

FINCA International, Inc.

Consolidated Financial Statements as of and
for the Year Ended December 31, 2014,
Supplemental Schedules as of and for the
Year Ended December 31, 2014, and
Independent Auditors' Report

FINCA INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
FINCA International, Inc.
Washington, DC

We have audited the accompanying consolidated financial statements of FINCA International, Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2014 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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, 2014 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Consolidating Schedules and Other Supplemental Schedule

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules of financial position information and of activities information are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities and are not a required part of the consolidated financial statements. The consolidated schedule of functional expenses is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such schedules are the responsibility of FINCA's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Deloitte + Touche LLP

June 8, 2015

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2014

ASSETS

CASH AND CASH EQUIVALENTS	\$ 149,154,910
RESTRICTED CASH AND CASH EQUIVALENTS (Note 8)	23,856,725
SHORT-TERM INVESTMENTS (Note 6 and 9)	34,451,845
LOANS RECEIVABLE—Net (Note 10)	949,333,168
GRANTS RECEIVABLE—Net	3,099,507
OTHER RECEIVABLES, PREPAIDS, AND OTHER ASSETS (Note 11)	23,792,506
PROPERTY AND EQUIPMENT—Net (Note 12)	33,508,041
INTANGIBLE ASSETS—Net (Note 13)	12,962,360
LONG-TERM INVESTMENTS AND OTHER ASSETS (Note 6 and 9)	10,664,015
GOODWILL (Note 20)	1,108,117
DEFERRED TAX ASSETS (Note 7)	<u>9,713,658</u>
TOTAL	<u>\$1,251,644,852</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and other accrued liabilities (Note 14)	\$ 37,993,546
Client deposits (Note 15)	130,213,635
Bank deposits	2,642,270
Notes payable (Note 16)	740,825,686
Subordinated debt (Note 17)	23,646,518
Other liabilities (Note 6)	2,346,959
Deferred revenue (Note 18)	10,615,425
Deferred benefits (Note 19)	4,618,476
Deferred tax liabilities (Note 7)	<u>1,327,827</u>
Total liabilities	<u>954,230,342</u>

NET ASSETS:

Unrestricted net assets—FINCA	176,541,365
Unrestricted net assets—non-controlling interest	<u>119,559,445</u>
Total unrestricted net assets	296,100,810
Temporary restricted net assets (Note 23)	<u>1,313,700</u>
Total net assets	<u>297,414,510</u>
TOTAL	<u>\$1,251,644,852</u>

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporary Restricted	Total 2014
OPERATING REVENUES:			
Contributions:			
Corporate, foundation, and individual giving	\$ 13,583,644	\$ 1,456,054	\$ 15,039,698
Services and gifts in kind	4,116,700	-	4,116,700
Program:			
Interest income	368,723,713	-	368,723,713
Grants and contracts, including federal government	11,474,625	-	11,474,625
Fees and other program income	14,395,528	-	14,395,528
Net assets released from restrictions	<u>2,003,316</u>	<u>(2,003,316)</u>	<u>-</u>
Total operating revenues	<u>414,297,526</u>	<u>(547,262)</u>	<u>413,750,264</u>
OPERATING EXPENSES:			
Program services	378,920,473	-	378,920,473
Fundraising	3,622,825	-	3,622,825
General and administrative	<u>12,163,580</u>	<u>-</u>	<u>12,163,580</u>
Total operating expenses	<u>394,706,878</u>	<u>-</u>	<u>394,706,878</u>
INCOME TAX EXPENSE (Note 7)	<u>9,160,312</u>	<u>-</u>	<u>9,160,312</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ITEMS	10,430,336	(547,262)	9,883,074
INVESTMENT AND FOREIGN EXCHANGE GAIN	23,647	-	23,647
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC BENEFIT COST GAIN (LOSS) (Note 19)	(1,216,239)	-	(1,216,239)
TRANSLATION LOSSES OF FOREIGN OPERATIONS	<u>(22,030,397)</u>	<u>-</u>	<u>(22,030,397)</u>
CHANGE IN NET ASSETS BEFORE NON-CONTROLLING INTERESTS	(12,792,653)	(547,262)	(13,339,915)
ISSUE OF FMH INTERESTS TO NON-CONTROLLING SHAREHOLDERS	<u>1,700,489</u>	<u>-</u>	<u>1,700,489</u>
CHANGE IN NET ASSETS	(11,092,164)	(547,262)	(11,639,426)
NET ASSETS—Beginning of year	<u>307,192,974</u>	<u>1,860,962</u>	<u>309,053,936</u>
NET ASSETS—End of year	<u>\$ 296,100,810</u>	<u>\$ 1,313,700</u>	<u>\$ 297,414,510</u>

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets before non-controlling interest	\$ (13,339,915)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Foreign currency translation loss	22,030,397
Depreciation and amortization	13,302,508
Credit loss provision	24,894,600
Loss on disposal of property and equipment	229,912
Foreign exchange gains	(23,647)
Other assets impairment loss	525,408
Pension-related changes other than net periodic benefit cost	1,489,341
Other non-cash adjustments	9,530,883
(Decrease) increase in cash and cash equivalents as a result of net changes in:	
Accrued interest receivable and fees	(6,193,991)
Grants receivable	718,257
Other receivables, prepaid, and other assets	(7,664,750)
Accounts payable and other accrued liabilities	1,796,412
Accrued interest payable and fees	3,556,234
Deferred revenue	2,913,351
Deferred defined benefits	1,113,523
Changes in deferred tax assets	(1,632,130)
Changes in deferred tax liabilities	82,408
Net cash provided by operating activities	<u>53,328,801</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Decrease in restricted cash and cash equivalents	(1,197,332)
Purchase of investments	(19,513,339)
Net change in loans to customers	(203,721,684)
Purchase of property and equipment	(15,589,897)
Purchase of intangible assets	(3,959,179)
Proceeds from sales/disposal of fixed assets	328,338
Net cash used in investing activities	<u>(243,653,093)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from sale of ownership interests in a subsidiary	1,700,489
Net change in customers' and other deposits	55,149,887
Proceeds from borrowings	431,798,297
Repayment of borrowings to lenders	(297,213,058)
Net cash provided by financing activities	<u>191,435,615</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,111,323
CASH AND CASH EQUIVALENTS:	
Beginning of year	155,060,628
Exchange losses on cash and cash equivalents	(7,017,041)
End of year	<u>\$ 149,154,910</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash received for interest	<u>\$ 352,685,012</u>
Cash payments for interest	<u>\$ (77,486,305)</u>
Cash payments for income taxes	<u>\$ (9,498,855)</u>

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

1. NATURE OF ACTIVITIES

FINCA International, Inc. (“FINCA” or “FINCA International”) is a not-for-profit organization, incorporated in the state of New York, United States of America (USA), as a tax-exempt public charity under the Section 501(c)(3) of the United States Internal Revenue Code. 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.

FINCA is the majority shareholder (62.07%) of FINCA Microfinance Holding Company LLC (FMH) with minority positions held by social and development institutions led by International Finance Corporation (World Bank group), KfW (the German Development Bank), along with FMO (the Dutch Development Bank), responsAbility, Triple Jump, and Triodos Fair Share Fund and Triodos Microfinance Fund, represented by Triodos Investment Management, BV, three socially responsible investment funds located in Europe.

At present, FINCA, through FMH has microfinance operations in 23 developing countries in Latin America (Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, and Nicaragua), Africa (Democratic Republic of the Congo, Malawi, Tanzania, Uganda, Zambia, and Nigeria), Eurasia (Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyzstan, Russia, and Tajikistan), and the Middle East (Afghanistan, Jordan, and Pakistan). FINCA operates local entities (“Subsidiaries”) that are directly or indirectly owned or controlled by FINCA, including predominantly corporations and in some cases, non-governmental organizations or branches of FINCA International.

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

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

The majority of FINCA 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.

FINCA has transformed all of its Subsidiaries, with the exception of FINCA Kosovo and FINCA Guatemala into commercial corporate forms, including banks or non-bank financial institutions, in order to provide the services mentioned above, as well as to enhance FINCA’s ability to attract funding and support needed for growth and infrastructure development. In November 2014, FINCA Microfinance Bank in Nigeria, Africa obtained the state banking license and started its banking operations. As of December 31, 2014, the majority of the Subsidiaries are commercial corporate entities that are subject to financial regulation.

2. BASIS OF PREPARATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and are presented in U.S. dollars, which is FINCA’s functional currency.

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention, unless stated otherwise.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of FINCA and changes therein are classified and reported as follows:

Unrestricted Net Assets—Net assets that are not subject to any donor-imposed stipulations.

Temporary Restricted Net Assets—Net assets subject to donor-imposed restrictions on their use that may be met either by actions of FINCA or the passage of time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

All intragroup transactions and balances are eliminated in full upon consolidation.

Revenue Recognition

Contributions—Contributions, which include unconditional promises to give (pledges) are recognized as revenues in the period received or promised. Conditional contributions are recorded when conditions have been substantially met. Contributions are considered to be unrestricted, unless specifically restricted by the donor.

FINCA reports contributions in the temporary or permanently restricted net assets class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporary restricted net assets are released and reclassified to unrestricted net assets in the consolidated statement of activities. Donor restricted contributions are initially reported in the temporary restricted net assets, even if it is anticipated such restrictions will be met within the current reporting period.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Contributed Services and Gifts—Contributed services and gifts are reported at fair value in the consolidated statement of activities when these (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing these skills and are services, which would be typically purchased if not provided by donation. FINCA recorded contributed services and gifts revenue and related expense for the year ended December 31, 2014 of approximately \$4.1 million.

Interest Income—The revenue on interest-earning assets is recognized in the consolidated statement of activities using the effective interest method. The calculation of the effective interest rate includes using all fees received or paid on the basis of contractual future cash flows through the life of the loan.

Therefore, loan origination fees, direct loan origination costs, premiums, and discounts are deferred and the net fee or cost is amortized and recognized as an adjustment to the interest income using the effective interest rate over the contractual term of the loan.

Fees and Other Program Income—Fees and commission income are recognized on an accrual basis when the service has been provided.

Expenses—The cost of providing the program services and supporting services is summarized on a functional basis in the consolidated schedule of functional expenses. Certain costs are allocated among program and supporting services benefited.

Foreign Currency

Foreign Currency Transactions and Balances—Transactions in foreign currencies are translated to the respective functional currencies of FINCA foreign operations at exchange rates at the dates of the transactions. Assets and liabilities of these foreign operations are translated into U.S. dollars using the current exchange rates at the date of the consolidated statement of financial position.

Changes in net assets are translated using the average exchange rate for the fiscal year. Foreign currency differences arising on foreign currency transactions and translation at year-end are recognized in the consolidated statement of activities. Translation adjustments of foreign operations are reported under the non-operating section of the consolidated statement of activities.

With the exception of certain material transactions, the cash flows from FINCA's operations in foreign countries are translated at the weighted average rate for the applicable period in the consolidated statement of cash flows. The impact of material transactions generally are recorded at the applicable spot rates in the consolidated statement of activities and cash flows. The effects of exchange rates on cash balances held in foreign currencies are separately reported in FINCA's consolidated statement of cash flows.

Acquisitions and Business Combinations—FINCA includes the results of the business it has acquired in the FINCA's consolidated results as of the respective date of acquisition. FINCA allocates the fair value of the purchase consideration of its acquisition to the tangible assets acquired, liabilities assumed, and identifiable intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Identifiable intangible assets other than goodwill are capitalized at fair value on the date of acquisition and are amortized over their respective estimated useful life in FINCA's consolidated statement of activities. Non-controlling interest is measured at fair value on the date of acquisition. FINCA does not expect to predominantly support the operations of the acquired company by contributions and returns on its investments. As a result and in accordance with Accounting Standards Codification (ASC) 958 (subtopic 805), *Business Combinations*, FINCA records the goodwill as an asset on the acquisition date.

Acquisition-related expenses and restructuring costs are recognized separately from the business combination and are expensed as incurred.

FINCA holds 62.07% interest on FMH, a holding company, initially established in 2011 with non-controlling interest held by other investors. Subsequent changes of the ownership percentage in the controlled entity that do not result in the loss of control are counted for as equity transactions with no gain or loss in the consolidated statement of activities.

Non-Controlling Interest—FINCA’s subsidiary, FMH was formed with other investors for the purpose of raising capital to fund the assets growth of FINCA Subsidiaries. In 2014, FMH issued additional membership interests to its members, which resulted in the ownership of FINCA to change from 60.91% to 62.07% at December 31, 2014. The change did not result in the loss of control. The non-controlling interest reflects the net investment by non-controlling members in the consolidated Subsidiaries, along with their proportional share of earnings or losses. A reconciliation of non-controlling interest as of December 31, 2014 is summarized as follows:

	Changes in Unrestricted Net Assets Attributable to FINCA International and Non-Controlling Interest		
	Total	FINCA International Inc.	Non-Controlling Interest
Beginning balance—January 1, 2014	\$ 309,053,936	\$ 185,257,306	\$ 123,796,630
Membership interests issued to non-controlling Members	1,700,489	-	1,700,489
Attributable change in net assets	<u>(13,339,915)</u>	<u>(7,402,241)</u>	<u>(5,937,674)</u>
Ending balance—December 31, 2014	<u>\$ 297,414,510</u>	<u>\$ 177,855,065</u>	<u>\$ 119,559,445</u>

Goodwill and Purchased Intangible Assets—Goodwill is not amortized but is tested for impairment at least annually. FINCA reviews goodwill for impairment in the fourth quarter and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For goodwill, FINCA performs a two-step impairment test once events and changes in circumstances indicate that carrying value of an asset may not be recoverable. In the first step, FINCA compares the fair value of the reporting unit to its carrying value. FINCA uses the income approach to determine the fair value of its reporting units, based on the present value of the estimated cash flows for a period of three years and the present value of the terminal value at the end of year three. Cash flows are based on FINCA’s management estimates of revenue growths taking into consideration industry and market conditions. The discount rate used is based on the cost of capital adjusted for relevant risk associated with business-specific characteristics and the uncertainty related to the business’s ability to execute on the projected cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, FINCA performs the second step to measure the amount of impairment. During this step, the reporting’s unit fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit’s goodwill is less than its carrying value the difference is recorded as an impairment loss in the consolidated statement of activities. Impairment testing of goodwill recognized upon acquisition of FINCA Microfinance Bank Limited, Pakistan, did not result in any impairment loss.

Income Tax Expense—FINCA is a not-for-profit organization and is exempt from federal income tax, except on net income derived from unrelated business income. 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 consists of current and deferred tax. Income tax expense is recognized in the consolidated statement of activities.

Deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates. According to ASC 740, *Income Taxes*, all deferred tax assets are generally given full recognition for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. A valuation allowance is recognized when management believes that it is more likely than not that all or a portion of the deferred tax assets will not be realized. Deferred tax liabilities are generally recognized for taxable temporary differences.

FINCA records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the positions and (2) for those tax positions that satisfy the more likely than not recognition threshold, it recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon settlement with the relevant tax authority. Positions are evaluated independently of each other without offset or aggregation. FINCA recognizes interest and penalties related to unrecognized tax benefits within the interest expense line and other expense line, respectively, in the accompanying consolidated statement of activities. Accrued interest and penalties are included within the related liability lines in the consolidated statement of financial position.

Cash and Cash Equivalents—FINCA considers all cash on hand and unrestricted balances held with banks, and highly liquid financial assets with original maturities of less than three months to be cash and cash equivalents. Amounts restricted by donors and designated for long-term purposes are excluded from cash and cash equivalents category.

Restricted Cash and Cash Equivalents—The restricted cash balances include undisbursed funds received from United States Department of Agriculture (USDA) and private sector grants. In addition, included in these balances are cash restricted for country-specific regulatory requirements, and pledged collateral related to local borrowings and deposits.

Investments—FINCA classifies its investments as short term when management intends to sell them in the near future. Short-term investments include current investments that are available for operations in the next fiscal year. Long-term investments include investments available for sale that are not available in the next fiscal year, or that management has no intention to trade in the next fiscal year.

Investments are reported at fair value in FINCA's consolidated financial statements with the exception of held to maturity investments. Held to maturity investments include investments in debt securities, for which management has the intention and the ability to hold to maturity. Held to maturity investments are reported at amortized cost in the consolidated statement of financial position. The fair values of marketable securities are based on readily determinable quoted market prices and exchange rates. The fair values of non-marketable equity investments are based on valuations of external investment managers. These investments are generally less liquid than other investments and the values reported may differ from the values that would have been reported, had a ready market for these securities existed. Other equity investments are accounted for either using the equity method or at cost, depending on FINCA's ownership interest in the investee and are reported under Long-term investments and other assets line item.

Investment income classified as operating revenue on the consolidated statement of activities consists of interest and dividend income. Any changes in fair values are reported as non-operating activities in the consolidated statement of activities.

At each reporting date, FINCA assesses the appropriate classification of its investment in the categories above, and in accordance with management intent, the investment may be reclassified from one category to the other. The transfer of the investment from one category to the other is accounted for at fair value.

Impairment of Investments Available for Sale—In accordance with ASC 320, *Investments—Debt and Equity Securities*, FINCA determines whether a decline in fair value below the cost basis of an investment has occurred and if it is other than temporary. FINCA considers all relevant evidence when determining if an investment has been other than temporarily impaired, such as:

- The length of time and the extent to which the fair value has been less than the cost basis
- Adverse conditions specifically related to the security, an industry, or geographic area
- The historical and implied volatility of the fair value of the debt security
- The payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future
- Failure of the issuer of the security to make scheduled interest or principal payments
- Any changes to the rating of the security by a rating agency
- Recoveries or additional declines in fair value after the balance sheet date

ASC 320 outlines a three-step approach for identifying and accounting for an other than temporary impairment of an individual investment asset classified as available for sale that consists of (1) determining when an investment is considered impaired, (2) evaluating whether an impairment is other than temporary, and (3) measuring and recognizing an other than temporary impairment.

An investment is impaired when its fair value is less than its carrying cost. Under ASC 320, an impaired debt security will be considered other than temporarily impaired if (a) the entity has the intent to sell the impaired debt security, (b) it is more likely than not that the entity will be required to sell the impaired debt security before recovery, or (c) the entity does not expect to recover the entire cost basis of the security even if it does not intend to sell the security.

Impairment is measured as the difference between the present value of expected future cash flows discounted at the effective interest rate implicit in the debt security at the date of acquisition and the cost basis of the debt security. If an other than temporary impairment has occurred, the amount of the other than temporary impairment is recognized in the consolidated statement of activities under the non-operating change in net assets.

Reversal of impairment losses attributed to credit losses is not permitted. Reversals attributed to losses other than credit losses are recorded under the non-operating change in net assets. In consideration of all the relevant evidence mentioned above, FINCA's management concluded that its investments available for sale were not impaired at December 31, 2014.

Investment in Life Insurance—Investments in life insurance policies are measured at their cash surrender value, which at December 31, 2014 was \$85 thousands.

Currency Swap Agreement—FINCA makes use of derivative financial instruments in order to mitigate certain currency risk exposures. Derivative financial instruments are recorded at fair value. Derivatives in an asset and liability position are offset against each other and reported in net investments in the consolidated statement of financial position.

Derivatives involve counterparty credit exposure. To minimize this exposure, FINCA carefully monitors counterparty credit risk and requires only uses those counterparties with strong credit ratings for these derivatives.

Fair Value Measurement—FINCA applies the provisions of ASC 820, *Fair Value Measurement and Disclosures*, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statement on a recurring basis. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or the liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that requires FINCA to maximize the use of observable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the organizations; market assumptions. The three levels of fair hierarchy are as follows:

Level 1—Quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liability, or market—corroborated inputs

Level 3—Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

In certain cases, the inputs to measure fair value may result in an asset or liability falling into more than one level of fair value hierarchy. In such cases, the determination of the classification of an asset or liability within the fair value hierarchy is based on the least determinate input that is significant to the fair value measurement. FINCA's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Loans Receivable—Loans receivable are financial instruments with fixed or determinable payments that FINCA intends to hold for the foreseeable future or until maturity or payoff. Loans receivable are measured at the outstanding principal balance adjusted for any charge-offs, the allowance for doubtful accounts, plus accrued interest and any net deferred origination fees, premiums, and discounts. These fees are recognized over the life of the loan as an adjustment to the interest income.

Notes Payable—Notes payable are financial instruments, initially recorded at the amount of cash proceeds received. Subsequent to initial recognition, notes payable are measured at amortized cost. Fees paid on the establishment of loan facilities are recognized as transaction costs of the facility, to the extent it has been determined that the note or 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 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 non-subordinated creditors have been satisfied. There is no obligation to repay early. Subsequent to initial recognition for the amount of cash proceeds, the subordinated debt is measured at amortized cost. Premiums and discounts are accounted for over the respective terms of the debt in the consolidated statement of activities using the effective interest method.

Client Deposits—Client deposits are initially recognized at the amount of proceeds received. Subsequently to initial recognition, client deposits are measured at amortized cost. Any difference between proceeds net of transaction costs and the redemption value is recognized in the consolidated statement of activities over the period of the deposit term using the effective interest rate method.

Allowance for Doubtful Accounts

Impaired Loans—At each balance sheet date, FINCA assesses whether there is objective evidence of loan impairment. A loan is considered impaired when, based on current information and events it is probable that the principal and interest on the loan will not be paid in accordance with the contractual terms of the agreement. If there is objective evidence of impairment, a provision for loan losses is immediately recognized in the consolidated statement of activities. To assess whether objective evidence exists for a possible credit loss, i.e., any factors which might influence the client's ability to fulfill his contractual payment obligations FINCA considers:

- 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, and
- The general economic situation.

Depending on the size of the credit exposure, such losses are either calculated on an individual credit exposure basis or are collectively assessment for a portfolio of credit exposures with similar risk characteristics. The carrying amount of the loan is reduced through the use of the allowance for doubtful account and the amount of the loss is recognized in the consolidated statement of activities under provision for loan losses.

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 a credit loss.

Additionally, the aggregate exposure to the client and the realizable value of collateral held are taken into account when deciding on the allowance for doubtful accounts. If there is objective evidence that an impairment has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its expected future cash flows discounted at the loan's effective interest rate. If a credit exposure has a variable interest rate, the discount rate for measuring the present value of expected future cash flows is the current effective interest rate determined under the contract. This policy is applied consistently for all loans whose contractual interest varies based on subsequent changes in an independent factor. The calculation of the present value of the contractual future cash flow of a collateralized loan reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral. 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.

Collectively Assessed Loans—The collective assessment for credit exposure losses is performed for large homogeneous group loans that have similar risk characteristics. In addition, individually assessed loans are included for collective assessment when specific characteristics of the individually assessed loan indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics. The allowance for collectively assessed loan portfolio is determined under ASC 450, *Contingencies* using a statistical methodology, supplemented by FINCA's management judgment. Such determination is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics in the individual Subsidiary (migration analysis), grouped into geographical segments with a comparable risk profile. After a qualitative analysis of this statistical data, FINCA management approves appropriate rates as the basis for their collectively assessed loans. Deviations from this guideline were allowed, if necessitated by the specific situation of the Subsidiary.

Future cash flows in a group of loans that are collectively evaluated for loan losses are estimated based on 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 based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by FINCA to reduce any differences between loss estimates and actual loss experience.

Writing Off Loans—When a loan is determined uncollectible, it is written off against the related allowance for doubtful accounts. 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 provision for credit losses in the consolidated statement of activities and are recorded when cash is received.

Property and Equipment—Items of property and equipment assets (long-lived assets) are measured at cost, less accumulated depreciation and recognized impairment losses.

Cost includes expenditures that are directly attributable to the acquisition, delivery to the intended location, and preparation for its productive use. 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, to the extent that improvements increase the economic life of the asset and the costs of improvements can be reasonably measured. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of activities as incurred.

Depreciation is recognized in the consolidated statement of activities 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. Changes in depreciation methods are counted for as changes in accounting estimates.

Borrowing Costs—FINCA does not incur any interest costs that qualify for capitalization under ASC 835-20, *Capitalization of Interest*.

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 and after the completion of the preliminary stage of assessing alternatives of identifiable and unique software products controlled by FINCA are recognized as intangible assets when the following criteria are met:

- It is technically feasible and probable to complete the software product so that it will be available for use.
- The software will be used as intended.

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

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

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

Impairment of Long-Lived Assets—The carrying amounts of FINCA’s long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists, the asset’s recoverable amount is estimated to determine the extent of the impairment loss (if any) and accounted for in accordance with ASC 360, *Property, Plant and Equipment*.

If circumstances require a long-lived asset be tested for possible impairment, FINCA first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. The assessment is based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use (or under development). If an asset is part of a group that includes other assets and liabilities not covered by ASC 360, the impairment testing applies to the entire group of assets. Impairment losses are recognized in the consolidated statement of activities.

Impairment losses recognized in prior periods are not reversed regardless of changes in facts and circumstances surrounding the asset or group of assets.

Leased Assets—Where at least one of the following criteria has been met, FINCA accounts for the asset acquired through the lease as an outright purchase or capitalized lease:

- The lease transfers ownership over asset by the end of the lease term
- The lease contains an option to purchase the leased property at a bargain price
- The lease term is equal or greater than 75% of the estimated economic life of the asset economic life
- The present value of the minimum lease payments equals or exceeds 90% of the fair value of the leased property

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. As of December 31, 2014 had no finance leases.

Leases that fail to meet the criteria above are classified as operating leases and the total rentals payable under the lease are charged to the consolidated statement of activities 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.

Benefit Plans

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 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.

Deferred Defined Benefit Plan—In addition, FINCA has established a nonqualified defined senior executive retirement plan for certain officers and directors, which provides benefits payable upon retirement. FINCA's net obligation in respect of benefit plans is calculated by estimating the amount of future benefit that plan participants have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date approximating the terms of FINCA's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

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

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

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

Settlements are recorded for irrevocable transactions that relieve FINCA of the primary responsibility for the benefit obligation and significant risks related to the obligation and assets used to affect the settlement. Curtailments are recorded for events that significantly reduce the expected years of future service of present employee(s) or eliminate for a significant number of employee(s) the accrual of defined benefits for some or all of their future services.

Other Benefits—FINCA provides other benefits to its employees, which 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 reasonably estimated.

Deferred Revenue—FINCA defers award revenues from federal agencies and other donors to the extent they exceed expenses incurred for the purposes specified under the award and contract restrictions. All proceeds from monetization of commodities inventory are reported as deferred revenues. To the extent of expenses incurred the corresponding revenue is recognized in the consolidated statement of activities as program income. When donor contributions are used to purchase assets, the assets are recognized in the consolidated statement of financial position. Another liability is recognized to reflect the obligation to use the funds for restricted purposes. The deferred revenue is recognized on the consolidated statement of activities at which time expenses are incurred for program activities.

Contingency Provisions—Contingency provisions, including claims and legal actions arising in the course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably 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.

New Standards and Interpretations

(a) FINCA has adopted the following new standards, amendments, and interpretations effective on January 1, 2014, which are relevant to its operations:

Accounting Standards Update (ASU) No. 2014-17—*Business Combinations (Topic 805) Pushdown Accounting*. The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. The update is effective on November 18, 2014. The adoption of this update does not have any impact on these consolidated financial statements. FINCA and its Subsidiaries have not made an election of applying the push down accounting on respective separate financial statements.

Accounting Standards Update (ASU (2014-15)—*Presentation of Financial Statements – Going Concern (Subtopic 205-40)*. The update requires that the management of an entity to evaluate whether there are reasonable known and relevant conditions or events that raise substantial doubt about the entity's ability to continue as going concern within one year of the date of issuance of financial statements. Upon identification of such events, management should consider if its plans to mitigate these conditions can alleviate the substantial doubt. If the management plans do not alleviate any substantial doubt about the entity's ability to continue as going concern, the management should include a statement in the footnotes indicating that there is significant doubt about the ability of the entity to continue as going concern. The update is effective for the annual reporting period ending after December 15, 2016. Early adoption is permitted. FINCA has elected early adoption of this update. FINCA management has not identified any conditions or events that pose substantial doubt to FINCA's ability to continue as going concern within a year of the issuance date of these consolidated financial statements.

Accounting Standards Update No. 2013-11—*Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Forward Exists*. This update requires that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction, to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. For nonpublic entities, the amendment is effective for fiscal years beginning after December 15, 2014. FINCA has implemented the amendment from January 1, 2014.

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

Accounting Standards Update (ASU) No. 2014-09—*Revenue from Contracts with Customers (Topic 606)*. The core principle of the update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The update is effective for the annual reporting period ending after December 15, 2017. Early application is permitted, however, not earlier than reporting period ending after December 15, 2016. The update must be applied retrospectively to each prior reporting period presented or retrospectively with cumulative effect of initially applying this update recognized at the date of the initial application. FINCA will evaluate the impact of the update on its consolidated financial statement and will consider the early adoption of the update.

Accounting Standards Update (ASU) No. 2014-08—*Presentation of Financial Statements and Property Plant, and Equipment (Topic 360). Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The update requires that an entity reports the disposal of a component or a group of components in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations. Examples of a strategic shift that has (or will have) a major effect on an entity's operations and financial results could include a disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity. The update will be implemented prospectively and for disposals that occur within annual periods on or after December 15, 2014 and within annual periods on or after December 15, 2015. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued. FINCA has implemented the update for disposals that occurred after December 15, 2014. Since no disposals within the scope of the update took place after December 15, 2014 and the reporting date of December 31, 2014, the implementation of the update had no impact on these consolidated financial statements.

4. USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the consolidated financial statements. Estimates and assumptions may also affect disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amount of revenues and expenses. Actual expenses could differ from management estimates.

5. CAPITAL REQUIREMENTS

Capital requirements are individually addressed at each subsidiary in accordance with respective countries' laws that prescribe certain regulatory capital requirements. At December 31, 2014, the majority of FINCA's Subsidiaries were not subject to any regulatory capital requirements.

6. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments that are measured at fair value on a recurring basis at December 31, 2014 are as follows:

	Level 1	Level 2	Level 3	December 31, 2014
Short-term investments:				
Treasuries	\$4,456,913	\$ -	\$ -	\$ 4,456,913
Certificates of deposits	-	22,241,062	-	22,241,062
Currency swap contracts	-	7,710,303	-	7,710,303
Long-term investments and other assets:				
Certificates of deposits	-	2,295,470	-	2,295,470
Currency swap contracts	-	5,469,159	-	5,469,159
Investments in life insurance	-	85,064	-	85,064
	<u>\$4,456,913</u>	<u>\$37,801,058</u>	<u>\$ -</u>	<u>\$42,257,971</u>
Other liabilities:				
Currency forward contracts	\$ -	\$ (2,220,005)	\$ -	\$ (2,220,005)
Currency swap contracts	-	(126,954)	-	(126,954)
	<u>\$ -</u>	<u>\$ (2,346,959)</u>	<u>\$ -</u>	<u>\$ (2,346,959)</u>

Fair Value Assumptions—The fair value of treasuries is determined based on quoted bid prices of securities in open active market as of December 31, 2014.

The fair value of certificates of deposits is derived from inputs other than quoted prices in active markets and indirectly from prices of other similar financial instruments.

Currency swap agreements are valued at the net present value of cash flows attributable to the difference between the contractual rates of the pertinent currencies affecting the swap. FINCA used significant other observable inputs as the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, currency yield curves, and measures of currency volatility. The value was

determined and adjusted to reflect non-performance risk of both the counterparty and FINCA. Negative market values of currency swap agreements are presented under “Other liabilities” line item on the consolidated statement of financial position. At December 31, 2014, the balance of this line item consists of solely the negative market value of the currency swaps and forward contracts.

The fair value of the investment in life insurance policies is measured at the cash surrender value using observable inputs other than quoted prices in active markets and indirectly from prices of other similar financial instruments.

Management concluded that the estimation of the fair value of the investment in its debt security is impractical; therefore, the investment in the Microfinance Fund is measured at amortized cost, which at December 31, 2014 was \$1.1 million. The accrued interest at December 31, 2014 was \$0.2 million. On each balance sheet date, management tests the value of the investment for other-than-temporary impairment. As of December 31, 2014, management concluded that the investment has not experienced any other-than-temporary impairment.

FINCA recognizes transfers between fair value hierarchy levels at the approximate date or change in circumstances that cause the transfer. There were no transfers between fair value hierarchy levels during the year ended December 31, 2014.

For disclosure purposes, the estimated fair value of FINCA’s financial instruments at December 31, 2014 is summarized as follows:

	<u>2014</u>	
	Carrying Amount	Fair Value
Financial Assets		
Loans receivable	\$949,333,168	\$962,354,417
Financial Liabilities		
Client deposits	\$130,213,635	\$130,180,275
Notes payable	740,825,686	747,697,354

Except as detailed above, FINCA considers the carrying amount of other financial instruments recognized in the consolidated financial statement approximate their fair values.

7. INCOME TAX EXPENSE

This item includes all taxes on income. Income tax expense for the year ended December 31, 2014 was as follows:

Current tax expense	\$11,515,838
Deferred tax benefit	<u>(2,355,526)</u>
Total income tax expense	<u>\$ 9,160,312</u>

In calculating both the current tax and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense includes 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 in 2014 was 26.3%. FINCA is exempt from taxes on income, except for unrelated business income, under the provision of Section 501(c)(3) of the United States Internal Revenue Code and the applicable income tax regulations of the District of Columbia. In 2014, FINCA recorded federal and state income tax expense of \$11 thousands on the unrelated business income.

Tax rate using domestic tax rate of FINCA (exempt on taxes on income)	\$ -
Foreign income tax (taxable Subsidiaries) at local statutory rates	5,937,406
Expenses not deductible for tax purposes	4,247,421
Tax exempt income	(5,295,963)
Recognition of previously unrecognized tax losses	(2,092,098)
Adjustments for under provision in previous periods	(318,491)
Foreign withholding taxes	3,520,608
Valuation allowance for unrecognized deferred tax assets	2,982,647
Other	<u>178,782</u>
 Total income tax expense	 <u>\$ 9,160,312</u>

Deferred Income Taxes—Deferred income taxes are calculated on temporary differences arising between the tax base of assets and liabilities and their carrying amounts, using the enacted 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 ASC 740 *Income Taxes*, and shown on a net basis by Subsidiaries) and the details of the deferred tax assets and liabilities are shown below.

In 2014, FINCA recorded \$0.3 million of income tax expense on \$10.2 million of temporary differences related to the excess of the amount for financial reporting over the tax basis of the investments in Subsidiaries expected to reverse in the foreseeable future. At December 31, 2014, FINCA recorded a deferred tax liability of \$0.5 million on temporary differences related to the investments in Subsidiaries expected to reverse in the foreseeable future.

Foreign withholding taxes have not been recognized on the temporary differences related to the excess of the amount for financial reporting over the tax basis of investments in Subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from a subsidiary or a sale or liquidation of a subsidiary. At December 31, 2014, the amount of such temporary differences totaled \$103.9 million. At December 31, 2014, the amount of the unrecognized deferred income tax liability on these temporary differences was approximately \$4.6 million.

ASC 740 generally requires that deferred tax assets be given full recognition, subject to the possible provision of an allowance when it is determined that this asset is unlikely to be realized. The valuation allowance is provided for the portion of the deferred tax assets for which it has been determined that it is more likely than not that the reported asset will not be realized. At December 31, 2014, FINCA has a valuation allowance of \$7.1 million against its deferred tax assets as it believes that it is more likely than not that this portion of its deferred tax assets will not be realized. The principal components of the deferred tax assets for which a valuation allowance has been established include certain foreign country operating loss carryforwards, foreign provisions for credit losses on loans, and foreign tax credits that cannot be realized in the foreseeable future.

Deferred Tax Assets—At December 31, 2014, deferred tax assets were recognized by the Subsidiaries in the following jurisdictions: Armenia, Azerbaijan, Georgia, Tajikistan, Honduras, Mexico, Tanzania, Uganda, Zambia, DRC, Pakistan, USA, Afghanistan, Haiti, Nigeria, Russia, and the Netherlands as follows:

	Assets
Property, equipment, and software	\$ 99,771
Provision for credit losses on loans	3,281,272
Cash flow hedges	444,001
Deferred income/accrued interest	1,596,516
Tax loss carryforwards	7,899,511
Other	<u>2,178,020</u>
Total deferred tax assets	15,499,091
Valuation allowance	<u>(5,785,433)</u>
Total deferred tax assets—net of valuation allowance	<u>\$ 9,713,658</u>

Deferred Tax Liabilities—At December 31, 2014, deferred tax liabilities are recorded by FMH and FINCA Subsidiaries in the Netherlands, Kyrgyzstan, Ecuador, Nicaragua, and Malawi as follows:

	Assets (Liability)
Property, equipment, and software	\$ (80,652)
Provision for credit losses on loans	(579,333)
Deferred income/accrued interest	(41,315)
Tax loss carryforwards	1,543,139
Future distribution of retained earnings	(535,219)
Other	<u>(277,366)</u>
Total deferred tax liabilities	29,254
Valuation allowance	<u>(1,357,081)</u>
Net tax liabilities	<u>\$ (1,327,827)</u>

Unrecognized Tax Benefits—FINCA records unrecognized tax benefits as liabilities in accordance with ASC 740 and adjusts these liabilities when its judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available. At December 31, 2014, FINCA did not record any unrecognized tax benefits. FINCA believes that it is not reasonably possible that any unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

At December 31, 2014, the estimated interest and penalties of \$0.2 million related to the unrecognized tax benefit on the transfer of a foreign subsidiary as part of FINCA's 2011 reorganization are not included in the income tax expense line item, but are accrued in the other operating expenses under general and administrative expenses in the consolidated statement of activities. Accrued interest and penalties are included within the related accrued liabilities line in the consolidated statement of financial position.

FINCA is subject to taxation in the United States and various states and foreign jurisdictions. As of December 31, 2014, FINCA's tax years 2008–2014 are subject to examination by the tax authorities.

8. RESTRICTED CASH

Restricted cash balances of \$23.9 million as of December 31, 2014 consist of 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.

9. INVESTMENTS AND OTHER ASSETS

FINCA's investments and other assets at December 31, 2014, consist of the following:

Short-term investments:	
Certificates of deposits	\$ 22,241,062
Treasuries	4,456,913
Current portion of held to maturity investments	43,567
Currency swap contracts	7,710,303
Long-term investments and other assets:	
Certificates of deposits	2,295,470
Investments in life insurance	85,064
Investment in FINCA Microfinance Fund	1,100,000
Investment in MFX Solutions	200,000
Long term portion of held to maturity investment	1,339,322
Currency swap contracts	5,469,159
Other equity investments	<u>175,000</u>
	<u>\$ 45,115,860</u>

Currency swap agreements are used by FINCA to mitigate risk of changes in exchange rates of indebtedness denominated in a currency different from the functional currency of a subsidiary. At December 31, 2014, the aggregate notional principal amount under the currency swap agreements was \$95.4 million.

10. LOANS RECEIVABLE—NET

Loans receivable at December 31, 2014 consist of the following:

Current gross loans to clients	\$ 720,540,441
Non-current gross loans to clients	<u>246,326,359</u>
Total gross loans to clients	966,866,800
Allowances for doubtful accounts	<u>(17,533,632)</u>
Loans receivable—net	<u>\$ 949,333,168</u>

Allowances for doubtful accounts:	
Balance—January 1	\$ 11,836,732
Credit loss provision for the year:	
Charge for the year	24,894,600
Amounts written off—net of recovery	(17,587,487)
Effect of foreign currency movements	<u>(1,610,213)</u>
Balance—December 31	<u>\$ 17,533,632</u>

A summary of balances per loan portfolio segments at December 31, 2014 is summarized as follows:

2014	Total Loans Principal	Allowance for Loan Losses	Interest and Deferred Costs Capitalized	Ending Balance
Less than \$1,000	\$ 251,985,564	\$ (6,369,554)	\$ 2,598,597	\$ 248,214,607
\$1,001–\$5,000	472,346,637	(7,208,392)	109,865	465,248,110
\$5,001–\$10,000	119,532,959	(2,018,944)	294,530	117,808,545
More than \$10,001	<u>119,548,672</u>	<u>(1,936,742)</u>	<u>449,976</u>	<u>118,061,906</u>
Total	<u>\$ 963,413,832</u>	<u>\$ (17,533,632)</u>	<u>\$ 3,452,968</u>	<u>\$ 949,333,168</u>

Activity in allowance for loan losses by segment at December 31, 2014 is summarized as follows:

2014	Beginning Balance	Charge-offs Net of Recoveries	Provision for the Year	Foreign Currency Movements	Ending Balance
Less than \$1,000	\$ 4,767,394	\$ (7,287,908)	\$ 9,374,062	\$ (483,994)	\$ 6,369,554
\$1,001–\$5,000	5,112,781	(6,968,892)	9,897,316	(832,813)	7,208,392
\$5,001–\$10,000	1,166,334	(1,635,195)	2,691,631	(203,826)	2,018,944
More than \$10,001	<u>790,223</u>	<u>(1,695,492)</u>	<u>2,931,591</u>	<u>(89,580)</u>	<u>1,936,742</u>
Total	<u>\$ 11,836,732</u>	<u>\$ (17,587,487)</u>	<u>\$ 24,894,600</u>	<u>\$ (1,610,213)</u>	<u>\$ 17,533,632</u>

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.

At December 31, 2014, FINCA’s aggregate loan portfolio was \$966.9 million and the respective total allowances for impairment totaled \$17.5 million, providing a coverage ratio of 1.8% of total loan portfolio amount. 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, and political risk) in order to establish subsidiary credit reserves. In addition, FINCA conducts quarterly vintage loan analysis.

Exposure to credit risk at December 31, 2014, 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 a credit loss provision 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 Doubtful Accounts—FINCA establishes an allowance for doubtful accounts that represents the best 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 credit loss provision.

The allowance for doubtful accounts is considered by FINCA as adequate to cover probable losses in the loan portfolio as of the balance sheet date. However, no assurance can be given that FINCA, in any particular period, will not sustain loan losses that exceed the allowance, or that subsequent valuation of the loan portfolio, in light of then-prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio, and the ongoing evaluation process, will not require significant changes to the allowance for the doubtful accounts. Additions to the allowance are made through the provision for loan losses. Loan losses are deducted from the allowance and subsequent recoveries are added.

Write-Offs—FINCA writes off a loan (and any related allowances for doubtful accounts) 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.

FINCA monitors the credit risk for its client loan portfolio through the past due status of portfolio. Aging of loans receivable as of December 31, 2014 is summarized as follows:

2014	31–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Less than \$1,000	\$ 1,473,468	\$ 1,351,866	\$ 4,167,908	\$ 6,993,242	\$ 247,590,919	\$ 254,584,161
\$1,001–\$5,000	2,179,198	1,512,504	4,378,680	8,070,382	464,386,120	472,456,502
\$5,001–\$10,000	465,444	384,222	896,361	1,746,027	118,081,462	119,827,489
More than \$10,000	<u>519,481</u>	<u>311,662</u>	<u>730,924</u>	<u>1,562,067</u>	<u>118,436,581</u>	<u>119,998,648</u>
Total	<u>\$ 4,637,591</u>	<u>\$ 3,560,254</u>	<u>\$ 10,173,873</u>	<u>\$ 18,371,718</u>	<u>\$ 948,495,082</u>	<u>\$ 966,866,800</u>

11. OTHER RECEIVABLES, PREPAIDS, AND OTHER ASSETS

The balances representing other receivables, prepaids, and other assets at December 31, 2014 are summarized as follows:

Receivable from money remittance and other agencies	\$ 615,676
Prepaid/overpaid income tax	1,682,326
Receivable commissions, rebates, and refunds from banks	2,016,797
Deposit with Internal Revenue Service and other fiduciary agencies	<u>705,913</u>
Financial assets other than cash and cash equivalents and loans receivable	5,020,712
Prepaid rent	3,674,041
Taxes	964,448
Prepayment for fixed assets	749,905
Office supplies	838,687
Employee advances and loans	813,660
Prepaid repair and maintenance expenses	318,395
Prepaid insurance	369,720
Encumbered account	8,516,809
Other debtors	<u>2,526,129</u>
	 <u>\$23,792,506</u>

All accounts receivable, prepaids, and other assets have a maturity of no more than 12 months from the balance sheet date.

The funds in the line 'Encumbered account' relate to a FINCA Subsidiary bank account, under a pending investigation for an international inward transfer. Management believes that access to this account will be restored in due course and is currently undertaking action in this respect. Therefore, management considered it appropriate to create a new line item called 'Encumbered account'. In the consolidated cash flow statements, the encumbered account is included with the change in other receivables, prepaids, and other assets.

12. PROPERTY AND EQUIPMENT

Property and equipment assets at December 31, 2014 are summarized as follows:

Cost	Total	Buildings and Offices	Construction in Progress	Leasehold Improvements	Computer Equipment	Furniture and Office Equipment	Vehicles	Other
Balance—January 1, 2014	\$ 56,745,828	\$ 3,770,965	\$ 3,108,866	\$ 11,234,377	\$ 16,879,583	\$ 12,692,781	\$ 5,508,434	\$ 3,550,822
Acquisitions	16,301,750	1,890,635	1,481,933	3,203,936	3,979,105	3,473,863	559,840	1,712,438
Disposals	(3,673,390)	(436)	(711,853)	(1,036,199)	(521,173)	(283,349)	(801,407)	(318,973)
Currency translation	<u>(4,138,277)</u>	<u>(223,979)</u>	<u>(369,430)</u>	<u>(792,890)</u>	<u>(960,323)</u>	<u>(1,086,622)</u>	<u>(452,787)</u>	<u>(252,246)</u>
Balance—December 31, 2014	<u>\$ 65,235,911</u>	<u>\$ 5,437,185</u>	<u>\$ 3,509,516</u>	<u>\$ 12,609,224</u>	<u>\$ 19,377,192</u>	<u>\$ 14,796,673</u>	<u>\$ 4,814,080</u>	<u>\$ 4,692,041</u>
Depreciation and Impairment Losses								
Balance—January 1, 2014	\$ 27,610,604	\$ 978,010	\$ -	\$ 4,620,149	\$ 9,453,672	\$ 8,097,601	\$ 3,701,901	\$ 759,271
Depreciation and amortization	8,774,508	397,939	-	1,910,410	3,053,626	2,298,076	728,261	386,196
Disposals	(2,403,288)	(10,414)	-	(1,037,850)	(367,338)	(241,209)	(670,887)	(75,590)
Currency translation	<u>(2,253,954)</u>	<u>(26,701)</u>	<u>-</u>	<u>(424,985)</u>	<u>(716,604)</u>	<u>(633,274)</u>	<u>(352,651)</u>	<u>(99,739)</u>
Balance—December 31, 2014	<u>\$ 31,727,870</u>	<u>\$ 1,338,834</u>	<u>\$ -</u>	<u>\$ 5,067,724</u>	<u>\$ 11,423,356</u>	<u>\$ 9,521,194</u>	<u>\$ 3,406,624</u>	<u>\$ 970,138</u>
Net Carrying Amounts								
Balance—January 1, 2014	<u>\$ 29,135,224</u>	<u>\$ 2,792,955</u>	<u>\$ 3,108,866</u>	<u>\$ 6,614,228</u>	<u>\$ 7,425,911</u>	<u>\$ 4,595,180</u>	<u>\$ 1,806,533</u>	<u>\$ 2,791,551</u>
Balance—December 31, 2014	<u>\$ 33,508,041</u>	<u>\$ 4,098,351</u>	<u>\$ 3,509,516</u>	<u>\$ 7,541,500</u>	<u>\$ 7,953,836</u>	<u>\$ 5,275,479</u>	<u>\$ 1,407,456</u>	<u>\$ 3,721,903</u>

Depreciation and amortization expense charged for the year ended December 31, 2014 was \$8.8 million.

13. INTANGIBLE ASSETS

Intangible assets at December 31, 2014 are summarized as follows:

Costs	Total	Capitalized Software	Capital Work-In-Progress	Other
Balance—January 1, 2014	\$22,655,160	\$17,002,371	\$ 4,901,415	\$ 751,374
Acquisition	9,921,958	7,610,032	2,311,926	-
Disposals	(6,594,413)	(420,653)	(6,173,760)	-
Currency translation	<u>(1,354,221)</u>	<u>(1,325,945)</u>	<u>(28,276)</u>	<u>-</u>
Balance—December 31, 2014	<u>\$24,628,484</u>	<u>\$22,865,805</u>	<u>\$ 1,011,305</u>	<u>\$ 751,374</u>
Amortization and Impairment				
Balance—January 1, 2014	\$ 7,693,710	\$ 7,522,238	\$ -	\$ 171,472
Amortization for the year	4,528,000	4,234,000	-	294,000
Disposals	(106,225)	(106,225)	-	-
Currency translation	<u>(449,361)</u>	<u>(449,361)</u>	<u>-</u>	<u>-</u>
Balance—December 31, 2014	<u>\$11,666,124</u>	<u>\$11,200,652</u>	<u>\$ -</u>	<u>\$465,472</u>
Net Carrying Amounts				
Balance—January 1, 2014	<u>\$14,961,450</u>	<u>\$ 9,480,133</u>	<u>\$ 4,901,415</u>	<u>\$ 579,902</u>
Balance—December 31, 2014	<u>\$12,962,360</u>	<u>\$11,665,153</u>	<u>\$ 1,011,305</u>	<u>\$ 285,902</u>

Amortization expense for the year ended December 31, 2014 was \$4.5 million.

14. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities at December 31, 2014 are summarized as follows:

Current:	
Accrued salaries and benefits	\$11,964,885
Payroll and other non-income taxes	4,698,670
Deferred rent	156,189
Accounts payable and accrued expenses	7,915,719
Professional services	2,812,991
Interest refundable to clients	1,421,668
Office supplies	512,482
Legal provision	319,081
Insurance	915,440
Current income tax	<u>4,333,561</u>
	35,050,686
Non-current—deferred rent	<u>2,942,860</u>
Total accounts payable and accrued liabilities	<u>\$37,993,546</u>

The non-current portion of deferred rent has an amortization term of 11 years. All other accounts payable and accrued liabilities have a maturity of no more than 12 months from the balance sheet date.

15. 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.

Compulsory savings/cash collateral	<u>\$ 8,527,273</u>
Voluntary savings:	
Saving accounts	53,888,390
Term deposit accounts	63,692,271
Other voluntary savings	<u>2,311,824</u>
Total voluntary savings	<u>119,892,485</u>
Accrued interest	<u>1,793,877</u>
Total deposits from clients	<u><u>\$ 130,213,635</u></u>

16. 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 six-month libor + 375 bps up to 36% floating and up to 32% 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 the 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 that 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, 2014, Subsidiaries in Azerbaijan, Kosovo, Kyrgyzstan, Russia, Ecuador, Mexico, Nicaragua, Tanzania, Zambia, and Afghanistan were in breach of financial covenants regarding loans from international financial institutions amounting to \$50.4 million. Prior to the date of issuance of these consolidated financial statements, the Subsidiaries had obtained formal waivers for these breaches of covenants amounting to \$27.7 million. All loans for which no formal waivers are obtained are classified as current in the maturity table below.

Notes payable at December 31, 2014 are summarized as follows:

Overdraft	\$ 282,023
Notes payable:	
Principal amount	732,411,449
Accrued interest	<u>8,132,214</u>
	<u>\$ 740,825,686</u>

Current and non-current book values of notes payable at December 31, 2014 are summarized as follows:

Current:	
Overdrafts	\$ 282,023
Notes payable:	
Secured	39,810,219
Unsecured	312,850,040
Collateralized borrowings	<u>255,546</u>
	<u>353,197,828</u>
Non-current:	
Notes payable:	
Secured	36,235,315
Unsecured	349,768,445
Collateralized borrowings	<u>1,624,098</u>
	<u>387,627,858</u>
Total notes payable	<u>\$ 740,825,686</u>

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

2015	\$ 345,065,616
2016	235,558,190
2017	84,823,717
2018	8,164,818
2019	25,333,920
Thereafter	<u>33,747,211</u>
	<u>\$ 732,693,472</u>

17. SUBORDINATED DEBT

The balance is mainly represented by subdebt that was received in 2009 by seven Subsidiaries from the Microfinance Fund of which \$19.5 million was outstanding at December 31, 2014. This debt matures on September 20, 2016, and the effective interest rate varies from 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.

18. 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 the 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, 2014 is summarized as follows:

United States Department of Agriculture	\$ 4,855,160
Others	<u>5,760,265</u>
	<u>\$ 10,615,425</u>

19. 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 and catch-up limits for the year 2014 were \$17,500 and \$5,500, respectively. FINCA may make contributions to the Plan as a discretionary employer match. FINCA’s contributions to the Plan during the year ended December 31, 2014 were \$0.4 million.

Defined Benefit Agreement—FINCA also maintains a nonqualified 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 2014, one plan participant reached the vesting period. In accordance with the plan agreement, FINCA made payments of \$0.5 million resulting in a settlement of the plan liability. No other amendments were made to the plan in 2014.

The net liability of FINCA’s defined benefit plan recognized at December 31, 2014 is summarized as follows:

Benefit obligation—beginning of year	\$ 3,504,764
Service cost	89,168
Interest cost	139,167
Actuarial loss	1,489,636
Settlement	(480,092)
Net employer benefits paid	(124,167)
Unrecognized prior service cost	<u>-</u>
Benefit obligation—end of year	<u>\$ 4,618,476</u>

The change in plan assets at December 31, 2014 is summarized as follows:

Fair value of assets—beginning of year	\$ -
Employee contributions	-
Employer contributions	604,259
Settlements	(480,092)
Benefits paid	<u>(124,167)</u>
Fair value of assets—end of year	<u>\$ -</u>

The funded status of FINCA's defined benefit at December 31, 2014 is summarized as follows:

Benefit obligation—end of year	<u>\$ (4,618,476)</u>
Funded status	(4,618,476)
Unrecognized prior service cost	720,684
Unrecognized net actuarial losses	<u>1,415,976</u>
Accrued benefit cost	<u>\$ (2,481,816)</u>

The amount of net periodic cost at December 31, 2014 is summarized as follows:

Service cost	\$ 89,168
Interest cost	139,167
Amortization of actuarial loss (10% corridor)	-
Settlement of pension obligation loss	147,191
Amortization of prior service cost	<u>126,206</u>
Total net periodic cost	<u>\$ 501,732</u>

Components other than net periodic cost included in the consolidated statement of activities for the year ended December 31, 2014 are summarized as follows:

Net actuarial loss	\$ 1,342,445
Prior service (credit)	<u>(126,206)</u>
Total related credits other than net periodic cost	<u>\$ 1,216,239</u>

Items not yet recognized as components of net periodic pension cost at December 31, 2014 are summarized as follows:

Unrecognized prior service cost	\$ 720,684
Unrecognized net actuarial losses	<u>1,415,976</u>
Total unamortized pension prior service cost and losses	<u>\$ 2,136,660</u>

Weighted-average assumptions used to determine benefit obligations at December 31, 2014 are as follows:

Discount rate	3.30 %
Salary scale	N/A

Weighted-average assumptions used to determine net period pension cost for the year ended December 31, 2014 are as follows:

Discount rate	4.20 %
Salary scale	N/A

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

Years Ended December 31	
2015	\$ 204,167
2016	204,167
2017	204,167
2018	204,167
2019	204,167
In aggregate for five fiscal years thereafter	2,291,015

20. ACQUISITION

No acquisitions were undertaken in 2014.

Goodwill and Purchased Intangibles—At December 31, 2014, FINCA had \$1.1 million of goodwill and \$0.75 million of purchased intangible assets representing core deposits and loan customer relationships.

Goodwill—FINCA reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. During the performance of the first step of goodwill impairment testing which consist of comparing the fair value of the reporting unit to its carrying value, the fair value exceeded its carrying value, therefore, goodwill was not impaired and no further testing was required. At December 31, 2014, the book value of goodwill was \$1.1 million.

Purchased Intangibles—At December 31, 2014, the carrying book values of the purchased intangible assets were as follows:

	December 31, 2014			
	Amortization Period (Years)	Cost Basis	Accumulated Amortization	Carrying Value
Intangible assets subject to amortization				
Core deposit relationship	5	\$ 272,453	\$ 86,276	\$ 186,177
Loan customer relationship	2	<u>478,921</u>	<u>379,196</u>	<u>99,725</u>
		<u>\$ 751,374</u>	<u>\$ 465,472</u>	<u>\$ 285,902</u>

Amortization expense relating to intangible assets subject to amortization for the remainder of the term is estimated to be as follows:

	2015	2016	2017	2018
Amortization expense	\$ 154,215	\$ 54,490	\$ 54,490	\$ 22,707

21. COMMITMENTS AND CONTINGENCIES

At December 31, 2014, 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:

Less than one year	\$ 5,664,107
Between one and five years	22,784,338
More than five years	<u>7,955,278</u>
	<u>\$ 36,403,723</u>

At December 31, 2014, there are no contingent assets, contingent liabilities, and any capital commitments. As discussed in Note 24, FINCA issued guarantees to the third parties on behalf of its Subsidiaries.

22. FINCA ENTITIES

Through its headquarters, foreign representative offices and branches, controlled Subsidiaries and affiliates, FINCA operates in 27 countries. All Subsidiaries and affiliates are controlled by FINCA directly or through FMH (see Note 1). 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 <i>Foundation</i> FINCA S.A.
Haiti	FINCA HAITI <i>Non-Governmental Organization</i>
Honduras	Sociedad Financiera FINCA Honduras, S.A. <i>Joint Stock Company</i> Fundación Internacional para la Asistencia Comunitaria de Honduras <i>Not-for-profit Organization</i>
Mexico	SOFOM Mexico SAPI
Nicaragua	Fundación Integral Comunitaria, A.C. <i>Civil Association</i> Financiera FINCA Nicaragua, S.A. <i>Joint Stock Company</i> Fundación Internacional para la Asistencia Comunitaria de Nicaragua <i>Not-for-profit Foundation</i>

(Continued)

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 <i>Company Limited by Shares</i>
Nigeria	FINCA Microfinance Bank Limited

Eurasia

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

Middle East

Jordan	FINCA Jordan Specialized Micro Loans Company
Afghanistan	FINCA Afghanistan <i>Joint Stock Company Limited by Shares</i>
Pakistan	FINCA Microfinance Bank Limited

Non-Microfinance Subsidiaries

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

Charitable Affiliates

Canada	FINCA Canada
United Kingdom	FINCA UK

(Concluded)

23. TEMPORARY RESTRICTED NET ASSETS

Temporary restricted net assets activity in 2014 was as follows:

	January 1, 2014	Contributions	Released	December 31, 2014
Credit Suisse	\$ 554,437	\$ 569,559	\$ (745,146)	\$ 378,850
Visa Inc.	391,828	-	(291,214)	100,614
Haiti	53,832	264,600	(117,862)	200,570
Zambia	142,780	12,308	(93,830)	61,258
Rumsfeld Foundation	113,879	140,000	(207,064)	46,815
Citi Jordan Islamic/ Citi Social Performance	-	-	-	-
Uganda	57,593	100,000	(71,786)	85,807
Afghanistan	64,549	17,727	(77,507)	4,769
El Salvador	92,321	19,063	(3,754)	107,630
Congo	32,555	93,913	(51,103)	75,365
Ford Foundation	191,054	-	(149,086)	41,968
Jordan	20,507	9,600	(29,307)	800
Tanzania	28,599	10,588	(28,394)	10,793
Malawi	21,529	35,937	(21,338)	36,128
Guatemala	7,884	7,623	(7,246)	8,261
Ecuador	6,000	-	-	6,000
Russia	1,600	400	-	2,000
Mexico	1,390	32,013	-	33,403
Pakistan	-	4,000	-	4,000
MetLife	78,625	-	(78,625)	-
FINCA Plus	-	65,000	-	65,000
National Community Foundation	-	22,500	-	22,500
Clifford Change Foundation	-	51,223	(30,054)	21,169
	<u>\$ 1,860,962</u>	<u>\$ 1,456,054</u>	<u>\$ (2,003,316)</u>	<u>\$ 1,313,700</u>

24. RELATED PARTIES

Balances and transactions between FINCA, the parent and its related parties, the Subsidiaries and affiliates, have been eliminated on consolidation and are not disclosed in this note.

Guarantees—FINCA International provides guarantees directly on behalf of the Subsidiaries of FMH. At December 31, 2014, the total balance of outstanding guarantees from FINCA International was \$6.6 million.

25. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, on February 21, 2015, the Central bank of the Republic of Azerbaijan devalued the Azeri Manat (AZN). The official exchange rate of AZN to the US Dollar fell by approximately 34% from the exchange rate at the balance sheet date. FINCA recorded a currency translation adjustment of \$13.1 million for the first quarter of 2015.

On March 3, 2015, FMH Subsidiary, Closed Joint Stock Company FINCA Micro-Credit Company, Kyrgyzstan obtained from the National Bank of Kyrgyz Republic the license for banking activities including banking operations in foreign currency.

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**SUPPLEMENTAL SCHEDULES AND
NOTES TO SUPPLEMENTAL SCHEDULES**

FINCA INTERNATIONAL INC.

SUPPLEMENTAL SCHEDULE—CONSOLIDATING STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2014

	FINCA International, Inc.	FMH LLC and Other	Eliminations	Consolidated Group
ASSETS				
CASH AND CASH EQUIVALENTS	\$ 7,962,875	\$ 141,192,035	\$ -	\$ 149,154,910
RESTRICTED CASH AND CASH EQUIVALENTS	6,702,921	17,153,804	-	23,856,725
SHORT-TERM INVESTMENTS	-	34,451,845	-	34,451,845
LOANS RECEIVABLE—Net	7,063,614	949,333,168	(7,063,614)	949,333,168
GRANTS RECEIVABLE—Net	2,611,426	488,081	-	3,099,507
OTHER RECEIVABLES, PREPAIDS, AND OTHER ASSETS	2,943,099	27,593,017	(6,743,610)	23,792,506
PROPERTY AND EQUIPMENT—Net	1,769,397	31,738,644	-	33,508,041
INTANGIBLE ASSETS—Net	154,766	12,807,594	-	12,962,360
LONG-TERM INVESTMENT AND OTHER ASSETS	260,064	10,403,951	-	10,664,015
INVESTMENT IN SUBSIDIARIES	185,556,707	-	(185,556,707)	-
GOODWILL	-	1,108,117	-	1,108,117
DEFERRED TAX ASSET	-	9,713,658	-	9,713,658
TOTAL ASSETS	<u>\$ 215,024,869</u>	<u>\$ 1,235,983,914</u>	<u>\$ (199,363,931)</u>	<u>\$ 1,251,644,852</u>
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and other accrued liabilities	\$ 13,042,599	\$ 30,850,095	\$ (5,899,148)	\$ 37,993,546
Client deposits	-	130,213,635	-	130,213,635
Bank deposits	-	2,642,270	-	2,642,270
Notes payable	13,899,433	730,336,749	(3,410,496)	740,825,686
Subordinated debt	-	27,733,129	(4,086,611)	23,646,518
Other liabilities	-	2,346,959	-	2,346,959
Deferred revenue	5,059,137	5,556,288	-	10,615,425
Deferred benefits	4,618,476	-	-	4,618,476
Deferred tax liabilities	-	1,327,827	-	1,327,827
Total liabilities	<u>36,619,645</u>	<u>931,006,952</u>	<u>(13,396,255)</u>	<u>954,230,342</u>
NET ASSETS:				
Unrestricted net assets	177,189,421	304,879,065	(185,967,676)	296,100,810
Restricted net assets	1,215,803	97,897	-	1,313,700
Total net assets	<u>178,405,224</u>	<u>304,976,962</u>	<u>(185,967,676)</u>	<u>297,414,510</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 215,024,869</u>	<u>\$ 1,235,983,914</u>	<u>\$ (199,363,931)</u>	<u>\$ 1,251,644,852</u>

See notes to supplemental schedules.

FINCA INTERNATIONAL INC.

SUPPLEMENTAL SCHEDULE—CONSOLIDATING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2014

	FINCA International, Inc.	FMH LLC and Others	Eliminations	FINCA Consolidated
OPERATING REVENUES:				
Contributions:				
Corporate, foundation, and individual giving	\$ 12,974,712	\$ 5,622,842	\$ (3,557,856)	\$ 15,039,698
Services and gifts in kind	4,069,578	47,122	-	4,116,700
Program:				
Interest income	297,081	368,718,114	(291,482)	368,723,713
Grants and contracts, including federal government	11,194,402	2,224,103	(1,943,880)	11,474,625
Investee income - (equity method)	1,657,936	-	(1,657,936)	-
Fees and other program income (loss)	<u>30,896,613</u>	<u>14,334,512</u>	<u>(30,835,597)</u>	<u>14,395,528</u>
Total operating revenues	<u>61,090,322</u>	<u>390,946,693</u>	<u>(38,286,751)</u>	<u>413,750,264</u>
OPERATING EXPENSES:				
Program services	36,550,365	377,508,409	(35,138,301)	378,920,473
Fundraising	3,211,169	411,656	-	3,622,825
General and administrative	<u>11,768,271</u>	<u>395,309</u>	<u>-</u>	<u>12,163,580</u>
Total operating expenses	<u>51,529,805</u>	<u>378,315,374</u>	<u>(35,138,301)</u>	<u>394,706,878</u>
Income tax expense	<u>65,921</u>	<u>9,094,391</u>	<u>-</u>	<u>9,160,312</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ITEMS				
Foreign exchange and other investment (loss) gain	(3,062,583)	10,726	3,075,504	23,647
Pension-related changes other than net periodic benefit cost—gain (loss)	(1,216,239)	-	-	(1,216,239)
Foreign operations translation loss adjustment	<u>(12,095,707)</u>	<u>(22,539,809)</u>	<u>12,605,119</u>	<u>(22,030,397)</u>
Total (loss) income on other non-operating items	<u>(16,374,529)</u>	<u>(22,529,083)</u>	<u>15,680,623</u>	<u>(23,222,989)</u>
CHANGE IN NET ASSETS BEFORE NON-CONTROLLING INTERESTS				
	(6,879,933)	(18,992,155)	12,532,173	(13,339,915)
ISSUE OF FMH SHARES TO MEMBERS	<u>-</u>	<u>16,252,786</u>	<u>(14,552,297)</u>	<u>1,700,489</u>
CHANGE IN NET ASSETS	(6,879,933)	(2,739,369)	(2,020,124)	(11,639,426)
NET ASSETS—Beginning of year	<u>185,285,157</u>	<u>307,716,331</u>	<u>(183,947,552)</u>	<u>309,053,936</u>
NET ASSETS—End of year	<u>\$ 178,405,224</u>	<u>\$ 304,976,962</u>	<u>\$ (185,967,676)</u>	<u>\$ 297,414,510</u>

See notes to supplemental schedules.

FINCA INTERNATIONAL INC.

SUPPLEMENTAL SCHEDULE—CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries and direct benefits	\$ 116,618,062	\$ 4,442,034	\$ 555,592	\$ 4,997,626	\$ 121,615,688
Fringe benefits	40,560,342	1,408,819	179,940	1,588,759	42,149,101
Travel and entertainment	12,047,868	468,051	81,090	549,141	12,597,009
Postage and shipping	-	71,091	892,418	963,509	963,509
Professional services	14,832,191	2,466,189	1,054,161	3,520,350	18,352,541
Printing	-	64,256	469,676	533,932	533,932
Occupancy and utilities	17,155,957	1,035,421	-	1,035,421	18,191,378
Equipment and office maintenance	3,541,005	390,463	248,347	638,810	4,179,815
Interest expenses	86,983,253	-	-	-	86,983,253
Subgrantee	117,970	-	-	-	117,970
Net periodic cost of defined benefit	-	648,587	-	648,587	648,587
Direct training and hiring	4,123,654	394,323	790	395,113	4,518,767
Advertising	4,477,908	1,380	139,809	141,189	4,619,097
Communications	6,155,545	144,466	238	144,704	6,300,249
Equipment, commodities, and vehicles	2,823,949	-	-	-	2,823,949
Security	5,731,000	-	-	-	5,731,000
Bank and credit card fees	2,727,949	177,201	-	177,201	2,905,150
Office supplies	4,835,756	52,344	523	52,867	4,888,623
Depreciation and amortization expense	13,048,665	253,843	-	253,843	13,302,508
Provision for loan losses	24,894,077	-	-	-	24,894,077
Taxes other than income	6,093,553	-	-	-	6,093,553
Insurance	1,375,485	87,256	-	87,256	1,462,741
Other direct costs	3,862,572	228,529	241	228,770	4,091,342
License and subscription fees	4,646,429	-	-	-	4,646,429
Loss on disposal of fixed assets	-	-	-	-	-
Impairment of assets held for use	469,186	-	-	-	469,186
Donation expenses	-	-	-	-	-
Subsidiary start-up and integration costs	1,627,424	-	-	-	1,627,424
General and administrative allocation	170,673	(170,673)	-	(170,673)	-
Total operating expenses	<u>\$ 378,920,473</u>	<u>\$ 12,163,580</u>	<u>\$ 3,622,825</u>	<u>\$ 15,786,405</u>	<u>\$ 394,706,878</u>

See notes to supplemental schedules.

FINCA INTERNATIONAL, INC.

NOTES TO SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

1. CONSOLIDATING STATEMENT OF FINANCIAL POSITION

The consolidating statement of financial position presents the separate statements of financial position of FINCA International, Inc., FINCA Microfinance Holding Company LLC, FINCA Canada, and FINCA UK, (collectively referred on this table as “FMH LLC and Other”). All intercompany balances have been eliminated.

2. CONSOLIDATING STATEMENT OF ACTIVITIES

The consolidating statement of activities presents the separate statements of activities of FINCA International, Inc., and FMH LLC and Other. All intercompany transactions have been eliminated.

3. FUNCTIONAL EXPENSES

The costs of providing program and supporting services are summarized on a functional basis in the consolidated schedule of functional expenses. FINCA has three main services: program, management and general, and fundraising. Operating costs that are specifically identifiable with the administration of the program are charged to the program and those specifically identifiable to the fundraising are charged to fundraising services. Other operating costs that benefit program and management and general services are allocated based on direct program costs less expenditures funding loan disbursements.

Program Services—FINCA provides financial services in the form of individual and group loans to the world’s lowest-income entrepreneurs so they can create jobs, build assets, and improve their standard of living.

Management and General—Management and general include FINCA’s services to provide the necessary support and strategy management of the overall FINCA’s international programs.

Fundraising—Fundraising activities include services and materials to conduct FINCA’s fundraising efforts in the form of direct mail, and other fundraising activities that may be involved with soliciting contributions from individuals, corporation, and other organizations.