VisionFund INTERNATIONAL

BUILDING FUTURES TOGETHER

2016 ANNUAL REPORT

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OUR SHARED VISION FOR EVERY CHILD

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

VisionFund is having a substantial impact today, building brighter futures for over four million children. Our strategy, *Building Futures Together 2020*, aims to build on this success. As a subsidiary of World Vision, our goal is to reach seven million children annually by 2020 and to continue as an economic empowerment engine, to reach more vulnerable children together by 2030.

VisionFund is the world's largest Christian microfinance network. We share the sector's distinguishing focus on the livelihoods of low-income women and communities who rely on agriculture in rural contexts. The provision of microfinance to rural communities via VisionFund's 31 microfinance institutions (MFIs) continues to help bring clients out of poverty.

In late 2016, World Vision launched an exciting *Our Promise 2030* strategy to align with the United Nations' Sustainable Development Goals. VisionFund features proudly in one of the five core sectors of the World Vision strategy – Livelihoods. VisionFund refreshed its *Building Futures Together 2020* strategy in response, to align direction and drive integration with World Vision. In it, you will see a deeper focus on low-income and vulnerable rural communities who depend on agriculture for their livelihoods. VisionFund's aim is for three out of four clients to be women, two out of three to be rural and half to be smallholder farmers.

During 2016, through the disbursement of over 1.4 million loans, VisionFund brought positive change to the lives of almost 4.3 million vulnerable children. Our gross loan portfolio grew by 18% to more than $509 million, with an average repayment rate of just under 98%. In 2016, more than 1.2 million clients (of whom 72% are female, 69% are rural and 45% are smallholder farmers) received small loans to create and improve their businesses, generating a million new jobs. Through drive and determination, these clients and their employees have been able to provide their families with nutritious food, better health care and an improved education.

Rural, agriculture finance is not without its risks, which is why VisionFund's rural insurance and product development is so critical. This innovative work continued to gain support and win awards during the year, but the prize was in the 'de-risking' effect it had on rural low-income households. VisionFund clients faced many challenges, from earthquakes in Ecuador and Myanmar to the continued impact of El Niño in Africa. In three African countries affected by El Niño, we delivered recovery loans to over 14,000 clients, which helped them recover their businesses and start again. This work was supported by a returnable grant from the UK Government to both VisionFund and World Vision. VisionFund worked closely with World Vision to ensure a recovery lending approach was closely aligned and integrated with World Vision's humanitarian response.

VisionFund was delighted to receive further support to grow water programmes, including a grant from

"The steadfast love of the Lord never ceases; his mercies never come to an end; they are new every morning; great is your faithfulness. The Lord is my portion, says my soul, therefore I will hope in him."

Lamentations 3:22-24

Water.org to support a water, sanitation and hygiene financing programme in Cambodia. A similar grant was also secured in the Philippines to extend home sanitation provision. A pilot started with World Vision Mali and non-governmental organisation, Water4, to enable VisionFund's clients in Mali, through the MFI, to access loans for hand-drilled wells, irrigation pumps and drip kits that will be provided by Water4. Continuing this extension into water services, following a successful year-long pilot in Zambia, in early 2017 VisionFund secured an agreement with KickStart to help rural farmers in sub-Saharan Africa borrow money to buy KickStart hand pumps to irrigate their crops and ensure successful harvests.

During 2016, VisionFund acquired 80% of Opportunity International's operations in the Democratic Republic of the Congo which was renamed VisionFund DRC. VisionFund sees great need and potential growth in this country.

In contrast, the economic downturn in Azerbaijan, combined with currency devaluations, fuelled economic uncertainty and undermined work. VisionFund re-negotiated and re-structured loans to continue to help clients in these difficult times. Our international lender partners provided welcome cooperation. Official interventions in accounting in Azerbaijan created a negative impact on the financial results, which is further explained in note 16 in the financial statements. The size of the portfolio in Azerbaijan means that these difficulties could distort the overall success of the network and, as a result, they are shown separately in this report.

In January 2017, World Vision and VisionFund together announced the launch of the Women's Empowerment Fund to assist two million women and impact seven million children annually by 2021. The Fund aims to build the resilience of women and their families, improve gender equality and support the development of women's livelihoods. It will do this by expanding financial access for women, and by delivering quality credit, savings and insurance products that VisionFund will develop with women, especially mothers, in mind.

Alongside these developments there has been internal change within VisionFund. Following an extensive external search, the Board has just appointed Michael Mithika, who has experience as a director of VisionFund, as its new President and CEO. Michael will take up his role in October 2017. We would like to acknowledge all the positive work carried out by Scott Brown during his tenure of more than ten years.

Much has been achieved and we would like to thank the Board of Directors and the teams at VisionFund and World Vision. Without their dedication, support and commitment this success during 2016 would not have been possible.

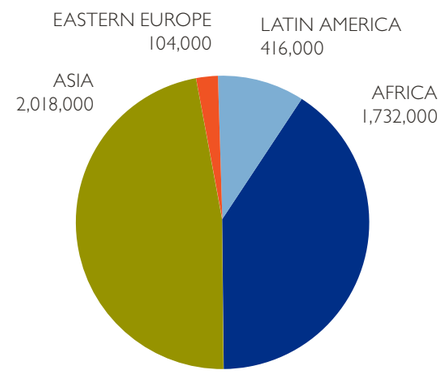
VisionFund exists to make a positive, lasting impact on the livelihoods of children globally. While many challenges and obstacles lie ahead, with World Vision and its partners, VisionFund knows we are *Building Futures Together.*

JON HARTLEY
BOARD CHAIR
VISIONFUND INTERNATIONAL

KEVIN JENKINS
PRESIDENT AND CEO
WORLD VISION INTERNATIONAL

KEY HIGHLIGHTS

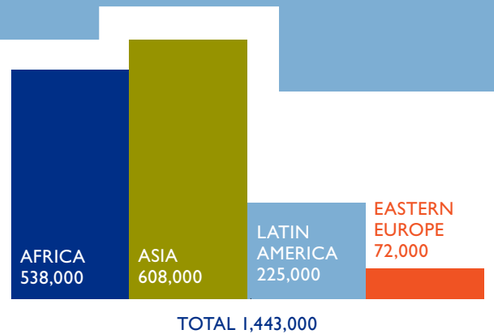
At VisionFund we are striving to impact millions of children when their parents and caregivers receive small loans and other financial services. These key highlights show the effect we're making around the world, in the four regions where we work.



TOTAL 4,270,000

CHILDREN IMPACTED

KEY HIGHLIGHTS



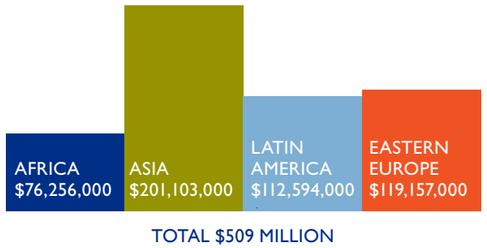
NUMBER OF LOANS DISBURSED

97.7%
GLOBAL AVERAGE

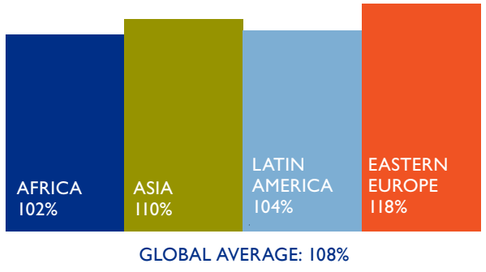
REPAYMENT RATE

7,254

GLOBAL NETWORK STAFF

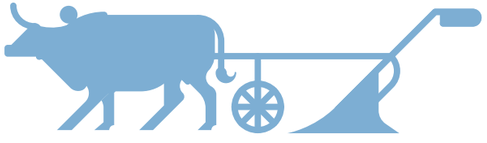


GLOBAL LOAN PORTFOLIO

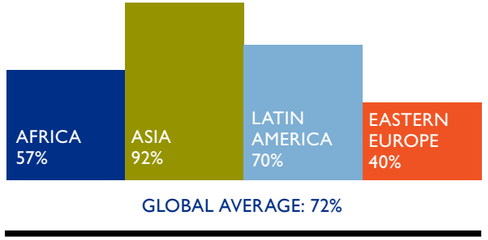


OPERATIONAL SUSTAINABILITY (%)

45% TOTAL



SMALLHOLDER CLIENTS



FEMALE CLIENTS (%)

69%
TOTAL

RURAL CLIENTS

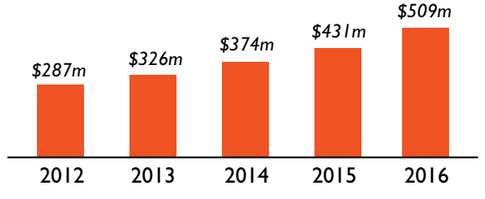
**Facts and figures throughout this report as of 30 September 2016 and reference fiscal year 2016 data in US dollars (excluding Azerbaijan).*

OUR IMPACT OVER THE YEARS

All data excludes Georgia* and Azerbaijan**
FYE September, 30

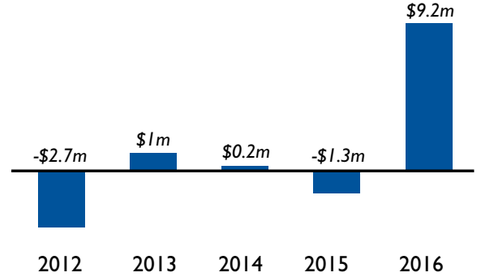
GROSS LOAN PORTFOLIO

USD millions

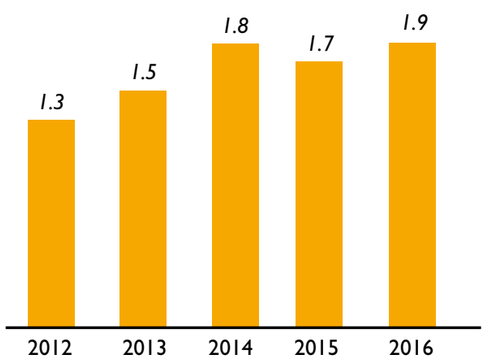


NET INCOME (AFTER TAX, BEFORE DONATIONS)

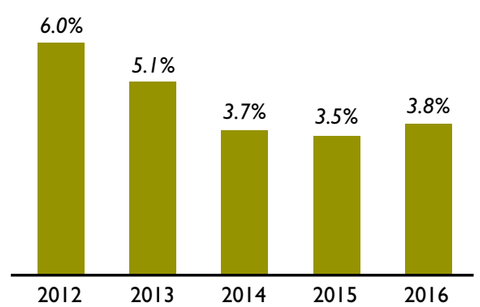
USD millions



DEBT TO EQUITY RATIO



PORTFOLIO AT RISK (PAR)> 30 DAYS + LOAN LOSS RATE



* During fiscal year 2015, VisionFund International sold all assets related to its MFI in Georgia. The sale provided the network with capital to redeploy in key target areas in both Africa and Asia. This resulted in a significant decrease in loan portfolio, net income and other key metrics, and affected comparability between years, and thus is excluded.

** During 2016, the financial situation in Azerbaijan had a significant adverse impact on our portfolio, net income and other key metrics, and affected comparability between years, and thus is excluded. (Please see note 16 on page 47 for details.)

KEY NETWORK FIGURES

		FULL VFI NETWORK (EXCLUDING AZERBAIJAN)			GAAP CONSOLIDATED NETWORK (EXCLUDING AZERBAIJAN)	
		2016	2015		2016	2015
Total Assets	USD million	618	540	USD million	446	352
Gross Loans to MFI Clients		509	431		331	236
Net Loans to MFI Clients		497	421		322	232
MFI Client Savings and Deposits		56	40		44	29
Total Equity		214	198		139	123
Total Borrowings		314	279		237	184
Financing Revenue	USD million	151	128	USD million	110	83
Financing Expense		26	22		22	14
Total Operating Revenue		116	101		84	69
Total Operating Expenses		104	99		79	69
Net Income After Tax, Before Donations		9	-1		2	-2
Portfolio Yield		32%	32%		39%	40%
Ratio of Operating Expenses to Gross Loans		22%	25%		28%	33%
% of Loans in Arrears (PAR>30 days)		1.5%	2.0%		1.7%	1.6%
Loan Loss Rate		2.3%	1.5%		2.9%	1.9%
Ratio of Allowances to Loans in Arrears (PAR>30 days)		96%	112%		91%	90%

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 11-12.

Our financial services enable impoverished households to increase incomes. We train clients to grow successful businesses using their earnings to support children and families.

See how families are escaping poverty by visiting pages 9-10.

We unlock economic potential for communities to thrive. Working together as part of World Vision – a Christian relief, development and advocacy 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.

Visit page 15 to learn how communities are taking off when local economies are able to thrive.

We are VisionFund – Financial Empowerment from World Vision.

As World Vision's microfinance efforts grow around the world, discover how this special relationship is making a lasting change on pages 17-18.

Arlene is a VisionFund client, now on her fourth loan cycle. The loans helped the family make the necessary investments to keep their silkworm business running smoothly, especially allowing them to buy the fertiliser needed to grow mulberry trees. Her husband Noel had received training from the Organisation for Industrial, Spiritual and Cultural Advancement-International (OISCA) on how to cultivate silkworms, and for over 20 years it has been the family's main source of income.

Please use the link below to find out more about Arlene and her family:

http://blog.visionfund.org/index.php/2016/07/01/cocooned-from-poverty/

OUR MISSION:
CHILD IMPACT

Bringing lasting change to vulnerable children

Our vision is for every child to live life to the full and during 2016, through our loans, we reached almost 4.3 million children across the globe.

Examples of our work come from clients in Senegal and Ghana.

Fatou, a widow from Senegal, has received six loans from VisionFund over the past four years. From these loans she has been able to pay to educate her children and build separate bedrooms and a bathroom at her house, including repairs when needed.

She is a grandmother – one of her daughters is planning to go to university while some of her children work in other villages. She continues to help and support her family by taking care of two of her grandchildren, whose parents are working away from home. With her house now in order, her focus is on her sheep, which she will fatten up to sell, and packaging and selling peanuts.

Martha Kyei is from Sekyere Krobo in the Mpohor Wassa district in the western region of Ghana. She is a divorced mother of 11 children whose ex-husband does not provide support for the children's upkeep. Her children had to drop out of school because they had no uniforms, books, pens or pencils. Despite these barriers, Martha kept her dream alive; to be economically active and put all her children back in school so that at least one of them had the opportunity to graduate from university. In April 2013, Martha joined the mother to mother support programme, a micro-enterprise development and livelihood intervention of World Vision Ghana that trained her in soap making and gari (roasted cassava powder) processing. With this training she decided to start her own soap making business. To help her, the staff at World Vision Ghana introduced Martha to VisionFund Ghana.

Martha, six other women and a man in the community formed the Bo Wo Bra (Live Your Life) Group to access a loan from VisionFund Ghana. In September 2014, Martha had an initial loan of 500 Cedis ($156) which she used to buy raw materials for the production of soap. She sold her products in the surrounding communities and successfully repaid her loan within six months. She used part of her income from the business to start to sell clothes. She took a second loan of 1,000 Cedis ($267) and invested part into her clothes business and the rest into her soap making business.

Martha grew her business capital to 1,900 Cedis ($520) and after she took a third loan of 1,200 Cedis ($322) her businesses recorded a profit margin of 30% in the second year. Her immediate family needs were met; all 11 children are attending school once again and are very proud to have the opportunity to go. Martha is now able to provide for essential household needs including good food, health care and clothing for her children.

Fatou with her grandchildren

Martha tells us, "It takes institutions like World Vision Ghana and VisionFund Ghana to come to us; irrespective of the distance they will travel to bring us these good tidings. Our future is bright and we look forward to sharing the good days ahead together."

Martha and her three youngest children

OUR MISSION:
JOB IMPACT

We empower families to create incomes and jobs

Our financial services enable poor families to increase their incomes. We train clients to grow successful businesses to better support their children.

For Grisel, one of our clients from Mexico, candy making runs in her community. Her introduction to making candy began with her brother who built a machine to make obleas candy (wafers) and start his small business.

When she married, her husband Rodrigo encouraged her to participate in making candy with amaranth called alegría (joy). Grisel excelled and helped to increase the business. To keep up with the demand for alegría, Grisel knew that they would have to borrow money to buy ingredients in bulk as well as the machinery and stainless steel tables required to expand the business. To fund this need, Grisel took out a loan from VisionFund Mexico. Through the business growth, the family was able to buy three trucks to distribute and sell the candy to other communities, improve the original workshop and build another two. This enabled the family to offer employment within the community.

One of the peak selling dates for the business is 2 November – "Day of the Dead" in Mexico or All Souls day in the western Christian faith. To ensure that Grisel and her family can meet the demand, twenty employees happily share the task of making the candy. On the day, more than 100,000 pieces of candy (in the shape of skulls in a variety of sizes) are created by Grisel's business and are available for sale.

Grisel is an advocate for VisionFund Mexico and a role model for women in her community as well as her children. When talking to her community she says: "I tell them that the word 'impossible' can't be in our vocabulary, I try to teach them about responsibility and hard work." And as for her children, they are already thinking about the future of the business. Yanderi, aged 13, wants to study Business Management and Emanuel, aged 9, wants to study Engineering to design machinery that will improve production. This means that the business created by Grisela will continue to thrive.

OUR MISSION:

COMMUNITY IMPACT

We unlock economic potential for communities to thrive

The Mposa community in Malawi was devastated by El Niño. The community and the entire country are still trying to cope with the results. In Mposa thousands of people depend on agriculture, so the widespread drought has wiped out their crops leaving people in poverty and dependant on aid.

One family in the community is Alice Mkumbadzala, her husband Sydney and their two daughters Bennadett and Clemensia. Even though the family was living in such challenging times with a year of drought followed by a year of floods, they did not lose faith. Instead of Sydney having to leave the family to go to the city to find work, he encouraged Alice to take out a small loan ($70) with VisionFund Malawi to use their land to plant vegetables instead of maize. Luckily their land was close to a stream that still had water. This meant that they could buy fertiliser and fuel to run the communal pump that irrigates not only their land but the land and gardens of the village. Alice and Sydney planted their vegetables at the end of April 2016 and their crop was so good that they were able to sell at the local market as well as to people working in the village.

Alice and Sydney were successful and Alice repaid her loan and interest in full by the end of July 2016. She told us that without VisionFund it would not have been possible. Her only other option was a loan from local money lenders who generally attract interest rates in excess of 60 per cent per month when compared to the eight per cent per month charged by VisionFund.

More than 150 people in the community took out loans to rebuild their livelihoods after the maize crop failed again. The income earned from growing vegetables enabled the women to cover most of their daily costs which means that their children's education and health care can continue.

According to World Vision's programme manager in Machinga, VisionFund's small loans came at the right time to help the community.

Christian Commitment

VisionFund is the world's largest Christian microfinance network and during 2016 our Christian Commitment group reviewed the results of research carried out with our network of microfinance institutions (MFIs) looking into those organisations that had lost touch with their faith as well as those that continue to maintain it.

Examples of good practice were highlighted by this research and these are in the process of being turned into a set of leadership qualities which will form part of a guide to be used in recruitment, mentoring and in performance management for leaders to be shared with the MFIs across the globe.

This guide will help MFI teams to clearly demonstrate Christian behaviours and set common expectations to help enable a greater sense of community and spiritual development. This will also ensure that all staff (Christian and non-Christian) understand the messaging they share with existing clients and potential clients.

Our staff represent several Christian traditions as well as followers of other faiths where we work around the world.

OUR MISSION:
INTEGRATION WITH WORLD VISION

562,000 people were positively helped across World Vision development areas in 2016 through its microfinance work at VisionFund.

VisionFund is the microfinance subsidiary of World Vision and our joint goal is to provide "life in all its fullness" to children. Our work helps to drive people out of poverty by giving them the training and financial resources to take control of their business lives to benefit their families. We ensure that they can pay for children to go to school and provide them with good nutrition and adequate health care.

World Vision Lanka visited Indrani's village in the mountains in central Sri Lanka and she joined a year-long training course on cattle farming which was part of the PROFEED project. This was a comprehensive course sharing how to make appropriate feed, care for the herd and build a shed to house the cattle. At the end of the training course, World Vision Lanka gave Indrani a cow to start her business. World Vision Lanka also sponsors Indrani's two youngest children.

To grow her small business, Indrani applied for a loan from VisionFund Lanka and was able to buy an additional cow and build a shed for both animals.

As one of the cows was pregnant, the milk yield from that cow increased when the calf was born and the new calf will add to this volume when she is ready to give milk. This meant that the income received from selling the milk will cover the cost of medicines and take care of the children.

Indrani's husband, Appuhami, works in some of the tea plantations nearby and also tends a vegetable plot at their home. Every available space has been used to grow vegetables which Appuhami sells at the local market. Currently this is the main source of additional income. Indrani has plans for her future, she wants to increase her herd to six cows and build a larger shed to accommodate them. From the increased yield the family will build a better house.

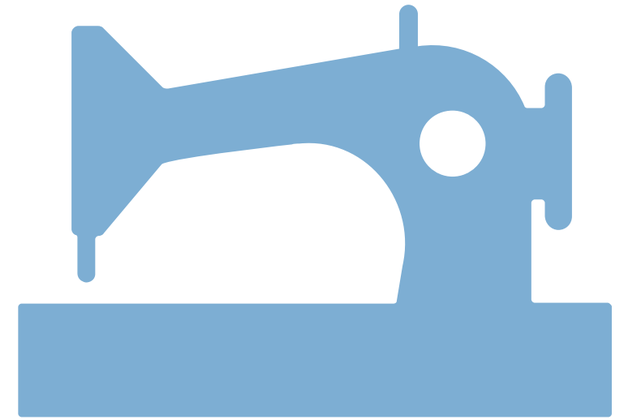
She tells us: "Dairy farming has a future. We have struggled all our lives, but now I feel there is a way I can earn enough for my children to see a better life."

To read the full story, please use the link below:

http: //blog. visionfund. org/index. php/2016/10/21/bright-lights-in-the-mountains/

OUR FOCUS ON WOMEN CLIENTS

The majority of our global client base is female (72%) and this increases to 92% in Asia. Our focus on women is driven by the fact that in many developing countries they are excluded from education and access to formal lending when compared to men. The latest Global Index[1] reports that in these countries, 17% of women are affected. When they do have access to lending services, they are often excluded from financial services such as savings and insurance.
See page 23 for more information.



We served almost one million women clients, providing lasting change for families.

We focus on both women borrowers and loan officers. This helps our goal of seeing a positive impact on children in rural areas as women are the key caregivers for their families. Our staff can truly empathise with our female clients as they understand the challenges from personal experience.

Mbayta is a loan officer at VisionFund Senegal. The area she looks after is remote so she uses a motorcycle to visit her clients. Because of the distances involved, she may only visit one to two loan groups a day. When she visits she spends time with the group, offering advice and listening to their concerns as well as receiving their loan repayments. She may also be introduced to additional clients in need of a micro loan. She uses the Progress out of Poverty Index (PPI) questionnaire to understand the living conditions and financial situation of the client and analyses her ability to repay, how much she is looking to borrow and how she will use the loan.

Please use the link to view our video *One Day* to find out more about Mbayta and the work she does.

http://www.visionfund.org/2434/one-day---film/media/

[1]**http://www.worldbank.org/en/programs/globalfindex**

OUR STRATEGY & ACHIEVEMENTS

At VisionFund, we refreshed and readjusted our strategic targets to help us better achieve our mission. Entitled *Building Futures Together*, our strategy pledges to build brighter futures for seven million children per year by 2020. It is also a core part of World Vision's *Our Promise 2030* strategy, as a key element of the Livelihoods sector.

We have refreshed our five strategic outcomes to deliver this strategy by 2020.

BUILD
CAPABILITY & REACH

TRANSFORM
RURAL LIVELIHOODS

INNOVATE
PRODUCTS & SERVICES

BE A
VOICE OF INFLUENCE

STRENGTHEN
RESOURCE BASE

During 2016, our global work has positively impacted the lives of almost 4.3 million children.

We remain focused on lifting clients out of poverty and giving their children better lives by providing client training and suitable loans to help them increase their earnings.

As part of this strategy, we continue to see greater results in rural areas through the support and financial empowerment of parents and caregivers. We are growing our clients' livelihood resilience by providing creative, flexible and well-structured solutions. We are broadening our partnerships and deepening our engagement with other development sectors. We are touching the lives of children beyond those of our own clients by advocating for improved regulation and raising industry standards. We are strengthening our resource base to enable us to confidently deliver our mission.

7 MILLION
BRIGHTER **FUTURES**

The Lord will guide you always; he will satisfy your needs in a sun-scorched land and will strengthen your frame. You will be like a well-watered garden, like a spring whose waters never fail. Isaiah 58:11

BUILD CAPACITY AND REACH

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

ACCOMPLISHMENTS TO DATE:

- Strong growth across existing core country operations, building on strong foundations over the past three years. Since 2012, VisionFund has grown the number of active borrowers by 50% to over 1.2 million who jointly accessed more than 1.4 million loans.
- Securing operating licences in Bolivia, Ecuador and Senegal.
- Beginning operations in the Democratic Republic of the Congo through a new MFI, VisionFund DRC, in partnership with Opportunity International and with the support of a significant grant from the UK Department for International Development.
- Increasing use of Mobile Money in Kenya and Tanzania which reduces the amount of cash in circulation as loans and repayments are cashless.
- More than $770 million in loans disbursed.
- VisionFund's network of MFIs managing a gross loan portfolio of more than $500 million (an annual increase of 18%).
- With loan repayments by clients at 97.7%, our portfolio at risk is at 2.3%.

TRANSFORM RURAL LIVELIHOODS

Expand outreach and approach to rural, agricultural communities

ACCOMPLISHMENTS TO DATE:

- VisionFund serves rural communities where financial services are difficult and riskier to deliver. Sixty nine per cent of our clients are from rural areas and 45% access agricultural loan products.
- Through THRIVE, a joint VisionFund and World Vision programme, smallholder farmers are able to significantly increase their incomes in a sustainable manner, better enabling them to enhance healthcare and education for their children. THRIVE combines an integrated set of elements that work together for farmers to increase confidence and technical skills, reduce risk, access crop loan finance and better understand and access more reliable markets for better pricing. THRIVE is currently in use in Malawi, Tanzania and Zambia.
- In Tanzania, a pilot of 5,000 smallholder farmers from seven locations in a partnership with VisionFund Tanzania, World Vision Tanzania and an agricultural exporting company, Great African Food Company (GAFCo) is underway. The pilot is testing the commerciality of working with smallholder farmers producing high quality sunflower seeds and beans to export to European buyers. The pilot combines the use of crop insurance and technology to manage lending and repayment which is designed to reduce risk and costs, providing confidence to the farmers to increase acreage and deliver a significant boost to their income at lower risk.
- VisionFund and a number of organisations engaged in smallholder finance, including Agora Microfinance, BRAC, Juhudi Kilimo, One Acre fund and Opportunity International, joined forces to create Propagate: A Coalition of Smallholder Finance Practitioners. We collaborate with our fellow practitioners to increase the quality and availability of financial services tailored to meet the unique needs of smallholder farmers. Going forward, along with coalition members, we will develop and adopt common principles to enhance financial services accessible to smallholder farmers. Through outreach to key sector stakeholders, our hope is to influence the availability and structure of wholesale financing to attract appropriate investment and better support the growth of smallholder financial services. Along with the coalition members, we will develop commercial and operational partnerships that drive product development and innovation in smallholder finance and create stronger value chains for farmers.

INNOVATE PRODUCTS & SERVICES

Work with partners to create a range of capabilities and products

ACCOMPLISHMENTS TO DATE:

- Through our technology solution OneVision, with pilots underway in VisionFund Cambodia, VisionFund Tanzania and VisionFund Zambia, we have:
    - Reduced client travel time – in some cases we have even eliminated it.
    - Reduced loan application and processing time from 1-2 weeks to just 2-3 hours.
    - Reduced overall loan turnaround time from weeks to 2-3 days.
    - Improved loan officer efficiency to clients.
    - Increased the ratio of staff to children assisted.
- The Financial Disaster Risk Management programme received the Asian Development Bank's Civil Society Partnership Award for 2016 in recognition of VisionFund's Asia Region Disaster Insurance Scheme. The model combines climate science, weather index derivative insurance and liquidity funds to create a mechanism that funds loans for restoring livelihoods after disasters.
- The crop and livestock programme provides innovation in insurance products, making them more suitable to our women clients by eliminating 'standard' exclusion clauses in insurance policies that disadvantage women and adding features that support their health and the care they provide to themselves and their children. Examples include:
    - Bima Maono in Tanzania, one of the first multi-peril crop insurance products for smallholder farmers in Africa. This product combines insurance with credit and precise farming techniques that can transform farming income to be predictable and reliable, regardless of weather or pests.
    - Covering cows in Kenya, the insurance product helps families to grow their small herds of cattle from one or two low-yield cows to four or more high-yield cows. Through partnership with insurance providers we are able to deliver good insurance and veterinary services alongside traditional credit.
- VisionFund contracted with BankBI, a London-based business intelligence software provider, to implement a cloud-based data warehouse and reporting solution for MFIs. The aim is to consolidate data from all MFIs thereby increasing our ability to analyse data by market, as well as the organisation as a whole, to better predict and deliver appropriate services to meet the individual needs of our clients.
- Together with World Vision, we received a returnable loan of £2 million from the UK Government (DFID) for use in our recovery lending programme to help clients affected by El Niño in Africa recover their businesses.

SUPPORTING SMALL AND GROWING BUSINESSES

Another element of our strategy is to build a small and growing business (SGB) team within VisionFund. This VisionFund team will be syndicated with certain Support Offices and key donors and will work with them to create the best approach to roll this product out to appropriate clients across the globe.

The product will focus on larger 'micro' clients who do not have access to banks but with the right funding, business advice and technical training have the potential to improve their business and generate increased economic impact including the creation of employment opportunities for others. The aim is for this product to become self-funding and we plan to roll it out over the next five years.

Client success will be primarily measured on:

- How their business has grown financially.
- Its impact on employment and wider economic flow down.
- If the business needs continued funds for growth beyond VisionFund's capacity, whether it becomes large enough with sufficient records and assets to become a banking client.

Hear about Janaki's brush making business, one of our ARISE project clients. ARISE is one of our small and growing business pilots in Sri Lanka:

https://www.youtube.com/watch?v=iJ80jxh7IF

BE A VOICE OF INLFUENCE

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

ACCOMPLISHMENTS TO DATE:

- VisionFund's former President and CEO, Scott Brown, was appointed Co-Chair of the Microfinance CEO Working Group (MCWG), a sector group of leading MFI networks, which seek to improve sector standards. A current focus is on drawing attention to the continuing shortage to rural communities of access to financial services and the limitation to growth this exerts on them.
- VisionFund negotiated an innovative returnable grant with the UK Government (DFID) for use in piloting a response to El Niño devastation in three countries in Africa – Kenya, Malawi and Zambia – through the VisionFund Recovery Loan approach. The same recovery loan response was applied to the earthquake in Ecuador.
- VisionFund is a leading global user of the Progress out of Poverty Index (PPI) to assess our clients against their country-specific national poverty line and regularly measure progress. Working with the PPI designer we created a tool to improve client tracking methodology and field tested the tool in Bolivia, Ecuador and Guatemala. This will improve our ability to track our products and approaches as our clients move out of poverty.
- SMART client protection certification achieved by VisionFund Cambodia which joins the other MFIs already certified in Azerbaijan, Bolivia, Bosnia and Serbia. The SMART certification principles and guidelines were developed by the MCWG.
- VisionFund Zambia partnered with Financial Sector Deepening Zambia, a DFID-funded organisation tasked with increasing financial inclusion, to host an event as part of the Financial Inclusion 2020 Week in November 2015. The event focused on promoting financial inclusion by leveraging savings groups and microfinance institutions.

STRENGTHEN RESOURCE BASE

Secure strong, flexible funding and capital bases

ACCOMPLISHMENTS TO DATE:

- Funding in 2016 from World Vision Support Offices totalled more than $7 million.
- Our major donor fundraising efforts continue to expand in the USA as World Vision launches an ambitious campaign to raise $175 million for economic empowerment with $13.1 million raised to date for which programmes including VisionFund are a major element.
- Launched a new grant strategy in FY15 and now manage a $16 million grant portfolio bringing in $5.5 million of income in FY16. New grant partners include the UK government (DFID), the International Fund for Agricultural Development, FMO (the Dutch Development Bank) and the Australian Government (DFAT).
- Over $300 million in debt from specialist industry lenders.
- Engaged MFX Solutions LLC as a key partner for trading and hedging foreign currency, nearly 100% of network MFI currencies will now be covered. This will allow us to take immediate steps to reduce the current risk exposure and also provide increased ability to lend to MFIs in local currency going forward.

OUR SOCIAL PERFORMANCE

Through our network of 31 MFIs, we encourage and help our clients to succeed through managed lending.

Our micro-loans help families move out of poverty and we are able to measure this success via the Progress out of Poverty Index (PPI). We use PPI in 23 countries across the globe to help our loan officers more accurately gauge the level of poverty that our clients are facing. In 20 of these countries the loan officers use PPI to measure how the support provided by VisionFund helps clients to improve their financial incomes over time in relation to their country's poverty line.

During the last year, we have positively impacted the lives of almost 4.3 million children through increased family incomes. This meant that these children were better fed, and better able to access healthcare and attend school.

One key element of our social performance is helping our clients to care for their basic water, sanitation and hygiene needs. During 2016, along with external partners, we've brought water pumps to farmers in Zambia, latrines to families in the Philippines and water filters to households in Cambodia.

As well as helping families through lending, our MFI loan officers provide training on the importance of making regular savings and taking out insurance.

Please use the link below to access the 2016 Social Performance Report.

http://www.visionfundmedia.org/eReader/socialperformance/2016/

Nearly 4.3 million children were impacted when thriving businesses increased family incomes.

MANAGEMENT REPORT & BOARD OF DIRECTORS

JONATHAN (JON) HARTLEY
New Zealand
VisionFund International
Board Chair

SUANNE DEBOER-MIEDEMA
Canada
President
Miedema's Board Consulting Inc.

GARY DUIM
USA
Vice Chariman
US Bancorp (retired)

CHRIS GLYNN
USA
Senior Vice President, Transformational Engagement
World Vision US

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

KEVIN JENKINS
UK
President & CEO
World Vision International

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

JEAN BAPTISTE KAMATE
Mali
Partnership Leader- Global Field Operations
World Vision International

STEPHEN LOCKLEY
UK
Chief Financial Officer
World Vision International

MICHAEL MITHIKA
Kenya
CEO
JM Mantle & Co. LTD.

EMMA OSBORNE
UK
Group Investments
QBE

ENSURING GOOD GOVERNANCE

With well over a decade's experience leading World Vision's microfinance network, VisionFund International (VFI) is the primary owner and operator of its microfinance institutions (MFIs) located across the globe. This ownership status has been accommodated as MFIs within the network have been effectively converted from NGOs to 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. We have seen dramatic changes to the landscape of oversight through setting both expectations and thorough monitoring at the MFI board level. With boards consisting of a diverse membership and skill sets, we have developed ongoing training of local 'governance champions' within the MFIs. Through the careful selection and appointment of MFI board members with a consideration of skills, gender and geographical base, VFI is ensuring proper representation and diverse contributions. By taking this action, the level of board effectiveness has dramatically risen 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 can only be found locally. We are grateful for the many hours of voluntary service these professionals provide.

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 the strategic direction performance, risk oversight and social performance is developed.

MANAGEMENT OVERSIGHT AND RISK

The global centre team of roughly 90 individuals, distributed over 20 locations around the globe, are made up of banking and microfinance specialists along with development leaders. They recognise that in order to improve the lives of the poor through microfinance, we first need top quality MFIs that operate under strict standards and discipline. Now recognised as one of the strongest operators in the world, VFI provides technical support and oversight combining operating, finance, IT, and people and culture. This is done with a clear client protection and care overlay which ensures clients build financial acumen within a nurturing development environment.

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. Our Risk Appetite Statement defines how much risk VFI is willing to take on. Our global and local risk registers identify the most significant risks we face and the mitigating strategies to address them.

Senior executives bring their banking 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.

Ongoing connections to both MFIs and lenders ensure lender risk is well understood and managed. Lenders tell us they view the central group as an integral part of the network and that they take comfort in the oversight and controls provided, but also appreciate the innovation and local connection to those living in poverty which ensures an effective 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 MFIs.

In an ever volatile world, a good example of global disaster risk management is the El Niño recovery lending response set up for a collection of African nations (Kenya, Malawi and Zambia). The UK Government's Department for International Development (DFID) provided a returnable risk sharing grant which allows quick recovery lending to clients affected by flooding or drought as a result of El Niño.

MONITORING OUR SOCIAL PERFORMANCE

Identifying, collecting and monitoring social performance data helps us at VFI 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 discover the effect of our efforts. 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 have begun to 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.

To understand our work on social performance, the 2016 Social Performance Report provides useful information, please visit:
http://www.visionfundmedia.org/eReader/socialperformance/2016/

MONITORING EMPLOYEE ENGAGEMENT

VFI carries out a confidential annual employee survey, Our Voice, across our network. With an organisational response rate of 92 per cent, the results are a valid representation of employee experience. Key results show that employees are highly engaged (82 per cent) and clearly identify (82 per cent) with our mission-led Christian ethos to improve the lives of vulnerable children.

The majority of the Our Voice questions are benchmarked by the vendor, CEB, and VFI uses the 'Best in Class' norm (which is based on the 90th percentile score for each questions asked) as the external benchmark for comparison purposes.

Where results show room for improvement our leadership teams work with department heads and employees to address concerns.

DIVERSITY OF EMPLOYEES

VFI is a diverse organisation with 7,254 employees from 31 countries, a male to female ratio of 58%:42% and an average age of 33 years.

ACCOUNTABILITY DISCLOSURES

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

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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 controlled subsidiary of World Vision International), which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, 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, 2016 and VisionFund Azercredit, LLC, as of September 30, 2015. These statements reflect total assets constituting 9% and 20%, respectively, of consolidated total assets at September 30, 2016 and 2015, and total revenues constituting 7% and 22%, respectively, 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 and VisionFund Azercredit, LLC, 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 auditors, 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, 2016 and 2015, 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.

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 schedules have 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.

KPMG LLP

May 12, 2017

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – September 30, 2016 and 2015

Assets		2016	2015
Cash and cash equivalents	$	54,256,923	55,713,264
Investments (note 3)		15,842,019	20,357,767
Interest receivable		6,674,256	6,326,872
Loans to microfinance institutions, net of allowance for loan losses of $2,737,933 and $1,356,568 as of September 30, 2016 and 2015, respectively (note 5)		23,045,551	29,271,698
Loans to microfinance Institution clients, net of allowance for loan losses of $32,548,655 and $9,071,173 as of September 30, 2016 and 2015, respectively (note 5)		326,920,363	294,355,871
Restricted cash and investments (notes 3, 14, and 15)		3,559,401	12,030,240
Property, plant, and equipment, net (note 6)		12,457,990	9,608,632
Other assets		8,567,816	8,335,859
Investments in affiliates (notes 7 and 13)		—	600,000
Total assets	$	454,771,685	439,688,100
Liabilities			
Accounts payable and accrued expenses (note 14)		16,356,988	15,330,070
Interest payable		4,003,557	9,618,235
Deposits from Microfinance Institution clients		44,333,090	28,877,192
Notes payable (note 8)		262,293,379	246,530,672
Other liabilities		5,763,483	3,365,378
Total liabilities	$	332,750,497	303,721,547
Net Assets			
Unrestricted net assets – Controlling interest (note 9)		124,755,725	122,087,601
Unrestricted net assets (deficit) – Noncontrolling interest (note 9)		(2,994,030)	11,537,184
Total unrestricted net assets		121,761,695	133,624,785
Temporarily restricted net assets (note 14)		259,493	2,341,768
Total net assets		122,021,188	135,966,553
Total liabilities and net assets	$	454,771,685	439,688,100

See accompanying notes to consolidated financial statements.

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES – Years ended September 30, 2016 and 2015

Unrestricted net assets:		2016	2015
Operating revenue:			
Interest, fees, and commission revenue	$	116,479,531	113,401,934
Interest, fees, and commission expense (note 10)		(24,431,385)	(20,975,699)
Net financial income		92,048,146	92,426,235
Provision for loan losses (note 5)		(37,275,066)	(10,766,174)
Funds recovered from loans written off		2,122,238	2,186,709
Net financial income after provision for loan losses		56,895,318	83,846,770
Other operating income		2,337,122	1,908,296
Total revenue from operations		59,232,440	85,755,066
Operating expense (note 10):			
Salaries and benefits		54,851,479	54,071,666
Supplies, copying, and printing		2,406,814	2,598,510
Professional fees		4,167,867	4,954,177
Communication expense		2,178,840	1,994,688
Occupancy expense		6,492,514	6,841,284
Travel and transportation		6,212,420	6,791,051
Depreciation		3,173,218	2,670,492
Training and technical assistance		1,596,014	1,053,124
Other operating expenses		6,573,761	6,319,157
Total operating expenses		87,652,927	87,294,149
Operating loss before taxes and other nonoperating changes in unrestricted net assets		(28,420,487)	(1,539,083)
Tax expense (note 10)		3,849,886	2,542,864
Net operating loss		(32,270,373)	(4,081,947)
Other nonoperating changes in unrestricted net assets:			
Unrestricted contributions (note 12)		14,198,614	13,197,940
Amounts granted to affiliated microfinance institutions		(2,631,733)	(4,049,992)
Contributed net assets (notes 9 and 13)		9,569,654	4,246,809
Foreign currency translation losses		(5,171,735)	(16,796,617)
Foreign currency transaction losses		(2,777,682)	(5,261,815)
Net assets released from restriction		2,341,768	136,660
Gain on sale of subsidiary (note 11)		—	5,298,898
Gain on restructured notes payable (note 16)		4,878,397	—
Net change in unrestricted net assets		(11,863,090)	(7,310,064)
Temporarily restricted net assets:			
Restricted contributions (note 12)		259,493	—
Net assets released from restriction (note 14)		(2,341,768)	(136,660)
Net change in temporarily restricted net assets		(2,082,275)	(136,660)
Change in≈ net assets		(13,945,365)	(7,446,724)
Net assets, beginning of year		135,966,553	143,413,277
Net assets, end of year	$	122,021,188	135,966,553

See accompanying notes to consolidated financial statements.

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS – Years ended September 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Change in net assets	$	(13,945,365)	(13,945,365)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Gain on sale of subsidiary		—	(5,298,898)
Noncash net assets from contributed entity		(6,278,153)	(3,772,048)
Depreciation expense		3,173,218	2,670,492
Provision for loan losses		37,275,066	10,766,174
Foreign currency revaluation		695,485	20,960,719
(Gain) loss on forward contracts		1,037,779	(835,241)
Gain on restructured notes payable		(4,878,397)	—
Loss on disposal of equipment		385,135	141,423
Change in assets and liabilities:			
Interest receivable		137,441	(1,484,834)
Accounts receivable		(233,662)	520,055
Other assets		(995,403)	(1,035,322)
Investment in affiliates		600,000	—
Accounts payable and accrued expenses		(7,417)	(20,386,699)
Interest payable		(5,958,224)	6,436,326
Other liabilities		2,158,224	(734,847)
Net cash provided by operating activities		13,165,727	500,576
Cash flows from investing activities:			
Purchase of equipment		(6,553,825)	(4,940,105)
Distribution of loans		(504,381,746)	(518,795,107)
Proceeds from loan portfolio repayment		470,156,951	458,588,110
Purchases of investments		(62,967,063)	(54,740,512)
Proceeds from sales of investments		68,044,782	59,996,262
Proceeds from sale of subsidiary		—	53,500,000
Taxes and settlement costs from sale of subsidiary		—	(11,443,326)
Net cash used in investing activities		(35,700,901)	(17,834,678)
Cash flows from financing activities:			
Proceeds from notes payable		88,949,867	81,731,543
Payments on notes payable		(91,111,725)	(42,136,228)
Deposits from Microfinance Institution clients		14,677,143	8,111,879
Net cash provided by financing activities		12,515,285	47,707,194
Net (decrease) increase in cash and cash equivalents		(10,019,889)	30,373,092
Cash and cash equivalents, beginning of year		64,536,805	34,163,713
Cash and cash equivalents, end of year	$	54,516,916	64,536,805
Summary of cash and cash equivalents at end of year:			
Cash and cash equivalents	$	54,256,923	55,713,264
Restricted cash and cash equivalents (note 2)		259,993	8,823,541
Total cash and cash equivalents at end of year	$	54,516,916	64,536,805
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	30,046,064	14,332,873
Cash paid during the year for taxes		2,837,219	3,208,950

See accompanying notes to consolidated financial statements.

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – September 30, 2016 and 2015

(1) ORGANISATION AND PRINCIPAL ACTIVITIES

VisionFund International (VFI) and its consolidated subsidiaries (collectively, the Organisation) is a wholly controlled subsidiary of World Vision International (World Vision), a corporation which is organised 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, colour, creed or sex.

To allow for more sustainable development, World Vision began the micro–enterprise development loan programme through 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 the following entities:

NAME	COUNTRY
VisionFund Albania LLC (VF Albania)	Albania
SEF International Universal Credit Organisation LLC (SEF)	Armenia
VisionFund Azercredit LLC (VF Azercredit) (note 16)	Azerbaijan
VisionFund Cambodia Ltd. (VF Cambodia)	Cambodia
VisionFund DRC (VF DRC) (note 13)	Democratic Republic of the Congo
VisionFund Republica Dominicana (VFRD)	Dominican Republic
VisionFund Ecuador (VF Ecuador) (note 7 and 13)	Ecuador
VisionFund Credo Foundation (VF Credo)	Georgia
VisionFund Caucasus LLC (VF Caucasus)	Georgia
Microfinance Organisation Credo LLC (MFO Credo) (note 11)	Georgia
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 AgroInvest LLC (AI Holding)	Montenegro
MFI Monte Credit LLC (VF Montenegro)	Montenegro
VisionFund Myanmar (VF Myanmar) (note 13)	Myanmar
VisionFund Netherlands I B.V. (Dutch BV1)	Netherlands
VisionFund Netherlands II B.V. (Dutch BV2)	Netherlands
EDPYME CrediVision S.A. (CrediVision)	Peru
VisionFund Rwanda (VF Rwanda)	Rwanda
AgroInvest Fond LLC (VF Serbia)	Serbia
AgroInvest Foundation Serbia (NGO Serbia)	Serbia
VisionFund Holdings (Private) Ltd. (VFL Holding)	Sri Lanka

NAME	COUNTRY
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

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 Organisation 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 Organisation are prepared on the accrual basis of accounting. Net assets of the Organisation are reported within the following categories:

Unrestricted Net Assets, Controlling Interest – Unrestricted net assets, controlling interest represent those resources of the Organisation 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 Organisation 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 Organisation'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 Organisation or by the passage of time. As of September 30, 2016 and 2015, 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 recognised when it is realised or realizable, and earned. This concept is applied to the key revenue generating activities of the Organisation as follows:

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

Contributions – Contributions and unconditional promises to give are recognised as revenues in the period received. Conditional promises to give are recognised 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 Organisation's area of operations.

Contributed Net Assets – Contributed net assets result from contributions or transfers of ownership of World Vision affiliated MFIs to the Organisation. The net asset contribution is recorded at carrying value on the date of acquisition or transfer. The Organisation 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 Organisation contributes funds to affiliated MFIs for the purpose of funding lending activities, operations, and acquisition of capital assets by the MFIs. These expenses are recognised when promised.

(e) Geographic Area of Operations

VFI's mission of providing financial services to the poor takes the Organisation 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, 2016 and 2015:

COUNTRY		2016	2015
United States	$	30,336,344	37,781,569
Cambodia		30,276,010	26,172,881
Georgia		2,289,447	2,289,447
Montenegro		7,440,595	7,383,142
Azerbaijan (note 16)		(18,021,492)	12,990,668
Armenia		5,070,120	5,076,009
Albania		436,498	301,629
Zambia		2,650,718	1,367,333
Mexico		2,461,915	2,386,911
Peru		1,660,433	1,814,355
Netherlands		19,229	19,371
Tanzania		11,528,762	10,773,954
Kenya		2,406,924	3,378,292
Malawi		1,769,850	1,604,158
Uganda		4,474,025	3,064,213
Honduras		3,844,475	3,235,359
Sri Lanka		5,576,632	5,112,336
Rwanda		1,487,258	1,820,490
Ghana		2,346,685	1,506,324
Mongolia		2,273,718	2,965,337
Dominican Republic		2,271,017	2,051,545
Myanmar		5,258,289	2,871,230
Ecuador		12,213,599	—
Guatemala		280,482	—
Democratic Republic of the Congo		1,669,655	—
	$	122,021,188	135,966,553

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 Organised as a nonprofit organisation under the laws of the State of California and is a tax-exempt organisation 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 Organisation 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 Organisation at September 30, 2016 and 2015.

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 Organisation 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, 2016, restricted cash and cash equivalents totaled $259,493. These funds are related to contributions held for restricted use. As of September 30, 2015, of the $8,823,541 in restricted cash and cash equivalents, $6,481,773 related to bank accounts held by VF Azercredit, which were temporarily blocked by the government (note 16). Other restricted cash related to contributions held for restricted use (note 15).

(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 Organisation to affiliated independent MFIs, as well as loans made by the Organisation 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 Organisation'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 capitalised 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 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. As of September 30, 2016, and 2015, the net assets of subsidiaries denominated in local currency and subject to translation adjustments totaled $91,684,844 and $98,184,984, respectively. For the years ended September 30, 2016 and 2015, due to the general appreciation in the exchange rate of the U.S. dollar against the local currencies of the subsidiaries, translation losses totaled $5,171,735 and $16,796,617, 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, 2016 and 2015, transaction losses totaled $2,777,682 and $5,261,815, respectively.

(l) Foreign Exchange Currency Contracts

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

At September 30, 2016 and 2015, the Organisation had in place foreign currency contracts totaling $21,671,096 and $20,782,765, respectively. As of September 30, 2016 and 2015, the Organisation recorded assets of $84,055 and $1,121,834, respectively, as part of other assets 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 recognised.

(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.

(3) INVESTMENTS

Investments consist of investments held at banks for short-term lending and funding needs. As of September 30, 2016 and 2015, the fair value of investments is as is as follows

FOREIGN BANK TIME DEPOSITS		2016	2015
Unrestricted	$	15,842,019	20,357,767
Restricted (note 15)		3,299,408	3,206,699
Total investments	$	19,141,427	23,564,466

(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 Organisation 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:

		2016	2015
Significant other observables inputs (Level 2):			
Assets:			
Foreign bank time deposits:			
Ecuador	$	3,737,023	—
Serbia		3,299,408	3,206,699
Kenya		2,603,003	3,167,389
Armenia		2,470,105	3,905,746
Honduras		1,343,000	400,007
Ghana		1,334,620	805,304
Peru		1,205,347	1,247,375
Tanzania		1,041,951	5,468,211
Cambodia		993,251	997,350
Uganda		884,027	2,355,922
Montenegro		229,292	903,882
Mexico		—	450,122
Rwanda		—	417,456
Malawi		—	151,493
Sri Lanka		—	87,510
Total Investments	$	19,141,427	23,564,466
Assets:			
Foreign exchange currency contracts	$	84,055	1,121,834

For the valuation of foreign currency time deposits and foreign bank time deposits, the Organisation 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 Organisation to affiliated, independent (unconsolidated) MFIs for further lending to micro entrepreneurs. As of September 30, 2016 and 2015, these loans totaled $25,783,484 and $30,628,266, respectively. Interest rates for loans to MFIs by the Organisation range from 0% to 16%, depending on the current U.S. interest rates and the currency of the loan. As of September 30, 2016, these loans are scheduled for repayment as follows:

Fiscal year:		Principal payment schedule
2017	$	17,306,474
2018		6,491,461
2019		1,985,549
		25,783,484
Less allowance for loan losses		(2,737,933)
Loans to affiliated MFIs, net	$	23,045,551

Changes in the allowance for loan losses for the years ended September 30, 2016 and 2015 are as follows:

Allowance for loan losses		2016	2015
Beginning of year	$	1,356,568	1,356,568
Provision for loan losses		1,381,365	—
End of year	$	2,737,933	1,356,568

Loans to MFIs were concentrated in the following regions as of September 30, 2016 and 2015:

Region of operations		2016	2015
Middle East/Eastern Europe	$	9,209,704	9,156,303
Latin America/ Caribbean		8,319,080	15,744,981
Africa		4,291,297	2,245,576
Asia/Pacific		3,963,403	3,481,406
	$	25,783,484	30,628,266

The Organisation 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 Organisation as substandard. These assets pose higher risk and elevated probability of default. Conforming refers to all loans not considered nonconforming. The Organisation 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 Organisation's loans to affiliated microfinance institutions (MFIs) at September 30, 2016 and 2015:

Risk Ratings		2016	2015
Conforming	$	18,119,290	29,090,646
Nonconforming		7,664,194	1,537,620
Total	$	25,783,484	30,628,266

The Organisation 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, 2016 and 2015, the Organisation's loans to MFI clients totaled $359,469,018 and $303,427,044, respectively. The allowance for loan loss as of September 30, 2016 and 2015 was $32,548,655 and $9,071,173, 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 $200 to $3,000. These loans have terms commonly ranging from 1 to 72 months, their weighted average maturities being approximately 18 months. Interest rates on the outstanding loans vary by country due to varying inflation rates and operating environments. For the years ended September 30, 2016 and 2015, the weighted average annual interest rates charged were 32% and 33%, respectively.

Loans to MFI clients were concentrated in the following regions as of September 30, 2016 and 2015:

Region of operations		2016	2015
Asia/Pacific	$	184,588,528	151,097,261
Latin America/ Caribbean		74,784,246	28,329,085
Middle East/Eastern Europe		58,901,502	96,540,372
Africa		41,194,742	27,460,326
	$	359,469,018	303,427,044

An aging analysis of loans to microfinance institutions (MFIs) clients as of September 30, 2016 is as follows:

		Outstanding balance	Allowance for loan losses
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 16)		21,588,834	18,295,855
	$	359,469,018	32,548,655

An aging analysis of loans to MFI clients as of September 30, 2015 is as follows:

		Outstanding balance	Allowance for loan losses
Current or less than 30 days past due	$	290,615,990	2,016,063
31–60 days past due		4,469,42	1,949,777
61–90 days past due		3,006,511	1,346,807
91 days or more past due		5,335,12	3,758,527
	$	303,427,044	9,071,174

The Organisation 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, 2016 and 2015, loans 91 days or more past due totaling $12,842,254 and $5,335,123, respectively, were not accruing interest. Restructured loans totaling $21,588,834 (note 16) as of September 30, 2016 were not accruing interest. Loans on nonaccrual status are not restored to accrual status unless they become current and full payment is expected.

Changes in the allowance for loan losses for the years ended September 30, 2016 and 2015 are as follows:

Allowance for loan losses		2016	2015
Beginning of year	$	9,071,173	5,135,731
Loans written off		(8,655,750)	(5,288,760)
From contributed entity		1,340,364	168,307
Provision for loan losses		35,893,701	10,766,174
Currency revaluation		(5,100,833)	(1,710,279)
End of year	$	32,548,655	9,071,173

As of September 30, 2016, based on historical loan performance and aging analysis, these loans are sufficiently covered by the allowance for loan losses.

In the year ended September 30, 2016, the terms to certain loans by VF Azercredit to MFI clients were modified and considered to be troubled debt restructuring (note 16).

(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, 2016 and 2015:

		2016	2015
Land and buildings	$	2,466,757	1,137,303
Equipment		5,949,073	4,704,452
Vehicles		5,128,011	4,382,684
Computers and software		11,449,927	8,374,483
		24,993,768	18,598,922
Less accumulated depreciation and amortizatio		(12,535,778)	(8,990,290)
Total		12,457,990	9,608,632

(7) INVESTMENTS IN AFFILIATES

Investments in affiliates at September 30, 2015 represent the Organisation's equity ownership in VF Ecuador. This investment was recorded at cost and represented a 7% ownership in the shares of VF Ecuador as of September 30, 2015. In the year ended September 30, 2016, the Organisation acquired majority ownership in VF Ecuador. (note 13)

(8) NOTES PAYABLE

Notes payable represent funding from various foundations, individuals, affiliates, and banking organisations, which extended loans to the Organisation to provide support for its activities. As of September 30, 2016, of the $262,293,379 outstanding, $13,000,000 was lent to the Organisation by World Vision. As of September 30, 2015, of the $246,530,672 outstanding, $23,000,000 was lent to the Organisation by World Vision. The following are the interest rates on these loans:

Number of loans		Total loan value	Interest Rates
83	$	39,397,806	0.0% to 5.0%
175		172,890,231	5.1% to 10.0%
76		37,888,553	10.1% to 15.0%
20		12,116,789	over 15.0%
	$	262,293,379	

These loans are scheduled for repayment as follows:

Fiscal Year		Principal payment schedule
2017	$	125,924,525
2018		68,868,905
2019		46,045,480
2020		6,481,334
2021		9,496,407
2022 and beyond		5,476,728
	$	262,293,379

As of September 30, 2016, notes payable are unsecured with the exception of $16,564,147 in loans that have been guaranteed by the assets of the Organisation.

(9) UNRESTRICTED NET ASSETS

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 13)		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)

Changes in unrestricted net assets for the year ended September 30, 2015 are as follows:

		Total	Controlling interest	Noncontrolling interest
Balance, October 1, 2014	$	140,934,849	124,924,272	16,010,577
Transfers to noncontrolling interest		—	(363,053)	363,053
Deficiency of revenues over expenses		(11,556,873)	(6,720,427)	(4,836,446)
Contributed net assets (note 13)		4,246,809	4,246,809	—
Balance, September 30, 2015	$	133,624,785	122,087,601	11,537,184

(10) PROGRAM AND SUPPORTING EXPENSES

To help users assess the Organisation'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 Organisation's primary activities of coordinating and funding MFIs and providing commercially oriented microfinance services to alleviate poverty. As the Organisation does not engage in fund-raising activities, all other expenses are designated as supporting services.

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 Organisation. For the year ended September 30, 2015, of the $125,628,878 in total expenses (excluding foreign currency adjustments), $112,088,000 was incurred in the course of program services and $13,540,878 was incurred in the course of supporting services by the Organisation.

(11) SALE OF SUBSIDIARY

In October 2014, the Organisation sold its 100% ownership in MFO Credo and received cash proceeds of $53,500,000. As a result of the sale, the Organisation paid taxes and settlement costs totaling $11,443,326. After deducting prepaid selling expenses of $603,494, the Organisation recognised a gain on the sale of MFO Credo totaling $5,298,898. The decision to exit operations in Georgia was made as a part of the Organisation's broader strategy to focus on growth of operations in Africa and Asia.

(12) CONTRIBUTIONS

Contributions, excluding contributed net assets, for the years ended September 30, 2016 and 2015 totaled $14,458,107 and $13,197,940, respectively.

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

		2016	2015
Unrestricted:			
World Vision International	$	5,773,554	1,873,616
World Vision United States		4,334,807	5,837,719
World Vision Germany		775,565	201,924
World Vision United Kingdom		485,358	287,267
World Vision Australia		425,217	243,403
World Vision Singapore		300,341	233,035
World Vision Canada		294,078	480,875
World Vision New Zealand		280,416	231,111
World Vision Zambia		268,036	—
World Vision Honduras		214,372	—
World Vision Cambodia		193,464	—
World Vision Switzerland		170,000	180,000
World Vision Hong Kong		100,000	100,000
World Vision Albania		1,612	22,452
World Vision Uganda		—	456,843
World Vision Kenya		—	52,816
World Vision Korea		—	23,129
World Vision Malawi		—	20,731
World Vision Ghana		—	5,847
World Vision Peru		—	273,629
Nonaffiliated Aid Agencies:			
Opportunity International UK		9,555	1,356,944
Other		572,239	1,316,599
Total unrestricted		14,198,614	13,197,940
Restricted:			
Nonaffiliated Aid Agencies		259,493	—
Total restricted		259,493	—
Total contributions	$	14,458,107	13,197,940

(13) CONTRIBUTED NET ASSETS

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

During the year ended September 30, 2016, the Organisation acquired 100% ownership in VF Ecuador through the transfer of shares from FODEMI, a World Vision controlled entity. The total contributed net assets recognised were $7,900,000. As of September 30, 2015, the Organisation owned a noncontrolling interest in VF Ecuador (note 7).

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

During the year ended September 30, 2015, VF Myanmar was incorporated with 100% equity owned by the Organisation. During the year ended September 30, 2015, VF Myanmar recognised contributed net assets from the transfer of assets and liabilities from WVI totaling $4,246,809.

(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, 2016 and 2015, the Organisation had accounts payable to World Vision totaling $624,025 and $454,313, respectively. These amounts were for operating expenses paid by World Vision on behalf of the Organisation.

As of September 30, 2016 and 2015, the Organization had an available line of credit from World Vision amounting to $13,000,000 and $23,000,000, respectively. As of September 30, 2016 and 2015, the Organization has drawn $13,000,000 and $23,000,000, respectively, on this line of credit (note 8). The line of credit bears interest at a rate of 2.07%. The line of credit is unsecured and matures on June 15, 2018.

As of September 30, 2016 and 2015, the Organization has notes payable to World Vision Germany in the amounts of $2,246,939 and $2,234,800, respectively, which bear interest at rates of 3%. The loans mature on June 30, 2017 and October 31, 2016.

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. As of September 30, 2015, the Organization maintained restricted funds related to this contribution totaling $2,341,268. In the year ended September 30, 2016, upon reviewing the original contribution agreement, the Organization concluded that these funds are not subject to any other specific use requirement and released these funds from restriction.

(15) 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, 2016, the value of the guaranteed loan portfolio totaled $14,181,355. These loans are not included on the consolidated statements of financial position. As of September 30, 2016, the value of deposits held by VF Serbia as security for these loans totaled $3,299,408. These deposits are reported as investments on the consolidated statements of financial position (note 3).

(16) VISIONFUND AZERCREDIT

In October 2014, a number of local non-governmental organisations (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 pursuant to court orders received in October 2014. In October 2015, the restricted bank accounts of VF Azercredit were released in accordance with new court orders.

The economy of Azerbaijan has been significantly impacted by a series of currency devaluations in February 2015 and December 2015. In that period, the value of the currency fell from 0.78 manats per U.S. dollar to 1.55 manats per U.S. dollar. This devaluation, combined with general market and economic uncertainty in the country of Azerbaijan, has impacted the ability of VF Azercredit to collect loans issued to MFI clients.

VF Azercredit has sought to assist customers that are experiencing financial difficulty by renegotiating and restructuring client loans. The restructured portfolio may include 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. The Organisation considers restructured loans to have an increased risk of loss compared to standard, unmodified loans. Restructured loans are monitored and evaluated separately in the determination of the allowance of loan losses. The following table shows information about the restructured portfolio and the related allowance for loan losses during the year ended September 30, 2016:

		Restructured loans	Loan loss allowance
Current or less than 30 days past due	$	6,585,958	3,292,979
31 days or more past due		15,002,876	15,002,876
	$	21,588,834	18,295,855

As of September 2016, there were no remaining commitments to lend additional funds to debtors whose terms have been modified in the troubled debt restructuring.

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. In the year-ended September 30, 2015, the 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 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. As a result, the Organisation recognised a gain of $4,878,397 on the restructuring of notes payable.

As of September 30, 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 $18,021,492. VF Azercredit is a limited liability company, and as such its shareholders, including VFI, are not liable for its liabilities. In the event that VF Azercredit enters legal bankruptcy proceedings, the Organisation would be required to deconsolidate VF Azercredit. Management believes that all l iabilities covered under the Standstill Agreement would be discharged in the bankruptcy, which would then reverse the net deficiency. Accordingly, management believes that VF Azercredit's bankruptcy would not impact the ability of the Organisation as a whole to continue as a going concern. As of September 30, 2016 and 2015, the Organisation owned 52% of VF Azercredit.

(17) SUBSEQUENT EVENTS

Subsequent events have been evaluated from September 30, 2016 through May 12, 2017.

In December 2016, the Organisation sold its share ownership in VisionFund 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 Organisation recognised a loss on the sale of VF Albania totaling $943,520.

In March 2017, the National Bank of Cambodia imposed new regulations on maximum interest rates chargeable on new and refinanced microfinance loans in the country of Cambodia effective, April 1, 2017. The full impact of this regulation on VF Cambodia is still uncertain, but management believes that appropriate operational changes are feasible, without significant adverse impact on the consolidated financial results of the Organisation. As of September 30, 2016, VF Cambodia's loans to MFI clients totaled $140 million.

SUPPLEMENTARY SCHEDULES PRO FORMA FINANCIAL STATEMENTS

The following financial statements are presented to show VisionFund International and Subsidiaries, excluding VF Azercredit (note 16)

SEPTEMBER 30, 2016 (UNAUDITED)

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION–September 30, 2016 (Unaudited)

ASSETS		
Cash and cash equivalents	$	51,946,438
Investments in affiliates		15,842,019
Interest receivable		6,560,261
Accounts receivable		3,430,352
Loans to Microfinance Institutions, net of allowance for loan losses $2,737,933		23,045,551
Loans to Microfinance Institution clients, net of allowance for loan losses of $8,567,816		322,281,671
Restricted cash and investments		3,559,401
Property, plant, and equipment, net		11,748,086
Other assets		8,074,687
Total assets	$	446,488,466
LIABILITIES		
Accounts payable and accrued expenses	$	15,841,820
Interest payable		3,975,270
Deposits from Microfinance Institution clients		44,333,090
Notes payable		237,187,513
Other liabilities		5,744,324
Total liabilities		307,082,017
NET ASSETS		
Unrestricted net assets – Controlling interest		133,490,169
Unrestricted net assets – Noncontrolling interest		5,656,287
Total unrestricted net assets		139,146,456
Temporarily restricted net assets		259,993
Total net assets		139,406,449
Total liabilities and net assets	$	446,488,466

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

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES – Year ended September 30, 2016 (Unaudited)

Unrestricted net assets:	
Operating revenue:	
Interest, fees, and commission revenue	$ 110,195,799
Interest, fees, and commission expense	(21,985,596)
Net financial income	88,210,203
Provision for loan losses	(8,790,201)
Funds recovered from loans written off	1,841,972
Net financial income after provision for loan losses	81,261,974
Other operating income	2,337,051
Total revenue from operations	83,599,025
Operating expense:	
Salaries and benefits	48,722,875
Supplies, copying, and printing	2,272,309
Professional fees	3,481,776
Communication expense	2,028,861
Occupancy expense	5,843,771
Travel and transportation	5,896,348
Depreciation	2,865,520
Training and technical assistance	1,556,771
Other operating expenses	5,857,847
Total operating expenses	78,526,078
Operating income before taxes and other nonoperating changes in unrestricted net assets	5,072,947
Tax expense	3,149,840
Net operating income	1,923,107
Other nonoperating changes in unrestricted net assets:	
Unrestricted contributions	14,198,614
Amounts granted to affiliated microfinance institutions	(2,631,733)
Contributed net assets	9,569,654
Foreign currency translation losses	(1,560,570)
Foreign currency transaction losses	(1,843,768)
Net assets released from restriction	2,341,768
Net change in unrestricted net assets	21,997,072
Temporarily restricted net assets:	
Restricted contributions	259,493
Net assets released from restriction	(2,341,768)
Net change in restricted net assets	(2,082,275)
Change in net assets	19,914,797
Net assets, beginning of year	119,491,652
Net assets, end of year	$ 139,406,449

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

SUPPLEMENTARY SCHEDULES

NOTE TO SUPPLEMENTARY SCHEDULES

September 30, 2016 and 2015

(1) EXCLUSION OF VF AZERCREDIT

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

OUR GLOBAL FAMILY

VisionFund is the world's largest network of Christian microfinance institutions (MFIs). Our MFIS are located across the globe in Africa, Asia, Eastern Europe, and Latin America.


DEMOCRATIC REPUBLIC OF CONGO


GHANA


KENYA


MALAWI


MALI


RWANDA


SENEGAL


TANZANIA


UGANDA


ZAMBIA


CAMBODIA


INDIA

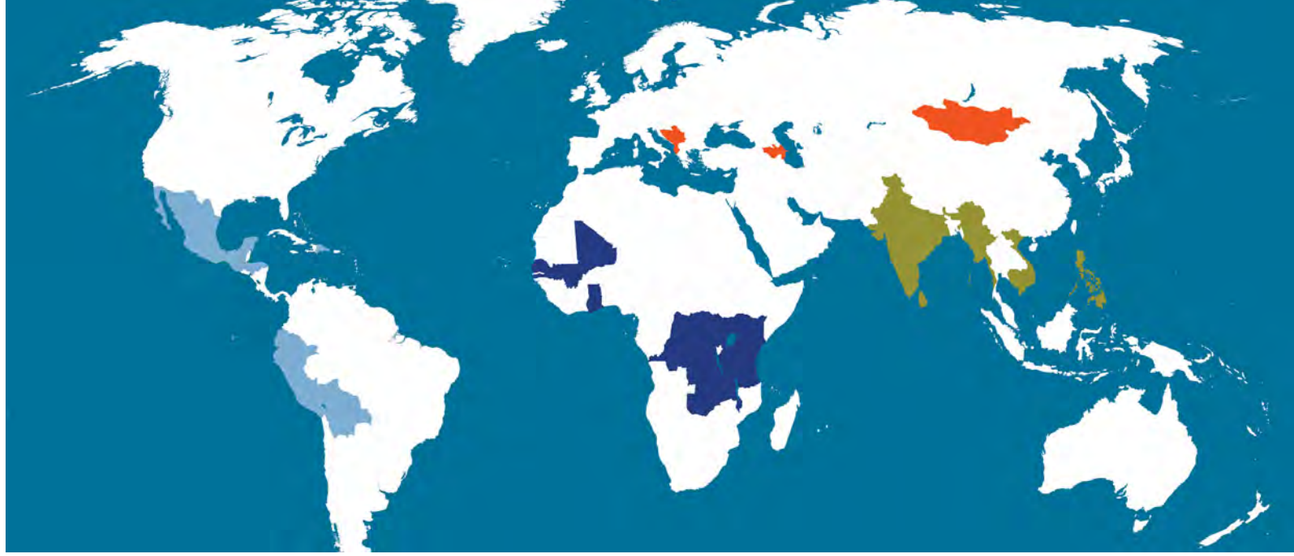

MONGOLIA


MYANMAR


PHILIPPINES


SRI LANKA


VIETNAM




ALBANIA


ARMENIA


AZERBAIJAN


BOSNIA


KOSOVO


MONTENEGRO


SERBIA


BOLIVIA


DOMINICAN REPUBLIC


ECUADOR


GUATEMALA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VisionFund INTERNATIONAL | World Vision

VisionFund.org
info@VisionFund.org

Headquartered in
London, UK and
registered in California, USA