INSIDE OUT

ANNUAL REPORT 2013

VisionFund INTERNATIONAL | World Vision

INSIDE OUT

Front cover: Milicent stands outside her restaurant in Kisumu town, Kenya with her son Edward *(page 6)*. Her daughter Faith does her school work inside. She works hard to give her children the chance to go to university.

Milicent studied catering but lacked the funds to build a business. She joined a community group and received her first loan in 2012. She's already on her fourth loan cycle, and has gone from selling snacks in a kiosk to running a restaurant with four employees.

Her success means that her children take the school bus instead of walking, they eat a hot lunch, and then come home to a house with their own room.

LOOKING AT OUR WORK, FROM THE INSIDE OUT

KEVIN J JENKINS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, WORLD VISION INTERNATIONAL

CLEARER VISION

JON HARTLEY, CHAIR & SCOTT BROWN, CEO VISIONFUND INTERNATIONAL

3-YEAR STRATEGIC PLAN

Three years ago we laid out our Clearer Vision strategy, aiming to impact 3.5m children in the poorest parts of the world by 2015. Success would lay in building strong sustainable microfinance institutions in areas of greatest need; Africa, Asia and Latin America & the Caribbean. Acting together in a single global network, they would speak with one voice and be expertly run by great management teams. Both donations and debt funding would be developed to ensure sustainable robust organisations, embedded in their locations, serving children, families and communities.

So how are we doing? Last year we managed and grew a network of 36 organisations impacting the lives of more than 2.8 million children. Two thirds of the network has been restructured and rebranded under the VisionFund name forming a single global network. We have strengthened senior staff by appointing new executive leaders and providing support and training *(page 12)*. Our network employs almost 7,000 dedicated staff; local people who know the needs of their community *(page 8)*.

Fundraising development has continued and we have welcomed donated income from long-term loyal supporters like Jeff and Kathy *(page 16)*. As our reputation grows so has the support of our debt funders. They like the way we operate and the impact that we are having, and their support is vital to our success *(page 18)*. The improvements in financial performance and the growth of our portfolio to $516m help ensure that our network is sustainable at 110% overall.

Alongside financial growth we have embedded industry-leading robust risk management to ensure quality and improve efficiency. We have remained true to our Christian values by focusing on the poor and have implemented client protection policies, credit procedures and common standards to spread best practice across the network *(page 14)*.

As a global microfinance network we have developed social performance measures that help show our impact. Piloted this year and rolled out in 2014, these will give effective data for next year's report. This year marks the first time we have provided more than one million loans (1.2m) to almost one million borrowers (934k), with over 98% of clients paying back their loans.

The power of our integrated solution through World Vision gives us a unique opportunity to help people succeed. On a recent visit to farmers in Tanzania, we heard not only how important our loans are, but also the way in which farmers were benefiting from water storage and irrigation provided by World Vision alongside our loans. The microfinance and economic development that we provide is supported by World Vision's programmes in health, education, housing and sanitation *(page 8)*.

Providing microfinance services to rural communities cost-effectively is a struggle. Our mobile banking and tablet computing system being piloted aims to address this by bringing innovations in technology right to the rural communities in which we work. The success of this pilot will enable us to replicate this across our network, significantly cutting the cost of serving those hard-to-reach clients, and allowing us to reduce the cost of our loans to them.

All this in order to build the foundation of strong, well-funded, sustainable organisations that can play a significant part in helping families to develop incomes through businesses that employ others, help communities to flourish and have a long-lasting and profound effect on the lives of children. Children like Edward in Kenya, whose life has been vastly improved *(page 6)*.

Children are at the heart of our work and the reason we continue to show Christ's love in action. ■

MY MAMA GOT ME A CAR

EDWARD, 6 YEARS OLD
KISUMU, KENYA

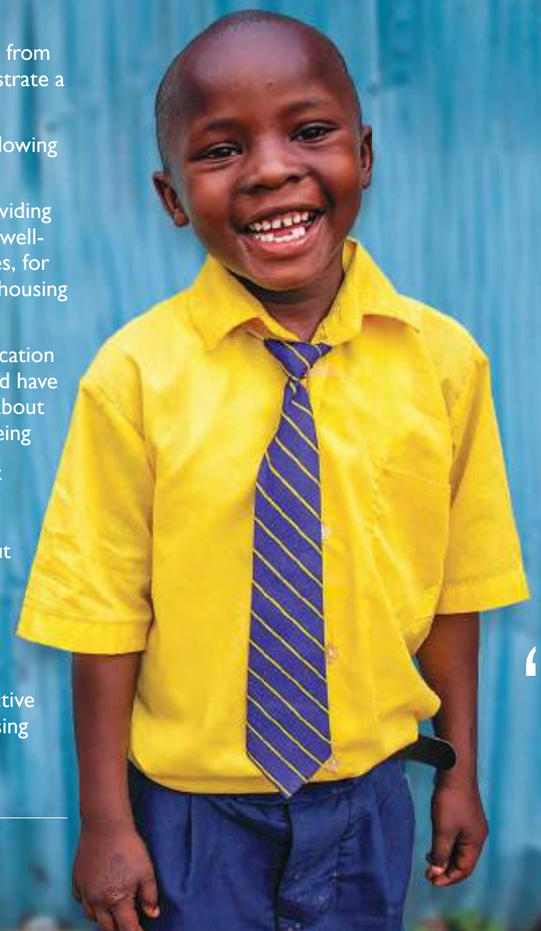
STRATEGIC AIM

To improve the lives of children from poor rural areas and to demonstrate a measurable impact.

This year we have taken the following steps in achieving this goal:

- Our MFIs are increasingly providing loans directly related to child well-being, such as loans for latrines, for school fees and for improved housing
- Our MFIs have incorporated questions into their loan application forms to gather social data and have begun collecting information about improvements to child well-being
- We established and rolled out guidelines for setting poverty targets to our MFIs. Nineteen MFIs now use the Progress out of Poverty Index tool to identify poverty levels and ensure they are reaching the intended clients

In 2014 we will implement effective impact reporting approaches using World Vision's child well-being outcomes and other data.



My name is Edward and I am six years old. I live with my mama and sister. My mama has a restaurant and she makes ugali [a local Kenyan food using maize], fish and chapattis. A lot of people come to her restaurant to eat.

I ride the bus to school every day. I like sitting on the bus because it's got really big wheels and it goes really fast. My friends go on the bus too. I used to walk to school with my mama and my sister. It was really far and I was tired when I got there.

Miss Jennifer is my teacher. She teaches us all subjects. I like studying English a lot. Kiswahili [an African language] is very difficult because we only started that this year.

Denzel and Johnzak are my friends. We play football together in the break time.

I eat lunch at school with my friends. Sometimes we have fish. Sometimes we have chicken and rice. We also eat fruit. I like apples or bananas. I also like crisps and Maziwa [a milk-based drink]. It's my favourite drink.

I know that milk comes from cows and when I am older, I want to buy a cow so that I can have lots of milk.

I like my new house because I have my own room. My sister has her own room too. We also have a toilet inside the house. Before, our toilet was outside our house and I didn't like going to the toilet when it was dark.

I go to the park near our house with my mama and sister. We had a park before, but I like this one best.

Mama took us to Impala Park to see the animals. I really like the monkeys. I think they're funny.

I eat dinner at my mama's restaurant. We have lots of different soda drinks. I like helping my mama put the different bottles in the fridge or on the shelves.

My mama bought me and my sister some new clothes. I also got a car. It's a red four-wheel-drive Prado. It's my favourite toy. ■

> "I LIKE MY NEW HOUSE BECAUSE I HAVE MY OWN ROOM"

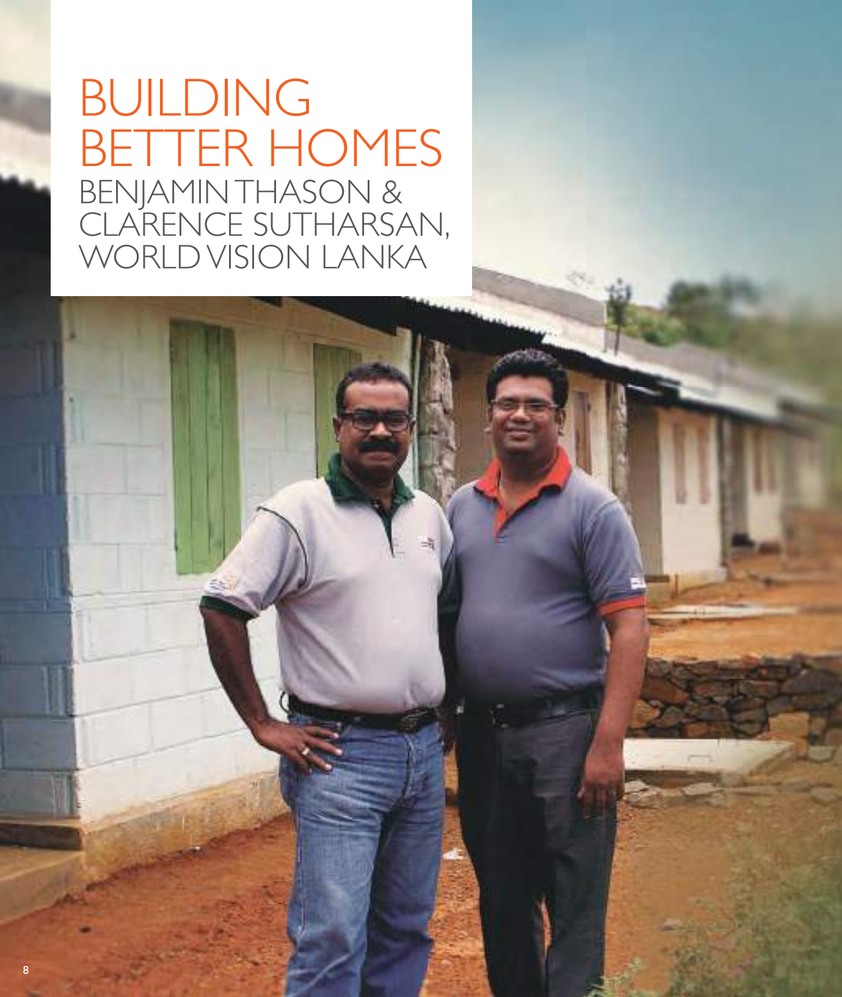
MICROFACT

MORE THAN 2,850,000 CHILDREN

BENEFITED FROM OUR WORK IN 2013

BUILDING BETTER HOMES

BENJAMIN THASON & CLARENCE SUTHARSAN, WORLD VISION LANKA



STRATEGIC AIM

To foster close alignment and collaboration with World Vision's other interventions.

This year we have:

- Completed a joint pilot project with World Vision Tanzania to help build livelihoods of small-holder farmers, which is ready for replication in several countries in East Africa.
- Worked with World Vision Lanka to improve sanitation and access to water for thousands of children
- Carried out joint communication assignments between communicators in VisionFund MFIs and World Vision national offices

In 2014 we will develop and implement innovative ways of working with World Vision to strengthen collaboration at the country level.

When I was young, my family worked on Sri Lanka's tea plantations. I had no idea that when I grew up I would be part of a team that brings immense changes to the tea workers' communities.

Three years ago, my colleague at World Vision Lanka had an idea to improve the workers' living conditions. At the end of 2013, we celebrated a very successful pilot project with VisionFund Lanka that resulted in the construction of 24 new homes. This means less crowding for families who previously squeezed multiple generations into tiny two-room houses.

I know from experience how difficult it is for children to grow up in these homes. I remember not having any quiet space for study, and even sleeping was difficult with so many people in one small room.

It is so rewarding to see the new homes and the smiles these have brought to the children's faces. We have received approval for phase two so there is more to do. I'm excited about the future and feel proud that I can bring this project to the community where I grew up.

Benjamin Thason, ADP Manager

Building the new houses was a team effort shared by World Vision Lanka, VisionFund Lanka, the tea plantation company and the community. It has showed us how working with other partners can help us achieve a more impactful solution.

VisionFund provided loans to the families receiving the new houses so the families could purchase materials to construct the roofs. We encouraged them to grow some vegetables and keep chickens as a way to gain more profit and pay back their loan. This helped to feed their children and provide extra income.

VisionFund Lanka had not previously developed a model to support such a housing scheme, so it adapted its approach.

As employees of the tea companies, workers had repayments deducted from their salaries and VisionFund was able to approve loans with minimal documentation and without a bond. Loans were therefore offered with lower than normal interest rates as savings were made on loan collection costs.

We've seen that the capabilities of World Vision Lanka and VisionFund Lanka are highly complementary. Working together, we deliver impactful change, spanning from basic humanitarian needs and progressing to sustained economic development. While the housing project enters a new phase, I will turn my attention to bringing improved sanitation to these homes. There is always much more to accomplish but I look forward to the challenges 2014 will bring.

Clarence Sutharsan, Zonal Director

> "IT IS SO REWARDING TO SEE THE NEW HOMES AND THE SMILES THESE HAVE BROUGHT TO THE CHILDREN'S FACES"

MICROFACT

THROUGH OTHER JOINT INITIATIVES WITH WORLD VISION, 50,000 FAMILIES IN CAMBODIA NOW HAVE ACCESS TO WATER FILTERS AND LATRINES

SERVING COMMUNITIES, UNLOCKING POTENTIAL

CHEA SOK, LOAN OFFICER VISIONFUND CAMBODIA

STRATEGIC AIM

To actively participate in the development and implementation of industry standards and client protection principles.

We have achieved this by:

- Collaborating with the Microfinance CEO Working Group to beta-test Social Performance Task Force Universal Standards for Social Performance Management in four of our MFIs
- Rolling out VisionFund's consumer protection code of conduct through our MFIs
- Verifying that all MFIs are undertaking training on the Smart Campaign's client protection principles and VisionFund's code of conduct

In 2014 we plan to continue training our loan officers, and ensure we have best practice processes throughout VisionFund.

8:30AM

Most mornings I have a meeting at the branch office. We talk about my target for the week on new loan disbursements and other areas we want to reach out to. After the meeting, I feel focused to start my day.

9:00AM

Today, my first visit is in Tourl Sannkae. I'm meeting with seven clients who are all making repayments. I get on my motorbike and ride to the outer suburbs of Phnom Penh. Travelling in the city is difficult sometimes. People drive crazy here. And when there is a traffic jam, it wastes my time and stops me from meeting more clients.

Today, all seven clients can pay their loans. I feel very happy when clients have used their loan very well and have earned good profits.

When clients cannot pay back their loan, I calmly ask them the reasons why and together we discuss solutions. We can help them by adjusting the repayment plan and I encourage them to move on and try to save up. We never remove assets from the client or force them to make payments they cannot manage.

11:00AM

I have been contacted by some potential new clients so I go to meet with them to assess their suitability for a loan. It takes around 10 minutes to assess a new client. My training has helped me to calculate a client's loan capacity but it's also important that they can demonstrate how the loan would enable them to grow a business.

2:00PM

The next visit is to Sovann, a widow with three children. She wants to set up her own food stall and has applied to VisionFund for a loan to get her started. Today, I can give her the good news that she has been approved.

Sovann is so happy. When her business does well, she will be able to send her children back to school. It is a privilege for me that I can help some people to live their life better.

4:00PM

I arrive in Chroy Chorngva for a community meeting. I am making a presentation to introduce VisionFund. I show them our contract forms and talk through the procedures and types of loans we have.

At first, new clients are often doubtful about taking a loan. But soon they are impressed that we offer loan insurance, educational loans and also loans to HIV clients. They see that we are different.

6:00PM

After a lengthy ride back through the rush-hour traffic, I eventually return to our branch to deposit the loan repayments. It has been a long but satisfying day. I feel pleased that clients are using their loans productively, it makes my day even more worthwhile. ■

> "I FEEL VERY HAPPY WHEN CLIENTS HAVE USED THEIR LOAN VERY WELL AND HAVE EARNED GOOD PROFITS"

MICROFACT

WE HAVE NEARLY 7,000 STAFF WORKING IN VISIONFUND THROUGHOUT THE WORLD

DEVELOPING SKILLS, EMPOWERING PEOPLE

NKOSILATHI MOYO
CEO, VISIONFUND ZAMBIA

"I BELIEVE IN WORKING THROUGH PEOPLE; HELPING THEM TO ACHIEVE. EVERYTHING I DO IS WITH A TRAINER'S HAT"

STRATEGIC AIM

To build highly qualified leaders in all our MFIs.

This year we have:

- Held three regional leadership development courses using a highly qualified, specialist training provider
- Recruited a further seven highly experienced CEOs
- Strengthened our people management through development of Chief People Officers in our MFIs

In 2014, we will further strengthen our leadership through a series of professional qualifications.

You might well ask the question; what is an industrial psychology graduate doing as a CEO of an MFI? Well, I believe my job is all about development and empowerment for both my team and our clients, so actually, my educational background has given me a very solid foundation indeed.

Five years ago, when I first started, my role was about stabilising a struggling MFI. Now it's about growth. We have gone from 20 employees to over 80, and grown our child impact numbers by 25%.

There have been two key success factors: making sure we offered the right products for our clients' needs; and that we have the skills to deliver them effectively.

To offer the right products for our clients, I need to understand our local market. But coming from Zimbabwe, I am something of an outsider. I rely heavily on my team to help me analyse the general market environment, as well as the economic, political, social and environmental risks, so we can evolve and adapt to our clients' needs.

The 'dairy loans', which we have introduced in this last year, came out of this analysis. They enable a cooperative to buy a new calf or a pregnant cow. We have an initial grace period so that loan repayments don't start until real production is actually increased. We've also introduced something similar for fish farming.

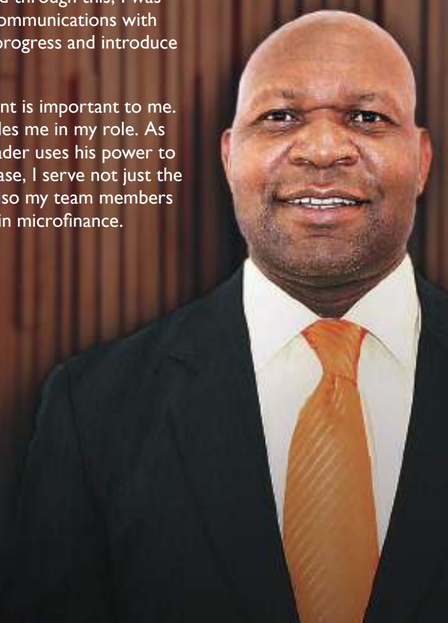
MICROFACT

80% OF OUR CEOS ARE LOCAL TO THE REGION IN WHICH THEY WORK

I believe in working through people; helping them to achieve. Everything I do is with a trainer's hat. Last year, I took part in VisionFund's training and coaching programme for CEOs and senior management. I had a personal coaching session every month which helped me build my skills, my focus and become more efficient; it was so empowering. I could see how much I was benefiting so I decided to implement this for my direct reports. I began coaching my team, and through this, I was able to improve my communications with them, monitor their progress and introduce more accountability.

My team's development is important to me. You see, my faith guides me in my role. As Christ taught us, a leader uses his power to serve others. In my case, I serve not just the underprivileged but also my team members making their careers in microfinance.

When I look back, I can see the progress we have made, but there is still a long road ahead. My challenge is one of stewardship. I have been entrusted by VisionFund's board and its leadership to take care of its resources, its people, its finances and most importantly its clients. I hope in years from now I will be able to say that I have not only taken good care but added real value. ■



GETTING IT RIGHT IN RURAL AFRICA

ROBIN BELL, REGIONAL DIRECTOR FOR EAST AFRICA

STRATEGIC AIM

To create and foster a culture of knowledge sharing and best practice.

This year we have:

- Developed a new training package for loan officers and carried out 'train the trainer' for branch managers in Africa, Asia and Latin America
- Created a resource centre for MFIs to share best practice in Social Performance and benefit from being a member of a single global network
- Developed new internal communication channels, including the launch of a monthly prayer guide, to bring together the global VisionFund workforce

In 2014, we will focus on a wider rollout of our agricultural livelihoods work with World Vision to five other countries, using new toolkits and lessons learned from the pilot in Tanzania.

I believe that Biblical principles are always best practices and that, to the extent that we apply those in our businesses, we will perform better. In the last 15 months since I started in my role with VisionFund, we have shifted the focus in East Africa to ensure the strategy is more intentional in building a Christ-centred corporate culture. This means treating people with dignity and respect and being more focused on improving the lives of the poor.

One of our main focus areas has been on the development and implementation of credit policies and procedures. When it comes to loan collection and recovery, treating our clients with respect is especially important. And we understand that our clients don't just need access to loans, they need sustained support to allow their businesses to grow, to make them a bit less poor and to give them an opportunity to climb out of poverty.

Together with senior colleagues, we worked on putting together a template which could be implemented in East Africa and globally throughout the VisionFund network. We looked at how we could ensure the long-term well-being of our clients.

We considered not just the ABCs of providing loans, but also the sustainability of our own institution, so laying the foundations to support necessary growth, and looking at how we survive threats.

In Tanzania, we have piloted two pioneering projects. One is the development of tablet technology to reduce operational costs of servicing the rural poor. The other is a market-led agricultural programme, 'Securing Africa's Future', which helps communities to farm in a more sustainable manner by supporting farmers through each stage of the process; from planting, to production, to selling at markets. We have worked in a very intentional way with World Vision and the provision of microfinance services is core to the project's design.

I am so pleased that this programme has become an integral component in ensuring communities' resilience. We are starting to implement it in Rwanda, though there are still many challenges to work through.

In fact, we've had many colleagues from other African countries come to Tanzania to visit the programme and there are intentions to replicate it elsewhere in the network.

I spend much of my time on the road, visiting our MFIs and meeting with our teams. I love seeing the children's faces; their smiles really touch me, especially those of the little girls. Each country in East Africa has a special place in my heart.

I remember years ago, when travelling in my teens, being struck by seeing real poverty for the first time. I am sure that this is part of the reason why I've ended up working in this field. I love being a change agent at the institutional level so that as an organisation, we are better able to make a difference in the lives of our clients and their families. ■

> "OUR CLIENTS DON'T JUST NEED ACCESS TO LOANS, THEY NEED SUSTAINED SUPPORT TO ALLOW THEIR BUSINESSES TO GROW"

MICROFACT

MOBILE TECHNOLOGY IS CHANGING THE WAY WE WORK IN AFRICA.

95% OF OUR TRANSACTIONS IN KENYA ARE MADE USING MOBILE PHONES

BANG FOR OUR BUCK

KATHY AND JEFF WIEGAND, WORLD VISION DONORS, USA

STRATEGIC AIM

To build strong funding resources and financial performance.

We have achieved this through:

- Developing, maintaining and diversifying sustainable funding sources
- Reallocating the VisionFund portfolio to fund 'Big Push' and foundations
- Targeting effective financial performance and use of resources

In 2014, we plan to expand our funding sources by increasing VisionFund fundraising efforts and through exiting our highly developed and mature microfinance organisations such as Georgia.

What's so thrilling right now with World Vision is that we know what works. We know a lot of what goes into extreme poverty and we can go a long way towards eliminating it if we really marshal what we know and what people are able to give. When we see this in action, we have such hope that things can change and we believe that the Kingdom is going to happen.

We've been giving to World Vision for over 30 years and over this time, our focus has shifted. We're now more intentional about giving to economic development and microfinance.

We are very excited about the multiplication factor of taking the donation and leveraging that into loans, which become repaid loans and turned into more loans. It's fantastic because there's a lot of bang for our buck.

Another big pull for us is that so many microfinance clients are women.

This resonates a lot with us as we have four daughters. Kathy comes from a family with four sisters. They are all strong, educated and capable women. Microfinance is a great tool to further the empowerment of women in the developing world.

We've directed a lot of our gifts to the Dominican Republic. It was a microfinance operation that was struggling and we wanted to help. World Vision had put in a new management team that was starting to turn things around. The new team was mainly women and this impressed us. Jeff likes that kind of thing in the investment world; where you're trying to invest in something that has had a rough go but has potential. You can get good returns that way. Visiting the Dominican Republic microfinance operations – we weren't disappointed.

We were struck by how courageous and commendable the World Vision team at the ground level was. The loan officers, the people working in the communities who went out to the field every day to mentor and help, they were so business-like and dedicated to helping the operations become self-sustaining. We were amazed that something with that sophistication and depth was going on.

We're also very impressed that World Vision hires mostly local people who understand what happens on the ground. It's not just transplanting American or European wisdom onto another culture. They raise up leaders in the communities.

Supporting VisionFund through World Vision has greatly exceeded our expectations. As committed Christians, we feel a greater connection with World Vision but it's also striking how many people can share that connection without sharing the Christian religion.

Why do we give? We feel the call to be wise stewards. We want to choose wisely so that our gifts are used to empower people and we see it as a blessing to be able to support an organisation like World Vision that uses our money strategically. We're helping to fulfil the mission of Christ, spread the gospel, feed our sheep, all those things that God wants to see happen. ■

> "SUPPORTING VISIONFUND THROUGH WORLD VISION HAS GREATLY EXCEEDED OUR EXPECTATIONS"

MICROFACT

$1,000 DONATED ALLOWS $11,385 OF LOANS TO BE MADE IN FIVE YEARS

INVESTING IN THE DOUBLE BOTTOM LINE

MARIA THERESA ZAPPIA, CHIEF INVESTMENT OFFICER, BLUEORCHARD FINANCE

STRATEGIC AIM

To have a diversified and strengthened funding base that enables us to confidently stretch to deliver a high impact strategy.

The steps we have taken this year include:

- Securing new third party debt facilities
- Renewing existing agreements with debt lenders
- Increasing the robustness of our procedures around the monitoring of funding

In 2014, we will continue to deepen relationships with third party lenders and investigate innovative funding structures.

When I visit the MFIs and meet the teams, I see that VisionFund has combined its social mission with a level of professionalism. The commitment of its staff is definitely an advantage. There is no point in having the best Chief Finance Officer if he or she doesn't care about the borrowers, or go the extra mile to serve the clients.

What is very important, and is a differentiator between VisionFund and other microfinance networks that we work with, is that the majority of VisionFund's MFIs are tier three. This means not all of them have reached financial stability because they are focused on the social mission and on serving communities that are financially excluded. It doesn't make life easier for us; the less developed a market, the more complicated the analysis. But we can say, VisionFund is truly a double bottom line impact investor.

The first loan we provided to VisionFund was in 2004. This year, we have twelve loans to VisionFund MFIs in the pipeline. The great thing about working with them has been to see the very, very important improvements over time.

For example, the oversight that VisionFund has today is much stronger than it used to be. The level of systems and trading support has really improved in quality and quantity. The level of transparency is good and over the last three years, the team has grown and the processes have changed significantly. We're a big fan of standard processes.

On a personal level, it's an incredible experience to meet the people at the MFIs, to see the challenges each has to run a business in certain markets, particularly in rural areas where it's another world.

When I return from a field trip, I always feel energised. I love to see how things are progressing. Yet, it's also frustrating. When I see the difficulties so many face, I always feel that we are never doing enough. I realise that it's an unfinished agenda, that there is so much more to do and so many challenges ahead. But I know that as a team, we are well placed to help.

Social performance is in VisionFund's DNA; it's at the heart of what they do. With the improvements VisionFund has made, our confidence level has really increased. We highly value our relationship and the changes we are making together. ■

> "SOCIAL PERFORMANCE IS IN VISIONFUND'S DNA; IT'S AT THE HEART OF WHAT THEY DO"

MICROFACT

AT THE END OF 2013, OUR PORTFOLIO STANDS AT $516 MILLION

A PROMISE KEPT

DORA – SOAP MAKER, GHANA

STRATEGIC AIM

To provide products and financial services that meet our clients' needs.

We have achieved this by:

- Working to expand the range of financial products and services provided to our clients such as savings, micro-insurance and client education
- Conducting client satisfaction surveys in order to hear what our clients think about our products and services
- Rolling out a mechanism throughout the network that makes it easier for clients to know what number to call or what person to contact if he or she has any concerns

In 2014 we will continue to monitor, develop and rollout a varied portfolio of products and services that meet our clients' needs.

It's not been an easy time living in Ghana, but still my life has been so blessed.

During the course of my third loan cycle, my son Kofi had an accident and seriously injured his leg. We thought it would have to be amputated. But because of my profit and savings, I had the money to pay for a specialist doctor who took care of him. And I'm so happy because he didn't have to have his leg amputated. Today, he is able to walk and is back at school preparing for his West African School exams.

Before World Vision came into our community, there were many other organisations promising to help us. But the promises were rarely kept. So even though I gave my name to World Vision and signed up for skills training in soap making, I didn't really expect anything to happen.

However, soon after World Vision entered our community, we began to see changes. We received health care and we had school buildings put up for the community. This lit a torch of hope and so one hundred of us women gathered together to be trained in making soap, parazone, pomade and powder.

The training lasted five days, and I remember that World Vision gave us meals every day, so that we could concentrate well.

I practiced hard and worked to use my new skills to improve my livelihood so that many other good things would follow. But it was not easy to find funds to invest in any business venture. One promise had been fulfilled, and so when World Vision introduced us to VisionFund Ghana, I had no doubt that hope had arrived once again.

Nineteen women and four men came together to form a community bank group. We received training on finance and we had our first loan disbursed to us. I had an amount of 500 Ghana Cedis ($250) to invest in my business. It was a moment of joy and thankfulness when I received the loan.

Three years later and I now produce one hundred bottles of liquid soap, two hundred bottles of parazone and 2,000 soap bars every week which I sell at the market. I've also created employment for other women who purchase my products on wholesale to sell for a small profit.

Life is better now for me and my family. I am married to Michael and we have 5 children; Peter, Kofi, Michael, Samuel and Godfred. Peter has graduated as a teacher and the rest are still in school. We also take care of seven other children in the community ages 10 – 14. But it's not a problem because I have been able to acquire 5 acres of land on which I grow cocoa and food crops. I have even provided health insurance cover for all twelve children.

In our family we have a teacher, and future nurses, IT professionals, mechanics; who knows what else. My task is to continue to work hard, make more money and give them the push to realise their dreams.

Looking back, how could this have been if World Vision and VisionFund had both failed in keeping their promise?

> "MY TASK IS TO WORK HARD, MAKE MONEY AND GIVE MY CHILDREN THE PUSH TO REALISE THEIR DREAMS"

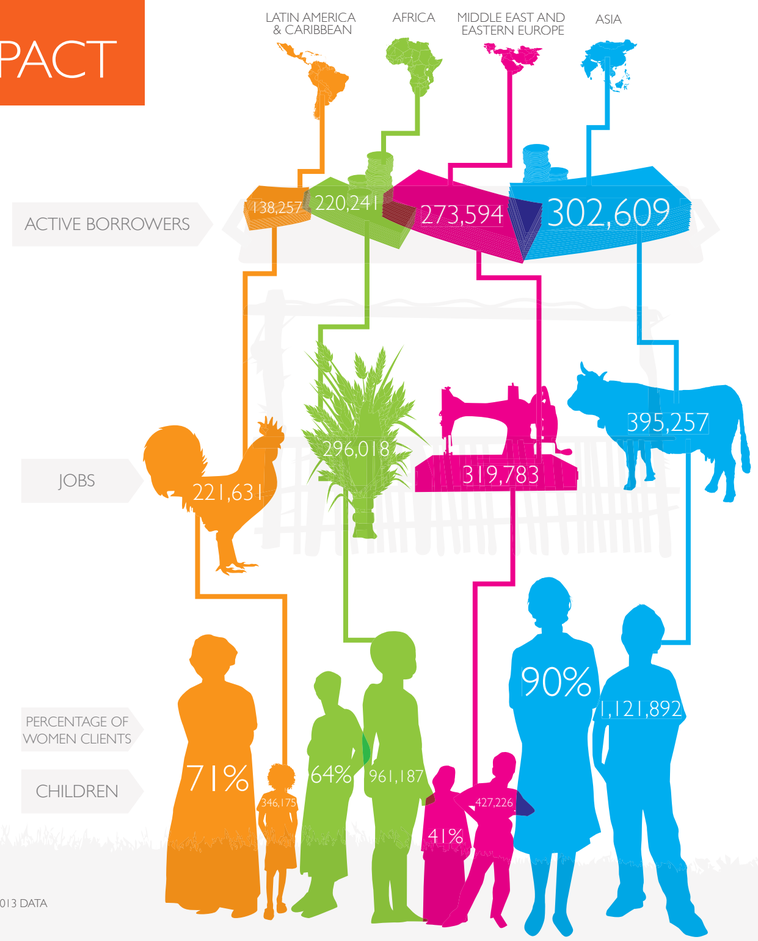
MICROFACT

THE HIGHEST TO DATE, IN 2013 WE MADE NEARLY

1,200,000

LOANS TO OUR CLIENTS

OUR IMPACT



STATISTICS REFERENCE FISCAL YEAR 2013 DATA

FINANCIAL REPORT

MANAGEMENT REPORT

MANAGING RISK

Managing risks – from financial to local dangers in Africa and Asia – is key to meeting our objectives. We have a Risk Management Framework, which guides staff through measuring and evaluating risk. Our Risk Appetite Statement defines how much risk VisionFund is willing to take, and we have Risk Registers for our departments and regions, clearly showing the risks we face. Our Management Risk Committee continues to run Regional Risk Groups to develop capacity through training and to make risk management a priority throughout VisionFund.

ENSURING GOOD GOVERNANCE

Having effective governance oversight in our MFIs is key to accomplishing our objectives. Good local boards that partner with VisionFund International to oversee and steer each of our MFIs towards success are essential. That's why last year we developed a model to gauge the effectiveness of our boards in the network and action plans to enhance their effectiveness. We continue to equip our boards with cutting edge governance practice and ensure that the members have the requisite skills, qualifications and experience for microfinance governance.

As part of our continuing support to boards, we have tools that reflect leading governing practices, and that make it easier for boards to govern effectively. Key among those that have been developed are monitoring tools and a board Charter that clearly spells out the governing roles and processes.

MONITORING OUR SOCIAL PERFORMANCE

Focusing on our goal of improving the lives of 3.5 million children by 2015 is vital. Identifying, collecting and monitoring social performance data helps us keep this goal central and measure our progress toward it.

Our social performance scorecard includes data in areas such as staff orientation, number of children impacted, use of the Progress out of Poverty (PPI) assessment tool, implementation of client education, reporting transparent pricing data, evidence of client satisfaction and how closely our MFIs adhere to VisionFund's overall mission. World Vision has identified Child Well-being Outcomes to assess the impact of its development efforts in the field. In aligning ourselves with World Vision, we have identified Child Well-being Indicators and we have begun to gather client data to better understand the impact of our services on the clients' children in areas such as improved education, sanitation, drinking water and access to food and health care.

ACCOUNTABILITY DISCLOSURES

For the latest information and update on our accountability disclosures, please visit, vflink.it/accdisc

VISIONFUND INTERNATIONAL GLOBAL BOARD

Jon Hartley (Chair)
Ingrid Allemekinders-Pols (Vice Chair)
Scott Brown
Philip Chan
Suanne de Boer
Gary Duim
Eric J Fullilove
Heather Grizzle
Kevin J Jenkins
Michael Mithika
Joan Mussa
David Young

VISIONFUND INTERNATIONAL SENIOR EXECUTIVE TEAM

Scott Brown (President & Chief Executive Officer)
Stephen Lockley (Chief Financial Officer)
Max Robinson (Chief Operating Officer)
Katherine Galliano (Global Director, People & Culture)
Peter Harlock (Global Director, Strategy)
Don Haszczyn (Global Director, Fundraising)
David Knights (Global Director, Marketing & Communications)

Correct as at 31 March 2014

MANAGEMENT REPORT (CONTINUED)

WORLD VISION MICROFINANCE BALANCE SHEET (UNAUDITED)

	VFI and MFI Network		VFI and Subsidiaries*	
[Amounts in Thousands]	2013	2012	2013	2012
Assets:				
Cash and investments	$97,630	$89,306	$68,657	$51,546
Gross loan portfolio	515,848	418,776	359,522	273,138
(Impairment loss allowance)	(10,680)	(10,763)	(7,292)	(5,520)
Net loan portfolio	505,168	408,013	352,230	267,618
Accounts receivable and other assets	48,608	42,896	34,187	20,851
Total assets	$651,406	$540,215	$455,074	$340,015
Liabilities:				
Borrowings	$354,841	$282,482	$286,143	$209,827
Client deposits	21,863	19,026	9,697	1,993
Accounts payable and other liabilities	65,495	51,697	39,890	30,915
Total liabilities	442,199	353,205	335,730	242,735
Net assets:				
Total net assets	209,207	187,010	119,344	97,280
Total Liabilities and Net Assets	$651,406	$540,215	$455,074	$340,015

*VisionFund stewards and manages a network of 36 MFIs around the world and, as at September 30, 2013, had subsidiaries in:

- Albania
- Armenia
- Azerbaijan
- Cambodia
- Georgia
- Honduras**
- Kenya**
- Malawi**
- Mexico
- Montenegro
- Peru
- Serbia
- Sri Lanka**
- Tanzania**
- Uganda**
- Zambia

**Newly consolidated subsidiary for fiscal year 2013

INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS
VISIONFUND INTERNATIONAL
AND SUBSIDIARIES:

We have audited the accompanying consolidated financial statements of VisionFund International and subsidiaries (a wholly owned subsidiary of World Vision International), which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, 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 VF Azercredit, a subsidiary, which statements reflect total assets constituting 17% of consolidated total assets at September 30, 2013 and 2012, and total revenues constituting 19% of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for VisionFund International and subsidiaries, is based solely on the report 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 report of, and additional audit procedures performed by, the other auditors, the consolidated financial statements referred to above present fairly in all material respects, the financial position of VisionFund International and subsidiaries as of September 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

KPMG LLP
March 26, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2013 AND 2012

Assets	2013	2012
Cash and cash equivalents	$36,413,064	24,470,449
Investments (note 3)	29,727,225	24,675,226
Loans to Microfinance Institutions, net of allowance for loan losses of $2,445,716 and $1,693,049 as of September 30, 2013 and 2012, respectively (note 5)	38,732,346	47,358,513
Loans to Microfinance Institution clients, net of allowance for loan losses of $4,846,047 and $3,826,566 as of September 30, 2013 and 2012, respectively (note 5)	313,498,165	220,260,147
Interest receivable	5,900,046	4,547,450
Accounts receivable	9,515,670	4,833,374
Restricted cash and investments (notes 3 and 13)	2,516,755	2,400,000
Property, plant, and equipment, net (note 6)	8,442,916	5,155,248
Other assets	8,329,762	5,196,974
Investments in affiliates (note 7)	1,998,365	1,117,962
Total assets	$455,074,314	340,015,343
Liabilities		
Accounts payable and accrued expenses	$34,197,251	26,383,622
Notes payable (note 8)	286,142,644	209,827,271
Interest payable	4,086,078	2,662,776
Other liabilities	11,304,049	3,861,253
Total liabilities	335,730,022	242,734,922
Net assets		
Unrestricted net assets – Noncontrolling interest (note 9)	10,133,587	6,134,810
Unrestricted net assets – Controlling interest (note 9)	106,693,950	88,745,611
Temporarily restricted net assets	2,516,755	2,400,000
Total net assets	119,344,292	97,280,421
Total liabilities and net assets	$455,074,314	340,015,343

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Unrestricted net assets:		
Operating revenue:		
Interest, fees, and commission revenue	$111,856,150	76,798,325
Interest, fees, and commission expense	(21,873,944)	(14,918,031)
Net financial income	89,982,206	61,880,294
Provision for loan losses (note 5)	(3,043,493)	(1,591,656)
Funds recovered from loans written off	2,164,828	2,197,262
Net financial income after provision for loan losses	89,103,541	62,485,900
Other operating income	1,744,502	936,950
Total revenue from operations	90,848,043	63,422,850
Operating expense:		
Salaries and benefits	49,630,645	35,243,108
Supplies, copying, and printing	2,056,512	1,461,346
Professional fees	4,722,204	3,613,321
Communication expense	1,768,229	1,187,948
Occupancy expense	5,874,594	4,048,925
Travel and transportation	6,351,967	4,940,856
Depreciation	1,864,383	1,208,884
Training and technical assistance	1,063,230	907,914
Other operating expenses	3,820,052	2,357,616
Total operating expenses	77,151,816	54,969,918
Operating income before taxes and contributions	13,696,227	8,452,932
Tax expense	5,149,518	2,717,475
Net operating income before contributions	8,546,709	5,735,457
Contributions for operations (note 11)	—	1,635,221
Net operating income	8,546,709	7,370,678
Other nonoperating changes in unrestricted net assets:		
Unrestricted contributions (note 11)	12,760,964	9,936,182
Amounts granted to affiliated microfinance institutions	(4,920,563)	(4,938,009)
Contributed net assets (note 12)	6,438,418	3,622,505
Net assets released from restriction	13,245	—
Foreign currency adjustments	(891,657)	(3,814,639)
Sale of noncontrolling interest in subsidiary	—	4,870,322
Total change in unrestricted net assets	21,947,116	17,047,039
Temporarily restricted net assets:		
Restricted contributions (note 11)	130,000	—
Net assets released from restriction	(13,245)	—
Total change in temporarily restricted net assets	116,755	—
Change in net assets	22,063,871	17,047,039
Net assets, beginning of year	97,280,421	80,233,382
Net assets, end of year	$119,344,292	97,280,421

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$22,063,871	17,047,039
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash net assets from contributed entity	(6,781,596)	(2,690,252)
Depreciation expense	1,864,383	1,208,884
Provision for loan losses	3,043,493	1,591,656
Foreign currency revaluation	932,332	1,071,777
Loss (gain) on forward contracts	(149,852)	976,917
Loss on disposal of equipment	301,240	126,171
Proceeds from sale of noncontrolling interest in subsidiary	—	(6,042,302)
Change in assets and liabilities:		
Interest receivable	(854,145)	(127,431)
Accounts receivable	(4,669,437)	(3,463,955)
Other assets	(2,644,799)	10,307
Accounts payable and accrued expenses	5,686,861	11,806,774
Interest payable	1,333,972	491,453
Other liabilities	2,186,440	(923,151)
Net cash provided by operating activities	22,312,763	21,083,887
Cash flows from investing activities:		
Purchase of equipment	(4,231,366)	(2,787,706)
Distribution of loans	(515,884,547)	(352,163,637)
Proceeds from loan portfolio repayment	436,638,282	297,879,347
Purchases of investments	(75,110,976)	(64,724,694)
Proceeds from sales of investments	75,906,608	61,469,294
Net cash used in investing activities	(82,681,999)	(60,327,396)
Cash flows from financing activities:		
Proceeds from notes payable	153,202,569	88,163,505
Payments on notes payable	(80,760,718)	(51,630,470)
Proceeds from sale of noncontrolling interest in subsidiary	—	6,042,302
Net cash provided by financing activities	72,441,851	42,575,337
Net increase in cash and cash equivalents	12,072,615	3,331,828
Cash and cash equivalents, beginning of year	24,470,449	21,138,621
Cash and cash equivalents, end of year	$36,543,064	24,470,449
Summary of cash and cash equivalents at end of year:		
Cash and cash equivalents	$36,413,064	24,470,449
Restricted cash and cash equivalents	130,000	—
Total cash and cash equivalents at end of year	$36,543,064	24,470,449
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$18,275,377	14,328,525
Cash paid during the year for taxes	1,447,371	1,982,081

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

VisionFund International (VFI) and its consolidated subsidiaries (collectively, the Organization) is a wholly owned and controlled subsidiary of World Vision International (World Vision), operating under World Vision's mission and values of being a nonprofit organization of Christians whose mission is to follow the Lord and Savior Jesus Christ in working with the poor and the oppressed to promote human transformation, seek justice, and bear witness to the good news of the Kingdom of God. World Vision pursues this through transformational development, emergency relief, promotion of justice, partnerships with churches, public awareness, and witness to Jesus Christ.

To allow for more sustainable development, World Vision began the micro-enterprise development loan program as embodied in the local microfinance institutions (MFIs). These World Vision affiliated MFIs provide small loans to individuals and groups who lack access to normal banking facilities. Funding for the MFIs' financial services activities has generally come from World Vision support entities.

VFI was established for the purpose of coordinating and funding World Vision's affiliated MFIs. To better accomplish its mission, VFI plans to eventually own or control all of World Vision's affiliated MFIs, while coordinating and disbursing all funding for microfinance received from World Vision's support entities. Currently, these consolidated financial statements include VFI's interests in the following entities:

Name	Country	
VisionFund Albania LLC (VF Albania)	Albania	
SEF International Universal Credit Organization LLC (SEF)	Armenia	
VisionFund Azercredit LLC (VF Azercredit)	Azerbaijan	
VisionFund Cambodia Ltd. (VF Cambodia)	Cambodia	
VisionFund Credo Foundation (VF Credo)	Georgia	
VisionFund Caucasus LLC (VF Caucasus)	Georgia	
Microfinance Organization Credo LLC (MFO Credo)	Georgia	
FUNED VisionFund OPDF (FUNED)	Honduras	(note 12)
VisionFund Kenya Ltd. (VF Kenya)	Kenya	(note 12)
VisionFund Ltd. (VF Malawi)	Malawi	(note 12)
VisionFund Mexico S.A. de C.V., SOFOM, E.N.R. (VF Mexico)	Mexico	
VisionFund AgroInvest LLC (AI Holding)	Montenegro	
MFI Monte Credit LLC (VF Montenegro)	Montenegro	
VisionFund Netherlands I B.V. (Dutch BV1)	Netherlands	
VisionFund Netherlands II B.V. (Dutch BV2)	Netherlands	
EDPYME CrediVision S.A. (CrediVision)	Peru	(note 12)
AgroInvest Fond LLC (VF Serbia)	Serbia	
AgroInvest Foundation Serbia (NGO Serbia)	Serbia	
VisionFund Holdings (Private) Ltd. (VFL Holding)	Sri Lanka	
VisionFund Lanka Ltd. (VF Lanka)	Sri Lanka	(note 12)
VisionFund Tanzania, MFC (VF Tanzania)	Tanzania	
VisionFund Uganda Ltd. (VF Uganda)	Uganda	(note 12)
VisionFund Zambia Ltd. (VF Zambia)	Zambia	(note 12)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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 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.

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 realizable, 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 an accrual basis over the life of the asset based on a constant 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. Contributions have been distinguished into the following categories in the accompanying consolidated statements of activities:

1. Contributions for operations are contributions from World Vision and affiliated support entities specifically for the operations of the Organization.
2. 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 and acquiring fixed assets for the Organization.

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 book 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.

(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 balances, as of September 30, 2013 and 2012:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

Entity	Country	2013	2012
VFI	United States	$16,689,586	32,109,644
VF Cambodia	Cambodia	18,433,448	15,023,496
VF Credo	Georgia	25,417,717	15,300,049
AI Holding	Montenegro	10,311,374	8,326,072
VF Serbia	Serbia	2,656,766	3,619,030
VF Montenegro	Montenegro	884,120	3,164,355
VF Azercredit	Azerbaijan	15,804,045	9,967,335
SEF	Armenia	4,451,149	3,661,648
VF Albania	Albania	646,351	784,414
VF Zambia	Zambia	1,431,823	672,023
VF Mexico	Mexico	2,663,371	1,623,431
CrediVision	Peru	2,113,720	3,006,555
Dutch BV1	Netherlands	23,450	22,369
VF Tanzania	Tanzania	5,111,771	—
VF Kenya	Kenya	2,952,905	—
VF Malawi	Malawi	1,955,351	—
VF Uganda	Uganda	2,537,039	—
FUNED VisionFund OPDF	Honduras	1,732,681	—
VF Lanka	Sri Lanka	3,527,625	—
Total		$119,344,292	97,280,421

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.

The Organization follows Financial Accounting Standards Board (FASB) 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 position 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, 2013 and 2012.

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.

(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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

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.

(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 an expenses as incurred.

(K) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

The assets and liabilities of the subsidiaries are generally denominated in each country's local currency and translated into U.S. dollars at period-end exchange rates, where applicable. The accompanying consolidated statements of activities and consolidated statements of 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.

(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.

At September 30, 2013 and 2012, the Organization had in place foreign currency contracts totaling $14,143,629 and $16,684,246, respectively. At September 30, 2013 and 2012, the Organization recorded liabilities of $200,996 and $350,848, respectively, as part of 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 statement 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, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

3 INVESTMENTS

Investments consist of balances held by World Vision through the World Vision Treasury Center (WVTC), an internal investment pool, as well as investments held at banks for short-term lending and funding needs. Investments in the WVTC include mutual funds, time deposits, and cash equivalents. Separate accounting is maintained as to the amounts allocable to various World Vision related entities. As of September 30, 2013 and 2012, the fair value of investments is as follows:

	2013	2012
WVTC investment pool	$3,350,690	2,007,117
WVTC investment pool (restricted, note 13)	2,516,755	2,400,000
Foreign bank time deposits	26,376,535	22,668,109
Total investments	$32,243,980	27,075,226

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 and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value and items for which the fair value option has been elected) at September 30, 2013:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Assets:			
Investments:			
WVTC investment pool (note 3):			
Money market funds	$4,174,649	4,174,649	—
U.S. government agency bonds	761,002	—	761,002
Corporate bonds	781,678	—	781,678
Foreign currency time deposits	150,116	—	150,116
Foreign bank time deposits:			
Georgia	12,422,000	—	12,422,000
Montenegro	6,409	—	6,409
Armenia	2,154,013	—	2,154,013
Azerbaijan	750,000	—	750,000
Serbia	1,890,688	—	1,890,688
Cambodia	1,037,730	—	1,037,730
Zambia	670,851	—	670,851
Peru	1,778,486	—	1,778,486
Mexico	$269,214	—	269,214
Honduras	255,836	—	255,836
Kenya	3,836,494	—	3,836,494
Malawi	366,075	—	366,075
Sri Lanka	118,739	—	118,739
Uganda	820,000	—	820,000
Total investments	$32,243,980	4,174,649	28,069,331
Liabilities:			
Foreign exchange currency contracts	$200,996	—	200,996

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value and items for which the fair value option has been elected) at September 30, 2012:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Assets:			
Investments:			
WVTC investment pool (note 3):			
Money market funds	$3,479,367	3,479,367	—
U.S. government agency bonds	386,700	—	386,700
Corporate bonds	387,368	—	387,368
Foreign currency time deposits	153,682	—	153,682
Foreign bank time deposits:			
Georgia	12,820,000	—	12,820,000
Montenegro	2,317,200	—	2,317,200
Armenia	2,137,752	—	2,137,752
Azerbaijan	1,750,000	—	1,750,000
Serbia	1,099,347	—	1,099,347
Cambodia	893,671	—	893,671
Zambia	775,600	—	775,600
Peru	$760,270	—	760,270
Mexico	114,269	—	114,269
Total investments	$27,075,226	3,479,367	23,595,859
Liabilities:			
Foreign exchange currency contracts	$350,848	—	350,848

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 and liabilities 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

5 LOAN PORTFOLIO

(A) LOANS TO AFFILIATED MICROFINANCE INSTITUTIONS

Amounts in loans to MFIs represent funds lent by the Organization to affiliated, independent (unconsolidated) MFIs for further on lending to micro-entrepreneurs. As of September 30, 2013 and 2012, these loans totaled $41,178,062 and $49,051,562, respectively. Interest rates for loans to, MFIs by the Organization range from 0% to 17%, depending on the current U.S. interest rates and the currency of the loan. As of September 30, 2013, these loans are scheduled for repayment as follows:

	Principal payment schedule
Fiscal year:	
2014	$21,024,883
2015	16,244,538
2016	1,489,781
2017	1,595,805
2018	823,055
	41,178,062
Less allowance for loan losses	(2,445,716)
Loans to affiliated MFIs, net	$38,732,346

Changes in the allowance for loan losses for the years ended September 30, 2013 and 2012 are as follows:

Allowance for loan losses	2013	2012
Beginning of year	$1,693,049	1,435,334
Provision for loan losses	752,667	257,715
End of year	$2,445,716	1,693,049

Loans to MFIs were concentrated in the following regions as of September 30, 2013 and 2012:

Region of operations	2013	2012
Africa	$7,872,484	16,762,744
Latin America/Caribbean	16,878,409	15,944,980
Middle East/Eastern Europe	12,196,365	11,595,630
Asia/Pacific	4,230,804	4,748,208
	$41,178,062	49,051,562

(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, 2013 and 2012, the Organization's loans to MFI clients totaled $318,344,212 and $224,086,713, respectively. The allowance for loan loss as of September 30, 2013 and 2012 was $4,846,047 and $3,826,566, 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 $300 to $3,640. These loans have terms commonly ranging from 1 to 72 months, their weighted average maturities being approximately 22 months. Interest rates on the outstanding loans vary by country due to varying inflation rates and operating environments. For the years ended September 30, 2013 and 2012, the weighted average annual interest rates charged were 34% and 35%, respectively.

Loans to MFI clients were concentrated in the following regions as of September 30, 2013 and 2012:

Region of operations	2013	2012
Middle East/Eastern Europe	$216,208,173	164,360,692
Asia/Pacific	63,304,682	44,904,596
Latin America/Caribbean	24,208,700	12,865,065
Africa	14,622,657	1,956,360
	$318,344,212	224,086,713

Changes in the allowance for loan losses for the years ended September 30, 2013 and 2012 are as follows:

Allowance for loan losses	2013	2012
Beginning of year	$3,826,566	4,700,138
Loans written off	(1,834,504)	(2,707,217)
From contributed entity	582,758	739,947
Provision for loan losses	2,290,826	1,333,941
Currency valuation change	(19,599)	(240,243)
End of year	$4,846,047	3,826,566

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

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, 2013 and 2012:

	2013	2012
Land and buildings	$1,299,359	1,197,556
Equipment	5,113,453	2,406,866
Vehicles	4,097,481	2,607,795
Computers and software	5,294,167	3,079,092
	15,804,460	9,291,309
Less:		
Accumulated depreciation	(7,361,544)	(4,136,061)
Total	$8,442,916	5,155,248

7 INVESTMENTS IN AFFILIATES

Investments in affiliates represent the Organization's equity ownership in the following World Vision controlled MFIs:

1. Vision Finance Company, Rwanda – For the years ended September 30, 2013 and 2012, the Organization owned preferred, nonvoting shares totaling $1,998,365 and $781,412, respectively. These investments are recorded at cost.

2. FUNED VisionFund OPDF, Honduras – For the year ended 2012, the Organization owned 17% equity totaling $336,550. This investment was recorded at cost. In the year ending September 30, 2013, the Organization was contributed majority ownership in FUNED VisionFund OPDF (note 12).

8 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, 2013, of the $286,142,644, $30,000,000 was lent to the Organization by World Vision. As of September 30, 2012, of the $209,827,271, $20,900,000 was lent to the Organization by World Vision.

The following are the interest rates on these loans:

Number of loans	Total loan value	Interest rates
47	$65,084,653	0.0% to 5.0%
170	182,045,754	5.1% to 10.0%
41	34,467,511	10.1% to 15.0%
7	4,544,726	over 15.0%
	$286,142,644	

These loans are scheduled for repayment as follows:

	Principal payment schedule
Fiscal year:	
2014	$98,995,923
2015	109,273,652
2016	58,201,032
2017	7,949,083
2018	3,311,251
2019 and beyond	8,411,703
	$286,142,644

As of September 30, 2013, notes payable are unsecured with the exception of a total of $18,642,696 in loans that have been guaranteed by the assets of subsidiaries.

9 UNRESTRICTED NET ASSETS

In the year ending September 30, 2013, the Organization received an additional 38.13% ownership in CrediVision as a transfer from the noncontrolling interest owner. As of September 30, 2013, the Organization owned 95% of CrediVision.

In the year ending September 30, 2013, the Organization received an additional 8% ownership in VF Zambia. As of September 30, 2013, the Organization owned 100% of VF Zambia.

In the year ending September 30, 2012, the Organization sold a noncontrolling interest in the ownership of VF Azercredit. The Organization retained 52% ownership of VF Azercredit and received proceeds from sale totaling $6,042,302. Nonoperating changes in net assets related to the sale were recorded in the statement of activities net of an estimated Azeri tax liability of $1,171,980.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

Changes in unrestricted net assets for the year ended September 30, 2013 are as follows:

	Total	Controlling interest	Noncontrolling interest
Balance October 1, 2012	$94,880,421	88,745,611	6,134,810
Excess of revenues over expenses	15,508,698	12,824,918	2,683,780
Transfers from noncontrolling interest	—	1,149,671	(1,149,671)
Contributed net assets (note 12)	6,438,418	3,973,750	2,464,668
Balance September 30, 2013	$116,827,537	106,693,950	10,133,587

Changes in unrestricted net assets for the year ended September 30, 2012 are as follows:

	Total	Controlling interest	Noncontrolling interest
Balance October 1, 2011	$77,833,382	77,833,382	—
Excess of revenues over expenses	8,554,212	8,261,554	292,658
Sale of noncontrolling interest in subsidiary	4,870,322	474,877	4,395,445
Contributed net assets (note 12)	3,622,505	2,175,798	1,446,707
Balance September 30, 2012	$94,880,421	88,745,611	6,134,810

10 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. As the Organization does not engage in fund-raising activities, all other expenses are designated as supporting services.

For the year ended September 30, 2013, of the $112,139,334 in total expenses (excluding foreign currency adjustments), $99,939,797 was incurred in the course of program services and $12,199,537 was incurred in the course of supporting services by the Organization. For the year ended September 30, 2012, of the $79,135,089 in total expenses (excluding foreign currency adjustments), $68,278,996 was incurred in the course of program services and $10,856,093 was incurred in the course of supporting services by the Organization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

11 CONTRIBUTIONS

Contributions, excluding contributed net assets, for the years ended September 30, 2013 and 2012 totaled $12,890,964 and $11,571,403, respectively.

World Vision provides support to the Organization by making available personnel, space, and financial and administrative support. Financial support is included in contributions for operations and the associated expense is included in operating expenses. No financial support was provided for the year ended September 30, 2013. The total of this support for the year ended September 30, 2012 was $1,635,221.

The total contributions classified as nonoperating changes in net assets were from the following:

	2013	2012
Unrestricted:		
World Vision United States	$6,637,603	7,266,049
World Vision International	3,248,777	999,983
World Vision Hong Kong	1,198,412	150,000
World Vision New Zealand	472,292	124,255
World Vision Singapore	451,568	459,350
World Vision Canada	330,176	346,824
World Vision United Kingdom	130,963	139,030
World Vision Malawi	74,794	13,906
World Vision Zambia	70,550	250,595
World Vision Switzerland	50,000	—
World Vision Cambodia	25,089	25,192
World Vision Albania	22,535	—
World Vision Uganda	18,591	—
World Vision Japan	—	70,000
World Vision Australia	—	44,000
Nonaffiliated Aid Agencies	29,614	46,998
Total unrestricted	$12,760,964	9,936,182
Restricted:		
Inter-American Development Bank	$130,000	—

12 CONTRIBUTED NET ASSETS

Assets and liabilities, net from contributed entities, are recorded as contributed net assets in the accompanying consolidated statements of activities.

During the year ended September 30, 2013, 99% ownership in VF Uganda was acquired by the Organization through the purchase of shares for $744,266 from the contribution received from World Vision International (note 11). The total contributed net assets recognized were $32,486, of which $23,995 was attributable to noncontrolling interest.

During the year ended September 30, 2013, 98.37% ownership in FUNED was acquired by the Organization through the contribution of ownership from WVI. Prior to the contribution, the Organization owned 17% of FUNED (note 7). The total contributed net assets recognized were $1,691,565, of which $33,115 was attributable to noncontrolling interest.

During the year ended September 30, 2013, VF Malawi was incorporated with 99% equity owned by the Organization. During the year ended September 30, 2013, VF Malawi recognized contributed net assets from transfer of assets and liabilities from WVI totaling $1,557,066, of which $20,778 was attributable to noncontrolling interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

During the year ended September 30, 2013, 75% ownership in VF Kenya was acquired by the Organization through the conversion of loans into common shares totaling $1,759,875. The total contributed net assets recognized were $1,469,644, of which $807,380 was attributable to noncontrolling interest.

During the year ended September 30, 2013, 55.23% ownership in VF Lanka was acquired by the Organization through purchase of common shares for $1,854,511 from the contribution received from World Vision International (note 11). The total contributed net assets recognized were $1,687,657, of which $1,579,400 was attributable to noncontrolling interest.

During the year ended September 30, 2012, 92% ownership in VF Zambia was contributed to the Organization. The total contributed net assets recognized were $330,334, of which $26,794 was attributable to noncontrolling interest.

During the year ended September 30, 2012, 56.87% ownership in CrediVision was contributed to the Organization. The total contributed net assets recognized were $3,292,171, of which $1,419,913 was attributable to noncontrolling interest.

13 OTHER LIABILITIES AND CONTINGENCIES

On August 30, 2006, the Organization entered into an agreement, collateralizing 110% of a loan from a third-party lender to an affiliated MFI in India to support micro-economic development for the victims of the tsunami in India up to the amount of $2,400,000. The balance of the collateralized loan as of September 30, 2013 and 2012 was $169,651 and $255,844, respectively.

14 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, investments in affiliates, loan guarantees, and pledges of investments. Certain items are further described below.

As of September 30, 2013 and 2012, the Organization has accounts payable to World Vision totaling $19,187,833 and $18,037,358, respectively. These amounts were for operating expenses paid by World Vision on behalf of the Organization.

As of September 30, 2013 and 2012, the Organization had available lines of credit from World Vision totaling $30,000,000. As of September 30, 2013 and 2012, the Organization has drawn $30,000,000 and $20,900,000, respectively, on these lines of credit (note 8). The lines of credit bear interest at rates ranging from 2.15% to 2.44%. The lines of credit are unsecured and mature on June 30, 2015.

The Organization has a note payable to World Vision Germany in the amount of $1,626,250, which bears interest at a rate of 1.35%. The loan matures on June 30, 2014.

During the year ended September 30, 2006, World Vision International contributed $2,400,000 to the Organization as support for micro-economic development for the victims of the 2004 tsunami in India. The funds were used to collateralize loans between a third-party lender and an affiliated MFI in India (note 13).

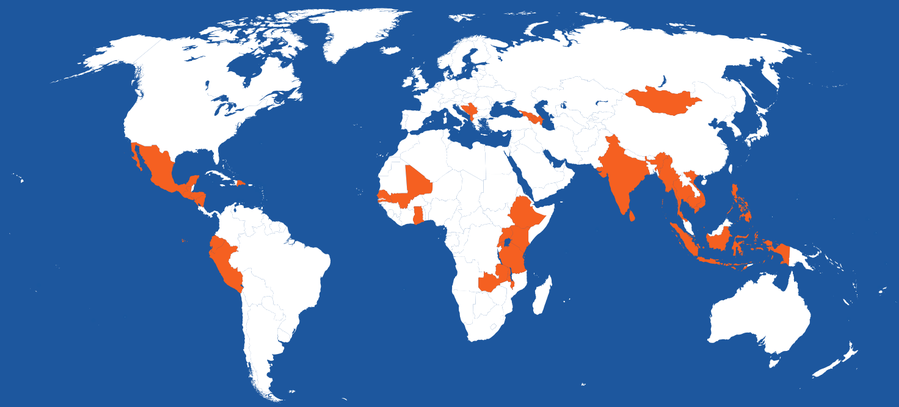
15 SUBSEQUENT EVENTS

In accordance with ASC Topic 855, *Subsequent Events*, the Organization evaluated events or transactions that occurred subsequent to the balance sheet date through March 26, 2014, (the date the consolidated financial statements were available to be issued) for potential recognition or disclosure in the consolidated financial statements.

In December 2013, the Organization acquired 100% ownership in VisionFund NFBI LLC, a limited company incorporated in the country of Mongolia.

In December 2013, the Organization acquired majority ownership in Vision Finance Company, Rwanda, a joint stock company incorporated in the country of Rwanda.

WHERE WE'RE ACTIVE



AFRICA

VisionFund Ethiopia
VisionFund Ghana
VisionFund Kenya
VisionFund Malawi
Mali - RMCR
Rwanda - Vision Finance
Senegal - SEMFIN
VisionFund Tanzania
VisionFund Uganda
VisionFund Zambia

Total Outstanding Portfolio: $46,727,887
Total Active Borrowers: 220,241
Total # of Children Impacted: 961,187

Total # of Jobs Impacted: 296,018
Total % of Female Clients: 64%
Total % of Clients in ADPs: 65%

ASIA

VisionFund Cambodia
India - IMPACT
VisionFund Indonesia
VisionFund Mongolia
WV Myanmar
Philippines - CEVI
VisionFund Lanka
WV Thailand
WV Vietnam

Total Outstanding Portfolio: $80,151,619
Total Active Borrowers: 302,609
Total # of Children Impacted: 1,121,892

Total # of Jobs Impacted: 395,257
Total % of Female Clients: 90%
Total % of Clients in ADPs: 86%

LATIN AMERICA & CARIBBEAN

Bolivia - FUBODE
VisionFund República Dominicana
Ecuador - FODEMI
El Salvador - FUNSALDE
Guatemala - AGUDESA
Honduras - FUNED
VisionFund Mexico
Nicaragua - 4i-2000
Peru - CREDIVISION

Total Outstanding Portfolio: $86,906,046
Total Active Borrowers: 138,257
Total # of Children Impacted: 346,175

Total # of Jobs Impacted: 221,631
Total % of Female Clients: 71%
Total % of Clients in ADPs: 66%

MIDDLE EAST & EASTERN EUROPE

VisionFund Albania
Armenia - SEF
Azerbaijan - VF Azercredit
Bosnia - EKI
Georgia - VisionFund Credo
Kosovo - KosInvest
Serbia - VF AgroInvest
Montenegro - Monte Credit

Total Outstanding Portfolio: $302,062,755
Total Active Borrowers: 273,594
Total # of Children Impacted: 427,226

Total # of Jobs Impacted: 319,783
Total % of Female Clients: 41%
Total % of Clients in ADPs: 88%

Statistics reference fiscal year 2013 data in US dollars.

GLOBAL HIGHLIGHTS

ACTIVE BORROWERS	CHILDREN IMPACTED	JOBS IMPACTED	MFIS IN NETWORK	TOTAL LOAN PORTFOLIO	GROWTH IN PORTFOLIO	REPAYMENT RATE	% OF FEMALE CLIENTS	NUMBER OF STAFF
935,000	2,856,000	1,233,000	36	$516 MILLION	23%	98.3%	67%	7,000

A LATIN TALE

Isaura from Mexico waits patiently as the embers heat one side of the tortillas she's preparing. She uses the time to think proudly about her children, three of whom are currently away at university. The food that she makes is enough to make her other children happy. She no longer worries about how she'll keep them fed because today, Isaura has a stable business and secure income.

For years, Isaura and her husband Encarnacion struggled to give their children the things they needed. With ten children in total, it wasn't uncommon for the family to go to bed hungry.

Encarnacion worked as a mason, labouring in the hot sun for very little money. The family learned to survive on just US$75 a month.

Isaura never learned to read and write, so despite the minimal income, she made sure her kids went to school so they could have more opportunities in their future. But college and university was a different thing. Her family needed more money to keep that dream alive.

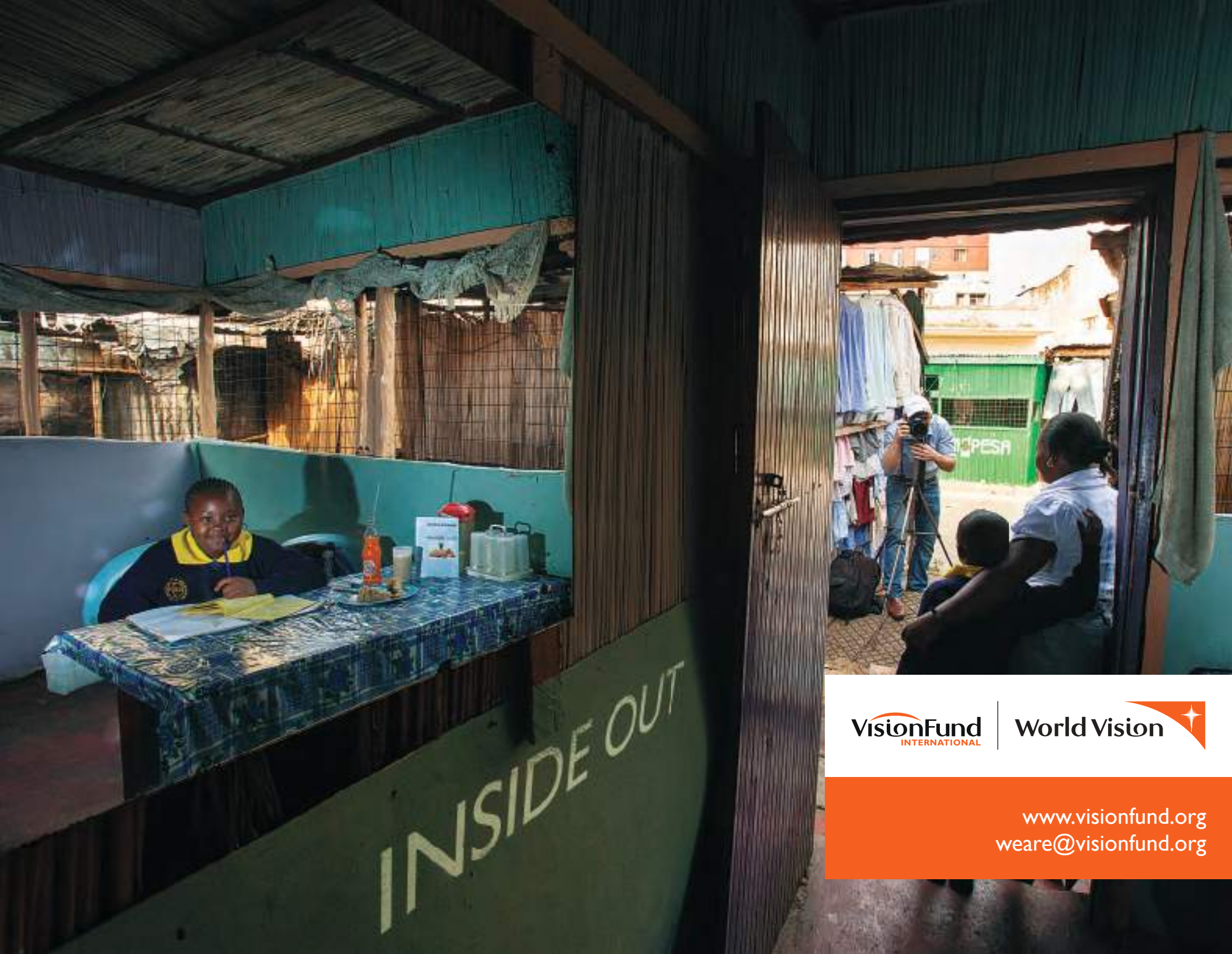
Approaching VisionFund Mexico, Encarnacion and Isaura took out a small loan totaling US$315 and built a store.

Through hard work and determination, the family's business grew. With further loans, they bought avocado trees, purchased cows and built yet another store.

The future is now bright for Encarnacion, Isaura and their family. "I am very proud of my children. We made a great effort to raise them, and they are now able to follow their dreams."

VisionFund Mexico is making a difference in the lives of people just like Encarnacion and Isaura, all over the country. ■

Statistics reference fiscal year 2013 data in US dollars, for the latest data please visit www.visionfund.org



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