

Report of the Chairperson for the Finance Committee

Ms Christina Jackson-Skelton

1. INTRODUCTION AND OVERVIEW

I am pleased to present this report which is focused on the Lutheran World Federation (LWF) 2015 financial results and other relevant financial matters that will come before the Lutheran World Federation Council meeting in June 2016.

The year 2015 brought some challenges; the decision of Swiss National Bank (SNB) to abandon the cap on the value of the Swiss Franc against the Euro put the LWF under significant financial pressure. None-the-less, LWF was able to manage the impact of this financial challenge and deliver a strong performance through decisive and proactive leadership of the Communion Office, together with the highly valued support of the member churches and funding partners.

The LWF's consolidated financial reports were prepared in compliance with the International Financial Reporting Standards (IFRS), the Swiss regulations, and our governance policies and guidelines, adhering to LWF values and ethics.

In 2015, The Lutheran World Federation (LWF) total income reached **EUR 144.56** million. Income sources included contributions from the member churches and church-related agencies, the United Nations, EU & US government funding sources and other partners, as well as individual donors. The income budget was EUR **106.30** million, resulting in a favorable variance of **EUR 38.26** million (36%) compared to budget and an increase of **EUR 28.34** million (24%) compared to the previous year results.

Key notes related to income variances and allocations by department include:

The Department for Theology and Public Witness (DTPW) expanded its work as a portion of the budget. The income allocated to this department in 2015 increased by 21% compared to 2014, with a total increase of 122% over the last 4 years from EUR 1.02 million to EUR 2.26 million in 2015.

The Department for Mission and Development (DMD) has continued to see declines in revenue and has responded with a focus on continuous improvement and greater operating efficiencies. In 2015, the percentage decline has been moderated to - 0.20% compared to 2014. Income for DMD has declined by 14% over the last 4 years from EUR 8.74 million in 2011 to EUR 7.49 million in 2015.

The Department for World Service (DWS) income increased by 26% compared to 2014 with income growth primarily associated with the new programs and the increase of global emergencies. The DWS successfully raised the income by 82% over the last 4 years from EUR 72.55 million to EUR 132.23 million in 2015.

The General Secretariat and the Department for Planning and Operations (GS/DPO) remained fairly steady with an increase of 15% in allocated income to support organizational sustainability and effectiveness. The income has reduced by 5 % over the last 4 years from EUR 2.71 million to EUR 2.56 million mainly due to the reduced cost structure of operations.

The increase in reserves during the year was EUR 7.4 million, reduced by EUR 850,000 to effect the changes in pension liabilities for the IFRS presentation. After the restatement of pension liabilities, the total reserves in 2015

increased to EUR 30,228,260 from EUR 23,657,320. The increase in reserves is mainly due to the large accounting surplus of EUR 6.4 million from operations at the Augusta Victoria Hospital (AVH) in Jerusalem. A sizable reserve is necessary in order to finance the operations of the AVH. This is not a cash reserve; it is primarily reflected in accounts receivable.

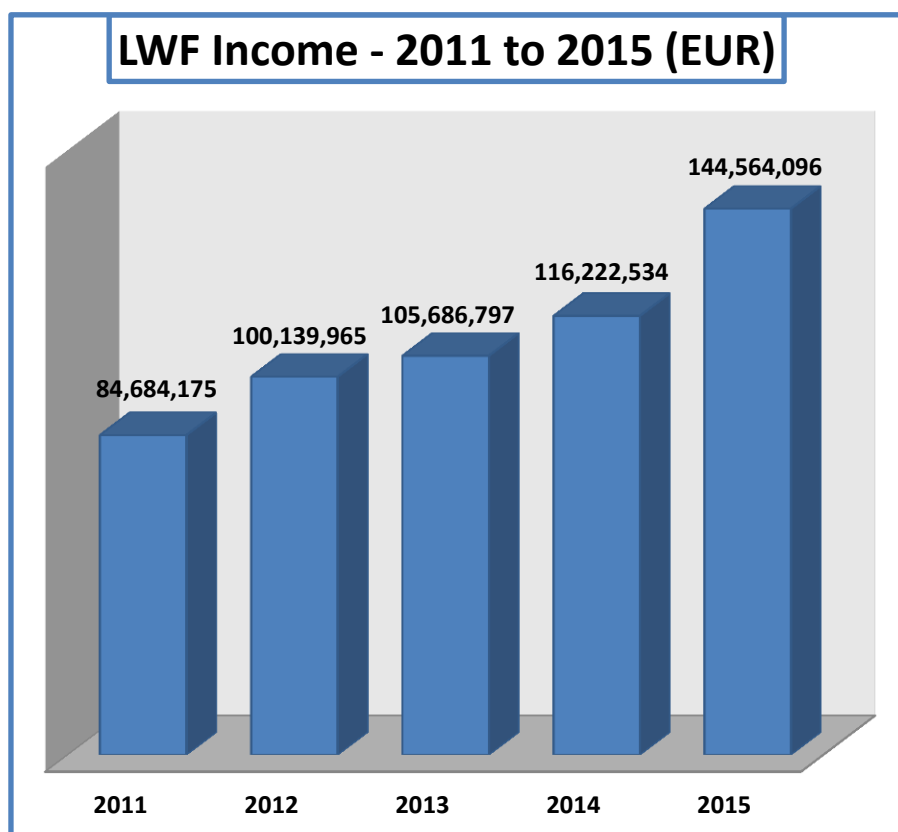
In 2015, the LWF improved further on its stated financial objective of growing in a sustainable manner that will create long-term value through balancing the budget, improving the financial systems, maintaining a healthy cash flow and mobilizing resources.

Overall, it has been another positive financial year for the LWF. In addition to the positive income variances noted above, spending was well-managed despite unanticipated losses due to the negative exchange rate variances. Challenges remain for the LWF as it strives to move towards its goals of sustainable operations.

2. 2015 CONSOLIDATED FINANCIAL HIGHLIGHTS

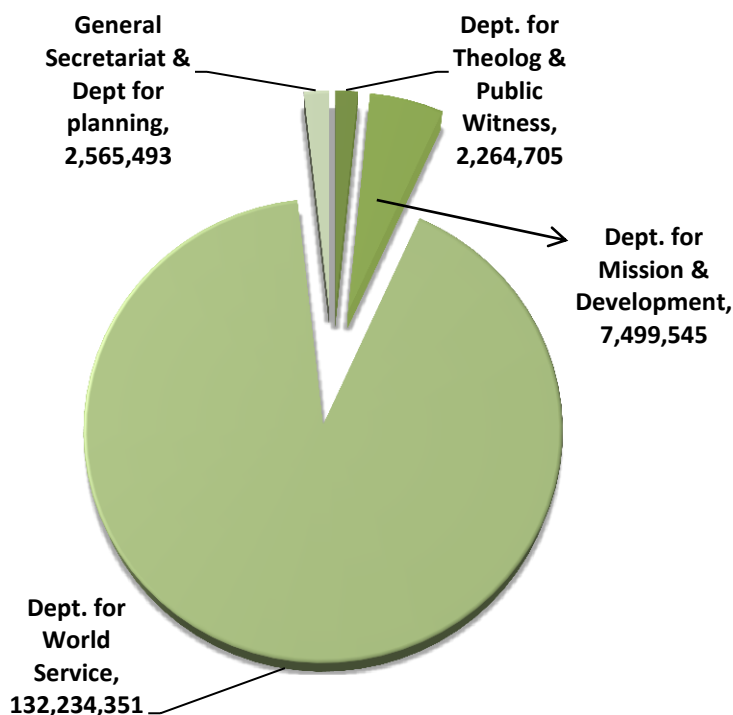
In 2015, LWF total income was EUR 144 million, an increase of 24% or EUR 28 million over the previous year and a substantial increase of 71% or EUR 60 million over the past 4 years. This is mainly due to the increased work of the LWF's global humanitarian and development programs.

This growth is depicted in the chart below:



2.1 2015 LWF INCOME: EUR 144,564,096 – BY DEPARTMENT

The total 2015 LWF income was EUR 144,564,096. The below chart shows the income received by each department:



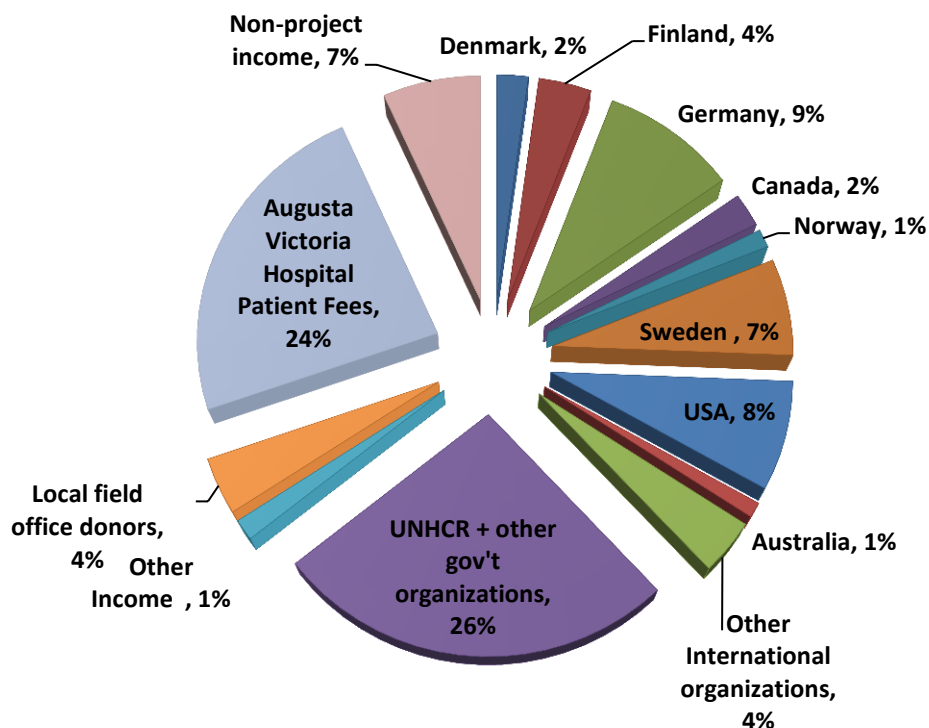
2.2 2015 LWF INCOME: EUR 144,564,096 – COMPARISON OF ACTUAL & BUDGET

The 2015 income was 36% higher than the projected 2015 budget and 24% higher than the previous year.

| INCOME | 2015 ACTUAL | 2015 BUDGET | 2014 ACTUAL | VARIANCES | | | |
|------------------------------------------|--------------------|--------------------|--------------------|------------------------------------------------------|------------|----------------------------------------------------------------------------|------------|
| | | | | ACTUAL Vs BUDGET Favourable/ (Unfavourable) | % | CURRENT YEAR Vs PREVIOUS YEAR Favourable/ (Unfavourable) | % |
| Dept. for Theology & Public Witness | 2,264,705 | 2,204,799 | 1,876,230 | 59,906 | 3% | 388,475 | 21% |
| Dept. for Mission & Development | 7,499,545 | 8,207,090 | 7,514,447 | (707,545) | -9% | (14,902) | 0% |
| Dept. for World Service | 132,234,351 | 93,281,419 | 104,607,065 | 38,952,932 | 42% | 27,627,286 | 26% |
| General Secretariat & Dept. for Planning | 2,565,493 | 2,610,000 | 2,224,792 | (44,507) | -2% | 340,701 | 15% |
| TOTAL INCOME | 144,564,096 | 106,303,308 | 116,222,534 | 38,260,786 | 36% | 28,341,560 | 24% |

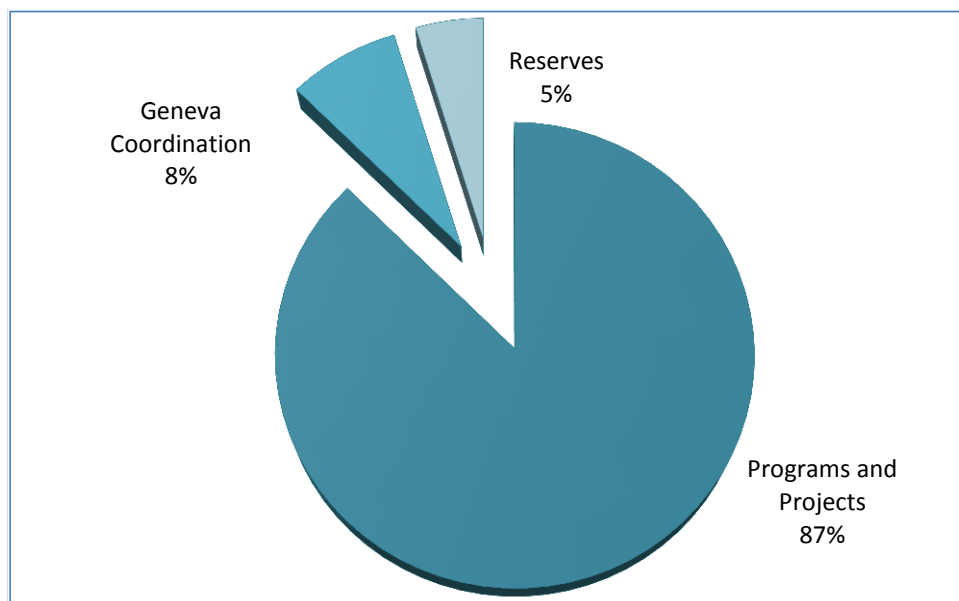
2.3 2015 LWF INCOME: EUR 144,564,096 - BY SOURCE COUNTRIES

The below chart shows the percentages of contributions received from member churches, international partners and other international organizations.



2.4 2015 LWF INCOME: EUR 144,564,096 – BY ALLOCATION TO PROGRAMS

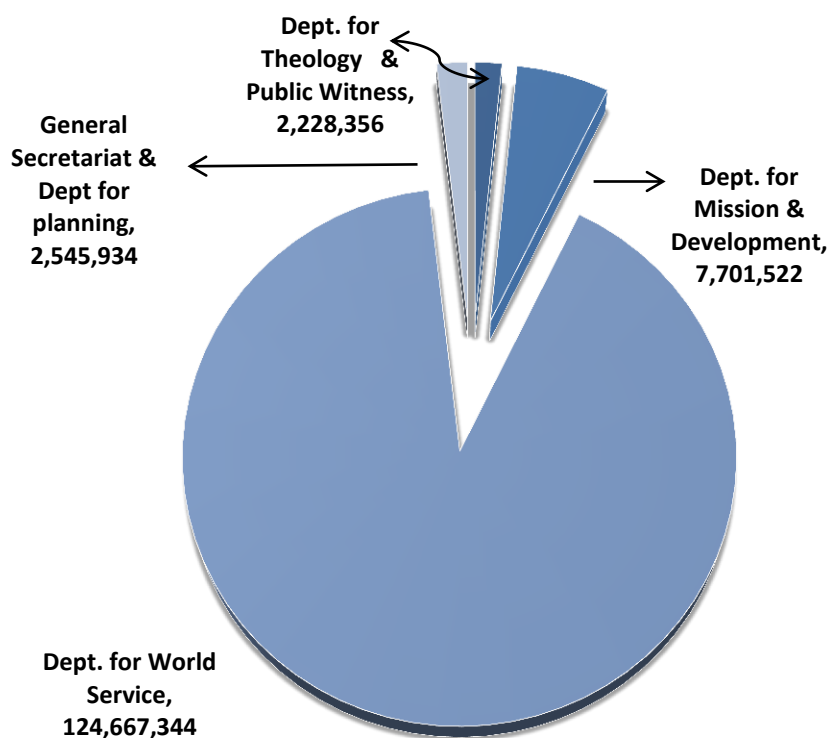
The chart below shows the utilization of the total income received.



2.5 2015 LWF EXPENDITURE: EUR 137,143,156 – BY DEPARTMENTS

Of the total 2015 expenditure of EUR 137.14 million, 90% was for the Department for World Service, 6% was for the Department for Mission and Development and 2% was for the Department for Theology and Public Witness. The General Secretariat and the Department for Planning and Operations also spent 2%.

The key figures are found below:



2.6 2015 LWF EXPENDITURE: EUR 137,143,156 – COMPARISON OF ACTUAL & BUDGET

The following figures are the expenditures for 2015 compared to budget and previous year:

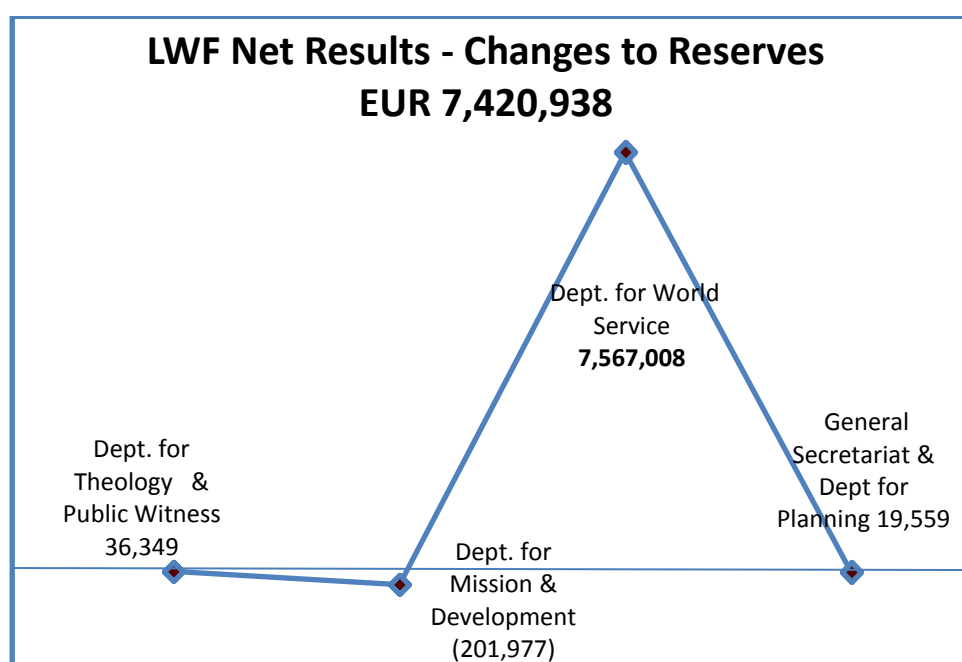
| EXPENDITURE | 2015 ACTUAL | 2015 BUDGET | 2014 ACTUAL | VARIANCES | | | |
|------------------------------------------|--------------------|--------------------|--------------------|------------------------------------------------------|------------|-----------------------------------------------------------------------|------------|
| | | | | ACTUAL Vs BUDGET Favourable/ (Unfavourable) | % | CURRENT YAER Vs PREVIOUS YEAR Favourable/ (Unfavourable) | % |
| Dept. for Theology & Public Witness | 2,228,356 | 2,199,933 | 1,979,744 | 28,423 | 1% | 248,612 | 13% |
| Dept. for Mission & Development | 7,701,522 | 8,207,090 | 7,572,830 | (505,568) | -6% | 128,692 | 2% |
| Dept. for World Service | 124,667,344 | 93,281,419 | 100,803,936 | 31,385,925 | 34% | 23,863,408 | 24% |
| General Secretariat & Dept. for Planning | 2,545,934 | 2,609,030 | 2,241,905 | (63,096) | -2% | 304,029 | 14% |
| TOTAL EXPENDITURE | 137,143,156 | 106,297,472 | 112,598,415 | 30,845,684 | 29% | 24,544,741 | 22% |

2.7 2015 LWF NET RESULTS (ADDITION TO RESERVES) – EUR 7,420,938

In 2015, the LWF's consolidated net results from operations were EUR 7,420,938 an increase of EUR 3,127,798 (73%) compared to the previous year 2014, contributed by DWS.

- The positive results of DWS were due to the profit of EUR 6.4 million for the AVH operations in Jerusalem and income from the sale of assets.
- The DMD negative result of EUR (201,977) was mainly due to funding that was pledged but didn't materialize. The loss was partly covered through additional donor support, staff and office cost reductions.

The chart below shows the net operating results for 2015 by department.



2.8 2015 LWF NET RESULTS – COMPARISON OF ACTUAL & BUDGET

The following is the 2015 net results compared with the budget and previous year:

| NET FINANCIAL RESULT | 2015 ACTUAL | 2015 BUDGET | 2014 ACTUAL | VARIANCES | | | |
|------------------------------------------|------------------|--------------|------------------|---------------------------------------------|----------|----------------------------------------------------------|------------|
| | | | | ACTUAL Vs BUDGET Favourable/ (unfavourable) | % | CURRENT YAER Vs PREVIOUS YEAR Favourable/ (unfavourable) | % |
| Dept. for Theology & Public Witness | 36,349 | 4,866 | (81,656) | 31,483 | NA | 118,005 | 145% |
| Dept. for Mission & Development | (201,977) | - | 110,363 | (201,977) | NA | (312,340) | 283% |
| Dept. for World Service | 7,567,008 | - | 4,248,116 | 7,567,008 | NA | 3,318,892 | 78% |
| General Secretariat & Dept. for Planning | 19,559 | 970 | 16,318 | 18,589 | NA | 3,241 | 20% |
| NET FINANCIAL RESULT | 7,420,938 | 5,836 | 4,293,141 | 7,415,103 | - | 3,127,798 | 73% |

2.9 DEPARTMENTS PERFORMANCE - GENEVA COORDINATION

The total approved budget for Geneva coordination was CHF 14.26 million and the actual expenditures were CHF 13.74 million, well within the approved budget.

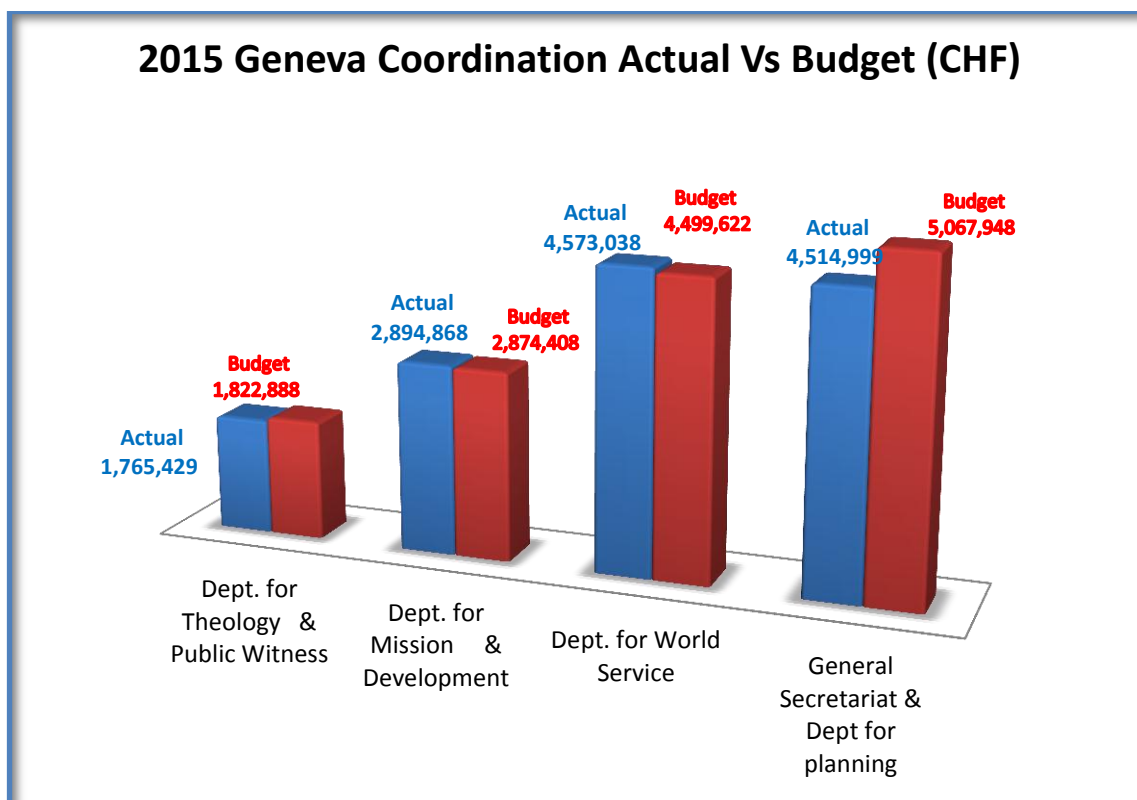
The Geneva Coordination budget is the portion of the LWF department budgets allocated to meet the Geneva headquarters based expenses, mainly in Swiss Franc, for LWF departments, namely: The Department for Theology and Public Witness (DTPW), the Department for Mission and Development (DMD), the Department for World Service (DWS) and the General Secretariat & Department for Planning and Operations (GS/DPO).

In January 2015, the Swiss National Bank (SNB) suddenly announced that it would no longer hold the Swiss franc at a fixed exchange rate with the euro, leading to a very strong appreciation of over 12% of the Swiss franc during the year.

Due to this decision of the Swiss National Bank, the average EUR/CHF exchange rate for the year was 1.06 compared with the budget rate of 1.23, which had an adverse effect on working budgets when converting Euros to Swiss Francs.

This has resulted in an unanticipated loss of EUR 1.8 million for Geneva Coordination budgeted income in 2015. The proactive leadership through various timely actions and decisions, such as reducing the Geneva staff costs, prioritizing expenditures and revising budgets downwards, reduced costs sufficiently to avoid deficit spending. Most important, was the generous involvement of LWF churches and partners in this difficult time; with their highly valued support and increased financial contributions, LWF was able to reduce the losses to EUR 201,000 from EUR 1.8 million in Geneva Coordination expenses.

Below are the Geneva Coordination expenditures vs. budgets across the four departments in Swiss Franc terms:



2015 LWF GENEVA COORDINATION: COMPARISON OF ACTUAL & BUDGET

Below are the Departments' Geneva coordination expenditures vs budgets & Previous Year in Swiss Franc terms:

| ALL IN CHF | | | | VARIANCES | | | |
|------------------------------------------|-------------------|-------------------|-------------------|------------------------|----------|-------------------------------|-----------|
| GENEVA COORDINATION | 2015 | 2015 | 2014 | ACTUAL Vs BUDGET | | CURRENT YEAR Vs PREVIOUS YEAR | |
| EXPENSES | ACTUAL | BUDGET | ACTUAL | Favourable/ (Unfavor) | % | Favourable/ (Unfavor) | % |
| Dept. for Theology & Public Witness | 1,765,429 | 1,822,888 | 1,770,212 | (57,459) | -3% | (4,783) | 0% |
| Dept. for Mission & Development | 2,894,868 | 2,874,408 | 2,851,193 | 20,460 | 1% | 43,675 | 2% |
| Dept. for World Service | 4,573,038 | 4,499,622 | 4,210,208 | 73,416 | 2% | 362,830 | 9% |
| General Secretariat & Dept. for Planning | 4,514,999 | 5,067,948 | 4,378,875 | (552,949) | -11% | 136,124 | 3% |
| NET FINANCIAL RESULT | 13,748,334 | 14,264,866 | 13,210,488 | 516,532 | 0 | 537,846 | 4% |

3. MEMBERSHIP FEES

Membership income increased compared to the previous year from EUR 2.31 million in 2014 to EUR 2.43 million in 2015, an increase of EUR 119,000. The following table shows this:

| YEAR | Approved Budget | Actual Received | % to the Budget | Number of churches |
|------|-----------------|-----------------|-----------------|--------------------|
| 2014 | EUR 2,530,500 | EUR 2,310,419 | 91.3 % | 100 |
| 2015 | EUR 2632,000 | EUR 2,429,655 | 92.31% | 91 |

Number of churches making contributions

The total number of churches that paid their membership fee was 91 in 2015 compared to 100 the previous year. This includes seven churches that made additional contributions to cover previous years of unpaid membership contributions.

Membership fees are based on a formula that has served us well over the years and that includes a calculation of the relative wealth of each member church country compared with other countries. Income from membership fees continues to increase, although it still lags behind the calculated fair membership fees. Membership income provides essential funds for running the communion office, in addition to some important areas of work such as theology programs and membership services.

These increases in membership fee income would not be possible without the dedicated support, caring and hard work of our member churches. Thank you for your commitment to this aspect of our life together. Your support and faithful stewardship is deeply appreciated and will be important in the years ahead.

Membership Fee Contributions: 2010 to 2015

The following graph shows income from membership fees from 2010 to 2015, reflected in EURO.



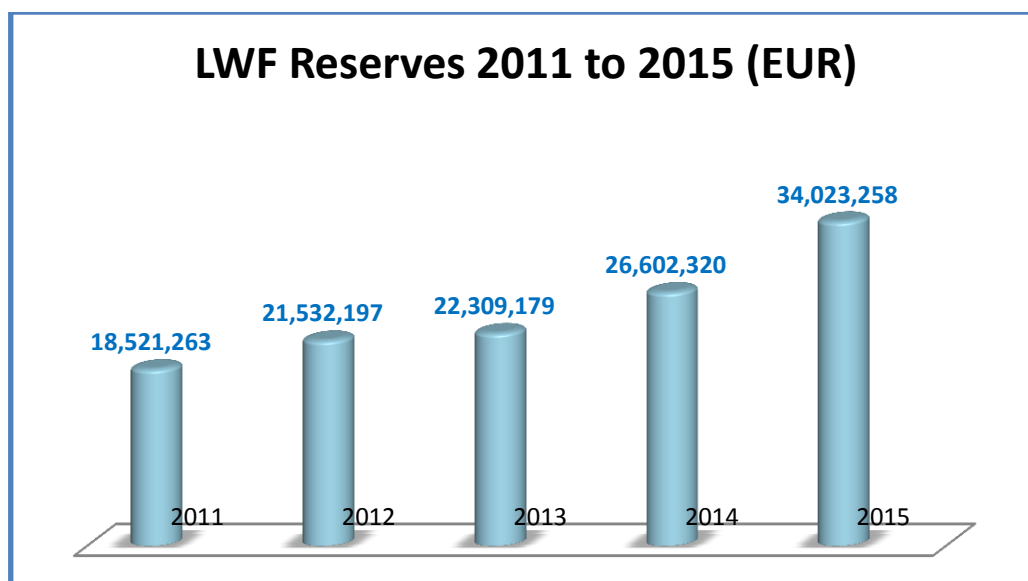
4. RESERVES

“Reserves” refer to net assets available to support the operations of the organization without restrictions. LWF Reserves are guided by the Reserves Policy.

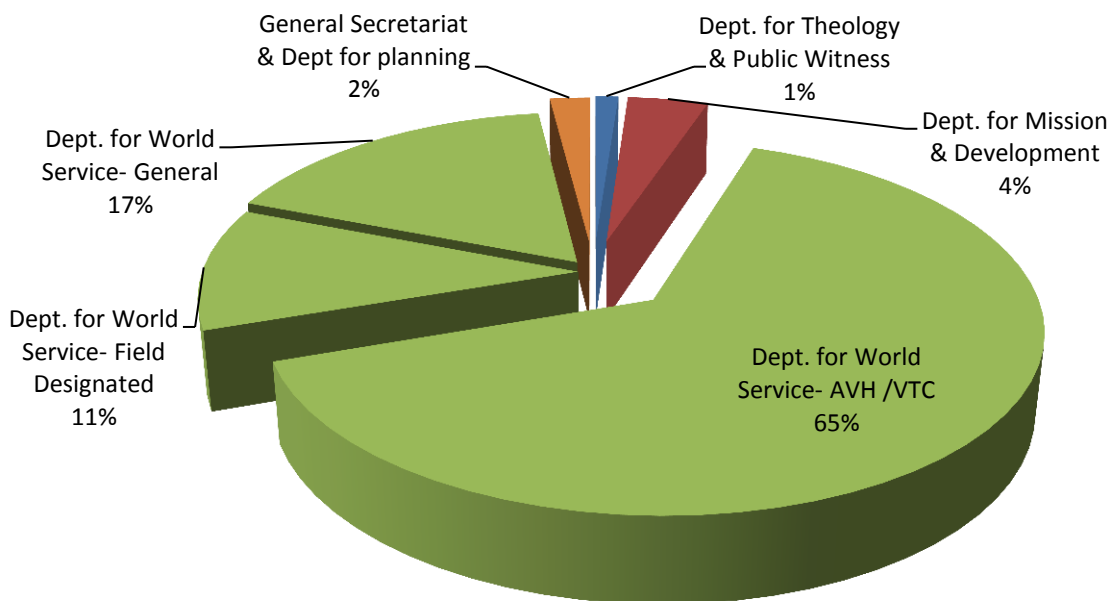
Reserves in the LWF consolidated financial reports are shown as unrestricted reserves but designated or “ear-marked” for specific purposes of the departments. In 2015, LWF reserves increased from EUR 26.6 million to EUR 34 million, before the restatement of pension liabilities under IAS (19).

4.1 GROWTH IN RESERVES, 2011 - 2015

The reserves grew by 84% (EUR 15.50 million) in the past 4 years. The following chart shows the development of the reserves from 2011 to 2015, before the restatement of pension liabilities under IAS (19).



The below chart shows the reserves by department, with World Service broken into field-designated reserves, Augusta Victoria Hospital reserves and general reserves.



LWF RESERVES HELD IN GENEVA: EUR 9.6 Million – CONTINUED GROWTH

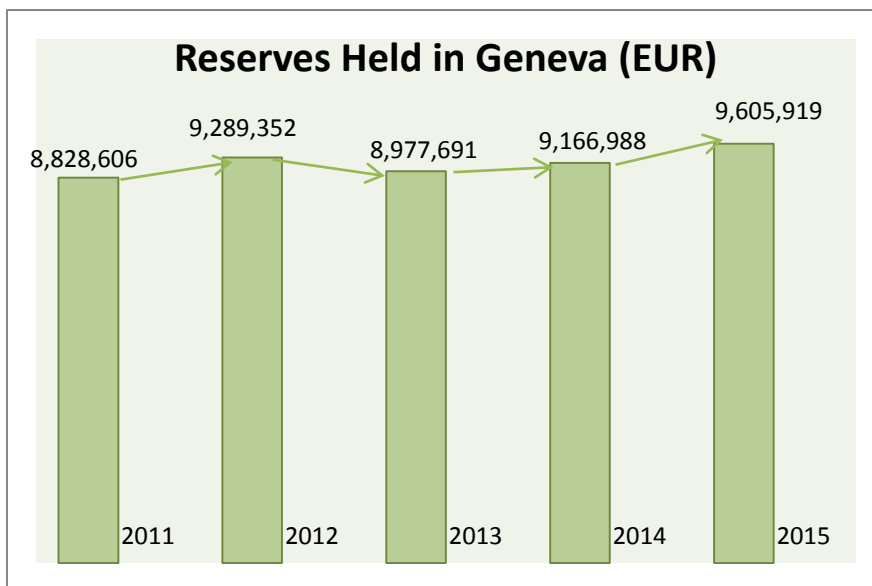
The goal of LWF Reserves Policy is to build the Geneva Communion office reserves equivalent to 6 months Geneva Coordination costs plus 5% of LWF total program expenditures.

Based on 2015 audited financial statements, the target amount for Geneva held reserves is EUR 13 million and the current level is EUR 9.6 million.

The communion office reserves held in the Geneva treasury are kept as liquid, low-risk deposits to support sustainability and effective operations.

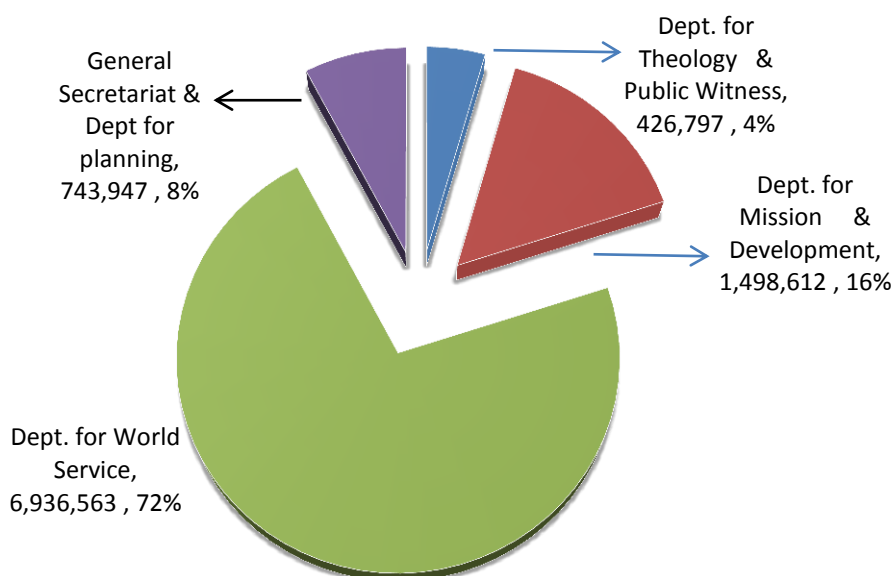
In 2015, LWF Geneva held reserves grew by EUR 438,000 (5 % growth) which is in line with the reserves policy.

The table below shows the development of reserves from the year 2011 to 2015



4.2 LWF RESERVES HELD IN GENEVA: EUR 9.6 MILLION - BY DEPARTMENTS

The reserves held in Geneva and the designation of funds by departments (in EUROS) are as reflected below.



The DWS Field coordination surplus in EUR is attributed mostly to the financial results of the Augusta Victoria Hospital in Jerusalem (AVH). During the year, AVH reported an accounting surplus of EUR 6.4 million through accrual of income and receivables. The more volatile nature of AVH operations as a result of cash flow challenges stemming from unpaid receivables results in a need for higher reserves for DWS. These reserves have been used in the past to cover the hospital renovation deficit and patient fee receivables.

In 2015, the hospital patient fees amounted to EUR 31.35 million, 28% higher than in 2014. The AVH patient fees receivables from the Palestinian Ministry of Health was EUR 27.25 million in 2015, a considerable increase compared to 2014 receivables of EUR 13.68 million. As a result of increased, effective lobbying and advocacy by our member churches and other partners, we received EUR 9.59 million in first quarter 2016 against these receivables.

5. ASSEMBLY FEES

LWF 12th Assembly approved budget was **EUR 2,994,964** against which LWF has received indications of funding at the level of EUR 2,758,000 (92%). This leaves a balance of EUR 236,161 (8 %) to be raised.

The total assembly income received from member churches through December 31, 2015 was **EUR 1,168,674** (39% of the budgeted income). The total expenses incurred for the assembly preparations and meetings were EUR 303,279 (10% of the total budgeted expenses).

6. STAFF WELFARE PLAN – LWF PENSION FUND

The LWF Staff Welfare Plan – Pension fund has been affiliated to the Stiftung Abendrot pension fund since January 1, 2012. All assets and liabilities were taken over by the Stiftung Abendrot, effective January 1, 2012, and an agreement has been signed by the LWF and Abendrot Foundation.

LWF is only liable to pay the monthly employer contributions to the fund and no longer liable for managing the pension funds nor for any under coverage in pension funds.

In 2015, the LWF pension fund performance was 0.50%. The total pension fund coverage level stands at 106% and the LWF coverage level in 2015 is estimated to be at **105%**. Due to the good financial situation, the Board of Trustees announced it will pay interest on the retirement savings of 2% for 2015. The mandatory Swiss Federal minimum interest rate for the retirement assets is 1.75%.

According to the pension fund valuation report, the pension fund performance in 2015 was 0.5% and the coverage level for LWF pension reached 105%, with the value of assets estimated at CHF 36.98 million.

A Staff Pension Plan Committee (SPPC) was constituted with employer and employee representatives to govern the affairs of the pension fund. The employer's representatives on the new Staff Pension Plan Committee have been appointed by the LWF Meeting of Officers and the employees' representatives were elected by the employees. The SPPC members have the right to attend the Stiftung Abendrot Annual Meeting.

As of 2013, it is mandatory in accordance with the IFRS IAS (19) revised standard on accounting for employee benefits to adopt the accounting standards and restate the impact of the pension liability plan in the 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 2015, including the currency translation adjustments.

7. LWF ENDOWMENT FUND

The LWF Endowment Fund is a separate legal entity; its results are not consolidated within the LWF financial statements. The Report of the LWF Endowment Fund Board is in Exhibit 16.2. Contributions to the endowment fund in 2015 were CHF 680,500 from 21 member churches, a remarkable achievement. However, in 2015, due to the negative performance of Swiss markets, the investment performance of the portfolio in 2015 was negative **-1.37%** with a net loss of CHF 172,750.

The 2015 Operating Reserve shows a positive balance of CHF 615,857 that is available for distribution as per the distribution policy. The total assets of the endowment fund are CHF14.91 million, including the endowment benefiting the LWF that is held in the ELCA Endowment Fund Pooled Trust.

Financial performance during 2015

The table below summarizes the performance of the Endowment Fund since 2007 based on the Audit Report.

| Year | Net Assets in GVA, CHF | Investment Result, CHF | Result of the Year, CHF | Operating Reserve, CHF | Funds in USA, USD | Distributions to LWF in CHF |
|------|------------------------|------------------------|-------------------------|------------------------|-------------------|-----------------------------|
| 2007 | 10,089,858 | -106,445 | -86,384 | 562,215 | 1,252,025 | 581,051 |
| 2008 | 8,709,673 | -1,827,280 | -1,781,522 | -1,505,136 | 925,718 | 285,829 |
| 2009 | 10,405,436 | 1,021,373 | 1,082,336 | -422,800 | 1,294,718 | 0 |
| 2010 | 10,790,265 | 95,940 | 126,560 | -296,240 | 1,518,098 | 0 |
| 2011 | 10,226,345 | -743,393 | -707,128 | -1,003,368 | 1,423,063 | 0 |
| 2012 | 11,311,762 | 883,293 | 951,410 | -51,958 | 1,802,808 | 0 |
| 2013 | 11,985,082 | 602,206 | 582,129 | 530,171 | 2,019,476 | 0 |
| 2014 | 12,658,182 | 882,121 | 947,799 | 1,134,323 | 2,223,760 | 343,647 |
| 2015 | 12,610,964 | - 109,098 | - 172,750 | 615,857 | 2,306,445 | 345,716 |

8. INSTITUTE FOR ECUMENICAL RESEARCH IN STRASBOURG

The Audit report on the Institute for Ecumenical Research in Strasbourg is included as a separate report to the Finance Committee (FinCom Exhibit 7.3.1). It is a distinct legal entity with its own board and its results are not part of the consolidated financial statements of the Lutheran World Federation.

The institute ended the year with negative EUR – 40,842 net results. The total reserves amount to EUR 2.5 million.

9. COMMITTEE RESPONSIBILITIES

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

- The LWF Audited Financial Statements for 2015
- Appointment of the External Auditor for 2016
- The LWF Budget for 2017

10. CONCLUDING REMARKS

The Lutheran World Federation, with the support of Council and staff leadership, has maintained a strong commitment to financial stability, a balanced budget and adequate cash reserves to ensure ongoing operations.

Membership churches play a large part in ensuring financial viability and sustainability. Many member churches have paid the fair fees in advance installments in addition to the yearly membership fees.

I am grateful for the outstanding staff leadership and the wise counsel and commitment from member churches. It is a privilege to work with the staff and to serve the LWF Council as chair of the Finance Committee. May God continue to abundantly bless the LWF Communion of Churches.