FINCA International, Inc.

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2012 and 2011, and
Independent Auditors' Report

FINCA INTERNATIONAL, INC.

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Profit or loss	4
Consolidated Statements of Other Comprehensive Income	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7–8
Notes to Consolidated Financial Statements	9–49

Deloitte.

Deloitte & Touche LLP
1750 Tysons Blvd.
McLean, VA 22102-4219
USA

Tel: +1 703 251 1000
Fax: +1 703 251 3400
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of FINCA International, Inc. (the "Company") and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of profit or loss, other comprehensive income, changes in equity, and cash flows for the year 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 International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing as established by the International Auditing and Assurance Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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, the financial statements referred to above present fairly, in all material respects, the financial position of FINCA International, Inc. and subsidiaries as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board.

Predecessor Auditors' Opinion on 2011 Financial Statements

The consolidated financial statements of the Company as of and for the year ended December 31, 2011 were audited by other auditors whose report, dated May 23, 2012, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

June 28, 2013

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CASH AND CASH EQUIVALENTS	$ 114,632,334	$ 127,082,074
RESTRICTED CASH AND CASH EQUIVALENTS (Note 12)	27,749,373	32,091,924
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Note 13)	15,631,910	13,484,768
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Note 14)	5,364,708	2,534,435
LOANS RECEIVABLE (Note 15)	626,474,238	505,222,459
GRANTS RECEIVABLE	2,071,262	2,397,797
OTHER RECEIVABLES, PREPAID AND OTHER ASSETS (Note 16)	12,842,703	10,526,075
PROPERTY AND EQUIPMENT (Note 17)	21,592,896	16,544,918
INTANGIBLE ASSETS (Note 18)	9,232,789	6,525,397
DEFERRED TAX ASSETS (Note 11)	5,482,836	3,358,270
TOTAL	$ 841,075,049	$ 719,768,117
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable and other accrued liabilities (Note 19)	$ 25,837,633	$ 23,562,319
Client deposits (Note 20)	44,180,546	40,723,414
Notes payable (Note 21)	480,709,872	385,370,249
Subordinated debt (Note 22)	24,101,222	21,327,558
Deferred revenue (Note 23)	11,441,850	11,191,784
Employee benefits (Note 24)	4,854,602	4,129,109
Current income tax liability	2,167,128	3,265,804
Deferred tax liabilities (Note 11)	1,924,305	542,751
Total liabilities	595,217,158	490,112,988
EQUITY:		
Reserves	15,019,357	13,907,134
Retained earnings	172,254,276	160,710,208
Currency translation reserve	(13,199,335)	(11,564,641)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	174,074,298	163,052,701
NON-CONTROLLING INTEREST	71,783,593	66,602,428
Total equity	245,857,891	229,655,129
TOTAL	$ 841,075,049	$ 719,768,117

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
INTEREST INCOME	$ 262,343,616	$ 221,944,299
INTEREST EXPENSE	(47,479,887)	(37,436,880)
NET INTEREST INCOME (Note 7)	214,863,729	184,507,419
IMPAIRMENT LOSSES ON LOANS (Note 15)	(11,704,911)	(6,484,057)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT LOSSES ON LOANS	203,158,818	178,023,362
OTHER OPERATING INCOME	7,636,034	8,587,432
NET OPERATING INCOME	210,794,852	186,610,794
PERSONNEL EXPENSES (Note 9)	(116,610,838)	(94,597,804)
OTHER OPERATING EXPENSES (Note 10)	(78,639,710)	(67,125,010)
DEPRECIATION AND AMORTIZATION (Notes 17 and 18)	(7,288,381)	(6,590,762)
TOTAL EXPENSES	(202,538,929)	(168,313,576)
PROFIT BEFORE OTHER INCOME (EXPENSES)	8,255,923	18,297,218
OTHER INCOME (EXPENSES):		
Grants	5,936,488	8,855,071
Donations	18,070,150	16,151,896
Foreign exchange losses	(451,800)	(252,522)
Non-operating (expenses) income	(43,742)	628,853
PROFIT BEFORE INCOME TAX	31,767,019	43,680,516
TAX (Note 11)	(12,504,331)	(9,730,217)
PROFIT FOR THE YEAR	$ 19,262,688	$ 33,950,299
PROFIT FOR THE YEAR ATTRIBUTABLE TO:		
The parent	$ 13,251,731	$ 33,282,648
Non-controlling interest	6,010,957	667,651
	$ 19,262,688	$ 33,950,299

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
PROFIT FOR THE YEAR	$ 19,262,688	$ 33,950,299
OTHER COMPREHENSIVE INCOME:		
Foreign currency movement during the year	(2,464,486)	(4,578,676)
Tax on intercompany dividends		(418,311)
Benefit plan fair value adjustment (Note 24)	(595,440)	(67,971)
TOTAL OTHER COMPREHENSIVE INCOME	(3,059,926)	(5,064,958)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 16,202,762	$ 28,885,341
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:		
The parent	$ 11,021,597	$ 28,262,908
Non-controlling interest	5,181,165	622,433
	$ 16,202,762	$ 28,885,341

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Reserves	Retained Earnings	Currency Translation Reserve	Total	Non-controlling Interest	Total Equity
BALANCE — January 1, 2011	$ 9,913,487	$ 127,542,266	$ (6,985,965)	$ 130,469,788	$ -	$ 130,469,788
Comprehensive income:						
Profit for the year	-	33,282,648	-	33,282,648	667,651	33,950,299
Foreign currency movement during the year	-	-	(4,578,676)	(4,578,676)	-	(4,578,676)
Tax on intercompany dividends	-	(418,311)	-	(418,311)	-	(418,311)
Benefit plan fair value adjustment	-	(67,971)	-	(67,971)	-	(67,971)
Total comprehensive income	-	32,796,366	(4,578,676)	28,217,690	667,651	28,885,341
Issue of ordinary shares by Subsidiary	-	4,365,223	-	4,365,223	65,934,777	70,300,000
Transfer to reserve	3,993,647	(3,993,647)	-	-	-	-
BALANCE — December 31, 2011	13,907,134	160,710,208	(11,564,641)	163,052,701	66,602,428	229,655,129
Comprehensive income:						
Profit for the year	-	13,251,731	-	13,251,731	6,010,957	19,262,688
Foreign currency movement during the year	-	-	(1,634,694)	(1,634,694)	(829,792)	(2,464,486)
Benefit plan fair value adjustment	-	(595,440)	-	(595,440)	-	(595,440)
Total comprehensive income	-	12,656,291	(1,634,694)	11,021,597	5,181,165	16,202,762
Issue of ordinary shares by Subsidiary	-	-	-	-	-	-
Transfer to reserve	1,112,223	(1,112,223)	-	-	-	-
BALANCE — December 31, 2012	$ 15,019,357	$ 172,254,276	$ (13,199,335)	$ 174,074,298	$ 71,783,593	$ 245,857,891

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	$ 19,262,688	$ 33,950,299
Adjustments to reconcile profit for the year to net cash used in operating activities:		
Depreciation and amortization (Notes 17 and 18)	7,288,381	6,590,762
Impairment losses on loans (Note 15)	11,704,911	6,484,057
Gain or loss on disposals of property and equipment and intangible assets (Notes 17 and 18)	(65,719)	1,549,923
Interest income (Note 7)	(262,343,616)	(221,944,299)
Interest expense (Note 7)	47,479,887	37,436,880
Income tax expense (Note 11)	12,504,331	9,730,217
Foreign exchange losses (Note 5)	451,800	252,522
Changes in deferred tax assets and liabilities	(743,012)	352,372
Benefit plan fair value adjustment (Note 24)	-	67,971
Tax on intercompany dividends	-	(418,311)
	(164,460,349)	(125,947,607)
Change in working capital:		
Change in loans receivable	(132,787,798)	(131,105,022)
Change in grants receivable	326,535	(1,762,826)
Change in other receivables, prepaid and other assets	(2,316,628)	(2,754,230)
Change in accounts payable and other accrued liabilities	2,275,315	5,089,756
Change in client deposits	3,457,131	9,931,689
Change in deferred revenue	250,065	(2,429,931)
Change in current income tax liability	(1,098,677)	1,753,223
Change in employee benefits	130,053	137,489
	(129,764,004)	(121,139,852)
	(294,224,353)	(247,087,459)
Interest received	262,174,723	214,012,705
Interest paid	(45,722,754)	(33,378,096)
Income taxes paid	(12,990,968)	(9,099,447)
Net cash used in operating activities	(90,763,352)	(75,552,297)

(Continued)

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of available for sale financial assets	$ (634,862)	$ (4,070,595)
Purchase of property and equipment (Note 17)	(11,646,582)	(8,502,145)
Purchase of intangible assets (Note 18)	(4,888,534)	(2,342,523)
Proceeds from disposal of property and equipment and inangibles	1,494,670	-
Net cash used in investing activities	(15,675,308)	(14,915,263)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of ordinary shares by Subsidiary (Note 1)	-	70,300,000
Proceeds from borrowings	230,847,287	176,867,416
Repayment of borrowings to lenders	(135,326,637)	(66,798,038)
Net cash provided by financing activities	95,520,650	180,369,378
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,918,010)	89,901,818
CASH AND CASH EQUIVALENTS:		
Beginning of year	127,082,074	38,886,378
Exchange losses on cash equivalents and cash equivalents	(1,531,730)	(1,706,122)
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 114,632,334	$ 127,082,074

See notes to consolidated financial statements. (Concluded)

1. NATURE OF ACTIVITIES

FINCA International, Inc. ("FINCA" or "FINCA International") is a not-for-profit corporation, incorporated in New York, United States of America ("USA"), that has received a determination letter from the United States Internal Revenue Service classifying it as a tax-exempt public charity described in Section 501(c)(3) of the United States Internal Revenue Code of 1986, as amended. Founded in 1984, FINCA provides financial services to the world's lowest-income entrepreneurs so they can create jobs, build assets and improve their standard of living. FINCA's headquarters are located in Washington, D.C., USA.

In December 2011, FINCA completed the reorganization of its organizational structure by forming a 100% owned Subsidiary in October, 2010, FINCA Microfinance Holding Company LLC ("FMH"), a holding company incorporated in USA, through which it could obtain additional capital for expansion of FINCA's mission. FMH is a limited liability company formed under the laws of the State of Delaware. FINCA International is the substantial majority (66%) shareholder, with minority positions held by social and development institutions. In exchange for its majority ownership in FMH, FINCA contributed the ownership of all of its microfinance operating subsidiaries to FINCA, in which all operating subsidiaries became wholly owned Subsidiaries of FINCA. Upon completion of this group reorganization, FINCA obtained new equity funding of approximately $70.3 million. The proceeds will be used by FINCA to expand outreach, enter additional countries, and provide a greater range of needed products, including savings accounts. FINCA will continue to operate FMH with existing management. FMH follows FINCA's mission of poverty alleviation, and no changes may be made to the corporate purpose without the consent of FINCA. In order to ensure complete alignment of interests with the microentrepreneur clients that it serves, no FINCA employee, board member, or officer may hold any equity interest in FINCA or any of the subsidiaries. FINCA, as the controlling entity, will remain a not-for-profit corporation and maintains its designation as a Section 501(c)(3) charitable entity. The transaction was approved by the Supreme Court of New York upon the recommendation of the office of the New York Attorney General.

At present, FINCA through FMH operates in 21 developing countries in Latin America (Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico and Nicaragua), Africa (Democratic Republic of the Congo, Malawi, Tanzania, Uganda and Zambia), Eurasia (Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyzstan, Russia and Tajikistan), and the Middle East (Afghanistan and Jordan). FINCA operates through local entities ("Subsidiaries") that are owned and/or controlled by FINCA, including predominantly corporations and in some cases, non-governmental organizations or branches of FINCA International.

Subsidiaries principally provide small loans to individuals and to groups of individuals that lack access to traditional financial institutions. In most cases, FINCA loans are made to groups of individuals referred to as "Village Banks." These groups, consisting of individuals that know each other, guarantee each other's loans and provide a network of support for the group members. Individual loans, typically larger in size, are made where individual small businesses demonstrate adequate need and creditworthiness.

In addition to loans, FINCA provides through a growing number of its Subsidiaries, other financial services needed by the working poor, including savings deposits, remittances and micro insurance.

The majority of FINCA's clients worldwide are generally women (by number of clients) who often lack the ability to secure employment and who, in many cultures, are the primary providers for a family. FINCA's loans are a renewable resource that can improve the economy of an entire community. FINCA operates on a twin bottom line approach of sustainability and social outreach.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and Interpretations issued by the Interpretations Committee (IFRIC) together (IFRS) and stated in U.S. dollars (USD), the currency of the United States, where FINCA is located.

The consolidated financial statements were approved by the Board of Directors on June 20, 2013.

Basis of Measurement — The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

Functional and Presentation Currency — These consolidated financial statements are presented in USD, which is FINCA's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Management discussed with the FINCA Audit Committee the development, selection and disclosure of FINCA's critical accounting estimates and judgments, and the application of these policies and estimates.

Subsidiaries are entities controlled by FINCA. Control exists when FINCA has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of the Subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group transactions and balances are eliminated in full upon consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Revenue Recognition

Net Interest Income — Interest income and expense are recognized in the consolidated statements of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not subsequently revised.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the consolidated statements of profit or loss include:

- Interest on financial assets and liabilities at amortized cost on an effective interest rate basis.
- Interest on available-for-sale investment securities on an effective interest rate basis.

Fair value changes on other financial assets and liabilities carried at fair value through profit or loss are presented in net income on other financial instruments carried at fair value within the “non-operating income” line in the consolidated statements of profit or loss.

Fee and Commission Income and Other Operating Income — Fee and commission income are recognized on an accrual basis when the service has been provided. Loan origination fees are deferred and recognized as an adjustment to the effective interest rate on the loan.

Other Income — Grant revenue is recognized when there is reasonable assurance that FINCA has complied with the terms and conditions associated with the grant and that grants will be received. Donations received are recorded as revenue when the amount can be reliably measured and there is reasonable assurance that it will be received.

Foreign Currency

Foreign Currency Transactions and Balances — Transactions in foreign currencies are translated to the respective functional currencies of FINCA entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation at year-end are recognized in the consolidated statements of other comprehensive income.

Foreign Operations — The assets and liabilities of foreign operations that have a functional currency different from the USD are translated to USD at the exchange rate at the balance sheet date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to USD at the exchange rates at the dates of the transactions.

When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve from the date of transition to IFRS is transferred to the consolidated statements of profit or loss.

Income Tax Expense — FINCA is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code of 1986, as amended; however, income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business taxable income. Accordingly, no provision for income taxes is made in the consolidated financial statements. However,

some of the foreign operations of the Subsidiaries are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statements of profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statement and the corresponding tax basis used. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in Subsidiaries to the extent that FINCA is able to control the reversal of temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Financial Assets and Liabilities — FINCA recognizes its financial assets and liabilities within the following categories: at fair value through profit or loss, available for sale, and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired and a liability assumed and is determined at the time of initial recognition.

FINCA initially recognizes loans and advances, deposits, debt securities issued and subordinated debt on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which FINCA becomes a party to the contractual provisions of the instrument.

FINCA derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by FINCA is recognized as a separate asset or liability.

FINCA derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

FINCA also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible (see Note 5).

Offsetting — Financial assets and liabilities are offset and the net amount is presented in the consolidated statements of financial position when, and only when, FINCA has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Amortized Cost Measurement — The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus

or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, less any effect of impairment.

Identification and Measurement of Impairment of Financial Assets — At each balance sheet date, FINCA assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be reliably estimated.

FINCA considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment, by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a client, restructuring of a loan or advance by FINCA on terms that FINCA would not otherwise consider, indications that a client or issuer will enter bankruptcy, or other observable data relating to a group of assets, such as adverse changes in the payment status of clients or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in the consolidated statements of profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Designation at Fair Value through Profit or Loss — FINCA has designated financial assets and liabilities at fair value through profit or loss upon initial recognition if:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract

Derecognition — Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist, expired, or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

All financial liabilities are derecognized when they are extinguished — that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of financial liability derecognized and consideration paid is recognized in the statement of profit or loss.

Interest income is recognized in the consolidated statements of profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale financial assets are recognized in the consolidated statements of profit or loss.

Fair Value Measurement — IFRS 7, *Financial Instruments — Disclosures*, require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 — Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The carrying value of FINCA's investment in the Class IIIB Notes in the FINCA Microfinance Fund B.V. Incorporated ("Microfinance fund") is based on unobservable inputs and is considered a Level 3 under the fair value hierarchy. The carrying value less impairment provision of trade receivables and payables approximates their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

Cash and Cash Equivalents — Cash and cash equivalents include notes and coins on-hand, unrestricted balances held with central banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by FINCA in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost, which approximates fair value due to the maturities of these commitments.

Loans Receivable — Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that FINCA does not intend to sell immediately or in the near term.

Loans receivable are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method, less any impairment.

Investments — Investments are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Fair Value through Profit or Loss — FINCA carries some investment securities at fair value, with fair value changes recognized immediately in the consolidated statements of profit or loss.

Available-for-Sale — Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. All other available-for-sale investments are carried at fair value.

Notes Payable — Notes payable are recognized initially at fair value, net of transaction costs incurred. Notes payable are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or

all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Subordinated Debt — Subordinated debt consists mainly of liabilities to other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. There is no obligation to repay early. Following initial recognition at acquisition cost, the subordinated debt is recognized at amortized cost. Premiums and discounts are accounted for over the respective terms in the consolidated statements of profit or loss under "net interest income."

Client Deposits — Client deposits are recognized initially at fair value net of transaction costs incurred. Changes to client deposits are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the consolidated statements of profit or loss over the period of the borrowings using the effective interest rate method.

Other fair value changes are recognized in other comprehensive income, a component of equity, until the investment is sold or impaired and the balance in equity is recognized in the consolidated statements of profit or loss.

Allowance for Losses on Loans

Impairment of Loans — FINCA assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial assets, the respective losses are immediately recognized. Depending on the size of the credit exposure, such losses are either calculated on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of profit or loss. FINCA does not recognize losses from expected future events.

Individually Assessed Loans — Credit exposures are considered individually significant if they have a certain size, partly depending on the individual Subsidiary. As a FINCA-wide rule, all credit exposures over a country specific threshold are individually assessed for impairment. For such credit exposures, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the client's ability to fulfill his contractual payment obligations towards the individual Subsidiary:

- Delinquencies in contractual payments of interest or principal
- Breach of covenants or conditions
- Initiation of bankruptcy proceedings
- Any specific information on the client's business (e. g. reflected by cash flow difficulties experienced by the client)
- Changes in the client's market environment
- The general economic situation

Additionally, the aggregate exposure to the client and the realizable value of collateral held are taken into account when deciding on the allowance for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a credit exposure has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flow of a collateralized financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral.

Collectively Assessed Loans — There are two cases in which credit exposures are collectively assessed for impairment:

- Individually insignificant credit exposures that show objective evidence of impairment

- The group of credit exposures which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual credit exposure basis

For the purpose of the evaluation of impairment of individually insignificant credit exposures, the credit exposures are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of more than 30 days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics. The collective assessment of impairment for individually insignificant credit exposures (lump-sum impairment) and for unimpaired credit exposures (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics in the individual Subsidiary (migration analysis), grouped into geographical segments with a comparable risk profile. After a qualitative analysis of this statistical data, FINCA management approves appropriate rates as the basis for their portfolio-based impairment allowances. Deviations from this guideline were allowed, if necessitated by the specific situation of the Subsidiary.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by FINCA to reduce any differences between loss estimates and actual loss experience.

If FINCA determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (impairment for collectively assessed credit exposures).

Writing off Loans — When a loan is determined uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the consolidated statements of profit or loss.

Property and Equipment — Items of property and equipment are measured at cost, less accumulated depreciation and recognized impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to FINCA and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statements of profit or loss as incurred.

Depreciation is recognized in the consolidated statements of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment:

Buildings and offices	20–50 years
Computer equipment	2–5 years
Furniture and office equipment	5–7 years
Vehicles	3–5 years
Other	2–5 years

Leasehold improvements are depreciated over the shorter of the lease term or their useful lives. When necessary, assets are componentized to address different useful lives of the component.

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Borrowing Costs — FINCA does not incur any interest costs that qualify for capitalization under International Accounting Standards (IAS) 23, *Borrowing costs*.

Intangible Assets — Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by FINCA are recognized as intangible assets when the following criteria are met:

It is technically feasible to complete the software product so that it will be available for use;

- Management intends to complete the software product and use it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their useful lives, which is three to five years depending on facts and circumstances. Capital work-in-progress is represented by capitalized costs of information systems implementation in process. Capital work-in-progress is not amortized.

Impairment — The carrying amounts of FINCA's non-financial assets are reviewed on an annual basis or whenever a triggering event has been observed to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the extent of the impairment loss (if any).

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognized in the consolidated statement of profit or loss.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value, less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. Such impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Such an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in previous years.

Leased Assets — Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to FINCA (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statements of profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor. As of December 31, 2012 and 2011, FINCA had no finance leases.

Where substantially all of the risks and rewards incidental to ownership are not transferred to FINCA (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statements of profit or loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Lease Payments Made — Payments made under operating leases are recognized in the consolidated statements of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Employee Benefits —

Employee Benefit Plans — FINCA's net obligation in respect of benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date approximating the terms of FINCA's obligations. The calculation is performed by a qualified actuary.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in the consolidated statements of profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the consolidated statements of profit or loss.

With respect to actuarial gains and losses that arise in calculating FINCA's obligation in respect of a plan, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10% of the greater of the present value of the benefit obligation, that portion is recognized in statements of profit or loss over the expected average remaining working lives of the employees participating in the plan.

When the calculation results in a benefit to FINCA, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Short-Term Benefits — Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid under short-term cash bonus, or if FINCA has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Government and Other Grants — Grants are accounted for in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, following the gross approach, where the money received and the obligation to use the money for ongoing expenses is not offset. The liability to fulfill the obligation, recognized in the consolidated statements of financial position, is amortized through the consolidated statements of profit or loss at the same time as funds are spent to cover expenditures. When donor contributions are used to purchase assets, the assets are recognized in the consolidated statements of financial position. Another liability is recognized to reflect the obligation to use the funds for restricted purposes. The liability is amortized through the consolidated statements of profit or loss at which time expenses are incurred for program activities.

Provisions — Provisions are recognized when: FINCA has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

New Standards and Interpretations

(a) FINCA has adopted the following new Standards, amendments and interpretations effective on January 1, 2012:

Effective July 1, 2011, IFRS 1 (amendment) *Severe Hyperinflation* provides guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. The amendment has not had any impact on FINCA's consolidated financial statements.

IFRS 7, *Disclosures — Transfers of Financial Assets*. The amendments comprise additional disclosures on transfer transactions of financial assets, including possible effects of any risks and rewards that may remain with the transferor of the asset. Additional disclosures are also required if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments were effective for annual periods beginning on or after July 1, 2011. The adoption of the amendments in the 2012 year-end financial statements did not have any impact on FINCA's consolidated financial statements.

IAS 12 (amendment), *Deferred Tax: Recovery of Underlying Assets*. The amendment introduces the presumption, when measuring the deferred tax relating to investment property measured using the fair value model, that the entity will normally recover its carrying amount entirely through sale. The revised standard is effective on January 1, 2012. The amendment has not had any impact on FINCA's consolidated financial statements.

(b) Standards, amendments, and interpretations to existing standards that are not yet effective and have not been early adopted by FINCA are as follows:

IFRS 10, *Consolidated Financial Statements*. The new standard replaces the consolidation requirements in SIC-12 *Consolidated and Separate Financial Statements*. This new standard is effective on January 1, 2013. FINCA will apply the new standard from January 1, 2013. The Company management does not anticipate that the new standard IFRS 10, *Consolidated Financial Statements* will have material effect on the Company's consolidated financial statements.

IFRS 11, *Joint Arrangements*. The new standard requires that a party to a joint arrangement recognizes its rights and obligations arising from the arrangements rather than focusing on legal form. The new standard is effective January 1, 2013 and FINCA will apply the new standard from January 1, 2013. Management does not expect this amendment to have material impact on FINCA's consolidated financial statements.

IFRS 12, *Disclosure of Interest in Other Entities*. The standard includes the disclosure requirements for all forms of interest in other entities, including Subsidiaries, joint arrangements, associates and unconsolidated structured entities. The new standard is effective January 1, 2013. FINCA will apply the standard from January 1, 2013. Management does not expect this amendment to have material impact on FINCA's consolidated financial statements.

IFRS 13, *Fair Value Measurement*. The new standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. The new standard is effective January 1, 2013. FINCA will apply the new standard from January 1, 2013. The Company management anticipates that the application of the new Standard may affect certain amounts reported in the financial statements and results in more extensive disclosures in the financial statements.

IAS 28 (amendment 2011), *Investments in Associates and Joint Ventures.* The amendment includes the required accounting for joint ventures as well as the definition and required accounting for associates. The amended standard is effective January 1, 2013. Management does not expect this amendment to have material impact on FINCA's consolidated financial statements.

IAS 19 (amendment 2011), *Employee Benefits*. The main changes introduced by the amendment revolve around the accounting for defined benefit pension schemes. The standard is effective January 1, 2013. FINCA will apply the amended standard from January 1, 2013. The Company management does not anticipate that the revision of IAS 19, "*Employee Benefits*" will have a significant effect on the Company's consolidated financial statements.

IFRS 1 (amendment 2012), *Government Loans*. The amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IFRS 9, "Financial Instruments" or (IAS 39, if IFRS 9 has not yet been adopted) and IAS 20, prospectively to government loans existing at the date of transition to IFRSs. The standard is effective on January 1, 2013. Management does not believe that the amended standard will have any impact on FINCA's consolidated financial statements.

IFRS 7 (amendment 2011), *Disclosures — Offsetting Financial Assets and Financial Liabilities*. The amendment introduces disclosures to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on FINCA's consolidated financial position. The standard is effective on January 1, 2013. FINCA will apply the amended standard from January 1, 2013.

IAS 32 (amendment 2011), *Offsetting Financial Assets and Financial Liabilities*. The amendment seeks to clarify rather than change the off-setting requirements previously set out in IAS 32. The revised standard is effective January 1, 2014. FINCA will apply the amended standard on January 1, 2014. The Company management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

IFRS 9, *Financial Instruments*. The standard will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components: classification and measurement, impairment and hedge accounting. The new standard is effective on January 1, 2015 and FINCA will apply the new standard on January 1, 2015. It is not practical to provide a reasonable estimate of the effect of IFRS 9, *Financial Instruments* until a detailed review has been completed.

In May 2012, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvement project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2013, with early application permitted provided all these standards are applied at the same time. The early adoption of these standards and amendments will result in additional disclosure requirements and management is assessing the impact of these amendments to the Company's consolidated financial statements. FINCA will apply the new standards on January 1, 2013.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Allowances for Credit Impairment — The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counter party's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by FINCA management.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan credit loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counterparty allowances are forecast and the model assumptions and parameters used in determining collective allowances.

Income Taxes — FINCA is subject to income tax in several international jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, FINCA recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite FINCA's belief that its tax return positions are supportable, FINCA believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. FINCA believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Legal Proceedings — In accordance with IFRS, FINCA recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the consolidated financial statements could have a material effect on FINCA's financial position. Application of these accounting principles to legal cases requires FINCA management to make determinations about various factual and legal matters beyond its control. When FINCA has outstanding legal cases, makes assessments of the legal proceedings and at each reporting date and makes a determination as to status, in order to assess the need for provisions and disclosures in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those consolidated statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of FINCA's management as to how it will respond to the litigation, claim or assessment.

5. FINANCIAL RISK MANAGEMENT

FINCA's principal business activities by their nature involve assuming certain financial risks in order to achieve the desired financial and social returns. These risks include:

- Credit risk
- Market risk
- Liquidity risk
- Counterparty risk
- Foreign currency risk

There have been no substantive changes in FINCA's exposure to these risks, its objectives, policies and processes for managing these risks or the methods used to measure them from the year ended December 31, 2011, unless otherwise noted.

FINCA has established a 20 percent minimum Tier I capital policy that is applicable to all subsidiaries. Compliance with this internal policy is monitored as part of the monthly Assets and Liabilities Committee (ALCO) process. While Subsidiaries may temporarily fall below this internal policy, plans to correct any shortfalls are quickly implemented. Certain subsidiaries, only upon approval of FINCA's audit committee, are permitted to included qualifying Tier II equity to meet this minimum requirement. This internal policy is typically more stringent than local regulatory capital requirements (which are applicable to certain Subsidiaries) which must also be adhered to. FINCA's Tier I and Tier II capital ratios exceeded this minimum policy level in 2012 and 2011.

	2012	2011
Reserves	$ 15,019,357	$ 13,907,134
Retained earnings	172,254,276	160,710,208
Currency translation reserve	(13,199,335)	(11,564,641)
Tier I capital attributable to the parent company	$ 174,074,298	$ 163,052,701
Tier I capital attributable to non-controlling interests	71,783,593	66,602,428
Tier I capital	$ 245,857,891	$ 229,655,129
Total assets	$ 841,075,049	$ 719,768,117
Tier I capital/assets	29.2 %	31.9 %
Qualified Tier II capital	$ 12,342,000	$ 16,456,000
Total capital	$ 258,199,891	$ 246,111,129
Total capital/assets	30.7 %	34.2 %

Credit Risk — Credit risk is the potential for financial loss resulting from the failure of a client or counterparty to honor its financial or contractual obligations. Credit risk arises from FINCA's microfinance activities.

FINCA's loan portfolio is made up entirely of loans made to individuals for a specific purpose and is sufficiently diversified to reduce concentration risk. At December 31, 2012 and 2011, FINCA had 990,000 and 900,000 borrowers, respectively.

FINCA's aggregate loan portfolio was $636.6 million and $512.8 million as of December 31, 2012 and 2011, respectively (see Note 15). FINCA's total allowances for impairments totaled $10.1 million at December 31, 2012, a coverage ratio of 1.6% of total loans. The loan loss provision was $7.6 million at December 31 2011, a coverage ratio of 1.5% of total loans.

FINCA conducts biannual historical loan-loss migration analysis across its subsidiary network in order to determine the probability of default, defined as all loans in arrears in excess of 180 days, as well as an examination of other current observable factors (e. g. macroeconomic, operational, policy and systems changes, political risk, etc.) in order to establish subsidiary credit reserves. In addition, FINCA conducts quarterly vintage loan analysis.

The observations collected in 2012 were included in the migration analysis that forms the statistical base of the credit risk calculation. The migration analysis performed on individual subsidiary and group levels estimates the probability of default of a loan portfolio over a six-month period based on historical observations.

Exposure to credit risk at December 31, 2012 and 2011 is as follows:

Impaired Loans — Impaired loans are loans for which FINCA determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

Past Due but Not Impaired Loans — Past due, but not impaired loans are loans where contractual interest or principal payments are past due, but FINCA believes that impairment is not appropriate on the basis of the level of collateral available and/or the stage of collection of amounts owed to FINCA.

Loans with Renegotiated Terms — Loans with renegotiated terms are loans that have been restructured due to deterioration in the client's financial position, and where FINCA has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Allowances for Impairment — FINCA establishes an allowance for impairment losses that represents an estimate of probable or expected losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-Off Policy — FINCA writes off a loan (and any related allowances for impairment losses) when FINCA's credit committees and Subsidiaries' audit committees determine that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in a client's financial position, such that the client can no longer pay the obligation, or that proceeds from collateral, if any, will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge-off decisions are generally based on a product-specific past due status.

Market Risk — Market risk includes price risk, foreign exchange and liquidity risk, which arise in the normal course of FINCA's business:

- Price risk is the risk to earnings from changes in interest rates.

- Foreign exchange rate risk arises from the different markets in which FINCA operates, which are mostly developing countries with so called exotic currencies.

- Liquidity risk is the risk that a change in market conditions precludes the ability of FINCA to fund its existing asset base and operational requirements.

Market risks are measured in accordance with established standards to ensure consistency across Subsidiaries. Each Subsidiary is required to comply with network-wide risk limits that clearly define approved risk parameters.

FINCA's financial performance is subject to some degree of risk due to changes in interest rates; however, FINCA's Subsidiary statements of financial position have significantly less interest rate risk that that of a traditional financial institution:

- The tenor mismatch between assets and liabilities is far less.
- Neither the assets nor the liabilities of Subsidiaries are tied to any particular market index and therefore do not automatically "reprice" during their stated tenor.
- The short-term nature of FINCA's loans to clients renders the benefit of prepayments to be immaterial — thus, changes in market rates have an immaterial effect on prepayments.

Below is a consideration of interest rate risk by term of asset and liability as of December 31, 2012:

	Up to 3 months	3–6 months	7–12 months	1–3 years	More than 3 years	Non-Interest Sensitive Balances	2012 Total
Cash and cash equivalents	$ 62,313,079	$ -	$ -	$ -	$ -	$ 52,319,255	$ 114,632,334
Restricted cash and cash equivalents	22,462,201	1,650,000	-	-	-	3,637,172	27,749,373
Available-for-sale financial assets	8,009,791	2,334,421	3,928,099	1,324,364	9,833	25,403	15,631,910
Financial assets at fair value through profit and loss	2,297,343	2,858,855	208,510	-	-	-	5,364,708
Loans receivable	193,446,087	138,223,548	181,614,215	111,368,523	1,821,865	-	626,474,238
Grants receivable	209,072	-	-	-	-	1,862,190	2,071,262
Other receivables, prepaid and other assets	532,061	-	1,069,307	-	-	11,241,335	12,842,703
Property and equipment	-	-	-	-	-	21,592,896	21,592,896
Intangible assets	-	-	-	-	-	9,232,789	9,232,789
Deferred tax assets	-	-	-	-	-	5,482,836	5,482,836
Total assets	$ 289,269,634	$ 145,066,824	$ 186,820,131	$ 112,692,887	$ 1,831,698	$ 105,393,876	$ 841,075,049
Accounts payable and other accrued liabilities	1,566,482					24,271,151	25,837,633
Client deposits	6,413,408	3,348,643	16,350,094	141,729	7,704,148	10,222,524	44,180,546
Notes payable	61,034,370	91,012,550	73,718,959	239,970,140	14,973,853		480,709,872
Subordinated debt	177,150	653,218	2,686,460	659,700	16,639,077	3,285,617	24,101,222
Deferred revenue	8,155	-	-	-	-	11,433,695	11,441,850
Employee benefits	-	-	-	-	-	4,854,602	4,854,602
Current income tax liability	-	-	47,829	-	-	2,119,299	2,167,128
Deferred tax liabilities	-	-	28,294	-	-	1,896,011	1,924,305
Total liabilities	$ 69,199,565	$ 95,014,411	$ 92,831,636	$ 240,771,569	$ 39,317,078	$ 58,082,899	$ 595,217,158
Open position	$ 220,070,069	$ 50,052,413	$ 93,988,495	$(128,078,682)	$ (37,485,380)	$ 47,310,977	$ 245,857,891

Below is a consideration of interest rate risk by term of asset and liability as of December 31, 2011:

	Up to 3 Months	3–6 Months	7–12 Months	1–3 Years	More than 3 Years	Non–Interest Sensitive Balances	Total
Cash and cash equivalents	$ 25,393,700	$ -	$ -	$ -	$ -	$ 101,688,374	$ 127,082,074
Restricted cash and cash equivalents	-	-	-	-	-	32,091,924	32,091,924
Available-for-sale financial assets	5,457,167	5,690,166	467,705	1,100,000	-	769,730	13,484,768
Financial assets at fair value through profit and loss	-	-	1,413,445	-	-	1,120,990	2,534,435
Loans receivable	151,425,384	132,955,641	144,302,819	76,538,615	-	-	505,222,459
Grants receivable	-	-	-	-	-	2,397,797	2,397,797
Other receivables, prepaid and other assets	875,352	-	251,450	-	-	9,399,273	10,526,075
Property and equipment, net	-	-	-	-	-	16,544,918	16,544,918
Intangible assets	-	-	-	-	-	6,525,397	6,525,397
Deferred tax assets	-	-	-	-	-	3,358,270	3,358,270
Total assets	$ 183,151,603	$ 138,645,807	$ 146,435,419	$ 77,638,615	$ -	$ 173,896,673	$ 719,768,117
Accounts payable and other accrued liabilities	$ 604,280	$ -	$ -	$ -	$ -	$ 22,958,039	$ 23,562,319
Client deposits	16,283,051	3,183,324	3,782,176	1,508,309	3,444,293	12,522,261	40,723,414
Notes payable	29,129,030	40,930,473	69,513,998	225,926,680	10,317,745	9,552,323	385,370,249
Subordinated debt	-	-	-	-	21,327,558	-	21,327,558
Deferred revenue	12,645	-	-	-	-	11,179,139	11,191,784
Employee benefits	-	-	-	-	-	4,129,109	4,129,109
Current income tax liability	-	-	-	-	-	3,265,804	3,265,804
Deferred tax liabilities	-	-	-	-	-	542,751	542,751
Total liabilities	$ 46,029,006	$ 44,113,797	$ 73,296,174	$ 227,434,989	$ 35,089,596	$ 64,149,426	$ 490,112,988
Open position	$ 137,122,597	$ 94,532,010	$ 73,139,245	$(149,796,374)	$ (35,089,596)	$ 109,747,247	$ 229,655,129

FINCA has performed interest rate simulations based on the above GAP analysis to estimate the effect on net interest margin for differing levels of immediate and ongoing changes to market interest rates. A GAP analysis consists of separating FINCA's consolidated statements of financial position into different timeframes in which assets or liabilities mature. Note that FINCA can influence certain interest rates, e.g. deposit and lending rates, whereas other interest rates are determined by exogenous factors in the global macro-economy.

On a group level, the network-wide impacts from simultaneous interest rate shocks of +/- 100 basis points (bps), and +/-300 bps are considered. The effect on consolidated net equity from these assumed interest rate shocks are as follows:

2012	**Total impact on Profit for Year**	**As % of Consolidated Net Equity**
100 basis point variation	2.4 mln	1.0 %
300 basis point variation	7.3 mln	3.0 %

2011	Total impact on Profit for Year	As % of Consolidated Net Equity
100 basis point variation	1.9 mln	0.8 %
300 basis point variation	5.7 mln	2.5 %

Since FINCA's interest sensitive assets reprice more quickly than its interest-sensitive liabilities, increases in market interest rates result in higher net interest income (and the opposite is also true). As shown above, changes in market rates between 100 bps to 300 bps result in changes to net interest income from approximately $2.4 million to $7.3 million.

Liquidity Risk — Liquidity risk management includes (at a minimum) the identification, measurement and establishment of limits on potential losses arising from the difficulty of renewing liabilities under normal market conditions. FINCA's funding and liquidity objective is to fund its existing asset base (and maintain sufficient excess liquidity) so that it can operate under unusual/adverse market conditions. At the aggregate level, FINCA's goal is to ensure that there is sufficient funding in amount and tenor so that adequate liquid resources are available for all operating entities. The liquidity framework requires that entities be liquidity self-sufficient or net providers of liquidity. The primary sources of funding are (i) shareholders equity, (ii) medium-term borrowings and (iii) local bank lines of credit.

FINCA works to ensure that the structural tenor of these funding sources is sufficiently long in relation to the tenor of its asset base. In fact, the key goal of FINCA's asset-liability management is to ensure that there is excess tenor in the liability structure so as to provide excess liquidity to fund all assets. The excess liquidity resulting from a longer term liability tenor can effectively offset potential downward pressures on liquidity that may occur under market stress. This excess funding is held in the form of bank deposits and, to a far lesser extent, in unencumbered liquid securities.

Total cash and cash equivalents totaled $114.6 million as of December 31, 2012, compared to $127.1 million as of December 31, 2011. Also, total restricted cash and cash equivalents were $27.8 million and $32.1 million, as of December 31, 2012 and 2011, respectively. These period-end amounts increase and decrease intra-period in the ordinary course of business. FINCA has maintained total cash balance equal to about 13.6% and 17.7% of total assets as of December 31, 2012 and 2011 respectively, which is considered to be a sufficient liquidity cushion.

Liquidity Risk Management — FINCA runs a centralized treasury model where the overall statement of financial position is managed by Treasury Department through Subsidiaries ALCOs. Day-to-day liquidity and funding are managed by Subsidiary chief excecutive officers and treasurers at the country level and are monitored by Subsidiary ALCO and FINCA Treasury on a monthly basis.

Liquidity management is the responsibility of senior management through FINCA's consolidated ALCO and is overseen by the board of directors through its audit and finance committee. ALCOs are established at each of FINCA's microfinance operating Subsidiaries. Regulated savings deposit taking subsidiaries maintain legal reserve requirements in accordance with local regulations.

FINCA primarily uses liquidity ratios in managing and monitoring its liquidity. In broad terms, the structural liquidity ratio, defined as the sum of client deposits, long term debt and shareholders' equity as a percentage of total assets, measures whether the asset base is funded by sufficiently long-dated liabilities. FINCA's structural liquidity ratio was 67.6% as of December 31, 2012, compared to 74.7% as of December 31, 2011.

FINCA's microfinance operating Subsidiaries are required to comply with a liquidity policy that specifies a minimum amount of liquid assets (cash and cash equivalents) that is to be maintained at all times. This minimum liquidity policy requires that approximately 5.0% of total assets be held in cash and cash equivalents. As of December 31, 2012, the ratio of Subsidiaries' unrestricted cash and cash equivalents to total Subsidiaries' assets was 8.5%, compared with 9.6% as of December 31, 2011.

A traditional view of FINCA's liquidity is provided by a GAP analysis. Considering the contractual terms of client loans, FINCA has a substantial amount of excess liquidity in the under 1 year timeframe (GAP< 1 year of $393.5 million in 2012 and $419.4 million in 2011).

At December 31, 2012	Up to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total
Cash and cash equivalents	$ 114,632,334	$ -	$ -	$ -	$ 114,632,334
Restricted cash and cash equivalents	19,847,088	7,902,285	-	-	27,749,373
Available for sale financial assets	14,297,713	1,324,364	9,833	-	15,631,910
Financial assets at fair value through profit and loss	4,301,776	-	1,062,932	-	5,364,708
Loans receivable — net	513,283,849	111,368,523	1,821,866	-	626,474,238
Grants receivable — net	2,071,262	-	-	-	2,071,262
Other financial assets	4,160,467	-	-	-	4,160,467
	$ 672,594,489	$ 120,595,172	$ 2,894,631	$ -	$ 796,084,292
Other financial liabilities	$ 10,169,438	$ -	$ -	$ -	$ 10,169,438
Client deposits	36,334,669	141,729	7,704,148	-	44,180,546
Notes payable	225,765,878	239,970,140	14,375,159	598,695	480,709,872
Subordinated debt	6,787,255	659,700	16,654,267	-	24,101,222
	$ 279,057,240	$ 240,771,569	$ 38,733,574	$ 598,695	$ 559,161,078
Liquidity gap	$ 393,537,249	$(120,176,397)	$ (35,838,943)	$(598,695)	$ 236,923,214

At December 31, 2011	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	More than 5 Years	Total
Cash and cash equivalents	$ 127,082,074	$ -	$ -	$ -	$ 127,082,074
Restricted cash and cash equivalents	32,091,924	-	-	-	32,091,924
Available for sale financial assets	12,384,768	1,100,000	-	-	13,484,768
Financial assets at fair value through profit and loss	1,413,445	-	-	1,120,990	2,534,435
Loans receivable — net	428,683,844	76,538,615	-	-	505,222,459
Grants receivable — net	2,397,797	-	-	-	2,397,797
Other receivables	535,898	-	-	-	535,898
	$ 604,589,750	$ 77,638,615	$ -	$ 1,120,990	$ 683,349,355
Accounts payable and other accrued liabilities	$ 9,799,047	$ -	$ -	$ -	$ 9,799,047
Client deposits	35,770,812	1,508,309	3,444,293		40,723,414
Notes payable	139,573,501	231,451,980	13,335,210	1,009,558	385,370,249
Subordinated debt	-	-	21,327,558	-	21,327,558
	$ 185,143,360	$ 232,960,289	$ 38,107,061	$ 1,009,558	$ 457,220,268
Liquidity gap	$ 419,446,390	$(155,321,674)	$ (38,107,061)	$ 111,432	$ 226,129,087

The traditional GAP view tends to overstate the amount of near-term liquidity since it does not take into consideration the behavioral nature of FINCA's client loan portfolio. From a behavioral perspective, FINCA's clients are able to renew their loans for multiple terms, which lessen the amount of short-term

liquidity (lowers the positive Gap in that timeframe). In spite of this, FINCA's consolidated statements of financial position remain liquid owing to the short asset tenor and to the fact that client loans amortize. FINCA's borrowings are predominately two-year tenor with principal repaid at maturity.

Counterparty Risk — FINCA's exposure to the financial loss associated with balances held in other financial institutions is managed in accordance with prescribed limits. Given the relatively high level of cash held by FINCA's Subsidiaries (in 2012 the average amount of total cash to equity for FINCA's Subsidiaries was 33.1%). Lacking a limit for each counterparty bank, an undue amount of exposure would exist to the failure of a particular counterparty.

Individual subsidiary ALCOs look at counterparty exposure on a monthly basis to monitor compliance with policy. Pursuant to this policy, FINCA's Subsidiaries are only able to hold liquid funds with banks of high reputation or to invest in short-term, federally-issued government securities. The maximum amount of exposure to another the financial institution is typically limited by the amount of a Subsidiary's equity (up to 25 percent of the Subsidiary's equity in one bank).

The level of counterparty risk incurred reflects the nature and purpose of the assets held by the group (aside from its loan portfolio and the fixed assets). Such assets are largely transactional in nature (generated by the routine payment of principal and interest by clients). In addition, a minimum amount of cash and liquid securities is held to ensure sufficient liquidity for the group. While the group tries to generate some income from these assets, the overriding objective is to ensure their secure placement and high level of availability — risk considerations predominate. This is particularly visible in the area of bank placements, where the group is able to take active decisions with respect to the selection of counterparties and the maturity of placements.

Foreign Currency Risk — Foreign exchange risk exists at both FINCA and at the Subsidiaries level. Subsidiaries are exposed to exchange rate risk when their liabilities (or assets) are denominated in a currency that differs from their functional currency (the non-functional currency is typically the USD. Subsidiaries are not exposed to any exchange rate risk on either assets or liabilities that are denominated in their functional currency. Certain Subsidiaries have no foreign exchange risk either because their entire statement of financial position is denominated in their functional currency (i.e. Kosovo), because their functional currency is the USD (DRC, Ecuador and El Salvador) or because their currency is pegged to the USD (i.e. Jordan).

Subsidiaries match their non functional currency assets with their non-functional currency liabilities to the fullest possible extent, thereby minimizing or reducing any foreign currency risk. This matching occurs either by converting nonfunctional currency borrowings into functional currency borrowings, by lending in non-functional currency, and by maintaining other assets in nonfunctional currency. It is FINCA's policy not to allow speculative open currency positions; rather, each Subsidiary's open currency position is maintained within prescribed limits relative to the Subsidiary's capital. Currency positions are measured and reported to each Subsidiary's ALCO on a monthly basis.

A Subsidiary's net "long" or "short" foreign currency position is measured in relation to their equity, with the objective of maintaining the position within the more restrictive of (a) lender covenants or (b) the internal guideline of 20% of the Subsidiary's equity or (c) other contractual or local regulatory requirements. Subsidiaries that have a difference between non functional currency assets and liabilities typically maintain a higher amount of non functional currency assets (rendering their net position "long" in relation to the USD). At the consolidated level, FINCA experienced transaction losses of $451,800 and $252,522 in 2012 and 2011, representing about 0.05% and 0.04% of total assets respectively.

For assessment of the group foreign exchange risk, a Value-at-Risk (VaR) analysis is performed on a quarterly basis. The VaR measure estimates the potential loss in capital over a given holding period for a specified confidence level. The VaR is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between markets. Risks can be measured consistently across all markets, and risk measures can be aggregated to arrive at a single risk number. The methodology employed is the variance-covariance approach, also known as the delta-normal approach. The holding period is one year, and the look-back period is 3.5 years. A limitation of the variance-covariance, or delta-normal, approach is the assumption of a standard normal (or Gaussian) distribution of portfolio returns, and therefore the methodology may underestimate the proportion of outliers and hence the VaR. The results are shown in the following table:

As of December 31, 2012	**95% Confidence**	**99% Confidence**
	$7.5 million	$10.5 million

As of December 31, 2011	**95% Confidence**	**99% Confidence**
	$8.3 million	$11.7 million

FINCA's overall 2012 currency risk was limited as subsidiaries managed their currency positions very closely and kept them as closed as possible. Several Subsidiaries maintained long positions in USD, thus reducing the currency position in local currency from a group perspective. FINCA's translation loss decreased in 2012 ($2.5 million) from the 2011 level ($4.4 million), with the actual loss remaining less than one standard deviation of the VaR model's estimated amount ($4.5 million). FINCA's portfolio volatility decreased in 2012 with both individual currency volatility and correlation among FINCA's basket of currencies declining.

6. FINANCIAL ASSETS AND LIABILITIES — ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The table below sets out FINCA's classification of each class of financial assets and liabilities and their fair values at December 31, 2012 and 2011:

At December 31, 2012	At Fair Value through the Profit and Loss	Available for Sale	Loans and Receivables	Financial Liabilities at Amortized Cost	Carrying Amount	Fair Value
Cash and cash equivalents	$ -	$ -	$ 114,632,334	$ -	$ 114,632,334	$ 114,632,334
Restricted cash and cash equivalents	-	-	27,749,373	-	27,749,373	27,749,373
Available-for-sale financial assets	-	15,631,910	-	-	15,631,910	15,631,910
Financial assets at fair value through profit and loss	5,364,708	-	-	-	5,364,708	5,364,708
Loans receivable	-	-	626,474,238	-	626,474,238	632,692,202
Grants receivable	-	-	2,071,262	-	2,071,262	2,071,262
Other receivables	-	-	4,160,467	-	4,160,467	4,160,467
	$5,364,708	$15,631,910	$ 775,087,674	$ -	$ 796,084,292	$ 802,302,256
Accounts payable and other accrued liabilities	$ -	$ -	$ -	$ 10,169,438	$ 10,169,438	$ 10,169,438
Client deposits	-	-	-	44,180,546	44,180,546	44,167,528
Notes payable	-	-	-	480,709,872	480,709,872	481,589,421
Subordinated debt	-	-	-	24,101,222	24,101,222	24,101,222
	$ -	$ -	$ -	$ 559,161,078	$ 559,161,078	$ 560,027,609

At December 31, 2011	At Fair Value through the Profit and Loss	Available for Sale	Loans and Receivables	Financial Liabilities at Amortized Cost	Carrying Amount	Fair Value
Cash and cash equivalents	$ -	$ -	$ 127,082,074	$ -	$ 127,082,074	$ 127,082,074
Restricted cash and cash equivalents	-	-	32,091,924	-	32,091,924	32,091,924
Available-for-sale financial assets	-	13,484,768	-	-	13,484,768	13,484,768
Financial assets at fair value through profit and loss	2,534,435	-	-	-	2,534,435	2,534,435
Loans receivable	-	-	505,222,459	-	505,222,459	505,222,459
Grants receivable	-	-	2,397,797	-	2,397,797	2,397,797
Other receivables	-	-	535,898	-	535,898	535,898
	$2,534,435	$13,484,768	$ 667,330,152	$ -	$ 683,349,355	$ 683,349,355
Accounts payable and other accrued liabilities	$ -	$ -	$ -	$ 9,799,047	$ 9,799,047	$ 9,799,047
Client deposits	-	-	-	40,723,414	40,723,414	40,723,414
Notes payable	-	-	-	385,370,249	385,370,249	386,696,090
Subordinated debt	-	-	-	21,327,558	21,327,558	21,327,558
	$ -	$ -	$ -	$ 457,220,268	$ 457,220,268	$ 458,546,109

Cash and other financial assets (mainly represented by certificates of deposits that mature within 12 months and similar investments) and liabilities carrying amounts approximate their fair values. All receivables carrying amounts approximate fair value. In regards to the loans to clients, management prepares an analysis of the loans by region to determine the average loan maturity. The majority of the loans are due within 12 months and thus the carrying amount approximates fair value. The interest rate used on each loan is based on the market conditions of each country at the time of the loan.

FINCA has a currency swap measured at fair value in the amount of $1,587,858 and $1,413,445 as of December 31, 2012 and 2011, respectively, and is included in "financial assets at fair value through profit or loss" line in the consolidated statements of financial position. FINCA considers the currency swap agreement to be a Level 2 under fair value hierarchy, based on the observable market inputs of the pertinent currencies affecting the swap.

7. NET INTEREST INCOME

Net interest income for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Interest income:		
Cash and cash equivalents and investments	$ 6,403,077	$ 2,246,974
Loans to clients	255,940,539	219,697,325
Total interest income	262,343,616	221,944,299
Interest expense:		
Deposits from clients	588,641	345,701
Notes payable and subordinated debt	46,891,246	37,091,179
Total interest expense	47,479,887	37,436,880
Net interest income	$214,863,729	$184,507,419

8. OTHER OPERATING INCOME

Other operating income is mainly represented by insurance and remittance services fees and generated primarily by microfinance operating Subsidiaries of Latin America and Africa regions. Total other operating income for the years ended December 31, 2012 and 2011 was $7,636,034 and $8,587,432, respectively.

9. PERSONNEL EXPENSES

Personnel expenses for the years ended December 31, 2012 and 2011 consist of the following:

	2012	2011
Wages and salaries	$ 81,621,036	$ 64,362,082
Compulsory social security obligations	15,937,868	13,569,102
Allowances, incentives and other benefits	14,187,626	12,603,800
Health insurance	2,770,862	2,326,147
Increase in liability for long-term service-leave	1,980,951	1,353,676
Increase in liability for employee benefits	112,495	382,997
	$ 116,610,838	$ 94,597,804

10. OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31, 2012 and 2011 consist of the following:

	2012	2011
Professional fees	$ 15,809,209	$ 11,800,552
Rent	10,759,956	9,079,113
Travel	10,897,821	8,629,345
Marketing	4,612,327	4,710,191
Communication	4,778,048	4,674,237
Consumables and office supply	4,736,879	3,823,445
Bank charges	4,159,461	3,386,577
Security	3,647,112	2,913,325
Motor vehicle	2,121,903	2,319,666
Repairs and maintenance	1,979,927	2,371,632
Training and hiring	2,589,430	2,249,427
Taxes other than income	3,071,971	1,595,454
Utilities	1,560,286	1,415,417
Insurance	1,240,029	857,074
Other expenditures	6,675,351	7,299,555
	$ 78,639,710	$ 67,125,010

11. INCOME TAX EXPENSE

This item includes all taxes on income. Income tax expense for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Current tax expense	$ 13,015,131	$ 9,696,315
Deferred tax (benefit) expense	(510,800)	33,902
Total income tax expense	$ 12,504,331	$ 9,730,217

In calculating both the current tax and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense includes to local country income taxes for the Subsidiaries and foreign withholding taxes on certain cross-border payments. The average actual income tax rate for the subsidiaries increased slightly from 23.5% in 2011 to 23.9% in 2012. FINCA is exempt from taxes on income, except unrelated business taxable income, under provision of Section 501(c)(3) of the United States Internal Revenue Code and the applicable income tax regulations of the District of Columbia. The U.S. federal and state income tax on unrelated business taxable income was $1,000 in 2011. Furthermore, the current income tax expense for 2012 includes $941,935 of tax on the equity transfer of one of FINCA's subsidiaries to FINCA Microfinance Cooperatief U.A. (FMC) during the 2011 reorganization of its organizational structure.

Reconciliation of income tax expense for the years ended December 31, 2012 and 2011, is as follows:

	2012	2011
Income before income tax	$ 31,767,019	$43,680,516
Income tax expense	(12,504,331)	(9,730,217)
Profit for the year	$ 19,262,688	$33,950,299

	2012	2011
Tax rate using domestic tax rate of Parent company (exempt on taxes on income)	$ -	$ -
Foreign income tax (taxable Subsidiaries) at local statutory rates	9,211,671	8,568,858
Expenses not deductible for tax purposes	2,833,214	1,446,893
Tax exempt income	(1,626,469)	(258,945)
Recognition of previously unrecognized tax losses	56,355	(274,970)
Adjustment for under provision in previous periods	744,756	208,174
Others	1,284,804	40,207
Total income tax expense	$12,504,331	$9,730,217

Deferred Income Taxes — Deferred income taxes are calculated, under the statement of financial position liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts, using the applicable tax rate as stipulated by the tax legislation of the respective countries.

The movements in deferred tax assets and liabilities (the balances are offset within the same jurisdiction as permitted by IAS 12 and shown on a net basis by Subsidiaries) details of the deferred tax liability, amounts charged or credited directly to profit or loss during the period, and amounts charged or credited to equity during the period are shown below.

In 2012 the Company has recorded $1,226,670 of deferred income tax expenses on $13,974,361 of temporary differences associated with the FINCA's investments in Subsidiaries via FMH because it is probable that the temporary differences associated with the distribution of retained earnings through payments of dividends will reverse in the foreseeable future.

Deferred Tax Assets — Deferred tax assets were recognized by the Subsidiaries in the following jurisdictions in 2012: Armenia, Azerbaijan, Georgia, Russia, Tajikistan, El Salvador, Honduras, Mexico, Tanzania, Uganda and Zambia (2011 — Armenia, Azerbaijan, Georgia, Kyrgyzstan, Russia, Tajikistan, Mexico and Tanzania).

2012	Assets (Liability)	(Charged) Credited to Profit or Loss	(Charged) Credited to Equity
Property and equipment, and software	$ (65,545)	$ (71,745)	$ (114,791)
Provision for loan loss impairment	1,705,499	711,006	(11,806)
Deferred income/accrued interest	1,460,450	1,228,223	6,373
Tax loss carry-forwards	739,953	607,724	83,864
Other	1,642,479	(350,522)	36,240
Net tax assets (liabilities)	$ 5,482,836	$ 2,124,686	$ (120)

2011	Assets (Liability)	(Charged) Credited to Profit or Loss	(Charged) Credited to Equity
Property and equipment, and software	$ 120,991	$ (35,989)	$ 281
Provision for loan loss impairment	1,006,299	129,393	(34,737)
Deferred income/accrued interest	225,854	(88,126)	(6,494)
Tax loss carry forwards	48,365	(99,221)	-
Other	1,956,761	430,189	(689)
Net tax assets (liabilities)	$ 3,358,270	$ 336,246	$ (41,639)

Deferred Tax Liabilities — Deferred tax liabilities are recorded by FINCA parent company, Kyrgyzstan, Ecuador, Nicaragua and Malawi in 2012 (2011 — Ecuador, Uganda, Zambia and Malawi) as follows:

2012	Assets/(Liability)	(Charged) Credited to Profit or Loss	(Charged) Credited to Equity
Property and equipment, and software	$ (90,154)	$ (67,026)	$ 200,864
Provision for loan loss impairment	(511,960)	(341,636)	11,857
Deferred income/accrued interest	(44,522)	102,441	99,154
Tax loss carry-forwards	-	(42,399)	(142,171)
Other	(1,277,669)	(1,265,267)	62,629
Net tax (liabilities) assets	$ (1,924,305)	$ (1,613,887)	$ 232,333

2011	Assets/(Liability)	(Charged) Credited to Profit or Loss	(Charged) Credited to Equity
Property and equipment, and software	$ (223,992)	$ 79,347	$ -
Provision for loan loss impairment	(182,182)	(270,493)	-
Deferred income/accrued interest	(246,117)	(157,948)	-
Tax loss carry forwards	142,171	10,134	-
Other	(32,631)	(31,188)	-
Net tax (liabilities) assets	$ (542,751)	$ (370,148)	$ -

12. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash balances of $27,749,373 and $32,091,924 as of December 31, 2012 and 2011, respectively, comprise undisbursed grant funds to be used in lending and operations, cash balances for country-specific regulatory requirements, and pledged collateral related to local borrowings and deposits, all of which can be contractually released within 12 months.

13. AVAILABLE FOR SALE FINANCIAL ASSETS

	2012	2011
Investment in FINCA Microfinance Fund	$ 1,100,000	$ 1,100,000
Certificates of deposit and other	14,531,910	12,384,768
	$ 15,631,910	$ 13,484,768

In 2010, FINCA International invested in $1.1 million in the Microfinance Fund in the Netherlands. This $21.2 million special purpose fund, structured, placed and managed by Deutsche Bank, provided $20.6 million in subordinated loans to seven of FINCA International's Subsidiaries in Armenia, Azerbaijan, Democratic Republic of Congo, Georgia, Kyrgyzstan, Mexico and Tajikistan. The subordinated debt is designed as Tier 2 capital securities to alleviate capital constraints of the respective FINCA International Subsidiaries. Investors in the fund are primarily from the private sector. The fund seeks to provide socially-motivated investors an exposure to global microfinance, through the issuance of subordinated loans.

Certificates of deposit with maturity over three months are qualified and reported as available for sale financial assets in the consolidated statements of financial position.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets at fair value through profit or loss at December 31, 2012 and 2011, consist of the following:

	2012	2011
Life insurance	$ 1,062,931	$ 1,120,990
Currency swap fair value	1,587,858	1,413,445
Certificates of deposit	2,713,919	-
	$ 5,364,708	$ 2,534,435

FINCA owns life insurance policies on key employees with an aggregate face value of $12,195,502 both at December 31, 2012 and 2011. The aggregate cash surrender value was $1,062,931 and $1,120,990 at December 31, 2012 and 2011, respectively.

On January 2, 2007, FINCA entered into a six-year U.S. dollar/Russian ruble cross-currency swap agreement ("the swap agreement") for the principal amount of $3,300,000. The swap agreement was effected to eliminate an open foreign currency position at FINCA Russia. The fair value of the swap agreement was $129,445 at December 31, 2011. The agreement expired in 2012.

$1,587,858 and $1,284,000 as at December 31, 2012 and 2011, respectively, represents the fair value of a swap agreement entered into by Kyrgyzstan to hedge the change in the Kyrgyz Sum exchange rate to U.S. dollar under the loan agreement. Total principal amount borrowed during 2012 and 2011 is equivalent to $17,907,142 and $15,057,000, in USD, respectively.

Neither of the above hedge transactions qualified for hedge accounting.

The remaining balance of $2,713,919 as of December 31, 2012 represents certificates of depostit which management classified as financial assets at fair value through profit or loss.

15. LOANS RECEIVABLE

Loans receivable at December 31, 2012 and 2011, consist of the following:

	2012	2011
Gross loans to clients current	$529,044,050	$418,545,230
Gross loans to clients non-current	107,566,409	94,242,364
Total loans to clients	$636,610,459	$512,787,594
Gross loans to clients	$636,610,459	$512,787,594
Less allowances for impairment	(10,136,221)	(7,565,135)
Loans receivable	$626,474,238	$505,222,459
Allowances for impairments:		
Balance at January 1	$ 7,565,135	$ 6,731,790
Impairment loss for the year:		
Charge for the year	11,704,911	6,484,057
Amounts written off — net of recovery	(9,201,179)	(5,313,522)
Effect of foreign currency movements	67,354	(337,190)
Balance at December 31	$10,136,221	$ 7,565,135

Impairment losses on loans approximate 0.9%–4.8% and (0.4%)–4.1% of the total loan portfolio by regions at December 31, 2012 and 2011, respectively. While not all products require collateral, and collateral requirements vary by country, FINCA utilizes several methods for clients to collateralize their loans, including mandatory savings, real estate, fixed assets or an additional guarantor.

16. OTHER RECEIVABLES, PREPAID AND OTHER ASSETS

The balances represent other receivables, prepaid and other assets at December 31, 2012 and 2011, as follows:

	2012	2011
Receivable from money remittance and other agencies	$ 480,904	$ 535,898
Prepaid/overpaid income tax	2,576,619	-
Deposit with IRS and other fiduciary duties	1,102,944	-
Financial assets other than cash and cash equivalents and loans receivable	4,160,467	535,898
Prepaid rent	2,976,675	2,292,663
Taxes	444,337	874,953
Office supplies	542,629	470,924
Staff advances and loans	1,010,482	916,796
Prepaid repair and maintenance expenses	601,662	262,941
Prepaid insurance	324,933	204,683
Other debtors	2,781,518	4,967,217
	$ 12,842,703	$ 10,526,075

17. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 and 2011 are as follows:

Cost	Total	Land and Buildings	Construction in Progress	Leasehold Improvements	Computer Equipment	Furniture and Office Equipment	Vehicles	Other
Balance — January 1, 2011	$31,893,301	$3,040,204	$ 892,768	$4,181,987	$11,465,113	$6,238,015	$4,698,164	$1,377,050
Acquisitions	8,502,145	475,995	677,589	1,671,966	1,511,569	2,363,427	1,272,639	528,960
Disposals	(3,716,579)	(3,493)	(891,296)	(860,472)	(467,062)	(530,851)	(648,573)	(314,832)
Currency translation	(1,115,770)	(11,336)	(497)	(191,154)	(312,594)	(351,883)	(195,567)	(52,739)
Balance — December 31, 2011	$35,563,097	$3,501,370	$ 678,564	$4,802,327	$12,197,026	$7,718,708	$5,126,663	$1,538,439
Balance — January 1, 2012	$35,563,097	$3,501,370	$ 678,564	$4,802,327	$12,197,026	$7,718,708	$5,126,663	$1,538,439
Acquisitions	11,850,181	338,292	302,809	2,502,694	3,741,463	2,790,506	1,357,992	816,425
Disposals	(2,531,738)	(61,274)	(252,245)	(242,600)	(382,507)	(661,154)	(869,894)	(62,064)
Currency translation	(697,545)	(100,124)	(2,254)	(93,351)	(144,523)	(301,281)	(75,103)	19,091
Balance — December 31, 2012	$44,183,995	$3,678,264	$ 726,874	$6,969,070	$15,411,459	$9,546,779	$5,539,658	$2,311,891
Depreciation and Impairment Losses								
Balance — January 1, 2011	$16,695,249	$ 293,793	$ -	$2,461,857	$ 6,180,678	$4,478,572	$3,098,882	$ 181,467
Depreciation and amortization	5,244,459	207,083	-	1,160,027	1,413,273	1,499,415	812,433	152,228
Disposals	(2,282,963)	(1,563)	-	(981,863)	(336,385)	(417,481)	(486,619)	(59,052)
Currency translation	(638,566)	(3,096)	-	(83,492)	(200,360)	(184,124)	(144,683)	(22,811)
Balance — December 31, 2011	$19,018,179	$ 496,217	$ -	$2,556,529	$ 7,057,206	$5,376,382	$3,280,013	$ 251,832
Balance — January 1, 2012	$19,018,179	$ 496,217	$ -	$2,556,529	$ 7,057,206	$5,376,382	$3,280,013	$ 251,832
Depreciation and amortization	5,606,219	180,612	-	1,257,698	1,376,422	1,735,137	895,867	160,483
Disposals	(1,684,930)	(9,895)	-	(434,396)	(259,063)	(327,025)	(639,702)	(14,849)
Currency translation	(348,369)	(10,862)	-	(20,397)	(106,410)	(183,532)	(36,719)	9,551
Balance — December 31, 2012	$22,591,099	$ 656,072	$ -	$3,359,434	$ 8,068,155	$6,600,962	$3,499,459	$ 407,017
Net Carrying Amounts								
Balance — January 1, 2011	$15,198,052	$2,746,411	$ 892,768	$1,720,130	$ 5,284,435	$1,759,443	$1,599,282	$1,195,583
Balance — December 31, 2011	$16,544,918	$3,005,153	$ 678,564	$2,245,798	$ 5,139,820	$2,342,326	$1,846,650	$1,286,607
Balance — December 31, 2012	$21,592,896	$3,022,192	$ 726,874	$3,609,636	$ 7,343,304	$2,945,817	$2,040,199	$1,904,874

Depreciation and amortization expense charged for the years ended December 31, 2012 and 2011, were $5,606,219 and $5,244,459 respectively.

18. INTANGIBLE ASSETS

Intangible assets at December 31, 2012 and 2011, consist of the following:

Costs	Total	Capitalized Software	Capital Work-In-Progress
Balance — January 1, 2011	$ 9,392,058	$ 8,923,788	$ 468,270
Acquisition	2,342,523	1,416,069	926,454
Disposals	(195,201)	(183,652)	(11,549)
Currency translation	(154,074)	(124,656)	(29,418)
Balance — December 31, 2011	$ 11,385,306	$ 10,031,549	$ 1,353,757
Balance — January 1, 2012	$ 11,385,306	$ 10,031,549	$ 1,353,757
Acquisition	5,815,719	3,395,524	2,420,195
Disposals	(2,343,058)	(1,844,656)	(498,402)
Currency translation	7,923	(10,863)	18,786
Balance — December 31, 2012	$ 14,865,890	$ 11,571,554	$ 3,294,336
Amortization and Impairment			
Balance — January 1, 2011	$ 3,604,425	$ 3,604,425	$ -
Amortization for the year	1,346,303	1,346,303	-
Disposals	(78,894)	(78,894)	-
Currency translation	(11,925)	(11,925)	-
Balance — December 31, 2011	$ 4,859,909	$ 4,859,909	$ -
Balance — January 1, 2012	$ 4,859,909	$ 4,859,909	$ -
Amortization for the year	1,678,856	1,678,856	-
Disposals	(883,162)	(883,162)	-
Currency translation	(22,502)	(22,502)	-
Balance — December 31, 2012	$ 5,633,101	$ 5,633,101	$ -
Net Carrying Amounts			
Balance — January 1, 2011	$ 5,787,633	$ 5,319,363	$ 468,270
Balance — December 31, 2011	$ 6,525,397	$ 5,171,640	$ 1,353,757
Balance — December 31, 2012	$ 9,232,789	$ 5,938,453	$ 3,294,336

Amortization expense for the years ended December 31, 2012 and 2011 amounts to $1,678,856 and $1,346,303 respectively.

19. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities at December 31, 2012 and 2011, are as follows:

	2012	2011
Other accounts payable and accrued expenses	$ 6,023,705	$ 7,244,576
Professional services	2,763,042	1,718,174
Office supplies	1,103,176	481,004
Insurance	279,515	355,293
Total financial liabilities, excluding notes payable, classified as financial liabilities measured at amortized cost	10,169,438	9,799,047
Personnel	11,638,093	10,393,451
Taxes	4,030,102	3,369,821
	$25,837,633	$23,562,319

The fair values of accounts payable and other accrued liabilities classified as financial liabilities measured at amortized cost is based on cash flows discounted at rates commensurate within the respective Subsidiary country.

All accounts payable and other accrued liabilities have a maturity of no more than 12 months from the balance sheet date. Carrying values approximates fair value at December 31, 2012 and 2011.

20. CLIENT DEPOSITS

FINCA accepts and maintains savings deposits from clients in Subsidiary operations. FINCA has been pursuing a strategy to increase client savings in Subsidiary operations eligible to accept voluntary deposits, offering clients access to banking services while receiving lower-cost funding in return.

These voluntary deposits represent the majority of FINCA's savings deposits. Additionally, certain loan products are structured to require a deposit at the time the loan is made, representing an additional source of client deposits maintained by FINCA.

	2012	2011
Compulsory savings/cash collateral	$21,177,371	$23,569,340
Voluntary savings:		
Saving accounts	18,727,273	15,144,926
Term deposit accounts	3,870,248	1,696,867
Other voluntary savings	405,654	312,281
Total voluntary savings	23,003,175	17,154,074
Total deposits from clients	$44,180,546	$40,723,414

21. NOTES PAYABLE

FINCA and its Subsidiaries have two broad categories of debt: charitable and commercial. The majority of FINCA loans are sourced from international financial institutions supporting microfinance, but FINCA has also borrowed from private sources. Interest rates paid by Subsidiaries range from 5% up to 20% floating and up to 19% fixed in local currencies for commercial loans in countries with high perceived risk or with depreciating currencies. In some situations, FINCA, as the Parent Company, may be directly liable or may offer support for loans provided to Subsidiaries without adequate credit standing, which may be in the form of a direct guarantee, letter of credit, comfort letter, or another form of credit enhancement. As of each balance sheet date, some Subsidiaries have breached covenants contained in financing agreements underlying these obligations. Management believes that these breaches are primarily due to recent global economic conditions which have impacted microfinance, or in some cases due to local political and economic developments. A breach of a loan covenant could permit a lender to accelerate payment of the loan, but would not permit a cross-default beyond the particular Subsidiary. Management has obtained either formal waivers of these breaches or assurances from lenders that the covenants will not be enforced. However, no assurance can be provided that these waivers will be extended indefinitely or that all performance can be brought into full compliance. As of December 31, 2012, subsidiaries in Azerbaijan, Ecuador, Georgia, Guatemala, Kosovo, Kyrgyzstan, Russia, Tajikistan and Zambia were in breach of financial covenants regarding loans from international financial institutions amounting to USD 74.1 million. At the time of the issuance of these consolidated financial statements, the subsidiaries had obtained formal waivers for these breaches of covenant amounting to USD 31.1 million. All loans for which no formal waivers are obtained are classified as current in the maturity table below.

Notes payable at December 31, 2012 and 2011, are as follows:

	2012	2011
Overdraft	$ 569,402	$ 865,841
Notes payable:		
Principal amount	471,372,113	377,493,184
Accrued interest	8,768,357	7,011,224
	$ 480,709,872	$ 385,370,249

Maturities of principal amounts on notes payable due in future fiscal years is as follows:

2013	$ 225,765,878
2014	149,246,401
2015	90,723,739
2016	12,238,756
2017	2,136,403
Thereafter	598,695
	$ 480,709,872

The book value of notes payable at December 31, 2012 and 2011 are as follows:

	2012	2011
Non-current:		
Notes payable:		
Secured	$ 22,230,373	$ 12,043,931
Unsecured	233,784,881	232,162,447
Collateralized borrowings	-	1,590,370
	256,015,254	245,796,748
Current:		
Overdrafts	569,402	865,841
Notes payable:		
Secured	20,538,170	12,199,521
Unsecured	203,494,371	126,073,306
Collateralized borrowings	92,675	434,833
	224,694,618	139,573,501
Total notes payable	$480,709,872	$385,370,249

22. SUBORDINATED DEBT

The balance is mainly represented by subdebt that was received in 2009 by seven Subsidiaries from the Microfinance Fund of which $20.8 million and $21.3 million were outstanding at December 31, 2012 and 2011, respectively. Maturity of this debt is on September 20, 2016, and an effective interest rate varies from in the range of 12.8% to 16.2%. Subordinated debt agreements with Subsidiaries contain the following key provisions: no early redemption and the principal of the subordinated debt are junior in right of repayment to holders of senior debt. Each individual subordinated debt agreement includes a number of financial covenants. As of December 31, 2012 Tajikistan was in breach of their $1,500,000 subordinated debt agreement on the 12-month positive ROA covenant. The lender has provided a waiver until December 31, 2013.

23. DEFERRED REVENUE

FINCA receives awards from U.S. Government and other agencies for various purposes. Awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved award. FINCA defers award revenue received under approved awards, to the extent they exceed expenses incurred for the purposes specified under the awards' restrictions. Proceeds from monetization of commodities inventory are also reported as refundable advances until proceeds are used for program expenses.

The balance of deferred revenue at December 31, are as follows:

	2012	2011
USDA	$ 8,961,881	$ 7,006,106
Others	2,479,969	4,185,678
	$11,441,850	$11,191,784

24. EMPLOYEE BENEFITS

Pension Plan Deferred Compensation — FINCA has implemented an employee retirement plan (the "Plan") under Internal Revenue Code Section 403(b). Under the Plan, qualified employees may defer compensation up to the maximum amount permitted by the Internal Revenue Code. The elective deferral limits were $17,000 and $16,500 for 2012 and 2011. The catch-up contribution were $5,500 for both 2012 and 2011. FINCA may make contributions to the Plan as a discretionary employer match. FINCA's contributions to the Plan during the years ended December 31, 2012 and 2011 were $295,663 and $238,587, respectively.

Defined Benefit Agreement — FINCA also maintains a defined senior executive retirement plan agreement (the "Agreement") for certain officers and directors, which provides benefits payable upon retirement from FINCA (no sooner than at age 65). In addition, a death benefit is payable to a surviving spouse or named beneficiary in the event of the death of the eligible officer/director. The Agreement is offered at the sole discretion of FINCA's Board of Directors. Currently, several key employees are enrolled in the Agreement.

The net liability of FINCA's defined benefit plan recognized at December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Benefit obligation — beginning of year	$4,129,109	$3,923,649
Service cost	147,799	97,316
Interest cost	168,351	200,165
Actuarial loss	477,507	153,488
Net employer benefits paid	(147,805)	(245,509)
Plan amendments	79,641	-
Benefit obligation — end of year	$4,854,602	$4,129,109

The change in plan assets at December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Fair value of assets — beginning of year	$ -	$ -
Employee contributions		
Employer contributions	147,805	245,509
Benefits paid	(147,805)	(245,509)
Fair value of assets — end of year	$ -	$ -

The funded status of FINCA's defined benefit at December 31, 2012 and 2011 are as follows:

	2012	2011
Benefit obligation — end of year	$ (4,854,602)	$ (4,129,109)
Fair value of life insurance policies (cash surrender value)	-	1,120,990
Funded status	(4,854,602)	(3,008,119)
Unrecognized prior service cost	973,096	855,163
Unrecognized net actuarial losses	814,551	334,043
Accrued benefit cost	$ (3,066,955)	$ (1,818,913)

The amount of net periodic cost at December 31, 2012 and 2011 is summarized as follows:

	2012	2011
Service cost	$ 147,799	$ 97,316
Interest cost	168,351	200,165
Amortization of prior service cost (credit)	(38,274)	85,516
Total periodic net cost	$ 277,876	$ 382,997

Components other than net periodic cost included in the consolidated statements of profit or loss for the years ended December 31, 2012 and 2011 as follows:

	2012	2011
Net actuarial losses	$ 477,507	$ 153,487
Prior service cost	117,933	(85,516)
Total related charges other than net periodic cost	$ 595,440	$ 67,971

Items not yet recognized as components of net periodic pension cost at December 31, 2012 and 2011 are as follows:

	2012	2011
Unrecognized prior service cost	$ 973,096	$ 855,163
Unrecognized net losses	814,551	334,043
Total unamortized pension prior service cost and losses	$ 1,787,647	$ 1,189,206

Weighted-average assumptions used to determine benefit obligations at December 31, 2012 and 2011 are as follows:

	2012	2011
Discount rate	3.25 %	4.00 %
Salary scale	N/A	N/A

Weighted-average assumptions used to determine net period pension cost for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Discount rate	4.0 %	5.0 %
Salary scale	N/A	N/A

Based upon the assumptions used to measure pension obligations, FINCA expects to make the following benefit payments:

Years Ended December 31	
2013	$ 398,871
2014	446,463
2015	251,971
2016	251,971
	$1,349,276

25. COMMITMENTS AND CONTINGENCIES

At December 31, 2012, FINCA was obligated under a number of operating leases for premises used primarily for branch operations and office purposes. In a significant portion of the business locations where FINCA operates, the operating lease agreements are negotiated on a month-to-month or year-by-year basis and are in line with general rental market conditions.

Future minimum lease payments under existing lease contracts are due, in dollars, as follows:

	2012	2011
Less than one year	$ 5,544,768	$ 4,773,417
Between one and five years	11,236,955	10,678,246
More than five years	3,711,148	3,289,953
	$20,492,871	$18,741,616

Rent expense was $10,759,956 and $9,079,113, for years ended December 31, 2012 and 2011, respectively.

There are no contingent assets, contingent liabilities and capital commitments at December 31, 2012 and 2011. As discussed in Note 27, FINCA issued guarantees to the third parties on behalf of its Subsidiaries.

26. FINCA ENTITIES

Through its headquarters, foreign representative offices and branches, controlled Subsidiaries and affiliates, FINCA operates through FMH in 21 countries. All Subsidiaries and affiliates are controlled by FINCA directly or through FINCA (see Note 1). The significant microfinance operating Subsidiaries and controlled affiliates of FINCA at the end of the reporting period are listed below:

Americas

Ecuador	Banco para la Asistencia Comunitaria, FINCA S.A. Joint Stock Company
El Salvador	Asociación de Fomento Integral Comunitaria de El Salvador Not-for-profit Association
	FINCA S.A. de C.V.
Guatemala	Fundación Internacional para la Asistencia Comunitaria de Guatemala *Foundation*
	FINCA S.A.
Haiti	FINCA HAITI *Non-Governmental Organization*
Honduras	Sociedad Financiera FINCA Honduras, S.A. *Joint Stock Company*
	Fundación Internacional para la Asistencia Comunitaria de Honduras *Not-for-profit Organization*
Mexico	SOFOM
	Mexico SAPI
	Fundación Integral Comunitaria, A.C. *Civil Association*
Nicaragua	Financiera FINCA Nicaragua, S.A. *Joint Stock Company*
	Fundación Internacional para la Asistencia Comunitaria de Nicaragua *Not-for-profit Foundation*

Africa

Congo	FINCA DR CONGO SARL *Limited Liability Joint Stock Company*
Malawi	FINCA Limited *Company Limited by Shares*
Tanzania	FINCA Tanzania Limited *Company Limited by Shares*
Uganda	Foundation for International Community Assistance Uganda Limited *Company Limited by Shares*
Zambia	Foundation for International Community Assistance-Zambia Limited *Company Limited by Shares*

Eurasia

Armenia	FINCA Universal Credit Organization *Closed Joint Stock Company*
Azerbaijan	FINCA Azerbaijan *Limited Liability Company*
Georgia	JSC MFO FINCA *Closed Joint Stock Company*
Kosovo	FINCA International, Inc. (Branch)
Kyrgyzstan	FINCA Micro-Credit Company *Closed Joint Stock Company*
Russia	FINCA CJSC *Closed Joint Stock Company*
Tajikistan	FINCA Micro-Credit Deposit Organization *Limited Liability Company*

Middle East

Jordan	FINCA Jordan Specialized Micro Loans Company
Afghanistan	FINCA Afghanistan *Joint Stock Company Limited by Shares*

27. RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Management Compensation — Total compensation paid to the management of FINCA for the years ended December 31, 2012 and 2011 amounted to:

	2012	2011
Short term benefits	$3,459,342	$2,903,856
Post employment benefits	54,792	50,000
	$3,514,134	$2,953,856

Guarantees — FINCA International provides guarantees directly on behalf of the Subsidiaries of FMH. Total balance of outstanding guarantees from FINCA International was $8,410,000 and $7,290,326 as at December 31, 2012 and 2011, respectively.

28. SUBSEQUENT EVENTS

Subsequent to the balance sheet date FINCA, through its subsidiary FMC entered into a share purchase agreement for the acquisition of Kashf Microfinance Bank Limited, a microfinance bank organized and existing under the laws of the Islamic Republic of Pakistan for a total consideration of approximately $10.6 million. The agreement with owners of Kashf Bank is subject to normal closing conditions, which do not include financing. The sale and purchase agreement has been signed by all parties in the agreement and the transaction closed on May 8, 2013.

FINCA through its subsidiary FMC has entered into a bank license purchase agreement for a new green-field company establishment in Nigeria. The agreement has not been yet executed. The license purchase transaction and incorporation of a new FINCA subsidiary in Nigeria is expected to be completed by December 30, 2013.

* * * * * *