

INTERIM FINANCIAL REPORT



30 June 2019

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Interim Financial Report

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The Global Fund to Fight AIDS, Tuberculosis and Malaria

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2019 KEY OPERATIONAL ACTIVITIES

1. Replenishment update

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

In line with the Global Fund’s Investment Case for the Sixth Replenishment launched in New Delhi in February 2019 during the Preparatory Meeting for the Sixth Replenishment, the Global Fund aims to raise at least USD 14 billion over the 2020-22 period to help save 16 million lives and avert 234 million infections by 2023, and get back on track towards the Sustainable Development Goal (SDG) target of ending the three diseases by 2030.

The Sixth Replenishment Conference where the bulk of Global Fund resources for the 2020-2022 replenishment period is expected to be raised will take place on 9 and 10 October 2019 in Lyon, France. Hosted by the Government of France under the high patronage of President Emmanuel Macron, the Conference is expected to convene global leaders and Global Fund partners to announce their pledges and reaffirm their commitment to the Global Fund’s mission of ending AIDS, TB and malaria as epidemics.

Since the launch of the Sixth Replenishment campaign, early pledges have been made by several sovereign donors like the United Kingdom (GBP 1.4 billion), Germany (EUR 1 billion), Japan (USD 840 million), Canada (CAD 930 million), the European Commission (EUR 550 million), India (USD 22 million), Italy (EUR 160 million), Ireland (EUR 45 million), Luxembourg (EUR 9 million) and Portugal (EUR 750,000). Each significantly increased their pledge. Takeda Pharmaceutical Company Limited became the first private sector entity to announce its pledge, a financial commitment of JP¥ 1 billion (approximately USD 9 million) over five years.

2. Update on Fifth Replenishment results

For the Global Fund’s Fifth Replenishment period (2017-2019), since the initial conference in September 2016, donors have pledged USD 12.3 billion.

During the last year of the Fifth Replenishment Cycle, the focus remains on the conversion from pledges to contributions. The interim period ended 30 June 2019 has seen continued progress in the signing and payment of contribution agreements linked to the Fifth Replenishment.

Over USD 9.4 billion of contributions, including private sector donors, were signed against the pledges announced for the Fifth Replenishment. Out of 38 public donors, 36 have signed contribution agreements. The preferred mode of contributions continued to be cash through signed contribution agreements including multi-year payment schedules which significantly enhance the Secretariat’s ability to perform effective cash and foreign-exchange management.

As of 30 June 2019, donors have converted 64 percent of their pledges to contributions paid, for a total of USD 7.9 billion. The remaining funds are expected to be transferred in full by the end of the Fifth Replenishment cycle.

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FINANCIAL COMMENTARY

When compared with the financial position at 31 December 2018, the condensed consolidated interim statement of financial position shows a 6 percent decrease in funds during the first six months of FY 2019. The asset base has decreased by 8 percent and the total liabilities decreased by 11 percent. As at the reporting date, the Global Fund holds USD 4.5 billion in current assets of operational cash at commercial banks, in the Trust Fund managed by the World Bank as Trustee and contributions receivable from donors within 12 months. When compared with the current liability for USD 2.3 billion towards grants and operating expenses, the net current position stands at USD 2.2 billion.

The interim financial results reflect a typical mid-operational cycle of grant implementation under the current allocation period (2017-2019). The new commitments for funding during 2019 have decreased by half along with a 13 percent decrease in the outstanding grant liability at 30 June 2019.

When compared with the financial results during the first half of 2018, the operational income from donor contributions was 18 percent higher over the previous half-year. This is driven by the donors fulfilling their outstanding pledges for the Fifth Replenishment cycle. The contribution encashments are largely in line with the underlying donor agreements.

Key progress on the following core financial components achieved during the first half year of 2019 has been analysed below:

1. Financial management framework
2. Donor pledges and contributions
3. Grant commitments and disbursements
4. Operating expenses
5. The Global Fund Provident Fund

1. Financial management framework

The Global Foreign-Exchange (FX) Management Framework was designed for the effective management of FX exposures arising from each element included in the Global Fund's asset-liability management framework, as envisaged in the Comprehensive Funding Policy. This includes on-balance sheet items, as well as future assets and liabilities pending the signature and recognition of contribution agreements and grant funding decisions (off-balance sheet items), respectively. The hedging of both on and off-balance sheet items is made on a portfolio level and controlled with a specific risk metrics utilizing value-at-risk (VaR).

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

In the period under consideration, the currencies in which the Global Fund's assets and liabilities are denominated generally depreciated in value against the Global Fund's functional currency, the U.S. dollar. Given the end of the replenishment period, the net FX results are largely integrated within the scope of the financial statements. For the half-year ended 30 June 2019, a net USD 4 million loss was reported on the foreign currency financial positions, this was compensated by a net USD 14 million gain resulting from hedging operations thereby resulting in a net USD 10 million foreign exchange gain.

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2. Donor contributions

The net revenue recognized during the first six months of 2019 was USD 1,190 million (2018: USD 1,007 million), an increase of 18 percent. The encashment of all outstanding contributions receivable are largely on track.

The gross contribution income of USD 1,126 million, before long-term discounting of USD 64 million, includes:

- USD 1,096 million from sovereign donor governments (2018: USD 1,008 million);
- USD 24 million from Product (RED) (2018: USD 10 million), of which USD 24 million was received as revenue through the U.S. Fund for the Global Fund (2018: USD 7 million). A majority of US based (RED) partners are increasingly contributing directly to the U.S. Fund for the Global Fund in order to benefit from the tax exemptions available for donations made to a domestic US charity. The cash contributions are transferred to the Global Fund on a periodic basis; and
- USD 6 million from other non-governmental donors (2018: USD 11 million).

3. Grant commitments and disbursements

The main elements of the Global Fund grant expenditure of USD 1,345 million (2018: USD 2,882 million) during the first half of 2019 included:

- USD 1,314 million as grant commitments to Principal Recipients for in-country and pooled procurement mechanism (PPM) activities (2018: USD 2,865 million); and
- USD 31 million as Strategic Initiatives project expenses (2018: USD 17 million).

During the first half of 2019, the Secretariat made new grant commitments for USD 1,345 million, substantially lower than the grant commitments made during the comparative first half of 2018. This decrease was expected given that 2018 was the first year of implementation for a majority of grants under the 2017-2019 allocation resulting in peak commitment.

During the first semester of 2019 USD 1,656 million was disbursed in cash to Principal Recipients, their third-party suppliers and PPM Procurement Supplier Agents (2018: USD 1,473 million). This increase in grant disbursements is in line with the grant cycle as implementation is generally intensifying in the second year of implementation. Of the total cash disbursements, USD 1,618 million has been applied as disbursements under the respective grants.

4. Operating expenses

During the first half year of 2019 the Global Fund spent USD 127 million (2018: USD 136 million) for its operating expenses, a 6.6 percent decrease over the 2018 half-year. 2018 half-year was characterized by a higher spend rate driven by the impact of one-off costs under the Global Health Campus Project. Delays in staff recruitment in 2019 also contributed to a lower spend rate.

The Global Fund has continued to closely monitor its operating expenses whilst enabling the implementation of its key initiatives planned for 2019.

The foreign exchange impact on operating costs is managed centrally as part of treasury management. At budget rate, actual expenditure incurred during the first six months of the year also amounted to USD 129 million in 2019. This represents an 89 percent spend rate against the period-to-date operating expenses budget of USD 145 million. Looking forward, the Secretariat projects that the annual operating expenses for FY 2019 will remain within the approved budget of USD 302 million.

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5. Global Fund Provident Fund

When measured in the administration currency, Swiss Francs (CHF), the Provident Fund assets fully cover the underlying employee benefit liability.

In the condensed consolidated interim financial statements presented in the functional currency USD, the Provident Fund asset base was USD 177 million as at 30 June 2019 (2018: USD 158 million). This included USD 162 million of Provident Fund investments measured at fair value and USD 15 million in cash and cash equivalents. These assets are held and invested solely for funding future employee benefits under the Provident Fund constitution. The year-to-date rate of return on Provident Fund investments is 6.48 percent.

The liability for employee benefit obligation was USD 187 million as at 30 June 2019 (2018: USD 168 million). This includes USD 177 million in employee benefit reserves and USD 10 million as accumulated actuarial valuation loss. The last annual actuarial valuation was undertaken in 2018.

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

Responsibility for the condensed consolidated interim financial statements

The Secretariat is responsible for the preparation of the condensed consolidated interim financial statements and related information that is presented in this report. The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The condensed consolidated interim 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 its Audit and Finance Committee (“AFC”) to review the condensed consolidated interim 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 condensed consolidated interim financial statements were approved by the AFC on 18 September 2019.

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**INDEPENDENT AUDITORS' REPORT ON REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE SIX MONTHS ENDED 30 JUNE 2019
(UNAUDITED)**

Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Statements To the Board of The Global Fund to Fight AIDS, Tuberculosis and Malaria, Grand-Saconnex

Introduction

We have been engaged to review the accompanying condensed consolidated interim statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund") as at 30 June 2019 and the related condensed consolidated interim statement of income, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of cash flows, condensed consolidated interim statement of changes in funds for the six months ended 30 June 2019 and explanatory notes ("the condensed consolidated interim financial statements"). The Global Fund Board and Secretariat are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at and for the six months ended 30 June 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

KPMG SA

Pierre-Henri Pingeon
Licensed Audit Expert

Karina Vartanova
Licensed Audit Expert

Geneva, 27 September 2019

Enclosure:

- Condensed consolidated interim financial statements (condensed consolidated interim statement of income, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of financial position, condensed consolidated interim statement of cash flows, condensed consolidated interim statement of changes in funds and explanatory notes).

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Condensed consolidated interim statement of income (unaudited)

For the six months ended 30 June	Notes	2019	2018
In millions of USD			
Income			
Contributions	4.1	1,190	1,007
Expenditure			
Grants	3.2	(1,345)	(2,882)
Operating expenses	6.1	(127)	(136)
		<u>(1,472)</u>	<u>(3,018)</u>
Net operating loss		(282)	(2,011)
Foreign exchange results, net	5.5	10	51
Financial income, net	5.6	96	11
Decrease in funds		<u>(176)</u>	<u>(1,949)</u>

Condensed consolidated interim statement of comprehensive income (unaudited)

For the six months ended 30 June	2019	2018
In millions of USD		
Decrease in funds	(176)	(1,949)
Total comprehensive loss	<u>(176)</u>	<u>(1,949)</u>

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Condensed consolidated interim statement of financial position

As at In millions of USD	Notes	30.06.2019 (Unaudited)	31.12.2018
Assets			
Current assets			
Cash and cash equivalents	5.1	34	40
Trust Fund	5.2	2,889	3,203
Contributions receivable	4.2	1,594	1,489
Derivative financial instruments at fair value	5.4	17	27
Other receivables	4.2	36	31
		<u>4,570</u>	<u>4,790</u>
Non-current assets			
Contributions receivable	4.2	647	927
Provident Fund investments		161	144
Tangible and intangible assets	6.2	81	87
Other receivables	4.2	6	3
		<u>895</u>	<u>1,161</u>
Total Assets		<u>5,465</u>	<u>5,951</u>
Liabilities and funds			
Liabilities			
Current liabilities			
Grants payable	3.3	2,212	2,545
Derivative financial instruments at fair value	5.4	5	11
Lease liability	6.3	7	7
Other current liabilities		57	67
		<u>2,281</u>	<u>2,630</u>
Non-current liabilities			
Grants payable	3.3	41	18
Employee benefit liabilities		187	168
Lease liability	6.3	54	57
Total Liabilities		<u>2,563</u>	<u>2,873</u>
Funds			
Temporarily restricted funds		6	5
Unrestricted funds		2,896	3,073
Total Funds		<u>2,902</u>	<u>3,078</u>
Total liabilities and funds		<u>5,465</u>	<u>5,951</u>

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Condensed consolidated interim statement of cash flows (unaudited)

For the six months ended 30 June	<u>Notes</u>	<u>2019</u>	<u>2018</u>
In millions of USD			
Operating activities			
Cash received from donors		1,368	1,228
Grant disbursements		(1,656)	(1,473)
Payments for operating expenses		(133)	(145)
Cash realized on settlement of derivative financial instruments		19	(59)
Net cash flow used in operating activities		(402)	(449)
Investing activities			
Financial income received, net		40	11
(Purchase) / Proceeds from sale of Provident Fund investment, net		(6)	1
Purchase of tangible and intangible assets		(1)	(8)
Net cash flow from investing activities before Trust Fund movements		33	4
Net cash rebalancing between commercial banks and Trust Fund	5.2	369	651
Net cash flow from investing activities		402	655
Financing activities			
Payment of lease liabilities		(5)	-
Net cash flow used in financing activities		(5)	-
Net (decrease) / increase in cash and cash equivalents		(5)	206
Cash and cash equivalents			
- at beginning of the period	5.1	40	48
Effect of exchange rate changes on cash held in commercial bank and Trust Fund		(1)	3
- at end of the period	5.1	34	257

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

	Notes	30.06.2019	30.06.2018
Amounts held in commercial banks	5.1	34	257
Amounts held in Trust Fund	5.2	2,889	2,422
Total Operational cash balance		2,923	2,679

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Condensed consolidated interim statement of changes in funds (unaudited)

For the six months ended 30 June

In millions of USD

	Foundation¹ capital	Temporarily restricted funds	Unrestricted funds	Total
As at 1 January 2019	-	5	3,073	3,078
Increase/(Decrease) in funds	-	1	(177)	(176)
At 30 June 2019	-	6	2,896	2,902
As at 1 January 2018	-	18	5,162	5,180
Decrease in funds	-	-	(1,949)	(1,949)
At 30 June 2018	-	18	3,213	3,231

¹ The Global Fund has nominated and maintains a fully paid foundation capital of CHF 50,000 by virtue of being registered as a non-profit foundation under the laws of Switzerland not available for distribution.

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Notes to the condensed consolidated interim financial statements

Section 1: Activities and organisation

The Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Global Fund”) is a partnership designed to accelerate the end of AIDS, tuberculosis and malaria as epidemics. In partnership with governments, civil society, technical agencies, the private sector and people affected by the diseases, the Global Fund is challenging barriers and embracing innovation.

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, non-profit foundation under the laws of Switzerland on 22 January 2002. Foundations are subject to monitoring by the Swiss Federal Supervisory Board for Foundations.

Section 2: Basis of reporting

Statement of compliance

These unaudited condensed consolidated interim financial statements as at and for the six months ended on 30 June 2019 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

They do not include all the information and disclosures presented in the annual consolidated financial statements and should therefore be read in conjunction with the audited consolidated financial statements as at and for the year ended 31 December 2018, which have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Global Fund’s financial position and performance since the last annual financial statements. All amounts in the notes are presented in millions of USD, unless otherwise stated.

These condensed consolidated interim financial statements were authorised for issue by the Audit and Finance Committee of the Global Fund Board (the AFC) on 18 September 2019.

Changes in significant accounting policies, estimates and judgments

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements and all significant accounting estimates and other management judgments are consistent with those followed in the preparation of the consolidated financial statements as at and for the year ended 31 December 2018.

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

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The following tables summarize the assessment on new or amendments IFRS standards effective 1 January 2020.

<i>New standards or amendments</i>	<i>TGF assessment</i>
Amendments to References to the Conceptual Framework in IFRS Standards	No material impact
Definition of a Business (Amendments to IFRS 3)	Not applicable for the purpose of the Global Fund
Definition of Material (amendments to IAS 1 and IAS 8)	No material impact

Section 3: Grant activities

3.1 Contingent liability

From a financial statement perspective, the first point of measurement for grants is the contingent liability which is known at the point of Board approval. Board approval represents a potential obligation that can be reliably measured but still highly conditional upon future events. Following Board approval, all grants are covered by a grant agreement, that includes substantive conditions based on performance and availability of funding.

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

The following table summarizes the position of contingent liability for grants that will become future grants payable through the annual funding decision process.

	<u>30.06.2019</u>	<u>31.12.2018</u>
By category		
Grants approved but not signed	39	272
Grants signed but not committed	5,208	5,732
Total: Contingent liability for grants to Principal Recipients	5,247	6,004
Strategic initiatives	17	31
Total	<u>5,264</u>	<u>6,035</u>

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3.2 Grant expenditure

For the six months ended 30 June	<u>2019</u>	<u>2018</u>
By category		
Grants on behalf of Principal Recipients	1,057	2,401
Grants for PPM orders	257	464
Strategic Initiatives	31	17
Total	<u>1,345</u>	<u>2,882</u>

3.3 Grants payable

The following table summarizes grants payable at:

	<u>30.06.2019</u>	<u>31.12.2018</u>
By ageing		
Disbursements due within 12 months	2,212	2,545
Disbursements due after 12 months	41	18
Total	<u>2,253</u>	<u>2,563</u>

By grant category		
Grants on behalf of Principal Recipients	2,229	2,524
Grants under recovery	22	16
Strategic Initiatives	2	5
Total	<u>2,253</u>	<u>2,545</u>

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.

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Section 4: Donor activities

The Global Fund follows a three-year replenishment cycle to secure funding for its grants and administrative operations. At the time of replenishment, donors make public announcements called pledges of their intended future contributions. The following notes provide the summary of accounting results of revenue recognition policy during the reporting period.

4.1 Contribution income / revenue recognition

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 of the 2018 annual consolidated financial statements.

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. For the purposes of cash flows, contributions are considered as received when remitted in cash or cash equivalent. The following table summarizes the sources of revenue recognized:

For the six months ended 30 June	<u>2019</u>	<u>2018</u>
By donor category		
Governments	1,096	1,008
Others	6	11
Product (RED)	24	10
Gross revenue	1,126	1,029
Discounted	64	(22)
Total	<u>1,190</u>	<u>1,007</u>

Others include revenue from international foundations, not-for-profit organizations and corporations.

4.2 Contributions receivable

Contributions receivable are agreements signed where income has been recognized but the cash has not been received. Contribution receivables are stated at nominal value net of a provision for expected credit loss to cover the risk of 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 (LIBOR rates for GBP, EUR and USD) and subsequently measured using the amortized cost method. The following table summarizes contributions receivable at:

As at	<u>30.06.2019</u>	<u>31.12.2018</u>
Promissory notes maturing within one year	457	457
Contributions receivable within one year	1,137	1,032
Total	1,594	1,489
Contributions receivable after one year	647	927
Total	<u>2,241</u>	<u>2,416</u>

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Receivable within one year	1,594	1,489
Receivable within two years	22	366
Receivable after two years	750	750
Gross contribution receivable	2,366	2,605
Discounted	(125)	(189)
Net present value of contributions receivable	2,241	2,416

The accounting policy on recognition and measurement for contributions receivables is also applicable to assets classified as Other Receivables. Other receivables of USD 42 million includes:

- i. USD 22 million of grants under recovery based on demand letters formally issued to the Principal Recipients (2018: USD 18 million). This is net of expected credit losses of USD 3 million given the uncertainty of future cash inflows compared with the recovery schedule agreed by the Principal Recipients under the recovery protocol (2018: USD 2 million);
- ii. USD 12 million of prepayments for the Secretariat's operating expenses and GHC shared costs expenditure; and
- iii. USD 8 million of security deposits for office premises.

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

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. The Global Fund engages with commercial banks and the World Bank 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:

	<u>30.06.2019</u>	<u>31.12.2018</u>
Amounts held in commercial banks	34	40

Amounts are held in commercial banks that have a long-term credit rating of A or higher. The carrying amount of cash and cash equivalents is a reasonable approximation for their fair value.

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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. 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. Transfer of cash (rebalancing) between the Trust Fund and commercial banks are performed on demand. The following table summarizes the Global Fund Trust Fund allocation across World Bank investment tranches:

- **Tranche 0:** cash portfolios in USD and EUR with an investment horizon of less than three months.
- **Tranche 5:** longer horizon portfolio in USD that has an investment horizon of up to three years.

Tranche	30.06.2019	31.12.2018
Tranche 0 USD	1,173	455
Tranche 5 USD	1,716	2,689
Tranche 0 EUR	-	59
Total	2,889	3,203

Tranche 5 includes USD 555 million of high yielding Libor Plus product which acts as a good diversifier to the other longer duration assets.

The Trust Fund’s assets consist of the Global Fund’s share of cash and investments in the Pool, which is actively managed and invested in accordance with the investment strategy established for all trust funds administered by the World Bank Group. 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 interests exists.

There were no changes in the first six months of the year in the valuation techniques used for the Trust Fund’s assets and the methodology and techniques as disclosed in Note 5.2 of the 2018 annual consolidated financial statements were applied consistently. There were no significant transfers from one level to the other and the allocation to Level 1 and 2 as at the interim reporting date is similar to the allocation as at 31 December 2018. There are also no Level 3 financial instruments included in the Trust Fund’s assets as at 30 June 2019 (2018: NIL).

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

At 30 June 2019	Level 1	Level 2	Total
<i>Government and agency obligations</i>	746	481	1,227
<i>Asset and mortgage-backed securities</i>		538	538
<i>Equity</i>	220		220
<i>Time deposits</i>	167	721	888
<i>Repurchase/ resale agreements</i>		(69)	(69)
<i>Derivatives, net</i>	(1)	(11)	(12)
Sub-total:	1,132	1,660	2,792
<i>Cash, receivables & payables</i>			97
Total	1,132	1,660	2,889

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

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

As at	30.06.2019	31.12.2018
Financial instruments		
<i>(asset holding in percent)</i>		
Government and agency obligations	44	55
Asset and mortgage-backed securities	19	21
Equity	8	6
Time deposits	31	21
Repurchase/ resale agreements	(2)	(3)
<i>Total</i>	100	100

2.3 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 and grants payable in currencies other than USD are retranslated at the rates prevailing at that date. The following table summarizes exchange rates for significant foreign currency positions at the reporting dates indicated:

	<i>30.06.2019</i>	<i>31.12.2018</i>	<i>% FX fluctuation</i>
<i>AUD</i>	0.7021	0.7068	(1)
<i>CAD</i>	0.7640	0.7344	4
<i>CHF</i>	1.0244	1.0149	1
<i>EUR</i>	1.1369	1.1432	(1)
<i>GBP</i>	1.2696	1.2694	-
<i>NOK</i>	0.1172	0.1150	2
<i>SEK</i>	0.1077	0.1115	(3)

[Source: Thompson Reuters FX rates subscription]

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5.4 Foreign exchange risk management

The Global Fund uses derivative financial instruments including forward and swaps to manage its exposure to foreign exchange fluctuations for net positions held in non-USD currencies. The forward and swap contracts used by the Global Fund to mitigate foreign exchange risk are recognized at fair value with subsequent movements in value reported through the consolidated statement of income. As at 30 June 2019 the forward contracts were fair valued as Level 2 financial instruments.

The methodology and techniques applied for the fair valuation of the derivative financial instruments remain consistent with Note 5.6 of the 2018 annual consolidated financial statements.

During the first six months of 2019, fair valuation of the derivative financial instruments resulted in a net gain, thereby resulting in an asset on the statement of financial position. The following table presents the notional value and the fair value of derivative financial instruments by currency.

	30.06.2019	31.12.2018
Assets with settlement		
- within 12 months	17	27
- beyond 12 months	-	1
Total assets	17	28
Liabilities - within 12 months	(5)	(11)
Net asset for derivative financial instruments	12	17

At 30 June 2019

<i>Currency (Level 2)</i>	<i>Notional value in millions</i>	<i>Forward contracts at fair value in USD millions</i>
AUD	105	-
CAD	262	(3)
CHF	(11)	-
EUR	87	(1)
GBP	576	15
SEK	-	1
Net asset for derivative financial instruments at fair value		12

At 31 December 2018

<i>Currency (Level 2)</i>	<i>Notional value in millions</i>	<i>Forward contracts at fair value in USD millions</i>
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

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5.5 Foreign exchange results

For the six months ended 30 June	<u>2019</u>	<u>2018</u>
By net position		
Foreign exchange losses before derivative instruments	(4)	(64)
Fair valuation gains on derivative financial instruments	14	115
Net foreign exchange gain	<u>10</u>	<u>51</u>

For the six months ended 30 June	<u>2019</u>	<u>2018</u>
By currency		
CAD	1	4
CHF	(1)	1
EUR	4	33
GBP	9	5
NOK	-	5
SEK	-	-
Others	(3)	3
Net foreign exchange gain	<u>10</u>	<u>51</u>

5.6 Financial income, net

The financial income on trust funds and Provident Fund investments, net of financial costs, are summarized in the table below:

For the six months ended 30 June	<u>2019</u>	<u>2018</u>
Trust Fund gains, net	97	12
Trustee fees	(1)	(1)
Total	<u>96</u>	<u>11</u>

As of 30 June 2019, the Trust Fund gains included an unrealized gain of USD 55 million.

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Section 6: Operating activities

6.1 Operating expenses

Operating expenses are costs incurred by the Global Fund Secretariat for maintaining a sustainable administrative structure in order to deliver the Global Fund's mission. The following table summarizes the operating costs under the main categories of expenditure:

For the six months ended 30 June	<u>2019</u>	<u>2018</u>
Staff	71	75
External assurance	17	16
Professional fees	13	14
Others	26	31
Total	<u>127</u>	<u>136</u>

6.2 Tangible and Intangible assets

As at 30 June 2019

<i>Asset category</i>	<i>Net assets at 01 Jan 2019</i>	<i>Additions</i>	<i>Depreciation</i>	<i>Net asset value at 30 June 2019</i>
<i>Leased assets</i>				
<i>Head lease: ROU-GHC</i>	67	-	(3)	64
<i>Tangible assets</i>	9	-	(1)	8
<i>Intangible assets</i>	11	-	(2)	9
Total	87	-	(6)	81

As at 31 December 2018

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

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The sub-leases are treated as operating leases. During the first six month in 2019, USD 2.4 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 Consumer Price Index with respect to leasehold rent of 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 remains consistent with Note 6.3 of the 2018 annual consolidated financial statements.

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

For the six months ended 30 June 2019

Maturity period	Financial lease outflows	Sublease inflows	Net outflows
Within one year	7	4	3
Within two and five years	32	15	17
After five years	22	10	12
Total	61	29	32

For the six months ended 30 June 2018

Maturity period	Financial lease outflows	Sublease inflows	Net outflows
Within one year	8	3	5
Within two and five years	32	15	17
After five years	38	15	23
Total	78	33	45

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GLOSSARY

AFC	Audit and Finance Committee
AUD	Australian dollar
CAD	Canadian dollar
CHF	Swiss Franc
EUR	Euro
GBP	Pound Sterling
GHC	Global Health Campus
NOK	Norwegian Krone
IFRS	International Financial Reporting Standards
PPM	Pooled Procurement Mechanism
RoU	Right-of-use
SEK	Swedish Krona
USD	United States dollar