

## **Annex 2 – 2018 Statutory Financial Statements**

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STATUTORY FINANCIAL STATEMENTS



2018

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# STATUTORY FINANCIAL STATEMENTS

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## **Responsibility for the statutory financial statements**

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



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## REPORT OF THE STATUTORY AUDITOR



*The Global Fund to Fight AIDS, Tuberculosis and Malaria, Le Grand-Saconnex  
Report of the Statutory Auditor  
on the Statutory Financial Statements to the Board*

**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



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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)

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Statement of Income

for the year ended 31 December

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

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Statement of Financial Position

As at 31 December

In millions of CHF	Notes	2018	2017
<b>ASSETS</b>			
<b>Current assets</b>			
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	-
		<u>4,712</u>	<u>5,108</u>
<b>Non-current assets</b>			
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	-
		<u>1,138</u>	<u>2,058</u>
<b>Total Assets</b>		<u><b>5,850</b></u>	<u><b>7,166</b></u>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### LIABILITIES

<b>Current liabilities</b>	Notes	<b>2018</b>	<b>2017</b>
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	-
		<u>2,591</u>	<u>1,702</u>
<b>Non-current liabilities</b>			
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
		<u>236</u>	<u>432</u>
<b>Total Liabilities</b>		<u><b>2,827</b></u>	<u><b>2,134</b></u>

### FUNDS

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

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Chief Financial Officer

Date:

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Executive Director

Date:

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### 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)
<b>Total Funds</b>	<b>4,382</b>	<b>650</b>	<b>5,032</b>

	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)
<b>Total Funds</b>	<b>5,032</b>	<b>2,009</b>	<b>3,023</b>

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

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

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# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Section 1: Activities and organization

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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

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#### **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.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

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

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

### 3.1 Contingent Liability

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

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

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



# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

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	-
<b>Total</b>	<b>5,947</b>	<b>7,781</b>

### 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
<b>BY CATEGORY</b>		
Grants to Principal Recipients	3,871	2,934
Private Sector Co-Payments	-	8
Strategic Initiatives	43	24
<b>Total: Grants</b>	<b>3,914</b>	<b>2,966</b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### 3.3 Grants Payable

#### Grants Payable within one year

As at 31 December	<b>2018</b>	<b>2017</b>
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	-
<b>Net Grants Payable within one year</b>	<b>2,508</b>	<b>1,583</b>

#### Grants Payable after one year

Net grants payable beyond one year in equivalent CHF	16	240
Grants under recovery, net	2	5
<b>Net Grants Payable after one year</b>	<b>18</b>	<b>245</b>

<b>Total grants payable in equivalent CHF</b>	<b>2,526</b>	<b>1,828</b>
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# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### Section 4: Donor activities

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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	<u>2018</u>	<u>2017</u>
<b>DONOR CONTRIBUTIONS</b>		
<b>By donor category</b>		
Governments	1,971	3,695
Others	106	365
Discounting	(29)	(12)
<b>Total</b>	<u>2,048</u>	<u>4,048</u>

#### 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:

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### 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)
<b>Net present value of contributions receivable</b>	<b>2,368</b>	<b>3,864</b>

### 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*.

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### 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
<b>Total</b>	<b>3,155</b>	<b>2,994</b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

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
<b>Total</b>	<b>142</b>	<b>144</b>

### 5.4 Foreign Exchange Exposures

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

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

Key foreign currencies	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)%

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

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

### 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

<i>As at 31 December</i>	<b>2018</b>	<b>2017</b>
Assets		
Within 12 months	27	-
Beyond 12 months	1	-
	<u>28</u>	<u>-</u>
Liabilities		
Within 12 months	(11)	(68)
Beyond 12 months	-	(36)
	<u>-</u>	<u>(36)</u>
<b>Total</b>	<u><b>17</b></u>	<u><b>(104)</b></u>

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

<b>Currency (Level 2)</b>	<b>Notional value in millions</b>	<b>Forward contracts at fair value in CHF millions</b>
AUD	109	2
CAD	266	9
CHF	(84)	-
EUR	261	(7)
GBP	552	10
NOK	600	2
SEK	600	1
<b>Total</b>		<b>17</b>
		18

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

## Statutory Financial Statements

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

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

### 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	<b>2018</b>	<b>2017</b>
<b>BY NET POSITION</b>		
Net foreign exchange gain/(loss) on assets	45	(16)
Net foreign exchange gain/(loss) on liabilities	28	(37)
<b>Total: Net foreign exchange gain/(loss)</b>	<b>73</b>	<b>(53)</b>

### 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:

	<b>2018</b>	<b>2017</b>
Trust Fund gains, net	25	98
Trustee fees	(2)	(2)
<b>Total</b>	<b>23</b>	<b>96</b>



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### Section 6: Operating activities

#### 6.1 Operating expenses

Operating expenses are costs incurred by the Global Fund Secretariat for maintaining a sustainable administrative structure in order to 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
<b>Total Secretariat costs</b>	<b>138</b>	<b>143</b>
Provident Fund valuation	4	(6)
<b>Total</b>	<b>142</b>	<b>137</b>

#### 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.

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

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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.

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

### 6.3 Employee benefits

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

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

<b>Change in benefit obligation</b>	<b>2018</b>	<b>2017</b>
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)
<b>Benefit obligation at end of year</b>	<b>162</b>	<b>151</b>

# The Global Fund to Fight AIDS, Tuberculosis and Malaria

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### Section 7: Other disclosures

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#### **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.