
2021 INTERIM FINANCIAL REPORT

30 JUNE 2021

LE GRAND-SACONNEX, SWITZERLAND

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1. 2021 Key operational activities

1. Grant Funding

The COVID-19 pandemic has had a catastrophic impact on the most vulnerable communities around the world and threatens progress against HIV, TB and malaria. The Global Fund, the largest multilateral funder of health systems worldwide, has provided funding of up to USD 4.5 billion, including grant flexibilities, to help countries fight COVID-19, mitigate the impacts on lifesaving HIV, TB and malaria programs, and prevent fragile health systems from being overwhelmed.

The Global Fund's immediate response to the pandemic has made available up to USD 4.3 billion through the Board approved COVID-19 Response Mechanism ("C19RM"). This includes an initial allocation of USD 500 million made available through portfolio optimization and new pledges raised toward the C19RM.

Through the COVID-19 Response Mechanism, countries can access funding to reinforce the response to COVID-19, mitigate the impact of the pandemic on HIV, TB and malaria programs, and make urgent improvements in health and community systems. In April 2020, the Global Fund Board approved an initial allocation of USD 500 million to the mechanism. Following additional donor pledges, an additional USD 259 million was made available to this mechanism in 2020 and USD 3.5 billion by 30 June 2021. The key objectives of this mechanism are outlined below:

- i. Interventions to mitigate the impact of COVID-19 on HIV, TB and malaria disease programs
- ii. Actions to reinforce the response to COVID-19
- iii. Initiatives to make urgent improvements in health and community systems, including laboratory networks, supply chains and engagement with vulnerable communities

For the purposes of the 2021 Interim Financial Statements, as at reporting date 30 June 2021, the Secretariat has approved country applications for USD 869 million in immediate funding for 37 countries and 1 multi-country programs.

Since its inception in May 2021 until 07 October 2021, the date of AFC approval's of this 2021 Interim Financial Report, the Secretariat has approved the amount of *USD 523 million* towards funding requests from 76 countries and 4 multicounty programs.

Through C19RM, the Global Fund is now the primary channel for providing grant support to low- and middle-income countries for COVID-19 tests, treatments (including medical oxygen), personal protective equipment (PPE) and critical elements of health system strengthening. This is in line with our engagement in the coordinated global response to COVID-19 within the Access to COVID-19 Tools Accelerator (ACT Accelerator) platform where we play a leading role in the Diagnostics and Therapeutics Pillars as well as the Health Systems Connector.

2. Replenishment update

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

Fund and implementing countries to establish long-term plans for fighting the three diseases. The Pledging Conference for the Global Fund's Sixth Replenishment of 2020-2022, hosted by President Emmanuel Macron, took place on 9 and 10 October 2019 in Lyon, France.

Outcome of the Sixth Replenishment Pledging Conference

The Global Fund achieved its goal of securing at least USD 14 billion in donor pledges for the Sixth Replenishment (2020-22) period during the Pledging Conference. This amount is the largest amount ever pledged to a multilateral health organization and represents an increase of 15 percent compared to the amount pledged during the 2017-19 period. The outcome of the Sixth Replenishment Pledging Conference demonstrates the international community's willingness to accelerate progress towards ending the epidemics by 2030 in line with **SUSTAINABLE DEVELOPMENT GOAL 3: Ensure healthy lives and promote well-being for all at all ages**. Along with firm assurances from countries implementing programs to significantly increase domestic co-financing in the health sector as well as strong commitment from all partners to innovate more, collaborate better and implement programs more effectively, these funds will help save 16 million lives, avert 234 million infections and strengthen health systems. The full list of pledges for the Sixth Replenishment announced in Lyon can be found [here](#).

Ongoing resource mobilization efforts

The Global Fund continues to mobilize funds throughout the Sixth Replenishment period, including to support countries' response to COVID-19 as well as their efforts to mitigate the pandemic's impact on HIV, TB and malaria.

New pledges, as of 30 June 2021, announced following the Sixth Replenishment Conference total USD 3.9 billion, including pledges from both public and private donors.

Converting Sixth Replenishment pledges into contributions

Conversion of pledges into contributions, including pledges for the Sixth Replenishment, is a key ongoing priority for the Global Fund.

As of 30 June 2021, over USD 8.4 billion of contributions, including private and public sector donors, have been signed against the pledges announced for the Sixth Replenishment with 56 out of 78 donors having signed contribution agreements. The preferred mode of contributions continues 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. For the Sixth Replenishment period, donors have converted 29 percent of their pledges into contributions paid, for a total of USD 4.9 billion (public and private donors).

Preparing for the Seventh Replenishment

The Global Fund has kicked off preparations for the Seventh Replenishment campaign, which will aim to raise the resources for the 2023-2025 period. The campaign will be launched in Q1 2022 with the release of the Investment Case for the Seventh Replenishment at a Preparatory Meeting and will culminate in a Pledging Conference where most donor pledges will be announced in Q3 2022. In order to build the groundwork for the campaign, the Secretariat recently launched a brand refresh and the Global Fund's 20th Anniversary Campaign and continues to engage with donors and partners to secure their support ahead of the Seventh Replenishment.

3. COVID-19 response: Business contingency planning

The COVID -19 situation continues to evolve in countries where we operate and continuing disruptions on in-country efforts due to COVID-19 has impacted the achievement of some grant implementation milestones.

However, adaptations to our programs to mitigate the impact of COVID -19 on HIV, TB and malaria (HTM) which included investments in Personal Protective Equipment (“PPE”s) for the frontline staff, and changing of strategies of bed net campaigns from mass (which is the distribution of bed nets involving mass gatherings prohibited due to COVID to fixed sites) have buffered the effect on our programs. Overall, grant-making timeliness targets were increasingly met: disbursements for the first half of the year for the Sixth Replenishment were 52 percent higher than disbursement for the Fifth Replenishment for the same period and disbursement against budget (Budget Utilization) stood at 91 percent, showing a strong start to the cycle.

2. FINANCIAL COMMENTARY

Financial year 2021 is the first year of in-country implementation under the 2020-22 allocation period and will also witness grant closure activities under the previous 2017-2019 allocation period. The interim financial statements as at and for the six months ended 30 June 2021 accordingly reflect the seasonality of the operational activities on grants and contributions. When compared with the financial position at 31 December 2020, the condensed interim statement of financial position shows a 50 percent reduction in funds during the first six months of FY 2021. The asset base has decreased by 20 percent and the total liabilities increased by 51 percent.

As at the reporting date, the Global Fund holds USD 5.2 billion in current assets including USD 3 billion in operational cash at commercial banks and in the Trust Fund managed by the World Bank as Trustee and USD 2.1 billion in contributions receivable from donors within 12 months. When compared with the current liability of USD 3.6 billion towards grants and operating expenses, the net current position stands at USD 1.5 billion.

The interim financial results reflect a typical first year of operational cycle of grant implementation under the 2020-2022 allocation period. The new commitments for funding during the first six months of 2021 have increased over 2.5 times with a 76 percent increase in the outstanding grant liability at 30 June 2021.

The revenue from donor contributions shows a reduction in line with the approaching last year of the Sixth Replenishment period . This reflects successful efforts to secure early signing of contribution agreements by many donors in 2019 and 2020. 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 2021 has been analysed below:

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

1. Financial management framework

The Global Fund's financial position is managed through an Asset Liability Management mechanism ("ALM") basis, i.e. balancing forecasted Sources of Funds (adjusted pledges from donors) and Uses of Funds (grants, strategic initiatives and secretariat expenses) up to and including the current replenishment cycle. The current cash balance is included in this ALM and covers, together with outstanding adjusted pledges, forecasted disbursements until the end of the Sixth Replenishment cycle. Additional resources made available by donors during the replenishment cycle and other financial income are integrated into the ALM, with the potential to increase available funding, including C19RM funding.

The Global Foreign-Exchange (FX) Management Framework was designed for the effective management of FX exposures arising from all components of 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) and other expenses, respectively. The hedging of both on and off-balance sheet items is made on a portfolio level and controlled with 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. As 2021 is the second year of the current three-year replenishment period, there remains significant off-balance sheet pledge positions, and therefore the scope of the financial statements only partially integrates FX effects in the scope of the ALM. For the half-year ended 30 June 2021, we report USD 3 million of net accounting foreign exchange gain on on-balance sheet items including fair valuation of foreign exchange hedges. From an ALM perspective, the following table provides an overview of the net FX results at 30 June 2021:

<i>Amount in USD millions</i>	FX Before hedges	FX on Hedges	Net FX results
<i>Accounting FX results (on-balance sheet)</i>	-	3	3
<i>Economic FX results (off-balance sheet)</i>	2	-	2
<i>Net FX results to 30 June 2021</i>	2	3	5
<i>Net FX results to 30 June 2020</i>	(215)	253	38

2. Donor pledges and contributions

The net revenue recognized during the first six months of 2021 was materially lower compared to the first six months of 2020 at USD 695 million (2020: USD 3,485 million). The encashment of all outstanding contributions receivable is largely on track.

The contribution income of USD 695 million included:

- USD 667 million from sovereign donor governments (2020: USD 3,473 million);
- USD 14 million from Product (RED) (2020: USD 17 million); and
- USD 14 million from other non-governmental donors (2020: USD 13 million).

Government contributions during first six months of 2021 include USD 170 million received towards the C19RM emergency response appeal (2020:NIL). The discounting loss adjustment on long-term contributions receivable of USD 24 million has been separately presented in the statement of income (2020: a gain of USD 79 million).

3. Grant commitments and disbursements

The main elements of the Global Fund grant expenditure of USD 3,746 million (2020: USD 1,495 million) during the first half of 2021 included:

- USD 3,734 million as grant commitments to Principal Recipients for in-country and pooled procurement mechanism (PPM) activities (2020: USD 1,457 million); and
- USD 17 million as Strategic Initiatives project expenses (2020: USD 34 million).

During the first half of 2021, the Secretariat had grant commitments of USD 3,734 million, 2.5 times higher than the grant commitments made during the comparative first half of 2020. This increase was expected given that 2021 is the first year of implementation for a majority of grants under 2020-2022 allocation, as well as the last year for some grants under the 2017-2019 allocation.

During the first semester of 2021, USD 2,177 million was disbursed in cash to Principal Recipients, their third-party suppliers and PPM Procurement Supplier Agents (2020: USD 1,913 million) or an increase of 44 percent compared to the first semester of 2018 -which marked the start of the previous cycle of grants

On the basis of the most recent forecast, total disbursements of USD 11,216 million or 99 percent allocation utilization for the Fifth Replenishment and USD 12,391 million or 96 percent allocation utilization for the Sixth Replenishment at allocation rate, are projected.

The establishment of mitigation responses to the COVID-19 pandemic (C19 Response Mechanism and grant flexibilities) has enabled reinvestment opportunities in areas like diagnostics or protective personal equipment which are expected to compensate for potential disruption in program implementation.

4. Operating expenses

During the first half-year of 2021, the Global Fund spent USD 145 million (2020: USD 134 million) for its operating expenses, a 8 percent increase over the 2020 half-year. The impact of the COVID-19 in 2021 continues to impact the level of spend on travel and meetings and expected delays on project deliveries. Further dynamic and proactive reinvestment of savings are made in mitigation responses and enablers to ensure business continuity is ongoing.

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 amounted to USD 137 million in 2021. This represents a 98 percent spend rate against the period-to-date operating expenses budget of USD 140 million. The total annual operating expenses for FY 2021 is projected to remain within the Board-approved budget of USD 315 million.

5. Strategic Initiatives

As of 30 June 2021, the cumulative fund utilization for Strategic Initiatives for the 2017-2019 allocation period reached USD 210 million at allocation rate, or 100 percent of the total envelope (excluding the

Emergency Fund which is integrated in the grants). Integrating reclassification linked to the closing of the cycle, USD 209.3 million or 100 percent fund utilization is forecasted. The closure process has been initiated and outstanding closing cash balances at partner levels are being identified and collected.

For the 2020-2022 allocation period, the total available envelope for Strategic Initiatives amounts to USD 323 million (excluding the Emergency Fund) with USD 307 million or 95 percent of the envelope approved by GAC. Pending approvals are expected only for the TERG SI program.

The cumulative fund utilization at 30 June 2021 reached USD 13 million or 4 percent of the total envelope (excluding Emergency Fund/Private Sector/C19RM Funding). Most Strategic Initiatives encountered implementation delays driven by the enhanced funding review process and extended contracting effort including negotiations with technical partners on partnership agreements and onboarding of workforce.

Forecasted fund utilization, at allocation rate, amounts to 83 percent utilization or USD 268 million.

6. Global Fund Provident Fund

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

In the condensed interim financial statements presented in the functional currency, the U.S dollars ("USD"), the Provident Fund asset base was USD 235 million as at 30 June 2021 (2020: USD 230 million). This included USD 219 million of Provident Fund investments measured at fair value and USD 16 million in cash and cash equivalents. These assets are held and invested solely for funding future employee benefits under the Provident Fund constitution. As a result of the combined effect of negative returns on fixed income investments, and positive returns on equity investments in the first half of 2021, the year-to-date rate of return on Provident Fund investments is 2.8 percent (2020: (0.8)%).

The liability for employee benefit obligation was USD 245 million as at 30 June 2021 (2020: USD 240 million). This includes USD 234 million in employee benefit reserves and USD 11 million as accumulated actuarial valuation loss. The last annual actuarial valuation was undertaken in 2020.

CONDENSED INTERIM FINANCIAL STATEMENTS

Responsibility for the condensed interim financial statements

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

The condensed 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 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 interim financial statements were approved by the AFC on 7 October 2021.

**KPMG SA**

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Independent Auditor's Report on the Review of Condensed Interim Financial Information

To the Board of The Global Fund to Fight AIDS, Tuberculosis and Malaria, Le Grand-Saconnex

Introduction

We have been engaged to review the accompanying condensed interim statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund") as at 30 June 2021 and the related condensed interim statements of income, comprehensive income, cash flows and changes in funds for the six-month period then ended, and selected explanatory notes ("the condensed interim financial information"). The Global Fund Board and Secretariat are responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed interim financial information 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 information 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 interim financial information as at 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

KPMG SA

Pierre-Henri Pigeon
Licensed Audit Expert

Myriam Roulin
Licensed Audit Expert

Geneva, 7 October 2021

Enclosure:

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

Interim statement of income (unaudited)

For the six months ended 30 June	Notes	2021	2020
In millions of USD			
Operating activities			
Income			
Contributions	4.1	695	3,485
Expenditure			
Grants	3.2	(3,746)	(1,495)
Operating expenses	6.1	(145)	(134)
Total		(3,891)	(1,629)
Net operating activities		(3,196)	1,856
Financing and Investing Activities			
Foreign exchange results, net	5.5	3	221
Financial income, net	5.6	35	45
Discounting on long-term financial positions		(24)	79
Total		14	345
(Decrease) / increase in funds		(3,182)	2,201

Interim statement of comprehensive income (unaudited)

For the six months ended 30 June	2021	2020
In millions of USD		
(Decrease)/ increase in funds	(3,182)	2,201
Total comprehensive (loss) / gain	(3,182)	2,201

Interim statement of financial position

As at	Notes	30.06.2021	31.12.2020
In millions of USD		(unaudited)	
Assets			
<i>Current assets</i>			
Cash and cash equivalents	5.1	177	53
Trust Fund	5.2	2,820	4,191
Contributions receivable	4.2	2,110	2,009
Derivative financial instruments at fair value	5.4	20	31
Other receivables	4.2	43	29
		<u>5,170</u>	<u>6,313</u>
<i>Non-current assets</i>			
Contributions receivable	4.2	1,692	2,375
Provident Fund investments	5.7	219	213
Tangible and intangible assets		57	63
		<u>1,968</u>	<u>2,651</u>
Total Assets		<u>7,138</u>	<u>8,964</u>
Liabilities and Funds			
Liabilities			
<i>Current liabilities</i>			
Grants payable	3.3	3,588	1,803
Derivative financial instruments at fair value	5.4	57	256
Lease liability		7	8
Other current liabilities		49	56
		<u>3,701</u>	<u>2,123</u>
<i>Non-current liabilities</i>			
Grants payable	3.3	33	250
Employee benefit liabilities		245	240
Lease liability		39	49
		<u>317</u>	<u>539</u>
Total Liabilities		<u>4,018</u>	<u>2,662</u>
Funds			
Temporarily restricted funds		45	19
Unrestricted funds		3,075	6,283
Total Funds		<u>3,120</u>	<u>6,302</u>
Total liabilities and funds		<u>7,138</u>	<u>8,964</u>

Interim statement of cash flow (unaudited)

For the six months ended 30 June

Notes

2021

2020

In millions of USD

Operating activities

Cash received from donors		1,238	2,750
Grant disbursements		(2,177)	(1,913)
Payments for operating expenses		(141)	(141)
Cash realized on forward contracts settlements		(184)	96
Net cash flow (used in) / from operating activities		(1,264)	792

Investing activities

Financial income received, net		55	36
Purchase of Provident Fund investment		(13)	(23)
Proceeds from sale of Provident Fund investment		4	15
Purchase of tangible and intangible assets		-	-
Net cash flow from investing activities before Trust Fund movements		46	28
Net cash rebalancing between commercial banks and Trust Fund		1,350	(822)

Net cash flow used from / (used in) investing activities

1,396	(794)
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Financing activities

Payment of lease liabilities		(6)	(5)
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Net cash flow used in financing activities

(6)	(5)
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Net increase / (decrease) in cash and cash equivalents

126	(7)
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Cash and cash equivalents

- at beginning of the period	5.1	53	65
Effect of exchange rate changes on cash held in commercial bank and Trust Fund		(2)	-
- at end of the period	5.1	177	58

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	30.06.2021	30.06.2020
Amounts held in commercial banks	5.1	177	58
Amounts held in Trust Fund	5.2	2,820	3,998
Total Operational cash balance		2,997	4,056

Interim statement of changes in funds (unaudited)

For the six months ended 30 June

In millions of USD

	Foundation ¹ capital	Temporarily restricted funds	Unrestricted funds	Total
As at 1 January 2021	-	19	6,283	6,302
Increase / (decrease) in funds	-	26	(3,208)	(3,182)
At 30 June 2021	-	45	3,075	3,120
As at 1 January 2020	-	11	3,684	3,695
(Decrease) / increase in funds	-	(1)	2,202	2,201
At 30 June 2020	-	10	5,886	5,896

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

Explanatory notes to the condensed interim financial statements

The Global Fund presents its financial statements which include the following:

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

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

Index: Explanatory notes to condensed interim financial statements

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Notes to the condensed 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 HIV/AIDS, tuberculosis and malaria as epidemics. It applies four core principles: country ownership, partnership, transparency and performance-based funding.

The Global Fund is recognized as an international organization, initially formed as a Swiss foundation. It commenced operations on 22 January 2002 and Geneva authorities accepted its registration on 24 January 2002. Its status has been elaborated through an ongoing process of legal recognition by various national governments and international organizations: The Swiss Federal Council accorded the Global Fund international organization status, which is comparable to that of UN organizations, through the 2004 Headquarters Agreement. The United States of America, through an executive order in 2006, designated the Global Fund as a public international organization in accordance with the United States International Organizations Immunities Act. The European Commission, through a 2014 Commission Decision, assimilated the Global Fund to the status of an international organization for the purposes of managing European Union funds.

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

These unaudited condensed interim financial statements as at and for the six months ended on 30 June 2021 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 financial statements and should therefore be read in conjunction with the audited financial statements as at and for the year ended 31 December 2020, 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 interim financial statements were authorised for issue by the Audit and Finance Committee of the Global Fund Board (the AFC) on 7 October 2021.

Significant accounting policies

All accounting policies adopted in the preparation of the condensed 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 2020.

A number of new standards and amendments to standards became effective 1 January 2021, but they did not have a material impact on the Global Fund's condensed interim financial statements.

Financial instruments – Accounting classification

The following table shows the net carrying amounts of financial assets and financial liabilities. For financial assets and liabilities not measured at fair value, the carrying value is a reasonable approximation of fair value.

As at 30 June 2021

<i>All amounts in USD million</i>		Carrying amount		
Global Fund financial position	Note	Mandatorily at FVTPL	At amortized cost	Other financial liabilities
Cash and cash equivalents	5.1	-	177	-
Trust Fund asset	5.2	2,820	-	-
Contributions receivable	4.2	-	3,802	-
Derivative financial instruments measured at fair value, net liability	5.4	37	-	-
Provident Fund Investments	5.7	219	-	-
Other receivables*1	4.2	-	35	-
Grants payable	3.3	-	-	3,621
Lease liability		-	-	47
Other liabilities*2		-	-	10

As at 31 December 2020

<i>All amounts in USD million</i>		Carrying amount		
Global Fund financial position	Note	Mandatorily at FVTPL	At amortized cost	Other financial liabilities
Cash and cash equivalents	5.1	-	53	-
Trust Fund asset	5.2	4,191	-	-
Contributions receivable	4.2	-	4,384	-
Derivative financial instruments measured at fair value, net liability	5.4	225	-	-
Provident Fund Investments	5.7	213	-	-
Other receivables*1	4.2	-	21	-
Grants payable	3.3	-	-	2,054
Lease liability		-	-	57
Other liabilities*2		-	-	17

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

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

Section 3: Grant activities

3.1 Contingent liability

From a financial statement perspective, the first point of measurement for grants is the contingent liability. A contingent liability is reported at the earliest of (i) the Global Fund Board approval or (ii) the transmission of the draft grant agreement, which is conditional to the Board approval, to the Principal Recipient following the GAC recommendation. Both Board approval and transmission of draft grant agreement to the Principal Recipient represents a potential obligation that can be reliably measured but is 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 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>30.06.2021</u>	<u>31.12.2020</u>
By category		
Grants approved but not signed	1,004	852
Grants signed but not committed	<u>7,363</u>	<u>8,330</u>
Total: Grant contingent liability for Principal Recipients	<u>8,367</u>	<u>9,182</u>

The contingent liability at 30 June 2021 includes USD 661 million warded through the C19RM response mechanism (2020:USD 759 million).

3.2 Grant expenditure

The following table summarizes the grant expenditures:

For the six months ended 30 June	<u>2021</u>	<u>2020</u>
By category		
Grants on behalf of Principal Recipients	2,778	720
Grants for PPM orders	<u>956</u>	<u>737</u>
Total grants for Principal Recipients	3,734	1,457
Grants under recovery	(5)	4
Strategic Initiatives	<u>17</u>	<u>34</u>
Total	<u>3,746</u>	<u>1,495</u>

3.3 Grants payable

The following table summarizes grants payable at:

	<u>30.06.2021</u>	<u>31.12.2020</u>
By grant category		
Grants on behalf of Principal Recipients within one year	3,583	1,781
Strategic Initiatives	<u>5</u>	<u>22</u>
Total grants payable within one year	3,588	1,803
Grants on behalf of Principal Recipients after one year	<u>33</u>	<u>251</u>
Total grants payable	<u>3,621</u>	<u>2,054</u>

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 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.

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>2021</u>	<u>2020</u>
By donor category		
Governments	667	3,473
Product (RED)	14	17
Derecognition of US Fund net assets	-	(18)
Others	14	13
Total	<u>695</u>	<u>3,485</u>

Others represent revenue from international foundations, not-for-profit organizations and corporations. Government contributions for 2021 includes USD 170 million received towards the C19RM emergency response appeal (2020:NIL).

4.2 Contributions receivable

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

Promissory notes and contributions receivable maturing later than one year after the reporting date are discounted at fair value using a rate of return reflecting the credit risk of the donor and subsequently measured at amortized cost using the effective interest method.

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

The following table summarizes contributions receivable at:

As at	<u>30.06.2021</u>	<u>31.12.2020</u>
Contributions receivable within one year	2,110	2,009
Contributions receivable after one year	<u>1,692</u>	<u>2,375</u>
Total contributions receivable	<u>3,802</u>	<u>4,384</u>
Receivable within one year	2,110	2,009
Receivable within two years	1,000	1,660
Receivable after two years	<u>750</u>	<u>750</u>
Gross contributions receivable	3,860	4,419
Discounted	<u>(58)</u>	<u>(35)</u>
Net present value of contributions receivable	<u>3,802</u>	<u>4,384</u>

Receivable after two years include USD 750 million which will be encashed in equal instalments over 2026-2030.

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, 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. This includes USD 9 million of expected credit losses (2020: USD 4 million).

The accounting policy on recognition and measurement for contributions receivables is also applicable to assets classified as Other Receivables. Other receivables of USD 43 million include:

As at	<u>30.06.2021</u>	<u>31.12.2020</u>
Grants under recovery	16	11
Working capital advance for pooled procurement mechanisms	10	1
Security deposit	9	9
Prepaid expenses for Opex and Strategic Initiatives	<u>8</u>	<u>8</u>
Total	<u>43</u>	<u>29</u>

Grants under recovery are recognized based on the demand letters formally issued to Principal Recipients. It includes expected credit losses of USD 5 million (2020: USD 11 million) given the uncertainty of future cash inflows compared with the recovery schedule agreed by the Principal Recipients under the recovery protocol.

4.3 Conditional contribution

The Global Fund may enter into contribution agreements with donors that are subject to performance obligations or conditions to be realized and reported over the period of the agreement.

Given the uncertainty associated with the future encashments in respect of such donor agreements, USD 340 million (2020: USD 384 million) will be recognized as revenue in the financial year in which the related performance obligations are satisfactorily fulfilled.

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:

	30.06.2021	31.12.2020
	<hr/>	<hr/>
Amounts held in commercial banks	177	53

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 Trust 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.

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

Tranche	30.06.2021	31.12.2020
Tranche 0 USD	1,011	2,397
Tranche 5 USD	1,809	1,794
Total	2,820	4,191

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 2020 annual 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 2020. There are also no Level 3 financial instruments included in the Trust Fund’s assets as at 30 June 2021 (2020: NIL).

The following table shows the fair valuation hierarchy of Trust Fund’s share of financial instrument held in the Pool:

At 30 June 2021	Level 1	Level 2	Level 3	Total
<i>Government and agency obligations</i>	777	716	-	1,493
<i>Asset and mortgage-backed securities</i>	-	344	-	344
<i>Equity</i>	213	-	-	213
<i>Time deposits</i>	17	735	-	752
<i>Repurchase/ resale agreements</i>	-	(12)	-	(12)
<i>Derivatives, net</i>	1	15	-	16
Sub-total:	1,008	1,798	-	2,806
<i>Cash, receivables & payables</i>	-	-	-	14
Total	1,008	1,798	-	2,820

<i>At 31 December 2020</i>	Level 1	Level 2	Level 3	Total
<i>Government and agency obligations</i>	1,582	1,148	-	2,730
<i>Asset and mortgage-backed securities</i>	-	412	-	412
<i>Equity</i>	204	-	-	204
<i>Time deposits</i>	102	797	-	899
<i>Repurchase/ resale agreements</i>	-	(8)	-	(8)
<i>Derivatives, net</i>	-	87	-	87
<i>Sub-total:</i>	1,888	2,436	-	4,324
<i>Cash, receivables & payables</i>				(133)
<i>Total</i>	1,888	2,436	-	4,191

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

As at	<u>30.06.2021</u>	<u>31.12.2020</u>
Financial instruments		
<i>(asset holding in percent)</i>		
Government and agency obligations	53	63
Time deposits and money-backed securities	27	21
Asset and mortgage-backed securities	12	9
Equity	8	5
Derivatives, net	-	2
<i>Total</i>	100	100

5.3 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:

	30.06.2021	31.12.2020	% FX fluctuation	2020 Average Fx Rates	2021 Average Fx Rates
<i>AUD</i>	0.7520	0.7706	-2%	0.6580	0.7713
<i>CAD</i>	0.8073	0.7845	3%	0.7336	0.8019
<i>CHF</i>	1.0852	1.1348	-4%	1.0356	1.1013
<i>EUR</i>	1.1899	1.2299	-3%	1.1022	1.2051
<i>GBP</i>	1.3848	1.3644	2%	1.2617	1.3881
<i>NOK</i>	0.1168	0.1171	0%	0.1029	0.1184
<i>SEK</i>	0.1172	0.1219	-4%	0.1034	0.1190

[Source: Thompson Reuters FX rates subscription]

5.4 Foreign exchange risk management

The Global Fund uses derivative financial instruments including forwards 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 statement of income. As at 30 June 2021, 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 2020 annual financial statements.

The following table presents the notional value and the fair value of derivative financial instruments by currency.

BY SETTLEMENT DATE	30.06.2021	31.12.2020
Assets to be settled within 12 months	20	31
Liabilities to be settled within 12 months	(57)	(256)
Net (liability) for derivative financial instruments at fair value	(37)	(225)

At 30 June 2021

Currency (Level 2)	Notional value in millions	Forward contracts at fair value in USD millions
AUD	189	(1)
CAD	619	12
CHF	(200)	3
EUR	760	(4)
GBP	546	25
NOK	698	1
SEK	808	1
Net liability for derivative financial instruments at fair value		37

At 31 December 2020

Currency (Level 2)	Notional value in millions	Forward contracts at fair value in USD millions
AUD	187	9
CAD	695	33
CHF	(303)	(16)
DKK	233	2
EUR	1,079	98
GBP	777	61
NOK	1,455	20
SEK	1,758	18
Net liability for derivative financial instruments at fair value		225

5.5 Foreign exchange results

The following table summarizes foreign exchange results:

For the six months ended 30 June	2021	2020
By net position		
Foreign exchange losses before derivative instruments	-	(32)
Fair valuation gains on derivative financial instruments	3	253
Net foreign exchange gain	3	221

5.6 Financial income, net

The financial income on the Trust Fund, net of trustee fees, are summarized in the table below:

For the six months ended 30 June	2021	2020
Trust Fund gains, net	36	46
Trustee fees	(1)	(1)
Total	35	45

As of 30 June 2021, the Trust Fund gains included an unrealized loss of USD 21 million (2020: unrealized gain USD 8 million).

5.7 Provident Fund investments

The following table provides the composition of Provident Fund investments:

	30.06.2021	31.12.2020
<i>Equity</i>	50	42
<i>Bonds</i>	125	136
<i>Real estate</i>	44	35
<i>Total</i>	219	213

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>2021</u>	<u>2020</u>
Staff	89	76
External assurance	18	17
Professional fees	18	17
Others	<u>20</u>	<u>24</u>
Total	<u>145</u>	<u>134</u>

Glossary

AFC	Audit and Finance Committee
ACT-A	Access to COVID Tools Accelerator
ALM	Asset-liability management
AUD	Australian dollar
BCP	Business Contingency Plan
CAD	Canadian dollar
CHF	Swiss franc
DKK	Danish krone
EUR	Euro
FVTPL	Fair value through profit and loss
GBP	Pound sterling
HTM	HIV, tuberculosis, malaria
NOK	Norwegian krone
IFRS	International Financial Reporting Standards
PPM	Pooled Procurement Mechanism
SEK	Swedish krona
USD	United States dollar