

# FINCA International, Inc.

Consolidated Financial Report  
December 31, 2008

**McGladrey & Pullen**  
Certified Public Accountants

## Contents

---

<b>Independent Auditor's Report</b>	1
<hr/>	
<b>Financial Statements</b>	
Consolidated Balance Sheets	2
Consolidated Statements Of Income	3
Consolidated Statements Of Changes In Equity	4
Consolidated Statements Of Cash Flows	5
<b>Notes To Consolidated Financial Statements</b>	6 – 40

---

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
FINCA International, Inc.  
Washington, D.C.

We have audited the accompanying consolidated balance sheets of FINCA International, Inc. (FINCA) as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, as well as a summary of significant accounting policies and other explanatory information. These financial statements are the responsibility of FINCA's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of FINCA's international affiliates, whose statements reflect total assets and revenues constituting 76% and 85%, respectively, of the related totals as of and for the year ended December 31, 2008, as well as 39% and 46%, respectively, of the related totals as of and for the year ended December 31, 2007. Except for 1.9% of assets and 1.7% of revenue that were not audited, those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as they relate to the amounts included for FINCA, is based solely on the reports of the other auditors.

We conducted our audits in accordance with International Standards on Auditing and 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement preparation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding the affiliates that were not audited, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of FINCA International, Inc. as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As disclosed in Note 3 to the financial statements, FINCA has restated its 2007 financial statements to report effective interest method implementation, accrual of expenses, IFRS conversion of an affiliate and consolidation of certain affiliates, in accordance with IFRS.

*McGladrey & Pullen, LLP*

Gaithersburg, Maryland  
July 17, 2009

FINCA International, Inc.

Consolidated Balance Sheets  
December 31, 2008 And 2007

<b>Assets</b>	Notes	2008	2007 (Restated)
Cash and cash equivalents	12	\$ 66,277,887	\$ 54,244,249
Investments	14	3,097,368	5,515,521
Loans Receivable, net	13	342,400,798	279,679,822
Grants Receivable, net		3,569,945	7,399,414
Other Receivables	17	7,676,245	6,642,045
Prepaid and Other Assets	18	8,225,723	6,110,405
Property and Equipment, net of accumulated depreciation	15	15,388,094	11,268,816
Intangible Assets, net	16	4,266,115	1,446,955
		<u>\$ 450,902,175</u>	<u>\$ 372,307,227</u>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Accounts payable		\$ 16,906,838	\$ 9,798,838
Other liabilities	22	19,382,049	14,370,363
Customer deposits and cash collateral	19	13,518,554	12,746,970
Notes payable	21	262,856,117	198,949,977
Refundable advances	20	9,011,557	9,563,998
Deferred compensation agreement	23	2,450,857	1,656,325
		<u>324,125,972</u>	<u>247,086,471</u>
<b>Equity</b>			
Reserves		7,879,999	7,612,271
Retained earnings		119,930,270	111,618,867
Currency translation adjustment (deficit)		(1,034,066)	5,989,618
<b>Total equity</b>		<u>126,776,203</u>	<u>125,220,756</u>
		<u>\$ 450,902,175</u>	<u>\$ 372,307,227</u>

See Notes to Consolidated Financial Statements.

FINCA International, Inc.

Consolidated Statements of Income  
Years Ended December 31, 2008 and 2007

	Notes	2008	2007 (Restated)
Interest income	7	\$ 142,614,071	\$ 97,511,913
Interest expense	7	24,969,398	14,093,204
<b>Net interest income before provision for impairment losses</b>		<b>117,644,673</b>	<b>83,418,709</b>
Impairment losses on loans		7,243,840	5,326,574
<b>Net interest income</b>		<b>110,400,833</b>	<b>78,092,135</b>
Fee and commission income		8,443,868	6,260,476
Other operating income		3,887,813	2,044,720
<b>Operating income</b>		<b>122,732,514</b>	<b>86,397,331</b>
Personnel expenses	8	78,100,677	53,514,984
Other operating expenses	9	55,855,040	40,931,355
Depreciation and amortization		4,347,213	2,886,815
		<b>138,302,930</b>	<b>97,333,154</b>
<b>Loss before income tax and other income (expenses)</b>		<b>(15,570,416)</b>	<b>(10,935,823)</b>
Income tax expense	10	2,109,861	1,758,953
<b>Loss before other income (expenses)</b>		<b>(17,680,277)</b>	<b>(12,694,776)</b>
Other income (expenses):			
Grants	11	12,667,980	12,902,633
Donations	11	18,572,308	19,628,185
Other non-operating income		736,833	1,298,290
Foreign exchange gain (loss)		(4,795,278)	797,367
Non-operating expenses		(922,435)	(618,077)
<b>Net other income (expenses)</b>		<b>26,259,408</b>	<b>34,008,398</b>
<b>Profit for the year</b>		<b>\$ 8,579,131</b>	<b>\$ 21,313,622</b>

See Notes to Consolidated Financial Statements.

FINCA International, Inc.

Consolidated Statements of Changes in Equity  
Years Ended December 31, 2008 and 2007

	Reserves	Retained Earnings	Cumulative Translation Adjustment (Deficit)	Total
Balance, December 31, 2006	\$ 556,007	\$ 98,100,048	\$ 850,286	\$ 99,506,341
Profit for the year	-	24,100,536	-	24,100,536
Foreign currency movement during year	-	-	1,427,063	1,427,063
Transfer to reserve	5,218,441	(5,218,441)	-	-
Donated capital	4,657,469	-	-	4,657,469
	<u>9,875,910</u>	<u>18,882,095</u>	<u>1,427,063</u>	<u>30,185,068</u>
Balance, December 31, 2007, as previously reported	\$ 10,431,917	\$ 116,982,143	\$ 2,277,349	\$ 129,691,409
Adjustments applicable to the year ended December 31, 2007 (Note 3)				
Accounting policy application adjustments	-	(2,005,529)	-	(2,005,529)
Consolidation adjustments	(2,982,323)	(4,882,497)	3,712,269	(4,152,551)
IFRS conversion adjustments	-	1,366,687	-	1,366,687
Transfer to reserve	162,677	(162,677)	-	-
Tax effect on adjustments	-	320,740	-	320,740
	<u>(2,819,646)</u>	<u>(5,363,276)</u>	<u>3,712,269</u>	<u>(4,470,653)</u>
Balance, December 31, 2007, as restated	\$ 7,612,271	\$ 111,618,867	\$ 5,989,618	\$ 125,220,756
Profit for the year	-	8,579,131	-	8,579,131
Foreign currency movement during year	-	-	(7,023,684)	(7,023,684)
Transfer to reserve	267,728	(267,728)	-	-
	<u>267,728</u>	<u>8,311,403</u>	<u>(7,023,684)</u>	<u>1,555,447</u>
Balance, December 31, 2008	\$ <u>7,879,999</u>	\$ <u>119,930,270</u>	\$ <u>(1,034,066)</u>	\$ <u>126,776,203</u>

See Notes to Consolidated Financial Statements.

FINCA International, Inc.

Consolidated Statements of Cash Flows  
Years Ended December 31, 2008 and 2007

	2008	2007 (Restated)
<b>Cash Flows From Operating Activities</b>		
Profit for the year	\$ 8,579,131	\$ 21,313,622
Adjustments for:		
Depreciation and amortization	4,347,213	2,886,815
Impairment on financial assets	7,243,840	5,326,574
Interest revenue	(142,614,071)	(97,511,913)
Interest expense	24,969,398	14,093,204
Income tax expense	2,109,861	1,758,953
Foreign exchange gains (losses)	(4,795,278)	797,367
	<u>(100,159,906)</u>	<u>(51,335,378)</u>
Change in working capital:		
Change in loans receivable	(56,917,954)	(102,868,343)
Change in grants receivable	3,829,469	(642,218)
Change in other receivables and other assets	(3,149,520)	(4,175,855)
Change in trading liabilities	7,108,000	434,155
Change in customer deposits	771,585	2,928,767
Change in refundable advances	(552,441)	2,689,746
Change in other liabilities	5,806,219	8,312,155
	<u>(43,104,642)</u>	<u>(93,321,593)</u>
Cash used in operations	<u>(143,264,548)</u>	<u>(144,656,971)</u>
Interest received	132,105,746	88,008,923
Interest paid	(24,721,842)	(15,148,841)
Income taxes paid	(2,288,052)	(2,045,918)
<b>Net cash used in operations</b>	<u>(38,168,696)</u>	<u>(73,842,807)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(2,418,154)	(3,639,443)
Purchase of property and equipment	(8,466,492)	(6,593,607)
Purchase of intangibles	(2,819,160)	(1,446,955)
<b>Net cash used in investing activities</b>	<u>(13,703,806)</u>	<u>(11,680,005)</u>
<b>Cash Flows From Financing Activities</b>		
Loans received from lenders	108,728,964	93,748,977
Principal payment of loans and borrowings to lenders	(33,463,887)	(19,346,114)
<b>Net cash provided by financing activities</b>	<u>75,265,077</u>	<u>74,402,863</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	23,392,575	(11,119,949)
<b>Cash and Cash Equivalents</b>		
Beginning	54,244,249	59,374,580
Cumulative translation adjustment	(11,358,937)	5,989,618
Ending	<u>\$ 66,277,887</u>	<u>\$ 54,244,249</u>

See Notes to Consolidated Financial Statements.

**Notes to Consolidated Financial Statements**

---

**Note 1. Nature of Activities**

FINCA International, Inc. (FINCA or FINCA International) is a not-for-profit corporation, incorporated in New York, United States of America, 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 International provides financial services to poor entrepreneurs in the developing world so that they can create jobs, build assets and improve their standard of living. FINCA's headquarters are located in Washington, D.C.

At present, FINCA operates in 21 developing countries in Latin America (Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico and Nicaragua), Africa (Democratic Republic of the Congo, Malawi, Tanzania, Uganda and Zambia), Eurasia (Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyzstan, Russia and Tajikistan), and the Middle East (Afghanistan and Jordan), reaching over 725,000 clients. FINCA's geographic reach is among the widest of the leading microfinance networks. FINCA operates through local entities (Affiliates) that are owned and/or controlled by FINCA, including predominantly corporations, and in some cases non-governmental organizations or branches of FINCA International. Each of our Affiliates is managed by senior managers who are typically selected by FINCA International and assigned to the programs. These senior managers are responsible for day-to-day operations in their countries, as well as for longer term development initiatives. Each of our regions is overseen by FINCA International Regional Directors in offices located in each region.

FINCA principally provides small loans to individuals and to groups of individuals that lack access to traditional financial institutions. Small loans support individual or community productive microenterprises, such as a market stand, a repair shop, or a small cafe. In most cases, our loans are made to groups of individuals organized by FINCA and referred to as Village Banks. These groups, consisting of individuals that know each other, guarantee each other's loans and provide a network of support for the group members. Individual loans, typically larger in size, are made where individual small businesses demonstrate adequate need and creditworthiness. In some cultures, FINCA clients may be more accustomed to operating independently. The majority of FINCA clients worldwide are women (by number of clients), who often lack the ability to secure employment and who, in many cultures, are the primary providers for a family. FINCA's loans are a renewable resource, which can improve the economy of an entire community. A loan is borrowed, invested, and repaid, after which it can be used to stimulate yet another fledgling business. FINCA loans circulate throughout low-income communities until their effect is multiplied many times. FINCA operates on a twin bottom line approach of sustainability and social outreach.

In addition to loans, FINCA provides in a growing number of its countries of operations other financial services needed by the working poor, including savings deposits, remittances and microinsurance. Each of these products helps protect FINCA clients, who typically have little or no margin to sustain themselves or their businesses in a crisis. FINCA believes that world hunger and poverty cannot be cured simply by food handouts and grants. World hunger and poverty can be permanently and positively mitigated by self-help and self-sufficiency of the poor.

FINCA has grown significantly and anticipates continued demand for its products. In order to expand its outreach and increase the range of products to its clients, FINCA is transforming all of its programs into commercial corporate forms, while limiting their purpose to FINCA's charitable mission of poverty alleviation through microfinance. This step, including financial regulation as banks or non-bank financial institutions in many countries, will be necessary to permit FINCA Affiliates to offer additional services. In addition, these forms are planned to enhance the ability to attract funding and support needed for growth and infrastructure development. At present, nearly one-half of the Affiliates are subject to financial regulation; a majority is already organized as stock corporations. As conditions and resources permit, FINCA also anticipates establishing programs in additional countries.

## Notes to Consolidated Financial Statements

---

### Note 2. Basis of Presentation

Statement of compliance: The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board in force at December 31, 2008 as well as all interpretations issued by the International Financial Reporting Interpretations Committee in force at December 31, 2008.

In preparing these consolidated financial statements, FINCA has adopted IFRS 7, *Financial Instruments: Disclosures* and IAS 1, *Presentation of Financial Statements – Capital Disclosures*. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these consolidated financial statements, but had no impact on the reported profits or financial position of FINCA. In accordance with the transitional requirements of the standards, FINCA has provided full comparative information.

The consolidated financial statements were approved by the Board of Directors on June 8, 2009.

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

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

Functional and presentation currency: These consolidated financial statements are presented in U.S. dollars, which is FINCA's functional currency.

Use of estimates and judgments: The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in Notes 4 and 5.

### Note 3. Correction Of Prior Year

In the course of the preparation of FINCA's 2008 consolidated financial statements, management identified certain errors with respect to the 2007 consolidated financial statements. As a result, FINCA has restated its 2007 consolidated financial statements related to misapplication of IFRS for accrual of expenses, application of the effective interest method, IFRS conversation of an affiliate and consolidation of certain affiliates.

FINCA International, Inc.

Notes to Consolidated Financial Statements

Note 3. Correction Of Prior Year (Continued)

The following information presents the impact of the restatements on FINCA's 2007 consolidated financial statements.

<b>Assets</b>	Restated	Adjustment	Previously Reported
Cash And Cash Equivalents	\$ 54,244,249	\$ (173,529)	\$ 54,417,778
Investments	5,515,521	(222,031)	5,737,552
Loans Receivable, net	279,679,822	2,874,732	276,805,090
Grants Receivable, net	7,399,414	-	7,399,414
Other Receivable	6,642,045	1,906,518	4,735,527
Prepaid And Other Assets	6,110,405	(520,669)	6,631,074
Property And Equipment, net of accumulated depreciation	11,268,816	(158,609)	11,427,425
Intangible Assets, net	1,446,955	1,446,955	-
	<u>\$ 372,307,227</u>	<u>\$ 5,153,367</u>	<u>\$ 367,153,860</u>
<b>Liabilities</b>			
Accounts Payable	\$ 9,798,838	\$ (1,038,288)	\$ 10,837,126
Other Liabilities	14,370,363	8,815,004	5,555,359
Customer Deposits And Cash Collateral	12,746,970	-	12,746,970
Notes Payable	198,949,977	1,847,304	197,102,673
Refundable Advances	9,563,998	-	9,563,998
Deferred Compensation Agreement	1,656,325	-	1,656,325
	<u>247,086,471</u>	<u>9,624,020</u>	<u>237,462,451</u>
<b>Equity</b>			
Reserves	7,612,271	(2,819,646)	10,431,917
Retained earnings	111,618,867	(5,363,276)	116,982,143
Currency translation adjustments	5,989,618	3,712,269	2,277,349
<b>Total equity</b>	<u>125,220,756</u>	<u>(4,470,653)</u>	<u>129,691,409</u>
	<u>\$ 372,307,227</u>	<u>\$ 5,153,367</u>	<u>\$ 367,153,860</u>

FINCA International, Inc.

Notes to Consolidated Financial Statements

Note 3. Correction of Prior Year (Continued)

	Restated	Adjustment	Previously Reported
Interest income	\$ 97,511,913	\$ 2,535,900	\$ 94,976,013
Interest expense	14,093,204	528,509	13,564,695
<b>Net interest income before provision for impairment losses</b>	<b>83,418,709</b>	<b>2,007,391</b>	<b>81,411,318</b>
Impairment losses on loans, net of recoveries	5,326,574	(252,727)	5,579,301
<b>Net interest income</b>	<b>78,092,135</b>	<b>2,260,118</b>	<b>75,832,017</b>
Fee and commission income	6,260,476	(469,809)	6,730,285
Other operating income	2,044,720	(2,406,746)	4,451,466
<b>Operating income</b>	<b>86,397,331</b>	<b>(616,437)</b>	<b>87,013,768</b>
Personnel expenses	53,514,984	342,710	53,172,274
Operating expenses	40,931,355	1,964,376	38,966,979
Depreciation and amortization	2,886,815	-	2,886,815
	<b>97,333,154</b>	<b>2,307,086</b>	<b>95,026,068</b>
<b>Loss before income tax and other income (expenses)</b>	<b>(10,935,823)</b>	<b>(2,923,523)</b>	<b>(8,012,300)</b>
Income tax	1,758,953	(95,269)	1,854,222
<b>Loss before other income (expenses)</b>	<b>(12,694,776)</b>	<b>(2,828,254)</b>	<b>(9,866,522)</b>
Other income (expenses):			
Grants	12,902,633	-	12,902,633
Donations	19,628,185	-	19,628,185
Other non-operating income	1,298,290	56,428	1,241,862
Foreign exchange gain (loss)	797,367	(15,088)	812,455
Non-operating expenses	(618,077)	-	(618,077)
<b>Net other income (expenses)</b>	<b>34,008,398</b>	<b>41,340</b>	<b>33,967,058</b>
<b>Profit for the year</b>	<b>\$ 21,313,622</b>	<b>\$ (2,786,914)</b>	<b>\$ 24,100,536</b>

Notes to Consolidated Financial Statements

---

**Note 4. Significant Accounting Policies**

The consolidated financial statements of FINCA are prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB), and stated in U.S. dollars (USD), the currency of the United States, where FINCA is incorporated. In the year ended December 31, 2007, FINCA adopted for the first time IFRS as the accounting basis related to its operations. Consequently, the comparative financial statements for the year ended December 31, 2008, have been prepared in accordance with those standards.

Basis of consolidation:

Affiliates: Affiliates are entities controlled by FINCA. Control exists when FINCA has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of Affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated in consolidation: Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign currency:

Foreign currency transactions: Transactions in foreign currencies are translated to the respective functional currencies of FINCA entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

Foreign operations: The assets and liabilities of foreign operations are translated to dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized directly in equity. Since January 1, 2007, FINCA's date of transition to IFRS, such differences have been recognized in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

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

These disclosures supplement the commentary on financial risk management (See Note 5).

## Notes to Consolidated Financial Statements

---

### Note 4. Significant Accounting Policies (Continued)

#### Key sources of estimation uncertainty:

Allowances for credit losses: 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 Credit Risk function.

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

Determining fair values: The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying FINCA's accounting policies: Critical accounting judgments made in applying FINCA's accounting policies include:

Financial asset liability classification: FINCA's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as trading, FINCA has determined that it meets the description of trading assets and liabilities.
- In designating financial assets or liabilities at fair value through profit or loss, FINCA has determined that it has met one of the criteria for this designation.

Net interest income: Interest income and expense are recognized in the statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

## Notes to Consolidated Financial Statements

---

### Note 4. Significant Accounting Policies (Continued)

Net interest income (continued): Interest income and expense presented in the statements of income include:

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

Fair value changes on other financial assets and liabilities carried at fair value through profit or loss are presented in net income on other financial instruments carried at fair value in the statements of income.

Fee and commission income and other operating income: Fee and commission income are recognized on an accrual basis when the service has been provided.

Non-operating income: Grant revenue is recognized when there is reasonable assurance that FINCA has complied with the terms and conditions associated with the grant. Donations received are recorded as revenue when the amount can be reliably measured and there is reasonable assurance that it will be received.

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

Income tax expense: FINCA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; however, income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business income. FINCA qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation. However, some of the foreign operations of FINCA 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 statements of income, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is 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 they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Notes to Consolidated Financial Statements

---

**Note 4. Significant Accounting Policies (Continued)**

Income tax expense (continued): A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

Financial assets and liabilities:

Recognition: FINCA initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which FINCA becomes a party to the contractual provisions of the instrument.

FINCA derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by FINCA is recognized as a separate asset or liability.

FINCA derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

FINCA also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible (See Note 5).

Offsetting: Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, FINCA has a legal right to set off 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.

Amortized cost measurement: The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement: The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. FINCA uses widely recognized valuation models for determining the fair value of common, simpler financial instruments, like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

Notes to Consolidated Financial Statements

---

Note 4. Significant Accounting Policies (Continued)

Financial assets and liabilities (continued):

Fair value measurement (continued): For more complex instruments, FINCA uses proprietary models, which are usually developed from recognized valuation models. Some or all of the inputs into these models may not be market observable and are derived from market prices, or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is initially recognized at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value, usually an increase, indicated by valuation techniques is recognized in income, depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the balance sheet.

Identification and measurement of impairment: At each balance sheet date, FINCA assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be reliably estimated.

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

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

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

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

Notes to Consolidated Financial Statements

---

Note 4. Significant Accounting Policies (Continued)

Financial assets and liabilities (continued):

Designation at fair value through profit or loss: FINCA has designated financial assets and liabilities at fair value through profit or loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

Cash and cash equivalents are carried at amortized cost in the consolidated balance sheet.

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Investments: Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Held-to-maturity: Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that FINCA has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent FINCA from classifying investment securities as held-to-maturity for the current year and the following two financial years.

Fair value through profit or loss: FINCA carries some investment securities at fair value, with fair value changes recognized immediately in profit or loss.

Available-for-sale: Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. All other available-for-sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized directly in equity, until the investment is sold or impaired and the balance in equity is recognized in profit or loss.

Notes to Consolidated Financial Statements

---

Note 4. Significant Accounting Policies (Continued)

Property and equipment:

Recognition and measurement: Items of property and equipment are measured at cost, less accumulated depreciation and 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.

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

Depreciation: Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term or their useful lives. Land is not depreciated.

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

Impairment of non-financial assets: The carrying amounts of FINCA's non-financial assets are reviewed on an annual basis to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

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 profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Notes to Consolidated Financial Statements

---

**Note 4. Significant Accounting Policies (Continued)**

Provisions: A provision is recognized if, as a result of a past event, FINCA has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when FINCA has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognized when the expected benefits to be derived by FINCA from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, FINCA recognizes any impairment loss on the assets associated with that contract.

Capital requirements: As a tax-exempt organization, FINCA manages its capital structure with the purpose of continuing operations. No other capital requirements apply to FINCA.

Employee benefits:

Defined benefit plans: FINCA's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date approximating the terms of FINCA's obligations. The calculation is performed by a qualified actuary.

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

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

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

Notes to Consolidated Financial Statements

---

Note 4. Significant Accounting Policies (Continued)

Employee benefits (continued):

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

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

New standards and interpretations not yet adopted: A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2008, and have not been applied in preparing these consolidated financial statements:

- IFRS 8, *Operating Segments*, introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for FINCA's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by FINCA's Chief Operating Decision Maker, in order to assess each segment's performance and to allocate resources to them. Currently, FINCA presents segment information with respect to its business and geographical segments.
- Revised IAS 23, *Borrowing Costs*, removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for FINCA's 2009 consolidated financial statements and will constitute a change in accounting policy for FINCA. In accordance with the transitional provisions, FINCA will apply the revised IAS 23 to qualifying assets, for which capitalization of borrowing costs commences on or after the effective date. Therefore, there will be no impact on prior periods in FINCA's 2009 consolidated financial statements.
- IFRIC 13, *Customer Loyalty Programmes*, addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes, under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for FINCA's 2009 consolidated financial statements, is not expected to have any impact on the consolidated financial statements.
- Revised IAS 1, *Presentation of Financial Statements (2007)*, introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of income and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for FINCA's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. FINCA plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

Notes to Consolidated Financial Statements

---

Note 4. Significant Accounting Policies (Continued)

New standards and interpretations not yet adopted (continued):

- Amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity, if certain conditions are met. The amendments, which become mandatory for FINCA's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.
- Revised IFRS 3, *Business Combinations* (2008), incorporates the following changes that are likely to be relevant to FINCA's operations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value, with the gain or loss recognized in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for FINCA's 2010 consolidated financial statements, will be applied prospectively and therefore, there will be no impact on prior periods in FINCA's 2010 consolidated financial statements.

- Amended IAS 27, *Consolidated and Separate Financial Statements* (2008), requires accounting for changes in ownership interests by FINCA in a subsidiary, while maintaining control, to be recognized as an equity transaction. When FINCA loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value, with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for FINCA's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- IAS 39: *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets* (as revised in 2008). This amendment is effective 1 July 2008. It permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. Moreover, this amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. This amendment is not expected to have a significant impact on the consolidated financial statements.

Notes to Consolidated Financial Statements

---

Note 4. Significant Accounting Policies (Continued)

New standards and interpretations not yet adopted (continued):

- Amendment to IFRS 2, *Share-based Payment – Vesting Conditions and Cancellations*, clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value, and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for FINCA's 2009 consolidated financial statements, with retrospective application. FINCA has not yet determined the potential effect of the amendment.
- IASB's annual improvements project (revisions to various standards issued in 2008) (The effective date varies depending on the amendment, but in any case is not before 1 January 2009). The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRS and involves various IFRS. These amendments are divided in two macro categories: 1) amendments that result in accounting changes for presentation, recognition or measurement purposes and 2) amendments to terminology or editorial changes only, which should have no or minimal effect on accounting. Standards affected included in category 1 are the following: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 19 Employee Benefits, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 23 Borrowing Costs, IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 36 Impairment of Assets, IAS 38 Intangible Assets, IAS 39 Financial Instruments: Recognition and Measurement, IAS 40 Investment Property, IAS 41 Agriculture. Standards affected included in category 2 are the following IFRS 7 Financial Instruments: Disclosures, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 10 Events after the Reporting Period, IAS 18 Revenue, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 34 Interim Financial Reporting, IAS 40 Investment Property, IAS 41 Agriculture)

## Notes to Consolidated Financial Statements

---

### Note 5. Financial Risk Management

FINCA's risk exposure from its use of financial instruments includes the following:

- Credit risk
- Liquidity risk
- Market risks
  - Interest rate risk
  - Foreign exchange risk
- Operational risks

The management of these risks is an essential element of FINCA's operations.

Risk management framework: The Board of Directors has overall responsibility for the establishment and oversight of FINCA's risk management framework.

FINCA's risk management policies are established to identify and analyze the risks faced by FINCA, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. FINCA, through its training and management standards and procedures, strives to have a disciplined and constructive control environment, in which all employees understand their roles and obligations.

FINCA's Audit Committee, on behalf of the Board of Directors, is responsible for monitoring compliance with FINCA's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by FINCA. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

FINCA's Board of Directors has also established an Asset Liability Committee (ALCO), with a charter and framework for the Consolidated Company. Affiliate Boards within FINCA have established a similar ALCO charter and framework at the Affiliate level. ALCO is the management forum responsible for monitoring compliance with FINCA's risk management policies and procedures with respect to financial risks, and for reviewing the adequacy of the risk management framework in relation to the risks faced by FINCA, and reporting any issues or recommendations to the Audit Committee.

Credit risk: Credit risk is the risk of financial loss to FINCA if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from FINCA's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, FINCA considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Risk management and monitoring is performed within set limits of authority. These limits of authority are determined by affiliated Credit Committees and FINCA's Board of Directors. FINCA structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Limits on the level of credit risk by a borrower or a product (industry sector, region) are approved periodically. Where deemed appropriate, FINCA obtains collateral and personal guarantees on customer loans. However, a significant portion of customer loans are personal, where no such facilities can be obtained. Such risks are monitored on a continuous basis and are subject to annual or more frequent review.

FINCA International, Inc.

Notes to Consolidated Financial Statements

Note 5. Financial Risk Management (Continued)

Credit risk (continued): Exposure to credit risk at December 31, 2008, is as follows:

	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates
Loans outstanding <sup>(1)</sup>	\$ 27,622,576	\$ 226,923,957	\$ 7,518,560	\$ 89,123,185	\$ 351,188,278
Portfolio at risk (PAR) 30+ days <sup>(2)</sup>	3.4%	0.7%	31.8%	4.6%	2.6%
Impairment losses on loans <sup>(3)</sup>	1.3%	1.2%	16.7%	3.2%	2.2%
Impairment losses on loans as % of PAR 30+	38.0%	153.4%	68.8%	63.3%	77.5%
Write-offs, net of recoveries	\$ 645,908	\$ 1,509,192	\$ 9,917	\$ 1,811,566	\$ 3,976,583
Write-offs, net of recoveries <sup>(2)</sup>	2.3%	0.7%	0.1%	2.0%	1.1%
PAR plus net write-offs <sup>(2)</sup>	5.7%	1.3%	32.0%	6.7%	3.7%
Loan loss reserves <sup>(2)</sup>	4.0%	1.5%	31.2%	5.3%	3.3%

(1) Excludes interest receivable on loans and advances and allowances for impairment

(2) As percentage of ending loans outstanding

(3) As percentage of average loans outstanding

Impaired loans and securities: Impaired loans and securities are loans and securities for which FINCA determines that it is probable that it will be unable to collect any principal and interest due according to the contractual terms of the loan/securities agreement(s).

Past due but not impaired loans: Past due but no impaired loans are loans and securities where contractual interest or principal payments are past due, but FINCA believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to FINCA.

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

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

Notes to Consolidated Financial Statements

---

Note 5. Financial Risk Management (Continued)

Credit risk (continued):

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

Concentration by location for loans and advances is measured based on the location of the FINCA entity holding the asset, which has a high correlation with the location of the borrower.

Liquidity risk: Liquidity risk is the risk that FINCA will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk: FINCA's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to FINCA's reputation. Coordination of individual affiliate, and network, liquidity was significantly strengthened in 2008 by the implementation of liquidity forecasts and ALCO meetings.

FINCA's Corporate Treasury function receives information from the Affiliates regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. Corporate Treasury and FINCA's Capital Markets group use the liquidity projections to manage asset growth in accordance with anticipated borrowings, requisite cash balances and leverage constraints. Corporate Treasury maintains unused borrowing capacity (line of credit and letters of credit) to provide a short-term liquidity cushion. Individual Affiliates also maintain portfolios of short-term liquid assets, primarily composed of bank deposits. Emergency liquidity requirements of business units and subsidiaries can be met through short-term loans from Corporate Treasury, to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

Debt maturities are laddered out over the future as well as possible, but the maturity of the assets and liabilities is a natural source of liquidity if needed, as FINCA and Affiliates tend to borrow long and lend short.

When an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in coordination with Corporate Treasury. Corporate Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits.

FINCA International, Inc.

Notes to Consolidated Financial Statements

Note 5. Financial Risk Management (Continued)

Liquidity risk (continued):

Management of liquidity risk (continued): The daily liquidity position is monitored and managed by each Affiliate on a daily basis and by ALCO monthly. All liquidity policies and procedures are subject to review and approval by ALCO. Reports cover the liquidity position of both FINCA and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

	Africa	Eurasia <sup>(1)</sup>	Greater Middle East	Latin America	Total Affiliates	FINCA Int'l HQ/ Other	Total Consolidated <sup>(2)</sup>
Unrestricted cash balances	\$ 3,910,201	\$ 12,495,205	\$ 5,014,143	\$ 13,931,192	\$ 35,350,741	\$ 4,317,854	\$ 39,668,595
Restricted cash balances	3,944,224	-	10,539,684	527,526	15,011,434	11,597,858	26,609,292
<b>Total cash balances</b>	<b>7,854,425</b>	<b>12,495,205</b>	<b>15,553,827</b>	<b>14,458,718</b>	<b>50,362,175</b>	<b>15,915,712</b>	<b>66,277,887</b>
Investments	1,574,248	9,732	-	115,033	1,699,013	1,398,355	3,097,368
<b>Total cash and investments</b>	<b>\$ 9,428,673</b>	<b>\$ 12,504,937</b>	<b>\$ 15,553,827</b>	<b>\$ 14,573,751</b>	<b>\$ 52,061,188</b>	<b>\$ 17,314,067</b>	<b>\$ 69,375,255</b>
<b>Total assets</b>	<b>\$ 42,777,266</b>	<b>\$ 249,178,716</b>	<b>\$ 29,402,522</b>	<b>\$ 113,666,466</b>	<b>\$ 435,024,970</b>	<b>\$ 15,877,205</b>	<b>\$ 450,902,175</b>
Unrestricted cash as % of total assets	9.1%	5.0%	17.1%	12.3%	8.1%	27.2%	8.8%
Unrestricted cash and investments as % of total cash and investments	58.2%	100.0%	32.2%	96.4%	71.2%	33.0%	61.6%

(1) Excludes back-to-back foreign currency transactions

(2) Net of eliminations

Market risks: Market risk covers interest rate risk, currency risk and other pricing risks to which FINCA is exposed. FINCA is exposed to interest rate risk, as it borrows funds at both fixed and floating rates and also due to the mismatch between the maturities (measured by duration) of FINCA's liabilities and assets.

One of the most significant risks is foreign exchange, due primarily to the fact that borrowings are not made in local currency and yet loans are made in local currency. Thus, there is a mismatch between the borrower's liabilities and assets created when third-party borrowing occurs. ALCO reviews Affiliate foreign exchange status and risk-mitigation strategies on a regular basis. An Affiliate's net long or short foreign currency position is measured in relation to the Affiliate's equity. At the FINCA level, the principal tool now being used to measure and control market risk exposure is Value at Risk (VaR). The VaR is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

In addition, FINCA plans to use stress tests to model the financial impact of a variety of exceptional market scenarios on individual portfolios and FINCA's overall position.

## Notes to Consolidated Financial Statements

## Note 5. Financial Risk Management (Continued)

Market risks (continued): Foreign exchange exposure is as follows:

	U.S. Dollar (USD)			Local Currency		
	USD Exposure As % Of Ending Equity	USD Exposure As % Of Ending Assets		Non-USD Exposure As % Of Ending Equity	Non-USD Exposure As % Of Ending Assets	
Africa	\$ 4,781,755	67.8%	11.2%	\$ 2,274,863	32.2%	5.3%
Eurasia	20,072,278	40.7%	7.3%	29,237,340	59.3%	10.7%
Latin America	4,846,455	15.7%	4.5%	26,273,928	85.0%	24.6%
Greater Middle East	17,472,745	59.7%	59.7%	(6,763,253)	-63.2%	-23.1%
<b>Total Affiliates</b>	<b>\$ 47,173,233</b>	<b>48.1%</b>	<b>10.4%</b>	<b>\$ 51,022,878</b>	<b>52.1%</b>	<b>11.3%</b>

Operational risks: Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with FINCA's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of FINCA's operations and are faced by all business entities.

FINCA's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to FINCA's reputation with overall cost effectiveness, and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall FINCA standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

Compliance with FINCA standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of FINCA. FINCA's Internal Control group has recently been established with the objective of assisting management in the development and monitoring of these operational risk and control mechanisms.

FINCA International, Inc.

Notes to Consolidated Financial Statements

**Note 6. Financial Assets and Liabilities – Accounting Classifications and Fair Values**

The table below sets out FINCA's classification of each class of financial assets and liabilities and their fair values (excluding accrued interest), at December 31, 2008:

	Designated At Fair Value	Held-To- Maturity	Loans And Receivables	Other Amortized Cost	Total Carrying Amount	Fair Value
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 66,277,887	\$ 66,277,887	\$ 66,277,887
Other receivables	-	-	7,676,245	-	7,676,245	7,676,245
Grants receivable	-	-	3,569,945	-	3,569,945	3,569,945
Loans to customers	-	-	342,400,798	-	342,400,798	342,400,798
Investments	1,523,120	1,574,248	-	-	3,097,368	3,097,368
	<u>\$ 1,523,120</u>	<u>\$ 1,574,248</u>	<u>\$ 353,646,988</u>	<u>\$ 66,277,887</u>	<u>\$ 423,022,243</u>	<u>\$ 423,022,243</u>
Accounts payable	\$ -	\$ -	\$ -	\$ 16,906,838	\$ 16,906,838	\$ 16,906,838
Notes payable	-	-	-	262,856,117	262,856,117	262,856,117
Deposits from customers	-	-	-	13,518,554	13,518,554	13,518,554
Other liabilities	-	-	-	19,382,049	19,382,049	19,382,049
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,663,558</u>	<u>\$ 312,663,558</u>	<u>\$ 312,663,558</u>

The table below sets out FINCA's classification of each class of financial assets and liabilities and their fair values (excluding accrued interest), at December 31, 2007:

	Designated At Fair Value	Held-To- Maturity	Loans And Receivables	Other Amortized Cost	Total Carrying Amount	Fair Value
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 54,244,249	\$ 54,244,249	\$ 54,244,249
Other receivables	-	-	6,642,045	-	6,642,045	6,642,045
Grants receivable	-	-	7,399,414	-	7,399,414	7,399,414
Loans to customers	-	-	279,679,822	-	279,679,822	279,679,822
Investments	1,785,108	3,730,413	-	-	5,515,521	5,515,521
	<u>\$ 1,785,108</u>	<u>\$ 3,730,413</u>	<u>\$ 293,721,281</u>	<u>\$ 54,244,249</u>	<u>\$ 353,481,051</u>	<u>\$ 353,481,051</u>
Accounts payable	\$ -	\$ -	\$ -	\$ 9,798,838	\$ 9,798,838	\$ 9,798,838
Notes payable	-	-	-	198,949,977	198,949,977	198,949,977
Deposits from customers	-	-	-	12,746,970	12,746,970	12,746,970
Other liabilities	-	-	-	14,370,363	14,370,363	14,370,363
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 235,866,148</u>	<u>\$ 235,866,148</u>	<u>\$ 235,866,148</u>

Cash and investments (excluding held-to maturity) and all liabilities carrying amounts are based on fair values. All receivables are due within 12 months and thus the carrying amounts approximate fair value. Held-to-maturities investments consist of certificates of deposits that mature within 12 months and thus carrying amount approximates fair value. In regards to the loans to customers, management prepares an analysis of the loans by region to determine the average loan maturity. Majority of the loans are due within 12 months and thus the carrying amount approximates the fair value. The interest rate used on each loan is based on market conditions of each country at the time of the loan.

FINCA International, Inc.

Notes to Consolidated Financial Statements

**Note 7. Net Interest Income**

Net interest income at December 31, 2008, is as follows:

Interest income:	
Cash and cash equivalents	\$ 1,080,780
Loans and advances to clients	138,836,627
Investments	2,643,870
Other	52,794
<b>Total interest income</b>	<b>142,614,071</b>
Interest expense:	
Deposits from clients	266,287
Notes payable	24,703,111
Total interest expense	24,969,398
<b>Net interest income</b>	<b>\$ 117,644,673</b>

Net interest income at December 31, 2007, is as follows:

Interest income:	
Loans and advances to clients	\$ 96,814,121
Cash, cash equivalents and investments	697,792
<b>Total interest income</b>	<b>97,511,913</b>
Interest expense:	
Notes payable and deposits from clients	14,093,204
Total interest expense	14,093,204
<b>Net interest income</b>	<b>\$ 83,418,709</b>

**Note 8. Personnel Expenses**

Personnel expenses at December 31, 2008 and 2007, consist of the following:

	2008	2007
Wages and salaries	\$ 58,717,800	\$ 42,022,493
Compulsory social security obligations	10,795,028	5,175,632
Increase in liability for defined benefit plans	1,183,040	685,154
Increase in liability for long service-leave	279,166	277,728
Health insurance	378,012	169,866
Allowances, incentives and other benefits	6,747,631	5,184,111
	<b>\$ 78,100,677</b>	<b>\$ 53,514,984</b>

FINCA International, Inc.

Notes to Consolidated Financial Statements

Note 9. Other Operating Expenses

	2008	2007
Professional fees	\$ 8,933,463	\$ 6,830,076
Travel	7,728,504	6,630,129
Rent expenses	6,544,063	4,865,090
Marketing	5,690,601	3,920,335
Consumables and office supply	4,112,865	4,165,611
Communication	3,543,349	3,831,117
Bank charges	3,089,416	1,801,050
Taxes	2,213,332	1,488,437
Repair and maintenance	1,835,277	1,419,292
Insurance	1,596,463	898,460
Motor vehicles expenses	1,462,202	479,854
Training and hiring	1,388,589	898,482
Security	1,215,329	443,329
Audit fees and consult	1,213,924	223,143
Utilities	807,982	-
Other expenditures	4,479,681	3,036,950
	<u>\$ 55,855,040</u>	<u>\$ 40,931,355</u>

Note 10. Income Tax Expense

This item includes all taxes on income. Income tax expenses are as follows:

	2008	2007
Current tax expense	\$ 3,007,877	\$ 1,844,912
Deferred tax (income) expense	(898,016)	(85,959)
<b>Total income tax expense</b>	<u>\$ 2,109,861</u>	<u>\$ 1,758,953</u>

In calculating both accrued taxes on income and earnings and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense is related to the foreign affiliates, since FINCA, is exempt from taxes on income, other than taxes on unrelated business income, under the provisions of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the State of New York. There was no unrelated business income during the years ended December 31, 2008 and 2007.

FINCA International, Inc.

Notes to Consolidated Financial Statements

Note 11. Other Income

	2008	2007
Grants:		
USDA	\$ 2,624,660	\$ 8,053,627
USAID	179,249	357,137
Other	9,864,071	4,491,869
	<u>\$ 12,667,980</u>	<u>\$ 12,902,633</u>
Donations:		
Corporate	\$ 11,869,128	\$ 10,874,094
Private	5,488,197	5,855,295
In-kind	1,214,983	2,898,796
	<u>\$ 18,572,308</u>	<u>\$ 19,628,185</u>

Note 12. Cash And Cash Equivalents

	2008	2007
Unrestricted cash balances	\$ 39,668,595	\$ 47,943,484
Restricted cash balances	26,609,292	6,300,765
<b>Total cash balances</b>	<u>\$ 66,277,887</u>	<u>\$ 54,244,249</u>

Restricted cash balances mainly represent undisbursed grant funds to be used in lending and operations, cash balances for country specific regulatory requirements and pledged collateral related to local borrowings and deposits, all of which can be contractually released within 12 months.

FINCA International, Inc.

Notes to Consolidated Financial Statements

Note 13. Loans Receivable

	2008	2007
Loans and advances	\$ 351,188,278	\$ 285,887,188
Less specific allowances for impairment	(11,577,485)	(7,721,904)
Interest receivable on loans and advances	2,790,005	1,514,538
	<u>\$ 342,400,798</u>	<u>\$ 279,679,822</u>
Specific allowances for impairment:		
Balance at January 1:	\$ 7,887,721	\$ 6,372,678
Impairment loss for the year:		
Charge for the year	8,454,683	5,037,165
Effect of foreign currency movements	(788,336)	299,765
Write-off and recovery	(3,976,583)	(3,987,704)
Balance at December 31	<u>\$ 11,577,485</u>	<u>\$ 7,721,904</u>

The loans to customers that were impaired at December 31, 2008 were approximately 0.7% - 31.8% of the total loan portfolio by regions. While not all products require collateral, and collateral requirements vary by country, FINCA utilizes several methods for clients to collateralize their loans, including mandatory savings, real estate, fixed assets or an additional guarantor.

Note 14. Investments

	2008	2007
Life insurance	\$ 1,398,592	\$ 1,206,592
Certificates of deposit	1,574,248	3,730,413
Other	124,528	578,516
<b>Total</b>	<u>\$ 3,097,368</u>	<u>\$ 5,515,521</u>

FINCA owns life insurance policies on key employees with an aggregate face value of \$11,945,502 at December 31, 2008 and 2007. The amount of \$1,398,592 as of December 31, 2008, and \$1,206,592 as of December 31, 2007, represent aggregate cash surrender value.

Certificates of deposit with maturity over three months are qualified as held-to-maturity financial assets and reported as investments in the consolidated balance sheets.

FINCA International, Inc.

Notes to Consolidated Financial Statements

Note 15. Property and Equipment

Property and equipment, in dollars, is as follows:

	Total	Buildings And Construction	Construction In Progress	Investments In Leased Property	And Office Equipment	Computer Equipment	Vehicles
<i>Useful Life</i>		20-50 years	-	lesser of useful life or lease term	5-7 years	2-5 years	3-5 years
<b>Cost:</b>							
Balance at January 1, 2007	\$ 13,209,397	\$ 1,478,311	\$ 28,922	\$ 952,325	\$ 5,076,353	\$ 2,419,610	\$ 2,973,688
Acquisitions	6,307,650	97,231	1,107,080	491,980	2,108,785	1,006,337	1,358,515
Disposals	(798,401)	-	(9,690)	(18,057)	(145,622)	(144,698)	(467,201)
Currency translation	573,939	1,979	16,504	41,857	306,368	41,291	159,451
Balance at December 31, 2007	<u>\$ 19,292,585</u>	<u>\$ 1,577,521</u>	<u>\$ 1,142,816</u>	<u>\$ 1,468,105</u>	<u>\$ 7,345,884</u>	<u>\$ 3,322,540</u>	<u>\$ 4,024,453</u>
Balance at January 1, 2008	\$ 19,292,585	\$ 1,577,521	\$ 1,142,816	\$ 1,468,105	\$ 7,345,884	\$ 3,322,540	\$ 4,024,453
Acquisitions	8,889,586	889,396	266,615	1,143,223	2,443,664	2,311,731	1,363,884
Disposals	(921,299)	-	(173,557)	(104,417)	(74,810)	(21,841)	(487,406)
Currency translation	(1,882,552)	(64,013)	(47,012)	(223,518)	(843,481)	(241,137)	(393,866)
Balance at December 31, 2008	<u>\$ 25,378,320</u>	<u>\$ 2,402,904</u>	<u>\$ 1,188,862</u>	<u>\$ 2,283,393</u>	<u>\$ 8,871,257</u>	<u>\$ 5,371,293</u>	<u>\$ 4,507,065</u>
<b>Depreciation and impairment losses:</b>							
Balance at January 1, 2007	\$ 5,561,809	\$ 9,299	\$ -	\$ 242,882	\$ 2,310,739	\$ 1,348,416	\$ 1,307,896
Depreciation for the period	2,811,372	40,354	-	315,960	979,375	688,030	697,489
Impairment loss	(599,662)	-	-	-	(90,248)	(129,273)	(280,388)
Currency translation	250,250	(221)	-	16,278	133,635	20,913	70,889
Balance at December 31, 2007	<u>\$ 8,023,769</u>	<u>\$ 49,432</u>	<u>\$ -</u>	<u>\$ 575,120</u>	<u>\$ 3,333,501</u>	<u>\$ 1,928,086</u>	<u>\$ 1,795,886</u>
Balance at January 1, 2008	\$ 8,023,769	\$ 49,432	\$ -	\$ 575,120	\$ 3,333,501	\$ 1,928,086	\$ 1,795,886
Depreciation for the period	3,613,929	51,193	-	491,660	1,328,102	845,468	835,965
Impairment loss	(763,153)	-	-	(2,694)	(69,771)	(19,922)	(436,744)
Currency translation	(884,319)	(3,788)	-	(125,813)	(388,081)	(166,035)	(187,339)
Balance at December 31, 2008	<u>\$ 9,990,226</u>	<u>\$ 96,837</u>	<u>\$ -</u>	<u>\$ 938,273</u>	<u>\$ 4,203,751</u>	<u>\$ 2,587,597</u>	<u>\$ 2,007,768</u>
<b>Carrying amounts:</b>							
Balance at January 1, 2007	\$ 7,647,588	\$ 1,469,012	\$ 28,922	\$ 709,443	\$ 2,765,614	\$ 1,071,194	\$ 1,665,792
Balance at December 31, 2007	<u>\$ 11,268,816</u>	<u>\$ 1,528,089</u>	<u>\$ 1,142,816</u>	<u>\$ 892,985</u>	<u>\$ 4,012,383</u>	<u>\$ 1,394,454</u>	<u>\$ 2,228,567</u>
Balance at December 31, 2008	<u>\$ 15,388,094</u>	<u>\$ 2,306,067</u>	<u>\$ 1,188,862</u>	<u>\$ 1,345,120</u>	<u>\$ 4,667,506</u>	<u>\$ 2,783,696</u>	<u>\$ 2,499,297</u>

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 16. Intangible Assets

	Capitalized software	Capital Work in Progress	Other	Total
<b>Cost</b>				
Balance as of December 31, 2007	\$ 841,433	\$ -	\$ 688,522	\$ 1,529,955
Acquisitions	703,963	2,123,796	113,741	2,941,500
Balance as of December 31, 2008	<u>\$ 1,545,396</u>	<u>\$ 2,123,796</u>	<u>\$ 802,263</u>	<u>\$ 4,471,455</u>
<b>Amortization and impairment</b>				
Balance as of December 31, 2007	\$ 83,000	\$ -	\$ -	\$ 83,000
Amortization for the period	122,340	-	-	122,340
Impairment loss	-	-	-	-
Balance as of December 31, 2008	<u>\$ 205,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,340</u>
<b>Carrying amounts</b>				
Beg balance	\$ 758,433	\$ -	\$ 688,522	\$ 1,446,955
End balance	<u>\$ 1,340,056</u>	<u>\$ 2,123,796</u>	<u>\$ 802,263</u>	<u>\$ 4,266,115</u>

Capital work in progress was made for the implementation of a banking operation system.

<b>Cost</b>				
Balance as of December 31, 2006	\$ 691,433	\$ -	\$ 688,522	\$ 1,379,955
Acquisitions	150,000	-	-	150,000
Balance as of December 31, 2007	<u>\$ 841,433</u>	<u>\$ -</u>	<u>\$ 688,522</u>	<u>\$ 1,529,955</u>
<b>Amortization and impairment</b>				
Balance as of December 31, 2006	\$ 58,000	\$ -	\$ -	\$ 58,000
Amortization for the period	25,000	-	-	25,000
Impairment loss	-	-	-	-
Balance as of December 31, 2007	<u>\$ 83,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,000</u>
<b>Carrying amounts</b>				
Beg balance	\$ 633,433	\$ -	\$ 688,522	\$ 1,321,955
End balance	<u>\$ 758,433</u>	<u>\$ -</u>	<u>\$ 688,522</u>	<u>\$ 1,446,955</u>

Other includes \$688,522 of goodwill at December 31, 2007 and 2008 resulting from the purchase of Micro Finance Solutions, Inc. None of the Intangible assets are pledged as security and impairment testing did not indicate any impairment of goodwill.

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 17. Other Receivables

	2008	2007
Loan guarantees	\$ 5,744,966	\$ 5,162,419
Staff advances and loans	1,450,636	818,874
Other	480,643	660,752
	<u>\$ 7,676,245</u>	<u>\$ 6,642,045</u>

Note 18. Prepaid and Other Assets

	2008	2007
Deferred tax asset	\$ 2,426,327	\$ 889,367
Currency swap fair value	1,220,626	-
Prepaid expenses	2,543,492	1,251,594
Office supply	578,645	45,176
Taxes	345,781	1,651,569
Loans origination fees	168,125	116,323
Other debtors	942,727	2,156,376
	<u>\$ 8,225,723</u>	<u>\$ 6,110,405</u>

On January 2, 2007, FINCA entered into a six-year U.S. dollar/Russian ruble cross-currency swap agreement for the principal amount of \$3,300,000. The swap was effected to eliminate an open foreign currency position at FINCA's Russia. Fair value of swap was \$1,220,626 at December 31, 2008.

Note 19. Deposits From Customers

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

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 20. Refundable Advances

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

	2008	2007
USDA	\$ 5,744,030	\$ 8,241,441
USAID	(172,185)	464,565
Other	3,439,712	857,992
	<u>\$ 9,011,557</u>	<u>\$ 9,563,998</u>

Note 21. Notes Payable

FINCA has two types of debt: charitable loans and commercial debt. Charitable loans are monies that are lent to the Village Bank Capital Fund of FINCA International, Inc., principally by charitable institutions at low interest rates that range from 0% to 16.69%. Commercial debt interest rates range up to 25.64%. The balance consists of approximately 300 loans in various countries. FINCA complied with the applicable covenants on the loans that had such requirements.

Balance as of December 31, 2007	\$ 198,949,977
Notes received	108,728,964
Notes repaid	(33,463,887)
Effect of currency translation	(11,358,937)
Balance as of December 31, 2008	<u>\$ 262,856,117</u>

Balance as of December 31, 2006	\$ 118,557,496
Notes received	93,748,977
Notes repaid	(19,346,114)
Effect of currency translation	5,989,618
Balance as of December 31, 2007	<u>\$ 198,949,977</u>

Maturities of notes payable are due in future fiscal years, as follows:

2009	\$ 72,512,963
2010	63,937,422
2011	59,318,119
2012	39,639,740
2013	16,960,074
Thereafter	10,487,799
	<u>\$ 262,856,117</u>

FINCA International, Inc.

Notes To Consolidated Financial Statements

---

Note 22. Other Liabilities

	2008	2007
Financial guarantee contracts issued	\$ 5,605,972	\$ 6,639,140
Interest payable	3,016,427	1,851,432
Personnel	2,910,197	1,294,226
Tax liability	2,676,260	2,575,070
Deferred income	1,398,350	443,052
Rent	285,888	307,223
Other	3,488,955	1,260,219
	<u>\$ 19,382,049</u>	<u>\$ 14,370,362</u>

Note 23. Employee Benefits

FINCA maintains an employee retirement plan under Internal Revenue Code Section 403(b) (the Plan). Under the Plan, qualified employees may defer compensation up to the maximum amount permitted by the Internal Revenue Code (the elective deferral limit was \$16,000 and the catch-up contribution limit was \$5,000 in 2008 and 2007). FINCA may make contributions to the Plan as a discretionary employer match. FINCA's contributions to the Plan during the years ended December 31, 2008 and 2007, were \$234,224 and \$231,315, respectively.

Agreement is offered at the sole discretion of its Board of Directors, which may amend or terminate the Agreement at any time. The Agreement is funded through whole life insurance policies on the Plan beneficiaries. FINCA is the policy owner and beneficiary.

The death benefits under the above policies exceed the maximum defined benefits payable under the Agreement. Currently, several key employees are enrolled in the Agreement. Management believes that no unfunded liability exists under the Agreement. FINCA had an accrued postretirement benefit of \$2,450,857 at December 31, 2008, and \$1,656,325 at December 31, 2007. Pension expense for the years ended December 31, 2008 and 2007, was \$188,360 and \$143,923, respectively.

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 23. Employee Benefits (Continued)

	2008	2007
Recognized liability for defined benefit obligations	<u>\$ 2,450,857</u>	<u>\$ 1,656,325</u>

**Movement in the present value of the defined benefit obligations**

	2008	2007
Defined benefit obligations at January 1	\$ 1,656,325	\$ 1,473,749
Benefits paid by the plan	(35,000)	(35,000)
Actuarial losses (gains)	5,556	(11,088)
Current service costs and interest (see below)	<u>823,976</u>	<u>228,664</u>
Defined benefit obligations at December 31	<u>\$ 2,450,857</u>	<u>\$ 1,656,325</u>

**Expense recognized in profit or loss**

	2008	2007
Current service costs	\$ 188,360	\$ 143,923
Plan amendments	538,650	-
Interest on obligation	<u>96,966</u>	<u>84,741</u>
<b>Total expense</b>	<u>\$ 823,976</u>	<u>\$ 228,664</u>

The expense is recognized in the following line items in the statement of income:

	2008	2007
Personnel expenses	<u>\$ 823,976</u>	<u>\$ 228,664</u>

Principal actuarial assumptions at the reporting date, expressed as weighted averages, are as follows:

	2008	2007
Discount rate at December 31	5.50%	5.75%

**Notes To Consolidated Financial Statements****Note 24. Operating Leases**

At December 31, 2008, FINCA was obligated under a number of operating leases for premises used primarily for branch operations and office purposes. In a significant portion of the business locations where FINCA operates, the operating lease agreements are negotiated on a year-by-year basis and are in line with general rental market conditions. Future minimum lease payments under existing lease contracts are due, in dollars, as follows:

	2008	2007
Less than one year	\$ 2,614,365	\$ 1,302,781
Between one and five years	3,869,488	2,964,342
More than five years	512,130	836,290
	<u>\$ 6,995,983</u>	<u>\$ 5,103,413</u>

Rent expense for years ended December 31, 2008 and 2007 was \$6,544,063 and \$4,865,090 respectively.

**Note 25. Contingencies**

Azerbaijan: Based on an inspection conducted in December 2008 on the Azerbaijan affiliate (affiliate), the country's Social Protection Fund has challenged the affiliate's exemption from social fund contributions for the period from January 1, 2007, to December 31, 2008. The Social Protection Fund has issued an Act challenging the exemption and assessing retroactive Social Protection Fund dues from the affiliate in the amount of AZN 1,966,826 (approximately \$2,450,000). In addition, the Social Protection Fund has assessed penalties for unremitted contributions in the amount of AZN 983,413 (approximately \$1,230,000) (i.e., 50% of the unremitted amount, the maximum applicable penalty under the law). Management believes that it had a valid basis for the exemption, and that the imposition of this tax is related to the affiliate's plan to transform into a corporate entity that would, going forward, no longer be entitled to claim the exemption. The government has advised the affiliate that it would mandate the Social Protection Fund contributions retroactively upon such a change in corporate form.

The affiliate has formally disputed the findings of the audit, and the matter is currently under discussion between the parties. The retroactive Social Protection Fund contributions have been applied to the statement of income presented herein. Pending resolution of discussions as to the transformation, no payment has been made. However, no provision has been made in these consolidated financial statements for penalties assessed, as management believes, based on advice of counsel, that the penalty assessments are illegitimate, and that they will not stand legal challenge by the affiliate. As per Article 21 of the Law on Social Contributions, penalties can only be applied when salaries and other income to employees has been concealed.

In addition, the government of Azerbaijan (government) has also taken the position that equity attributable to tax-exempted donations be permanently restricted to charitable activities in Azerbaijan, including microfinance. Management anticipates that they would in any event continue to use these funds for their microfinance activities. The fact, nature or specific requirements of any such restrictions cannot be determined, pending further discussions with the government. The affiliate now has approximately USD 3.5 million in equity that is derived from original grant funding. In the view of management, this is the amount most likely to be subject to any such restrictions.

The government, as part of a review of microfinance activities in Azerbaijan, may impose additional requirements for operation or structure of microfinance organizations operating in the country. No determination can be made at this time whether any additional conditions would be imposed or whether, if imposed, the impact that any such conditions would have on the organization.

## FINCA International, Inc.

### Notes To Consolidated Financial Statements

---

#### Note 25. Contingencies (Continued)

Afghanistan: During 2008, FINCA Afghanistan was victim to \$600,000 in fraudulent loans in Kabul and another \$600,000 in the regions, for a total of \$1.2 million. These loans stem from employees fictitiously creating clients to issued loans to and stealing the funds, or valid loans that have been issued that employees have embezzled the repayments. The fraud is due to the unstable environment in this region and the lack of senior management at this affiliate. The report provided to USAID by FINCA dated June 30, 2008, described in detail the amount and type of fraud. It also noted that the amount of federal funds embezzled was not evident without further review. USAID responded to this letter on July 24, 2008, acknowledging the fraud and the draft recovery plan submitted. USAID stated that FINCA needs to finalize and implement their recover plan.

#### Note 26. FINCA Entities

Through its headquarters, foreign representative offices and branches, controlled affiliates and subsidiaries, FINCA operates in 21 countries. All subsidiaries are wholly owned by FINCA, directly or indirectly. The significant operating subsidiaries and controlled Affiliates of FINCA are listed below:

##### Operating Significant Subsidiaries

<u>Company</u>	<u>Country Of Incorporation</u>
FINCA Afghanistan	Afghanistan
FINCA Universal Credit Organization Closed Joint Stock Company	Armenia
FINCA Azerbaijan LLC	Azerbaijan
FINCA DR CONGO SARL	DR Congo
Banco para la Asistencia Comunitaria, FINCA S.A.	Ecuador
MFO FINCA Georgia	Georgia
Sociedad Financiera FINCA, S.A.	Honduras
FINCA Jordan PSC	Jordan
FINCA Micro-Credit Company Closed Joint Stock Company	Kyrgyzstan
FINCA Closed Joint Stock Company	Russia
FINCA Micro-Credit Deposit Organization LLC	Tajikistan
FINCA Uganda Limited	Uganda
Foundation for International Community Assistance – Zambia Limited	Zambia

##### Operating Significant Affiliates

<u>Company</u>	<u>Country Of Incorporation</u>
FINCA Charity Foundation	Armenia
Asociación de Fomento Integral Comunitaria de El Salvador	El Salvador
Fundación Internacional para la Asistencia Comunitaria de Guatemala	Guatemala
FINCA HAITI	Haiti
Fundacion Internacional para la Asistencia Comunitaria de Honduras	Honduras
Foundation for International Community Assistance	Malawi
Fundación Integral Comunitaria, A.C.	Mexico
Fundación Internacional para la Asistencia Comunitaria de Nicaragua	Nicaragua
FINCA Tanzania Limited	Tanzania

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 27. Related Parties

All the following related party transactions and balances resulted from transactions between FINCA and FINCA's 100% owned Affiliates. These transactions are eliminated in consolidation.

Grants and contributions: FINCA solicits and obtains grants and contributions on behalf of the Affiliates. For the years ended December 31, 2008 and 2007, grants and contributions obtained by FINCA and provided to the Affiliates totaled \$14,224,724 and \$18,852,470.

Affiliate management: The management of certain Affiliates consists of FINCA employees. The Affiliates are billed for the salary and fringe benefits (according to the Negotiated Indirect Cost Rate Agreement) of the employee. Total billings to the Affiliates for management services received for the years ended December 31, 2008 and 2007, were \$2,928,745 and \$2,232,439, respectively.

The Affiliates were also billed for other expenses paid on their behalf by FINCA. These expenses included, but were not limited to, legal services, audit services, consulting, information technology and other expatriate living expenses. Other expenses billed to the Affiliates totaled \$5,808,968 for the year ended December 31, 2008 and \$1,125,204 for the year ended December 31, 2007.

Affiliation fees: FINCA charges a fixed fee based on profitability for technical assistance and other services provided to the Affiliates. For the years ended December 31, 2008 and 2007, FINCA recognized income and the Affiliates realized an expense of \$2,928,745 and \$2,186,682, respectively, related to affiliation fees.

Key management personnel compensation in total and for each of the following categories is as follows:

	2008			Total
	Short-term benefits	Postemployment benefits	Other long-term benefits	
Rupert Scofield	\$ 5,789	\$ 23,080	\$ 1,786	\$ 30,655
Andree Simon	5,789	5,923	468	12,180
Soledad Gompf	15,259	10,892	721	26,872
Gwen Andreotti	5,789	11,917	598	18,304
Donald Crane	5,789	1,833	1,786	9,408
Philip Goodeve	3,293	-	549	3,842
Anthony Perez	15,224	2,080	789	18,093
Jiten Patel	13,939	4,188	1,251	19,378
Tony Singleton	17,643	4,084	2,453	24,180
Volker Renner	7,757	5,471	910	14,138
Phil Broughton	9,643	15,132	1,016	25,791
	<u>\$ 105,914</u>	<u>\$ 84,600</u>	<u>\$ 12,327</u>	<u>\$ 202,841</u>

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 27. Related Parties (Continued)

	2007			
	Short-term benefits	Postemployment benefits	Other long-term benefits	Total
Rupert Scofield	\$ 5,413	\$ 20,223	\$ 1,710	\$ 27,346
Andree Simon	5,682	4,139	407	10,228
Soledad Gompf	14,205	10,246	640	25,091
Gwen Andreotti	5,406	9,950	516	15,872
Donald Crane	5,413	-	1,560	6,973
James Nehmer	5,413	7,751	986	14,150
Anthony Perez	14,126	1,929	697	16,752
Jiten Patel	14,205	3,418	1,159	18,782
Tony Singleton	16,229	3,958	2,097	22,284
Volker Renner	7,430	4,251	730	12,411
Phil Broughton	10,112	13,204	948	24,264
Ekkehard Esser	10,112		1,249	11,361
	<u>\$ 113,746</u>	<u>\$ 79,069</u>	<u>\$ 12,699</u>	<u>\$ 205,514</u>