VisionFund INTERNATIONAL | 15 YEARS EMPOWERING LIVES

15 YEARS EMPOWERING LIVES

VISIONFUND INTERNATIONAL
ANNUAL REPORT 2018

MISSION AND VISION

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.

VisionFund INTERNATIONAL | World Vision

CONTENT

We empower families to create income and livelihoods through our financial services. We train clients to grow successful businesses to better support their children, families and communities.

We unlock economic potential for communities to thrive. Working together as part of World Vision – a global Christian relief and development organization dedicated to working with children, families and communities to overcome poverty and injustice – communities can increase their economic activity, access clean water, education and healthcare, benefit from improvements to nutrition, and provide the foundations for local economies to flourish.

CHAIRMAN'S STATEMENT

There is one body, and one Spirit, even as you are called in one hope of your calling; one Lord, one faith, one baptism, one God and Father of all, who is above all, and through all, and in you all. ~ **Ephesians 4:4-6**

I begin this letter with a scripture from the letter of St Paul to the Ephesians to remind us of how our common belief in Jesus Christ leads the work of everyone across VisionFund. Our unity of purpose and faith across the Network encourages us that with God's help we can make an even greater difference in the lives of millions of children, now and in the years ahead.

2018 has been an important milestone in VisionFund, marking the 15-year anniversary of the world's largest Christian owner-operator microfinance network. VisionFund was incorporated on 16 October 2003 and since our founding we have made 14.4 million loans and disbursed $8.2 billion to communities around the world. This is an outstanding accomplishment that deserves a pause – a pause to give thanks to God as we celebrate 15 years of empowering millions of households, and to celebrate many who have given – our donors, World Vision Partners, and equally important our colleagues both past and present across the World Vision Partnership.

As the Board Chair, I continue to be energised by the transformation taking place in the communities that we serve. 2018 marked the first full year of Michael Mithika's leadership and it has been an exciting time as we get closer to WV in so many ways. During 2018 we positively impacted the lives of more than 4.1 million children through economically empowering 1.1 million clients. Our work across the Network is reaching more rural communities, which now represent 63% of the total client base. The reach to smallholder farmers increased to 42% of the client base and women now comprise 70% of our client base. These are great results, especially as industry trends see key players moving away from rural and harder-to-reach places, where the need is greater. VisionFund is unique across the financial inclusion industry, and I am grateful to see the commitment of our people and leadership to reach vulnerable communities to help them to grow their incomes so that families can better support their children.

At the end of June 2018, we announced the sale of 100% of VisionFund Cambodia to Woori Bank of South Korea. The hand of the Lord guided what could have been a complex and difficult process. This was a momentous transaction that is potentially transformational for VisionFund. This country is close to my heart. I first became involved in VisionFund Cambodia in 2003 and spent nine years on VisionFund Cambodia's board. I have witnessed first-hand the combined WV and VFI dedication to our shared mission. VisionFund Cambodia has delivered significant impact – serving in its last year 136,000 clients and impacting over 335,000 children – and it is of great comfort to know its work will continue. This rebalancing strengthens VisionFund International to further play our role in sustainable transformational development in alignment with World Vision's *Our Promise* strategy. The seeds sowed by many over the years have borne fruit, multiplied and will continue to help bring hope and strengthen livelihoods.

I am thankful for the commitment of my fellow Board members, who provide governance, guidance and support to our leadership teams, in our ministry. The VisionFund International Board is made up of a strong mix of internal and external directors who govern the work of the organisation and hold management accountable against plans and strategy.

I conclude this letter with a deep sense of gratitude. As I look back on the year it is remarkable how much we have accomplished to help our clients, communities and children around the world. Ours is an exceptional ministry with an astonishing future if together with World Vision we can deliver.

My time chairing the VisionFund International Board will come to an end in September 2019 and I welcome Jim Bere as the new Chair from October 2019. During my final year we will update the strategy that will drive VisionFund to 2030 and beyond, further integrating with World Vision's Our Promise strategy. It has been an honour to serve with a dedicated team of professionals over the past 12 years, the last six of which I served as Chairman. I know that, with God's guiding hand, the Board will continue to drive VisionFund to achieve the very best results to empower more clients and enable vulnerable children and communities to thrive.

Sincerely,

Rev. Jon Hartley
Chairman
VisionFund International - Board of Directors

LEADERSHIP LETTER

May the God of hope fill you with all joy and peace as you trust in him, so that you may overflow with hope by the power of the Holy Spirit. ~ Romans 15:13

Reflecting on our progress the past year, we are filled with gratitude for what we have been able to achieve. Through the commitment of our colleagues around the world, generosity of our donors and support of our funders we have empowered millions with financial solutions to build brighter futures and help transform communities.

Many salient events across the past months have reminded us of the importance of giving thanks to God for His goodness, providing for this ministry and using us as His instruments of change and hope. We begin this letter with a desire to pause and look back, in order to rediscover our mission to reach millions in need, and our calling to help transform communities by building sustainable livelihoods.

At our Global Leadership Conference in October 2018, 130 leaders gathered to celebrate 15 years since VisionFund's founding by World Vision. Since 2003 our commitment to building sustainable livelihoods has empowered millions of clients and impacted an even greater number of children. In our short history VisionFund has made 14.4 million loans and disbursed US$8.2 billion to clients around the world. Our credit and savings products have helped a remarkable number of vulnerable people strengthen their livelihoods and secure the necessities of life, for their families and children. In communities where World Vision works to bring transformational development, our clients have been empowered to pursue economic opportunities and build more resilient lives.

In 2018 we provided vital economic support to our clients living in 29 countries in Africa, Asia, Eastern Europe, and Latin America. We served more than 1.1 million clients who, in turn, catered for the needs and improved the lives of more than 4.1 million children. Globally, we disbursed almost $727 million in loans to our entrepreneurial clients who provided employment to almost 1.5 million people helping to strengthen local communities.

During this year we also concluded the sale of VisionFund Cambodia to Woori Bank of South Korea. This was a strategic decision to re-align our global footprint for greater impact on the lives of children. We are delighted that Woori Bank continues to support the growth of our clients. We are honoured to have been part of Cambodia's developing financial services sector and impacted thousands. Our sale underpins the commitment in World Vision's *Our Promise* strategy to deploy resources to impact ever more vulnerable children by serving communities with significantly less access to microfinance services. Our shared strategy with World Vision is helping us build brighter futures in thousands of communities bringing greater hope for children.
In many of the countries we operate, we work with many other development partners. Many of these are donors that share our commitment to the poor. Notably in 2018, we won a $3.5 million grant from the

Livelihoods and Food Security Trust Fund to support establishment of three branch offices in the Rakhine State in Myanmar to support our work in fragile context areas. This was the culmination of two years of work that allows us to financially empower a mix of communities including vulnerable families of Christian, Buddhist and Muslim faiths.

As we prepare for 2019 and start working on our strategy design with a focus towards 2030 and in alignment with World Vision, we continue to aspire to deliver impact sustainably at scale by building on the three pillars that form the basis of our model: Impact, Sustainable Operations and Funding. We will focus on ensuring that we are targeting the right clients and providing them with relevant and affordable solutions to improve their livelihoods. We have much to do but improving the lives of children living in poverty remains at the heart of why we exist and do what we do.

Across the entire VisionFund Network our work is guided by the dedication and commitment of board members. In 2019 the VisionFund International Board Chair Rev. Jon Hartley, will be serving his last term. Jon's involvement with VisionFund dates back to 2003 when he first started serving on the Board of VisionFund Cambodia, and later on the board of VisionFund Myanmar. His passionate and exemplary long service is unrivalled, as he has served in the VisionFund Network from our founding. We thank Jon for his time, wisdom, rich experience and friendship. During the past six years as Chair of the VisionFund International Board, he has steered the organisation toward building exceptional capabilities and a commitment to excellence. We will honour his commitment and endeavors by continuing to build an enduring organisation.

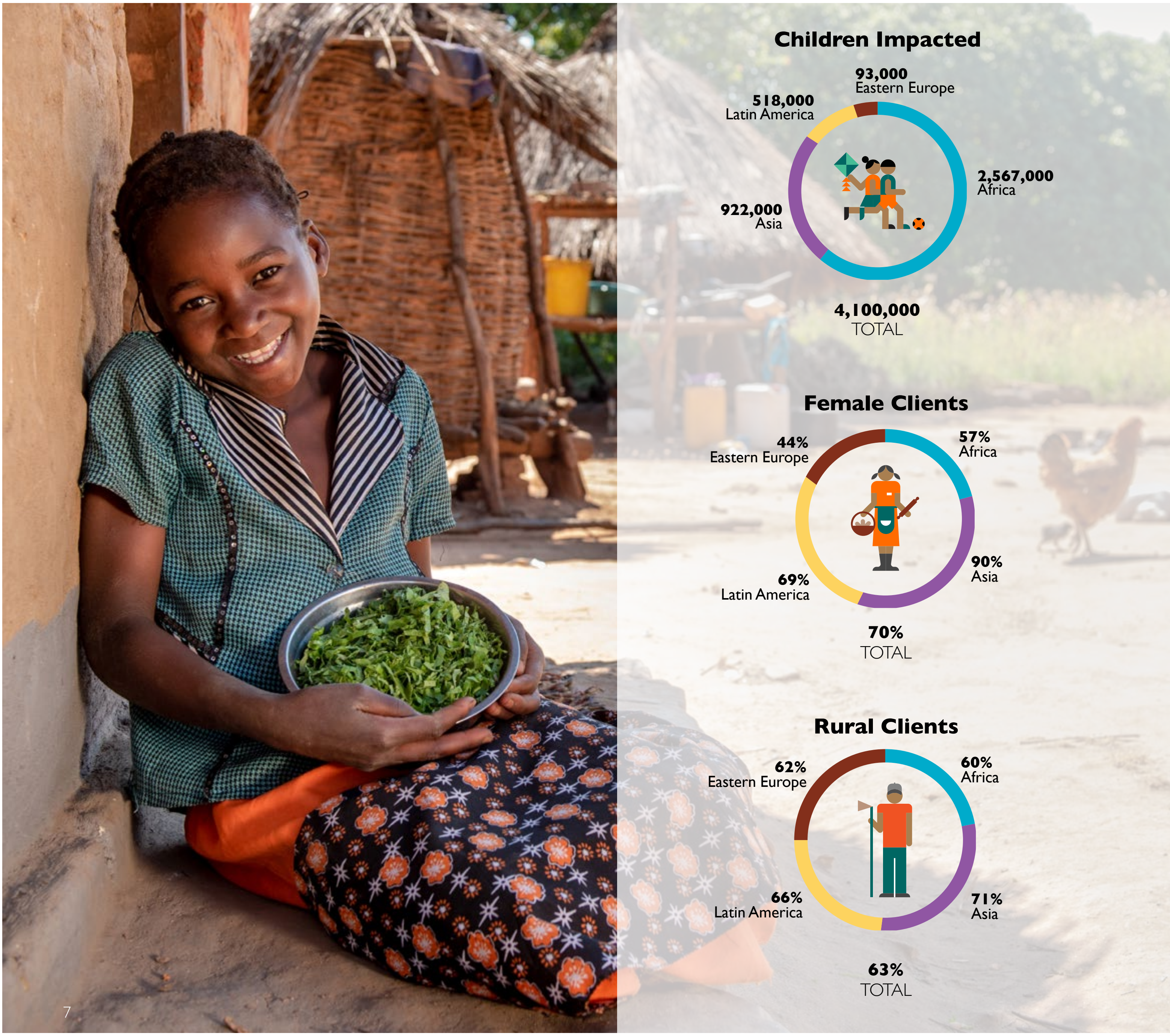
Finally, we also extend praise to the hard work, dedication and prayerful support of our colleagues, Board members, donors and partners across World Vision and beyond, for all that we have achieved together. We hope you are filled with great anticipation of what is possible as we look to the year ahead and remain assured of God's ever-present help. Your support means lives are transformed and improved around the globe. Together, we bring life in all its fullness to the most vulnerable.

Sincerely,

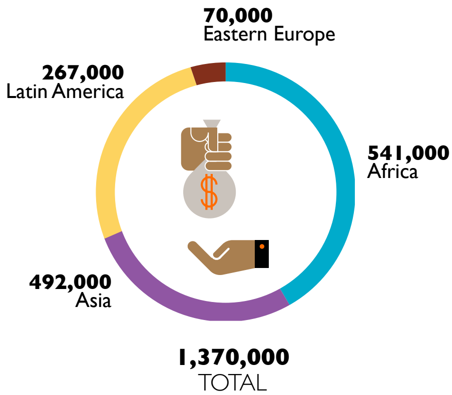
Michael Mithika
President & CEO
VisionFund International

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

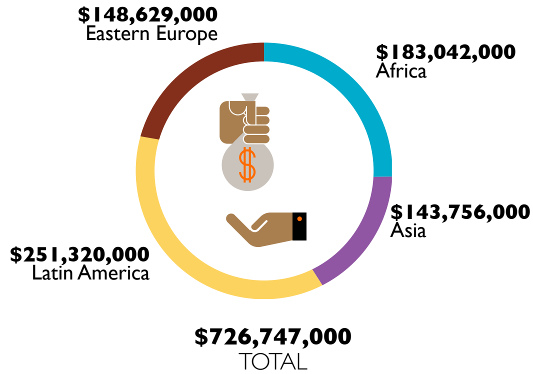
KEY HIGHLIGHTS



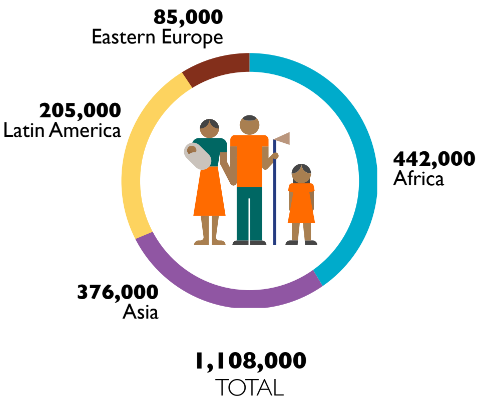
Number of Loans Disbursed



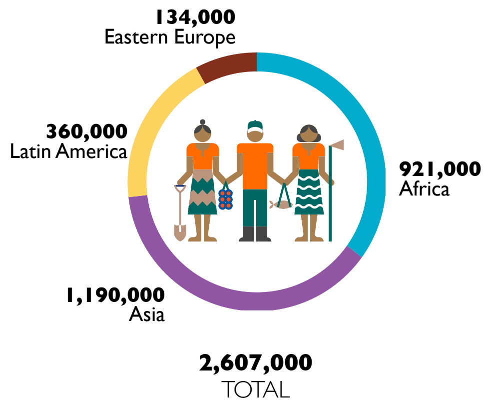
Value of Loans Disbursed



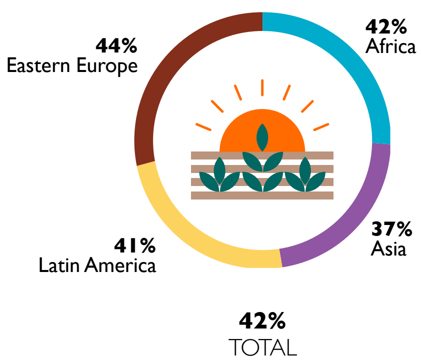
Number of Clients/Borrowers



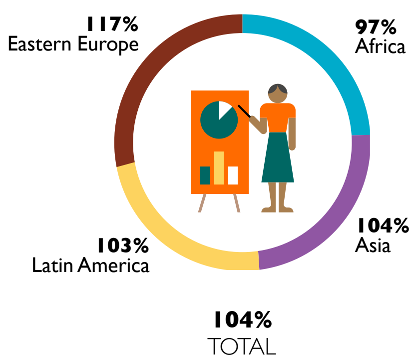
Jobs Impacted



Smallholder Farmers



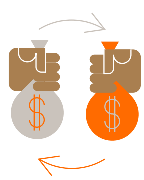
Operational Sustainability



Total Number of Employees

7,514
TOTAL

Global Average Repayment Rate



97.8%
TOTAL

*Facts and figures throughout this report as of 30 September 2018 and reference fiscal year 2018 data in US dollars (excluding Azerbaijan and Cambodia).

SOCIAL IMPACT

Mission Driven Focus

While the number of people living in extreme poverty is falling as a proportion of the global population, the numbers have increased in some countries and sub-regions. A recent report from the Gates Foundation tells us that by 2050 86% of people living in extreme poverty will be in sub-Saharan Africa. Today across the globe about 700 million people live on less than $2 per day.

As an impact-led organisation we are committed to responding to the needs of these individuals and their children. During 2018, we helped 1.1 million clients improve their businesses and increase their incomes, which in turn improved their living conditions, their employees' conditions, and the well-being of 4.1 million children who had more nutritious food, better clothing, and the opportunity to go to school.

Social impact is at the heart of the work that we do. Collecting and analysing social impact data helps us keep focused on our goal of changing the lives of children. We measure the poverty levels of new clients and changes in poverty over time; we monitor child numbers and the child well-being outcomes reported by parents/caregivers; we count the number of client education sessions delivered; we monitor the gender mix of clients; and we conduct regular client satisfaction surveys.

Focus on the Right Clients

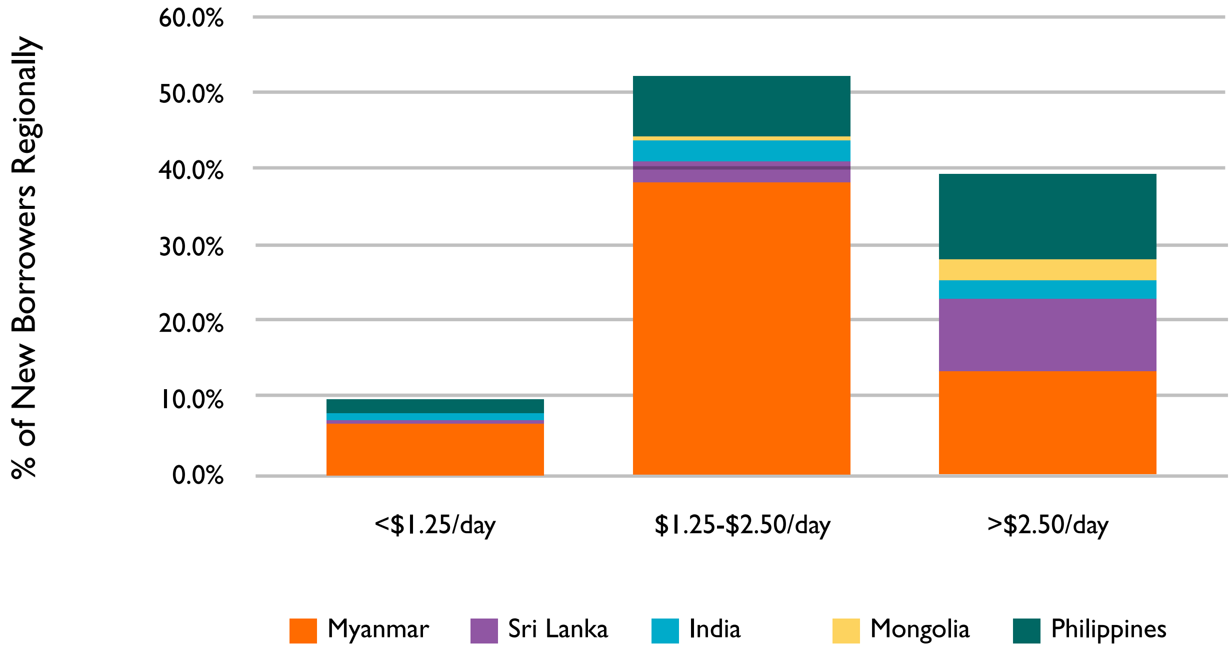
Key Impact Indicators	**30 Sept 2018**				**30 Sept 2018**	**30 Sept 2017**
	Africa	**Asia**	**LA**	**Europe**	**VFI**	**VFI**
% Women	57%	90%	69%	44%	70%	72%
% Rural	60%	71%	51%	66%	63%	65%
% Agriculture	42%	37%	41%	44%	42%	37%
% Ann. Client Retention Rate	68%	74%	72%	74%	71%	68%
% Clients with Children	91%	74%	65%	49%	76%	75%
% WV APs Covered	63%	45%	71%	85%	60%	58%
# Children Impacted	2,567,339	921,532	518,074	92,751	4,099,695	4,438,368
# Jobs Created (new employees of borrowers)	168,037	22,636	9,035	5,958	205,665	226,544
# Jobs Sustained (employees of active borrowers)	727,176	903,678	370,776	129,420	2,131,049	2,252,885
Avg. First Loan Disbursed (USD)	$316	$220	$769	$1,671	$626	$453
Avg. Loan Disbursed (USD)	$625	$304	$2,204	$1,783	$740	$838

Measuring Impact

We use the Poverty Probability Index (PPI) to check that we are reaching those most in need, and also to evaluate our clients' progress out of poverty over time. The PPI is a set of 10 country-specific questions, which VisionFund has incorporated into standard client documentation wherever the PPI is available. At the end of 2018, the PPI was being used in 22 countries to gauge the level of poverty of our clients when we first engage with them, and through repeat questionnaires (at approximately two-year intervals), we can measure how they are moving out of poverty as we work with them.

Our research, affirmed our focus on vulnerable clients with 70% of our new clients in Asia falling below the $2.50/day poverty line.

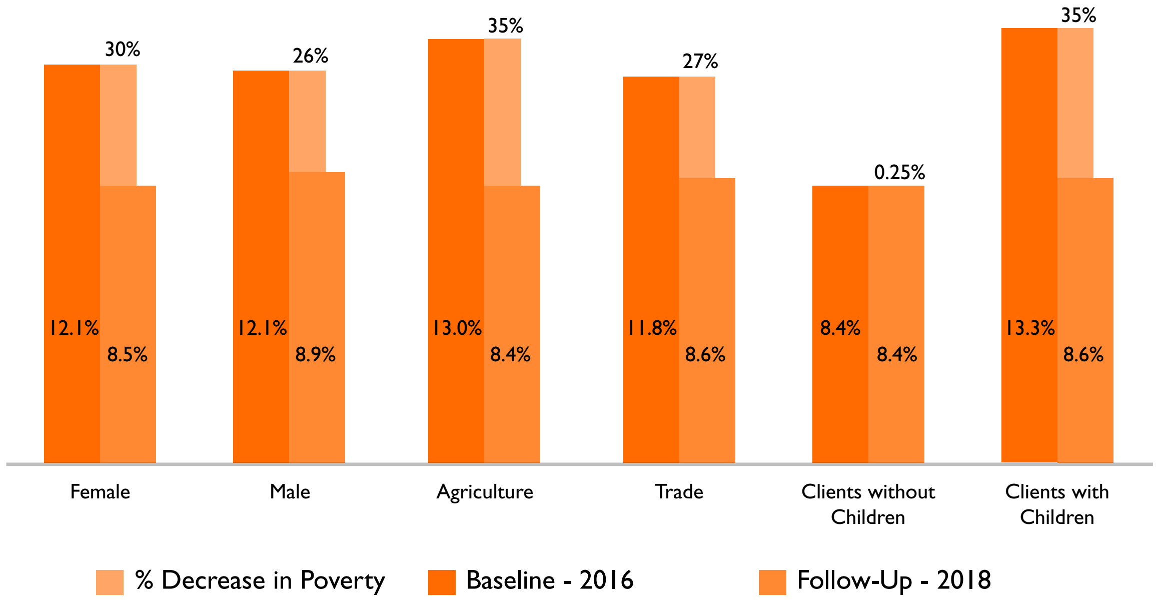
New Clients in Asia and International Poverty Lines
70% of new clients live on less than $2.50/day



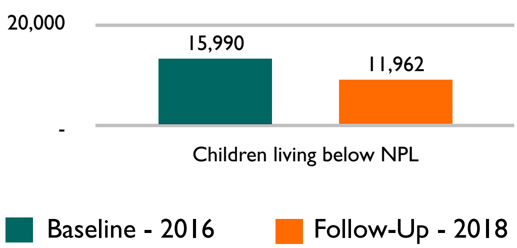
VisionFund is an active participant of the PPI Alliance, a consortium of socially-focused organisations that ensures that the PPI remains free-to-use and is regularly updated to remain valid.

Our PPI results in Myanmar show that over the last two years, we have helped more than 4,000 children and their parents to move above the national poverty line.

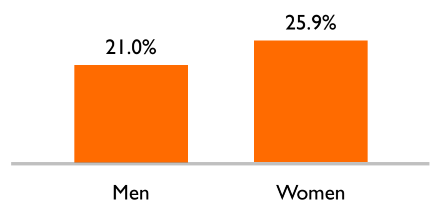
VisionFund Myanmar's New Client Poverty Level Improvements
Baseline data collected in 2016, follow up in 2018.



Between FY16 and FY18, over 4,000 children of VFM clients moved above the national poverty line



Overall, 25.4% of new clients who were below the national poverty line in FY16 moved above it by FY18



Our Impact on Children

Building lasting change for vulnerable children

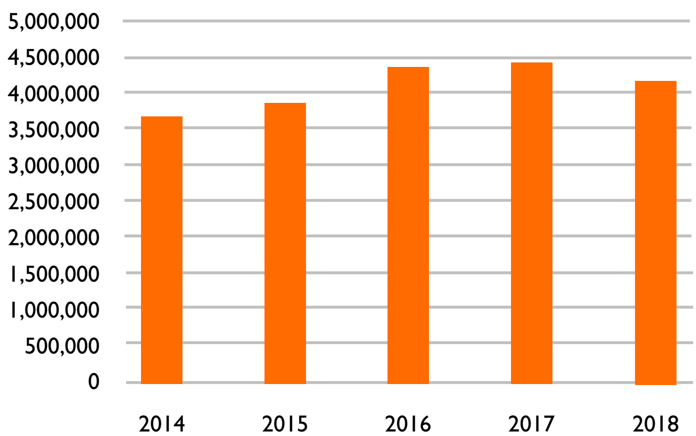
World Vision analyses child well-being outcomes to assess the impact of its development efforts in the field. As World Vision's global microfinance arm, we gather client data as we dive deeper to measure our effectiveness and better understand the impact of our services on clients' children.

We ask clients about the benefits their children experience, and the percentage of clients telling us of the benefits to their children is noted below (with clients being able to name multiple benefits). We see that loans are helping clients help their children, which translates into greater resilience.

- 61% with sufficient food
- 58% with improved basic education
- 49% with additional clothing/shoes
- 41% with funds for children's health costs
- 34% with sufficient drinking water
- 22% with improved sanitation
- 13% with improved housing
- 13% with youth learning opportunities

Children Impact Trend

(excluding Cambodia)



Client Education

Financial Education is a vital part of our work as it helps to equip clients with the essential skills they need to manage and grow their business. Combining educational and financial services has been shown to lead to immediate benefits for clients such as an increase in income, savings, knowledge, and self-confidence.

Three years ago, VisionFund developed an innovative form of financial education called Embedded Education which delivers short education sessions as an integrated part of the loan cycle including loan application, disbursement, repayment meetings and branch visits. These 10-minute interactive sessions cover four topics: 1) Borrowing Wisely, 2) Savings, 3) Budgeting and 4) Insurance.

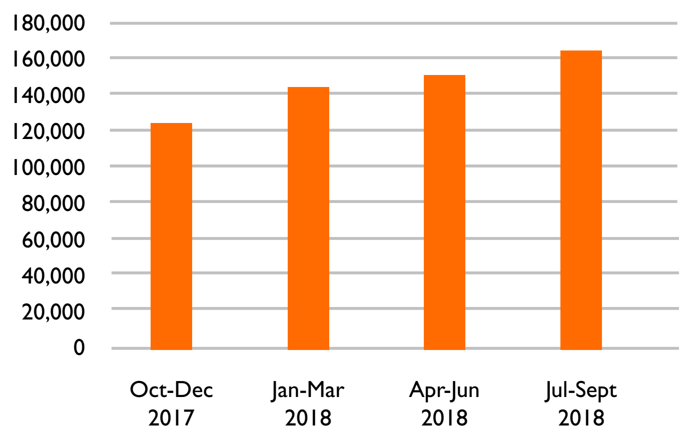
Topics are shared via specially-made flip charts that use illustrations to communicate key messages through stories. Our Loan Officers easily facilitate this education across various markets, in different languages, catering to all levels of literacy. Clients report that they enjoy this format, and our evaluations of the effectiveness of the sessions tell us that clients remember and employ the skills and disciplines that they have learned.

We have also shared our Embedded Education model and materials with Hope International, another Christian Microfinance Institution (MFI) network which they've implemented in Burundi, with plans to expand in 2019.

Client Education is currently available in 16 countries: Bolivia, Democratic Republic of the Congo, Dominican Republic, Ecuador, Ghana, Honduras, India, Kenya, Mexico, Myanmar, Rwanda, Sri Lanka, Tanzania, Uganda, Vietnam and Zambia. Of those, 11 countries utilise the Embedded Education model.

During 2018, we facilitated over 585,000 education sessions with clients.

Clients Receiving Education – by quarter for FY 18



NB: Individual clients may attend more than one education session.

Client Satisfaction

Listening to clients is important, and 24 of our MFIs carry out regular client satisfaction surveys, and when a client no longer needs our services 17 of our MFIs carry out an exit interview. All of the data gathered during these surveys is used to improve how we work with our clients and the services that we provide to them. We also have developed an effective procedure to address concerns or complaints our clients may have.

The *SMART Certification* is a means for financial institutions to demonstrate adherence to the client protection principles set out by the Social Performance Task Force (SPTF). The certification attests to minimum standards of client protection in seven categories:

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution

These seven principles are embedded in VisionFund's standard operating procedures in all MFIs around the world. This year, VisionFund Lanka joined our MFIs in Bolivia, Bosnia, Ecuador and Serbia to receive formal SMART certification from the SPTF.

Client Stories

The following client stories show how the loans that we provide help our entrepreneurial clients grow their fledgling businesses to support not only their immediate families but also their wider communities. Their generosity of spirit shines through.

Our Commitment to Women

We encourage women from the local communities where we work to become loan officers, knowing they can empathise with our female clients and they understand the challenges facing the community. In 2018, 70% of our clients were women, often serving as the key caregivers for their families, with the potential to lead change within their communities.

Our loan officers are key players in our work, they build and develop strong and lasting relationships with clients helping them on the journey to building better lives for their children.

Francisco – An Unofficial but True Community Leader

Francisco lives with his wife and three children in the hilly coconut groves outside of Santo Domingo in the Dominican Republic. To support his family, Francisco breeds fish. He started his business by scavenging the rubbish dumps of Santo Domingo for discarded plastic bottles, water tanks, and many other items to provide a home to his fish.

Once he had set up his business, he approached VisionFund for a loan to dig a well to access fresh water and then added a pump to draw water to fill his fish tanks and the plastic bottles he collects and uses to breed and sell the fish. Francisco plans to build a small treatment plant to provide potable drinking water to the community for a small fee to cover his costs. He says, "I'm not interested in profits. It's what the community needs."

Francisco is well respected in his community. His neighbour Reyes who is confined to a wheelchair says, "Francisco is a humanitarian, he helps everyone with anything, and he shares what he has – cocoa, oranges, avocado, everything he gets. The water pump helps a lot of people who need water anytime. He fills my tank whenever it is needed so that I have water to wash myself, my home and my clothes. He comes to help me if he thinks I need anything. People come from far way to see Francisco. And he never asks for anything. He gives things away."


Francisco and his family

Hope - Making a Difference in the Lives of Clients

Hope Nampungwe is one of our loan officers working in Zambia. Her hard work and commitment at VisionFund Zambia are what has consistently gained her recognition for excellent performance in the workplace. She manages 227 clients with a portfolio value of $125,325.

When she joined VisionFund Zambia, Hope didn't have any experience working in microfinance, but she worked hard throughout the training programme. She explains, "I was prepared to make a difference in the lives of customers and going out to meet prospective clients was the best part of my job during the first few days because I really did not know what to expect."

It is seeing how the small loans provided to clients help to transform lives within communities that gives Hope the drive to work harder. She attributes her achievements to "planning her day" so that she can meet her existing clients and effectively manage their loans and repayments and still allow herself time to meet new clients and grow her portfolio.

Hope urges her colleagues to treat all clients equally and with dignity. She reminds everyone that "it is never too late to do it right the first time and to always work within the 3Cs when giving out a loan – Capacity, Character and Collateral."

In recognition of her hard work, Hope was awarded the "Overall Best Performing Customer Relationship Officer" in October 2018. Hope continues to challenge herself to be a beacon of excellence in her role.

The client stories below share how our lending to women is changing the lives of their families and the wider communities where they live.


Hope with one of her clients

Mobile Money in Uganda Saves Time

Margret Namusaazi, aged 54, is a grandmother and lives in Kawempe, Uganda. Her day begins by helping her three grandchildren get ready for school before she sets off to her market stall where she sells food items including vegetables, fish and grains.

She has been working in this market for seven years and has a flow of regular customers purchasing her vegetables and other goods. The loans from VisionFund helped her expand her business and the stall.

Before VisionFund Uganda introduced mobile money, Margret would spend considerable time away from her business to receive and pay back the loans at the VisionFund office. She can now make her repayments and have access to cash through a local agent who is approved by VisionFund to offer the service. "I thank VisionFund for introducing mobile money. This means that I no longer have to leave my business to receive my loan and to make the repayments, everything is managed through my phone," says Margret.

Loan officer James shows Margret how to send money using the VisionFund Uganda mobile money service.

VISIONFUND CAMBODIA

A Story of Success

VisionFund Cambodia provides an excellent example of how transformational a well-run microfinance institution can be. This successful MFI was built with only $12 million in donations received over the lifetime of VisionFund Cambodia. Profits were reinvested, and the equity base leveraged up to five to one. The result has seen over $1 billion of lending through two million loans to vulnerable men and women. The impact to fragile and vulnerable regions of the country include:

- 90% loans to women
- 87% of clients in hard-to-reach rural areas
- 59% in the agriculture sector which represents the most needed but riskiest investment
- 216,000 clients served through 106 branches
- $175 million loan portfolio and $48 million in deposits

Cambodia has made remarkable progress economically. It has graduated from Least Developed Country status to Lower Middle-Income Country status, according to the World Bank[1]. Financial services are now broadly available, with over 2.6 million loans made to 3.5 million households. As a result of Cambodia's economic progress and VisionFund's pressing need to grow our microfinance work in more vulnerable contexts, VisionFund Cambodia was sold in June 2018 to Woori Bank of Korea.

The Rise Out of Tragic Circumstances

VisionFund Cambodia began operations in 1996 when the country had one of the lowest GDPs in the world. Many of the educated people had been systematically killed by the Khmer Rouge, and a 13-year civil war had decimated the country's physical infrastructure. Now, Cambodia is ranked as the sixth fastest growing economy in the world with growth rates of nearly 8% (from 2005-2015).

While some have clearly prospered through this growth, the poor have also benefited from the foundation of a modern technologically-advanced country. The country is fully fibre optic wired even to small towns, and very low-cost high-speed mobile phone/data service is available in urban and peri-urban areas. The country has also ensured fair treatment of employees and financial services customers, including required employer pension and health insurance contributions.

Building on Cambodia's success

VisionFund Cambodia is a testament to our mission to transform the lives of the vulnerable men, women and children while effectively stewarding the Lord's resources. In alignment with World Vision's *Our Promise* strategy, the proceeds from the sale of VisionFund Cambodia will be redeployed to reach those rural areas with vulnerable populations and serve those who would not otherwise have access to microfinance services.

Despite the relatively small financial investment of $12 million, VisionFund Cambodia grew to be a $1billion financial powerhouse. With the philanthropic support of generous donors, VisionFund strives to repeat this success in other countries.

1 http://datatopics.worldbank.org/statisticalcapacity/CountryProfile.aspx

2020
STRATEGY DELIVERY

Our Strategy

Our strategy to 2020, Building Futures Together, is focused on bringing brighter futures to children with five operational outcomes:

BUILD
CAPABILITY & REACH

INNOVATE
PRODUCTS & SERVICES

TRANSFORM
RURAL LIVELIHOODS

BE A
VOICE OF INFLUENCE

STRENGTHEN
RESOURCE BASE

Microfinance on its own can be a powerful enabler of transformation. By combining our resources and expertise with World Vision and other aligned partners, we can do even more to alleviate the causes and effects of poverty as well as to reduce economic shocks to our clients.

During 2018, our strategic focus of working in rural agricultural communities helped us reach 42% smallholder farmers and 70% female clients. Through our 29 microfinance institutions, we provided a range of loans, savings, insurance services and financial education and training to more than 1.1 million clients with impacts on their 4.1 million children globally.

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

As our existing five-year strategy to 2020 approaches its end we are already actively developing a new 2030 strategy in line with the broader World Vision global strategy called *Our Promise*.

In terms of the different streams of our existing strategy here are some key highlights for 2018:

BUILD CAPACITY AND REACH

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

Accomplishments to date:

- Our 29 MFIs across the globe have served 1.1 million active borrowers, disbursing almost 1.4 million loans totalling more than $726 million.
- Our gross loan portfolio reached $494 million by year-end
- Our portfolio at risk rate is at 2.2% for repayments overdue at 30 days.
- We continue to focus on the key caregivers of families resulting in 70% of our lending going to women clients.
- The roll out of our OneVision technology solution continues and during 2018, the following systems and services were completed:
    - Core Banking:
        - Temenos 24 went live in both VF Malawi and VF Uganda. All branches in both countries were trained on the system. This implementation has improved the operational environment for both MFIs especially given outage and performance issues with historic core solutions. In Malawi, work has begun to facilitate the use of tablets in the field by our field agents, thereby improving the automation and accuracy of data collection and storage.
        - Solutions are set to be completed during 2019 in VF Kosovo and VF Myanmar. Evaluations continue for VF Ethiopia given the technical and regulatory environment there.
    - Financial Accounting and Reporting:
        - SunSystem v6 accounting system has been rolled out to VF Myanmar and VF Uganda during 2018. The system will be live in Ghana, Malawi and Sri Lanka by the end of December 2018.
    - Data Warehouse:
        - Almost all MFIs are now submitting reports on at least a monthly basis. Operational and financial reports are now being used across the Network.
    - Tablet and Front Office Tools:
        - In Tanzania, all Loan Officers are now using tablets for clients registration. In Sri Lanka a pilot and rollout will begin in 2019.
    - Mobile Money:
        - Zambia is now fully mobile money ready following successful pilots across four branches in the first half of 2018.
        - VisionFund Rwanda launched a new mobile banking platform – M-Hano Agent – which aims to increase access to cashless payments for low income earners in rural areas at affordable prices.

INNOVATE PRODUCTS AND SERVICES

Work with partners to create a range of capabilities and products

Accomplishments to date:

- Weather shocks continue to have a huge impact on our smallholder clients, so we were pleased to launch a new climate insurance programme in January 2018 to provide disaster recovery for our clients. The programme works with Global Parametrics, a new venture funded by the United Kingdom's Department for International Development (DFID) and by the InsuResilience Investment Fund, set up by German development bank KfW and managed by impact investment manager Blue Orchard Finance. Financing for the initial preparation and assessment required to implement the programme came from the Rockefeller Foundation and FMO, the Dutch development bank. The programme known as the African and Asian Resilience in Disaster Insurance Scheme (ARDIS) will increase access to finance and provide post-disaster recovery lending to rural families and smallholder farmers. In its first year, ARDIS protection will be provided to our clients in Kenya, Malawi, Mali, Zambia, Cambodia and Myanmar, of which around 80% are women. The programme will continue to be rolled out across the network during 2019.

- VisionFund Myanmar launched a new microfinance loan product to support garment factory workers who have moved from their rural homes to Yangon to seek better opportunities. The loans are funded by LIFT (Livelihoods and Food Security Trust Fund) and have already benefitted more than 160 workers from the ZES garment factory. These loans will be extended to other factories.

- VisionFund Myanmar, in partnership with Opportunities NOW, launched a new ground-breaking chatbot – Mr Finance VFM. The chatbot provides user-friendly financial literacy to microfinance borrowers. This means that clients obtaining the factory worker loan, for example, will also be able to learn about VisionFund Myanmar's financial products and procedures. The partnership clearly reflects the core belief that financial health must combine financial inclusion with financial literacy. Clients can access Mr Finance VFM using Facebook messenger and share it with their friends and colleagues to help improve financial knowledge across the wider population.

- VisionFund Uganda began a pilot to provide loans to refugees from South Sudan in August 2018.

- Small and Growing Business (SGB) loans now support 456 clients, of which 71% are women across Ghana, Mexico, Myanmar and Sri Lanka. A total of 597 loans valued at $2.2 million have been disbursed since its inception in 2016. Next year promises to be a year of considerable growth as new grant funding will drive expansion in Myanmar and Ghana, and further SGB opportunities are explored across VFI's existing network.

- Clean water and sanitation are important in keeping our clients and their families healthy. In the Philippines, 2,203 loans were disbursed to create latrines and 911 loans for water purification facilities.

- A total of 15,728 education loans were disbursed in Armenia, the Dominican Republic, Ghana, India, Mexico and Myanmar.

TRANSFORM RURAL LIVELIHOODS

Expand outreach and approach to rural, agricultural communities

Accomplishments to date:

- Testing of integrated smallholder farmer approaches – VisionFund partners with World Vision through the THRIVE programme in five countries: Honduras, Malawi, Rwanda, Tanzania, and Zambia. The programme's comprehensive approach seeks to tackle the underlying causes of poverty and vulnerability in farming and farming households. The key elements include organisation and training, financial services, management of natural resources, faith-based curriculum, awareness and readiness. From the start of the five active projects untill the end of FY18, VisionFund has financed 5,125 clients with loans to support smallholder farmers.
- Irrigation financing – smallholder farmer irrigation schemes are a key way of reducing risk to drought and also potentially increasing household income significantly by effectively adding another growing season during the year. VisionFund continues to work with partners such as Kickstart in a number of African countries to develop larger scale combined approaches to financing and providing pumps and kits to farmers.
- Agricultural insurance mechanisms – Bima Maono is a holistic support system for subsistence smallholder farmers, through the provision of financing and insurance within a complete farming system. This enables graduation from poverty by reducing risk of investment when developing their farms. The product was first piloted in Tanzania with VF Tanzania, World Vision, an insurer, and off-taker (buyer) and in FY18 was expanded to Kenya with other agricultural and insurance partners, where many of the lessons learned in Tanzania have been incorporated to improve the proposition. These pilots have been financed by the InsuResilience Investment Fund, who are also providing the funding for the agri-loans through Blue Orchard. As the pilots demonstrate their feasibility and value, the principles, products and funding will be adapted and scaled up across the VisionFund network over the next five years.

BE A VOICE OF INFLUENCE

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

Accomplishments to date:

- Throughout the fiscal year, VisionFund experts continued to present at conferences and webinars with a focus on social impact, agricultural innovation, insurance and technology.
- VisionFund uses Smart Certification from an independent third party that evaluates publicly recognised financial institutions ensuring they meet adequate standards in their treatment of clients and adhere to industry standards. It contributes to a more stable financial inclusion

industry by encouraging practices to ensure prudent, transparent and respectful treatment of clients. VisionFund Lanka joined our MFIs in Bolivia, Bosnia, Ecuador and Serbia who have already achieved this certification.

- VisionFund Ecuador was recently recognised by Truelift for their commitment to serving the needs of people living in poverty. VisionFund Ecuador joins 25 other financial service providers meeting the milestones along the Truelift Pro-Poor Pathway. Truelift also recognised VisionFund Ecuador as having achieved the Leader Milestone, the most advanced along the Truelift Pro-Poor Pathway.

- VisionFund is an active contributor to the Poverty Probability Index (PPI), a consortium of socially-focused organisations which ensures that the PPI remains free to use and is regularly updated to remain valid. We use the PPI in 22 countries, and we update our data every two years to measure our clients' progress as they move out of poverty.

STRENGTHEN RESOURCE BASE

Secure strong, flexible funding and capital bases

VisionFund uses two core types of capital for growing our ministry: 1) donation/grant funding which is primarily used to fund the operating infrastructure, and 2) debt capital which allows the MFIs to grow their loan portfolios. Donations are generally contributed by individuals while grants are sourced from governments, corporations, foundations and trusts. Debt capital is sourced from third-party impact investors, mostly development banks and specialised funds, so-called Microfinance Investment Vehicles. Like any other financial institution, VisionFund is able to leverage the donation/grant capital it receives by borrowing within levels agreed by the Risk Committee of the VisionFund Board.

Accomplishments to date:

- Working with World Vision private supporters for donation capital, $5.39 million was raised through donations during 2018 and we are grateful for this partnership with donors and World Vision Support Offices.

- Working with donor institutions for grant capital – VisionFund developed its grant capital over the past few years with an aim to match the capital it received from donations. While grant funding tends to be targeted and less predictable (as is also the case with donations), a total of $5 million was received during 2018 including:

    - The Livelihoods and Food Security Trust Fund (LIFT) awarded a $3.5 million grant that was used to open three branches in Rakhine State in Myanmar. This helps support our work in fragile contexts as per the *Our Promise* strategy and our commitment to serve those most in need of our services. With this grant we are working in diverse communities holding Buddhist and Muslim faiths.

- Working with debt provider institutions – donations and grants received are leveraged to increase the amount of money we can lend to our clients by between two to five times, depending on the level of the MFI's financial sustainability. This resulted in $44 million being raised during 2018.

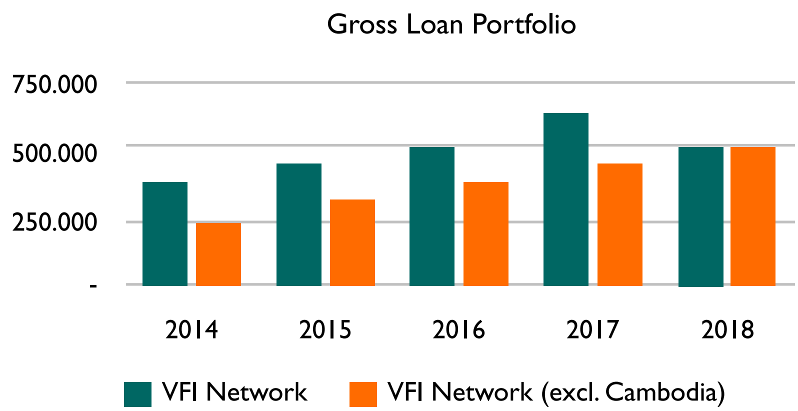
NETWORK PERFORMANCE

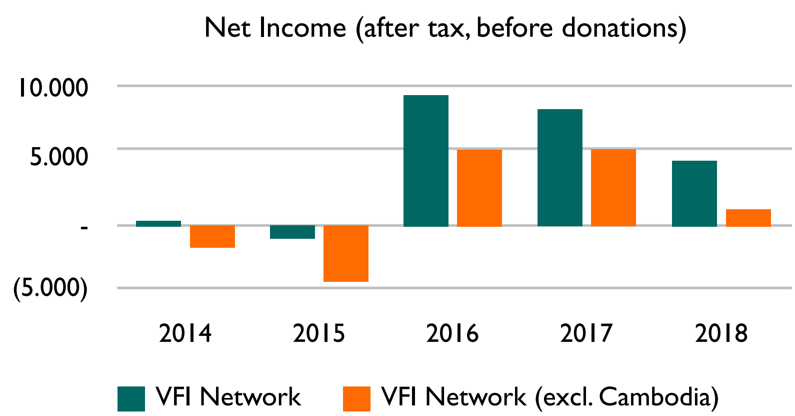
Our Impact Over the Years

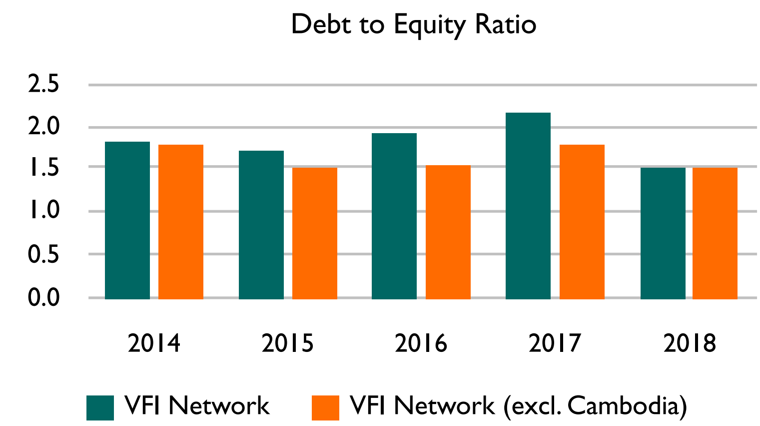
During 2018, the Network disbursed almost 1.37 million loans worth $727 million with an average initial loan size of $626 and 97.8% average collection rate. These loans which help to change the lives of our clients were made possible by raising donations and grants totalling $10.4 million and total borrowings from third parties totalling $324.5 million.

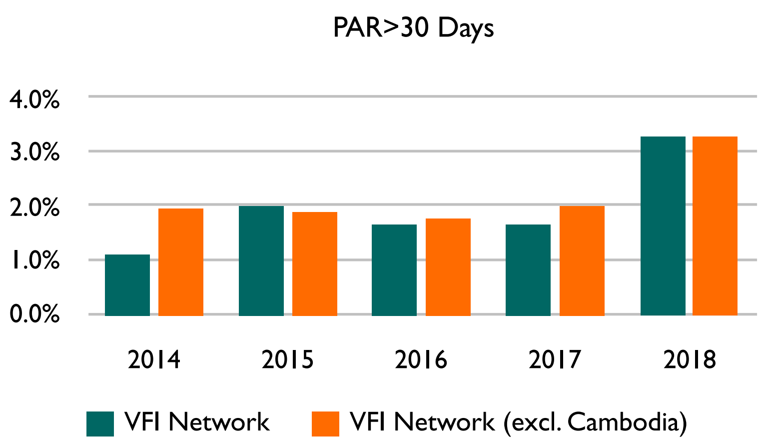
In June 2018, the organisation sold VisionFund Cambodia. The decision to exit operations was made taking into consideration the maturity of the microfinance industry in Cambodia relative to other countries in the VisionFund network and World Vision partnership, and for the potential to support and grow other MFIs in the VisionFund network for greater social impact. As a result of the sale, the network assets fell 8% year-on-year, ending 2018 with total assets of $688 million and a gross loan portfolio of $494 million.

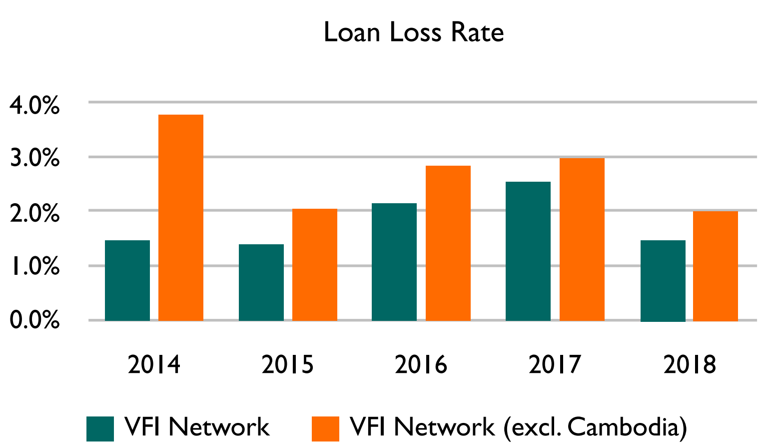
Financial year ending figures in US$000











In June 2018 we sold our operations in Cambodia to Woori Bank. Data on Cambodia is included in the impact and income statement until the sale date.

In the current year our MFI in Azerbaijan was declared bankrupt, so we have removed various figures including portfolio, net income and other key metrics to better compare years.

Key Network Figures

		Full VFI Network (Excluding Azerbaijan & Cambodia)		GAAP Consolidated Network (Excluding Azerbaijan & Cambodia)	
		2018	2017	2018	2017
Assets	US$m	688	557	444	348
Gross loans to Clients		494	440	269	238
Net Loans to Clients		480	428	259	230
Savings		43	33	22	16
Borrowings		325	281	218	196
Equity		269	201	187	116
Financing Revenue		161	138	112	94
Financing Expense		29	22	23	17
Total Operating Revenue		118	107	80	75
Total Operating Expenses		114	99	86	75
Net Income After Tax, Before Donations		2	5	(7)	(2)
Portfolio Yield		34%	34%	44%	41%
Operating Expense Ratio		24%	26%	34%	33%
Loan Delinquencies (PAR>30 days)		3.2%	1.8%	3.9%	4.2%
Loan Loss Rate		2.0%	2.9%	1.9%	3.9%
Ratio of allowances to loans in arrears (PAR>30 days)		93%	82%	114%	113%

ANNUAL RESULTS

Our Annual Results

Our annual results reflect the strategic direction of VisionFund and details the performance of VisionFund during the 2018 financial year. In order to succeed and deliver vital financial services to help to improve the lives of children and communities, our annual results are based on three pillars – Impact, Sustainable Operations and Funding.

Impact

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

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

NB: All data for 2018 excludes Cambodia

** Excluding Cambodia*

Children Impacted

2018	4,100,000
2017	4,438,000
Growth	-8%

(2017 3,441,000)*
(Growth 21%)*

Clients Served

2018	1,107,000
2017	1,240,000
Growth	-11%

(2017 1,053,000)*
(Growth 5%)*

Average Loan Size
(entry level clients)

2018	$626
2017	$453

(2017 $493)*

Female Clients

2018	70%
2017	72%

(2017 69%)*

Rural Clients

2018	63%
2017	67%

(2017 62%)*

Agricultural-related Clients

2018	42%
2017	37%

(2017 35%)*

Sustainable Operations

To ensure the Network achieves a lasting impact in the lives of our clients, sustainable operations are critical to longevity and mission continuance. The three primary components of sustainability are Operational Efficiency and Financial Stability.

Operational Efficiency

Operational Sustainability

2018	104%
2017	108%

(2017 108%)*

Net Income before Donations

2018	$4.3 million
2017	$8.3 million

(2018 $2.0 million)*
(2017 $4.9 million)*

Portfolio Yield

2018	34%
2017	32%

(2017 34%)*

Net Yield

2018	23%
2017	21%

(2018 28%)*
(2017 42%)*

Operating Cost Ratio

2018	23%
2017	21%

(2017 26%)*

Loan Loss Rate

2018	2.0%
2017	2.6%

(2017 2.9%)*

Portfolio at Risk >30 days

2018	3.2%
2017	1.7%

(2017 1.8%)*

Fraud Level
(a percentage of net assets)

2018	0.087%
2017	0.055%

(2017 0.049%)*

The value of fraud has risen by 0.032%, driven by an increase in the number of fraud cases across our network during this financial year. This rise is due to increased reporting of fraud due to improved controls and monitoring systems across the network. Improvements continue to be made in the speed of reporting these events. Steps are underway to identify incidents as early as possible and to reduce the number of incidents.

Financial Stability

Total Assets

2018	$688 million
2017	$748 million

(2017 $557 million)*

Total Equity

2018	$269 million
2017	$235 million

(2017 $201 million)*

Debt-to-Equity Ratio

2018	1.51 times
2017	2.20 times

(2017 1.81 times)*

Liquidity

2018	18%
2017	11%

(2017 10%)*

Risk Coverage Ratio

2018	93%
2017	88%

(2017 82%)*

Funding

	Donations	Grants	Change in Debt
2018	$5.4 million	$5.0 million	$44 million
2017	$6.7 million	$4.7 million	$71 million

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

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

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

OUR GOVERNANCE

VisionFund Board

With 15 years' experience leading World Vision's microfinance network, VisionFund International (VFI) is the primary owner and operator of World Vision's MFIs located across the globe. The VFI Board is the ultimate governing body of the VisionFund network. At the country level, each MFI has a board of directors. MFI directors are appointed by the VFI Board and approved at the MFI Annual General Meetings/General Assembly, where applicable. MFI Boards adopt all the governance policies developed by VFI. Such policies are adapted to the local context to comply with local laws and regulations.

Board Composition

According to the bylaws of VFI, the number of directors shall be a minimum of five and a maximum of fourteen. The Board of VFI consists of eleven directors, a majority of whom are non-executive directors who serve on a voluntary basis. Jon Hartley chairs the Board and Ingrid Allemekinders-Pol is the Vice Chair.

The VFI Governance and Nominating (G&N) Committee identifies potential directors. Interviews are held with the Chair of the G&N Committee, VFI President & CEO, WVI Executive Director and VFI Board Chair. The G&N Committee recommends candidates to the VFI Board for approval. The World Vision International Board makes the final appointment upon the recommendations of the VFI Board. All appointments are effective October 1, which is the start of the financial year. Jim Bere was appointed to the Board on October 1, 2017.

In making appointments to the Board, consideration is given to regional representation, gender balance, skills, experience, and competencies. The VFI Board has broad experience and expertise in microfinance (4 people), finance and banking (6), risk (5), accounting/audit (6), marketing and fundraising (4), legal (3), human resources (2), business (8), and international development (5).

Directors serve for a term of three years that is renewable twice, which allows a director to serve for three terms or up to nine years. At the end of each term, a peer review is conducted on a director before his/her appointment is renewed. A peer review was conducted on Chris Glynn at the end of his second term of service and Chris was re-appointed to the Board for a third and final term.

Board of Directors

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

JIM BERE
USA
Chairman & CEO
Alta Resources

PETRONELLA DHITIMA
Zimbabwe
Managing Director
Mustard Seed Advisory

CHRIS GLYNN
USA
Senior Vice President
Transformational Engagement
World Vision USA

JON HARTLEY
New Zealand
VisionFund International
Board Chair

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

KEVIN JENKINS
UK
President & CEO
World Vision International

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

STEPHEN LOCKLEY
UK
Chief Financial Officer
World Vision International

SUANNE MIEDEMA
Canada
President
Miedema's Board Consulting Inc.

MICHAEL MITHIKA
UK
President & CEO
VisionFund International

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

Meetings

In discharging its roles and responsibilities, the VFI Board meets four times a year. Two of the meetings are virtual and two are face-to-face, with one meeting including visiting a VF MFI.

The June and December meetings were virtual, the March meeting was held in London and the September meeting was held in Ecuador and combined visits to MFI branches and clients. The September meeting also included a strategy educational workshop on technology, disruption and digitisation facilitated by Oliver Wyman.

Committees

The Board delegates certain of its responsibilities and authority to standing committees. Each committee has a Charter that is approved by the Board. There are four committees: Executive (EXCO), Governance and Nominating (G&N), Social Performance Management (SPM), and Audit and Risk (ARC):

Name	EXCO	G&N	SPM	ARC
Kevin Jenkins				
Michael Mithika	E	E	E	I
Stephen Lockley				M
Jean-Baptise Kamate	M	M	M	
Jon Hartley	C	E	E	E
Ingrid Allemekinders-Pols	M	M		C
Emma Osborne				M
Suanne Miedema		C		
Chris Glynn			C	
Tiffany Huang			M	
Jim Bere	M	M		M

C Chair **M** Member **E** Ex Officio **I** Invited

The Executive committee meets as and when there is a matter to be discussed. The Audit and Risk committee meets four times a year. Other committees meet twice a year in March and September. All committees met as per the required schedule.

Reporting

The VFI President and CEO is the single line of delegation by the Board. The CEO is supported by his senior executive team, which attends selected committee meetings and all Board meetings. At every Board meeting, the financial, operational, and impact performance of the network is reviewed by the Board. The Board also meets in camera with the CEO and then as Board only at each face-to-face meeting.

A report of the decisions of the Board, and any strategic and risk developments discussed at the Board meeting are submitted to the WVI Board through the Stewardship Committee. Annually the Chair and the CEO attend the WVI Stewardship Committee. Finally, on behalf of the Board, the Chair and President & CEO send a report of proceedings of Board meetings to the MFI Boards and MFI CEOs.

Policies, Legal and Compliance

VFI upholds high levels of ethical conduct and accountability. These are consistent with policy and the values of the organisation. VFI has adopted its parent World Vision International's Whistleblowing Policy, which is managed by a dedicated department of specialists within World Vision International. The policy allows directors and employees to report anonymously any acts and suspected acts of misconduct through an Integrity and Risk Report or the Integrity and Protection Hotline.

Annually, directors sign conflict of interest disclosure forms. Any conflict of interest declared is handled and resolved by the Board with support from WVI Legal Counsel who is also Secretary of the Board.

Directors also sign Affirmation Statements annually to confirm their commitment to serve on the Board in accordance with the code of ethics that is demanded of a director of VisionFund.

Directors are also bound by other policies of WVI such as the Child Protection Policy and Safeguarding Policy.

Board Evaluation and Performance

Evaluation of the performance of the Board is done at various levels. All evaluations are anonymous.

Board Meetings

Evaluations are done at the end of each Board meeting. The evaluation reports are discussed by the G&N Committee and steps are taken to learn from any issues that may have been raised by members.

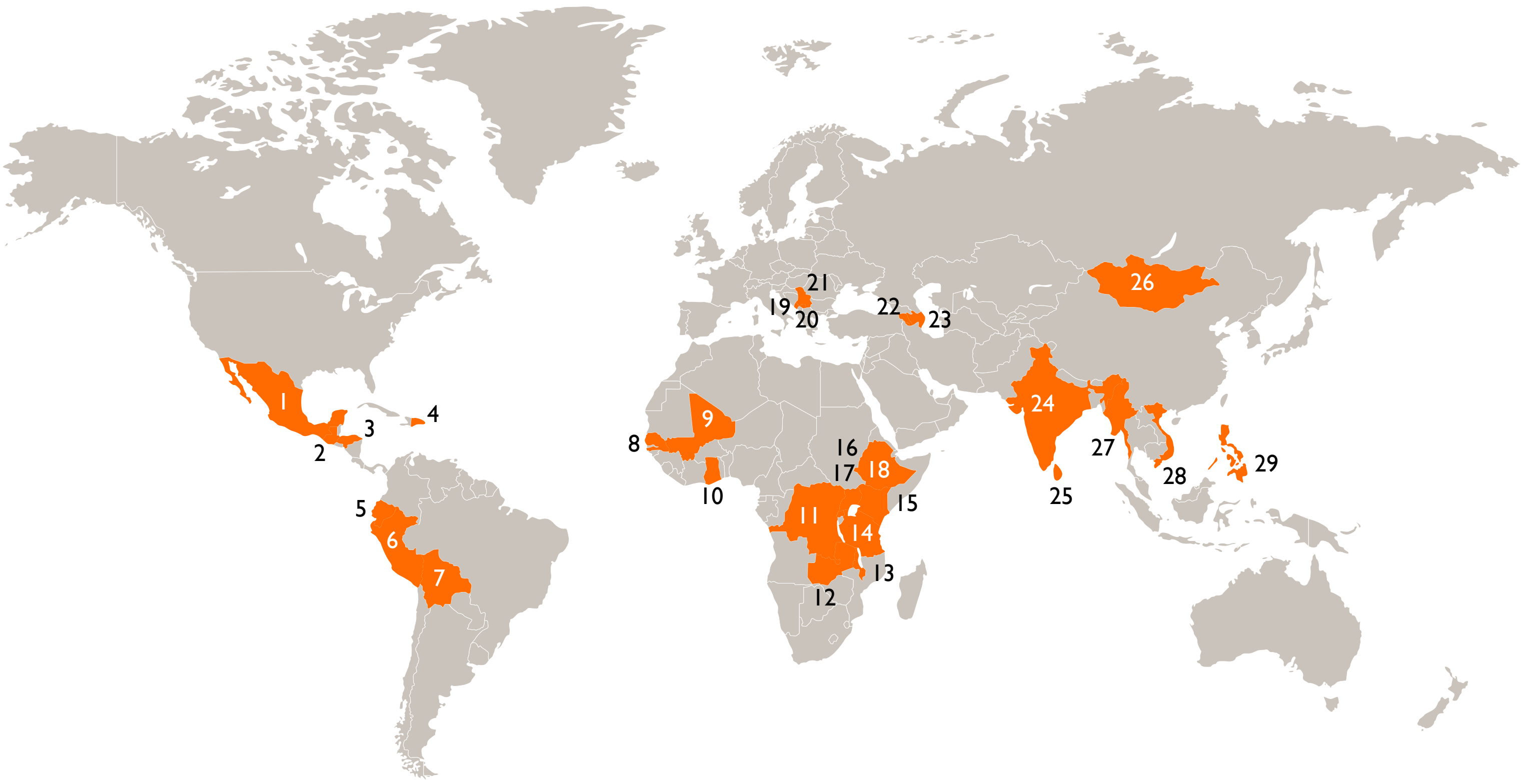
Committees

Committee evaluations are performed annually. All committees had evaluations conducted in September 2018 and the reports were discussed by the respective committees.

Board Self-Assessment

The Board conducts a self-assessment biennially. The last assessment was conducted in September 2017. The Board was rated as MATURING, which means the Board meets most of the requirements and operates at near optimal level.

Global Family



Global Centre Office

VisionFund International has its main office in Monrovia, Federal Way in the US, and in London in the UK. It also has several staff based in different countries around the globe.

Latin America & Caribbean Region

Our Microfinance Institutions in this region are located in:

1. Mexico
2. Guatemala
3. Honduras
4. Dominican Republic
5. Ecuador
6. Peru
7. Bolivia

Africa Region

Our Microfinance Institutions in this region are located in:

8. Senegal
9. Mali
10. Ghana
11. Democratic Republic of Congo
12. Zambia
13. Malawi
14. Tanzania
15. Kenya
16. Uganda
17. Rwanda
18. Ethiopia

Eastern Europe Region

Our Microfinance Institutions in this region are located in:

19. Montenegro
20. Kosovo
21. Serbia
22. Armenia
23. Azerbaijan

Asia Region

Our Microfinance Institutions in this region are located in:

24. India
25. Sri Lanka
26. Mongolia
27. Myanmar
28. Vietnam
29. Philippines

www.visionfund.org

info@visionfund.org

VisionFund

KPMG

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017. These statements reflect total assets constituting 15% and 9% of consolidated total assets at September 30, 2018 and 2017, and total revenues constituting 7% of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for VisionFund Ecuador is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, based on our audits and the reports of the other 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

May 20, 2019

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Financial Position

September 30, 2018 and 2017

Assets		**2018**	**2017**
Cash and cash equivalents	$	95,187,733	36,949,685
Investments (note 3)		27,717,597	26,759,998
Interest receivable		7,234,858	5,832,311
Accounts receivable		6,027,811	4,544,609
Loans to affiliated microfinance institutions, net of allowance for loan losses of $6,616,716 and $2,737,933 as of September 30, 2018 and 2017, respectively (note 5)		20,806,473	21,298,402
Loans to microfinance institution clients, net of allowance for loan losses of $9,220,570 and $7,697,074 as of September 30, 2018 and 2017, respectively (note 5)		259,372,651	229,807,068
Restricted cash and investments (notes 3 and 13)		4,595,543	4,128,937
Property, plant, and equipment, net (note 6)		10,207,272	10,503,394
Other assets		12,407,311	10,260,129
Assets of subsidiary held for sale (note 10)		—	190,898,656
Total assets	$	443,557,249	540,983,189
Liabilities			
Accounts payable and accrued expenses (notes 10 and 12)	$	8,604,670	5,601,249
Interest payable		2,504,858	4,877,110
Deposits from microfinance institution clients		21,717,024	16,411,994
Notes payable (note 7)		217,890,053	217,867,326
Other liabilities		5,618,534	11,567,271
Liabilities of subsidiary held for sale (note 10)		—	157,072,737
Total liabilities		256,335,139	413,397,687
Net Assets			
Unrestricted net assets – controlling interest (note 8)		176,205,354	130,352,143
Unrestricted net assets – noncontrolling interest (note 8)		5,668,990	(5,290,126)
Total unrestricted net assets		181,874,344	125,062,017
Temporarily restricted net assets		5,347,766	2,523,485
Total net assets		187,222,110	127,585,502
Total liabilities and net assets	$	443,557,249	540,983,189

See accompanying notes to consolidated financial statements.

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Activities

Years ended September 30, 2018 and 2017

		2018	2017
Unrestricted net assets:			
Operating revenue:			
Interest, fees, and commission revenue	$	111,518,114	94,974,769
Interest, fees, and commission expense (note 9)		(22,950,487)	(19,656,385)
Net financial income		88,567,627	75,318,384
Provision for loan losses (note 5)		(12,446,677)	(4,965,581)
Funds recovered from loans written off		2,136,322	2,224,255
Net financial income after provision for loan losses		78,257,272	72,577,058
Other operating income		1,936,247	2,068,583
Total revenue from operations		80,193,519	74,645,641
Operating expense (note 9):			
Salaries and benefits		52,566,589	48,957,038
Supplies, copying, and printing		2,025,609	1,884,366
Professional fees		4,419,094	5,085,939
Communication expense		2,285,506	1,972,451
Occupancy expense		5,730,708	5,404,711
Travel and transportation		6,981,516	6,530,950
Depreciation		3,361,211	2,696,256
Training and technical assistance		1,100,518	979,378
Other operating expenses		7,064,917	6,792,005
Total operating expenses		85,535,668	80,303,094
Gain on deconsolidation of subsidiary (note 14)		23,260,388	—
Operating gain (loss) before taxes and other nonoperating changes in unrestricted net assets		17,918,239	(5,657,453)
Tax expense (note 9)		1,734,129	2,615,518
Net operating income (loss)		16,184,110	(8,272,971)
Other nonoperating changes in unrestricted net assets:			
Unrestricted contributions (note 11)		10,629,236	13,523,325
Amounts granted to affiliated microfinance institutions		(2,096,591)	(726,318)
Foreign currency transaction losses		(5,090,135)	(4,380,611)
Foreign currency translation losses		(4,481,278)	(1,581,730)
Net assets released from restriction		—	516,316
Gain (loss) on sale of subsidiary (note 10)		38,696,047	(1,008,481)
Other nonoperating income		875,567	1,680,885
Change in net assets from discontinued operations (note 10)		2,095,371	3,549,907
Net change in unrestricted net assets		56,812,327	3,300,322
Temporarily restricted net assets:			
Restricted contributions (note 11)		2,824,281	2,780,309
Net assets released from restriction		—	(516,316)
Net change in temporarily restricted net assets		2,824,281	2,263,993
Change in net assets		59,636,608	5,564,315
Net assets, beginning of year		127,585,502	122,021,187
Net assets, end of year	$	187,222,110	127,585,502

See accompanying notes to consolidated financial statements.

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	59,636,608	5,564,315
Change in net assets from discontinued operations		(2,095,371)	(3,549,907)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Noncash changes in net assets from deconsolidation of subsidiary		(24,916,639)	—
Gain on sale of subsidiary		(38,696,047)	—
Depreciation expense		3,361,211	2,696,256
Provision for loan losses		12,446,677	4,965,581
Foreign currency revaluation		12,424,165	4,190,160
Gain on forward contracts		(2,849,972)	794,789
Loss on disposal of equipment		134,903	757,150
Change in assets and liabilities:			
Interest receivable		(1,402,546)	(1,285,576)
Accounts receivable		(1,483,202)	(1,134,584)
Other assets		(1,436,451)	(3,187,495)
Investment in affiliates		—	1
Accounts payable and accrued expenses		1,586,761	(6,189,020)
Interest payable		(12,576)	3,021,171
Other liabilities		(3,809,499)	5,489,617
Net cash provided by operating activities - continuing operations		12,888,022	12,132,458
Net cash provided by operating activities - discontinued operations		4,843,269	11,510,632
Net cash provided by operating activities		17,731,291	23,643,090
Cash flows from investing activities:			
Purchase of equipment		(3,895,135)	(5,263,234)
Distribution of loans		(483,026,675)	(418,800,995)
Proceeds from loan portfolio repayment		424,809,539	365,274,260
Purchases of investments		(32,611,029)	(37,998,406)
Proceeds from sales of investments		31,186,784	25,257,644
Proceeds from sale of subsidiary, net of cash at subsidiary		53,803,637	520,000
Taxes and settlement costs from sale of subsidiary		(2,650,461)	(119,351)
Net cash used in investing activities - continuing operations		(12,383,340)	(71,130,082)
Net cash used in investing activities - discontinued operations		(12,400,165)	(22,408,397)
Net cash used in investing activities		(24,783,505)	(93,538,479)
Cash flows from financing activities:			
Proceeds from notes payable		94,309,063	115,246,286
Payments on notes payable		(67,129,183)	(63,548,314)
Deposits from microfinance institution clients		5,305,030	5,965,826
Net cash provided by financing activities - continuing operations		32,484,910	57,663,798
Net cash provided by financing activities - discontinued operations		8,517,600	18,952,112
Net cash provided by financing activities		41,002,510	76,615,910
Net increase in cash and cash equivalents		33,950,296	6,720,521
Cash and cash equivalents, including amount reported within discontinued operations, beginning of year		61,237,437	54,516,916
Less cash and cash equivalents of discontinued operations, end of year		—	(24,287,752)
Cash and cash equivalents of continuing operations, end of year	$	95,187,733	36,949,685
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	22,963,063	27,915,381
Cash paid during the year for taxes		1,753,996	4,134,404

See accompanying notes to consolidated financial statements.

(1) Organization and Principal Activities

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

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

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

Name	Country
SEF International Universal Credit Organization LLC (SEF)	Armenia
VisionFund Azercredit LLC (VF Azercredit) (note 14)	Azerbaijan
VisionFund Cambodia Ltd. (VF Cambodia) (note 10)	Cambodia
VisionFund DRC S.A. (VF DRC)	Democratic Republic of the Congo
VisionFund Republica Dominicana SAS (VFRD)	Dominican Republic
Banco VisionFund Ecuador S.A. (VF Ecuador)	Ecuador
VisionFund Ghana Money Lending Ltd. (VF Ghana)	Ghana
VisionFund Guatemala, S.A. (VF Guatemala)	Guatemala
FUNED VisionFund OPDF (FUNED)	Honduras
VisionFund Kenya Ltd. (VF Kenya)	Kenya
VisionFund Ltd. (VF Malawi)	Malawi
Vision F Mexico, S.A. de C.V., SOFOM, E.N.R. (VF Mexico)	Mexico
VisionFund NBFI LLC (VF Mongolia)	Mongolia
VisionFund AgroInvest LLC (AI Holding)	Montenegro
MFI Monte Credit LLC (VF Montenegro)	Montenegro
VisionFund Myanmar Company Limited (VF Myanmar)	Myanmar
EDPYME CrediVision S.A. (CrediVision)	Peru
VisionFund Rwanda Ltd. (VF Rwanda)	Rwanda
VisionFund Sénégal Microfinance SA (VF Senegal)	Senegal
AgroInvest Fond LLC (VF Serbia)	Serbia
AgroInvest Foundation Serbia (NGO Serbia)	Serbia
VisionFund Holdings (Private) Ltd. (VFL Holding)	Sri Lanka
VisionFund Lanka Ltd. (VF Lanka)	Sri Lanka
VisionFund Tanzania Microfinance Bank Limited (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 Organization include the accounts of VFI and its subsidiaries, which are controlled and majority owned by VFI. All significant intercompany accounts and transactions have been eliminated.

(b) Basis of Presentation

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

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

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

Temporarily Restricted Net Assets – Temporarily restricted net assets represent contributions and other inflows of assets, which are subject to donor-imposed restrictions that can be fulfilled by actions of the Organization or by the passage of time. As of September 30, 2018 and 2017, temporarily restricted net assets relate to project use restrictions on contributions received.

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

(c) Revenue Recognition and Net Asset Contributions

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

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

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

Contributed Net Assets – Contributed net assets result from contributions or transfers of ownership of World Vision affiliated MFIs to the Organization. The net asset contribution is recorded at carrying value on the date of acquisition or transfer. The Organization reflects the net carrying value of these contributed MFIs as nonoperating increases to net assets in the accompanying consolidated statements of activities. There were no contributed net assets during the years ended September 30, 2018 and 2017.

(d) Amounts Granted to Affiliated MFIs

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

(e) Geographic Area of Operations

VFI's mission of providing financial services to the poor takes the Organization to various foreign regions. Included in the accompanying consolidated statements of financial position are the net assets of each entity, which are located in the following countries with the following net asset (deficit) balances as of September 30, 2018 and 2017:

Country		2018	2017
United States	$	91.066.576	25.323.172
Ecuador		15.544.312	13.523.432
Tanzania		11.105.737	11.903.686
Myanmar		10.561.787	5.712.282
Montenegro		7.904.433	7.654.635
Sri Lanka		5.116.394	5.985.892
Armenia		4.671.622	5.195.671
Democratic Republic of the Congo		4.620.101	4.279.766
Honduras		4.553.647	4.558.765
Uganda		3.953.563	4.721.283
Mexico		3.418.667	2.968.107
Senegal		3.112.689	2.388.765
Dominican Republic		2.890.164	2.716.298
Mongolia		2.735.990	2.132.224
Ghana		2.563.248	2.227.061
Zambia		2.552.577	3.588.614
Country		**2018**	**2017**
Georgia	$	2,289,447	2,289,447
Kenya		2,255,327	2,335,111
Guatemala		2,187,262	2,210,512
Malawi		1,876,896	2,275,912
Peru		1,411,275	1,529,236
Rwanda		830,396	1,500,101
Cambodia (note 10)		—	33,825,919
Azerbaijan (note 14)		—	(23,260,388)
	$	187,222,110	127,585,503

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

(f) Tax Status

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

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*, and establishes for all entities, including pass-through entities, minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction) and requires certain expanded tax disclosures. No such uncertain tax positions exist for the Organization at September 30, 2018 and 2017.

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

(g) Cash and Cash Equivalents

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

As of September 30, 2018 and 2017, there were no restricted cash and cash equivalents. These funds are related to contributions held for restricted use.

(h) Investments

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

(i) Loan Portfolio

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

For loans to affiliated MFIs, management evaluates the adequacy of the allowance for loan loss on a periodic basis and determines the amount, if any, of the provision for loan losses to be recorded.

The evaluation of the adequacy of the allowance includes a review of the respective MFI's delinquency rates, historic write-offs, liquidity, and financial and operational strength.

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

The Organization evaluates the credit quality of its loan portfolio based on qualitative and environmental factors as well as on the aging of loans. Loans over 30 days past due are considered to be nonperforming. Loans aged over 91 days are considered to be impaired and are placed on nonaccrual status. Loans on nonaccrual status are not restored to accrual status unless they become current and full payment is expected. The Organization evaluates its loans receivable collectively for impairment.

(j) Property, Plant, and Equipment, Net

Property, plant, and equipment are recorded at historical cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful life of the assets. Equipment is depreciated over 3 to 10 years for motor vehicles, 3 to 5 years for computers and communications equipment, and 3 to 10 years for furniture and equipment. Repair and maintenance costs of property, plant, and equipment are capitalized if they result in substantial improvement in value or extend the useful life of the asset. Other repair and maintenance costs are charged as expenses are incurred.

(k) Foreign Currency Adjustments

(i) Foreign Currency Translation Losses

The assets and liabilities of the subsidiaries are generally denominated in each country's local currency and translated into U.S. dollars at period-end exchange rates, where applicable. The accompanying consolidated statements of activities and cash flows are translated using average exchange rates during the respective periods. The resulting translation adjustments are recorded as nonoperating changes in unrestricted net assets in the accompanying consolidated statements of activities. As of September 30, 2018 and 2017, the net assets of subsidiaries denominated in local currency and subject to translation adjustments totaled $96,155,534 and $68,436,412, respectively. For the years ended September 30, 2018 and 2017, due to the general appreciation in the exchange rate of the U.S. dollar against the local currencies of the subsidiaries, translation losses totaled $4,481,278 and $1,581,730, 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, 2018 and 2017, transaction losses totaled $5,090,135 and $4,380,611, respectively.

(l) Foreign Exchange Currency Contracts

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

At September 30, 2018 and 2017, the Organization had in place foreign currency contracts totaling $85,844,664 and $58,908,803, respectively. As of September 30, 2018 and 2017, the Organization recorded assets of $2,139,238 and liabilities of $710,734, respectively, as part of other assets or other liabilities associated with foreign exchange currency contracts. The resulting losses and gains are recorded as nonoperating changes in unrestricted net assets in the accompanying consolidated statements of activities.

(m) Deferred Income

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

(n) Use of Estimates

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

(o) Risks and Uncertainties Related to Investments

Investment 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.

(p) Recent Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this ASU are intended to improve financial statement presentation by not-for-profit (NFP) organizations. The new guidance requires NFPs to improve their presentation and disclosures to provide more relevant information about their resources (and the changes in those resources) to their donors, grantors, creditors, and other users. There are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. ASU 2016-14 will become effective for financial statements issued for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the effect of adoption to the financial statements.

(q) Reclassifications

Certain reclassifications have been made to 2017 amounts to conform to the 2018 presentation.

(3) Investments

Investments consist of investments held at banks for short-term lending and funding needs. As of September 30, 2018 and 2017, the fair value of investments is as follows:

Foreign bank time deposits		2018	2017
Unrestricted	$	27,717,597	26,759,998
Restricted (note 13)		4,595,543	4,128,937
Total investments	$	32,313,140	30,888,935

(4) Fair Value Measurements

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

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

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

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

		2018	2017
Significant other observables inputs (Level 2):			
Assets:			
Foreign bank time deposits:			
Sri Lanka	$	18,597,074	16,876,598
Serbia		4,595,543	4,128,937
Kenya		1,885,743	1,837,938
Tanzania		1,522,659	1,639,403
Ghana		1,486,095	1,238,478
Ecuador		1,067,989	748,020
Armenia		1,010,705	1,795,129
Honduras		1,000,000	1,100,000
Uganda		418,227	277,155
Zambia		372,830	—
Dominican Republic		354,865	110,021
Rwanda		1,410	235,989
Peru		—	901,267
Total investments	$	32,313,140	30,888,935
Foreign exchange currency contracts	$	2,139,238	—
Liabilities:			
Foreign exchange currency contracts	$	—	710,734

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

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

(5) Loan Portfolio

(a) Loans to Affiliated Microfinance Institutions (MFIs)

Amounts in loans to affiliated MFIs represent funds lent by the Organization to affiliated, independent (unconsolidated) MFIs for further lending to microentrepreneurs. As of September 30, 2018 and 2017, these loans totaled $27,423,189 and $24,036,335, respectively. Interest rates for loans to MFIs by the Organization range from 0% to 12.45%, depending on the current interest rates in the U.S., the currency of the loan and any donor related commitments. As of September 30, 2018, these loans are scheduled for repayment as follows:

		Principal repayment schedule
Fiscal year:		
2019	$	16,975,843
2020		9,365,627
2021		1,081,719
		27,423,189
Less allowance for loan losses		(6,616,716)
Loans to affiliated MFIs, net	$	20,806,473

Changes in the allowance for loan losses for the years ended September 30, 2018 and 2017 are as follows:

Allowance for loan losses		2018	2017
Beginning of year	$	2,737,933	2,737,933
Provision for loan losses		3,878,783	—
End of year	$	6,616,716	2,737,933

Loans to affiliated MFIs were concentrated in the following regions as of September 30, 2018 and 2017:

Region of operations		2018	2017
Africa	$	11,573,758	5,838,816
Middle East/Eastern Europe		11,149,298	10,491,406
Asia/Pacific		3,511,849	3,870,261
Latin America/Caribbean		1,188,284	3,835,852
	$	27,423,189	24,036,335

The Organization evaluates its loans receivable using conforming or nonconforming as the primary credit quality indicator. Nonconforming refers to those loans that are internally classified by the Organization as substandard. These assets pose higher risk and elevated probability of default. Conforming refers to all loans not considered nonconforming. The Organization evaluates various criteria for determining whether a loan is conforming or nonconforming on an annual basis. The table below presents credit quality indicators related to the Organization's loans to affiliated MFIs at September 30, 2018 and 2017:

		2018	2017
Risk ratings:			
Conforming	$	19,532,844	15,973,393
Nonconforming		7,890,345	8,062,942
Total	$	27,423,189	24,036,335

(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, 2018 and 2017, the Organization's loans to MFI clients totaled $268,593,221 and $237,504,142, respectively. The allowance for loan loss as of September 30, 2018 and 2017 was $9,220,570 and $7,697,074, 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 $230 to $2,900. These loans have terms commonly ranging from 1 to 50 months, their weighted average maturities being approximately 16 months. Interest rates on the outstanding loans vary by country due to varying inflation rates and operating environments. For the years ended September 30, 2018 and 2017, the weighted average annual interest rates charged were 32% and 34%, respectively.

Loans to MFI clients were concentrated in the following regions as of September 30, 2018 and 2017:

Region of operations		2018	2017
Latin America/Caribbean	$	124,755,870	99,309,027
Asia/Pacific		59,695,663	59,609,621
Africa		52,638,457	48,365,851
Middle East/Eastern Europe		31,503,231	30,219,643
	$	268,593,221	237,504,142

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

An aging analysis of loans to MFI clients as of September 30, 2018 is as follows:

		Outstanding balance	Allowance for loan losses
Current or less than 30 days past due	$	257,456,056	2,164,440
31–60 days past due		2,049,431	508,918
61–90 days past due		1,517,080	491,110
91 days or more past due		7,570,654	6,056,102
	$	268,593,221	9,220,570

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

		Outstanding balance	Allowance for loan losses
Current or less than 30 days past due	$	228,135,715	1,820,466
31–60 days past due		1,816,687	447,813
61–90 days past due		1,169,310	382,558
91 days or more past due		6,382,430	5,046,237
	$	237,504,142	7,697,074

As of September 30, 2018 and 2017, loans 91 days or more past due totaling $7,570,654 and $6,382,430, respectively, were not accruing interest.

Loans are written off when they are deemed to be uncollectible. Generally, the Organization considers loans 180 days or more past due to be uncollectible. Operational collection efforts continue past the point of write-off. Any funds recovered from loans written off are recorded as revenue in the consolidated statements of activities. For the years ending September 30, 2018 and 2017, funds recovered from loans written off totaled $2,136,322 and $2,224,255, respectively.

Changes in the allowance for loan losses for the years ended September 30, 2018 and 2017 are as follows:

Allowance for loan losses		2018	2017
Beginning of year	$	7,697,074	31,583,782
Loans written off		(6,442,704)	(27,530,960)
From contributed entity		—	(58,965)
Provision for loan losses		8,567,894	4,965,581
Currency revaluation		(601,694)	(1,262,364)
End of year	$	9,220,570	7,697,074

During the year ended September 30, 2017, the outstanding past due and restructured loans of VF Azercredit totaling $22,014,904 were written off (note 14).

(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, 2018 and 2017:

		2018	2017
Land and buildings	$	1,933,278	1,881,120
Equipment		5,378,343	5,892,119
Vehicles		4,677,967	4,767,872
Computers and software		10,648,886	9,470,807
		22,638,474	22,011,918
Less accumulated depreciation and amortization		(12,431,202)	(11,508,524)
Total	$	10,207,272	10,503,394

(7) Notes Payable

Notes payable represent funding from various foundations, individuals, affiliates, and banking organizations, which extended loans to the Organization to provide support for its activities. As of September 30, 2018, of the $217,890,053 outstanding, no amounts were lent to the Organization by World Vision. As of September 30, 2017, of the $217,867,326 outstanding, $8,000,000 was lent to the Organization by World Vision. Interest rates on notes payable vary by country and currency. The following are the interest rates on these loans as of September 30, 2018 and 2017:

September 30, 2018			September 30, 2017		
Number of loans	Total loan value	Interest rates	Number of loans	Total loan value	Interest rates
82	$ 18,511,741	0% to 5%	84	$ 49,677,042	0% to 5%
110	136,409,541	5.1% to 10%	133	123,718,244	5.1% to 10%
63	45,922,293	10.1% to 15%	65	28,689,229	10.1% to 15%
25	17,046,478	over 15%	25	15,782,811	over 15%
	$ 217,890,053			$ 217,867,326	

The following loans outstanding as of September 30, 2018 are scheduled for repayment as follows:

	Principal payment schedule
Fiscal year:	
2019	$ 76,206,811
2020	78,774,457
2021	33,076,489
2022	8,357,678
2023	20,558,449
2024 and beyond	916,169
	$ 217,890,053

As of September 30, 2018, notes payable are unsecured with the exception of $21,545,004 in loans that have been collateralized by the assets of the Organization.

(8) Unrestricted Net Assets

Changes in unrestricted net assets for the year ended September 30, 2018 are as follows:

	Total	Controlling interest	Noncontrolling interest
Balance, October 1, 2017	$ 125,062,017	130,352,143	(5,290,126)
Transfers to noncontrolling interest	—	(77,373)	77,373
Excess of revenues over expenses	56,812,327	45,930,584	10,881,743
Balance, September 30, 2018	$ 181,874,344	176,205,354	5,668,990

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

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

(9) Program and Supporting Expenses

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

For the year ended September 30, 2018, of the $124,763,552 in total expenses (excluding foreign currency adjustments), $112,244,243 was incurred in the course of program services and $12,519,307 was incurred in the course of supporting services by the Organization. For the year ended September 30, 2017, of the $108,266,898 in total expenses (excluding foreign currency adjustments), $95,920,869 was incurred in the course of program services and $12,346,029 was incurred in the course of supporting services by the Organization.

(10) Sale of Subsidiary

In June 2018, the Organization sold its 100% ownership in VF Cambodia for cash consideration and recognized a gain on sale of $38,696,047 after incurring taxes and selling costs totaling $4,434,757. As of September 30, 2018, $1,784,296 of related settlement costs are held as accounts payable. The decision to exit operations was made with consideration of the advanced stage of the microfinance industry in Cambodia relative to other countries in the VFI network and World Vision partnership, and of the potential to support and grow other MFIs in the VFI network for greater social impact.

The balances relating to VF Cambodia as of and for the years ended September 30, 2018 and 2017 were as follows:

		2018	2017
Assets classified as held-for-sale:			
Cash and cash equivalents	$	—	24,287,753
Investments		—	50,000
Interest receivable		—	2,179,194
Accounts receivable		—	77,558
MFI loans to clients		—	160,919,404
(MFI loss allowance)		—	(1,154,629)
Net loans to MFI clients		—	159,764,775
Property, plant, and equipment, net		—	2,656,633
Other assets		—	1,882,743
Total	$	—	190,898,656

		2018	2017
Liabilities classified as held-for-sale:			
A/P and accrued expenses	$	—	4,053,378
Interest payable		—	2,556,586
Deposits from microfinance institution clients		—	43,002,999
Notes payable		—	104,378,655
Other liabilities		—	3,081,119
Total	$	—	157,072,737
Results of discontinued operations:			
Revenue	$	25,538,154	37,806,005
Expenses		22,984,570	33,336,686
Change in net assets from discontinued operations, before tax		2,553,584	4,469,319
Tax expense		458,213	919,412
Change in net assets from discontinued operations	$	2,095,371	3,549,907

In the year ended September 30, 2017, the Organization sold its share ownership in VF Albania and received cash proceeds of $520,000. Prior to the sale, VFI converted $1,031,322 of intercompany loans to VF Albania into equity. The Organization recognized a loss on sale of VF Albania totaling $1,008,481.

(11) Contributions

Contributions, excluding contributed net assets, for the years ended September 30, 2018 and 2017 totaled $13,453,517 and $16,303,634, respectively.

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

		2018	2017
World Vision United States	$	4,344,409	4,858,674
World Vision International		1,973,558	5,798,342
World Vision Australia		1,964,493	992,732
World Vision New Zealand		861,846	—
World Vision Hong Kong		140,000	100,000
World Vision Sri Lanka		126,019	—
World Vision United Kingdom		76,214	156,166
World Vision Germany		24,098	598,402
World Vision Zambia		—	51,102
World Vision Rwanda		—	110,189
World Vision Mongolia	$	—	13,162
Nonaffiliated Agencies		1,118,599	844,556
Total unrestricted		10,629,236	13,523,325
Restricted:			
World Vision Canada		413,157	333,975
Nonaffiliated aid agencies:			
Department for International Development		166,599	1,525,605
Livelihoods and Food Security Trust Fund (LIFT)		2,244,525	644,855
IADB		—	275,874
Total restricted		2,824,281	2,780,309
Total contributions	$	13,453,517	16,303,634

(12) 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, 2018 and 2017, the Organization had accounts payable to World Vision totaling $59,171 and $341,104, respectively. These amounts were for operating expenses paid by World Vision on behalf of the Organization.

As of September 30, 2017, the Organization had an available line of credit from World Vision amounting to $8,000,000. As of September 30, 2017, the Organization had drawn $8,000,000 on this line of credit (note 7). The line of credit was repaid in June 2018.

As of September 30, 2018 and 2017, the Organization has notes payable to World Vision Germany in the amounts of $2,320,994 and $2,362,949, respectively, which bear interest at 3%. The notes payable mature on October 31, 2018.

(13) 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, 2018, the value of the guaranteed loan portfolio totaled $20,379,148. These loans are not included on the consolidated statements of financial position. As of September 30, 2018 and 2017, the value of deposits held by VF Serbia as security for these loans totaled $4,595,543 and $4,128,937, respectively. These deposits are reported as investments on the consolidated statements of financial position (note 3). Payment is required under the guarantee if a loan becomes over 210 days past due. As of September 30, 2018, 0.7% of the guaranteed loan portfolio was over 90 days past due. The average loan term of the guaranteed loans is 21 months.

(14) VisionFund Azercredit

Due to an adverse economic situation caused by the devaluation of the local currency in Azerbaijan in 2015-2016, loan collection difficulties arose for VF Azercredit, resulting in significant operating losses and the MFI's inability to pay its debt obligations to foreign lenders in accordance with their contractual terms. Beginning in 2015, VF Azercredit and the Organization worked with external lenders to extend and renegotiate the payment terms under a collective Standstill Agreement.

On December 11, 2017, the lenders to VF Azercredit terminated the Standstill Agreement, triggering VF Azercredit's insolvency. On February 8, 2018, VF Azercredit entered legal bankruptcy protection proceeding with the Administrative-Economic Court of Baku#1. On May 25, 2018, VF Azercredit was declared bankrupt and a court-appointed administrator was assigned to manage liquidation proceedings. As a result, the Organization forfeited control of VF Azercredit, and deconsolidated the MFI from its financial statements.

As of September 30, 2017, the carrying value of liabilities held by VF Azercredit exceeded the reported fair value of its assets, with a reported deficiency of $23,260,388. In the year ended September 30, 2018, the organization recognized a gain on deconsolidation of VF Azercredit equivalent to the September 30, 2017 net deficiency.

(15) Subsequent Events

Subsequent events have been evaluated from September 30, 2018 through May 20, 2019. In December 2018, the National Bank of Serbia issued new banking reserve requirements for loans made to private individuals. As a result of these regulations, VF Serbia's banking partner stopped disbursing new loans to VF Serbia clients on January 1, 2019. In May 2019, the National Bank of Serbia made further revisions to these regulations which management believes should enable the banking partner to resume disbursements. The full impact of this regulation on VF Serbia is still uncertain, but management believes that appropriate operational changes are feasible, without significant adverse impact on the consolidated financial results of the Organization.