FINCA International, Inc.

Consolidated Financial Statements as of and
for the Years Ended December 31, 2018 and 2017,
and Independent Auditors' Report

FINCA INTERNATIONAL, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of FINCA International, Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of profit or loss, other comprehensive income or loss, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial position of FINCA International, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, in 2018, the Company changed its method of accounting for the classification, measurement, and impairment of financial instruments due to the adoption of IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards.

Report on Supplemental Schedules 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 and corresponding note are presented for the purpose of additional analysis and are not a required part of the financial statements. This schedule and corresponding note 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 financial statements. Such schedule and corresponding note 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 information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 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 note to the supplemental schedule are fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

December 20, 2019

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 149,024,244	$ 153,912,034
Restricted cash and cash equivalents (Note 12)	36,630,102	37,713,356
Trading assets (Note 13)	17,569,626	-
Derivative financial instruments (Note 14)	13,184,035	-
Investment securities (Note 15)	27,905,255	-
Available for sale financial assets (Note 16)	-	6,232,990
Financial assets held-to-maturity (Note 17)	-	42,032,786
Financial assets at fair value through profit or loss (Note 14)	-	31,266,196
Loans receivable—net of allowance (Note 18)	809,561,932	777,645,735
Due from banks	2,342,999	377,904
Other receivables, prepaid, and other assets (Note 19)	22,267,280	23,537,572
Property and equipment (Note 20)	33,623,421	32,057,081
Intangible assets (Note 21)	9,996,185	9,018,960
Goodwill	786,739	989,143
Current income tax assets	731,471	923,351
Deferred tax assets (Note 11)	7,265,286	5,725,698
TOTAL	$1,130,888,575	$1,121,432,806
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable and other accrued liabilities (Note 22)	$ 31,677,585	$ 33,829,712
Derivative financial liabilities (Note 14)	11,416,470	-
Financial liability at fair value through profit and loss (Note 14)	-	11,213,302
Client deposits (Note 23)	419,696,345	372,744,174
Bank deposits	36,126,804	62,546,969
Notes payable (Note 24)	350,595,677	376,330,996
Subordinated debt (Note 25)	24,879,575	5,651,052
Deferred revenue	5,966,438	3,884,371
Employee benefits (Note 26)	3,097,712	3,398,290
Current income tax liability	2,475,879	4,320,467
Deferred tax liabilities (Note 11)	1,840,656	2,138,352
Total liabilities	887,773,141	876,057,685
EQUITY:		
Reserves	18,359,125	18,458,417
Retained earnings	196,077,989	188,891,831
Currency translation reserve	(63,775,514)	(56,406,825)
Equity attributable to owners of the parent company	150,661,600	150,943,423
Noncontrolling interest	92,453,834	94,431,698
Total equity	243,115,434	245,375,121
TOTAL	$1,130,888,575	$1,121,432,806

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CONTINUING OPERATIONS:		
Interest income	$ 287,044,054	$ 283,750,994
Interest expense	(67,550,825)	(69,545,445)
Net interest income (Note 7)	219,493,229	214,205,549
IMPAIRMENT LOSSES ON LOANS (Note 18)	(25,991,400)	(28,550,245)
Net interest income after provision for impairment losses on loans	193,501,829	185,655,304
OTHER OPERATING INCOME (Note 8)	19,622,767	33,435,308
NET OPERATING INCOME	213,124,596	219,090,612
LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT	(674,950)	(3,027,546)
PERSONNEL EXPENSES (Note 9)	(114,500,154)	(112,402,125)
OTHER OPERATING EXPENSES (Note 10)	(86,345,933)	(83,954,996)
DEPRECIATION AND AMORTIZATION (Notes 20 and 21)	(10,517,214)	(10,380,611)
Total expenses	(211,363,301)	(206,737,732)
INCOME BEFORE OTHER INCOME (EXPENSES)	1,086,345	9,325,334
OTHER INCOME (EXPENSES):		
Grants and donations	20,959,167	22,431,162
Foreign exchange gains/(loss)	(2,455,872)	2,774,555
Nonoperating expenses	1,097,991	1,154,710
PROFIT BEFORE INCOME TAX	20,687,631	35,685,761
INCOME TAX EXPENSE (Note 11)	(11,396,803)	(13,230,591)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	$ 9,290,828	$ 22,455,170
DISCONTINUED OPERATIONS—Loss for the year from discontinued operations (Note 29)	$ -	$ (5,046,945)
PROFIT FOR THE YEAR ATTRIBUTABLE TO:		
The parent	$ 6,164,513	$ 12,668,346
Noncontrolling interest	3,126,316	4,739,879
TOTAL PROFIT FOR THE YEAR	$ 9,290,829	$ 17,408,225

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
PROFIT FOR THE YEAR	$ 9,290,828	$ 17,408,225
OTHER COMPREHENSIVE (LOSS) INCOME	(12,501,136)	2,972,349
Items that may be reclassified subsequently to profit or loss	(12,501,136)	2,972,349
Foreign currency movement during the year	(12,483,464)	3,014,154
Net loss on available-for-sale financial assets		(41,805)
Fair value revaluation reserve	(17,672)	
Reclassification adjustments relating to foreign operations	-	4,842,718
Total comprehensive (loss)/income for the year	(3,210,308)	25,223,292
OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS (Net of tax)—Benefit plan fair value adjustment (Note 26)	366,015	(31,581)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)	366,015	(31,581)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR—Net of tax	$ (2,844,293)	$ 20,348,993
TOTAL COMPREHENSIVE INCOME (LOSS)—Net of tax, for the year attributable to:		
The parent	$ (848,164)	$ 14,675,847
Noncontrolling interest	(1,996,129)	5,673,146
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	$ (2,844,293)	$ 20,348,993

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Reserves	Retained Earnings	Currency Translation Reserve	Total	Noncontrolling Interest	Total Equity
BALANCE—December 31, 2016	$18,458,417	$176,281,639	$(58,472,480)	$136,267,576	$88,758,552	$225,026,128
Comprehensive income or loss:						
Profit for the year	-	12,668,346	-	12,668,346	4,739,879	17,408,225
Foreign currency movement during the year	-	-	2,065,655	2,065,655	948,499	3,014,154
Fair value revaluation reserve	-	(26,573)	-	(26,573)	(15,232)	(41,805)
Benefit plan fair value adjustment	-	(31,581)	-	(31,581)	-	(31,581)
Total comprehensive income or loss	-	12,610,192	2,065,655	14,675,847	5,673,146	20,348,993
BALANCE—December 31, 2017	18,458,417	188,891,831	(56,406,825)	150,943,423	94,431,698	245,375,121
Changes on initial application of IFRS 9 (Note 2)	(89,290)	655,630	-	566,340	212,152	778,492
RESTATED BALANCE AT—January 1, 2018	18,369,127	189,547,461	(56,406,825)	151,509,763	94,643,850	246,153,613
Comprehensive income or loss:						
Profit for the year	-	6,164,513	-	6,164,513	3,126,316	9,290,829
Foreign currency movement during the year	-	-	(7,368,689)	(7,368,689)	(5,114,775)	(12,483,464)
Fair value revaluation reserve	(10,002)	-	-	(10,002)	(7,670)	(17,672)
Benefit plan fair value adjustment	-	366,015	-	366,015		366,015
Total comprehensive income or loss	(10,002)	6,530,528	(7,368,689)	(848,163)	(1,996,129)	(3,038,179)
Dividends paid to non-controlling shareholders	-	-	-	-	(193,887)	(193,887)
BALANCE—December 31, 2018	$18,359,125	$196,077,989	$(63,775,514)	$150,661,600	$92,453,834	$243,115,434

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit for the year	$ 9,290,828	$ 17,408,225
Adjustments to reconcile net income (loss) for the year to net cash used in operating activities:		
Depreciation and amortization	10,517,214	10,427,186
(Gain) loss on disposal of fixed assets and intangibles	141,596	(79,523)
Impairment on loan losses and other financial assets	25,991,400	27,730,738
Impairment on other assets	16,606	881,011
Foreign exchange losses	1,133,570	6,557,271
Changes in deferred tax assets and liabilities	(915,517)	(3,500,797)
Loss on disposal of subsidiaries before tax and translation adjustments	-	570,761
Other noncash adjustments	3,681,043	(12,745,167)
(Decrease) increase of assets and liabilities from operating activities after noncash items:		
Change in loans receivable, including interest receivables	(64,914,944)	(64,480,114)
Change in due from banks	629,688	7,218,551
Change in other receivables and other assets	341,501	(24,990,205)
Change in trading assets	(1,588,476)	-
Change in derivative financial instruments	(832,205)	-
Change in other liabilities	(4,296,143)	3,550,214
Change in client deposits	49,645,521	120,619,706
Change in bank deposits	(26,491,284)	24,326,580
Change in deferred revenue	2,441,826	(2,337,796)
Change in employee benefits	694,988	(826,291)
Net cash provided by operating activities	5,487,212	110,330,350
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales/(purchase) of financial assets	13,831,325	(18,178,695)
Purchase of property and equipment	(12,545,558)	(9,848,269)
Purchase of intangible assets	(5,329,958)	(4,414,406)
Proceeds from sales/disposal of fixed assets	658,287	1,012,352
Net cash inflow on disposal of subsidiaries	-	238,367
Net cash provided (used) by investing activities	(3,385,904)	(31,190,651)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(193,887)	-
Proceeds from lenders	220,730,223	325,753,615
Repayment of loans and borrowings to lenders	(221,416,168)	(390,655,273)
Net cash used in financing activities	(879,832)	(64,901,658)

(Continued)

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 1,221,477	$ 14,238,041
CASH AND CASH EQUIVALENTS—Beginning of the year	153,912,034	140,797,035
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(6,109,267)	(1,123,042)
CASH AND CASH EQUIVALENTS—End of the year	$ 149,024,244	$ 153,912,034
SUPPLEMENTAL DISCLOSURES TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$ 311,442,086	$ 328,699,304
Interest paid	$ (94,287,806)	$ (85,882,421)
Income taxes paid	$ (11,125,680)	$ (12,167,277)

See notes to consolidated financial statements.

(Concluded)

1. NATURE OF ACTIVITIES

FINCA International, Inc. and its subsidiaries ("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.

As of December 31, 2018, FINCA, thorough FMH, has microfinance operations in 20 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, and Tajikistan), and the Middle East and South Asia (MESA) (Afghanistan, Jordan, and Pakistan) (collectively, referred to as "Subsidiaries"). The Subsidiaries principally provide loans to individuals and to groups of individuals that lack access to traditional financial institutions. In most cases, FINCA loans are made to either groups, individuals, or small and medium-sized enterprises ("SME"). Loans consist of agricultural loans, education loans, and other microfinance loans. Group and village loans consist of individuals that know each other, guarantee each other's loans, and provide a network of support for the group members. Individual loans, typically larger in size, are made where individual small businesses demonstrate adequate need and creditworthiness. Loans thus may be divided into Small and Large segments, in reference to loan size, such distinction being made to identify products with similar credit risk profiles. In addition to loans, FINCA provides other financial services needed by the working poor through a growing number of its subsidiaries, including savings deposits, remittances, and microinsurance.

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.

Approximately half of FINCA's clients worldwide are women. According to the World Bank's 2017 Global Findex report, there are still 1.7 billion adults that lack access to financial services and more than 50 percent of the unbanked are women. Further women often lack the ability to secure adequate formal employment in spite of being the primary providers for a family in many cultures.

In furtherance of its mission, FINCA implements two programs aimed at entrepreneurial solutions to poverty that aim to bring basic services to low-income families and their communities. One program, FINCA Plus LLC (Brightlife) is in the areas of distribution and financing of energy products to the bottom of the pyramid (BOP) customers in Uganda. The second program based in the US and Uganda provides philanthropic early-stage capital, and pre- and post-investment support to launch and scale high-impact for-profit social enterprises and promote affordable, high-quality, life-improving products and services for people at the BOP.

2. BASIS OF PREPARATION

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

The consolidated financial statements were approved by the board of directors and authorized for issue on December 20, 2019.

Basis of Measurement—The consolidated financial statements have been prepared on the historical cost basis, except some of the financial assets and financial liabilities which are stated at Fair value as of the date of the consolidated financial statements.

Principles of Consolidation—The consolidated financial statements consolidate the financial statements of FINCA and entities controlled by FINCA and its subsidiaries made up to December 31 each year. Control is achieved when FINCA has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

FINCA reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

Transactions Eliminated on Consolidation—Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with subsidiaries are eliminated against the investment to the extent of FINCA's interest in the subsidiary. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Noncontrolling Interests—Noncontrolling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by FINCA. Noncontrolling interests are presented separately in the consolidated statements of profit or loss and other comprehensive income and within equity in the consolidated statements of financial position.

To conform to our current period presentation, we have classified certain amounts reported in our prior year's consolidated financial statements. 'Insurance' and 'Legal provision' have been broken out from the 'Other accounts payable and accrued expenses' line item to their own line items to conform to the current reporting format and the presentation on our consolidated financial statements for the year ended December 31, 2018. Such reclassifications had no impact on profit or loss or equity. Management considered it more informative to create separate line items

Application of New and Revised IFRSs

New and Amended IFRS Standards That are Effective for the Current Year

Impact of Initial Application of IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards including IFRS 7 Financial Instruments: Disclosures, that are effective for an annual period that begins on or after January 1, 2018. The Company has applied IFRS 9 in accordance with the transition provisions of IFRS 9 which allow an entity not to restate comparatives.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7: Financial Instruments: Disclosures.

The effect of initially applying these standards is mainly attributed to the following:

- an increase/decrease in impairment losses recognized on financial assets (see Note 5);
- additional disclosures related to IFRS 9 (see Note 5)
- change in write-off policy and reversal of previously written-off instruments

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Company's consolidated financial statements are described below.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below. The full impact of adopting the standard is set out below.

Classification and Subsequent Measurement—IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, held-for-trading, and available-for-sale. Explanation of how the Company classifies financial assets under IFRS 9 is presented below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Measurement of the Expected Credit Loss—The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is detailed in Note 5, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Financial Assets—A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

On initial recognition, financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, the Company may irrevocably designate such financial asset to be measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The measurement category and the carrying amount of financial assets in accordance with IFRS 9 at January 1, 2018, are compared as follows:

Financial Assets	Business Model	SPPI	Measurement Category	Balance at January 1, 2018 IFRS 9
Cash and cash equivalents	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost	$153,866,905
Restricted cash	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost	37,713,356
Due from banks	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost	2,969,348
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost	777,031,207
Trading assets	Other business model	Cash flows are not solely payments of principal and interest	FVTPL (Mandatory)	20,280,234
Derivative financial instruments	Other business model	Cash flows are not solely payments of principal and interest	FVTPL (Mandatory)	10,985,962
Investment securities	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost	17,672,316
Investment securities	Other business model	Cash flows are solely payments of principal and interest	FVOCI (Mandatory)	675,172
Investment securities	Other business model	Cash flows are not solely payments of principal and interest	FVTPL (Mandatory)	27,061,019

Impairment of Financial Assets—IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Reconciliation of Statement of Financial Position Balances from IAS 39 to IFRS 9

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	IAS 39 Carrying Amount at December 31, 2017	Reclassifications	Remeasurements	IFRS 9 Carrying Amount at January 1, 2018
Cash and cash equivalents	$ 153,912,034	$ -	$ (45,129)	$ 153,866,905
Restricted cash and cash equivalents	37,713,356	-	-	37,713,356
Trading assets	-	20,280,234	-	20,280,234
Derivative financial instruments	-	10,985,962	-	10,985,962
Investment securities	-	45,668,122	(194,750)	45,408,507
Available for sale financial assets (IAS 39)	6,232,990	(6,232,990)	-	-
Financial assets held to maturity (IAS 39)	42,032,786	(42,032,786)	-	-
Financial assets at fair value through profit or loss (IAS 39)	31,266,196	(31,266,196)	-	-
Loans receivable—net of allowance [(a)]	777,645,735	-	(614,528)	777,031,207
Due from banks	377,904	2,597,654	(6,210)	2,969,348
Total	$1,049,181,001	$ -	(860,617)	$1,048,255,519
Deferred tax impact on initial application of IFRS 9			1,639,109	
Changes on initial application of IFRS 9			$ 778,492	

(a) The remeasurements adjustment for Loans receivable—net of allowance includes the reversal of previously written off loans.

The unusual tax benefit associated with the total remeasurement is the result of the combination of the gross remeasurement changes at individual subsidiaries and the varying tax rates (including some with no income taxes) under which the subsidiaries are taxed.

The following table reconciles the carrying amounts of financial liabilities, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	IAS 39 Carrying Amount at December 31, 2017	**Reclassifications**	**Remeasurements**	**IFRS 9 Carrying Amount at January 1, 2018**
Derivative financial liabilities	$ -	$ 11,213,302	$ -	$ 11,213,302
Financial liability at fair value through profit or loss (IAS 39)	11,213,302	(11,213,302)	-	-
Client deposits	372,744,174	-	-	372,744,174
Due to banks	62,546,969	-	-	62,546,969
Notes payable	376,330,996	-	-	376,330,996
Subordinated debt	5,651,052	-	-	5,651,052
Total	$828,486,493	$ -	$ -	$828,486,493

Reconciliation of Impairment Allowance Balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018:

	IAS 39 Carrying Amount December 31, 2017	**Reclassifications**	**Remeasurements**	**IFRS 9 Carrying Amount January 1, 2018**
Cash and cash equivalents	$ -	$ -	$ 45,129	$ 45,129
Loans to customers	19,871,126	-	18,884,500	38,755,626
Due from banks	-	-	6,210	6,210
Investment securities—at amortized cost	-	-	15,302	15,302
Total	$19,871,126	$ -	$18,951,141	$38,822,267

New and Revised IFRSs in Issue—FINCA has not applied the following new and revised IFRSs that have been issued but not yet effective in this reporting period:

- IFRS 16 Leases
- Amendments to IAS1 and IAS8 (October 2018)
- Amendments to References to the Conceptual Framework I IFRS Standards
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-Term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 23 Uncertainty over Income Tax Treatments

The Company does not anticipate the application of these standards will have a material impact on the Company's financial statements except for the effect of the adoption of IFRS 16.

IFRS 16

(Effective for Annual Periods Beginning on or after January 1, 2019)

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for FINCA will be January 1, 2019.

The application may have a material effect on the amounts recognized and disclosed in the Company's consolidated financial statements regarding its leases, both for assets and for its lease obligations. However, it is not practical to provide a reasonable estimate of the impact for the adoption of IFRS 16 until completion of detailed review by the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Financial Instruments—Applicable before January 1, 2018

Financial Assets—FINCA recognizes its financial assets within the following specified categories: at FVTPL, AFS, held-to-maturity (HTM), and loans receivable. The classification depends on the nature and purpose for which the financial assets were acquired and is determined at the time of initial recognition.

AFS Financial Assets—AFS are either designated as AFS or are classified as (a) loans and receivables, (b) HTM investments, or (c) financial assets at FVTPL. AFS are stated at fair value at the end of reporting period. Changes in the carrying amount of AFS financial assets realized and unrealized gains or losses relating to changes in foreign currency rates, interest income, and dividends on AFS equity investments are recognized in the consolidated statement of profit or loss. Other changes in the carrying amount of AFS are recognized in other comprehensive income and accumulated under the investment valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to the consolidated statement of profit or loss.

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

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

- it has been acquired principally for the purpose of selling it in the near term, or

- it is a derivative that is not designated, nor effective as, a hedging instrument.

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

Loans Receivable—Net of Allowance—Loans receivable are financial assets with fixed or determinable payments and that FINCA does not intend to sell immediately or in the near term.

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

Financial Instruments—Applicable after January 1, 2018

Recognition and Initial Measurement—Financial assets and financial liabilities are recognized in the Company's financial position when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Business Model Assessment—The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to the Company's management;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that do not qualify for amortized cost measurement or measurement at FVOCI must be measured subsequent to initial recognition at FVTPL.

Assessment of Whether Contractual Cash Flows Are Solely Payments of Principal and Interest—For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets (e.g., non-recourse loans); and
- Features that modify consideration of the time value of money (e.g., periodical reset of interest rates).

Reclassification—Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Company's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment of Financial Assets—The Company recognizes impairment allowances on the financial assets that are not measured at FVTPL.

With the exception of purchased or originated credit-impaired (POCI) financial assets, ECLs are required to be measured at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Impairment allowances for other receivables are always measured at an amount equal to lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR).

The Company measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics.

More information on measurement of ECLs is provided in Note 5, including details on how instruments are grouped when they are assessed on a collective basis.

Credit-Impaired Financial Assets—A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- The disappearance of an active market for a security because of financial difficulties; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit-impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or Originated Credit-Impaired Financial Assets—POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Company recognizes all changes in lifetime ECL since initial recognition as an impairment allowance with any changes recognized in profit or loss. A favorable change for

such assets creates an impairment gain. The Company did not purchase or originate any credit-impaired financial assets during years 2018 and 2017.

Presentation of Allowance for ECL in the Consolidated Statement of Financial Position—Impairment allowances for ECL are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

- For debt instruments measured at FVOCI: no impairment allowance is recognized in the statement of financial position as the carrying amount is at fair value;

- For loan commitments and financial guarantee contracts: as a provision; and

- Where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined impairment allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the impairment allowance over the gross amount of the drawn component is presented as a provision.

Modification and Derecognition of Financial Assets—A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Company renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. Loan terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms. When a financial asset is modified, the Company assesses whether this modification results in derecognition. In accordance with the Company's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Company considers the following:

- Quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original EIR. If the difference in present value is greater than 10% the Company deems the arrangement is substantially different leading to derecognition.

If the terms are substantially different, the Company derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset.

Write-Off—Financial assets are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment gains.

Financial Guarantees and Loan Commitments—Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees and loan commitments are included within impairment allowance.

Discontinued Operations—In the consolidated statements of profit or loss of the reporting period and other comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations. The resulting profit or loss (after taxes) is reported separately in the statements of profit or loss.

Revenue Recognition

Interest Income—***Applicable before January 1, 2018***—Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest Income—***Applicable after January 1, 2018***—The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where applicable, a shorter period,

to the net carrying amount of the financial asset. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

The interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any impairment allowance). For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for impairment allowance).

Other Operating Income—Other operating income includes fees and commission income which is recognized on an accrual basis when the service has been provided. Fees and commission income include fees other than those that are an integral part of EIR.

Grant and Donations—Grant revenue is recognized when there is reasonable assurance that FINCA has complied with the terms and conditions associated with the grant and that grants will be received. Grants are recognized in profit or loss over the periods in which the underlying grant expense is recognized.

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

Foreign Currency Transactions and Balances—For the purposes of presenting these consolidated financial statements the assets and liabilities of FINCA's subsidiaries are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a subsidiary, all of the exchange differences accumulated in equity in respect of that subsidiary and attributable to the owners of FINCA are reclassified through profit or loss.

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the consolidated

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

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

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

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

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

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

The cost to replace an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to FINCA and its cost can be reliably measured.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivative instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. FINCA does not designate any of the hedging instruments for the purposes of qualifying for hedge accounting.

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

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

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

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

Subordinated Debt—Subordinated debt consists mainly of liabilities to other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. Following initial recognition at acquisition cost, the subordinated debt is recognized at amortized cost. Premiums and discounts are amortized over the respective terms in the consolidated statements of profit or loss under "net interest income."

Deferred Revenue—FINCA receives awards from U.S. government and other agencies for various purposes. Awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved award. FINCA defers award revenue received under approved awards, to the extent they exceed expenses incurred for the purposes specified under the awards' restrictions.

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

recognized as property and equipment or intangible assets in the consolidated statements of financial position. Another liability is recognized to reflect the obligation to use the funds for restricted purposes. The liability is amortized through the consolidated statements of profit or loss at which time the expenses are incurred for program activities.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Impairment allowances cover credit losses inherent in portfolios of claims in the same segment (Small or Large) and of similar credit risk profile when there is objective evidence, such as days past due, to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In addition, in the absence of objective evidence, expected credit losses are considered. In assessing the need for collective loan impairment allowances, management considers factors, such as external and internal credit ratings, product groups, industries, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current and forecast economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counterparty allowances are forecast and the model assumptions and parameters used in determining collective allowances.

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

Consolidation—Preparing consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples of estimates include: loss contingencies; the fair value

of, and/or potential goodwill impairment for, our Subsidiaries; useful lives of our tangible and intangible assets; and allowances for loan losses and impairment of investments. Examples of assumptions include: the future performance of loan portfolios and their related default rate and collectability, the potential outcome of future tax consequences of events that have been recognized in our consolidated financial statements or tax returns, and determining when investment impairments are other-than-temporary. Actual results and outcomes may differ from management's estimates and assumptions.

Impairment of Loans—Applicable before January 1, 2018—FINCA assesses at each reporting date whether there is objective evidence that its loans receivable are impaired. If there is objective evidence of the occurrence of an impairment of a credit exposure, or a portfolio of credit exposures, the respective losses are measured and immediately recognized. Depending on the nature or type of the credit exposure, such losses are either measured on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of profit or loss through impairment losses on loans.

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

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

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

If FINCA determines that no objective evidence of impairment exists for individually assessed loans receivable whether individually significant or not, it includes the loans receivable asset in a group of financial assets with similar credit risk characteristics and

collectively assesses them for impairment (impairment for collectively assessed credit exposures). The group of credit exposures which do not show signs of impairment in order to cover all losses which have already been incurred but not detected on an individual credit exposure basis.

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

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

5. FINANCIAL RISK MANAGEMENT

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

In today’s environment, FINCA has placed primary emphasis on solvency, liquidity, anti-money laundering, treasury, budgeting and planning, and capital adequacy. FINCA’s financial risks are mitigated through three programs: (i) business management, (ii) independent control functions, and (iii) internal audit.

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

- ***Independent Control Functions***—FINCA’s independent control functions, including finance, legal, and risk, set standards according to which FINCA and its businesses are expected to manage and oversee risks, including compliance with applicable laws, regulatory requirements, and policies and standards of ethical conduct. In addition, among other things, the independent control functions provide advice and training to FINCA’s businesses and establish tools, methodologies, processes, and oversight of

controls used by the businesses to foster a culture of compliance and control and to satisfy those standards.

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

- ***Capital Adequacy***—In 2017, the Company adopted a new capital policy based on the Standardized and Basic Indicator approaches stipulated by the Basel framework of Risk Weighted Assets (RWA) and Risk-Weighted Capital Adequacy Ratio (RCAR). All components of Risk Weighted Assets (Credit Risk, Operational and Market Risk) are calculated based on a Subsidiary's balance sheet and income statement. Under the policy, Core RCAR and Total RCAR should not be less than 10% and 12% respectively (Basel limit plus a capital conservation and countercyclical buffer). Core RCAR is equivalent to Core Capital divided by total RWA while Total RCAR is equivalent to Total Capital (Core Capital plus qualifying subordinated debt) divided by total RWA. Core Capital is total equity less intangible assets. At December 31, 2018 all Subsidiaries (with the exception of FINCA DRC, Pakistan, Malawi, Nicaragua and Zambia) were in compliance with this policy.

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.

Credit Risk Measurement

Loans and Advances (Including Loan Commitments and Guarantees)—The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. For risk management reporting purposes, the Company considers and consolidates loan size as an element of credit risk exposure. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

Expected Credit Loss Measurement—IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.

- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant Increase in Credit Risk—When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime PD as at the reporting date; with

- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- Quantitative test based on movement changes in lifetime in PD;
- Forbearance status; and
- A backstop of 30 days past due.

The Company considers a financial instrument to have experienced a significant increase in credit risk when the remaining Lifetime PD at the reporting date has increased by the lesser of either a) the value corresponding to the 97th percentile movement or b) 50%, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognized.

Upon analysis of sensitivity tests, management concludes that ECLs are not sensitive to changes in PD threshold for the period ended December 31, 2018.

"Forbearance" occurs upon restructuring, i.e. prolongation in payment terms of payment of interest or principal arising from a deterioration of a borrower's financial condition such that it is not the same as it was at the time of loan origination and a borrower has applied for a change in the payment schema of the loan. Restructuring only occurs when the appropriate division of the Company is reasonably confident that a borrower is able to service the renewed payment schedule.

Multiple economic scenarios form the basis of determining the PD at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different PD. It is the weighting of these different scenarios that forms the basis of a weighted average PD that is used to determine whether credit risk has significantly increased. Forward-looking information includes the future prospects of Country economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information.

Definition of Default—Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the impairment allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Company considers the following as constituting an event of default:

- The contract is past due more than 90 days; or
- The credit obligations reflected in the contract is unlikely to be paid to the Company in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Credit-impaired assets in Stage 3 undergo a probationary period of 6 months after the material credit obligations of the Contract are met before moving to Stage 2.

Further explanation is also provided of how the Company determines appropriate groupings when ECL is measured on a collective basis is provided further in this note.

Write-Off—Prior to January 1, 2018, the Company's write-off policy for any loan was set to occur after 180 days in arrears.

As of January 1, 2018, the write-off policy is determined by an analysis of recovery curves occurring congruently with IFRS 9 back-testing and model calibration to determine the point at which less than 10% (ten percent) of the marginal remaining amount of a portfolio can be reasonably expected to be collected, up to a maximum of 24 months in default ("MID") for Stage 3 loans.

Three conditions must be considered in the analysis of the recovery curve before any reversion to expert judgment due to ambiguity in interpretation of the steps below:

- The shape of the curve—whether the curve's acceleration function as defined by time towards the highest or "ultimate" recovery rate is monotone (i.e. "gradual") or rapid (i.e. "steep");

- The scale of the ultimate recovery rate—ranging between 0% to 100%, whether the magnitude of recovery rate is large or small; and
- Adoption of an absolute or relative application of the 10% criteria noted in the preceding paragraph—whether after consideration of the condition no. 1 and 2 above, evidence of a monotone and large scale requires application of a write-off criteria of the ultimate recovery rate less 10% (i.e. the absolute application) or a rapid and small scale requires application of a criteria of the ultimate rate multiplied by 0.9.

Grouping with Similar Credit Risk Characteristics—Loans to customers are split into two segments for the purposes of PD calculation using threshold values dependent on the country and the currency in which the loan is denominated. Loans less than a calculated threshold value are classified as Small loans while loans equal to or greater than the calculated threshold are classified as Large loans. The segments reflect the level of assessment of client creditworthiness, with the Large segment exhibiting a comparatively stricter assessment. The historical default rate is utilized as an indicator of strictness, such that the difference in default rates is maximized between the segments.

The thresholds vary by subsidiary due to scale differences in the local economies and hence the business climate and model. Thresholds for Large loans range from USD 194 (Haiti) to USD 3,000 (Ecuador).

Rating Model—All available information (product groups, industries, etc.) are used to derive internal ratings for each segment. In such a way groups with the same risk characteristics are created and used afterwards to adjust the PD curve of the segment.

Measurement of ECL—The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below.

Probability of Default (PD)—The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Probability of Default is modeled by survival function, which is based on hazard rates.

Hazard rates are obtained by using the Cox proportional hazard model, which is a semi-parametric model. It uses assumed simple form for effect of covariates and the exact value of free parameters is estimated with partial likelihood. The baseline is obtained by non-parametrical methods. A macroeconomic overlay can be directly included into the hazard

function through a time-dependent variable. From obtained hazard rates, Point-in-Time (PiT) PDs (i.e. marginal PDs assigned to a respective date) are then derived.

Observation period for modeling Cox hazard rates is 2-6 years.

The macroeconomic parameters involved in the analysis are either the growth rate of GDP, the CPI, or the unemployment rate. Sensitivity of the ECL to positive and negative changes in the macroeconomic parameter are based upon reasonable changes of the parameter. "Reasonable changes" are defined as the lesser impact of a) a 50% movement (in either direction) in the parameter or b) the implied 95th percentile movement (in either direction) based upon the parameter's observed historical data.

In aggregate, the consolidated portfolio as at December 31, 2018, does not demonstrate significant sensitivity to the macroeconomic parameter, per the table below:

	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 8,870,616	$ 8,807,873	$ 8,941,458	$ (62,743)	$ 70,842	(0.7)%	0.8 %
Large loans	44,641,129	44,029,027	45,268,947	(612,102)	627,818	(1.4)	1.4
Total	$53,511,745	$52,836,900	$54,210,405	$(674,845)	$698,660	(1.3)%	1.3 %

The following subsidiaries potentially have the largest impacts to the aggregate:

Ecuador	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 220,575	$ 203,024	$ 241,487	$ (17,551)	$ 20,912	(8.0)%	9.5 %
Large loans	2,158,999	2,048,005	2,281,040	(110,994)	122,041	(0.1)	0.1
Total	$2,379,574	$2,251,029	$2,522,527	$(128,545)	$142,953	(5.4)%	6.0 %

Georgia	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 700,741	$ 687,978	$ 719,394	$ (12,763)	$ 18,653	(1.8)%	2.7 %
Large loans	6,494,446	6,384,172	6,584,624	(110,274)	90,178	(1.7)	1.4
Total	$7,195,187	$7,072,150	$7,304,018	$(123,037)	$108,831	(1.7)%	1.5 %

DRC	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 1,860,853	$ 1,854,358	$ 1,867,556	$ (6,495)	$ 6,703	(0.3)%	0.4 %
Large loans	9,495,815	9,424,843	9,569,418	(70,972)	73,603	(0.7)	0.8
Total	$11,356,668	$11,279,201	$11,436,974	$(77,467)	$80,306	(0.7)%	0.7 %

On an individual subsidiary basis, the following subsidiary displays the most sensitivity:

Nigeria	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 40,986	$ 37,417	$ 47,818	$ (3,569)	$ 6,832	(8.7)%	16.7 %
Large loans	198,680	181,195	231,566	(17,485)	32,886	(8.8)	16.6
Total	$239,666	$218,612	$279,384	$(21,054)	$39,718	(8.8)%	16.6 %

Loss Given Default (LGD)—LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries only. LGD is calculated on a discounted cash flow basis using the EIR as the discounting factor.

For the purpose of calculating LGD, secured loans may utilize collateral values, whereas unsecured and guaranteed loans use recovery rates. An analysis of recoveries may also be applied against secured loans and hence impairment losses for subsidiaries. Most subsidiaries that have secured loans used recovery rates.

Exposure at Default (EAD)—EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

Incorporation of Forward-Looking Information—The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, and has assessed the impact of macro-economic variables on PD. The macroeconomic variables involved in the analysis which are either the growth rate of GDP, the CPI, or the unemployment rate disclosed in the table below. The sources of the macroeconomic data were either a) derived from local governmental agencies as reported by the subsidiaries, b) World Bank/IMF data, or c) the online resources of Trading Economics. In all cases, the data was internally reviewed and approved by subsidiary management and validated for consistency of application by other market participants.

Region	Subsidiary	Macroeconomic Parameter	2019	2020	2021	2022	2023
Africa	DRC	CPI change	8.40 %	6.70 %	5.30 %	5.10 %	4.90 %
Africa	Malawi	GDP Growth	4.30	5.30	5.50	5.50	5.50
Africa	Nigeria	Unemployment rate	23.70	24.30	24.30	24.30	24.30
Africa	Tanzania	GDP Growth	7.13	7.80	7.80	7.80	7.80
Africa	Uganda	GDP Growth	6.00	6.50	6.50	6.50	6.50
Africa	Zambia	GDP Growth	4.20	5.00	5.00	5.00	5.00
Eurasia	Armenia	GDP Growth	4.80 %	4.50 %	4.50 %	4.50 %	4.50 %
Eurasia	Azerbaijan	GDP Growth	3.38	3.08	2.10	1.57	1.50
Eurasia	Georgia	GDP Growth	5.00	5.00	5.00	5.00	5.00
Eurasia	Kosovo	GDP Growth	3.60	3.70	3.80	4.00	4.00
Eurasia	Kyrgyzstan	GDP Growth	3.85	4.50	4.85	4.85	4.85
Eurasia	Tajikistan	GDP Growth	4.10	3.94	4.14	3.97	3.82
Latin America	Ecuador	GDP Growth	2.22 %	1.75 %	1.81 %	1.81 %	1.81 %
Latin America	Guatemala	GDP Growth	3.43	3.84	3.65	3.54	3.51
Latin America	Haiti	CPI change	13.50	12.51	12.00	11.00	10.50
Latin America	Honduras	CPI	339.41	352.99	367.11	381.79	397.06
Latin America	Nicaragua	GDP Growth	(8.00)	1.00	2.00	3.00	4.00
MESA	Afghanistan	CPI change	4.00 %	5.00 %	5.00 %	5.00 %	5.00 %
MESA	Jordan	CPI change	2.40	2.40	2.40	2.40	2.40
MESA	Pakistan	CPI change	7.60	7.00	5.00	5.00	5.00

Credit Risk Exposure—The following table provides information on the credit quality of loans to customers as of December 31, 2018:

	Small Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Current	$192,316,576	$12,944,438	$ 311,187	$205,572,201
Past due 1–30 days	26,067	3,259,716	16,772	3,302,555
Past due 31–60 days	-	2,117,314	6,460	2,123,774
Past due 61–90 days	-	1,049,421	17,761	1,067,182
Past due more than 90 days	-	-	6,763,490	6,763,490
Gross carrying amount	192,342,643	19,370,889	7,115,670	218,829,202
Impairment allowance	(2,172,431)	(1,069,640)	(5,628,546)	(8,870,617)
Carrying amount	$190,170,212	$18,301,249	$ 1,487,124	$209,958,585

	Large Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Current	$549,133,294	$31,762,934	$ 3,575,784	$584,472,012
Past due 1–30 days	651,778	14,463,676	199,228	15,314,682
Past due 31–60 days	-	5,083,288	141,737	5,225,025
Past due 61–90 days	-	3,367,188	241,292	3,608,480
Past due more than 90 days	-	-	35,624,279	35,624,279
Gross carrying amount	549,785,072	54,677,086	39,782,320	644,244,478
Impairment allowance	(8,610,720)	(6,379,933)	(29,650,478)	(44,641,131)
Carrying amount	$541,174,352	$48,297,153	$ 10,131,842	$599,603,347

During the year ended December 31, 2018 the Company modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with an impairment allowance measured at an amount equal lifetime expected credit losses.

Analysis of Collateral and Other Credit Enhancements—The Company closely monitors collateral held for loans to customers considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses as at December 31, 2018 are shown below:

	Gross Carrying Amount	**Impairment Allowance**	**Carrying Amount**	**Fair Value of Collateral Held**
Small loans	$ 7,115,670	$ (5,628,546)	$ 1,487,124	$ 69,488
Large loans	39,782,320	(29,650,478)	10,131,842	3,222,269
Total	$ 46,897,990	$ (35,279,024)	$ 11,618,966	$ 3,291,757

The following tables stratify credit exposures from credit-impaired loans to customers by ranges of loan-to-value (LTV) ratio as at December 31, 2018. LTV is calculated as the ratio of the gross amount of the loan—or the amount committed for loan commitments—to the

value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	Small Loans			
	Total Loan Portfolio		Credit Impaired Loan Portfolio (Stage 3)	
	Gross Carrying Amount	Impairment Allowance	Gross Carrying Amount	Impairment Allowance
No collateral	$ 211,399,158	$ 8,728,735	$ 7,039,226	$ 5,595,143
Lower than 50%	721,312	-	2,610	-
50%–60%	195,395	-	1,417	-
61%–70%	323,090	-	2,685	-
71%–80%	498,214	-	10,670	-
81%–90%	294,368	27	1,486	14
91%–100%	322,520	642	884	-
Higher than 100%	5,075,145	141,213	56,692	33,389
Total	$ 218,829,202	$ 8,870,617	$ 7,115,670	$ 5,628,546

	Large Loans			
	Total Loan Portfolio		Credit Impaired Loan Portfolio (Stage 3)	
	Gross Carrying Amount	Impairment Allowance	Gross Carrying Amount	Impairment Allowance
No collateral	$ 554,214,546	$ 43,092,077	$ 37,029,107	$ 28,784,491
Lower than 50%	11,116,659	-	203,042	-
50%–60%	4,501,256	-	131,765	-
61%–70%	4,132,008	166	116,257	137
71%–80%	4,466,492	3	184,160	-
81%–90%	4,091,507	8,503	187,067	8,496
91%–100%	3,320,235	1,674	73,621	1,582
Higher than 100%	58,401,775	1,538,708	1,857,301	855,772
Total	$ 644,244,478	$ 44,641,131	$ 39,782,320	$ 29,650,478

Impairment Allowance—Movements in the loan impairment allowance for the year ended December 31, 2018, are as follows

	Small Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance as of January 1, 2018	$1,887,195	$ 1,076,378	$ 4,095,733	$ 7,059,306
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(529,984)	2,527,635	-	1,997,651
Transfer from Stage 2 to Stage 1	112,319	(1,557,632)	-	(1,445,313)
Transfer from Stage 2 to Stage 3	-	(3,679,108)	6,725,155	3,046,047
Transfer from Stage 3 to Stage 2	-	3,453	(13,301)	(9,848)
Transfer from Stage 1 to Stage 3	(599)	-	5,989	5,390
New financial instruments originated or purchased	2,519,025	177,730	218,445	2,915,200
Changes in PDs/LGDs/EADs	(939,769)	2,782,733	423,704	2,266,668
Modification of contractual cash flows of financial instrument	11,982	(13,199)	(9,526)	(10,743)
FX movements	4,105	1,319	4,589	10,013
Financial instruments derecognized during the period	(530,502)	(147,112)	(49,286)	(726,900)
Write-offs	-	-	(5,551,960)	(5,551,960)
Currency translation adjustment	(361,341)	(102,557)	(220,996)	(684,894)
Impairment allowance as of December 31, 2018	$2,172,431	$ 1,069,640	$ 5,628,546	$ 8,870,617

	Large Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance as of January 1, 2018	$ 8,598,439	$ 6,032,215	$ 17,065,666	$ 31,696,320
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(4,575,446)	19,407,527	-	14,832,081
Transfer from Stage 2 to Stage 1	1,594,414	(11,336,062)	-	(9,741,648)
Transfer from Stage 2 to Stage 3	-	(14,532,290)	22,553,751	8,021,461
Transfer from Stage 3 to Stage 2	-	74,130	(399,089)	(324,959)
Transfer from Stage 1 to Stage 3	(10,112)	-	114,611	104,499
New financial instruments originated or purchased	3,449,996	1,354,115	1,432,788	6,236,899
Changes in PDs/LGDs/EADs	1,421,146	8,055,625	4,310,144	13,786,915
Modification of contractual cash flows of financial instrument	560,203	(1,650,032)	(31,161)	(1,120,990)
FX movements	72,997	87,338	129,905	290,240
Financial instruments derecognized during the period	(2,182,055)	(917,081)	(505,623)	(3,604,759)
Write-offs	-	-	(14,403,918)	(14,403,918)
Currency translation adjustment	(318,862)	(195,552)	(616,596)	(1,131,010)
Impairment allowance as of December 31, 2018	$ 8,610,720	$ 6,379,933	$ 29,650,478	$ 44,641,131

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2018, are as follows

	Small Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as of January 1, 2018	$ 184,462,180	$ 19,280,401	$ 5,685,695	$ 209,428,276
Transfer between stages				
Transfer from Stage 1 to Stage 2	(60,740,185)	60,740,185	-	-
Transfer from Stage 2 to Stage 1	6,541,697	(6,541,697)	-	-
Transfer from Stage 2 to Stage 3	-	(10,379,991)	10,379,991	-
Transfer from Stage 3 to Stage 2	-	20,200	(20,200)	-
Transfer from Stage 1 to Stage 3	(7,914)	-	7,914	-
New financial instruments originated or purchased	319,750,385	12,471,461	581,567	332,803,413
Repayment of principal amount	(236,333,612)	(50,257,799)	(2,297,417)	(288,888,828)
Changes in interest accrual	12,835,913	(3,926,329)	(987,731)	7,921,853
Modification of contractual cash flows of financial instruments	(1,077)	(2,553)	(10,854)	(14,484)
Derecognition during the period	(2,181,529)	(865,554)	(370,759)	(3,417,842)
Write-offs	-	-	(5,553,717)	(5,553,717)
FX movements	29,010	3,991	3,361	36,362
Currency translation adjustment	(32,012,225)	(1,171,426)	(302,180)	(33,485,831)
Gross carrying amount as of December 31, 2018	$ 192,342,643	$ 19,370,889	$ 7,115,670	$ 218,829,202

	Large Loans			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of January 1, 2018	$ 534,083,163	$ 46,975,264	$ 25,300,130	$ 606,358,557
Transfer between stages				
Transfer from Stage 1 to Stage 2	(127,558,388)	127,558,388	-	-
Transfer from Stage 2 to Stage 1	54,419,211	(54,419,211)	-	-
Transfer from Stage 2 to Stage 3	-	(40,128,683)	40,128,683	-
Transfer from Stage 3 to Stage 2	-	608,039	(608,039)	-
Transfer from Stage 1 to Stage 3	(148,229)	-	148,229	-
New financial instruments originated or purchased	676,215,085	34,702,854	2,711,606	713,629,545
Repayment of principal amount	(567,567,157)	(48,162,376)	(9,909,825)	(625,639,358)
Changes in interest accrual	7,070,129	(2,920,854)	(188,222)	3,961,053
Modification of contractual cash flows of financial instruments	27,752	35,184	(70,954)	(8,018)
Derecognition during the period	(9,384,336)	(7,591,964)	(2,690,174)	(19,666,474)
Write-offs	-	-	(14,309,666)	(14,309,666)
FX movements	1,351,491	396,236	113,817	1,861,544
Currency translation adjustment	(18,723,649)	(2,375,791)	(843,265)	(21,942,705)
Gross carrying amount as of December 31, 2018	$ 549,785,072	$ 54,677,086	$ 39,782,320	$ 644,244,478

During the year, the Company modified the contractual cash flows on certain loans to customers. All such loans had previously been transferred to at least Stage 2 with an impairment allowance measured at an amount equal lifetime expected credit losses.

The Company's loan portfolio is made up entirely of loans made to individuals, groups of individuals, and Small and Mid-Sized Enterprises for a specific purpose and is sufficiently diversified to reduce concentration risk. At December 31, 2018 and 2017, the Company had 0.8 million borrowers.

The Company's aggregate gross loan portfolio was $863.1 million and $797.5 million as of December 31, 2018 and 2017, respectively (see Note 18). The Company's total allowance for impairment was $53.5 million, a coverage ratio of 6.2% of total loans; and $19.9 million, a coverage ratio of 2.5% of total loans as of December 31, 2018 and 2017, respectively. Impairment allowance is calculated based on IFRS 9 requirements in 2018 and IAS 39 requirements in 2017.

A regional breakdown of impairment losses to average loan balances as at December 31, 2018 and 2017 is shown in the table below.

	Impairment Losses on Loans		Average Gross Loans to Customers		Impairment Allowance as Percentage of Average Gross Loans	
	2018	2017	2018	2017	2018	2017
Eurasia	$ 2,796,853	$ 4,831,229	$297,712,775	$307,283,717	0.9 %	1.6 %
Latin America	10,342,118	4,826,635	171,361,400	149,033,762	6.0	3.2
Africa	7,715,954	15,099,363	157,409,370	160,993,629	4.9	9.4
MESA	5,136,475	3,793,018	203,811,726	170,345,059	2.5	2.2
Total	$25,991,400	$28,550,245	$830,295,271	$787,656,167	3.1 %	3.6 %

The regional segmentation, by arrears category, for gross loans and allowances as at December 31, 2018, is as follows:

	Total Gross Loans for Each Portfolio-Aging Segment					
	Gross Loan Portfolio					Total Gross Loan Portfolio
	Current	**1–30**	**31–60**	**61–90**	**90+**	
Eurasia	$284,407,913	$ 5,709,823	$1,833,535	$1,155,946	$15,652,609	$308,759,826
Latin America	160,364,658	5,211,747	1,872,137	1,237,594	9,969,858	178,655,994
Africa	141,001,182	3,804,057	2,014,264	1,321,259	14,428,328	162,569,090
MESA	204,270,460	3,891,610	1,628,863	960,863	2,336,974	213,088,770
Total	$790,044,213	$18,617,237	$7,348,799	$4,675,662	$42,387,769	$863,073,680

	Aging of Allowance for Impairment					
	Current	**1–30**	**31–60**	**61–90**	**90+**	**Total Allowance for Impairment**
Eurasia	$ 3,587,175	$ 948,461	$ 536,916	$ 417,804	$10,464,894	$ 15,955,250
Latin America	4,372,108	848,374	543,899	440,337	8,987,603	15,192,321
Africa	2,758,041	497,699	694,656	529,829	11,771,447	16,251,672
MESA	1,514,968	706,679	1,073,384	647,813	2,169,661	6,112,505
Total	$ 12,232,292	$ 3,001,213	$2,848,855	$2,035,783	$33,393,605	$ 53,511,748

The regional segmentation, by arrears category, for gross loans and allowances at December 31, 2017, is as follows:

	Total Gross Loans for Each Portfolio-Aging Segment					
	Gross Loan Portfolio					Total Gross Loan Portfolio
	Current	**1–30**	**31–60**	**61–90**	**90+**	
Eurasia	$276,243,830	$ 4,423,299	$1,490,715	$1,041,819	$ 3,466,061	$286,665,724
Latin America	156,720,742	2,896,138	1,349,968	856,781	2,243,177	164,066,806
Africa	136,615,764	5,188,615	2,288,338	2,006,552	6,150,381	152,249,650
MESA	188,878,842	2,612,980	800,251	567,661	1,674,947	194,534,681
Total	$758,459,178	$15,121,032	$5,929,272	$4,472,813	$13,534,566	$797,516,861

	Aging of Allowance for Impairment					
	Current	**1–30**	**31–60**	**61–90**	**90+**	**Total Allowance for Impairment**
Eurasia	$ 1,276,285	$ 383,991	$ 531,457	$ 488,553	$ 3,128,694	$ 5,808,980
Latin America	339,818	303,125	432,304	472,625	1,915,203	3,463,075
Africa	543,201	829,965	848,807	1,072,517	5,075,952	8,370,442
MESA	462,209	232,579	242,189	215,975	1,075,677	2,228,629
Total	$ 2,621,513	$ 1,749,660	$2,054,757	$2,249,670	$11,195,526	$ 19,871,126

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

- Interest rate risk is the risk to earnings from changes in interest rates
- Foreign exchange rate risk arises from the different markets in which FINCA operates, which are mostly developing countries with so-called exotic currencies

FINCA's financial performance is subject to some degree of risk due to changes in interest rates. However, the statements of financial position of the Subsidiaries of FINCA are considered to have less interest rate risk than that of a traditional financial institution as:

- Neither the assets nor the liabilities of the Subsidiaries are tied to one specific short-term market index and, therefore, are unlikely to automatically "reprice" during their stated tenor and
- The short-term tenor of Subsidiaries' loans to its customers mean that changes in market rates will have little or no impact on prepayment activity.

Consideration of interest rate risk, by term of asset and liability, as at December 31, 2018, is as follows:

	Up to 3 Months	3–6 Months	7–12 Months	1–3 Years	More than 3 Years	Non-Interest -Sensitive Balances	2018 Total
Cash and cash equivalents	$ 41,934,586	$ -	$ -	$ -	$ -	$107,089,658	$ 149,024,244
Restricted cash and cash equivalents	24,817,890	5,877	759,503	50,000	30,031	10,966,801	36,630,102
Trading assets	17,569,626	-	-	-	-	-	17,569,626
Derivative financial instruments	806,987	11,822,028	-	354,187	-	200,833	13,184,035
Investment securities	18,155,014	2,245,237	5,958,421	252,185	-	1,294,398	27,905,255
Loans receivable—net	165,764,836	146,666,495	240,092,476	234,125,955	22,912,170	-	809,561,932
Due from banks	1,273,029	1,069,970	-	-	-	-	2,342,999
Other receivables, prepaid, and other assets	-	-	-	-	-	22,267,280	22,267,280
Property and equipment—net	-	-	-	-	-	33,623,421	33,623,421
Intangible assets—net	-	-	-	-	-	10,782,924	10,782,924
Current tax assets	-	-	-	-	-	731,471	731,471
Deferred tax assets	-	-	-	-	-	7,265,286	7,265,286
Total assets	270,321,968	161,809,607	246,810,400	234,782,327	22,942,201	194,222,072	1,130,888,575
Accounts payable and other accrued liabilities	146,551	25,028	367,866	-	385,276	30,752,864	31,677,585
Derivative financial liabilities	-	10,788,063	-	-	-	628,407	11,416,470
Client deposits	168,042,158	54,350,020	88,015,490	88,375,268	4,034,379	16,879,030	419,696,345
Bank deposits	19,218,333	3,588,787	11,451,055	1,773,515	-	95,114	36,126,804
Notes payable	57,358,522	53,324,061	94,217,605	133,170,332	12,525,157	-	350,595,677
Subordinated debt	46,210	2,618,300	-	735,919	21,479,146	-	24,879,575
Deferred revenue	-	-	-	-	-	5,966,438	5,966,438
Employee benefits	-	-	-	-	-	3,097,712	3,097,712
Current income tax liability	-	161,355	-	-	-	2,314,524	2,475,879
Deferred tax liabilities	-	-	-	-	-	1,840,656	1,840,656
Total liabilities	244,811,774	124,855,614	194,052,016	224,055,034	38,423,958	61,574,745	887,773,141
Open position	$ 25,510,194	$ 36,953,993	$ 52,758,384	$ 10,727,293	$(15,481,757)	$132,647,327	$ 243,115,434

Consideration of interest rate risk, by term of asset and liability, as at December 31, 2017, is as follows:

	Up to 3 Months	3–6 Months	7–12 Months	1–3 Years	More than 3 Years	Non-Interest Sensitive Balances	2017 Total
Cash and cash equivalents	$ 49,638,036	$ -	$ -	$ -	$ -	$104,273,998	$ 153,912,034
Restricted cash and cash equivalents	19,792,774	3,526	1,011,411	50,000	27,964	16,827,681	37,713,356
AFS Financial Assets	3,193,730	-	-	11,357	24,000	3,003,903	6,232,990
Financial assets HTM	31,801,112	5,030,502	4,459,331	741,841	-	-	42,032,786
Financial assets at FVTPL	20,710,219	10,260,882	195,929	-	-	99,166	31,266,196
Loans receivable—net	119,068,917	156,397,392	239,550,494	228,213,780	34,415,152	-	777,645,735
Due from banks	377,904	-	-	-	-	-	377,904
Other receivables, prepaid, and other assets	2,051,739	804,294	41,186	55,421	-	20,584,932	23,537,572
Property and equipment—net	-	-	-	-	-	32,057,081	32,057,081
Intangible assets—net	-	-	-	-	-	9,018,960	9,018,960
Goodwill	-	-	-	-	-	989,143	989,143
Current tax assets	-	-	-	-	-	923,351	923,351
Deferred tax assets	-	-	-	-	-	5,725,698	5,725,698
Total assets	246,634,431	172,496,596	245,258,351	229,072,399	34,467,116	193,503,913	1,121,432,806
Accounts payable and other accrued liabilities	36,072	-	-	-	-	33,793,640	33,829,712
Financial liability at FVTPL	401,138	10,200,840	(123,112)	562,699	-	171,737	11,213,302
Client deposits	122,204,750	44,198,482	58,174,895	53,220,881	19,663,069	75,282,097	372,744,174
Bank deposits	36,878,616	17,028,807	6,722,485	1,805,567	-	111,494	62,546,969
Notes payable	61,765,617	35,294,357	80,605,458	177,106,985	21,558,579	-	376,330,996
Subordinated debt	-	65,741	96,576	2,488,735	3,000,000	-	5,651,052
Deferred revenue	-	-	-	-	-	3,884,371	3,884,371
Employee benefits	-	-	3,398,290	-	-	-	3,398,290
Current income tax liability	-	-	-	-	-	4,320,467	4,320,467
Deferred tax liabilities	-	-	-	-	-	2,138,352	2,138,352
Total liabilities	221,286,193	106,788,227	148,874,592	235,184,867	44,221,648	119,702,158	876,057,685
Open position	$ 25,348,238	$ 65,708,369	$ 96,383,759	$ (6,112,468)	$ (9,754,532)	$ 73,801,755	$ 245,375,121

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

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

	2018
USD/EUR net interest income impact @ 200 bps (in USD millions)	(0.23)
Local current net interest income impact (in USD millions)	4.40
Total (in USD millions)	4.17
Total as a percentage of total capital	1.76 %

Since FINCA's interest-sensitive assets reprice more quickly than its interest-sensitive liabilities, increases in market interest rates result in higher net interest income and decreases in market interest rates result in lower net interest income.

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

As of December 31, 2018	Shock (Average)	Economic Value Impact (in Millions)
USD/EUR	200 bps	(0.79)
Local	705 bps	3.90
Total		3.11
Total as a percentage of total capital		1.32 %

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

Subsidiaries match their non-functional currency assets with their non-functional currency liabilities to the fullest possible extent, thereby minimizing or reducing any foreign currency risk. This matching occurs either by converting non-functional currency borrowings into functional currency borrowings, by lending in non-functional currency, and by maintaining other assets in non-functional currency. It is the Company's policy not to allow speculative open currency positions; rather, each Subsidiary's open currency position is maintained within prescribed limits relative to the Subsidiary's capital. Currency positions are measured and reported to each Subsidiary's ALCO on a monthly basis. At the consolidated level, FINCA experienced transaction losses of $2.4 million in 2018 in comparison to transaction gains of $2.8 million in 2017, representing about 0.2% and 0.3% of average total assets in 2018 and 2017, respectively. For assessment of the Company's foreign exchange risk, a Value-at-Risk (VaR) analysis is performed on a quarterly basis. The VaR measure estimates the potential loss in capital over a given holding period for a specified confidence level. The VaR is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between markets. Risks can be measured consistently across all markets, and risk measures can be aggregated to arrive at a single risk number. The methodology employed is the variance-covariance approach, also known as the delta-normal approach. The holding period is one year, and the look-back period is 3.5 years. A limitation of the variance-covariance, or delta-normal, approach is the assumption of a standard normal (or Gaussian) distribution of portfolio returns, and therefore the methodology may underestimate the proportion of outliers and hence the VaR.

The results are shown in the following table:

	95% Confidence	99% Confidence
As of December 31, 2018	$12.2 million	$17.2 million

	95% Confidence	99% Confidence
As of December 31, 2017	$14.0 million	$19.8 million

FINCA's portfolio VaR decreased in 2018 primarily due to a 267 basis point reduction in portfolio volatility. Decoupling of correlation among FINCA's basket of currencies was evident, moving from 0.62 to 0.32, with all other variables and conditions remaining constant.

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

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

Total cash and cash equivalents totaled $149.0 million as of December 31, 2018, compared to $153.9 million as of December 31, 2017. FINCA has maintained total cash balance equal to 13.9% and 14.2% of total assets as of December 31, 2018 and 2017, respectively.

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

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

A traditional view of the Company's liquidity is provided by a gap analysis. Considering the contractual terms of client loans, the Company has a substantial amount of excess liquidity in the under one-year time frame (gap < one year of $214.3 million in 2018 and

$259.2 million in 2017). Due to the short-term nature of the loan portfolio (68% of which matures within one year), the $14.8 million negative liquidity gap in years three to five, will be covered by the normal course of business operations as new loans are disbursed.

At December 31, 2018	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Total
Cash and cash equivalents	$149,024,244	$ -	$ -	$ 149,024,244
Restricted cash and cash equivalents	35,790,568	809,503	30,031	36,630,102
Trading assets	17,569,626	-	-	17,569,626
Derivative financial instruments	12,829,848	354,187	-	13,184,035
Investment securities	26,431,170	252,185	1,221,900	27,905,255
Loans receivable—net	552,523,807	234,125,955	22,912,170	809,561,932
Due from banks	2,342,999			2,342,999
Other financial assets	5,344,561	-	-	5,344,561
	801,856,823	235,541,830	24,164,101	1,061,562,754
Other financial liabilities	8,285,708	319,948	881,886	9,487,542
Derivative financial liabilities	11,411,471	4,999	-	11,416,470
Clients deposits	327,286,697	88,375,268	4,034,380	419,696,345
Bank deposits	34,353,289	1,773,515	-	36,126,804
Notes payable	204,815,182	133,185,332	12,595,163	350,595,677
Subordinated debt	2,664,511	735,919	21,479,145	24,879,575
	588,816,858	224,394,981	38,990,574	852,202,413
Liquidity gap	$213,039,965	$ 11,146,849	$ (14,826,473)	$ 209,360,341
Cumulative liquidity gap	$213,039,965	$224,186,814	$209,360,341	$ 209,360,341

At December 31, 2017	Up to 1 Year	1 Year to 3 Years	More than 3 Years	Total
Cash and cash equivalents	$153,912,034	$ -	$ -	$ 153,912,034
Restricted cash and cash equivalents	37,635,392	50,000	27,964	37,713,356
AFS financial assets	5,959,990	35,357	237,643	6,232,990
Financial assets HTM	41,290,945	741,841	-	42,032,786
Financial assets at FVTPL	31,245,538	20,658	-	31,266,196
Loans receivable—net	515,016,803	228,213,780	34,415,152	777,645,735
Due from banks	377,904	-	-	377,904
Other financial assets	27,541,188	361,793	(1)	27,902,980
	812,979,794	229,423,429	34,680,758	1,077,083,981
Other financial liabilities	4,587,094	562,654	1,786,044	6,935,792
Financial liability at FVTPL	10,605,074	608,228	-	11,213,302
Clients deposits	299,860,226	53,220,881	19,663,067	372,744,174
Bank deposits	60,741,402	1,805,567	-	62,546,969
Notes payable	177,744,319	177,028,098	21,558,579	376,330,996
Subordinated debt	162,316	2,488,736	3,000,000	5,651,052
	553,700,431	235,714,164	46,007,690	835,422,285
Liquidity gap	$259,279,363	$ (6,290,735)	$(11,326,932)	$ 241,661,696

The traditional gap analysis may overstate the amount of near-term liquidity since it does not take into consideration the behavioral characteristics of FINCA's client loan portfolio as well as the diversified nature of FINCA's clients deposit base. From a behavioral perspective, FINCA's clients are able to renew their loans for multiple terms, which lessens the amount of short-term liquidity (lowers the positive gap in that time frame). A significant portion of small-scale deposits based on historical behavior may be deemed as a stable source of funding and can be allocated beyond the one-year time frame.

FINCA's balance sheets remain liquid in all timeframes owing to the diversified nature of customer deposits and short asset tenor as well as to the fact that client loans amortize. FINCA's borrowings are predominately two-year tenor with principal repaid at maturity.

Third-Party Vendor Risk—New risks emerge as FINCA's business model continues to evolve. In particular, FINCA may engage third-party relationships in the delivery of services to our clients that brings with it a commensurate emphasis on third-party/vendor risk management.

Third-party risk management is conducted to assess the ongoing behavior, performance, and risks that each third-party relationship introduces. This includes corporate and social responsibility compliance; reputational, operational, and regulatory/legal compliance; information security; technology; and financial risks. Each third-party/vendor engagement requires specific due diligence and ongoing monitoring activities depending on the nature of the services being provided. This includes all phases of the vendor relationship, including review of proposals, implementation, system integration, and performance monitoring of the third-party services.

6. FINANCIAL ASSETS AND LIABILITIES—FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

In estimating the fair value of an asset or a liability, FINCA takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis and measurements that have some similarities to fair value, but are not fair value, such as value in use in IAS 36. The following tables set forth, by level within the fair value hierarchy, the fair value of FINCA's financial assets and liabilities as of December 31, 2018 and 2017. This table includes both financial assets and liabilities accounted for at fair value on a recurring basis and amortized cost. As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. FINCA's assessment of the significance of a particular input to the fair value measurement requires the exercise of judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

FINCA classifies its fair value balances in the fair value hierarchy based on the observability of the inputs used in the fair value calculation as follows:

Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2—Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Significant assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

The fair value of loans receivable, notes payable, deposits from clients, and subordinated debt categorized as Level 2 are based on a blend of quoted prices for the instruments and quoted prices for similar instruments on the measurement date. FINCA adjusted the discount rate on notes payable by using a credit margin that reflects the credit risk rating for companies similar to FINCA.

FVTPL assets, categorized as Level 2, consist of foreign exchange forward and cross-currency interest rate swaps. These financial instruments are categorized as Level 2 assets because they are valued based on the indirectly observable inputs, including forward exchange rates, interest rate yield curves, and counterparty credit risk.

Level 3—Pricing inputs that are significant and generally less observable than those from objective sources. Level 3 includes those financial instruments that are valued using models or other valuation methodologies.

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values and are categorized as Level 2. There are no transfers between fair value hierarchy levels in the years ended December 31, 2018 and December 31, 2017.

	2018		**2017**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets				
Loans receivable	$809,561,932	$815,850,637	$777,645,735	$774,852,759
Financial Liabilities				
Financial liabilities held at amortized cost:				
Deposits from clients	$419,696,345	$424,575,620	$372,744,174	$376,578,972
Notes payable	350,595,677	352,652,837	376,330,996	375,806,754
Subordinated debt	24,879,575	24,918,244	5,651,052	5,706,083

Fair value hierarchy at December 31, 2018, is as follows:

Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$90,648,086	$ 58,376,158	$ -	$149,024,244
Restricted cash and cash equivalents	13,258,381	23,371,721	-	36,630,102
Due from banks	-	2,345,871	-	2,345,871
Investment securities measured at amortized cost	2,561,503	14,238,892		16,800,394
Loans receivable	-	815,850,637	-	815,850,637
Financial Liabilities				
Financial liabilities held at amortized cost:				936,123
Deposits from clients	$ -	$314,616,163	$109,959,457	$424,575,620
Bank deposits	-	32,475,006	3,390,071	35,865,077
Notes payable	-	279,448,169	73,204,668	352,652,837
Subordinated debt	-	16,633,908	8,284,336	24,918,244

Financial Assets/ Financial Liabilities	**Fair Value as at December 31** 2018 Asset (Liability)	**Fair Value as at December 31** 2017 Asset (Liability)	**Fair Value Hierarchy**	**Valuation Techniques and Key Inputs**	**Significant Unobservable Inputs**	**Relationship of Unobservable Inputs to Fair Value**
1) Foreign currency forward contracts measured at FVTPL (Note 14)	$ 833,614 (588,746)	$ 276,545 (646,346)	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract	N/A	N/A
2) Foreign exchange swaps measured at FVTPL (Note 14)	12,350,421 (10,827,724)	10,709,417 (10,566,956)	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract	N/A	N/A
3) AFS financial assets—Treasury bills (Note 15)	N/A	2,694,745	1	Quoted bid prices in an active market	N/A	N/A
4) AFS financial assets—time deposits (Note 15)	N/A	3,473,380	2	Quoted prices of similar instruments traded in active markets	N/A	N/A
5) Trading assets (Note 13)	17,569,626	N/A	2	Quoted prices of similar instruments traded in active markets	N/A	N/A
6) Investment securities mandatorily measured at FVTPL (Note 15)	211,753	N/A	2	Quoted prices of similar instruments traded in active markets		
7) Investment securities designated at FVTPL (Note 15)	9,973,930	N/A	2	Quoted prices of similar instruments traded in active markets	N/A	N/A
8) Investment securities measured at FVTOCI (Note 15)	682,485	N/A	2	Quoted prices of similar instruments traded in active markets	N/A	N/A

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

7. NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

Net interest income for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Interest income:		
Cash and cash equivalents and investments	$ 5,672,609	$ 6,175,683
Loans to clients	281,371,445	277,575,311
Total interest income	287,044,054	283,750,994
Interest expense:		
Deposits from clients	33,667,482	30,499,340
Notes payable and subordinated debt	33,883,343	39,046,105
Total interest expense	67,550,825	69,545,445
Net interest income	$219,493,229	$214,205,549

8. OTHER OPERATING INCOME

Total other operating income for the years ended December 31, 2018 and 2017, was $19.6 million and $33.4 million, respectively. Included in this amount is $6.9 million and $5.6 million of fines and penalties income and $3.2 million and $2.0 million of insurance income for the years ended December 31, 2018 and 2017, respectively and 2017 includes principal forgiveness for certain debt obligations of FINCA Azerbaijan totaling $14.7 million.

9. PERSONNEL EXPENSES

Personnel expenses for the years ended December 31, 2018 and 2017, consist of the following:

	2018	2017
Wages and salaries	$ 89,932,951	$ 88,067,860
Compulsory social security obligations	6,961,919	7,168,897
Allowances, incentives, and other benefits	12,713,596	13,037,362
Health insurance	4,891,688	4,128,006
Total	$114,500,154	$112,402,125

10. OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31, 2018 and 2017, consist of the following:

	2018	2017
Professional fees	$18,191,433	$16,273,956
Rent/utilities	14,808,125	14,456,890
Travel	10,688,862	10,744,146
Consumables and office supply	4,939,505	4,626,560
Communication	6,823,778	6,843,430
Taxes other than income	5,191,390	4,386,021
Security	4,573,388	4,394,595
License/memberships/meetings	5,105,971	5,960,600
Marketing	4,451,309	4,517,494
Repairs and maintenance	2,989,006	2,643,489
Training and hiring	1,752,477	1,657,370
Bank charges	1,432,238	1,467,738
Motor vehicles expenses	1,829,664	1,767,619
Insurance	1,679,923	1,633,207
Other expenditures	1,888,864	2,581,881
	$86,345,933	$83,954,996

11. INCOME TAX

Income tax expense for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Current tax expense	$11,954,718	$16,468,963
Deferred tax expense	(557,915)	(3,238,372)
Total income tax expense	$11,396,803	$13,230,591

In calculating both the current tax and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense includes the local country income taxes for the subsidiaries and foreign withholding taxes on certain cross-border payments. The average actual income tax rate for the subsidiaries was 25.6% in 2018 and 26.5% in 2017.

FINCA is exempt from taxes on income, except unrelated business taxable income, under provision of Section 501(c)(3) of the United States Internal Revenue Code and the applicable income tax regulations of the District of Columbia. Accordingly, no provision is made for federal income taxes in the consolidated financial statements.

Reconciliation of income tax expense for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Profit/(loss) before income tax expense	$ 20,687,631	$ 35,685,761
Income tax expense	(11,396,803)	(13,230,591)
Profit/(loss) for the year from continuing operations	$ 9,290,828	$ 22,455,170

	2018	2017
Tax rate using domestic tax rate of parent company (exempt on US federal taxes on income)	$ -	$ -
Income tax (taxable Subsidiaries) at local statutory rates	8,434,724	10,348,159
Expenses not deductible for tax purposes	2,888,417	1,631,692
Tax-exempt income	(3,940,369)	(3,568,851)
Recognition of previously unrecognized tax losses	(954,491)	(1,887,515)
Adjustment for under provision in prior periods	1,243,666	2,000,904
Foreign withholding taxes	1,568,770	3,294,959
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	1,156,928	1,423,000
Other	999,158	(11,757)
Total	$11,396,803	$13,230,591

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

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

In 2018, FINCA recorded $0.5 million of income tax expense on $6.6 million of temporary differences associated with FINCA's investments in subsidiaries because it was probable that the temporary differences associated with the distribution of retained earnings through payments of dividends will reverse in the foreseeable future. The temporary differences of $6.6 million include $11.5 million of expected distributions of retained earnings from 2018 and $(4.9) million for an decrease of expected distributions of retained earnings from prior years.

In 2017, FINCA recorded $1.3 million of income tax expense on $18.2 million of temporary differences associated with FINCA's investments in subsidiaries because it was probable that the temporary differences associated with the distribution of retained earnings through payments of dividends will reverse in the foreseeable future. The temporary differences of $18.2 million include $17.1 million of expected distributions of retained earnings from 2017 and $1.1 million for an increase of expected distributions of retained earnings from prior years. The deferred tax liability related to the future distributions of retained earnings by subsidiaries is $1.0 million and $1.4 million as of December 31, 2018 and 2017, respectively.

Deferred Tax Assets and Liabilities were adjusted as of January 1, 2018 as per IFRS 9. All adjustments resulted in changes to equity. The adjustments are provided in the table listed below in the sections for Deferred Tax Assets and Liabilities.

Deferred Tax Assets—Deferred tax assets were recognized by the subsidiaries in the following jurisdictions in 2018: Azerbaijan, Democratic Republic of Congo (DRC), Georgia, Honduras, Pakistan, Tajikistan, Tanzania, USA, and Zambia (2017—Armenia, Azerbaijan, Democratic Republic of Congo (DRC), Kyrgyzstan, Pakistan, Tajikistan, Tanzania, USA, and Zambia).

2018	**Assets (Liabilities)**	**(Charged) Credited to Profit or Loss**	**(Charged) Credited to to Equity**
Property and equipment, and software	$ (292,276)	$ (61,536)	$ (19,960)
Provision for impairment allowance	1,514,599	(1,942,455)	(60,944)
Deferred income/accrued interest	215,070	(342,434)	20,815
Tax loss carryforwards	4,947,913	2,259,487	(139,745)
Other	879,981	67,970	(165,863)
Net tax assets (liabilities)	$ 7,265,286	$ (18,968)	$ (365,697)

	IFRS 9 Amount Assets (Liabilities)	**(Charged) Credited to Equity for IFRS 9**	**Transfer to/from Deferred Tax Liabilities**
Property and equipment, and software	$ (210,780)	$ -	$ (222,972)
Provision for impairment allowance	3,517,998	2,119,751	295,513
Deferred income/accrued interest	536,688	-	(100,239)
Tax loss carryforwards	2,828,171	-	-
Other	977,874	-	(167,799)
Net tax assets (liabilities)	$ 7,649,952	$ 2,119,751	$ (195,498)

2017	**Assets (Liabilities)**	**(Charged) Credited to Profit or Loss**	**(Charged) Credited to to Equity**
Property and equipment, and software	$ 12,192	$ 131,083	$ (4,873)
Provision for loan loss impairment	1,102,734	(847,884)	53,411
Cash flow hedges	-	893,922	(87,035)
Deferred income/accrued interest	636,927	(119,397)	21,531
Tax loss carryforwards	2,828,171	2,707,184	(1,324)
Other	1,145,674	511,224	38,495
Net tax assets (liabilities)	$ 5,725,698	$ 3,276,132	$ 20,204

Deferred Tax Liabilities—Deferred tax liabilities were recorded by FMH, the Netherlands, USA, Ecuador, Uganda, Armenia, and Kyrgyzstan in 2018 (2017—FMH, the Netherlands, USA, Ecuador, Nicaragua, Malawi, Uganda, Georgia, and Honduras) as follows:

2018	Assets (Liabilities)	(Charged) Credited to Profit or Loss	(Charged) Credited to to Equity
Property and equipment and software	$ (296,146)	$ (47,799)	$ 1,951
Provision for impairment allowance	(931,646)	136,910	4,513
Deferred income/accrued interest	57,397	(44,937)	132
Tax loss carryforwards	88,672	(42,158)	-
Future distribution of retained earnings	(951,151)	483,964	-
Other	192,218	90,903	(638)
Net tax (liabilities) assets	$ (1,840,656)	$ 576,884	$ 5,957

	IFRS 9 Amount Assets (Liabilities)	(Charged) Credited to Equity for IFRS 9	Transfer to/from Deferred Tax Assets
Property and equipment and software	$ (250,298)	$ -	$ 222,972
Provision for impairment allowance	(1,073,068)	(518,627)	(295,513)
Deferred income/accrued interest	102,202	-	100,239
Tax loss carryforwards	130,830	-	-
Future distribution of retained earnings	(1,435,114)	-	-
Other	101,952	37,985	167,799
Net tax assets (liabilities)	$ (2,423,497)	$ (480,642)	$ 195,498

2017	Assets (Liabilities)	(Charged) Credited to Profit or Loss	(Charged) Credited to to Equity
Property and equipment and software	$ (473,271)	$ (216,414)	$ 1,766
Provision for loan-loss impairment	(258,928)	(3,573)	5,119
Deferred income/accrued interest	1,963	(10,823)	1,346
Tax loss carryforwards	130,830	61,835	11,215
Future distribution of retained earnings	(1,435,114)	325,759	-
Other	(103,832)	(194,511)	(782)
Net tax (liabilities) assets	$ (2,138,352)	$ (37,727)	$ 18,664

12. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash balances of $36.6 million and $37.7 million as of December 31, 2018 and 2017, respectively, comprise undisbursed grant funds to be used in lending and operations, cash balances for country-specific regulatory requirements, and pledged collateral related to local borrowings and deposits, substantially all of which can be contractually released within 12 months.

13. TRADING ASSETS

Included in trading assets is $17.6 million of government bonds in Pakistan as at December 31, 2018.

14. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL ASSETS AND LIABILITIES AT FVTPL

The derivative financial instruments as of December 31, 2018, are represented by the following balances:

2018	Notional Amount	Fair Value Assets	Liabilities
Derivative financial instruments			
Foreign exchange swaps	$28,204,696	$12,350,421	$10,827,724
Foreign exchange forwards	19,682,768	833,614	588,746
Total	$47,887,464	$13,184,035	$11,416,470

The financial assets and liabilities at FVTPL as of December 31, 2017, are represented by the following balances:

2017	Notional Amount	Fair Value Assets	Liabilities
Financial assets and liabilities at FVTPL			
Foreign exchange swaps	$23,549,720	$10,709,417	$10,566,956
Foreign exchange forwards	15,473,360	276,545	646,346
Other securities	-	20,280,234	-
Total	$39,023,080	$31,266,196	$11,213,302

15. INVESTMENT SECURITIES

Investment securities as at December 31, 2018 consist of the following:

	2018
Investment securities mandatorily measured at FVTPL	$ 211,753
Investment securities designated at FVTPL	9,973,930
Investment securities measured at amortized cost	17,037,087
Investment securities measured at FVTOCI—debt instruments	682,485
Total	$27,905,255

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in treasury bills and certificates of deposit are qualified and reported as AFS financial assets in the consolidated statements of financial position, in the amount of $6.2 million at December 31, 2017.

17. FINANCIAL ASSETS HELD-TO-MATURITY

Financial assets HTM in the amount of $42.0 million at December 31, 2017. This included $26.9 million of market Treasury bills issued by State Bank of Pakistan, of which $22.9 million mature within three months of the reporting date and $7.3 million of Georgia Ministry of Finance Treasury Bills, of which $6.6 million mature within 12 months of the reporting date.

18. LOANS RECEIVABLE—NET OF ALLOWANCE

Loans receivable as at December 31, 2018 and 2017 consist of the following:

	2018	2017
Gross loans to clients—current	$553,655,783	$532,015,233
Gross loans to clients—noncurrent	309,417,897	265,501,628
Total gross loans to clients	863,073,680	797,516,861
Less allowances for impairment	(53,511,748)	(19,871,126)
Loans receivable	$809,561,932	$777,645,735

	2017
Allowances for impairments—balance at January 1	$ 42,882,752
Discontinued operations	(110,712)
Impairment loss for the year:	
Charge for the year	28,550,245
Amounts written off—net of recovery	(52,218,771)
Effect of foreign currency movements	767,612
Balance at December 31	$ 19,871,126

Impairment losses on loans charged for the year ended December 31, 2018 was $26.0 million. Movements in the loan impairment allowance for the year ended December 31, 2018, are detailed in Note 5.

While not all products require collateral, and collateral requirements vary by country, the Company utilizes several methods for clients to collateralize their loans, including mandatory savings, real estate, fixed assets, or an additional guarantor.

Collateral—Prior to adoption of IFRS 9 two forms of collateral were applied against impairment losses: cash and marketable precious metals. Compulsory cash collateral was required from the clients in some subsidiaries. The use of precious metals was mainly

presented in the Pakistan Subsidiary. Where local law allowed, voluntary client deposits were also considered collateral for the purposes of calculating the allowance for impairments.

Outstanding Amount of Loan	Balance at January 1, 2017	Discontinued Operations	Collateral Accepted	Collateral Released	Effect of Foreign Currency Movements	Balance at December 31, 2017
Up to $1,000	$10,349,033	$ -	$ 7,036,059	$ (7,420,367)	$ (587,209)	$ 9,377,516
$1,001–$5,000	14,639,563	-	3,175,055	(12,467,086)	(531,961)	4,815,571
$5,001–$10,000	6,634,569	-	227,972	(6,497,471)	(636)	364,434
More than $10,001	11,010,717	-	255,354	(11,241,873)	91,952	116,150
Total	$42,633,882	$ -	$10,694,440	$(37,626,797)	$(1,027,854)	$14,673,671

IFRS 9 analysis of collateral and other credit enhancements is represented in Note 5.

19. OTHER RECEIVABLES, PREPAID, AND OTHER ASSETS

The balances represent other receivables, prepaid, and other assets at December 31, 2018 and 2017, as follows:

	2018	2017
Receivable commission, rebates, and refunds from banks and agencies	$ 1,981,430	$ 500,511
Receivable from money remittance and other agencies	1,373,887	1,339,914
Grants receivable	2,432,567	2,716,829
Deposit with Internal Revenue Service and other fiduciary duties	3,708,902	2,407,512
Financial assets other than cash and cash equivalents and loans receivable	9,496,786	6,964,766
Prepaid rent	2,294,050	2,581,595
Taxes	864,455	650,799
Other prepayments	4,389,497	5,676,481
Office supplies	1,224,526	1,157,803
Staff advances and loans	587,428	719,888
Receivables from sale of discontinued operations	-	2,482,106
Other debtors	3,410,538	3,304,134
	$22,267,280	$23,537,572

20. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017, is as follows:

Property and equipment at December 31, 2018 and 2017, are as follows:

	Total	Buildings and Offices	Construction in Progress	Leasehold Improvements	Computer Equipment	Furniture and Office Equipment	Vehicles	Other
Cost								
Balance—January 1, 2017	$64,211,993	$10,140,398	$3,279,610	$12,563,627	$18,436,971	$14,100,333	$3,120,960	$2,570,094
Acquisitions	9,843,576	448,035	583,425	2,786,326	2,777,690	2,672,310	506,961	68,829
Disposals	(4,520,847)	(948)	(17,609)	(444,815)	(2,238,693)	(1,114,199)	(330,452)	(374,131)
Currency translation	(810,875)	(110,317)	(85,868)	(234,370)	(165,441)	(275,104)	52,748	7,477
Disposal related to discontinued operations	(250,192)	-	-	(54,560)	(103,177)	(56,923)	-	(35,532)
Balance—December 31, 2017	$68,473,655	$10,477,168	$3,759,558	$14,616,208	$18,707,350	$15,326,417	$3,350,217	$2,236,737
		-		-				
Balance—January 1, 2018	$68,473,655	$10,477,168	$3,759,558	$14,616,208	$18,707,350	$15,326,417	$3,350,217	$2,236,737
Acquisitions	12,569,128	2,724	2,527,728	1,758,710	4,315,669	2,509,609	1,348,301	106,387
Disposals	(3,569,786)	(1,064)	(25,505)	(827,040)	(1,383,392)	(959,195)	(367,484)	(6,106)
Currency translation	(4,797,181)	(421,776)	(567,197)	(1,124,828)	(1,239,686)	(1,080,626)	(348,056)	(15,012)
Disposal related to discontinued operations	-	-	-	-	-	-	-	-
Balance—December 31, 2018	$72,675,816	$10,057,052	$5,694,584	$14,423,050	$20,399,941	$15,796,205	$3,982,978	$2,322,006
Depreciation and Impairment Losses								
Balance—January 1, 2017	$33,655,130	$ 2,153,347	$ -	$ 5,728,037	$12,499,400	$10,070,021	$2,252,073	$ 952,252
Depreciation and amortization	7,413,517	536,704	-	1,619,802	2,483,732	2,120,136	397,168	255,975
Disposals	(4,167,368)	-	-	(358,132)	(2,314,452)	(945,820)	(286,943)	(262,021)
Currency translation	(239,844)	(11,295)	-	(71,370)	(118,575)	(105,048)	64,477	1,967
Disposal related to discontinued operations	(244,861)	-	-	(54,565)	(100,979)	(54,699)	-	(34,618)
Balance—December 31, 2017	$36,416,574	$ 2,678,756	$ -	$ 6,863,772	$12,449,126	$11,084,590	$2,426,775	$ 913,555
Balance—January 1, 2018	$36,416,574	$ 2,678,756	$ -	$ 6,863,772	$12,449,126	$11,084,590	$2,426,775	$ 913,555
Depreciation and amortization	7,351,197	333,352	-	1,723,907	2,623,340	2,096,616	438,641	135,340
Disposals	(2,920,082)	(14,939)	-	(691,980)	(1,092,927)	(917,166)	(132,907)	(70,163)
Currency translation	(1,795,294)	(20,204)	-	(379,834)	(726,837)	(468,450)	(183,632)	(16,337)
Disposal related to discontinued operations	-	-	-	-	-	-	-	-
Balance—December 31, 2018	$39,052,395	$ 2,976,965	$ -	$ 7,515,865	$13,252,702	$11,795,590	$2,548,877	$ 962,395
Net Carrying Amounts								
Balance—January 1, 2017	$30,556,863	$ 7,987,051	$3,279,610	$ 6,835,590	$ 5,937,571	$ 4,030,312	$ 868,887	$1,617,842
Balance—December 31, 2017	$32,057,081	$ 7,798,412	$3,759,558	$ 7,752,436	$ 6,258,224	$ 4,241,827	$ 923,442	$1,323,182
Balance—December 31, 2018	$33,623,421	$ 7,080,087	$5,694,584	$ 6,907,185	$ 7,147,239	$ 4,000,615	$1,434,101	$1,359,611

21. INTANGIBLE ASSETS

Intangible assets at December 31, 2018 and 2017, consist of the following:

	Total	Capitalized Software	Capital Work-in-Progress	Other
Costs				
Balance—January 1, 2017	$18,035,020	$16,808,835	$ 474,811	$751,374
Acquisition	4,336,857	4,211,012	125,845	-
Disposals	(1,213,319)	(1,198,065)	(15,254)	-
Currency translation	(249,816)	(234,312)	(15,504)	-
Disposal related to discontinued operations	(575,139)	(575,139)	-	-
Balance—December 31, 2017	$20,333,603	$19,012,331	$ 569,898	$751,374
Balance—January 1, 2018	$20,333,603	$19,012,331	$ 569,898	$751,374
Acquisition	5,337,505	4,009,068	1,328,437	-
Disposals	(1,081,484)	(757,346)	(324,138)	-
Currency translation	(1,299,825)	(1,264,285)	(35,540)	-
Disposal related to discontinued operations	-	-	-	-
Balance—December 31, 2018	$23,289,799	$20,999,768	$1,538,657	$751,374
Amortization and Impairment				
Balance—January 1, 2017	$ 9,976,867	$ 9,261,464	$ 41,194	$674,209
Amortization for the year	2,967,094	2,899,382	13,221	54,491
Disposals	(953,369)	(971,705)	18,336	-
Impairment loss	-	-	-	-
Currency translation	(141,891)	(141,891)	-	-
Disposal related to discontinued operations	(534,058)	(534,058)	-	-
Balance—December 31, 2017	$11,314,643	$10,513,192	$ 72,751	$728,700
Balance—January 1, 2018	$11,314,643	$10,513,192	$ 72,751	$728,700
Amortization for the year	3,166,017	3,139,324	4,019	22,674
Disposals	(533,437)	(544,542)	11,105	-
Impairment loss	-	-	-	-
Currency translation	(653,609)	(653,609)	-	-
Disposal related to discontinued operations	-	-	-	-
Balance—December 31, 2018	$13,293,614	$12,454,365	$ 87,875	$751,374
Net Carrying Amounts				
Balance—January 1, 2017	$ 8,058,153	$ 7,547,371	$ 433,617	$ 77,165
Balance—December 31, 2017	$ 9,018,960	$ 8,499,139	$ 497,147	$ 22,674
Balance—December 31, 2018	$ 9,996,185	$ 8,545,403	$1,450,782	$ -

22. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities at December 31, 2018 and 2017, are as follows:

	2018	2017
Other accounts payable and accrued expenses	$ 7,825,129	$11,337,312
Other professional services	4,701,879	4,593,170
Insurance	1,260,443	841,295
Office supplies	2,611,837	3,291,943
Total financial liabilities, excluding notes payable, classified as financial liabilities measured at amortized cost	16,399,288	20,063,720
Personnel	9,061,362	8,877,389
Tax and other budget liability	5,280,660	4,282,576
Legal provision	936,275	606,021
	$31,677,585	$33,829,706

Carrying values approximate fair value at December 31, 2018 and 2017.

23. CLIENT DEPOSITS

Certain of the Company's subsidiaries accept and maintain saving deposits from clients. The Company has been pursuing a strategy to increase client savings, offering clients access to banking services while receiving lower-cost funding in return.

These voluntary deposits represent the majority of the Company'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 the Company.

	2018	2017
Compulsory savings/cash collateral	$ 12,972,148	$ 11,417,725
Voluntary savings:		
Saving accounts	94,108,039	95,758,136
Term deposit accounts	276,739,593	239,176,269
Other voluntary savings	35,876,565	26,392,044
Total voluntary savings	406,724,197	361,326,449
Total deposits from clients	$419,696,345	$372,744,174

24. NOTES PAYABLE

The Company and its Subsidiaries have two broad categories of debt: charitable and commercial. The majority of the Company loans are sourced from international financial institutions supporting microfinance, but the Company has also borrowed from private sources. Interest rates paid by Subsidiaries range from six months' London Interbank Offered Rate, plus 450 bps up to 19.0% floating and up to 33.9% fixed in local currencies for commercial loans in countries with high perceived risk or with depreciating currencies.

In some situations, FMH, 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 reporting date, some Subsidiaries have breached covenants contained in financing agreements underlying these obligations. Management believes that these breaches are primarily due to recent global economic conditions which have affected microfinance, or in some cases due to local political and economic developments. A breach of a loan covenant could permit a lender to accelerate payment of the loan but would not permit a cross-default beyond the particular Subsidiary. As of December 31, 2018, subsidiaries in DRC, Malawi, Tanzania, Zambia, Kyrgyzstan, Haiti, and Nicaragua were in breach of financial covenants regarding loans from international financial institutions amounting to $48.8 million. As of December 31, 2018, Subsidiaries had obtained formal waivers for these breaches of covenants accounting for $8.6 million. All loans for which no formal waivers were obtained 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, 2018 and 2017, are as follows:

	2018	2017
Overdrafts	$ 947,874	$ 493,674
Notes payable:		
Principal amount	346,306,413	372,936,512
Accrued interest	3,341,390	2,900,810
	$350,595,677	$376,330,996

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

2019	$201,431,243
2020	98,129,247
2021	35,108,576
2022	3,763,943
2023	4,251,069
Thereafter	4,570,209
	$347,254,287

The book value of notes payable and overdrafts including accrued interest at December 31, 2018 and 2017, is as follows:

	2018	2017
Current:		
Overdrafts	$ 947,874	$ 493,674
Notes payable:		
Secured	49,748,337	27,442,428
Unsecured	154,119,536	147,597,016
Collateralized borrowings	-	2,211,201
	204,815,747	177,744,319
Non-current:		
Notes payable:		
Secured	39,674,241	27,195,043
Unsecured	81,005,689	125,864,708
Collateralized borrowings	25,100,000	45,526,926
	145,779,930	198,586,677
Total notes payable and overdrafts	$350,595,677	$376,330,996

The components of changes in notes payable, including changes related to cash flows from financing activities, are summarized in the table below:

Balance at December 31, 2017	Notes Payable Repayments, Net of Proceeds	Non-Cash Changes: Foreign Currency Translation	Non-Cash Changes: Other	Balance at December 31, 2018
$ 376,330,996	$ (20,021,250)	$ (8,294,969)	$ 2,580,900	$ 350,595,677

25. SUBORDINATED DEBT

Subordinated debt agreements with Subsidiaries typically contain the following key provisions: no early redemption and the subordination of principal to the right of repayment to holders of senior debt. Each individual subordinated debt agreement includes a number of financial covenants.

Subordinated debt totaling $24.9 million and $5.7 million consists of debt from external financial institutions to FINCA DRC, FINCA Malawi, FINCA Nigeria, FINCA Jordan, FINCA Georgia and FINCA Nicaragua as of December 31, 2018 and FINCA Georgia and FINCA Nicaragua as of December 31, 2017, respectively.

The components of changes in subordinated debt, including changes related to cash flows from financing activities, are summarized in the table below:

Balance at December 31, 2017	Subordinated Debt Proceeds, Net of Repayments	Non-Cash Changes: Foreign Currency Translation	Non-Cash Changes: Other	Balance at December 31, 2018
$5,651,052	$19,144,092	$(215,666)	$300,097	$24,879,575

26. EMPLOYEE BENEFITS

Defined Contribution Pension Plan—FINCA has implemented an employee retirement plan (the "Plan") under Internal Revenue Code Section 401(k). Under the Plan, qualified employees may defer compensation up to the maximum amount permitted by the Internal Revenue Code. The elective deferral limit was $18,500 for 2018 and $18,000 for 2017. The catch-up contribution was $6,000 for 2018 and 2017. FINCA may make contributions to the Plan as a discretionary employer match. FINCA's contributions to the Plan during the years ended December 31, 2018 and 2017, were $0.1 million and $0.4 million, respectively.

Defined Benefit Agreement—FINCA also maintains a defined senior executive retirement plan agreement (the "Agreement") for certain officers and directors, which provides benefits payable upon retirement from FINCA (no sooner than at age 65). In addition, a death benefit is payable to a surviving spouse or named beneficiary in the event of the death of the eligible officer/director. The Agreement is offered at the sole discretion of FINCA's board of directors. Currently, several key employees are enrolled in the Agreement. No changes were made to the Plan in 2018 and 2017.

The net liability of FINCA's defined benefit plan recognized at December 31, 2018 and 2017, is summarized as follows:

	2018	2017
Benefit obligation—beginning of year	$3,398,290	$3,707,898
Service cost	88,995	102,778
Interest cost	110,609	125,108
Actuarial loss	(366,015)	31,581
Settlement	-	-
Net employer benefits paid	(134,167)	(569,075)
Benefit obligation—end of year	$3,097,712	$3,398,290

The change in plan assets at December 31, 2018 and 2017, is summarized as follows:

	2018	2017
Fair value of assets—beginning of year	$ -	$ -
Employee contributions	-	-
Employer contributions	134,167	569,075
Settlements	-	-
Benefits paid	(134,167)	(569,075)
Fair value of assets—end of year	$ -	$ -

The entire balance of the defined benefit obligation at December 31, 2018 and 2017 is unfunded.

The amounts recognized in comprehensive income related to FINCA's defined benefit plan at December 31, 2018 and 2017, are summarized as follows:

	2018	2017
Service costs:		
Current service cost	$ 88,995	$ 102,778
Past service cost	-	-
Settlement gain	-	-
Interest cost	110,609	125,108
Defined benefit cost recognized in P/L	199,604	227,886
Remeasurements:		
Actuarial gains (losses) arising from experience adjustments	(22,176)	(14,034)
Actuarial gains (losses) arising from financial adjustments	334,960	(152,863)
Other	53,231	135,316
Defined benefit cost recognized in other comprehensive income	366,015	(31,581)
Total defined benefit cost recognized in comprehensive income (loss)	$(166,411)	$ 259,467

Weighted-average assumptions used to determine benefit obligations at December 31, 2018 and 2017, are as follows:

	2018	2017
Discount rate	4.3 %	3.3 %
Salary scale	NA	NA

Weighted-average assumptions used to determine net period pension cost for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Discount rate	3.3 %	3.7 %
Salary scale	NA	NA

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

Years Ending December 31	
2019	$133,307
2020	703,453
2021	201,272
2022	195,564
2023	192,608
In aggregate for five fiscal years thereafter	909,993

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, 2018, 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 the 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 bps higher (lower) the defined benefit obligation would decrease (increase) by $0.2 million.

27. COMMITMENTS AND CONTINGENCIES

In accordance with IFRS, the Company recognizes a provision when there is a present obligation from a past event, a transfer of economic benefits is probable, and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements. Obligations arising in respect of contingent liabilities that have been disclosed,

or those which are not currently recognized or disclosed in the consolidated financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires Company management to make a determination about various factual and legal matters beyond its control. The Company has outstanding legal cases, makes assessments of the legal proceedings at each reporting date, and makes a determination as to their status, in order to assess the need for provisions and disclosures in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim, or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim, or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements, but before those consolidated statements are issued), the opinions or views of legal advisers, experience on similar cases, and any decision of the Company's management as to how it will respond to the litigation, claim, or assessment. As of December 31, 2018 or 2017, there are no material legal contingencies.

At December 31, 2018 and 2017, the Company was obligated under a number of operating leases for premises used primarily for branch operations and office purposes. In a significant portion of the business locations where the Company 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:

	2018	**2017**
Less than one year	$ 4,910,069	$ 5,323,017
Between one and five years	15,222,643	18,759,644
More than five years	4,042,096	4,291,010
	$24,174,808	$28,373,671

Rent expense was $12.4 million and $12.2 million for the years ended December 31, 2018 and 2017, respectively.

There are no contingent assets, contingent liabilities, and capital commitments at December 31, 2018 and 2017.

28. 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. 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
	FINCA Haiti. S.A.
Honduras	Sociedad Financiera FINCA Honduras, S.A. Joint Stock Company
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
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.

Nonmicrofinance Subsidiaries

Netherlands	FINCA Network Support Services BV.
	FINCA Microfinance Cooperatief U.A.
USA	FINCA Microfinance Holdings Company LLC
	FINCA Services USA LLC
	FINCA Microfinance Global Services LLC
	FINCA International LLC
	FINCA Plus LLC
Mexico	Tenedora SAPI de C.V.
	Fundación Integral Comunitaria, AC Civil Association
El Salvador	Associacion de Forrento Integral Communitana de El Salvador Not-for-profit Association

Charitable Affiliates

United Kingdom	FINCA UK
Canada	FINCA Canada

In 2017, FINCA sold its interest in FINCA Joint Stock Company (Russia).

Noncontrolling members of FMH hold 37.1% of shares and voting rights as of December 31, 2018 and 2017. Assets and liabilities attributable to FMH noncontrolling members are $414.6 million and $327.1 million as of December 31,2018 and $411.7 million and $322.3 million as of December 31, 2017. Net income attributable to noncontrolling members of FMH is $2.1 million and $3.6 million for the years 2018 and 2017 respectively. Accumulated net income is $1.2 million and $0.4 million as of December 31, 2018 and 2017, respectively.

A non-controlling interest is attributable to non-controlling shareholders of FINCA Microfinance Bank Ltd. (Pakistan) holding 13.6% of shares and voting rights as of December 31, 2018. Assets and liabilities attributable to non-controlling interests are $31.4 million and $30.9 million, and $27.7 million and $26.9 million, as of December 31, 2018 and 2017, respectively. Net income and accumulated net income for the year attributable to non-controlling shareholders of FINCA Microfinance Bank Ltd. (Pakistan) is $1.0 million and $1.1 million, and $3.4 million and $2.4 million, for the years ended December 31, 2018 and 2017, respectively.

29. DISCONTINUED OPERATIONS

In 2017, FMH sold its interest in Microfinance Company FINCA Joint Stock Company (FINCA Russia).

FINCA Russia represents discontinued operations in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*.

Results of the discontinued operations in 2017 include the net income or loss for FINCA Russia for the period up to disposition.

	2017
Net operating income	$ 1,997,680
Expenses	(1,813,815)
Intercompany expenses eliminated on consolidation	366,534
Other income (expense)	(157,028)
Profit before income tax of discontinued operations	393,371
Tax	(38,738)
Loss on sale after income tax	(5,401,578)
Loss from discontinued operations	$(5,046,945)

The loss on sale from assets of the disposal group in the year ending December 31, 2017 is as follows:

	2017
Consideration received	$ 807,724
Net assets disposed of	(1,366,584)
Loss on sale before income tax and reclassification of foreign currency translation reserve	(558,860)
Reclassification of foreign currency translation reserve	(4,842,718)
Loss on sale after income tax	$(5,401,578)

Net cash inflow on sale of assets of the disposal group in the year ending December 31, 2017, is as follows:

	2017
Consideration received in cash and cash equivalents	$ 807,724
Less: cash and cash equivalent balances disposed of	(569,357)
Net cash consideration received	$ 238,367

Cash flows from the activities of assets of the disposal group for the year ending December 31, 2017 are as follows:

	2017
From operating activity	$1,042,622
From investing activity	(79,579)
From financing activity	(760,863)
Total cash flows (provided) used by disposal group	$ 202,180

30. RELATED PARTIES

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

Senior Management Compensation—Total compensation paid to the senior management of the Company for the years ended December 31, 2018 and 2017, amounted to:

	2018	2017
Short-term benefits	$1,447,363	$1,371,792
Postemployment benefits	196,655	504,908
	$1,644,018	$1,876,700

31. SUBSEQUENT EVENTS

In April 2017, FINCA Azerbaijan LLC (FAZ) entered into a Wind-Down Agreement (WDA) with the majority of its lenders. Under the terms of the Agreement, FAZ was permitted to continue to operate and collect amounts outstanding on its loan portfolio in return for certain forgiveness of debt from the lenders in order to meet regulatory capital standards. The Wind-Down period under the Agreement was initially set to expire on June 30, 2018 but under an Amendment dated November 30, 2017 this was extended to October 31st, 2018 and, in March 2018, it was further extended through January 31, 2019. FAZ recommenced its lending operation in early 2019.

In 2019, the President of Azerbaijan decreed the government would compensate all financial institutions two-fold. Firstly, it would compensate all USD loans with outstanding balances which had occurred during the two devaluation periods between 2015 and 2017. Secondly, all financial institutions would restructure every loan above 360 days delinquency (for any currency) for 5 years with a one-year grace period.

FAZ has worked with the Regulator and agreed as of March 1, 2019 the sum of loans eligible for compensation. The cash compensation amount received was $6.9 million of which $6.2 million was directly from write-offs and the balance held against the active loan portfolio. The decree also required institutions including FAZ to waive all outstanding interest and penalties on eligible loans which for FAZ amounted to $2.5 million; FAZ's shareholders duly passed a resolution to comply with the decree. Majority of the loans eligible for compensation were written off loans hence, all related principal, accrued interest and penalty were off balance sheet. The decree has negligible impact as most of the waived interest and penalty belongs to previously written off loans.

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FINCA INTERNATIONAL, INC.

SUPPLEMENTAL SCHEDULE—
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	General & Administrative	Fundraising	Total
Salaries and direct benefits	$ 99,559,518	$1,382,405	$ 844,635	$101,786,558
Fringe benefits	12,536,438	78,918	98,240	12,713,596
Travel	10,365,777	221,964	101,121	10,688,862
Professional services	15,945,735	1,209,901	1,035,797	18,191,433
Rent/utilities	14,512,619	295,506	-	14,808,125
Repairs and maintenance	2,953,158	35,848	-	2,989,006
Interest expenses	67,380,623	170,202	-	67,550,825
Direct training and hiring	1,749,043	3,434	-	1,752,477
Marketing	4,176,527	-	274,782	4,451,309
Communications	5,790,336	76,104	957,338	6,823,778
Equipment, commodities, and vehicles	1,737,860	91,804	-	1,829,664
Security	4,573,388	-	-	4,573,388
Bank and credit card fees	1,303,347	128,891	-	1,432,238
Office supplies	3,917,675	77,125	944,705	4,939,505
Depreciation and amortization expense	10,334,898	182,316	-	10,517,214
Provision for loan losses	25,991,400	-	-	25,991,400
Taxes other than income	5,189,562	1,828	-	5,191,390
Insurance	1,628,535	51,388	-	1,679,923
Other direct cost	1,556,431	76,019	256,414	1,888,864
License/memberships/meetings	3,472,851	1,633,091	29	5,105,971
Total operating expenses	$294,675,721	$5,716,744	$4,513,061	$304,905,526

FINCA INTERNATIONAL, INC.

NOTE TO SUPPLEMENTAL SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2018

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—General and administrative include FINCA's services to provide the necessary support and strategy management of the overall FINCA 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.

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