FINCA International, Inc.

Consolidated Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Report

FINCA INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of
FINCA International, Inc.
Washington, D.C.

We have audited the accompanying consolidated financial statements of FINCA International, Inc. (the "Company") and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of profit or loss, statements of other comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with IFRS as issued by the International Accounting Standards Board.

Deloitte & Touche LLP

June 10, 2014

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
CASH AND CASH EQUIVALENTS	$ 155,060,628	$ 114,632,334
RESTRICTED CASH AND CASH EQUIVALENTS (Note 12)	25,054,057	27,749,373
AVAILABLE FOR SALE FINANCIAL ASSETS (Note 13)	18,883,123	15,631,910
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Note 14)	3,628,524	5,364,708
LOANS RECEIVABLE — Net (Note 15)	828,793,935	626,474,238
GRANTS RECEIVABLE	3,817,764	2,071,262
OTHER RECEIVABLES, PREPAID AND OTHER ASSETS (Note 16)	16,127,756	12,842,703
PROPERTY AND EQUIPMENT (Note 17)	29,135,224	21,592,896
INTANGIBLE ASSETS (Note 18)	14,961,450	9,232,789
GOODWILL (Note 25)	1,108,117	
DEFERRED TAX ASSETS (Note 11)	8,081,528	5,482,836
TOTAL	$1,104,652,106	$ 841,075,049
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable and other accrued liabilities (Note 19)	$ 34,189,189	$ 25,837,633
Financial liability at fair value through profit and loss (Note 14)	1,650,749	
Client deposits (Note 20)	78,354,279	44,180,546
Notes payable (Note 21)	644,350,196	480,709,872
Subordinated debt (Note 22)	22,558,246	24,101,222
Deferred revenue (Note 23)	7,702,074	11,441,850
Employee benefits (Note 24)	3,504,764	4,854,602
Current income tax liability	2,043,254	2,167,128
Deferred tax liabilities (Note 11)	1,245,419	1,924,305
Total liabilities	795,598,170	595,217,158
EQUITY:		
Reserves	15,211,848	15,019,357
Retained earnings	186,172,023	172,254,276
Currency translation reserve	(16,126,565)	(13,199,335)
Equity attributable to owners of the parent company	185,257,306	174,074,298
NON-CONTROLLING INTEREST	123,796,630	71,783,593
Total equity	309,053,936	245,857,891
TOTAL	$1,104,652,106	$ 841,075,049

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
INTEREST INCOME	$ 307,025,050	$ 262,343,616
INTEREST EXPENSE	(63,538,860)	(47,479,887)
NET INTEREST INCOME (Note 7)	243,486,190	214,863,729
IMPAIRMENT LOSSES ON LOANS (Note 15)	(15,554,212)	(11,704,911)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT LOSSES ON LOANS	227,931,978	203,158,818
OTHER OPERATING INCOME	16,377,246	7,636,034
NET OPERATING INCOME	244,309,224	210,794,852
PERSONNEL EXPENSES (Note 9)	(149,714,540)	(116,610,838)
OTHER OPERATING EXPENSES (Note 10)	(93,965,464)	(78,639,710)
DEPRECIATION AND AMORTIZATION (Notes 17 and 18)	(9,892,099)	(7,288,381)
TOTAL EXPENSES	(253,572,103)	(202,538,929)
(LOSS) PROFIT BEFORE OTHER INCOME (EXPENSES)	(9,262,879)	8,255,923
OTHER INCOME (EXPENSES):		
Grants and Donations	31,434,250	24,006,638
Foreign exchange gains (losses)	18,342	(451,800)
Non-operating income (expenses)	962,706	(43,742)
PROFIT BEFORE INCOME TAX	23,152,419	31,767,019
TAX (Note 11)	(9,100,297)	(12,504,331)
PROFIT FOR THE YEAR	$ 14,052,122	$ 19,262,688
PROFIT FOR THE YEAR ATTRIBUTABLE TO:		
The parent	$ 12,445,614	$ 13,251,731
Non-controlling interest	1,606,508	6,010,957
	$ 14,052,122	$ 19,262,688

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
PROFIT FOR THE YEAR	$ 14,052,122	$ 19,262,688
OTHER COMPREHENSIVE INCOME:		
Foreign currency movement during the year	(4,487,453)	(2,464,486)
Benefit plan fair value adjustment (Note 24)	1,656,266	(595,440)
Total other comprehensive income	(2,831,187)	(3,059,926)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 11,220,935	$ 16,202,762
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:		
The parent	$ 11,174,650	$ 11,021,597
Non-controlling interest	46,285	5,181,165
	$ 11,220,935	$ 16,202,762

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Reserves	Retained Earnings	Currency Translation Reserve	Total	Non-controlling Interest	Total Equity
BALANCE — January 1, 2012	$ 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
Comprehensive income:						
Profit for the year		12,445,614		12,445,614	1,606,508	14,052,122
Foreign currency movement during the year			(2,927,230)	(2,927,230)	(1,560,223)	(4,487,453)
Benefit plan fair value adjustment		1,656,266		1,656,266		1,656,266
Total comprehensive income	-	14,101,880	(2,927,230)	11,174,650	46,285	11,220,935
Issue of ordinary shares by subsidiary				-	49,999,511	49,999,511
Non-controlling interest on acquisition of subsidiary				-	1,967,241	1,967,241
Fair value revaluation reserve		8,358		8,358		8,358
Transfer to reserve	192,491	(192,491)		-		-
BALANCE — December 31, 2013	$ 15,211,848	$ 186,172,023	$ (16,126,565)	$ 185,257,306	$ 123,796,630	$ 309,053,936

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit for the period after tax	$ 14,052,122	$ 19,262,688
Adjustments to reconcile net profit for the period after tax to net cash used in operating activities:		
Depreciation and amortization (Notes 17 and 18)	9,892,099	7,288,381
Loss (gain) on disposal of fixed assets and intangibles (Notes 17 and 18)	559,059	(65,719)
Impairment on loan losses and other financial assets (Note 15)	15,554,212	11,704,911
Impairment of other assets	229,084	
Foreign exchange losses (gains) (Note 5)	(18,342)	451,800
Changes in deferred tax assets and liabilities	(3,277,578)	(743,012)
Fair value adjustment on financial assets and liabilities through profit and loss	3,049,860	
(Decrease) increase of assets and liabilities from operating activities after non-cash items:		
Change in loans receivable	(213,939,490)	(132,787,798)
Change in grants receivable	(1,746,504)	326,535
Change in other receivables and other assets	(2,840,336)	(2,316,628)
Change in other liabilities	9,513,610	3,376,918
Change in client deposits	15,248,989	3,457,131
Change in deferred revenue	(3,912,055)	250,065
Change in current income tax liability	(123,873)	(1,098,677)
Change in employee benefits	(666,613)	130,053
Net cash used in operating activities	(158,425,756)	(90,763,352)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds (purchases) from financial assets	5,419,444	(634,862)
Purchase of property and equipment (Note 17)	(15,137,214)	(11,646,582)
Purchase of intangible assets (Note 18)	(6,929,751)	(4,888,534)
Proceeds from sales/disposal of fixed assets (Note 17)	342,075	1,494,670
Net cash on acquisition of subsidiary (Note 25)	1,247,257	
Net cash used in investing activities	(15,058,189)	(15,675,308)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of shares	49,999,511	
Proceeds from lenders	408,735,208	230,847,287
Repayment of loans and borrowings to lenders	(242,766,445)	(135,326,637)
Net cash provided by financing activities	215,968,274	95,520,650

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FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 42,484,329	$ (10,918,010)
CASH AND CASH EQUIVALENTS — Beginning of the year	114,632,334	127,082,074
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,056,035)	(1,531,730)
CASH AND CASH EQUIVALENTS — End of the year	$ 155,060,628	$ 114,632,334
SUPPLEMENTAL DISCLOSURES TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$ 285,721,156	$ 262,174,723
Interest paid	$ (56,793,284)	$ (45,722,754)
Income taxes paid	$ (11,152,826)	$ (12,990,968)

See notes to consolidated financial statements.

1. NATURE OF ACTIVITIES

FINCA International, Inc. (FINCA or "FINCA International" or the "Company") 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 the 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 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 FMH, in which all operating subsidiaries became wholly owned subsidiaries of FMH. Upon completion of this group reorganization, FINCA obtained equity funding of approximately $70.3 million. In 2013, FINCA completed its second capital raise for FMH. FMH received $50 million in additional equity primarily from its existing shareholders.

The proceeds are used by FINCA to expand outreach, enter additional countries, and provide a greater range of needed products, including savings accounts. FINCA operates FMH with existing FINCA employees and provides stewardship services that include management, accounting, administrative, personnel, and legal functions. 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 maintain its designation as a Section 501(c)(3) charitable entity. At present, FINCA through FMH operates in 22 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, Jordan, and Pakistan). FINCA operates through local entities ("subsidiaries") that are owned and/or controlled by FINCA through FMH, including predominantly corporations and, in some cases, nongovernmental organizations, or as branches of FINCA International.

In 2013, through FINCA's wholly owned subsidiary of FMH, FINCA Microfinance Cooperatief U.A. (FMC) in the Netherlands completed the acquisition of FINCA Microfinance Bank Limited with its headquarters in Lahore, Pakistan (formerly Kashf Microfinance Bank Limited) (see Note 25). FMH is the majority shareholder (82.78%) of FINCA Bank Limited, Pakistan. Through FMC, FMH continues to financially support the establishment of greenfield operations in Nigeria through the process of applying for a banking license.

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, through a growing number of its subsidiaries, provides 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 IFRS Interpretations Committee (IFRIC) (together, IFRS) and stated in U.S. dollars (USD), which is FINCA's functional currency.

The consolidated financial statements were approved by the board of directors on June 5, 2014.

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.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, FINCA takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, *Share-based Payment*, leasing transactions that are within the scope of International Accounting Standards (IAS) 17, *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2, *Inventories*, or value in use in IAS 36, *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- *Level 1* — Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- *Level 2* — Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

- *Level 3* — Level 3 inputs are unobservable inputs for the asset or liability.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below:

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.

Within the consolidated statements of cash flows, the effect of the changes in the 2012 interest receivable, interest payable, income taxes payable, and accounts payable and other accrued liabilities have been combined into the line item "change in other liabilities" within the cash flows from operating activities section to conform to the current reporting format and the presentation for the year ended December 31, 2013. The interest received, interest paid, and income taxes paid have been disclosed as supplemental disclosures to cash flows from operating activities in the consolidated statements of cash flows for the years ended December 31, 2013 and 2012.

Within the consolidated statements of profit or loss, the 2012 grants income ($5,936,488) and donations income ($18,070,150) line items have been combined into the line item "grants and donations income" ($24,006,638) to conform to the current reporting format and the presentation on the consolidated statements of profit or loss for the year ended December 31, 2013. Such reclassifications had no impact on profit or loss or equity. As both grants income and donations income are qualitatively similar, management determined that these items are best displayed in the same line item.

The consolidated financial statements incorporate the financial statements of FINCA and entities (including structured entities) controlled by FINCA and its subsidiaries. Control is achieved when FINCA:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

FINCA reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when FINCA obtains control over the subsidiary and ceases when FINCA loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date FINCA gains control until the date when FINCA ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of FINCA and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the members of FINCA and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of

Subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Company are eliminated in full upon consolidation.

Non-controlling Interests — Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by FINCA. Non-controlling interests are presented separately in the consolidated statements of profit or loss and within equity in the consolidated statements of financial position, separately from parent shareholders' equity.

All intragroup 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.

Business Combinations — FINCA uses the acquisition method to account for the acquisition of businesses. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree, and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognized at their fair value except for:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19, *Employee Benefits* (as revised in 2011), respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the Company entered to replace the share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with the standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. On the acquisition date, FINCA had elected to measure the non-controlling interest in the FINCA Bank Limited, Pakistan at fair value.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration, the contingent consideration is measured at its

acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period that cannot exceed one year from the acquisition date and relate to facts and circumstances that existed at the acquisition date. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates, and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, or IAS 37, *Provision, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss. Prior to the acquisition date of May 7, 2013, FINCA did not hold any equity interests in FINCA Bank Limited, Pakistan.

Items for which accounting is not complete by the end of the reporting period in which the combination occurs are reported at provisional amounts. These items are further adjusted during the remeasurement period or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Goodwill — Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to the Company's cash-generating unit that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is evidence that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the goodwill allocated to the cash generating unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the end of each reporting period. Exchange differences are recognized in other comprehensive income.

Revenue Recognition

Net Interest Income — Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The

effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (or partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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. Loan servicing fees are recognized as revenue as the services are provided.

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. Grants are recognized in profit or loss on a systematic basis over the periods in which FINCA recognizes as expenses the related costs for which the grants are intended to compensate.

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 — In preparing the financial statements of each individual subsidiary, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of FINCA's foreign operations are translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

Dividends — Dividends are recognized in equity in the period in which they are approved by the Company's members.

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. The current tax is calculated using tax rates that have been enacted, or substantively enacted, by the end of the reporting period in the respective jurisdictions.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements 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. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which FINCA expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Financial Assets and Liabilities — FINCA recognizes financial assets and liabilities on its consolidated financial statements when it becomes a party to the contractual obligations of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets — FINCA recognizes its financial assets within the following specified categories: at fair value through profit or loss ("FVTPL"), available for sale ("AFS"), and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired and is determined at the time of initial recognition.

Financial Assets at FVTPL — Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL and:

- it has been acquired principally for the purpose of selling it in the near term or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or

- the financial asset forms part of a group of financial assets, financial liabilities, or both that is managed and its performance is evaluated on a fair value basis, in accordance with FINCA's documented risk management or investment strategy, and information about the grouping is provided internally on that basis or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with remeasurement gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 6.

Held-to-Maturity Investments — Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

AFS Financial Assets — AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss. AFS financial assets are stated at fair value at the end of reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method, and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the investment

valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss, previously accumulated in the revaluation reserve, is reclassified to profit or loss.

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.

Allowance for Losses on Loans

Impairment of Loans — FINCA assesses at each balance sheet date whether there is objective evidence that a 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 that influences the future cash flow of the financial assets, the respective losses are immediately recognized. Depending on the size or type 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 that might influence the client’s ability to fulfill its 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.

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).

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 that do not show signs of impairment in order to cover all losses that 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 and for unimpaired credit exposures 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 its 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 in 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.

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.

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 AFS.

Derecognition of Financial Assets — FINCA derecognizes a financial asset when the contractual rights to the cash flow for the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of the financial asset, the difference between the asset's carrying amount and the sum of consideration received and receivable as well as the cumulative gain or loss that had been recognized in other comprehensive income, and accumulated in equity, is recognized in profit or loss.

FINCA also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible (see Note 5). Any interest in transferred financial assets that is created or retained by FINCA is recognized as a separate asset or liability.

Impairment of Financial Assets — At each balance sheet date, FINCA assesses whether there is objective evidence that financial assets not carried at FVTPL 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 of the asset that can be reliably estimated.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty
- Breach of contract, such as default or delinquency in interest or principal payments
- Probability that the borrower will enter bankruptcy or financial reorganization
- Disappearance of an active market for that financial asset because of financial difficulties

FINCA considers evidence of impairment at both a specific and collective asset 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.

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

Financial Liabilities — Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial Liabilities at FVTPL — Financial liabilities are classified as at FVTPL when the financial liability is held for trading or it is designated as at FVTPL. FINCA did not have any financial liabilities held for trading at December 31, 2013.

A financial liability other than a financial liability held for trading may be designated at FVTPL upon initial recognition if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that FINCA manages together and has a recent actual pattern of short-term profit taking; or

- it is a derivative that is not designated and effective as a hedging instrument (such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise); or

- the financial asset forms part of a group of financial assets, financial liabilities, or both that is managed and its performance is evaluated on a fair value basis, in accordance with FINCA's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with remeasurement gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the "other gains or losses" line item.

Other Financial Liabilities — Other financial liabilities (including borrowings, trade, and other payables) are measured at amortized cost using the effective interest method.

FINCA initially recognizes loans and advances and other financial liabilities (including depository instruments with the central banks of subsidiaries' countries of operation, deposits by banks and customers, debt securities issued, other borrowed funds, subordinated debt, and other financial liabilities) at fair value, net of transaction costs.

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 prepayment 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 nonsubordinated 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.

Financial Guarantee Contracts — Financial guarantee contracts issued by FINCA are initially measured at their fair value and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of obligation under the contract, as determined in accordance with IAS 37

- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies

Derecognition of Financial Liabilities — 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, canceled, or expires. The difference between the carrying amount of financial liability derecognized and consideration paid is recognized in the consolidated statements of profit or loss.

Derivatives — The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including foreign exchange forward contracts and interest rate and cross-currency swaps.

Derivative instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. FINCA, in alignment with its risk management objectives, resources, and its strategy for undertaking various hedge transactions, assesses the relationship between the hedging instrument and the hedged item. Based on this assessment, the Company did not designate any of the hedging instruments as derivatives used for hedging purposes that qualify for hedge accounting. At December 31, 2013, the resulting gains or losses from "mark-to-market" valuation of the derivative instruments are recognized in the consolidated statements of profit or loss.

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.

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.

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 did not incur any interest costs that qualify for capitalization under 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 the overhead costs.

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 of Nonfinancial Assets — The carrying amounts of FINCA's nonfinancial 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 statements 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 pretax 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, 2013 and 2012, 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 incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Employee Benefits

Deferred Contribution Benefit Plan — FINCA follows statutory and regulatory requirements with regard to establishing employee benefit plans in both the international jurisdictions it operates and in the United States.

FINCA has established an employee contribution plan that allows employees to defer compensation up to a maximum amount as permitted by the Internal Revenue Code. FINCA makes contributions to the plan as a discretionary employer match. Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Employee Benefit Plans — In accordance with IAS 19 (as mended in 2011), for defined benefit retirement plans, FINCA uses the projected unit credit method to calculate the cost of providing benefits, with actuarial valuations being carried out by a qualified actuary at the end of each annual reporting period. Remeasurements, including actuarial gains and losses, the effect of changes to the asset ceiling (if applicable), and the return on plan assets (excluding interest) is reflected immediately in the consolidated statements of financial position with a cost or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified in to profit or loss. Prior service costs are recognized in profit or loss in the period of plan amendment. Defined benefit costs are categorized as follows:

- Service costs, which include current and past service costs, as well as gains and losses on curtailments and settlements

- Net interest expense or income

- Remeasurements

FINCA presents the first two components of defined benefit costs in profit or loss under the employee benefits expense line item. The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit of FINCA's defined benefit plans.

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 obligation (legal or constructive) 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 pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Application of New and Revised IFRSs

New and Revised IFRSs Affecting Amounts Reported and/or Disclosures in the Consolidated Financial Statements — In the current year, FINCA has adopted all new and revised standards and interpretations that are relevant to its operations and effective for an accounting period that begins on or after January 1, 2013.

Amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — FINCA has applied the amendments to IFRS 7, *Disclosures — Offsetting Financial Assets and Financial Liabilities,* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. 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. The amendments to IFRS 7 have not resulted in a material change to the consolidated financial statements.

New and Revised Standards on Consolidation, Joint Arrangements, Associates and Disclosures — In May 2011, a package of five standards on consolidation, joint arrangements, associates, and disclosures was issued comprising IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011), *Separate Financial Statements,* and IAS 28 (as revised in 2011), *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11, and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, FINCA has applied for the first time IFRS 10, IFRS 11, IFRS 12, and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11, and IFRS 12 regarding the transitional guidance.

The impact of the application of these standards is set out below.

Impact of the Application of IFRS 10 — IFRS 10 replaces the parts of IAS 27, *Consolidated and Separate Financial Statements,* that deal with consolidated financial statements and SIC-12, *Consolidation — Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee; (b) it is exposed, or has rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

FINCA consolidates all wholly owned or controlled subsidiaries; therefore, the application of this standard had no material impact on the consolidated financial statements both in 2013 and when applied retrospectively.

Impact of the Application of IFRS 11 — IFRS 11 replaces IAS 31, *Interests in Joint Ventures*, and the guidance contained in a related interpretation, SIC-13, *Jointly Controlled Entities — Non-Monetary Contributions by Ventures*, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement in which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements: joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances.

Application of IFRS 11 does not have a significant effect on FINCA's consolidated financial statements as FINCA does not have joint arrangements.

Impact of the Application of IFRS 12 — IFRS 12 applies to entities that have interests in subsidiaries, joint arrangements, associates, and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (see Note 27 for details).

Impact of the Application IFRS 13 — FINCA has applied IFRS 13, *Fair Value Measurement*, for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and nonfinancial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value (e.g., net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard to comparative information provided for periods before the initial application of the standard. In accordance with these transitional provisions, FINCA has not made any new disclosures required by IFRS 13 for the 2012 comparative period (see Note 6 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

IAS 19 (as Revised in 2011) — In the current year, FINCA has applied IAS 19 (as revised in 2011) and the related consequential amendments for the first time.

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statements of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a "net interest" amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

The application of IAS 19 (as revised in 2011) did not materially affect these consolidated financial statements of the Company.

New and Revised IFRSs in Issue but Not yet Effective — FINCA has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9, *Financial Instruments*[2]
- Amendments to IFRS 9 and IFRS 7 — mandatory effective date of IFRS 9 and transition disclosures[2]
- Amendments to IFRS 10, IFRS 12, and IAS 27 — investment entities[1]
- Amendments to IAS 32, *Financial Instruments: Presentation* — offsetting financial assets and financial liabilities[1]

[1] Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

[2] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 — IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- For the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit

risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

In March 2013, the IASB issued a revised exposure draft that proposes a more forward-looking impairment model that reflects expected credit losses, as compared to the incurred loss model under IAS 39.

Amendments to IFRS 10, IFRS 12, and IAS 27 Investment Entities — The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries, but instead to measure its subsidiaries at FVTPL in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The management of FINCA does not anticipate that the investment entities amendments will have any effect on FINCA's consolidated financial statements as FINCA is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities — The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement."

The management of FINCA does not anticipate that the application of these amendments to IAS 32 will have a significant impact on FINCA's consolidated financial statements as FINCA does not have any financial assets and financial liabilities that qualify for offset.

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 counterparty'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 affect 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 that 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. FINCA has outstanding legal cases, makes assessments of the legal proceedings at each reporting date, and makes a determination as to their 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, 2012, unless otherwise noted.

FINCA has established a 20% 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 Committees (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 include 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 2013 and 2012.

	2013	2012
Reserves	$ 15,211,848	$ 15,019,357
Retained earnings	186,172,023	172,254,276
Currency translation reserve	(16,126,565)	(13,199,335)
Tier I capital attributable to the parent company	185,257,306	174,074,298
Tier I capital attributable to non-controlling interests	123,796,630	71,783,593
Tier I capital	$ 309,053,936	$ 245,857,891
Total assets	$ 1,104,652,106	$ 841,075,049
Tier I capital/assets	28.0 %	29.2 %
Qualified Tier II capital	$ 7,688,000	$ 12,342,000
Total capital	$ 316,741,936	$ 258,199,891
Total capital/assets	28.7 %	30.7 %

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 and groups of individuals for a specific purpose and insufficiently diversified to reduce concentration risk. At December 31, 2013 and 2012, FINCA had 1,146,000 and 990,000 borrowers, respectively.

FINCA's aggregate loan portfolio was $840.6 million and $636.6 million as of December 31, 2013 and 2012, respectively (see Note 15). FINCA's total allowances for impairments totaled $11.8 million at December 31, 2013, a coverage ratio of 1.4% of total loans. The total allowances for impairments totaled $10.1 million at December 31 2012, a coverage ratio of 1.6% of total loans.

Regionally, impairment losses on loans approximate 0.9%–5.7% and 0.9%–4.8% of the average total loan portfolio at December 31, 2013 and 2012, respectively, pursuant to the following:

	Impairment Losses on Loans		Average Gross Loans to Customers		Impairment Losses as % of Average Gross Loans	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Eurasia	$ 4,258,956	$ 3,965,180	$ 466,152,944	$ 365,454,201	0.9 %	1.1 %
Latin America	8,211,725	6,026,915	145,080,515	125,800,805	5.7	4.8
Africa	2,692,928	1,683,760	95,650,862	69,666,655	2.8	2.4
MESA	390,603	120,462	37,670,664	13,541,775	1.0	0.9

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. The loan loss migration data is used to form the statistical base of the credit risk calculation in order to estimate the probability of default over a six month period. In addition, FINCA conducts quarterly vintage loan analysis.

Exposure to credit risk at December 31, 2013 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.

The regional segmentation by arrears category for gross loans and allowances at December 31, 2013 is as follows:

	Total Gross Loans for Each Portfolio Aging Segment						
	Current	1–30 Days	31–60 Days	61–90 Days	91–180 Days	180+ Days	Total Gross Loan Portfolio
Eurasia	$511,423,945	$ 4,709,591	$1,145,719	$ 870,901	$1,943,730	$ 333,851	$520,427,737
Latin America	149,076,624	3,323,472	1,355,810	1,089,507	2,261,397	604,217	157,711,027
Africa	111,989,097	1,933,014	757,809	458,287	882,448	387,951	116,408,606
MESA	45,143,628	371,412	229,778	93,142	208,147	37,190	46,083,297
Total	$817,633,294	$10,337,489	$3,489,116	$2,511,837	$5,295,722	$1,363,209	$840,630,667

	Aging of the Allowances for Impairment						
	Current	1–30 Days	31–60 Days	61–90 Days	91–180 Days	180+ Days	Total Allowance for Impairment
Eurasia	$ 1,738,619	$ 297,256	$ 435,123	$ 505,767	$1,671,595	$ 259,158	$ 4,907,518
Latin America	1,388,475	297,222	442,968	619,823	1,704,986	359,233	4,812,707
Africa	116,102	124,034	233,546	178,211	669,639	399,250	1,720,782
MESA	279,321	13,992	37,791	8,816	55,101	704	395,725
Total	$ 3,522,517	$ 732,504	$1,149,428	$1,312,617	$4,101,321	$1,018,345	$ 11,836,732

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 balance sheets have significantly less interest rate risk than that of a traditional financial institution as:

- 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.

The consideration of interest rate risk by term of asset and liability as of December 31, 2013 is as follows:

	Up to 3 Months	3-6 Months	7-12 Months	1-3 Years	More Than 3 Years	Non-interest Sensitive Balances	2013 Total
Cash and cash equivalents	$ 81,684,517	$ -	$ -	$ -	$ -	$ 73,376,111	$ 155,060,628
Restricted cash and cash equivalents	15,610,691	2,000,000	1,000,000			6,443,366	25,054,057
Available for sale financial assets	3,556,446	744,287	451,892	1,327,725		12,802,773	18,883,123
Financial assets at fair value through profit and loss	791,137	524,823	2,223,777	88,787			3,628,524
Loans receivable — net	191,056,276	159,007,695	233,517,584	240,409,345	4,803,035		828,793,935
Grants receivable — net	46,565	215,608		140,408		3,415,183	3,817,764
Other receivables, prepaid and other assets	357,210					15,770,546	16,127,756
Property and equipment — net				86,693	983,009	28,065,522	29,135,224
Intangible assets — net					567,346	14,394,104	14,961,450
Goodwill						1,108,117	1,108,117
Deferred tax assets						8,081,528	8,081,528
Total assets	293,102,842	162,492,413	237,193,253	242,052,958	6,353,390	163,457,250	1,104,652,106
Accounts payable and other accrued liabilities	3,230,884		161,367	86,569		30,710,369	34,189,189
Financial liability at fair value through profit and loss	440,011	132,204		(183,173)		1,261,707	1,650,749
Client deposits	42,108,780	8,129,310	16,971,382	7,426,683	1,401,878	2,316,246	78,354,279
Notes payable	96,484,852	52,919,084	100,912,303	384,011,055	10,022,902		644,350,196
Subordinated debt	55,443	747,734	4,885,572	12,826,116	4,043,381		22,558,246
Deferred revenue	171,438	24,601	16,521	49,564		7,439,950	7,702,074
Employee benefits						3,504,764	3,504,764
Current income tax liability	92,882					1,950,372	2,043,254
Deferred tax liabilities						1,245,419	1,245,419
Total liabilities	142,584,290	61,952,933	122,947,145	404,216,814	15,468,161	48,428,827	795,598,170
Open position	$ 150,518,552	$ 100,539,480	$ 114,246,108	$(162,163,856)	$ (9,114,771)	$ 115,028,423	$ 309,053,936

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

	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

FINCA has performed interest rate simulations based on the above GAP analysis to estimate the effect on net interest margin and on the longer-term economic value of equity for differing levels of immediate and ongoing changes to market interest rates. A GAP analysis consists of separating FINCA's consolidated balance sheets into different time frames 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 macroeconomy.

On a group level, the network-wide impacts from simultaneous interest rate shocks of 200 basis points (bps) for USD and EUR and the weighted average of local currency shocks are considered. The effect on net interest income for the year and consolidated net consolidated equity from these assumed interest rate shocks are as follows:

USD/EUR net interest income impact @ 200 bp (USD MM)	1.21
Local current net interest income impact (USD MM)	8.45
Total	9.66
Total as a percentage of total capital	3.1 %

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).

Impacts to the economic value of equity of the longer time bands are also estimated according to the guidance set forth by the Basel Committee on Bank Supervision under the Basel Accords recommendations on bank capital adequacy.

	Shock (Average)	Economic Value Impact (USD MM)
USD/EUR	200 bp	(5.10)
Local	536 bp	2.96
Total		(2.14)
Total as a percentage of total capital		(0.70)%

The preponderance of USD liabilities in the later time bands (more than one to three years) in comparison to assets is slightly offset by the economic value of positive repricing by local currency assets in the earlier period (to 12 months).

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 (a) shareholders equity, (b) medium-term borrowings, and (c) 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 $155.1 million as of December 31, 2013, compared to $114.6 million as of December 31, 2012. These period-end amounts increase and decrease intraperiod in the ordinary course of business. FINCA has maintained total cash balance equal to about 14.1% and 13.6% of total assets as of December 31, 2013 and 2012, respectively, which is considered to be a sufficient liquidity cushion.

Liquidity Risk Management — FINCA runs a centralized treasury model where the overall balance sheet is managed by the Treasury department through subsidiaries' ALCOs. Day-to-day liquidity and funding are managed by subsidiary chief financial officers and treasurers at the country level and are monitored by subsidiary ALCO and FINCA treasuries 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'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, 2013, the ratio of subsidiaries' unrestricted cash and cash equivalents to total subsidiaries' assets was 9.6%, compared with 8.5% as of December 31, 2012.

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 one-year time frame (GAP less than one year of $444.5 million in 2013 and $393.5 million in 2012). Due to the short-term nature of the loan portfolio (70% of which matures within one year), the negative liquidity in years one to three will be covered by the normal course of business operations as new loans are disbursed.

At December 31, 2013	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	More Than 5 Years	Total
Cash and cash equivalents	$ 155,060,628	$ -	$ -	$ -	$ 155,060,628
Restricted cash and cash equivalents	25,054,057				25,054,057
Available for sale financial assets	4,752,625	1,327,725	12,802,773		18,883,123
Financial assets at fair value through profit and loss	3,539,737	88,787			3,628,524
Loans receivable — net	583,581,555	240,409,345	4,803,035		828,793,935
Grants receivable	3,677,355	140,409			3,817,764
Other financial assets	3,328,697	737,364			4,066,061
	778,994,654	242,703,630	17,605,808	-	1,039,304,092
Other financial liabilities	12,403,240	377,975			12,781,215
Financial liability at fair value through profit and loss	1,059,215	591,534			1,650,749
Clients deposits	69,514,256	7,438,144	1,401,879		78,354,279
Notes payable	250,316,240	384,011,056	10,022,900		644,350,196
Subordinated debt	1,148,744	12,826,116	8,583,386		22,558,246
	334,441,695	405,244,825	20,008,165	-	759,694,685
Liquidity gap	$ 444,552,959	$(162,541,195)	$ (2,402,357)	$ -	$ 279,609,407

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

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 time frame). In spite of this, FINCA's consolidated balance sheets 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 2013 the average amount of total cash to equity for FINCA's subsidiaries was 41.9%). 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 financial institution is typically limited by the amount of a subsidiary's equity (up to 25% 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 the subsidiary 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 nonfunctional 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 balance sheets are denominated in their functional currency (i.e., Kosovo), because their functional currency is the USD (Democratic Republic of Congo, Ecuador, and El Salvador), or because their currency is pegged to the USD (i.e., Jordan).

Subsidiaries match their nonfunctional currency assets with their nonfunctional 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 nonfunctional currency, or 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 its equity, with the objective of maintaining the position within the more restrictive of (a) lender covenants, (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 nonfunctional currency assets and liabilities typically maintain a higher amount of nonfunctional currency assets (rendering their net position "long"

in relation to the USD). At the consolidated level, FINCA experienced transaction gains of $18,342 in 2013 in comparison to transaction losses of $451,800 in 2012, representing about 0% and (0.05)% of average 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 1 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:

	95% Confidence	**99% Confidence**
As of December 31, 2013	$11.6 million	$16.4 million

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

FINCA's overall 2013 currency risk was limited as subsidiaries managed their currency positions very closely and kept them as closed as possible. Some subsidiaries maintained long positions in USD, thus reducing the currency position in local currency from a group perspective. However, FINCA's portfolio volatility increased in 2013 with both individual currency volatility and correlation among FINCA's basket of currencies increasing. FINCA's translation loss increased in 2013 ($4.49 million) from the 2012 level ($2.5 million) with the impact of the Pakistani rupee to the portfolio evident in 2013's losses as well as the increase in the VaR. The actual loss is just within one standard deviation of the 2012 VaR model's new estimated look-forward amount ($4.5 million).

6. FINANCIAL ASSETS AND LIABILITIES — FAIR VALUE MEASUREMENTS

Management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values other than for loans receivable, deposits from clients and notes payable.

	2013		**2012**	
Financial Assets	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Loans receivable	$ 828,793,935	$ 832,136,747	$ 626,474,238	$ 632,692,202
Other receivables, prepaid and other assets	4,066,061	4,066,061	4,160,467	4,160,467
Financial Liabilities				
Financial liabilities held at amortized cost:				
Deposits from clients	78,354,279	77,822,366	44,180,546	44,167,528
Notes payable	644,350,196	645,249,133	480,709,872	481,589,421
Accounts payable and other accrued liabilities	12,781,215	12,781,215	10,169,438	10,169,438

Fair value hierarchy at December 31, 2013 is as follows:

Financial Assets	Level 1	Level 2	Level 3	Total
Loans receivable	$ -	$ 832,136,747	$ -	$ 832,136,747
Other receivables, prepaid and other assets		4,066,061		4,066,061
Financial Liabilities				
Financial liabilities held at amortized cost:				
Deposits from clients		77,822,366		77,822,366
Notes payable		645,249,133		645,249,133
Accounts payable and other accrued liabilities		12,781,215		12,781,215

Management considers the identification of a proper discount rate and cash flow analysis impractical for its investments in the Class IIIB Notes in the FINCA Microfinance Fund B.V. Incorporated and the investment in membership interests in MFX Solutions LLC, as comparable financial instruments are not available; therefore, the investments AFS are measured and carried at cost. On each balance sheet date, management tests the value of investments for impairment. As of December 31, 2013 and 2012, management has concluded that FINCA's investments held for sale are not impaired.

The group's financial assets and financial liabilities are measured at fair value on a recurring basis.

Some of FINCA's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial Assets/ Financial Liabilities	Fair Value at 2013 Asset/ (Liability)	Fair Value at 2012 Asset/ (Liability)	Fair Value Hierarchy	Valuation Techniques and Key Inputs	Significant Unobservable Inputs	Relationship of Unobservable Inputs to Fair Value
1) Foreign currency forward contracts measured at FVTPL (Note 14)	$ (1,261,707)	$ -	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract.	N/A	N/A
2) Foreign cross currency swaps measured at FVTPL (Note 14)	3,628,525 (389,042)	1,587,858	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract.	N/A	N/A
3) Available for sale financial assets — Treasury bills (Note 13)	3,760,146		1	Quoted bid prices in an active market.	N/A	N/A
4) Available for sale financial assets — Time deposits (Note 13)	13,822,976	2,713,918	2	Quoted prices of similar instruments traded in active markets.	N/A	N/A

There were no transfers between Levels 1 and 2 in the period.

7. NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON LOANS

Net interest income for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Interest income:		
Cash and cash equivalents and investments	$ 5,029,723	$ 6,403,077
Loans to clients	301,995,327	255,940,539
Total interest income	307,025,050	262,343,616
Interest expense:		
Deposits from clients	2,225,426	588,641
Notes payable and subordinated debt	61,313,434	46,891,246
Total interest expense	63,538,860	47,479,887
Net interest income	$ 243,486,190	$ 214,863,729

8. OTHER OPERATING INCOME

Total other operating income for the years ended December 31, 2013 and 2012 was $16.4 million and $7.6 million, respectively. Included in this amount is $9.1 million (2012, $2.1 million) of fines and penalties income and $2.7 million (2012, $3.1 million) of net insurance income.

9. PERSONNEL EXPENSES

Personnel expenses for the years ended December 31, 2013 and 2012 consist of the following:

	2013	2012
Wages and salaries	$ 104,502,391	$ 81,621,036
Compulsory social security obligations	19,522,317	15,937,868
Allowances, incentives, and other benefits	18,215,915	14,187,626
Health insurance	3,737,847	2,770,862
Increase in liability for long-term service leave	1,276,249	1,980,951
Increase in liability for employee benefits	2,459,821	112,495
Total	$ 149,714,540	$ 116,610,838

10. OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31, 2013 and 2012 consist of the following:

	2013	2012
Professional fees	$23,095,610	$15,809,209
Rent	14,446,790	10,759,956
Travel	13,370,072	10,897,821
Communication	5,583,461	4,778,048
Security	4,573,055	3,647,112
Consumables and office supply	4,515,744	4,736,879
Repairs and maintenance	4,418,517	1,979,927
Taxes other than income	3,572,251	3,071,971
Marketing	3,414,021	4,612,327
Bank charges	3,379,141	4,159,461
Training and hiring	3,135,778	2,589,430
Subsidiaries' start-up, integration, and reorganization costs	2,603,483	
Motor vehicle	2,593,347	2,121,903
Utilities	2,088,415	1,560,286
Other expenditures	1,767,867	6,675,351
Insurance	1,407,912	1,240,029
Total	$93,965,464	$78,639,710

11. INCOME TAX EXPENSE

This item includes all taxes on income. Income tax expense for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Current tax expense	$11,745,582	$13,015,131
Deferred tax benefit	(2,645,285)	(510,800)
Total income tax expense	$ 9,100,297	$12,504,331

In calculating both the current tax and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense includes the 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 23.9% in 2012 to 25.5% in 2013. 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 $25,359 and $10,752 in 2013 and 2012, respectively. Furthermore, the current income tax expense includes $0 and $941,935 in 2013 and 2012, respectively, for the tax on the equity transfer of one of FINCA’s subsidiaries to FMC during the 2011 reorganization of its organizational structure.

Reconciliation of income tax expense for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Income before income tax expense	$23,152,419	$31,767,019
Income tax expense	(9,100,297)	(12,504,331)
Profit for the year	$14,052,122	$19,262,688

	2013	2012
Tax rate using domestic tax rate of FINCA (exempt on taxes on income)	$ -	$ -
Foreign income tax (taxable Subsidiaries) at local statutory rates	5,325,049	9,211,671
Expenses not deductible for tax purposes	3,699,463	2,833,214
Tax-exempt income	(3,491,171)	(1,626,469)
Recognition of previously unrecognized tax losses		56,355
Adjustment for under provision in previous periods	166,597	744,756
Foreign withholding taxes	2,879,979	1,226,670
Valuation allowance for unused tax loss carryforwards	1,381,553	
Others	(861,173)	58,134
Total income tax expense	$ 9,100,297	$12,504,331

In the table above, the line item "Others" ($1,284,804) for 2012 has been broken out into the line items "Foreign withholding taxes" ($1,226,670) and "Others" ($58,134) to conform to the current reporting format and the presentation in FINCA's consolidated financial statements for the year ended December 31, 2013. Such reclassification has no impact on the profit or loss or equity. The amount of foreign withholding taxes has increased; therefore management considered it more informative to create a new line called "Foreign withholding taxes."

Deferred income taxes are calculated, under the balance sheet method, on temporary differences arising between the tax bases 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 directly to equity during the period are shown below.

In 2012, FINCA recorded $1,226,670 of deferred income tax expenses on $13,974,361 of temporary differences associated with 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. In 2013, FINCA recorded $74,334 of income tax benefit on $2,943,652 of 2012 temporary differences of the same nature. The deferred tax liability related to the future distributions of earnings by subsidiaries is $341,080 and $1,226,670 as of December 31, 2013 and 2012, respectively.

Deferred Tax Assets — Deferred tax assets were recognized by the subsidiaries in the following jurisdictions in 2013: Armenia, Azerbaijan, Georgia, Russia, Honduras, Mexico, Tanzania, Uganda, Zambia, and Pakistan (2012 — Armenia, Azerbaijan, Georgia, Russia, Tajikistan, El Salvador, Honduras, Mexico, Tanzania, Uganda, and Zambia).

2013	Assets (Liability)	(Charged) Credited to Profit or Loss	(Charged) Credited to Equity	Business Combination
Property and equipment, and software	$ 120,053	$ 351,905	$ (166,307)	$ -
Provision for loan loss impairment	2,342,736	668,366	(31,128)	
Cash flow hedges	252,341	252,322	20	
Deferred income/accrued interest	1,414,684	19,677	(65,444)	
Tax loss carryforwards	2,291,594	868,505	212,290	470,846
Other	1,660,120	(164,592)	182,233	
Net tax assets	$ 8,081,528	$ 1,996,183	$ 131,664	$ 470,846

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)
Cash flow hedges			
Deferred income/accrued interest	1,460,450	1,228,223	6,373
Tax loss carryforwards	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)

Deferred Tax Liabilities — Deferred tax liabilities are recorded by FMH, FINCA SSC BV company, Kyrgyzstan, Ecuador, Nicaragua, and Malawi in 2013 (2012 — FMH, Kyrgyzstan, Ecuador, Nicaragua, and Malawi) as follows:

2013	Assets (Liability)	(Charged) Credited to Profit or Loss	(Charged) Credited to Equity
Property and equipment, and software	$ (130,593)	$ (80,696)	$ 40,257
Provision for loan loss impairment	(552,070)	(94,408)	54,298
Deferred income/accrued interest	(94,278)	11,782	(61,538)
Tax loss carryforwards	28,960	30,026	(1,065)
Future distribution of retained earnings	(341,080)	885,590	-
Other	(156,358)	(103,191)	(2,170)
Net tax (liabilities) assets	$ (1,245,419)	$ 649,103	$ 29,782

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 carryforwards		(42,399)	(142,171)
Future distribution of retained earnings	(1,226,670)	(1,226,670)	
Other	(50,999)	(38,597)	62,629
Net tax (liabilities) assets	$ (1,924,305)	$ (1,613,887)	$ 232,333

In the table above, the line item ‘Other’ (-$1,277,669) for 2012 has been broken out into the line items ‘Future distribution of retained earnings’ (-$1,226,670) and ‘Other’ (-$50,999) to conform to the current reporting format and the presentation in our consolidated financial statements for the year ended December 31, 2013. Such reclassifications had no impact on profit or loss or equity. Management considered it more informative to create a new line called ‘Future distribution of retained earnings.’

12. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash balances of $25,054,057 and $27,749,373 as of December 31, 2013 and 2012, 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

	2013	2012
Investment in FINCA Microfinance Fund	$ 1,100,000	$ 1,100,000
Certificates of deposit and other	17,783,123	14,531,910
Total	$ 18,883,123	$ 15,631,910

In 2010, FINCA International invested $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 II capital securities to alleviate capital constraints of the respective FINCA’s 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 AFS financial assets in the consolidated statements of financial position.

14. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets and liabilities at fair value through profit or loss are represented by the following balances:

2013	Notional Amount	Fair value Assets	Liabilities
Fair value from derivatives with third parties:			
Foreign exchange swaps	$ 68,080,862	$ 3,628,524	$ 389,042
Foreign exchange forwards	11,262,000		1,261,707
Total	$ 79,342,862	$ 3,628,524	$ 1,650,749

2012	Notional Amount	Fair value Assets	Liabilities
Fair value from derivatives with third parties — foreign exchange swaps	$ 17,907,142	$ 1,587,858	$ -
Financial assets and liabilities at fair value through profit and loss — certificate of deposits and money treasury bills		2,713,919	
Life insurance		1,062,931	
Total	$ 17,907,142	$ 5,364,708	$ -

Negative market values of derivatives fall under the position "Financial liabilities at fair value through profit or loss." This item consists solely of the negative fair values of derivative hedging instruments, primarily currency swaps.

Neither of the above balances related to hedge transactions qualified for hedge accounting.

15. LOANS RECEIVABLE — NET

Loans receivable as at December 31, 2013 and 2012 consist of the following:

	2013	2012
Gross loans to clients current	$ 591,916,192	$ 529,044,050
Gross loans to clients non-current	248,714,475	107,566,409
Total loans to clients	$ 840,630,667	$ 636,610,459
Gross loans to clients	$ 840,630,667	$ 636,610,459
Less allowances for impairment	(11,836,732)	(10,136,221)
Loans receivable	$ 828,793,935	$ 626,474,238

	2013	2012
Allowances for impairments:		
Balance at January 1	$ 10,136,221	$ 7,565,135
Impairment loss for the year:		
Charge for the year	15,554,212	11,704,911
Amounts written off — net of recovery	(13,700,413)	(9,201,179)
Effect of foreign currency movements	(153,288)	67,354
Balance at December 31	$ 11,836,732	$ 10,136,221

Impairment losses on loans approximate 0.9%-5.7% and 0.9%-4.8% of the total loan portfolio by regions at December 31, 2013 and 2012, 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, 2013 and 2012 as follows:

	2013	2012
Receivable from money remittance and other agencies	$ 624,231	$ 480,904
Prepaid/overpaid income tax	1,522,498	2,576,619
Deposit with Internal Revenue Service and other fiduciary agencies	567,558	1,102,944
Receivable commission, rebates, and refunds from banks and agencies	1,351,774	
Financial assets other than cash and cash equivalents and loans receivable	4,066,061	4,160,467
Prepaid rent	3,144,013	2,976,675
Taxes	938,389	444,337
Prepayment for fixed assets	793,626	218,640
Office supplies	631,147	542,629
Staff advances and loans	1,065,816	1,010,482
Prepaid repair and maintenance expenses	756,349	601,662
Prepaid insurance	481,252	324,933
Other debtors	4,251,103	2,562,878
Total	$ 16,127,756	$ 12,842,703

In the table above, the line item ‘Other debtors’ ($2,781,518) for 2012 has been broken out into the line items ‘Prepayment for fixed assets’ ($218,640) and ‘Other debtors’ ($2,562,878) to conform to the current reporting format and the presentation in our consolidated financial statements for the year ended December 31, 2013. Such reclassifications had no impact on profit or loss or on equity. The amount of prepayment for fixed assets has increased; therefore, management considered it appropriate to create a new line item called ‘Prepayment for fixed assets.’

17. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 and 2012 are as follows:

Cost	Total	Buildings and Offices	Construction in Progress	Leasehold Improvements	Computer Equipment	Furniture and Office Equipment	Vehicles	Other
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
Balance — January 1, 2013	$44,183,995	$3,678,264	$ 726,874	$ 6,969,070	$15,411,459	$ 9,546,779	$5,539,658	$2,311,891
Acquisitions	16,284,858	193,350	2,707,956	4,790,982	2,856,199	3,626,147	789,473	1,320,751
Disposals	(3,013,132)	(23,291)	(285,769)	(368,227)	(1,244,134)	(266,732)	(781,451)	(43,528)
Currency translation	(709,893)	(77,358)	(40,195)	(157,448)	(143,941)	(213,413)	(39,246)	(38,292)
Balance — December 31, 2013	$56,745,828	$3,770,965	$3,108,866	$ 11,234,377	$16,879,583	$12,692,781	$5,508,434	$3,550,822
Depreciation and Impairment Losses								
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
Balance — January 1, 2013	$22,591,099	$ 656,072	$ -	$ 3,359,434	$ 8,068,155	$ 6,600,962	$3,499,459	$ 407,017
Depreciation and amortization	7,361,491	346,277		1,644,359	2,274,551	1,890,965	826,094	379,245
Disposals	(2,111,999)	(14,090)		(344,224)	(820,760)	(316,057)	(601,680)	(15,188)
Currency translation	(229,987)	(10,249)		(39,420)	(68,274)	(78,269)	(21,972)	(11,803)
Balance — December 31, 2013	$27,610,604	$ 978,010	$ -	$ 4,620,149	$ 9,453,672	$ 8,097,601	$3,701,901	$ 759,271
Net Carrying Amounts								
Balance — January 1, 2012	$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
Balance — December 31, 2013	$29,135,224	$2,792,955	$3,108,866	$ 6,614,228	$ 7,425,911	$ 4,595,180	$1,806,533	$2,791,551

Depreciation and amortization expense charged for the years ended December 31, 2013 and 2012 were $7,361,491 and $5,606,219 respectively.

18. INTANGIBLE ASSETS

Intangible assets at December 31, 2013 and 2012 consist of the following:

Costs	Total	Capitalized Software	Capital Work-In-Progress	Other
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	$ -
Balance — January 1, 2013	$ 14,865,890	$ 11,571,554	$ 3,294,336	$ -
Acquisition	10,137,905	6,096,148	3,290,383	751,374
Disposals	(1,981,961)	(409,237)	(1,572,724)	
Currency translation	(366,674)	(256,094)	(110,580)	
Balance — December 31, 2013	$ 22,655,160	$ 17,002,371	$ 4,901,415	$ 751,374
Amortization and Impairment				
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	$ -	$ -
Balance — January 1, 2013	$ 5,633,101	$ 5,633,101	$ -	$ -
Amortization for the year	2,530,608	2,359,136		171,472
Disposals	(402,355)	(402,355)		
Currency translation	(67,644)	(67,644)		
Balance — December 31, 2013	$ 7,693,710	$ 7,522,238	$ -	$ 171,472
Net Carrying Amounts				
Balance — January 1, 2012	$ 6,525,397	$ 5,171,640	$ 1,353,757	$ -
Balance — December 31, 2012	$ 9,232,789	$ 5,938,453	$ 3,294,336	$ -
Balance — December 31, 2013	$ 14,961,450	$ 9,480,133	$ 4,901,415	$ 579,902

Amortization expense for the years ended December 31, 2013 and 2012 amounts to $2,530,608 and $1,678,856, respectively.

19. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities at December 31, 2013 and 2012 are as follows:

	2013	2012
Other accounts payable and accrued expenses	$ 7,418,904	$ 4,314,994
Professional services	2,766,755	2,763,042
Interest refundable to clients	1,926,792	1,708,711
Office supplies	460,263	1,103,176
Insurance	208,501	279,515
Total financial liabilities, excluding notes payable, classified as financial liabilities measured at amortized cost	12,781,215	10,169,438
Personnel	12,589,135	11,638,093
Taxes	6,124,132	4,030,102
Deferred rent	2,191,232	
Legal provision	503,475	
Total	$34,189,189	$25,837,633

In the table above, the line item 'Other accounts payable and accrued expenses' ($6,023,705) for 2012 has been broken out into the line items 'Interest refundable to clients' ($1,708,711) and 'Other accounts payable and accrued expenses' ($4,314,994) to conform to the current reporting format and the presentation in our consolidated financial statements for the year ended December 31, 2013. Such reclassifications had no impact on profit or loss or on equity. Management considered it more informative to create a new line item called 'Interest refundable to clients.'

The fair value 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, other than the non-current portion of deferred rent of $2,040,151 which has an amortization term of 12 years. Carrying values approximate fair value at December 31, 2013 and 2012.

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.

	2013	2012
Compulsory savings/cash collateral	$ 9,076,331	$21,177,371
Voluntary savings:		
Saving accounts	36,918,648	18,727,273
Term deposit accounts	31,846,411	3,870,248
Other voluntary savings	512,889	405,654
Total voluntary savings	69,277,948	23,003,175
Total deposits from clients	$78,354,279	$44,180,546

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 4.1% up to 40.0% 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 affected 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, 2013, subsidiaries in Armenia, Ecuador, Georgia, Kosovo, Kyrgyzstan, and Russia and as of the date of this report FMH were in breach of financial covenants regarding loans from international financial institutions amounting to USD 60.0 million. At the time these financial statements were prepared, the subsidiaries had obtained formal waivers for these breaches of covenant amounting to USD 48.3 million. All loans for which no formal waivers were obtained or were not obtained before December 31, 2013 are classified as current in the maturity table below.

Notes payable at December 31, 2013 and 2012 are as follows:

	2013	2012
Overdraft	$ 395,813	$ 569,402
Notes payable:		
Principal amount	632,480,500	471,372,113
Accrued interest	11,473,883	8,768,357
	$644,350,196	$480,709,872

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

2014	$238,446,544
2015	272,799,949
2016	102,000,787
2017	9,210,321
2018	7,838,406
Thereafter	2,184,493
	$632,480,500

The book value of notes payable at December 31, 2013 and 2012 are as follows:

	2013	**2012**
Non-current:		
Notes payable:		
Secured	$ 30,362,185	$ 22,230,373
Unsecured	363,216,545	233,784,881
Collateralized borrowings	455,225	
	394,033,955	256,015,254
Current:		
Overdrafts	395,813	569,402
Notes payable:		
Secured	35,382,358	20,538,170
Unsecured	213,530,612	203,494,371
Collateralized borrowings	1,007,458	92,675
	250,316,241	224,694,618
Total notes payable	$644,350,196	$480,709,872

22. SUBORDINATED DEBT

The balance is mainly represented by subordinated debt, which was received in 2009 by seven subsidiaries from the Microfinance Fund of which $19.5 million and $20.8 million were outstanding at December 31, 2013 and 2012, respectively. Maturity of this debt is on September 20, 2016, and an effective interest rate varies 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 agreed with the lender, Tajikistan repaid $1,350,000 during 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, 2013 and 2012 is as follows:

	2013	2012
United States Department of Agriculture	$2,486,548	$ 8,961,881
Others	5,215,526	2,479,969
Total	$7,702,074	$11,441,850

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 $17,500 and $17,000 for 2013 and 2012, respectively. The catch-up contributions were $5,500 for both 2013 and 2012, respectively. FINCA may make contributions to the Plan as a discretionary employer match. FINCA's contributions to the Plan during the years ended December 31, 2013 and 2012, were $434,204 and $295,663, 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. In 2013, FINCA purchased two non-participating 20-year fixed annuity contracts in a partial settlement of the plan liability of $796,637.

The net liability of FINCA's defined benefit plan recognized at December 31, 2013 and 2012 is summarized as follows:

	2013	2012
Benefit obligation — beginning of year	$4,854,602	$4,129,109
Service cost	141,577	147,799
Interest cost	151,102	168,351
Actuarial (gain) loss	(683,170)	477,507
Settlement	(796,637)	
Net employer benefits paid	(162,710)	(147,805)
Plan amendments		79,641
Benefit obligation — end of year	$3,504,764	$4,854,602

The change in plan assets at December 31, 2013 and 2012 is summarized as follows:

	2013	2012
Fair value of assets — beginning of year	$ -	$ -
Employee contributions		
Employer contributions	959,347	147,805
Settlements	(796,637)	
Benefits paid	(162,710)	(147,805)
Fair value of assets — end of year	$ -	$ -

The amounts recognized in comprehensive income related to FINCA's defined benefit plan at December 31, 2013 and 2012 are summarized as follows:

	2013	2012
Service costs:		
Current service cost	$ 141,577	$ 147,799
Past service costs	973,096	(38,274)
Interest cost	151,102	168,351
Defined benefit costs recognized in profit or loss	1,265,775	277,876
Remeasurements:		
Actuarial (losses) gains arising from experience adjustments	(480,000)	
Actuarial (losses) gains arising from financial assumptions	(203,170)	477,507
Other		117,933
Defined benefit costs recognized in other comprehensive income	(683,170)	595,440
Total	$ 582,605	$ 873,316

FINCA does not have any plan assets. As a result the entire balances of the defined benefit obligation at December 31, 2013 and 2012 of $3,504,764 and $4,854,602, respectively, are unfunded.

Weighted-average assumptions used to determine benefit obligations at December 31, 2013 and 2012 are as follows:

	2013	2012
Discount rate	4.20 %	3.25 %
Salary scale	N/A	N/A

Weighted-average assumptions used to determine net period pension cost for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Discount rate	3.25 %	4.00 %
Salary scale	N/A	N/A

Based upon the assumptions used to measure pension obligations, FINCA expects to make the following benefit payments in aggregate during four years:

Years Ending December 31	
2014	$ 382,917
2015	204,167
2016	204,167
2017	204,167
2018	204,167
In aggregate for five fiscal years thereafter	1,558,621

FINCA's defined benefit plan is exposed to actuarial risks, such as investment risk, interest rate risk, and life expectancy risks.

Investment Risk — The present value of the defined benefit plan liability is calculated using the December 31, 2013 Citigroup pension discount curve and the expected benefit payments from the plan. This curve is the published yield curve of high-grade corporate bond rates.

Interest Risk — A decrease in the bond interest rate will increase the plan liability.

Life Expectancy Risk — The present value of the defined benefit plan liability is calculated using the published mortality tables for plan participants during and after employment with FINCA. An increase in the life expectancy of the plan participants will increase the plan's liability.

Significant actuarial assumptions for the determination of the defined obligation are discount rate and the life expectancy of plan participants. The sensitivity analysis below have been determined based on reasonably possible changes of the discount rate assumption occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 50 points higher (lower) the defined benefit obligation would decrease by $184,396 (increase by $202,317).

25. BUSINESS COMBINATIONS

Subsidiary Acquired — On May 7, 2013, FINCA through its subsidiary, FMH, completed acquisition of 82.78% of voting equity interest of Kashf Microfinance Bank Limited, a microfinance bank organized and existing under the laws of the Islamic Republic of Pakistan for a total cash consideration of $10.6 million. The acquisition occurred to continue the expansion of FINCA's microfinance activities in the region. Subsequent to acquisition Kashf Microfinance Bank Limited was rebranded under the name FINCA Microfinance Bank Ltd.

Acquisition-related costs amounted to $199,527 have been excluded from the consideration transferred and have been recognized as other operating expenses in profit or loss in the current year.

Assets acquired and liabilities recognized at the date of acquisition:

Cash and cash equivalents	$11,826,223
Restricted cash and cash equivalent	1,178,131
Available-for-sale financial assets	1,991,423
Loans receivable	14,635,351
Other receivables, prepaid, and other assets	444,718
Property and equipment	1,147,645
Intangible assets	877,175
Deferred tax assets	470,846
Total assets	$32,571,512
Accounts payable and other accrued liabilities	$ 1,396,683
Client deposits	20,316,476
Deferred revenue	172,280
Total liabilities	21,885,439
Total equity	10,686,073
Total equity and liabilities	$32,571,512

The receivables acquired (which principally comprised loans receivable) in this transaction with a fair value of $14,635,351 had gross contractual amounts of $14,752,573. The amount at acquisition date of the contractual cash flows not expected to be collected is considered to be insignificant.

Non-controlling Interests (NCI) — The NCI (17.22% ownership interest in FINCA Microfinance Bank Ltd.) recognized at the acquisition date was measured by reference to the fair value of the NCI and amounted to $1,967,241. This fair value was estimated by applying an income approach. The following were the key model inputs used in determining the fair value:

- assumed discount rate of 19.6%;
- assumed cash flows from operations for the period 2014–2016 and an estimated terminal value of 1.25 of the net assets value as at December 31, 2016; and
- assumed adjustments because of the lack of control or lack of marketability that market participants were considered when estimating the fair value of the NCIs in FINCA Microfinance Bank Ltd.

Goodwill Arising on Acquisition

Consideration transferred	$ 10,578,323
Plus non-controlling interests (17.22%)	1,967,241
Less fair value of identifiable net assets acquired	(10,686,073)
Less customer-based intangible assets	(751,374)
Goodwill arising on acquisition	$ 1,108,117

Goodwill arose in the acquisition of FINCA Microfinance Bank Ltd. because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development, and the assembled workforce of FINCA Microfinance Bank Ltd. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. In relation to the identifiable net assets acquired, management has used book value as an approximation for fair value, as there were no material differences between the book value and fair value of the identifiable net assets acquired.

As a result of the business combination, intangible assets representing core deposit and loan customer relationships were recognized in the amount of $751,374.

Net Cash Outflow on Acquisition of Subsidiary

	Year Ended December 31, 2013
Consideration paid to former shareholders	$ 2,121,468
Consideration paid to Kashf Microfinance Bank Limited	8,456,855
	$ 10,578,323
Consideration paid to former shareholders	$ 2,121,468
Less cash and cash equivalent balances acquired	(3,368,725)
	$ (1,247,257)

Impact of Acquisition on the Consolidated Results of FINCA — Profit after tax for the year includes $291,190 in respect of FINCA Microfinance Bank Ltd.

Had this business combination been effected at January 1, 2013, the net interest income of the FINCA would have been $245,046,261, and the profit for the year would have been $13,723,910. Management considers these pro forma numbers to represent an approximate measure of the performance of the combined group on an annualized basis and to provide a reference point for comparison in future periods.

In determining the pro forma net interest income and profit of FINCA had FINCA Microfinance Bank Ltd. been acquired at the beginning of the current year, management has:

- Calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the preacquisition financial statements and

- Calculated borrowing costs on the funding levels, credit ratings, and debt/equity position of FINCA after the business combination

26. COMMITMENTS AND CONTINGENCIES

At December 31, 2013, 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:

	2013	**2012**
Less than one year	$ 5,465,759	$ 5,544,768
Between one and five years	16,917,875	11,236,955
More than five years	9,181,401	3,711,148
	$ 31,565,035	$ 20,492,871

Rent expense was $14,446,790 and $10,759,956 for years ended December 31, 2013 and 2012, respectively.

There are no contingent assets, contingent liabilities, and capital commitments at December 31, 2013 and 2012. As discussed in Note 28, FINCA issued guarantees to the third parties on behalf of its subsidiaries.

27. FINCA ENTITIES

Through its headquarters, foreign representative offices and branches, controlled Subsidiaries and affiliates, FINCA operates in 26 countries. All subsidiaries and affiliates are controlled by FINCA directly or through FMH. The significant operating Subsidiaries and controlled affiliates of FINCA 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 FINCA Bank Georgia 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
Pakistan	FINCA Microfinance Bank Ltd.

Non-microfinance subsidiaries

Netherlands	FINCA Network Support Services BV.
Netherlands	FINCA Microfinance Cooperatief U.A.
USA	FINCA Services USA LLC

Charitable affiliates

United Kingdom	FINCA UK
Canada	FINCA Canada

Non-controlling interest is attributable to:

- Non-controlling shareholders of FMH holding 39.09% of shares and voting rights. Assets and liabilities attributable to FMH non-controlling shareholders are $431.8 and $311.0 million, respectively. Net income for the year 2013 is $1,606,508 and accumulated net income is $8,285,116.

- Non-controlling shareholders of FINCA Microfinance Bank Ltd. (Pakistan) holding 17.22% of shares and voting rights. Assets and liabilities attributable to non-controlling interest are $6.5 million and $4.7 million, respectively. Net income for the year 2013 and accumulated net income is $50,143.

No dividends were paid to NCI members in 2013.

28. 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, 2013 and 2012, amounted to:

	2013	2012
Short-term benefits	$4,700,602	$3,459,342
Post employment benefits	59,792	54,792
	$4,760,394	$3,514,134

Guarantees — FINCA International provides guarantees directly on behalf of the subsidiaries of FMH. Total balance of outstanding guarantees from FINCA International was $8,450,000 and $8,410,000 as of December 31, 2013 and 2012, respectively.

29. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, FINCA through its subsidiary FMH entered into a $45 million loan agreement with the Overseas Private Investment Corporation on February 24, 2014. The loan has a seven year tenor.

On February 6, 2014, FINCA, through its subsidiary, FMC, received an approval in principle from the Central Bank of Nigeria to obtain a state banking license for a new start-up microfinance bank in Nigeria. FINCA expects to complete the state banking license process by August 1, 2014. FINCA Nigeria was incorporated as a legal entity on April 16, 2014.

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