



## FINCA International, Inc.

### Consolidated Financial Statements and Independent Auditors' Report Year Ended December 31, 2010

**FINCA International, Inc.**

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**Consolidated Financial Statements and  
Independent Auditors' Report  
Year Ended December 31, 2010**

# FINCA International, Inc.

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## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of FINCA International, Inc. (FINCA) as of December 31, 2010 and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of FINCA as of and for the year ended December 31, 2009, were audited by other auditors whose report dated June 3, 2010, expressed an unqualified opinion on those consolidated financial statements. The predecessor auditor did not audit the financial statements of FINCA's international affiliates, whose statements reflect total assets and revenue constituting 74% and 81% respectively of the related totals as of and for the year ended December 31, 2009. Those statements were audited by other auditors whose reports were furnished to the predecessor auditor and their opinion, insofar as it relates to the amounts included for FINCA was based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FINCA International, Inc. at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

BDO USA, LLP

June 8, 2011

**Consolidated  
Financial Statements**

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# FINCA International, Inc.

## Consolidated Statement of Income

<i>Years ended December 31,</i>	Notes	2010	2009
Interest income	7	\$ 163,277,485	\$ 154,151,468
Interest expense	7	(27,207,911)	(26,999,183)
<b>Net interest income before provision for impairment losses</b>		<b>136,069,574</b>	<b>127,152,285</b>
Impairment losses on loans	15	(5,724,041)	(8,148,132)
<b>Net interest income</b>		<b>130,345,533</b>	<b>119,004,153</b>
Other operating income		6,185,318	4,640,852
Personnel expenses	8	(81,459,720)	(75,863,354)
Other operating expenses	9	(55,764,085)	(55,830,974)
Depreciation and amortization	-	(5,808,080)	(7,189,898)
		(143,031,885)	(138,884,226)
<b>Loss before other income (expenses) and income tax</b>		<b>(6,501,034)</b>	<b>(15,239,221)</b>
Other income (expenses):			
Grants	11	7,434,765	5,451,733
Donations	11	13,893,771	15,909,226
Foreign exchange loss	-	(2,487,872)	(2,934,400)
Non-operating income	-	2,354,929	625,391
Income tax expense	10	(4,667,192)	(3,070,377)
<b>Profit for the year</b>		<b>\$ 10,027,367</b>	<b>\$ 742,352</b>

*The notes form an integral part of these consolidated financial statements.*

# FINCA International, Inc.

## Consolidated Balance Sheets

<i>December 31,</i>	Notes	2010	2009
<b>Assets</b>			
Cash and cash equivalents	-	\$ 38,886,378	\$ 66,226,540
Restricted cash	12	31,870,939	26,188,271
Available for sale financial assets	13	8,996,782	17,508,940
Financial assets at fair value through profit and loss	14	3,172,811	2,401,014
Loans receivable, net	15	380,264,304	317,208,208
Grants receivable, net	-	634,971	3,181,388
Other receivables, prepaid and other assets	16	7,771,845	8,922,059
Property and equipment, net of accumulated depreciation	17	15,198,052	15,404,028
Intangible assets, net	18	5,787,633	6,256,979
Deferred tax asset	-	3,441,915	3,602,785
<b>Total assets</b>		<b>\$ 496,025,630</b>	<b>\$ 466,900,212</b>
<b>Liabilities</b>			
<b>Liabilities</b>			
Accounts payable and other accrued liabilities	19	\$ 19,653,677	\$ 21,522,436
Customer deposits	20	30,791,726	25,749,904
Notes payable	21	274,161,983	251,366,864
Subordinated debt	22	21,616,568	20,570,000
Refundable advances	23	13,621,715	17,027,862
Deferred compensation agreement	24	3,923,568	2,460,425
Current income tax liability	-	1,512,581	1,318,919
Deferred tax liability	-	274,024	1,685,679
<b>Total liabilities</b>		<b>365,555,842</b>	<b>341,702,089</b>
<b>Equity</b>			
Reserves		9,913,487	5,792,902
Retained earnings		127,542,266	122,759,719
Currency translation reserve		(6,985,965)	(3,354,498)
<b>Total equity</b>		<b>130,469,788</b>	<b>125,198,123</b>
<b>Total equity and liabilities</b>		<b>\$ 496,025,630</b>	<b>\$ 466,900,212</b>

*The notes form an integral part of these consolidated financial statements.*

# FINCA International, Inc.

## Consolidated Statements of Comprehensive Income

<i>Years ended December 31,</i>	Notes	2010	2009
Profit for the year		\$ 10,027,367	\$ 742,352
Other comprehensive income:			
Exchange differences on translating foreign operations	-	(3,631,467)	(2,320,432)
Fair value adjustment to benefit plan	24	(1,124,235)	-
<b>Total comprehensive income for the year</b>		<b>\$ 5,271,665</b>	<b>\$ (1,578,080)</b>

*The notes form an integral part of these consolidated financial statements.*

# FINCA International, Inc.

## Consolidated Statements of Changes in Equity

	Reserves	Retained Earnings	Currency Translation Reserve	Total
Beginning, January 1, 2009	\$ 7,879,999	\$ 119,930,270	\$ (1,034,066)	\$ 126,776,203
<b>Total comprehensive income</b>				
Profit for the year	-	742,352	-	742,352
Foreign currency movement during year	-	-	(2,320,432)	(2,320,432)
Transfer from reserve	(2,087,097)	2,087,097	-	-
<b>Balance at December 31, 2009</b>	<b>5,792,902</b>	<b>122,759,719</b>	<b>(3,354,498)</b>	<b>125,198,123</b>
<b>Total comprehensive income</b>				
Profit for the year	-	10,027,367	-	10,027,367
Fair value adjustment to benefit plan	-	(1,124,235)	-	(1,124,235)
Foreign currency movement during year	-	-	(3,631,467)	(3,631,467)
Transfer to reserve	4,120,585	(4,120,585)	-	-
<b>Balance at December 31, 2010</b>	<b>\$ 9,913,487</b>	<b>\$ 127,542,266</b>	<b>\$ (6,985,965)</b>	<b>\$ 130,469,788</b>

*The notes form an integral part of these consolidated financial statements.*

*Reserves are formed in accordance with national law in the various jurisdictions.*

# FINCA International, Inc.

## Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	2010	2009
<b>Cash flows from operating activities</b>		
Profit for the year	\$ 10,027,367	\$ 742,352
Adjustments for non-cash items:		
Depreciation and amortization	5,808,080	7,189,898
Impairment losses on loans	5,724,041	8,148,132
Interest income	(163,277,485)	(154,151,468)
Interest expense	27,207,911	26,999,183
Income tax expense	4,667,192	3,070,377
Foreign exchange losses	3,631,467	2,934,400
Changes in deferred tax assets and liabilities	(1,250,785)	(434,621)
Benefit plan fair value adjustment	(1,124,235)	-
	<u>(108,586,447)</u>	<u>(105,501,747)</u>
Change in working capital:		
Change in loans receivable	(68,780,136)	17,044,458
Change in grants receivable	2,546,417	388,557
Change in other receivables	1,150,214	(2,384,806)
Change in accounts payable	(1,868,869)	9,673,284
Change in customer deposits	5,041,821	1,723,629
Change in refundable advances	(3,406,147)	10,727,949
Change in current income tax liability	193,662	(11,415,985)
Change in deferred compensation agreement	1,463,143	-
	<u>(63,659,895)</u>	<u>25,757,086</u>
	<u>(172,246,342)</u>	<u>(79,744,661)</u>
Interest received	158,239,882	151,908,578
Interest paid	(28,371,635)	(28,177,330)
Income taxes paid	(2,137,125)	(2,583,738)
Net cash (used in) provided by operating activities	<u>(44,515,220)</u>	<u>41,402,849</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	2,057,694	(9,453,178)
Purchase of property and equipment	(3,680,558)	(4,105,021)
Purchase of intangible assets	(1,046,585)	(5,091,675)
Net cash used in investing activities	<u>(2,669,449)</u>	<u>(18,649,874)</u>
<b>Cash flows from financing activities</b>		
Proceeds from lenders	120,934,200	99,324,465
Repayment of loans and borrowings to lenders	(98,138,969)	(91,305,963)
Net cash provided by financing activities	<u>22,795,231</u>	<u>8,018,502</u>
Net (decrease) increase in cash and cash equivalents	<u>(24,389,438)</u>	<u>30,771,477</u>
<b>Cash and cash equivalents</b>		
Beginning of year	66,226,540	39,668,595
Exchange loss on cash equivalents	(2,950,724)	(4,213,532)
End of year	<u>\$ 38,886,378</u>	<u>\$ 66,226,540</u>

*The notes form an integral part of these consolidated financial statements.*

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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### 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 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., USA.

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), serving over 760,000 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 that 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 International, Inc.

## Notes to Consolidated Financial Statements

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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.

### 2. Basis of Preparation

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

The consolidated financial statements were approved by the Board of Directors on June 8, 2011.

#### *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 (USD), 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

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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effect on the amount recognized in the consolidated financial statements are described in Notes 3 and 4.

### *Reclassifications*

Certain reclassifications have been made to the financial statements as of December 31, 2009, and for the year then ended, to conform to the presentation as of December 31, 2010, and for the year then ended.

## 3. Significant Accounting Policies

### *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 the 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.

### *Segment Reporting*

FINCA divides its operations into segments solely in geographical terms which is the manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Asset Liability Committee (hereafter "ALCO") which is 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. Based on the location of the principal operations of the parent company and the Affiliates, the segments are: Eurasia, Latin America, Africa and Greater Middle East. Each of those segments exhibits homogenous risk and return characteristics. Therefore, internal and external reporting and management are structured according to these segments.

A secondary segment reporting format pursuant to IFRS 8 is not applied, as there is no network-wide organizational division on the basis of products or product groups. Neither is intra-group or external reporting at the level of the institutions or the group segmented according to products or product groups, nor are there segment-specific strategies for products or product groups that can be regarded as distinct from one another. FINCA provides segment reporting voluntarily.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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### *Foreign currency*

Foreign currency transactions and balances - 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 at year-end are recognized in the consolidated statements of comprehensive income.

Foreign operations - The assets and liabilities of foreign operations that have a functional currency different from the USD are translated to USD at the exchange rate at the balance sheet date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to USD at the exchange rates at the dates of the transactions.

Foreign currency translation differences are recognized through other comprehensive income, a component of 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 other comprehensive income.

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).

### Revenue recognition

Net interest income - Interest income and expense are recognized in the consolidated statements 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 subsequently revised.

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.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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Interest income and expense presented in the consolidated 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 rate 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 consolidated 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. Loan origination fees are deferred and recognized as an adjustment to the effective interest rate on the loan.

*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.

### *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 consolidated statements of income, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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.

### *Financial assets and liabilities*

FINCA recognizes its financial assets and liabilities within the following categories: at fair value through profit or loss, available for sale loans and receivables and amortized costs. The classification depends on the purpose for which the financial assets were acquired and liabilities assumed.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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*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 offset and the net amount is presented in the consolidated balance sheets when, and only when, FINCA has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

*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.

*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

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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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.

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.

Derecognition - Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

All financial liabilities are derecognized when they are extinguished - that is, when the obligation is discharged, cancelled or expires.

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 the statement of income.

### *Fair value measurement*

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The carrying value of FINCA's investment in the FINCA Microfinance Fund is based on unobservable inputs and is considered a Level 3 categorized fair value instrument. The carrying value less impairment provision of trade receivables and payables approximates their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

### *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 sheets.

### *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.

- a) *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 would prevent FINCA from classifying investment securities as held-to-maturity for the current year and the following two financial years.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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- b) Fair value through profit or loss - FINCA carries some investment securities at fair value, with fair value changes recognized immediately in the consolidated statements of income.
- c) 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.

### *Notes payable*

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

### *Subordinated debt*

Subordinated debt consists mainly of liabilities to other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. There is no obligation to repay early. Following initial recognition at acquisition cost, the subordinated debt is recognized at amortized cost. Premiums and discounts are accounted for over the respective terms in the income statement under “net interest income”.

### *Customer deposits*

Customer deposits are recognized initially at fair value net of transaction costs incurred. Changes to customer deposits are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

Other fair value changes are recognized in other comprehensive income, a component of equity, until the investment is sold or impaired and the balance in equity is recognized in the statement of income.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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### *Allowance for losses on loans*

#### *Assets carried at amortised cost - loans*

Impairment of loans - FINCA assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial assets, the respective losses are immediately recognized. Depending on the size of the credit exposure, such losses are either calculated on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. We do not recognize losses from expected future events.

Individually assessed loans - Credit exposures are considered individually significant if they have a certain size, partly depending on the individual Affiliate. As a FINCA-wide rule, all credit exposures over a country specific threshold are individually assessed for impairment. For such credit exposures, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfill his contractual payment obligations towards the bank:

- delinquencies in contractual payments of interest or principal;
- breach of covenants or conditions;
- initiation of bankruptcy proceedings;
- any specific information on the customer's business (e. g. reflected by cash flow difficulties experienced by the client);
- changes in the customer's market environment;
- the general economic situation.

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

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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Collectively assessed loans There are two cases in which credit exposures are collectively assessed for impairment:

- individually insignificant credit exposures that show objective evidence of impairment;
- the group of credit exposures which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual credit exposure basis.

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

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

If FINCA determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (impairment for collectively assessed credit exposures).

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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Writing off loans- When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the income statement.

### *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:

Building	20 - 50 years
Furniture and other equipment	5 - 7 years
Computer equipment	2 - 5 years
Vehicles	3 - 5 years
Other	2 - 5 years

Leasehold improvements 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.

Borrowing costs - FINCA does not incur any interest costs that qualify for capitalization under IAS 23 'Borrowing costs'.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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### *Intangible assets*

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

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

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

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

Computer software development costs recognized as assets are amortized over their useful lives, which is three to five years depending on facts and circumstances.

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

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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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. Except for goodwill, 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.

### *Leased assets*

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to FINCA (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor. As of December 31, 2010 and 2009, FINCA had no finance leases.

Where substantially all of the risks and rewards incidental to ownership are not transferred to FINCA (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

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.

### *Employee benefits*

Employee benefit plans - FINCA's net obligation in respect of benefit 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. 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.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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With respect to actuarial gains and losses that arise in calculating FINCA's obligation in respect of a plan, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10% of the greater of the present value of the benefit obligation, 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.

*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.

### *Government and other grants*

Grants are accounted for in accordance with IAS 20 following the gross approach, where the money received and the obligation to use the money for ongoing expenses is not offset. The liability to fulfill the obligation, recognized in the balance sheet, is amortized through the income statement at the same time as funds are spent to cover expenditures. When donor contributions are used to purchase assets, the assets are recognized in the balance sheet. Another liability is recognized to reflect the obligation to use the funds for restricted purposes. The liability is amortized through the income statement at the same rate at which the respective assets are depreciated.

### *Provisions*

Provisions are recognized when: FINCA has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

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

### *New standards and interpretations*

(a) FINCA has adopted the following new Standards, amendments and interpretations effective on or after January 1, 2010:

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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The following amendments to standards or interpretations were already issued in 2009 or earlier and become effective for annual periods beginning on or after January 1, 2010: IFRIC 12 “Service Concession Arrangements”, IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”, amendments to IAS 27 “Consolidated and separate financial statements”, a revised IFRS 3 “Business Combinations”, IFRIC 15 “Agreements for the Construction of Real Estate”, amendments to IAS 39 “Recognition and Measurement: Eligible Hedged Items”, amendments to IAS 39 and IFRS 7 “Reclassification of Financial Assets - Effective Date and Transition”, revised IFRS 1 “First Time Adoption of IFRS”, IFRIC 17 “Distributions of Non-Cash Assets to Owners”, IFRIC 18 “Transfers of Assets from Customers”, Amendments to IFRIC 9 and IAS 39 “Embedded Derivatives”. Except for the amendments to IFRS 7 “Reclassification of Financial Assets - Effective Date and Transition”, none of the above mentioned amendments or interpretations has any effect on FINCA’s financial statements.

April 2009, the IASB published “Improvements to International Financial Reporting Standards”. The improvements have been applicable partly since July 2009 and partly since January 2010. Most of the improvements relate to matters of detail and does not have an impact on the financial statements of FINCA.

On June 18, 2009, the IASB issued amendments to IFRS 2 “Group Cash-settled Share-based Payment Transactions”. These are applicable for annual periods beginning on or after January 1, 2010. The amendments will have no impact on the financial statements of FINCA.

On July 23, 2010, the IASB issued amendments to IFRS 1 “Additional Exemptions for First-time Adopters”. These are applicable for annual periods beginning on or after January 1, 2010. Adoption of the amendments will have no impact on the financial statements of FINCA.

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

In August 2009 the IASB published amendments to IAS 32 “Financial Instruments: Presentation: Classification of Rights Issues. They are applicable for periods beginning on or after February 1, 2010. These amendments will not have any impact on FINCA’s financial statements.

In January 2010, the IASB issued amendments to IFRS 1 “Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters”. The amendments to IFRS 1 are applicable for annual periods starting on or after July 1, 2010. The amendments will not have any impact on FINCA’s financial statements.

The IASB issued amendments to IFRIC 14 “Prepayment of a Minimum Funding Requirement” on November 29, 2009. It is applicable for annual periods beginning on January 1, 2011. This amendment will have no impact on FINCA’s financial statements.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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The revised version of IAS 24 “Related Party Disclosures” replaces the existing IAS 24 in order to simplify the requirements for disclosure of related party transactions. It was issued by the IASB on November 4, 2009. The revised standard is effective starting from January 1, 2011. It will not have any impact on FINCA’s financial statements.

On November 29, 2009, the IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, which is applicable for annual periods beginning on or after July 1, 2010, was issued by the IASB. This interpretation will not have any impact on FINCA’s financial statements.

In May 2010, the IASB published “Improvements to International Financial Reporting Standards”. Most of the amendments are effective for annual periods beginning on or after January 1, 2011. The improvements relate to matters of detail and may have a minor impact on the financial statements of FINCA.

IFRS 9 “Financial Instruments”, Amendments to IFRS 7 “Financial Instruments: Disclosures”, Amendments to IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters” and Amendments to IAS 12 “Deferred Tax: Recovery of Underlying Assets”. The application of IFRS 9 “Financial Instruments” will have an impact on the financial statements of FINCA, but its application will not be mandatory until January 1, 2013. Early adoption of the standard is not planned. The other amendments, revisions and interpretations are unlikely to have any impact on FINCA’s financial statements.

In May 2011, the IASB approved IFRS 10 *Consolidated Financial Statements* which builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Early adoption of the standard is not planned. Management has yet to interpret how this new standard will impact FINCA’s financial statements.

In May 2011, the IASB approved IFRS 11 *Joint Arrangements* which provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. Early adoption of the standard is not planned. Management has yet to interpret how this new standard will impact FINCA’s financial statements.

In May 2011, the IASB approved IFRS 12 *Disclosure of Interests in Other Entities* which is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Early adoption of the standard is not planned. Management has yet to interpret how this new standard will impact FINCA’s financial statements.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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In May 2011, the IASB approved IFRS 13 *Fair Value Measurement* which is an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157). This standard was established to improve IFRSs and US GAAP and to bring about their convergence on treatment of fair value. Early adoption of the standard is not planned. Management has yet to interpret how this new standard will impact FINCA's financial statements.

### 4. Critical Accounting Estimates and Judgments

Allowances for credit impairment - 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 credit 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 estimated future cash flows for specific counterparty allowances are forecast and the model assumptions and parameters used in determining collective allowances.

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

Legal proceedings-In accordance with IFRSs, FINCA recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the financial statements could have a material effect on FINCA's financial position. Application of these accounting principles to legal cases requires FINCA management to make determinations about various factual and legal matters beyond its control. When FINCA has outstanding legal cases, it following developments in the legal proceedings and at each reporting date makes a determination as to status, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of FINCA's management as to how it will respond to the litigation, claim or assessment.

### 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.

#### *Principal financial instruments*

The *principal* financial instruments used by FINCA, from which financial instrument risk arises, are as follows:

- Loan receivables
- Cash and cash equivalents
- Floating-rate bank loans
- Fixed rate bank loans

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

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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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 the 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.

In March 2011 a Chief Risk Officer was hired to monitor and manage FINCA's risk management activities.

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

<i>Year ended December 31, 2010</i>	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates
Loans outstanding (gross)(1)	\$ 47,479,738	\$ 241,628,063	\$ 7,062,911	\$ 90,825,382	\$386,996,094
Portfolio at risk (PAR) 30+ days (2)	1.7%	0.7%	0.6%	2.6%	1.3%
Impairment losses on loans (3)	1.7%	1.0%	(0.1%)	2.9%	1.5%
Impairment losses on loans as % of PAR 30+	86.7%	125.8%	(12.4%)	104.6%	108.5%
Write-offs net of recoveries	\$ 590,634	\$ 2,756,143	\$ 564,773	\$ 5,839,147	\$ 9,750,697
Write-offs net of recoveries (2)	1.2%	1.1%	8.0%	6.4%	2.5%
PAR 30+ plus net write-offs (2)	2.9%	1.9%	8.6%	9.0%	3.8%
Loan loss reserves (2)	1.7%	1.4%	2.3%	2.4%	1.7%
Loan loss reserves as % of PAR 30+	105%	192%	409%	95%	134%

  

<i>Year ended December 31, 2009</i>	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates
Loans outstanding (gross)(1)	\$ 35,206,398	\$ 208,134,102	\$ 5,796,283	\$ 78,792,698	\$327,929,481
Portfolio at risk (PAR) 30+ days (2)	2.4%	1.3%	11.4%	6.8%	2.9%
Impairment losses on loans (3)	1.0%	1.7%	1.4%	4.7%	2.4%
Impairment losses on loans as % of PAR 30+	37.7%	133.4%	14.3%	73.3%	83.3%
Write-offs net of recoveries	\$ 639,533	\$ 3,226,219	\$ 1,705,395	\$ 3,272,718	\$ 8,843,865
Write-offs net of recoveries (2)	1.8%	1.6%	29.4%	4.24%	2.7%
PAR 30+ plus net write-offs (2)	4.2%	2.9%	40.8%	11.0%	5.6%
Loan loss reserves (2)	2.3%	1.9%	12.7%	6.9%	3.3%
Loan loss reserves as % of PAR 30+	94%	141%	111%	100%	112%

(1) includes interest receivable on loans and advances

(2) As percentage of endings loans outstanding

(3) As percentage of average loans outstanding

Exposure to credit risk at December 31, 2010 and 2009, is as follows:

**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 all principal and interest due according to the contractual terms of the loan/securities agreement(s).

**Past due but not impaired loans:** Past due but not 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.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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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 impairment: 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.

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, if any, will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge-off decisions are generally based on a product-specific past due status.

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 starting in 2008 by the implementation of liquidity forecasts and Asset-Liability Commission (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. ALCO uses the liquidity projections to ensure asset growth is 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.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

Debt maturities are laddered out over the future, but the maturity of the assets and liabilities is a natural source of liquidity if needed, as FINCA and the Affiliates tend to borrow with maturity dates greater than the average client loan maturity.

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.

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.

The table below is a summary report as of December 31, 2010:

	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates	FINCA Int'l HQ/Other	Total Consolidated (1)
Cash and cash equivalents	\$ 3,910,201	\$ 12,495,205	\$ 5,014,143	\$ 13,931,192	\$ 35,350,741	\$ 3,535,637	\$ 38,886,378
Investments (2)	3,935,902	5,561,133	10,578	332,621	9,840,234	2,329,359	12,169,593
Total cash and cash equivalents and investments	\$7,846,103	\$18,056,338	\$ 5,024,721	\$ 14,263,813	\$ 45,190,975	\$ 5,864,996	\$ 51,055,971
Total assets	\$67,151,382	\$277,179,471	\$14,609,599	\$119,262,848	\$478,203,300	\$17,822,330	\$496,025,630
Cash and cash equivalents as % of total assets	5.8%	4.5%	34.3%	11.7%	7.4%	19.8%	7.8%
Cash and cash equivalents and investments as % of total assets	11.7%	6.5%	34.4%	12.0%	9.5%	32.9%	10.3%

(1) Net of eliminations

(2) Investments are represented by "available for sale financial assets" and "financial assets at fair value through profit and loss"

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

The table below is a summary report as of December 31, 2009:

	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates	FINCA Int'l HQ/Other	Total Consolidated (1)
Cash and cash equivalents	\$ 4,463,276	\$31,306,816	\$ 3,829,971	\$ 17,220,250	\$ 56,820,313	\$ 9,406,227	\$ 66,226,540
Investments (2)	4,930,927	12,540,386	838,505	3,355,459	21,665,277	(2,948,745)	18,716,532
Total cash and cash equivalents and investments	\$ 9,394,203	\$ 43,847,202	\$ 4,668,476	\$ 20,575,709	\$ 78,485,590	\$ 6,457,482	\$ 84,943,072
Total assets	\$52,667,460	\$266,265,196	\$17,958,100	\$110,243,059	\$ 447,133,815	\$19,766,397	\$466,900,212
Cash and cash equivalents as % of total assets	8.5%	11.8%	21.3%	15.6%	12.7%	47.6%	14.2%
Cash and cash equivalents and investments as % of total assets	17.8%	16.5%	26.0%	18.7%	17.6%	32.7%	18.2%

(1) Net of eliminations

(2) Investments are represented by "available for sale financial assets" and "financial assets at fair value through profit and loss"

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

The table below analyses FINCA's non-derivative financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As of December 31, 2010	Up to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	December 31, 2010 Total
Cash and cash equivalents and restricted cash	\$ 70,757,317	\$ -	\$ -	\$ -	\$ 70,757,317
Available for sale financial assets	7,287,393	1,709,389	-	-	8,996,782
Financial assets at fair value through profit and loss	-	2,021,677	-	1,151,134	3,172,811
Loans receivable	330,701,344	49,562,960	-	-	380,264,304
Grants receivable	634,971	-	-	-	634,971
	\$409,381,025	\$ 53,294,026	\$ -	\$ 1,151,134	\$463,826,185
Accounts payable and other liabilities	\$ 8,975,166	\$ -	\$ -	\$ -	\$ 8,975,166
Customers deposits	30,791,726	-	-	-	30,791,726
Notes payable	139,456,703	127,663,592	4,322,003	2,719,685	274,161,983
Subordinated debt	-	-	-	21,616,568	21,616,568
Refundable advances	4,804,984	-	-	-	4,804,984
	\$184,028,579	\$ 127,663,592	\$ 4,322,003	\$ 24,336,253	\$340,350,427
Liquidity excess (gap)	\$ 225,352,446	\$(74,369,566)	\$ (4,322,003)	\$(23,185,119)	\$123,475,758
As of December 31, 2009	Up to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	December 31, 2009 Total
Cash and cash equivalents and restricted cash	\$ 92,414,811	\$ -	\$ -	\$ -	\$ 92,414,811
Available for sale financial assets	2,401,014	-	-	-	2,401,014
Financial assets at fair value through profit and loss	15,191,348	-	-	2,317,592	17,508,940
Loans receivable	280,389,580	36,818,628	-	-	317,208,208
Grants receivable	3,181,388	-	-	-	3,181,388
	\$ 393,578,141	\$ 36,818,628	\$ -	\$ 2,317,592	\$ 432,714,361
Accounts payable and other liabilities	\$ 9,688,746	\$ -	\$ -	\$ -	\$ 9,688,746
Customers deposits	25,749,904	-	-	-	25,749,904
Notes payable	101,094,314	142,657,918	6,128,269	1,486,363	251,366,864
Subordinated debt	-	-	-	20,570,000	20,570,000
Refundable advances	4,611,410	-	-	-	4,611,410
	\$ 141,144,374	\$ 142,657,918	\$ 6,128,269	\$ 22,056,363	\$ 311,986,924
Liquidity excess (gap)	\$ 252,433,767	\$(105,839,290)	\$ (6,128,269)	\$(19,738,771)	\$ 120,727,437

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

### Capital Management

FINCA manages its affiliate and consolidated capital with the objective of enabling its plans for growth while maintaining a prudent level of capital that is consistent with the risks associated with its business.

**Affiliate capital management:** FINCA manages affiliate capital with a network wide capital adequacy policy. Under this policy, affiliates must maintain a minimum capital to total assets ratio of 20%, unless a higher level is mandated by the Affiliate's Board of Directors, other governing body or local regulatory authorities. Capital includes: i) Tier I capital and ii) Tier II qualifying subordinated debt that has been approved for use by FINCA's Audit Committee. Compliance with this policy is monitored on a monthly basis by affiliate asset liability committees.

**Consolidated capital management:** On a consolidated level, FINCA monitors its capital adequacy by using a Tier I capital to total assets ratio. This is monitored on a quarterly basis through the consolidated asset liability committee.

The below table shows the capital adequacy ratios of FINCA on a consolidated basis:

At December 31,	2010	2009
Reserves	\$ 9,913,487	\$ 5,792,902
Retained earnings	127,542,266	122,759,719
Currency translation reserve	(6,985,965)	(3,354,498)
Tier 1 capital	\$ 130,469,788	\$ 125,198,123
Total assets	\$ 496,025,630	\$ 466,900,212
Tier 1 capital / total assets	26%	27%

**Market risks:** Market risks include interest rate risk and currency risk. FINCA is exposed to interest rate risk because it borrows funds at both fixed and floating rates, due to the difference in reference rates between borrowings and assets (basis risk) and also due to differences between the maturities (measured by duration) of FINCA's liabilities and assets.

Foreign exchange risk exists at both the affiliate and FINCA International level. Affiliates are exposed to exchange rate risk when their liabilities (or assets) are denominated in a currency that differs from their functional currency (the non-functional currency is typically USD). Affiliates are not exposed to any exchange rate risk on either assets or liabilities that are denominated in their functional currency. Certain Affiliates have no foreign exchange risk either because their entire balance sheet is comprised of their functional currency (i.e. Kosovo), because their functional currency is the USD (DRC, Ecuador and El Salvador) or because their currency is pegged to the USD.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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Affiliates match their non-functional currency assets with their non-functional currency liabilities, thereby minimizing or reducing any foreign currency risk. This matching occurs either by converting non-functional currency borrowings into functional currency borrowings, by lending in non-functional currency, and by maintaining other assets in non-functional currency. ALCO committees review an Affiliate's foreign exchange status and risk-mitigation strategies on a monthly basis.

An Affiliate's net long or short foreign currency position is measured in relation to the Affiliate's equity, with the objective of maintaining the position within the more restrictive of (a) lender covenants or (b) the internal FINCA guideline of 30% of the Affiliate's equity or other contractual or local regulatory requirements. Affiliates that have a difference between non-functional currency assets and liabilities typically maintain a higher amount of non-functional currency assets (rendering their net position as "long" in relation to the USD). Thus, the primary means of reducing Affiliate foreign exchange risk is by creating a balance between USD-denominated assets and liabilities. The Affiliates also actively manage their foreign exchange risk through hedging strategies available to them.

FINCA International is not exposed to foreign exchange risk from Affiliate assets or liabilities denominated in USD, but is exposed to foreign exchange risk from Affiliate assets or liabilities that are denominated in any currency other than the USD. FINCA International's foreign exchange risk is mitigated by the low correlation between the various currencies to which it is exposed. The movement between these currencies and the USD tends to be minimally correlated. FINCA International's consolidated ALCO reviews the estimated financial impact of such currency movements. The modeling has shown a significant reduction in FINCA International's foreign exchange risk throughout 2010, owing to both lower currency volatility and to a decrease in cross-currency correlations.

Note that this table below does not consider the effect of affiliates hedging USD-denominated liabilities, which has the effect of converting them from USD to local currency denomination. Thus, while loans indexed to the USD are shown in the USD category below, borrowings that are converted from USD to local currency are shown as USD-denominated. Other noteworthy currencies, while not separately reported, include the Mexican Peso, Russian Rouble, and the Euro.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

At December 31, 2010	USD	Local Currency
<b>Assets</b>		
Cash and cash equivalents	\$ 24,453,434	\$ 14,432,944
Restricted cash	26,729,499	5,141,440
Available for sale financial assets	3,101,967	5,894,815
Financial assets at fair value through profit and loss	3,172,811	-
Loans receivable, net	156,200,877	224,063,426
Grants receivable, net	634,971	-
Other receivables, prepaid and other assets	3,512,359	4,259,486
Deferred tax assets	-	3,441,915
<b>Total assets</b>	<b>\$ 217,805,918</b>	<b>\$ 257,234,026</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 6,168,856	\$ 13,484,821
Customer deposits	16,993,258	13,798,468
Notes payable	175,032,359	99,129,624
Subordinated debt	21,616,568	-
Deferred revenue and refundable advances	12,122,024	1,499,691
Deferred compensation agreement	3,923,568	-
Current income tax liability	312,614	1,199,967
Deferred tax liability	70,862	203,162
<b>Total liabilities</b>	<b>\$ 236,240,109</b>	<b>\$ 129,315,733</b>
<b>Net position</b>	<b>\$ (18,434,189)</b>	<b>\$ 127,918,293</b>

Interest rate risks: FINCA is exposed to interest rate risk because it borrows funds at both fixed and floating rates (repricing risk), due to the difference in reference rates between borrowings and assets (basis risk) and due to the differences between the maturities of FINCA's liabilities and assets (timing risk). There are two main mitigants to the inherent interest rate risk in FINCA's balance sheet. The first mitigant is the large net interest margin (in 2010, FINCA's consolidated net interest margin was 37%), which provides an earnings buffer should market rates (and thus FINCA's borrowings cost) increase. The second mitigant is the short-term contractual repayment terms for loans to FINCA customers. Since customer loans amortize monthly, and given that the contractual repayment duration for customer loans is less than the duration of FINCA's assets, FINCA is able to manage its net interest margin by making changes to rates charged to customers.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

Below is FINCA's consideration of interest rate risk by term of asset or liability at December 31, 2010:

	Up to 3 Months	3-6 Months	7-12 Months	1-3 Years	More than 3 years	Non-interest sensitive balances	Total
Cash and cash equivalents and restricted cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70,757,317	\$ 70,757,317
Available for sale financial assets	2,429,130	629,775	4,228,488	1,709,389	-	-	8,996,782
Financial assets at fair value through profit and loss	-	-	-	2,021,677	1,151,134	-	3,172,811
Loans receivable	282,902,121	28,786,008	19,013,215	49,562,960	-	-	380,264,304
Grants receivable	-	-	-	-	-	634,971	634,971
Other receivables	-	-	-	-	-	7,771,845	7,771,845
Other assets	-	-	-	-	-	24,427,600	24,427,600
<b>Total assets</b>	<b>\$285,331,251</b>	<b>\$29,415,783</b>	<b>\$23,241,703</b>	<b>\$53,294,026</b>	<b>\$1,151,134</b>	<b>\$103,591,733</b>	<b>\$496,025,630</b>
Customers deposits	\$ 25,840,416	\$ 2,330,934	\$ 1,539,586	\$ 1,080,790	\$ -	\$ -	\$ 30,971,726
Notes payable	32,354,724	63,084,630	44,017,349	130,421,292	4,283,988	-	274,161,983
Subordinated debt	-	-	-	-	21,616,568	-	21,616,568
Refundable advances	-	-	-	-	-	13,621,715	13,621,715
Other liabilities	-	-	-	-	-	25,183,850	25,183,850
<b>Total liabilities</b>	<b>\$ 58,195,140</b>	<b>\$65,415,564</b>	<b>\$45,556,935</b>	<b>\$131,502,082</b>	<b>\$25,900,556</b>	<b>\$38,805,565</b>	<b>\$365,555,842</b>
<b>Open position</b>	<b>\$227,136,111</b>	<b>\$ (35,999,781)</b>	<b>\$ (22,315,233)</b>	<b>\$ (78,208,056)</b>	<b>\$(24,749,422)</b>	<b>\$ 64,786,168</b>	<b>\$130,469,788</b>

FINCA International has performed interest rate simulations using the GAP analysis to estimate the effect on economic value for differing levels of immediate and ongoing changes to market interest rates. Note that FINCA can influence certain interest rates, e.g. deposit and lending rates, whereas others are determined by exogenous factors in the global macro-economy.

On a group level, the network-wide impact from simultaneous interest rate shocks of +/- 100bps and +/- 300bps ranges from +/- 1-4 percent of FINCA's consolidated economic value. Therefore, the risk is considered to be low on a consolidated level. Since FINCA's interest-sensitive assets reprice more quickly than does its interest-sensitive liabilities, FINCA's economic value increases when market rates increase (and the opposite is also true).

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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The table below projects the impact on FINCA's consolidated financial statements of such an interest rate shock at December 31, 2010:

	Total impact on Profit for Year	As % of Consolidated Retained Earnings
100 basis point variation	\$ 1,763,977	1.4%
300 basis point variation	5,291,532	4.1%

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 was 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

### 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 at December 31, 2010 and 2009:

At December 31, 2010	Designated At Fair Value	Available For Sale	Loans And Receivables	Amortized Cost	Carrying Amount	Fair Value
Cash and cash equivalents and restricted cash	\$ -	\$ -	\$ 70,757,317	\$ -	\$ 70,757,317	\$ 70,757,317
Available for sale financial assets	-	8,996,782	-	-	8,996,782	8,996,782
Financial assets at fair value through profit and loss	3,172,811	-	-	-	3,172,811	3,172,811
Loans receivable, net	-	-	380,264,304	-	380,264,304	380,264,304
Grants receivable	-	-	634,971	-	634,971	634,971
	\$ 3,172,811	\$ 8,996,782	\$ 451,656,592	\$ -	\$ 463,826,185	\$ 463,826,185
Accounts payable and other liabilities	\$ -	\$ -	\$ -	\$ 8,975,166	\$ 8,975,166	\$ 8,975,166
Customers deposits	-	-	-	30,791,726	30,791,726	30,791,726
Notes payable	-	-	-	274,161,983	274,161,983	274,161,983
Subordinated debt	-	-	-	21,616,568	21,616,568	21,616,568
Refundable advances	-	-	-	4,804,984	4,804,984	4,804,984
	\$ -	\$ -	\$ -	\$ 340,350,427	\$ 340,350,427	\$ 340,350,427

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

At December 31, 2009	Designated At Fair Value	Available For Sale	Loans And Receivables	Amortized Cost	Carrying Amount	Fair Value
Cash and cash equivalents and restricted cash	\$ -	\$ -	\$ 92,414,811	\$ -	\$ 92,414,811	\$ 92,414,811
Available for sale financial assets	-	2,401,014	-	-	2,401,014	2,401,014
Financial assets at fair value through profit and loss	15,191,348	-	-	-	15,191,348	15,191,348
Loans receivable	-	-	317,208,208	-	317,208,208	317,208,208
Grants receivable	-	-	634,971	-	634,971	634,971
	\$ 15,191,348	\$ 2,401,014	\$ 410,257,990	\$ -	\$ 427,850,352	\$ 427,850,352
Accounts payable and other liabilities	\$ -	\$ -	\$ -	\$ 9,688,746	\$ 9,688,746	\$ 9,688,746
Customers deposits	-	-	-	25,749,904	25,749,904	25,749,904
Notes payable	-	-	-	251,366,864	251,366,864	251,366,864
Subordinated debt	-	-	-	20,570,000	20,570,000	20,570,000
Refundable advances	-	-	-	4,611,410	4,611,410	4,611,410
	\$ -	\$ -	\$ -	\$ 311,986,924	\$ 311,986,924	\$ 311,968,924

(1) Excludes Office supply (See Note 15)

Cash and financial assets (mainly represented by certificates of deposits that mature within 12 months and similar investments) and liabilities carrying amounts approximate their fair values. All receivables are due within 12 months and thus the carrying amounts approximate fair value. In regards to the loans to customers, management prepares an analysis of the loans by region to determine the average loan maturity. The majority of the loans are due within 12 months and thus the carrying amount approximates fair value. The interest rate used on each loan is based on the market conditions of each country at the time of the loan.

FINCA has a currency swap measured at fair value in the amount of \$2,021,677 and \$1,193,422 and as of December 31, 2010 and 2009, respectively, and is included in financial assets designated through profit and loss in the consolidated balance sheets. FINCA considers the currency swap agreement to be a Level 2 instrument, based on the observable market inputs of the pertinent currencies affecting the swap.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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### 7. Net Interest Income before Provision for Impairment Losses

Net interest income before provision for impairment losses for the year ended December 31, 2010, is as follows:

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Interest income:	
Cash and cash equivalents and investments	\$ 3,405,200
Loans and advances to clients	159,872,285
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Total interest income	\$ 163,277,485
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Interest expense:	
Deposits from clients	\$ 247,518
Notes payable and subordinated debt	26,960,393
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Total interest expense	27,207,911
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Net interest income before provision for impairment losses	\$ 136,069,574

Net interest income before provision for impairment losses for the year ended December 31, 2009, is as follows:

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Interest income:	
Cash and cash equivalents and investments	\$ 2,389,369
Loans and advances to clients	151,762,099
<hr/>	
Total interest income	\$ 154,151,468
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Interest expense:	
Deposits from clients	\$ 273,602
Notes payable and subordinated debt	26,725,581
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Total interest expense	26,999,183
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Net interest income before provision for impairment losses	\$ 127,152,285

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# FINCA International, Inc.

## Notes to Consolidated Financial Statements

### 8. Personnel Expenses

Personnel expenses for the years ended December 31, 2010 and 2009, consist of the following:

	2010	2009
Wages and salaries	\$ 57,615,114	\$ 57,771,334
Compulsory social security obligations	10,817,247	9,703,938
Increase in liabilities for defined benefit plans	531,515	236,314
Increase in liabilities for long-term service-leave	232,762	206,294
Health insurance	1,954,532	1,135,232
Allowances, incentives and other benefits	10,308,550	6,810,242
	<u>\$ 81,459,720</u>	<u>\$ 75,863,354</u>

### 9. Other Operating Expenses

	2010	2009
Professional fees	\$ 8,843,469	\$ 9,303,813
Rent expenses	8,271,189	7,648,193
Travel	5,949,295	6,768,650
Communication	3,944,462	3,619,530
Consumables and office supply	3,066,710	2,452,237
Bank charges	2,599,562	2,724,041
Repairs and maintenance	2,391,019	2,748,912
Taxes other than income	2,345,436	1,762,326
Security	2,209,843	1,906,109
Motor vehicles expenses	1,930,303	972,158
Training and hiring	1,668,468	1,455,401
Marketing	1,614,581	4,552,538
Utilities	1,167,105	756,542
Insurance	760,967	1,600,581
Other expenditures	9,001,676	7,559,943
	<u>\$ 55,764,085</u>	<u>\$ 55,830,974</u>

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

### 10. Income Tax Expense

This item includes all taxes on income. Income tax expense for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Current tax expense	\$ 5,917,977	\$ 6,504,998
Deferred tax benefit	(1,250,785)	(3,434,621)
	<u>\$ 4,667,192</u>	<u>\$ 3,070,377</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, 2010 and 2009. The average income tax rate increased slightly from 23.5% in 2009 to 23.6% in 2010.

### 11. Other Income

	2010	2009
Grants:		
U.S. Department of Agriculture	\$ 3,770,521	\$ 3,222,359
U.S. Agency for International Development	143,221	1,209,246
Other	3,521,023	1,020,128
	<u>\$ 7,434,765</u>	<u>\$ 5,451,733</u>
Donations:		
Private	\$ 11,064,926	\$ 12,113,317
Corporate	1,620,411	2,449,702
In-Kind	1,208,434	1,346,207
	<u>\$ 13,893,771</u>	<u>\$ 15,909,226</u>

### 12. Restricted Cash

Restricted cash balances of \$31,870,939 and 26,188,271 as of December 31, 2010 and 2009, respectively comprise undisbursed grant funds to be used in lending and operations, cash balances for country-specific regulatory requirements, and pledged collateral related to local borrowings and deposits, all of which can be contractually released within 12 months.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

### 13. Available for Sale Financial Assets

	2010	2009
Investment in FINCA Microfinance Fund	\$ 1,100,000	\$ 1,100,000
Certificates of deposit and other	7,896,782	16,408,940
	<u>\$ 8,996,782</u>	<u>\$ 17,508,940</u>

In 2009, FINCA International invested in \$1.1 million Class IIIB Notes in the FINCA Microfinance Fund B.V. incorporated in the Netherlands. This \$21.2 million special purpose fund, structured, placed and managed by Deutsche Bank, provided \$20,570,000 in subordinated loans to seven of FINCA International's Affiliates in Armenia, Azerbaijan, Democratic Republic of Congo, Georgia, Kyrgyzstan, Mexico and Tajikistan. The subordinated debt is designed as Tier 2 capital securities to alleviate capital constraints of the respective FINCA International Affiliates. Investors in the fund are primarily from the private sector. The fund seeks to provide socially-motivated investors an exposure to global microfinance, through the issuance of subordinated loans. FINCA International intends to hold the investment to maturity on September 20, 2016. This investment was funded by a loan of \$1.1 million from Deutsche Bank.

Certificates of deposit with maturity over three months are qualified and reported as available for sale financial assets in the consolidated balance sheets.

### 14. Financial Assets at Fair Value through Profit and Loss

	2010	2009
Life insurance	\$ 1,151,134	\$ 1,207,592
Currency SWAP fair value	2,021,677	1,193,422
	<u>\$ 3,172,811</u>	<u>\$ 2,401,014</u>

FINCA owns life insurance policies on key employees with an aggregate face value of \$11,945,502 at both December 31, 2010 and 2009. The aggregate cash surrender value was \$1,151,134 and \$1,207,592 at December 31, 2010 and 2009, respectively.

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 Russia. The fair value of the swap was \$170,079 and \$406,422 at December 31, 2010 and 2009, respectively.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

Another \$1,851,598 and \$787,000 as at December 31, 2010 and 2009, respectively, represents the fair value of a swap entered into by Kyrgyzstan to hedge the change in the Kyrgyz sum exchange rate to U.S. dollar under the loan agreement. Total principal amount borrowed during 2010 and 2009 is equivalent to \$28,283,000 and \$21,875,000, in USD, respectively.

Neither of the above hedge transactions qualified for hedge accounting.

### 15. Loans Receivable

	2010	2009
Gross loans to customers	\$ 386,996,094	\$ 327,929,481
Less allowances for impairment	(6,731,790)	(10,721,273)
<b>Total loans to customers at December 31, net</b>	<b>\$ 380,264,304</b>	<b>\$ 317,208,208</b>
Allowance for impairment		
Balance at 1 January	\$ 10,721,273	\$ 11,577,485
Impairment loss for the year:		
Charge for the year	5,724,041	8,148,132
Amounts written off net of recovery	(9,750,697)	(8,813,962)
Effect of foreign currency movements	37,173	(190,382)
<b>Total allowance for input at December 31,</b>	<b>\$ 6,731,790</b>	<b>\$ 10,721,273</b>
Gross loans to customers current	337,433,134	281,110,853
Gross loans to customers non-current (due within 12-36 months)	49,562,960	46,818,628
<b>Total gross loans to customers, at December 31,</b>	<b>\$ 386,996,094</b>	<b>\$ 327,929,481</b>

The loans to customers that were impaired were approximately 0.6% - 2.6% and 1.3%-11.4% of the total loan portfolio by regions at December 31, 2010 and December 31, 2009, respectively. 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.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

### 16. Other Receivables, Prepaid Expenses and Other Assets

The balances below represent non-financial assets of FINCA for the years ended December 31, 2010 and 2009, respectively.

	2010	2009
Prepaid rent	\$ 1,471,743	\$ 952,634
Taxes	600,756	1,520,424
Staff advances and loans	562,804	651,725
Prepaid expenses	495,166	1,896,681
Office supply	360,420	256,555
Other debtors	4,280,956	3,644,040
<b>Total other receivables, prepaid expenses and other assets</b>	<b>\$ 7,771,845</b>	<b>\$ 8,922,059</b>

### 17. Property and Equipment

Property and equipment, in dollars, are as follows:

	Total	Land and Buildings	Construction-In-Progress	Leasehold Improvements	Furniture And Office Equipment	Computer Equipment	Vehicles	Other
Useful life	-	20 - 50 years	-	Lesser of useful life or lease term	5-7 years	2-5 years	3-5 years	2.5 years
Cost								
Balance at								
January 1, 2009	\$ 25,378,322	\$ 2,402,904	\$ 1,188,862	\$ 2,283,393	\$ 8,871,257	\$ 5,371,293	\$ 4,507,065	\$ 753,548
Acquisitions	8,181,034	1,072,000	978,027	908,850	2,778,733	1,041,614	512,607	889,203
Disposals	(4,119,644)	(106,293)	(1,623,339)	(156,615)	(472,036)	(1,046,612)	(364,600)	(350,149)
Currency translation	(723,217)	(469,044)	(6,108)	(35,785)	(76,780)	(119,022)	(25,454)	8,976
Balance at								
December 31, 2009	\$ 28,716,495	\$ 2,899,567	\$ 537,442	\$ 2,999,843	\$ 11,101,174	\$ 5,247,273	\$ 4,629,618	\$ 1,301,578
Balance at								
January 1, 2010	\$ 28,716,495	\$ 2,899,567	\$ 537,442	\$ 2,999,843	\$ 11,101,174	\$ 5,247,273	\$ 4,629,618	\$ 1,301,578
Acquisitions	7,128,829	261,127	1,608,757	1,342,551	1,705,099	1,529,593	547,058	134,644
Disposals	(3,009,385)	(27,661)	(1,307,867)	(53,579)	(961,038)	(308,075)	(296,679)	(54,486)
Currency translation	(942,638)	(92,829)	54,436	(106,828)	(380,122)	(230,776)	(181,833)	(4,686)
Balance at								
December 31, 2010	\$ 31,893,301	\$ 3,040,204	\$ 892,768	\$ 4,181,987	\$ 11,465,113	\$ 6,238,015	\$ 4,698,164	\$ 1,377,050

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

### Depreciation and impairment losses:

	Total	Land and Buildings	Construction-In-Progress	Leasehold Improvements	Furniture And Office Equipment	Computer Equipment	Vehicles	Other
Balance at January 1, 2009	\$ 9,990,227	\$ 96,837	\$ -	\$ 938,273	\$ 4,203,751	\$ 2,587,597	\$ 2,007,768	\$ 156,001
Depreciation for the period	3,701,931	86,641	-	516,943	1,231,598	1,110,451	766,182	(9,884)
Disposals	(338,288)	(17,000)	-	(41,688)	(40,616)	(77,321)	(156,977)	(4,686)
Currency translation	(41,403)	(3,965)	-	5,527	7,647	(56,428)	5,624	192
Balance at December 31, 2009	\$ 13,312,467	\$ 162,513	\$ -	\$ 1,419,055	\$ 5,402,380	\$ 3,564,299	\$ 2,622,597	\$ 141,623
Balance at January 1, 2010	\$ 13,312,467	\$ 162,513	\$ -	\$ 1,419,055	\$ 5,402,380	\$ 3,564,299	\$ 2,622,597	\$ 141,623
Depreciation for the period	4,629,535	134,625	185,958	924,478	1,432,121	1,208,096	702,538	41,719
Impairment	300,121	19,571	-	-	190,869	55,329	32,976	1,376
Disposals	(1,009,229)	(17,585)	(41,134)	(11,889)	(592,126)	(225,693)	(118,599)	(2,203)
Currency translation	(537,645)	(5,331)	32,503	(47,114)	(252,566)	(123,459)	(140,630)	(1,048)
Balance at December 31, 2010	\$ 16,695,249	\$ 293,793	\$ 177,327	\$ 2,284,530	\$ 6,180,678	\$ 4,478,572	\$ 3,098,882	\$ 181,467
<u>Carrying amounts:</u>								
Balance at January 1, 2009	\$ 15,388,095	\$ 2,306,067	\$ 1,188,862	\$ 1,345,120	\$ 4,667,506	\$ 2,783,696	\$ 2,499,297	\$ 597,547
Balance at January 1, 2010	\$ 15,404,028	\$ 2,737,054	\$ 537,442	\$ 1,580,788	\$ 5,698,794	\$ 1,682,974	\$ 2,007,021	\$ 1,159,955
Balance at December 31, 2010	\$ 15,198,052	\$ 2,746,411	\$ 715,441	\$ 1,897,457	\$ 5,284,435	\$ 1,759,443	\$ 1,599,282	\$ 1,195,583

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

### 18. Intangible Assets

	Total	Capitalized Software	Capital Work-In- Progress	Other
<b>Cost:</b>				
Balance at January 1, 2009	\$ 4,471,455	\$ 1,545,396	\$ 2,123,796	\$ 802,263
Acquisitions	7,223,998	7,223,998	-	-
Disposals	(2,132,323)	(8,527)	(2,123,796)	-
Currency translation	19,712	19,712	-	-
<b>Balance at December 31, 2009</b>	<b>\$ 9,582,842</b>	<b>\$ 8,780,579</b>	<b>\$ -</b>	<b>\$ 802,263</b>
Balance at January 1, 2010	\$ 9,582,842	\$ 8,780,579	\$ -	\$ 802,263
Acquisitions	2,654,821	1,893,995	629,104	131,721
Disposals	(2,869,195)	(2,044,695)	(135,977)	(688,522)
Currency translation	23,589	44,744	(24,857)	3,702
<b>Balance at December 31, 2010</b>	<b>\$ 9,392,058</b>	<b>\$ 8,674,623</b>	<b>\$ 468,270</b>	<b>\$ 249,164</b>
<b>Amortization and impairment:</b>				
Balance at January 1, 2009	\$ 205,340	\$ 205,340	\$ -	\$ -
Amortization for the period	1,377,891	1,377,891	-	-
Impairment loss/disposals	1,722,920	1,034,398	-	688,522
Currency translation	19,712	19,712	-	-
<b>Balance at December 31, 2009</b>	<b>\$ 3,325,863</b>	<b>\$ 2,637,341</b>	<b>\$ -</b>	<b>\$ 688,522</b>
Balance at January 1, 2010	\$ 3,325,863	\$ 2,637,341	\$ -	\$ 688,522
Amortization for the period	1,516,555	1,364,992	-	151,563
Impairment loss/disposals	(1,262,207)	(573,685)	-	(688,522)
Currency translation	24,213	24,213	-	-
<b>Balance at December 31, 2010</b>	<b>\$ 3,604,424</b>	<b>\$ 3,452,861</b>	<b>\$ -</b>	<b>\$ 151,563</b>
<b>Carrying amounts</b>				
Balance at January 1, 2009	\$ 4,266,115	\$ 1,340,056	\$ 2,123,796	\$ 802,263
Balance at January 1, 2010	\$ 6,256,979	\$ 6,143,238	\$ -	\$ 113,741
<b>Balance at December 31, 2010</b>	<b>\$ 5,787,633</b>	<b>\$ 5,221,762</b>	<b>\$ 468,270</b>	<b>\$ 97,601</b>

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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There was no impairment loss for the year ended December 31, 2010.

Impairment loss for the year ended December 31, 2009 is mainly represented by a write-off of \$688,522 of goodwill and \$374,229 of software from the Micro Finance Solutions Inc. (MFSI) which was no longer operational as of December 31, 2009. An additional \$622,378 of capitalized software cost by FINCA Mexico as a result of an annual impairment assessment. The value in use for these assets is deemed to be zero.

### 19. Accounts Payable and Accrued Liabilities

	2010	2009
Bank overdraft	\$ 1,181,033	\$ 998,045
Other accounts payable and accrued expenses	7,794,133	8,690,701
Total financial liabilities, excluding loans and borrowings, classified as financial liability measured at amortized cost	8,975,166	9,688,746
Tax and other budget liability	2,772,103	6,693,667
Personnel	7,906,408	5,140,133
Total accounts payable and accrued liabilities	\$ 19,653,677	\$ 21,522,546

The fair values of accounts payable and accrued liabilities classified as financial liabilities measured at amortized cost was based on cash flows discounted at rates commensurate within the respective Affiliate country.

All accounts payable and accrued liabilities have a maturity of no more than twelve months from the balance sheet date.

Book values approximate to fair value at December 31, 2010 and 2009, respectively.

### 20. Customer Deposits

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.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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.

	2010	2009
Compulsory savings	\$ 15,233,271	\$ 13,152,835
Voluntary savings:		
Savings accounts	9,854,179	7,177,720
Term deposit accounts	5,319,151	5,004,467
Other voluntary savings	385,125	459,882
Total voluntary savings	15,558,454	12,642,069
	\$ 30,791,726	\$ 25,794,904

### 21. Notes Payable

FINCA and its affiliates have two broad categories of debt: charitable and commercial. The majority of FINCA's Loans are sourced from international financial institutions supporting microfinance, but has also borrowed from private sources. Interest rates paid by Affiliates range from 0% in charitable oriented loans, up to 19.5% in local currencies for commercial loans in countries with high perceived risk or with depreciating currencies. In some situations, FINCA International, as the parent Company may be directly liable or may offer support as to loans for Affiliates without adequate credit standing, which may be in the form of a direct guarantee, letter of credit, comfort letter, or another form of credit enhancement. As of each balance sheet date, some FINCA Affiliates have breached covenants contained in financing agreements underlying these obligations. Management believes that these breaches are primarily due to recent global economic conditions which have impacted microfinance, or in some cases due to local political and economic developments. A breach of a loan covenant could permit a lender to accelerate payment of the loan, but would not permit a cross-default beyond the particular Affiliate. Management has obtained either formal waivers of these breaches or assurances from lenders that the covenants will not be enforced. However, no assurance can be provided that these waivers will be extended indefinitely or that all performance can be brought into full compliance. As of December 31, 2010 Kosovo was in breach of their covenant for the loan in the amount of \$9,662,056. Oral or written waivers are obtained from the lenders. Remediation plan is discussed and approved by the lenders.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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	2010	2009
Notes payable		
Principal amount	\$ 270,292,475	\$ 247,665,918
Accrued interest	3,869,508	3,700,946
	<hr/>	<hr/>
	\$ 274,161,983	\$ 251,366,864

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

*Years Ending December 31,*

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2011	\$ 135,587,195
2012	86,179,104
2013	41,484,488
2014	2,757,700
2015	1,564,303
Thereafter	2,719,685
	<hr/>
	\$ 270,292,475

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## 22. Subordinated Debt

Subordinated debt were received in 2009 by seven Affiliates from FINCA Microfinance Fund B.V. Maturity of this debt is on September 20, 2016, and an effective interest rate varies from Affiliate to Affiliate in the range of 12.8 to 16.2%. Subordinated debt agreements with FINCA Affiliates contain the following key provisions: no early redemption, and the principal of the subordinated debt is junior in right of repayment to holders of senior debt. Each individual subordinated debt agreement includes a number of financial covenants. As of December 31, 2010 Tajikistan was in breach of their \$1,500,000 subordinated debt agreement on the 12-month positive ROA covenant. The lender is aware of the breach and has provided a written waiver.

## 23. 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 deferred revenue.

Refundable advances from customers are mainly represented by loan guarantees, which are deposited with the Affiliates and to be returned to the clients at the expiration of the loan contracts. As a rule, these deposits are clearly identified and designated exclusively for this

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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purpose. These guarantees are not used by the Affiliates to increase their loan portfolio nor to increase their working capital. They do not represent customers' saving funds and are classified as restricted cash in the consolidated financial statements.

	2010	2009
U.S. Department of Agriculture	\$ 8,816,731	\$ 12,416,452
Refundable advances	4,804,984	4,611,410
	<b>\$ 13,621,715</b>	<b>\$ 17,027,862</b>

### 24. Pension Plan Deferred Compensation and Defined Benefit Agreement

FINCA has implemented an employee retirement plan (the Plan) under Internal Revenue Code Section 403(b). Under the Plan, qualified employees may defer compensation up to the maximum amount permitted by the Internal Revenue Code (the elective deferral limit was \$16,500 and the catch-up contribution limit was \$5,500 both in 2010 and 2009). FINCA may make contributions to the Plan as a discretionary employer match. FINCA's contributions to the Plan during the years ended December 31, 2010 and 2009, correspondingly, were \$235,500 and \$224,304, respectively.

FINCA also maintains a defined senior executive retirement plan agreement (the Agreement) for certain officers and directors, which provides benefits payable upon retirement from FINCA (no sooner than at age 65). In addition, a death benefit is payable to a surviving spouse or named beneficiary in the event of the death of the eligible officer/director prior to retirement. The Agreement is offered at the sole discretion of FINCA's Members. Although not part of the Agreement, FINCA maintains whole life insurance policies on the Agreement beneficiaries to provide a source of funding for the Agreement. FINCA is the policy owner and beneficiary of these whole life insurance policies.

Currently, several key employees are enrolled in the Agreement. In 2010, FINCA's management approved a plan amendment for a tax-gross up benefit payable to the plan members upon vesting totaling \$940,679. The present value of the projected benefit obligation under this Agreement is being calculated using a discount rate of 5.00% in 2010 and 5.75% in 2009 ratably over the remaining years to the date when the employee is first eligible for benefits.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

The funded status of FINCA's defined plan at December 31, 2010 is summarized as follows:

	2010	2009
Projected benefit obligation at December 31	\$ 3,923,568	\$ 2,460,425
Less: FMV of life insurance policies (cash surrender value) at December 31	(1,151,134)	(1,207,592)
	\$ 2,772,434	\$ 1,252,833

Net periodic cost was \$343,496 and \$126,965, for the years ended December 31, 2010 and 2009, respectively.

Net benefit payments made were \$45,000 and \$40,000 for the years ended December 31, 2010 and 2009, respectively.

### 25. Operating Leases

At December 31, 2010, 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 month-to-month or year-by-year basis and are in line with general rental market conditions. Future minimum lease payments under existing lease contracts are due, in dollars, as follows:

	2010	2009
Less than one year	\$ 2,191,078	\$ 2,828,994
Between one and five years	4,662,154	8,057,453
More than five years	391,338	499,031
	\$ 7,244,570	\$ 11,385,478

Rent expense was \$8,271,189 and \$7,648,193, for years ended December 31, 2010 and 2009, respectively.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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### 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:

#### Foreign Representative Offices (Regional Hubs):

Kampala, Uganda (Representative Office of FINCA International, Inc.)  
Kiev, Ukraine (Representative Office of FINCA International LLC)

#### Foreign Branches of FINCA International, Inc. Engaged In Retail Lending Activities (Branches):

Kosovo  
Georgia

#### Controlled Affiliates (Foundations Or Non-Stock Companies Limited By Guarantee Whose Management Bodies Are Controlled By Affiliated Individuals And Which Engage In Retail Lending Activities) (Controlled Affiliates):

Armenia	FINCA Charity Foundation (non-operating)
El Salvador	Asociación de Fomento Integral Comunitaria de El Salvador
Guatemala	Fundacion Internacional para la Asistencia Comunitaria, FINCA/Guatemala
Haiti	FINCA Haiti
Honduras	Fundacion Internacional para la Asistencia Comunitaria de Honduras
Nicaragua	Fundacion Internacional para la Asistencia Comunitaria de Nicaragua (FINCA Nicaragua)
Malawi	Foundation for International Community Assistance
Mexico	Fundacion Integral Comunitaria, Asociación Civil
Tanzania	FINCA Tanzania Limited

#### Subsidiaries Engaged In Retail Lending Activities (Lending Subsidiaries):

Armenia	FINCA Universal Credit Organization Closed Joint Stock Company
Azerbaijan	FINCA Azerbaijan Limited Liability Non-Bank Credit Organization
Ecuador	Banco para la Asistencia Comunitaria, FINCA SA (94%)
Kyrgyzstan	FINCA Micro-Credit Company Closed Joint Stock Company (FMCC)
Russia	FINCA Closed Joint Stock Company
Tajikistan	FINCA Micro-Credit Deposit Organization LLC
Uganda	Foundation for International Community Assistance
Zambia	FINCA Zambia Limited
DR Congo	FINCA DR Congo SARL
Honduras	Sociedad Financiera FINCA, SA
Afghanistan	FINCA Afghanistan
Georgia	JSC MFO FINCA
Jordan	FINCA Jordan PSA
Mexico	Financiera Finca, S.A. de C.V. SOFOM, ENR (Yet Operational)
Nicaragua	Financiera FINCA Nicaragua, S.A. (Yet Operational)

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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### Non-Retail Lending Subsidiaries:

Cayman Islands	FINCA Microfinance Resource
Cayman Islands	Micro-Finance Solutions, Inc, (MFSI) (dormant)
Guatemala	MFSI Guatemala, S.A.
Uganda	FINCA Africa IT Service Centre
USA	FINCA Capital Fund LLC
USA	FINCA Licensing & Support LLC

## 27. Segment Analysis

FINCA divides its operations into segments solely according to geographical regions. It carries out its business activities in four regions: Latin America, Eurasia, Africa and the Greater Middle East. No business with external customers takes place within the segment “Corporate, Other and Eliminations.” For informational reasons, it is presented separately.

Since business activities in all countries are carried out with local customers, all items are allocated to the country in which the respective Affiliate is based. In all countries, the core business consists of lending to individuals and to groups of individuals that lack access to traditional financial institutions.

With the exception of the relationship between the parent company (Corporate, Other and Eliminations) and the individual Affiliates, there are no significant income or expense items arising from business dealings between segments. All income and expense items between the segments are disclosed separately in the following table. These are primarily interest income and expenses derived from loans extended by Corporate to the Affiliates. The interest rates are based on the current market rates plus a margin according to the risk assessment of the individual country.

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

For the year ended December 31, 2010	Africa	Eurasia	Latin America	Middle East	Total Operations Segments	Corporate, Other And Eliminations	Total
Interest income	\$26,843,245	\$ 89,281,097	\$ 44,850,210	\$ 2,582,259	\$163,556,811	\$ (279,326)	\$ 163,277,485
Interest expense	1,579,279	20,511,329	5,428,821	356,149	27,875,578	(667,667)	27,207,911
Impairment loss on loans	703,438	2,281,660	2,743,919	(4,976)	5,724,041	-	5,724,041
Net interest income after impairment losses	24,560,528	66,488,108	36,677,470	2,231,086	129,957,192	388,341	130,345,533
Personnel expenses	12,431,858	32,255,811	19,210,128	2,403,839	66,301,636	15,158,084	81,459,720
Other operating expenses	9,795,677	19,005,895	17,780,042	1,938,032	48,519,646	7,244,439	55,764,085
Depreciation and amortization	1,401,570	2,385,853	1,659,485	205,867	5,652,775	155,305	5,808,080
Operation expenses	23,629,105	53,647,559	38,649,655	4,547,738	120,474,057	22,557,828	143,031,885
Other operating income	2,002,469	696,529	3,411,371	56,930	6,167,299	18,019	6,185,318
Operating results	2,933,892	13,537,078	1,439,186	(2,259,722)	15,650,434	(22,151,468)	(6,501,034)
Grants and donations	893,384	210,479	1,687,312	217,873	3,009,048	18,319,488	21,328,536
Non-operating income and expenses	42,845	(1,435,755)	948,338	37,390	(407,182)	2,762,111	2,354,929
Foreign exchange loss	(100,706)	(1,651,169)	(15,452)	(539,228)	(2,306,555)	(181,317)	(2,487,872)
Income tax expenses	289,603	2,427,057	1,950,532	-	4,667,192	-	4,667,192
Profit (loss) for the year	\$ 3,479,812	\$ 8,233,574	\$ 2,108,852	\$ (2,543,687)	\$ 11,278,553	\$ (1,251,186)	\$ 10,027,367

December 31, 2010	Africa	Eurasia	Latin America	Middle East	Total Operations Segments	Corporate, Other And Eliminations	Total
Total assets excluding deferred taxes	\$ 66,788,789	\$ 275,194,774	\$118,106,283	\$ 14,609,600	\$ 474,699,446	\$ 17,884,269	\$492,583,715
Loans and advances to customers (gross)	47,479,738	241,628,063	90,825,382	7,062,911	386,996,094	-	386,996,094
Total liabilities excluding taxes	44,942,896	216,911,918	82,728,995	5,629,416	350,213,225	15,068,595	365,281,820
Equity	22,208,566	59,069,234	35,945,567	8,980,185	126,203,552	4,266,236	130,469,788

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

For the year ended December 31, 2009	Africa	Eurasia	Latin America	Middle East	Total Operations Segments	Corporate, Other And Eliminations	Total
Interest income	\$ 23,784,399	\$ 81,597,326	\$ 46,711,796	\$ 2,542,178	\$ 154,635,699	\$ (484,231)	\$ 154,151,468
Interest expense	1,473,393	20,374,588	5,887,654	673,864	28,409,499	(1,410,316)	26,999,183
Impairment loss on loans	316,317	3,825,341	3,921,838	84,636	8,148,132	-	8,148,132
Net interest income after impairment losses	21,994,689	57,397,397	36,902,304	1,783,678	118,078,068	926,085	119,004,153
Personnel expenses	11,171,434	24,400,007	18,709,238	2,572,599	61,853,278	14,010,076	75,863,354
Other operating expenses	9,195,741	18,268,243	17,501,345	2,797,605	47,762,934	8,068,040	55,830,974
Depreciation and amortization	1,280,607	1,580,541	1,835,249	150,769	4,847,166	2,342,732	7,189,898
Operation expenses	21,647,782	49,248,791	38,045,832	5,520,973	114,463,378	24,420,848	138,884,226
Other operating income	359,496	2,655,355	1,495,637	120,980	4,631,468	9,384	4,640,852
Operating results	706,403	10,803,961	352,109	(3,616,315)	8,244,158	(23,485,379)	(15,239,221)
Grants and donations	491,136	-	806,514	1,160,485	2,458,135	18,902,824	21,360,959
Non-operating income and expenses	678,959	(343,387)	414,556	-	750,128	(124,737)	625,391
Foreign exchange gain (loss)	104,352	(1,790,404)	193,525	128,897	(1,360,630)	(1,573,770)	(2,934,400)
Income tax expenses	(580,243)	2,140,520	1,502,339	-	3,062,616	7,761	3,070,377
Profit (loss) for the year	\$ 2,561,093	\$ 6,529,650	\$ 267,365	\$ (2,326,933)	\$ 7,031,175	\$ (1,593,894)	\$ 742,352

December 31, 2009	Africa	Eurasia	Latin America	Middle East	Total Operations Segments	Corporate, Other And Eliminations	Total
Total assets excluding deferred taxes	\$ 52,067,432	\$ 263,704,528	\$109,800,970	\$ 17,958,100	\$ 443,531,030	\$ 19,766,397	\$ 463,297,427
Loans and advances to customers (gross)	35,206,398	208,134,103	78,792,697	5,796,238	327,929,481	-	327,929,481
Total liabilities excluding taxes	37,949,998	212,415,306	77,982,806	8,489,040	336,837,150	3,179,260	340,016,410
Equity	14,717,464	52,169,907	30,999,752	9,412,543	107,299,666	17,898,457	125,198,123

# FINCA International, Inc.

## Notes to Consolidated Financial Statements

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### 28. Related Parties

Grants and contributions: FINCA solicits and obtains grants and contributions on behalf of the Affiliates. For the years ended December 31, 2010 and 2009, grants and contributions obtained by FINCA and provided to the Affiliates totaled \$7,342,450, and \$6,161,631, respectively.

Affiliation fees: Beginning January 1, 2009, FINCA began annually assessing its affiliates with fees at a rate of 1% of their total assets. These amounts are reassessed on a quarterly basis and payment terms determined for each Affiliate by management. These fees are for technical assistance and other services provided by FINCA. Total billings to the Affiliates for management services received for the years ended December 31, 2010 and 2009, were \$3,328,670 and \$2,903,987, respectively.

### 29. Management Compensation

For the year ended December 31, 2010 and 2009, total compensation paid to the management of FINCA amounted to:

	2010	2009
Short term benefits	\$ 2,797,048	\$ 2,758,009
Post employment benefits	45,000	126,965
Other long term benefits	-	22,006
	<u>\$ 2,842,048</u>	<u>\$ 2,906,980</u>