FINCA International, Inc.

Consolidated Financial Statements as of and for the
Years Ended December 31, 2015 and 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, D.C.

We have audited the accompanying consolidated financial statements of FINCA International, Inc. (the "Company") and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of profit or loss, other comprehensive loss, changes in equity, 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing as established by the International Auditing and Assurance Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with IFRS as issued by the International Accounting Standards Board.

Deloitte & Touche LLP

May 19, 2016

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CASH AND CASH EQUIVALENTS	$ 137,325,636	$ 149,154,910
RESTRICTED CASH AND CASH EQUIVALENTS (Note 12)	24,876,413	23,856,725
AVAILABLE FOR SALE FINANCIAL ASSETS (Note 13)	6,916,967	30,553,509
FINANCIAL ASSETS HELD-TO-MATURITY (Note 14)	12,981,994	1,382,889
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Note 15)	29,973,025	13,179,462
LOANS RECEIVABLE—Net (Note 16)	793,927,099	949,333,168
DUE FROM BANKS	3,933,334	-
OTHER RECEIVABLES, PREPAID AND OTHER ASSETS (Note 17)	22,475,965	26,892,013
PROPERTY AND EQUIPMENT (Note 18)	31,056,503	33,508,041
INTANGIBLE ASSETS (Note 19)	11,058,837	12,962,360
GOODWILL (Note 25)	1,041,608	1,108,117
DEFERRED TAX ASSETS (Note 11)	6,901,755	9,713,658
ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Note 28)	11,089,682	-
TOTAL	$1,093,558,818	$1,251,644,852
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable and other accrued liabilities (Note 20)	$ 32,992,028	$ 33,659,985
Financial liability at fair value through profit and loss (Note 15)	1,152,086	2,346,959
Client deposits (Note 21)	168,340,679	130,213,635
Bank deposits	19,704,318	2,642,270
Notes payable (Note 22)	584,814,387	740,825,686
Subordinated debt (Note 23)	24,453,715	23,646,518
Deferred revenue (Note 24)	6,038,938	10,615,425
Employee benefits (Note 26)	3,599,046	4,618,476
Current income tax liability	3,880,606	4,333,561
Deferred tax liabilities (Note 11)	997,302	1,327,827
Liabilities of disposal group classified as held for sale (Note 28)	3,035,692	-
Total liabilities	849,008,797	954,230,342
EQUITY:		
Reserves	16,837,266	17,706,184
Retained earnings	190,871,939	188,448,532
Currency translation reserve	(59,795,383)	(28,299,651)
Equity attributable to owners of the parent company	147,913,822	177,855,065
Non-controlling interest	96,636,199	119,559,445
Total equity	244,550,021	297,414,510
TOTAL	$1,093,558,818	$1,251,644,852

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
INTEREST INCOME	$ 354,910,230	$ 364,097,057
INTEREST EXPENSE	(94,924,151)	(86,773,012)
NET INTEREST INCOME (Note 7)	259,986,079	277,324,045
IMPAIRMENT LOSSES ON LOANS (Note 16)	(40,643,279)	(24,176,946)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT LOSSES ON LOANS	219,342,800	253,147,099
OTHER OPERATING INCOME (Note 8)	14,910,392	13,945,574
NET OPERATING INCOME	234,253,192	267,092,673
GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	25,284,084	-
PERSONNEL EXPENSES (Note 9)	(146,449,554)	(161,419,782)
OTHER OPERATING EXPENSES (Note 10)	(95,306,136)	(102,768,593)
DEPRECIATION AND AMORTIZATION (Notes 18 and 19)	(12,229,981)	(13,141,460)
TOTAL EXPENSES	(253,985,671)	(277,329,835)
PROFIT BEFORE OTHER INCOME (EXPENSES)	5,551,605	(10,237,162)
OTHER INCOME (EXPENSES):		
Grants and donations	27,418,532	30,627,186
Foreign exchange losses	(25,957,601)	(2,543,788)
Non-operating income (expenses)	619,625	(789,706)
PROFIT BEFORE INCOME TAX	7,632,161	17,056,530
TAX (Note 11)	(9,391,977)	(9,136,276)
(LOSS) PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	$ (1,759,816)	$ 7,920,254
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS (Note 28)	$ (1,055,958)	$ (307,571)
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:		
The parent	$ 1,486,922	$ 6,258,312
Non-controlling interest	(4,302,696)	1,354,371
(LOSS) PROFIT FOR THE YEAR	$ (2,815,774)	$ 7,612,683

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
(LOSS) PROFIT FOR THE YEAR	$ (2,815,774)	$ 7,612,683
OTHER COMPREHENSIVE (LOSS) INCOME:		
Foreign currency movement during the year (Note 5)	(50,248,616)	(19,466,455)
Fair value revaluation reserve	(41,937)	-
Benefit plan fair value adjustment (Note 26)	93,838	(1,489,634)
Total other comprehensive loss	(50,196,715)	(20,956,089)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$ (53,012,489)	$ (13,343,406)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:		
The parent	$ (29,941,243)	$ (7,404,408)
Non-controlling interest	(23,071,246)	(5,938,998)
	$ (53,012,489)	$ (13,343,406)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO THE PARENT COMPANY ARISES FROM		
Continuing operations	$ (28,885,285)	$ (7,096,837)
Discontinued operations	(1,055,958)	(307,571)
	$ (29,941,243)	$ (7,404,408)

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Reserves	Retained Earnings	Currency Translation Reserve	Total	Non-controlling Interest	Total Equity
BALANCE—December 31, 2013	$ 15,211,848	$ 186,172,023	$ (16,126,565)	$ 185,257,306	$ 123,796,630	$ 309,053,936
Comprehensive income or loss:						
Profit for the year	-	6,258,312	-	6,258,312	1,354,371	7,612,683
Foreign currency movement during the year	-	-	(12,173,086)	(12,173,086)	(7,293,369)	(19,466,455)
Benefit plan fair value adjustment	-	(1,489,634)	-	(1,489,634)	-	(1,489,634)
Total comprehensive income or loss	-	4,768,678	(12,173,086)	(7,404,408)	(5,938,998)	(13,343,406)
Issue of ordinary shares by subsidiary	-	-	-	-	1,700,489	1,700,489
Non-controlling interest on acquisition of subsidiary	-	-	-	-	-	-
Fair value revaluation reserve	-	2,167	-	2,167	1,324	3,491
Transfer to reserve	2,494,336	(2,494,336)	-	-	-	-
BALANCE—December 31, 2014	17,706,184	188,448,532	(28,299,651)	177,855,065	119,559,445	297,414,510
Comprehensive income or loss:						
Profit (loss) for the year	-	1,486,922	-	1,486,922	(4,302,696)	(2,815,774)
Foreign currency movement during the year	-	-	(31,495,732)	(31,495,732)	(18,752,884)	(50,248,616)
Fair value revaluation reserve	-	(26,271)	-	(26,271)	(15,666)	(41,937)
Benefit plan fair value adjustment	-	93,838	-	93,838	-	93,838
Total comprehensive income or loss	-	1,554,489	(31,495,732)	(29,941,243)	(23,071,246)	(53,012,489)
Issue of ordinary shares by subsidiary	-	-	-	-	148,000	148,000
Transfer to reserve	(868,918)	868,918	-	-	-	-
BALANCE—December 31, 2015	$ 16,837,266	$ 190,871,939	$ (59,795,383)	$ 147,913,822	$ 96,636,199	$ 244,550,021

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) profit for the period after tax	$ (2,815,774)	$ 7,612,683
Adjustments to reconcile net profit for the period after tax to net cash used in operating activities:		
Depreciation and amortization (Notes 18 and 19)	12,229,982	13,302,508
Loss on disposal of fixed assets and intangibles (Notes 18 and 19)	157,043	229,912
Impairment on loan losses and other financial assets (Note 16)	40,894,280	24,894,600
Impairment of other assets	1,896,096	525,408
Foreign exchange losses (Note 5)	25,957,601	2,543,788
Changes in deferred tax assets and liabilities	2,487,719	(1,549,722)
Other non-cash adjustments	(12,986,942)	9,530,394
(Decrease) increase of assets and liabilities from operating activities after non-cash items:		
Change in loans receivable, including interest receivables	(74,262,169)	(209,915,672)
Change in due from banks	(3,933,332)	-
Change in other receivables and other assets	4,905,353	(6,946,493)
Change in other liabilities	2,290,987	1,913,133
Change in client deposits	53,186,572	53,501,496
Change in bank deposits	17,062,048	2,797,599
Change in deferred revenue	(4,562,224)	2,913,351
Change in employee benefits	(916,824)	1,113,712
Change in current income tax liability	198,650	2,290,307
Net cash provided by/(used in) operating activities	61,789,066	(95,242,996)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) financial assets	17,286,280	(20,710,671)
Purchase of property and equipment (Note 18)	(12,784,178)	(15,589,897)
Purchase of intangible assets (Note 19)	(3,615,480)	(3,959,179)
Proceeds from sales/disposal of fixed assets (Note 18)	857,838	328,338
Net cash provided by/(used in) investing activities	1,744,460	(39,931,409)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of shares	148,000	1,700,489
Proceeds from lenders	297,126,208	431,798,297
Repayment of loans and borrowings to lenders	(361,942,205)	(297,213,058)
Net cash (used in)/provided by financing activities	(64,667,997)	136,285,728

(Continued)

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ (1,134,471)	$ 1,111,323
CASH AND CASH EQUIVALENTS—Beginning of the year	149,154,910	155,060,628
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(9,801,815)	(7,017,041)
CASH HELD FOR SALE (Note 28)	(892,988)	-
CASH AND CASH EQUIVALENTS—End of the year	$ 137,325,636	$ 149,154,910
SUPPLEMENTAL DISCLOSURES TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$ 344,248,793	$ 352,685,012
Interest paid	$ (90,596,230)	$ (77,486,305)
Income taxes paid	$ (7,089,947)	$ (9,498,855)

See notes to consolidated financial statements. (Concluded)

1. NATURE OF ACTIVITIES

FINCA International, Inc. (FINCA or "FINCA International" or the "Company") is a not-for-profit corporation, incorporated in New York, United States of America (USA), that has received a determination letter from the United States Internal Revenue Service classifying it as a tax-exempt public charity described in Section 501(c)(3) of the United States Internal Revenue Code of 1986, as amended. Founded in 1984, FINCA's mission is to alleviate poverty through lasting solutions that help people build assets, create jobs and raise their standard of living. FINCA's headquarters is located in Washington, D.C., USA.

In December 2011, FINCA completed the reorganization of its organizational structure by forming a 100%-owned subsidiary in October 2010, FINCA Microfinance Holding Company LLC (FMH), a holding company incorporated in the USA, through which it could obtain additional capital for expansion of FINCA's mission. FMH is a limited liability company formed under the laws of the State of Delaware. FINCA International is the substantial majority shareholder, with minority positions held by social and development institutions. In exchange for its majority ownership in FMH, FINCA contributed the ownership of all of its microfinance operating subsidiaries to FMH, in which all operating subsidiaries became wholly owned subsidiaries of FMH. Upon completion of this group reorganization, FINCA obtained equity funding of approximately $70.3 million. In 2013, FINCA completed its second capital raise for FMH. FMH received $50 million in additional equity primarily from its existing shareholders. In 2014, one of the existing members contributed an additional $1.7 million in equity to FMH.

The proceeds are used by FINCA to expand outreach, enter additional countries, and provide a greater range of needed products, including savings accounts. FINCA operates FMH with existing FINCA employees and provides stewardship services that include management, accounting, administrative, personnel, and legal functions. FMH follows FINCA's mission of poverty alleviation, and no changes may be made to the corporate purpose without the consent of FINCA. In order to ensure complete alignment of interests with the microentrepreneur clients that it serves, no FINCA employee, board member, or officer may hold any equity interest in FINCA or any of the subsidiaries. FINCA, as the controlling entity, remains a not-for-profit corporation and maintains its designation as a Section 501(c)(3) charitable entity.

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

Subsidiaries principally provide small loans to individuals and to groups of individuals that lack access to traditional financial institutions. In most cases, FMH loans are made to either groups, individuals or small and medium-sized enterprises ("SME"). Other loans consist of agricultural loans, education loans and other micro-finance loans. Group and village loans 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, FMH, through a growing number of its Subsidiaries, provides other financial services needed by the working poor, including savings deposits, remittances, and micro insurance.

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

2. BASIS OF PREPARATION

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

The consolidated financial statements were approved by the board of directors on May 19 2016.

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

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

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

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

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

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

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

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

Consolidated Statements of Financial Position and Cash Flows—In the 2014 'Consolidated Statement of Financial Position', the 'Other receivables, prepaid and other assets' line item was combined with 'Grants receivable' in order to conform with the 2015 'Consolidated Statement of Financial Position' presentation and disclosure format. Additionally, in the 2014 'Consolidated Statement of Cash Flows', the 'Change in other receivables and other assets' line item under cash flows from operating activities was combined with the 'Change in grants receivable' line item in order to conform with the 2015 'Consolidated Statement of Cash Flows' presentation and disclosure format. These reclassifications had no impact on cash used in operating, investing or financing activities.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below:

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

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

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

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

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

Profit or loss and each component of other comprehensive income or loss are attributed to the owners of FINCA and to the non-controlling interests. Total comprehensive income or loss of Subsidiaries is attributed to the owners of FINCA and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of Subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Company are eliminated in full upon consolidation.

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

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

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

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

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

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

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

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

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

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

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured at its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss.

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

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

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

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

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

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

Non-current assets Held for Sale—Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of profit or loss of the reporting period, and other comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of profit or loss. Therefore the 2014 statement of profit or loss and the related notes to the statement of profit or loss are represented to separately disclose the activity related to the disposal group.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or a joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint venture.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Revenue Recognition

Net Interest Income—Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

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

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

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

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

Other Income—Grant revenue is recognized when there is reasonable assurance that FINCA has complied with the terms and conditions associated with the grant and that grants will be received. Grants are recognized in profit or loss on a systematic basis over the periods in which FINCA recognizes as expenses the related costs for which the grants are intended to compensate.

Donations received are recorded as revenue when the amount can be reliably measured and there is reasonable assurance that it will be received.

Foreign Currency

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

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

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

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

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

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

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

Income Tax Expense—FINCA is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code of 1986, as amended; however, income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business taxable income. Accordingly, no provision for income taxes is made in the consolidated financial statements. However, some of the foreign operations of the subsidiaries are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statements of profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. The current tax is calculated using tax rates that have been enacted, or substantively enacted, by the end of the reporting period in the respective jurisdictions.

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that FINCA is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Restructured Loans—Restructuring a credit risk exposure is a proactive redefinition of a loan's repayment plan to align it with a client's actual and expected future payments, such as a significant change in the client's economic environment. The decision to restructure a credit exposure is always taken in conformity with subsidiary credit policies.

Allowance for Losses on Loans

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

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

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

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

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

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

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

For the purpose of the evaluation of impairment of individually insignificant credit exposures, the credit exposures are grouped on the basis of similar credit risk characteristics, i.e., according to the number of days they are in arrears. Arrears of more than 30 days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics. The collective assessment of impairment for individually insignificant credit exposures and for unimpaired credit exposures belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics in the individual Subsidiary (migration analysis), grouped into geographical segments with a comparable risk profile. After a qualitative

analysis of this statistical data, FINCA management approves appropriate rates as the basis for their portfolio-based impairment allowances. Deviations from this guideline were allowed, if necessitated by the specific situation of the Subsidiary.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities at FVTPL—Financial liabilities are classified as 'at FVTPL' when the financial liability is held for trading or it is designated as 'at FVTPL'. FINCA did not have any financial liabilities held for trading at December 31, 2015.

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

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that FINCA manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument, such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with FINCA's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

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

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

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

Notes Payable—Notes payable are recognized initially at fair value, net of transaction costs incurred. Notes payable are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

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

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

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

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

- The amount of obligation under the contract, as determined in accordance with IAS 37.
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of Financial Liabilities—Financial liabilities are derecognized when they have been redeemed or otherwise extinguished. All financial liabilities are derecognized when they are extinguished—that is, when the obligation is discharged, canceled or expires. The difference between the carrying amount of financial liability derecognized and consideration paid is recognized in the consolidated statements of profit or loss.

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

Derivative instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. FINCA, in alignment with its risk management objectives, resources, and its strategy for undertaking various hedge transactions, assesses the relationship between the hedging instrument and the hedged item. Based on this assessment the Company did not designate any of the hedging instruments as derivatives used for hedging purposes that qualify for hedge accounting. At December 31, 2015, the resulting gains or losses from 'mark-to-market' valuation of the derivative instruments are recognized in the consolidated statements of profit or loss.

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

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

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

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

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

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

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

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

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

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

Borrowing Costs—FINCA did not incur any interest costs that qualify for capitalization under IAS 23, *Borrowing Costs*.

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

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

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

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

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

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

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

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

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. Such impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Such an impairment loss is reversed only to the

extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in previous years.

Leased Assets—Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to FINCA (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property or the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statements of profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor. As of December 31, 2015 and 2014, FINCA had no finance leases.

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

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

Employee Benefits

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

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

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

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

- Net interest expense or income

- Remeasurements

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

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

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

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

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

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

Application of New and Revised IFRSs

New and Revised IFRSs—In the current year, FINCA has adopted all new and revised standards and interpretations that are relevant, or otherwise stated their inapplicability to its operations and effective for an accounting period that begins on or after January 1, 2015.

Annual Improvements to IFRSs 2010–2012 Cycle and IFRSs 2011–2013 Cycle—FINCA has applied the amendments to IFRSs included in the Annual Improvements to IFRSs 2010–2012 Cycle and IFRSs 2011–2013 in the current year which have been previously disclosed. The application of these amendments has had no impact on the disclosures or amounts recognized in FINCA's consolidated financial statements.

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

Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers*

Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations;*
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*; and
- Annual Improvements to IFRSs 2012–2014 Cycle.

IFRS 9 Financial Instruments (as revised in 2014)

(Effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option;
- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at fair value through other comprehensive income or loss (FVTOCI), unless the asset is designated at FVTPL under the fair value option;
- all other debt instruments must be measured at FVTPL; and
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognized in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment Methodology

The impairment model under IFRS 9 reflects *expected* credit losses, as opposed to *incurred* credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge Accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The work on macro hedging by the IASB is still at a preliminary stage—a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period which ended on 17 October 2014. The project is under redeliberation at the time of writing.

Transitional Provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and

2. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until FINCA performs a detailed review.

IFRS 15 Revenue from Contracts with Customers

(Effective for annual periods beginning on or after 1 January 2018)

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 *Revenue*;
- IAS 11 *Construction Contracts*;
- IFRIC 13 *Customer Loyalty Programs*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 18 *Transfers of Assets from Customers*; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new revenue Standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if IFRS 9 is early adopted).

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle 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.

The new revenue Standard introduces a 5-step approach to revenue recognition and measurement:

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

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

It is not practicable to provide a reasonable estimate of the effect of IFRS 15 until FINCA performs a detailed review.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

(Effective for annual periods beginning on or after 1 January 2016)

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards

(e.g. IAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if one of the parties that participates in the joint operation contributes an existing business to the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The management of FINCA does not anticipate that the application of these amendments to IFRS 11 will have a material impact on the FINCA's consolidated financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization—The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, FINCA uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The management of FINCA believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the management of FINCA does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on FINCA's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(Effective for annual periods beginning on or after 1 January 2016)

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture.

IAS 28 has been amended to reflect the following:

- Gains and losses resulting from transactions involving assets that do not constitute a business between an investor and its associate or joint venture are recognized to the extent of unrelated investors' interests in the associate or joint venture.

- Gains or losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognized in full in the investor's financial statements.

IFRS 10 has been amended to reflect the following:

Gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The management of FINCA does not anticipate that the application of these amendments will have a significant impact on FINCA's consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities:

Applying the Consolidation Exception (Effective for annual periods beginning on or after 1 January 2016)

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

Lastly, clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12 *Disclosures of Interests in Other Entities*.

These amendments will not have a significant impact on FINCA's consolidated financial statements since FINCA does not have subsidiaries which are investment entities.

Annual Improvements to IFRSs 2012–2014 Cycle

The Annual Improvements to IFRSs 2012–2014 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The management of FINCA does not anticipate that the application of these amendments will have a significant impact on FINCA's consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Legal Proceedings—In accordance with IFRS, FINCA recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may

be disclosed in the notes to the consolidated financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the consolidated financial statements, could have a material effect on FINCA's financial position. Application of these accounting principles to legal cases requires FINCA management to make determinations about various factual and legal matters beyond its control. FINCA has outstanding legal cases, makes assessments of the legal proceedings at each reporting date and makes a determination as to their status, in order to assess the need for provisions and disclosures in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim, or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim, or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements, but before those consolidated statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of FINCA's management as to how it will respond to the litigation, claim, or assessment.

5. FINANCIAL RISK MANAGEMENT

FINCA believes that effective risk management is of primary importance to its overall operations. Accordingly, FINCA's risk management process has been designed to monitor, evaluate and manage the principal risks it assumes in conducting its activities. Specifically, the activities that FINCA engages in, and the risks those activities generate, must be consistent with FINCA's underlying goal of serving the world's lowest income entrepreneurs.

FINCA's risks are generally categorized into:

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

In today's environment, we have placed emphasis on solvency, liquidity, anti-money laundering, treasury, cash flow, and capital adequacy.

FINCA's risk programs are based on three lines of defense: (i) business management, (ii) independent control functions and (iii) Internal Audit.

- Business Management. Each of FINCA's subsidiaries, including in-business risk personnel, own and manage the risks, including compliance risks, inherent in or arising from the business, and are responsible for having controls in place to mitigate key risks and promoting a culture of compliance and control.

- Independent Control Functions. FINCA's independent control functions, including Finance, Legal and Risk, set standards according to which FINCA and its businesses are expected to manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and standards of ethical conduct. In addition, among other things, the independent control functions provide advice and training to FINCA's businesses and establish tools, methodologies, processes and oversight of controls used by the businesses to foster a culture of compliance and control and to satisfy those standards.

- Internal Audit. FINCA's Internal Audit function independently reviews activities of the first two lines of defense discussed above based on a risk-based audit plan and methodology approved by the FINCA's Board of Directors.

Historically, FINCA maintained a minimum Tier I capital policy that required subsidiaries to maintain common tangible equity equal to at least 20% of total assets. This level was quite conservative compared with competitors and local regulatory requirements. To better align with lender and regulatory standards, and acknowledging the constraint this relatively high capital requirement placed upon growth, in 2014 and 2015 certain subsidiaries were granted approval from FINCA's audit committee to lower their minimum tangible equity level to 15% (this lowering was coordinated with relevant lenders). In addition, certain subsidiaries are also permitted to include qualifying Tier II equity in their minimum equity ratios. Subsidiaries that have not been permitted a higher leverage limit must remain compliant with the 20% tangible equity level. Compliance with this internal policy is monitored as part of the monthly Asset-Liability Committee (ALCO) process. FINCA's Tier I and Tier II capital ratios exceeded this minimum policy level in 2015 and 2014.

	2015	2014
Reserves	$ 16,837,266	$ 17,706,184
Retained earnings	190,871,939	188,448,532
Currency translation reserve	(59,795,383)	(28,299,651)
Tier I capital attributable to the parent company	147,913,822	177,855,065
Tier I capital attributable to non-controlling interests	96,636,199	119,559,445
Tier I capital	$ 244,550,021	$ 297,414,510
Total assets	$1,093,558,818	$1,251,644,852
Tier I capital/assets	22.4 %	23.8 %
Qualified Tier II capital	$ -	$ 3,827,200
Total capital	$ 244,550,021	$ 301,241,710
Total capital/assets	22.4 %	24.1 %

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, groups of individuals and SME for a specific purpose and is sufficiently diversified to reduce concentration risk. At December 31, 2015 and 2014, FINCA had 1.2 million borrowers.

FINCA's aggregate loan portfolio was $818.9 million and $966.9 million as of December 31, 2015 and 2014, respectively (see Note 16). FINCA's total allowance for impairments totaled $24.9 million, a coverage ratio of 3.0% of total loans, and $17.5 million, a coverage ratio of 1.8% of total loans, as of December 31, 2015 and 2014, respectively.

Regionally, impairment losses on loans approximate 1.8% to 5.5% and 1.7% to 6.0% of the average total loan portfolio at December 31, 2015 and 2014, respectively, pursuant to the following:

	Impairment Losses on Loans		Average Gross Loans to Customers		Impairment Losses As % of Average Gross Loans	
	2015	2014	2015	2014	2015	2014
Eurasia	$ 23,904,084	$ 9,437,650	$ 489,901,816	$ 550,395,904	4.9 %	1.7 %
Latin America	9,084,152	9,266,708	164,670,801	154,409,581	5.5	6.0
Africa	6,116,054	4,325,874	148,049,311	127,505,307	4.1	3.4
MESA	1,538,989	1,146,714	85,030,669	60,107,003	1.8	1.9

FINCA conducts bi-annual historical loan loss migration analysis across its subsidiary network in order to determine the probability of default, defined as all loans in arrears in excess of 180 days, as well as an examination of other current observable factors (e.g., macroeconomic, operational, policy and systems changes, political risk, etc.) in order to establish subsidiary credit reserves. The loan loss migration data is used to form the statistical base of the credit risk calculation in order to estimate the probability of default over a six month period. In addition, FINCA conducts quarterly vintage loan analysis.

Exposure to credit risk at December 31, 2015 is as follows:

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

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

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

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

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

The regional segmentation by arrears category for gross loans and allowances at December 31, 2015 is as follows:

	Total Gross Loans for Each Portfolio Aging Segment						
	Current	1–30 Days	31–60 Days	61–90 Days	91–180 Days	180+ Days	Total Gross Loan Portfolio
Eurasia	$371,928,829	$19,407,605	$4,803,184	$3,334,223	$3,525,822	$3,129,810	$406,129,473
Latin America	154,551,784	3,339,435	1,414,954	1,162,878	3,194,037	635,607	164,298,695
Africa	145,036,312	3,628,824	1,452,409	864,978	1,761,663	1,230,609	153,974,795
MESA	90,719,473	1,589,149	707,686	409,131	1,022,415	-	94,447,854
Total	$762,236,398	$27,965,013	$8,378,233	$5,771,210	$9,503,937	$4,996,026	$818,850,817

	Aging of the Allowances for Impairment						
	Current	1–30 Days	31–60 Days	61–90 Days	91–180 Days	180+ Days	Total allowance for impairment
Eurasia	$ 2,124,771	$ 1,480,625	$3,629,914	$1,282,351	$2,458,905	$3,065,065	$ 14,041,631
Latin America	881,541	504,105	543,537	668,815	2,276,753	638,547	5,513,298
Africa	485,048	476,055	552,966	507,678	1,399,532	908,413	4,329,692
MESA	89,323	136,866	215,166	192,706	405,036	-	1,039,097
Total	$ 3,580,683	$ 2,597,651	$4,941,583	$2,651,550	$6,540,226	$4,612,025	$ 24,923,718

The regional segmentation by arrears category for gross loans and allowances at December 31, 2014 is as follows:

	Total Gross Loans for Each Portfolio Aging Segment						
	Current	1–30 Days	31–60 Days	61–90 Days	91–180 Days	180+ Days	Total Gross Loan Portfolio
Eurasia	$559,192,472	$ 7,337,303	$2,047,506	$1,414,742	$3,128,189	$ 553,950	$573,674,162
Latin America	164,396,196	3,815,032	1,654,023	1,495,233	3,442,964	651,880	175,455,328
Africa	134,359,073	4,602,399	656,888	469,308	923,424	1,112,735	142,123,827
MESA	74,223,274	569,332	279,174	180,971	360,450	282	75,613,483
Total	$932,171,015	$16,324,066	$4,637,591	$3,560,254	$7,855,027	$2,318,847	$966,866,800

	Aging of the Allowances for Impairment						
	Current	1–30 Days	31–60 Days	61–90 Days	91–180 Days	180+ Days	Total Allowance for Impairment
Eurasia	$ 2,079,755	$ 419,980	$ 709,600	$ 825,955	$2,572,912	$ 556,075	$ 7,164,277
Latin America	1,314,263	496,233	643,766	906,732	2,696,666	540,640	6,598,300
Africa	745,501	169,887	422,717	259,853	636,109	929,815	3,163,882
MESA	80,334	51,261	89,025	88,762	297,509	282	607,173
Total	$ 4,219,853	$ 1,137,361	$1,865,108	$2,081,302	$6,203,196	$2,026,812	$ 17,533,632

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

- Price risk is the risk to earnings from changes in interest rates
- Foreign exchange rate risk arises from the different markets in which FINCA operates, which are mostly developing countries with so called exotic currencies
- Liquidity risk is the risk that a change in market conditions precludes the ability of FINCA to fund its existing asset base and operational requirements

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

FINCA's financial performance is subject to some degree of risk due to changes in interest rates; however, FINCA's Subsidiaries' balance sheets have significantly less interest rate risk than that of a traditional financial institution as:

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

The consideration of interest rate risk by term of asset and liability as of December 31, 2015 is as follows:

	Up to 3 Months	3–6 Months	7–12 Months	1–3 Years	More than 3 Years	Non-interest Sensitive Balances	2015 Total
Cash and cash equivalents	$ 29,365,525	$ 592,967	$ -	$ -	$ -	$ 107,367,144	$ 137,325,636
Restricted cash and cash equivalents	20,204,543	607,587	-	50,000	-	4,014,283	24,876,413
Available for sale financial assets	4,763,714	500,000	814,770	70,327	-	768,156	6,916,967
Financial assets held-to-maturity	8,435,196	1,906,532	1,555,461	281,849	802,956	-	12,981,994
Financial assets at fair value through profit and loss	4,488,287	6,591,139	3,599,217	5,254,649	599,731	9,440,002	29,973,025
Loans receivable—net	182,311,448	178,563,978	230,738,541	190,877,574	11,435,558	-	793,927,099
Due from banks	2,129,670	622,615	1,181,049	-	-	-	3,933,334
Other receivables, prepaid and other assets	394,131	334,765	162,400	351,441	-	21,233,228	22,475,965
Property and equipment—net	-	-	-	-	-	31,056,503	31,056,503
Intangible assets—net	-	-	-	-	-	11,058,837	11,058,837
Goodwill	-	-	-	-	-	1,041,608	1,041,608
Deferred tax assets	55,814	-	-	-	-	6,845,941	6,901,755
Assets of disposal group classified as held for sale	-	-	-	-	-	11,089,682	11,089,682
Total assets	252,148,328	189,719,583	238,051,438	196,885,840	12,838,245	203,915,384	1,093,558,818
Accounts payable and other accrued liabilities	338,084	748,799	-	-	-	31,905,145	32,992,028
Financial liability at fair value through profit and loss	34,714	927,210	-	190,162	-	-	1,152,086
Client deposits	83,665,611	17,556,382	34,223,176	20,229,189	2,089,381	10,576,940	168,340,679
Bank deposits	8,524,961	2,817,940	7,231,603	1,129,814	-	-	19,704,318
Notes payable	218,529,020	73,581,198	74,201,067	151,775,041	66,728,061	-	584,814,387
Subordinated debt	12,978,457	163,699	7,738,670	1,500,000	2,072,889	-	24,453,715
Deferred revenue	49,647	-	-	-	-	5,989,291	6,038,938
Employee benefits	-	-	-	-	-	3,599,046	3,599,046
Current income tax liability	42,631	-	-	-	-	3,837,975	3,880,606
Deferred tax liabilities	-	-	-	-	-	997,302	997,302
Liabilities of disposal group classified as held for sale	-	-	-	-	-	3,035,692	3,035,692
Total liabilities	324,163,125	95,795,228	123,394,516	174,824,206	70,890,331	59,941,391	849,008,797
Open position	$ (72,014,797)	$ 93,924,355	$ 114,656,922	$ 22,061,634	$ (58,052,086)	$ 143,973,993	$ 244,550,021

The consideration of interest rate risk by term of asset and liability as of December 31, 2014 is as follows:

	Up to 3 Months	3–6 Months	7–12 Months	1–3 Years	More than 3 Years	Non-interest Sensitive Balances	2014 Total
Cash and cash equivalents	$ 54,661,182	$ 2,098,695	$ -	$ -	$ -	$ 92,395,033	$ 149,154,910
Restricted cash and cash equivalents	20,595,753	850,523	-	50,000	-	2,360,449	23,856,725
Available for sale financial assets	8,201,007	9,454,720	4,277,222	7,891,731	-	728,829	30,553,509
Financial assets held-to-maturity	43,567	-	-	669,651	669,671	-	1,382,889
Financial assets at fair value through profit and loss	2,250,508	7,787,282	354,192	2,787,480	-	-	13,179,462
Loans receivable—net	253,347,641	216,317,813	283,131,167	191,451,026	5,085,521	-	949,333,168
Grants receivable—net	112,739	-	198,003	-	-	2,788,765	3,099,507
Other receivables, prepaid and other assets	944,526	108,614	62,993	62,900	23,097	22,590,376	23,792,506
Property and equipment—net	-	-	123,129	-	814,635	32,570,277	33,508,041
Intangible assets—net	-	19,140	-	13,098	436,708	13,601,531	14,070,477
Deferred tax assets	42,390	-	-	-	-	9,671,268	9,713,658
Total assets	340,199,313	236,636,787	288,146,706	202,925,886	7,029,632	176,706,528	1,251,644,852
Accounts payable and other accrued liabilities	2,336,726	-	81,376	-	555,088	30,686,795	33,659,985
Financial liability at fair value through profit and loss	20,095	67,148	-	39,711	-	2,220,005	2,346,959
Client deposits	75,737,242	22,940,500	22,420,399	5,142,081	669,848	3,303,565	130,213,635
Bank deposits	1,547,026	1,095,244	-	-	-	-	2,642,270
Notes payable	76,500,489	108,884,288	167,813,050	320,381,909	67,245,950	-	740,825,686
Subordinated debt	25,988	827,212	2,731,181	18,232,678	1,829,459	-	23,646,518
Deferred revenue	320,962	9,712	17,523	10,238	-	10,256,990	10,615,425
Employee benefits	-	-	-	-	-	4,618,476	4,618,476
Current income tax liability	177,095	-	-	-	-	4,156,466	4,333,561
Deferred tax liabilities	-	-	-	-	385,729	942,098	1,327,827
Total liabilities	156,665,623	133,824,104	193,063,529	343,806,617	70,686,074	56,184,395	954,230,342
Open position	$ 183,533,690	$ 102,812,683	$ 95,083,177	$ (140,880,731)	$ (63,656,442)	$ 120,522,133	$ 297,414,510

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

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

	2015	2014
USD/EUR net interest income impact @ 200 bp (in USD millions)	(0.90)	0.77
Local current net interest income impact (in USD millions)	3.52	12.73
Total	2.62	13.50
Total as a percentage of total capital	1.1 %	4.5 %

Since FINCA's interest-sensitive assets reprice more quickly than its interest-sensitive liabilities, increases in market interest rates result in higher net interest income (and the opposite is also true).

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

	Shock (Average)	Economic Value Impact (in millions)
USD/EUR	200 bp	(3.37)
Local	543 bp	5.94
Total		2.57
Total as a percentage of total capital		1.1 %

The preponderance of USD liabilities in the later time bands (1–3+ years) in comparison to assets is slightly offset by the economic value of positive repricing by local currency assets in the earlier period (to 12 months).

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

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

Total cash and cash equivalents totaled $137.3 million as of December 31, 2015, compared to $149.2 million as of December 31, 2014. FINCA has maintained total cash balance equal to 12.6% and 11.9% of total assets as of December 31, 2015 and 2014, respectively, which is considered to be a sufficient liquidity cushion.

Liquidity Risk Management—FINCA runs a centralized treasury model where the overall balance sheet is managed by the Treasury department through Subsidiaries' Asset and Liability Committees (ALCO). Day-to-day liquidity and funding are managed by Subsidiary CFOs and treasurers at the country level and are monitored by Subsidiary ALCO and FINCA treasury on a monthly basis.

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

FINCA’s microfinance operating Subsidiaries are required to comply with a liquidity policy that specifies a minimum amount of liquid assets (cash and cash equivalents) that is to be maintained at all times. This minimum liquidity policy requires that approximately 5.0% of total assets be held in cash and cash equivalents. As of December 31, 2015, the ratio of Subsidiaries’ unrestricted cash and cash equivalents to total Subsidiaries’ assets was 10.0%, compared with 8.7% as of December 31, 2014.

A traditional view of FINCA’s liquidity is provided by a GAP analysis. Considering the contractual terms of client loans, FINCA has a substantial amount of excess liquidity in the under one-year time frame (GAP < one year of $231 million in 2015 and $464 million in 2014). Due to the short-term nature of the loan portfolio (74.5% of which matures within one year), the negative liquidity in years 3 to 5 will be covered by the normal course of business operations as new loans are disbursed.

At December 31, 2015	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Total
Cash and cash equivalents	$ 137,325,636	$ -	$ -	$ 137,325,636
Restricted cash and cash equivalents	24,803,022	50,000	23,391	24,876,413
Available for sale financial assets	6,148,811	7,584	760,572	6,916,967
Financial assets held-to-maturity	11,897,189	281,849	802,956	12,981,994
Financial assets at fair value through profit and loss	16,901,901	13,071,124	-	29,973,025
Loans receivable—net	591,613,967	190,877,574	11,435,558	793,927,099
Due from banks	3,933,334	-	-	3,933,334
Other financial assets	10,359,809	-	82,003	10,441,812
	802,983,669	204,288,131	13,104,480	1,020,376,280
Other financial liabilities	18,901,126	-	-	18,901,126
Financial liability at fair value				-
through profit and loss	961,924	190,162	-	1,152,086
Clients deposits	146,022,109	20,229,189	2,089,381	168,340,679
Bank deposits	18,574,504	1,129,814	-	19,704,318
Notes payable	366,311,286	151,775,040	66,728,061	584,814,387
Subordinated debt	20,852,472	1,528,354	2,072,889	24,453,715
	571,623,421	174,852,559	70,890,331	817,366,311
Liquidity gap	$ 231,360,248	$ 29,435,572	$ (57,785,851)	$ 203,009,968

At December 31, 2014	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Total
Cash and cash equivalents	$ 149,154,910	$ -	$ -	$ 149,154,910
Restricted cash and cash equivalents	22,912,811	927,523	16,391	23,856,725
Available for sale financial assets	26,697,975	3,108,557	746,977	30,553,509
Financial assets held-to-maturity	43,567	669,651	669,671	1,382,889
Financial assets at fair value through profit and loss	7,710,303	5,469,159	-	13,179,462
Loans receivable—net	752,796,621	191,451,026	5,085,521	949,333,168
Grants receivable	3,099,507	-	-	3,099,507
Other financial assets	9,954,438	8,605,313	141,838	18,701,589
	972,370,132	210,231,229	6,660,398	1,189,261,759
Other financial liabilities	23,150,831	61,707	-	23,212,538
Financial liability at fair value through profit and loss	2,006,479	340,480	-	2,346,959
Clients deposits	124,248,007	5,277,790	687,838	130,213,635
Bank deposits	2,642,270	-	-	2,642,270
Notes payable	353,166,468	320,413,269	67,245,949	740,825,686
Subordinated debt	3,121,790	18,261,776	2,262,952	23,646,518
	508,335,845	344,355,022	70,196,739	922,887,606
Liquidity gap	$ 464,034,287	$ (134,123,793)	$ (63,536,341)	$ 266,374,153

The traditional GAP view tends to overstate the amount of near-term liquidity since it does not take into consideration the behavioral nature of FINCA's client loan portfolio. From a behavioral perspective, FINCA's clients are able to renew their loans for multiple terms, which lessens the amount of short-term liquidity (lowers the positive gap in that time frame). In spite of this, FINCA's consolidated balance sheets remain liquid owing to the short asset tenor and to the fact that client loans amortize. FINCA's borrowings are predominately two-year tenor with principal repaid at maturity.

Counterparty Risk—FINCA's exposure to the financial loss associated with balances held in other financial institutions is managed in accordance with prescribed limits. Given the relatively high level of cash held by FINCA's Subsidiaries (the amount of total cash to equity for FINCA's Subsidiaries was 49.0% and 40.7% as of December 31, 2015 and 2014, respectively). Lacking a limit for each counterparty bank, an undue amount of exposure would exist to the failure of a particular counterparty.

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

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

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

Subsidiaries match their non-functional currency assets with their non-functional currency liabilities to the fullest possible extent, thereby minimizing or reducing any foreign currency risk. This matching occurs either by converting non-functional currency borrowings into functional currency borrowings, by lending in non-functional currency, or by maintaining other assets in non-functional currency. It is FINCA's policy not to allow speculative open currency positions; rather, each Subsidiary's open currency position is maintained within prescribed limits relative to the Subsidiary's capital. Currency positions are measured and reported to each Subsidiary's ALCO on a monthly basis. A Subsidiary's net "long" or "short" foreign currency position is measured in relation to its equity, with the objective of maintaining the position within the more restrictive of (a) lender covenants or (b) the internal guideline of 20% of the Subsidiary's equity or (c) other contractual or local regulatory requirements. Subsidiaries that have a difference between non-functional currency assets and liabilities typically maintain a higher amount of non-functional currency assets (rendering their net position "long" in relation to the USD). At the consolidated level, FINCA experienced transaction losses of $26 million in 2015 in comparison to transaction losses of $2.5 million in 2014, representing about -2.21% and -0.2% of average total assets

in 2015 and 2014, respectively. For assessment of the group foreign exchange risk, a Value-at-Risk (VaR) analysis is performed on a quarterly basis. The VaR measure estimates the potential loss in capital over a given holding period for a specified confidence level. The VaR is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between markets. Risks can be measured consistently across all markets, and risk measures can be aggregated to arrive at a single risk number. The methodology employed is the variance-covariance approach, also known as the delta-normal approach. The holding period is one year, and the look-back period is 3.5 years. A limitation of the variance-covariance, or delta-normal, approach is the assumption of a standard normal (or Gaussian) distribution of portfolio returns, and therefore the methodology may underestimate the proportion of outliers and hence the VaR.

FINCA Azerbaijan was not included in the 2014 VaR model due to the Azerbaijani currency being pegged to US dollar and no available historical data. In 2015, the currency was no longer pegged to US dollar and thus, was included in the current year analysis. The results are shown in the following table:

	95% Confidence	**99% Confidence**
As of December 31, 2015	$18.8 million	$26.5 million
	95% Confidence	**99% Confidence**
As of December 31, 2014	$15.5 million	$21.9 million

FINCA's portfolio volatility dramatically increased in 2015 with both individual currency volatility and overall correlation among FINCA's basket of currencies increasing, leading to an increase in overall portfolio volatility. Furthermore, additional FINCA equity was deployed into subsidiary net assets over the year. FINCA's foreign currency translation reserve increased in 2015 by $50.2 million, compared to the 2014 increase of $19.5 million. The largest translation losses were incurred by the following Subsidiaries: Azerbaijan - $21.6 million, Kyrgyzstan—$5.3 million, Georgia—$4.6 million, Mexico—$3.7 million, Uganda—$2.6 million, Tanzania—$2.5 million, Tajikistan - $2.0 million and Malawi - $1.5 million. The actual loss was $28.1 million greater than the 2014 VaR model's estimated look-forward amount at the 99% confidence interval, or 3.0 standard deviations of the 2014's model's look-forward amount.

6. FINANCIAL ASSETS AND LIABILITIES—FAIR VALUE MEASUREMENTS

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values and are categorized as Level 2.

	2015		2014	
Financial Assets	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Loans receivable	$ 793,927,099	$ 809,811,356	$ 949,333,168	$ 962,354,417
Available for sale financial assets	761,142	761,142	1,300,000	1,300,000
Financial Liabilities				
Financial liabilities held at amortized cost:				
Deposits from clients	$ 168,340,679	$ 168,396,446	$ 130,213,635	$ 130,180,275
Notes payable	584,814,387	588,305,417	740,825,686	747,697,354
Subordinated debt	24,453,715	24,846,814	23,646,518	23,646,518

Fair value hierarchy at December 31, 2015 is as follows:

Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans receivable	$ -	$ 809,811,356	$ -	$ 809,811,356
Available for sale financial assets	-	-	761,142	761,142
Financial Liabilities				
Financial liabilities held at amortized cost:				
Deposits from clients	$ -	$ 168,396,446	$ -	$ 168,396,446
Notes payable	-	588,305,417	-	588,305,417
Subordinated debt	-	24,846,814	-	24,846,814

The fair values of loans receivable, deposits from clients, notes payable and subordinated debt categorized as Level 2 have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. The most significant inputs are discount rates which were derived from a blend of quoted prices for the instruments and quoted prices for similar instruments on the measurement date.

There were no changes in Level 3 fair value measurement in 2015.

The fair value the Company's investment in membership interests in MFX Solutions LLC would be based on unobservable inputs and are considered Level 3 under the fair value hierarchy. Management considers the identification of a proper discount rate and cash flow analysis impractical, as comparable financial instruments are not available; therefore the investments available for sale are measured and carried at cost. On each balance sheet date, management tests the value of investments for impairment. As of December 31, 2015 and 2014 management has concluded that the Company's investments available for sale are not impaired.

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

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

Financial Assets/ Financial Liabilities	Fair Value at 2015 Asset/ (Liability)	Fair Value at 2014 Asset/ (Liability)	Fair Value Hierarchy	Valuation Techniques and Key Inputs	Significant Unobservable Inputs	Relationship of Unobservable Inputs to Fair Value
1) Foreign currency forward contracts measured at FVTPL (Note 14)	$ 9,402,790 -	$ 176,896 (2,220,005)	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract.	N/A	N/A
2) Foreign cross currency swaps measured at FVTPL (Note 14)	20,570,235 (1,152,086)	13,002,566 (126,954)	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract.	N/A	N/A
3) Available for sale financial assets—Treasury bills (Note 13)	1,961,697	4,456,913	1	Quoted bid prices in an active market.	N/A	N/A
4) Available for sale financial assets—Time deposits (Note 13)	4,194,128	24,076,506	2	Quoted prices of similar instruments traded in active markets.	N/A	N/A

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

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

Net interest income for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Interest income:		
Cash and cash equivalents and investments	$ 9,628,501	$ 7,381,597
Loans to clients	345,281,729	356,715,460
Total interest income	354,910,230	364,097,057
Interest expense:		
Deposits from clients	10,917,711	6,588,892
Notes payable and subordinated debt	84,006,440	80,184,120
Total interest expense	94,924,151	86,773,012
Net interest income	$259,986,079	$277,324,045

8. OTHER OPERATING INCOME

Total other operating income for the years ended December 31, 2015 and 2014 was $14.9 million and $13.9 million, respectively. Included in this amount is $5.5 million (2014: $2.9 million) of fines and penalties income and $3.0 million (2014: $3.3 million) of net insurance income.

9. PERSONNEL EXPENSES

Personnel expenses for the years ended December 31, 2015 and 2014 consist of the following:

	2015	2014
Wages and salaries	$ 111,800,125	$ 119,734,896
Compulsory social security obligations	15,995,237	19,170,473
Allowances, incentives, and other benefits	12,944,746	3,604,962
Health insurance	4,378,013	15,474,771
Increase in liability for long-term service leave	1,103,083	2,229,308
Increase in liability for employee benefits	228,350	1,205,372
Total	$ 146,449,554	$ 161,419,782

10. OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31, 2015 and 2014 consist of the following:

	2015	2014
Professional fees	$ 17,252,891	$ 18,244,504
Rent	14,689,916	14,656,504
Travel	10,671,897	12,437,276
Consumables and office supply	7,701,909	6,358,337
Communication	6,125,366	6,172,851
Taxes other than income	3,562,910	5,784,333
Security	5,578,840	5,731,000
License/memberships	4,620,089	4,503,160
Marketing	4,485,688	4,595,626
Repairs and maintenance	3,646,569	4,092,479
Training and hiring	2,180,494	3,555,263
Utilities	2,804,762	3,300,966
Bank charges	2,488,722	2,858,301
Motor vehicles expenses	2,329,905	2,805,751
Subsidiaries start up, integration, and reorganization costs	-	1,627,424
Insurance	1,399,856	1,449,075
Meetings, conferences, meals & entertainment	901,237	873,040
Impairment on assets held for use	-	469,186
Other expenditures	4,865,085	3,253,517
	$ 95,306,136	$ 102,768,593

11. INCOME TAX EXPENSE

Income tax expense for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Current tax expense	$9,107,281	$11,491,802
Deferred tax expense (benefit)	284,696	(2,355,526)
Total income tax expense	$9,391,977	$ 9,136,276

In calculating both the current tax and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense includes the local country income taxes for the Subsidiaries and foreign withholding taxes on certain cross-border payments. The average actual income tax rate for the Subsidiaries remained the same at 26.1% in 2014 and in 2015. FINCA is exempt from taxes on income, except unrelated business taxable income, under provision of Section 501(c)(3) of the United States Internal Revenue Code and the applicable income tax regulations of the District of Columbia. The current income tax expense includes $0.7 million of tax benefit for the reversal of a tax provision related to the transfer of one of FINCA's subsidiaries to FINCA Microfinance Cooperatief U.A. (FMC) during the 2011 reorganization of its organizational structure.

Reconciliation of income tax expense for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Income before income tax expense	$ 7,632,161	$17,056,530
Income tax expense	(9,391,977)	(9,136,276)
(Loss)/profit for the year	$(1,759,816)	$ 7,920,254

	2015	2014
Tax rate using domestic tax rate of FINCA (exempt on taxes on income)	$ -	$ -
Foreign income tax (taxable subsidiaries) at local statutory rates	1,589,538	5,913,370
Expenses not deductible for tax purposes	4,275,831	4,247,421
Tax-exempt loss (income)	172,530	(5,295,963)
Recognition of previously unrecognized tax losses	(234,420)	(2,092,098)
Adjustment for under/(over) provision in previous periods	389,625	(318,491)
Foreign withholding taxes	3,081,392	3,520,608
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	783,592	2,982,647
Others	(666,111)	178,782
Total income tax expense	$9,391,977	$ 9,136,276

Deferred income taxes are calculated, under the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, using the applicable tax rate as stipulated by the tax legislation of the respective countries.

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

In 2015, FINCA recorded $0.2 million of income tax expense on $(2.0) million of temporary differences associated with FINCA's investments in Subsidiaries because it was probable that the temporary differences associated with the distribution of retained earnings through payments of dividends will reverse in the foreseeable future. The temporary differences of $(2.0) million include $4.3 million of expected distributions of retained earnings from 2015 and $(6.3) million for a reversal of expected distributions of retained earnings from prior years. In 2014, FINCA recorded $0.3 million of income tax expense on $10.2 million of temporary differences of the same nature. The deferred tax liability related to the future distributions of retained earnings by Subsidiaries is $0.5 million as of December 31, 2015 and 2014.

Deferred Tax Assets—Deferred tax assets were recognized by the subsidiaries in the following jurisdictions in 2015: FINCA SSC US Company, Armenia, Azerbaijan, Georgia, Tajikistan, Honduras, Mexico, DRC, Malawi, Tanzania, Uganda and Pakistan (2014—FINCA SSC US Company, Armenia, Azerbaijan, Georgia, Tajikistan, Honduras, Mexico, Tanzania, Uganda, Zambia, DRC and Pakistan).

2015	**Assets (Liability)**	**(Charged) Credited to Profit or Loss**	**(Charged) Credited to Equity**
Property and equipment, and software	$ (201,953)	$ 182,847	$ (484,571)
Provision for loan loss impairment	2,828,828	2,021,304	(1,371,083)
Cash flow hedges	(1,720,472)	(2,938,328)	773,855
Deferred income/accrued interest	1,357,267	174,510	(413,759)
Tax loss carryforwards	3,356,975	193,241	(831,829)
Other	1,281,110	(216,637)	98,547
Net tax assets	$ 6,901,755	$ (583,063)	$ (2,228,840)

2014	**Assets (Liability)**	**(Charged) Credited to Profit or Loss**	**(Charged) Credited to Equity**
Property and equipment, and software	$ 99,771	$ 42,946	$ (95,804)
Provision for loan loss impairment	2,178,607	445,531	(634,792)
Cash flow hedges	444,001	191,638	22
Deferred income/accrued interest	1,596,516	121,925	(6,176)
Tax loss carryforwards	3,995,563	1,825,494	(67,155)
Other	1,399,200	(118,502)	(72,995)
Net tax assets	$ 9,713,658	$ 2,509,032	$ (876,900)

Deferred Tax Liabilities—Deferred tax liabilities are recorded by FMH, Dutch Cooperatief, Kyrgyzstan, Ecuador, Nicaragua and Zambia in 2015 (2014—FMH, FINCA SSC BV company, Dutch Cooperatief, Kyrgyzstan, Ecuador, Nicaragua and Malawi) as follows:

2015	**Assets (Liability)**	**(Charged) Credited to Profit or Loss**	**(Charged) Credited to Equity**
Property and equipment, and software	$ (121,288)	$ (91,067)	$ 50,430
Provision for loan loss impairment	(231,951)	284,411	62,971
Deferred income/accrued interest	(122,610)	(85,442)	4,147
Tax loss carryforwards	57,930	(40,984)	(87,144)
Future distribution of retained earnings	(475,879)	59,340	-
Other	(103,504)	172,111	1,751
Net tax (liabilities) assets	$ (997,302)	$ 298,369	$ 32,155

2014	**Assets (Liability)**	**(Charged) Credited to Profit or Loss**	**(Charged) Credited to Equity**
Property and equipment, and software	$ (80,652)	$ 47,434	$ 2,239
Provision for loan loss impairment	(579,333)	(112,322)	85,060
Deferred income/accrued interest	(41,315)	25,099	(14,303)
Tax loss carryforwards	186,058	175,839	(18,742)
Future distribution of retained earnings	(535,219)	(194,139)	-
Other	(277,366)	(95,417)	16,844
Net tax (liabilities) assets	$ (1,327,827)	$ (153,506)	$ 71,098

12. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash balances of $24.9 million and $23.9 million as of December 31, 2015 and 2014, respectively, comprise undisbursed grant funds to be used in lending and operations, cash balances for country-specific regulatory requirements, and pledged collateral related to local borrowings and deposits, all of which can be contractually released within 12 months.

13. AVAILABLE FOR SALE FINANCIAL ASSETS

	2015	**2014**
Investment in FINCA Microfinance Fund	$ -	$ 1,100,000
Certificates of deposit and other	6,916,967	29,453,509
Total	$ 6,916,967	$ 30,553,509

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

14. FINANCIAL ASSETS HELD-TO-MATURITY

Financial assets held-to-maturity in the amount of $13.0 million (2014: $1.4 million) include $9.9 million of Market Treasury Bills issued by State Bank of Pakistan and $1.7 million (2014: $1.4 million) of Georgia Ministry of Finance Treasury Bills.

FINCA holds an investment in the Microfinance Fund. The Microfinance Fund is a $21.2 million special-purpose fund, which was structured, placed, and managed by Deutsche Bank. It provided $20.6 million in subordinated loans to seven of FINCA International's Subsidiaries in Armenia, Azerbaijan, Democratic Republic of Congo, Georgia, Kyrgyzstan, Mexico, and Tajikistan. The subordinated debt is designated as tier 2 capital securities to alleviate capital constraints of the respective Subsidiaries. Investors in the fund are primarily from the private sector. The Fund seeks to provide socially motivated investors an exposure to global microfinance through the issuance of subordinated loans. The carrying amount of the investment in the Microfinance Fund at December 31, 2015, is $1.3 million, inclusive of accrued interest income. As of December, 31 2015, management has concluded that FINCA's investment in the Microfinance Fund is not impaired.

As of December 31, 2014 the Microfinance Fund was classified as available-for-sale ("AFS"). However, based on the fact that the Microfinance Fund will mature in November 2016, management reclassified the investment to held-to-maturity as of December 31, 2015. As of December 31, 2014 the AFS investment was recorded at cost based on management's consideration that identification of a proper discount rate and cash flow analysis for debt notes in the Fund were impractical and unavailable. Therefore, there was no fair value adjustment made when the investment was reclassified to held-to-maturity as of December 31, 2015. Management considers that the carrying amount of the held-to-maturity investment approximates fair value.

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

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

2015	Notional Amount	Fair Value Assets	Liabilities
Fair value from derivatives with third parties:			
Foreign exchange swaps	$ 82,066,838	$ 20,570,235	$ 1,152,086
Foreign exchange forwards	34,381,405	9,402,790	-
Total derivatives with third parties	$ 116,448,243	$ 29,973,025	$ 1,152,086

2014	Notional Amount	Fair Value Assets	Liabilities
Fair value from derivatives with third parties:			
Foreign exchange swaps	$ 95,385,768	$ 13,002,566	$ 126,954
Foreign exchange forwards	1,996,286	176,896	2,220,005
Total	$ 97,382,054	$ 13,179,462	$ 2,346,959

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

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

16. LOANS RECEIVABLE—NET

Loans receivable as at December 31, 2015 and 2014 consist of the following:

	2015	2014
Gross loans to clients current	$604,636,808	$720,540,441
Gross loans to clients non-current	214,214,009	246,326,359
Total loans to clients	$818,850,817	$966,866,800
Gross loans to clients	$818,850,817	$966,866,800
Less allowances for impairment	(24,923,718)	(17,533,632)
Loans receivable	$793,927,099	$949,333,168

	2015	2014
Allowances for impairments—Balance at January 1	$ 17,533,632	$ 11,836,732
Impairment loss for the year:		
Charge for the year	40,643,279	24,894,600
Amounts written off—net of recovery	(26,912,121)	(17,587,487)
Reclass to other assets and assets held for sale	(508,303)	-
Effect of foreign currency movements	(5,832,769)	(1,610,213)
Balance at December 31	$ 24,923,718	$ 17,533,632

Impairment losses on loans approximate 1.8% to 5.5% and 1.7% to 6.0% of the total loan portfolio by regions at December 31, 2015 and 2014, respectively. While not all products require collateral, and collateral requirements vary by country, FINCA utilizes several methods for clients to collateralize their loans, including mandatory savings, real estate, fixed assets or an additional guarantor.

Collateral

Two forms of collateral may be applied against provisioning expense: cash and marketable precious metals. Compulsory cash collateral is required from the clients in some subsidiaries. The use of precious metals is mainly presented in the Pakistan subsidiary. Where local law allows, voluntary client deposits are also considered collateral for the purposes of provisioning.

Collateral as at December 31, 2015 is represented as follows:

Outstanding Amount of Loan	Balance at January 1, 2015	Collateral Accepted	Collateral Released	Effect of Foreign Currency Movements	Balance at December 31, 2015
up to $1,000	$16,157,890	$20,402,255	$ (17,496,084)	$ (1,845,584)	$17,218,477
$1,001–$5,000	22,965,584	18,228,746	(13,130,875)	(5,860,626)	22,202,829
$5,001–$10,000	21,205,425	15,724,267	(17,648,250)	(6,013,520)	13,267,922
more than $10,001	39,078,136	30,305,451	(35,528,374)	(8,723,002)	25,132,211
Total	$99,407,035	$84,660,719	$ (83,803,583)	$ (22,442,732)	$77,821,439

17. OTHER RECEIVABLES, PREPAID AND OTHER ASSETS

The balances represent other receivables, prepaid and other assets at December 31, 2015 and 2014 as follows:

	2015	2014
Receivable from money remittance and other agencies	$ 788,480	$ 615,676
Current income tax asset	2,851,581	1,682,326
Grants receivable	3,797,035	3,099,507
Deposit with Internal Revenue Service and other fiduciary agencies	779,670	705,913
Receivable commission, rebates, and refunds from banks and agencies	2,436,038	2,016,797
Financial assets other than cash and cash equivalents and loans receivable	10,652,804	8,120,219
Prepaid rent	2,738,951	3,674,041
Prepaid taxes	3,348,840	964,448
Prepayment for fixed assets	-	749,905
Office supplies	868,597	838,687
Staff advances and loans	649,764	813,660
Prepaid repair and maintenance expenses	224,224	318,395
Prepaid insurance	520,155	369,720
Encumbered account	-	8,516,809
Investment property	1,080,249	-
Other debtors	2,392,381	2,526,129
Total	$22,475,965	$26,892,013

The funds in the line ‘Encumbered account’ relates to a bank account, which was under a pending investigation into an international inward transfer in 2014. In 2015, the access to this account was restored. The encumbered account was included within the change in other receivables and other assets line item in the 2014 consolidated cash flow statements.

18. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 and 2014 are 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	(3,673,391)	(436)	(711,853)	(1,036,199)	(521,173)	(283,349)	(801,407)	(318,974)
Currency translation	(4,138,276)	(223,979)	(369,430)	(792,890)	(960,323)	(1,086,622)	(452,787)	(252,245)
Balance—December 31, 2014	$65,235,911	$ 5,437,185	$ 3,509,516	$12,609,224	$19,377,192	$14,796,673	$4,814,080	$4,692,041
Balance—January 1, 2015	$65,235,911	$ 5,437,185	$ 3,509,516	$12,609,224	$19,377,192	$14,796,673	$4,814,080	$4,692,041
Acquisitions	16,468,179	2,488,035	3,325,397	3,557,444	3,627,093	2,681,334	422,601	366,275
Disposals	(7,959,915)	(1,222,128)	(3,409,413)	(715,976)	(715,940)	(427,711)	(564,108)	(904,639)
Currency translation	(9,893,096)	(367,411)	(543,754)	(1,734,954)	(2,602,178)	(3,141,634)	(651,993)	(851,172)
Disposal of held for sale assets	(836,356)	(109,560)	-	(10,480)	(253,143)	(221,318)	(197,474)	(44,381)
Balance—December 31, 2015	$63,014,723	$ 6,226,121	$ 2,881,746	$13,705,258	$19,433,024	$13,687,344	$3,823,106	$3,258,124
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	(2,253,954)	(26,701)	-	(424,985)	(716,604)	(633,274)	(352,651)	(99,739)
Balance—December 31, 2014	$31,727,870	$ 1,338,834	$ -	$ 5,067,724	$11,423,356	$ 9,521,194	$3,406,624	$ 970,138
Balance—January 1, 2015	$31,727,870	$ 1,338,834	$ -	$ 5,067,724	$11,423,356	$ 9,521,194	$3,406,624	$ 970,138
Depreciation and amortization	8,287,633	456,873	-	1,649,717	2,918,770	2,205,600	558,548	498,125
Disposals	(2,313,493)	(7,341)	-	(553,320)	(781,688)	(414,235)	(462,808)	(94,101)
Currency translation	(5,092,521)	(38,160)	-	(811,788)	(1,761,587)	(1,790,318)	(463,831)	(226,837)
Disposal of held for sale assets	(651,269)	(74,414)	-	(4,367)	(244,285)	(218,370)	(71,579)	(38,254)
Balance—December 31, 2015	$31,958,220	$ 1,675,792	$ -	$ 5,347,966	$11,554,566	$ 9,303,871	$2,966,954	$1,109,071
Net Carrying Amounts								
Balance—December 31, 2013	$29,135,224	$ 2,792,955	$ 3,108,866	$ 6,614,228	$ 7,425,911	$ 4,595,180	$1,806,533	$2,791,551
Balance—December 31, 2014	$33,508,041	$ 4,098,351	$ 3,509,516	$ 7,541,500	$ 7,953,836	$ 5,275,479	$1,407,456	$3,721,903
Balance—December 31, 2015	$31,056,503	$ 4,550,329	$ 2,881,746	$ 8,357,292	$ 7,878,458	$ 4,383,473	$ 856,152	$2,149,053

Depreciation and amortization expense charged for the years ended December 31, 2015 and 2014 were $8.3 million and $8.8 million respectively.

19. INTANGIBLE ASSETS

Intangible assets at December 31, 2015 and 2014 consist of the following:

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	(6,594,412)	(420,652)	(6,173,760)	-
Currency translation	(1,354,221)	(1,325,945)	(28,276)	-
Balance—December 31, 2014	$ 24,628,485	$ 22,865,806	$ 1,011,305	$ 751,374
Balance—January 1, 2015	$ 24,628,485	$ 22,865,806	$ 1,011,305	$ 751,374
Acquisition	4,317,887	3,448,610	869,277	-
Disposals	(797,797)	(675,040)	(122,757)	-
Currency translation	(4,827,666)	(4,676,937)	(150,729)	-
Disposal of held for sale	(13,099)	(13,099)	-	-
Balance—December 31, 2015	$ 23,307,810	$ 20,949,340	$ 1,607,096	$ 751,374
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	(449,360)	(449,360)	-	-
Balance—December 31, 2014	$ 11,666,125	$ 11,200,653	$ -	$ 465,472
Balance—January 1, 2015	$ 11,666,125	$ 11,200,653	$ -	$ 465,472
Amortization for the year	4,075,062	3,920,796	-	154,266
Disposals	(92,566)	(92,566)	-	-
Currency translation	(3,396,823)	(3,396,823)	-	-
Disposal of held for sale	(2,825)	(2,825)	-	-
Balance—December 31, 2015	$ 12,248,973	$ 11,629,235	$ -	$ 619,738
Net Carrying Amounts				
Balance—December 31, 2013	$ 14,961,450	$ 9,480,133	$ 4,901,415	$ 579,902
Balance—December 31, 2014	$ 12,962,360	$ 11,665,153	$ 1,011,305	$ 285,902
Balance—December 31, 2015	$ 11,058,837	$ 9,320,105	$ 1,607,096	$ 131,636

Amortization expense for the years ended December 31, 2015 and 2014 amounts to $4.1 million and $4.5 million respectively. Included in 2015 amortization expense is $0.5 million of core banking system licences written off by FMH. Included in 2014 amortization expense is a $0.4 million impairment charge related to the partial write off of a core banking system by FINCA Bank Georgia. Impairment charge related to Human Resource Information System users licenses of FMH in the amount of $0.5 million is disclosed as part of 2014 disposal costs.

20. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities at December 31, 2015 and 2014 are as follows:

	2015	2014
Other accounts payable and accrued expenses	$ 6,378,753	$ 7,915,719
Professional services	2,799,563	2,812,991
Interest refundable to clients	183,696	1,421,668
Office supplies	905,240	512,482
Insurance	680,625	915,441
Total financial liabilities, excluding notes payable, classified as financial liabilities measured at amortized cost	10,947,877	13,578,301
Personnel	12,957,797	11,964,884
Taxes	5,617,227	4,698,670
Deferred rent	2,942,860	3,099,049
Legal provision	526,267	319,081
Total	$32,992,028	$33,659,985

All accounts payable and other accrued liabilities have a maturity of no more than 12 months from the balance sheet date, other than the non-current portion of deferred rent of $2.9 million of which has an amortization term of 11 years. Carrying values approximate fair value at December 31, 2015 and 2014.

21. 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.

	2015	2014
Compulsory savings/cash collateral	$ 5,913,554	$ 8,646,389
Voluntary savings:		
Saving accounts	54,414,511	54,641,150
Term deposit accounts	96,766,899	64,581,980
Other voluntary savings	11,245,715	2,344,116
Total voluntary savings	162,427,125	121,567,246
Total deposits from clients	$ 168,340,679	$ 130,213,635

22. 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 months LIBOR + 375 bps up to 36.1% floating and up to 37.5% 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 which have impacted microfinance, or in some cases due to local political and economic developments. A breach of a loan covenant could permit a lender to accelerate payment of the loan, but would not permit a cross-default beyond the particular Subsidiary. Management has obtained either formal waivers of some 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, 2015, FINCA, FMH and its Subsidiaries in Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyzstan, Russia, Tajikistan, Ecuador, Mexico, Malawi and Tanzania were in breach of financial covenants regarding loans from international financial institutions amounting to $233.9 million. As of December 31, 2015, FMH and its Subsidiaries had obtained formal waivers for these breaches of covenants accounting for $110.1 million and prior to the date of issuance of these consolidated financial statements a further $16.3 million. All loans for which no formal waivers were obtained or were not obtained before December 31, 2015 are classified as current in the maturity table below.

Notes payable at December 31, 2015 and 2014 are as follows:

	2015	2014
Overdraft	$ -	$ 282,023
Notes payable:		
Principal amount	577,909,053	732,411,449
Accrued interest	6,905,334	8,132,214
	$ 584,814,387	$ 740,825,686

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

2016	$ 359,273,258
2017	88,862,297
2018	55,700,245
2019	16,413,915
2020	9,960,726
Thereafter	47,698,612
	$ 577,909,053

The book value of notes payable at December 31, 2015 and 2014 are as follows:

	2015	2014
Non-current:		
Notes payable:		
Secured	$ 25,894,591	$ 36,235,315
Unsecured	142,438,986	349,768,445
Collateralized borrowings	49,717,170	1,624,098
	218,050,747	387,627,858
Current:		
Overdrafts	-	282,023
Notes payable:		
Secured	24,660,523	39,810,219
Unsecured	341,495,857	312,850,040
Collateralized borrowings	607,260	255,546
	366,763,640	353,197,828
Total notes payable	$ 584,814,387	$ 740,825,686

23. SUBORDINATED DEBT

The balance is mainly represented by subordinated debt which was received in 2009 by seven Subsidiaries from the Microfinance Fund of which $19.6 million and $19.5 million was outstanding at December 31, 2015 and 2014, respectively. Maturity of this debt is on September 20, 2016, and an effective interest rate varies in the range of 12.8% to 16.2%. Subordinated debt agreements with Subsidiaries contain the following key provisions: no early redemption and the principal of the

subordinated debt are junior in right of repayment to holders of senior debt. Each individual subordinated debt agreement includes a number of financial covenants.

The remaining subordinated debt balance consists of debt from external financial institutions to FINCA Georgia ($2.8 million) and FINCA Nicaragua ($2.0 million) as of December 31, 2015.

24. DEFERRED REVENUE

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

The balance of deferred revenue at December 31, 2015 and 2014 is as follows:

	2015	2014
United States Department of Agriculture	$ 1,958,984	$ 4,855,160
Others	4,079,954	5,760,265
Total	$ 6,038,938	$ 10,615,425

25. GOODWILL

Goodwill arose in the acquisition of FINCA Microfinance Bank Ltd (Pakistan) in 2013 because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of FINCA Microfinance Bank Ltd.

FINCA performed its annual impairment testing of goodwill in December 2015 by comparing the recoverable amount of the cash-generating unit with its carrying value.

The following were the key model inputs used in determining the fair value:

- assumed discount rate of 19.6%

- assumed cash flows from operations for the period 2016–2018 (approved by the FMH Board) and an estimated terminal value of 1.25 of the net assets value as at December 31, 2018

The recoverable amount of the cash-generating unit exceeds its carrying value and therefore management concluded that goodwill was not impaired.

26. EMPLOYEE BENEFITS

Pension Plan Deferred Compensation—FINCA has implemented an employee retirement plan (the "Plan") under Internal Revenue Code Section 403(b). Under the Plan, qualified employees may defer compensation up to the maximum amount permitted by the Internal Revenue Code. The elective deferral limits were $18,000 and $17,500 for 2015 and 2014, respectively. The catch-up contributions were $6 thousand and $5.5 thousand for 2015 and 2014, respectively. FINCA may make contributions to the

Plan as a discretionary employer match. FINCA's contributions to the Plan during both years ended December 31, 2015 and 2014 were $0.4 million.

Defined Benefit Agreement—FINCA also maintains a defined senior executive retirement plan agreement (the "Agreement") for certain officers and directors, which provides benefits payable upon retirement from FINCA (no sooner than at age 65). In addition, a death benefit is payable to a surviving spouse or named beneficiary in the event of the death of the eligible officer/director. The Agreement is offered at the sole discretion of FINCA's Board of Directors. Currently, several key employees are enrolled in the Agreement. During 2014, one employee reached the vesting age. No changes were made to the plan in 2015.

The net liability of FINCA's defined benefit plan recognized at December 31, 2015 and 2014 is summarized as follows:

	2015	2014
Benefit obligation—beginning of year	$4,618,476	$3,504,954
Service cost	79,309	88,979
Interest cost	149,041	139,167
Actuarial (gain) loss	(93,838)	1,489,635
Settlement	(445,653)	-
Net employer benefits paid	(708,289)	(604,259)
Benefit obligation—end of year	$3,599,046	$4,618,476

The change in plan assets at December 31, 2015 and 2014 is summarized as follows:

	2015	2014
Fair value of assets—beginning of year	$ -	$ -
Employee contributions	-	-
Employer contributions	708,288	604,259
Settlements	(565,788)	-
Benefits paid	(142,500)	(604,259)
Fair value of assets—end of year	$ -	$ -

The amounts recognized in comprehensive income related to FINCA's defined benefit plan at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Service costs:		
Current service cost	$ 79,309	$ 88,979
Past service costs	-	-
Settlement gain	(445,653)	-
Interest cost	149,041	139,167
Defined benefit costs recognized in profit or loss	(217,303)	228,146
Remeasurements:		
Actuarial (losses) gains arising from experience adjustments	30,582	(763,135)
Actuarial (losses) gains arising from financial assumptions	250,769	(403,200)
Other	(187,515)	(323,300)
Defined benefit costs recognized in other comprehensive income	93,836	(1,489,635)
Total	$ 311,139	$ (1,261,489)

FINCA does not have any plan assets. As a result the entire balance of the defined benefit obligation at December 31, 2015 and 2014 of $3.6 million and $4.6 million, respectively, are unfunded.

Weighted-average assumptions used to determine benefit obligations at December 31, 2015 and 2014 are as follows:

	2015	2014
Discount rate	3.8 %	3.3 %
Salary scale	N/A	N/A

Weighted-average assumptions used to determine net period pension cost for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Discount rate	3.3 %	4.2 %
Salary scale	N/A	N/A

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

Years Ending December 31	
2016	$ 133,903
2017	618,591
2018	164,504
2019	162,973
2020	633,152
In aggregate for five fiscal years thereafter	879,801

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

Investment Risk—The present value of the defined benefit plan liability is calculated using the December 31, 2015 Citigroup pension discount curve and the expected benefit payments from the plan. This curve is the published yield curve of high-grade corporate bond rates.

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

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

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

If the discount rate is a 500 basis points higher (lower) the defined benefit obligation would decrease (increase) by $0.2 million.

27. COMMITMENTS AND CONTINGENCIES

At December 31, 2015, 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:

	2015	**2014**
Less than one year	$ 6,173,623	$ 5,664,107
Between one and five years	22,143,043	21,953,092
More than five years	7,817,441	7,955,278
	$36,134,107	$35,572,477

Rent expense was $14.7 million for the years ended December 31, 2015 and 2014.

There are no contingent assets, contingent liabilities, and capital commitments at December 31, 2015 and 2014. As discussed in Note 30, FINCA issued guarantees to the third parties on behalf of its subsidiaries.

28. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The assets and liabilities related to FINCA S.A. de C.V. (FINCA El Salvador) have been presented as held for sale following the approval of FINCA's Executive Committee (authorized by the Board of Directors) on December 27th, 2015 to sell FINCA El Salvador. The transaction is expected to be completed by mid- 2016.

The pending sale of FINCA El Salvador by FINCA represents a discontinued operation in accordance with IFRS 5. Assets and liabilities of a disposal group should be presented as separate line items within current assets and current liabilities on the face of the balance sheet and should not be offset as per IFRS 5 para 38.

(a) Assets of disposal group classified as held for sale

	2015	2014
Cash and cash equivalents	$ 892,988	$ -
Loans to customers, net	10,196,694	-
Total	$ 11,089,682	$ -

(b) Liabilities of disposal group classified as held for sale, excluding intercompany liabilities of $5.6 million

	2015	2014
Accounts payable and other liabilities	$ 613,552	$ -
Notes payable and overdrafts	2,401,536	-
Deferred revenue and refundable advances	14,263	-
Deferred tax liability	6,341	-
Total	$ 3,035,692	$ -

In accordance with IFRS 5, *Non-current assets held for sale*, the assets and liabilities held for sale were written down to their fair value, less costs to sell, of $2,469,145. This is fair value which is equal to the selling price negotiated with the buyer, and therefore it is recorded within Level 3 of the fair value hierarchy.

Analysis of the result of the discontinued operations, and the result recognized on the re-measurement of assets of disposal group is as follows:

	2015	2014
Net operating income	$ 3,994,137	$ 3,680,905
Expenses	(3,962,351)	(4,641,921)
Intercompany expenses eliminated on consolidation	705,292	665,928
Other income (expenses)	109,401	11,553
Profit before income tax of discontinued operations	846,479	(283,535)
Tax	(6,341)	(24,036)
Profit after income tax of discontinued operations	840,138	(307,571)
Loss recognized on the re-measurement of assets of disposal group	(1,896,096)	-
Loss for the year from discontinued operations	$ (1,055,958)	$ (307,571)

(c) Cash flows

	2015	2014
From operating activity	$ (769,875)	$ 1,950,015
From investing activity	(116,842)	(133,624)
From financing activity	(920,359)	911,685
Total cash flows	$ (1,807,076)	$ 2,728,076

29. FINCA ENTITIES

Through its headquarters, foreign representative offices and branches, controlled subsidiaries and affiliates, FINCA operates in 27 countries. All subsidiaries are controlled by FINCA directly or indirectly through FMH. The significant microfinance operating subsidiaries and controlled affiliates of FINCA at the end of the reporting period are listed below:

Americas	
Ecuador	Banco para la Asistencia Comunitaria, FINCA S.A. Joint Stock Company
El Salvador	Asociación de Fomento Integral Comunitaria de El Salvador Not-for-profit Association
	FINCA S.A. de C.V.
Guatemala	Fundación Internacional para la Asistencia Comunitaria de Guatemala Foundation
	FINCA S.A.
Haiti	FINCA HAITI Non-Governmental Organization
Honduras	Sociedad Financiera FINCA Honduras, S.A. Joint Stock Company
	Fundación Internacional para la Asistencia Comunitaria de Honduras Not-for-profit Organization
Mexico	SOFOM
	Mexico SAPI
	Fundación Integral Comunitaria, A.C. Civil Association
Nicaragua	Financiera FINCA Nicaragua, S.A. Joint Stock Company
	Fundación Internacional para la Asistencia Comunitaria de Nicaragua Not-for-profit Foundation
Africa	
Congo	FINCA DR CONGO SARL Limited Liability Joint Stock Company
Malawi	FINCA Limited Company Limited by Shares
Nigeria	FINCA Microfinance Bank Limited
Tanzania	FINCA Tanzania Limited Company Limited by Shares
Uganda	Foundation for International Community Assistance Uganda Limited Company Limited by Shares
Zambia	Foundation for International Community Assistance-Zambia Limited Company Limited by Shares
Eurasia	
Armenia	FINCA Universal Credit Organization Closed Joint Stock Company
Azerbaijan	FINCA Azerbaijan Limited Liability Company
Georgia	JSC FINCA Bank Georgia Closed Joint Stock Company
Kosovo	FINCA International, Inc. (Branch)
Kyrgyzstan	FINCA Micro-Credit Company Closed Joint Stock Company
Russia	FINCA CJSC Closed Joint Stock Company
Tajikistan	FINCA Micro-Credit Deposit Organization Limited Liability Company
Middle East	
Jordan	FINCA Jordan Specialized Micro Loans Company
Afghanistan	FINCA Afghanistan Joint Stock Company Limited by Shares
Pakistan	FINCA Microfinance Bank Ltd.
Non-microfinance subsidiaries	
Netherlands	FINCA Network Support Services BV.
Netherlands	FINCA Microfinance Cooperatief U.A.
USA	FINCA Services USA LLC
USA	FINCA Plus LLC
Charitable affiliates	
United Kingdom	FINCA UK
Canada	FINCA Canada

Non-controlling interest is attributable to:

- Non-controlling members of FMH holding 37.4% of shares and voting rights. Assets and liabilities attributable to FMH non-controlling members are $401.6 million and $308.9 million as of December 31, 2015 and $467.4 million and $352 million as of December 31, 2014, respectively. Net loss is $4.3 million and net profit is $1.4 million for the years 2015 and 2014, respectively. Accumulated net income is $5.3 million and $9.6 million as of December 31 2015 and 2014, respectively.

- Non-controlling interest is attributable to non-controlling shareholders of FINCA Microfinance Bank Ltd. (Pakistan) holding 13.6% and 17.2% of shares and voting rights as of December 31, 2015 and 2014, respectively. Assets and liabilities attributable to non-controlling interests are $11 million and $8.5 million as of December 31, 2015 and $8.8 million and $11 million as of December 31, 2014, respectively. Net income is $0.3 million for the years 2015 and 2014. Accumulated net income is $0.6 million and $0.3 million as of December 31, 2015 and 2014, respectively. No dividends were paid to NCI members in 2015 and 2014.

30. RELATED PARTIES

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

Senior Management Compensation—Total compensation paid to the senior management of the Company for the years ended December 31, 2015 and 2014, amounted to:

	2015	2014
Short-term benefits	$ 4,357,179	$ 5,361,435
Post employment benefits	135,393	65,000
	$ 4,492,572	$ 5,426,435

Guarantees—FINCA International provides a guarantee directly on a line of credit with an outstanding balance of $4.6 million and $6.6 million as of December 31, 2015 and 2014, respectively.

31. SUBSEQUENT EVENTS

FINCA Azerbaijan on March 11, 2016 informed its lenders that it would suspend payment of principal and interest pending formulation and implementation of restructuring options with its lenders. The subsidiary has a cash balance of $28.5 million as of March 31, 2016 and continues to generate cash from its ongoing operations while negotiations with the lenders are ongoing. There is no recourse to the parent company (FINCA) for any of the liabilities of FINCA Azerbaijan.

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