# The Lutheran World Federation
## Geneva

Report of the statutory auditor
to the Council

on the consolidated financial statements 2022

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# Report of the statutory auditor

## to the General Meeting of The Lutheran World Federation

## Geneva

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of The Lutheran World Federation which comprise the consolidated balance sheet as at 31 December 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in reserve and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Federation in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter

We draw attention to note 2.18, Financial risk management, b) Credit risk, to the financial statements, which indicates that The Lutheran World Federation has an account receivable of Euros 64'367'107 due from one major customer which accounts for approximately 81% of total other receivables as of December 31, 2022. An inability to collect this receivable on agreed due dates would hinder "The Lutheran World Federation's" ability to discharge its liabilities and fulfill its obligations as they fall due.

Our opinion is not modified in respect of this matter.

### Other information

The Federation Board is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the consolidated financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Federation Board's responsibilities for the consolidated financial statements

The Federation Board is responsible for the preparation of the consolidated financial statements, which give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Association Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Association Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Association Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Association Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Federation Board or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on other legal and regulatory requirements

In accordance with article 69b paragraph 3 CC in connection with article 728a paragraph 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists which has been designed for the preparation of the consolidated financial statements according to the instructions of the Association Board.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Patrick Wagner

Licensed audit expert
Auditor in charge

Adélina Todorova

Genève, 25 May 2023

Enclosure:

- Consolidated financial statements (consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in reserve, consolidated statement of cash flows and notes)

**THE LUTHERAN WORLD FEDERATION**

**CONSOLIDATED BALANCE SHEET**

**As at December 31, 2022**

EURO



| | Note | 2022 Total | 2021 Total |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | | | |
| Cash & short term deposits | 3.1 | **43'401'845** | 36'109'298 |
| Financial assets - held for trading | 3.2 | **6'448'912** | 7'559'750 |
| Accounts receivable & prepayments | 3.3 | **80'756'280** | 80'370'505 |
| Program/project balances receivable | 3.5 | **14'481'846** | 11'797'088 |
| Inventory | 3.5a | **3'428'050** | 3'625'108 |
| Interfund balances | 3.6 | **-** | - |
| Total Current Assets | | **148'516'933** | 139'461'749 |
| Fixed Assets | 3.7 | **6'185'411** | 5'399'312 |
| Right of use | 2.12c | **484'582** | 886'594 |
| Defined benefit asset | 3.19 | **-** | 398'586 |
| Total Non-Current Assets | | **6'669'993** | 6'684'492 |
| **TOTAL ASSETS** | | **155'186'926** | 146'146'241 |
| **LIABILITIES AND RESERVES** | | | |
| Current Liabilities | | | |
| Accounts payable & accrued charges | 3.8 | **24'775'333** | 23'757'813 |
| Accounts payable to related parties | 3.4b | **1'327'481** | 1'544'099 |
| Program/project balances payable | 3.9 | **25'990'580** | 16'529'552 |
| Credit line | | **21'861** | 1'622'454 |
| Lease liabilities | 2.12c | **391'845** | 393'918 |
| Total Current Liabilities | | **52'507'100** | 43'847'836 |
| Long Term Liabilities | | | |
| Local staff funds | 3.11 | **13'495'377** | 12'428'596 |
| Defined benefit liability | 3.19 | **-** | - |
| Long term provisions | 3.10 | **649'227** | 586'840 |
| Lease Liabilities | 2.12c | **98'718** | 493'782 |
| Total Long Term Liabilities | | **14'243'322** | 13'509'218 |
| Total Liabilities | | **66'750'422** | 57'357'054 |
| Reserve | | | |
| Accumulated Reserve | | **80'852'132** | 70'409'520 |
| Surplus / (deficit) for the year | | **(106'383)** | 10'442'612 |
| Remeasurement of post-employment benefit obligations | | **8'217'276** | 8'475'977 |
| Currency translation adjustment (CTA) | | **(526'521)** | (538'872) |
| Total Reserve | | **88'436'504** | 88'789'237 |
| **TOTAL LIABILITIES AND RESERVES** | | **155'186'926** | 146'146'291 |

# THE LUTHERAN WORLD FEDERATION



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Year Ended December 31, 2022**

| EURO | | **2022** | 2021 |
|---|---|---|---|
| | | **Grand Total** | Grand Total |
| **OPERATING INCOME** | | | |
| Govt./Intergovt. & other grants | | **-** | - |
| Member churches & related organizations | | **59'300'646** | 43'342'091 |
| Stiftung contribution | | **981'990** | 816'075 |
| Other program support | | **41'581'186** | 43'390'137 |
| AVH income | | **66'937'416** | 68'093'243 |
| Membership fees | | **2'743'631** | 2'638'119 |
| Administration fees | | **2'526'917** | 2'263'010 |
| Service fees | | **-** | 24'419 |
| Non-project income | | **3'982'537** | 1'629'408 |
| Other income | | **1'770** | 373 |
| **Total Operating Income** | | **178'056'093** | 162'196'875 |
| **Operating Expenditure** | | | |
| Staff related costs | | **(66'145'534)** | (60'178'345) |
| Other staff expenses | | **-** | - |
| Travel & representation | | **(3'121'764)** | (2'433'218) |
| Other operating expenses | | **(32'875'070)** | (21'958'336) |
| Computer Services Recharge | | **449'402** | 401'289 |
| Non-project expenses | | **(3'097'223)** | (2'099'163) |
| Program/project expenditure | | **(49'706'888)** | (41'406'650) |
| Medical Supplies and drugs (AVH) | | **(23'861'122)** | (26'379'267) |
| Council & other governing bodies | | **(227'607)** | (62'925) |
| Staff & office costs allocated to programs | | **1'429'135** | 605'000 |
| Central Services Allocation | | **36'387** | 360'702 |
| **Total Operating Expenditure** | | **(177'120'282)** | (153'150'912) |
| **Operating Result** | | **935'811** | 9'045'963 |
| **Financial Result** | | | |
| Fair value gains / (losses) on financial instruments | 3.13 | **(1'427'254)** | 1'084'320 |
| Net exchange (losses)/gains | 3.13 | **482'951** | 419'097 |
| Bank charges | | **(97'891)** | (106'767) |
| **Total Financial Result** | | **(1'042'194)** | 1'396'650 |
| **Comprehensive result for the year before Other comprehensive income/(expense)** | | **(106'383)** | 10'442'612 |
| **Other comprehensive income/(expense) current year** | | | |
| ***Items that will not be reclassified to profit or loss*** | | | |
| Remeasurement of post-employment benefit obligations (net of taxes) | | **(258'701)** | 2'965'477 |
| CTA | | **12'351** | 14'628 |
| **Comprehensive result for the year** | | **(352'733)** | 13'422'717 |

# THE LUTHERAN WORLD FEDERATION
## CONSOLIDATED STATEMENT OF CHANGES IN RESERVE
**Year Ended December 31, 2022**
EUR

| | Accumulated reserve | Result of the year | Remeasurement of post-employment benefit obligations | CTA | Total |
|---|---|---|---|---|---|
| Balance as at January 1st, 2021 | 66'429'959 | 3'979'561 | 5'510'500 | (553'500) | 75'366'520 |
| Allocation of prior year result | 3'979'561 | (3'979'561) | | | - |
| Comprehensive result for the year before other comprehensive income/(exp.) | | 10'442'612 | | | 10'442'612 |
| Other comprehensive income/(expense) current year | | | 2'965'477 | 14'628 | 2'980'105 |
| **Balance as at December 31st, 2021** | **70'409'520** | **10'442'612** | **8'475'977** | **(538'872)** | **88'789'237** |

| | Accumulated reserve | Result of the year | Remeasurement of post-employment benefit obligations | CTA | Total |
|---|---|---|---|---|---|
| Balance as at January 1st, 2022 | 70'409'520 | 10'442'612 | 8'475'977 | (538'872) | 88'789'237 |
| Allocation of prior year result | 10'442'612 | (10'442'612) | | | - |
| Comprehensive result for the year before other comprehensive income/(exp.) | | (106'383) | | | (106'383) |
| Other comprehensive income/(expense) current year | | | (258'701) | 12'351 | (246'350) |
| **Balance as at December 31st, 2022** | **80'852'132** | **(106'383)** | **8'217'276** | **(526'521)** | **88'436'504** |

# THE LUTHERAN WORLD FEDERATION



**Consolidated Statement of Cash Flow (total of all funds)**
**Year ended December 31, 2022**
EURO

| | | 2022 | 2021 |
|---|---|---|---|
| **Operating activities** | | **EUR** | EUR |
| Result for the year before other comprehensive income/(expense) | | **(106'383)** | 10'442'612 |
| Adjustments for: | | | |
| - Depreciation | 3.7 | **1'221'164** | 1'065'635 |
| - Loss on fixed assets | 3.7 | **-** | 212 |
| Operating surplus before changes in working capital | | **1'114'781** | 11'508'459 |
| Changes in working capital | | | |
| Net (increase)/decrease in operating assets | | | |
| Accounts receivable & prepayments | 3.3 | **(385'775)** | (29'149'555) |
| Programs/project balances receivable | 3.5 | **(2'684'758)** | (2'094'601) |
| Inventory | 3.5a | **197'058** | 800'573 |
| Net increase/(decrease) in operating liabilities | | | |
| Accounts payable & accrued charges | 3.8 | **1'017'520** | 10'556'713 |
| Accounts payable to related parties | 3.4b | **(216'618)** | 494'298 |
| Unexpended balances | 3.9 | **9'461'028** | (3'392'786) |
| Local staff funds | 3.11 | **1'066'781** | 3'189'992 |
| Long term provision | 3.10 | **62'387** | (73'833) |
| Credit line | | **(1'600'593)** | 1'622'454 |
| Defined benefit liability | 3.19 | **152'236** | 253'519 |
| Net changes in working capital | | **7'069'266** | (17'793'226) |
| Net cash generated from operating activities | | **8'184'047** | (6'284'767) |
| **Investing activities** | | | |
| (Purchase)/maturity,sale of securities | 3.2 | **1'110'838** | (895'029) |
| Purchase of fixed assets Geneva | 3.7 | **(3'402)** | (29'256) |
| Purchase of fixed assets Field Offices | 3.7 | **(1'998'981)** | (423'166) |
| Net cash (used in) investing activities | | **(891'545)** | (1'347'451) |
| **Financing activities** | | | |
| Net cash (used in) financing activities | | **0** | 0 |
| Net (decrease) in cash and cash equivalents | | **7'292'502** | (7'632'218) |
| Cash & cash equivalents at the beginning of the year | | **36'109'343** | 43'741'561 |
| **Cash & cash equivalents at the end of the year** | | **43'401'845** | 36'109'343 |

## Notes to the Financial Statements for the year ended December 31, 2021

### 1. Activities

The Lutheran World Federation (LWF) is a global communion of Christian churches in the Lutheran tradition, founded in 1947. The LWF Secretariat is located at the Ecumenical Centre, Route de Ferney 150 in Geneva.

The LWF is a non-profit association incorporated and registered under Article 60 and following of the Swiss Civil Code.

The LWF's purpose is to:
- further the united witness to the Gospel of Jesus Christ and strengthen the member churches in carrying out the missionary command and in their efforts towards Christian unity worldwide.
- further worldwide among member churches diaconal action, alleviation of human need, promotion of peace and human rights, social and economic justice, care for God's creation and sharing of resources.
- further through cooperative study the self-understanding and the communion of member churches and help them to act jointly in common tasks.

The Assembly, composed of representatives of the member churches of the Federation, is the principal authority of the LWF. The Assembly is normally held every six years and is responsible for the Constitution, electing the President and the members of the Council, and giving general direction to the work of the Federation.

The Council is composed of the President, the Chairperson of the Finance Committee, and 48 persons elected by the Assembly. The term of office of the Council shall end at the close of the next ordinary Assembly. The Council is responsible for the business of the Federation in the interim between ordinary Assemblies. The Council elects the General Secretary and the Chairperson of the Finance Committee. The Council elects the Vice-Presidents, decides on the budgets of the Federation, and receives the audited accounts and approves them. The Council also elects from among its members an "Executive Committee" and Program Committees as required and appoints their chairpersons.

The LWF Communion Office, headed by the General Secretary, carries out the tasks of the LWF. The General Secretary is assisted in carrying out his duties by the Communion Office Leadership Team composed of the heads of departments/units within the Communion Office. The Council authorizes the structure and terms of reference of the Communion Office Leadership Team. The General Secretary is responsible to the Council for conducting the business of the Federation and carrying out the decisions of the Assembly and the Council.

In June 2019, LWF Council approved the new structure of the LWF Communion Office to better correspond to the goals of the LWF strategy 2019-2024. The financial statements of the LWF for the year ended December 31st, 2022 include the restructured four departments as detailed below:

### 2. Department for Theology, Mission and Justice (DTMJ)

The Department for Theology, Mission and Justice (DTMJ) is primarily responsible for programs and themes geared towards supporting the presence and witness of the member churches of the Lutheran

World Federation (LWF) globally and locally. DTMJ promotes communion building among member churches as outlined in LWF strategy 2019-2024

DTMJ holds LWF's program work directed towards LWF member churches including the Action for Justice team, which is a hub for shared themes that are implemented across programmatic departments.

### 3. Department for World Service (DWS)

The Department for World Service (DWS) is responsible for carrying out diaconal response to humanitarian emergencies and human needs on behalf of the Lutheran World Federation - a Communion of Churches (LWF).

In pursuance of its responsibility and based on its strategy, which is aligned to LWF strategy 2019-2024, DWS is dedicated to challenging and addressing the causes and effects of human suffering and poverty, linking local responses to national and international advocacy.

DWS include Programs that are implemented through Country programs and Emergency programs. Former DWS programs are not included in the consolidation as each of these has its own legal status, separate from that of the LWF, and the LWF exercises no control over them.

A defining feature of DWS is its local rootedness and global connectivity, linking local community voices with international dialogue, advocacy and peace work. DWS envisions people living in just societies, in peace and dignity, united in diversity, able to meet their basic needs, achieve their full potential, and claim their universal rights in order to improve their quality of life individually and collectively.

### 4. Office of the General Secretary (OGS)

The Office of the General Secretary (OGS) consists of the General Secretary, the Assistant General Secretary for Ecumenical Relations, four Regional Secretaries and administrative staff.

The main functions of the OGS are to:

- Nurture and promote communion relationships with and among LWF member churches as well as connect local concerns with global initiatives.
- Promote Christian unity and ecumenical relations through research, dialogues, consultations, networking and visits.
- Nurture and promote relationships and partnerships in matters concerning human rights and international affairs.

### 5. Department for Planning and Coordination (DPC)

The Department for Planning and Coordination (DPC) is responsible for the overall coordination of the planning, monitoring, evaluation and reporting of the LWF Communion Office of the Lutheran World Federation – a Communion of Churches (LWF) and for the assurance of overall quality and accountability.

DPC oversees and supports the work of the Communion Office in the areas of Planning, Finance and Income Development, Human Resources, Communication, IT Services and Archiving in accordance with high professional and ethical standards as outlined in LWF strategy 2019-2024. DPC aims to strengthen strategic leadership at all levels, ensures strong financial management and resource mobilisation efforts, alignment of systems and structures, investment in people and ensuring effective communications within the LWF.

## 2. Summary of significant accounting policies

The financial statements will be presented to the Council meeting for approval at the Organization's Council Meeting to be held in June 2023.

These financial statements were authorized for issue in May 2023 by the President.

### 2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

### 2.2 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for securities which are stated at fair value. Fair value is the amount for which an asset or a liability could be exchanged between knowledgeable and willing parties in an arm's length transaction.

Preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates and the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

### 2.3 Adoption of new standards, amendments and interpretations effective in 2021

New and revised standards and interpretations were reviewed in 2020 to identify the nature of the future changes in accounting policy and to estimate the effect of any necessary changes in the consolidated income statement and financial position upon their adoption.

In 2020 other comprehensive income figures have been added below the profit of the year figures, presentation of the consolidated statement of changes in equity has been up-dated, and some notes have also been updated.

The same standard applies to 2021 and 2022.

### 2. Basis of consolidation

The financial statements of the LWF includes the Communion Office as well as the Country Program offices  of the Department for World Service.

Department for World Service field Offices/Programs are registered locally as DWS country programs or DWS emergency programs operating locally as legal entities. They are registered under local laws that govern not-for profit or humanitarian organisations and therefore DWS programs are not corporate companies.
Each registration is processed on the basis of the LWF Geneva statute document, thereby giving them the affiliated status to LWF Geneva. The LWF Communion Office controls the management of all filed offices/programs listed below:

Angola - Federaçâo Luterana Mundial - The Lutheran World Federation
Burundi - ONG Fédération Luthérienne Mondiale
Central Africa Republic - La Fédération Luthérienne Mondiale
Cameroon - La Fédération Luthérienne Mondiale
Chad - La Fédération Luthérienne Mondiale
Central America - Federacíon Lutherana Mundial
Colombia/Venezuela - Federacíon Lutherana Mundial
Ethiopia - The Lutheran World Federation
Haiti - La Fédération Luthérienne Mondiale
Iraq - The Lutheran World Federation
Jerusalem - The Lutheran World Federation
Jordan - The Lutheran World Federation
Kenya/Somalia - The Lutheran World Federation
Mauritania - La Fédération Luthérienne Mondiale
Myanmar/Laos - The Lutheran World Federation
Nepal - Lutheran World Federation
Poland – The Lutheran World Federation
South Sudan - The Lutheran World Federation
Uganda - Lutheran World Federation
Ukraine – The Lutheran World Federation
Zambia – The Lutheran World Federation

Former DWS programs are not included in the consolidation as each of these has its own legal status, separate from that of the LWF, and the LWF exercises no control over them.

**2.5 Revenue and expenditure recognition**

Restricted use funds are normally received as a result of a specific solicitation and with imposed by donors' restrictions and are recognized as income over the duration of the program/project in proportion to the achievement of the conditions attached to the contributions. Contributions received but not yet recognized as income are included with the Current Liabilities. Contributions not yet received relating to expenditure already recognized are included with the Current Assets.

In some instances**,** In-kind contributions and donations of goods (comprising humanitarian aid supplies) and equipment (in the form of medical equipment) are recognised equally as both income and expenditure in the Consolidated Financial Statements at fair value.

Membership fees are invoiced to the member churches based on the fair fees fixed by LWF Council and are recognized at the beginning of the year at invoice value. The outstanding balances of memberships fees due at the end of the year are recognized as receivable at invoice value, and accrued for.

Investment unrealized value is recognized on an accrual basis. The investment income together with the unrealized valuation, plus the foreign exchange gains/(losses), plus the investments realized gains/(losses) are allocated to reserves. LWF Council in 2016 amended the methodology of allocation of net investment result effective from 2019, the investment result is allocated to the LWF dedicated reserve.

### 2.6 Area projects and general subsidies

Expenditure in respect of area projects in foreign countries is based upon remittances to respective local churches or organizations. In accordance with established practice, examination by the auditors has been made on the underlying documentation substantiating such transfers in conformity with the agreed list of projects in the composite statement of needs.

### 2.7 Foreign currency transactions

The consolidated financial statements are presented in Euro.

The reporting currency of LWF is the Euro. The books of account are maintained in Euro. Assets and liabilities, excluding securities and fixed assets, denominated in currencies other than the Euro have been translated at the December 31st, 2022 rate of exchange per the European Commission ”ECB” website. Foreign exchange gains/losses are included within the Financial Result section of the Consolidated Income and expenditure Statement.

Monthly income and expenditure have been translated into Euro using the previous month exchange rate per the European Commission “InforEuro” website. Exchange gains/losses resulting from the application of the accounting principles outlined above are credited/charged to the Statement of Income and Expenditure.

### 2.8 Derivative financial instruments

The LWF may, at certain times, use derivative financial instruments, comprising forward foreign exchange contracts to manage its exposure to foreign exchange risk. Derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is determined using quoted forward rates at the balance sheet date. Derivatives are not designated as effective accounting hedge instruments and as a result any gain or loss of fair value is recognized in the Income and Expenditure Statement.

### 2.9 Cash and cash equivalents

The LWF considers cash on hand, amounts due from banks to be cash and cash equivalents.

### 2.10 Financial assets

Financial assets are classified as financial assets at fair value through profit or loss (FVPL), at fair value through other comprehensive income (FVOCI) and at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Purchases and sales of financial assets are recognised at the settlement date i.e. the date that the asset is delivered to or by the Federation. Financial assets are classified as current assets, unless they are expected to be realised beyond twelve months of the balance sheet date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Federation has transferred substantially all risks and rewards of ownership.

Detailed disclosures can be found in Note 3.2 to the consolidated financial statements. Information on financial risk management is described in the Note 2.18.

Dividends and interest earned are included in the financial result line.

**a) Financial assets held for Trading**
Assets held for trading are measured at fair value through Profit and Loss. A financial asset is classified in this category if acquired for the purpose of being sold in the near term. Derivatives are classified as Held for trading unless they are designated and effective hedging instruments. When recognised initially, they are measured at fair value, and transaction costs are expensed in the income statement. Related gains/losses on Investments are recognised in the income statement.

**b) Accounts Receivable**
Receivables are stated at the original amount less provision made for impairment of these receivables. Provision for impairment is made when LWF will not be able to collect the full amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount.

**c) Held to maturity Investment**
Held to maturity investments are measured at amortized cost.
Debt securities with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Federation has the positive intention and ability to hold to maturity. These investments are measured at amortised cost using the effective interest method, less any impairment losses. For held-to-maturity investments, gains or losses are recognised in the income statement when derecognised or impaired.

**d) Financial Assets at Fair Value through other Comprehensive Income (FVOCI)**
FVOCI are non-derivative financial assets that are designated as such. They are measured initially at fair value, plus directly attributable transaction costs. At the end of each period, the book value is adjusted to the fair value with a corresponding entry in other comprehensive income and accumulated in the respective reserve in equity. When denominated in a foreign currency, any monetary item is adjusted for the effect of any change in exchange rates with unrealised gain or loss booked in the income statement.

For quoted equity instruments, the fair value is the market value being calculated by reference to share exchange quoted selling prices at close of business on the balance sheet date. For non-quoted financial assets, they are re-valued at fair value based on observable market transactions and if not available based on prices given by reputable financial institutions or on the price of the latest transaction.

### 2.11 Inventories

Inventories purchased from Restricted use Funds are expensed in the year of purchase. Rights over inventories would not generate future economic benefit to the LWF due to the short-term nature of program contracts and the terms of contracts where rights over residual program assets are vested with the grantors.

The only material inventories purchased from Unrestricted use Funds are held at the DWS program in Jerusalem. These inventories consist of medical supplies for the Augusta Victoria Hospital (AVH) that the program runs. They are accounted for at cost which does not exceed market value and recognized by the first-in, first-out method.

### 2.12 Fixed assets

***a) Tangible***
Tangible fixed assets purchased from Restricted use Funds are expensed in the year of purchase. It is considered improbable that such expenditures will generate future economic benefit to the LWF due to the short-term nature of program contracts and the terms of contracts where rights over residual program assets are vested with the grantors.

Tangible assets comprising computer equipment and associated software development costs, purchased from Unrestricted use Funds are capitalized and amortized as detailed in 2.13. Such assets with a cost lower than EUR 1,300 are not capitalized.

Larger assets, comprising buildings and land improvements, vehicles and office equipment are capitalized and amortized as detailed in 2.13. Such assets with a cost lower than EUR 10,000 are not capitalized.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the Income and Expenditure Statement.

Repairs and maintenance costs are charged in the Income and Expenditure Statement during the financial period in which they are incurred.

Subsequent expenditure is capitalized only when it increases the probable future economic benefits of the asset.

***b) Intangible***

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring the specific software to use. Amortization is calculated on the straight-line method as detailed in 2.13.

Costs associated with maintaining software are charged in the Income and Expenditure Statement during the financial period in which they are incurred.

***c) Lease***

(i) The group's leasing activities and how these are accounted for

The group leases the Geneva offices until the 31.03.2024. As per the lease agreement, all maintenance costs and service charges are covered by the lessor. Contracts may contain both lease and non-lease components, however, for leases of real estate for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.
The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.
We do not envision any extension of the lease at its present conditions, given the fact that the building will be demolished in 2024. Options are being studied.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. Since 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. As that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the discount rate to discount the pension liabilities and calculate by the actuary of LWF.

DWS Country Programs are renting buildings and vehicles locally. All rental agreements have an initial duration of 12 months or less and might be reconducted each year for another term of maximum 12 months.
Based on historical practices and considering that most of the projects implemented in the Country Programs have a maximum duration of 12 months, the most likely probable duration of these rental

agreements cannot exceed 12 months. Consequently, the lease payments associated with these short-term leases are recognised as an expense on a straight-line basis over the lease.

(ii) Amounts recognised in the balance sheet.

The balance sheet shows the following amounts relating to leases:

| EUR | 31.12.2022 EUR '000 | 31.12.2021 EUR '000 |
|---|---|---|
| Contracts as lease contracts | 491 | 887 |
| Of which are: | | |
| Current lease liabilities | 392 | 393 |
| Non-current lease liabilities | 99 | 494 |
| **Total** | **491** | **887** |

(iii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

| EUR | 31.12.2022 EUR '000 | 31.12.2021 EUR '000 |
|---|---|---|
| Depreciation charge of right-use assets | 402 | 294 |
| Interest expenses | 9 | 3 |
| **Total** | **411** | **297** |

The total cash outflow for leases in 2022 was EUR 405’776 (2021: EUR 395’330).

(iv) The potential future lease payments for the year 2022 (12 months fixed rental costs) have been estimated by category, as follow:

| EUR | 31.12.2022 EUR '000 | 31.12.2021 EUR '000 |
|---|---|---|
| Buildings | 1,136 | 1,123 |
| Vehicles | 216 | 59 |
| **Total** | **1,352** | **1,182** |

**2.13 Fixed assets - depreciation**

***a) Secretariat***

The fixed assets located in Geneva are depreciated using the straight-line method, over their estimated useful lives, as follow:

Computers equipment 4 years
Laptops 3 years
Software 4 years
Equipment 5 years

Depreciation for a full year commences in the year of purchase.

The useful lives are reviewed and adjusted if appropriate at each balance sheet date.

***b) Field***

Based on the experience of the useful life expectancy, the rate of depreciation is set by each individual country program not to exceed the following rate per year by category:

| | |
|---|---|
| Building | 25 years |
| Plant & equipment | 15 years |
| Vehicles | 5 years |
| Office furniture & equipment | 5 years |
| Computers | 4 years |

Depreciation for a full year commences in the year of purchase.

The useful lives are reviewed and adjusted if appropriate at each balance sheet date.

**2.14 Impairment**

The carrying amount of the LWF's assets, other than financial assets (see Notes 2.9, 2.10) and inventories (see Note 2.11), are reviewed at each balance sheet date to determine whether there is any indication of impairment or, if earlier, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of the asset's net selling price or its value in use. Impairment losses are recognized in the Income and Expenditure Statement.

An impairment loss is reversed if there is an upward revision of the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortization, if no impairment loss had been recognized.

**2.15 Provisions**

Provisions are recognized when there is a legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle down that obligation, and the amounts can be reliably estimated.

**2.16 Reserves**

LWF Reserves are classified as defined in LWF Reserves policy into categories as below:

***a) Accumulated reserve***

This reserve represents an unrestricted amount and is used to account for all resources over which the LWF has discretionary control. It can be used to cover ongoing commitments in case of emergencies.

***b) Remeasurement of post-employment benefit obligations (net of taxes)***

See note 2.17

***c) CTA***
This reserve is directly linked to the Remeasurement of post-employment benefit obligation, originally stated in CHF, but reported in EUR in the Financial Statements.

**2.17 Employee benefit costs**

***a) Employee termination/repatriation benefits/accrued vacation (ALTO)***
Based on the contractual liability, these benefits are recognized proportionately and accrued over the employment period of the personnel. They exist to meet any termination and settling out expenses under present contractual LWF working conditions for both Geneva (assignment, leave and accrued vacation monetary equivalent) and country programs (ALTO – assignment, leave, termination for overseas staff) based staff.

***b) Retirement benefit obligations***
The LWF consolidated financial statements shows the pension liabilities in accordance with IFRS (IAS 19 revised) for financial year 2022.The pension liability are valuated with the pension expense of LWF resulting from pension liabilities for the accounting year 2022 and the pension liabilities as of 31 December 2022 in accordance with IFRS (IAS 19) and are based on the pension arrangement with Stiftung Abendrot (affiliation contract).
In accordance with IFRS/IAS 19 the plan assets of the fund are valuated at fair value. Components of the assets are so-called free assets as well as reserves for volatility reserves, employer contribution reserves, actuarial gains and losses arise from changes in the assumptions made, deviations between the effective return and the anticipated return on the plan assets, as well as the differences between the effective benefit entitlements and the actuarial assumptions made. These are recorded in other comprehensive income/(expenses) (OCI) (see note 3.19).

Staff employed locally by the LWF, receive social benefits in accordance with the legislation of the countries concerned and the local collective staff agreements. The cost of such benefits is recognized on an accrued basis in these consolidated financial statements.

**2.18 Financial risk management**

The LWF is exposed to a variety of financial risks namely: market (including foreign currency risk and pricing risk); credit risk; liquidity risk and interest rate risk. The LWF seeks to actively minimize potential adverse effects arising from this exposure as detailed below.

***a) Market risk***
***Foreign currency risk***
Foreign currency risk arises primarily from contributions that are denominated in a currency other than Euro. The main currencies giving rise to this risk are the U.S. Dollar, Swiss Franc, Norwegian Kroner and Swedish Kroner. The LWF ensures that net exposure is kept to an acceptable level, by selling foreign currencies at spot rates where necessary to address short-term needs.

Foreign currency risk arises from non-Euro securities held in the investment portfolio and for which advice is given by professional investment managers.

***Price risk***
The LWF is exposed to securities price risk because of investments measured at fair value through profit and loss. Unrealized gains/losses arising from fluctuations in prices are actively monitored by professional investment managers. There is no exposure to commodity price risk.

***b) Credit risk***

The LWF's principal receivables are with its member churches, governmental and intergovernmental agencies where credit risk is considered low.

Securities transactions are held only with well-established banks and financial institutions. The funds are invested either in short term deposits or in premium securities.

The LWF Jerusalem continues to face credit risk, which is defined as the risk that counterparties will cause a financial loss by failing to discharge their obligations. Concentration credit is the level of revenue risk a portfolio holds as a result of relying on a small pool of customers. Financial instruments that potentially subject LWF Jerusalem to concentration of credit risk consists primary of accounts receivables from the PNA of EUR 64,367,107 (2021: EUR 58,199,324) which accounts approximately 89% of total other receivables as of December 31, 2022 (2021: 96%). The inability of the PNA to settle its receivables may result in financial losses and liquidity issues. Historically, the amounts due from PNA was partially settled based on availably of cash from its own resources in addition to funding from international donors. Out of the Euro 64,367,107 PNA receivable, EUR 14,742,589 are current (0-3 months past due), EUR 14,055,711 are 4-6 months past due, EUR 25,228,678 are 7-12 months past due, and the remaining balance of EUR 10,340,130 are over one year past due as at December 31, 2022.

To prevent a financial loss, the Lutheran World Federation (LWF) and the Augusta Victoria Hospital (AVH) signed an agreement with the Palestinian Authority to gradually reduce its debt to Augusta Victoria Hospital.

Another significant amount included in other receivables is the Value Added Tax that has not been refunded since August 2014 and is still accumulating. The VAT department recognizes this amount. At 31 December 2022, the VAT receivable amounted to Euro 22,547,047 (2021: EUR 21,985,148). Efforts are in place to obtain refund of the VAT.

The AVH is a not-for-profit entity providing cancer treatment to patients from East Jerusalem, West Bank and Gaza upon referral by the PNA.

There is no other significant concentration of credit risk. The maximum exposure to credit risk is limited to the carrying amount of the monetary financial assets.

Credit ratings have been set as of March 2023.

| **EUR** | **Credit rating LT/ST** | **31.12.2022** | **31.12.2021** |
|---|---|---|---|
| Bank A | **Aa2/P-1** | 10,799,378 | 8,117,615 |
| Bank B | - | | 378,711 |
| Bank C | - | | - |
| Bank D | - | | - |
| Bank E | - | 688,792 | 218,500 |
| Bank F | **A-1/P-1** | 12,164,561 | 8,771,695 |
| Cash on hand | **N/A** | 15,332 | 9,828 |
| Misc. Banks | * | 19,666,116 | 18,612,948 |
| **Total** | | **43,334,179** | **36,109,297** |

* Cash in bank and on hand held locally by the DWS field offices.

***c) Liquidity risk***

LWF investment committee prudently manages the liquidity risk through maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting period the group held deposits at call of EUR6,448,912 (2021 – EUR 7,624,288) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying humanitarian aid program activities, LWF treasury maintains flexibility in funding by maintaining sufficient cash in treasury.

Management monitors the cash flow forecasts, liquidity reserve and cash and cash equivalents (note 3.1)) on the basis of expected cash flows. This is generally carried out at local level in the operating field offices of LWF, in accordance with practice. In addition, LWF liquidity management practice involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements.

Liquidity risk is defined as the risk that the LWF will encounter difficulty in meeting obligations associated with financial liabilities. The schedule below presents expected cash outflow resulting from financial liabilities broken down by time brackets:

| As at December 31st, 2022 | | | **Expected timing of cash outflow** | | |
|---|---|---|---|---|---|
| Items | **0-3** | **4-6** | **7-9** | **10-12** | **Total** |
| Accounts payable | 17,761,956 | 4,065,233 | 2,072,032 | 876,112 | 24,775,333 |
| Other current liabilities | 19,273,371 | 4,411,155 | 2,248,347 | 950,663 | 26,883,536 |
| | **37,035,327** | **8,476,388** | **4,320,379** | **1,826,775** | **51,658,869** |

| As at December 31st, 2021 | | | **Expected timing of cash outflow** | | |
|---|---|---|---|---|---|
| Items | **0 - 3** | **4 - 6** | **7 - 9** | **10 - 12** | **Total** |
| Accounts payable | 12,557,246 | 6,730,765 | 3,365,382 | 1,346,153 | 23,999,546 |
| Other current liabilities | 17,432,608 | 133,104 | 133,103 | 133,103 | 17,831,918 |
| | **29,989,854** | **6,863,869** | **3,498,485** | **1,479,256** | **41,831,464** |

Liquidity risk for the AVH – The AVH faced liquidity risks in 2022 due to late slower settlement of accounts receivables from PNA. To mitigate this risk the hospital has a line of credit with the Bank of Palestine. The credit line was used up to EUR 21,861 on 31 December 2022 (2021: EUR 1,622,454). Liquidity requirements are monitored on a monthly basis and the AVH management ensures that sufficient liquid funds from cash and cash equivalents are available to meet any commitments as they arise.

***d) Interest rate risk***

There is no significant short-term exposure to changes in interest rates as cash and cash equivalents are held as cash on hand, on-demand deposits, or in short-term deposits with maturities of three months or less.

Exposure to interest rate fluctuations arises from the holdings of fixed income securities held for investment purposes. This is actively managed by the external investment portfolio managers.

*e) Financial instrument by category*

| EUR | Assets at fair value through the P&L | Amortized cost | Total |
|---|---|---|---|
| **December, 1st, 2022** | | | |
| Trade & other receivable | | 80,756,280 | 80,756,280 |
| Other financial assets | 6,448,912 | | 6,448,912 |
| Cash and cash equivalent | | 43,401,845 | 43,401,845 |
| **Total** | **6,448,912** | **124,158,125** | **130,607,037** |

| EUR | Assets at fair value through the P&L | Amortized cost | Total |
|---|---|---|---|
| **December, 1st, 2021** | | | |
| Trade & other receivable | | 80,370,505 | 80,370,505 |
| Other financial assets | 7,559,750 | | 7,559,750 |
| Cash and cash equivalent | | 36,109,297 | 36,109,297 |
| **Total** | **7,559,750** | **116,479,802** | **124,039,552** |

# 3. Details relating to the Consolidated Financial statements

This section provides a breakdown of the main items on the Balance Sheet, Income and Expenditure Statement, the Cash Flow Statement and the Statement of Changes in Reserves.

### 3.1 Cash and Cash Equivalents

| EUR | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Cash on hand and banks - Geneva | 23,735,730 | 17,496,349 |
| Cash on hand and banks - DWS Field Offices | 19,666,115 | 18,612,948 |
| **Consolidated total** | **43,401,845** | **36,109,297** |

### 3.2 Financial assets at fair value through the P&L

LWF investments are recognised and subsequently measured at fair value through profit or loss, and comprise units held in a global bond fund and a global equity fund which are classified as financial assets. The fair value of the units is fully determined by reference to published price quotations in an active market. Purchases and sales of units are recognised on the trade date, which is the date that the investment managers commit to purchase or sell the asset, on behalf of the LWF. Realised or unrealised gains and losses arising from changes in the fair value of financial assets are included in the Consolidated Statement of Comprehensive Income under Net finance income/(expense), in the period in which they arise.

| EUR | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Held as Investment | 6,448,912 | 7,559,750 |

### 3.3 Accounts receivable and prepayments

| EUR | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Membership fees | 1,981,143 | 1,900,770 |
| ./. Provision membership fees | - 1,981,143 | - 1,900,772 |
| Accounts receivable | 79,895,661 | 79,535,325 |
| Prepayments | 860,620 | 835,182 |
| **Total** | **80,756,280** | **80,370,505** |

## Accounts Receivables & prepayments

Accounts receivables comprise mainly the dues from PA (Palestinian Authority) as patient treatment bills of the Augusta Victoria Hospital in Jerusalem, contributions due but not yet received, outstanding contributions and donations not yet received from donors and partners.
Other receivables include advances to employees, amounts due for reimbursable taxes, sundry receivables.
The PA receivables are recognised when they are originated and based on the transaction price (patient service bills raised).
Receivables are impaired based on ECL model, which is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the LWF in accordance with the contract and the cash flows that the LWF expects to receive).

The main receivables are in AVH Hospital, applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all patients and other receivables. To measure the expected credit losses, patient and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of services rendered over a period of 5 years before December 31, 2022 and 4 years before December 31, 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the patients to settle the receivables.

Patient and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment planwith the Hospital, and a failure to make contractual payments for a period of greater than 360 days past due.

<u>Impairment of financial assets</u>
The Hospital has two types of financial assets that are subject to the expected credit loss model the patient and other receivables and the cash and cash equivalents, the identified impairment loss was immaterial.
The carrying amount of the LWF's assets, other and inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment or, if earlier, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The nature of the accounts receivable and Prepayments is as follows:

| EUR | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Accounts receivable less than 12 months | 58,363,950 | 57,848,497 |
| Prepayments less than 12 months | 194,408 | 520,149 |
| **Sub-total** | **58,558,358** | **58,368,646** |
| | | |
| Accounts receivable more than 12 months | 22,197,904 | 22,001,859 |
| **Total** | **80,756,262** | **80,370,505** |

### 3.4 Related parties

***a) Identity of related parties***

Related parties are detailed in Note 2.4.

The field programs that are former Department for World Service programs are considered related parties with LWF-DWS. They are: RDRS Bangladesh, LWD Cambodia, LWS India Trust, Indonesia, ELDS Malawi, Diaconia Peru, ELCSA South Africa, TCRS Tanzania, LDS Zimbabwe and Swaziland. Also included are the Lutheran Foundation for Inter-confessional Research, with offices in Strasbourg, and the Endowment Fund registered as LWB Stiftung.

***b) Transactions with related parties***

The LWF maintains "inter-company" accounts with related parties and receives funds/makes payments on their behalf. At December 31st, 2022 the balances outstanding with related parties were as follows:

| Accounts payable to related agencies | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Assembly | 690,580 | 1,041,219 |
| LWB Stiftung | 9,405 | 9,889 |
| The Lutheran Foundation for Interconfessional | 144,477 | 10,407 |
| Balance with Associated programs/DWS Field | 483,019 | 482,583 |
| **Total** | **1,327,481** | **1,544,097** |

The Assembly balance is the contributions received from member churches for the next assembly expenditures in 2023.
During the year the LWF received EUR 13,000 from the Lutheran Foundation for Inter-confessional Research for management charges for services rendered.
During the year, the LWF received EUR 3,532 on behalf of the former Department for World Service programs for projects. The LWF paid EUR 616 (2021: EUR 421) expenses for the former Department for World Service programs and transferred EUR 0 (2021: EUR 58,929) to the programs during 2022. At 31 December 2022, the LWF had outstanding payables to former Department for World Service programs of EUR 24,433 (2021: EUR 21,517)..
All transactions with the LWB-Stiftung and the Lutheran Foundation for Inter-confessional Research are current transactions as required at arm-length.
The DWS field office reconciling items are the current account balances with LWF field offices /programs outstanding balances.
Other than compensation arising in the ordinary course of business, there were no transactions with key management personnel or Council Members. No persons related or connected by business to them, have received any remuneration or other compensation from the LWF during the year.

### 3.5 Details of the program/project balances

| Program/Projects balances receivable | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Office of General Secretary | 560,364 | 79,463 |
| Dept for Theology, Mission and Justice | 917,615 | 679,054 |
| Dept for Planning and Coordination | - | 12,802 |
| Dept for World Service | 13,003,867 | 11,025,768 |
| **Total** | **14,481,846** | **11,797,088** |

| Program/Projects balances payable | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Office of General Secretary | 3,686 | - |
| Dept for Theology, Mission and Justice | 4,835,636 | 193,797 |
| Dept for Planning and Coordination | 18,602 | - |
| Dept for World Service | 20,292,612 | 16,335,755 |
| Unallocated donor funds | 840,044 | - |
| **Total** | **25,990,580** | **16,529,552** |

**a) Inventory**
Details as follows:

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Pharmaceuticals | 1,754,691 | 1,759,379 |
| Medical instruments and supplies | 1,281,395 | 1,354,900 |
| Laboratory supplies | 313,095 | 374,646 |
| Linen and uniforms | 46,895 | 47,539 |
| Printed forms and stationery | 37,264 | 75,478 |
| Other supplies | 91,760 | 109,837 |
| **Total** | **3,525,100** | **3,721,779** |
| Allowance for obsolete items (*) | (97,050) | (96,671) |
| **Inventory (net)** | **3,428,050** | **3,625,108** |

| | | |
|---|---|---|
| Beginning balance for the year | **96,671** | 60,520 |
| Provision for the year | 380 | 36,151 |
| **Ending balance for the year** | **97,051** | **96,671** |

### 3.6 Interfund balances

This balance represents the total sum receivable/payable between the unrestricted and restricted funds resulting from the allocation of assets/liabilities. The amount is eliminated on consolidation.

### 3.7 Fixed Assets

| Historical cost | Computers | Vehicles | Equipment | Land & Buildings | Furniture & Fittings | Total |
|---|---|---|---|---|---|---|
| Balance at Jan. 1, 2022 | 240,100 | 3,094,154 | 3,293,905 | 7,246,496 | 1 | 13,874,656 |
| Additions at cost Geneva | 3,402 | | | | - | 3,402 |
| Additions at cost Field offices | | 156,967 | 993,437 | 848,581 | - | 1,998,985 |
| Disposals | (16,007) | (174,342) | (6,224) | | - | (196,573) |
| Balance at Dec. 31, 2022 | 227,494 | 3,076,779 | 4,281,118 | 8,095,077 | 1 | 15,680,469 |
| | | | | | | |
| Depreciation | | | | | | |
| Balance at Jan. 1, 2022 | (213,177) | (2,958,014) | (2,460,136) | (2,844,012) | - | (8,475,339) |
| Charge for the year | (14,155) | | | | - | (14,155) |
| DWS field office assets | | (157,165) | (572,268) | (472,700) | - | (1,202,133) |
| Disposals | 16,007 | 174,342 | 6,220 | | - | 196,569 |
| Balance at Dec. 31, 2022 | (211,325) | (2,940,837) | (3,026,184) | (3,316,712) | - | (9,495,058) |
| | | | | | | |
| **Net book value Dec. 31,2022** | **16,169** | **135,942** | **1,254,934** | **4,778,365** | **1** | **6,185,411** |

| Historical cost | Computers | Vehicles | Equipment | Land & Buildings | Furniture & Fittings | Total |
|---|---|---|---|---|---|---|
| Balance at Jan. 1, 2021 | 239,768 | 3,140,915 | 3,072,760 | 7,075,050 | 1 | 13,528,494 |
| Additions at cost Geneva | 29,256 | - | - | - | - | 29,256 |
| Additions at cost Field offices | - | 28,362 | 223,358 | 171,446 | - | 423,166 |
| Disposals | (28,925) | (75,123) | (2,213) | - | - | (106,261) |
| Balance at Dec. 31, 2021 | 240,100 | 3,094,154 | 3,293,905 | 7,246,496 | 1 | 13,874,656 |
| | | | | | | |
| Depreciation | | | | | | |
| Balance at Jan. 1, 2021 | (218,493) | (2,850,217) | (2,031,975) | (2,416,527) | - | (7,517,212) |
| Charge for the year | (23,608) | - | - | - | - | (23,608) |
| DWS field office assets | - | (182,920) | (430,162) | (427,485) | - | (1,040,567) |
| Disposals | 28,925 | 75,123 | 2,001 | - | - | 106,049 |
| Balance at Dec. 31, 2021 | (213,177) | (2,958,014) | (2,460,136) | (2,844,012) | - | (8,475,339) |
| | | | | | | |
| **Net book value Dec. 31,2021** | **26,923** | **136,140** | **833,769** | **4,402,484** | **1** | **5,399,317** |

### 3.8 Accounts payable and accrued charges

Accounts payables & accrued charges are mainly arising from the payments due to suppliers in field operations and project supplies received. All dues as of 31 December 2022 are less than one year as detailed below:

| **EUR** | **31.12.2022** | **31.12.2021** |
|---|---|---|
| AVH Hospital Medical/Other Supplies | 16,055,718 | 14,365,617 |
| Jerusalem Program | 1,374,763 | 1,262,131 |
| Kenya Program | 1,448,541 | 1,467,414 |
| Uganda Program | 873,273 | 1,128,871 |
| Other Field Programs | 1,050,818 | 2,288,255 |
| DWS-Field Programs | 3,575,943 | 2,813,906 |
| Others | 396,277 | 431,619 |
| **Total** | **24,775,333** | **23,757,813** |

### 3.9 Program & Project balances Payable

| EUR | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Programs & projects | 25,738,786 | 16,289,117 |
| Cardwell Trust | 74,144 | 69,636 |
| RVOG comp. Funds | 117,419 | 110,568 |
| ELC Congo | 2,288 | 2,288 |
| JCMWA | (454) | (454) |
| DWS Global Emrg. Fund | 46,638 | 46,638 |
| Africa women and DTMJ ELCZ | 11,031 | 11,758 |
| ELCZ Support Fund, Sweden | 728 | - |
| **Total** | **25,990,580** | **16,529,552** |

### 3.10 Provisions

| Movement 2022 | ALT | ALTO | TOTAL |
|---|---|---|---|
| Balance at Jan. 1, 2022 | 474,908 | 249,928 | 951,461 |
| Creation | 96,913 | 76,626 | 173,539 |
| Reversal/release | -107,460 | -164,000 | -271,459 |
| Field Staff Provisions | | | 109,800 |
| **Balance at Dec. 31, 2022** | **464,362** | **162,554** | **963,341** |

| Movement 2021 | | | |
|---|---|---|---|
| Balance at Jan. 1, 2021 | 281,949 | 256,584 | 670,630 |
| Creation | 252,123 | 110,223 | 362,346 |
| Reversal/release | -59,164 | -116,879 | -176,043 |
| Field Staff Provisions | | | 94,528 |
| **Balance at Dec. 31, 2021** | **474,908** | **249,928** | **951,461** |

### 3.11 Local staff funds

| EUR | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Programs & projects | 13,495,377 | 12,428,596 |
| **Total** | **13,495,377** | **12,428,596** |

These amounts are restricted for field programs' local staff which can only be used as specified based on contractual liabilities. Staff employed locally by the LWF receive social benefits in accordance with the legislation of the countries concerned and the local collective staff agreements. The cost of such benefits is recognized on an accrued basis in these consolidated financial statements.

### 3.12 Programs & projects write off

These amounts represent the portion of expenditures not funded by any donor but incurred as part of the project /program activities. These are unrecoverable balances of programs or projects (Deficits) written off to LWF unrestricted donations/funds.

In 2022, EUR 143,713(2021: EUR 27,770) for Program Monitoring on projects were supported by the Lutheran World Federation's own funds.

### 3.13 Net financial result

| EUR | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Financial assets at fair value through P&L** | | |
| Fair value gains/losses | (1,427,254) | 1,084,320 |
| **Net** | **(1,427,254)** | **1,084,320** |
| | | |
| **Exchange gains/losses** | | |
| Net exchange gains/losses | 482,951 | 419,097 |
| **Net** | **482,951** | **419,097** |

### 3.14 Taxes

The LWF is exempt from Federal and Cantonal income taxes in Switzerland.

### 3.15 Augusta Victoria Hospital (AVH)

**Medical Malpractice Claims:**
AVH purchases professional and general liability insurance to cover medical malpractice claims. In 2022, the limit of coverage amounted to USD 2,500,000 (2021: USD 2,500,000) equivalent to EUR 2,342,824 (2021: EUR 2,205,753) for every claim.
According to the estimates by the insurers, the maximum liability of the Hospital in the medical malpractice claims outstanding at December 31, 2022, in the form of the excess (deductible) amounts the Hospital is required to settle in accordance with the terms of the insurance policies, was as follows:

| Potential Claims | Period of Insurance | Estimated Excess Payable by Hospital | | Estimated Amount Payable by Insurance Company | |
|---|---|---|---|---|---|
| | | USD | EURO | USD | EURO |
| 6 | Prior to 2004 | 135,000 | 126,772 | 1,320,000 | 1,239,553 |
| 2 | 2005 | 50,000 | 46,953 | 300,000 | 281,717 |
| 2 | 2006 | 50,000 | 46,953 | 100,000 | 93,906 |
| 2 | 2007 | 50,000 | 46,953 | 150,000 | 140,858 |
| 1 | 2008 | 25,000 | 23,476 | 50,000 | 46,953 |
| 5 | 2009 | 125,000 | 117,382 | 750,000 | 704,291 |
| 2 | 2010 | 50,000 | 46,953 | 275,000 | 258,240 |
| 4 | 2011 | 100,000 | 93,906 | 450,000 | 422,575 |
| 0 | 2012 | - | - | - | - |
| 2 | 2013 | 50,000 | 46,953 | 200,000 | 187,811 |
| 3 | 2014 | 75,000 | 70,429 | 1,400,000 | 1,314,677 |
| 1 | 2015 | 25,000 | 23,476 | 400,000 | 375,622 |
| 0 | 2016 - 2017 | - | - | - | - |
| 2 | 2018 | 50,000 | 46,953 | 800,000 | 751,244 |
| 0 | 2019 - 2022 | - | - | - | - |
| **TOTAL** | | **785,000** | **737,159** | **6,195,000** | **5,817,447** |

Medical Malpractice Liabilities:
As of December 31, 2022, there were seven medical malpractice lawsuits filed against the Hospital still pending in the court. The Hospital has accrued for the estimated costs that could likely to be incurred as result of court decision based on the excess (deductible) amounts that the hospital is required to settle in according with the terms of the medical malpractice insurance policy estimated at EUR 150,249 (2021: EUR 110,288) and has been reported as such in the accompanying financial statements.
Changes to this account during the years ending December 31, 2022 and 2021 were as follows:

| | 2022 | 2021 |
|---|---|---|
| **Beginning balance for the year** | **110,288** | **122,140** |
| Provision made during the year | 56,665 | 11,690 |
| Payments during the year | (16,704) | (23,542) |
| **Ending balance for the year** | **150,249** | **110,288** |

Legal Claims:
In 2022, there were five cases against the Hospital. Four are labor related cases and the fifth is a public liability case. All claims are filed in court.

Labor Cases
During 2022, one labor case against the hospital were filed in the court. Our legal firm estimates the probable loss as follows:

| **Remarks** | 2022 | 2021 |
|---|---|---|
| Labor (Court case Reference: 28804-11-21) | 39,920 | 42,609 |
| Labor (Court case Reference: 17593-07-21) | - | 86,680 |
| Labor (Court case Reference: 45798-03-20) | - | 28,406 |
| | **39,920** | **157,695** |

According to the estimates by the insurers concerning these claims, the maximum liability of the Hospital in the medical malpractice claims outstanding at December 31st, 2022, in the form of the excess (deductible) amounts the Hospital is required to settle in accordance with the terms of the insurance policies, was EUR 150,249 (2021: EUR 110,288).

### 3.17 Donations in kind

In some instances**,** In-kind contributions and donations of goods (comprising humanitarian aid supplies) and equipment (in the form of medical equipment) are recognised equally as both income and expenditure in the Consolidated Financial Statements at fair value.

Donations in-kind contributions are recognized in the financial statements and an equal amount of expenditure is recorded at fair value. In 2022 and 2021 respectively, the amount included in revenue and expenditure related to in-kind contributions is EUR 1,259,868 and EUR 535,021.

### 3.18 Capital commitments

There were no capital expenditure commitments at December 31st, 2022 (2021: none).

### 3.19 Retirement benefit obligations

Headquarters and expatriate field staff (see note 2.17*b)* above)

In 2020, the 37 International staff members located in various countries outside Switzerland who were not subject to OASI and enrolled in the pension fund "Stiftung Abendrot "were removed from the Swiss based pension plans.
This was to comply the rule by the Federal Law, enrolment in a Swiss Pension Fund (2nd pillar) is only applicable if the individual is enrolled in the Swiss Social security (1st pillar), as both pillars are interconnected regarding benefits.
When LWF moved from its self-administered Staff Welfare Plan to the Abendrot Pension Fund in 2012, all staff with no exception, and retirees, were transferred from the LWF Staff Welfare Plan to Abendrot Pension Fund. Abendrot Pension Fund applied a tolerance to those staff who were not enrolled in the Swiss social security (1st pillar). In 2020, Abendrot Pension Fund ended the enrolment of international field staff to enforce the law.
Abendrot Pension Fund formally notified the LWF that staff who are not enrolled in the Swiss Social Security (1st pillar) shall no longer be eligible to be enrolled in Abendrot Pension Fund scheme. Their membership ended on 30 September 2020, and their vested benefits were transferred to the staff concerned. This operation has been considered as settlement. The impact is an income of EUR 420'000 recognized through the P&L.

See below the table:
All figures are in EUR.

| **1. Development of Obligations and Assets** | *2021* | *2022* |
|---|---|---|
| Present value of funded obligation (BOY) | (42'316) | (39'740) |
| Change in consolidation scope | 0 | 0 |
| Employer Service Cost | (1'336) | (1'256) |
| Employee contributions | (418) | (434) |
| Past Service Cost / Plan amendments | 0 | 0 |
| Interest cost | (42) | (98) |
| Curtailments / settlements | 0 | 0 |
| Benefits paid pensioner | 1'971 | 1'903 |
| Transfer from joiners | 0 | 0 |
| Transfer to leavers' plans | 609 | (14) |
| Increase to minimum liability | 0 | 0 |
| Actuarial gain (loss) on benefit obligation | 1'792 | 6'002 |
| Currency gain (loss) | 0 | 0 |
| Present value of funded obligation (EOY) | (39'740) | (33'637) |
| | | |
| Defined benefit obligation participants | (13'190) | (12'699) |
| Defined benefit obligation pensioners | (26'550) | (20'938) |
| | | |
| Fair value of plan assets (BOY) | 39'798 | 40'153 |
| Change in consolidation scope | 0 | 0 |
| Expected return on plan assets | 39 | 99 |
| Employer's contributions | 1'093 | 1'131 |
| Employees' contributions | 418 | 434 |
| Curtailments / settlements | 0 | 0 |
| Benefits paid | (1'971) | (1'903) |
| Transfer from joiners | 0 | 0 |
| Transfer to leavers' plans | (609) | 14 |
| Admin expense | (28) | (29) |
| Actuarial gain (loss) on plan assets | 1'413 | (2'087) |
| Currency gain (loss) | 0 | 0 |
| Fair value of plan assets (EOY) | 40'153 | 37'812 |

## 2. *Balance Sheet (EOY)*

| | 31.12.2021 | 31.12.2022 |
|---|---|---|
| Fair value of plan assets | 40'153 | 37'812 |
| Defined benefit obligation | (39'740) | (33'637) |
| Funded status | 413 | 4'175 |
| Unrecognised asset due to IAS19.64 | 0 | (4'175) |
| Unrecognized actuarial (gains) loss | 0 | 0 |
| **Net liability in balance sheet** | **413** | **0** |
| Duration | 10.8 | 9.3 |
| Expected benefit payments following year | (2'524) | (2'474) |

## 3. *Profit & Loss Statement*

| | 2021 | 2022 |
|---|---|---|
| Employer Service Cost | (1'336) | (1'256) |
| Interest cost | (42) | (98) |
| Expected return on plan assets | 39 | 99 |
| Admin expense | (28) | (29) |
| Past service cost recognised in year | 0 | 0 |
| Curtailment, settlement, plan amendment gain (loss) | 0 | 0 |
| Net periodic pension cost | **(1'367)** | **(1'284)** |

## 4. *Movements in net asset recognised in balance sheet*

| | | | |
|---|---|---|---|
| **Net asset in balance sheet (BOY)** | **(2'518)** | **413** | **0** |
| True-up opening balance sheet | 0 | 0 | 0 |
| Change in consolidation scope | 0 | 0 | 0 |
| Expense recognised in the profit & loss statement | (1'367) | (1'284) | (1'063) |
| Employer's contributions (following year expected contributions) | 1'093 | 1'131 | 1'143 |
| Prepaid (accrued) pension cost | (274) | (153) | 80 |
| whereof operating income (expense) | (271) | (154) | (14) |
| whereof financing income (expense) | (3) | 1 | 94 |
| Total gains / (losses) recognized in OCI | **3'205** | **(260)** | **(80)** |
| **Net liability in balance sheet (EOY)** | **413** | **0** | **0** |
| Actual return on plan assets | 1'452 | (1'988) | 841 |
| | 3.6% | -5.1% | 2.2% |
| Expected employer's cash contributions for following year | 1'098 | 1'143 | |

## 5. *Principal actuarial assumptions*

| | 31.12.2021 | 31.12.2022 | 31.12.2023 |
|---|---|---|---|
| Discount rate | 0.25% | 2.25% | 2.25% |
| Average future salary increases | 1.50% | 2.00% | 2.00% |
| Future pension increases | 0.00% | 0.00% | 0.00% |
| Credit rate on savings capital | 1.00% | 2.00% | 2.00% |
| Mortality tables used | BVG 2020 GT | BVG 2020 GT | BVG 2020 GT |
| Average retirement age | 64/64 | 64/64 | 64/64 |
| Average life expectancy of a pensioner at retirement | | | |
| - Women | 25.48 | 25.59 | 25.70 |
| - Men | 23.68 | 23.80 | 23.93 |

## 6. *Asset allocation*

| | 31.12.2021 | 31.12.2022 | 31.12.2023 |
|---|---|---|---|
| Cash | 3.80% | 3.50% | |
| Bonds (inkl. Mortgages) | 14.20% | 11.40% | |
| Equities | 34.00% | 30.10% | |
| Property | 27.80% | 30.50% | |
| Other | 20.20% | 24.50% | |
| Total | 100.0% | 100.0% | |

To our knowledge all assets are quoted or traded with the exception of property (main part direct hold property) and mortgages of 1.8% in bonds. The different pieces in "other" (24.50%) are put together from 4.2% infrastructure, 7.5% private equity, 7.0% private debt, 2.8% insurance linked securities and 3.0% mortgages/loans unsecured and abroad.

## 7. Defined benefit pension plans

| | 31.12.2021 | 31.12.2022 |
|---|---|---|
| **Remeasurements DBO** | **1'792** | **6'002** |
| - actuarial gains / (losses) arising from plan experience | 178 | (427) |
| - actuarial gains / (losses) arising from demographic assumptions | 1'405 | 0 |
| - actuarial gains / (losses) arising from financial assumptions | 209 | 6'429 |
| **Remeasurements Assets** | **1'413** | **(2'087)** |
| Return on plan assets, excluding amount recongised in net interest | 0 | 0 |
| Changes in the effect of asset ceiling, excluding amount recongised in net inte | 0 | (4'175) |
| **True-up of opening balance sheet** | 0 | 0 |
| **Total recognised in OCI** | **3'205** | **(260)** |

## 8. Sensitivities

| | | change DBO |
|---|---|---|
| Discount rate + 0.25% | (1'054) | (752) |
| Discount rate - 0.25%; proj 0.00% (31.12.2019) | 1'108 | 786 |
| Salary increase + 0.25% | 70 | 56 |
| Salary increase - 0.25% | (68) | (55) |
| pension increase + 0.25% | 808 | 547 |
| pension increase - 0.25% (not lower than 0%) | - | - |

**Staff employed locally**

Staff employed locally by the LWF receives social benefits in accordance with the legislation of the countries concerned and the local collective staff agreements. The cost of such benefits is recognized on an accrual basis in these consolidated financial statements.

In the opinion of management, actuarial calculations would not have resulted in any material adjustments to these financial statements and the net periodic pension costs for these employees would have closely approximated the contributions.

### 3.20 Key management compensations

The salaries and benefits of the General Secretary and the Communion Office Leadership Team (COLT) are set by the Governing Board, LWF Board of Trustees. Their total benefits amounted to CHF 1,119,678 (2021: CHF 1,185,897), comprised as follows:

| Figures in CHF | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Short-term employee benefits | 910,062 | 966,548 |
| Post-employment benefits | 209,616 | 219,349 |
| **Total** | **1,119,678** | **1,185,897** |

No other salaries or benefits (e.g. fringe benefits or loans) were granted to them.

The LWF has a Code of Conduct for all Staff, including members of the Governing Board and other key management staff. Under the Code of Conduct, staff are required to disclose any potential conflict of interest to the Human Resources Department for Investigation.

Day to day management of the organization has been delegated by the Council to the General Secretary and the Communion Office Leadership Team.

### 3.21 Subsequent event

Between December 31st, 2022 and the date of authorization for issue of the financial statements, there was no significant event which could have an impact on the figures for the year ended December 31st, 2022.

### 3.22 LWF Staff Statics (FTE)

In 2022 LWF Employed a total 2,668 regular staff, 69 in Geneva head quarter and 2’599 in LWF field offices (2021: 2881 regular staff)

### 3.23 Pension Liability

On December 31st, 2022, there was a liability to the pension scheme amounting to EUR 446 (December 31st, 2021: EUR 0).

### 3.24 Audit Fees

The total audit fees paid in 2021 was EUR 100,636 (2021: EUR 86,876) for audit of the LWF Geneva Head quarter including the consolidated reports and for other projects audits/ services.
For Country program audits and services, LWF paid EUR 464,186  in 2022 (2021: EUR 438,086).

### 3.25 Expenditures allocated in accordance with ZEWO classification (standard 9)

| Zewo classification | Project related expenditures | Fundraising related expenditures | Administrative related expenditures |
|---|---|---|---|
| Staff related expenditures | 49'595'034 | 1'738'972 | 15'333'834 |
| Operating expenditures (other than payroll) | 104'412'704 | 503'268 | 7'112'849 |
| Contributions made to implementing partners | 0 | 0 | 0 |
| Depreciation of fixed assets | 0 | 0 | 1'202'134 |
| **TOTAL EXPENSES** | **154'007'738** | **2'242'240** | **23'648'816** |
| *Share of each category in %* | *86%* | *1%* | *13%* |