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FEDERATION

A Communion
of Churches

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REPORT OF THE CHAIRPERSON FOR THE FINANCE COMMITTEE

Oberkirchenrat Olaf Johannes MIRGELER

INTRODUCTION AND OVERVIEW

I am very pleased to present my report to the Council, providing a comprehensive overview of the Lutheran World Federation's (LWF) 2018 financial performance and other relevant financial matters. The Finance Committee on behalf of the Council exercises oversight of the LWF's finances, ensures the financial integrity, and safeguards the management of assets.

The LWF's finances are guided by the strategic priority of effective, sustainable, and accountable finances, demonstrating excellence in financial management. Our policy is to avoid financial deficits from operations which is crucial for the LWF's success and to maintain the long term financial stability. I am delighted to see another year with overall positive results.

Effective and efficient financial management is key to LWF. Given that financial activities are in different locations it is crucial to ensure that the financial resources are strictly used for implementing the approved budgets. The credibility and reputation of the LWF among major donors and government agencies are at the highest. This has contributed in the creation of long term value for the LWF and we are maintaining it carefully.

The consolidated financial statements of the LWF 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 2018 the LWF managed and balanced the income and expenditures through careful budget planning, monitoring of expenditure, and efficient management of procurement and other financial transactions.

Overall, it has been a positive year for the LWF, irrespective of the exchange rate volatility risks and other financial market uncertainties which affected investments.

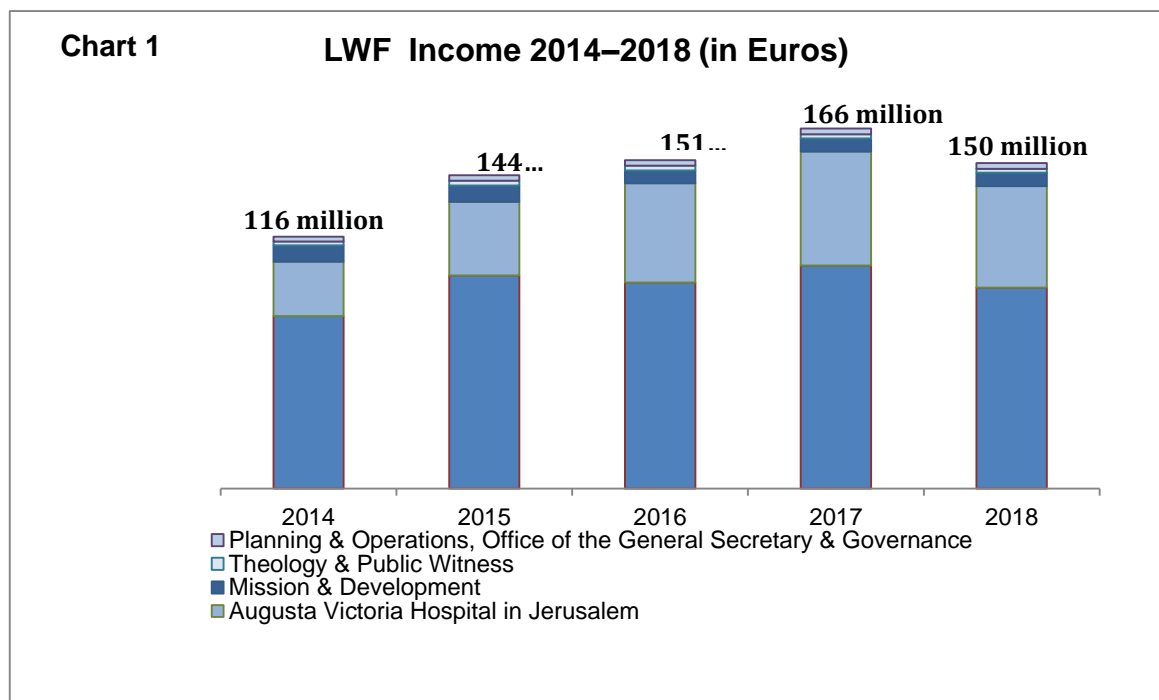
FINANCIAL PERFORMANCE IN 2018

In 2018 total income of the LWF was EUR 150 million, contributed generously by the member churches, church-related agencies, the United Nations, EU and US government funding sources, other partners, as well as individual donors. The 2018 budgeted income

was EUR 163 million. The shortfall of 8% or EUR 13 million compared to the budget and a decrease of 10% or EUR 16 million compared to the previous year. (see Chart 1)

Two key reasons for the decrease in income:

1. Lower income for the Department for World Service emergency programs in 2018 compared to previous years. The reduction is mainly due to the decreased work of the LWF's global humanitarian and development programs in Nepal, CAR, Chad, South Sudan and Jerusalem/AVH. Substantial income growth was reported in Uganda and Jerusalem/Vocational Training Program.
2. Department for Mission and Development new programs, Waking the Giant and Symbols of Hope received less funding than budgeted.



In 2018 the income of the Department for Theology and Public Witness's (DTPW) was 4% (EUR 73,561) lower than actual income in 2017. The main reason for this reduction was due to the reduced funding by few member churches and related organizations towards the regular program activities.

The income of the Department for Mission and Development (DMD) increased by 2%, (EUR 92,117) compared to 2017 income as a result of programmatic changes, new program initiatives, and fundraising activities.

The income of the Department for World Service (DWS) decreased by 12% (EUR 12,596,636) compared to 2017, mainly due to the decreased work in the LWF's global humanitarian and development programs in Nepal, Central African Republic, Chad, South Sudan and reduced operations in Jerusalem/Augusta Victoria Hospital.

The income of the General Secretariat and the Department for Planning and Operations (GS/DPO), which supports the organizational sustainability and effectiveness, decreased by 1% (EUR 32,672) due to the decreased payment of membership fees.

The total increase in reserves during the year was EUR 4.1 million, before adjustment of pension liabilities for IFRS presentation. A surplus of EUR 2.1 million came from Augusta Victoria Hospital operations and another EUR 2 million from World Service programs

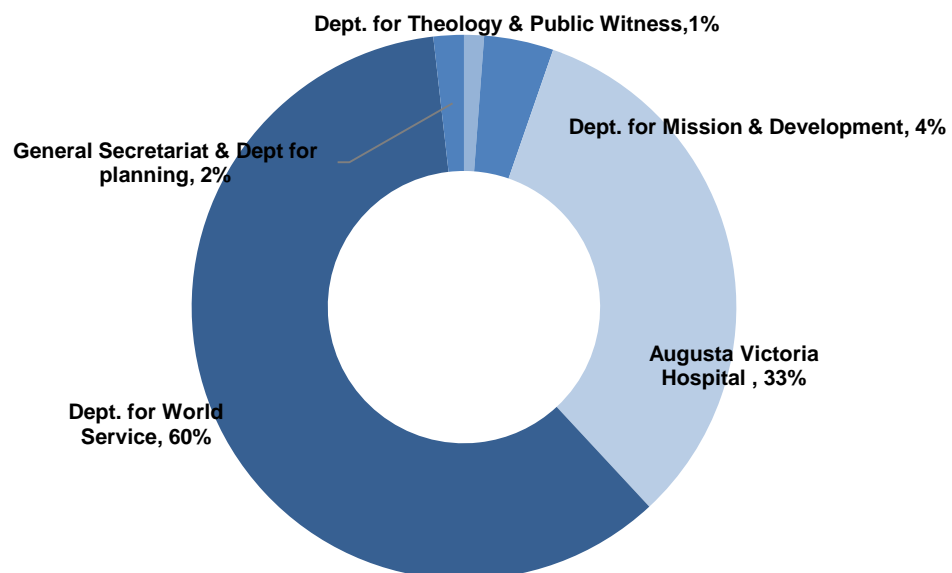
operations and other departments. The total reserves of the LWF increased to EUR 52 million in 2018, from EUR 50 million in 2017.

More than half of the increase (53% amounting to EUR 2.1 million) is due to the large accounting surplus from operations at the AVH. A sizable reserve is necessary in order to finance AVH operations. The balances of the LWF's reserves balances are shown as a total of the provisions made to comply with the revised standards for the valuation of pension liabilities (IAS19) in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

2018 LWF INCOME: EUR 150,114,082

The Chart 2 below shows the income share by each department.

Chart 2 **2018 Income by Department**

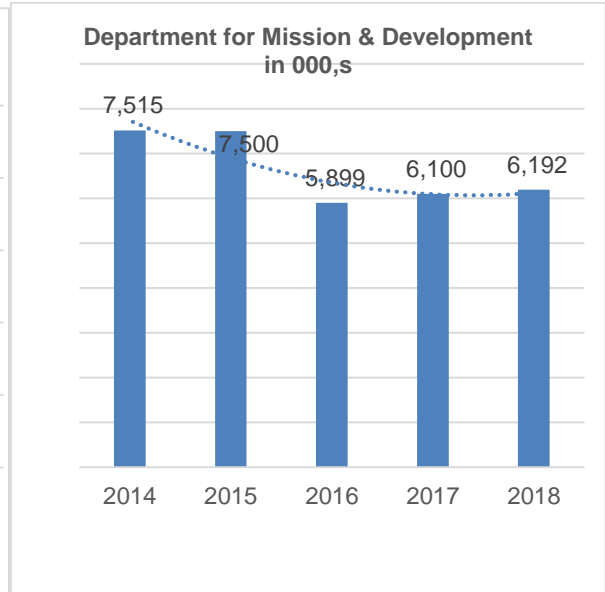
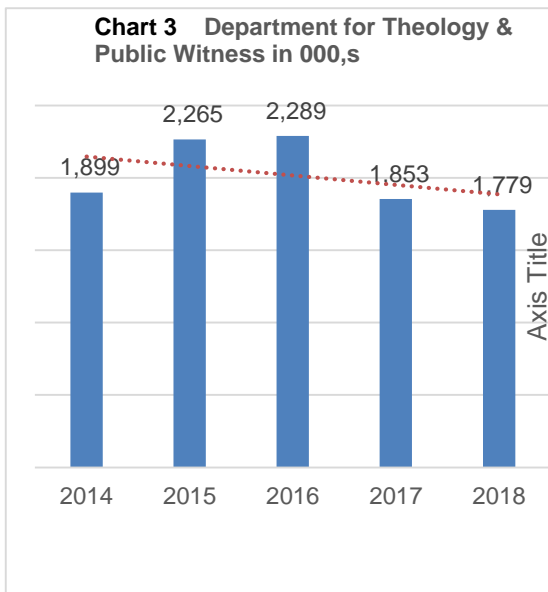


2018 LWF INCOME: TREND BY DEPARTMENTS 2014 TO 2018

The charts below show the income trend for the LWF Departments (Chart 3)

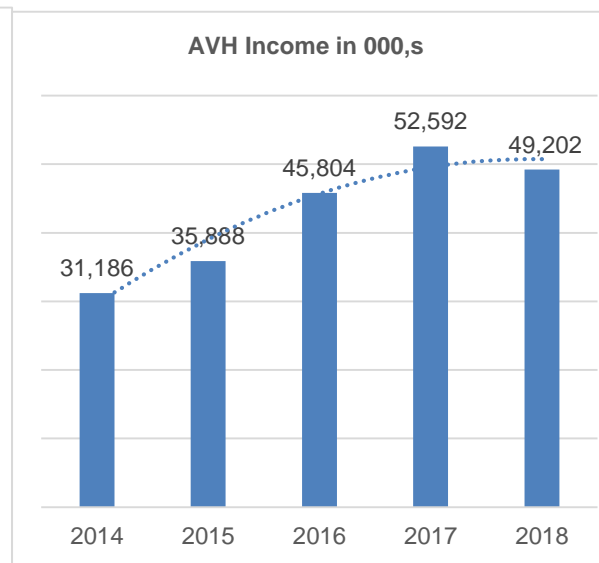
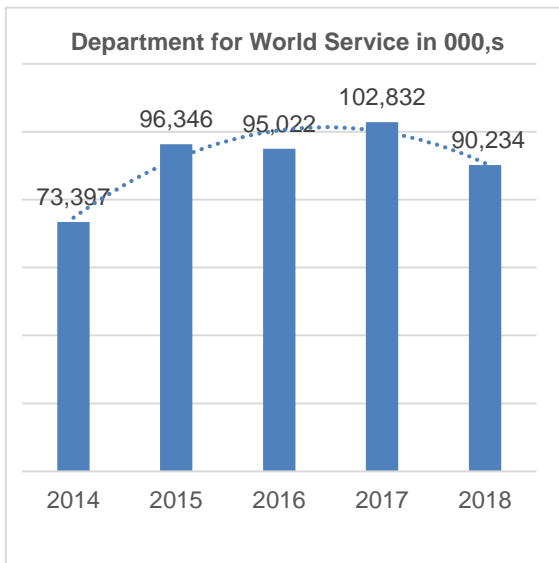
The Department for Theology and Public Witness (DTPW), income is on a decreasing trend. The department is mainly funded by LWF member Churches and related organizations.

The Department for Mission and Development (DMD) income reducing trend became stabilized and slightly improved to an increasing trend

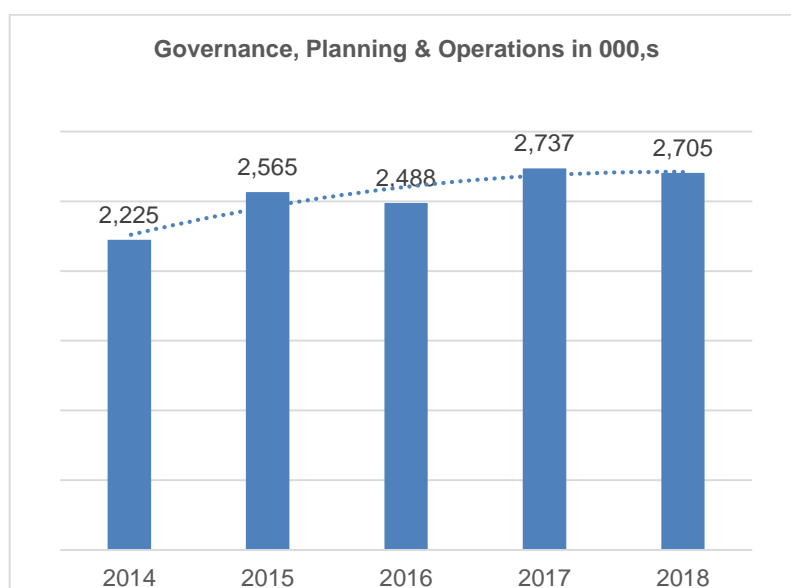


As seen below, the income of the Department for World Service (DWS) has been on an increasing trend but declined in 2018. The income reduction is primarily associated with the reduced funding of some global emergencies.

The income of the Augusta Victoria Hospital has been on an increasing trend but declined in 2018 mainly due to reduced services.



The income trend for the General Secretariat and the Department for Planning and Operations (GS/DPO) was more stable and increasing, depending on membership fee income.



2018 LWF INCOME: COMPARISON OF ACTUAL AND BUDGET & PREVIOUS YEAR

2018 income was 8% lower than the projected 2018 budget and 10% lower than the previous year. The following table shows the income received in 2018 for each of the LWF departments.

INCOME	2018 ACTUAL	2018 BUDGET	2017 ACTUAL	VARIANCES		VARIANCES	
				ACTUAL Vs BUDGET Favourable/ (Unfavourable)	%	CURRENT YEAR Vs PREVIOUS YEAR Favourable/ (Unfavourable)	%
Dept. for Theology & Public Witness	1,779,209	2,350,460	1,852,770	(571,251)	24%	(73,561)	-4%
Dept. for Mission & Development Augusta Victoria Hospital	6,192,314	8,032,059	6,100,197	(1,839,745)	23%	92,117	2%
Dept. for World Service General Secretariat & Dept for Planning	49,202,414	48,000,000	52,591,267	1,202,414	3%	(3,388,853)	-6%
Dept. for World Service General Secretariat & Dept for Planning	90,234,974	102,032,370	102,831,610	(11,797,396)	12%	(12,596,636)	-12%
Dept for Planning	2,705,171	2,730,142	2,737,843	(24,971)	-1%	(32,672)	-1%
TOTAL INCOME	150,114,082	163,145,031	166,113,687	(13,030,949)	-8%	(15,999,605)	--10%

The Department for Theology and Public Witness (DTPW), has continued to see declines in revenue, in 2018, the percentage of decline has been moderated to - 4% compared to 2017, some of the member churches and related organizations were not able to continue the same level of support in 2018.

The Department for Mission and Development (DMD) continued the focus on improvement and greater operating efficiency, new programs initiated, increased the income by 2% compared to 2017.

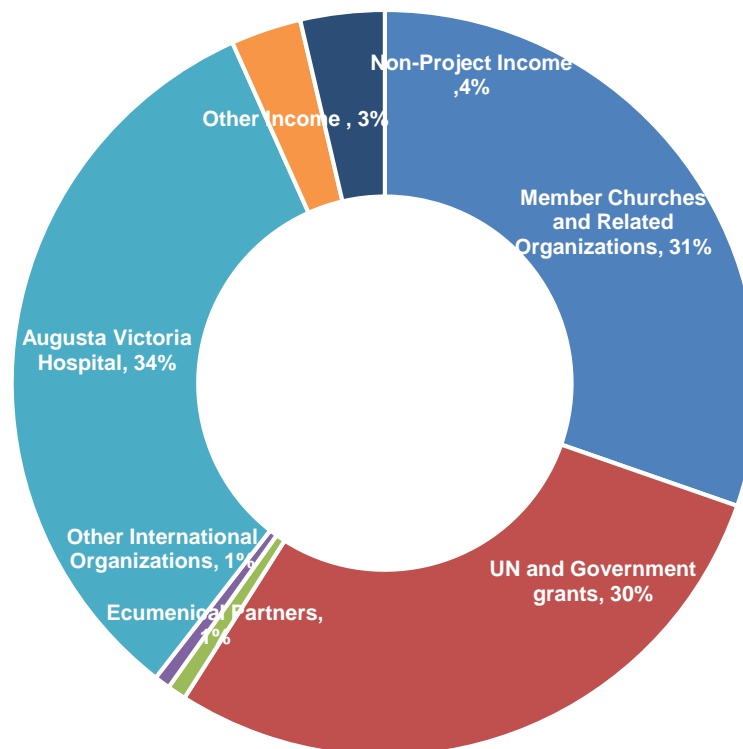
The Department for World Service (DWS) income declined by 6% compared to 2017, the income reduction primarily associated with the reduced funding for few global emergencies.

The General Secretariat and the Department for Planning and Operations (GS/DPO) remained fairly steady with -1% income compared to 2017. The income decrease was due to the membership fees received, which were lower than in 2017.

2018 LWF INCOME: EUR 150,114,082 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 4 **2018 Income by Source**

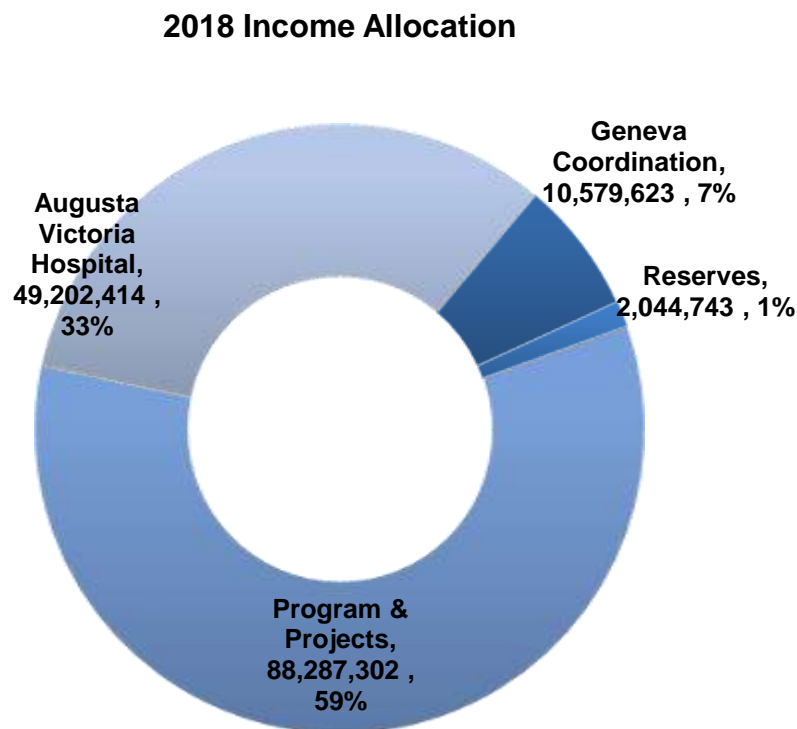


1. Member churches and related organizations: EUR 45 million (31%)
2. UN and government grants: EUR 43 million (30%)
3. Augusta Victoria Hospital: EUR 49 million (34%)
4. "Other Income" includes income from compound management, administration fees of UN, US Grants, etc.: EUR 4 million (3%)
5. Ecumenical partners: EUR 1 million (1%)
6. "Non-Project Income" includes foreign exchange gains, vehicle hire, and sale of assets: EUR 5million (4%)
7. Other International Organizations: EUR 1 million (1%)

2018 LWF INCOME: EUR 150,114,082 Allocation to Programs

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

Chart 5



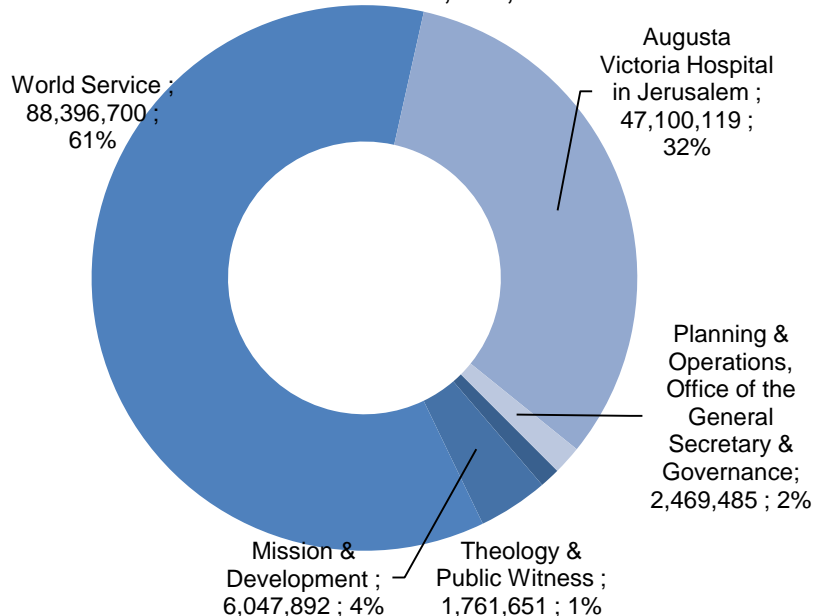
In 2018, LWF Communion Office Coordination was 7% of the total income, 1% added to the reserves and the balance 92% was allocated for program and projects, including Augusta Victoria Hospital.

2018 LWF EXPENDITURE: by Department

LWF total 2018 expenditure was EUR 145.77 million, of which 61% was for the Department for World Service, 32% 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 2%.

The key figures are found in the chart below.

Chart 6 **LWF Expenditure 2018 by Department**
EUR 145,775,847

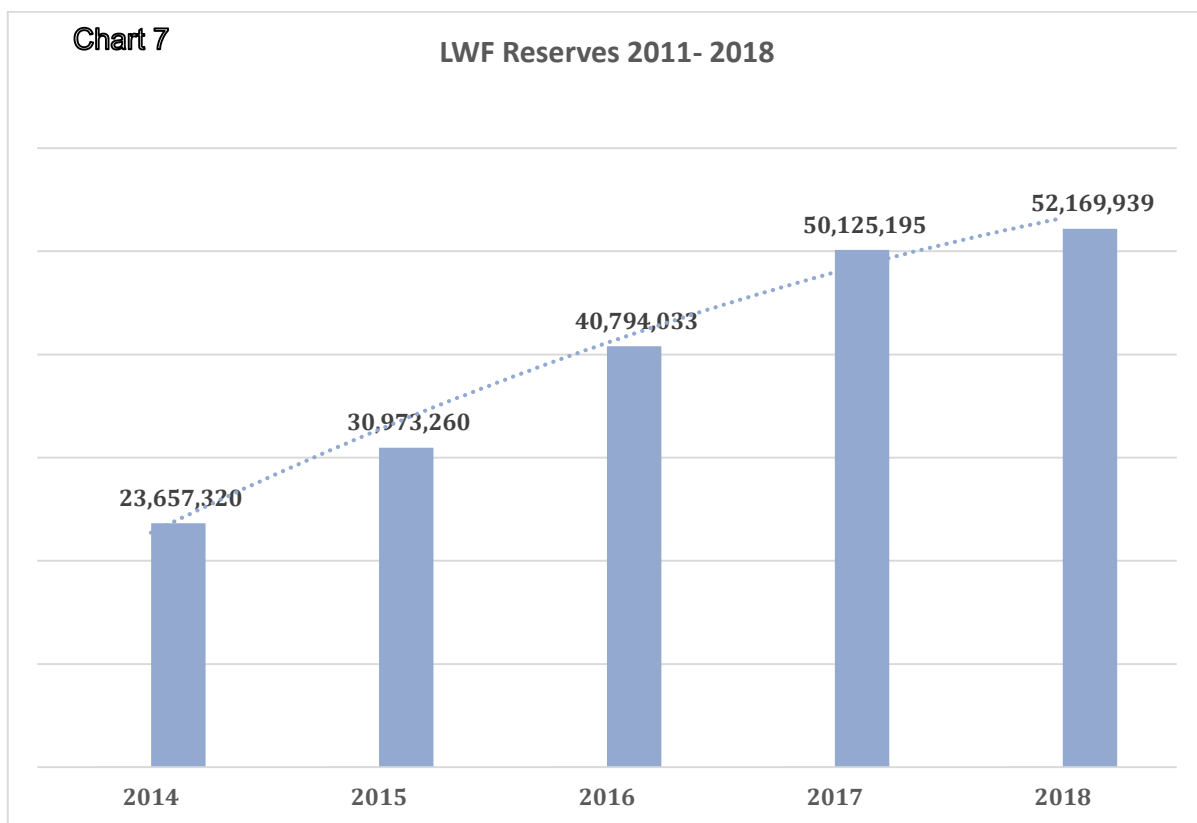


DEVELOPMENT OF LWF RESERVES: 2014 to 2018

“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 are designated or “ear-marked” for specific purposes of the departments.

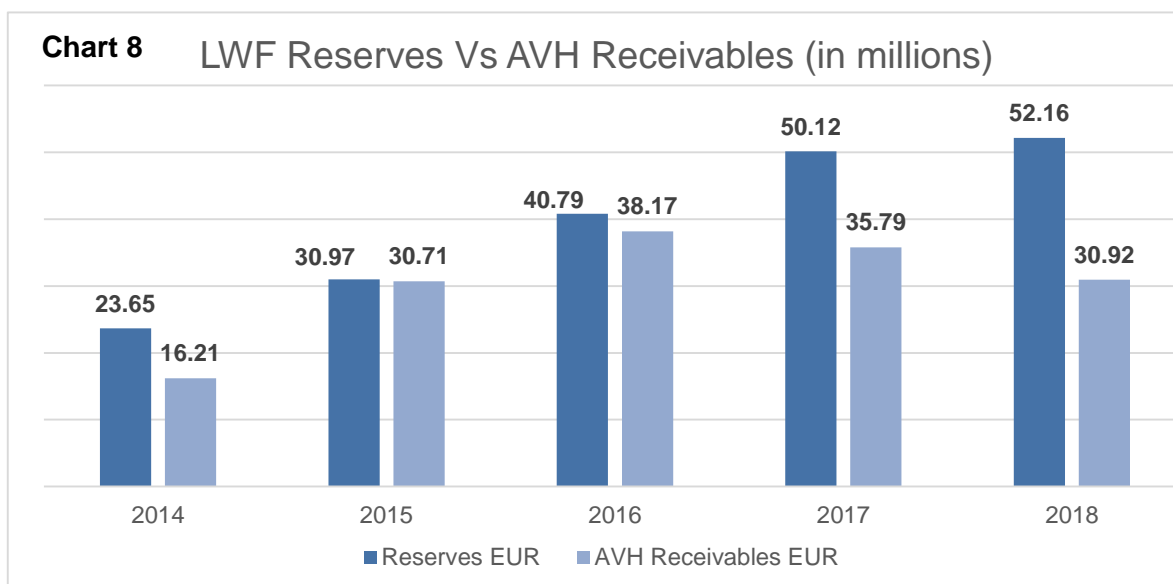
LWF reserves increased from EUR 23.65 million in 2014 to EUR 52.12 million in 2018. Such positive financial situation makes us trustworthy to engage new partnerships for the sake of the mission of the LWF.

The chart below shows the development of the reserves from 2014 to 2018, after the restatement of pension liabilities under IAS19, representing a 4% growth compared to the previous year and 120% growth from 2014 to 2018.



1.1 LWF RESERVES vs AVH RECEIVABLES

The following chart shows the reserves from 2014 to 2018 compared to the Augusta Victoria Hospital receivables in view of the LWF liquidity risk



2018 LWF NET RESULTS: EUR 4,194,334

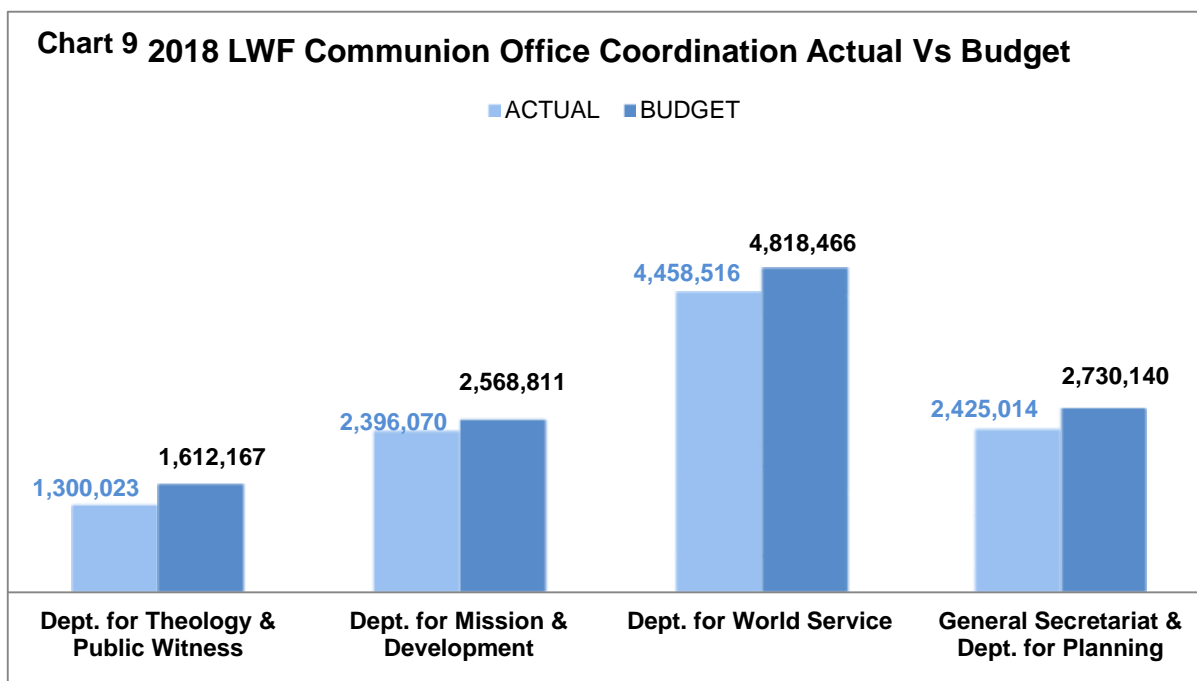
In 2018, the LWF's consolidated net result from operations was EUR 4,194,334 and EUR 2.1 million after restatement of pension liabilities for the year.

1. Dept. for Theology & Public Witness: positive results of EUR 33,891
2. Dept. for Mission & Development: net surplus of EUR 134,633 from the Geneva coordination costs
3. Dept. for World Service country programs: net surplus of EUR 3.9 million, of which the AVH's surplus was EUR 2.1 million
4. General Secretariat & Dept. for Planning and Operations: net loss of EUR (73,996), a financial loss mainly due to exchange rate variations
5. Restatement of pension liabilities (IAS19): Actuary valuation resulted in a loss of EUR 1.8 million, reduced from reserves

The more volatile nature of the AVH operations as a result of cash flow challenges due to 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: LWF COMMUNION OFFICE COORDINATION

The LWF Communion Office coordination budget is the portion of the LWF department budgets allocated to meet the LWF headquarters' expenses for the Departments, DTPW, DMD, DWS and GS/DPO. The total approved budget for LWF Communion Office coordination was EUR 11.72 million and the actual expenditures were EUR 10.57 million, with a positive variance of 10%.



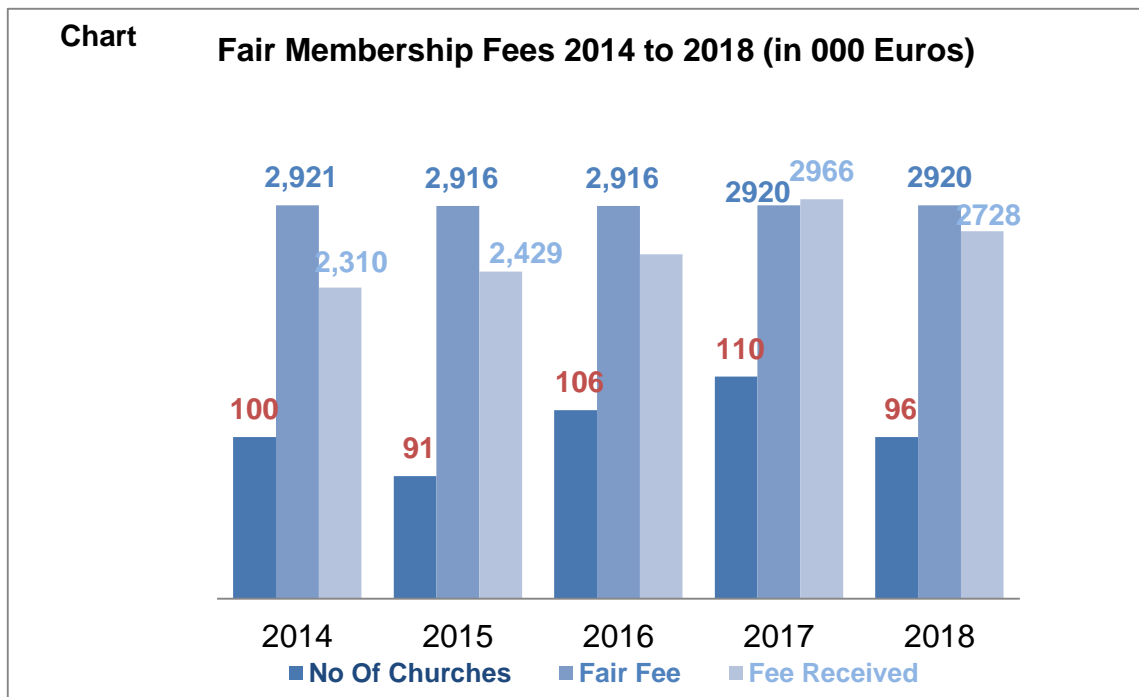
The Geneva expenses are paid in Swiss Francs, the average EUR/CHF exchange rate for the year was of 1.15 compared with the budget rate of 1.09, a 6% positive variance for Euros to Swiss Francs

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.

MEMBERSHIP FEES: Contributions 2014 to 2018

The annual membership contributions from the LWF member churches support the essential work of LWF. These funds play a crucial part in providing financial stability for the Communion Office. The LWF Council and leadership continue to make all efforts to bring contributions to the full fee levels.

In 2018 membership income decreased compared to the previous year, from EUR 2.96 million in 2017 to EUR 2.72 million in 2018, a decrease of EUR 200,000. The main reason is that the Assembly year of 2017 brought with it additional membership contributions from some member churches totaling approximately EUR 160,000. In 2018, an adverse exchange rate in the EUR/SEK (Swedish Krona) resulted in the same SEK contribution resulting in a reduction of EUR 28,421. These two factors combined explain the reasons for the reduction. The following chart shows income from membership fees from 2014 to 2018, indicating the number of churches who paid the fees, the Council approved fair fee and the actual fees received.



Of the 148 member churches, the total number paying their membership fee in 2018 was 96 compared to 110 in the previous year. This included 4 churches that made additional contributions to cover previous years of unpaid membership contributions. By comparison, 19 churches paid fees from prior years in 2017.

Historically, membership fees have been calculated using a formula that takes into account the size of the church membership and the relative wealth of the country. Some member churches pay less than their calculated fair share while others pay more. A review of the fair share calculation is underway in 2019 to understand its relevance across the breadth of the Lutheran communion. We remain enormously grateful for the consistent financial

commitment from members, which enables the communion office to provide vital services for the smooth running of the LWF.

LWF STAFF WELFARE PLAN PENSION FUND

The LWF Staff Welfare Plan Pension fund has been managed by an independent pension fund in Switzerland, the Stiftung Abendrot Foundation, since 2012 January 1, 2012.

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 2018 was negative **1.68%** (in 2017 the performance was + 7.3%). The losses were recovered in the first quarter of 2019 with positive 4.19%. The coverage level for LWF pension was 105%, with the value of assets estimated at CHF 37.73 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 2018.

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 20.2.

Total contributions received for the endowment fund as of 31 December 2018 were CHF 14,993,458, including the Evangelical Lutheran Church in America (ELCA) Endowment Fund Pooled Trust contributions of CHF 2,589,051.

The 2018 operating reserve balance was CHF 172,034 after the 2019 distribution of CHF 528,333 made to LWF according to the distribution policy. In 2018 the gross fund performance was negative **7%**, a negative performance for the Endowment Fund due to the high volatility during the year end investment markets. All the losses were recovered in first quarter of 2019 with a +9.61% performance. Despite the negative performance in 2018, the fund is able to make a distribution from its operating reserves. The investment markets continue to be uncertain and highly volatile in 2019, the LWF staff are regularly monitoring and managing the situation with the fund managers.

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 2018**
- **Appointment of the External Auditor for 2018**
- **LWF Budget for 2020**

CONCLUDING REMARKS

The Lutheran World Federation, with the support of this Council and leadership, through its highest attention was able to maintain its strong commitment to financial stability, delivered a balanced budget and adequate cash reserves to ensure ongoing operations.

This achievement would not be possible without the dedicated support, caring and hard work of the LWF member churches. Thank you for your commitment to this aspect of our life together. I would like to note, on the record, my deep appreciation for your support and faithful stewardship.

The level of membership fee contributions continues to be below total of fair membership fees. Growth in membership fee income would help to provide support for areas that have been identified as high priority such as theological work and ecumenical relations, for which funding has not been stable in recent years. Many of our member churches have paid the fair fees regularly and they have my deep appreciation for that. I would invite all member churches attention to continue paying the membership fees regularly and support the LWF's good work.