

FINCA International, Inc.

Consolidated Financial Statements as of and
for the Year Ended December 31, 2016,
Supplemental Schedule as of and for the
Year Ended December 31, 2016, and
Independent Auditors' Report

FINCA INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of FINCA International, Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statement of activities, and statement of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 FINCA International, Inc. and its subsidiaries as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplemental Schedule and Notes to the Supplemental Schedule

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

Deloitte + Touche LLP

July 17, 2017

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

	2016
ASSETS	
Cash and cash equivalents	\$ 140,797,035
Restricted cash and cash equivalents (Note 8)	26,428,949
Available for sale investments (Note 9)	7,670,352
Held-to-maturity investments (Note 9)	25,360,625
Derivative assets (Note 10)	19,491,195
Loans receivable, net (Note 11)	741,756,202
Due from banks	7,610,297
Other receivables, prepaid, and other assets (Note 12)	32,305,818
Property and equipment, net (Note 13)	30,556,863
Intangible Assets, net (Note 14)	8,058,153
Goodwill	1,042,135
Deferred tax assets (Note 7)	<u>2,469,769</u>
TOTAL	<u>\$ 1,043,547,393</u>
LIABILITIES AND EQUITY	
LIABILITIES:	
Accounts payable and other accrued liabilities (Note 15)	\$ 27,869,722
Derivative liabilities (Note 10)	8,259,574
Client deposits (Note 17)	262,340,157
Bank deposits (Note 16)	38,341,223
Notes payable (Note 18)	455,536,704
Subordinated debt (Note 19)	5,598,931
Deferred revenue (Note 20)	5,593,390
Employee benefits (Note 21)	3,707,898
Current income tax liability	9,154,377
Deferred tax liabilities (Note 7)	<u>2,119,289</u>
Total liabilities	<u>818,521,265</u>
NET ASSETS:	
Unrestricted net assets—FINCA (Note 24)	135,913,577
Unrestricted net assets—noncontrolling interest (Note 24)	<u>88,758,552</u>
Total unrestricted net assets	224,672,129
Temporary restricted net assets (Note 25)	<u>353,999</u>
Total net assets	<u>225,026,128</u>
TOTAL	<u>\$ 1,043,547,393</u>

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporary Restricted	Total 2016
OPERATING REVENUES:			
Contributions:			
Corporate, foundation, and individual giving	\$ 12,225,400	\$ 443,499	\$ 12,668,899
Services and gifts in kind	2,953,678	-	2,953,678
Program:			
Interest income	287,783,222	-	287,783,222
Grants and contracts, including federal government	6,874,920	-	6,874,920
Fees and other income	29,099,563	-	29,099,563
Net assets released from restrictions	<u>1,171,377</u>	<u>(1,171,377)</u>	<u>-</u>
Total operating revenues	<u>340,108,160</u>	<u>(727,878)</u>	<u>339,380,282</u>
OPERATING EXPENSES:			
Program services	(320,561,259)	-	(320,561,259)
Fundraising	(3,324,335)	-	(3,324,335)
General and administrative	<u>(13,704,640)</u>	<u>-</u>	<u>(13,704,640)</u>
Total operating expenses	<u>(337,590,234)</u>	<u>-</u>	<u>(337,590,234)</u>
Income tax expense (Note 7)	<u>(17,562,140)</u>	<u>-</u>	<u>(17,562,140)</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ITEMS	(15,044,214)	(727,878)	(15,772,092)
Nonoperating expense	(2,229,907)	-	(2,229,907)
Investment and foreign exchange (loss)	(2,543,366)	-	(2,543,366)
Pension-related changes other than net periodic benefit cost gain	187,179	-	187,179
Translation gains of foreign operations	2,103,521	-	2,103,521
Fair value reserve revaluation	<u>141,448</u>	<u>-</u>	<u>141,448</u>
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS AND BEFORE NONCONTROLLING INTEREST	(17,385,339)	(727,878)	(18,113,217)
Loss from discontinued operations	(513,989)	-	(513,989)
Dividends to noncontrolling interest	<u>(161,000)</u>	<u>-</u>	<u>(161,000)</u>
CHANGE IN NET ASSETS	(18,060,328)	(727,878)	(18,788,206)
NET ASSETS—beginning of year	<u>242,732,457</u>	<u>1,081,877</u>	<u>243,814,334</u>
NET ASSETS—end of year	<u>\$ 224,672,129</u>	<u>\$ 353,999</u>	<u>\$ 225,026,128</u>

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets before noncontrolling interest	\$ (18,627,206)
Adjustments to reconcile changes in net assets before noncontrolling interest to net cash provided by operating activities:	
Foreign currency translation gain	(2,103,521)
Pension-related changes other than net periodic benefit cost	(187,179)
Fair value revaluation reserve	(141,448)
Depreciation and amortization	12,824,660
Loss on disposal of fixed assets and intangibles	828,419
Impairment on loan losses and other financial assets	60,649,024
Impairment of other assets	2,449,501
Foreign exchange losses	7,824,262
Changes in deferred tax assets and liabilities	3,344,210
Gain on disposal of subsidiaries	(9,032,489)
Other non-cash adjustments	(2,558,990)
(Decrease) increase of assets and liabilities from operating activities after non-cash items:	
Change in interest receivable and fees	(3,667,746)
Change in other receivables and other assets	4,582,318
Change in other liabilities	(65,702)
Change in deferred revenue	(1,505,981)
Change in employee benefits	<u>261,807</u>
Net cash provided by operating activities	<u>54,873,939</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of financial assets	(15,180,110)
Net change in loans to customers	(36,307,080)
Purchase of property and equipment	(11,156,347)
Purchase of intangible assets	(2,890,808)
Proceeds from sales/disposals of fixed assets	501,006
Net cash inflow on disposal of subsidiaries	14,944,775
Principal collection from notes receivable	<u>5,320,662</u>
Net cash used in investing activities	<u>(44,767,902)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net change in customers' and other deposits	115,235,035
Proceeds from lenders	232,092,248
Repayment of loans and borrowings to lenders	<u>(347,440,683)</u>
Net cash used in financing activities	<u>(113,400)</u>

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

	2016
Net increase in cash and cash equivalents	\$ 9,992,637
Cash and cash equivalents—beginning of the year	137,325,636
Cash held for sale - beginning of the year	<u>892,988</u>
Total cash and cash equivalents - beginning of the year	138,218,624
Effect of exchange rate changes on cash and cash equivalents	(7,414,226)
Cash held for sale	<u>-</u>
Cash and cash equivalents—end of the year	<u>\$ 140,797,035</u>
SUPPLEMENTAL DISCLOSURES TO CASH FLOWS FROM OPERATING ACTIVITIES:	
Interest received	<u>\$ 267,329,591</u>
Interest paid	<u>\$ (73,426,243)</u>
Income taxes paid	<u>\$ (4,244,371)</u>

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. NATURE OF ACTIVITIES

FINCA International, Inc. ("FINCA" or "FINCA International" or the "Company") is a not-for-profit corporation, incorporated in the state of 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 October 2010, FINCA formed a 100% owned limited liability company subsidiary, FINCA Microfinance Holding Company, LLC (FMH), incorporated in the state of Delaware, USA. In December 2011, FINCA reorganized its structure by placing all of its microfinance institutions under FMH, the holding company through which it could obtain additional capital for expansion of FINCA's mission. Upon completion of this group reorganization, FMH obtained equity funding of approximately \$70.3 million from external parties. 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. In 2013, FMH completed its second capital raise and received \$50.0 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.

Since 2011, FMH and its subsidiaries were operated and managed by FINCA, its ultimate parent company, through terms set out in a management services agreement (MSA). Under the MSA, FINCA managed and protected FMH's capital investments in the microfinance operating subsidiaries. FINCA maintained FMH's compliance with regulatory, tax, and other legal requirements applicable to FMH. FINCA operated FMH with existing FINCA employees and provided stewardship services that included management, finance and accounting, administrative, personnel, and legal functions. Additionally, oversight of FMH's shareholder, policy enforcement, system, personnel, and coordination functions were provided by FINCA as set out in the terms of the MSA. Provision of these services, intangibles, and other activities with regard to facilitation of financing to its subsidiaries generated related-party transactions between FMH and its subsidiaries.

The MSA between FMH and FINCA expired on December 31, 2016. 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 FMH 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.

As of December 31, 2016, FINCA through FMH operates in 21 developing countries in Latin America (Ecuador, Guatemala, Haiti, Honduras, 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. Subsidiaries are organized primarily as corporations but also, in some cases, as nongovernmental organizations, or as branches of FINCA International.

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

Approximately half of FINCA’s lending clients worldwide are women who often lack the ability to secure adequate formal 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 financial sustainability and social impact.

2. BASIS OF PREPARATION

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue Recognition

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

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

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

Contributed Services and Gifts—Contributed services and gifts are reported at fair value in the consolidated statement of activities when these (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing these skills and would be typically purchased if not provided by donation. FINCA recorded contributed services and gifts revenue and related expense for the year ended December 31, 2016 of approximately \$3.0 million.

Interest Income—The revenue on interest-earning assets is recognized in the consolidated statement of activities using the effective interest method. The calculation of the effective interest rate includes using all fees received or paid on the basis of contractual future cash flows through the life of the loan. Therefore, loan origination fees, direct loan origination costs, premiums, and discounts are deferred. The net fee or cost is amortized and recognized as an adjustment to the interest income using the effective interest rate over the contractual term of the loan.

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

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

Foreign Currency

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

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

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

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

Acquisition-related expenses and restructuring costs are recognized separately from the business combination and are expensed as incurred. There were no acquisitions in 2016.

As of December 31, 2016, FINCA holds 62.9% interest of FMH. Subsequent changes of the ownership percentage in the controlled entity that do not result in the loss of control are accounted for as equity transactions with no gain or loss in the consolidated statement of activities.

Goodwill and Purchased Intangible Assets—Goodwill is not amortized but is tested for impairment at least annually. FINCA reviews goodwill for impairment in the fourth quarter and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For goodwill, FINCA performs a two-step impairment test once events and changes in circumstances indicate that carrying value of an asset may not be recoverable. In the first step, FINCA compares the fair value of the reporting unit to its carrying value. FINCA uses the income approach to determine the fair value of its reporting units, based on the present value of the estimated cash flows for a period of three years and the present value of the terminal value at the end of the third year. Cash flows are based on FINCA's management estimates of revenue growths taking into consideration industry and market conditions. The discount rate used is based on the cost of capital adjusted for relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, FINCA performs the second step to measure the amount of impairment. During this step, the reporting's unit fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than its carrying value the difference is recorded as an impairment loss in the consolidated statement of activities. Impairment testing of goodwill recognized upon the 2013 acquisition of FINCA Microfinance Bank Ltd (Pakistan) did not result in any impairment loss.

Income Tax Expense—FINCA is a not-for-profit organization and is exempt from federal income tax, except on net income derived from unrelated business income. However, some of the foreign operations of the subsidiaries are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

Income tax expense consists of current and deferred tax. Income tax expense is recognized in the consolidated statement of activities.

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

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

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

Restricted Cash and Cash Equivalents—The restricted cash balances include cash balances held with banks which are restricted for country-specific regulatory requirements or for private sector grants, and pledged collateral related to local borrowings and deposits. Changes in restricted cash and cash equivalents are classified under net cash used in/provided by operating activities in the consolidated statement of cash flows due to the nature of the operations funded by restricted cash and cash equivalents.

Investments—FINCA classifies its investments as short term when management intends to sell them in the near future. Short-term investments include current investments that are available for operations in the next fiscal year. Long-term investments include available for sale (AFS) investments that are not available in the next fiscal year, or that management has no intention to trade in the next fiscal year. AFS investments include certificates of deposit, government treasury notes, and equity investments in unconsolidated subsidiaries. HTM investments include investments in debt securities, for which management has the intention and the ability to hold to maturity.

Investments are reported at fair value in FINCA's consolidated financial statements, with the exception of held to maturity (HTM) investments. HTM investments are reported at amortized cost in the consolidated statement of financial position.

The fair values of marketable securities are based on readily determinable quoted market prices and exchange rates. The fair values of non-marketable equity investments are based on valuations of external investment managers. These investments are generally less liquid than other investments and the values reported may differ from the values that would have been reported, had a ready market for these securities existed. Other equity investments are accounted for either using the equity method or at cost, depending on FINCA's ownership interest in the investee and are reported in HTM investments on the consolidated statement of financial position.

Investment income classified as operating revenue on the consolidated statement of activities consists of interest and dividend income. Any changes in the fair value of investments are reported as investment and foreign exchange gain (loss) in the consolidated statement of activities.

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

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

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

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

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

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

Reversal of impairment losses attributed to credit losses is not permitted. Reversals attributed to losses other than credit losses are recorded under the non-operating change in net assets. In consideration of all the relevant evidence mentioned above, FINCA's management concluded that its investments available for sale were not impaired at December 31, 2016.

Derivative Financial Instruments—FINCA makes use of currency swap agreements to mitigate certain currency risk exposures. These currency swap agreements, which are used to hedge transactions, do not qualify for hedge accounting.

Derivative financial instruments are recorded at fair value. Derivatives in an asset and liability position, which have the right of offset against each other, are reported in either derivative assets or derivative liabilities in the consolidated statement of financial position. The change in derivative assets and liabilities are recorded in investment and foreign (loss) gain on the consolidated statement of activities.

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

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

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

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

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

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

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

Allowance for Loan Losses

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

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

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

Individually Assessed Loans—Credit exposures are considered individually significant if they have a certain size, partly depending on the individual subsidiary. As a FINCA-wide rule, all credit exposures over a country specific threshold are individually assessed for a credit loss.

Additionally, the aggregate exposure to the client and the realizable value of collateral held are taken into account when deciding on the allowance for loan losses. If there is objective evidence that an impairment has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its expected future cash flows discounted at the loan's effective interest rate. If a credit exposure has a variable interest rate, the discount rate for measuring the present value of expected future cash flows is the current effective interest rate determined under the contract. This policy is applied consistently for all loans whose contractual interest varies based on subsequent changes in an independent factor. The calculation of the present value of the contractual future cash flow of a collateralized loan reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral. While not all products require

collateral, and collateral requirements vary by country, FINCA utilizes several methods for clients to collateralize their loans, including mandatory savings, real estate, fixed assets or an additional guarantor.

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

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

Charging Off Loans—When a loan is determined uncollectible, it is charged against the related allowance for loan losses. Such loans are charged after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously charged decrease the amount of the program services expenses in the consolidated statement of activities and are recorded when cash is received.

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.

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

Notes Payable—Notes payable are financial instruments, initially recorded at the amount of cash proceeds received. Subsequent to initial recognition, notes payable are measured at amortized cost. Fees paid on the establishment of loan facilities are recognized as transaction costs of the facility, to the extent it has been determined that the note or the

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

Subordinated Debt—Subordinated debt consists of liabilities to other international financial institutions, which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. There is no obligation to repay early. Subsequent to initial recognition for the amount of cash proceeds, the subordinated debt is measured at amortized cost. Premiums and discounts are accounted for over the respective terms of the debt in the consolidated statement of activities using the effective interest method.

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

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

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item, to the extent that improvements increase the economic life of the asset and the costs of improvements can be reasonably measured. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of activities as incurred.

Depreciation is recognized in the consolidated statement of activities on a straight-line basis over the estimated useful lives of each item of property and equipment:

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

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

Depreciation methods, useful lives and residual values are reassessed at each reporting date. Changes in depreciation methods are accounted for as changes in accounting estimates.

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

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

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

Costs that are capitalized as part of the software product include the external costs related to software development, direct employee costs, and an appropriate portion of directly attributable 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 Long-Lived Assets—The carrying amounts of FINCA's long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated to determine the extent of the impairment loss (if any) and accounted for in accordance with ASC 360, *Property, Plant and Equipment*.

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

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

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

- The lease transfers ownership over asset by the end of the lease term

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

The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. As of December 31, 2016, FINCA had no capital leases.

Leases that fail to meet the criteria above are classified as operating leases and the total rentals payable under the lease are charged to the consolidated statement of activities on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Benefit Plans

FINCA follows statutory and regulatory requirements with regard to establishing employee benefit plans in both the international jurisdictions it operates and the USA.

Defined Contribution Plan—FINCA has established an employee contribution plan that allows US based 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.

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

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

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

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

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

Other Benefits—FINCA provides other benefits to its employees, which are measured on an undiscounted basis and are expensed as the related service is provided.

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

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

Contingency Provisions—Contingency provisions, including claims and legal actions arising in the course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Provisions are not recognized for future operating losses.

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

Assets Held for sale and Discontinued Operations—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. In accordance with ASC 360-10, *Impairment or Disposal of Long-Lived Assets*, assets held for sale are reported at the lower of the carrying amount or estimated fair value. The operations of assets held for sale which also qualify as discontinued operations, are reported separately as discontinued operations on the consolidated statement of activities in accordance with ASC 205-20, *Discontinued Operations*.

New Standards and Interpretations

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

Accounting Standards Update (ASU) No. 2014-09—*Revenue from Contracts with Customers (Topic 606)*. The core principle of the update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update is effective for the annual reporting period ending after December 15, 2017. The update must be applied retrospectively to each prior reporting period presented or retrospectively with cumulative effect of initially applying this update recognized at the date of the initial application. FINCA is evaluating the impact of the update on its consolidated financial statements.

ASU No. 2016-14—*Presentation of Financial Statements for Not-for-Profit Entities*. On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, which significantly changes the presentation requirements for financial statements of not-for-profit entities (NFPs). The amendments are intended to improve the guidance on net asset classification as well as the information presented in the financial statements and financial statement notes regarding liquidity, financial performance, and cash flows for NFPs. The ASU's amendments are effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. FINCA is evaluating the impact of the update on its consolidated financial statements.

ASU No. 2016-01—*Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (issued January 5, 2016)*. On January 5, 2016, the FASB issued ASU 2016-01, which prescribes changes to the current US GAAP model that primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. For not-for-profit entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2018. FINCA is evaluating the impact of the update on its consolidated financial statements.

ASU No. 2016-18—*Statement of Cash Flows: Restricted Cash*. On November 17, 2016, the FASB issued ASU No. 2016-18, which adds and clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The update requires an entity to include in its cash and cash equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and cash equivalents and to reconcile those balances to the statement of financial position. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. FINCA is evaluating the impact of the update on its consolidated financial statements.

ASU No. 2016-02—*Leases*. On February 25, 2016, the FASB issued ASU No. 2016-14, which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The new standard introduces a lessee model that requires most leases to be reflected on the balance sheet and a lessor model that aligns with the new revenue recognition standard. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. FINCA is evaluating the impact of the update on its consolidated financial statements.

ASU No. 2016-13—*Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (issued June 16, 2016). In June 2016, the FASB issued ASU No. 2016-13, which (1) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model and (2) provides for recording credit losses on AFS debt securities through an allowance account. The update requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). For not-for-profit entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2020. FINCA is evaluating the impact of the update on its consolidated financial statements.

4. USE OF ESTIMATES

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

5. CAPITAL REQUIREMENTS

Capital requirements are individually addressed at each subsidiary in accordance with respective countries' laws that prescribe certain regulatory capital requirements. FINCA has maintained a minimum capital policy that requires subsidiaries to maintain common tangible equity equal to at least 20% of total assets. Certain subsidiaries were granted approval from FMH's audit committee to lower their minimum tangible equity level to 15%. This lowering was coordinated with relevant lenders. FINCA's capital ratios exceeded this minimum policy level in 2016.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments that are measured at fair value on a recurring basis at December 31, 2016 are as follows:

Financial Assets	2016				Carrying Value
	Level 1	Level 2	Level 3	Total	
Loans receivable, net	\$ -	\$ 763,784,531	\$ -	\$ 763,784,531	\$ 741,756,202
AFS investments	2,620,655	4,496,058	553,639	7,670,352	7,670,352
HTM investments	-	25,360,625	-	25,360,625	25,360,625
Derivative assets	-	19,491,195	-	19,491,195	-
Due from banks	-	7,610,297	-	7,610,297	7,610,297
Other receivables, prepaid, and other assets	-	17,378,948	-	17,378,948	17,378,948
Financial Liabilities					
Derivative liabilities	\$ -	\$ 8,259,574	\$ -	\$ 8,259,574	
Client deposits	-	260,875,587	-	260,875,587	\$ 262,340,157
Bank deposits	-	38,240,203	-	38,240,203	38,341,223
Notes payable	-	456,177,202	-	456,177,202	455,536,704
Subordinated debt	-	5,621,172	-	5,621,172	5,598,931
Other financial liabilities	-	30,258,133	-	30,258,133	30,258,133

Cash and cash equivalents and restricted cash and cash equivalents are categorized as Level 1.

As of December 31, 2016, AFS investments are categorized as Level 1, 2, and 3. The fair values categorized as Level 1 have been determined by the market quoted prices of those instruments on the measurement date. The fair values categorized as Level 2 have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, using discount rates and quoted prices derived from similar instruments. Management has concluded that the Company's AFS investments are not impaired at December 31, 2016.

The fair values of loans receivable, client deposits, bank deposits, 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.

Management considers that the amortized cost of the HTM investments, due to banks, other financial assets and other financial liabilities recognized in the consolidated financial statements approximates its fair value at December 31, 2016.

There were no transfers between Levels 1 and 2 or Levels 2 and 3 during the year.

7. INCOME TAX

Income tax expense for the year ended December 31, 2016, was as follows:

	2016
Current tax expense	\$ 13,743,746
Deferred tax expense	<u>3,818,394</u>
Total income tax expense	<u>\$ 17,562,140</u>

In calculating both the current tax and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense includes local country income taxes for the subsidiaries and foreign withholding taxes on certain cross-border payments. The average actual income tax rate for the subsidiaries in 2016 was 26.1%. FINCA is exempt from taxes on income, except for unrelated business income, under the provision of Section 501(c)(3) of the United States Internal Revenue Code and the applicable income tax regulations of the District of Columbia. In 2016, FINCA recorded no federal and state income tax expense on the unrelated business income.

	2016
Tax rate using domestic tax rate of FINCA (exempt on taxes on income)	\$ -
Foreign income tax (taxable subsidiaries) at local statutory rates	(1,150,701)
Expenses not deductible for tax purposes	3,902,926
Tax-exempt income	(155,478)
Recognition of previously unrecognized tax losses	(90,055)
Adjustments for under provision in previous periods	871,840
Foreign withholding taxes	3,412,049
Valuation allowance for unrecognized deferred tax assets	7,399,341
Other	<u>3,372,218</u>
Total income tax expense	<u>\$ 17,562,140</u>

Deferred Income Taxes—Deferred income taxes are calculated on temporary differences arising between the tax base of assets and liabilities and their carrying amounts, using the enacted tax rate as stipulated by the tax legislation of the respective countries. The details of deferred tax assets and liabilities (the balances are offset within the same jurisdiction as permitted by ASC 740 *Income Taxes* and shown on a net basis by subsidiaries) are shown below.

In 2016, FINCA recorded \$2.1 million of income tax expense on \$18.5 million of temporary differences related to the excess of the amount for financial reporting over the tax basis of the investments in subsidiaries expected to reverse in the foreseeable future. The temporary differences of \$18.5 million include \$14.3 million of expected distributions of the subsidiaries' retained earnings from 2016 and \$4.2 million for an increase of expected distributions of the subsidiaries' retained earnings from prior years. At December 31, 2016, FINCA recorded a deferred tax liability of \$1.8 million on temporary differences related to the investments in subsidiaries expected to reverse in the foreseeable future.

Foreign withholding taxes have not been recognized on the temporary differences related to the excess of the amount for financial reporting over the tax basis of investments in subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from a subsidiary or a sale or liquidation of a subsidiary. At December 31, 2016, the amount of such temporary differences totaled \$43.9 million. The amount of the unrecognized deferred income tax liability on these temporary differences was approximately \$3.6 million.

ASC 740 generally requires that deferred tax assets be given full recognition, subject to the possible provision of an allowance when it is determined that this asset is unlikely to be realized. The valuation allowance is provided for the portion of the deferred tax assets for which it has been determined that it is more likely than not that the reported asset will not be realized. At December 31, 2016, FINCA has a valuation allowance of \$13.2 million against its deferred tax assets as it believes that it is more likely than not that this portion of its deferred tax assets will not be realized. The principal components of the deferred tax assets for which a valuation allowance has been established include certain foreign country operating loss carryforwards and foreign provisions for credit losses on loans that cannot be realized in the foreseeable future.

Net Deferred Tax Assets—At December 31, 2016, net deferred tax assets were recognized by the subsidiaries in the following jurisdictions: Armenia, Georgia, Tajikistan, Honduras, Democratic Republic of Congo (DRC), Tanzania, Pakistan, Afghanistan, Azerbaijan, Haiti, Mexico, Nigeria, Russia, and the Netherlands as follows:

	<u>Assets (Liability)</u> 2016
Property and equipment and intangible assets	\$ (47,748)
Provision for loan loss impairment	8,286,588
Cash flow hedges	(980,957)
Deferred income/accrued interest	777,855
Tax loss carryforwards	4,773,890
Other	<u>1,439,579</u>
Total deferred tax assets	14,249,207
Valuation allowance	<u>(11,779,438)</u>
Net deferred tax assets	<u>\$ 2,469,769</u>

Net Deferred Tax Liabilities—At December 31, 2016, net deferred tax liabilities are recorded by FMH and subsidiaries in the Netherlands, USA, Kyrgyzstan, Ecuador, Nicaragua, Malawi, and Uganda as follows:

	<u>(Liability) Assets</u>
	<u>2016</u>
Property and equipment and intangible assets	\$ (258,623)
Provision for loan loss impairment	(260,474)
Deferred income/accrued interest	11,440
Tax loss carryforwards	1,480,018
Future distribution of retained earnings	(1,760,873)
Other	<u>91,461</u>
Total deferred tax liabilities	(697,051)
Valuation allowance	<u>(1,422,238)</u>
Net deferred tax liabilities	<u>\$ (2,119,289)</u>

Unrecognized Tax Benefits—FINCA records unrecognized tax benefits as liabilities in accordance with ASC 740 and adjusts these liabilities when its judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available. At December 31, 2016, FINCA did not record any additional unrecognized tax benefits. FINCA believes that it is not reasonably possible that any unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

At December 31, 2016, no estimated interest and penalties related to unrecognized tax benefits were accrued. Accrued interest and penalties are generally included within the related accrued liabilities line in the consolidated statement of financial position.

FINCA is subject to taxation by the U.S. federal government, various U.S. states and localities, and foreign jurisdictions. As of December 31, 2016, FINCA's tax years 2007–2016 are subject to examination by the tax authorities.

8. RESTRICTED CASH

Restricted cash balances of \$26.4 million as of December 31, 2016, comprise of undisbursed grant funds, cash balances for country specific regulatory requirements, and pledged collateral related to local borrowings and deposits.

9. FINANCIAL ASSETS

FINCA's financial assets at December 31, 2016, consist of the following:

	2016
Current:	
Cash and cash equivalents	\$ 140,797,035
Restricted cash and cash equivalents	26,026,969
AFS Investments	7,116,713
HTM investments	24,634,088
Derivative assets	18,662,953
Loans receivable, net	512,464,962
Due from banks	7,610,297
Other receivables, prepaid, and other assets	17,350,161
Non-current:	
Restricted cash and cash equivalents	401,980
AFS Investments	553,639
HTM investments	726,537
Derivative assets	828,242
Loans receivable, net	229,291,240
Other receivables, prepaid, and other assets	<u>28,787</u>
	<u>\$ 986,493,603</u>

10. DERIVATIVE ASSETS AND LIABILITIES

The derivative assets and liabilities are represented by the following balances:

2016	Notional Amount	Fair Value Assets	Fair Value Liabilities
Fair value from derivatives with third parties:			
Foreign exchange swaps	\$ 60,581,978	\$ 13,757,515	\$ 8,245,776
Foreign exchange forwards	<u>20,094,840</u>	<u>5,733,680</u>	<u>13,798</u>
Total derivatives with third parties	<u>\$ 80,676,818</u>	<u>\$ 19,491,195</u>	<u>\$ 8,259,574</u>

Due to the volatility of foreign currencies, the estimated fair value of our derivative instruments is subject to fluctuation from period to period, which could result in significant differences between the current estimated fair value and the ultimate settlement. As of December 31, 2016, \$18.6 million and \$8.1 million of derivative assets and liabilities, respectively, will settle within 12 months.

11. LOANS RECEIVABLE, NET

Loans receivable at December 31, 2016 consist of the following:

	2016
Total gross loans receivable	\$ 784,638,954
Allowance for loan losses	<u>(42,882,752)</u>
Loans receivable, net	<u>\$ 741,756,202</u>

	2016
Allowance for loan losses:	
Balance—January 1	\$ 24,923,718
Discontinued operations	(2,421,037)
Loan loss provision for the year	57,333,825
Amounts charged off—net of recovery	(35,111,860)
Effect of foreign currency movements	<u>(1,841,894)</u>
Balance—December 31	<u>\$ 42,882,752</u>

A summary of balances per loan portfolio segments at December 31, 2016 is summarized as follows:

2016	Total Loans Principal	Interest and Deferred Costs Capitalized	Allowance for Loan Losses	Ending Balance
Less than \$1,000	\$226,747,656	\$ 4,997,720	\$(16,250,941)	\$215,494,435
\$1,001–\$5,000	311,894,450	4,783,359	(16,626,358)	300,051,451
\$5,001–\$10,000	87,745,918	908,150	(4,257,722)	84,396,346
More than \$10,001	<u>146,174,699</u>	<u>1,387,002</u>	<u>(5,747,731)</u>	<u>141,813,970</u>
Total	<u>\$772,562,723</u>	<u>\$ 12,076,231</u>	<u>\$(42,882,752)</u>	<u>\$741,756,202</u>

Activity in allowance for loan losses by segment at December 31, 2016, is summarized as follows:

2016	Beginning Balance	Charge-Offs Net of Recoveries	Provision for the Year	Foreign Currency Movements	Discontinued Operations Reclassifications	Ending Balance
Less than \$1,000	\$ 10,378,947	\$(13,848,127)	\$22,667,869	\$ (703,769)	\$ (2,243,980)	\$ 16,250,940
\$1,001–\$5,000	9,070,488	(13,239,050)	22,050,748	(971,488)	(284,339)	16,626,359
\$5,001–\$10,000	2,572,129	(3,860,968)	5,757,948	(253,749)	42,362	4,257,722
More than \$10,001	<u>2,902,154</u>	<u>(4,163,717)</u>	<u>6,857,260</u>	<u>87,114</u>	<u>64,920</u>	<u>5,747,731</u>
Total	<u>\$24,923,718</u>	<u>\$(35,111,862)</u>	<u>\$57,333,825</u>	<u>\$(1,841,892)</u>	<u>\$(2,421,037)</u>	<u>\$42,882,752</u>

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

FINCA's loan portfolio is made up entirely of loans made to individuals, groups of individuals, and SMEs for a specific purpose. At December 31, 2016, FINCA had 0.9 million borrowers.

At December 31, 2016, FINCA's aggregate loan portfolio was \$784.6 million and the respective total allowance for loan losses totaled \$42.9 million, providing a coverage ratio of 5.5% of total loan portfolio amount. FINCA conducts biannual historical loan-loss migration analysis across its subsidiary network in order to determine the probability of default, defined as all loans in arrears in excess of 180 days, as well as an examination of other current observable factors (e.g., macroeconomic, operational, policy and systems changes, and political risk) in order to establish subsidiary credit reserves.

Exposure to credit risk at December 31, 2016, is as follows:

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

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

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

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

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

Charge-Offs—FINCA charges off a loan (and any related allowances for loan 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.

FINCA monitors the credit risk for its client loan portfolio though the past-due status of portfolio. Aging of loans receivable as of December 31, 2016, is summarized as follows:

2016	31–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Less than \$1,000	\$ 5,356,449	\$ 4,109,870	\$ 21,544,386	\$ 31,010,705	\$ 200,734,671	\$ 231,745,376
\$1,001–\$5,000	3,178,512	2,575,212	21,472,882	27,226,606	289,451,202	316,677,808
\$5,001–\$10,000	904,168	742,772	5,062,291	6,709,231	81,944,836	88,654,067
More than \$10,000	<u>1,033,982</u>	<u>807,314</u>	<u>5,181,660</u>	<u>7,022,956</u>	<u>140,538,747</u>	<u>147,561,703</u>
Total	<u>\$ 10,473,111</u>	<u>\$ 8,235,168</u>	<u>\$ 53,261,219</u>	<u>\$ 71,969,498</u>	<u>\$ 712,669,456</u>	<u>\$ 784,638,954</u>

12. OTHER RECEIVABLES, PREPAID, AND OTHER ASSETS

The balances representing other receivables, prepaid, and other assets at December 31, 2016 are summarized as follows:

	2016
Receivables from sales of discontinued operations	\$ 12,113,000
Current income tax asset	3,400,776
Prepaid rent	2,485,785
Receivable from money remittance and other agencies	1,863,609
Prepaid office supplies	1,232,698
Prepaid taxes	1,148,435
Investment property	1,080,792
Deposit with Internal Revenue Service and other fiduciary agencies	998,980
Staff advances and loans	564,389
Receivable commission, rebates, and refunds from banks and agencies	191,774
Other prepayments and debtors	<u>7,225,580</u>
Total	<u>\$ 32,305,818</u>

13. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 are summarized as follows:

Cost	Total	Buildings and Offices	Construction in Progress	Leasehold Improvements	Computer Equipment	Furniture and Office Equipment	Vehicles	Other
Balance—January 1, 2016	\$ 63,014,723	\$ 6,226,121	\$ 2,881,746	\$ 13,705,258	\$ 19,433,024	\$ 13,687,344	\$ 3,823,106	\$ 3,258,124
Acquisitions	11,255,963	2,756,649	1,748,934	1,814,201	2,172,014	2,138,805	527,710	97,650
Disposals	(5,417,921)	1,185,208	(1,466,592)	(1,835,082)	(1,838,118)	(655,432)	(444,536)	(363,369)
Currency translation	(843,750)	(27,580)	115,522	(315,812)	(212,832)	(288,766)	(96,642)	(17,640)
Disposal of held-for-sale assets	<u>(3,797,022)</u>	<u>-</u>	<u>-</u>	<u>(804,938)</u>	<u>(1,117,117)</u>	<u>(781,618)</u>	<u>(688,678)</u>	<u>(404,671)</u>
Balance—December 31, 2016	<u>\$ 64,211,993</u>	<u>\$ 10,140,398</u>	<u>\$ 3,279,610</u>	<u>\$ 12,563,627</u>	<u>\$ 18,436,971</u>	<u>\$ 14,100,333</u>	<u>\$ 3,120,960</u>	<u>\$ 2,570,094</u>
Depreciation and Impairment Losses								
Balance—January 1, 2016	\$ 31,958,220	\$ 1,675,792	\$ -	\$ 5,347,966	\$ 11,554,566	\$ 9,303,871	\$ 2,966,954	\$ 1,109,071
Depreciation and amortization	7,777,515	471,656	-	1,516,537	3,037,111	1,975,804	456,140	320,267
Disposals	(2,642,658)	8,811	-	(499,055)	(847,829)	(614,186)	(423,213)	(267,186)
Currency translation	(510,126)	(2,912)	-	(87,770)	(205,252)	(135,671)	(62,119)	(16,402)
Disposal of held-for-sale assets	<u>(2,927,821)</u>	<u>-</u>	<u>-</u>	<u>(549,641)</u>	<u>(1,039,196)</u>	<u>(459,797)</u>	<u>(685,689)</u>	<u>(193,498)</u>
Balance—December 31, 2016	<u>\$ 33,655,130</u>	<u>\$ 2,153,347</u>	<u>\$ -</u>	<u>\$ 5,728,037</u>	<u>\$ 12,499,400</u>	<u>\$ 10,070,021</u>	<u>\$ 2,252,073</u>	<u>\$ 952,252</u>
Net Carrying Amounts								
Balance—January 1, 2016	<u>\$ 31,056,503</u>	<u>\$ 4,550,329</u>	<u>\$ 2,881,746</u>	<u>\$ 8,357,292</u>	<u>\$ 7,878,458</u>	<u>\$ 4,383,473</u>	<u>\$ 856,152</u>	<u>\$ 2,149,053</u>
Balance—December 31, 2016	<u>\$ 30,556,863</u>	<u>\$ 7,987,051</u>	<u>\$ 3,279,610</u>	<u>\$ 6,835,590</u>	<u>\$ 5,937,571</u>	<u>\$ 4,030,312</u>	<u>\$ 868,887</u>	<u>\$ 1,617,842</u>

Depreciation and amortization expense charged for the year ended December 31, 2016 was \$7.8 million.

14. INTANGIBLE ASSETS

Intangible assets at December 31, 2016 consist of the following:

Costs	Total	Capitalized Software	Capital Work-In-Progress	Other
Balance—January 1, 2016	\$ 23,307,810	\$ 20,949,340	\$ 1,607,096	\$ 751,374
Acquisition	3,332,292	2,482,377	849,915	-
Disposals	(5,868,396)	(3,920,844)	(1,947,552)	-
Currency translation	(109,505)	(74,857)	(34,648)	-
Disposal related to discontinued operations	<u>(2,627,181)</u>	<u>(2,627,181)</u>	<u>-</u>	<u>-</u>
Balance—December 31, 2016	<u>\$ 18,035,020</u>	<u>\$ 16,808,835</u>	<u>\$ 474,811</u>	<u>\$ 751,374</u>
Amortization and Impairment				
Balance—January 1, 2016	\$ 12,248,973	\$ 11,629,235	\$ -	\$ 619,738
Amortization for the year	2,999,647	2,895,953	49,223	54,471
Disposals	(3,875,269)	(3,867,240)	(8,029)	-
Impairment	(254,693)	(254,693)	-	-
Currency translation	20,963	20,963	-	-
Disposal related to discontinued operations	<u>(1,162,754)</u>	<u>(1,162,754)</u>	<u>-</u>	<u>-</u>
Balance—December 31, 2016	<u>\$ 9,976,867</u>	<u>\$ 9,261,464</u>	<u>\$ 41,194</u>	<u>\$ 674,209</u>
Net Carrying Amounts				
Balance—January 1, 2016	<u>\$ 11,058,837</u>	<u>\$ 9,320,105</u>	<u>\$ 1,607,096</u>	<u>\$ 131,636</u>
Balance—December 31, 2016	<u>\$ 8,058,153</u>	<u>\$ 7,547,371</u>	<u>\$ 433,617</u>	<u>\$ 77,165</u>

Amortization expense for the year ended December 31, 2016 amounts to \$3.0 million.

15. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities at December 31, 2016 are as follows:

	2016
Current:	
Personnel	\$ 7,927,635
Non-income taxes	5,346,587
Professional services	3,447,568
Office supplies	1,633,775
Deferred rent	210,054
Other accounts payable and accrued expenses	<u>6,754,085</u>
	25,319,704
Non-current:	
Deferred Rent	<u>2,550,018</u>
Total	<u>\$ 27,869,722</u>

16. BANK DEPOSITS

FINCA accepts and maintains deposits from other banks in subsidiary operations. At December 31, 2016, bank deposits with a maturity of no more than 12 months totaled \$38,084,892. The remaining bank deposits of \$256,331 mature in no more than 36 months.

17. CLIENT DEPOSITS

Client deposits consist of both voluntary and compulsory savings deposits. Client deposits expected to be held no more than 12 months totaled \$211,933,633. The noncurrent deposits of \$50,406,524 expect to be held from 12 months to 5 years.

The composition of client deposits at December 31, 2016 are as follows:

	2016
Compulsory savings/cash collateral	<u>\$ 8,148,912</u>
Voluntary savings:	
Saving accounts	84,416,693
Term deposit accounts	147,252,736
Other voluntary savings	<u>22,521,816</u>
Total voluntary savings	<u>254,191,245</u>
Total client deposits	<u>\$ 262,340,157</u>

18. 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 London Interbank Offering Rate + 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. As of December 31, 2016, FMH and subsidiaries in Armenia, Azerbaijan, Georgia, Russia, Tajikistan, Guatemala, DRC, Malawi, Tanzania, and Zambia were in breach of financial covenants regarding loans from international financial institutions amounting to \$141 million. FMH and its subsidiaries have obtained formal waivers for these breaches of covenants accounting for \$8.4 million and prior to the date of issuance of these consolidated financial statements a further \$64.1 million. All loans for which no formal waivers were obtained or were not obtained before December 31, 2016 are classified as current in the maturity table below. Although management has obtained formal waivers of some of these breaches or assurances from lenders that the covenants will be waived, there is no assurance that these waivers or assurances will be extended indefinitely or that performance can be brought into full compliance.

Notes payable and overdrafts at December 31, 2016 are as follows:

	2016
Overdrafts	\$ 3,401,292
Notes payable:	
Principal amount	448,983,858
Accrued interest	<u>3,151,554</u>
	<u>\$ 455,536,704</u>

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

2017	\$ 284,939,732
2018	105,871,075
2019	41,734,184
2020	13,979,230
2021	5,860,929
Thereafter	<u>-</u>
	<u>\$ 452,385,150</u>

The book value of notes payable and overdrafts at December 31, 2016 is as follows:

	2016
Current:	
Overdrafts	\$ 3,401,292
Notes payable:	
Secured	38,074,794
Unsecured	<u>246,615,201</u>
	<u>288,091,287</u>
Non-current:	
Notes payable:	
Secured	40,242,686
Unsecured	125,340,585
Collateralized borrowings	<u>1,862,146</u>
	<u>167,445,417</u>
Total notes payable and overdrafts	<u>\$ 455,536,704</u>

19. SUBORDINATED DEBT

The subordinated debt balance consists of debt from external financial institutions to FINCA Georgia (\$2.5 million) and FINCA Nicaragua (\$3.1 million) as of December 31, 2016.

In 2016, subordinated debt in the amount of \$19.6 million from the FINCA Microfinance Fund matured at which time available funds were insufficient to pay in full the amounts due on the notes. Principal and interest of \$7.1 million due from FINCA Azerbaijan LLC was unpaid and forgiven by the lenders.

20. DEFERRED REVENUE

All of the balance of deferred revenue at December 31, 2016 (\$5.6 million) was attributable to grantors other than the US government.

21. EMPLOYEE BENEFITS

Defined Contribution Pension Plan—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 and catch-up limit were \$18,000 and \$6,000 for 2016, respectively. FINCA may make contributions to the Plan as a discretionary employer match. FINCA's contributions to the Plan for the year ended December 31, 2016 was \$0.4 million.

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

The net liability of FINCA's defined benefit plan recognized at December 31, 2016 is summarized as follows:

	2016
Benefit obligation—beginning of year	\$ 3,599,046
Service cost	99,538
Interest cost	135,279
Actuarial loss	13,792
Net employer benefits paid	<u>(139,757)</u>
Benefit obligation—end of year	<u>\$ 3,707,898</u>

The change in plan assets at December 31, 2016 is summarized as follows:

	2016
Fair value of assets—beginning of year	\$ -
Employee contributions	-
Employer contributions	139,757
Benefits paid	<u>(139,757)</u>
Fair value of assets—end of year	<u>\$ -</u>

The funded status of FINCA's defined benefit plan at December 31, 2016 is summarized as follows:

	2016
Benefit obligation—end of year	<u>\$ 3,707,898</u>
Funded status	\$ (3,707,898)
Unrecognized prior service cost	468,272
Unrecognized net actuarial losses	<u>846,956</u>
Accrued benefit cost	<u>\$ (2,392,670)</u>

The amount of net periodic cost at December 31, 2016, is summarized as follows:

	2016
Service cost	\$ 99,538
Interest cost	135,279
Amortization of actuarial loss (10% corridor)	74,765
Amortization of prior service cost	<u>126,206</u>
 Total net periodic cost	 <u>\$435,788</u>

Components other than net periodic cost included in the consolidated statement of activities for the year ended December 31, 2016, are summarized as follows:

	2016
Net actuarial loss	\$ (60,973)
Prior service (cost)	<u>(126,206)</u>
 Total related credits other than net periodic cost	 <u>\$(187,179)</u>

Items not yet recognized as components of net periodic pension cost at December 31, 2016, are summarized as follows:

	2016
Unrecognized prior service cost	\$ 468,272
Unrecognized net actuarial losses	<u>846,956</u>
 Total unamortized pension prior service cost and losses	 <u>\$1,315,228</u>

Weighted-average assumptions used to determine benefit obligations at December 31, 2016, are as follows:

	2016
Discount rate	3.7 %
Salary scale	N/A

Weighted-average assumptions used to determine net period pension cost for the year ended December 31, 2016, are as follows:

	2016
Discount rate	3.8 %
Salary scale	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**

2017	\$689,563
2018	167,059
2019	165,494
2020	743,157
2021	198,535
In aggregate for five fiscal years thereafter	937,606

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, 2016 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.

22. COMMITMENTS AND CONTINGENCIES

At December 31, 2016, FINCA was obligated under several 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:

	2016
Less than one year	\$ 6,444,307
Between one and five years	19,270,300
More than five years	<u>7,912,269</u>
	<u>\$ 33,626,876</u>

Rent expense was \$12.5 million for the year ended December 31, 2016.

INCA International, jointly and severally with FMH, provided a guarantee directly on a line of credit with a total commitment of \$4.9 million (\$3.3 million outstanding) as of December 31, 2016. In March 2017, this agreement was amended to remove FINCA International as a party and guarantor. FMH became the sole guarantor on this line of credit.

There are no contingent assets, contingent liabilities, and capital commitments at December 31, 2016.

23. DISCONTINUED OPERATIONS

In 2016, FINCA sold its interests in two subsidiaries—FINCA S.A de CV (“FINCA El Salvador”) was sold in June 2016 and Financiera Finca S.A de C.V SOFOM ENR Mexico (“SOFOM”) was sold in November 2016.

FINCA El Salvador and SOFOM represent discontinued operations in accordance with ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*.

Under ASU No. 2014-08, the 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.

Results of the discontinued operations in 2016 includes the net income or loss for both FINCA El Salvador and SOFOM for the period up to disposition in 2016.

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

	2016
Net operating income	\$ 19,913,700
Expenses	(18,629,377)
Intercompany expenses eliminated on consolidation	1,629,490
Other income	<u>727,823</u>
Profit before income tax of discontinued operations	3,641,636
Tax benefit	<u>(841,225)</u>
Profit after income tax of discontinued operations	2,800,411
Loss recognized on the remeasurement of assets of disposal group	<u>-</u>
Profit after remeasurement of assets of disposal group	2,800,411
Loss on sale after income tax	<u>(3,314,400)</u>
Loss for the year from discontinued operations	<u><u>\$ (513,989)</u></u>

The gain on sale from assets of the disposal group in the years ending December 31, 2016 is as follows:

	2016
Consideration received	\$ 29,049,635
Net assets disposed of	<u>(20,017,146)</u>
Gain on sale before income tax and reclassification of foreign currency translation reserve	9,032,489
Reclassification of foreign currency translation reserve	(11,065,884)
Income tax expense on gain	<u>(1,281,005)</u>
Loss on sale after income tax	<u><u>\$ (3,314,400)</u></u>

Net cash inflow on sale of assets of the disposal group in the years ending December 31, 2016 is as follows:

	2016
Consideration received in cash and cash equivalents	\$ 16,623,734
Less cash and cash equivalent balances disposed of	<u>(1,678,959)</u>
Net cash consideration received	<u>\$ 14,944,775</u>

Cash flows from the activities of assets of the disposal group for the years ending December 31, 2016 are as follows:

	2016
From operating activity	\$ 4,395,077
From investing activity	1,015,445
From financing activity	<u>(9,603,998)</u>
Total cash flows	<u>\$ (4,193,476)</u>

24. FINCA ENTITIES

Through its headquarters, foreign representative offices and branches, controlled subsidiaries and affiliates, FINCA operates in 26 countries. All subsidiaries are controlled by FINCA directly or indirectly through FMH (see Note 1). The significant microfinance operating subsidiaries and controlled affiliates of FINCA at the end of the reporting period are listed below:

Americas

Ecuador	Banco para la Asistencia Comunitaria, FINCA S.A. Joint Stock Company
Guatemala	Fundación Internacional para la Asistencia Comunitaria de Guatemala Foundation FINCA Microfinanzas, S.A.
Haiti	FINCA HAITI Non-Governmental Organization
Honduras	Sociedad Financiera FINCA Honduras, S.A. Joint Stock Company
Mexico	Tenedora SAPI de C.V 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 Bank Closed Joint Stock Company
Russia	FINCA 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
USA	FINCA International LLC
USA	FINCA Microfinance Global Services LLC

Charitable affiliates

United Kingdom	FINCA UK
Canada	FINCA Canada

The noncontrolling interest in FINCA consists of shareholders at FMH and shareholders at FINCA Microfinance Bank Ltd. (Pakistan). Noncontrolling members of FMH hold 37.1% of shares and voting rights as of December 31, 2016. Assets and liabilities attributable to the FMH noncontrolling members are \$382.9 million and \$298.6 million as of December 31, 2016.

Noncontrolling interest is attributable to noncontrolling shareholders of FINCA Microfinance Bank Ltd. (Pakistan) holds 13.6% of shares and voting rights as of December 31, 2016. Assets and liabilities attributable to these noncontrolling interests are \$20.2 million and \$17.1 million as of December 31, 2016. Net income of \$0.7 million and accumulated net income for \$1.3 million for the year 2016 is attributable to these noncontrolling interest of FINCA Microfinance Bank Ltd. (Pakistan).

A reconciliation of noncontrolling interest as of December 31, 2016 is summarized as follows:

	Changes in Unrestricted Net Assets Attributable to FINCA International and Noncontrolling Interest		
	Total	FINCA International Inc	Noncontrolling Interest
Beginning balance—January 1, 2016	\$242,732,457	\$146,096,258	\$ 96,636,199
Dividends to noncontrolling members	(161,000)	-	(161,000)
Attributable change in net assets	<u>(17,899,328)</u>	<u>(10,182,681)</u>	<u>(7,716,647)</u>
Ending balance—December 31, 2016	<u>\$224,672,129</u>	<u>\$135,913,577</u>	<u>\$ 88,758,552</u>

25. TEMPORARY RESTRICTED NET ASSETS

Temporary restricted net assets activity in 2016 was as follows:

	January 1, 2016	Contributions	Released	December 31, 2016
Uganda and FINCA Plus	\$ 36,489	\$ 205,200	\$ (91,199)	\$ 150,490
Malawi	41,814	21,652	(26,174)	37,292
Zambia	31,200	6,749	(1,555)	36,394
Tanzania	13,928	23,582	(9,509)	28,001
Clifford Chance Foundation	44,494	-	(16,667)	27,827
Guatemala	7,152	15,365	-	22,517
Haiti and Vibrant Village Fund	8,725	163,951	(150,820)	21,856
Visa	68,343	-	(60,000)	8,343
Social Enterprise Collider	-	6,700	-	6,700
Ecuador	6,000	-	-	6,000
Pakistan	4,000	-	-	4,000
Russia	2,800	-	-	2,800
El Salvador	3,757	-	(2,917)	840
Rumsfeld Foundation	65,940	-	(65,301)	639
Afghanistan	14,350	300	(14,350)	300
Credit Suisse	488,751	-	(488,751)	-
Latin America	1,653	-	(1,653)	-
Ford Foundation	120,000	-	(120,000)	-
Barefoot Consultant Project	3,395	-	(3,395)	-
MESA Region	55,928	-	(55,928)	-
Jordan	24,800	-	(24,800)	-
Mexico	15,945	-	(15,945)	-
Congo & Whole Planet	22,413	-	(22,413)	-
	<u>\$ 1,081,877</u>	<u>\$ 443,499</u>	<u>\$ (1,171,377)</u>	<u>\$ 353,999</u>
Total	<u>\$ 1,081,877</u>	<u>\$ 443,499</u>	<u>\$ (1,171,377)</u>	<u>\$ 353,999</u>

26. 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 year ended December 31, 2016:

	2016
Short-term benefits	\$ 3,943,577
Post employment benefits	<u>139,757</u>
	<u>\$ 4,083,334</u>

27. SUBSEQUENT EVENTS

Effective January 1, 2017, a wholly owned subsidiary of FMH, FINCA Microfinance Global Services (FMGS) entered into an MSA with FINCA under which FMGS will provide certain services to FINCA. These services include finance and accounting, information technology, legal, and human resources services. The service agreement is for the initial period of one year and may be renewed at the option of FINCA. The MSA between FMH and FINCA expired on December 31, 2016.

In March 2017, FINCA Micro-Credit Deposit Organization LLC (FINCA Tajikistan) entered into a Financial Debt Reprofitting Agreement with its lenders to restructure its debt obligations and FMH has agreed to inject up to an additional \$4.0 million of equity. The debt restructuring included \$4.0 million in principal repayments, simplified the covenant structure, and extended the maturities of all scheduled principal payments.

In mid-2016, FINCA Azerbaijan LLC entered into negotiations with its lenders to wind down the operations of FINCA Azerbaijan in order to maximize the collections on its loan portfolio and protect the interests of FMH. In April 2017, FINCA Azerbaijan LLC entered into a Wind-Down Agreement with the majority of its lenders under the terms of which FINCA Azerbaijan LLC continues to operate to collect amounts outstanding on its loan portfolio in return for certain forgiveness of debt from the lenders to meet regulatory capital standards. The wind-down period ends on June 30, 2018, or such other date as the parties to the agreement may agree.

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**SUPPLEMENTAL SCHEDULE AND
NOTE TO SUPPLEMENTAL SCHEDULE**

FINCA INTERNATIONAL INC.

SUPPLEMENTAL SCHEDULE—CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	General & Administrative	Fundraising	Total
Salaries and Direct Benefits	\$ 95,980,115	\$ 2,616,687	\$ 368,082	\$ 98,964,884
Interest expense	70,869,087	135,279	-	71,004,366
Provision for loan losses	57,333,825	-	-	57,333,825
Professional services	15,990,754	3,657,774	957,375	20,605,903
Occupancy and utilities	13,875,777	947,616	-	14,823,393
Fringe benefits	10,935,232	1,334,168	435,926	12,705,326
Depreciation and amortization expense	10,551,780	225,382	-	10,777,162
Travel and entertainment	9,504,231	911,100	49,471	10,464,802
Other direct cost	4,807,163	689,925	1,124,437	6,621,525
Communications	5,941,836	169,279	592	6,111,707
Security	4,471,666	2,143	-	4,473,809
Advertising	3,894,905	20,200	388,220	4,303,325
Office supplies	3,804,599	103,486	232	3,908,317
License and subscription fees	1,030,892	1,829,377	-	2,860,269
Taxes other than income	2,547,057	17,725	-	2,564,782
Equipment and office maintenance	1,790,828	487,162	-	2,277,990
Direct training and hiring	2,017,562	60,433	-	2,077,995
Bank and credit card fees	1,578,579	354,552	-	1,933,131
Equipment, commodities, and vehicles	1,439,725	41,786	-	1,481,511
Insurance	1,171,466	100,566	-	1,272,032
Impairment of long-lived assets	<u>1,024,180</u>	<u>-</u>	<u>-</u>	<u>1,024,180</u>
Total operating expenses	<u>\$320,561,259</u>	<u>\$ 13,704,640</u>	<u>\$3,324,335</u>	<u>\$337,590,234</u>

FINCA INTERNATIONAL, INC.

NOTE TO SUPPLEMENTAL SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2016

1. FUNCTIONAL EXPENSES

The costs of providing program and supporting services are summarized on a functional basis in the consolidated schedule of functional expenses. FINCA has three main functions: program, general and administrative, and fundraising. Operating costs that are specifically identifiable with the administration of the program are charged to the program and those specifically identifiable to the fundraising are charged to fundraising services.

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

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

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