3,981**	**3,407**
Receivable in 2017	-	1,465
Receivable in 2018	2,027	672
Receivable in 2019	1,346	-
Receivable after 2019	768	1,419
Gross contributions receivable	4,141	3,556
Discounted	(160)	(149)
Net present value of contributions receivable	**3,981**	**3,407**

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

During 2017 no new provision for impairment was deemed necessary (2016: USD 30 million).

The accounting policy on recognition and measurement for contributions receivables is also applicable on other receivables. Other receivables include USD 52 million of grants under recovery, as explained in Note 3.3 above, of which USD 6 million have terms of recovery exceeding 12 months. In addition, other receivables includes USD 9 million of prepayments for operating expenditure and Strategic Initiatives.

4.3 Conditional contribution

During 2016 the Global Fund entered into certain contribution agreements that were 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, USD 122 million (2016: USD 111 million) will be recognized as revenue in the financial year in which such performance obligations are satisfactorily delivered.

4.4 Deferred contribution

Donor contributions received in cash for specific project expenditures are treated as deferred contributions until the underlying related expenses have been incurred. This ensures the recorded income is matched to the expenditure it relates to. Deferred contributions include contributions received for Private Sector co-payments where the application of donor funds is directly linked with the co-payment subsidy for the malaria drugs procured by the Principal Recipients. Deferred contributions represent restricted contributions received for donor specified project expenditure. Any unspent portion of the contribution received will need to be refunded to the donor.

For better understanding a detailed breakdown of deferred contributions has been introduced under Note 6.5.

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:

	2017	2016
Amounts held in commercial banks	48	509

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

5.2 Trust Fund

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

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

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

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

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

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

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

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

Tranche	2017	2016
Tranche 0 USD	332	10
Tranche 5 USD	2,559	3,261
Tranche 0 EUR	182	48
Total	**3,073**	**3,319**

As at 31 December 2017 the Pool had a fair value measurement of USD 30,341 million (2016: USD 28,915 million) as confirmed by the World Bank. The following table reflects the asset allocation in the pool:

Types of financial instruments	2017	2016
Government and agency obligations	54%	63%
Time deposits and money market securities	19%	7%
Asset-backed securities	18%	23%
Equity securities	10%	7%
Derivatives, net	(1%)	2%
Securities purchased under resale agreements and securities sold under repurchase agreements	-	(2)%
Total	**100%**	**100%**

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 all trust funds administered by the World Bank Group. The objectives of the investment strategy are foremost to maintain adequate liquidity to meet foreseeable cash flow needs and preserve capital and then to maximize investment returns. The Trust Fund's share in the Pool is not traded in any market; however, the underlying assets within the Pool are reported at fair value. The fair value is the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties. If an active market exists, the market price is applied. If an active market does not exist, generally accepted valuation techniques, based on observable market data at the reporting date, are used instead. All investment decisions are made and performance is monitored at the Pool level. The fair value amount of the Trust Fund's share of the cash and investments in the Pool at the end of each reporting period is also disclosed.

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

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

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

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

Time deposits and money market securities

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

Securities purchased under resale agreements and securities sold under repurchase agreements

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

Derivative contracts

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

Fair valuation hierarchy

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

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

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

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

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

At 31 December 2017	Level 1	Level 2	Level 3	Total
Government and agency obligations	664	866	-	1,530
Asset and mortgage-backed securities	-	515	-	515
Equity	298	-	-	298
Time deposits	57	474	-	531
Repurchase/ resale agreements	-	(1)	-	(1)
Derivatives, net	(1)	(26)	-	(27)
Sub-total:	**1,018**	**1,828**	**-**	**2,846**
Cash, receivables & payables				227
Total	**1,018**	**1,828**	**-**	**3,073**

At 31 December 2016	Level 1	Level 2	Level 3	Total
Government and agency obligations	930	1,158	-	2,088
Asset and mortgage-backed securities	-	779	-	779
Equity	247	-	-	247
Time deposits	17	203	-	220
Repurchase/ resale agreements	-	(83)	-	(83)
Derivatives, net	-	68	-	68
Total	**1,194**	**2,125**	**-**	**3,319**

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

At 31 December 2017	Shared Pool of cash and investments	Trust Fund	% share
Level 1	10,046	1,018	10.1%
Level 2	19,920	1,828	9.2%
Level 3	-	-	-
Sub-total	**29,966**	**2,846**	**9.5%**
Cash, receivables & payables	375	227	60.5%
Total	**30,341**	**3,073**	**10.1%**

At 31 December 2016	Shared Pool of cash and investments	Trust Fund	% share
Level 1	9,627	1,194	12.4
Level 2	19,288	2,125	11.0
Level 3	-	-	-
Total	**28,915**	**3,319**	**11.5**

5.3 Provident Fund Investments

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

The Management Board through its Investment Committee makes the investment decisions for the Provident Fund assets. The Investment Committee has appointed investment advisor, through which the Investment Committee has an established control framework with 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 on a monthly basis. On an annual basis the investment managers provide fair value hierarchy in which the valuations should be classified for their respective investments in compliance with the requirements of IFRS. Any significant valuation issues are reported separately. The investment advisor oversees all fair value measurements, including potential Level 3 fair values, and reports to the Investment Committee and the Management Board. When measuring the fair value of an asset or a liability, the investment advisor uses observable market data as far as possible.

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

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

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

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

At 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Total Provident Fund investments	**112**	**36**	**-**	**148**
Equity	34	-	-	34
Fixed income	78	-	-	78
Real estate	-	26	-	26
Private sector hedge	-	10	-	10

At 31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Total Provident Fund investments	**81**	**28**	**-**	**109**
Equity	28	-	-	28
Fixed income	53	-	-	53
Real estate	-	19	-	19
Private sector hedge	-	9	-	9

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

During 2017, USD 6 million (2016: USD 4 million) was reported in fair valuation gains on Provident Fund investments.

5.4 Financial risk management objectives and policies

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

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

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

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

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

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

i. Interest rate risk

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

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 2017 is estimated to be USD 37 million (2016: USD 51 million).

ii. Currency risk

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

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

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

	2017		2016	
Currency	**Change %**	**Amount USD million**	**Change %**	**Amount USD million**
Euro	9%	(+/-) 16.4	9%	(+/-) 4.5

iii. Credit risk/counterparty risk

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

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

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

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

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

Counterparty credit ratings	2017	2016
AA or greater	67%	74%
A- or greater	100%	100%
BBB+ or greater	-	100%

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

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

Economic risk- In addition to the financial risks outlined on the financial assets and liabilities the Global Fund is also exposed to the economic risk on its off-balance sheet positions denominated in currencies other than USD. These mainly include pledges, allocated amounts, signed grant amounts that have not had a subsequent annual funding decision and approved operating expenditure budgets over the allocation period. These exposures impact financial statements in terms of FX gains/losses only after their associated transactions are recorded in the financial statements. However, they present an economic risk upon the receipt of a pledge, allocation of available sources of funds, and signature of grant agreements (with respect to uncommitted portions). Such exposures, while not reflected in the financial accounts affect the Global Fund's asset-liability management in the same way as on-balance sheet exposures that affect the profit and loss statement.

Accordingly in June 2016 the Audit and Finance Committee approved the Global FX Management Framework (GF/AFC01/06) 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. Following the governance mandate, the Secretariat implemented a dynamic hedging strategy to manage the different types of risks and states of exposure described above. The hedging strategy follows the general principles outlined below:

i. Mandates the Secretariat to cover economic exposures by stipulating risk metrics on a portfolio level in order to preserve the net value of assets and liabilities;

ii. Is flexible to accommodate potential future changes in terms of contribution / grant cycles;

iii. Links up to the Amended and Restated Comprehensive Funding Policy and its asset and liability management process;

iv. Considers the FX Part II which may affect the currency exposure once deployed;

v. Value-at-Risk (known as VaR and further explained in sections below) is used as an operational measure and to set a limit for the Secretariat to monitor the risk arising from economic exposure; and

vi. Is applicable as of the 1st of July 2016 pursuant to Audit and Finance Committee approval.

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

i. Discount factor on donor contributions

ii. Discount factor on grants and other uses of funds

iii. Any other uncertainty factor

The FX risk limit is measured through VaR with a 99% probability on a monthly basis. Value at Risk is a statistical technique used to measure and quantify the level of financial risk over a specific period. It is measured in three variables: the amount of potential loss, the probability of that amount of loss and the period over which such potential loss could occur based on its probability. Effective 1 September 2016, the VaR limit follows a two-risk metrics:

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

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

The risk metrics will be reported under one combined VaR limit.

5.5 Foreign exchange exposures

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

Key foreign currencies	2017	2016	% fluctuation
AUD	0.7802	0.7216	8%
EUR	1.1998	1.0515	14%
CAD	0.7950	0.7444	7%
CHF	1.0263	0.9819	5%
GBP	1.3514	1.2343	9%
SEK	0.1219	0.1098	11%
NOK	0.1218	0.1157	5%

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

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

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

	As at 31 December 2017			As at 31 December 2016		
Currency	**Net FX exposure**	**Hedges at nominal value**	**% Hedging ratio**	**Net FX exposure**	**Hedges at nominal value**	**% Hedging ratio**
AUD	185	175	94	209	50	24
CAD	533	501	94	804	455	57
CHF	(317)	(174)	55	(458)	(320)	70
DKK	300	225	75	330	-	-
EUR	1,289	975	76	2,305	1,184	51
GBP	873	822	94	1,412	1,360	96
SEK	1,700	1,450	85	2,500	-	-
NOK	1,400	1,300	93	2,000	1,500	75

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

	2017		2016	
Currency	**Change %**	**Amount USD million**	**Change %**	**Amount USD million**
CHF	2%	-	4%	-
EUR	9%	-	9%	-
GBP	12%	(+/-) 6	11%	-
SEK	9%	(+/-) 3	12%	(+/-) 33

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	2017	2016
Amounts held in CHF	12	22
Amount held in EUR	161	342

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

BY SETTLEMENT DATE

As at 31 December	2017	2016
Within 12 months	(70)	102
Beyond 12 months	(36)	3
Total	**(106)**	**105**

BY CURRENCY

As at 31 December 2017

Currency (Level 2)	Notional value in USD millions	Forward contracts at fair value in USD millions
AUD	175	(1)
CAD	501	(10)
CHF	(174)	(3)
EUR	975	(63)
GBP	822	(21)
NOK	1,300	(1)
SEK	1,450	(7)
Net liability for derivative financial instruments at fair value		**(106)**

As at 31 December 2016

Currency (Level 2)	Notional value in USD millions	Forward contracts at fair value in USD millions
AUD	50	2
CAD	455	5
CHF	(320)	5
EUR	1,184	41
GBP	1,360	42
NOK	1,500	10
Net liability for derivative financial instruments at fair value		**105**

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

5.7 Foreign exchange accounting

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

	2017	2016
Foreign exchange gains/ (losses) before derivative instruments	268	(210)
Fair valuation (losses)/ gains on derivative financial instruments	(322)	206
Net foreign exchange losses	**(54)**	**(4)**
By net position		
Net foreign exchange loss on assets	(16)	(17)
Net foreign exchange (loss)/ gain on liabilities	(38)	13
Total: Net foreign exchange loss	**(54)**	**(4)**
By currency		
CAD	(27)	18
EUR	(46)	50
GBP	17	(89)
SEK	14	3
NOK	(8)	10
Others	(4)	4
Total: Net foreign exchange loss	**(54)**	**(4)**

5.8 Financial income, net

The investment of financial assets across 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:

	2017	2016
Trust Fund gains, net	100	66
Financial costs	(2)	(2)
Total	**98**	**64**

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:

	2017	**2016**
Staff	149	139
External assurance	48	46
Professional fees	35	33
Others	63	63
Total Secretariat costs	**295**	**281**
Provident Fund valuation	(6)	(4)
Total	**289**	**277**

The 2017 consolidated operating expenditure for Global Fund includes USD 36,223 as the operating expenditure for the US Fund (2016: USD 88,000).

Staff costs include all personnel costs incurred by the Global Fund in accordance with its human resource guidelines. At 31 December 2017 there were 758 (2016: 740) personnel employed by the Global Fund. Historically the external assurance costs have been represented by Local Fund Agent fees. Local Fund Agents fees include the 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, office rent and maintenance, depreciation and disbursements for Country Coordinating Mechanisms ("CCMs") and Board Constituencies.

6.2 Lease commitments

The Global Fund has a long term, non-cancellable operating lease for its office premises in Geneva where the headquarters are located. Payments made under operating leases are recognized in the consolidated statement of income on a "straight line" basis over the term of the lease. The current lease term ends in March 2018, with estimated lease payments to be USD 3 million. Non-cancellable operating lease payments recognized as an expense in 2017 amounted to USD 11 million (2016: USD 11 million).

The Global Fund has entered into a non-cancellable operating lease for its new office premises in the Global Health Campus. The lease payments are effective in April 2018 for an initial period of ten years. The net future lease payments are estimated to be USD 7 million per annum.

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 excluded from the pension plan assets under IAS 19.

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

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

Actuarial valuation of defined benefit obligation

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

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

Change in benefit obligation	2017	2016
Benefit obligation at beginning of year	132	118
Current service cost	27	25
FX translation impact	6	(3)
Interest cost	1	1
Actuarial loss	4	1
Benefits paid from plan/company	(13)	(8)
Premiums and expenses paid	(2)	(2)
Benefit obligation at end of year	**155**	**132**

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

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

Components of pension cost	2017	2016
Amounts recognized in the statement of income		
Current service cost	27	25
Interest cost	1	1
Total pension cost recognized in the statement of income	**28**	**26**
Actuarial valuation recognized in other comprehensive income		
a. Effect of changes in demographic assumptions	-	6
b. Effect of changes in financial assumptions	-	(4)
c. Effect of experience adjustments	4	(1)
Total actuarial valuation recognized in other comprehensive income	**4**	**1**
Total defined benefit cost recognized in the statements of income and other comprehensive income	32	27
Principal actuarial assumptions		
Weighted-average assumptions to determine benefit obligations at		
Discount rate	0.50%	0.50%
Rate of compensation increase	3.00%	3.00%
LPP interest rate	1.00%	1.00%
Weighted-average assumptions to determine pension expense for the year ended		
Discount rate	0.50%	0.50%
Rate of compensation increase	3.00%	3.00%
LPP interest rate	1.00%	1.25%
Sensitivity analysis		
Discount rate -25 basis points	159	136
Assumption	0.25%	0.25%
Discount rate +25 basis points	151	129
Assumption	0.75%	0.75%
Mortality assumptions	100% LPP 2015 Generational	100% LPP 2015 Generational
Other required disclosure amounts		
Contributions expected to be paid to the plan during the annual period beginning after the reporting period	13	9
Average duration of the plan liabilities (in years)	11	11

6.4 Other current liabilities

	2017	2016
Accounts payable for operating expenditure	8	9
Provisions and accrued expenses for operating expenditure	36	41
Deferred contribution (Note 6.5)	8	16
Total	**52**	**66**

6.5 Deferred contributions

	2017	2016
Private Sector co-payments	2	10
External co-funding for operating expenditure	4	4
Donor contributions received in advance	2	2
Total	**8**	**16**

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 honoraria is paid to the independent members to the standing committees of the Board. Effective 2017, the Chair and the Vice-Chair of the Board are also entitled to receive an honoraria as per Board's decision (GF/BR2017/DP05). All other transactions with the Board and its committees are made at terms equivalent to arm's length transactions and within the operational framework of the Secretariat. During 2017, an aggregate of USD 66,914 (2016: USD 35,632) was paid to the eligible Board and Committee members as honoraria for their governance services performed during the course of the year. There was no loan to or from related parties outstanding as at 31 December 2017.

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	2017	2016
Short-term benefits including salary and allowances	5.5	4.6
Long-term benefits including contributions to the Provident Fund	0.8	0.8
Total Remuneration	**6.3**	**5.4**

7.2 Taxation

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

7.3 Unrestricted and temporarily restricted funds

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

GLOSSARY

AFC	Audit and Finance Committee
ALM	Asset Liability Management
AUD	Australian Dollar
CAD	Canadian Dollar
CFP	Comprehensive Funding Policy
CHF	Swiss Franc
DKK	Danish Krone
EGC	Ethics and Governance Committee
EUR	Euro
GBP	Pound Sterling
IASB	International Accounting Standards Board
IDR	Indonesian Rupiah
IFRS	International Financial Reporting Standards
JPY	Japanese Yen
KPI	Key Performance Indicator
KRW	South-Korean Won
LFA	Local Fund Agent
NOK	Norwegian Krone
NZD	New Zealand Dollar
PPM	Pooled Procurement Mechanism
PSA	Procurement Service Agent
RSSH	Resilient and Sustainable Systems for Health
SEK	Swedish Krona
SGD	Singapore Dollar
USD	United States Dollar

The Global Fund to Fight
AIDS, Tuberculosis and Malaria

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