

FINCA International, Inc.

Consolidated Financial Report
December 31, 2009

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of FINCA International, Inc. (FINCA) as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, as well as a summary of significant accounting policies and other explanatory information. These financial statements are the responsibility of FINCA's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We 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, as well as 76% and 85%, respectively, of the related totals as of and for the year ended December 31, 2008. Except for 2.7% of assets and revenue that were not audited, those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as they relate to the amounts included for FINCA, is based solely on the reports of the other auditors.

We conducted our audits in accordance with International Standards on Auditing and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding the affiliates that were not audited, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of FINCA International, Inc. as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

McGladrey & Pullen, LLP

Vienna, Virginia
June 25, 2010

FINCA International, Inc.

Consolidated Balance Sheets
December 31, 2009 And 2008

<u>Assets</u>	Notes	2009	2008
Cash And Cash Equivalents	11	\$ 92,414,811	\$ 72,022,853
Investments	12	18,716,532	3,097,368
Loans Receivable, net	13	317,208,208	342,400,798
Grants Receivable, net		3,181,388	3,569,945
Other Receivables, Prepaid Expenses And Other Assets	14	10,115,481	7,730,675
Property And Equipment, net of accumulated depreciation	15	15,404,028	15,388,094
Intangible Assets, net	16	6,256,979	4,266,115
Deferred Tax Assets	9	3,602,785	2,426,327
		<u>\$ 466,900,212</u>	<u>\$ 450,902,175</u>
<u>Liabilities and Equity</u>			
Liabilities			
Accounts payable	17	\$ 26,537,261	\$ 16,122,140
Other liabilities		7,055,516	19,222,905
Customer deposits and cash collateral	18	15,242,183	13,518,554
Notes payable	19	248,411,519	262,856,117
Subordinated debt	22	20,570,000	-
Refundable advances	20	19,739,506	9,011,557
Deferred compensation agreement	21	2,460,425	2,450,857
Deferred tax liabilities	9	1,685,679	943,842
		<u>341,702,089</u>	<u>324,125,972</u>
Equity			
Reserves		5,792,902	7,879,999
Retained earnings		122,759,719	119,930,270
Foreign currency translation reserve (deficit)		(3,354,498)	(1,034,066)
		<u>125,198,123</u>	<u>126,776,203</u>
		<u>\$ 466,900,212</u>	<u>\$ 450,902,175</u>

See Notes To Consolidated Financial Statements.

FINCA International, Inc.

Consolidated Statements Of Income
Years Ended December 31, 2009 And 2008

	Notes	2009	2008
Interest income	6	\$ 154,151,468	\$ 151,057,939
Interest expense	6	26,999,183	24,969,398
Net interest income before provision for impairment losses		127,152,285	126,088,541
Impairment losses on loans	13	8,148,132	7,243,840
Net interest income after impairment losses		119,004,153	118,844,701
Other operating income		4,640,852	2,678,572
Operating income		123,645,005	121,523,273
Personnel expenses	7	75,863,354	78,100,677
Other operating expenses	8	55,830,974	55,855,040
Depreciation and amortization		7,189,898	4,347,213
Operating expenses		138,884,226	138,302,930
Loss before income tax and other income (expenses)		(15,239,221)	(16,779,657)
Income tax expense	9	3,070,377	900,620
Loss before other income (expenses)		(18,309,598)	(17,680,277)
Other income (expenses):			
Grants	10	5,451,733	12,667,980
Donations	10	15,909,226	18,572,308
Other non-operating income		2,604,134	736,833
Foreign exchange loss		(2,934,400)	(4,795,278)
Non-operating expenses		(1,978,743)	(922,435)
Net other income (expenses)		19,051,950	26,259,408
Profit for the year		\$ 742,352	\$ 8,579,131

See Notes To Consolidated Financial Statements.

FINCA International, Inc.

Consolidated Statements Of Comprehensive Income
Years Ended December 31, 2009 And 2008

	2009	2008
Profit for the year	\$ 742,352	\$ 8,579,131
Other comprehensive income (loss):		
Exchange differences on translating foreign operations	<u>(2,320,432)</u>	<u>(7,023,684)</u>
Total comprehensive (loss) income for the year	<u>\$ (1,578,080)</u>	<u>\$ 1,555,447</u>

See Notes To Consolidated Financial Statements.

FINCA International, Inc.

Consolidated Statements Of Changes In Equity
Years Ended December 31, 2009 And 2008

	Reserves	Retained Earnings	Foreign Currency Translation Reserve (Deficit)	Total
Beginning, January 1, 2008	\$ 7,612,271	\$ 111,618,867	\$ 5,989,618	\$ 125,220,756
Total comprehensive income (loss):				
Profit for the year	-	8,579,131	-	8,579,131
Foreign currency movement during year	-	-	(7,023,684)	(7,023,684)
Total comprehensive income	-	8,579,131	(7,023,684)	1,555,447
Transfer to reserve	267,728	(267,728)	-	-
Balance at December 31, 2008	7,879,999	119,930,270	(1,034,066)	126,776,203
Total comprehensive income (loss):				
Profit for the year	-	742,352	-	742,352
Foreign currency movement during year	-	-	(2,320,432)	(2,320,432)
Total comprehensive loss	-	742,352	(2,320,432)	(1,578,080)
Transfer from reserve	(2,087,097)	2,087,097	-	-
Balance at December 31, 2009	\$ 5,792,902	\$ 122,759,719	\$ (3,354,498)	\$ 125,198,123

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

See Notes To Consolidated Financial Statements.

FINCA International, Inc.

Consolidated Statements Of Cash Flows
Years Ended December 31, 2009 And 2008

	2009	2008
Cash Flows From Operating Activities		
Profit for the year	\$ 742,352	\$ 8,579,131
Adjustments for:		
Depreciation and amortization	7,189,898	4,347,213
Impairment on financial assets	8,148,132	7,243,840
Interest revenue	(154,151,468)	(151,057,939)
Interest expense	26,999,183	24,969,398
Income tax expense	3,070,377	900,620
Foreign exchange losses	2,934,400	4,795,278
Changes in deferred tax assets and liabilities	(434,621)	(2,107,257)
	<u>(105,501,747)</u>	<u>(102,329,716)</u>
Change in working capital:		
Change in loans receivable	17,044,458	(56,917,954)
Change in grants receivable	388,557	3,829,469
Change in other receivables, prepaid expenses and other assets	(2,384,806)	2,595,447
Change in accounts payable	9,673,284	7,108,000
Change in customer deposits and cash collateral	1,723,629	771,585
Change in refundable advances	10,727,949	(552,441)
Change in other liabilities	(11,415,985)	9,122,717
	<u>25,757,086</u>	<u>(34,043,177)</u>
	(79,744,661)	(136,372,893)
Interest received	151,908,578	130,583,192
Interest paid	(28,177,330)	(24,721,842)
Income taxes paid	(2,583,738)	(2,288,052)
Net cash provided by (used in) operating activities	<u>41,402,849</u>	<u>(32,799,595)</u>
Cash Flows From Investing Activities		
Purchase of investments	(15,619,165)	(2,418,154)
Purchase of property and equipment	(4,105,021)	(7,968,287)
Purchase of intangibles	(5,091,675)	(2,941,500)
Net cash used in investing activities	<u>(24,815,861)</u>	<u>(13,327,941)</u>
Cash Flows From Financing Activities		
Proceeds from borrowings	99,324,465	108,728,964
Repayment of borrowings	(91,305,963)	(33,463,887)
Net cash provided by financing activities	<u>8,018,502</u>	<u>75,265,077</u>
Net increase in cash and cash equivalents	24,605,490	29,137,541
Cash And Cash Equivalents		
Beginning	72,022,853	54,244,249
Cumulative translation adjustment	(4,213,532)	(11,358,937)
Ending	<u><u>\$ 92,414,811</u></u>	<u><u>\$ 72,022,853</u></u>

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities

FINCA International, Inc. (FINCA or FINCA International) is a not-for-profit corporation, incorporated in New York, United States of America, that has received a determination letter from the United States Internal Revenue Service classifying it as a tax-exempt public charity described in Section 501(c)(3) of the United States Internal Revenue Code of 1986, as amended. Founded in 1984, FINCA provides financial services to poor entrepreneurs in the developing world so that they can create jobs, build assets and improve their standard of living. FINCA's headquarters are located in Washington, D.C.

At present, FINCA operates in 21 developing countries in Latin America (Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico and Nicaragua), Africa (Democratic Republic of the Congo, Malawi, Tanzania, Uganda and Zambia), Eurasia (Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyzstan, Russia and Tajikistan), and the Middle East (Afghanistan and Jordan), serving over 717,000 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 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.

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 2. Basis Of Presentation

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

The consolidated financial statements comprise the statements of income and statements of comprehensive income, shown as two statements, the balance sheets, the statements of changes in equity, the statements of cash flows, and the notes.

The consolidated financial statements were approved by the Board of Directors on June 25, 2010.

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

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

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

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in Notes 3 and 4.

Reclassifications: Certain reclassifications have been made to the financial statements as at December 31, 2008, and for the year then ended, to conform to the presentation as at December 31, 2009, and for the year then ended, as the current year presentation provides a better view of the financial position of FINCA and complies with IAS 1 (revised), "Presentation of financial statements."

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies

Basis of consolidation:

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

Foreign currency:

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

Foreign operations: The assets and liabilities of foreign operations are translated to USD at the exchange rate at the reporting 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 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 4).

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

Key sources of estimation uncertainty:

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.

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

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

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

Net interest income: Interest income and expense are recognized in the 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 revised subsequently.

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

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

Net interest income (continued): 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.

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

Income tax expense: FINCA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; however, income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business income. FINCA qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation. However, some of the foreign operations of FINCA are subject to local income tax in the jurisdictions where they operate, and certain cross-border payments are subject to foreign withholding taxes.

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the 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.

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

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

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

Financial assets and liabilities:

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

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

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

FINCA also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible (See Note 4).

Offsetting: Financial assets and liabilities are set off and the net amount is presented in the consolidated balance sheets when, and only when, FINCA has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

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

Fair value measurement: Effective January 1, 2009, FINCA adopted the amendment to IFRS 7 for financial instruments that are measured in the consolidated balance sheets at fair value. This 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)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

Financial assets and liabilities (continued):

Fair value measurement (continued): 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.

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

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

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

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

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

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

Financial assets and liabilities (continued):

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

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

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.

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.

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.

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.

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

Investments (continued):

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

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

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

Property and equipment:

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

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

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

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

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

Impairment of non-financial assets: The carrying amounts of FINCA's non-financial assets are reviewed on an annual basis 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.

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.

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

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

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

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

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.

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.

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

Segment reporting: FINCA divides its operations into segments solely in geographical terms. Based on the location of the principal operations of the parent company and the subsidiaries, 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 IAS 14 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. The group provides segment reporting voluntarily.

New standards and interpretations:

(a) Standards, amendments and interpretations effective on or after January 1, 2009:

The following standards, amendments and interpretations, which became effective in 2009, are relevant to FINCA:

Standard/interpretation	Content	Applicable for financial years beginning on/after
IFRS 7	Improving disclosures about financial instruments	January 1, 2009
IAS 1	Presentation of financial statements	January 1, 2009
IAS 23	Borrowing costs	January 1, 2009

Amendments to IFRS 7, "Financial instruments: disclosures"

The IASB published amendments to IFRS 7 in March 2009. The amendments require enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendments require disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendments results in additional disclosures but does not have an impact on the financial position or the comprehensive income of FINCA.

IAS 1 (revised), "Presentation of financial statements"

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in the statement of income. As a result, FINCA presents in the consolidated statements of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statements of income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

New standards and interpretations (continued):

IAS 23, "Borrowing costs"

A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of the IAS 23 amendment does not have a material impact on the consolidated result or items of the consolidated balance sheets.

(b) Standards and interpretations issued but not yet effective:

The following standards and interpretations have been issued for the accounting periods beginning on or after July 1, 2009, or later periods:

Standard/interpretation	Content	Applicable for financial years beginning on/after
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly controlled entity or associate	July 1, 2009
IFRS 3	Business combinations	July 1, 2009
IAS 27	Consolidated and separate financial statements	July 1, 2009
IAS 39	Financial instruments: Recognition and measurement – eligible hedged items	July 1, 2009
IFRIC 17	Distribution of non-cash assets to owners	July 1, 2009
IFRIC 18	Transfers of assets from customers	July 1, 2009
IFRS 9	Financial instruments part 1: Classification and measurement	January 1, 2013

IFRS 1 and IAS 27, "Cost of an investment in a subsidiary, jointly-controlled entity or associate"

The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor.

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

New standards and interpretations (continued):

IFRS 3, "Business combinations"

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The application of IFRS 3 (revised) has no impact on the consolidated financial statements of FINCA.

IAS 27, "Consolidated and separate financial statements"

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The application of IAS 27 has no impact on the consolidated financial statements of FINCA.

IAS 39, "Financial instruments: recognition and measurement – eligible hedged items"

The amendment "Eligible hedged items" was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to FINCA's consolidated financial statements.

IFRIC 17, "Distribution to non-cash assets to owners"

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorized by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognized at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognized in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the consolidated financial statements of FINCA.

IFRIC 18, "Transfers of assets from customers"

IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. FINCA is not impacted by applying IFRIC 18.

Notes To Consolidated Financial Statements

Note 3. Significant Accounting Policies (Continued)

New standards and interpretations (continued):

Improvements to IFRS

"Improvements to IFRS" were issued in May 2008 (endorsed by the EU on January 23, 2009) and April 2009 (not yet endorsed). They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. "Improvements to IFRS" comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009, and January 1, 2010, respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

IFRS 9, "Financial instruments part 1: classification and measurement"

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from January 1, 2013, earlier adoption is permitted.

FINCA did not early-adopt new or amended standards in 2009.

Notes To Consolidated Financial Statements

Note 4. Financial Risk Management

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

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

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

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

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

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

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

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

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

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 4. Financial Risk Management (Continued)

Credit risk (continued):

Exposure to credit risk at December 31, 2009 and 2008, is as follows:

December 31, 2009

	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates
Loans Outstanding (Gross)	\$ 35,206,398	\$ 208,134,104	\$ 5,796,283	\$ 78,792,696	\$ 327,929,481
Portfolio at Risk (PAR) 30+ Days (1)	2.4%	1.3%	11.4%	6.8%	2.9%
Impairment Losses on Loans (2)	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%
Gross Write-Offs	\$ 639,533	\$ 3,226,219	\$ 1,705,395	\$ 3,272,717	\$ 8,843,864
Write-Offs Net of Recoveries (1)	1.8%	1.6%	29.4%	4.2%	2.7%
PAR 30+ plus Net Write-Offs (1)	4.2%	2.9%	40.8%	11.0%	5.6%
Allowances for Impairment (1)	2.3%	1.9%	12.7%	6.9%	3.3%

(1) As Percentage of Ending Loans Outstanding

(2) As Percentage of Average Loans Outstanding

December 31, 2008

	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates
Loans Outstanding (Gross)	\$27,842,023	\$ 228,726,747	\$ 7,578,291	\$89,831,222	\$ 353,978,283
Portfolio at Risk (PAR) 30+ Days (1)	3.4%	0.7%	31.8%	4.9%	2.6%
Impairment Losses on Loans (2)	1.3%	1.2%	29.2%	2.0%	2.3%
Impairment Losses on Loans as % of PAR 30+	38.0%	153.4%	120.2%	37.9%	78.6%
Gross Write-Offs	\$ 449,558	\$ 1,050,412	\$ 6,902	\$ 1,260,868	\$ 2,767,740
Write-Offs Net of Recoveries (1)	1.6%	0.5%	0.1%	1.4%	0.8%
PAR 30+ plus Net Write-Offs (1)	5.0%	1.1%	31.9%	6.3%	3.4%
Allowances for Impairment (1)	4.0%	1.5%	31.2%	5.3%	3.3%

(1) As Percentage of Ending Loans Outstanding

(2) As Percentage of Average Loans Outstanding

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

Notes To Consolidated Financial Statements

Note 4. Financial Risk Management (Continued)

Credit risk (continued):

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.

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 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

Note 4. Financial Risk Management (Continued)

Liquidity risk (continued):

Management of liquidity risk (continued): 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, 2009:

	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates	FINCA Int'l HQ/ Other	Total Consolidated (1)
Unrestricted cash balances	\$ 4,463,276	\$ 31,306,816	\$ 3,829,971	\$ 17,220,250	\$ 56,820,313	\$ 9,406,227	\$ 66,226,540
Restricted cash balances	206,833	1,500,000	-	6,708,566	8,415,399	17,772,872	26,188,271
Total cash balances	4,670,109	32,806,816	3,829,971	23,928,816	65,235,712	27,179,099	92,414,811
Investments	4,930,927	12,540,386	838,505	3,355,459	21,665,277	(2,948,745)	18,716,532
Total cash and investments	\$ 9,601,036	\$ 45,347,202	\$ 4,668,476	\$ 27,284,275	\$ 86,900,989	\$ 24,230,354	\$ 111,131,343
Total assets	\$ 52,667,460	\$ 266,265,196	\$ 17,958,100	\$ 110,243,059	\$ 447,133,815	\$ 19,766,397	\$ 466,900,212
Unrestricted cash as % of total assets	8.5%	11.8%	21.3%	15.6%	12.7%	47.6%	14.2%
Unrestricted cash and investments as % of total cash and investments	97.8%	96.7%	100.0%	75.4%	90.3%	26.7%	76.4%

(1) Net of eliminations

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 4. Financial Risk Management (Continued)

Liquidity risk (continued):

Management of liquidity risk (continued): The table below is a summary report as of December 31, 2008:

	Africa	Eurasia	Greater Middle East	Latin America	Total Affiliates	FINCA Int'l HQ/ Other	Total Consolidated (1)
Unrestricted cash balances	\$ 3,910,201	\$ 12,495,205	\$ 5,014,143	\$ 13,931,192	\$ 35,350,741	\$ 4,317,854	\$ 39,668,595
Restricted cash balances	3,944,224	-	10,539,684	6,272,492	20,756,400	11,597,858	32,354,258
Total cash balances	7,854,425	12,495,205	15,553,827	20,203,684	56,107,141	15,915,712	72,022,853
Investments	1,574,248	9,732	-	115,033	1,699,013	1,398,355	3,097,368
Total cash and investments	\$ 9,428,673	\$ 12,504,937	\$ 15,553,827	\$ 20,318,717	\$ 57,806,154	\$ 17,314,067	\$ 75,120,221
Total assets	\$ 42,777,266	\$ 249,178,716	\$ 29,402,522	\$ 113,666,466	\$ 435,024,970	\$ 15,877,205	\$ 450,902,175
Unrestricted cash as % of total assets	9.1%	5.0%	17.1%	12.3%	8.1%	27.2%	8.8%
Unrestricted cash and investments as % of total cash and investments	58.2%	100.0%	32.2%	69.1%	64.1%	33.0%	56.9%

(1) Net of eliminations

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 the U.S. dollar (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 since their functional currency is the USD (DRC, Ecuador and El Salvador) or limited risk because their currency is pegged to the USD. About one-third of FINCA International's consolidated equity is not exposed to foreign exchange risk owing to the exclusion of these Affiliates (and FINCA International's standalone equity).

Foreign exchange risk exists at the affiliate level. However, should there be a difference in the amount of assets and liabilities (for Affiliates) denominated in a currency other than the functional currency, a foreign exchange risk would exist. 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.

Notes To Consolidated Financial Statements

Note 4. Financial Risk Management (Continued)

Market risks (continued): 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" as 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 very lowly correlated. FINCA International's consolidated ALCO reviews the estimated financial impact of such currency movements at monthly meetings. The modeling has shown a significant reduction in FINCA International's foreign exchange risk throughout 2009, owing to both lower currency volatility and to a decrease in cross-currency correlations.

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

Note 5. 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, 2009:

	Designated At Fair Value	Held-To- Maturity	Loans And Receivables	Amortized Cost	Carrying Amount	Fair Value
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 92,414,811	\$ 92,414,811	\$ 92,414,811
Investments	-	16,408,940	-	-	16,408,940	16,408,940
Loans to customers	-	-	317,208,208	-	317,208,208	317,208,208
Grants receivable	-	-	3,181,388	-	3,181,388	3,181,388
Other receivables (1)	1,193,422	-	4,295,765	-	5,489,187	5,489,187
	<u>\$ 1,193,422</u>	<u>\$ 16,408,940</u>	<u>\$ 324,685,361</u>	<u>\$ 92,414,811</u>	<u>\$ 434,702,534</u>	<u>\$ 434,702,534</u>
Financial guarantee contracts and interest payable (2)	\$ -	\$ -	\$ -	\$ 10,751,422	\$ 10,751,422	\$ 10,751,422
Customers deposits and collateral	-	-	-	15,242,183	15,242,183	15,242,183
Notes payable and subordinated debt	-	-	-	268,981,519	268,981,519	268,981,519
Refundable advances	-	-	-	19,739,506	19,739,506	19,739,506
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 314,714,630</u>	<u>\$ 314,714,630</u>	<u>\$ 314,714,630</u>

(1) Included in Other Receivables, Prepaid Expenses and Other Assets (See Note 14)

(2) Included in Accounts Payable (See Note 17)

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

	Designated At Fair Value	Held-To- Maturity	Loans And Receivables	Amortized Cost	Carrying Amount	Fair Value
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 72,022,853	\$ 72,022,853	\$ 72,022,853
Investments	-	1,698,776	-	-	1,698,776	1,698,776
Loans to customers	-	-	342,400,798	-	342,400,798	342,400,798
Grants receivable	-	-	3,569,945	-	3,569,945	3,569,945
Other receivables (1)	1,220,626	-	3,042,131	-	4,262,757	4,262,757
	<u>\$ 1,220,626</u>	<u>\$ 1,698,776</u>	<u>\$ 349,012,874</u>	<u>\$ 72,022,853</u>	<u>\$ 423,955,129</u>	<u>\$ 423,955,129</u>
Financial guarantee contracts and interest payable (2)	\$ -	\$ -	\$ -	\$ 8,622,399	\$ 8,622,399	\$ 8,622,399
Customers deposits and collateral	-	-	-	13,518,554	13,518,554	13,518,554
Notes payable	-	-	-	262,856,117	262,856,117	262,856,117
Refundable advances	-	-	-	9,011,557	9,011,557	9,011,557
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 294,008,627</u>	<u>\$ 294,008,627</u>	<u>\$ 294,008,627</u>

(1) Included in Other Receivables, Prepaid Expenses and Other Assets (See Note 14)

(2) Included in Accounts Payable (See Note 17)

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 5. Financial Assets And Liabilities – Accounting Classifications And Fair Values (Continued)

Cash and investments (excluding held-to-maturity) and all liabilities carrying amounts approximate their fair values. All receivables are due within 12 months and thus the carrying amounts approximate fair value. Held-to-maturity investments consist of certificates of deposits that mature within 12 months and thus the carrying amount approximates fair value. In regards to the loans to customers, management prepares an analysis of the loans by region to determine the average loan maturity. 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 \$1,193,422 and \$1,220,626 as of December 31, 2009 and 2008, respectively, and is included in other receivables 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.

Note 6. Net Interest Income

Net interest income for the year ended December 31, 2009, is as follows:

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

Net interest income for the year ended December 31, 2008, is as follows:

Interest income:	
Cash and cash equivalents and investments	\$ 3,724,650
Loans and advances to clients	147,280,495
Other	52,794
Total interest income	151,057,939
Interest expense:	
Deposits from clients	266,287
Notes payable	24,703,111
Total interest expense	24,969,398
Net interest income	\$ 126,088,541

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 7. Personnel Expenses

Personnel expenses for the years ended December 31, 2009 and 2008, consist of the following:

	2009	2008
Wages and salaries	\$ 57,771,334	\$ 58,717,800
Compulsory social security obligations	9,703,938	10,795,028
Increase in liability for defined benefit plans	236,314	1,183,040
Increase in liability for long-term service-leave	206,294	279,166
Health insurance	105,244	378,012
Allowances, incentives and other benefits	7,840,230	6,747,631
	<u>\$ 75,863,354</u>	<u>\$ 78,100,677</u>

Note 8. Other Operating Expenses

	2009	2008
Professional fees	\$ 9,303,813	\$ 10,147,387
Rent expenses	7,648,193	6,544,063
Travel	6,768,650	7,728,504
Marketing	4,552,538	5,690,601
Communication	3,619,530	3,543,349
Repairs and maintenance	2,748,912	1,835,277
Bank charges	2,724,041	3,089,416
Consumables and office supply	2,452,237	4,112,865
Security	1,906,109	1,215,329
Taxes other than income	1,762,326	2,213,332
Insurance	1,600,581	1,596,463
Training and hiring	1,455,401	1,388,589
Motor vehicles expenses	972,158	1,462,202
Utilities	756,542	807,982
Other expenditures	7,559,943	4,479,681
	<u>\$ 55,830,974</u>	<u>\$ 55,855,040</u>

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 9. Income Tax Expense

This item includes all taxes on income. Income tax expense for the years ended December 31, 2009 and 2008, is as follows:

	2009	2008
Current tax expense	\$ 3,504,998	\$ 3,007,877
Deferred tax benefit	(434,621)	(2,107,257)
Total income tax expense	\$ 3,070,377	\$ 900,620

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, 2009 and 2008. The average income tax rate increased slightly from 23.4% in 2008 to 23.5% in 2009.

The tables below provide information about the underlying business transactions for deferred income tax assets and liabilities:

Deferred Tax Assets	2009	2008
Other payables and provisions	\$ 1,413,203	\$ 1,318,739
Provision for loan impairment	1,176,784	588,608
Property, plant and equipment	477,765	189,570
Other temporary differences	448,847	194,599
Deferred income	86,186	134,811
	\$ 3,602,785	\$ 2,426,327

Deferred Tax Liabilities	2009	2008
Accrued interest/deferred income	\$ 622,022	\$ 489,739
Property, plant and equipment	611,073	273,772
Other temporary differences	452,584	180,331
	\$ 1,685,679	\$ 943,842

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 10. Other Income

	2009	2008
Grants:		
USDA	\$ 3,222,359	\$ 2,624,660
USAID	1,209,246	179,249
Other	1,020,128	9,864,071
	<u>\$ 5,451,733</u>	<u>\$ 12,667,980</u>
Donations:		
Private	\$ 12,113,317	\$ 11,869,128
Corporate	2,449,702	5,488,197
In-kind	1,346,207	1,214,983
	<u>\$ 15,909,226</u>	<u>\$ 18,572,308</u>

Note 11. Cash And Cash Equivalents

	2009	2008
Unrestricted cash balances	\$ 66,226,540	\$ 39,668,595
Restricted cash balances	26,188,271	32,354,258
Total cash balances	<u>\$ 92,414,811</u>	<u>\$ 72,022,853</u>

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

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 12. Investments

	2009	2008
Life insurance	\$ 1,207,592	\$ 1,398,592
Investment in FINCA Microfinance Fund	1,100,000	-
Certificates of deposit and other	16,408,940	1,698,776
Total	\$ 18,716,532	\$ 3,097,368

FINCA owns life insurance policies on key employees with an aggregate face value of \$11,945,502 at December 31, 2009 and 2008, respectively. The aggregate cash surrender value was \$1,207,592 and \$1,398,592 at December 31, 2009 and 2008, respectively.

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. See Note 22 for additional details. 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 as held-to-maturity financial assets and reported as investments in the consolidated balance sheets.

Note 13. Loans Receivable

	2009	2008
Loans and advances	\$ 327,929,481	\$ 353,978,283
Less allowances for impairment	(10,721,273)	(11,577,485)
	\$ 317,208,208	\$ 342,400,798

Allowances for impairment:		
Balance at January 1:	\$ 11,577,485	\$ 7,887,721
Impairment loss for the year:		
Charge for the year	8,148,132	7,243,840
Effect of foreign currency movements	(190,382)	(788,336)
Write-off and recovery	(8,813,962)	(2,765,740)
Balance at December 31	\$ 10,721,273	\$ 11,577,485

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 13. Loans Receivable (Continued)

The loans to customers that were impaired at December 31, 2009, were approximately 1.3%-11.4% of the total loan portfolio by regions. While not all products require collateral, and collateral requirements vary by country, FINCA utilizes several methods for clients to collateralize their loans, including mandatory savings, real estate, fixed assets or an additional guarantor.

Note 14. Other Receivables, Prepaid Expenses And Other Assets

	2009	2008
Prepaid expenses	\$ 2,849,315	\$ 2,543,492
Taxes	1,520,424	345,781
Currency swap fair value	1,193,422	1,220,626
Staff advances and loans	651,725	1,450,636
Loan origination fees	384,347	168,125
Office supply	256,555	578,645
Other debtors	3,259,693	1,423,370
	<u>\$ 10,115,481</u>	<u>\$ 7,730,675</u>

On January 2, 2007, FINCA entered into a six-year U.S. dollar/Russian ruble cross-currency swap agreement for the principal amount of \$3,300,000. The swap was effected to eliminate an open foreign currency position at FINCA Russia. The fair value of the swap was \$406,422 and \$1,220,626 at December 31, 2009 and 2008, respectively.

Another \$787,000 represents the fair value of a swap entered into by Kyrgyzstan to hedge the change in the Kyrgyz som exchange rate to U.S. dollar under the loan agreement. Total principal amount borrowed is equivalent to \$21,875,000.

Both of these transactions are not designated for hedge accounting.

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 15. Property And Equipment

Property and equipment, in dollars, are as follows:

	Total	Buildings And Construction	Construction- In- Progress	Capital Investments In Leased Property	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, 2008	\$19,292,585	\$ 1,577,521	\$ 1,142,816	\$ 1,468,105	\$ 7,345,884	\$ 3,322,540	\$ 4,024,452	\$ 411,267
Acquisitions	8,889,585	889,396	266,615	1,143,222	2,443,664	2,311,731	1,363,884	471,073
Disposals	(921,299)	-	(173,557)	(104,417)	(74,810)	(21,841)	(487,406)	(59,268)
Currency translation	(1,882,551)	(64,013)	(47,012)	(223,518)	(843,481)	(241,137)	(393,866)	(69,524)
Balance at December 31, 2008	<u>\$25,378,320</u>	<u>\$ 2,402,904</u>	<u>\$ 1,188,862</u>	<u>\$ 2,283,392</u>	<u>\$ 8,871,257</u>	<u>\$ 5,371,293</u>	<u>\$ 4,507,064</u>	<u>\$ 753,548</u>
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	<u>\$28,716,495</u>	<u>\$ 2,899,567</u>	<u>\$ 537,442</u>	<u>\$ 2,999,843</u>	<u>\$11,101,174</u>	<u>\$ 5,247,273</u>	<u>\$ 4,629,618</u>	<u>\$ 1,301,578</u>
Depreciation and impairment losses:								
Balance at January 1, 2008	\$ 8,023,769	\$ 49,431	\$ -	\$ 575,120	\$ 3,333,501	\$ 1,928,086	\$ 1,795,886	\$ 341,745
Depreciation for the period	3,613,929	51,192	-	491,660	1,328,102	845,468	835,965	61,542
Disposal	(763,153)	-	-	(2,694)	(69,771)	(19,922)	(436,744)	(234,022)
Currency translation	(884,319)	(3,788)	-	(125,813)	(388,081)	(166,035)	(187,338)	(13,264)
Balance at December 31, 2008	<u>\$ 9,990,226</u>	<u>\$ 96,835</u>	<u>\$ -</u>	<u>\$ 938,273</u>	<u>\$ 4,203,751</u>	<u>\$ 2,587,597</u>	<u>\$ 2,007,769</u>	<u>\$ 156,001</u>
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)
Disposal	(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	<u>\$13,312,467</u>	<u>\$ 162,513</u>	<u>\$ -</u>	<u>\$ 1,419,055</u>	<u>\$ 5,402,380</u>	<u>\$ 3,564,299</u>	<u>\$ 2,622,597</u>	<u>\$ 141,623</u>
Carrying amounts:								
Balance at January 1, 2008	<u>\$11,268,816</u>	<u>\$ 1,528,090</u>	<u>\$ 1,142,816</u>	<u>\$ 892,985</u>	<u>\$ 4,012,383</u>	<u>\$ 1,394,454</u>	<u>\$ 2,228,566</u>	<u>\$ 69,522</u>
Balance at December 31, 2008	<u>\$15,388,094</u>	<u>\$ 2,306,069</u>	<u>\$ 1,188,862</u>	<u>\$ 1,345,119</u>	<u>\$ 4,667,506</u>	<u>\$ 2,783,696</u>	<u>\$ 2,499,295</u>	<u>\$ 597,547</u>
Balance at December 31, 2009	<u>\$15,404,028</u>	<u>\$ 2,737,054</u>	<u>\$ 537,442</u>	<u>\$ 1,580,788</u>	<u>\$ 5,698,794</u>	<u>\$ 1,682,974</u>	<u>\$ 2,007,021</u>	<u>\$ 1,159,955</u>

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 16. Intangible Assets

	Total	Capitalized Software	Capital Work-In-Progress	Other
Cost:				
Balance at January 1, 2008	\$ 1,529,955	\$ 841,433	\$ -	\$ 688,522
Acquisitions	2,941,500	703,963	2,123,796	113,741
Balance at December 31, 2008	<u>\$ 4,471,455</u>	<u>\$ 1,545,396</u>	<u>\$ 2,123,796</u>	<u>\$ 802,263</u>
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	-	-
Balance at December 31, 2009	<u>\$ 9,582,842</u>	<u>\$ 8,780,579</u>	<u>\$ -</u>	<u>\$ 802,263</u>
Amortization and impairment:				
Balance at January 1, 2008	\$ 83,000	\$ 83,000	\$ -	\$ -
Amortization for the period	122,340	122,340	-	-
Balance at December 31, 2008	<u>\$ 205,340</u>	<u>\$ 205,340</u>	<u>\$ -</u>	<u>\$ -</u>
Balance at January 1, 2009	\$ 205,340	\$ 205,340	\$ -	\$ -
Amortization for the period	1,377,891	1,377,891	-	-
Impairment loss	1,722,920	1,034,398	-	688,522
Currency translation	19,712	19,712	-	-
Balance at December 31, 2009	<u>\$ 3,325,863</u>	<u>\$ 2,637,341</u>	<u>\$ -</u>	<u>\$ 688,522</u>
Carrying amounts:				
Balance at January 1, 2008	<u>\$ 1,446,955</u>	<u>\$ 758,433</u>	<u>\$ -</u>	<u>\$ 688,522</u>
Balance at December 31, 2008	<u>\$ 4,266,115</u>	<u>\$ 1,340,056</u>	<u>\$ 2,123,796</u>	<u>\$ 802,263</u>
Balance at December 31, 2009	<u>\$ 6,256,979</u>	<u>\$ 6,143,238</u>	<u>\$ -</u>	<u>\$ 113,741</u>

Impairment loss is mainly represented by write-off of \$688,522 of goodwill and \$374,229 of software from the Micro Finance Solutions Inc. (MFSI) balance sheet, as well as \$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.

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 17. Accounts Payable

	2009	2008
Financial guarantee contracts issued	\$ 7,796,077	\$ 5,605,972
Tax and other budget liability	6,693,667	2,676,260
Personnel	5,140,133	2,910,197
Interest payable	2,955,345	3,016,427
Deferred income	2,953,994	1,398,350
Bank overdraft	998,045	514,934
	<u>\$ 26,537,261</u>	<u>\$ 16,122,140</u>

Note 18. Customer Deposits And Cash Collateral

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

Note 19. Notes Payable

FINCA has two types of debt: charitable loans and commercial debt. Loans are sourced primarily from international financial institutions supporting microfinance, or from private sources. Interest rates paid by Affiliates range from 0% in charitable oriented loans, up to 21.5% in local currencies for commercial loans in countries with high risk. FINCA International (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 guaranty, comfort letter, or provision of a credit enhancement. As of the 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 also impacted microfinance, or in some cases due to political 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.

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 19. Notes Payable (Continued)

	2009	2008
Balance as of beginning of year	\$ 262,856,117	\$ 198,949,977
Notes received	78,754,465	108,728,964
Notes repaid	(91,305,963)	(33,463,887)
Effect of currency translation	(1,893,100)	(11,358,937)
Balance as of end of year	<u>\$ 248,411,519</u>	<u>\$ 262,856,117</u>

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

Years Ending December 31,

2010	\$ 98,138,969
2011	103,266,274
2012	39,391,644
2013	2,815,145
2014	3,313,124
Thereafter	1,486,363
	<u>\$ 248,411,519</u>

Note 20. Refundable Advances

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

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 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.

	2009	2008
U.S. Department of Agriculture	\$ 12,416,452	\$ 5,744,030
Advances from customers	2,711,644	2,698,077
Other	4,611,410	569,450
	<u>\$ 19,739,506</u>	<u>\$ 9,011,557</u>

FINCA International, Inc.

Notes To Consolidated Financial Statements

Note 21. Employee Benefits

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 \$15,500 and the catch-up contribution limit was \$5,500 and \$5,000 in 2009 and 2008, correspondingly). FINCA may make contributions to the Plan as a discretionary employer match. FINCA's contributions to the Plan during the years ended December 31, 2009 and 2008, were \$224,304 and \$234,224, respectively.

FINCA also maintains a deferred compensation agreement (the Agreement) for certain officers and directors, which provides benefits payable upon retirement from FINCA (no sooner than at age 65). In addition, a death benefit is payable to a surviving spouse or named beneficiary in the event of the death of the eligible officer/director. The Agreement is offered at the sole discretion of FINCA's 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.

The death benefits under the above policies exceed the maximum benefits payable under the Agreement. Currently, several key employees are enrolled in the Agreement. The present value of the accrued postretirement benefit under this Agreement is being accrued using a discount rate of 5.75% ratably over the remaining years to the date when the employee is first eligible for benefits. FINCA had an accrued postretirement benefit of \$2,460,425 at December 31, 2009, and \$2,450,857 at December 31, 2008, included within other liabilities in the consolidated balance sheets. Expense for the years ended December 31, 2009 and 2008, was \$126,965 and \$823,976, respectively.

Note 22. Subordinated Debt

Subordinated loans 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 12.8-16.2%. See Note 12 for more details. Subordinated debt agreements with FINCA Affiliates contain the following key provisions: no early redemption, and the principal of the subordinated loan is junior in right of repayment to holders of senior debt. Each individual subordinated debt agreement includes a number of financial covenants.

Note 23. Operating Leases

At December 31, 2009, FINCA was obligated under a number of operating leases for premises used primarily for branch operations and office purposes. In a significant portion of the business locations where FINCA operates, the operating lease agreements are negotiated on a year-by-year basis and are in line with general rental market conditions. Future minimum lease payments under existing lease contracts are due, in dollars, as follows:

	2009	2008
Less than one year	\$ 2,828,994	\$ 2,614,365
Between one and five years	8,057,453	3,869,488
More than five years	499,031	512,130
	<u>\$ 11,385,478</u>	<u>\$ 6,995,983</u>

Rent expense for years ended December 31, 2009 and 2008, was \$7,648,193 and \$6,544,063, respectively.

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Note 24. Contingencies

Azerbaijan: Based on an inspection conducted in December 2008 on the Azerbaijan Affiliate, the country's Social Protection Fund (SPF) challenged the Affiliate's exemption from social fund contributions for the period from January 1, 2007, to December 31, 2008. SPF issued an Act and assessed retroactive SPF dues from the Affiliate in the amount of AZN 1,966,826 (approximately \$2,450,000), together with a claim for penalties in the amount of AZN 983,413 (approximately \$1,230,000). Management believed that it had a valid basis for the exemption, based on a formal notice to FINCA from the government, and that the imposition of this tax was related to the Affiliate's plan to transform into a corporate entity that would, going forward, no longer be entitled to claim the exemption. The government advised the Affiliate that it would mandate the SPF contributions retroactively upon such a change in corporate form.

The Affiliate disputed the findings, litigated the assessment and penalties through the trial and intermediate appellate courts in Azerbaijan, protested to various agencies of the Azerbaijan government, and enlisted the assistance of the U.S. Embassy, which intervened on FINCA Azerbaijan's behalf. Ultimately, the Azerbaijan courts upheld the assessment but vacated the penalties. FINCA satisfied the judgment and has been making SPF payments since early 2009.

In addition, the government of Azerbaijan during 2008 advised microfinance organizations that equity attributable to grant funding must be permanently restricted to charitable, including microfinance, activities in Azerbaijan. FINCA Azerbaijan supported requirements to ensure that grant funding remained devoted to its intended use; in the case of FINCA Azerbaijan, approximately \$3.5 million of current equity is attributable to grants. However, the Azerbaijan government subsequently required a contribution to the local microfinance community for capacity building of local organizations. This demand was made as a condition to permitting FINCA Azerbaijan to change its corporate status to a form better suited for future development. FINCA is negotiating with the Azerbaijan government to resolve this issue and believes, based on current discussions, that it is likely to reach a resolution. However, any proposed resolution will be subject to conditions and therefore, management cannot give any assurance that the negotiations will be successfully concluded, or as to the possible developments if an agreement cannot be reached.

Afghanistan: During 2008, FINCA Afghanistan was victim to \$600,000 in fraudulent loans in Kabul and another \$600,000 in the regions, for a total of \$1.2 million. These loans stemmed from employees fictitiously creating clients to issue loans to and stealing the funds, or from valid loans where employees embezzled the repayments. The fraud was due primarily to the unstable environment in this region, limited supervision, and the difficulties in maintaining senior management staff. A small portion of the funding had been provided to FINCA for the program by the U.S. Agency for International Development (USAID), and FINCA reported the fraud to USAID in June 2008. Following an extensive review, FINCA developed a recovery plan based on which significant amounts of the losses related to the USAID funding have been recovered. USAID also audited the fraud and concluded that FINCA had taken appropriate steps to address the problem.

FINCA International, Inc.

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Note 25. FINCA Entities

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

Operating Significant Subsidiaries

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

Operating Significant Affiliates

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

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Note 26. Segment Analysis

In the financial year 2009, segment reporting by FINCA was prepared for the first time in accordance with IFRS 8, "Operating segments."

FINCA divides its operations into segments solely according to geographical regions. It carries out its business activities in the four regions of 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.

For The Year Ended December 31, 2009	Africa	Eurasia	Latin America	Middle East	Total Operating 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 losses 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	29,400,007	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
Operating 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)	8,246,158	(23,485,379)	(15,239,221)
Income tax expenses	(580,243)	2,140,520	1,502,339	-	3,062,616	7,761	3,070,377
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 loss	104,352	(1,790,404)	196,525	128,897	(1,360,630)	(1,573,770)	(2,934,400)
Profit (loss) for the year	\$ 2,561,093	\$ 6,529,650	\$ 267,365	\$ (2,326,933)	\$ 7,031,175	\$ (6,288,823)	\$ 742,352

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Note 26. Segment Analysis (Continued)

For The Year Ended December 31, 2008	Africa	Eurasia	Latin America	Middle East	Total Operating Segments	Corporate, Other And Eliminations	Total
Interest income	\$ 21,298,384	\$ 77,981,518	\$ 47,116,444	\$ 4,606,526	\$ 151,002,872	\$ 55,067	\$ 151,057,939
Interest expense	1,506,196	18,256,490	5,598,410	1,147,262	26,508,358	(1,538,960)	24,969,398
Impairment losses on loans	357,419	2,360,609	2,879,116	1,646,696	7,243,840	-	7,243,840
Net interest income after impairment losses	19,434,769	57,364,419	38,638,918	1,812,568	117,250,674	1,594,027	118,844,701
Personnel expenses	10,151,708	29,336,534	19,440,869	4,113,881	63,042,992	15,057,685	78,100,677
Other operating expenses	9,384,403	16,340,670	18,221,458	2,863,552	46,810,083	9,044,957	55,855,040
Depreciation and amortization	1,139,851	1,094,933	1,851,624	176,316	4,262,724	84,489	4,347,213
Operating expenses	20,675,962	46,772,137	39,513,951	7,153,749	114,115,799	24,187,131	138,302,930
Other operating income	365,017	764,241	2,362,943	96,278	3,588,479	(909,907)	2,678,572
Operating results	(876,176)	11,356,523	1,487,910	(5,244,903)	6,723,354	(23,503,011)	(16,779,657)
Income tax expenses	33,633	1,342,293	298,067	-	1,673,993	(773,373)	900,620
Grants and donations	1,429,600	36,514	432,578	8,321,397	10,220,089	21,020,199	31,240,288
Non-operating income and expenses	126,777	(4,305,499)	(375,447)	-	(4,554,169)	4,368,567	(185,602)
Foreign exchange loss	(33,826)	(2,876,255)	(382,106)	(229,611)	(3,521,798)	(1,273,480)	(4,795,278)
Profit (loss) for the year	\$ 612,742	\$ 2,868,990	\$ 864,868	\$ 2,846,883	\$ 7,193,483	\$ 1,385,648	\$ 8,579,131

December 31, 2009	Africa	Eurasia	Latin America	Middle East	Total Operating Segments	Corporate, Other And Eliminations	Total
Total assets excluding 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	5,796,283	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

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Note 26. Segment Analysis (Continued)

December 31, 2008	Africa	Eurasia	Latin America	Middle East	Total Operating Segments	Corporate, Other And Eliminations	Total
Total assets excluding taxes	\$ 42,614,795	\$ 246,569,098	\$ 113,666,467	\$ 29,402,522	\$ 432,252,882	\$ 16,222,966	\$ 448,475,848
Loans and advances to customers (gross)	27,622,576	229,713,962	89,123,185	7,518,560	353,978,283	-	353,978,283
Total liabilities excluding taxes	30,865,151	200,702,186	82,486,653	18,003,190	332,057,180	(8,875,050)	323,182,130
Equity	11,574,124	47,165,845	30,201,842	11,349,740	100,291,551	26,484,652	126,776,203

Note 27. Related Parties

Grants and contributions: FINCA solicits and obtains grants and contributions on behalf of the Affiliates. For the years ended December 31, 2009 and 2008, grants and contributions obtained by FINCA and provided to the Affiliates totaled \$6,161,631 and \$12,277,595, respectively.

Affiliation fees: The management of certain Affiliates consists of FINCA employees. The Affiliates are billed for the salary and fringe benefits (according to the Negotiated Indirect Cost Rate Agreement) of the employees. Total billings to the Affiliates for management services received for the years ended December 31, 2009 and 2008, were \$2,903,987 and \$2,928,745, respectively.

Note 28. Management Compensation

During the reporting period, total compensation paid to the management of FINCA amounted to:

	2009	2008
Short-term benefits	\$ 2,758,009	\$ 2,364,947
Post-employment benefits	126,965	823,976
Other long-term benefits	22,006	16,037
	<u>\$ 2,906,980</u>	<u>\$ 3,204,960</u>