

Report of the Chairperson for the Finance Committee
Oberkirchenrat Olaf Johannes MIRGELER

1. INTRODUCTION AND OVERVIEW

I am pleased to present this report, which focuses on the 2020 financial results of the Lutheran World Federation (LWF) and other relevant financial matters that will come before the Lutheran World Federation Council meeting in June 2021.

The outbreak of the COVID-19 pandemic and the measures adopted by governments to mitigate the spread of the pandemic influenced the implementation of LWF's programs and projects worldwide. This resulted in a decrease of 14% against the 2020 budget. It was to a large extent because of the the pandemic and the decrease in income from Jerusalem/Augusta Victoria Hospital operations .

LWF managed the impact of the pandemic on finances with various measures taken by the governing bodies, leadership of the Communion Office, and the support of the member churches and funding partners.

In response to the uncertainties that came because of the pandemic, LWF undertook:

- Early discussions with governance, funding partners, agencies, and governments for the carry forward of the delayed activities and funds to 2021. These were successful.
- Liquidated part of investments and increased the cash balance to ensure sufficient liquidity in case of delayed remittances by the UN agencies, U.S. and EU Governments.
- Applied for payroll support offered by the Canton of Geneva because of reduced working hours due to COVID-19. LWF received CHF 409'354.40 (EUR 383'147.16) as government support for Geneva-based staff.
- Supported staff working remotely, mainly working from home, maintaining the team spirit. All finance and treasury functions necessary were carried out effectively and efficiently throughout the year without interruptions.

The LWF's consolidated financial reports were prepared in compliance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Swiss regulatory standards. In preparing these financial statements, LWF strictly adhered to the Council-approved policies, guidelines, and LWF's values and ethical principles.

In June 2019, LWF Council approved the new structure of the Communion Office to better correspond to the goals of the LWF strategy 2019-2024. The newly restructured LWF Communion Office, encompassing three departments and the Office of the General Secretary, was operational from 1 January 2020. The financial statements of the LWF for the year ended 31 December 2020 are based on the new office structure.

The key financial highlights are as below:

- LWF 2020 Consolidated income was at EUR 143 million, which was 15% lower than the previous year, EUR 168 million, and 14% lower than the approved budget of EUR 166 million.
- LWF 2020 Consolidated net results (surplus) was EUR 3.4 million or 5% more than the previous year, total reserves EUR 75 million, General free reserves EUR 14 million.
- LWF Cash balance increased to EUR 43 million (30 Million in 2019), increasing 43% compared to the previous year.

2. LWF 2020 INCOME

LWF member churches and other partners, despite all difficulties, contributed generously to LWF In 2020, with this faithful support, LWF received a total income of EUR 143 million.

The primary sources of income was membership fee paid by LWF member churches, the distribution from Endowment fund, program support by LWF's church-related agencies, the United Nations, EU, and US government funds, funds from other ecumenical partners, as well as individual donors.

The below chart shows the total income for the previous five years (from 2016 to 2020). In 2020 the income was 15% lower than in 2019 and 5% lower than in 2016.



The decrease in income was mainly arising from Jerusalem/Augusta Victoria Hospital operations. Because of all the restrictions in 2020, the hospital experienced a drop of 19% in 2020 from 2019 patient service revenue.

2.1 2020 LWF INCOME: COMPARISON OF ACTUALS WITH BUDGET & PREVIOUS YEAR

In 2020 the total income of LWF was EUR 22 million lower (14%) than the approved budget.

The year was exceptional year due to the impact of COVID-19. Some of the planned work could not be fully implemented, some carried forward into 2021, but we expect this to improve in the coming years.

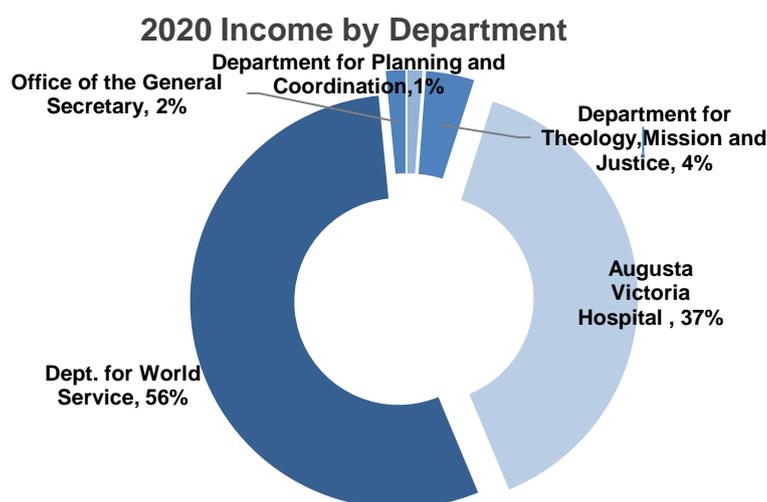
| INCOME | 2020 | 2020 | VARIANCES | VARIANCES |
|--|--------------------|--------------------|---------------------|-------------|
| | ACTUAL | BUDGET | ACTUAL | % |
| | | | Vs BUDGET | |
| Department for Theology, Mission and Justice | 6,551,630 | 8,468,570 | (1,916,940) | -23% |
| Department for World Service | 80,169,305 | 92,125,460 | (11,956,155) | -13% |
| Augusta Victoria Hospital | 52,953,539 | 61,050,471 | (8,096,932) | -13% |
| Office of the General Secretary | 2,757,037 | 2,986,326 | (229,289) | -8% |
| Department for Planning and Coordination | 1,137,684 | 1,527,303 | (389,619) | -26% |
| TOTAL INCOME | 143,569,195 | 166,158,130 | - 22,588,935 | -14% |

2.2 LWF 2020 INCOME BY DEPARTMENTS

The below chart shows the income received by each department;

- 1) The income of the Department for Theology, Mission, and Justice (DTMJ) was EUR 6.5 million (4%)
- 2) The income of the Department for World Service (DWS) was EUR 80 million (56%)
- 3) The income of the Augusta Victoria Hospital in Jerusalem (AVH) was EUR 52 million (37%)
- 4) The income of the Office of the General Secretary (OGS) was EUR 2.7 million (2%)
- 5) The income of the Department for Planning and Coordination (DPC) was EUR 1.1 million (1%)

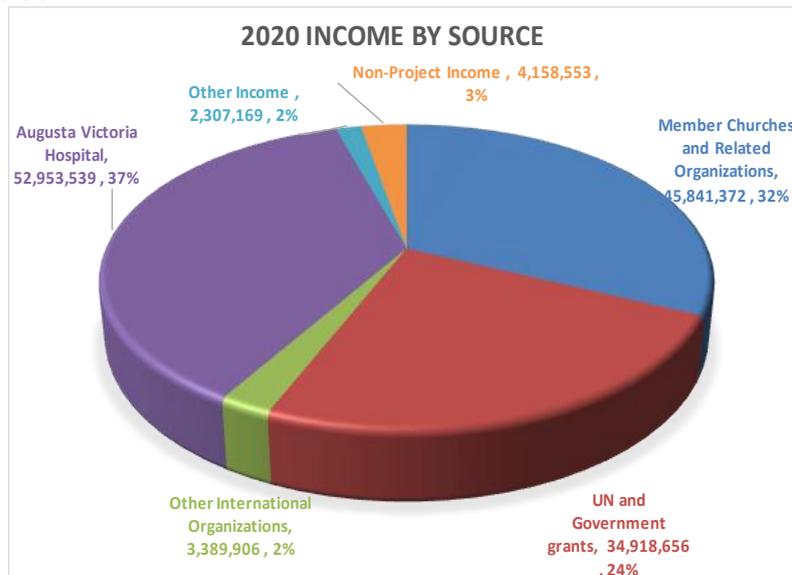
Chart 2



2.3 2020 LWF INCOME: BY SOURCE

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

Chart 3

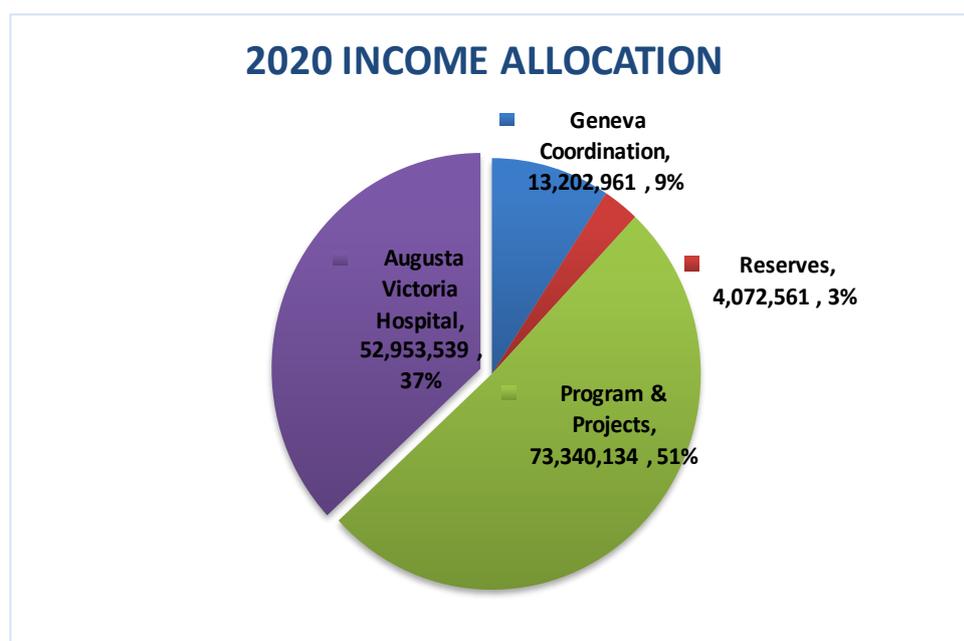


- Member churches and related organizations: EUR 45 million (32%)
- UN and government grants: EUR 34 million (24%)
- Augusta Victoria Hospital: EUR 52 million (37%)
- “Other Income” includes income, administration fees of UN, US Grants, etc.: EUR 2 million (2%)
- “Non-Project Income” includes compound management, foreign exchange gains, vehicle hire, and sale of assets: EUR 4million (3%)
- Other International Organizations: EUR 3 million (2%)

2.4 2020 LWF INCOME: ALLOCATION TO PROGRAMS

The chart below shows the allocation of the total income received. In 2020, 88% was allocated for programs and projects, including Augusta Victoria Hospital, coordination costs in the Communion Office were 9% of the total income, 3% were added to the reserves.

Chart 4



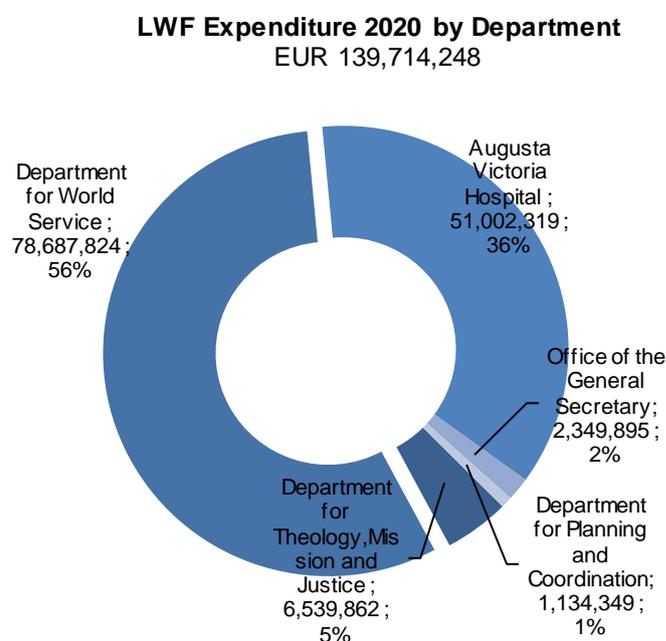
3. 2020 LWF EXPENDITURE: BY DEPARTMENT

LWF's total 2020 expenditure was EUR 139 million. Each department spent as below;

- 57% was for the Department for World Service,
- 35% for the Augusta Victoria Hospital,
- 5% for the Department for Theology, Mission, and Justice,
- 2% for the Office of General Secretary.
- 1% for the Department for Planning and Coordination

The key figures are found in the chart below.

Chart 5



4. 2020 LWF OPERATING RESULTS

In 2020, the LWF's consolidated net result from operations was EUR 3,854,947 for the year, and the details are as below;

- Dept. for Theology, Mission, and Justice: net loss of EUR (955)
- Office of the General Secretary: a net surplus of EUR 428,372
- Dept. for World Service: a net surplus of EUR 3,427,184, of which AVH's surplus is EUR 2,178,643
- Dept. for Planning and Coordination: net surplus EUR 346
- Other Comprehensive losses (Pension Valuation, Currency Valuations) EUR 372,386

The total comprehensive result for the year in the audit report is EUR 3,482,561. This includes the pension actuary valuation loss of EUR 247,772 and the exchange losses of EUR 124,614 as exceptional items.

5. DEVELOPMENT OF LWF RESERVES: 2016 to 2020

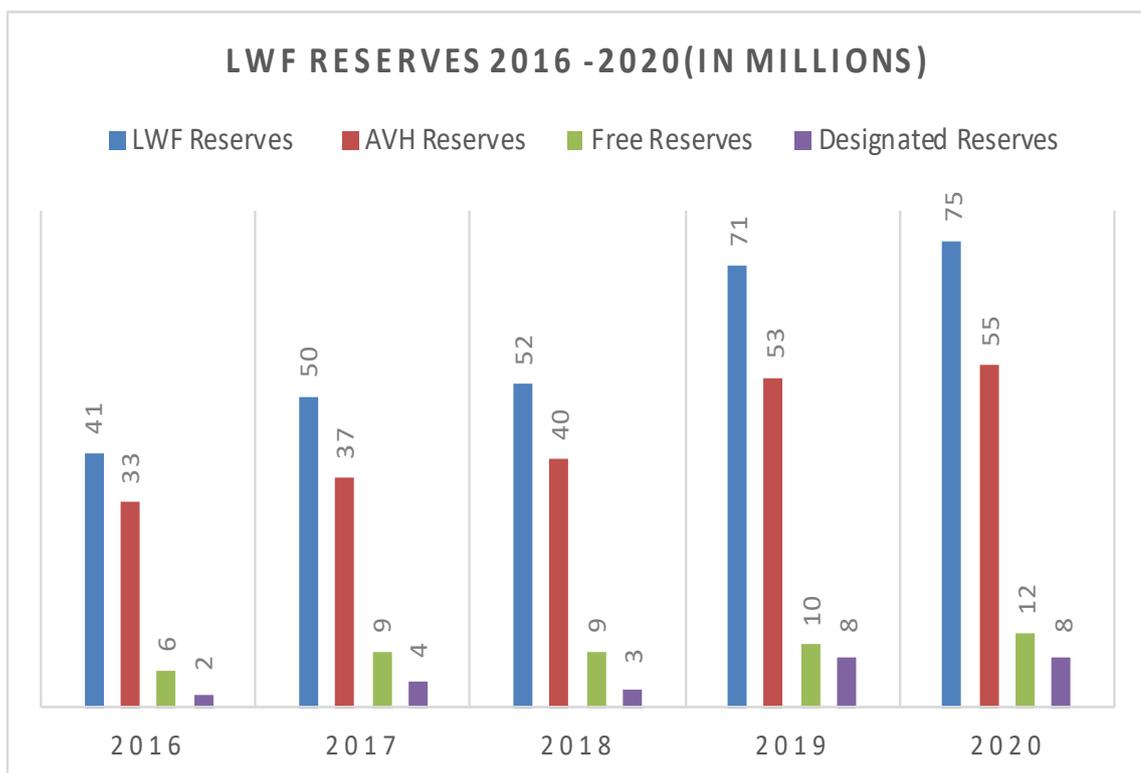
“Reserves” refer to net assets available to support the operations of the organization without restrictions. The Reserves Policy guides LWF reserves. Reserves in the LWF consolidated financial reports are shown as unrestricted reserves but are designated or “earmarked” for specific purposes of the departments.

LWF reserves increased from EUR 40 million in 2016 to EUR 75 million in 2020. This is a very positive development that makes the finances strong and stable and will allow LWF to continue its operations through crisis and difficulties. The development of LWF total reserves from 2016 to 2020, after the restatement of pension liabilities under IAS19, representing a 5% growth compared to the previous year and 85% growth from 2016 to 2020.

EUR 63 million (84%) of the reserves are designated for the country program operations and not freely available. AVH reserves are EUR 55 million(73%) and sizable reserve is necessary to finance AVH operations.

The chart below shows the trends in different reserves such as the AVH reserves, free reserves, and designated reserves compared to LWF reserves.

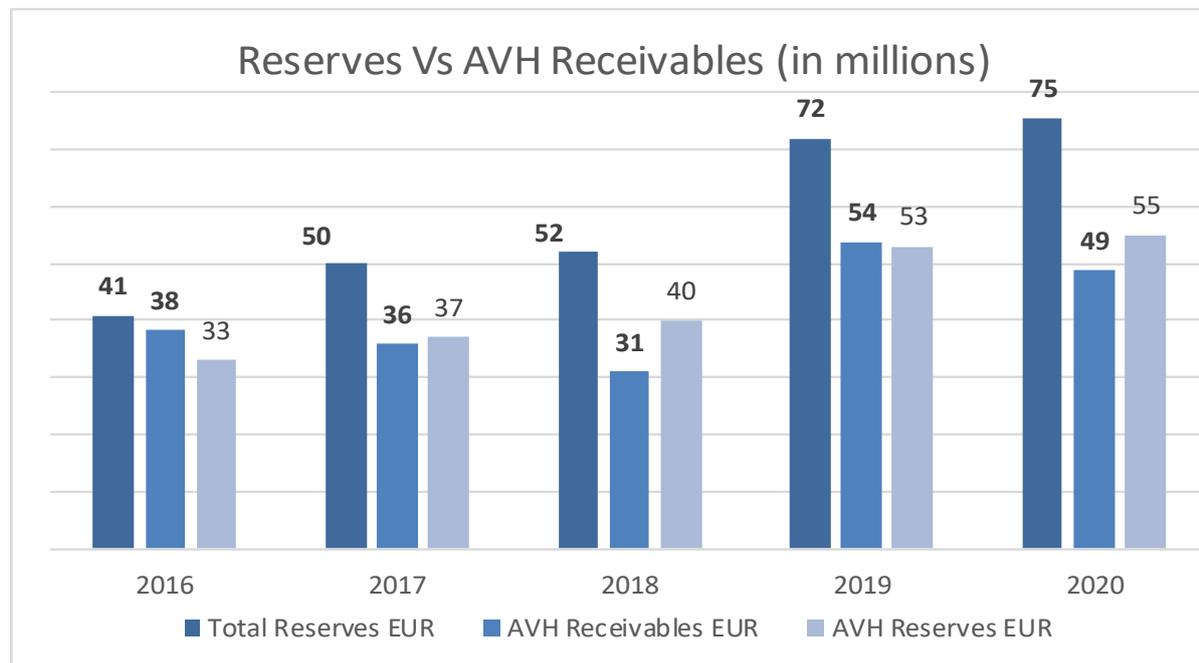
Chart 6



5.1 LWF RESERVES vs. AVH RECEIVABLES

The following chart shows the reserves from 2016 to 2020 compared to the Augusta Victoria Hospital receivables with Augusta Victoria Hospital Reserves and LWF total reserves in view of the LWF liquidity risk.

Chart 7



The nature of AVH operations and the volatility in the collection of receivables for patient services require higher reserves for DWS. This is necessary to manage the cash flow requirements and has been used to cover the working cash flow requirements of the hospital.

6. LWF COMMUNION OFFICE COORDINATION AND MANAGEMENT

The LWF Communion Office coordination budget is the portion of the LWF department budgets allocated to meet the coordination and management expenses for the three departments and the Office of the General Secretary.

The approved budget for LWF Communion Office coordination was EUR 12.71 million. Actual expenditures were EUR 11.58 million, which is 9% below the approved budget.

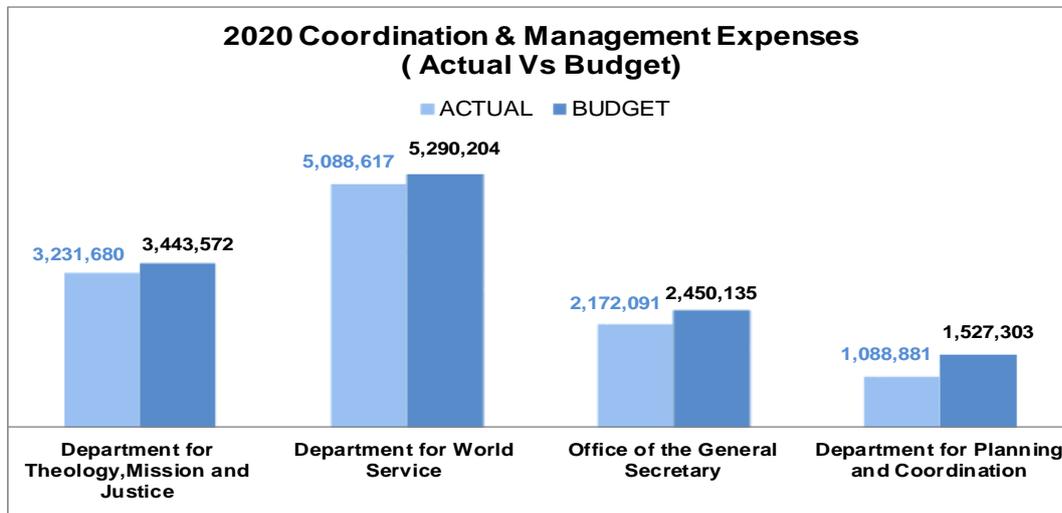
LWF received CHF 409,354 (EUR 383,000) from the Canton of Geneva as support RHT (réduction de l'horaire de travail) in the Communion Office staff because of to COVID-19.

Expenses in Geneva are paid in Swiss Francs. The budgeted EUR/CHF exchange rate was 1.2 whereas the average exchange rate during the year was 1.07, which is a negative variance of 13%.

In addition, due to COVID-19 and the restrictions on travel, expenses on travel and others were reduced, which helped manage losses because of the exchange rate.

The chart below shows each department's expenses compared to the budget.

Chart 8



7. MEMBERSHIP FEES: Contributions 2016 to 2020

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

In 2020 the membership income increased slightly by 5% (EUR 134,000) compared to the previous year. One of the main reasons is that some payments of 2020 fees were only received in 2021.

The below chart shows the fees compared to the fair fees and the number of churches that paid the fees.

Chart 9



The membership fees are based on the concept of the “fair share” principle. This seeks to ensure that every church can make a financial contribution that is commensurate with their financial circumstance.

83 of 148 member churches paid their membership fee in 2020. This is down from 96 in the previous year. Traditionally, many of the member churches have paid in cash during Council meetings to avoid bank charges. The number of churches paying is expected to increase after COVID-19.

We are grateful for the consistent financial commitment from members, which enables the communion office to provide vital services for the smooth running of the LWF.

8. LWF STAFF WELFARE PLAN PENSION FUND

The Stiftung Abendrot (Foundation), which is an independent pension fund has managed the LWF Staff Welfare Plan Pension fund in Switzerland since 1 January 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 2020 was Positive at 4%. In 2019, the performance was 10%. The coverage level in 2020 was 114% (in 2019, coverage 112.5%), with the value of assets estimated at CHF 39 million.

Per the IFRS IAS19 revised standard on accounting, it is mandatory 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 2020.

9. LWF ENDOWMENT FUND

The LWF Endowment Foundation is a separate legal entity; its results are not consolidated within the LWF financial statements. Total contributions received for the endowment fund as of 31 December 2020 were CHF 15,236,000. This includes the Evangelical Lutheran Church in America (ELCA) Endowment Fund Pooled Trust contributions of CHF 2,812,000.

According to the distribution policy, the 2020 operating reserve balance was CHF 1,706,949 after the 2021 distribution of CHF 892,562 made to LWF. In 2020, the fund performance was positive by 5.5%. The performance benchmark of the fund is 5 %, and the preferred investment period is eight years. The average performance since 2009 is 3 %, and the performance over the last ten years is 4%.

In June, the board meeting will consider the distribution of CHF 942,000 to support LWF 2022 budget from its operating reserves balance.

The Endowment Fund investments are exposed to high volatility and other risks in investment markets. The investment markets continue to be uncertain and highly volatile in 2021. As of 30 April 2021, the performance is +4.74%. The LWF staff are regularly monitoring and managing the situation with the fund managers.

The Endowment Fund Board is currently assessing all the investments of the fund, LWF investment policies, and past performances with the help of an external agency. The report will be presented at the board meeting in June 2021.

The board will continue discussing alternate ways of investing, including whether to buy an office building in Geneva for LWF, using part of the fund.

10. EXECUTIVE COMMITTEE RESPONSIBILITIES

For the meeting, the LWF Finance Committee will review the following items and recommend the Council to Approve:

- The Report of the Auditors on the Consolidated Financial Statements for the year ended 31 December 2020
- Appointment of the External Auditor for 2021
- The Program and Budget Overview (PBO) 2022
- Membership Fees 2022- 2023

11. CONCLUDING REMARKS

It is an honor and a pleasure for me to present this financial report which shows continued stability during an ongoing crisis. Even in these difficult times, LWF has succeeded in ensuring the economic and financial stability at all times. Through close cooperation between the governing bodies of the LWF and the Communion Office in Geneva, it was possible to respond quickly and efficiently to the current challenges. It was even possible to generate a surplus in 2020. Many thanks to everyone involved.

The flexibility of a fundraising-based budget, which has often posed problems in the past, has proven positive during the crisis.

This year particularly, I am particularly grateful for the excellent guidance, wise advice, and commitment of the member churches. The close cooperation with the staff of the LWF Communion Office always gave me, as the chairman of the finance committee, the feeling that I was well and extensively informed.

Finally, a few personal words to Maryssa and Martin. You have accompanied me with your counsel since I began my engagement with the LWF. I've always seen our collaboration as extraordinarily enriching, and we've learned a lot from each other. For this, I say thank you, and I wish you both all the best on your new paths. I want to conclude with a warm welcome to the new DPC Director, Szabolcs Lőrincz. I look forward to our collaboration and wish you God's blessing in your work.