FINCA International, Inc.

Consolidated Financial Statements as of and for the Year Ended December 31, 2017, Supplemental Schedule as of and for the Year Ended December 31, 2017, and Independent Auditors’ Report

FINCA INTERNATIONAL, INC.

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of FINCA International, Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FINCA International, Inc. and its subsidiaries as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplemental Schedule and Notes to the Supplemental Schedule

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

Deloitte + Touche LLP

June 21, 2018

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017

	2017
ASSETS	
CASH AND CASH EQUIVALENTS	$ 153,912,034
RESTRICTED CASH AND CASH EQUIVALENTS (Note 8)	37,713,356
AVAILABLE FOR SALE INVESTMENTS (Note 9)	6,232,990
HELD-TO-MATURITY INVESTMENTS (Note 9)	42,032,786
DERIVATIVE ASSETS (Note 10)	31,266,196
LOANS RECEIVABLE, Net (Note 11)	777,645,735
DUE FROM BANKS	377,904
OTHER RECEIVABLES, PREPAID, AND OTHER ASSETS (Note 12)	23,537,572
PROPERTY AND EQUIPMENT, Net (Note 13)	32,057,081
INTANGIBLE ASSETS, Net (Note 14)	9,018,960
GOODWILL	989,143
CURRENT TAX ASSETS	923,351
DEFERRED TAX ASSETS (Note 7)	5,725,698
TOTAL	$ 1,121,432,806
LIABILITIES AND EQUITY	
LIABILITIES:	
Accounts payable and other accrued liabilities (Note 15)	$ 33,829,712
Derivative liabilities (Note 10)	11,213,302
Client deposits (Note 17)	372,744,174
Bank deposits (Note 16)	62,546,969
Notes payable (Note 18)	376,330,996
Subordinated debt (Note 19)	5,651,052
Deferred revenue (Note 20)	3,884,371
Employee benefits (Note 21)	3,398,290
Current income tax liability	4,320,467
Deferred tax liabilities (Note 7)	2,138,352
Total liabilities	876,057,685
NET ASSETS:	
Unrestricted net assets—FINCA (Note 24)	150,423,670
Unrestricted net assets—noncontrolling interest (Note 24)	94,431,698
Total unrestricted net assets	244,855,368
Temporary restricted net assets (Note 25)	519,753
Total net assets	245,375,121
TOTAL	$ 1,121,432,806

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporary Restricted	Total 2017
OPERATING REVENUES:			
Contributions:			
Corporate, foundation, and individual giving	$ 12,955,180	$ 506,301	$ 13,461,481
Services and gifts in kind	4,422,363	-	4,422,363
Program:			
Interest income	283,750,994	-	283,750,994
Grants and contracts	4,547,318	-	4,547,318
Fees and other income	33,435,308	-	33,435,308
Net assets released from restrictions	340,547	(340,547)	-
Total operating revenues	339,451,710	165,754	339,617,464
OPERATING EXPENSES:			
Program services	(291,718,833)	-	(291,718,833)
Fundraising	(4,160,434)	-	(4,160,434)
General and administrative	(9,243,880)	-	(9,243,880)
Total operating expenses	(305,123,147)	-	(305,123,147)
INCOME TAX EXPENSE (Note 7)	(13,230,591)	-	(13,230,591)
CHANGE IN NET ASSETS BEFORE NONOPERATING ITEMS	21,097,972	165,754	21,263,726
NONOPERATING INCOME	1,154,710	-	1,154,710
INVESTMENT AND FOREIGN EXCHANGE (LOSS)	(252,991)	-	(252,991)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC BENEFIT COST GAIN	258,142	-	258,142
TRANSLATION GAIN OF FOREIGN OPERATIONS	3,014,155	-	3,014,155
FAIR VALUE RESERVE REVALUATION	(41,805)	-	(41,805)
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS AND BEFORE NONCONTROLLING INTEREST	25,230,183	165,754	25,395,937
LOSS FROM DISCONTINUED OPERATIONS	(5,046,945)	-	(5,046,945)
CHANGE IN NET ASSETS	20,183,238	165,754	20,348,992
NET ASSETS—Beginning of year	224,672,129	353,999	225,026,128
NET ASSETS—End of year	$ 244,855,367	$ 519,753	$ 245,375,120

See notes to consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets before noncontrolling interest	$ 20,348,993
Adjustments to reconcile changes in net assets before noncontrolling interest to net cash provided by operating activities:	
Foreign currency translation gain	(3,014,155)
Pension-related changes other than net periodic benefit cost gain	(258,142)
Fair value revaluation reserve	41,806
Depreciation and amortization	10,427,186
Loss on disposal of fixed assets and intangibles	(79,523)
Impairment on loan losses and other financial assets	27,730,738
Impairment of other assets	881,011
Foreign exchange losses	6,557,271
Changes in deferred tax assets and liabilities	(3,500,797)
Gain on disposal of subsidiaries	570,761
Other non-cash adjustments	(12,455,444)
(Decrease) increase of assets and liabilities from operating activities after non-cash items:	
Change in interest receivable and fees	(6,913,750)
Change in other receivables and other assets	(24,990,205)
Change in other liabilities	3,550,214
Change in deferred revenue	(2,337,796)
Change in employee benefits	(826,291)
Net cash provided by operating activities	15,731,877
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net purchase of financial assets	(18,178,695)
Net change in loans to customers	(57,566,364)
Purchase of property and equipment	(9,848,269)
Purchase of intangible assets	(4,414,406)
Proceeds from sales/disposals of fixed assets	1,012,352
Net cash inflow on disposal of subsidiaries	238,367
Net cash used in investing activities	(88,757,015)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net change in customers' and other deposits	152,164,837
Proceeds from lenders	325,753,615
Repayment of loans and borrowings to lenders	(390,655,273)
Net cash provided by financing activities	87,263,179

(Continued)

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 14,238,041
CASH AND CASH EQUIVALENTS—Beginning of the year	140,797,035
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,123,042)
CASH AND CASH EQUIVALENTS—End of the year	$ 153,912,034
SUPPLEMENTAL DISCLOSURES TO CASH FLOWS FROM OPERATING ACTIVITIES:	
Interest received	$ 328,699,304
Interest paid	$ (85,882,421)
Income taxes paid	$ (12,167,277)

See notes to consolidated financial statements. (Concluded)

1. NATURE OF ACTIVITIES

FINCA International, Inc. ("FINCA" or "FINCA International" or the "Company") is a not-for-profit corporation, incorporated in 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, 2017, FINCA through FINCA Microfinance Holdings Company, LLC ("FMH") engages in 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 (Afghanistan, Jordan, and Pakistan). FINCA operates through local entities ("subsidiaries") that are owned and/or controlled by FINCA through FMH. Subsidiaries are organized primarily as corporations but also, in some cases, as nongovernmental organizations, or as branches of FINCA International.

Subsidiaries principally provide loans to parties that lack access to traditional financial institutions. In most cases, these loans are made to either groups of individuals, individuals, or small and medium-sized enterprises ("SME"). Group and village loans consist of individuals that know each other, guarantee each other's loans and provide a network of support for the group members. Individual loans, typically larger in size, are made where individual small businesses demonstrate adequate need and creditworthiness. Other loans consist of agricultural loans, education loans and other micro-finance loans. Through a growing number of its subsidiaries, FINCA provides other financial services needed by the working poor, including savings deposits, remittances, and micro insurance.

Approximately half of FINCA's lending clients worldwide are women who often lack the ability to secure adequate formal employment and who, in many cultures, are the primary providers for a family. FINCA's loans are a renewable resource that can improve the economy of an entire community. FINCA operates on a twin bottom line approach of financial sustainability and social impact.

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.

Additionally, FINCA operates two programs aimed at entrepreneurial solutions to poverty that aim to bring basic services to low-income families and their communities. One program 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 patient 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 accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and are presented in U.S. dollars, which is FINCA's functional currency.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Contributed Services and Gifts—Contributed services and gifts are reported at fair value in the consolidated statement of activities when these (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing these skills and would be typically purchased if not provided by donation. FINCA recorded contributed services and gifts revenue and related expense for the year ended December 31, 2017 of approximately $4.4 million.

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

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

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

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

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

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

Goodwill—The excess of the fair value of purchase consideration over the fair values of the identifiable assets and liabilities of an acquired business is recorded as goodwill. Identifiable intangible assets other than goodwill are capitalized at fair value on the date of acquisition and are amortized over their respective estimated useful life in the consolidated statement of activities.

Noncontrolling interest is measured at fair value on the date of acquisition. FINCA does not expect to predominantly support the operations of the acquired company by contributions and returns on its investments. In accordance with Accounting Standards Codification (ASC) 958 (subtopic 805), *Business Combinations*, FINCA records the goodwill as an asset on the acquisition date.

Acquisition-related expenses and restructuring costs are recognized separately from the business combination and are expensed as incurred. There were no acquisitions in 2017.

Subsequent changes of the ownership percentage in the controlled entity that do not result in the loss of control are accounted for as equity transactions with no gain or loss in the consolidated statement of activities.

Goodwill is not amortized but is tested for impairment at least annually. If the implied fair value of the reporting unit's goodwill is less than its carrying value the difference is recorded as an impairment loss in the consolidated statement of activities. Impairment testing of goodwill recognized upon the 2013 acquisition of FINCA Microfinance Bank Ltd (Pakistan) did not result in any impairment loss.

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

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

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

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

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

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

Investments—FINCA classifies its investments as short term when management intends to sell them in the next year. Long-term investments include available for sale (AFS) investments that management has no intention or ability to sell in the next fiscal year. AFS investments include certificates of deposit, government treasury notes, and equity investments in unconsolidated subsidiaries. HTM investments include investments in debt securities, for which management has the intention and the ability to hold to maturity.

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

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

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

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

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

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

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

Reversal of impairment losses attributed to credit losses is not permitted. Reversals attributed to losses other than credit losses are recorded under the non-operating change in net assets. In consideration of all the relevant evidence mentioned above, FINCA's management concluded that its investments available for sale were not impaired at December 31, 2017.

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

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

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

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

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

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

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

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

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

Allowance for Loan Losses

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

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

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

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

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

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

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

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

Client Deposits—FINCA accepts and maintains savings deposits from clients in subsidiary operations. FINCA has been pursuing a strategy to increase client savings in subsidiary operations eligible to accept voluntary deposits, offering clients access to banking services while receiving lower-cost funding in return. These voluntary deposits represent the majority of FINCA's savings deposits. Additionally, certain loan products are structured to require a deposit at the time the loan is made, representing an additional source of client deposits maintained by FINCA.

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

Notes Payable—Notes payable are financial instruments, initially recorded at the amount of cash proceeds received. Subsequent to initial recognition, notes payable are measured at amortized cost. Fees paid on the establishment of loan facilities are recognized as transaction costs of the facility, to the extent it has been determined that the note or the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Subordinated Debt—Subordinated debt consists of liabilities to other international financial institutions, which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. Subsequent to initial recognition for the amount of cash proceeds, the subordinated debt is measured at amortized cost. Premiums and discounts are accounted for over the respective terms of the debt in the consolidated statement of activities using the effective interest method.

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

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

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

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

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

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

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

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

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

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

- The software will be used as intended.

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

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

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

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

If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized, in operating expenses in the consolidated statement of activities, to the extent that the carrying value exceeds its fair value. If an asset is part of a group that includes other assets and liabilities not covered by ASC 360, the impairment testing applies to the entire group of assets. Impairment losses recognized in prior periods are not reversed regardless of changes in facts and circumstances surrounding the asset or group of assets.

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

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

The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. As of December 31, 2017, FINCA had no capital leases.

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

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

Defined Contribution Plan—FINCA has established an employee contribution plan that allows US based employees to defer compensation up to a maximum amount as permitted by the Internal Revenue Code. FINCA makes contributions to the plan as a discretionary employer match.

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

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

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

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

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

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

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

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

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

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

Discontinued Operations—The operations of discontinued operations are reported separately as discontinued operations on the consolidated statement of activities in accordance with ASC 205-20, *Discontinued Operations*.

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

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

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

ASU No. 2017-07—*Retirement Benefits—Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. On March 10, 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-07, which changes the presentation of the service cost component of net periodic benefit cost for employer sponsored defined benefit pension and/or postretirement benefit plans. The amendments are intended to present employee compensation costs arising from services rendering during the period in the same income statement line item. The ASU's amendments are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. FINCA is evaluating the impact of the update on its consolidated financial statements.

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

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

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

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

4. USE OF ESTIMATES

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

5. CAPITAL REQUIREMENTS

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, 2017 all Subsidiaries (with the exception of FINCA DRC, Malawi and Zambia) were in compliance with this policy.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments that are measured at fair value on a recurring basis at December 31, 2017 are as follows:

	2017				
Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying Value**
Loans receivable, net	$ -	$774,852,759	$ -	$774,852,759	$777,645,735
AFS investments	2,694,745	3,538,245	-	6,232,990	6,232,990
HTM investments	-	42,032,786	-	42,032,786	42,032,786
Derivative assets	-	31,266,196	-	31,266,196	31,266,196
Due from banks	-	377,904	-	377,904	377,904
Other receivables, prepaid, and other assets	-	23,537,572	-	23,537,572	23,537,572
Financial Liabilities					
Derivative liabilities	$ -	$ 11,213,302	$ -	$ 11,213,302	$ 11,213,302
Client deposits	-	295,684,179	80,894,793	376,578,972	372,744,174
Bank deposits	-	62,546,969	-	62,546,969	62,546,969
Notes payable	12,132,769	240,371,580	123,075,787	375,580,136	376,330,995
Subordinated debt	-	3,129,703	2,576,380	5,706,083	5,651,052
Other financial liabilities	-	6,935,792	-	6,935,792	6,935,792

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

As of December 31, 2017, AFS investments are categorized as Level 1 and 2. The fair values categorized as Level 1 have been determined by the market quoted prices of those instruments on the measurement date. The fair values categorized as Level 2 have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, using discount rates and quoted prices derived from similar instruments. Management has concluded that the Company's AFS investments are not impaired at December 31, 2017.

The fair values of loans receivable, client deposits, bank deposits, notes payable and subordinated debt categorized as Level 2 and 3 have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. The most significant inputs are discount rates which were derived from a blend of quoted prices for the instruments and quoted prices for similar instruments on the measurement date.

Management considers that the amortized cost of the HTM investments, due from banks, other financial assets and other financial liabilities recognized in the consolidated financial statements approximates its fair value at December 31, 2017.

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

7. INCOME TAX

Income tax expense for the year ended December 31, 2017, was as follows:

	2017
Current tax expense	$ 16,468,963
Deferred tax benefit	(3,238,372)
Total income tax expense	$ 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 local country income taxes for the subsidiaries and foreign withholding taxes on certain cross-border payments. The average actual income tax rate for the subsidiaries in 2017 was 26.5%. FINCA is exempt from taxes on income, except for unrelated business income, under the provision of Section 501(c)(3) of the United States Internal Revenue Code and the applicable income tax regulations of the District of Columbia. In 2017, FINCA recorded no federal and state income tax expense on the unrelated business income.

	2017
Tax rate using domestic tax rate of FINCA (exempt on taxes on income)	
Foreign income tax (taxable subsidiaries) at local statutory rates	$ 10,348,159
Expenses not deductible for tax purposes	1,631,692
Tax-exempt income	(3,568,851)
Recognition of previously unrecognized tax losses	(1,887,515)
Adjustments for under provision in previous periods	2,000,904
Foreign withholding taxes	3,294,959
Valuation allowance for unrecognized deferred tax assets	1,423,000
Other	(11,757)
Total income tax expense	$ 13,230,591

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

In 2017, FINCA recorded $1.3 million of income tax expense on $18.2 million of temporary differences related to the excess of the amount for financial reporting over the tax basis of the investments in subsidiaries expected to reverse in the foreseeable future. The temporary differences of $18.2 million include $17.1 million of expected distributions of the subsidiaries' retained earnings from 2017 and $1.1 million for an increase of expected distributions of the subsidiaries' retained earnings from prior years. At December 31, 2017, FINCA recorded a deferred tax liability of $1.4 million on temporary differences related to the investments in subsidiaries expected to reverse in the foreseeable future.

Foreign withholding taxes have not been recognized on the temporary differences related to the excess of the amount for financial reporting over the tax basis of investments in subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from a subsidiary or a sale or liquidation of a subsidiary. At December 31, 2017, the amount of such temporary differences totaled $48.7 million. The amount of the unrecognized deferred income tax liability on these temporary differences was approximately $3.5 million.

ASC 740 generally requires that deferred tax assets be given full recognition, subject to the possible provision of an allowance when it is determined that this asset is unlikely to be realized. The valuation allowance is provided for the portion of the deferred tax assets for which it has been determined that it is more likely than not that the reported asset will not be realized. At December 31, 2017, FINCA has a valuation allowance of $5.7 million against its deferred tax assets, in net deferred tax assets and net deferred tax liabilities, as it believes that it is more likely than not that this portion of its deferred tax assets will not be realized. The principal components of the deferred tax assets for which a valuation allowance has been established include certain foreign country operating loss carryforwards and foreign provisions for credit losses on loans that cannot be realized in the foreseeable future.

Net Deferred Tax Assets—At December 31, 2017, net deferred tax assets were recognized by the subsidiaries in Armenia, Azerbaijan, Democratic Republic of Congo (DRC), Kyrgyzstan, Pakistan, Tajikistan, Tanzania, USA, and Zambia as follows:

	Assets (Liability) 2017
Property and equipment and intangible assets	$ 301,276
Provision for loan loss impairment	2,419,936
Deferred income/accrued interest	636,927
Tax loss carryforwards	4,638,818
Other	2,174,351
Total deferred tax assets	10,171,308
Valuation allowance	(4,445,610)
Net deferred tax assets	$ 5,725,698

Net Deferred Tax Liabilities—At December 31, 2017, net deferred tax liabilities are recorded by FMH and subsidiaries in Ecuador, Georgia, Honduras, Malawi, the Netherlands, Nicaragua, Uganda, and USA as follows:

	(Liability) Assets 2017
Property and equipment and intangible assets	$ (473,271)
Provision for loan loss impairment	(258,928)
Deferred income/accrued interest	1,963
Tax loss carryforwards	1,434,248
Future distribution of retained earnings	(1,435,114)
Other	(103,832)
Total deferred tax liabilities	(834,934)
Valuation allowance	(1,303,418)
Net deferred tax liabilities	$ (2,138,352)

Unrecognized Tax Benefits—FINCA records unrecognized tax benefits as liabilities in accordance with ASC 740 and adjusts these liabilities when its judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available. At December 31, 2017, FINCA did not record any additional unrecognized tax benefits. FINCA believes that it is not reasonably possible that any unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

At December 31, 2017, no estimated interest and penalties related to unrecognized tax benefits were accrued. Accrued interest and penalties are generally included within the related accrued liabilities line in the consolidated statement of financial position.

FINCA is subject to taxation by the U.S. federal government, various U.S. states and localities, and foreign jurisdictions. As of December 31, 2017, FINCA's tax years 2007–2017 are subject to examination by the tax authorities.

8. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash balances of $37.7 million as of December 31, 2017, comprise of undisbursed grant funds, cash balances for country specific regulatory requirements, and pledged collateral related to local borrowings and deposits.

9. FINANCIAL ASSETS

FINCA's financial assets at December 31, 2017, consist of the following:

	2017
Current:	
Cash and cash equivalents	$ 153,912,034
Restricted cash and cash equivalents	37,635,392
AFS Investments	5,959,990
HTM investments	41,290,945
Derivative assets	31,245,538
Loans receivable, net	515,016,803
Due from banks	377,904
Other financial assets	27,541,188
Non-current:	
Restricted cash and cash equivalents	77,964
AFS Investments	273,000
HTM investments	741,841
Derivative assets	20,658
Loans receivable, net	262,628,932
Other financial assets	361,792
	$ 1,077,083,981

10. DERIVATIVE ASSETS AND LIABILITIES

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

2017	Notional Amount	Fair Value Assets	Fair Value Liabilities
Fair value from derivatives with third parties:			
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 derivatives with third parties	$ 39,023,080	$ 31,266,196	$ 11,213,302

Due to the volatility of foreign currencies, the estimated fair value of our derivative instruments is subject to fluctuation from period to period, which could result in significant differences between the current estimated fair value and the ultimate settlement. As of December 31, 2017, $31.2 million and $10.6 million of derivative assets and liabilities, respectively, will settle within 12 months.

11. LOANS RECEIVABLE, NET

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

	2017
Gross loans to clients—current	$532,015,233
Gross loans to clients—noncurrent	265,501,628
Total gross loans to clients	797,516,861
Less allowances for impairment	(19,871,126)
Loans receivable	$777,645,735

	2017
Allowance for loan losses:	
Balance—January 1	$ 42,882,752
Discontinued operations	(110,712)
Loan loss provision for the year	28,550,245
Amounts charged off—net of recovery	(52,218,771)
Effect of foreign currency movements	767,612
Balance—December 31	$ 19,871,126

A summary of balances per loan portfolio segments at December 31, 2017 is summarized as follows:

2017	Total Loans Principal	Interest and Deferred Costs Capitalized	Allowance for Loan Losses	Prepayments	Ending Balance
Less than $1,000	$211,315,519	$ 6,416,092	$ (5,554,345)	$ (516,197)	$211,661,069
$1,001–$5,000	316,649,776	6,075,219	(6,947,266)	(526,756)	315,250,973
$5,001–$10,000	97,121,850	969,245	(2,252,958)	(50,611)	95,787,526
More than $10,001	158,355,783	1,733,478	(5,116,558)	(26,536)	154,946,167
Total	$783,442,928	$15,194,034	$ (19,871,126)	$ (1,120,101)	$777,645,735

Activity in allowance for loan losses by segment at December 31, 2017, is summarized as follows:

2017	Beginning Balance	Charge-Offs Net of Recoveries	Provision for the Year	Foreign Currency Movements	Discontinued Operations Reclassifications	Ending Balance
Less than $1,000	$ 16,250,940	$ (17,988,511)	$ 7,598,551	$ (306,289)	$ (348)	$ 5,554,343
$1,001–$5,000	16,626,359	(21,530,496)	11,558,416	293,115	(127)	6,947,267
$5,001–$10,000	4,257,722	(5,700,066)	3,637,806	57,922	(426)	2,252,958
More than $10,001	5,747,731	(6,999,698)	5,755,472	722,864	(109,811)	5,116,558
Total	$ 42,882,752	$ (52,218,771)	$ 28,550,245	$ 767,612	$ (110,712)	$ 19,871,126

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

FINCA's loan portfolio is made up entirely of loans made to individuals, groups of individuals, and SMEs for a specific purpose. At December 31, 2017, FINCA had 0.8 million borrowers.

At December 31, 2017, FINCA's aggregate loan portfolio was $797.5 million and the respective total allowance for loan losses totaled $19.9 million, providing a coverage ratio of 2.5% of total loan portfolio amount. FINCA conducts biannual historical loan-loss migration analysis across its subsidiary network in order to determine the probability of default, defined as all loans in arrears in excess of 180 days, as well as an examination of other current observable factors (e.g., macroeconomic, operational, policy and systems changes, and political risk) in order to establish subsidiary credit reserves.

Exposure to credit risk at December 31, 2017, is as follows:

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

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

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

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

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

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

FINCA monitors the credit risk for its client loan portfolio though the past-due status of portfolio. Aging of gross loans receivable as of December 31, 2017, is summarized as follows:

2017	31–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Less than $1,000	$ 1,813,692	$ 1,232,437	$ 4,635,155	$ 7,681,284	$ 209,534,130	$ 217,215,414
$1,001–$5,000	2,006,376	1,446,493	4,519,900	7,972,769	314,225,469	322,198,238
$5,001–$10,000	659,591	560,177	1,542,263	2,762,031	95,278,453	98,040,484
More than $10,000	1,449,614	1,233,705	2,837,248	5,520,567	154,542,158	160,062,725
Total	$ 5,929,273	$ 4,472,812	$ 13,534,566	$ 23,936,651	$ 773,580,210	$ 797,516,861

12. OTHER RECEIVABLES, PREPAID, AND OTHER ASSETS

The balances representing other receivables, prepaid, and other assets at December 31, 2017 are summarized as follows:

	2017
Receivables from sale of discontinued operations	$ 2,482,106
Grants receivable	2,716,829
Prepaid rent	2,581,595
Receivable from money remittance and other agencies	1,339,914
Prepaid office supplies	1,157,803
Prepaid taxes	650,799
Deposit with Internal Revenue Service and other fiduciary agencies	2,407,512
Staff advances and loans	719,888
Receivable commission, rebates, and refunds from banks and agencies	500,511
Other prepayments and debtors	8,980,615
Total	$ 23,537,572

13. PROPERTY AND EQUIPMENT, NET

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

Cost	Total	Buildings and Offices	Construction in Progress	Leasehold Improvements	Computer Equipment	Furniture and Office Equipment	Vehicles	Other
Balance—January 1, 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
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
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

Depreciation and amortization expense charged for the year ended December 31, 2017 was $7.4 million.

14. INTANGIBLE ASSETS, NET

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

Costs	**Total**	**Capitalized Software**	**Capital Work-In-Progress**	**Other**
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
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	-	-	-	-
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
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

Amortization expense for the year ended December 31, 2017 amounts to $3.0 million.

15. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

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

	2017
Current:	
Personnel	$ 8,877,389
Non-income taxes	4,286,939
Professional services	4,593,178
Office supplies	3,291,943
Deferred rent	387,518
Other accounts payable and accrued expenses	10,060,942
	31,497,909
Non-current:	
Deferred rent	2,331,803
Total	$ 33,829,712

16. BANK DEPOSITS

FINCA accepts and maintains deposits from other banks in subsidiary operations. At December 31, 2017, bank deposits with a maturity of no more than 12 months totaled $60.7 million. The remaining bank deposits of $1.8 million mature in no more than 36 months.

17. CLIENT DEPOSITS

Client deposits consist of both voluntary and compulsory savings deposits. Client deposits expected to be held no more than 12 months totaled $299.9 million. The noncurrent deposits of $72.9 million expect to be held from 12 months to 5 years.

The composition of client deposits at December 31, 2017 are as follows:

	2017
Compulsory savings/cash collateral	$ 11,417,725
Voluntary savings:	
Saving accounts	95,758,136
Term deposit accounts	239,176,269
Other voluntary savings	26,392,044
Total voluntary savings	361,326,449
Total client deposits	$ 372,744,174

18. NOTES PAYABLE

Interest rates paid by subsidiaries range from six months London InterBank Offered Rate plus 450 basis points up to 21.0% floating and up to 23.1% fixed in local currencies for commercial loans in countries with high perceived risk or with depreciating currencies. In some situations, FMH, as the intermediary parent company, may be directly liable or may offer support for loans provided to subsidiaries without adequate credit standing, which may be in the form of a direct guarantee, letter of credit, comfort letter, or another form of credit enhancement.

As of the balance sheet date, some subsidiaries have breached covenants contained in financing agreements underlying these obligations. Management believes that these breaches are primarily due to recent global economic conditions which have impacted microfinance, or in some cases due to local political and economic developments. A breach of a loan covenant could permit a lender to accelerate payment of the loan, but would not permit a cross-default beyond the particular subsidiary.

As of December 31, 2017, subsidiaries in Azerbaijan, DRC, Guatemala, Malawi, and Tanzania were in breach of financial covenants regarding loans from international financial institutions amounting to $37 million. As of December 31, 2017, FMH and its subsidiaries had obtained formal waivers for these breaches of covenants accounting for $24.3 million.

All loans for which no formal waivers were obtained or were not obtained before December 31, 2017, 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, 2017 are as follows:

	2017
Overdrafts	$ 493,674
Notes payable:	
Principal amount	372,936,512
Accrued interest	2,900,810
	$ 376,330,996

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

2018	$ 174,592,489
2019	130,659,062
2020	46,597,654
2021	10,717,463
2022	3,388,004
Thereafter	7,475,514
	$ 373,430,186

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

	2017
Current:	
Overdrafts	$ 493,674
Notes payable:	
Secured	27,442,428
Unsecured	147,597,016
Collateralized borrowings	2,211,201
	177,744,319
Non-current:	
Notes payable:	
Secured	27,195,043
Unsecured	125,864,708
Collateralized borrowings	45,526,926
	198,586,677
Total notes payable and overdrafts	$ 376,330,996

19. SUBORDINATED DEBT

The subordinated debt balance consists of debt from external financial institutions to FINCA Georgia ($2.6 million) and FINCA Nicaragua ($3.1 million) as of December 31, 2017.

20. DEFERRED REVENUE

All of the balance of deferred revenue at December 31, 2017 ($3.9 million) was attributable to grantors other than the US government.

21. EMPLOYEE BENEFITS

Defined Contribution Pension Plan—FINCA has implemented an employee retirement plan (the "Plan") under Internal Revenue Code Section 403(b). Under the Plan, qualified employees may defer compensation up to the maximum amount permitted by the Internal Revenue Code. The elective deferral limits and catch-up limit were $18,000 and $6,000 for 2017, respectively. FINCA may make contributions to the Plan as a discretionary employer match. FINCA's contributions to the Plan for the year ended December 31, 2017 was $0.4 million.

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

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

	2017
Benefit obligation—beginning of year	$ 3,707,898
Service cost	102,778
Interest cost	125,108
Actuarial loss	31,581
Settlement	(437,825)
Net employer benefits paid	(131,250)
Benefit obligation—end of year	$ 3,398,290

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

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

The funded status of FINCA's defined benefit plan at December 31, 2017 is summarized as follows:

	2017
Benefit obligation—end of year	$ 3,398,290
Funded status	$ (3,398,290)
Unrecognized prior service cost	342,066
Unrecognized net actuarial losses	715,020
Accrued benefit cost	$ (2,341,204)

The amount of net periodic cost at December 31, 2017, is summarized as follows:

	2017
Service cost	$102,778
Interest cost	125,108
Amortization of actuarial loss (10% corridor)	71,425
Amortization of prior service cost	126,206
Total net periodic cost	$425,517

Components other than net periodic cost included in the consolidated statement of activities for the year ended December 31, 2017, are summarized as follows:

	2017
Net actuarial loss	$ (39,844)
Prior service (cost)	(126,206)
Effect of settlements	(92,092)
Total related credits other than net periodic cost	$(258,142)

Items not yet recognized as components of net periodic pension cost at December 31, 2017, are summarized as follows:

	2017
Unrecognized prior service cost	$ 342,066
Unrecognized net actuarial losses	715,020
Total unamortized pension prior service cost and losses	$ 1,057,086

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

	2017
Discount rate	3.3 %
Salary scale	NA

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

	2017
Discount rate	3.7 %
Salary scale	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	
2018	$133,399
2019	166,645
2020	756,208
2021	199,453
2022	193,798
In aggregate for five fiscal years thereafter	921,094

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, 2017 Citigroup pension discount curve and the expected benefit payments from the Plan. This curve is the published yield curve of high-grade corporate bond rates.

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

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

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

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

22. COMMITMENTS AND CONTINGENCIES

At December 31, 2017, FINCA was obligated under several operating leases for premises used primarily for branch operations and office purposes. In a significant portion of the business locations where FINCA operates, the operating lease agreements are negotiated on a month-to-month or year-by-year basis and are in line with general rental market conditions.

Future minimum lease payments under existing lease contracts are due, in dollars, as follows:

	2017
Less than one year	$ 5,323,017
Between one and five years	18,759,644
More than five years	4,291,010
	$ 28,373,671

Rent expense was $12.2 million for the year ended December 31, 2017.

FMH provided a guarantee directly on a line of credit with a total commitment of $4.8 million ($4.0 million outstanding) as of December 31, 2017. There are no contingent assets, contingent liabilities, and capital commitments at December 31, 2017.

23. DISCONTINUED OPERATIONS

In October 2017, FINCA sold its interest in a subsidiary, FINCA Closed Joint Stock Company formed in Russia ("FINCA Russia").

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

Under ASU No. 2014-08, the assets and liabilities of a disposal group should be presented as separate line items within current assets and current liabilities on the face of the balance sheet and should not be offset.

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

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

	2017
Net operating income	$ 1,997,680
Expenses	(1,813,815)
Intercompany expenses eliminated on consolidation	366,534
Other expense	(157,028)
Profit before income tax of discontinued operations	393,371
Income tax expense	(38,738)
Profit after income tax of discontinued operations	354,633
Loss on sale after income tax	(5,401,578)
Loss for the year 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)
Gain 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	$ (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	$ 202,180

24. FINCA ENTITIES

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

Americas	
Ecuador	Banco para la Asistencia Comunitaria, FINCA S.A. Joint Stock Company
	Fundación Internacional para la Asistencia Comunitaria de Ecuador Foundation
	Asesora de Microfinanzas Asemicrofin S.A.
Guatemala	Fundación Internacional para la Asistencia Comunitaria de Guatemala Foundation
	MFSI Guatemala S.A.
Haiti	FINCA HAITI Non-Governmental Organization
	FINCA Haiti, S.A.
Honduras	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
	FINCA Transfert SARL Limited Liability Joint Stock Company
Malawi	FINCA Limited Company Limited by Shares
Nigeria	FINCA Microfinance Bank Limited
Tanzania	FINCA Microfinance Bank Limited
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 & South Asia	
Jordan	FINCA Jordan Specialized Micro Loans Company
Afghanistan	FINCA Afghanistan Joint Stock Company Limited by Shares
Pakistan	FINCA Microfinance Bank Limited (Pakistan)
Non-Microfinance Subsidiaries	
Netherlands	FINCA Network Support B.V.
	FINCA Microfinance Cooperatief U.A.
USA	FINCA Services USA LLC
	FINCA Plus LLC
	FINCA International LLC
	FINCA Microfinance Global Services LLC
Cayman Islands	Micro-Finance Solutions, Inc.
Mexico	Tenedora SAPI de C.V
	Fundación Integral Comunitaria, A.C. Civil Association
Charitable Affiliates	
United Kingdom	FINCA UK
Canada	FINCA Canada

The noncontrolling interest in FINCA consists of shareholders at FMH and shareholders at FINCA Microfinance Bank Ltd. (Pakistan). Noncontrolling members of FMH hold 37.1% of shares and voting rights as of December 31, 2017. Assets and liabilities attributable to the FMH noncontrolling members are $411.7 million and $322.3 million as of December 31, 2017.

Noncontrolling interest is attributable to noncontrolling shareholders of FINCA Microfinance Bank Ltd. (Pakistan), holding 13.6% of shares and voting rights as of December 31, 2017. Assets and liabilities attributable to these noncontrolling interests are $30.9 million and $26.9 million as of December 31, 2017. Net income of $1.1 million and accumulated net income of $2.4 million for the year 2017 is attributable to these noncontrolling interest of FINCA Microfinance Bank Ltd. (Pakistan). Accumulated net translation adjustments attributable to these noncontrolling shareholders are ($333,661).

A reconciliation of noncontrolling interest as of December 31, 2017 is summarized as follows:

	Changes in Unrestricted Net Assets Attributable to FINCA International and Noncontrolling Interest		
	Total	**FINCA International Inc.**	**Noncontrolling Interest**
Beginning balance—January 1, 2017	$224,672,129	$135,913,577	$88,758,552
Attributable change in net assets	20,183,239	14,510,093	5,673,146
Ending balance—December 31, 2017	$244,855,368	$150,423,670	$94,431,698

25. TEMPORARY RESTRICTED NET ASSETS

Temporary restricted net assets activity in 2017 was as follows:

	January 1, 2017	Contributions	Released	December 31, 2017
FINCA Plus	$131,595	$201,890	$ 1,589	$335,074
Uganda	18,895	-	(18,895)	-
Malawi	37,292	10,200	(37,292)	10,200
Zambia	36,394	-	(29,469)	6,925
Tanzania	28,001	12,400	(40,000)	401
Clifford Chance Foundation	27,827	100,000	(4,258)	123,569
Guatemala	22,517	16,000	(38,517)	-
Haiti	21,856	134,211	(137,840)	18,227
Visa	8,343	-	-	8,343
FINCA Ventures	6,700	-	-	6,700
Ecuador	6,000	5,800	(11,000)	800
Pakistan	4,000	-	-	4,000
Russia	2,800	-	(2,800)	-
El Salvador	840	-	(840)	-
Rumsfeld Foundation	639	-	-	639
Afghanistan	300	400	(225)	475
Honduras	-	400	-	400
Armenia	-	5,000	(5,000)	-
Jordan	-	16,000	(16,000)	-
Nigeria	-	4,000	-	4,000
Total	$353,999	$506,301	$(340,547)	$519,753

26. RELATED PARTIES

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

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

	2017
Short-term benefits	$ 1,371,792
Post employment benefits	504,908
	$ 1,876,700

27. SUBSEQUENT EVENTS

In April 2017, FINCA Azerbaijan LLC entered into a wind-down agreement with the majority of its lenders under the terms of which FINCA Azerbaijan LLC continues to operate to collect amounts outstanding on its loan portfolio in return for certain forgiveness of debt from the lenders to meet regulatory capital standards. The wind-down period was set to initially expire on June 30, 2018 but under amendments in November 2017 and March 2018, it was extended to January 31, 2019.

* * * * * *

SUPPLEMENTAL SCHEDULE AND NOTE TO SUPPLEMENTAL SCHEDULE

FINCA INTERNATIONAL INC.

SUPPLEMENTAL SCHEDULE—CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	General & Administrative	Fundraising	Total
Salaries and direct benefits	$ 98,769,194	$ 999,906	$ 584,467	$ 100,353,567
Interest expense	69,218,655	326,790	-	69,545,445
Provision for loan losses	28,550,245	-	-	28,550,245
Professional services	13,298,024	1,748,996	1,226,937	16,273,956
Occupancy and utilities	14,132,657	308,783	15,450	14,456,890
Fringe benefits	11,240,055	859,545	238,682	12,338,282
Depreciation and amortization expense	10,180,494	200,117	-	10,380,611
Travel and entertainment	10,595,909	84,668	63,569	10,744,146
Other direct cost	2,196,072	363,502	22,305	2,581,879
Communications	5,864,815	160,405	818,210	6,843,430
Security	4,394,595	-	-	4,394,595
Advertising	4,092,306	1,490	423,699	4,517,494
Office supplies	3,722,409	156,855	747,296	4,626,560
License and subscription fees	2,462,847	3,482,148	15,606	5,960,601
Taxes other than income	4,385,331	465	225	4,386,021
Equipment and office maintenance	2,633,354	10,136	-	2,643,490
Direct training and hiring	1,598,195	57,474	1,700	1,657,369
Bank and credit card fees	1,290,590	176,212	936	1,467,738
Equipment, commodities, and vehicles	1,767,619	-	-	1,767,619
Insurance	1,325,467	306,389	1,352	1,633,208
Total operating expenses	$ 291,718,833	$ 9,243,880	$ 4,160,434	$ 305,123,147

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.