Annex 1 – 2018 Annual Financial Report including 2018 Consolidated Financial Statements

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ANNUAL FINANCIAL REPORT

The Global Fund

2018

Contents

MANAGEMENT REPORT

Year under review

The Global Fund partnership is saving millions of lives as it contributes to accelerating progress towards ending the epidemics of AIDS, tuberculosis and malaria. In all our work, we strive to help countries and communities advance towards universal health coverage and the Sustainable Development Goal of *Good Health and Well-being*, known as SDG 3.

At the Global Fund Secretariat, 2018 was a year of significant change, including the arrival of both of us as the Executive Director and Chief Financial Officer, respectively. Our move to the Global Health Campus in March 2018 was an important operational milestone in the evolution of the Global Fund. Many of the changes initiated in 2018 are just the beginning of ongoing transformation that will continue to unfold in the coming years.

During 2018, the Global Fund made grant disbursements of USD 3.2 billion, in line with the grant forecast. At 31 December 2018, USD 1.1 billion of grant funds remained to be approved by the Board. The Fifth Replenishment period projects a 94 percent utilization of the 2017-2019 allocation. All of these are strong financial indicators for our core operations and support our mission towards ending the three epidemics.

The fund utilization for Strategic Initiatives gained momentum in 2018. The cumulative funds utilization at end of 2018 reached USD 59.5 million or 33 percent. The Secretariat is proactively monitoring implementation to ensure optimum utilization by 31 December 2020.

Our move to the Global Health Campus in early 2018 is already beginning to provide efficiency gains in the Secretariat's operating costs. Following our move, our partner organizations Gavi, Unitaid, Stop TB and the RBM partnership, joined us in the campus over the next few months. By September 2018, the Global Health Campus was fully occupied. Besides the tangible economic benefits from sharing space and administrative functions, co-location in the Global Health Campus is facilitating enhanced collaboration and more seamless coordination between the organizations as we work together to defeat infectious diseases and deliver the goals of SDG3.

In terms of audited financial results, we are pleased to report yet another year of clean audit opinion by KPMG SA. This reflects the growing maturity of the organization, strong internal controls and robust financial management practices.

Building on these strengths, the Secretariat will focus on securing a successful Sixth Replenishment in October 2019 which will be critical to deliver the 2017-2022 strategy targets and to step up the fight toward the SDG 3 goal of ending the epidemics by 2030.

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Jacques Le Pape	Peter Sands
Chief Financial Officer	Executive Director

Letter from the Chair and Vice-Chair of the Board

The 2018 Annual Financial Report provides the consolidated financial statements for the Global Fund, reflecting the effective and efficient use of financial resources to support programs that prevent, treat and care for people affected by AIDS, TB and malaria. It also demonstrates the continuous improvement that is a hallmark of a learning organization like the Global Fund.

Strong financial operations are the backbone of the Global Fund partnership's collective efforts toward ending the epidemics in countries where they represent a serious health burden. The report outlines the ways in which the Global Fund delivers value for money and maximizes the impact of every dollar toward achieving our mission.

The 2017-2022 Global Fund Strategy to accelerate impact toward ending the epidemics requires sufficient funds and requires a constant improvement of operations. To implement the Strategy successfully, the Global Fund leverages the expertise, effort, and innovative spirit of many diverse stakeholders. Effective financial management is essential to all parts of that work. The financial foundation is solid and is being managed well by the Global Fund Secretariat.

We have been honoured to serve as Board Chair and Vice-Chair of the Global Fund from 2017 -2019, and to ultimately oversee financial operations together with colleagues on the Board's Audit & Finance Committee.

We would like to thank Peter Sands, the Global Fund's Executive Director, and Jacques Le Pape, Chief Financial Officer, for their superior financial management and oversight. We are conscious that the 2018 Annual Financial Report represents a culmination of outstanding work by many Finance colleagues in the Secretariat, together with members of the broader Global Fund partnership.

Sincerely,

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Aida Kurtovic	Ambassador John Simon
Chair of the Board	Vice-Chair of the Board

Key Financial Results

Statement of activity ***(in millions of USD)***	**2018**	**2017**	**2016**
Contributions	2,079	4,153	5,194
Grant expenditure	3,973	3,044	3,969
Operating expenses (including Provident Fund valuation)	301	289	277
Foreign exchange result, net	74	(54)	(4)
Financial income, net	23	98	64
Loss on actuarial valuation of defined benefit obligation towards employee benefits	(4)	(4)	(1)
Other OCI adjustments	-	-	(1)
(Decrease)/Increase in funds	(2,102)	860	1,006

Statement of financial position ***(in millions of USD)***	**2018**	**2017**	**2016**
Cash and cash equivalent, including Trust Fund assets	3,243	3,121	3,828
Contributions receivable	2,416	3,981	3,407
Other assets	292	268	345
Grants payable	2,563	1,877	3,061
Other liabilities	310	313	199
Funds	3,078	5,180	4,320

Statement of cash flows ***(in millions of USD)***	**2018**	**2017**	**2016**
Cash receipts from donors	3,485	3,856	4,404
Grants disbursed	(3,173)	(4,258)	(3,591)
Cash paid for other operating activities	(272)	(280)	(264)
Cash on settlement of derivative financial instruments	86	(110)	146
Cash used for investing activities, before Trust Fund movements	9	65	54
Cash paid for lease liability	(5)	-	-
FX (loss)/ gains on cash	(7)	20	10
Increase/ (decrease) in operational cash position including cash at commercial banks and Trust Fund	123	(707)	759
Other key information			
Grant contingent liability ***(in millions of USD)***	6,035	7,986	3,412
Number of active grants	363	401	360
Number of employees	759	758	740

Selected Key Financial Performance Indicators (KPI)

Strategic Objective	**KPI**	**2018 Results**	**2018 Target**
Build resilient & sustainable systems for health	Allocation utilization: Portion of allocation that has been disbursed or is forecast to be disbursed	94%	90%
Mobilize increased resources	Pledge conversion rate – Actual & forecasted 5th replenishment contributions as a percentage of initial forecast	101%	100%
Allocation absorption	2015-2017 In-country expenditures against the 2015-2017 budget	75%	75%

Organizational Background

1- VISION, MISSION AND STRATEGY

The Global Fund is designed to accelerate the end of HIV/AIDS, tuberculosis and malaria as epidemics.

Founded in 2002, it is a global partnership between governments, civil society, the private sector and people affected by the diseases. As an international organization, the Global Fund 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,
- Supporting mutually accountable partnerships.

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

2- LEGAL STATUS

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

- On 13 December 2004, the Swiss Federal Council accorded the Global Fund international organization status and related privileges and immunities, through the signing of the Headquarters Agreement;
- On 13 January 2006, the United States of America issued Executive Order No. 13395, designating the Global Fund a public international organization in accordance with the United States International Organizations Immunities Act;

- On 16 December 2009, the United Nations General Assembly adopted Resolution A/RES/64/122 granting the Global Fund observer status, as an eligible intergovernmental organization whose activities cover matters of interest to the General Assembly; and
- On 17 December 2014, the European Commission adopted Commission Decision C(2014) 9598, assimilated the Global Fund to the status of an international organization for the purposes of managing European Union funds.

3- CORE STRUCTURES

The Global Fund operates within the following core structures:

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

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

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

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

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

4- PROGRAM STRUCTURE

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

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

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.

2018 OPERATIONAL REVIEW

1. THE REPLENISHMENT MECHANISM

Under its replenishment mechanism, the Global Fund convenes donors, implementers and other key partners for a Replenishment Conference once every three years to discuss funding for the succeeding three-year "Replenishment Period". This mechanism allows for predictability and enables both the Global Fund and implementing countries to establish long-term plans for fighting the three diseases.

In 2018, the Secretariat focused on securing strong political leadership for the hosting of the Sixth Replenishment.

Converting Fifth Replenishment pledges into contributions

Conversion of pledges into contribution remains key during the second year of the Fifth Replenishment Cycle (2017-2019). The gross revenue recognized during 2018 was USD 2,108 million (2017: USD 4,165 million), a reduction of 50 percent. This reduction is in line with the Fifth Replenishment cycle 2017-2019 as many key contribution agreements were already signed and recognized as revenue during 2016 and 2017. The encashment of all contributions receivable is on track. The effective management of donor and stakeholder relationships continues to be prioritized. The management closely monitors the changes in the donor landscape and risks related to future funding.

The gross contribution income includes:

- USD 1,971 million from public donors (2017: USD 3,780 million);
- USD 87 million from private foundations (2017: USD 312 million);
- USD 42 million from Product (RED) (2017: USD 59 million); and
- USD 8 million from private corporations (financial sector) and international not-for-profit organizations (2017: USD 14 million).

Ongoing resource mobilization efforts

The Secretariat continued to pursue opportunities for additional pledges for 2018-2019, including countries that did not pledge for the 2017-2019 period, pledged annually or only for 2017-2018, monitoring of budgetary processes to identify other opportunities; and continued efforts to mobilize private sector contributions. These efforts resulted in an increased pledge from Germany, United Kingdom and Portugal in 2018. The cumulative amount of new pledges received for the 2017 to 2019 period since the Replenishment Conference in September 2016 is USD 248 million[1].

At the last Board meeting in November 2018, the revised Framework on Private Sector Engagement was presented and the Board confirmed the importance of the role played by the Private Sector in the Global Fund's resource mobilization strategy. Ongoing resource mobilization efforts within the Private Sector in 2018 have contributed to additional pledges from Private Sector and through matching arrangements from Public donors. During 2018, the partnership with (RED) reached the USD 100 million-target set for 2017-2019 Replenishment, an unprecedented effort. The year also resulted in new partnerships with new donors like Durex.

[1] measured at the rate at the date of the Replenishment Conference.

Structured Approach to Innovative Finance

The Global Fund developed a structured approach to innovative finance, which has been endorsed by the Audit and Finance Committee and presented at the Board at the 40th Board Meeting in November 2018. The toolkit highlights key priority areas where innovative finance could provide impact additionality. The prioritized toolkit includes a focus on expansion of existing tools (consumer donations, philanthropic platforms, and debt swaps), and further exploration of emerging tools (blended finance, results based financing, and outcomes based financing). This structured approach will shape the Secretariat's approach to financial innovation going forward, for example with the approval of the Regional Malaria Elimination Initiative ("RMEI") in blended finance; and the use of outcomes based financing under development in key areas such as adolescent/young girls affected by HIV, malaria elimination and primary health systems.

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).

Catalytic funding includes:

- USD 571 million has been designated for grants through Matching Funds and Multicountry Proposals;
- USD 20 million designated for the Emergency Fund; and
- USD 209 million for Strategic Initiatives, which are managed by the Secretariat.

During 2018, the AFC approved the transfer of USD 250 million of forecasted unused funds from the fourth replenishment to be used in the fifth replenishment. Of this, USD 245 million has been set aside for grants through Portfolio Optimization Framework. The remaining USD 5 million funding was approved for CCM Evolution and Code of Conduct under Strategic Initiatives.

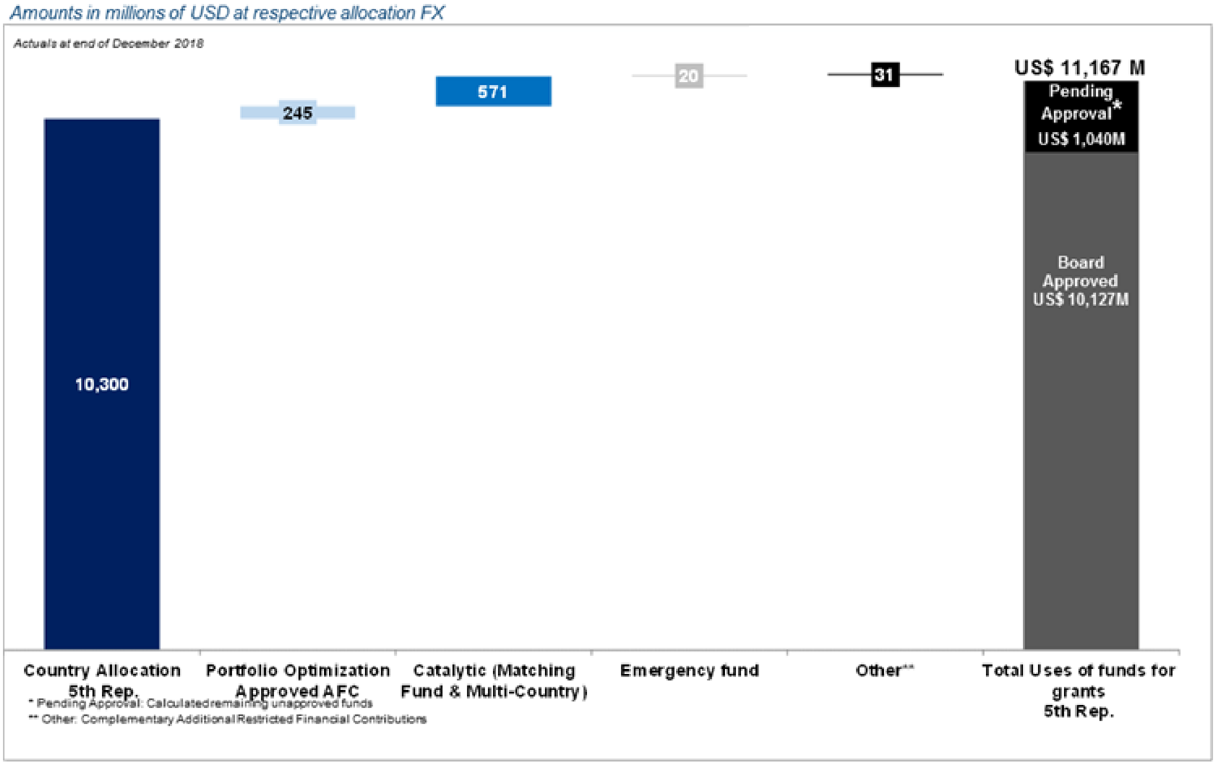
Applicants can apply for allocation funding, matching funds or multicountry funding, depending on eligibility. By the end of 2018, the vast majority of funding requests have been reviewed by the TRP with the 6 remaining funding requests to be reviewed electronically over 2019.

As at 31 December 2018, the overall status of 2017-2019 allocation period[2] is as follows:

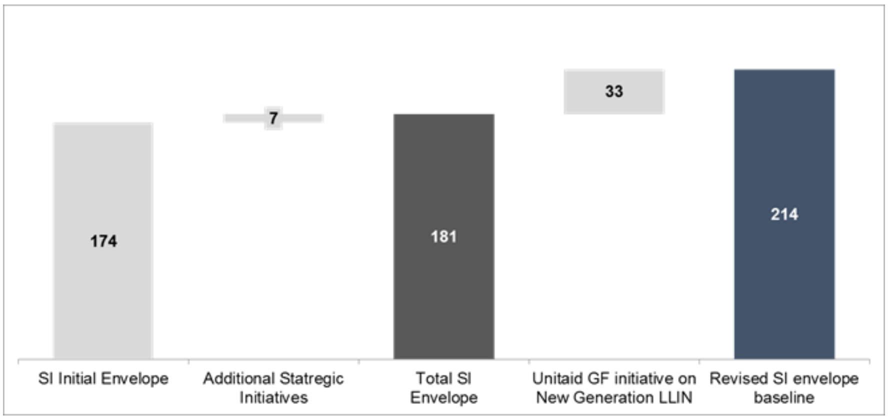
- The Board approved 184 grants amounting to USD 10,127[3] million which included:
    - USD 282 million of Matching Funds
    - USD 186 million of Multicountry funding
    - USD 34 million of portfolio optimisation funding
    - USD 31 million of Additional Restricted Financial Contributions
    - USD 8 million of Emergency Fund

[2] Overall status includes data on Board approvals up to Dec 31st 2018.

[3] Amounts at Allocation FX rate.



- The following figure illustrates the evolution of Strategic Initiatives since its initial approval in 2016:
    - USD 7 million of additional initiatives: Including USD 5 million transferred from 4th replenishment and USD 2 million for Human Rights through change of modality from Matching Funds
    - USD 33 million co-financing agreement signed with UNITAID on new LLIN.



- USD 3,284 million was listed on the Register of Unfunded Quality Demand as of 31 December 2018.

3. OPERATIONAL INSIGHTS

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

During 2018, the Global Fund under the mandate of its Audit and Finance Committee commissioned extended country-team review ("ECTR") within the scope of the external audit mandate. The ECTR involved an in-depth systematic review of Secretariat's internal control system and management assurance mechanisms designed and implemented at the country-team level that support managements assertions governing grant financial decision-making. The key objective of ECTR was to provide additional assurance on management judgements and estimates applied in the preparation of the consolidated financial statements.

To summarize the ECTR focused on the following:

- Completeness and accuracy of information on which management judgements for grant commitments, disbursements and recoveries are based;
- Consistent application of an effective internal control system and management assurance mechanisms governing grant financial decision-making;
- Benchmarking performance within the country-teams while also ensuring that success and learnings are bought into the common goals and objectives of the organization.

The external auditor did not identify any significant control deficiencies in these portfolios and noted consistent application of the controls set in place by the Secretariat. A few performance improvement observations were noted with respect to the processes that aim to standardize information sharing and document management. The management is committed to put in place appropriate mitigation measures during 2019.

The external auditors selected Cameroon and Indonesia for this pilot review in 2018, following a review of the risk profiles based on the Integrated Risk Tool (IRM) and the OIG audit engagement pipeline for 2019. This facilitated increased sharing of information and completeness of review across the Secretariat's assurance providers.

The following table outlines the key financial statistics for Cameroon and Indonesia:

Amounts in millions of USD at respective allocation FX

Country	FMIR	Disease	in country absoption	2018 Forecast		Key financial positions during 2018		
				Commitments	Disbursements	Commitments	Disbursements	Grants Payable
Cameroon	Minor issues	HIV/AIDS	81%	35	31	46	41	17
		TB	94%	5	4	5	3	2
		Malaria	139%	19	11	52	17	38
				60	**46**	**103**	**60**	**58**
Indonesia	Moderate Issues	HIV/AIDS	81%	40	27	34	18	26
		TB	124%	53	29	50	19	38
		Malaria	82%	17	13	- 2	10	13
		RSSH	72%		2	- 3	- 0	
				111	**72**	**79**	**47**	**76**

Cameroon: A country of "several firsts"

The Republic of Cameroon, with the support of four Global Fund grants, has made significant gains in the fight against the three diseases. Through the support of these grants, Cameroon has already ensured:

- As at June 2018, 268,597 patients, against a target of 277,801, received HIV treatment out of an estimated 566,942 people living with HIV;
- 11.8 million bed nets were distributed during the 2016 nation-wide LLIN Mass Campaign, and
- As at June 2018, the success rate for Tuberculosis treatment was 84.5 percent.

In addition to these programmatic achievements, Cameroon has accomplished several "firsts", namely:

- first country in West and Central Africa to carry out a nation-wide HIV treatment cascade;
- first country, alongside Ethiopia, to have a signed and ratified debt swap for health sponsored by Spain and implemented by the Global Fund (a scheme known as "Debt2Health") resulting in a EUR 9.3 million investment into Cameroon's Global Fund-supported HIV grant that will allow for an additional 38,000 patients to be put on antiretroviral treatment by 2020; and
- first country to complete a national health product supply chain diagnostic under the Global Fund Supply Chain Initiative. This has resulted in the establishment of a National Supply Chain committee and a clear action plan to improve the supply chain.

Since 2016, the Global Fund has been working to implement electronic payments as a replacement for all forms of cash-based payments with the aim of reducing the risks surrounding cash-based payments and increasing efficiency across the payment cascade. During 2018, the Global Fund moved to scale-up this initiative in Cameroon, as well as to explore the possibility of moving towards integrated payment solutions through partnerships with private sectors entities like Ecobank, mobile money providers including MTN and Orange and payment agents like Express Union. As a testament to the success of this initiative, a cohort of 4,400 community health workers, spread across 69 districts, have received payments through mobile money. This has proven to be faster, more secure and a motivating factor for good performance among the community health workers in carrying out their core duties.

During 2018, the Global Fund worked with one of the big four audit firms to provide various tailored solutions from recruitment of quality finance staff, on-the-job training for resolving specific audit recommendations and further enhance the financial management capacity of the Principal Recipient. This partnership will evolve into delivering longer-term support such as training on the SYSCOA financial reporting framework and compliance with country's fiscal regulations.

Besides the country specific achievement, the finance team in Cameroon along with other francophone Global Fund-supported countries participated in the first-ever Financial Management Best Practice Sharing / Leadership training workshop at the Ecobank Regional Training Institute in Lomé, Togo. The Global Fund, Ecobank and Humentum jointly facilitated this workshop. The workshop provided a platform to share best practices in financial management. For Cameroon, this was a good opportunity to learn from their counterparts coming from other countries with the ultimate goal of cascading and embedding best practices in their day-to-day country financial operations as part of the efforts to achieve greater impact in the fight against the three diseases in Cameroon.

Indonesia:

Indonesia is a world largest archipelago with more than seventeen thousand islands and population of 255 million making it the 4th most populous country. The health system is a tiered system reaching to the village level, with budgetary responsibility decentralized to district level. The Global Fund support to Indonesia to fight against the three diseases and health system strengthening started in 2003. The last NFM grants were signed for the 2016-2017 period for all the three diseases program including the health system strengthening component. Indonesia is among top 30 countries for high TB burden. In an effort to improve finding missing cases the Global Fund had approved additional funding of USD 15 million with USD 6 million for increasing case notifications by linking private sector care providers to the national reporting system. It is expected that this additional funding will help improve TB response in Indonesia. Indonesia has made very significant progress against malaria during the past seven years, as reflected in the increasing number of districts (more than 50%) that have been declared malaria-free, and the declining number of cases and API. The focus of the Global Fund grant is on eastern provinces where the incidence is still high. With the Global Fund support during 2017, 7 million of LLINs were distributed through mass campaign.

Government health spending in Indonesia received a major boost with the launch of its social health insurance program for universal health care- Jaminan Kesehatan Nasional (JKN). By mid-2018, JKN has enrolled about 195 million beneficiaries (75 % of population), with the goal to cover entire population by 2019. Co-financing commitments for the current implementation period is USD 659 million, a 45% increase compared to previous period. The Global Fund is catalyzing sustainable financing by providing grant support for technical assistance to integrate HIV and TB services within social health insurance (JKN) through the World Bank's Multi-Donor Trust Fund (MDTF). Additional support is provided to evaluate and advocate the integration of TB & HIV treatment and prevention components into JKN. The current grants also include support for advocacy efforts to leverage funding for HIV, TB, and malaria from local budgets, which is a major source of health financing in the country. In addition, Global Fund through its private sector initiatives (USD 65 million from Tahir Foundation) and Debt2Health mechanisms (with Germany and Australia) have supported domestic resource mobilization for the fight against the three diseases in Indonesia.

In addition to the progress made in fighting the three diseases, Indonesia also has a strong partnership with the Global Fund in the field of financial capacity building. Significant efforts have been made in this area over recent years, with particular highlights including:

- The Global Fund grants in Indonesia are in the transition phase of moving to accrual based accounting in order to better align with the national reporting system and to improve transparency, accountability and financial management of the funds. This has helped the Principle Recipients to present a more complete picture of the financial position of the grants to better manage assets and liabilities. In order to address the complexities of the full accrual accounting a phased approach has been adopted whereby the grants are currently moved to modified accruals before switching to full accrual based accounting.

- The Global Fund Secretariat worked with in country partners and technical assistance providers to develop tools and process for the development of risk based sub-recipient management plans, which have now been rolled out by all Principal Recipients. The more granular understanding of risk that these templates and processes enable allows for more concentrated focus of efforts to the areas requiring greatest attention.

- The Global Fund Secretariat also worked in partnership with the Office of the Inspector General of the Indonesian Ministry of Health to develop and finance a coordinated approach to internal audit of Global Fund grants to the Ministry of Health. This partnership allows for improved internal audit procedures, and the institutional nature of the Office of the Inspector General is also expected to enable rapid resolution of issues identified through internal audit processes.

- During 2018, the Global Fund partnered with the UNDP to provide technical assistance to the Principle Recipients from the Ministry of Health to improve financial management capacity through on job trainings, updating Standard Operating Procedures (SOPs), recruiting quality staff at the managerial level and improvement of the accounting softwares. This capacity building project is a part of a broader initiative from the Global Fund to enhance implementer's financial management systems as a part of building resilient and sustainable systems for health (RSSH) and responding to the jointly agreed action plan developed with in country partners to address the recommendations from the finance management system assessment.

- Significant efforts have already been made to upgrade the functionality of accounting software used by Principal Recipients in Indonesia, with initial results focused in two national non-governmental Principal Recipients. Over the course of 2019, these efforts will expand with the aim of upgrading accounting software at Ministry of Health Principal Recipients by mid-2019.

- Finally, the Global Fund Secretariat worked with partners to improve the functionality of and assurance around the mechanisms for providing living support costs to TB patients. The improvements included (a) the development of an application ("ENAM") to automate patient data collection, thereby improving the quality and timeliness of the collection of the required information which in turn increased the speed of processing of the payments for patients and (b) the use of an external service provider (the national postal service) to make payments to patients, thereby mitigating risks related to cash based payments and improving the traceability of funds.

4. The Global Health Campus

In February 2018, the Global Health Campus was delivered on time and below budget that is rather exceptional for a construction project of this magnitude, and in March 2018, the Global Fund moved to its new home. 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 the old office 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.

Gavi and the Global Fund share an equal partnership in the Health Campus with a strong spirit of collaboration representing 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, and bundling external contractors' services as much as feasible for cost-effectiveness.

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 integration into the campus, promoting for new working habits and interactions, and to fully realize the potential of the new building in driving efficiency, effectiveness and staff wellbeing.

During 2018, the Global Fund incurred USD 5 million towards GHC one-off costs against an approved budget of USD 12 million. The savings were primarily made on dilapidation costs and avoiding the double rent by accelerating the relocation to the new campus. The efficiency savings were reinvested on other important Secretariat initiatives.

2018 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 2018, the Global Fund recognized USD 2,079 million in contribution income (2017: USD 4,153 million), net of present value discounting of USD 29 million (2017: USD 12 million). The contribution from sovereign donors continued to be the lead source of revenue at 94 percent (2017: 91 percent).

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 2018, contribution receipts amounted to USD 3,485 million (2017: USD 3,856 million). The decrease 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[4]

As at 31 December 2018

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 for the replenishment period.

USD 6.1 billion has been received in cash and USD 0.5 billion other financial instruments deposited with the Global Fund for the 2017- 2019 Replenishment period. This reflects the actual cash realized at the prevailing spot rate and financial instruments revalued at the reporting date.

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

STATEMENT OF PLEDGES AND CONTRIBUTIONS
REPLENISHMENT PERIOD: 2017- 2019
In thousands

	Donors	Currency	2018 Donor source currency Pledges (Announced)	Total Contributions received	Contributions received in 2018
A	**Contributions for the current Replenishment Period 2017-2019**				
A.1	**Governements**				
	Australia	AUD	220'000	89'950	65'950
	Belgium	EUR	45'000	30'000	15'000
	Benin	USD	2'000	2'000	-
	Canada	CAD	804'000	538'333	267'667
	China	USD	18'000	12'000	6'000
	Côte d'Ivoire	USD	1'000	-	-
	Denmark	DKK	300'100	150'100	150'100
	European Commission	EUR	475'000	347'815	166'500
	France	EUR	1'080'000	676'800	334'800
	Germany	EUR	850'000	465'000	235'000
	India	USD	20'000	13'000	7'000
	Ireland	EUR	30'000	20'000	10'000
	Italy	EUR	140'000	80'750	42'750
	Japan	USD	800'000	453'484	281'656
	Kenya	USD	5'000	5'000	2'500
	Korea (Republic of)	KRW	1'957'000	1'957'000	-
	Korea (Republic of)	USD	10'000	5'740	3'740
	Kuwait	USD	6'000	5'000	2'500
	Liechtenstein	CHF	200	200	100
	Luxembourg	EUR	8'100	5'400	2'700
	Namibia	USD	1'500	300	300
	Netherlands	EUR	166'000	107'467	53'733
	New Zealand	NZD	1'000	1'000	500
	Nigeria	USD	10'000	-	-
	Norway	NOK	2'000'000	1'300'000	700'000
	Portugal	EUR	202	202	102
	Qatar	USD	10'000	6'667	3'333
	Saudi Arabia	USD	15'000	10'000	5'000
	Senegal	USD	1'000	-	-
	South Africa	USD	5'000	3'500	1'500
	Sweden	SEK	2'500'000	1'650'000	850'000
	Switzerland	CHF	57'000	38'500	18'500
	Thailand	USD	4'500	4'500	3'000
	Togo	USD	1'000	878	878
	Uganda	USD	1'500	390	390
	United Kingdom	GBP	1'200'000	830'000	360'000
	United States	USD	4'300'000	1'517'854	959'854
	Zambia	USD	3'000	-	-
	Zimbabwe	USD	1'000	300	200
	Debt2Health : Côte d'Ivoire/Germany	EUR	1'081	1'081	34
	Debt2Health : Cameroon/Spain	EUR	9'318	9'318	-
	Debt2Health : Ethiopia/Spain	EUR	3'191	3'191	-
	Debt2Health : DRC/Spain	USD	3'160	3'160	3'160
	Debt2Health : DRC/Spain	EUR	217	217	217
A.2	**Private Foundations**				
	Gates Foundation	USD	649'227	427'878	225'178
	Fullerton Health Foundation	SGD	7'500	-	-
	Tahir Foundation	IDR	500'862'400	135'646'340	39'881'100
A.3	**Corporations**				
	Duet Group	USD	2'600	-	-
	Ecobank	USD	3'000	250	-
	Munich RE	USD	752	501	251
	Standard Bank	USD	4'000	1'333	667
	Takeda Pharmaceutical	JPY	277'500	185'000	92'500
A.4	**Others**				
	Catholic Relief Services	USD	5'000	-	-
	Comic Relief UK	GBP	12'000	6'400	1'500
	Comic Relief US	USD	9'000	8'975	3'175
	Goodbye Malaria	USD	4'000	2'359	1'162
	United Methodist Church	USD	7'914	3'770	1'270
	RED	USD	100'000	100'000	32'670
	Others	USD	47'000	16'994	8'312

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 2018, the Global Fund had sufficient confirmed financial resources as Sources of Funds to meet funding allocated by the Global Fund Board under Uses of Funds. In addition to assets included in the Global Fund's balance sheet, Sources of Funds include adjusted donor pledges and contribution agreements that are not included in financial statements.

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

At 31 December 2018, the Global Fund Trust Fund investment balance pool was valued at USD 3,203 million (2017: USD 3,073 million), and returned 1.05 percent as the annual rate of return (2017: 3.19 percent). In absolute terms, the Trustee reported USD 23 million as the net investment income on the Trust Fund (2017: USD 98 million). The decrease in investment income reflects rising USD interest rates coupled with negative returns in equity markets in 2018, in particular during the last quarter of 2018.

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

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

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

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

In the period under consideration, the currencies in which the Global Fund's assets and liabilities are denominated generally decreased in value against the Global Fund's functional currency, the US dollar. This led to significant FX loss on assets and limited FX gains on liabilities. Conversely, fluctuations in FX rates led to gains on FX hedging instruments. For 2018, due to the hedging of off-balance sheet items, FX gains on hedging instruments exceeded FX losses on assets and liabilities.

For the year ended 31 December 2018, a net foreign exchange gain of USD 74 million is reported on the net balance sheet positions (2017: USD 54 million net loss). The following table summarizes the impact of hedging on net FX results, including economic FX results (off-balance sheet).

USD million	Before hedges	Hedges	Net
Accounting FX results (on-balance sheet)	(135)	209	74
Economic FX results (off-balance sheet)	(38)	-	(38)
Net FX results	**(173)**	**209**	**36**

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

3- GRANT LIABILITIES

The Global Fund grant expenditure of USD 3,973 million (2017: USD 3,044 million) during 2018 included:

- USD 3,929 million as grant commitments to Principal Recipients for in-country and pooled procurement mechanism (PPM) activities (2017: USD 3,011 million)
- USD 44 million as Strategic Initiatives expenses (2017: USD 25 million)

During 2018, the Secretariat made new grant commitments for USD 3,973 million, 30 percent higher than the grant commitments made during 2017. This increase was mainly due to 2018 being the first year of implementation under the 2017-2019 allocation for most country-components.

This transition to implementation under the Fifth replenishment also impacted grant disbursements with USD 3,173 million disbursed during 2018 (2017: USD 4,258 million). Of which USD 3,134 million has been disbursed to grant Principal Recipients and third-party suppliers. The remaining USD 39 million has been disbursed towards Strategic Initiatives projects. The decrease in grant disbursements during 2018 is following the disbursement peak in the last quarter of 2017 to facilitate in-country implementation of new grants in early 2018.

When measured at the respective allocation rates, 2018 disbursements amounted to USD 3,180 million which was in line with F3 forecast presented to AFC in October 2018.

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 2018, the Global Fund incurred USD 297 million at spot rate for its operating costs (2017: USD 295 million). When measured at the 2018 budget rate it resulted in USD 298 million (2017: USD 298 million) thereby yielding a positive foreign exchange gain of USD 1 million (2017: USD 3 million).

In 2018, the Secretariat's efforts had been focused on identifying additional savings to stays within the Board approved envelop of USD 900 million over the 2017-2019 period including the GHC one off impact. The Secretariat had been proactive in activating levers more specifically on workforce costs. Savings realized were reallocated to absorbing GHC one-off costs impact. Excluding the GHC one-off impact, the annual operating cost was USD 293 million (USD -6 million or -2.2 percent against the approved budget). The Global Health Campus one-off costs amounted to USD 5 million in 2018 versus a budget of USD 12 million. These savings were driven by lower dilapidation costs and risk on double rent of the old office premises not being incurred.

Operating costs as a percentage of total expenditure decreased to 6.9 percent in 2018 (2017: 8.9 percent) driven by a 31 percent increase in grant expenditure over 2018.

For the year 2019, the Board has approved an annual operating cost budget of USD 302 million. Based on the 2019 budget and 2017 and 2018 actual expenditure, we will remain within the approved allocation for operating expenses of USD 900 million over the 2017–2019 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 2018, 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 168 million (2017: USD 155 million). This includes USD 158 million of Provident Fund reserves and USD 10 million of cumulative actuarial valuation reserve.

As at 31 December 2018, the Provident Fund asset base was USD 158 million (2017: USD 155 million) which included USD 144 million (2017: USD 148 million) of Provident Fund investments measured at fair value and USD 14 million (2017: USD 6 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 2018, a net fair valuation loss on Provident Fund investments for USD 4 million (2017: USD 6 million net gain) was reported. The annual rate of return on Provident Fund investments was (2) percent against a benchmark of (3.9) percent.

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 2018 were approved by the Board on 15 May 2019.

REPORT OF THE INDEPENDENT AUDITOR

with consolidated financial statements as at and for the year ended 31 December 2018 of

The Global Fund to Fight AIDS, Tuberculosis and Malaria.

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

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

Consolidated Financial Statements as at 31 December 2018

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Independent Auditor's Report to the Board of

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

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 2018, 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 2018 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

Other information in the Annual Financial Report

The Global Fund Board is responsible for the other information in the annual financial report. The other information comprises all information included in the annual financial report, but does not include the consolidated financial statements, 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.

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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, 15 May 2019

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	2018	2017
Income			
Contributions	4.1	2,079	4,153
Expenditure			
Grants	3.2	(3,973)	(3,044)
Operating expenses	6.1	(301)	(289)
		(4,274)	**(3,333)**
Net operating (loss) / income		**(2,195)**	**820**
Foreign exchange result, net	5.7	74	(54)
Financial income, net	5.8	23	98
(Decrease)/ increase in funds		**(2,098)**	**864**

Consolidated statement of comprehensive income
for the year ended 31 December

USD millions	Notes	2018	2017
(Decrease)/ Increase in funds		(2,098)	864
Other comprehensive income			
Re-measurement losses on defined benefit plan that will not be reclassified to the statement of income	6.4	(4)	(4)
Total comprehensive income for the year		**(2,102)**	**860**

Consolidated statement of financial position

In millions of USD

As at	**Notes**	**31.12.2018**	**31.12.2017**
Assets			
Current assets			
Cash and cash equivalents	5.1	40	48
Trust Fund	5.2	3,203	3,073
Contributions receivable	4.2	1,489	2,027
Derivative financial instruments at fair value	5.6	27	-
Other receivables	3.3, 4.2	31	102
		4,790	5,250
Non-current assets			
Contributions receivable	4.2	927	1,954
Provident Fund investments	5.3	144	148
Tangible and intangible assets	6.2	87	12
Derivative financial instruments at fair value	5.6	1	-
Other receivables	3.3, 4.2	2	6
		1,161	2,120
Total Assets		**5,951**	**7,370**
Liabilities			
Current liabilities			
Grants payable	3.3	2,545	1,625
Derivative financial instruments at fair value	5.6	11	70
Lease liability	6.3	7	-
Other current liabilities	6.5	67	52
		2,630	1,747
Non-current liabilities			
Grants payable	3.3	18	252
Employee benefit liabilities	6.4	168	155
Derivative financial instruments at fair value	5.6	-	36
Lease liability	6.3	57	-
		243	443
Total Liabilities		**2,873**	**2,190**

As at	**Notes**	**31.12.2018**	**31.12.2017**
Temporarily restricted funds	7.3	5	18
Unrestricted funds	7.3	3,073	5,162
Total Funds		**3,078**	**5,180**
Total liabilities and funds		**5,951**	**7,370**

Consolidated statement of cash flows
for the year ended 31 December

USD millions	Notes	2018	2017
Operating activities			
Cash received from donors		3,485	3,856
Grant disbursements		(3,173)	(4,258)
Payments for operating expenses		(272)	(280)
Cash realized on forward contracts settlements		86	(110)
Net cash flow from/ (used in) operating activities		126	(792)
Investing activities			
Financial income received, net		23	98
Purchases of Provident Fund investments		(11)	(27)
Sales of Provident Fund investments		10	-
Purchases of tangible and intangible assets		(13)	(6)
Net cash flow from investing activities before Trust Fund movements		9	65
Net cash rebalancing between commercial banks and Trust Fund		(131)	246
Net cash flow (used in)/ from investing activities		(122)	311
Financing activities			
Payment of lease liabilities		(5)	-
Net cash flow used in financing activities		**(5)**	**-**
Net decrease in cash and cash equivalents		(1)	(481)
Cash and cash equivalents			
- at beginning of the year	5.1	48	509
Effect of exchange rate changes		(7)	20
- at end of the year	5.1	**40**	**48**

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

As at 31 December	Notes	2018	2017
Amounts held in commercial banks	5.1	40	48
Amounts held in Trust Fund	5.2	3,203	3,073
Total operational cash balance		**3,243**	**3,121**

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 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**
As at 1 January 2018	-	**18**	**5,162**	**5,180**
Decrease in funds for the period	-	(13)	(2,085)	**(2,098)**
Other comprehensive income	-	-	(4)	**(4)**
At 31 December 2018	-	**5**	**3,073**	**3,078**

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

Explanatory notes to the annual consolidated financial statements

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

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

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

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

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

Index for notes to the consolidated financial statements

Section 1: Activities and organization

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

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

Section 2: Basis of reporting

Statement of compliance

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

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

Basis of preparation

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

These consolidated financial statements as at and for the year ended 31 December 2018 were approved by the Global Fund Board on 15 May 2019.

Functional and presentation currency

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

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

Basis of consolidation

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

Significant management judgments, estimates and assumptions

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

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

Changes in significant accounting policies, estimates and judgments

The Global Fund has initially adopted IFRS 9 Financial Instruments (see A) and IFRS 16 Leases (see B) from 01 January 2018. The effect of initially applying these standards is described in the respective sections below. Section C analyzes the impact of IFRS 15 Revenue from Contracts with Customers.

A. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets and liabilities. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities; its adoption therefore has not had a significant effect on the Global Fund's accounting policies related to financial liabilities. IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sales. It introduces the new categories at amortized cost, fair value through OCI (FVOCI) and fair value through profit or loss (FVTPL).

In the context of the Global Fund financial statements, the major changes introduced by IFRS 9 relate to impairment of financial assets in terms of expected credit loss ("ECL"). IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. This requires judgement about how changes in economic factors affect ECLs, which are determined on a probability –weighted basis. The new impairment model applies to financial assets measured at amortized cost. No significant impacts are expected as a result of the adoption.

Transitional arrangements

IFRS 9 requires changes in accounting policies resulting from the adoption of IFRS 9 to generally be applied retrospectively. Restating prior periods is only allowed if it is possible without the use of hindsight. Given the insignificant impact on the opening financial positions, a restatement of opening equity for the previous financial year, i.e. FY 2017, was not deemed necessary.

Accounting treatment

In the context of the Global Fund's Consolidated Statement of Financial Position, all financial assets, are initially recognized at fair value. Assets which were classified as loans and receivable under IAS 39 are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses and recognized in statement of income. Any gain or loss on derecognition is recognized in statement of income.

Under IFRS 9, the Global Fund uses lifetime expected credit loss approach ("ECL"), losses that result from all possible default events over the expected life of contributions receivable and grants under recovery, for determining the provision for potential impairment.

The following table provides an overview of the rationale for IFRS 9 classification for assets mandatorily at FVTPL under IFRS 9:

Global Fund financial assets	Asset classification under IAS 39	Asset classification under IFRS 9	Rationale for IFRS 9 classification
Trust Fund asset/ Pooled Investments	Designated at fair value through Profit & Loss ("FVTPL")	Mandatorily at FVTPL	Given that the Trust Fund asset does not meet the SPPI criterion, it is classified as FVTPL. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Derivative financial instruments measured at fair value	Held for trading	Mandatorily at FVTPL	The Global Fund does not apply hedge accounting and as such its derivatives are classified as FVTPL.
Provident Fund Investments	Designated at fair value through Profit & Loss ("FVTPL")	Mandatorily at FVTPL	Given that these investments do not meet the SPPI criterion, they are classified as FVPTL.

In respect of assets classified as Loans and receivables, the following table provides an overview of subsequent measurement under IFRS 9:

Global Fund financial assets	Asset classification under IAS 39	Asset classification under IFRS 9	Subsequent measurement: ECL calculation
Cash and cash equivalents	Loans and receivables	Amortized cost	Under it's Comprehensive Funding Policy (“CFP”), the Global Fund can hold cash balances only with commercial banks with long-term credit rating of A or higher. Management maintains robust cash management processes to ensure that cash in local commercial banks is held in accordance with the forecasted short-term liquidity needs. For impairment risk assessment, a 12-month ECL approach is adopted. Under this approach the Global Fund has not recorded any ECL on cash and cash equivalents ECL given the insignificant risk of default.
Contributions receivable	Loans and receivables	At amortized cost	The Global Fund reviews these financial assets as at the reporting date to assess for any expected credit losses. This assessment is based on a review of the donor credit profile, the in-country economic and political situation and other known factors that may potentially result in reduced future cash receipts. Where the Global Fund determines there to be a collection risk then an appropriate risk premium is deducted from receivable balances to reflect this risk. The risk premiums held are maintained as a provision for expected credit losses.
Advances for Pooled Procurement Mechanism	Loans and receivables	At amortized cost	
Grants under recovery	Loans and receivables	At amortized cost	

B. IFRS 16 Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use (“RoU”) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The right-of-use asset is treated similar to other non-financial assets and depreciated accordingly.

The standard is effective for annual reporting periods beginning on or after 01 January 2019 but the Global Fund has elected to early adopt it effective 01 January 2018. The decision to early adopt is direct linked with the Global Fund’s move to its new office premises called the Global Health Campus (“GHC”) effective February 2018. The early adoption of the standard in 2018 enables the accounting of the GHC contract under IFRS 16 from its inception. All other leases identified were of low value to which the Global Fund recognizes the payments associated with these items as an expense on a straight-line basis.

Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Transitional arrangements

Accordingly, the Global Fund has reviewed all contracts entered into before 01 January 2018 to determine if these qualify as leases within the new standard. The main eligible contract is that of the Global Fund office space in GHC. The lease agreement is effective for an initial period of 10 years starting February 2018. The Global Fund is the primary lessee of the entire building but its occupancy ratio will be limited up to 60 percent. Other public health partners would use the remaining campus as office space. Their occupancy ratios are contractually agreed through respective sub-lease agreements between the Global Fund and the sub-tenants. Given this arrangement, the Global Fund acts in dual capacity, i.e. as a lessee for the GHC head lease agreement and as a lessor for sub-lease agreements with other sub-tenants.

Accordingly, no restatement of previous financial year, i.e. FY 2017, is required.

Accounting treatment

Initial recognition

As a lessee

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

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

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

Any subsequent capital investments made by the Global Fund in the nature of leasehold improvements will be capitalized as leasehold assets and not as the increase in GHC RoU asset.

As a lessor

The Global Fund acts as a lessor for part of GHC sublet to other international public health organizations. These sub-leases are classified as operating leases because the Global Fund in its role as the primary lessor, centralizes the risks and rewards to the ownership of the underlying asset from the head lease. Under this arrangement, the Global Fund recognizes the operating lease payments as income on a straight-line basis.

C. IFRS 15 — Revenue from Contracts with Customers

The Global Fund has historically based revenue recognition policy for donor contribution income on the principles of IAS 18. Effective 1 January 2018, IAS 18 has been replaced with IFRS 15. The nature of revenue pertaining to the Global Fund i.e., donor contributions is not within the scope of IFRS 15, because donors are not considered to be customers provided with goods or services in the ordinary course of business. Instead, they enter into non-exchange transactions (contributions) with the Global Fund.

Accordingly, the Global Fund's revenue recognition policy now takes guidance under the general IFRS principles as detailed in the Conceptual Framework for Financial Reporting with respect to the recognition of donor contribution income in its financial statements.

Standards issued but not yet effective

The Global Fund is yet to analyze the impact of the "*Amendments to References to the Conceptual Framework in IFRS Standards"* revised Conceptual Framework effective in 2020 on its accounting policy and the annual consolidated financial statements.

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.

Section 3: Grant activities

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

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

Grant stage for the year ended 31 December	*Contingent Liability: Board approved but not committed*	*Annual commitment*	*Disbursement of committed amounts* *As per statement of cash flow*	*Foreign exchange gains on EUR grant liabilities*	*Annual commitments not disbursed as at 31 December (Grants payable as per statement of financial position)*
Notes	**3.1**	**3.2**		**5.7**	**3.3**
2018	6,004	3,929	3,173	28	2,563
2017	7,986	3,011	4,258	(38)	1,877

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

By category	**2018**	**2017**
Grants approved but not signed	272	2,584
Grants signed but not committed	5,732	5,402
Total: Contingent liability for grants to Principal Recipients	6,004	7,986
Strategic initiatives	31	-
Total	**6,035**	**7,986**

Contingent liability for grants to Principal Recipients **By region**		
Asia (outside High Impact), Europe, Latin America and the Caribbean	491	531
Africa (outside High Impact) and Middle East	1,485	1,650
High Impact Africa I	977	1,464
High Impact Africa II	1,876	3,094
High Impact Asia	1,175	1,247
Total	**6,004**	**7,986**

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 interest expense towards discounting of long-term grants payable is disclosed along with the grant expenditure for the reporting period.

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

	2018	2017
By category		
Grants to Principal Recipients	2,878	2,442
Grants for PPM orders	1,051	569
Total grants to Principal Recipients	**3,929**	**3,011**
Private Sector Co-Payments	-	8
Strategic Initiatives	44	25
Total grants	**3,973**	**3,044**
By disease		
HIV-AIDS (including HIV/TB)	1,941	1,520
Malaria	1,319	953
Tuberculosis	602	462
Others (including RSSH and multi-component)	67	76
Total grants to Principal Recipients	**3,929**	**3,011**
By region		
Asia (outside High Impact), Europe, Latin America and the Caribbean	334	370
Africa and Middle East	1,076	714
High Impact Africa I	859	322
High Impact Africa II	1,235	766
High Impact Asia	425	839
Total grants to Principal Recipients	**3,929**	**3,011**

3.3 Grants payable

The following table summarizes grant payable at 31 December

	2018	2017
Grants payable within one year		
USD	2,183	1,365
EUR	274	141
ZAR	422	556
Net grants payable within one year in equivalent USD	2,524	1,578
Grants under recovery, net	16	46
Strategic Initiatives	5	1
Net grants payable within one year	**2,545**	**1,625**

	2018	2017
Grants payable after one year		
USD	16	246
EUR	-	-
Net grants payable in equivalent USD	16	246
Grants under recovery, net	2	6
Net grants payable after one year	**18**	**252**
Total grants payable in equivalent USD	**2,563**	**1,877**

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 and subject to the same policy of valuation, risk assessment and asset impairment as contributions recoverable from donors.

The carrying amount of grants payable, including grants under recovery, is a reasonable approximation of fair value.

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 assets*	*Contributions receivable on the statement of financial position*
NOTE	4.2	4.1	4.1, 4.4			4.2
2018	3,981	2,079	(-)	3,485	159	2,416
2017	3,407	4,153	(8)	3,856	285	3,981

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

Effective 2018, the revenue recognition policy of the Global Fund follows the general principles as detailed in the Conceptual Framework for Financial Reporting. A detailed analysis on the consequences and impact has been provided in Section 2 C.

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:

	2018	2017
Donor contributions		
By donor category		
Public	1,971	3,780
Foundations	87	312
Product (RED)	42	59
Corporations	3	5
International not-for-profit organizations	5	9
Gross revenue	2,108	4,165
Discounted	(29)	(12)
Total	**2,079**	**4,153**
By donor intent		
Unrestricted	1,939	4,045
Restricted- Private Sector Co-payments	-	8
Restricted- Others	140	100
Total	**2,079**	**4,153**

The effect of discounting long-term contribution receivable is disclosed along with the revenue for the reporting period.

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

4.2 Contributions receivable

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

Promissory notes and contributions receivable maturing later than one year after the date of the consolidated statement of financial position are discounted at fair value (based on 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:

	2018	2017
Promissory notes maturing within one year	457	428
Contributions receivable within one year	1,032	1,599
Total	**1,489**	**2,027**
Promissory notes maturing after one year	-	-
Contributions receivable after one year	927	1,954
Total	**927**	**1,954**
Total value of contributions receivable	**2,416**	**3,981**
Receivable in 2018	-	2,027
Receivable in 2019	1,489	1,346
Receivable in 2020	366	18
Receivable after 2020	750	750
Gross contributions receivable	2,605	4,141
Discounted	(189)	(160)
Net present value of contributions receivable	**2,416**	**3,981**

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

During 2018, a provision for expected credit losses for USD 2 million was created (2017: NIL).

The accounting policy on recognition and measurement for contributions receivables is also applicable to assets classified as Other Receivables. Other receivables of USD 33 million include (USD 31 million current and USD 2 million non-current):

i. USD 18 million of Grants under recovery based on the demand letters formally issued to PRs (2017: USD 52 million). This is net of expected credit loss of USD 2 million given the uncertainty of future cash inflows compared with the recovery schedule agreed by the Principal Recipients under the recovery protocol;
ii. USD - Working capital advance for pooled procurement mechanisms (2017: USD 47 million)
iii. USD 8 million of Security deposit for office lease (2017: Nil)
iv. USD 7 million in prepaid expenses for Opex and Strategic Initiatives (2017: USD 9 million).

The carrying amount of contributions and other receivable is a reasonable approximation of fair value.

4.3 Conditional contribution

Under the Fifth Replenishment, the Global Fund had entered into certain contribution agreements that were subject to performance obligations to be measured and reported over the period of the agreement. Given the uncertainty associated with the future encashments in respect of such donor agreements, USD 127 million (2017: USD 122 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. Any unspent portion of the contribution received will need to be refunded to the donor.

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

Section 5: Management of funds

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

5.1 Cash and cash equivalents

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

	2018	**2017**
Amounts held in commercial banks	40	48

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	**2018**	**2017**
Tranche 0 USD	455	332
Tranche 5 USD	2,689	2,559
Tranche 0 EUR	59	182
Total	**3,203**	**3,073**

As at 31 December 2018 the Pool had a fair value measurement of USD 32,248 million (2017: USD 30,341 million) as confirmed by the World Bank. The following table reflects the asset allocation in the pool:

Types of financial instruments	**2018**	**2017**
Government and agency obligations	55%	54%
Time deposits and money market securities	21%	19%
Asset-backed securities	21%	18%
Equity securities	6%	10%
Derivatives, net	-	(1)%
Securities purchased under resale agreements and securities sold under repurchase agreements	(3)%	-
Total	**100%**	**100%**

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

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

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

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

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

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

Time deposits and money market securities

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

Securities purchased under resale agreements and securities sold under repurchase agreements

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

Derivative contracts

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

Fair valuation hierarchy

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

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

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

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

The following table shows the Trust Fund's share of financial instruments held in the Pool recognized at fair value:

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

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**

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

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**

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

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

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

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

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

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

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 2018, USD 4 million was reported in fair valuation loss on Provident Fund investments (2017: USD 6 million fair valuation gains).

5.4 Financial risk management objectives and policies

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

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

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

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

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

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

i. Interest rate risk

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

The VaR of the Trust Fund's share of the portfolio over a twelve month horizon, at a 95% confidence level as at 31 December 2018 is estimated to be USD 55 million (2017: USD 37 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.

	2018		***2017***	
Currency	***Change %***	***Amount USD million***	***Change %***	***Amount USD million***
Euro	8%	(+/-) 5.2	9%	(+/-) 16.4

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	**2018**	**2017**
AA or greater	61%	67%
A- or greater	100%	100%

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

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

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

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

The hedging strategy follows the general principles outlined below:

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

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

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

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

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

The risk metrics is reported under one combined VaR limit.

5.5 Foreign exchange exposures

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

Key foreign currencies	**2018**	**2017**	***% fluctuation***
AUD	0.7068	0.7802	*(9)*
EUR	1.1432	1.1998	*(5)*
CAD	0.7344	0.7950	*(8)*
CHF	1.0149	1.0263	*(1)*
GBP	1.2694	1.3514	*(6)*
SEK	0.1115	0.1219	*(9)*
NOK	0.1150	0.1218	*(6)*

[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 Krona (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 2018			***As at 31 December 2017***		
Currency	*Net FX exposure*	*Hedges at nominal value*	*% Hedging ratio*	*Net FX exposure*	*Hedges at nominal value*	*% Hedging ratio*
AUD	119	109	92	185	175	94
CAD	266	266	100	533	501	94
CHF	(36)	(84)	(233)	(317)	(174)	55
DKK	150	75	50	300	225	75
EUR	194	261	135	1,289	975	76
GBP	631	552	87	873	822	94
SEK	850	600	71	1,700	1,450	85
NOK	700	600	86	1,400	1,300	93

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:

	2018		***2017***	
Currency	Change %	Amount USD million	Change %	Amount USD million
CHF	3	-	2	-
EUR	8	-	9	-
GBP	12	(+/-) 9	12	(+/-) 6
SEK	9	(+/-) 2	9	(+/-) 3

5.6 Foreign exchange risk management

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

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

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

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

As at 31 December	**2018**	**2017**
Amounts held in CHF	15	12
Amount held in EUR	67	161

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	2018	2017
Assets		
- within 12 months	27	-
- beyond 12 months	1	-
Liabilities	28	-
- within 12 months	(11)	(70)
- beyond 12 months	-	(36)
Net asset/ (liability) for derivative financial instruments at fair value	**17**	**(106)**

BY CURRENCY

As at 31 December 2018

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

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)**

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:

	2018		**2017**	
By currency	*Before derivative instrument*	*After derivative instrument*	*Before derivative instrument*	*After derivative instrument*
AUD	(14)	-	5	2
CAD	(30)	4	4	(27)
CHF	2	6	2	(20)
EUR	(3)	51	112	(26)
GBP	(74)	6	125	17
SEK	(16)	-	25	14
NOK	(1)	4	(2)	(8)
Others	1	3	(4)	(6)
Total	**(135)**	**74**	**267**	**(54)**

	2018	**2017**
By net position		
Net foreign exchange gain/ (loss) on assets	46	(16)
Net foreign exchange gain/ (loss) on liabilities	28	(38)
Total: Net foreign exchange gain/(loss)	**74**	**(54)**

5.8 Financial income, net

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

	2018	**2017**
Trust Fund gains, net	25	100
Financial costs	(2)	(2)
Total	**23**	**98**

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:

	2018	**2017**
Staff	157	149
External assurance	44	48
Professional fees	35	35
Others	61	63
Total Secretariat costs	297	295
Provident Fund valuation	4	(6)
Total	**301**	**289**

The 2018 consolidated operating expenditure for Global Fund includes USD 93,449 as the operating expenditure for the US Fund (2017: USD 36,223).

Staff costs include all personnel costs incurred by the Global Fund in accordance with its human resource guidelines. At 31 December 2018 there were 759 (2017: 758) personnel employed by the Global Fund.

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

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

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

6.2 Tangible and Intangible assets

The Global Fund moved its headquarters office to the new Global Health Campus in February 2018. The Global Fund is the primary lessee for the right-to use the GHC. Accordingly, the head lease has been fully recognized as a Right-of-Use asset in the Global Fund statement of financial position. A detailed note on the accounting treatment for the GHC lease arrangements has been reported in Section 2B: IFRS 16 Leases.

All ancillary costs regarding office maintenance and amenities are regarded as non-lease components and as such are recognized as expense in the period in which these ancillary costs are incurred.

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

Asset category	*Net assets at 01 Jan 2018*	*Additions*	*Depreciation*	*Net asset value at 31 Dec 2018*
Leased assets				
Head lease: ROU-GHC	-	72	(5)	67
Tangible assets	2	9	(2)	9
Intangible assets	10	5	(4)	11
Total	**12**	**86**	**(11)**	**87**

The sub-leases are treated as operating leases. During 2018, USD 2 million has been recognized as miscellaneous income grouped under operating expenses towards the sub-lease rentals from sub-tenants.

6.3 Lease liability

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

The financial liability represents the Global Fund’s liability for future lease payments towards the head lease agreement for the right to use GHC as its office space. The operational set up of the GHC lease has been explained in detail in Section 2B: IFRS 16 Leases.

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

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

6.4 Employee benefit liabilities

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

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

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

Actuarial valuation of defined benefit obligation

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

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

Change in benefit obligation	**2018**	**2017**
Benefit obligation at beginning of year	155	132
Current service cost	27	27
FX translation impact	(2)	6
Interest cost	1	1
Actuarial loss	4	4
Benefits paid from plan/company	(15)	(13)
Premiums and expenses paid	(2)	(2)
Benefit obligation at end of year	**168**	**155**

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	**2018**	**2017**
Amounts recognized in the statement of income		
Current service cost	27	27
Interest cost	1	1
Total pension cost recognized in the statement of income	**28**	**28**

Actuarial valuation recognized in other comprehensive income		
a. Effect of changes in demographic assumptions	-	-
b. Effect of changes in financial assumptions	(5)	-
c. Effect of experience adjustments	9	4
Total actuarial valuation recognized in other comprehensive income	**4**	**4**
Total defined benefit cost recognized in the statements of income and other comprehensive income	32	32

Principal actuarial assumptions		
Weighted-average assumptions to determine benefit obligations at		
Discount rate	0.80%	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%	1.00%
Sensitivity analysis		
Discount rate -25 basis points	172	159
Assumption	0.55%	0.25%
Discount rate +25 basis points	164	151
Assumption	1.05%	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	13
Average duration of the plan liabilities (in years)	10	11

6.5 Other current liabilities

	2018	2017
Accounts payable for operating expenditure	12	8
Provisions and accrued expenses for operating expenditure	47	36
Deferred contribution *(Note 6.6)*	8	8
Total	**67**	**52**

6.6 Deferred contributions

	2018	2017
Private Sector co-payments	1	2
External co-funding for operating expenditure	7	4
Donor contributions received in advance	-	2
	8	**8**

Section 7: Other disclosures

7.1 Related party transactions

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

An honorarium is paid to the independent members to the standing committees of the Board. Effective 2017, the Chair and the Vice-Chair of the Board are also entitled to receive honoraria as per Board's decision (GF/BR2017/DP05). All other transactions with the Board and its committees are made at terms equivalent to arm's length transactions and within the operational framework of the Secretariat. During 2018, an aggregate of USD 113,503 (2017: USD 66,914) 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 2018.

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	2018	2017
Short-term benefits including salary and allowances	5.6	5.5
Long-term benefits including contributions to the Provident Fund	0.7	0.8
Total Remuneration	**6.3**	**6.3**

7.2 Taxation

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

7.3 Unrestricted and temporarily restricted funds

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

Glossary

AFC	Audit and Finance Committee
ALM	Asset Liability Model
AUD	Australian dollar
CAD	Canadian dollar
CFP	Comprehensive Funding Policy
CHF	Swiss Franc
ECL	Expected Credit Loss
EUR	Euro
FVTPL	Fair value through profit & loss
GBP	Pound Sterling
GHC	Global Health Campus
NOK	Norwegian Krone
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
LLIN	Long lasting insecticidal net
OCI	Other comprehensive income
PPM	Pooled Procurement Mechanism
RoU	Right-of-use
SEK	Swedish Krona
SPPI	Solely Payments of Principal and Interest
USD	United States dollar

Annex 2 – 2018 Statutory Financial Statements

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STATUTORY FINANCIAL STATEMENTS

The Global Fund

2018

Contents

STATUTORY FINANCIAL STATEMENTS

Responsibility for the statutory financial statements

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

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

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

These statutory financial statements were approved by the Global Fund Board 15 May 2019.

KPMG AG

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REPORT OF THE STATUTORY AUDITOR

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

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

Financial Statements 31.12.2018

KPMG AG

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Independent Auditor's to the Board of

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

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Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund"), which comprise the statement of income, statement of financial position, statement of changes in funds and explanatory notes as at and for the year ended 31 December 2018.

Board's and Secretariat's Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the Global Fund's Bylaws.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

KPMG SA

Pierre-Henri Pingeon   Henri Mwaniki

Auditor in Charge

Licensed Audit Expert

Geneva, 15 May 2019

Enclosure(s):

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

Statement of Income
for the year ended 31 December

In millions of CHF	Notes	2018	2017
INCOME			
Contributions	4.1	2,050	4,048
EXPENDITURE			
Grants	3.2	(3,914)	(2,966)
Personnel expenses	7.3	(155)	(145)
Other operating expenses	6.1	(142)	(137)
		(4,211)	(3,248)
Net operating (loss)/ income		**(2,161)**	**800**
Net foreign exchange income/ (loss)	5.5	73	(53)
Financial income, net	5.7	23	96
(Decrease) / Increase in funds		**(2,065)**	**843**

Statement of Financial Position

As at 31 December

In millions of CHF	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	5.1	38	46
Trust Fund	5.2	3,155	2,994
Contributions receivable	4.2	1,461	1,968
Other receivables		31	100
Derivate financial instruments at fair value	5.5	27	-
		4,712	5,108
Non-current assets			
Contributions receivable	4.2	907	1,896
Provident Fund Investments	5.3	142	144
Tangible and intangible assets	6.2	86	12
Other receivables		2	6
Derivative financial instruments at fair value	5.5	1	-
		1,138	2,058
Total Assets		**5,850**	**7,166**

LIABILITIES

Current liabilities	Notes	**2018**	**2017**
Grants payable	3.3	2,508	1,583
Other liabilities		65	51
Derivative financial instruments at fair value	5.5	11	68
Lease liability	6.2	7	-
		2,591	1,702
Non-current liabilities			
Grants payable	3.3	18	245
Employee benefit liabilities	6.3	162	151
Lease liability	6.2	56	-
Derivative financial instruments at fair value		-	36
		236	432
Total Liabilities		**2,827**	**2,134**

FUNDS

	Notes	**2018**	**2017**
Temporarily restricted funds	7.2	5	18
Unrestricted funds	7.2	3,480	5,532
Currency translation adjustment	7.4	(462)	(518)
Total Funds		3,023	5,032
Total Liabilities and Funds		**5,850**	**7,166**

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Chief Financial Officer

Date:

Executive Director

Date:

Statement of Changes in Funds

for the year ended 31 December
In millions of CHF

	As at 1 January 2017	Increase/ (Decrease)	At 31 December 2017
Temporarily restricted funds	10	8	18
Unrestricted funds	4,701	831	5,532
Currency translation adjustment	(329)	(189)	(518)
Total Funds	**4,382**	**650**	**5,032**

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

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

Index to notes to the statutory financial statements

Section 1: Activities and organization

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

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

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

Section 2: Basis of reporting

Basis of preparation

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

Previous year figures have been regrouped to be in line with the current year presentation.

These statutory financial statements as at and for the year ended 31 December 2018 were approved by the Global Fund Board on 15 May 2019.

Functional and presentation currency

The statutory financial statements are presented in Swiss Francs ("CHF"), by translating the consolidated financial statements, after eliminating the US Fund operations, presented in the Global Fund's functional currency at the foreign exchange rate between USD: CHF prevailing at the end of the year as specified in Note 5.4, except for the funds which are presented at the historical rate.

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

Foundation capital

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

Significant management judgment, estimates and assumptions

Preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. .Information on significant accounting policies, judgments, estimates and assumptions that are relevant to the understanding of the statutory financial statements are provided through the notes to the financial statements. In particular, the Global Fund has applied judgment in accounting for certain transactions with respect to grants (Section 3) and contributions (Section 4).

Although these judgments, estimates and assumptions are based on management's knowledge of events, 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.

Section 3: Grant Activities

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

3.1 Contingent Liability

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

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

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

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

STATEMENT OF CONTINGENT LIABILITIES FOR GRANTS

Contingent liability for grants as at 31 December:

BY CATEGORY	2018	2017
Grants approved but not signed	268	2,518
Grants signed but not committed	5,648	5,263
Total : Contingent liability for grants to Principal Recipients	5,916	7,781
Strategic initiatives	31	-
Total	**5,947**	**7,781**

3.2 Grants expenditure

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

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

STATEMENT OF GRANTS EXPENDITURE

For the years ended 31 December	2018	2017
BY CATEGORY		
Grants to Principal Recipients	3,871	2,934
Private Sector Co-Payments	-	8
Strategic Initiatives	43	24
Total: Grants	**3,914**	**2,966**

3.3 Grants Payable

Grants Payable within one year

As at 31 December	2018	2017
By grant source currency		
USD	2,183	1,365
EUR	274	141
ZAR	422	556
Net grants payable within one year in equivalent CHF	2,487	1,538
Grants under recovery, net	16	45
Strategic initiatives	5	-
Net Grants Payable within one year	**2,508**	**1,583**

Grants Payable after one year

Net grants payable beyond one year in equivalent CHF	16	240
Grants under recovery, net	2	5
Net Grants Payable after one year	**18**	**245**
Total grants payable in equivalent CHF	**2,526**	**1,828**

Section 4: Donor activities

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

4.1 Contribution Income

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

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

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

For the years ended 31 December	**2018**	**2017**
DONOR CONTRIBUTIONS		
By donor category		
Governments	1,971	3,695
Others	106	365
Discounting	(29)	(12)
Total	**2,048**	**4,048**

4.2 Contributions receivable

Contributions receivable are agreements signed where income has been recognised but the cash has not been received. Contribution receivables are stated at nominal value net of a provision for uncollectible contributions to cover the risk of non-payment 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 statement of financial position are discounted at fair value and subsequently measured at amortized cost using the effective interest method. The following table summarizes contributions receivable at 31 December:

Contributions Receivable

As at 31 December	2018	2017
Receivable in 2018	-	1,968
Receivable in 2019	1,461	1,306
Receivable in 2020 or after	1,093	746
Gross contributions receivable	2,554	4,020
Discounted	(186)	(156)
Net present value of contributions receivable	**2,368**	**3,864**

4.3 Conditional contribution

For the Fifth Replenishment, the Global Fund had entered into certain contribution agreements that were subject to performance obligations to be measured and reported over the period of the agreement. Given the uncertainty associated with the future encashments in respect of such donor agreements, CHF 125 million (2017: CHF 119 million) will be recognized as revenue in the financial year in which such performance obligations are satisfactorily delivered.

Section 5: Management of funds

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

5.1 Cash and cash equivalents

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

As at 31 December	2018	2017
Amounts held in commercial banks	38	46

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

5.2 Trust Fund

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

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

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

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

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

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

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

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

Tranche	**2018**	**2017**
Tranche 0 USD	448	323
Tranche 5 USD	2,649	2,494
Tranche 0 EUR	58	177
Total	**3,155**	**2,994**

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

5.3 Provident Fund Investments

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

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

STATEMENT OF PROVIDENT FUND INVESTMENTS

Nature of investment	2018	2017
Equity	30	33
Fixed income	79	76
Real estate funds	33	25
Private sector hedge	-	10
Total	**142**	**144**

5.4 Foreign Exchange Exposures

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

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

	2018	2017	% Fluctuation
Key foreign currencies			
AUD	0.7068	0.7802	(9)%
EUR	1.1432	1.1998	(5)%
CAD	0.7344	0.7950	(8)%
CHF	1.0149	1.0263	(1)%
GBP	1.2694	1.3514	(6)%

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

5.5 Foreign Exchange Risk Management

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

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

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

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

BY SETTLEMENT DATE

As at 31 December	**2018**	**2017**
Assets		
Within 12 months	27	-
Beyond 12 months	1	-
	28	-
Liabilities		
Within 12 months	(11)	(68)
Beyond 12 months	-	(36)
Total	**17**	**(104)**

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

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

The following table presents the notional value and the fair value of derivative financial instruments by currency as at 31 December 2017:

Currency (Level 2)	**Notional value in millions**	**Forward contracts at fair value in CHF millions**
AUD	175	(1)
CAD	501	(10)
CHF	(174)	(3)
EUR	975	(61)
GBP	822	(21)
NOK	1,300	(1)
SEK	1,450	(7)
Total		**(104)**

5.6 Foreign Exchange Accounting

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

For the years ended 31 December	**2018**	**2017**
BY NET POSITION		
Net foreign exchange gain/(loss) on assets	45	(16)
Net foreign exchange gain/(loss) on liabilities	28	(37)
Total: Net foreign exchange gain/(loss)	**73**	**(53)**

5.7 Financial result, net

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

	2018	**2017**
Trust Fund gains, net	25	98
Trustee fees	(2)	(2)
Total	**23**	**96**

Section 6: Operating activities

6.1 Operating expenses

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

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

For the years ended 31 December	2018	2017
External assurance	43	47
Professional fees	35	34
Others	60	62
Total Secretariat costs	**138**	**143**
Provident Fund valuation	4	(6)
Total	**142**	**137**

6.2 Leases

Tangible and Intangible assets

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

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

Asset category	*Carrying amount at 01 Jan 2018*	*Additions*	*Depreciation/ Amortization*	*Carrying amount at 31 December 2018*
Leased assets				
Head lease: ROU-GHC	-	71	(5)	66
Tangible assets	2	9	(2)	9
Intangible assets	10	5	(4)	11
Total	**12**	**85**	**(11)**	**86**

The sub-leases are treated as operating leases. During 2018, CHF 2 million has been recognized as miscellaneous income grouped under operating expenses towards the sub-lease rentals from sub-tenants.

Lease liability

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

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

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

6.3 Employee benefits

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

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

Change in benefit obligation	**2018**	**2017**
Benefit obligation at beginning of year	151	134
Contributions during the year	27	27
Plan remeasurement	-	5
Exit benefits paid	(14)	(13)
Premiums and expenses paid	(2)	(2)
Benefit obligation at end of year	**162**	**151**

Section 7: Other disclosures

7.1 Taxation

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

7.2 Unrestricted and temporarily restricted funds

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

7.3 Full-time Equivalent

The average number of full-time equivalent employees for 2018 and 2017 exceeded 250.

7.4 Currency translation adjustment

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

Annex 3 – Summary of Committee Input

At its 9th meeting in March 2019, the AFC deliberated upon the 2018 Annual Financial Report, including the 2018 Consolidated Financial Statements, and the 2018 Statutory Financial Statements.

In accordance with the AFC's advisory authority, Committee members made enquiries of the Secretariat, the Inspector General and the External Auditor. The ensuing discussion encompassed matters such as compliance with IFRS reporting requirements, changes to IFRS standards and guidance, the financial results of the Global Fund Provident Fund, revenue recognition in the context of contributions, the scope of extended country team reviews in the context of internal controls, as well as non-audit services provided by the global KPMG SA organization.

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

The AFC recognized the work of the Secretariat and, at the conclusion of the session, voted unanimously to recommend the 2018 Annual Financial Report, including the 2018 Consolidated Financial Statements, and the 2018 Statutory Financial Statements to the Board for approval pursuant to Decision Point GF/AFC09/DP02.

Annex 4 – Relevant Past Decisions

Relevant past Decision Point	Summary and Impact
GF/AFC09/DP02: Acceptance by the Audit and Finance Committee of Documents and Responses Relating to the 2018 Consolidated Financial Statements and 2018 Statutory Financial Statements (March 2019)	The Audit and Finance Committee accepted and recommended for approval by the Board: a. The 2018 Annual Financial Report, including the 2018 Consolidated Financial Statements, which have been prepared by the Secretariat and audited by KPMG SA, as set forth in Annex 1 to GF/AFC09/06; b. The 2018 Statutory Financial Statements, which have been prepared by the Secretariat and audited by KPMG SA, as set forth in Annex 2 to GF/AFC09/06; c. The unqualified audit opinions on both the 2018 Consolidated Financial Statements and the 2018 Statutory Financial Statements prepared by KPMG SA, and the related conclusions and statements of KPMG SA; and d. Comments and responses by the Secretariat and KPMG SA to the questions and topics of discussion during the AFC's deliberations.
GF/AFC08/DP01: Approval of the 2018 Interim Financial Report (October 2018)	The Audit and Finance Committee authorized the issuance of, and therefore approved, the Global Fund's 2018 Interim Financial Report, which includes the 2018 Interim Condensed Consolidated Financial Statements that have been reviewed by KPMG SA, as set forth in Annex 1 to GF/AFC08/02.
GF/AFC02/DP09: Advance Payments (October 2016)	The Audit and Finance Committee approved amendments to the Policy for Financial Administration, as set forth in Annex 2 to GF/AFC02/04, to align with the approval of advance payments for certain grant expenditures.
GF/B34/EDP18: Appointment of External Auditor (April 2016)[6]	The Board authorizes the appointment of KPMG SA as the Global Fund's external auditor for an initial three year term beginning with the 2016 fiscal year.
GF/FAC11 (October 2008)	The former Finance and Audit Committee approved the Policy for Financial Administration, as set forth in Annex 2 to GF/FAC11/03, which provides that the accounting records and controls of the Global Fund shall be subject to audit by independent auditors.
GF/B17/DP21: Transition from Administrative Services – Human Resources and Financial Rules (April 2008)[7]	The Board delegated authority to the former Finance and Audit Committee to approve rules applicable to non-grant financial management, in connection with the transition from administrative services previously provided by the World Health Organization.

[6] https://www.theglobalfund.org/board-decisions/b34-edp18/
[7] https://www.theglobalfund.org/board-decisions/b17-dp21/