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Report of the Chairperson for the Finance Committee

Oberkirchenrat Olaf Johannes MIRGELER

INTRODUCTION AND OVERVIEW

As the new Chairperson of the Finance Committee, I am pleased to present my first report to this Council, focused on the Lutheran World Federation (LWF) 2017 key financial highlights and other relevant financial matters. The Finance Committee on behalf of the Council exercises oversight of the LWF's finances, ensures the LWF's financial integrity, and safeguards the management of LWF's assets.

We are committed to shaping excellence for future LWF finances with the vision to continue building on the progress made by the previous outstanding leadership of this committee and ensuring that LWF member churches are at the center. LWF's key role is to express the LWF member churches' call into communion as they live and work together for a just, peaceful, and reconciled world.

Our strategic priority is effective, sustainable, and accountable finances demonstrating excellence in financial management.

LWF consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), in compliance with Swiss laws and regulations, and following International Accounting Standards (IAS).

In the year 2017, the LWF continued to make progress. The total income, excluding the Assembly income, reached EUR 166.11 million through generous contributions from member churches, church-related agencies, the United Nations, EU and US government funding sources, other partners, as well as individual donors. The income, set against the budget of EUR 146.96 million, produces a favorable variance of EUR 19.15 million (13%) and an increase of EUR 14.74 million (10%) compared to the previous year.

The LWF's consolidated financial results for 2017 have contributed to the financial stability of the organization, supporting LWF's commitment to ethical practices and compliance with governance policies.

The Department for Theology and Public Witness's (DTPW) actual income in 2017 was 19% lower than actual income in 2016. The main reason for this reduction was the Ecumenical Commemoration project that took place in 2016 and the LWF member churches who had made significant contribution to this project. In 2017 DTPW experienced

a decrease of 2% in income from member churches and related organizations toward the regular program activities compared to 2016.

The Department for Mission and Development (DMD) reversed the declining past income trend and realized a year of growth in income with an increase of 4% compared to 2016. This was the result of programmatic changes, new program initiatives, and fundraising activities.

The Department for World Service (DWS) income increased by 10% compared to 2016, mainly for the work of refugee care and maintenance programs in South Sudan, Uganda, Nepal, and Haiti, and also for the increased activities of the Augusta Victoria Hospital (AVH) in Jerusalem.

The General Secretariat and the Department for Planning and Operations (GS/DPO), which supports the organizational sustainability and effectiveness, increased its income by 10% mainly through the increased payment of membership fees.

The total increase in reserves during the year was EUR 9.3 million of which EUR 5.5 million surpluses came from operations and another 3.8 million was added as a release from pension liabilities for the IFRS presentation based on the IAS19 valuation report. LWF total reserves in 2017 increased to EUR 50 million from EUR 40 million in 2016. As part of the increase in reserves, 40% (EUR 3.7 million) is due mainly to the large accounting surplus from operations at the AVH. A sizable reserve is necessary in order to finance AVH operations.

In 2017, LWF finances strengthened the stated objective of growing in a sustainable manner that would create long-term value through balancing the budget, improving the financial systems, maintaining a healthy cash flow, and mobilizing resources.

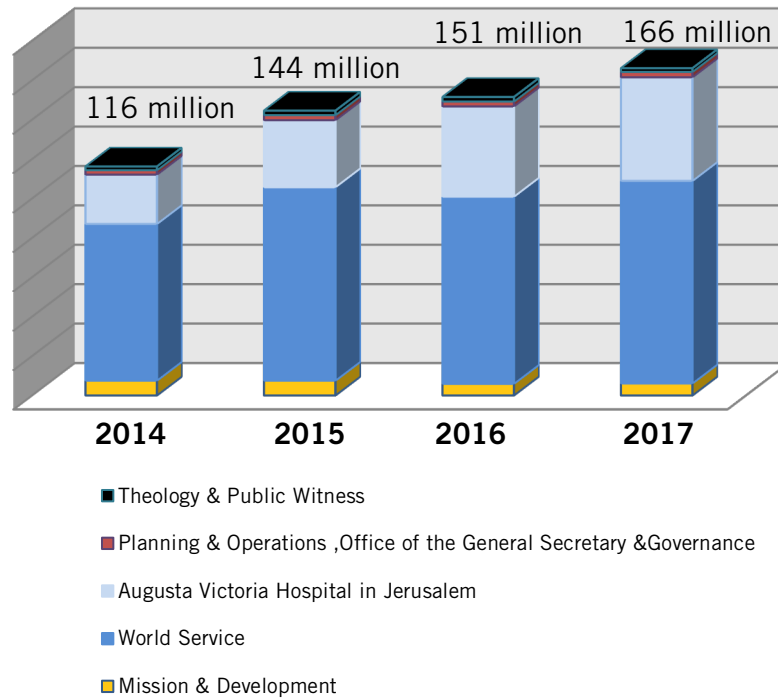
Overall, it has been a positive year for LWF, though challenged by heavy exchange rate volatility risks and other financial uncertainties.

2017 CONSOLIDATED FINANCIAL HIGHLIGHTS

LWF income grew by 43% or EUR 50 million over the past three years. Largely due to an increase in the LWF's global humanitarian and development programs, the total income increased from EUR 116 million in 2014 to EUR 166 million in 2017 (see Chart 1). The income received for the Assembly in 2017 of EUR 2,548,719 is discussed in a separate section.

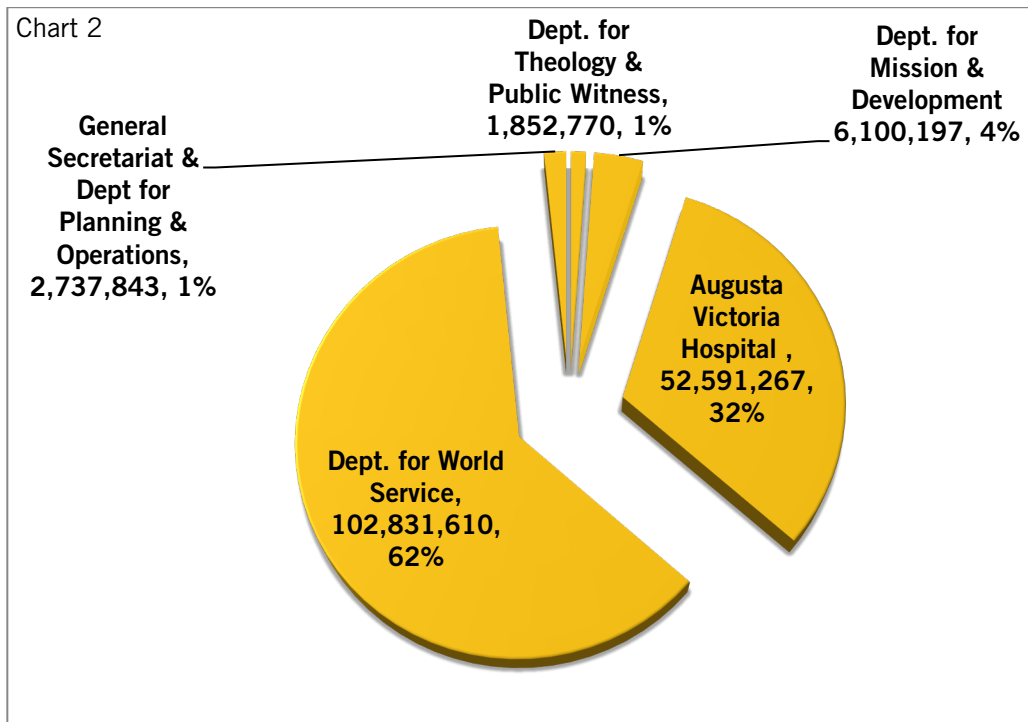
Chart 1

LWF INCOME 2014 to 2017 (Euros)



2017 LWF INCOME: EUR 166,113,687

The chart below shows the income (in Euros) received by each department.



2017 LWF INCOME: EUR 166,113,687, COMPARISON OF ACTUAL AND BUDGET

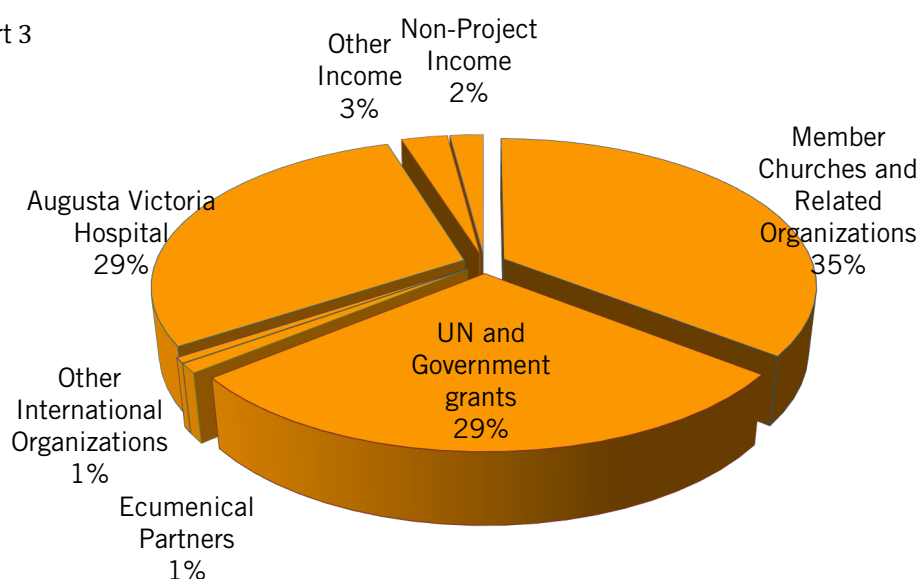
2017 income was 13% higher than the projected 2017 budget and 10% higher than the previous year.

	2017	2017	2016	VARIANCES		VARIANCES	
	ACTUAL	BUDGET	ACTUAL	ACTUAL vs BUDGET		CURRENT YEAR vs PREVIOUS YEAR	
INCOME	ACTUAL	BUDGET	ACTUAL	Favorable / (Unfavorable)	%	Favorable/ (Unfavorable)	%
Dept. for Theology & Public Witness	1,852,770	2,423,900	2,287,121	(571,130)	-24%	(434,351)	-19%
Dept. for Mission & Development	6,100,197	6,809,900	5,880,198	(709,703)	-10%	219,999	4%
Augusta Victoria Hospital	52,591,267	27,000,000	45,804,200	25,591,267	95%	6,787,067	15%
Dept. for World Service	102,831,610	108,187,000	94,915,481	(5,355,390)	-5%	7,916,129	8%
General Secretariat & Dept. for Planning	2,737,843	2,539,200	2,483,812	198,643	8%	254,031	10%
TOTAL INCOME	166,113,687	146,960,000	151,370,812	19,153,687	13%	14,742,875	10%

2017 LWF INCOME: EUR 166,113,687, INCOME BY SOURCE

The following chart shows the percentages of contributions received from member churches and related organizations, UN and government grants, the AVH, international partners, and other contributors.

Chart 3

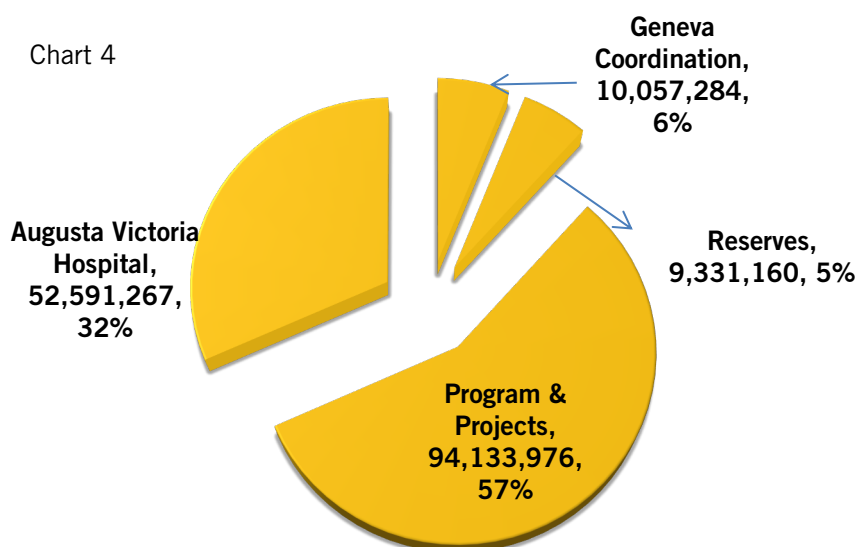


- Member churches and related organizations: EUR 59 million (35%)
- UN and government grants: EUR 47 million (29%)
- Augusta Victoria Hospital: EUR 48 million (29%)
- “Other Income” includes income from compound management, administration fees of UN, US Grants, etc.: EUR 4.6 million (3%)
- Ecumenical partners: EUR 1.6 million (1%)
- “Non-Project Income” includes foreign exchange gains, vehicle hire, and sale of assets: EUR 3.4 million (2%)
- Other International Organizations: EUR 1 million (1%)

2017 LWF INCOME: EUR 166,113,687, ALLOCATION TO PROGRAMS

The chart below shows the allocation of the total income received.

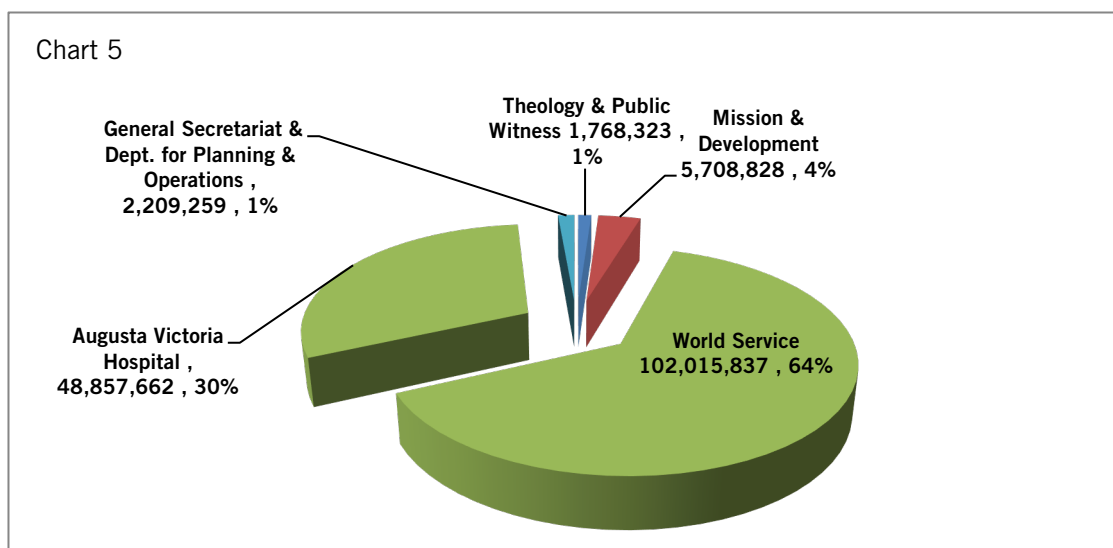
Chart 4



2017 LWF EXPENDITURE: EUR 160,559,909, by Department

LWF total 2017 expenditure, excluding the Assembly, was EUR 160.55 million, of which 64% was for the Department for World Service, 30% for the Augusta Victoria Hospital, 4% for the Department for Mission and Development, and 1% for the Department for Theology and Public Witness. The General Secretariat and the Department for Planning and Operations also spent 1%.

The key figures are found in the chart below.

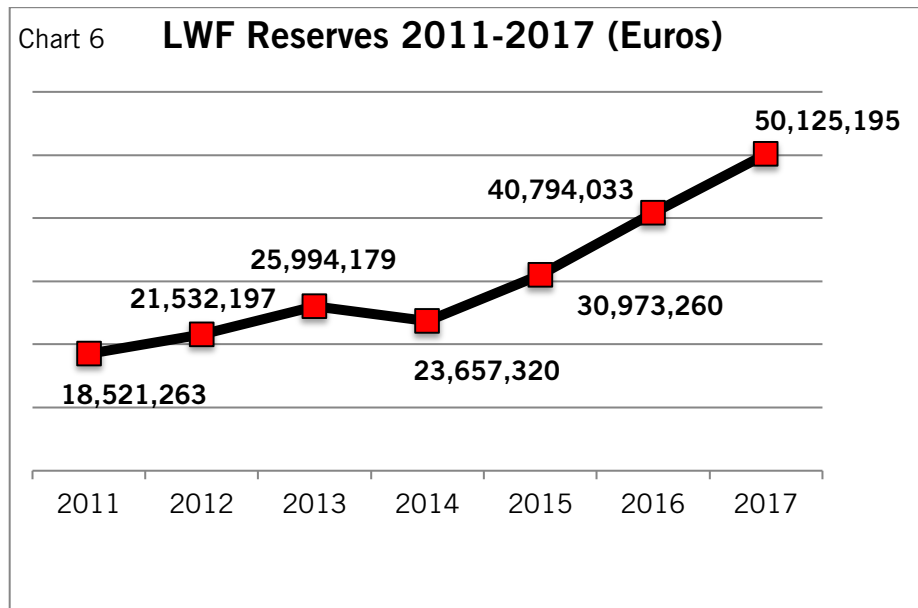


DEVELOPMENT OF LWF RESERVES: 2011 to 2017

“Reserves” refer to net assets available to support the operations of the organization without restrictions. LWF reserves are guided by the Reserves Policy. Reserves in the LWF consolidated financial reports are shown as unrestricted reserves but designated or “ear-marked” for specific purposes of the departments.

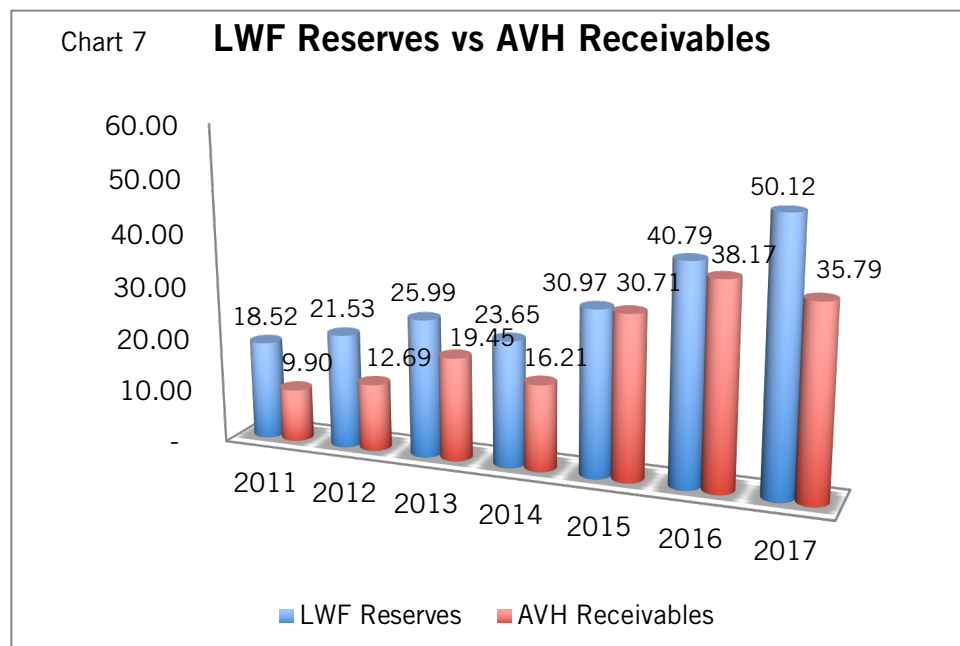
LWF reserves increased from EUR 18.5 million in 2011 to EUR 50.1 million in 2017. Such positive financial situation makes us trustworthy to engage new partnerships for the sake of the mission of the LWF.

The chart below shows the development of the reserves from 2011 to 2017, after the restatement of pension liabilities under IAS19, representing a 63% growth from 2011 to 2017.



LWF RESERVES vs AVH RECEIVABLES

The following chart shows the reserves from 2011 to 2017 compared to the Augusta Victoria Hospital receivables in view of the LWF risks.



2017 LWF NET RESULTS (ADDITION TO RESERVES): EUR 9,331,160

In 2017, the LWF's consolidated net result from operations was EUR 9,331,160, an increase of 23% during the year.

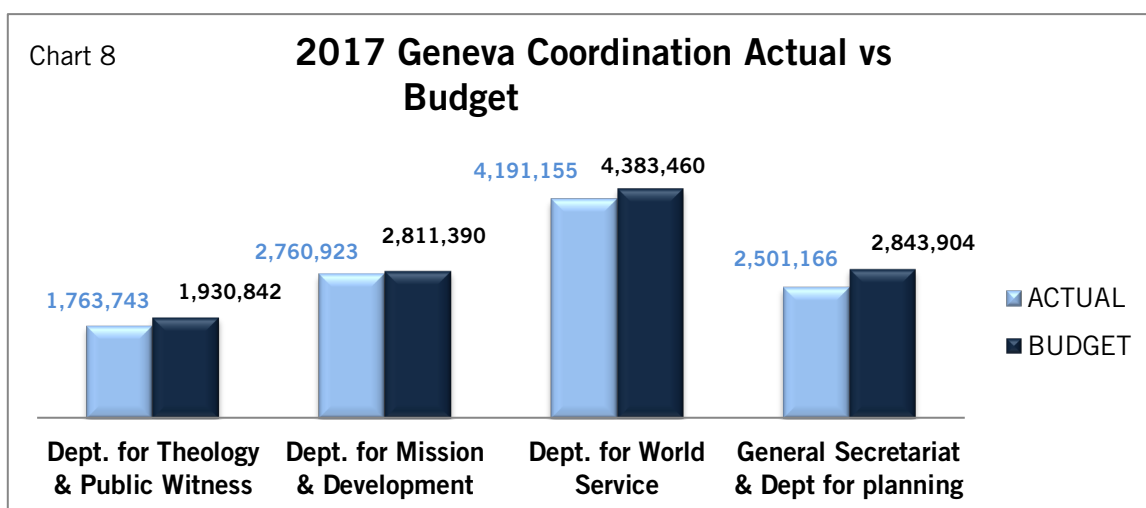
- Dept. for Theology & Public Witness: positive results of EUR 77,516
- Dept. for Mission & Development: net surplus of EUR 309,713 from the Geneva coordination costs

- Dept. for World Service country programs: net surplus of EUR 4.3 million, of which the AVH's book profits were EUR 3.7 million
- General Secretariat & Dept. for Planning and Operations: net surplus of EUR 713,913, of which EUR 509,846 was from staff termination liability, which is no longer payable
- Restatement of pension liabilities (IAS19): added EUR 3.8 million to reserves

The more volatile nature of the AVH operations as a result of cash flow challenges stemming from unpaid receivables results in a need for higher reserves for DWS. These reserves have been used to cover the working cash flow requirements of the hospital.

DEPARTMENT PERFORMANCE: GENEVA COORDINATION

The Geneva coordination budget is the portion of the LWF department budgets allocated to meet the Geneva headquarters' expenses, mainly in Swiss Francs. The total approved budget for Geneva coordination was CHF 11.96 million and the actual expenditures were CHF 11.21 million (Chart 8)—well-balanced with a positive variance of 6%.



The average EUR–CHF exchange rate for the year was of 1.11 compared with the budget rate of 1.12. There was an adverse effect on working budgets when converting Euros to Swiss Francs.

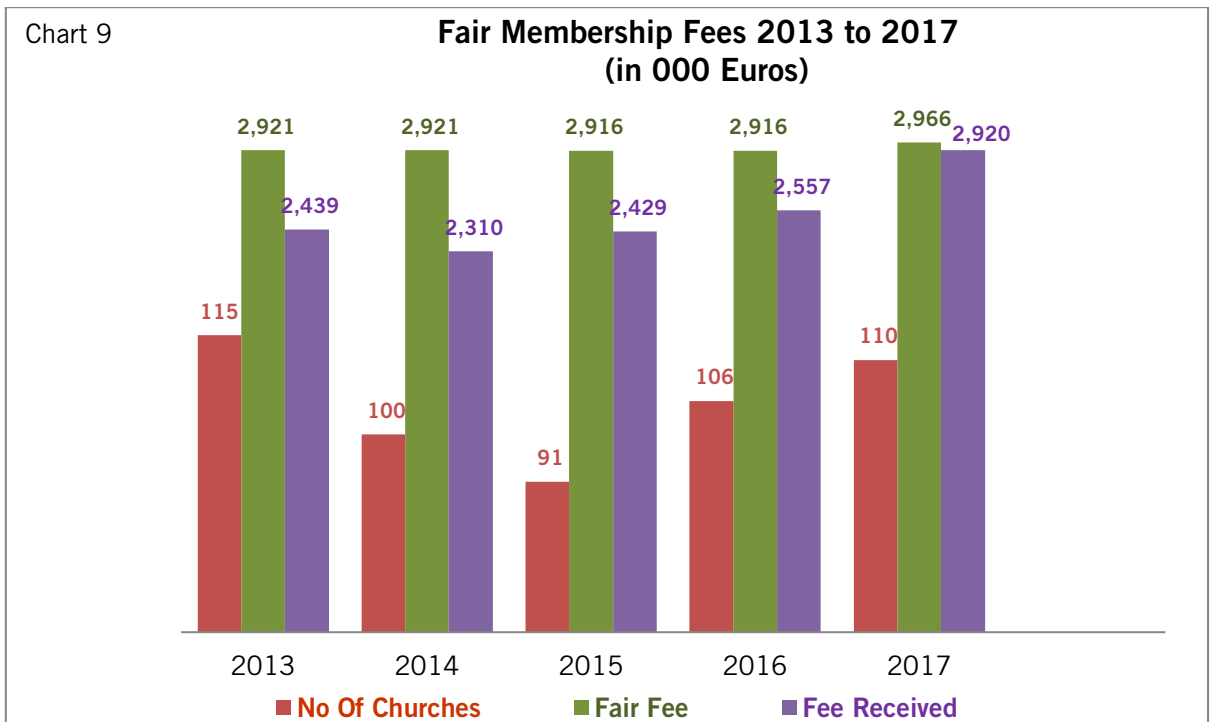
FAIR MEMBERSHIP FEES

Membership Fee Contributions 2013 to 2017

The annual membership fee contributed by the LWF member churches supports the work of LWF. Regular payments are crucial to LWF's financial stability. The LWF Council and leadership continue to make all efforts to bring contributions to the full fee levels.

In 2017 membership income increased compared to the previous year, from EUR 2.55 million in 2016 to EUR 2.92 million in 2017, an increase of EUR 363,000.

The following chart shows income from membership fees from 2013 to 2017, indicating the number of churches who paid the fees and the Council approved fair fee compared to the actual fees received.



Of the 145 member churches, the total number paying their membership fee in 2017 was 110 compared to 106 in the previous year. This included 11 churches that made additional contributions to cover previous years of unpaid membership contributions.

Historically, membership fees have been calculated using a formula that includes the size of the churches and the relative wealth of each member church country compared with other countries. While overall income has continued to increase, the challenge remains that some member churches do not pay. We remain enormously grateful for the consistent financial commitment from members, which enables the communion to provide vital services for the smooth running of the LWF.

2017 ASSEMBLY

The LWF 12th Assembly's total income was EUR **2,734,069** and expenditures were **EUR 2,662,921**, with a positive balance of **EUR 71,148**. This positive balance will be transferred as income for the next Assembly. The Assembly accounts were audited separately and the audit report is issued for review by the Finance Committee.

LWF member churches contributed **EUR 2,497,385 (91%)** as Assembly fees. Other income received was EUR **236,684 (9%)** through the special contributions by Norwegian Church Aid, the Evangelical Lutheran Church in Bavaria, registration fees, and investment income. Deep appreciation is extended to the member churches for the strong financial support for the Assembly. At the same time, gratitude is also extended to the three Lutheran Churches in Namibia for their generous financial contributions and local fundraising to support some local cost.

STAFF WELFARE PLAN: LWF PENSION FUND

The LWF Staff Welfare Plan–Pension fund has been affiliated with the Stiftung Abendrot pension since 2012. All assets and liabilities were taken over by the Stiftung Abendrot

effective January 1, 2012 reflected in an agreement signed by the LWF and the Abendrot Foundation.

LWF is liable to pay only the monthly employer contributions to the fund and is no longer liable for managing the pension funds nor for any under coverage in pension funds. A Staff Pension Plan Committee (SPPC) was constituted with employer and employee representatives to govern the affairs of the pension fund.

According to the pension fund valuation report, the pension fund performance in 2017 was 7.3% and the coverage level for LWF pension reached 111%, with the value of assets estimated at CHF 42.40 million.

It is mandatory, in accordance with the IFRS IAS19 revised standard on accounting, for employee benefits to adopt the standards and restate the impact in consolidated financial reports. Based on this, the LWF evaluated the pension liabilities and made the changes in its financial reports to reinstate the liabilities for 2017.

LWF ENDOWMENT FUND

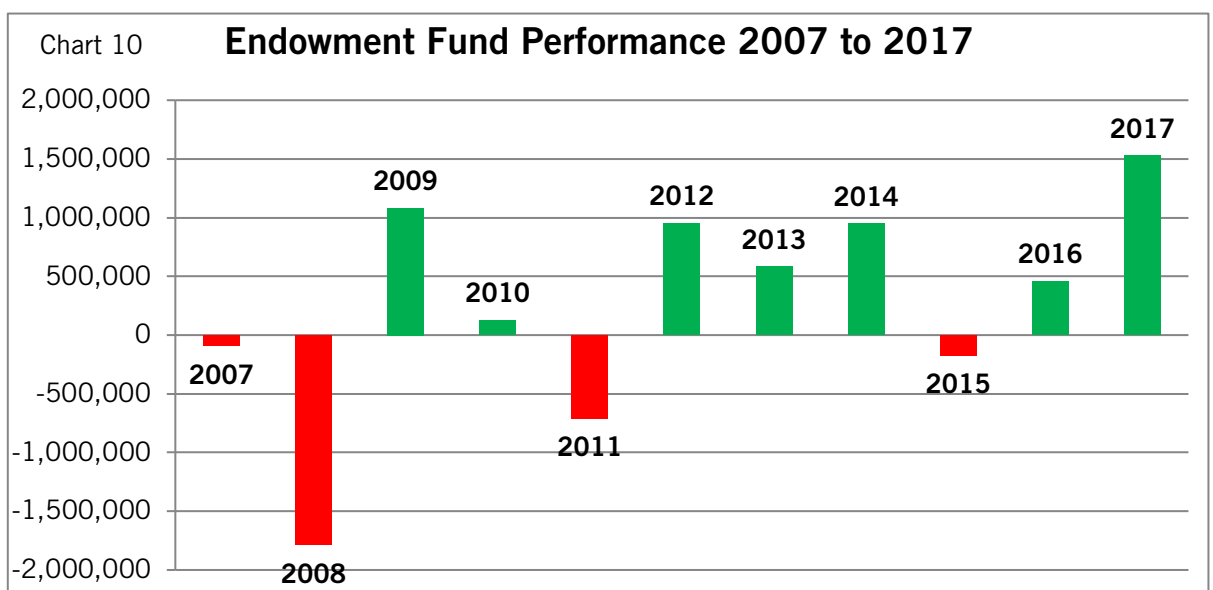
The LWF Endowment Foundation is a separate legal entity; its results are not consolidated within the LWF financial statements. The Report of the LWF Endowment Fund Board Chairperson is in Exhibit 19.2.

Total contributions received for the endowment fund as of 31 December 2017 were CHF 15,088,049, including the Evangelical Lutheran Church in America (ELCA) Endowment Fund Pooled Trust contributions of CHF 2,902,363.

The 2017 operating reserve shows a positive balance of CHF 1,423,564 after the 2018 distribution made to LWF according to the distribution policy.

In 2017 the gross fund performance was **14%**—a positive year in the stock market performance resulted in another good year of performance for the Endowment Fund.

The following chart summarizes the performance of the Endowment Fund from 2007 to 2017 based on the audit report.



COMMITTEE RESPONSIBILITIES

Over the course of the meeting, the LWF Committee for Finance will review the following items and forward the related recommendations to the LWF Council:

- LWF Audited Financial Statements for 2017
- Appointment of the External Auditor for 2017
- LWF Budget for 2019

CONCLUDING REMARKS

This is my first report as chairperson of the Finance Committee of the LWF Council. In the last six years, however, I have been a member of this committee as an adviser to the Council and have been able to follow the financial development of the LWF.

I would like to list some challenges for which constructive solutions have always been found:

- LWF pension funds
- Continuous distributions from the Endowment Fund
- Exchange rate risk
- Cash flow challenges of the AVH

I especially want to mention the development of the fair membership fees. In 2013, the quota of received contributions was 83.5% of the requested fair contributions. In 2017, this value has risen to 98.5%. Although this figure includes unpaid membership contributions from previous years, this is a great success and a confirmation of the good work of the communion office. Thank you very much and of course a heartfelt thank you to the member churches, who make the work of the LWF possible with their fair contributions. Let us continue to work on this positive development and hopefully all member churches of the LWF will make their fair contribution soon.

For the next few years, I see important challenges in the growing imbalance between the financial volume of DWS compared to the other departments and the issues surrounding stable funding of the AVH.

Thank you for your attention.