

# DELIVERING BRIGHTER FUTURES



# 2017 ANNUAL REPORT

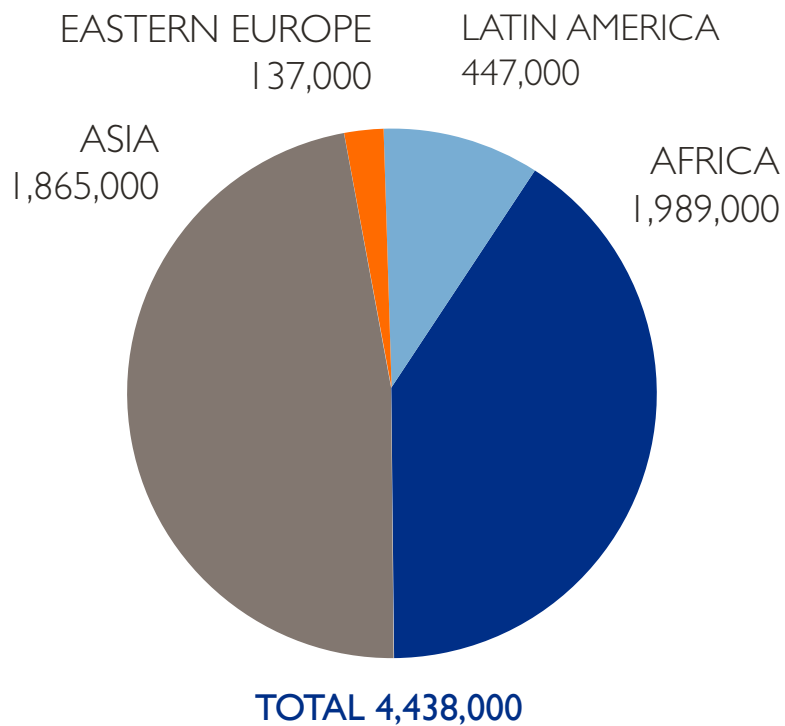


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# KEY HIGHLIGHTS

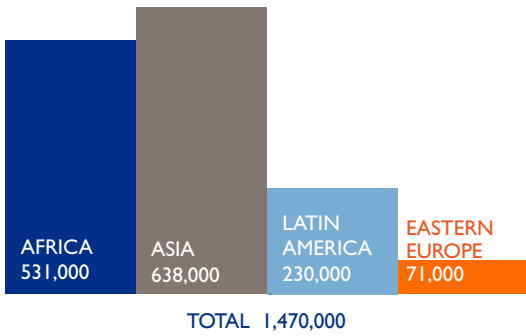
At VisionFund we are striving to impact millions of children when their parents and caregivers receive small loans and other financial services. These key highlights show the effect we're making around the world, in the four regions where we work.



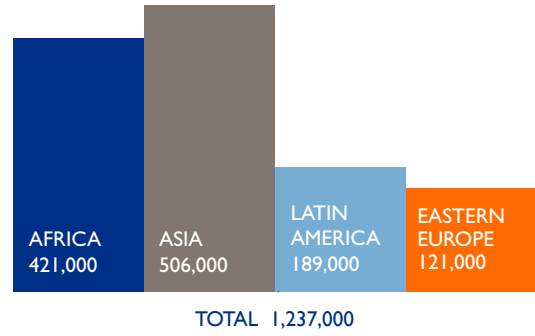
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**CHILDREN IMPACTED**

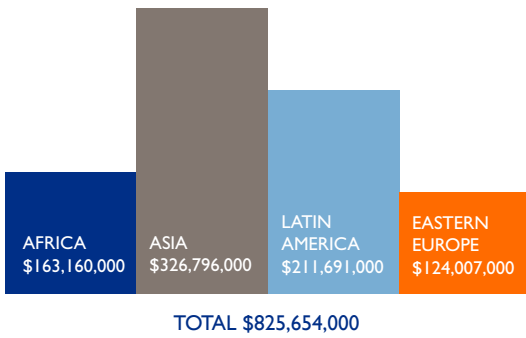




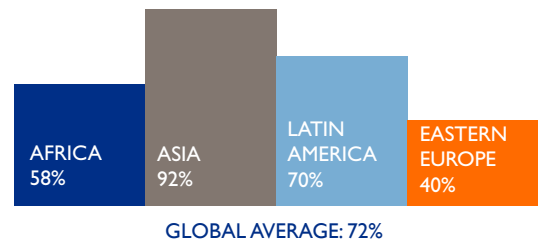
NUMBER OF LOANS DISBURSED



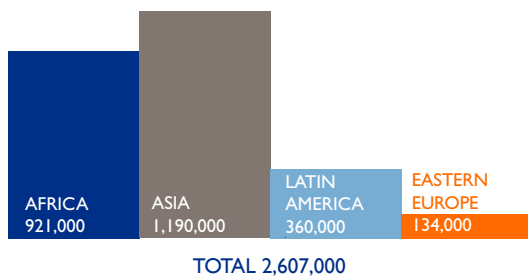
NUMBER OF CLIENTS/BORROWERS



VALUE OF LOANS DISBURSED



FEMALE CLIENTS (%)

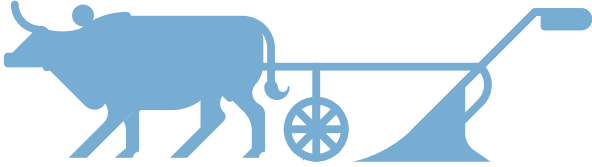


JOBS IMPACTED



REPAYMENT RATE

**37%** GLOBAL AVERAGE

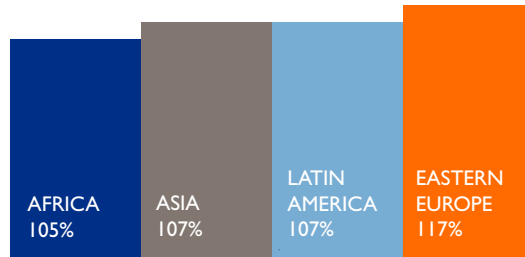


SMALLHOLDER FARMERS



**65%**  
GLOBAL AVERAGE

RURAL CLIENTS (%)



GLOBAL AVERAGE: 108%

OPERATIONAL SUSTAINABILITY (%)

**8,089**



GLOBAL NETWORK STAFF

\*Facts and figures through this report as of 30 September 2017 and reference fiscal year 2017 data in US dollars (excluding Azerbaijan).

# CHAIRMAN'S STATEMENT

*When you pass through the waters, I will be with you; and when you pass through the rivers, they will not sweep over you. When you walk through the fire, you will not be burned; the flames will not set you ablaze. – Isaiah 43:2*

This scripture from the book of Isaiah amplifies the same desire we have for our clients that we can, with God's help, assist them to become stronger and more financially sustainable, to help weather the challenges that they may face in their lives and the lives of their families.

During 2017 we collectively had positive impacts on the lives of more than 4.4 million children and delivered an 18% growth in the lending portfolio. These are great results, especially given that a number of VisionFund staff were personally affected by numerous weather shocks but continued to support clients in the field through their faith, determination and dedication.

The work of the VisionFund team targets delivery to all five elements of the VisionFund strategy. This work is detailed in the strategy section on pages 17-24 of this report. It is encouraging to see our work integrated into the livelihoods ministry of World Vision's Our Promise 2030 strategy. The combination of VisionFund and World Vision resources and expertise, together with other partners from aligned sectors, has had a significant impact on alleviating the causes and effects of poverty. These partnerships have delivered integrated services in areas such as water, sanitation, education and emergency response to directly impact and improve the lives of client children and help their families to break the cycle of poverty.

The VisionFund International board is made up of a sound mix of internal and external directors to govern the work of the organisation. I would like to pay tribute to the support and commitment of my fellow board members. During the year, we were sorry to see Gary Duim leave the board after many years of valuable input and crossover expertise from his World Vision board commitments. We were also delighted to welcome Emma Osborne formerly with the Chubb Corporation and based in the UK and Tiffany T. F. Huang from Baker & McKenzie in Taiwan as new board members.

I want to pay special tribute to Scott Brown who retired in March 2017 from the position of VisionFund President & CEO after 10 years of leading the dramatic transformation of VisionFund from a collection of very disparate small entities to a coherent network of MFIs operating under a single strategy, brand and impact commitment to the poor.

Then in October 2017 we appointed Michael Mithika as the new President & CEO, to build on the solid foundation of Scott Brown. We are thankful that Michael already has a deep understanding of microfinance and of VisionFund operations as he has been a board member for the past seven years. We believe his dedication, faith and commitment will lead the organisation to deliver impact sustainably at scale. We are grateful for his willingness to take on this role, relocate with his family to the UK and be a key linkage with our work with World Vision.

As a board, we look at the future with anticipation and enthusiasm. We continue to be committed to ensure that VisionFund delivers its vision to positively impact the lives of seven million children by 2020 as well as the strategic imperatives that we pledged through Our Promise 2030, in order to bring life in all its fullness to the most vulnerable.

Sincerely



**Rev. Jon Hartley**  
**Chairman**  
**VisionFund International - Board of Directors**

# LEADERSHIP LETTER

*.... Being confident of this, that he who began a good work in you will carry it on to completion until the day of Christ Jesus – Philippians 1:6*

During 2017 our financial inclusion work helped 1.24 million clients to access the financial services they so desperately needed to grow their incomes to better support their families. Almost two-thirds of our clients live in rural areas and more than one third are smallholder farmers, while 72% are women. We disbursed 1.47 million loans totalling \$825.7 million to our borrowers, whilst improving the lives of more than 4.4 million children.

As the microfinance arm of World Vision and the world's largest Christian microfinance network, we bring financial services to low-income families to help them to improve their livelihoods with a major focus on rural and agricultural finance. With the addition of World Vision's \$180 million of livelihood programming, this means, that in partnership, we have provided more than \$1 billion to support livelihoods during 2017 in the communities in which we work.

We recognise that women are not only the primary caregivers in the regions where we work, but also the key agents of change within their communities. Created in partnership with World Vision, the Women's Empowerment Fund contributes to VisionFund's strategic focus on women and children, and will continue to help us understand better how to solve the unique challenges of women who run small businesses in rural areas.

This year's weather shocks affected our work in Africa, Asia and South America: flooding devastated the lives of clients and staff, and drought threatened hunger, even famine, for clients affected by El Niño weather patterns. This led the industry to shift its focus to disaster recovery lending and develop tools and products enabling affected clients to start their long journey to recovery. First tested in the Philippines with typhoon Haiyan in 2016, our disaster recovery lending programme enabled us to assist 14,500 families (and 87,000 beneficiaries). This innovation was made possible by a £2 million loan from the UK Government, which we repaid in full in 2017.

In January 2018, we also launched the African and Asian Resilience in Disaster Insurance Scheme (ARDIS), which gives

our individual microfinance institutions the confidence and security to lend to disaster-struck clients. Our partners in this initiative include Global Parametrics, the UK's Department for International Development, German development bank KfW and BlueOrchard. In the first year, ARDIS is providing cover to vulnerable smallholder farmers in Kenya, Mali, Zambia, Cambodia and Myanmar, of which around 80% are women.

During the year we also had to make the difficult decision to wind down our microfinance operations in Azerbaijan and Albania. We thank the teams that continued to manage this process with the professionalism they have demonstrated throughout their running of operations in both countries.

2017 has been a year of considerable achievement and learning. We are on course to improve the lives of seven million children around the world every year by 2020. In partnership with World Vision, and aligned with the Our Promise 2030 strategic framework, we help families have secure livelihoods so that children can prosper.

We extend praise and thanks to our colleagues around the world for all that we have achieved together, knowing that we are only able to accomplish so much thanks to our partners, stakeholders and donors. That support means lives are transformed and improved around the globe. Together, we bring life in all its fullness to the most vulnerable.

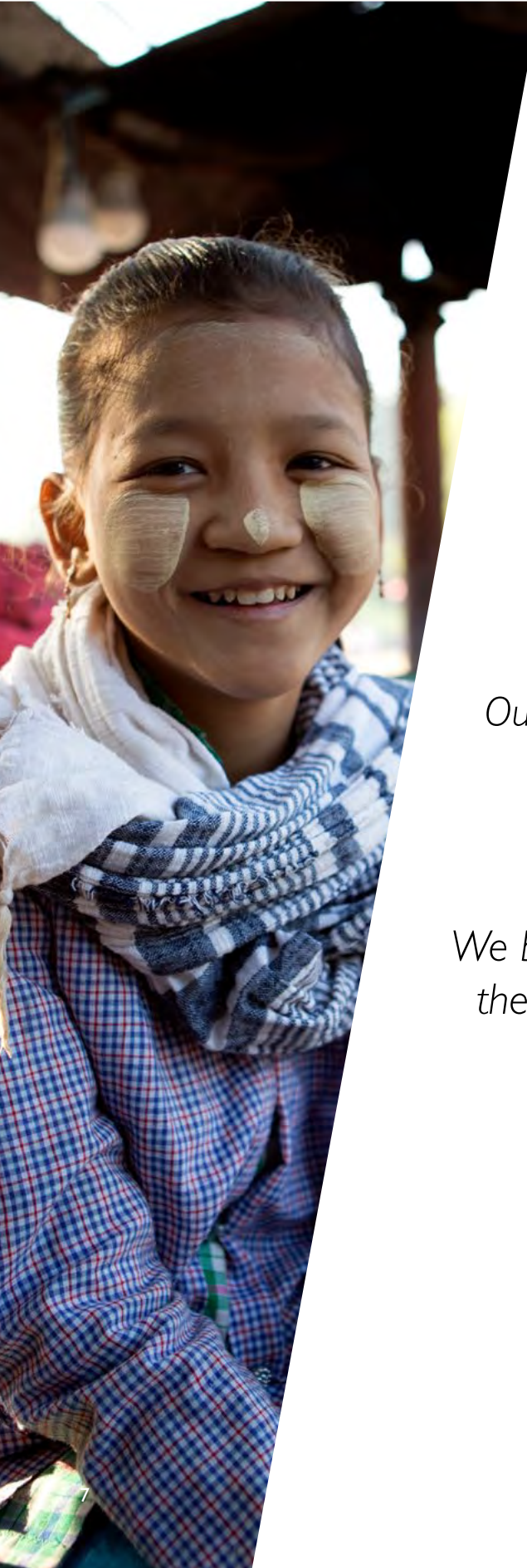
Sincerely

**Michael Mithika**  
President & CEO  
VisionFund International



**Jean-Baptiste Kamate**  
Partnership Leader  
Global Field Operations  
World Vision International





# OUR VISION AND MISSION

## **OUR VISION**

*Our vision for every child, life in all its fullness;  
Our prayer for every heart, the will to make it so.*

## **OUR MISSION**

*We believe in brighter futures for children where  
they can experience the love of Christ, building  
lives free of need and full of promise.*

*Learn how children are experiencing life in all its fullness on pages 10-11*

**VisionFund**  
INTERNATIONAL

**World Vision**



**I** We empower families to create income and jobs. Our financial services enable impoverished households to increase incomes. We train clients to grow successful businesses using their income to support their children and families.

*Read how families are escaping poverty by visiting pages 12-13*

We unlock economic potential for communities to thrive. Working together as part of World Vision – a Christian child-focused international aid organisation – we enable communities to increase economic activity, access clean water, education and healthcare, benefit from improvements to nutrition, and provide the foundations for local economies to flourish. In partnership, every 60 seconds a family gets water, a hungry child is fed and a family receives the economic empowerment tools to overcome poverty.

*Visit pages 14-15 to learn how communities develop when local economies are able to thrive.*

*As World Vision's microfinance efforts grow around the world as part of the Our Promise 2030 strategy, discover how this special relationship is making a lasting change on pages 15-16.*

**We are VisionFund – Financial Empowerment from World Vision.**



# SOCIAL PERFORMANCE



Our vision is for every child to live life in all its fullness. Yet the United Nations' September 2017 report<sup>1</sup> states that 815 million people were hungry last year, which is an increase of 38 million on the previous year. This is the first reported increase in more than 10 years, pointing to violent conflicts and climate change as the major drivers.

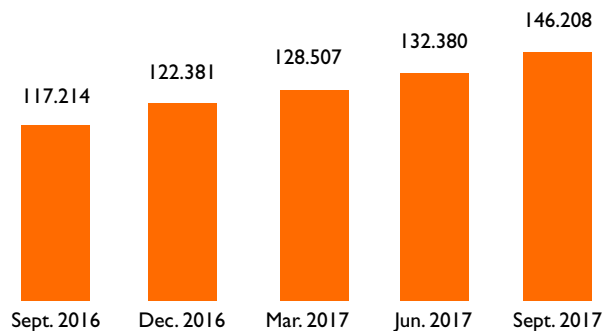
The report is the first UN global assessment on food security and nutrition to be released following the adoption of the 2030 Agenda for Sustainable Development. This agenda forms part of the Our Promise 2030 strategy adopted by World Vision and VisionFund that aims to end hunger and all forms of malnutrition by 2030 as a top priority.

While VisionFund does not work in conflict zones, our areas of operation are affected by droughts and floods linked in part to the El Niño weather phenomenon. In addition, the regions where we work are particularly vulnerable to any global economic slowdown, which results in a deterioration of food security and quality of nutrition.

Through our network of 30 MFIs, we are helping our clients to protect and increase their income through training courses, our managed lending programme and our insurance products. We also provide an education programme throughout the client relationship cycle. Our overall aim is to improve the livelihoods of families and provide brighter futures for our clients' children.

During 2017, the 14 MFIs offering client education programmes ran 146,208 training modules to help our clients develop the essential skills they need to understand how to make best use of the financial services they receive from VisionFund, such as the importance of making timely repayments and, most crucially, saving for the future. The education programme is provided by our loan officers using portable flip charts. Clients attend in small groups during regular meetings with their loan officers with each session lasting about 10 minutes. The sessions are highly interactive so that clients are fully engaged. We have received very good feedback from clients about how useful the courses are and our ongoing interaction with clients shows us that clients are understanding, remembering and implementing what they have learned.

## **WE RAN OVER 145,000 TRAINING MODULES FOR OUR CLIENTS IN 2017**



<sup>1</sup> UN Report (<http://www.un.org/apps/news/story.asp?NewsID=57526#.Wd8z4FtSzip>)

## HOW WE MEASURE IMPACT WITH THE POVERTY PROBABILITY INDEX

As we help our clients to grow out of poverty, it is vital that we have a way to measure their success, and for this we use the Poverty Probability Index (PPI) as our primary measurement tool. The PPI involves 10 country-specific questions that are incorporated into standard loan applications. Currently we use the PPI in 20 countries across the globe to gauge the level of poverty that our clients are facing when we first engage with them and also to measure how they are growing out of poverty as they work with us. By the end of 2018, we will use the PPI in 25 countries where it is available for our network.

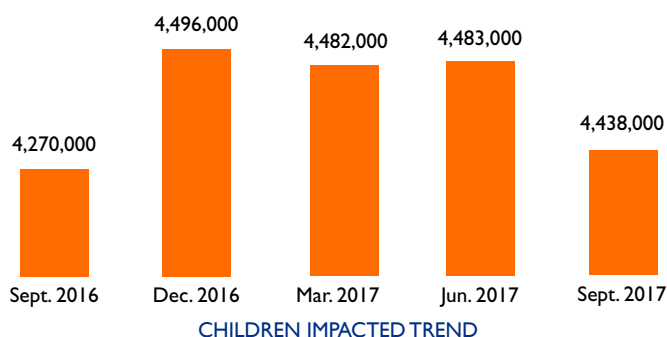
Our data in Mali for first time borrowers shows that 66% of our clients are living below the national poverty line (NPL), compared to a national poverty rate of 57%. In Senegal where we have only been using the PPI since March 2017 more than 48% of our first-time borrowers are currently living below the NPL, compared to a 43% national poverty rate. These comparisons against the national rates show that we are targeting communities that are likely disadvantaged, vulnerable and without many options to access financial services.

VisionFund is also an active participant of the PPI Alliance, a consortium of socially-focused organisations which ensures that the PPI remains free to use and is regularly updated to remain valid.

## OUR IMPACT ON CHILDREN

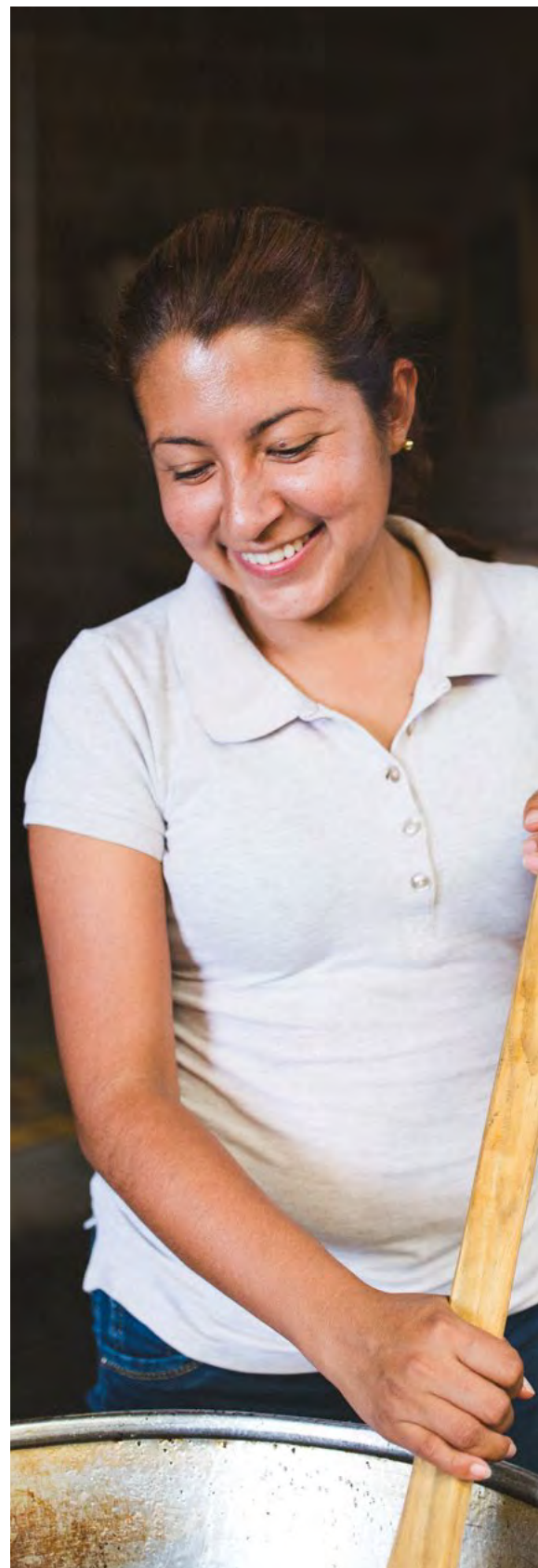
*Building lasting change for vulnerable children*

Our Building Futures Together 2020 strategy aims to positively impact the lives of seven million children each year. Our global work this year has improved the lives of more than 4.4 million children.



We regularly ask our clients how the loans from VisionFund have affected the well-being of their children. This year our clients have told us that our work has helped to provide:

- 52% with improved basic education
- 44% with sufficient food
- 41% with additional clothing/shoes



- 32% with funds for children's health costs
- 21% with sufficient drinking water
- 12% with improved sanitation

## MUNGUNTSETSEG'S STORY

Munguntsetseg Byambasuren is a prime example of the work our clients do to sustain their families.

As a hard-working farmer in Mandal soum, Mongolia, she grows vegetables such as potatoes, carrots and onions, and supplies them to the community. She works hard to feed her extended family of 14. In addition to her husband and five children, she cares for her disabled sister and her daughter; two children of another sister who died in an accident, and her three grandchildren.

Munguntsetseg learned how to grow vegetables working at a local farmers' collective. After she married, she grew potatoes in her backyard. Her husband is a carpenter and used his skills to build the frame of a greenhouse but she could not afford to purchase a cover. She decided to request support from the World Vision Area Programme (AP) in Mandal soum which provided a subsidy for a large 10-metre-square greenhouse where she started to grow additional vegetables such as cucumbers and tomatoes.



Munguntsetseg in her vegetable plot

In 2008 she was offered a loan for vegetable seeds from the AP with the condition that she also borrow one sack of seed potatoes, which she would return to the AP at harvest. From this one bag, she managed to grow eight bags of seed potatoes. *“After planting potatoes in spring, I very much enjoyed seeing them grow. As there are many of us, five kilos of potatoes would last only a few days, so growing them really saves us money,”* explained Munguntsetseg.

Munguntsetseg first heard of VisionFund Mongolia from her friend and took out her first loan for MNT 500,000 (USD 250) to buy vegetable seeds. *“I tried to take out a loan from a bank but failed. I was nervous in case I fell into debt but after taking a Solidarity Group Loan from VisionFund and successfully repaying it, I started to believe in myself,”* shares Munguntsetseg. Besides growing vegetables, she also pickles them and supplies the community during the winter holiday season. She has also developed relationships with customers in Ulaanbaatar, the capital city of Mongolia, and has started to attend big sales exhibitions.

Farming is seasonal and her workload during the other months is low but Munguntsetseg does not sit idle. She started a second business sewing kitchen materials such as work gloves, aprons, pot holders and oven mitts. In winter 2017, she took out her second loan of MNT 1,000,000 (USD 500) and invested in material to sew clothes. “I used to sew only kitchen materials in the past but this year I’ve received many orders for the holiday season including dresses for New Year celebrations and traditional costumes for Lunar new year,” says Munguntsetseg with a big smile on her face.

Currently, Munguntsetseg’s loan balance from her second loan is MNT 525,182 (USD 216). Her second business in sewing kitchen materials and tailoring has been a great success. She sells the traditional costumes from her shop and even plans to take out another loan to purchase souvenirs that she will also sell during the holiday season.

While she completes her many sewing orders, Munguntsetseg also sells her pickled vegetables from her autumn harvest. She makes a good profit as vegetables are more expensive during the winter.

In the spring, Munguntsetseg plans to lease more land to plant more varieties of vegetables and renew her vegetable seeds.

She also dreams about a bigger house, expanding the size of the rooms, and creating enough space for every member of her family.

## **OUR IMPACT ON JOBS**

*We empower families to create incomes and jobs*

During 2017, our lending helped 1.23 million clients to grow their businesses and to create 2.6 million jobs.

Urbanus Kamuti Mutune is a farmer in Malumani village, Eastern Kenya. Agriculture is his passion and has helped him to be a guiding example in his community.



Urbanus working in his greenhouse

This is his story of transformation in his own words.

“ I have always been fascinated with agriculture since I was very young. I used to help my grandmother with the weeding and this sparked my interest. I was also encouraged by what I learnt from my agricultural teacher in secondary school, however, my grandfather did not want anyone to work the family's land as he felt that it should be left for animals to graze.

Since I could not practice agricultural activities on my grandfather's land, I decided to look for a place of my own. I worked hard and acquired a three-quarter acre plot where I am now able to farm.

I have learnt that one does not need to have a lot of land; you can still farm on a smaller plot.

World Vision provided me with a greenhouse where I now plant spinach and kale. I also have a pond that I use for irrigation so I don't have to depend on rain. If you want to do well, you can't be dependent on rain-fed agriculture.

Agriculture is the one thing that keeps my family alive. We are a family of six - me, my wife and four children. We have three girls and one boy who are all at school. I am content as I believe that agriculture is the backbone of a wealthy nation.

When I was young, going without food was the norm rather than the exception. That is history now for me as I am getting enough food for my family and we eat a balanced diet.

I get additional income from the sale of milk as I have a contract with a school to supply milk to them. Every month I receive KSh 10,000 (USD 100). I also sell milk to my neighbours. From this, I get KSh 5,000 (USD 50). This money goes to pay my children's school fees.

With the goats and cows, I get manure for the shamba (garden) which means I don't have to buy any fertiliser. I also hire out my bulls to be used for ploughing. My neighbours see that I am earning something.

Agriculture has made me happy. My family is happy and my children are happy. They also help after school. They enjoy pumping the water to irrigate the greenhouse.

Achieving this began with a group in the community called "matui" (come let's go). I joined the group because it was the only active group in the community and World Vision supported it with agricultural products.

World Vision was sent by God to help me pursue my interest in agriculture. World Vision told me about VisionFund and what they do in the community.

I was interested in everything VisionFund does and so I applied for a loan. I applied for a KSh 30,000 (USD 300). They calculated the repayments and interest, security of the loan and insurance. I then got my loan.

I like how VisionFund works. They asked me how long I would take to repay the loan. I said I would repay in six months. With the money lent, I bought two young bulls. These are the bulls that are now hired out to my neighbour.

To ensure that I am able to pay back the loan, I went to one of the primary schools and talked to the head teacher to allow me to do work for them. I now supply them with approximately 2,000 litres of milk per week.

I left school after my secondary education but I would like to go back to school to learn more about agriculture. Until I can do that, I use the internet for information.

I also hope to buy a solar pump for irrigation. The solar pump costs KSh 65,000 (USD 650). I plan to save some money for this and also take a loan from VisionFund to meet the cost.

I dream that there will be a time when, as a community, we will do away with relief food and get food from our own shambas (gardens). I don't want to see anyone suffer, I want to see things change.

I dream that one day every inch of Africa will be productive and that is when we will start to talk about development. We will sell agricultural products. Instead of being supported, we will support others. This dream is not easy to realise, it needs a change in

mentality. Before I came here, most of the community members thought that one had to have a big piece of land. What it takes is thinking and working hard. Through what I do, I want to show the community how to be thinkers and to be committed. I want to be an example to the community, to enable them to understand and be able to change their mind-set. ”

## OUR IMPACT ON COMMUNITY

VisionFund loan officers travel to hard-to-reach rural areas to ensure that communities have access to the financial services that are necessary to help build their livelihoods. In a large number of areas, one client's success can have a positive impact on the wider community by providing work for others. One example from Ghana, where our client Kwesi Oklu used his loan to expand his farming business, demonstrates this.



Kwesi feeding his pigs

Kwesi Oklu lives in Magoasi. He joined the VisionFund Ghana Loan Group in 2016 and took out a loan to invest in his farm. He used the loan to start his piggery with eight piglets and to invest in his farm where he cultivates maize, cassava and vegetables. This means that he can better support his family's upkeep from the increased profit.

He made money from his farm activities and repaid his loan in full and on time while also ploughing 40% of his income back into the business. This meant that he was able to hire three farm hands and a carpenter to build a pen for the pigs.

Kwesi processes the cassava into Gari (roasted cassava powder) during peak season and preserves it so that he can sell it for a good price. His farm hands help to manage the two additional acres of land he bought which has increased his farm to five acres. He has planted maize, cassava and vegetables and at the end of the season, he harvested 50kg bags of maize, a 60% increase on last year's harvest. He also harvested more cassava and vegetables than previous years.

Kwesi expects that his herd of pigs will grow from eight to 40 over the coming months. He also hopes to employ someone to oversee the piggery and ultimately to grow the farm to double its current size. He is proud to tell us, *"The work on my farm means that I can keep my children in school and save to ensure that they can continue their education to a higher level."*

## **OUR CHRISTIAN COMMITMENT**

As part of the wider World Vision partnership, our Christian faith is the core driver for our joint vision for transformative changes in the lives of children. We will achieve such transformation by pursuing our mission of helping families to generate incomes and unlock economic potential in communities.

In 2017 we have continued to deepen our understanding of what it means to be the largest global Christian MFI network and how to help our staff across 30 different MFIs - both those who have a personal Christian faith and those who do not - to have a common understanding of how to show this Christian vision on a daily basis.

Our refreshed strategy Building Futures Together 2020 clarifies our drive to help clients and our Mission and the Culture sections show how that Christian ethos is embedded. We will continue to coach our employees about our strategy over the next three years to ensure that it is reflected in behaviours.

This is true for all stakeholders, from clients and colleagues to partners. This includes, for example, putting in place new induction structures and an interactive site which includes explanations of our core Christian faith in action. This year has seen a greater emphasis on a set of Christian Leadership Principles that guide all leaders within VisionFund globally. This rollout will continue in 2018.

One of the five key elements of the World Vision strategy, Our Promise 2030, is the commitment to "Live out our Christian faith and calling with boldness and humility" which we seek to reflect in VisionFund and all that we do.

## **OUR FOCUS ON WOMEN CLIENTS**

During 2017, 72% of our clients were women. We helped them to access loans to grow and develop their livelihoods.

We focus on women clients as they are the key caregivers for their families and research shows that women spend more of their income on the family and household than men. Marivic from the Philippines has eight children, five of whom are still in school: one is in college, three are in high school, and one is in elementary school. Finding the money to provide food and education for the eight children has been very challenging for the family.

Marivic is the village seamstress, learning her trade from her mother. People come to her to have school uniforms made for their children. Her house is conveniently located near a school and the few months before school opens is the busiest time for her.

To support her family, Marivic has found ways to obtain other sources of income. Marivic and her husband, Noel, work together to grow sugarcane, rear pigs, and manage a general store. Noel also supports the family by undertaking carpentry work in and around their village.

With the variety of businesses Marivic has started, it became a challenge to keep the businesses going without extra funding. Her only





Marivic proudly displays two of the school uniforms she has made

option was to borrow money from a loan shark at very high rates of interest. Things changed when Marivic heard about Community Economic Ventures, Inc. (CEVI - VisionFund's operation in the Philippines) from a local community leader. The conditions of the loan were much more attractive to Marivic. *"I initially took a loan of PHP 5,000 (USD 100) and bought fertiliser for my sugarcane farm. After I repaid that loan, I took out another and bought piglets and supplies for my general store,"* she shares.

The income she earns means she can pay the school fees of Jesmar, her 19-year old son who is in second year at a private college. Marivic is excited about Jesmar finishing his college education. He is gifted in singing and playing the guitar and she wants to help him to fulfil his dream of becoming a teacher.

She continues to make school uniforms. *"What I like about sewing is that it gives me more profit while only requiring a small amount of capital,"* she says. When Marivic receives orders, she buys cloth in the market at low prices.

She is grateful for the opportunity which CEVI has given her to finance her family's livelihood even though they live in a rural area away from the city. *"CEVI provides me with loans at low interest rates that is repayable monthly. It gives me more time to save and earn in order to repay my loan,"* she shares.

She plans to expand her business and venture into rice retailing. When asked what inspires her, she simply says, *"My children. I want them to graduate from school. I will make sure that we can provide for their school supplies and tuition fees."*

# OPERATIONAL DELIVERY OF THE STRATEGY



*Now faith is being sure of what we hope for and certain of what we do not see. Hebrews 11:1*

Our strategy, Building Brighter Futures, is focused on bringing brighter futures to seven million children each year by 2020 and features centrally in the World Vision, Our Promise 2030 strategy, as microfinance and savings are core development models in their Livelihoods ministry.

We know that microfinance on its own is a powerful tool but by combining our resources and expertise with World Vision and other partners from aligned sectors, we are able to do much more to alleviate the causes and effects of poverty as well as to reduce potential monetary risks to our clients.

During 2017, our strategic focus of working in rural agricultural communities with an aim for 75% of our clients to be women has meant that we have reached 37% smallholder farmers and 72% female clients. Through our 30 microfinance institutions (MFIs), we provided loans, insurance services and financial education and training to 1.24 million clients who together were able to positively reach 4.4 million children globally.

Our strategy combines five outcomes:

-  **BUILD CAPABILITY & REACH**
-  **TRANSFORM RURAL LIVELIHOODS**
-  **INNOVATE PRODUCTS & SERVICES**
-  **BE A VOICE OF INFLUENCE**
-  **STRENGTHEN RESOURCE BASE**

We firmly believe that through financial inclusion, we can help low-income families to progressively move out of poverty and become sustainable by using our lending services to invest in growing their businesses and to use the profits to ensure that their children receive an education, more nutritious food and access to health care to provide them with the best start in life.



## BUILD CAPACITY AND REACH

*Increase the number of target clients we serve through sustainable growth of our MFIs*

Accomplishments to date:

- Our 30 MFIs across the globe have served 1.24 million active borrowers, disbursing 1.47 million loans totalling \$825.7 million.
- Our loan portfolio grew 18% in the year to \$601 million by year-end (on plan).
- Our portfolio at risk rate is at 1.7% for repayments overdue at 30 days. This is below our target of 3.0%.
- Together with World Vision, VisionFund has moved to more fragile contexts with its work in the Democratic Republic of the Congo (DRC). VisionFund in partnership with Opportunity International (OI) UK won a grant from the UK government's Department for International Development (DFID) which matches funds raised by private donors. Through the programme OI will be raising funds to help an additional 12,000 women to access financial services, with an average loan size of \$225 provided through VisionFund. The number and percentage of new women borrowers will be monitored in a Gender Dashboard to assess whether institutionalising a gender focus influences the uptake of women clients. Additionally, 7,000 women will be assisted in building farm and business incomes and will receive financial literacy training. We are proud of this step forward in delivering on the value of third party partnerships. VisionFund will be directly helping 1,000 smallholder farmers in the DRC through this programme.
- VisionFund Myanmar reached a total of 161,291 clients by year end.
- As part of the roll out of our OneVision technology solution the following systems and services have been put in place:
  - Zambia: Temenos T24 is now in place providing a robust core banking system to support core business processes such as entering client and loan information in a scalable and efficient manner.
  - Mobile money is now in place for clients to receive their loans and make their repayments electronically – providing cashless operations and reducing the number of tellers at branches providing more employee time to focus on client needs. We have leveraged lessons learnt in Tanzania to be able to set an established standard around our core platform and processes which constitutes an important milestone for VisionFund.
  - Mexico: Mambu is now in place as an alternative to T24 for markets where cloud-based solutions are sustainable.
  - Tanzania: Tablet implementation was completed across all branches. Tanzania is now in a position to leverage the investment and set an example for the rest of the organisation in utilising effective technology solutions in the field. This is a significant enabler as rural and smallholder farmer clients are served more efficiently and effectively.





- VisionFund Uganda supports causes and children outside of the microfinance network that still need the sustenance and care that our partnership offers. It contributes to the well-being of children who, because of their age, are held in prison along with their mothers, some are even born there as their mothers were imprisoned when pregnant. It also supports orphans by providing educational materials and provides local savings groups with loans for school fees and the wellbeing of these children.
- In Sri Lanka 84 Small and Growing Business (SGB) loans were disbursed totalling \$416,000. SGB lending was also expanded to Ghana where 38 clients received loans worth more than \$177,000.
- We continue to focus on the key caregivers of families resulting in 72% of our lending going to women clients.
- Work in Cambodia has been adjusted to reflect the interest rate cap applied to all microfinance lending since 1 April 2017. VisionFund Cambodia has focused on credit quality, maintenance of clear and consistent lending practices, good cost control, liquidity and risk management. It has also set up a debt collection centre to address the increases in portfolio at risk for loan payments overdue. We have seen a rise in individual lending and a fall in group lending.



## **TRANSFORM RURAL LIVELIHOODS**

*Expand outreach and approach to rural, agricultural communities*

Accomplishments to date:

- In 2017, VisionFund increased the scale and scope of financing to farmers and farming related business owners, resulting in 65% of clients being rural and 37% smallholder farmers. Activities included more branches in rural areas, new products in agriculture and innovations in the mainstream agricultural loans.
- Following a successful pilot, the initiative with World Vision Tanzania, VisionFund Tanzania and the Great African Food Company (GAFCo) was adjusted to focus on smallholder farmers with larger acreage. The programme is now supporting 2,278 farmers in 13 locations. It combines the use of crop insurance and technology to manage lending and repayment while reducing risk and costs to enable the farmers to deliver a significant boost to their income at lower risk.
- World Vision's and VisionFund's THRIVE programme is working over the next five years with more than 30,000 smallholder farmers in Honduras, Malawi, Rwanda, Tanzania and Zambia. The programme combines an integrated set of elements that work together to help farmers to increase their technical skills, reduce risk, access crop loan finance and better understand and access more reliable markets to obtain better pricing.

- Working in partnership with KickStart International to enable smallholder farmers in sub-Saharan Africa to access, purchase and implement irrigation systems. We anticipate that during the next five years, the partnership will help target 10,000 smallholder farmers a year to benefit from greater access to water for their crops.
- VisionFund continued expanding and improving dairy loans for smallholder farmers in Kenya, Zambia, Sri Lanka and India, enabling farmers to expand their dairy herd, and buy equipment such as sterilisation and coolers. This enabled farmers to increase their yield and sales price which in turn maximised their income. In Zambia, VisionFund is piloting a goat and chicken loan product in which farmers trained by World Vision, get a loan to finance the combination of goat and chicken raising coupled with insurance. The combination of chickens and goats helps farmers smooth their income.



## INNOVATE PRODUCTS AND SERVICES

*Work with partners to create a range of capabilities and products*

Accomplishments to date:

- Recovery lending: VisionFund completed the successful piloting of recovery lending to 14,500 farmers in Kenya, Malawi and Zambia impacted by drought and floods. A total of \$3.3 million was lent out and the innovative returnable grant of £2 million from DFID was repaid in full on successful completion of the project. This resulted in the development of a programme called ARDIS that was launched in January 2018.
- Saving Group Linkage loans: VisionFund offers loans to Savings Groups to enable the women and men who are members to expand their agricultural activity or micro-enterprise. This enabled very poor households to build resilience and income generating activities, such as pig raising, buying and selling small goods and small-scale manufacturing such as baked goods.
- Education: VisionFund microfinance institutions also offered families a way of meeting education expenses through education loans in Cambodia, Kenya, Myanmar, Uganda and Sri Lanka. New education loan products were initiated in India and Tanzania, and vocational training loans made available in Sri Lanka.
- Insurance: Crop insurance in Tanzania is growing to scale with over 5,000 smallholder farmers now accessing this product following a successful pilot of 700 farmers with support from World Vision US.
- Technology: The introduction of a data warehouse for unified data management in a phased manner across our network will enable access, at different levels, to regular, on-time information on our portfolio and finances. This will result in quicker and better decision-making as well as taking corrective action in a timely manner.
- Mobile technology: VisionFund Cambodia (VFC) partnered with Wing a





pioneer and one of the biggest mobile money service providers in Cambodia, in early 2017 delivering almost 1,400 loan payment transactions valued at a total of \$105,000 through its agent network. After almost a year, about 60,000 clients have chosen this convenient, cost-saving, fast and secure channel to make repayments to Wing and VFC's new partners – eMoney, SmartLuy and TrueMoney. As of the end of February 2018, the transaction volume reached 26,328 amounting to \$ 2.8 million. Also this year, the mobile banking app used by VFC was approved by the National Bank of Cambodia. The app, known as VisionFund KH, can be downloaded from Apple's APP Store and was developed internally by the VFC IT Department together with its Tablet Application for loan collection. The launch of Loan Application and Client Registration apps is in the pipeline for development in 2018.



## BE A VOICE OF INFLUENCE

*Influence the industry at global and national levels, earning the respect of peers, donors and regulators*

Accomplishments to date:

- Throughout the fiscal year, VisionFund experts have presented at conferences and webinars with a focus on social performance, agricultural innovation, insurance and technology. Key highlights include:
  - Social performance
    - At the October 2016 Financial Inclusion Forum UK event, Max Robinson spoke on the future of financial inclusion with a focus on the work we do with female clients.
    - In January 2017, Johanna Ryan joined the Women Advancing Microfinance group to lead a roundtable discussion about VisionFund's focus on women and the Women's Empowerment Fund.
    - At the February 2017 Microfinance CEO Working Group, the President of Uganda sent two ministers to engage in the discussions on financial inclusion and what microfinance players can do to help expand coverage. The VisionFund Uganda CEO, Stephen Nnawuba, was asked by the government to co-chair an industry group to explore how together we can close the financial inclusion gap.
    - Ahead of International Women's Day in March 2017, Johanna appeared on British Forces Radio, Premier Christian Radio, and ABN Radio to promote the Women's Empowerment Fund.
    - Johanna joined the Australian NGO Learning Forum in July, an event sponsored by the Australian Council for International Development. She made a presentation titled, 'Women's Empowerment Through Microfinance'.
  - Insurance
    - In January 2017, Stewart McCulloch spoke in a podcast with

Humanosphere (humanitarian online aid publication) on how insurance can protect the poorest communities against climate risks.

- Stewart also spoke at the Future of Small Farms Conference held in January 2017 where he discussed how farmers can benefit from microinsurance which led to coverage in Plantwise.
- In July 2017, Stewart spoke on a panel discussing Climate risk insurance for smallholder farmers at the All-Party Parliamentary Group (APPG) on Agriculture & Food for Development. The event was part of the evidence gathering for a mini-inquiry into climate risk insurance that was presented to the UK Parliament in autumn 2017.
- Technology
  - As an event partner of the October 2016 Financial Inclusion Week, Tom Allen and Justin McAuley presented a webinar titled, 'Putting clients first in a digital world' asking participants to consider the question: 'What's next for digital financial services?'
  - In June 2017, Johanna Ryan and Charlene Chen, COO of BitPesa hosted a webinar in partnership with Financial Inclusion Forum UK to discuss the future of blockchain and financial inclusion.
  - During August and September 2017, VisionFund hosted three talks for the Rural Outreach and Innovation Action Group. Johanna Ryan spoke about the Women's Empowerment Fund, Ndumiso Mpofu provided an overview of the El Niño Recovery Lending project, and Justin McAuley talked through VisionFund's loan customisation software.
- European Microfinance Week, December 2016
  - Rommel Caringal joined a panel to discuss activities in Myanmar; Barry Firth spoke about lessons learned from Azerbaijan and how MFIs should manage risk and Stewart McCulloch talked about the challenge of microinsurance.
- Launch of the inaugural Women's Scholarship Award for VisionFund employees that provides an educational scholarship to women in middle-management roles to develop their skills and confidence in leadership. The award was presented to two employees in May 2017.
- We are a member of Propagate, a coalition of microfinance practitioners with a common goal to help smallholder farmers receive the finance necessary to grow their businesses and work together to build awareness of rural microfinance.
- VisionFund uses Smart Certification from an independent third party that evaluates publicly recognised financial institutions ensuring they meet adequate standards in their treatment of clients. It enables financial institutions to demonstrate adherence to industry standards. It contributes to a more stable financial inclusion industry by encouraging practices to ensure prudent, transparent and respectful treatment of clients. Our MFIs in Bolivia, Bosnia, Cambodia, Ecuador and Serbia have achieved this certification.
- VisionFund Cambodia received the Gold Award from the tax authorities in Phnom Penh in recognition of the high standards of practice within the MFI.





## STRENGTHEN RESOURCE BASE

*Secure strong, flexible funding and capital bases*

VisionFund uses two core types of capital for growing operations – donation/ grant funding for MFI equity capital and MFI debt capital. Donations are generally contributed by individuals while grants are sourced from governments, corporations, foundations and trusts. Debt capital is sourced from third party impact investors, primarily global impact investment vehicles currently.

Like any other financial institution, VisionFund is able to leverage the donation/ grant capital it receives by borrowing from institutional lenders and a number of individuals within levels agreed by the Risk Committee of the VisionFund Board and subject to local MFI regulatory limits.

Accomplishments to date:

- \$6.7 million was raised through donations during 2017 and we are grateful for this partnership with donors and World Vision Support Offices. Donations raised include the following:
  - The THRIVE programme in Zambia received a \$2 million, five-year pledge from a major donor and 25% of the money will be provided to the MFI.
  - The Women's Empowerment Fund raised \$763,000 in FY17 from a standing start. It is a well targeted fund with strong potential providing flexible funding that can be directed to drive greater client gender service focus. By 2021, the funds aims to reach two million women and positively impact six million children.
  - The OneVision Technology Fund raised \$600,000 for system upgrades.
  - World Vision Canada and World Vision DRC support for VisionFund Democratic Republic of the Congo operations for three years.
- VisionFund developed its grant capital over the past few years with an aim to match the capital it received from donations. While grant funding tends to be targeted and less predictable (that is also the case with donations), grants achieved during 2017 included:
  - Grants continue to support VisionFund Myanmar's growth, in FY17 this included awards a two-year grant of \$800,000 from the Livelihoods and Food Security Trust (LIFT) to work with garment workers, \$400,000 from an individual donor to open a branch and \$900,000 from the Australian government for value chain work and a pilot for our work with small and growing businesses (SGB).
  - VisionFund received its first grant from MasterCard Foundation which is funding a pilot that will enable the scale up of savings in Zambia.
- Debt capital is used to leverage donations and grants received, increasing the amounts of money we can lend to our clients by between two-to-five times depending on the level of a MFI's financial sustainability. During 2017, we



successfully broadened our lender base with:

- Increased commitments from our long-term partner, Bank im Bistum Essen, a German co-operative bank, to both VisionFund and our MFI network.
  - A new \$15 million loan from Swiss-based impact investor BlueOrchard Finance to on-lend to our MFI network.
  - Additional debt capital from individuals in the US, loaned under our Promissory Note Programme targeting existing World Vision supporters.
- In addition to the grants and donations received, VisionFund paid back in full the returnable grant it received from the UK Government (DFID) in partnership with World Vision in May 2017, having supported 14,000 clients recover from the effects of El Niño in Africa.
  - The transaction to complete the sale of VisionFund Albania to Fondi Besa was completed in December 2016.
  - It was decided to close down our mass-marketing programme, Micro. During 2017 the programme provided \$1.1 million net income.

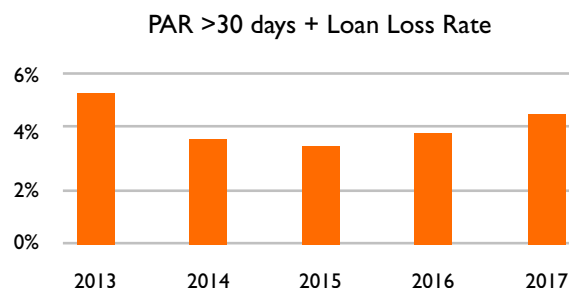
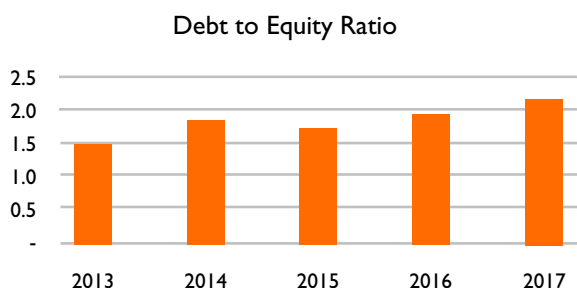
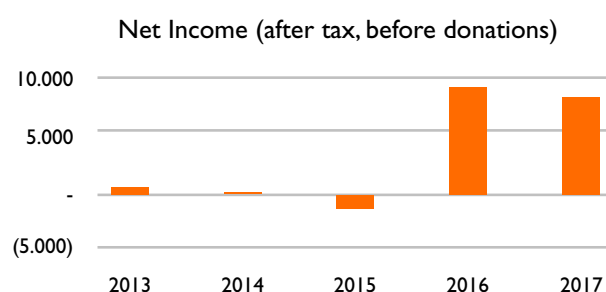
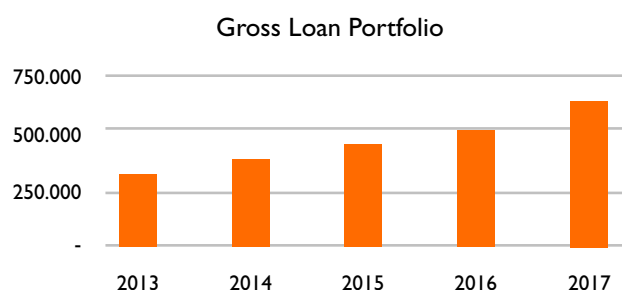


# BUSINESS PERFORMANCE

## OUR IMPACT OVER THE YEARS

The VisionFund Network continued in 2017 to deliver demonstrable impact in the lives of our clients alongside achieving solid growth and positive financial results while maintaining a quality loan portfolio and stable balance sheet. The Network Assets grew 21% year-on-year, ending 2017 with total assets of \$748 million and a gross loan portfolio of \$601 million. The Network disbursed 1.5 million loans worth \$825.7 million with an average initial loan size of \$453 and 97% average collection rate. These loans were made possible by raising donations and grants totalling \$11.3 million and increased borrowings from third parties totalling \$71 million.

All data year ending 30 September in US\$ excluding Azerbaijan\*.



\*During 2016 and prior years, the financial situation in our MFI in Azerbaijan had an adverse impact on our portfolio, net income and other key metrics, and affected comparability between years and therefore is excluded. (Please see notes 15-16 on pages 54-55 for details.)

## KEY NETWORK FIGURES

	US\$m	Full VFI Network (Excluding Azerbaijan)		GAAP Consolidated Network (Excluding Azerbaijan)	
		2017	2016	2017	2016
Assets		748	618	539	446
Gross loans to Clients		601	509	398	331
Net Loans to Clients		588	497	390	322
Savings					
Borrowings		385	314	300	237
Equity		235	214	150	139
Financing Revenue		175	151	131	110
Financing Expense		34	26	29	22
Total Operating Revenue		129	116	97	84
Total Operating Expenses		117	104	93	79
Net Income After Tax, Before Donations		8	9	1	2
Portfolio Yield		31%	32%	29%	32%
Operating Expense Ratio		20%	22%	26%	28%
Loan Delinquencies (PAR>30 days)		1.7%	1.5%	2.8%	2.8%
Loan Loss Rate		2.6%	2.3%	2.4%	1.6%
Ratio of allowances to loans in arrears (PAR>30 days)		88%	96%	80%	91%

# SCORECARD

Our scorecard is the main way that the VisionFund teams and VisionFund's Board set business targets and monitor performance.



Our scorecard reflects the strategic direction of VisionFund and details the performance of VisionFund during the 2017 financial year. In order to succeed and deliver vital financial services to help to improve the lives of children and communities, our scorecard is a self-reinforcing model based on three pillars – Impact, Sustainable Operations and Funding.

## IMPACT

Our mission is to help low-income families in rural communities to build and grow their businesses to provide a better life for their families through the provision of nutritious food, access to healthcare, education for their children and a home with clean water and sanitation.

These measures are indicative of the effect the organisation has on the clients it works with across the globe.

### Children Impacted

2017		4,438,000
2016		4,270,000
Growth		2%

Our strategic target is to positively impact the lives of seven million children each year by 2020. We continue to see positive growth year-on-year to achieve this target.

### Clients Served

2017		1.24 million
2016		1.22 million
Growth		1%

Our mission is to help the vulnerable living on low-incomes better provide for their families. We work with clients in hard-to-reach rural areas that do not have access to formal lending.

### Average Loan Size (entry level clients)

2017		\$453
2016		\$399

By using externally recognised measures such as the Poverty Probability Index, we carefully manage our client lending to ensure that they can easily make their repayments on time and that we do not encourage over indebtedness.

### Female Clients

2017		72%
2016		72%

In the majority of developing countries women are the key caregivers for their families and our 2020 goal is for more than 75% of our clients to be women.

### Rural Clients

2017		67%
2016		69%

People living in rural environments are less likely to have formal lending services and in many cases must depend on borrowing from family, neighbours or, as a last resort, money lenders who charge extreme interest rates. Our strategic goal is to reach these rural communities and for them to represent more than two thirds of our clients.

### Smallholder Farmer Clients

2017		37%
2016		45%

Rural clients will generally depend on agriculture to make their living and by 2020 we aim for more than half of our clients to be smallholder farmers.

During 2017 we improved our tracking of agricultural clients to achieve more accurate borrower numbers which explains the drop since 2016 reporting.

## SUSTAINABLE OPERATIONS

To ensure the company achieves a lasting impact in the lives of our clients, sustainable operations are critical to longevity and mission continuance. The three primary components of sustainability are Operational Scalability (or efficiency), Financial Stability and People.

### Operational Scalability

These measures are indicative of how well the company is performing and scaling operationally against targets agreed by the board of directors.

#### Operational Sustainability

2017		108%
2016		108%

Our target is for the majority of MFIs to be self-sustaining by 2020. While our average operational sustainability is at 108%, a number of MFIs in Africa and Asia are operating at a loss and remediation work is taking place to improve sustainability.

#### Net Income before Donations

2017		\$8.3 million
2016		\$9.2 million

The Network continued to deliver solid financial results for the year driven by improvements in Latin America and Africa.

#### Portfolio Yield

2017		31%
2016		32%

Total portfolio yield in the year ending 2017 decreased from the previous year based in part on growth in markets like Cambodia where client interest rates are declining.

#### Net Interest Revenue

2017		25%
2016		25%

Net interest revenue has remained steady showing ability to manage the growing loan portfolio.

#### Operating Cost Ratio

2017		20%
2016		21%

The Operating Cost Ratio for the year was 20% which was better than planned. This decrease shows the efficiency and scaling potential for the future.

#### Portfolio at Risk >30 days

2017		1.7%
2016		1.5%

During 2017 a number of MFIs in Africa and Asia saw an increase in their portfolio in arrears, measured by Portfolio at Risk greater than 30 days (PAR>30) rates.

## Fraud level

(a percentage of total assets)

2017		0.059%
2016		0.067%

While the value of fraud has fallen by 0.8 basis points, the number of fraud cases across our network has increased this financial year. This will be addressed through better use of operational controls and correct use of the monitoring systems available through the risk management framework.

## Financial Stability

These measures are indicative of how stable the company's balance sheet is in relationship to targets agreed by the board of directors.

### Total Assets

2017		\$748 million
2016		\$618 million
Growth		21%

Total assets grew 21% in the year ending 2017 driven by portfolio growth of \$92 million.

### Total Equity

2017		\$235 million
2016		\$214 million
Growth		10%

Total equity for the VFI Network grew 10% in the year ending 2017.

### Debt-to-Equity Ratio

2017		2.2 times
2016		1.9 times

Debt-to-equity of 2.2 is an increase from the previous year and still within the global strategic risk appetite framework.

### Liquidity

2017		11%
2016		10%

Liquidity has remained steady year on year at 11% and is in line with the global strategic target.

### Risk Coverage Ratio

2017		88%
2016		96%

Risk coverage has decreased and is within the expected range as portfolio at risk is matched with impairment allowance of the loan portfolio.

## People

These measures are indicative of how the company's staff are performing and feeling in relationship to targets agreed by the board of directors.

### Internal Capability

Our confidential annual employee survey, OurVoice, is carried out across the network. The majority of questions are benchmarked by an external vendor CEB and we use the 'Best in Class' norm. This is based on the 90th percentile score for each question asked as the benchmark for comparison purposes.

We are a diverse organisation with more than 8,000 employees from 30 countries with a male to female ratio of 58% to 42% and an average age of 33 years.

With a high survey response rate of 92% of total employees, these measures are indicative of how well the company is investing in its people to deliver against the vision and mission of the company and to help to drive the success of our strategic outcomes.

#### Employee engagement

2017		82%
2016		83%

Our annual survey clearly demonstrates that the employees are highly engaged with a good understanding of how their work is helping the organisation to reach its strategic goals. They tell us that they are happy with the opportunities they have to learn new skills to help them to succeed; they are excited about the future of the organisation and the contribution it makes; and they feel that they are working in an environment that allows them to develop/deepen their Christian faith.

#### Employee development

2017		79%
2016		79%

We are focused on developing employees to enable them to grow their careers within VisionFund. This career progression is provided through onsite training and development courses and workshops, online training courses, mentoring employees and external training courses as appropriate.

We operate open and transparent recruitment processes and actively promote our vacancies internally. During 2017, 57% of all roles were filled from within and the organisation has a target to fill at least 80% of future roles from internal applicants.

#### Employee security

2017		84%
2016		84%

Safeguarding our employees is important to our performance and from our survey results we can see that our employees feel secure in their work.

Every employee must complete an online personal security training module every three years to effectively prepare them to face the risks in our operational contexts and all of our MFIs have a member of staff who will report and address any security threats.

## FUNDING

Adequate, quality and timely funding is critical to growing, maintaining and delivering on the desired impact we seek in the lives of our clients and maintaining a stable and prudent financial base globally.

	Donations	Grants	New Debt
2017	\$6.7 million	\$4.6 million	\$71 million
2016	\$7.8 million	\$5.5 million	\$35 million

Two core types of capital are used for growing operations – donation/grant funding for MFI equity capital and MFI debt capital. Donations are sourced from individuals while grants are from foundations and institutions. Debt capital is sourced from third party impact investors, primarily global impact investment vehicles currently.

Our risk management framework and processes ensure we monitor and manage risks both globally and at the country level and that we maintain a prudent level of capitalisation and risk reserves at the global level for long-term stability. Maintaining the appropriate mix of funding between donations, grants, debt and retained earnings is crucial to long-term success.





# BOARD OF DIRECTORS



**JON HARTLEY**  
*New Zealand*  
VisionFund International  
Board Chair



**INGRID J. M. ALLEMEKINDERS-POLS**  
*Netherlands*  
Partner at EY  
VisionFund International  
Board Vice Chair



**SUANNE MIEDEMA**  
*Canada*  
President  
Miedema's Board Consulting Inc.



**JEAN-BAPTISTE KAMATE**  
*UK*  
Partnership Leader – Global Field  
Operations  
World Vision International



**CHRIS GLYNN**  
*USA*  
Senior Vice President  
Transformational Engagement  
World Vision USA



**STEPHEN LOCKLEY**  
*UK*  
Chief Financial Officer  
World Vision International



**TIFFANY T.F. HUANG**  
*Taiwan*  
Senior Partner & Practices Head  
Baker & McKenzie



**MICHAEL MITHIKA**  
*UK*  
President & CEO  
VisionFund International



**KEVIN JENKINS**  
*UK*  
President & CEO  
World Vision International



**EMMA OSBORNE**  
*UK*  
Formerly Chief Investment Officer,  
International  
The Chubb Corporation

# MANAGEMENT REPORT

## HIGH STANDARDS OF GOVERNANCE UNDERPIN OUR SUCCESS

With almost 15 years' experience leading World Vision's microfinance network, VisionFund International (VFI) is the primary owner and operator of World Vision's microfinance institutions (MFIs) located across the globe. To meet WV's policy requirements on ownership of MFIs, most of the MFIs have been converted from non-governmental organisations (NGOs) to limited liability companies (LLCs).

Having effective governance oversight at VFI and in our MFIs is vital to accomplishing our objectives. We start with a clear global governance model and framework which lays out the roles of VFI and the local boards.

Our boards consist of committed Christians with diverse membership, skills and experience. At the MFI level, we continue to develop our boards through training by the VFI Governance department. During 2017, 11 of our MFI boards received training. We are pleased to observe that these actions have resulted in notable increases in board effectiveness over the past few years.

Local Boards affirm the contribution of the central VFI team as experts in the many technical areas required by the MFIs. VFI in turn appreciates the professionalism, connections with regulators and local partners and the specific business knowledge that our local board members provide. We are grateful for the many hours of voluntary service these professionals contribute.

In addition to our boards of directors across our MFI network, VFI has a robust group of financial, business and thought leaders amongst its global board. These individuals provide decades of collective experience that drive oversight and direction to the entire network. Through the Governance and Nominating Committee, Audit and Risk Committee, and Social Performance Committee, much of VFI's strategic direction, risk oversight and social performance is developed and monitored.

## OPERATIONAL EXCELLENCE WITH STRONG RISK MANAGEMENT

The Global Centre Team of roughly 90 individuals, distributed across over 20 locations around the globe, is made up of banking and microfinance specialists along with development leaders. The team recognises that in order to improve the lives of poor people through microfinance, we need top quality MFIs that

operate in a disciplined fashion adhering to strict standards. Now recognised as one of the strongest operators in the world, VFI provides technical support and oversight combining operations, finance, IT, and people and culture.

At VFI, managing strategic, financial, market, liquidity and operational risks is key to meeting our objectives. Our Risk Management Framework guides staff at VFI, and in each of the MFIs, through measuring and evaluating risk. The amount of risk VFI is willing to undertake is defined by our Risk Appetite Statement while our global and local risk registers identify the most significant risks we face and the mitigating strategies to address them.

Senior executives bring banking and microfinance experience and discipline, ensuring that risk and operational excellence is provided through structures such as the Management Risk Committee, Performance & Investment Committee, Loan Committee and Asset Liability Committee. Ultimately, our independent audit function carries out periodic reviews as well as providing development and oversight of local MFI auditors and annual programmes.

Our lenders tell us that VFI's strong oversight of its MFIs provides them with great comfort that the risk they undertake is well-managed. They value the role that VFI Global Centre plays not only in ensuring excellent governance standards, but also in terms of innovation. VFI's teams spend time in the field understanding the challenges faced by the clients and lenders recognise that this understanding enables us to develop effective interventions in line with fulfilling our mission.

As a global finance organisation, VFI works in over 30 foreign currencies, with little access to market instruments for trading and hedging. This means that VFI faces currency risks both at the head office level through its lending to MFIs in local currency, and at the MFI level through their borrowing of funds. In 2016, VFI partnered with MFX Solutions to increase access to hedging facilities for currencies not commonly supported by standard commercial counterparties. This has allowed VFI to reduce currency risk throughout the network and provide more stable funding to our MFIs.

## SOCIAL PERFORMANCE MEASUREMENT

Identifying, collecting and monitoring social performance data

helps us keep focused on our goal of impacting children. This is central to our work and allows us to measure our progress towards it.

Our Social Performance Scorecard measures include the poverty levels of incoming clients and changes in poverty over time, child numbers and parent-reported outcomes, client education delivered, the gender mix of clients and client satisfaction surveys. These initiatives are being undertaken as we work to dive deeper and measure our effectiveness. World Vision has identified child well-being outcomes to assess the success of its development efforts in the field. As World Vision's global microfinance arm, we gather client data to better understand the impact of our services on clients' children in areas such as improved education, sanitation, drinking water and access to food and healthcare.

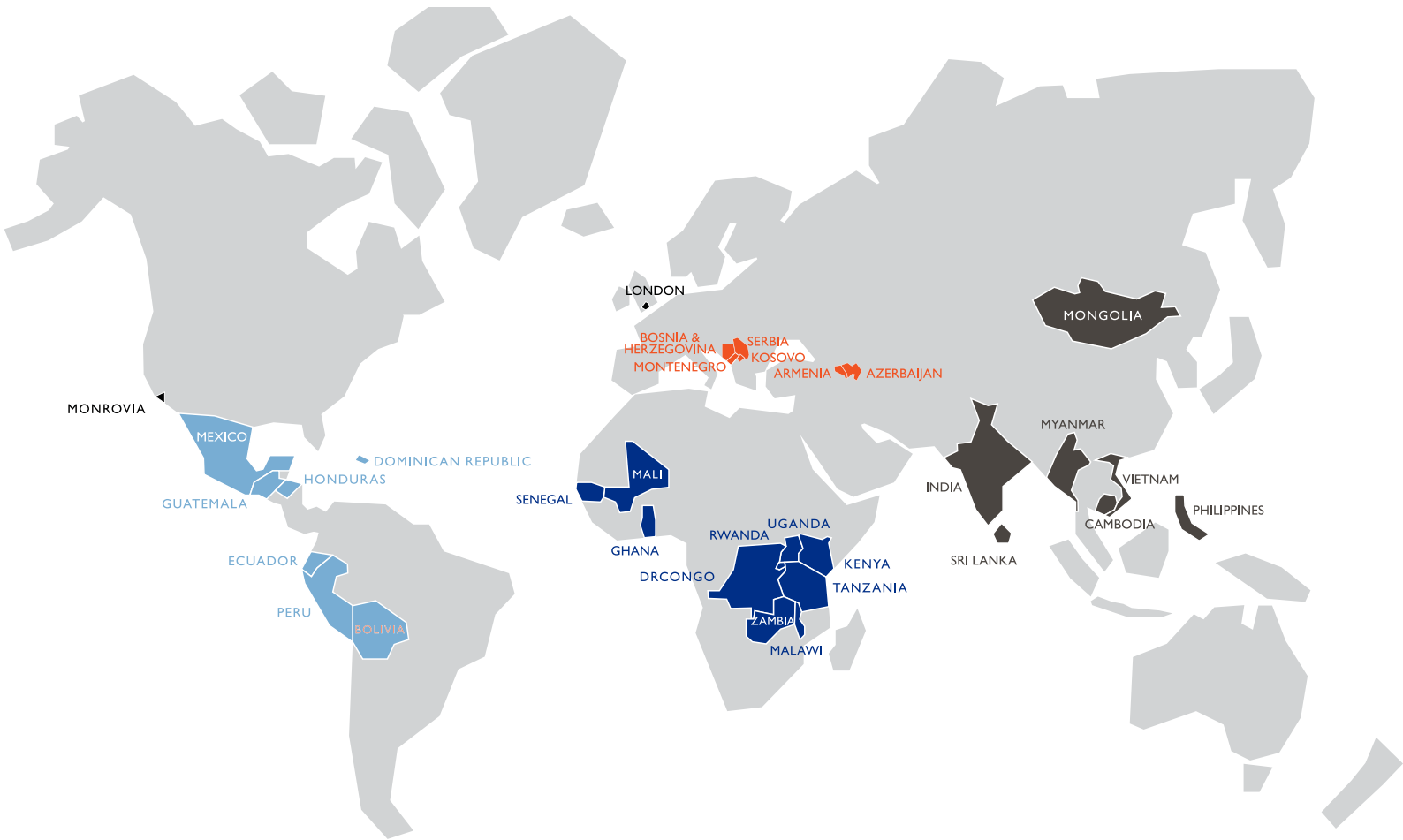
Social performance is at the heart of the work that we do. Details are shared throughout this report.





## **ACCOUNTABILITY DISCLOSURES**

For the latest information and update on our accountability disclosures, please visit: [www.vflink.it/accdisc](http://www.vflink.it/accdisc)



# OUR GLOBAL FAMILY



-  AFRICA
-  LATIN AMERICA
-  ASIA
-  EASTERN EUROPE

# CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

## VISIONFUND INTERNATIONAL AND SUBSIDIARIES

September 30, 2017 and 2016

(With Independent Auditors' Report Thereon)





## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
VisionFund International and Subsidiaries:

We have audited the accompanying consolidated financial statements of VisionFund International and subsidiaries (a wholly controlled subsidiary of World Vision International), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of VisionFund Ecuador as of September 30, 2017 and 2016. These statements reflect total assets constituting 9% of consolidated total assets at September 30, 2017 and 2016, and total revenues constituting 7% of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for VisionFund Ecuador is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,

whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, based on our audits and the reports of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of VisionFund International and subsidiaries as of September 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

### Other Matter

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

March 31, 2018

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Financial Position - September 30, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 61,237,437	54,256,923
Investments (note 3)	26,809,998	15,842,019
Interest receivable	8,011,505	6,674,256
Accounts receivable	4,622,168	3,447,366
Loans to affiliated Microfinance Institutions, net of allowance for loan losses of \$2,737,933 as of September 30, 2017 and 2016, respectively (note 5)	21,298,402	23,045,551
Loans to Microfinance Institution clients, net of allowance for loan losses of \$8,851,703 and \$32,548,655 as of September 30, 2017 and 2016, respectively (note 5)	389,571,843	326,920,363
Restricted cash and investments (notes 3 and 14)	4,128,937	3,559,401
Property, plant, and equipment, net (note 6)	13,160,027	12,457,990
Other assets	12,142,872	8,567,816
<b>Total assets</b>	<b>\$ 540,983,189</b>	<b>454,771,685</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses (note 13)	9,654,627	16,356,988
Interest payable	7,433,696	4,003,557
Deposits from Microfinance Institution clients	59,414,993	44,333,090
Notes payable (note 7)	322,245,981	262,293,379
Other liabilities	14,648,389	5,763,483
<b>Total liabilities</b>	<b>\$ 413,397,686</b>	<b>332,750,497</b>
<b>Net Assets</b>		
Unrestricted net assets – Controlling interest (note 8)	130,352,143	124,755,725
Unrestricted net assets – Noncontrolling interest (note 8)	(5,290,126)	(2,994,030)
Total unrestricted net assets	125,062,017	121,761,695
Temporarily restricted net assets (note 11)	2,523,486	259,493
Total net assets	127,585,503	122,021,188
Total liabilities and net assets	<b>\$ 540,983,189</b>	<b>454,771,685</b>

See accompanying notes to consolidated financial statements.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Activities - Years ended September 30, 2017 and 2016

<b>Unrestricted net assets:</b>	<b>2017</b>	<b>2016</b>
Operating revenue:		
Interest, fees, and commission revenue	\$ 131,789,136	116,479,531
Interest, fees, and commission expense (note 9)	(31,345,520)	(24,431,385)
Net financial income	100,443,616	92,048,146
Provision for loan losses (note 5)	(8,292,486)	(37,275,066)
Funds recovered from loans written off	2,355,690	2,122,238
Net financial income after provision for loan losses	94,506,820	56,895,318
Other operating income	2,224,226	2,337,122
Total revenue from operations	96,731,046	59,232,440
Operating expense (notes 3, 5 and 9):		
Salaries and benefits	58,964,547	54,851,479
Supplies, copying, and printing	2,291,603	2,406,814
Professional fees	5,188,141	4,167,867
Communication expense	2,417,366	2,178,840
Occupancy expense	7,612,271	6,492,514
Travel and transportation	7,518,083	6,212,420
Depreciation	3,873,163	3,173,218
Training and technical assistance	1,188,160	1,596,014
Other operating expenses	9,570,406	6,573,761
Total operating expenses	98,623,740	87,652,927
Operating loss before taxes and other nonoperating changes in unrestricted net assets	(1,892,694)	(28,420,487)
Tax expense (note 9)	3,534,930	3,849,886
Net operating loss	(5,427,624)	(32,270,373)
Other nonoperating changes in unrestricted net assets:		
Unrestricted contributions (note 11)	13,523,325	14,198,614
Amounts granted to affiliated microfinance institutions	(726,318)	(2,631,733)
Contributed net assets (notes 8 and 12)	—	9,569,654
Foreign currency translation losses	(3,871,629)	(5,171,735)
Foreign currency transaction losses	(1,386,154)	(2,777,682)
Net assets released from restriction	516,316	2,341,768
Loss on sale of subsidiary (note 10)	(1,008,481)	—
Gain on release from liabilities (note 15)	—	4,878,397
Other nonoperating income	1,680,887	—
Net change in unrestricted net assets	3,300,322	(11,863,090)
Temporarily restricted net assets:		
Restricted contributions	2,780,309	259,493
Net assets released from restriction	(516,316)	(2,341,768)
Net change in restricted net assets	2,263,993	(2,082,275)
Change in net assets	5,564,315	(13,945,365)
Net assets, beginning of year	122,021,188	135,966,553
Net assets, end of year	\$ 127,585,503	122,021,188



# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Cash Flows - Years ended September 30, 2017 and 2016

<b>Cash flows from operating activities:</b>	<b>2017</b>	<b>2016</b>
Change in net assets	\$ 5,564,315	(13,945,365)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash net assets from contributed entity	—	(6,278,153)
Depreciation expense	3,873,163	3,173,218
Provision for loan losses	8,292,486	37,275,066
Foreign currency revaluation	5,588,413	695,485
Gain on forward contracts	794,789	1,037,779
Gain on restructured notes payable	—	(4,878,397)
Loss on disposal of equipment	769,779	385,135
Change in assets and liabilities:		
Interest receivable	(1,380,199)	137,441
Accounts receivable	(1,179,921)	(233,662)
Other assets	(3,677,002)	(995,403)
Investment in affiliates	—	600,000
Accounts payable and accrued expenses	(6,659,864)	(7,417)
Interest payable	3,440,991	(5,958,224)
Other liabilities	8,216,140	2,158,224
<b>Net cash provided by operating activities</b>	<b>23,643,090</b>	<b>13,165,727</b>
Cash flows from investing activities:		
Purchase of equipment	(5,555,617)	(6,553,825)
Distribution of loans	(605,606,613)	(504,381,746)
Proceeds from loan portfolio repayment	529,020,613	470,156,951
Purchases of investments	(39,113,357)	(62,967,063)
Proceeds from sales of investments	27,315,846	68,044,782
Proceeds from sale of subsidiary	520,000	—
Taxes and settlement costs from sale of subsidiary	(119,351)	—
<b>Net cash used in investing activities</b>	<b>(93,538,479)</b>	<b>(35,700,901)</b>
Cash flows from financing activities:		
Proceeds from notes payable	159,658,662	88,949,867
Payments on notes payable	(98,124,655)	(91,111,725)
Deposits from Microfinance Institution clients	15,081,903	14,677,143
<b>Net cash provided by financing activities</b>	<b>76,615,910</b>	<b>12,515,285</b>
<b>Net increase (decrease) increase in cash and cash equivalents</b>	<b>6,720,521</b>	<b>(10,019,889)</b>
Cash and cash equivalents, beginning of year	54,516,916	64,536,805
Cash and cash equivalents, end of year	\$ 61,237,437	54,516,916
Summary of cash and cash equivalents at end of year:		
Cash and cash equivalents	\$ 61,237,437	54,256,923
Restricted cash and cash equivalents (note 2)	—	259,993
<b>Total cash and cash equivalents at end of year</b>	<b>\$ 61,237,437</b>	<b>54,516,916</b>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 27,915,381	30,046,064
Cash paid during the year for taxes	4,134,404	2,837,219

See accompanying notes to consolidated financial statements.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

## (I) ORGANIZATION AND PRINCIPAL ACTIVITIES

VisionFund International (VFI) and its consolidated subsidiaries (collectively, the Organization) is a wholly controlled subsidiary of World Vision International (World Vision), a corporation which is organized exclusively for purposes which are both religious and charitable, namely to witness to Jesus Christ by life, deed, word, and sign by rendering holistic Christian service throughout the world among the poor without regard to race, color, creed or sex.

To allow for more sustainable development, World Vision began the micro-enterprise development loan program through local microfinance institutions (MFIs). World Vision established VFI for the purpose of providing central governance, financial and technical support for all affiliated MFIs. These MFIs assist smallholder farmers, entrepreneurs and small business in disadvantaged markets through the provision of financial services such as credit, savings and insurance.

The majority of World Vision's affiliated MFIs are directly owned and controlled by VFI. These consolidated financial statements include the following entities:

<b>NAME</b>	<b>COUNTRY</b>
SEF International Universal Credit Organization LLC (SEF)	Armenia
VisionFund Azercredit LLC (VF Azercredit) (note 15)	Azerbaijan
VisionFund Cambodia Ltd. (VF Cambodia)	Cambodia
VisionFund DRC (VF DRC) (note 12)	Democratic Republic of the Congo
VisionFund Republica Dominicana (VFRD)	Dominican Republic
VisionFund Ecuador (VF Ecuador) (note 12)	Ecuador
VisionFund Ghana (VF Ghana)	Ghana
VisionFund Guatemala (VF Guatemala)	Guatemala
FUNED VisionFund OPDF (FUNED)	Honduras
VisionFund Kenya Ltd. (VF Kenya)	Kenya
VisionFund Ltd. (VF Malawi)	Malawi
VisionFund Mexico S.A. de C. V., SOFOM, E.N.R. (VF Mexico)	Mexico
VisionFund Mongolia (VF Mongolia)	Mongolia
VisionFund AgrolInvest LLC (AI Holding)	Montenegro
MFI Monte Credit LLC (VF Montenegro)	Montenegro
VisionFund Myanmar (VF Myanmar)	Myanmar
EDPYME CrediVision S.A. (CrediVision)	Peru
VisionFund Rwanda (VF Rwanda)	Rwanda
VisionFund Senegal (VF Senegal)	Senegal
AgrolInvest Fond LLC (VF Serbia)	Serbia
AgrolInvest Foundation Serbia (NGO Serbia)	Serbia
VisionFund Holdings (Private) Ltd. (VFL Holding)	Sri Lanka
VisionFund Lanka Ltd. (VF Lanka)	Sri Lanka
VisionFund Tanzania, MFC (VF Tanzania)	Tanzania
VisionFund Uganda Ltd. (VF Uganda)	Uganda
VisionFund Zambia Ltd. (VF Zambia)	Zambia

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

The primary activity of the subsidiaries is to provide commercially oriented microfinance services aiming to alleviate poverty and stimulate the creation of employment opportunities for the poor, particularly in areas of World Vision ministry.

## **(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Basis of Consolidation**

The consolidated financial statements of the Organization include the accounts of VFI and its subsidiaries, which are controlled and majority owned by VFI. All significant intercompany accounts and transactions have been eliminated.

### **(b) Basis of Presentation**

The consolidated financial statements of the Organization are prepared on the accrual basis of accounting. Net assets of the Organization are reported within the following categories:

**Unrestricted Net Assets, Controlling Interest** – Unrestricted net assets, controlling interest represent those resources of the Organization that are not subject to donor-imposed restrictions. The only limits on unrestricted net assets are broad limits that are consistent with the nature of the Organization and the purposes specified in its articles of incorporation or bylaws.

**Unrestricted Net Assets, Noncontrolling Interest** – Unrestricted net assets, noncontrolling interest represent the portion of the Organization's resources attributable to noncontrolling shareholders of consolidated subsidiaries. The value of the noncontrolling interest is based on the ownership percentage of the noncontrolling shareholders in the respective subsidiaries.

**Temporarily Restricted Net Assets** – Temporarily restricted net assets represent contributions and other inflows of assets, which are subject to donor-imposed restrictions that can be fulfilled by actions of the Organization or by the passage of time. As of September 30, 2017 and 2016, temporarily restricted net assets relate to project use restrictions on contributions received.

Expenses are reported as decreases in unrestricted net assets. Expiration of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. A restriction expires when the stipulated time period has elapsed, when the purpose for which the resource was restricted has been fulfilled, or both.

### **(c) Revenue Recognition and Net Asset Contributions**

Revenue is recognized when it is realized or realisable, and earned. This concept is applied to the key revenue generating activities of the Organization as follows:

**Interest, Fees, and Commissions** – Interest from interest-bearing assets is recognized on the accrual basis over the life of the asset based on an effective interest rate. Fees and commissions are recognized as income using the effective-interest method.

**Contributions** – Contributions and unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized as contributions and receivables when the conditions are substantially met. Unrestricted contributions from affiliated support entities and nonaffiliated aid agencies are for the purpose of funding microfinance work in various affiliated MFIs as well as increasing the pool of funds made available to the poor in the Organization's area of operations.

**Contributed Net Assets** – Contributed net assets result from contributions or transfers of ownership of World Vision affiliated MFIs to the Organization. The net asset contribution is recorded at carrying value on the date of acquisition or transfer. The Organization reflects the net carrying value of these contributed MFIs as nonoperating increases to net assets in the accompanying consolidated statements of activities.

### **(d) Amounts Granted to Affiliated MFIs**

The Organization contributes funds to affiliated MFIs for the purpose of funding lending activities, operations, and acquisition of capital assets by the MFIs. These expenses are recognized when promised.

## VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

### (e) Geographic Area of Operations

VFI's mission of providing financial services to the poor takes the Organization to various foreign regions. Included in the accompanying consolidated statements of financial position are the net assets of each entity, which are located in the following countries with the following net asset (deficit) balances as of September 30, 2017 and 2016:

COUNTRY	2017	2016
United States	\$ 25,323,172	30,336,344
Cambodia	33,825,919	30,276,010
Georgia	2,289,447	2,289,447
Montenegro	7,654,635	7,440,595
Azerbaijan (note 15)	(23,260,388)	(18,021,492)
Armenia	5,195,671	5,070,120
Albania	—	436,498
Zambia	3,588,614	2,650,718
Mexico	2,968,107	2,461,915
Peru	1,529,236	1,660,433
Netherlands	—	19,229
Tanzania	11,903,686	11,528,762
Kenya	2,335,111	2,406,924
Malawi	2,275,912	1,769,850
Uganda	4,721,283	4,474,025
Honduras	4,558,765	3,844,475
Sri Lanka	5,985,892	5,576,632
Rwanda	1,500,101	1,487,258
Ghana	2,227,061	2,346,685
Mongolia	2,132,224	2,273,718
Dominican Republic	2,716,298	2,271,017
Myanmar	5,712,282	5,258,289
Ecuador	13,523,432	12,213,599
Guatemala	2,210,512	280,482
Democratic Republic of the Congo	4,279,766	1,669,655
Senegal	2,388,765	—
	\$ 127,585,503	122,021,188

VFI employs staff in various international locations, including several staff based in a branch office located and registered in the United Kingdom.

### (f) Tax status

VFI is organized as a nonprofit organization under the laws of the State of California and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. However, VFI remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements as a whole.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*, and establishes for all entities, including pass-through entities, minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction) and requires certain expanded tax disclosures. No such uncertain tax positions exist for the Organization at September 30, 2017 and 2016.

The subsidiaries are subject to their respective local tax laws. Taxes recorded in the accompanying consolidated financial statements consist entirely of non-U.S. taxes related to the operations of the foreign subsidiaries.

## **(g) Cash and Cash Equivalents**

For purposes of reporting cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less at date of purchase to be cash and cash equivalents. This includes cash and cash equivalents, which are subject to restrictions.

As of September 30, 2017, there were no restricted cash and cash equivalents. As of September 30, 2016, restricted cash and cash equivalents totaled \$259,493. These funds are related to contributions held for restricted use.

## **(h) Investments**

Investments are recorded at fair value. Gains and losses on investments are recorded as increases or decreases in unrestricted net assets unless their use is limited by donor-imposed restrictions.

## **(i) Loan Portfolio**

The loan portfolio balances consist of loans made by the Organization to affiliated independent MFIs, as well as loans made by the Organization to the entrepreneurial poor through subsidiaries in their respective areas of operation.

For loans to affiliated MFIs, management evaluates the adequacy of the allowance for loan loss on a periodic basis and determines the amount, if any, of the provision for loan losses to be recorded. The evaluation of the adequacy of the allowance includes a review of the respective MFI's delinquency rates, historic write-offs, liquidity, and financial and operational strength.

For loans to MFI clients, the management of the respective MFI determines the adequacy of the allowance for loan losses each month. The adequacy is determined by evaluating the aged outstanding balances of loans receivable and recording a provision for loan loss as necessary. The provisions are based on the MFI's past experience and historical performance of the portfolio. Loans deemed uncollectible (write-offs) are removed from the outstanding loan portfolio and deducted from the allowance. The ultimate recovery of all loans is susceptible to future market factors often beyond the Organization's control. These factors may result in losses or recoveries differing significantly from those provided in the accompanying consolidated financial statements.

Loans over 30 days past due are considered to be nonperforming.

## **(j) Property, Plant, and Equipment, Net**

Property, plant, and equipment are recorded at historical cost less accumulated depreciation.

Depreciation is provided on the straight-line basis over the estimated useful life of the assets.

Equipment is depreciated over 3 to 10 years for motor vehicles, 3 to 5 years for computers and communications equipment, and 3 to 10 years for furniture and equipment. Repair and maintenance costs of property, plant, and equipment are capitalized if they result in substantial improvement in value or extend the useful life of the asset. Other repair and maintenance costs are charged as expenses are incurred.

## **(k) Foreign Currency Adjustments**

### **(i) Foreign Currency Translation Losses**

The assets and liabilities of the subsidiaries are generally denominated in each country's local currency and

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - September 30, 2017 and 2016

translated into U.S. dollars at period-end exchange rates, where applicable. The accompanying consolidated statements of activities and cash flows are translated using average exchange rates during the respective periods. The resulting translation adjustments are recorded as nonoperating changes in unrestricted net assets in the accompanying consolidated statements of activities. As of September 30, 2017 and 2016, the net assets of subsidiaries denominated in local currency and subject to translation adjustments totaled \$102,262,331 and \$91,684,844, respectively. For the years ended September 30, 2017 and 2016, due to the general appreciation in the exchange rate of the U.S. dollar against the local currencies of the subsidiaries, translation losses totaled \$1,386,154 and \$2,777,682, respectively.

### **(ii) Foreign Currency Transaction Losses**

Foreign currency transaction gains or losses result from transactions in foreign currencies.

Fluctuations in the exchange rate between the foreign currency and the local currency result in foreign currency transaction gains or losses. For the years ended September 30, 2017 and 2016, transaction losses totaled \$3,871,629 and \$5,171,735, respectively.

### **(l) Foreign Exchange Currency Contracts**

The Organization has a number of loans denominated in foreign currency. In order to protect against fluctuations in such currencies, the Organization has entered into certain foreign currency forward contracts, which provide for the future exchange of funds at agreed-upon rates. Unrealized gains or losses on forward currency derivatives are recorded at fair value based on current market exchange rates for foreign currencies.

At September 30, 2017 and 2016, the Organization had in place foreign currency contracts totaling \$58,908,803 and \$21,671,096, respectively. As of September 30, 2017 and 2016, the Organization recorded liabilities of \$710,734 and assets of \$84,055, respectively, as part of other assets or other liabilities associated with foreign exchange currency contracts. The resulting losses and gains are recorded as nonoperating changes in unrestricted net assets in the accompanying consolidated statements of activities.

### **(m) Deferred Income**

Deferred income, included in other liabilities in the consolidated statements of financial position, represents loan origination or commission fees received in advance of amounts earned and recognized.

### **(n) Use of Estimates**

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure 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. Actual results could differ from those estimates. Material estimates relate primarily to the determination of the allowance for loan losses.

### **(o) Risks and Uncertainties Related to Investments**

Investments securities are exposed to various risks such as interest rate, market, currency, and credit risks. Due to the level of risk associated with investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

## (3) INVESTMENTS

Investments consist of investments held at banks for short-term lending and funding needs. As of September 30, 2017 and 2016, the fair value of investments is as follows:

<b>FOREIGN BANK TIME DEPOSITS</b>	<b>2017</b>	<b>2016</b>
Unrestricted	\$ 26,809,998	15,842,019
Restricted (note 14)	4,128,937	3,299,408
<b>Total investments</b>	<b>\$ 30,938,935</b>	<b>19,141,427</b>

## (4) FAIR VALUE MEASUREMENTS

ASC Topic 820, Fair Value Measurement, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the placement in the fair value hierarchy of assets that are measured at fair value on a recurring basis:

	<b>2017</b>	<b>2016</b>
Significant other observables inputs (Level 2):		
Assets:		
Foreign bank time deposits:		
Sri Lanka	\$ 16,876,598	—
Serbia	4,128,937	3,299,408
Kenya	1,837,938	2,603,003
Armenia	1,795,129	2,470,105
Tanzania	1,639,403	1,041,951
Ghana	1,238,478	1,334,620
Honduras	1,100,000	1,343,000
Peru	901,267	1,205,347
Ecuador	748,020	3,737,023
Uganda	277,155	884,027
Rwanda	235,989	—
Dominican Republic	110,021	—
Cambodia	50,000	993,251
Montenegro	—	229,692
<b>Total Investments</b>	<b>\$ 30,938,935</b>	<b>19,141,427</b>
Liabilities:		
Foreign exchange currency contracts	\$ —	84,055
Foreign exchange currency contracts	\$ 710,734	—

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

For the valuation of foreign currency time deposits and foreign bank time deposits, the Organization used significant other observable inputs, particularly pricing for similar investments with the same maturities (Level 2).

The fair value of assets related to foreign exchange currency contracts is determined through the use of models or other valuation methodologies (including observation of prevailing market exchange rates for foreign currencies). Accordingly, these contracts are classified within Level 2.

## (5) LOAN PORTFOLIO

### (a) Loans to Affiliated Microfinance Institutions

Amounts in loans to affiliated MFIs represent funds lent by the Organization to affiliated, independent (unconsolidated) MFIs for further lending to micro entrepreneurs. As of September 30, 2017 and 2016, these loans totaled \$24,036,335 and \$25,783,484, respectively. Interest rates for loans to MFIs by the Organization range from 0% to 13.75%, depending on the current U.S. interest rates and the currency of the loan. As of September 30, 2017, these loans are scheduled for repayment as follows:

Fiscal year:		Principal payment schedule
2018	\$	16,267,335
2019		7,016,698
2019		752,302
		24,036,335
Less allowance for loan losses		(2,737,933)
Loans to affiliated MFIs, net	\$	21,298,402

Changes in the allowance for loan losses for the years ended September 30, 2017 and 2016 are as follows:

Allowance for loan losses	2017	2016
Beginning of year	\$ 2,737,933	1,356,568
Provision for loan losses	—	1,381,365
End of year	\$ 2,737,933	2,737,933

Loans to affiliated MFIs were concentrated in the following regions as of September 30, 2017 and 2016:

Region of operations	2017	2016
Middle East/Eastern Europe	\$ 10,491,406	9,209,704
Africa	5,838,816	4,291,297
Asia/Pacific	3,870,261	3,963,403
Latin America/ Caribbean	3,835,852	8,319,080
	\$ 24,036,335	25,783,484



# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

The Organization evaluates its loans receivable using conforming or nonconforming as the primary credit quality indicator. Nonconforming refers to those loans that are internally classified by the Organization as substandard. These assets pose higher risk and elevated probability of default. Conforming refers to all loans not considered nonconforming. The Organization evaluates various criteria for determining whether a loan is conforming or nonconforming on an annual basis. The table below presents credit quality indicators related to the Organization's loans to affiliated MFIs at September 30, 2017 and 2016:

<b>Risk Ratings</b>	<b>2017</b>	<b>2016</b>
Conforming	\$ 15,973,393	18,119,290
Nonconforming	8,062,942	7,664,194
Total	\$ 24,036,335	25,783,484

The Organization generally evaluates its loans receivable collectively for impairment.

## **(b) Loans to Microfinance Institution Clients**

Amounts in loans to MFI clients represent funds lent to the entrepreneurial poor in the subsidiaries' respective areas of operation. For the years ended September 30, 2017 and 2016, the Organization's loans to MFI clients totaled \$398,423,546 and \$359,469,018, respectively. The allowance for loan loss as of September 30, 2017 and 2016 was \$8,851,703 and \$32,548,655, respectively. These loans consist of funds lent to entrepreneurial individuals, solidarity groups, and community banks for the purpose of furthering economic development in the communities served. The average loan amount varies by country from \$240 to \$3,100. These loans have terms commonly ranging from 1 to 48 months, their weighted average maturities being approximately 20 months. Interest rates on the outstanding loans vary by country due to varying inflation rates and operating environments. For the years ended September 30, 2017 and 2016, the weighted average annual interest rates charged were 29% and 32%, respectively.

Loans to MFI clients were concentrated in the following regions as of September 30, 2017 and 2016:

<b>Region of operations</b>	<b>2017</b>	<b>2016</b>
Asia/Pacific	\$ 220,529,024	184,588,528
Latin America/ Caribbean	99,309,029	74,784,246
Middle East/Eastern Europe	30,219,642	58,901,502
Africa	48,365,851	41,194,742
	\$ 398,423,546	359,469,018

The Organization has identified the Africa region as having an elevated repayment risk as compared to the other regions.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

An aging analysis of loans to MFI clients as of September 30, 2017 is as follows:

	<b>Outstanding balance</b>	<b>Allowance for loan losses</b>
Current or less than 30 days past due	\$ 387,361,359	2,230,356
31–60 days past due	2,089,234	515,950
61–90 days past due	1,420,102	445,256
91 days or more past due	7,552,851	5,660,141
	<u>\$ 398,423,546</u>	<u>8,851,703</u>

An aging analysis of loans to MFI clients as of September 30, 2016 is as follows:

	<b>Outstanding balance</b>	<b>Allowance for loan losses</b>
Current or less than 30 days past due	\$ 322,094,755	2,442,621
31–60 days past due	1,769,956	443,528
61–90 days past due	1,173,219	330,558
91 days or more past due	12,842,254	11,036,093
Restructured loans (note 15)	21,588,834	18,295,855
	<u>\$ 359,469,018</u>	<u>32,548,655</u>

The Organization generally evaluates its credit quality based on the aging of loans and considers loans over 91 days as impaired. Loans to MFI clients are evaluated collectively for impairment.

As of September 30, 2017 and 2016, loans 91 days or more past due totaling \$7,552,851 and \$12,842,254, respectively, were not accruing interest. Loans on nonaccrual status are not restored to accrual status unless they become current and full payment is expected.

Loans are written off when they are deemed to be uncollectible. Generally, the Organization considers loans 180 days or more past due to be uncollectible. Operational collection efforts continue past the point of write-off. Any funds recovered from loans written-off are recorded as revenue in the consolidated statements of activities.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

Changes in the allowance for loan losses for the years ended September 30, 2017 and 2016 are as follows:

<b>Allowance for loan losses</b>	<b>2017</b>	<b>2016</b>
Beginning of year	\$ 32,548,655	9,071,173
Loans written off	(30,670,530)	(8,655,750)
From contributed (sold) entity	(58,965)	1,340,364
Provision for loan losses	8,292,486	35,893,701
Currency revaluation	(1,259,943)	(5,100,833)
End of year	\$ 8,851,703	32,548,655

During the year ended September 30, 2017, the outstanding past due and restructured loans of VF Azercredit totaling \$22,014,904 were written off (note 15).

## (6) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are located primarily at the sites of operations of the subsidiaries and consist of the following at September 30, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Land and buildings	\$ 3,361,811	2,466,757
Equipment	6,598,219	5,949,073
Vehicles	5,551,497	5,128,011
Computers and software	12,282,014	11,449,927
	27,793,541	24,993,768
Less accumulated depreciation and amortization	(14,633,514)	(12,535,778)
Total	\$ 13,160,027	12,457,990

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

## (7) NOTES PAYABLE

Notes payable represent funding from various foundations, individuals, affiliates, and banking organizations, which extended loans to the Organization to provide support for its activities. As of September 30, 2017, of the \$322,245,981 outstanding, \$8,000,000 was lent to the Organization by World Vision. As of September 30, 2016, of the \$262,293,379 outstanding, \$13,000,000 was lent to the Organization by World Vision. Interest rates on notes payable vary by country and currency. The following are the interest rates on these loans as of September 30, 2017 and 2016:

September 30, 2017			September 30, 2016		
Number of loans	Total loan value	Interest Rates	Number of loans	Total loan value	Interest Rates
119	\$ 53,483,456	0.0% to 5.0%	83	\$ 39,397,806	0.0% to 5.0%
243	213,555,543	5.1% to 10.0%	175	172,890,231	5.1% to 10.0%
108	39,424,171	10.1% to 15.0%	76	37,888,553	10.1% to 15.0%
30	15,782,811	over 15.0%	20	12,116,789	over 15.0%
	<u>\$ 322,245,981</u>			<u>\$ 262,293,379</u>	

The following loans outstanding as of September 30, 2017 are scheduled for repayment as follows:

Fiscal Year	Principal payment schedule
2018	\$ 126,369,834
2019	110,510,681
2020	65,609,151
2021	8,924,610
2022	3,042,717
2023 and beyond	7,788,988
	<u>\$ 322,245,981</u>

As of September 30, 2017, notes payable are unsecured with the exception of \$25,247,189 in loans that have been guaranteed by the assets of the Organization.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

## (8) UNRESTRICTED NET ASSETS

Changes in unrestricted net assets for the year ended September 30, 2017 are as follows:

	Total	Controlling interest	Noncontrolling interest
Balance, October 1, 2016	\$ 121,761,695	124,755,725	(2,994,030)
Transfers to noncontrolling interest	—	230,888	(230,888)
Excess (deficiency) of revenues over expenses	2,784,006	4,849,214	(2,065,208)
Net assets released from restriction	516,316	516,316	—
Balance, September 30, 2017	\$ 125,062,017	130,352,143	(5,290,126)

Changes in unrestricted net assets for the year ended September 30, 2016 are as follows:

	Total	Controlling interest	Noncontrolling interest
Balance, October 1, 2015	\$ 133,624,785	122,087,601	11,537,184
Transfers to noncontrolling interest	—	(348,010)	348,010
Deficiency of revenues over expenses	(23,774,512)	(8,561,357)	(15,213,155)
Contributed net assets (note 12)	9,569,654	9,235,723	333,931
Net assets released from restriction	2,341,768	2,341,768	—
Balance, September 30, 2016	\$ 121,761,695	124,755,725	(2,994,030)

## (9) PROGRAM AND SUPPORTING EXPENSES

To help users assess the Organization's service efforts, operating expenses are reported into functional categories of program services and supporting services. Program services are expenses incurred in the course of the Organization's primary activities of coordinating and funding MFIs and providing commercially oriented microfinance services to alleviate poverty. All other expenses are designated as supporting services.

For the year ended September 30, 2017, of the \$142,522,994 in total expenses (excluding foreign currency adjustments), \$130,176,965 was incurred in the course of program services and \$12,346,029 was incurred in the course of supporting services by the Organization. For the year ended September 30, 2016, of the \$155,840,997 in total expenses (excluding foreign currency adjustments), \$143,157,933 was incurred in the course of program services and \$12,683,064 was incurred in the course of supporting services by the Organization.

## (10) SALE OF SUBSIDIARY

In December 2016, the Organization sold its share ownership in VisionFund Albania (VF Albania) and received cash proceeds of \$520,000. Prior to the sale, VFI converted \$1,031,322 of intercompany loans to VF Albania into equity. The Organization recognized a loss on sale of VF Albania totaling \$1,008,481.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

## (11) CONTRIBUTIONS

Contributions, excluding contributed net assets, for the years ended September 30, 2017 and 2016 totaled \$16,303,634 and \$14,458,107, respectively.

Contributions, classified as nonoperating changes in net assets, were from the following:

	<b>2017</b>	<b>2016</b>
World Vision International	\$ 5,798,342	5,773,554
World Vision United States	4,858,674	4,334,807
World Vision Australia	992,732	425,217
World Vision Germany	598,402	775,565
World Vision Canada	—	294,078
World Vision United Kingdom	156,166	485,358
World Vision Rwanda	110,189	—
World Vision Hong Kong	100,000	100,000
World Vision Zambia	51,102	268,036
World Vision Mongolia	13,162	—
World Vision New Zealand	—	280,416
World Vision Singapore	—	300,341
World Vision Albania	—	1,612
World Vision Switzerland	—	170,000
World Vision Cambodia	—	193,464
World Vision Honduras	—	214,372
Nonaffiliated Aid Agencies:	844,556	581,794
<b>Total unrestricted</b>	<b>13,523,325</b>	<b>14,198,614</b>
Restricted:		
World Vision Canada	\$ 333,975	—
Nonaffiliated Aid Agencies:		
Department for International Development	1,525,605	—
Livelihoods and Food Security Trust Fund	644,855	—
Other	275,874	259,493
<b>Total restricted</b>	<b>2,780,309</b>	<b>259,493</b>
<b>Total contributions</b>	<b>\$ 16,303,634</b>	<b>14,458,107</b>

## (12) CONTRIBUTED NET ASSETS

The net amount of assets and liabilities from contributed entities is recorded as contributed net assets in the accompanying consolidated statements of activities.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

During the year ended September 30, 2016, the Organization acquired 100% ownership in VF Ecuador through the transfer of shares from FODEMI, a World Vision controlled entity. The total contributed net assets recognized were \$7,900,000.

During the year ended September 30, 2016, the Organization acquired 80% ownership in VF DRC through purchase of common shares for a nominal consideration of \$1. The total contributed net assets recognized were \$1,669,655, of which \$333,931 was attributable to noncontrolling interest.

## **(13) RELATED-PARTY TRANSACTIONS**

Many of the transactions of VFI are with related entities, as discussed elsewhere in these consolidated financial statements. Such transactions include contributions, loans with affiliates, and investments in affiliates, loan guarantees, and pledges of investments. Certain items are further described below.

As of September 30, 2017 and 2016, the Organization had accounts payable to World Vision totaling \$341,104 and \$624,025, respectively. These amounts were for operating expenses paid by World Vision on behalf of the Organization.

As of September 30, 2017 and 2016, the Organization had an available line of credit from World Vision amounting to \$8,000,000 and \$13,000,000, respectively. As of September 30, 2017 and 2016, the Organization has drawn \$8,000,000 and \$13,000,000, respectively, on this line of credit (note 7). The line of credit bears interest at a rate of 4.32%. The line of credit is unsecured and matures on June 30, 2018.

As of September 30, 2017 and 2016, the Organization has notes payable to World Vision Germany in the amounts of \$2,362,949 and \$2,246,939, respectively, which bear interest at rates of 3%. The notes payable mature on June 30, 2018 and October 31, 2017.

## **(14) CONTINGENT LIABILITIES**

The operations of VF Serbia include the servicing of loans to microfinance clients, which are issued by a third-party bank. These loans are guaranteed by VF Serbia and are secured by deposits held with the same bank. As of September 30, 2017, the value of the guaranteed loan portfolio totaled \$17,822,747. These loans are not included on the consolidated statements of financial position. As of September 30, 2017, the value of deposits held by VF Serbia as security for these loans totaled \$4,128,937. These deposits are reported as investments on the consolidated statements of financial position (note 3).

## **(15) VISIONFUND AZERCREDIT**

In October 2014, a number of local nongovernmental organizations (NGOs) in the country of Azerbaijan, including representatives and branches of international NGOs, became the subject of a criminal investigation by the government of Azerbaijan. As part of the investigation into World Vision Azerbaijan, VF Azercredit's main bank accounts were blocked for the period of investigation from October 2014 through October 2015. No charges were filed against VF Azercredit or World Vision related to this investigation.

In February 2015 and December 2015, the economy of Azerbaijan was significantly impacted by a series of currency devaluations. During that period, the value of the currency fell from 0.78 manats per U.S. dollar to 1.55 manats per U.S. dollar, and since then has fallen further to 1.7 manats per dollar as of September 30, 2017. This devaluation, combined with general market and economic uncertainty in the country of Azerbaijan, impacted the ability of VF Azercredit to collect loans issued to MFI clients.

VF Azercredit sought to assist customers that are experiencing financial difficulty by renegotiating and restructuring client loans. The restructured portfolio included modifications of interest rates, principal or accrued interest amounts, payment amounts, length of term, currency, or a combination thereof. During the year ended September 30, 2016, VF Azercredit modified 27,241 loans as troubled debt restructurings. As of September 30, 2016, the modified outstanding value of troubled debt restructurings was \$21,588,834.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements - September 30, 2017 and 2016

The following table shows the aging and classification of VF Azercredit's loan portfolio as of September 30, 2016:

	<b>Outstanding balance</b>	<b>Allowance for loan losses</b>
Current or less than 30 days past due	\$ 643,467	12,807
31–60 days past due	108,159	27,040
61–90 days past due	161,245	40,311
91 days or more past due	6,388,513	5,875,513
Restructured loans	21,588,834	18,295,855
	<u>\$ 28,890,218</u>	<u>24,251,526</u>

During the year ended September 30, 2017, VF Azercredit collected loans receivable of \$5,675,491 and wrote off uncollectible loans receivable of \$22,014,904. Additional reductions in loan portfolio of \$1,199,823 relate to foreign currency translation adjustments. As of September 30, 2017, VF Azercredit had no remaining loans receivable.

Due to the restrictions on the bank accounts, beginning in October 2014, VF Azercredit was not able to pay its debt obligations to foreign lenders according to the initial contractual terms. Beginning in 2015, lenders agreed not to take any enforcement action against VF Azercredit in relation to any facility agreement by signing a Standstill Agreement. During the year ended September 30, 2016, the Standstill Agreement was extended to a final date of no later than December 31, 2019, and amended to describe the terms of payments to lenders and agreed levels of debt forgiveness by lenders to ensure VF Azercredit's continued compliance with minimum solvency requirements in Azerbaijan. Based on this, in the year ended September 30, 2016, the lenders agreed to release a portion of the principal amounts owed by VF Azercredit and, the Organization recognized a gain of \$4,878,397 on the restructuring of notes payable.

As of September 30, 2017 and 2016, the carrying value of liabilities held by VF Azercredit and covered under the Standstill Agreement exceeded the reported fair value of its assets, with a reported deficiency of \$23,260,388 and \$18,021,492, respectively. VF Azercredit is a limited liability company, and as such its shareholders, including the Organization, are not liable for its liabilities. Accordingly, in the event of bankruptcy, management believes that VF Azercredit's liquidation and closure would not impact the ability of the Organization as a whole to continue as a going concern. As of September 30, 2017 and 2016, the Organization owned 52% of VF Azercredit.

## (16) SUBSEQUENT EVENTS

Subsequent events have been evaluated from September 30, 2017 through March 31, 2018. On December 11, 2017, the lenders to VF Azercredit terminated the Standstill Agreement, triggering VF Azercredit's insolvency. On February 8, 2018, VF Azercredit entered legal bankruptcy protection proceedings with the Administrative-Economic Court of Baku #1. The court held its initial meeting on March 2, 2018. Additional court meetings in the coming weeks will determine the exact process for liquidation and discharge of liabilities in accordance with local bankruptcy rules. Management anticipates that control of VF Azercredit will be transferred to a court appointed custodian, at which point the MFI will be deconsolidated from the Organization's financial statements. As a result, the related deficiency in net assets will be reversed.



# SUPPLEMENTARY SCHEDULES PRO FORMA FINANCIAL STATEMENTS

THE FOLLOWING FINANCIAL STATEMENTS ARE PRESENTED TO SHOW  
VISIONFUND INTERNATIONAL AND SUBSIDIARIES, EXCLUDING VF AZERCREDIT

*September 30, 2017 and 2016*

(Unaudited)



# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Financial Position - September 30, 2017 and 2016 - (Unaudited)

## ASSETS

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 59,581,186	51,946,438
Investments	26,809,998	15,842,019
Interest receivable	8,011,505	6,560,261
Accounts receivable	4,622,168	3,430,352
Loans to Affiliated Microfinance Institutions, net of allowance for loan losses of \$2,737,933 as of September 30, 2017 and 2016	21,298,402	23,045,551
Loans to Microfinance Institution clients, net of allowance for loan losses of \$8,851,703 and \$8,567,816 as of September 30, 2017	389,571,843	322,281,671
Restricted cash and investments	4,128,937	3,559,401
Property, plant, and equipment, net	12,750,556	11,748,086
Other assets	12,142,872	8,074,687
<b>Total assets</b>	<b>\$ 538,917,467</b>	<b>446,488,466</b>

## LIABILITIES

Accounts payable and accrued expenses	\$ 9,286,991	15,841,820
Interest payable	5,074,021	3,975,270
Deposits from Microfinance Institution clients	59,414,993	44,333,090
Notes payable	300,202,749	237,187,513
Other liabilities	14,648,389	5,744,324
<b>Total liabilities</b>	<b>388,627,143</b>	<b>307,082,017</b>

## NET ASSETS

Unrestricted net assets – Controlling interest	141,891,978	133,490,669
Unrestricted net assets – Noncontrolling interest	5,874,860	5,656,287
<b>Total unrestricted net assets</b>	<b>147,766,838</b>	<b>139,146,956</b>
Temporarily restricted net assets	2,523,486	259,493
<b>Total net assets</b>	<b>150,290,324</b>	<b>139,406,449</b>
<b>Total liabilities and net assets</b>	<b>\$ 538,917,467</b>	<b>446,488,466</b>

See accompanying independent auditors' report and note to supplementary schedules.

# VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Financial Position - September 30, 2017 and 2016 - (Unaudited)

Unrestricted net assets:		
Operating revenue:	2017	2016
Interest, fees, and commission revenue	\$ 131,138,506	110,195,799
Interest, fees, and commission expense	(28,710,183)	(21,985,596)
Net financial income	102,428,323	88,210,203
Provision for loan losses	(9,429,237)	(8,790,201)
Funds recovered from loans written off	2,080,592	1,841,872
Net financial income after provision for loan losses	95,079,678	81,261,874
Other operating income	2,224,226	2,337,051
Total revenue from operations	97,303,904	83,598,925
Operating expense:		
Salaries and benefits	55,751,085	48,722,875
Supplies, copying, and printing	2,263,177	2,272,309
Professional fees	4,576,162	3,481,776
Communication expense	2,328,878	2,028,861
Occupancy expense	7,389,109	5,843,771
Travel and transportation	7,395,460	5,896,348
Depreciation	3,679,201	2,865,520
Training and technical assistance	1,187,117	1,556,771
Other operating expenses	8,503,677	5,857,847
Total operating expenses	93,073,866	78,526,078
Operating income before taxes and other nonoperating changes in unrestricted net assets	4,230,038	5,072,947
Tax expense	3,444,48	3,149,840
Net operating income	785,551	1,923,107
Other nonoperating changes in unrestricted net assets:		
Unrestricted contributions	13,523,325	14,198,614
Amounts granted to affiliated microfinance institutions	(726,318)	(2,631,733)
Contributed net assets	—	9,569,654
Foreign currency translation losses	(4,847,951)	(1,560,570)
Foreign currency transaction losses	(1,303,446)	(1,843,768)
Net assets released from restriction	516,316	2,341,768
Loss on sale of subsidiary	(1,008,481)	—
Other nonoperating income	1,680,886	—
Net change in unrestricted net assets	8,619,882	21,997,072
Temporarily restricted net assets:		
Restricted contributions	2,780,309	259,493
Net assets released from restriction	(516,316)	(2,341,768)
Net change in restricted net assets	2,263,993	(2,082,275)
Change in net assets	10,883,875	19,914,797
Net assets, beginning of year	139,406,449	119,491,652
Net assets, end of year	\$ 150,290,324	139,406,449

See accompanying independent auditors' report and note to supplementary schedules.

## SUPPLEMENTARY SCHEDULES

Note to Supplementary Schedules - September 30, 2017 and 2016

### (I) EXCLUSION OF VF AZERCREDIT

The supplementary schedules reflect the financial activity and financial position as of and for the year ended September 30, 2017 and 2016 of VisionFund International and subsidiaries, excluding the financial activities and financial position of VisionFund Azercredit. Intercompany activities between VFI and VisionFund Azercredit have also been excluded for this presentation.





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