FINCA International, Inc.

Consolidated Financial Statements as of and for the Years Ended December 31, 2020 and 2019, Supplemental Schedules as of and for the Year Ended December 31, 2020, and Independent Auditors' Report

FINCA INTERNATIONAL, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of FINCA International, Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of profit or loss, other comprehensive income or loss, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FINCA International, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Supplemental Schedules and Notes to the Supplemental Schedules

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, the Combined Schedule of Temporary Restricted Net Assets, and corresponding notes are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These supplemental schedules 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 financial statements. Such supplemental schedules and corresponding notes to the supplemental schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental schedules and corresponding notes to the supplemental schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

July 27, 2021

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 157,930,682	$ 129,414,589
Restricted cash and cash equivalents	30,484,369	31,836,992
Trading assets (Note 13)	-	38,493,095
Derivative financial instruments (Note 14)	14,610,202	14,152,776
Investment securities (Note 15)	65,250,579	22,763,725
Loans receivable—net of allowance (Note 17)	683,530,558	812,190,459
Due from banks	6,321,567	3,227,837
Other receivables, prepaid, and other assets (Note 18)	29,953,184	26,271,504
Property and equipment (Note 19)	24,336,329	30,606,925
Intangible assets (Note 20)	8,479,918	9,717,709
Right-of-use assets (Note 16)	29,742,114	35,899,182
Goodwill	685,816	705,088
Current income tax assets	1,466,176	526,339
Deferred tax assets (Note 12)	9,817,809	6,627,081
TOTAL ASSETS	$ 1,062,609,303	$ 1,162,433,301
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable and other accrued liabilities (Note 21)	$ 33,223,207	$ 34,312,912
Derivative financial liabilities (Note 14)	10,283,036	11,538,353
Client deposits (Note 22)	447,290,120	437,581,999
Bank deposits (Note 23)	36,449,960	35,030,735
Notes payable (Note 24)	243,239,074	311,197,182
Subordinated debt (Note 25)	26,659,861	29,450,292
Lease liabilities (Note 16)	33,371,463	37,867,381
Deferred revenue	1,828,313	4,231,672
Employee benefits (Note 26)	3,204,498	3,376,231
Current income tax liability	1,721,022	3,216,259
Deferred tax liabilities (Note 12)	1,908,794	3,331,342
Total liabilities	839,179,348	911,134,358
EQUITY:		
Reserves	18,535,377	18,464,807
Retained earnings	197,457,203	206,926,927
Currency translation reserve	(73,349,294)	(67,466,656)
Equity attributable to FINCA International	142,643,286	157,925,078
Noncontrolling interest	80,786,669	93,373,865
Total equity	223,429,955	251,298,943
TOTAL LIABILITIES AND EQUITY	$ 1,062,609,303	$ 1,162,433,301

See notes to the consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest income	$ 255,518,213	$ 293,905,083
Interest expense	(67,851,366)	(76,035,205)
Net interest income (Note 7)	187,666,847	217,869,878
Impairment losses on financial instruments (Note 17)	(52,593,059)	(28,887,160)
Net interest income after impairment losses on financial instruments	135,073,788	188,982,718
Other operating income (Note 8)	12,293,749	22,295,807
Net operating income	147,367,537	211,278,525
Gain/(Loss) on financial assets and liabilities at FVTPL	2,464,041	(1,010,115)
Personnel expenses (Note 9)	(104,295,372)	(114,542,465)
Other operating expenses (Note 10)	(61,240,292)	(74,070,028)
Depreciation and amortization (Note 16, 19 and 20)	(18,523,765)	(19,298,740)
Total expenses	(184,059,429)	(207,911,233)
(Loss)/profit before other income (expenses)	(34,227,851)	2,357,177
Other income (expenses):		
Grants and donations (Note 11)	22,714,776	23,211,268
Foreign exchange loss	(968,779)	(1,056,758)
Nonoperating income	265,551	1,122,195
(Loss)/profit before income tax expense	(12,216,303)	25,633,882
Income tax expense (Note 12)	(4,127,940)	(11,854,516)
(Loss)/profit for the year	$ (16,344,243)	$ 13,779,366
(Loss)/profit for the year attributable to:		
FINCA International	$ (9,186,157)	$ 10,623,307
Noncontrolling interest	(7,158,086)	3,156,059
TOTAL NET (LOSS)/PROFIT FOR THE YEAR	$ (16,344,243)	$ 13,779,366

See notes to the consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net profit/(loss) for the year	$ (16,344,243)	$ 13,779,366
Other comprehensive (loss)—net of tax	(8,908,228)	(5,389,647)
Items that may be reclassified to profit or loss exchange differences on translation of foreign operations	(9,044,589)	(5,583,350)
Movement in investment revaluation reserve	136,361	193,703
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods (net of tax)—benefit plan fair value adjustment (Note 26)	(283,567)	(206,210)
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods (net of tax)	(283,567)	(206,210)
Total comprehensive income/(loss) for the year—net of tax	$ (25,536,038)	$ 8,183,509
Total comprehensive income/(loss) for the year attributable to:		
FINCA International	$ (15,281,792)	$ 7,263,478
Noncontrolling interest	(10,254,246)	920,031
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	$ (25,536,038)	$ 8,183,509

See notes to the consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Reserves	Retained Earnings	Currency Translation Reserve	Total	Noncontrolling Interest	Total Equity
BALANCE—January 1, 2019	$18,359,125	$196,077,989	$ (63,775,514)	$150,661,600	$ 92,453,834	$243,115,434
Comprehensive income or loss:						
Net profit for the year	-	10,623,307	-	10,623,307	3,156,059	13,779,366
Foreign currency movement during the year	-	431,841	(3,691,142)	(3,259,301)	(2,324,049)	(5,583,350)
Fair value revaluation reserve	105,682	-	-	105,682	88,021	193,703
Benefit plan fair value adjustment	-	(206,210)	-	(206,210)	-	(206,210)
Total comprehensive income or loss	105,682	10,848,938	(3,691,142)	7,263,478	920,031	8,183,509
BALANCE—December 31, 2019	18,464,807	206,926,927	(67,466,656)	157,925,078	93,373,865	251,298,943
Comprehensive income or loss:						
Net loss for the year	-	(9,186,157)	-	(9,186,157)	(7,158,086)	(16,344,243)
Foreign currency movement during the year	-	-	(5,882,638)	(5,882,638)	(3,161,951)	(9,044,589)
Fair value revaluation reserve	70,570	-	-	70,570	65,791	136,361
Benefit plan fair value adjustment	-	(283,567)	-	(283,567)	-	(283,567)
Total comprehensive income or loss	70,570	(9,469,724)	(5,882,638)	(15,281,792)	(10,254,246)	(25,536,038)
Dividends paid to minority shareholders	-	-	-	-	(332,950)	(332,950)
Purchase of noncontrolling membership interest	-	-	-	-	(2,000,000)	(2,000,000)
BALANCE—December 31, 2020	$18,535,377	$197,457,203	$ (73,349,294)	$142,643,286	$ 80,786,669	$223,429,955

See notes to the consolidated financial statements.

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit/(loss) for the period after tax	$ (16,344,243)	$ 13,779,366
Adjustments for:		
Depreciation and amortization	18,523,765	19,298,740
Loss on disposal of property and equipment and intangibles	(1,052,517)	142,704
Impairment losses on financial instruments	52,593,059	28,887,160
Impairment losses on other assets	954,451	-
Foreign exchange losses	986,003	1,920,804
Changes in deferred tax assets and liabilities	(5,409,254)	1,611,170
Other noncash adjustments	5,822,997	3,366,336
Increase/(decrease) of assets and liabilities from operating activities after noncash items:		
Change in loans receivable, including interest receivables	49,310,859	(55,777,264)
Change in due from banks	(3,087,969)	(890,895)
Change in other receivables and other assets	(12,108,911)	(2,894,987)
Change in trading assets	-	(24,302,411)
Change in derivative financial instruments	(721,021)	(1,525,928)
Change in other liabilities	(8,196,232)	6,223,279
Change in client deposits	29,934,457	36,352,693
Change in bank deposits	2,689,154	768,427
Change in deferred revenue	(1,524,739)	(1,802,863)
Change in employee benefits	283,567	278,519
Net cash provided by operating activities	112,653,426	25,434,850
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of financial assets	(2,472,835)	5,228,877
Purchase of property and equipment	(3,891,325)	(9,778,417)
Purchase of intangible assets	(2,940,301)	(2,564,521)
Proceeds from sales/disposal of property and equipment	2,809,824	3,782,489
Net cash used by investing activities	(6,494,637)	(3,331,572)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lenders	115,220,453	283,064,220
Repayment of loans and borrowings to lenders	(179,791,862)	(317,740,364)
Principal elements of lease payments	(5,912,934)	(8,826,777)
Dividends paid to non-controlling shareholders	(332,950)	-
Purchase of noncontrolling membership interest	(2,000,000)	-
Other	-	(30,873)
Net cash used by financing activities	(72,817,293)	(43,533,794)

FINCA INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	$ 33,341,496	$ (21,430,516)
CASH AND CASH EQUIVALENTS—Beginning of the year	129,414,589	149,024,244
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(4,825,403)	1,820,861
CASH AND CASH EQUIVALENTS—End of the year	$ 157,930,682	$ 129,414,589
SUPPLEMENTAL DISCLOSURES TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$ 186,495,595	$ 276,062,538
Interest paid	$ (56,112,067)	$ (79,822,536)
Income taxes paid	$ (9,517,208)	$ (9,394,511)

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, 2020, FINCA, through FMH, has microfinance operations in 20 developing countries in Latin America (Ecuador, Guatemala, Haiti, Honduras, and Nicaragua), Africa (Democratic Republic of the Congo, Malawi, Nigeria, Tanzania, Uganda, and Zambia), Eurasia (Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyzstan, and Tajikistan), and the Middle East and South Asia (MESA) (Afghanistan, Jordan, and Pakistan) (collectively, referred to as "Subsidiaries") that are owned and/or controlled by it, together the "Company", including predominantly corporations and, in some cases, non-governmental organizations. The Subsidiaries principally provide loans to individuals and to groups of individuals that lack access to traditional financial institutions. In most cases, these loans are made to either groups, individuals, or small and medium-sized enterprises. Loans consist of agricultural loans, education loans, and other microfinance loans. Group and village loans consist of individuals that know each other, guarantee each other's loans, and provide a network of support for the group members. Individual loans, typically larger in size, are made where individual small businesses demonstrate adequate need and creditworthiness. Loans thus may be divided into Small and Large segments, in reference to loan size, such distinction being made to identify products with similar credit risk profiles. In addition to loans, FINCA, through a growing number of its Subsidiaries, provides other financial services needed by the working poor, including savings deposits, remittances, and micro insurance.

FMH has transformed all of its Subsidiaries, with the exception of FINCA Kosovo and FINCA Guatemala, into for-profit commercial corporate forms, including banks or nonbank financial institutions, in order to provide the services mentioned above as well as to enhance FMH's ability to attract funding and support needed for growth and infrastructure development. As of December 31, 2020, the majority of the Subsidiaries are commercial corporate entities that are subject to financial regulation.

FMH follows FINCA's mission of poverty alleviation, and no changes may be made to the corporate purpose without the consent of FINCA. In order to ensure complete alignment of interests with the microentrepreneur clients that it serves, no FINCA employee, board member, or officer may hold any equity interest in FMH or any of the subsidiaries.

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

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

The coronavirus ("COVID-19") pandemic spread across all FINCA subsidiaries, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment and across the FMH network. Due to the COVID-19 pandemic, FMH voluntarily, or due certain local government and regulatory agencies either mandated or permitted loan modifications in the form of delayed repayments of principal and/or interest within their respective jurisdictions, and still reserve the right to continue to do so.

Remote working arrangements have been implemented and part of the staff are working from home in line with global directions. Business continuity plans are in place. FMH regularly conducts stress tests to assess the resilience of the statement of financial position. FMH is closely monitoring the situation and has activated its risk management practices managing the potential business disruption COVID-19 outbreak might had on its operations and financial performance (See Note 2).

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). The consolidated financial statements are presented in US dollars (USD), the currency of the United States, where FINCA is located.

The consolidated financial statements were approved by the Board of Directors and authorized for issue on July 27, 2021.

Management continued to assess the impact of COVID-19 as part of their going concern assessment. The Group reviewed its operational, liquidity, solvency, budget, and capital planning considering the continued impact of COVID-19 through the year 2021 and some of the borrowing terms and tenors were renegotiated to obviate pressure on solvency ratios. Also, liquidity stress scenarios that might arise from external market movements or internally driven were assessed. This assessment indicates that the solvency position is and will likely remain within the Group's Capital Management Framework targets, allowing the Group to exceed the capital or regulatory capital requirements (where applicable), without the need for mitigating management actions. Management believes the preparation of these consolidated financial statements on a going concern basis remains appropriate and the Company will be able to meet its solvency or regulatory solvency (where applicable) requirements and liabilities with sufficient liquidity for a period of at least one year after the date of the consolidated financial statements for the year ended December 31, 2020.

Basis of Measurement—The consolidated financial statements have been prepared on the historical cost basis, except for some of the financial assets and financial liabilities which are stated at fair value as of the date of the consolidated financial statements. Historical cost is generally based on the fair value of the consideration given in exchange

for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

Basis of Consolidation—The consolidated financial statements consolidate the financial statements of FINCA and entities controlled by FINCA and its subsidiaries made up to December 31 each year. Control is achieved when FINCA:

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

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

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

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

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

Application of New and Revised IFRSs

New and Amended IFRS Standards That are Effective for the Current Year—The following amendments to IFRS have been applied by the Company in preparation of these consolidated financial statements. The below were effective from January 1, 2020:

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year.

- Definition of Material (Amendments to IAS 1 and IAS 8)
- Definition of a Business (Amendments to IFRS 3)
- Interest Rate Benchmark Reform—Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)

- COVID-19—Related Rent Concessions (Amendment to IFRS 16)

The adoption of these standards had no material impact on the 2020 consolidated financial statements.

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

- Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Amendments to IAS 37—Onerous Contracts—Cost of Fulfilling a Contract;
- Annual Improvements to IFRS Standards 2018—2020;
- Amendments to IAS 16—Property, Plant and Equipment: Proceeds before Intended Use;
- Amendments to IFRS 3—Reference to the Conceptual Framework;
- Amendments IFRS 10 and IAS 28—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts
- Amendments to IAS 1—Classification of Liabilities as Current or Non-Current—Deferral of Effective Date;
- Amendments to IFRS 4—Extension of the Temporary Exemption from Applying IFRS 9;
- Amendments to IAS 1 and IFRS Practice Statement 2—Disclosure of Accounting Policies;
- Amendments to IAS 8—Definition of Accounting Estimates.

The Company is assessing the impact of these standards on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

- Contingent events that would change the amount and timing of cash flows;

- Leverage features;

- Prepayment and extension terms;

- Terms that limit the Company's claim to cash flows from specified assets (e.g., non-recourse loans); and

- Features that modify consideration of the time value of money (e.g., periodical reset of interest rates).

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

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

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

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

- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

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

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

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

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

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

Credit-Impaired Financial Assets—A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the

financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

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

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

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

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

Purchased or Originated Credit-Impaired Financial Assets—POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Company recognizes all changes in lifetime ECL since initial recognition as an impairment allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain. The Company did not purchase or originate any credit-impaired financial assets during 2020 and 2019.

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

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVOCI: no impairment allowance is recognized in the consolidated statements of financial position as the carrying amount is at fair value;
- For loan commitments and financial guarantee contracts: as a provision; and

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

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

The Company renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. Loan terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms. When a financial asset is modified, the Company assesses whether this modification results in derecognition. In accordance with the Company's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Company performed a quantitative assessment to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original EIR. If the difference in present value is greater than 10% the Company deems the arrangement is substantially different, leading to derecognition.

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

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

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

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

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

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

Revenue Recognition

Interest Income—The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where applicable, a shorter period, to the net carrying amount of the financial asset. The future cash flows are estimated taking into account all the contractual terms of the instrument.

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

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

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

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

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

Foreign Currency Transactions and Balances—For the purposes of presenting these consolidated financial statements, the assets and liabilities of FINCA's subsidiaries are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange

differences arising, if any, are recognized in other comprehensive income (or loss) and accumulated in equity (and attributed to non-controlling interests as appropriate).

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

Income Tax Expense—FINCA is exempt from federal income under Section 501(c)(3) of the United States Internal Revenue Code of 1986, as amended; however, income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business taxable income. However, some of the domestic and foreign operations of the subsidiaries are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

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

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

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

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

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

Leases—The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another

systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

- The amount expected to be payable by the lessee under residual value guarantees;

- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

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

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

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

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

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

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

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

Intangible Assets—Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to

the design and testing of identifiable and unique software products controlled by FINCA are recognized as intangible assets when the following criteria are met:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government and Other Grants—Grants are accounted for in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, following the gross approach, where the money received and the obligation to use the money for ongoing expenses is not offset. The liability to fulfill the obligation, recognized as deferred

revenue in the consolidated statements of financial position, is amortized through the consolidated statements of profit or loss at the same time as funds are spent to cover expenditures. When donor contributions are used to purchase assets, the assets are recognized as property and equipment or intangible assets in the consolidated statements of financial position. Another liability is recognized to reflect the obligation to use the funds for restricted purposes. The liability is amortized through the consolidated statements of profit or loss at which time the expenses are incurred for program activities.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Consolidation—Preparing consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples of estimates include: loss contingencies; useful lives of our tangible and intangible assets; and loan impairment allowances and impairment of investments. Examples of assumptions include: the future performance of loan portfolios and their related default rate and collectability, the potential outcome of future tax consequences of events that have been recognized in our consolidated financial statements or tax returns, and determining when investment impairments are other-than-temporary. Actual results and outcomes may differ from management's estimates and assumptions.

5. FINANCIAL RISK MANAGEMENT

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

FINCA's risk are generally categorized into:

- Credit risk
- Market risk
  - Interest rate risk
  - Foreign currency risk
- Liquidity risk
- Third-party vendor risk

FINCA's financial risks are mitigated through three lines of defense programs: (i) business management, (ii) independent control functions, and (iii) internal audit.

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

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

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

Capital Adequacy—In 2017, the Company adopted a new capital policy based on the Standardized and Basic Indicator approaches stipulated by the Basel framework of Risk Weighted Assets (RWA) and Risk-Weighted Capital Adequacy Ratio (RCAR). All components of Risk Weighted Assets (Credit Risk, Operational and Market Risks) 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 buffers). 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, 2020, all Subsidiaries (with the exception of Pakistan, Tanzania, Malawi, Zambia and Nicaragua) were in compliance with this policy. At December 31, 2019 all Subsidiaries (with the exception of FINCA Nicaragua, Tanzania and Zambia) were in compliance with this policy.

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

Credit Risk Measurement

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

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Due to the COVID-19 pandemic, the Company voluntarily, or due to certain local government and regulatory agencies either mandated or permitted loan modifications in the form of delayed repayments of principal and/or interest within their respective jurisdictions, and still reserve the right to continue to do so. Though the extension of

payment relief does not automatically trigger a significant increase in credit risk and a stage migration for the purpose of calculating expected credit losses according to IASB guidance, the Company performed its assessment in determining whether there has been a significant increase in credit risk and considered the modification, as well as the geographical area where the borrower operates and its industry.

Therefore, the conditions set by the Company which would avoid the need for a staging downgrade were limited: loans that were current prior to contract modification may avoid a staging downgrade (to Stage 2) only if all the following conditions are met:

- Relevant department responsible for credit has monitored the borrower's condition and there is no evidence of a material deterioration of the borrower's financial condition, nor is such deterioration likely to occur within the period specified by government decree, with a minimum outlook of 90 days.

- In certain jurisdictions, a formal sectoral analysis is conducted whereby the borrower's industry may be deemed less exposed to COVID-19 shut down effects.

- The loan is collateralized by cash or precious metals in FINCA's possession or back-stopped.

- The borrower is not in arrears with any other outstanding FINCA loans.

- The borrower has not defaulted on any third-party loans.

- If such a modified loan subsequently falls into any arrears by a reporting month-end, then the loan must be considered as in forbearance, as it should be taken that a Significant Increase in Credit Risk has occurred.

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

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

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

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

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

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

compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognized.

Upon analysis of sensitivity tests, management concludes that ECLs are not sensitive to changes in PD threshold for the years ended December 31, 2020 and 2019.

"Forbearance" occurs upon restructuring, i.e. prolongation in payment terms of payment of interest or principal arising from a deterioration of a borrower's financial condition such that it is not the same as it was at the time of loan origination and a borrower has applied for a change in the payment schema of the loan. Restructuring only occurs when the appropriate division of the Company is reasonably confident that a borrower is able to service the renewed payment schedule. However, due to the COVID-19 pandemic, various government and regulatory agencies in the countries in which FINCA's subsidiaries are domiciled mandated loan modification programs inclusive of extensions and payment moratoria. Also, in the normal course of business, excluding the COVID environment, FINCA offers some restructurings voluntarily. Management considered such loans as being in forbearance, and though even loans subject to a moratorium could technically maintain a current arrears status, the SICR status would remain until six months of consecutive, scheduled payments occurred. This is the exception to the modeling and back-stop criteria above. It should be noted that such loans could maintain a current status and still be placed into Stage 3 default (i.e. 100% PD) as well.

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

Within a historically economically depressed forecast context, to which FMH derived scenarios and weightings fitted appropriately according to the historical measure as noted above/elsewhere, FMH further assessed that the most accurate alignment of both staging and ECL modeling would be acclimatized by the subsequent payment performance of COVID-modified loans. This conditioned both the staging consideration of loans that according to government mandates were to be restructured multiple times as well as allowed for that element of credit amelioration suggested by IASB by accounting for the payment record during the reporting period.

The only modified loans for which the forbearance signal and a Significant Increase of Credit Risk ("SICR") may be removed are those that were current prior to a government decree and proclaimed crisis period which necessitated restructuring, and are current in their restructured state and have completed scheduled, consecutive payments for a period of six months.

The Company further assessed that multiple loan modifications during the period, irrespective of government mandate and in despite of such, particularly in the absence of fiscal and monetary stimulus, reinforces the SICR decision and may further indicate a

default event and designation to Stage 3, even if this is a common market practice in response to COVID-19. Such default could be avoided if:

- a government mandate allowed for additional deferrals after the first modification of loan terms, and

Individual client assessment and local management and Board of Directors governance is conducted and indicate no risk of non-performance (e.g. no adverse change in client credit ratings, no imperilment of client cash flows, etc.). Also,

  - Where industry risk categories have been implemented in reviews, the client should not be in a "High" risk category;

  - Ability to repay without recourse to collateral should remain dependable;

  - There are no significant downwards revaluation of collateral value; and

  - External market indicators of credit risk remain stable.

Such determination needs to be done on a case-by-case basis (i.e. the closer a borrower has been to 30 day arrears, then the more management needs to take into account that risk and consider applying the default flag; 90 days is the Company Stage 3 back-stop as it has been since the adoption of IFRS 9).

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

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

- The contract is past due more than 90 days; or

- The credit obligations reflected in the contract is unlikely to be paid to the Company in full.

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

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

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

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

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

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

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

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

- The scale of the ultimate recovery rate—ranging between 0% to 100%, whether the magnitude of recovery rate is large or small; and

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

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

The thresholds vary by subsidiary due to scale differences in the local economies and hence the business climate and model. Thresholds for Large loans range from USD $208 (Haiti) to USD $3,000 (Ecuador).

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

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

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

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

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

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

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

Hazard rates are obtained by using the Cox proportional hazard model, which is a semi-parametric model. It uses assumed simple form for effect of covariates and the exact value of free parameters is estimated with partial likelihood. The baseline is obtained by non-parametrical methods. A macroeconomic overlay can be directly included into the hazard function through a time-dependent variable. From obtained hazard rates, Point-in-Time (PiT) PDs (i.e. marginal PDs assigned to a respective date) are then derived.

Observation period for modeling Cox hazard rates is 5 to 6 years.

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

During the current year, the uncertainties caused by COVID-19 have required the Company to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at December 31, 2020. ECLs were estimated based on a range of forecast economic conditions as at that date and the Company has considered the impact of volatility in the forward-looking macroeconomic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-

looking factors used are determined from simulated statistical distribution of each subsidiary's respective macroeconomic factor, which can be derived from historical observed defaults.

The Company also updated the relevant forward-looking information of the Company's subsidiaries with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the respective market in which it operates.

In aggregate, the consolidated portfolio as at December 31, 2020 and 2019, does not demonstrate significant sensitivity to the macroeconomic parameter, per the table below:

	December 31, 2020						
	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$24,411,020	$24,302,016	$24,608,458	$ (109,004)	$ 197,438	(0.4)%	0.8 %
Large loans	61,562,889	59,817,984	64,042,857	(1,744,905)	2,479,968	(2.8)%	4.0 %
Total	$85,973,909	$84,120,000	$88,651,315	$(1,853,909)	$2,677,406	(2.2)%	3.1 %

	December 31, 2019						
	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 16,945,101	$ 16,798,392	$ 16,911,124	$ (146,709)	$ (33,977)	(0.9)%	(0.2)%
Large loans	51,671,842	50,941,008	52,252,421	(730,834)	580,579	(1.4)	1.1
Total	$ 68,616,943	$ 67,739,400	$ 69,163,545	$ (877,543)	$ 546,602	(1.3)%	0.8 %

The following subsidiaries potentially have the largest impact to the aggregate as at December 31, 2020, measured as the absolute value of the sum of the ECL reduction and ECL increase:

Honduras	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 127,943	$ 101,932	$ 174,455	$ (26,011)	$ 46,512	(20.3)%	36.4 %
Large loans	2,925,995	2,607,111	3,388,083	(318,884)	462,088	(10.9)	15.8
Total	$ 3,053,938	$ 2,709,043	$ 3,562,538	$ (344,895)	$ 508,600	(11.3)%	16.7 %

Tajikistan	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 21,283	$ 19,992	$ 22,421	$ (1,291)	$ 1,138	(6.1)%	5.3 %
Large loans	454,290	375,216	569,930	(79,074)	115,640	(17.4)	25.5
Total	$ 475,573	$ 395,208	$ 592,351	$ (80,365)	$ 116,778	(16.9)%	24.6 %

Kyrgyzstan	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 234,347	$ 231,352	$ 237,723	$ (2,995)	$ 3,376	(1.3)%	1.4 %
Large loans	4,085,275	3,664,353	4,782,871	(420,922)	697,596	(10.3)	17.1
Total	$ 4,319,622	$ 3,895,705	$ 5,020,594	$ (423,917)	$ 700,972	(9.8)%	16.2 %

On an individual subsidiary basis, Tajikistan displays the most sensitivity, measured as the range between its percentage reduction and increase in ECL as at December 31, 2020.

The following subsidiaries potentially have the largest impact to the aggregate as at December 31, 2019, measured as the absolute value of the sum of the ECL reduction and ECL increase:

Guatemala	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 1,062,855	$ 1,060,185	$ 1,066,395	$ (2,670)	$ 3,540	(0.3)%	0.3 %
Large loans	2,847,583	2,709,447	3,048,471	(138,136)	200,888	(4.9)	7.1
Total	$ 3,910,438	$ 3,769,632	$ 4,114,866	$ (140,806)	$ 204,428	(3.6)%	5.2 %

Tajikistan	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 53,475	$ 48,929	$ 59,327	$ (4,546)	$ 5,852	(8.5)%	10.9 %
Large loans	603,835	501,208	747,991	(102,627)	144,156	(17.0)	23.9
Total	$ 657,310	$ 550,137	$ 807,318	$ (107,173)	$ 150,008	(16.3)%	22.8 %

Kyrgyzstan	ECL	ECL Lower Bound	ECL Upper Bound	ECL Reduction	ECL Increase	% Reduction in ECL	% Increase in ECL
Small loans	$ 127,703	$ 122,852	$ 131,101	$ (4,851)	$ 3,398	(3.8)%	2.7 %
Large loans	1,994,511	1,868,991	2,081,000	(125,520)	86,489	(6.3)	4.3
Total	$ 2,122,214	$ 1,991,843	$ 2,212,101	$ (130,371)	$ 89,887	(6.1)%	4.2 %

On an individual subsidiary basis, Tajikistan displays the most sensitivity, measured as the range between its percentage reduction and increase in ECL as at December 31, 2019.

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

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

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

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

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

The macroeconomic variables involved in the analysis as at December 31, 2020 are disclosed in the below table:

Region	Subsidiary	Macroeconomic Parameter	2021	2022	2023	2024	2025
Africa	DRC	CPI Change	7.70 %	7.33 %	6.30 %	4.88 %	4.88 %
Africa	Malawi	GDP Growth	2.47	6.30	6.30	6.11	6.06
Africa	Nigeria	Unemployment rate	32.50	33.00	33.00	33.00	33.00
Africa	Tanzania	GDP Growth	3.60	6.12	6.46	6.59	6.67
Africa	Uganda	GDP Growth	4.93	5.50	6.04	7.58	9.29
Africa	Zambia	GDP Growth	0.58	1.05	1.21	1.23	1.21
Eurasia	Armenia	GDP Growth	5.98 %	8.14 %	8.38 %	8.93 %	9.02 %
Eurasia	Azerbaijan	GDP Growth	2.52	1.80	1.62	2.22	1.70
Eurasia	Georgia	GDP Growth	5.00	4.50	4.50	4.50	4.50
Eurasia	Kosovo	GDP Growth	6.70	6.95	7.21	7.49	7.79
Eurasia	Kyrgyzstan	GDP Growth	4.07	4.02	3.78	3.71	3.82
Eurasia	Tajikistan	GDP Growth	5.69	5.69	5.57	5.61	5.71
Latin America	Ecuador	GDP Growth	2.24 %	2.23 %	2.38 %	2.08 %	2.19 %
Latin America	Guatemala	GDP Growth	3.39	3.47	3.50	3.42	3.38
Latin America	Haiti	CPI change	19.52	19.70	18.48	19.38	19.41
Latin America	Honduras	CPI	3.68	3.92	4.17	4.43	4.71
Latin America	Nicaragua	GDP Growth	2.33	2.44	1.87	1.75	1.96
MESA	Afghanistan	CPI Change	4.50 %	4.00 %	4.00 %	4.00 %	4.00 %
MESA	Jordan	CPI Change	1.40	1.70	2.53	2.50	2.50
MESA	Pakistan	CPI Change	10.25	6.77	6.66	6.49	6.54

The macroeconomic variables involved in the analysis as at December 31, 2019 are disclosed in the below table:

Region	Subsidiary	Macroeconomic Parameter	2020	2021	2022	2023	2024
Africa	DRC	CPI Change	5.00 %	5.00 %	5.00 %	5.00 %	5.00 %
Africa	Malawi	GDP Growth	5.10	5.50	6.00	6.50	6.50
Africa	Nigeria	Unemployment rate	32.00	32.00	32.00	32.00	32.00
Africa	Tanzania	GDP Growth	5.70	6.10	6.10	6.10	6.10
Africa	Uganda	GDP Growth	6.50	5.80	5.80	5.80	5.80
Africa	Zambia	GDP Growth	2.80	2.80	2.80	2.80	2.80
Eurasia	Armenia	GDP Growth	4.80 %	4.50 %	4.50 %	4.50 %	4.50 %
Eurasia	Azerbaijan	GDP Growth	3.00	3.70	3.10	3.20	3.20
Eurasia	Georgia	GDP Growth	4.50	5.00	5.00	5.00	5.00
Eurasia	Kosovo	GDP Growth	4.00	4.00	4.00	4.00	4.00
Eurasia	Kyrgyzstan	GDP Growth	3.39	3.78	4.58	3.35	3.35
Eurasia	Tajikistan	GDP Growth	4.50	4.50	4.50	4.00	4.00
Latin America	Ecuador	GDP Growth	0.48 %	1.64 %	2.72 %	2.51 %	2.51 %
Latin America	Guatemala	GDP Growth	3.54	3.72	3.60	3.51	3.47
Latin America	Haiti	CPI change	15.00	12.00	9.00	7.00	5.00
Latin America	Honduras	CPI	3.52	3.66	3.80	3.96	4.12
Latin America	Nicaragua	GDP Growth	(1.10)	1.00	2.00	3.00	4.00
MESA	Afghanistan	CPI Change	4.50 %	4.75 %	5.00 %	5.00 %	5.00 %
MESA	Jordan	CPI Change	2.50	2.52	2.52	2.52	2.52
MESA	Pakistan	CPI Change	11.81	8.40	6.00	5.00	5.00

Credit Risk Exposure—The following table provides information on the credit quality of loans to customers as of December 31, 2020:

	Small Loans			
	Stage 1	Stage 2	Stage 3	Total
Current	$ 91,148,826	$ 65,336,143	$ 318,747	$ 156,803,716
Past due 1–30 days	18,427	6,683,015	57,023	6,758,465
Past due 31–60 days	-	3,926,937	69,761	3,996,698
Past due 61–90 days	-	1,781,471	69,991	1,851,462
Past due more than 90 days	-	-	13,494,651	13,494,651
Gross carrying amount	91,167,253	77,727,566	14,010,173	182,904,992
Impairment allowance	(2,204,123)	(11,075,044)	(11,131,853)	(24,411,020)
Carrying amount	$ 88,963,130	$ 66,652,522	$ 2,878,320	$ 158,493,972

	Large Loans			
	Stage 1	Stage 2	Stage 3	Total
Current	$ 358,995,857	$ 123,421,949	$ 4,976,988	$ 487,394,794
Past due 1–30 days	708,422	25,140,045	1,104,364	26,952,831
Past due 31–60 days	-	11,755,698	1,566,869	13,322,567
Past due 61–90 days	-	6,573,312	856,818	7,430,130
Past due more than 90 days	-	52,071	51,447,082	51,499,153
Gross carrying amount	359,704,279	166,943,075	59,952,121	586,599,475
Impairment allowance	(5,982,549)	(15,381,356)	(40,198,984)	(61,562,889)
Carrying amount	$ 353,721,730	$ 151,561,719	$ 19,753,137	$ 525,036,586

The following table provides information on the credit quality of loans to customers as of December 31, 2019:

	Small Loans			
	Stage 1	Stage 2	Stage 3	Total
Current	$ 175,372,704	$ 6,704,974	$ 218,986	$ 182,296,664
Past due 1–30 days	37,612	6,142,750	29,846	6,210,208
Past due 31–60 days	-	4,242,974	22,891	4,265,865
Past due 61–90 days	-	2,061,671	53,281	2,114,952
Past due more than 90 days	20,036	-	12,367,632	12,387,668
Gross carrying amount	175,430,352	19,152,369	12,692,636	207,275,357
Impairment allowance	(3,837,435)	(2,717,581)	(10,390,085)	(16,945,101)
Carrying amount	$ 171,592,917	$ 16,434,788	$ 2,302,551	$ 190,330,256

	Large Loans			
	Stage 1	Stage 2	Stage 3	Total
Current	$585,272,216	$14,776,410	$ 4,853,615	$604,902,241
Past due 1–30 days	1,449,226	15,497,801	567,854	17,514,881
Past due 31–60 days	-	5,276,084	414,710	5,690,794
Past due 61–90 days	-	3,148,691	631,844	3,780,535
Past due more than 90 days	152,146	3,476	41,487,972	41,643,594
Gross carrying amount	586,873,588	38,702,462	47,955,995	673,532,045
Impairment allowance	(8,960,506)	(5,894,599)	(36,816,737)	(51,671,842)
Carrying amount	$577,913,082	$32,807,863	$ 11,139,258	$621,860,203

During the years ended December 31, 2020, and December 31, 2019, the Company modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with an impairment allowance measured at an amount equal to the lifetime expected credit losses.

Analysis of Collateral and Other Credit Enhancements—The Company closely monitors collateral held for loans to customers considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses as at December 31, 2020 are shown below:

	Gross Carrying Amount	Impairment Allowance	Carrying Amount	Fair Value of Collateral Held
Small loans	$14,010,173	$(11,131,853)	$ 2,878,320	$ 281,033
Large loans	59,952,121	(40,198,984)	19,753,137	20,399,457
Total	$73,962,294	$(51,330,837)	$22,631,457	$20,680,490

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses as at December 31, 2019 are shown below:

	Gross Carrying Amount	Impairment Allowance	Carrying Amount	Fair Value of Collateral Held
Small loans	$12,692,636	$(10,390,085)	$ 2,302,551	$ 212,669
Large loans	47,955,995	(36,816,737)	11,139,258	17,511,984
Total	$60,648,631	$(47,206,822)	$13,441,809	$17,724,653

The following tables stratify credit exposures from credit-impaired loans to customers by ranges of loan-to-value (LTV) ratio as at December 31, 2020. LTV is calculated as the ratio of the gross amount of the loan—or the amount committed for loan commitments—to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	Small Loans			
	Total Loan Portfolio		**Credit Impaired Loan Portfolio (Stage 3)**	
	Gross Carrying Amount	**Impairment Allowance**	**Gross Carrying Amount**	**Impairment Allowance**
No collateral	$ 165,908,785	$ 23,815,762	$ 13,441,869	$ 10,695,153
Lower than 50%	530,190	-	8,379	-
50%–60%	730,686	-	8,166	-
61%–70%	3,564,563	-	5,450	-
71%–80%	4,107,400	-	5,593	-
81%–90%	696,834	280	3,607	278
91%–100%	1,130,150	79,055	41,933	25,092
Higher than 100%	6,236,384	515,923	495,176	411,330
Total	$ 182,904,992	$ 24,411,020	$ 14,010,173	$ 11,131,853

	Large Loans			
	Total Loan Portfolio		**Credit Impaired Loan Portfolio (Stage 3)**	
	Gross Carrying Amount	**Impairment Allowance**	**Gross Carrying Amount**	**Impairment Allowance**
No collateral	$ 479,513,207	$ 55,928,446	$ 51,187,470	$ 35,816,993
Lower than 50%	7,322,194	474	785,866	-
50%–60%	4,874,069	-	260,240	-
61%–70%	7,164,873	5,024	236,894	5,024
71%–80%	8,003,618	7,695	184,464	7,679
81%–90%	4,275,997	17	190,530	-
91%–100%	41,528,157	2,466,613	2,857,115	1,818,681
Higher than 100%	33,917,360	3,154,620	4,249,542	2,550,607
Total	$ 586,599,475	$ 61,562,889	$ 59,952,121	$ 40,198,984

The following tables stratify credit exposures from credit-impaired loans to customers by ranges of loan-to-value (LTV) ratio as at December 31, 2019. LTV is calculated as the ratio of the gross amount of the loan—or the amount committed for loan commitments—to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	Small Loans			
	Total Loan Portfolio		Credit Impaired Loan Portfolio (Stage 3)	
	Gross Carrying Amount	Impairment Allowance	Gross Carrying Amount	Impairment Allowance
No collateral	$ 195,626,734	$ 16,816,870	$ 12,631,997	$ 10,367,594
Lower than 50%	837,303	-	11,862	-
50%–60%	223,109	-	4,732	-
61%–70%	205,017	-	3,814	-
71%–80%	236,727	1	1,824	-
81%–90%	1,167,454	212	1,162	124
91%–100%	2,500,082	8,549	3,869	-
Higher than 100%	6,478,931	119,469	33,376	22,367
Total	$ 207,275,357	$ 16,945,101	$ 12,692,636	$ 10,390,085

	Large Loans			
	Total Loan Portfolio		Credit Impaired Loan Portfolio (Stage 3)	
	Gross Carrying Amount	Impairment Allowance	Gross Carrying Amount	Impairment Allowance
No collateral	$ 576,745,564	$ 50,001,068	$ 44,765,035	$ 35,832,336
Lower than 50%	15,030,637	-	551,288	-
50%–60%	5,298,293	-	151,646	-
61%–70%	4,687,620	-	111,659	-
71%–80%	5,114,568	5	131,007	-
81%–90%	4,489,394	359	172,306	347
91%–100%	4,690,271	19,837	118,067	16,442
Higher than 100%	57,475,698	1,650,573	1,954,987	967,612
Total	$ 673,532,045	$ 51,671,842	$ 47,955,995	$ 36,816,737

Impairment Allowance—Movements in the loan impairment allowance for the year ended December 31, 2020, are as follows

	Small Loans			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance as of January 1, 2020	$ 3,837,435	$ 2,717,581	$ 10,390,085	$ 16,945,101
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(4,864,930)	10,738,884	-	5,873,954
Transfer from Stage 2 to Stage 1	216,542	(2,259,126)	-	(2,042,584)
Transfer from Stage 2 to Stage 3	-	(7,225,521)	11,230,922	4,005,401
Transfer from Stage 3 to Stage 2	-	80,313	(1,433,405)	(1,353,092)
Transfer from Stage 1 to Stage 3	(966)	-	1,579	613
New financial instruments originated or purchased	2,406,716	1,973,563	1,002,129	5,382,408
Changes in PDs/LGDs/EADs	(1,138,065)	7,687,449	3,934,327	10,483,711
Modification of contractual cash flows of financial instrument	3,575,202	222,855	324,878	4,122,935
FX movements	(2,358)	3,160	22,110	22,912
Financial instruments derecognized during the period	(1,717,027)	(1,335,366)	(82,128)	(3,134,521)
Write-offs	(6,872)	(1,348,092)	(13,909,475)	(15,264,439)
Currency translation adjustment	(101,554)	(180,656)	(349,169)	(631,379)
Impairment allowance as of December 31, 2020	$ 2,204,123	$ 11,075,044	$ 11,131,853	$ 24,411,020

	Large Loans			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance as of January 1, 2020	$ 8,960,506	$ 5,894,599	$ 36,816,737	$ 51,671,842
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(10,368,258)	28,357,354	-	17,989,096
Transfer from Stage 2 to Stage 1	2,692,078	(14,103,832)	-	(11,411,754)
Transfer from Stage 2 to Stage 3	-	(15,767,959)	26,002,900	10,234,941
Transfer from Stage 3 to Stage 2	-	402,090	(1,617,015)	(1,214,925)
Transfer from Stage 1 to Stage 3	(16,031)	-	39,710	23,679
New financial instruments originated or purchased	2,835,004	7,345,044	5,945,190	16,125,238
Changes in PDs/LGDs/EADs	1,939,825	8,227,670	4,097,844	14,265,339
Modification of contractual cash flows of financial instrument	3,179,454	(2,146,178)	(24,837)	1,008,439
FX movements	34,364	126,210	394,203	554,777
Financial instruments derecognized during the period	(2,969,143)	(2,476,327)	(776,036)	(6,221,506)
Write-offs	(2,703)	(88,802)	(28,768,304)	(28,859,809)
Currency translation adjustment	(302,547)	(388,513)	(1,911,408)	(2,602,468)
Impairment allowance as of December 31, 2020	$ 5,982,549	$ 15,381,356	$ 40,198,984	$ 61,562,889

Movements in the loan impairment allowance for the year ended December 31, 2019, are as follows

	Small Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance as of January 1, 2019	$ 2,172,431	$ 1,069,640	$ 5,628,546	$ 8,870,617
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(399,911)	3,612,456	-	3,212,545
Transfer from Stage 2 to Stage 1	134,335	(1,970,594)	-	(1,836,259)
Transfer from Stage 2 to Stage 3	-	(4,914,917)	9,684,973	4,770,056
Transfer from Stage 3 to Stage 2	-	8,955	(38,044)	(29,089)
Transfer from Stage 1 to Stage 3	(349)	-	3,056	2,707
New financial instruments originated or purchased	2,370,315	142,332	3,274,577	5,787,224
Changes in PDs/LGDs/EADs	1,194,698	5,053,256	3,169,433	9,417,387
Modification of contractual cash flows of financial instrument	867	(3,538)	(4,160)	(6,831)
FX movements	1,189	897	7,683	9,769
Financial instruments derecognized during the period	(1,349,382)	(102,341)	(32,715)	(1,484,438)
Write-offs	(1,081)	(2,496)	(11,094,377)	(11,097,954)
Currency translation adjustment	(285,677)	(176,069)	(208,887)	(670,633)
Impairment allowance as of December 31, 2019	$ 3,837,435	$ 2,717,581	$ 10,390,085	$ 16,945,101

	Large Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance as of January 1, 2019	$ 8,610,720	$ 6,379,933	$ 29,650,478	$ 44,641,131
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(3,543,132)	17,521,475	-	13,978,343
Transfer from Stage 2 to Stage 1	1,781,610	(11,868,448)	-	(10,086,838)
Transfer from Stage 2 to Stage 3	-	(15,201,740)	25,795,441	10,593,701
Transfer from Stage 3 to Stage 2	-	288,651	(2,319,679)	(2,031,028)
Transfer from Stage 1 to Stage 3	(45,898)	-	591,263	545,365
New financial instruments originated or purchased	3,938,361	1,359,302	5,952,098	11,249,761
Changes in PDs/LGDs/EADs	1,149,347	8,528,206	4,322,164	13,999,717
Modification of contractual cash flows of financial instrument	127,197	(125,701)	(87,687)	(86,191)
FX movements	64,900	90,694	330,019	485,613
Financial instruments derecognized during the period	(2,855,302)	(823,392)	(577,502)	(4,256,196)
Write-offs	(2,575)	(13,293)	(26,077,656)	(26,093,524)
Currency translation adjustment	(264,722)	(241,088)	(762,202)	(1,268,012)
Impairment allowance as of December 31, 2019	$ 8,960,506	$ 5,894,599	$ 36,816,737	$ 51,671,842

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2020, are as follows

	Small Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as of January 1, 2020	$ 175,430,352	$ 19,152,369	$ 12,692,636	$ 207,275,357
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(99,959,718)	99,959,718	-	-
Transfer from Stage 2 to Stage 1	11,603,368	(11,603,368)	-	-
Transfer from Stage 2 to Stage 3	-	(18,529,157)	18,529,157	-
Transfer from Stage 3 to Stage 2	-	1,615,752	(1,615,752)	-
Transfer from Stage 1 to Stage 3	(6,460)	-	6,460	-
New financial instruments originated or purchased	148,079,407	44,307,487	3,386,069	195,772,963
Repayment of principal and interest	(114,583,806)	(31,688,913)	(3,514,789)	(149,787,508)
Modification of contractual cash flows of financial instruments	(5,760,004)	(2,316,898)	226,232	(7,850,670)
Derecognition during the period	(20,024,509)	(20,447,795)	(1,347,713)	(41,820,017)
Write-offs	(7,726)	(1,348,092)	(13,841,360)	(15,197,178)
FX movements	1,091,321	21,690	(25,414)	1,087,597
Currency translation adjustment	(4,694,972)	(1,395,227)	(485,353)	(6,575,552)
Gross carrying amount as of December 31, 2020	$ 91,167,253	$ 77,727,566	$ 14,010,173	$ 182,904,992

	Large Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as of January 1, 2020	$ 586,873,588	$ 38,702,462	$ 47,955,995	$ 673,532,045
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(352,686,915)	352,686,915	-	-
Transfer from Stage 2 to Stage 1	115,473,155	(115,473,155)	-	-
Transfer from Stage 2 to Stage 3	-	(54,736,807)	54,736,807	-
Transfer from Stage 3 to Stage 2	-	2,094,719	(2,094,719)	-
Transfer from Stage 1 to Stage 3	(151,702)	-	151,702	-
New financial instruments originated or purchased	454,741,929	187,833,643	20,717,730	663,293,302
Repayment of principal and interest	(374,495,564)	(169,691,859)	(22,783,175)	(566,970,598)
Modification of contractual cash flows of financial instruments	(743,886)	(1,872,652)	18,657	(2,597,881)
Derecognition during the period	(49,050,258)	(69,396,902)	(7,378,857)	(125,826,017)
Write-offs	(4,243)	(92,680)	(28,861,466)	(28,958,389)
FX movements	1,883,167	959,131	414,586	3,256,884
Currency translation adjustment	(22,134,992)	(4,069,740)	(2,925,139)	(29,129,871)
Gross carrying amount as of December 31, 2020	$ 359,704,279	$ 166,943,075	$ 59,952,121	$ 586,599,475

Respective movements in the gross carrying amounts of loans to customers for the year ended December 31, 2019, are as follows:

	Small Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as of January 1, 2019	$ 192,342,643	$ 19,370,889	$ 7,115,670	$ 218,829,202
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(46,676,842)	46,581,375	(17,121)	(112,588)
Transfer from Stage 2 to Stage 1	12,385,284	(12,285,328)	6,138	106,094
Transfer from Stage 2 to Stage 3	-	(15,225,382)	15,224,388	(994)
Transfer from Stage 3 to Stage 2	-	54,295	(54,295)	-
Transfer from Stage 1 to Stage 3	(6,152)	-	6,152	-
New financial instruments originated or purchased	264,989,282	23,534,139	5,706,307	294,229,728
Repayment of principal and interest	(227,388,999)	(40,760,103)	(3,366,007)	(271,515,109)
Modification of contractual cash flows of financial instruments	765,461	(305,149)	301,522	761,834
Derecognition during the period	(6,594,351)	(753,011)	(511,998)	(7,859,360)
Write-offs	(1,099)	(2,496)	(11,434,069)	(11,437,664)
FX movements	(3,689)	(9,025)	(1,107)	(13,821)
Currency translation adjustment	(14,381,186)	(1,047,835)	(282,944)	(15,711,965)
Gross carrying amount as of December 31, 2019	$ 175,430,352	$ 19,152,369	$ 12,692,636	$ 207,275,357

	Large Loans			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as of January 1, 2019	$ 549,785,072	$ 54,677,086	$ 39,782,320	$ 644,244,478
Transfer between stages:				
Transfer from Stage 1 to Stage 2	(124,718,821)	123,832,757	(153,096)	(1,039,160)
Transfer from Stage 2 to Stage 1	65,256,264	(65,331,543)	7,604	(67,675)
Transfer from Stage 2 to Stage 3	-	(43,168,677)	43,168,677	-
Transfer from Stage 3 to Stage 2	-	1,818,348	(1,818,348)	-
Transfer from Stage 1 to Stage 3	(845,300)	-	845,300	-
New financial instruments originated or purchased	708,771,230	31,275,121	11,089,310	751,135,661
Repayment of principal and interest	(579,899,621)	(53,361,217)	(12,692,994)	(645,953,832)
Modification of contractual cash flows of financial instruments	(660,222)	(133,412)	86,335	(707,299)
Derecognition during the period	(19,636,111)	(9,250,013)	(5,154,437)	(34,040,561)
Write-offs	(2,575)	(13,293)	(26,450,202)	(26,466,070)
FX movements	1,093,024	482,122	180,800	1,755,946
Currency translation adjustment	(12,269,352)	(2,124,817)	(935,274)	(15,329,443)
Gross carrying amount as of December 31, 2019	$ 586,873,588	$ 38,702,462	$ 47,955,995	$ 673,532,045

The Company's loan portfolio is made up entirely of loans made to individuals, groups of individuals, and Small and Mid-Sized Enterprises and is sufficiently diversified to reduce concentration risk. At December 31, 2020 and 2019, the Company had 0.8 million and 0.9 million borrowers respectively.

The Company's aggregate gross loan portfolio was $769.5 million and $881.0 million as of December 31, 2020 and 2019, respectively (see Note 17). The Company's total allowance for impairment was $85.9 million, a coverage ratio of 11.2% of total loans; and $68.6 million, a coverage ratio of 7.8% of total loans as of December 31, 2020 and 2019, respectively.

A regional breakdown of impairment losses to average loan balances as at December 31, 2020 and 2019 is shown in the table below. Impairment losses were negative in 2019 in the Eurasia region due to the impact of $14.5 million in recoveries in Azerbaijan, of which $6.6 million is due to a government compensation program.

	Impairment Losses on Loans		**Average Gross Loans to Customers**		**Impairment Allowance as Percentage of Average Gross Loans**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Eurasia	$ 11,158,027	$ (3,970,420)	$ 311,292,339	$ 321,158,592	3.6 %	(1.2)%
Latin America	10,572,197	11,878,497	153,631,669	173,601,020	6.9	6.8
Africa	10,824,907	9,042,213	151,291,048	165,029,252	7.2	5.5
MESA	19,179,858	11,914,128	208,940,879	212,151,678	9.2	5.6
Total	$ 51,734,989	$ 28,864,418	$ 825,155,935	$ 871,940,541	6.3 %	3.3 %

The regional segmentation, by arrears category, for gross loans and allowances as at December 31, 2020, is as follows:

	Total Gross Loans for Each Portfolio-Aging Segment					
	Gross Loan Portfolio					**Total Gross Loan Portfolio**
	Current	**1–30**	**31–60**	**61–90**	**90+**	
Eurasia	$ 244,124,038	$ 8,367,713	$ 3,125,974	$ 3,405,689	$ 30,003,906	$ 289,027,320
Latin America	107,151,406	11,736,327	6,224,226	1,913,835	11,691,499	138,717,293
Africa	110,190,983	4,325,659	2,287,458	2,001,496	16,287,086	135,092,682
MESA	182,712,139	9,281,597	5,681,607	1,960,572	7,031,257	206,667,172
Total	$ 644,178,566	$ 33,711,296	$ 17,319,265	$ 9,281,592	$ 65,013,748	$ 769,504,467

	Aging of Allowance for Impairment					
	Current	**1–30**	**31–60**	**61–90**	**90+**	**Total Allowance for Impairment**
Eurasia	$ 6,288,235	$ 1,566,908	$ 903,603	$ 1,129,698	$ 19,881,709	$ 29,770,153
Latin America	4,107,913	2,629,803	2,014,209	694,793	8,724,300	18,171,018
Africa	2,406,285	236,390	634,626	1,381,622	11,285,367	15,944,290
MESA	13,430,265	2,049,283	2,391,804	994,490	3,222,606	22,088,448
Total	$ 26,232,698	$ 6,482,384	$ 5,944,242	$ 4,200,603	$ 43,113,982	$ 85,973,909

The regional segmentation, by arrears category, for gross loans and allowances at December 31, 2019, is as follows:

	Total Gross Loans for Each Portfolio-Aging Segment					
	Gross Loan Portfolio					**Total Gross**
	Current	**1–30**	**31–60**	**61–90**	**90+**	**Loan Portfolio**
Eurasia	$303,047,331	$ 4,792,773	$1,574,154	$1,021,873	$23,121,226	$333,557,357
Latin America	146,837,880	6,765,424	2,113,011	1,316,259	11,513,471	168,546,045
Africa	146,986,155	4,056,990	1,900,087	1,479,075	13,067,107	167,489,414
MESA	190,327,539	8,109,902	4,369,407	2,078,280	6,329,458	211,214,586
Total	$787,198,905	$23,725,089	$9,956,659	$5,895,487	$54,031,262	$880,807,402

	Aging of Allowance for Impairment					
	Current	**1–30**	**31–60**	**61–90**	**90+**	**Total Allowance for Impairment**
Eurasia	$ 3,950,764	$ 778,392	$ 474,616	$ 405,301	$18,127,398	$ 23,736,471
Latin America	4,295,843	1,629,929	740,255	469,315	11,347,896	18,483,238
Africa	2,505,072	244,360	679,205	1,018,534	9,967,716	14,414,887
MESA	1,470,951	1,664,690	1,873,459	1,572,351	5,400,896	11,982,347
Total	$ 12,222,630	$ 4,317,371	$3,767,535	$3,465,501	$44,843,906	$ 68,616,943

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

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

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

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

Consideration of interest rate risk, by term of asset, liability and equity, as at December 31, 2020, is as follows:

	Up to 3 Months	3–6 Months	7–12 Months	1–3 Years	More than 3 Years	Non-Interest -Sensitive Balances	2020 Total
Cash and cash equivalents	$ 40,231,523	$ -	$ -	$ -	$ -	$117,699,159	$ 157,930,682
Restricted cash and cash equivalents	12,779,947	1,137,659	-	50,000	-	16,516,763	30,484,369
Trading assets	-	-	-	-	-	-	-
Derivative financial instruments	585,989	12,161,455	279,773	238,338	1,074,711	269,936	14,610,202
Investment securities	20,956,218	32,159,674	9,087,616	-	1,756,527	1,290,543	65,250,579
Loans receivable—net	151,478,889	96,536,995	194,533,176	204,311,032	36,670,466	-	683,530,558
Due from banks	6,084,566	-	237,001	-	-	-	6,321,567
Grants receivable—net							
Other receivables, prepaid, other assets and goodwill	3,363,654	223,027	57,715	41,053	575,212	26,378,339	30,639,000
Property and equipment—net	-	-	-	-	-	24,336,330	24,336,330
Intangible assets—net	-	-	-	-	-	8,479,918	8,479,918
Right of use assets—net	-	-	-	-	-	29,742,114	29,742,114
Current tax assets	-	-	-	-	-	1,466,176	1,466,176
Deferred tax assets	-	-	-	-	-	9,817,809	9,817,809
Total assets	235,480,786	142,218,810	204,195,281	204,640,423	40,076,916	235,997,087	1,062,609,303
Accounts payable and other accrued liabilities	3,488,663	232,613	851,405	1,289,236	971,835	26,389,455	33,223,207
Derivative financial liabilities	141,062	9,646,753	-	-	-	495,221	10,283,036
Client deposits	216,365,959	74,106,872	80,727,030	59,375,540	7,305,489	9,409,230	447,290,120
Bank deposits	26,684,165	3,789,548	2,470,529	3,505,718	-	-	36,449,960
Notes payable	56,493,274	23,374,827	65,236,310	63,908,281	34,226,382	-	243,239,074
Subordinated debt	63,780	24,827	-	-	26,571,254	-	26,659,861
Lease liabilities	2,010,995	1,474,051	4,104,004	10,134,563	15,647,850	-	33,371,463
Deferred revenue	-	-	-	-	-	1,828,312	1,828,312
Employee benefits	33,326	33,326	550,838	346,494	2,240,514	-	3,204,498
Current income tax liability	-	-	-	-	-	1,721,022	1,721,022
Deferred tax liabilities	-	-	-	-	-	1,908,794	1,908,794
Equity	-	-	-	-	-	223,429,956	223,429,956
Total liabilities	305,281,224	112,682,817	153,940,116	138,559,832	86,963,324	265,181,990	1,062,609,303
Net interest rate risk gap	$ (69,800,438)	$ 29,535,993	$ 50,255,165	$ 66,080,591	$ (46,886,408)	$ (29,184,903)	$ -

Consideration of interest rate risk, by term of asset, liability and equity, as at December 31, 2019, is as follows:

	Up to 3 Months	3–6 Months	7–12 Months	1–3 Years	More than 3 Years	Non-Interest -Sensitive Balances	2019 Total
Cash and cash equivalents	$ 39,201,526	$ -	$ -	$ -	$ -	$ 90,213,063	$ 129,414,589
Restricted cash and cash equivalents	15,353,075	761,557	-	-	-	15,722,360	31,836,992
Trading assets	38,493,095	-	-	-	-	-	38,493,095
Derivative financial instruments	676,257	11,788,476	-	-	732,465	955,578	14,152,776
Investment securities	10,345,726	2,584,525	7,129,650	-	741,801	1,962,023	22,763,725
Loans receivable—net	152,493,022	147,062,323	231,308,786	249,082,929	32,243,399	-	812,190,459
Due from banks	416,468	2,811,369	-	-	-	-	3,227,837
Grants receivable—net							
Other receivables, prepaid, other assets and goodwill	-	-	-	-	-	26,976,592	26,976,592
Property and equipment—net	-	-	-	-	-	30,606,925	30,606,925
Intangible assets—net	-	-	-	-	-	9,717,709	9,717,709
Right of use assets—net	-	-	-	-	-	35,899,182	35,899,182
Current tax assets	-	-	-	-	-	526,339	526,339
Deferred tax assets	-	-	-	-	-	6,627,081	6,627,081
Total assets	256,979,169	165,008,250	238,438,436	249,082,929	33,717,665	219,206,852	1,162,433,301
Accounts payable and other accrued liabilities	-	-	-	1,426,225	637,819	32,248,868	34,312,912
Derivative financial liabilities	379,341	11,005,996	-	-	-	153,016	11,538,353
Client deposits	216,567,263	55,096,430	91,632,505	70,751,288	3,534,513	-	437,581,999
Bank deposits	19,115,049	5,212,386	9,645,596	1,057,704	-	-	35,030,735
Notes payable	96,112,067	33,461,605	47,006,349	103,449,401	31,068,034	99,726	311,197,182
Subordinated debt	195,102	31,058	(1,009)	1,994,069	27,231,072	-	29,450,292
Lease liabilities	1,484,607	1,727,724	5,023,854	15,209,097	14,422,099	-	37,867,381
Deferred revenue	-	-	-	-	-	4,231,672	4,231,672
Employee benefits	33,326	33,326	550,838	346,494	2,412,247	-	3,376,231
Current income tax liability	-	-	-	-	-	3,216,259	3,216,259
Deferred tax liabilities	-	-	-	-	-	3,331,342	3,331,342
Equity	-	-	-	-	-	251,298,943	251,298,943
Total liabilities and equity	333,886,755	106,568,525	153,858,133	194,234,278	79,305,784	294,579,826	1,162,433,301
Net interest rate risk gap	$ (76,907,586)	$ 58,439,725	$ 84,580,303	$ 54,848,651	$ (45,588,119)	$ (75,372,974)	$ -

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

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

	2020
USD/EUR net interest income impact @ 200 bps (in USD millions)	(1.06)
Local current net interest income impact (in USD millions)	1.21
Total (in USD millions)	0.15
Total as a percentage of total capital	0.07 %

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

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

As of December 31, 2020	**Shock (Average)**	**Economic Value Impact (in Millions)**
USD/EUR	200 bps	(0.22)
Local	652 bps	1.01
Total		0.79
Total as a percentage of total capital		0.35 %

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

Subsidiaries match their non-functional currency assets with their non-functional currency liabilities to the fullest possible extent, thereby minimizing or reducing any foreign currency risk. This matching occurs either by converting non-functional currency borrowings into functional currency borrowings, by lending in non-functional currency, and by maintaining other assets in non-functional currency. It is the Company's policy not to allow speculative open currency positions; rather, each Subsidiary's open currency position is maintained within prescribed limits relative to the Subsidiary's capital. Currency positions are measured and reported to each Subsidiary's ALCO on a monthly basis. At the consolidated level, FINCA experienced transaction losses of $1.0 million in 2020 in comparison to transaction losses of $1.1 million in 2019, representing about 0.1% of average total assets in 2020 and 2019. For assessment of the Company's foreign exchange risk, a Value-at-Risk (VaR) analysis is performed on a quarterly basis. The VaR measure estimates the potential loss in capital over a given holding period for a specified confidence level. The VaR is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between markets. Risks can be measured consistently across all markets, and risk measures can be aggregated to arrive at a single risk number. The methodology employed is the variance-covariance approach, also known as the delta-normal approach. The holding period is one year, and the look-back period is 3.5 years. A limitation of the variance-covariance, or delta-normal, approach is the assumption of a standard normal (or Gaussian) distribution of portfolio returns, and therefore the methodology may underestimate the proportion of outliers and hence the VaR.

The results are shown in the following table (in million):

	95% Confidence	99% Confidence
As of December 31, 2020	$ 12.2	$ 17.2

	95% Confidence	99% Confidence
As of December 31, 2019	$ 8.7	$ 12.3

FINCA's portfolio VaR increased in 2020 primarily due to a 236 basis point increase in portfolio volatility—a 40% increase in USD terms – and in spite of a large reduction in local currency net assets. Also, ceteris paribus, the correlation of FMH's basket of currencies was increased somewhat, moving from 0.41 to 0.50.

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

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

Total cash and cash equivalents totaled $157.9 million as of December 31, 2020, compared to $129.4 million as of December 31, 2019. FINCA has maintained total cash balance equal to 14.8% and 11.1% of total assets as of December 31, 2020 and 2019, respectively.

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

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

A traditional view of the Company's liquidity is provided by a gap analysis. Considering the contractual terms of client loans, the Company has a substantial amount of excess liquidity in the under one-year time frame (gap < one year of $143.0 million in 2020 and

$174.6 million in 2019). Due to the short-term nature of the loan portfolio (65.0%) of which matures within one year), the $44.3 million negative liquidity gap in years three to five, will be covered by the normal course of business operations as new loans are disbursed.

At December 31, 2020	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Total
Cash and cash equivalents	$ 157,930,682	$ -	$ -	$ 157,930,682
Restricted cash and cash equivalents	30,484,369	-	-	30,484,369
Trading assets	-	-	-	-
Derivative financial instruments	14,371,864	238,338	-	14,610,202
Investment securities	62,458,778	-	2,791,800	65,250,579
Loans receivable—net	442,549,060	204,311,032	36,670,466	683,530,558
Due from banks	6,321,567	-	-	6,321,567
Other financial assets	8,222,845	-	-	8,222,845
	722,339,165	204,549,370	39,462,266	966,350,802
Other financial liabilities	2,649,109	236,953	72	2,886,134
Derivative financial liabilities	10,283,036	-	-	10,283,036
Clients deposits	380,609,091	59,375,540	7,305,489	447,290,120
Bank deposits	32,944,242	3,505,718	-	36,449,960
Notes payable	145,104,411	63,908,281	34,226,382	243,239,074
Subordinated debt	88,607	(3,341)	26,574,595	26,659,861
Lease liabilities	7,589,050	10,134,563	15,647,850	33,371,463
	579,267,546	137,157,714	83,754,388	800,179,648
Liquidity gap	$ 143,071,619	$ 67,391,656	$ (44,292,122)	$ 166,171,154
Cumulative liquidity gap	$ 143,071,619	$210,463,275	$166,171,154	$ 166,171,154

Lower positive cumulative liquidity gap up to 1 year in 2020 could also be viewed as a result of more efficient liquidity management as the Subsidiaries managed their short-term liquidity needs by increasing the availability of unutilized standby credit lines from local banks $15.7 million and $31.8 million as of December 31, 2020 and 2019, respectively.

At December 31, 2019	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Total
Cash and cash equivalents	$129,414,589	$ -	$ -	$ 129,414,589
Restricted cash and cash equivalents	31,836,992	-	-	31,836,992
Trading assets	38,493,095	-	-	38,493,095
Derivative financial instruments	13,420,311	-	732,465	14,152,776
Investment securities	20,096,151	-	2,667,574	22,763,725
Loans receivable—net	530,864,131	249,082,929	32,243,399	812,190,459
Due from banks	3,227,837	-	-	3,227,837
Other financial assets	5,609,862	69,429	385,059	6,064,350
	772,962,968	249,152,358	36,028,497	1,058,143,823
Other financial liabilities	4,515,588	60,170	547,183	5,122,941
Derivative financial liabilities	11,538,353	-	-	11,538,353
Clients deposits	363,296,198	70,751,288	3,534,513	437,581,999
Bank deposits	33,973,031	1,057,704	-	35,030,735
Notes payable	176,595,842	103,481,046	31,120,294	311,197,182
Subordinated debt	225,151	1,994,069	27,231,072	29,450,292
Lease liabilities	8,236,185	15,209,097	14,422,099	37,867,381
	598,380,348	192,553,374	76,855,161	867,788,883
Liquidity gap	$174,582,620	$ 56,598,984	$ (40,826,664)	$ 190,354,940
Cumulative liquidity gap	$174,582,620	$231,181,604	$190,354,940	$ 190,354,940

The traditional gap view may overstate the amount of near-term liquidity since it does not take into consideration the behavioral characteristics of the Company's loan portfolio as well the diversified nature of the Company's deposit base. From a behavioral perspective, the Company's clients are able to renew their loans for multiple terms, which lessens the amount of short-term liquidity (lowers the positive gap in that time frame). A significant portion of small-scale deposits based on historical behavior may be deemed as a stable source of funding and can be allocated beyond the one-year time frame. The Company's balance sheet remains liquid in all time frames owing to the diversified nature of customer deposits and short asset tenor as well as to the fact that client loans amortize. The Company's borrowings are predominately two-year tenor with principal repaid at maturity.

Third-Party Vendor Risk—New risks emerge as the Company's business model continues to evolve. In particular, the Company may engage third-party relationships in the delivery of services to our clients that brings with it a commensurate emphasis on third-party/vendor risk management. Third-party risk management is conducted to assess the ongoing behavior, performance, and risks that each third-party relationship introduces. This includes: corporate and social responsibility compliance, reputational, operational, regulatory/legal compliance, information security, technology, and financial risks. Each third-party/vendor engagement requires specific due diligence through detailed risk assessments and ongoing monitoring activities depending on the nature of the services being provided. This includes all phases of the vendor relationship, including review of proposals, implementation, system integration, and performance monitoring of the third-party services.

6. FINANCIAL ASSETS AND LIABILITIES—FAIR VALUE MEASUREMENTS

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

In estimating the fair value of an asset or a liability, FINCA takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis and measurements that have some similarities to fair value, but are not fair value, such as value in use in IAS 36. The following tables set forth, by level within the fair value hierarchy, the fair value of FINCA's financial assets and liabilities as of December 31, 2020 and 2019. This table includes both financial assets and liabilities accounted for at fair value on a recurring basis and amortized cost. As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. FINCA's assessment of the significance of a particular input to the fair value measurement requires the exercise of judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

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

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

Level 2—Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using broker quotes in liquid markets and other observable data. Level 2 also includes those financial instruments that are valued using methodologies that have been corroborated by observable market data through correlation or by other means. Significant assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

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

The amounts of the fair value of loans receivable, due from banks, notes payable, investment in securities, client deposits, and subordinated debt categorized as Level 2 are based on a blend of quoted prices for the instruments and quoted prices for similar instruments on the measurement date. The Company adjusted the discount rate on its notes payable by using a credit margin that reflects the credit risk rating for similar companies.

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

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values and are categorized as Level 2. There are no transfers between fair value hierarchy levels in the year ended December 31, 2020.

	2020		2019	
Financial Assets	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Due from banks	$ 6,321,567	$ 6,085,692	$ 3,227,837	$ 3,231,592
Investment securities measured at amortized cost	20,738,909	20,427,165	20,030,182	19,718,316
Loans receivable	683,530,558	680,752,336	812,190,459	821,664,286
Financial Liabilities				
Financial liabilities held at amortized cost:				
Client deposits	$447,290,120	$447,935,396	$437,581,999	$437,219,560
Bank deposits	36,449,960	36,526,410	35,030,735	35,080,369
Notes payable	243,239,074	239,673,176	311,197,182	308,509,965
Subordinated debt	26,659,861	26,844,876	29,450,292	29,544,724

Fair value hierarchy at December 31, 2020, is as follows:

Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$157,930,682	$ -	$ -	$157,930,682
Restricted cash and cash		-	-	
equivalents	30,484,369	-	-	30,484,369
Due from banks	-	4,999,416	1,086,276	6,085,692
Investment securities measured at amortized cost	-	20,263,200	1,982,797	22,245,997
Loans receivable	-	680,752,336	-	680,752,336
Financial Liabilities				
Financial liabilities held at amortized cost:				
Client deposits	$ -	$331,363,037	$116,572,359	$447,935,396
Bank deposits	-	27,235,991	9,290,419	36,526,410
Notes payable	-	192,448,990	47,224,186	239,673,176
Subordinated debt	-	19,637,360	7,207,516	26,844,876

Fair value hierarchy at December 31, 2019, is as follows:

Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$129,414,589	$ -	$ -	$129,414,589
Restricted cash and cash equivalents	15,220,465	16,616,527	-	31,836,992
Due from banks	-	3,231,592	-	3,231,592
Investment securities measured at amortized cost	2,585,103	15,414,508	1,718,705	19,718,316
Loans receivable	-	821,664,286	-	821,664,286
Financial Liabilities				
Financial liabilities held at amortized cost:				
Client deposits	$ -	$312,105,167	$125,114,393	$437,219,560
Bank deposits	-	29,580,173	5,500,196	35,080,369
Notes payable	-	231,353,621	77,156,344	308,509,965
Subordinated debt	-	22,146,624	7,398,100	29,544,724

Financial Assets/ Financial Liabilities	**Fair Value as at December 31, 2020 Asset (Liability)**	**Fair Value as at December 31, 2019 Asset (Liability)**	**Fair Value Hierarchy**	**Valuation Techniques and Key Inputs**	**Significant Unobservable Inputs**	**Relationship of Unobservable Inputs to Fair Value**
1) Foreign exchange forwards (Note 14)	$ 332,832 (329,856)	$ 2,142,443 (408,569)	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract	N/A	N/A
2) Foreign exchange swaps (Note 14)	14,277,370 (9,953,180)	12,010,333 (11,129,784)	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract	N/A	N/A
3) Trading assets (Note 13)	-	38,493,095	2	Quoted prices of similar instruments traded in active markets	N/A	N/A
4) Investment securities mandatorily measured at FVTPL (Note 15)	255,269	200,000	2	Quoted prices of similar instruments traded in active markets		
5) Investment securities measured at FVTOCI (Note 15)	42,167,225	2,533,543	2	Quoted prices of similar instruments traded in active markets	N/A	N/A

7. NET INTEREST INCOME BEFORE IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

Net interest income for the years ended December 31, 2020 and 2019, is as follows:

	2020	2019
Interest income:		
Other financial instruments	$ 8,194,849	$ 7,433,631
Loans to clients	247,323,364	286,471,452
Total interest income	255,518,213	293,905,083
Interest expense:		
Client deposits and bank deposits	38,910,976	38,502,615
Notes payable and subordinated debt	25,588,903	34,453,174
Lease liabilities	3,351,487	3,079,416
Total interest expense	67,851,366	76,035,205
Net interest income	$ 187,666,847	$ 217,869,878

8. OTHER OPERATING INCOME

Other Operating Income for the years ended December 31, 2020 and 2019, is as follows:"

	2020	2019
Fines and penalties	3,884,668	7,834,870
Insurance income	1,902,382	3,286,133
Other fee and commission income	6,506,699	11,174,804
Total other operating income	$ 12,293,749	$ 22,295,807

9. PERSONNEL EXPENSES

Personnel expenses for the years ended December 31, 2020 and 2019, consist of the following:

	2020	2019
Wages and salaries	$ 80,480,254	$ 88,791,023
Compulsory social security obligations	6,831,769	7,470,646
Allowances, incentives, and other benefits	12,193,125	13,963,169
Health insurance	4,790,224	4,317,627
Total	$ 104,295,372	$ 114,542,465

10. OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31, 2020 and 2019, consist of the following:

	2020	2019
Professional fees	$15,310,706	$17,338,966
Rent/utilities	3,061,229	3,953,695
Travel	4,939,433	9,607,429
Consumables and office supply	5,107,749	4,154,289
Communication	5,653,172	6,877,500
Taxes other than income	3,433,613	6,178,539
Security	4,548,563	4,635,970
License/memberships/meetings	4,178,319	4,562,582
Marketing	2,680,709	3,659,992
Repairs and maintenance	3,055,893	2,832,742
Training and hiring	1,305,095	1,542,984
Bank charges	1,649,809	1,563,649
Motor vehicles expenses	1,393,667	1,738,919
Insurance	1,661,815	1,797,702
Other expenditures	3,260,520	3,625,070
	$61,240,292	$74,070,028

11. GRANTS AND DONATIONS INCOME

Grant and donation income for the years ended December 31, 2020 and 2019, consist of the following:

	2020	2019
Corporate, foundation and individual giving	$20,593,275	$19,666,296
Grants and contracts	900,109	2,490,971
Services and gifts in kind	1,221,392	1,054,001
	$22,714,776	$23,211,268

12. INCOME TAX EXPENSE

This item includes all taxes on income. Income tax expense for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Current tax expense	$ 9,138,455	$10,137,630
Deferred tax expense (benefit)	(5,010,515)	1,716,886
Total income tax expense	$ 4,127,940	$11,854,516

In calculating both the current tax and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense includes the local country income taxes for the Subsidiaries and foreign withholding taxes on certain cross-border payments. The average actual income tax rate for the Subsidiaries was 25.5% in 2020 and 25.6% in 2019.

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

Reconciliation of income tax expense for the years ended December 31, 2020 and 2019, is as follows:

	2020	**2019**
Profit/(loss) before income tax	$ (12,216,303)	$ 25,633,882
Income tax expense	(4,127,940)	(11,854,516)
Profit/(loss) for the year	$ (16,344,243)	$ 13,779,366

	2020	**2019**
Tax rate using domestic tax rate of parent company (exempt on US federal taxes on income)	$ -	$ -
Income tax (taxable Subsidiaries) at local statutory rates	(2,123,768)	7,077,277
Expenses not deductible for tax purposes	3,972,033	3,110,126
Tax-exempt income	(2,954,419)	(5,437,679)
Recognition of previously unrecognized tax losses	-	(73,369)
Adjustment for under provision in prior periods	118,762	29,744
Foreign withholding taxes	1,704,039	3,121,491
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	3,095,815	4,523,017
Other	315,478	(496,091)
Total	$ 4,127,940	$11,854,516

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

In 2020, FINCA recorded $0.7 million of income tax expense on $4.6 million of temporary differences associated with FINCA's investments in Subsidiaries because it was probable that the temporary differences associated with the distribution of retained earnings through payments of dividends will reverse in the foreseeable future. The temporary differences of $4.6 million included $7.4 million of expected distributions of retained

earnings from 2020 and $(2.8) million for a decrease of expected distributions of retained earnings from prior years.

In 2019, FINCA recorded $1.6 million of income tax expense on $18.0 million of temporary differences associated with FINCA's investments in Subsidiaries because it was probable that the temporary differences associated with the distribution of retained earnings through payments of dividends will reverse in the foreseeable future. The temporary differences of $18.0 million included $18.1 million of expected distributions of retained earnings from 2019 and $(0.1) million for a decrease of expected distributions of retained earnings from prior years. The deferred tax liability related to the future distributions of earnings by Subsidiaries is $1.2 million and $2.2 million as of December 31, 2020 and 2019, respectively.

Deferred Tax Assets—Deferred tax assets were recognized by the Subsidiaries in the following jurisdictions in 2020: Tajikistan, Democratic Republic of Congo (DRC), Pakistan, Azerbaijan, USA, Malawi, Haiti, Jordan, Ecuador, and Kyrgyzstan (2019—Tajikistan, DRC, Pakistan, Azerbaijan, the Netherlands, USA, Zambia, Malawi, Haiti and Jordan).

2020	**Assets (Liabilities)**	**(Charged) Credited to Profit or Loss**	**(Charged) Credited to to Equity**
Property and equipment and software	$ (226,384)	$ 73,891	$ 46,847
Provision for impairment allowance	7,029,208	4,900,784	(257,004)
Deferred income/accrued interest	(508,484)	(253,541)	(11,445)
Tax loss carryforwards	1,530,662	(825,981)	(28,053)
Other	1,992,807	(284,988)	(169,783)
Net tax assets (liabilities)	$9,817,809	$3,610,165	$(419,438)

2019	**Assets (Liabilities)**	**(Charged) Credited to Profit or Loss**	**(Charged) Credited to to Equity**
Property and equipment and software	$ (347,122)	$ (110,123)	$ 55,277
Provision for impairment allowance	2,385,428	1,025,322	(154,493)
Deferred income/accrued interest	(243,498)	(501,242)	42,674
Tax loss carryforwards	2,384,696	(2,435,081)	(128,136)
Other	2,447,577	1,779,494	(211,898)
Net tax assets (liabilities)	$6,627,081	$ (241,630)	$(396,576)

Deferred Tax Liabilities—Deferred tax liabilities were recorded by FMH, the Netherlands, Uganda, Armenia, Georgia, and Honduras in 2020 (2019—FMH, the Netherlands, USA, Ecuador, Uganda, Armenia, Kyrgyzstan, Georgia, and Honduras) as follows:

2020	Assets (Liabilities)	(Charged) Credited to Profit or Loss	(Charged) Credited to to Equity
Property and equipment and software	$ (155,831)	$ 51,552	$(11,235)
Provision for impairment allowance	(880,328)	91,147	51,898
Deferred income/accrued interest	126,732	63,369	3,206
Tax loss carryforwards	63,282	66,678	(3,396)
Future distribution of retained earnings	(1,234,943)	937,691	-
Other	172,294	189,913	(18,274)
Net tax (liabilities) assets	$(1,908,794)	$1,400,350	$ 22,199

2019	Assets (Liabilities)	(Charged) Credited to Profit or Loss	(Charged) Credited to to Equity
Property and equipment and software	$ (196,148)	$ 103,383	$ (3,385)
Provision for impairment allowance	(1,023,373)	(72,784)	(18,943)
Deferred income/accrued interest	60,157	1,054	1,705
Tax loss carryforwards	-	(88,672)	-
Future distribution of retained earnings	(2,172,634)	(1,221,483)	-
Other	656	(196,754)	5,193
Net tax (liabilities) assets	$(3,331,342)	$(1,475,256)	$(15,430)

13. TRADING ASSETS

Included in trading assets are Pakistan Treasury Bills of $0 million and $38.5 million at December 31, 2020 and 2019, respectively.

14. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments as of December 31, 2020 are represented by the following balances:

	Notional Amount	Fair Value Assets	Liabilities
Derivative financial instruments:			
Foreign exchange swaps	$ 31,757,003	$ 14,277,370	$ 9,953,180
Foreign exchange forwards	23,885,431	332,832	329,856
Total	$ 55,642,434	$ 14,610,202	$ 10,283,036

FMH as the intermediate parent company, issued a guarantee to a third party on behalf of Subsidiaries to secure forward deals and foreign exchange swaps. As of December 31, 2020, all the guaranteed trades were in the money, and FMH had no obligation towards the third party.

The derivative financial instruments as of December 31, 2019, are represented by the following balances:

	Notional Amount	Fair Value Assets	Liabilities
Derivative financial instruments:			
Foreign exchange swaps	$ 20,678,962	$ 12,010,333	$ 11,129,784
Foreign exchange forwards	51,693,753	2,142,443	408,569
Total	$ 72,372,715	$ 14,152,776	$ 11,538,353

15. INVESTMENT SECURITIES

Investment securities as at December 31, 2020 and 2019 consist of the following:

	2020	2019
Investment securities mandatorily measured at FVTPL	$ 255,269	$ 200,000
Investment securities designated at FVTPL	270,344	-
Investment securities measured at amortized cost	22,557,741	20,030,182
Investment securities measured at FVTOCI—debt instruments	42,155,472	2,521,790
Investment securities measured at FVTOCI—equity instrument	11,753	11,753
Total	$ 65,250,579	$ 22,763,725

16. LEASES

FINCA Subsidiaries lease several assets including buildings, furniture and office equipment, and vehicles (grouped under Other). The average lease term is in the range 1–7 years and 2–8 years, as of December 31, 2020 and December 31, 2019, respectively. Approximately 5.8% and 5.1% of the leases for property, plant and equipment expired in the years ended December 31, 2020 and 2019, respectively. The expired contracts were replaced by new leases for identical underlying assets.

Right-of-Use Assets	Total	Buildings	Other
Cost:			
At January 1, 2020	$ 44,626,387	$ 44,491,788	$ 134,599
Additions	5,248,705	5,103,410	145,295
Concessions	(332,682)	(332,682)	-
Disposals	(2,571,649)	(2,571,649)	-
Currency translation	(1,311,713)	(1,311,498)	(215)
At December 31, 2020	45,659,048	45,379,369	279,679
Accumulated depreciation:			
At January 1, 2020	8,727,205	8,715,830	11,375
Charge for the year	8,755,912	8,638,170	117,742
Disposals	(1,129,603)	(1,129,603)	-
Currency translation	(436,580)	(437,557)	977
At December 31, 2020	15,916,934	15,786,840	130,094
Balance—December 31, 2020	$ 29,742,114	$ 29,592,529	$ 149,585
Balance—December 31, 2019	$ 35,899,182	$ 35,775,958	$ 123,224

Lease Liabilities	2020
At January 1, 2020	$ 37,867,381
Additions	5,143,302
Interest expense related to lease liabilities	3,351,753
Repayment of lease liabilities (including interest)	(10,537,979)
Rent concessions	(236,833)
Termination of lease agreements	(1,412,600)
Currency translation	(803,561)
At December 31, 2020	$ 33,371,463
Short-term lease liabilities	$ 7,589,050
Long-term lease liabilities	25,782,413
Total lease liabilities	$ 33,371,463

The average lease term is 4.17 years for 2020 and 4.25 years for 2019 respectively.

Information about maturities of lease liabilities is presented in the liquidity table in Note 5.

Amounts Recognized in Profit or Loss	**2020**	**2019**
Depreciation expense on right-of-use assets	$ 8,755,912	$ 9,341,769
Interest expense on lease liabilities	3,351,753	3,413,425
Expense relating to short-term leases	872,753	1,248,925
Total	$ 12,980,418	$ 14,004,119

FINCA has derecognized $0.3 million of the lease liability that has been extinguished by the forgiveness of lease payments or benefited from lease payment holiday on buildings in DRC, Kyrgyzstan, Tajikistan, Ecuador, Zambia, Honduras and Nicaragua.

17. LOANS RECEIVABLE—NET OF ALLOWANCE

Loans receivable as at December 31, 2020 and 2019 consist of the following:

	2020	**2019**
Gross loans to clients—due within 1 year	$495,166,496	$568,807,315
Gross loans to clients—due later than 1 year	274,337,971	312,000,087
Total loans to clients	769,504,467	880,807,402
Less impairment allowance	(85,973,909)	(68,616,943)
Loans receivable	$683,530,558	$812,190,459

Impairment losses on loans charged were $51.8 million and $29.0 million for the years ended December 31, 2020 and 2019, respectively. Movements in the loan impairment allowance for the years ended December 31, 2020 and 2019, are detailed in Note 5.

While not all products require collateral, and collateral requirements vary by country, the Company utilizes several methods for clients to collateralize their loans, including mandatory savings, real estate, fixed assets, or an additional guarantor. Analysis of collateral and other credit enhancements is represented in Note 5.

18. OTHER RECEIVABLES, PREPAID, AND OTHER ASSETS

The balances represent other receivables, prepaid, and other assets at December 31, 2020 and 2019, as follows:

	2020	2019
Receivable commission, rebates, and refunds from banks and agencies	$ 4,197,644	$ 4,730,151
Receivable from money remittance and other agencies	1,673,929	1,828,886
Grants receivable	4,118,622	2,859,562
Deposit with Internal Revenue Service and other fiduciary duties	3,195,253	4,234,973
Prepaid rent	929,492	941,382
Taxes	1,149,780	1,918,202
Other prepayments	4,682,850	5,311,921
Office supplies	1,560,745	1,210,617
Staff advances and loans	307,911	482,317
Other debtors	8,136,958	2,753,493
Total	$ 29,953,184	$ 26,271,504

Grants receivable include the following amounts due from Charities Aid Foundation for the following programs: microfinance operations ($75,000) and FINCA Forward ($142,000).

19. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 and 2019, are as follows:

Cost	Total	Buildings and Offices	Construction in Progress	Leasehold Improvements	Computer Equipment	Furniture and Office Equipment	Vehicles	Other
Balance—January 1, 2019	$72,675,816	$10,057,052	$ 5,694,584	$14,423,050	$20,399,941	$15,796,205	$ 3,982,978	$2,322,006
Acquisitions	10,313,837	252,934	1,629,109	2,513,012	2,947,589	1,721,452	1,173,168	76,573
Disposals	(7,098,935)	-	(3,834,570)	(680,825)	(697,633)	(799,213)	(1,018,856)	(67,838)
Currency translation	(2,560,461)	(124,817)	(269,656)	(687,963)	(643,752)	(595,597)	(205,481)	(33,195)
Balance—December 31, 2019	$73,330,257	$10,185,169	$ 3,219,467	$15,567,274	$22,006,145	$16,122,847	$ 3,931,809	$2,297,546
Balance—January 1, 2020	$73,330,257	$10,185,169	$ 3,219,467	$15,567,274	$22,006,145	$16,122,847	$ 3,931,809	$2,297,546
Acquisitions	3,891,325	93,372	657,957	610,691	1,230,233	830,534	298,899	169,639
Disposals	(5,077,416)	(931,837)	(481,834)	(687,280)	(1,780,795)	(537,313)	(615,082)	(43,275)
Transfers between PPE subcategories	-	(373)	(155,134)	34,763	290,204	(63,779)	23,943	(129,624)
Currency translation	(3,025,935)	(206,772)	(579,454)	(548,919)	(948,393)	(740,376)	110,557	(112,578)
Balance—December 31, 2020	$69,118,231	$ 9,139,559	$ 2,661,002	$14,976,529	$20,797,394	$15,611,914	$ 3,750,126	$2,181,708
Depreciation and Impairment Losses								
Balance—January 1, 2019	$39,052,394	$ 2,976,965	$ -	$ 7,515,865	$13,252,702	$11,795,590	$ 2,548,877	$ 962,395
Depreciation and amortization	7,363,066	401,310	-	1,680,591	2,755,679	1,881,796	541,803	101,887
Disposals	(2,674,240)	-	-	(458,503)	(666,797)	(717,924)	(773,473)	(57,543)
Currency translation	(1,017,888)	(13,150)	-	(247,005)	(381,636)	(260,327)	(96,142)	(19,628)
Balance—December 31, 2019	$42,723,332	$ 3,365,125	$ -	$ 8,490,948	$14,959,948	$12,699,135	$ 2,221,065	$ 987,111
Balance—January 1, 2020	$42,723,332	$ 3,365,125	$ -	$ 8,490,948	$14,959,948	$12,699,135	$ 2,221,065	$ 987,111
Depreciation and amortization	6,775,682	396,347	-	1,564,417	2,304,978	1,890,058	539,309	80,572
Disposals	(3,111,642)	(7,591)	-	(578,918)	(1,638,817)	(442,452)	(420,998)	(22,866)
Transfers between PPE subcategories	-	(5,699)	-	6,188	146,515	(119,764)	23,257	(50,497)
Currency translation	(1,605,470)	(43,013)	-	(308,166)	(701,118)	(526,771)	58,206	(84,608)
Balance—December 31, 2020	$44,781,902	$ 3,705,169	$ -	$ 9,174,469	$15,071,507	$13,500,206	$ 2,420,839	$ 909,712
Net Carrying Amounts								
Balance—December 31, 2019	$30,606,925	$ 6,820,044	$ 3,219,467	$ 7,076,326	$ 7,046,197	$ 3,423,712	$ 1,710,744	$1,310,435
Balance—December 31, 2020	$24,336,329	$ 5,434,390	$ 2,661,002	$ 5,802,060	$ 5,725,887	$ 2,111,708	$ 1,329,288	$1,271,996

20. INTANGIBLE ASSETS

Intangible assets at December 31, 2020 and 2019, consist of the following:

Costs	Total	Capitalized Software	Capital Work-in-Progress	Other
Balance—January 1, 2019	$23,289,799	$20,999,768	$ 1,538,657	$ 751,374
Acquisition	4,799,494	3,679,830	1,119,664	-
Disposals	(3,062,767)	(168,887)	(2,142,506)	(751,374)
Currency translation	(765,910)	(756,753)	(9,157)	-
Balance—December 31, 2019	$24,260,616	$23,753,958	$ 506,658	$ -
Balance—January 1, 2020	$24,260,616	$23,753,958	$ 506,658	$ -
Acquisition	2,928,567	1,826,070	1,102,497	-
Disposals	(1,137,938)	(489,652)	(648,286)	-
Currency translation	(1,108,831)	(1,102,202)	(6,629)	-
Balance—December 31, 2020	$24,942,414	$23,988,174	$ 954,240	$ -
Amortization and Impairment				
Balance—January 1, 2019	$13,293,614	$12,454,365	$ 87,875	$ 751,374
Amortization for the year	2,593,905	2,589,124	4,781	-
Disposals	(951,839)	(166,734)	(33,731)	(751,374)
Currency translation	(392,773)	(392,773)	-	-
Balance—December 31, 2019	$14,542,907	$14,483,982	$ 58,925	$ -
Balance—January 1, 2020	$14,542,907	$14,483,982	$ 58,925	$ -
Amortization for the year	2,992,171	2,987,140	5,031	-
Disposals	(454,881)	(453,431)	(1,450)	-
Currency translation	(617,701)	(617,701)	-	-
Balance—December 31, 2020	$16,462,496	$16,399,990	$ 62,506	$ -
Net Carrying Amounts				
Balance—December 31, 2019	$ 9,717,709	$ 9,269,976	$ 447,733	$ -
Balance—December 31, 2020	$ 8,479,918	$ 7,588,184	$ 891,734	$ -

21. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities at December 31, 2020 and 2019, are as follows:

	2020	2019
Other accounts payable and accrued expenses	$ 7,350,311	$ 7,162,476
Other professional services	6,525,789	5,212,346
Insurance	1,450,743	1,250,135
Office supplies	1,470,219	2,463,102
Personnel	8,044,115	9,519,970
Tax and other budget liability	7,026,386	7,447,486
Legal provision	1,355,644	1,257,397
	$33,223,207	$34,312,912

22. CLIENT DEPOSITS

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

These voluntary deposits represent the majority of the Company's savings deposits. Additionally, certain loan products are structured to require a deposit at the time the loan is made, representing an additional source of client deposits maintained by the Company.

	2020	2019
Compulsory savings/cash collateral	$ 11,127,379	$ 14,349,762
Voluntary savings:		
Saving accounts	118,415,097	104,927,922
Term deposit accounts	279,948,872	283,396,887
Other voluntary savings	37,798,772	34,907,428
Total voluntary savings	436,162,741	423,232,237
Total deposits from clients	$447,290,120	$437,581,999

23. BANK DEPOSITS

	2020	2019
Sale and repurchase agreements	$ 2,838,804	$ 2,562,348
Other deposits from banks	33,356,185	32,205,480
Items in the course of collection	254,971	262,907
Total bank deposits	$36,449,960	$35,030,735

24. NOTES PAYABLE

The Company and its Subsidiaries have two broad categories of lenders: socially responsible and commercial. The majority of the Company loans are sourced from international financial institutions supporting microfinance, but the Company has also borrowed from private sources. Interest rates paid by Subsidiaries range from six months' Karachi Interbank Offered Rate, minus 100 bps up to 25.5% floating and up to 33.9% fixed in local currencies for commercial loans in countries with high perceived risk or with depreciating currencies.

In some situations, FMH, as the intermediate parent, 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.

As of the reporting date, some Subsidiaries have breached covenants contained in financing agreements underlying these obligations. Management believes that these breaches are primarily due to recent global economic conditions which have affected the microfinance industry, 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, 2020, subsidiaries in Malawi, Tanzania, Zambia, Armenia, Georgia, Kyrgyzstan, Ecuador, Guatemala, Haiti, Nicaragua, and FMH were in breach of financial covenants regarding loans from international financial institutions amounting to $61.2 million. As of December 31, 2020, Subsidiaries had obtained formal waivers for these breaches of covenants accounting for $36.2 million. All loans for which no formal waivers were obtained are classified as current in the maturity table below. Although management has obtained formal waivers of some of these breaches or assurances from lenders that the covenants will be waived, there is no assurance that these waivers or assurances will be extended indefinitely or that performance can be brought into full compliance.

Notes payable and overdraft at December 31, 2020 and 2019, are as follows:

	2020	**2019**
Overdraft	$ 3,738,214	$ 1,666,404
Notes payable:		
Principal amount	238,148,244	305,529,813
Accrued interest	1,352,616	4,000,965
	$243,239,074	$311,197,182

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

2021	$143,128,355
2022	51,850,288
2023	12,266,927
2024	23,488,846
2025	5,525,252
Thereafter	5,574,869
	$241,834,537

The book value of notes payable and overdraft including accrued interest at December 31, 2020 and 2019, is as follows:

	2020	**2019**
Current:		
Overdraft	$ 3,738,214	$ 1,666,404
Notes payable:		
Secured	25,093,388	33,237,667
Unsecured	96,763,106	113,293,799
Collateralized borrowings	19,913,035	28,397,972
	145,507,743	176,595,842
Non-current:		
Notes payable:		
Secured	42,874,751	48,295,242
Unsecured	51,856,580	86,306,098
Collateralized borrowings	3,000,000	-
	97,731,331	134,601,340
Total notes payable and overdraft	$243,239,074	$311,197,182

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

	2020	**2019**
Balance at January 1	$311,197,182	$350,595,677
Repayments, net of proceeds	(61,615,630)	(38,941,805)
Non-cash changes		
Foreign currency translation	(4,212,253)	(419,715)
Other	(2,130,225)	(36,975)
Balance at December 31	$243,239,074	$311,197,182

25. SUBORDINATED DEBT

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

Subordinated debt totaling $26.7 million and $29.5 million consists of debt from external financial institutions to FINCA DRC, FINCA Malawi, FINCA Jordan, FINCA Georgia, FINCA Pakistan and FINCA Zambia as of December 31, 2020 and FINCA DRC, FINCA Malawi, FINCA Jordan, FINCA Georgia, FINCA Nicaragua, FINCA Pakistan and FINCA Zambia as of December 31, 2019.

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

	2020	2019
Balance at January 1	$ 29,450,292	$ 24,879,575
Proceeds, net of repayments	(3,000,000)	4,265,661
Non-cash changes		
Foreign currency translation	(292,183)	(124,560)
Other	501,752	429,616
Balance at December 31	$ 26,659,861	$ 29,450,292

26. EMPLOYEE BENEFITS

Defined Benefit Agreement—FINCA also maintains a defined senior executive retirement plan agreement (the "Agreement") for certain officers and directors, which provides benefits payable upon retirement from FINCA (no sooner than at age 65). In addition, a death benefit is payable to a surviving spouse or named beneficiary in the event of the death of the eligible officer/director. The Agreement is offered at the sole discretion of FINCA's board of directors. Currently, several key employees are enrolled in the Agreement. No changes were made to the Plan in 2020 and 2019.

The net liability of FINCA's defined benefit plan recognized at December 31, 2020 and 2019, is summarized as follows:

	2020	2019
Benefit obligation—beginning of year	$ 3,376,231	$ 3,097,712
Service cost	163,050	80,296
Interest cost	-	129,123
Actuarial loss	283,567	206,210
Settlement	-	-
Net employer benefits paid	(618,350)	(137,110)
Benefit obligation—end of year	$ 3,204,498	$ 3,376,231

The change in plan assets at December 31, 2020 and 2019, is summarized as follows:

	2020	2019
Fair value of assets—beginning of year	$ -	$ -
Employee contributions	-	-
Employer contributions	618,350	137,110
Settlements	-	-
Benefits paid	(618,350)	(137,110)
Fair value of assets—end of year	$ -	$ -

The entire balance of the defined benefit obligation at December 31, 2020 and 2019 is unfunded.

The amounts recognized in comprehensive income/(loss) related to FINCA's defined benefit plan at December 31, 2020 and 2019, are summarized as follows:

	2020	2019
Service costs:		
Current service cost	$ 73,786	$ 80,296
Past service cost	-	-
Settlement gain	-	-
Interest cost	89,264	129,123
Defined benefit cost recognized in profit/loss	163,050	209,419
Remeasurements:		
Actuarial losses/(gains) arising from experience adjustments	32,644	25,250
Actuarial losses/(gains) arising from financial adjustments	281,806	385,423
Other	(30,883)	(204,463)
Defined benefit cost recognized in other comprehensive income	283,567	206,210
Total defined benefit cost recognized in comprehensive income (loss)	$ 446,617	$ 415,629

Weighted-average assumptions used to determine benefit obligations at December 31, 2020 and 2019, are as follows:

	2020	2019
Discount rate	2.1 %	2.9 %

Weighted-average assumptions used to determine net period pension cost for the years ended December 31, 2020 and 2019, are as follows:

	2020	**2019**
Discount rate	2.9 %	4.3 %

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	
2021	$164,728
2022	199,185
2023	195,470
2024	191,490
2025	187,240
In aggregate for five fiscal years thereafter	864,040

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

Investment Risk—The present value of the defined benefit plan liability is calculated using the discount rate derived from discounting projected future cash flows for the Plan using the Financial Times Stock Exchange (FTSE) Pension Discount Curve and Liability Index for December 2020 and the expected benefit payments from the Plan.

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

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

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

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

27. COMMITMENTS AND CONTINGENCIES

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

statements could have a material effect on the Company’s financial position. Application of these accounting principles to legal cases requires Company management to make a determination about various factual and legal matters beyond its control. The Company has outstanding legal cases, makes assessments of the legal proceedings at each reporting date, and makes a determination as to their status, in order to assess the need for provisions and disclosures in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim, or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim, or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements, but before those consolidated statements are issued), the opinions or views of legal advisers, experience on similar cases, and any decision of the Company’s management as to how it will respond to the litigation, claim, or assessment. As of December 31, 2020 and 2019, there are no material legal contingencies.

In a significant portion of the business locations where the Company operates, the operating lease agreements are negotiated on a month-to-month or year by year basis and are in line with general rental market conditions. At December 31, 2020, future minimum lease payments are for existing short-term and low value lease contracts. Future minimum lease payments for existing short-term and low value lease contracts were $0.08 million for the years ended December 31, 2020 and 2019.

Rent expense was $0.9 million and $1.2 million for years ended December 31, 2020 and 2019.

FMH, the intermediate parent, issues guarantees to the third parties on behalf of one Subsidiary. The issued guarantees serve to secure the main liability outstanding to the institutions in question against default on principal payments. Total exposures related to loan guarantees provided were $6.4 million and $7.2 million at December 31, 2020 and 2019, respectively.

There are no other contingent assets, contingent liabilities, and capital commitments at December 31, 2020 and 2019.

28. FINCA ENTITIES

Through its headquarters, foreign representative offices and branches, controlled subsidiaries, and affiliates, FINCA operates in 24 countries. All subsidiaries are controlled by FINCA directly or indirectly through FMH. The microfinance operating subsidiaries and controlled affiliates of FINCA at the end of the reporting period are listed below:

Americas	
Ecuador	Banco para la Asistencia Comunitaria, FINCA S.A. Joint Stock Company
Guatemala	Fundación Internacional para la Asistencia Comunitaria de Guatemala Foundation
Haiti	FINCA HAITI Non-Governmental Organization
	FINCA Haiti. S.A.
Honduras	Sociedad Financiera FINCA Honduras, S.A. Joint Stock Company
	Fundación Internacional para la Asistencia Comunitaria de Honduras Not-for-profit Organization
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 SA, avec Conseil d'Administration
Malawi	FINCA Limited Company Limited by Shares
Nigeria	FINCA Microfinance Bank Limited
Tanzania	FINCA Tanzania Limited Company Limited by Shares
Uganda	Foundation for International Community Assistance Uganda Limited Company Limited by Shares
Zambia	Foundation for International Community Assistance-Zambia Limited Company Limited by Shares
Eurasia	
Armenia	FINCA Universal Credit Organization Closed Joint Stock Company
Azerbaijan	FINCA Azerbaijan Limited Liability Company
Georgia	JSC FINCA Bank Georgia Closed Joint Stock Company
Kosovo	FINCA International, Inc. (Branch)
Kyrgyzstan	FINCA Bank Closed Joint Stock Company
Tajikistan	FINCA Micro-Credit Deposit Organization Limited Liability Company
Middle East	
Jordan	FINCA Jordan Specialized Micro Loans Company
Afghanistan	FINCA Afghanistan Joint Stock Company Limited by Shares
Pakistan	FINCA Microfinance Bank Ltd.
Nonmicrofinance Subsidiaries	
Netherlands	FINCA Network Support Services BV.
	FINCA Microfinance Cooperatief U.A.
USA	FINCA Microfinance Holdings Company LLC
	FINCA Services USA LLC
	FINCA Microfinance Global Services LLC
	FINCA International LLC
	FINCA Plus LLC
Mexico	Fundación Integral Comunitaria, AC Civil Association
Charitable Affiliates	
United Kingdom	FINCA UK
Canada	FINCA Canada

On January 31, 2020 responsAbility Global Microfinance Fund, Luxembourg sold its membership interest of 2,581 shares for $2M to FINCA. Non-controlling members of FMH hold 34.11% and 37.07% of shares and voting rights as of December 31, 2020 and 2019, respectively. Assets and liabilities attributable to FMH non-controlling members are $356.3 million and $285.2 million as of December 31, 2020 and $424.4 million and $335.9 million as of December 31, 2019. Net income/(loss) attributable to non-controlling members of FMH is $(7.1) million and $2.9 million for the years 2020 and 2019, respectively. Accumulated net income/(loss) is $(1.5) million and $1.0 million as of December 31, 2020 and 2019, respectively.

Non-controlling interest is attributable to Non-controlling shareholders of FINCA Microfinance Bank Ltd. (Pakistan) holding 13.6% of shares and voting rights as of December 31, 2020. Assets and liabilities attributable to non-controlling interests are $32.7 million and $29.5 million, and $32.2 million and $31.4 million, as of December 31, 2020 and 2019, respectively. Net loss and accumulated net income for the year ended December 31, 2020 is ($0.04) million and $3.66 million, and net income and accumulated net income for the year ended December 31, 2019 is $0.3 million and $3.7 million.

29. RELATED PARTIES

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

Senior Management Compensation—Total compensation paid to the senior management of the Company for the years ended December 31, 2020 and 2019, amounted to:

	2020	2019
Short-term benefits	$2,365,490	$1,740,315
Post employment benefits	210,336	210,777
	$2,575,826	$1,951,092

30. SUBSEQUENT EVENTS

On July 7, 2021, FMH's wholly-owned subsidiary, FINCA Microfinance Cooperatief U.A. (the "Coop"), sold 100% of its holdings in FINCA Georgia for $13.9 million. The subsidiary's total assets as of June 30, 2021 was $93.9 million and total liabilities was $77.5 million.

On May 3, 2021, the Coop entered into a share purchase agreement to sell its subsidiary operations in Zambia. The sale remains subject to regulatory approval and satisfaction of relevant conditions in the purchase agreement. Subject to the satisfaction of these conditions to the sale, upon the effective date, the assets and liabilities of the subsidiary will be assumed by the applicable buyer in consideration for the sale.

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SUPPLEMENTAL SCHEDULES AND NOTES TO SUPPLEMENTAL SCHEDULES

FINCA INTERNATIONAL, INC.

SUPPLEMENTAL SCHEDULE—CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Services	General & Administrative	Fundraising	Total
Salaries and direct benefits	$ 85,700,645	$ 420,863	$ 901,305	$ 87,022,813
Fringe benefits	16,661,587	404,096	206,876	17,272,559
Interest expense	67,728,793	83,866	38,707	67,851,366
Impairment losses on financial instruments	52,593,059	-	-	52,593,059
Depreciation and amortization expense	18,143,478	260,196	120,091	18,523,765
Professional fees	13,959,215	371,460	980,031	15,310,706
Rent/Utilities	3,116,758	(37,399)	(18,130)	3,061,229
Travel	4,907,216	15,005	17,212	4,939,433
Consumables and Office supply	3,737,311	23,561	1,346,877	5,107,749
Communications	5,604,670	42,542	5,960	5,653,172
Taxes other than income	3,426,047	5,177	2,389	3,433,613
Security	4,548,563	-	-	4,548,563
License/memberships/meetings	3,983,469	118,841	76,009	4,178,319
Marketing	2,502,302	79,865	98,542	2,680,709
Repairs and maintenance	3,055,893	-	-	3,055,893
Training and hiring	1,265,764	21,559	17,772	1,305,095
Bank charges	1,561,101	12,107	76,601	1,649,809
Motor vehicle expenses	1,393,667	-	-	1,393,667
Insurance	1,622,475	27,598	11,742	1,661,815
Other expenditures	3,231,464	18,412	10,644	3,260,520
Total operating expenses	$ 298,743,477	$ 1,867,749	$ 3,892,628	$ 304,503,854

FINCA INTERNATIONAL, INC.

NOTE TO SUPPLEMENTAL SCHEDULE—CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

1. FUNCTIONAL EXPENSES

The costs of providing program and supporting services are summarized on a functional basis in the consolidated schedule of functional expenses. In the absence of guidance under IFRS, FINCA has adopted FASB Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-For-Profit Entities, for the allocation of general and administrative (G&A) as well as joint costs between programs, fundraising and G&A. Operating costs that are specifically identifiable with the administration of the program are charged to the program. To the extent these costs are not directly attributable to a specific functional area, they are allocated across program services, fundraising, and G&A. Management determines such expense allocations by reviewing FINCA's business areas for the proportional benefit to each function. These allocations are based on time and effort spent, or by activities through evaluating departmental focus.

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 activities include FINCA's services to provide the necessary support and strategy management of the overall FINCA programs.

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

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FINCA INTERNATIONAL, INC.

SUPPLEMENTAL SCHEDULE — COMBINED SCHEDULE OF TEMPORARY RESTRICTED NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2020

	January 1, 2020	Contributions	Released	December 31, 2020
FINCA Plus	$ 69,078	$ 410,699	$ (354,630)	$ 125,147
Clifford Chance Foundation (CAF)	22,421	-	(58,409)	(35,988)
Clifford Chance Foundation (CAF)	100,000	-	-	100,000
Clifford Chance Foundation (CAF)	75,000	-	(21,750)	53,250
FINCA ventures	505,599	21,600	(234,224)	292,975
Haiti	224,679	-	(129,478)	95,201
Malawi	-	800	(800)	-
Uganda	55,728	17,348	(68,828)	4,248
Zambia	-	3,610	(3,610)	-
Ramsey	50,000	-	(10,000)	40,000
Other	141,241	198,211	(301,097)	38,355
Total	$ 1,243,746	$ 652,268	$ (1,182,826)	$ 713,188

FINCA INTERNATIONAL, INC.

NOTE TO SUPPLEMENTAL SCHEDULE—COMBINED SCHEDULE OF TEMPORARY RESTRICTED NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2020

1. COMBINED TEMPORARY RESTRICTED NET ASSETS

Temporary restricted net assets are the net assets of FINCA International and FINCA UK that have a special restriction that was imposed by the donor. When a donor's restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporary restricted net assets are released and reclassified out of temporary restricted net assets.

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