



2017 ANNUAL REPORT

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## LETTER FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Dear Shareholders,

2017 was a momentous year in the storied history of FINCA, one that began with the formal launch of the FINCA Impact Finance brand and ended with a return to profitability and positive momentum propelling us into 2018.

Our promise to you, our investors, has been to grow the business profitably and to reach more target clients, doing both in a responsible, customer-centric manner. I am proud of the way our 10,000-strong staff, working across five continents, have honored this commitment by executing a successful turnaround while building the foundation to become the digital bank of the future.

On January 1, our founding shareholder, FINCA International, transferred the global operations and management of its microfinance-related activities to FINCA Impact Finance, in the process providing us with the focus and flexibility to tackle important challenges. As a business dedicated to a double bottom line of social impact and financial sustainability, we seized the opportunity—and mandate—to transform the financial services landscape.

2017 was defined by significant progress. We demonstrated our evolution beyond traditional credit-driven microfinance by offering a fuller range of financial services, with 11 subsidiaries now licensed to take deposits. We successfully lowered our overhead costs while diversifying our funding base through increased deposit mobilization, locally sourced debt funding and new bond issuances in three markets. We improved our competitive position by leveraging technology to streamline our traditional business and investing in even more positive disruption as we developed our digital banking strategy. And we continued to refocus our footprint with the announcement of our divestiture in Russia—a move that allowed us to make investments supporting our sustainability and scalability in markets where we can reach more people.



All this was achieved without wavering from our core values and deeply held commitment to protect our customers. Responsible finance is not a slogan or a project—it is something that every FINCA employee is accountable for and a principle that guides every action and decision.

Looking ahead, we know that challenges abound and change will be a constant. Our focus in the near and long term will be to continue transforming FINCA Impact Finance by rigorously investing in our future while maintaining our core business. That means ongoing investments in credit scoring and analytics, digitization and new channels as well as developing entirely new offerings utilizing new technologies.

Together, in service of our customers, we know the future looks bright. We are building an institution that will change the lives of individuals, families and entire communities.

Best,

A handwritten signature in black ink, appearing to read "Andrée Simon".

**Andrée Simon**

President and Chief Executive Officer, FINCA Impact Finance

## OUR GLOBAL REACH

FINCA Impact Finance's network of 20 community-based microfinance institutions and banks offers innovative, responsible and impactful financial services to low-income clients.



### FINCA IMPACT FINANCE

Year FINCA International was founded:  
**1984**

Gross Loan Portfolio:  
**\$797.5 million**

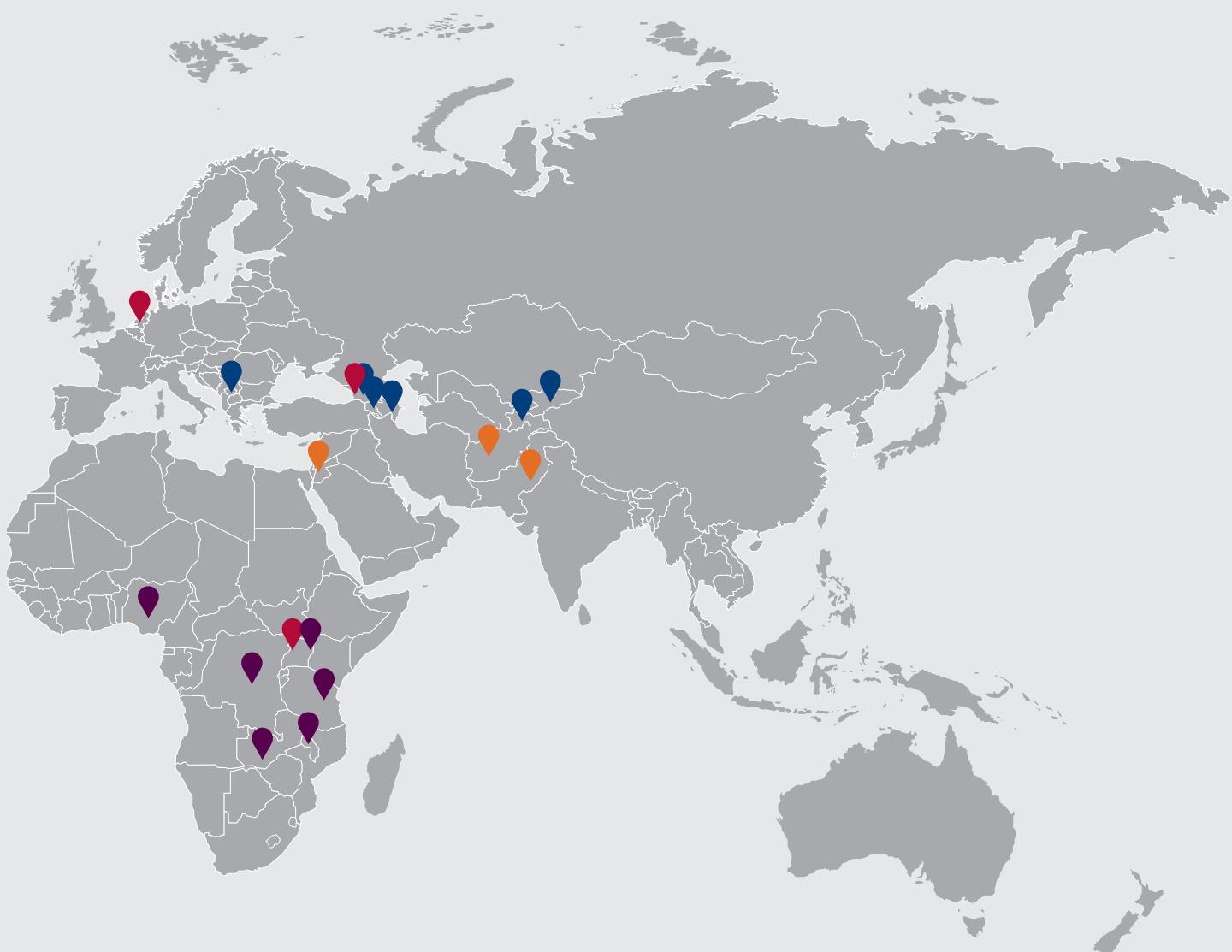
Total Voluntary Deposits:  
**\$361.3 million**

Employees:  
**10,016**

### SOCIAL IMPACT

Clients Served:  
**2,071,966**

Financially Excluded Worldwide:  
**1.7 billion**



#### AFRICA

Democratic Republic of the Congo  
Malawi  
Nigeria  
Tanzania  
Uganda  
Zambia

#### EURASIA

Armenia  
Azerbaijan  
Georgia  
Kosovo  
Kyrgyzstan  
Tajikistan

#### LATIN AMERICAN & CARIBBEAN

Ecuador  
Guatemala  
Haiti  
Honduras  
Nicaragua

#### MIDDLE EAST & SOUTH ASIA

Afghanistan  
Jordan  
Pakistan

#### FINCA NETWORK SUPPORT

## HIGHLIGHTS FROM 2017



### JANUARY

FINCA Haiti disbursed its first mobile loan via MonCash, a mobile money service developed with MNO partner Digicel.

### FEBRUARY

FINCA DR Congo, operating the largest agent network in the country, reached 1,000 POS FINCA eXpress Machines. Twenty percent of these machines are in rural areas, making it easier for remote communities to access financial services.

### MARCH

FINCA Impact Finance held its second International Women's Day Symposium, addressing the question: Is fintech (Financial Technology) the key to closing the gender gap?

FINCA Impact Finance returns to profitability.

### JUNE

FINCA Armenia announced the issuance of its first nominal, non-documentary, coupon bonds with a capacity of \$10 million, furthering our global strategy of diversifying our funding base. FINCA subsidiaries in Pakistan and Nicaragua also issued bonds in 2017.

### JULY

Financiera FINCA Nicaragua received Smart Certification, joining FINCA subsidiaries in Pakistan, Kyrgyzstan, Georgia and Kosovo in being recognized by the Smart Campaign for robust client protection practices.

*"Bold action is possible because we have a solution in our hands that enables education, communication and access to financial services that can include millions of women."*

Andrée Simon, President and CEO, on International Women's Day



"FINCA Impact Finance is partnering with like-minded companies to develop and deliver responsible products and services that are customer-centric, efficient, competitive and profitable. By partnering with fintech companies, FINCA Impact Finance can leverage cutting-edge tools and practices to make the global financial environment more inclusive."

Jeffrey Smith, Vice President and Global Chief Auditor and Chief Risk and Compliance Officer

#### AUGUST

FINCA Microfinance Bank Pakistan launched SimSim, Pakistan's first-ever free mobile wallet.

#### SEPTEMBER

FINCA Microfinance Bank Tanzania and mobile network operator Halotel launched HaloYako—a first-of-its-kind mobile savings product.

#### OCTOBER

FINCA Uganda Limited celebrated its 25-year anniversary—reaching over 130,000 customers.

#### NOVEMBER

FINCA Afghanistan implemented biometric identification in all 22 branches in the country.

#### DECEMBER

FINCA Jordan became the first microfinance institution to be fully licensed and regulated by the Central Bank of Jordan and celebrated ten years of serving the country.



## CLIENT PROTECTION AND SOCIAL RESPONSIBILITY

At FINCA Impact Finance (FIF), our customers are at the center of everything we do. We have strict policies to ensure clients are treated fairly and ethically and protect them from becoming over-indebted. Our commitment to responsible finance is now more important than ever due to the rapid rise of digital services. By integrating credit scoring, tablets, e-wallets and mobile credit and savings into our business practices, we're now able to offer responsible financial services to clients we couldn't serve under the traditional business model.

### Smart Campaign

FINCA is a founding member of the Smart Campaign, a global initiative promoting the adoption of client protection standards in the microfinance industry. In 2017, FINCA Microfinance Bank Pakistan and Financiera FINCA Nicaragua were certified, joining subsidiaries in Georgia, Kosovo and Kyrgyzstan in being recognized for our deeply held commitment to serving clients with diligence and fairness.

### Financial Literacy

Globally, 66% of adults (approximately 3.5 billion people) are financially illiterate. To unlock the full potential of digital financial services and protect borrowers from risk, education is essential. It's not only important why and if our clients adopt technology—it's also essential how they use it. FINCA Impact Finance is committed to

promoting financial literacy among our clients. To put our commitment into practice, every FINCA subsidiary engages in initiatives, such as launching a radio program in Kyrgyzstan and holding training seminars and youth programs in Georgia.

### Empowering Women

Women have significantly less access to credit compared to men despite research proving that women tend to be more responsible borrowers, diligent savers and competent managers. FINCA has been committed to helping close the gender gap in financial inclusion since its founding, with women constituting more than 53% of our customer base. But we know that access alone can't close the global gender gap—we must be intentional in the products we design, the messages we communicate and the internal practices we employ.



"Learn to Save for Yourself," a children's book published by FINCA Bank Georgia as part of its 2017 financial literacy campaign.

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53% of FIF customers are women—and 100% are worthy of economic opportunity.

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## FINANCIAL SUMMARY

### 2017 EARNINGS HIGHLIGHTS\*

	2017	2016
<b>Net Income (\$M)</b>	\$10.9	(\$24.2)
<b>ROE</b>	4.7%	-10.2%
<b>ROA</b>	1.0%	-2.3%
<b>Cost/Income</b>	78.1%	80.5%
<b>Voluntary Deposits (\$M)</b>	\$361.3	\$254.2
<b>Gross Loan Portfolio (\$M)</b>	\$797.5	\$784.6

"The strong year has been enabled through innovative changes to the business model and a focused strategy of cost and risk management, including ongoing review of the network footprint, operational expense management and funding diversification."

Roman Hingorani, Vice President and Chief Financial Officer

On the momentum of new investments in fintech, the transformation of our business model and increased cost discipline, FINCA Impact Finance returned to profitability in 2017. With \$10.9 million in net income, 4.7% ROE and over \$361 million in deposits, we achieved a noteworthy financial turnaround.

FINCA Impact Finance's financial statements on pages 8-11 were prepared in accordance with International Financial Reporting Standards. The information is an excerpt from the consolidated audited financial statements for the years ended December 31, 2017 and 2016 of FINCA Microfinance Holding Company, LLC and Subsidiaries, which can be accessed at [FINCAImpact.com](http://FINCAImpact.com).

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as of December 31, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$150,113,980	\$136,453,449
Restricted cash and cash equivalents	33,991,372	22,730,379
Available for sale financial assets	6,168,125	7,416,713
Financial assets held-to-maturity	42,032,786	25,360,625
Financial assets at fair value through profit or loss	31,266,196	19,491,195
Loans receivable—net of allowance	777,645,735	741,756,202
Due from banks	377,904	7,610,297
Other receivables, prepaid and other assets	20,587,625	27,149,189
Property and equipment	30,814,276	29,192,235
Intangible assets	9,012,029	8,029,035
Goodwill	989,143	1,042,135
Current income tax assets	923,351	3,400,776
Deferred tax assets	5,725,698	2,469,769
<b>TOTAL ASSETS</b>	<b>\$1,109,648,220</b>	<b>\$1,032,101,999</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable and other accrued liabilities	\$31,602,183	\$24,333,896
Financial liability at fair value through profit or loss	11,213,302	8,259,574
Client deposits	372,744,174	262,340,157
Bank deposits	62,546,969	38,341,222
Notes payable	372,642,350	448,544,183
Subordinated debt	8,823,324	8,536,638
Deferred revenue	2,691,990	3,308,068
Current income tax liability	4,320,467	9,154,377
Deferred tax liabilities	2,138,352	2,119,289
<b>Total liabilities</b>	<b>868,723,111</b>	<b>804,937,404</b>
<b>Equity:</b>		
Share capital	301,365,172	301,365,172
Reserves	18,889,223	18,931,450
Retained earnings	(2,544,711)	(12,318,008)
Foreign currency translation reserve	(80,783,423)	(83,903,724)
<b>Equity attributable to equity holders of FMH</b>	<b>236,926,261</b>	<b>224,074,890</b>
Non-controlling interest	3,998,848	3,089,705
<b>Total equity</b>	<b>240,925,109</b>	<b>227,164,595</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$1,109,648,220</b>	<b>\$1,032,101,999</b>

# CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

for the years ended December 31, 2017 and 2016

	2017	2016
<b>PROFIT OR LOSS</b>		
<b>Continuing operations:</b>		
Interest income	\$283,720,807	\$285,200,992
Interest expense	(69,424,597)	(70,395,302)
Net interest income	214,296,210	214,805,690
Impairment losses on loans	(28,550,245)	(57,253,878)
Net interest income after impairment losses on loans	185,745,965	157,551,812
Other operating income	34,610,506	29,787,946
Net operating income	220,356,471	187,339,758
Loss on financial assets and liabilities at fair value through profit or loss	(3,027,546)	(5,785,999)
Personnel expenses	(108,384,776)	(94,929,708)
Other operating expenses	(73,550,189)	(68,771,823)
Management services expenses	—	(18,076,287)
Depreciation and amortization	(10,180,494)	(10,472,174)
Total expenses	(192,115,459)	(192,249,992)
Profit (loss) before other income (expenses)	25,213,466	(10,696,233)
Other income (expenses):		
Grants and donations	2,194,457	3,280,914
Foreign exchange gain	2,681,312	4,260,124
Non-operating expenses	(921,484)	(2,432,327)
Gain (loss) before income tax expense	29,167,751	(5,587,522)
Income tax expense	(13,230,591)	(17,542,567)
Profit (loss) for the year from continuing operations	\$15,937,160	\$(23,130,089)
<b>Discontinued operations:</b>		
(Loss) for the year from discontinued operations	(5,046,945)	(1,115,741)
Profit (loss) for the year attributable to:		
Equity holders of FMH	9,773,297	(24,940,749)
Non-controlling interest	1,116,918	694,920
<b>TOTAL PROFIT (LOSS) FOR THE YEAR</b>	<b>\$10,890,215</b>	<b>\$(24,245,829)</b>

## CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME OR LOSS

for the years ended December 31, 2017 and 2016

	2017	2016
<b>COMPREHENSIVE INCOME/(LOSS)</b>		
Total profit/(loss) for the year	<b>\$10,890,215</b>	\$(24,245,829)
Other comprehensive income, net of tax	<b>2,870,299</b>	2,245,534
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operation	<b>(1,930,614)</b>	(8,961,798)
Net (losses) gains on available-for-sale financial assets	<b>(41,805)</b>	141,448
Reclassification adjustments relating to foreign operations disposed of in the year	<b>4,842,718</b>	11,065,884
Total comprehensive income (loss) for the year, net of tax	<b>13,760,514</b>	\$(22,000,295)
Total comprehensive income/(loss) for the year attributable to:		
Equity holders of FMH	<b>12,851,371</b>	(22,697,678)
Non-controlling interest	<b>909,143</b>	697,383
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>	<b>\$13,760,514</b>	\$(22,000,295)

# CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit (loss) for the period after tax	\$10,890,215	\$(24,245,829)
<b>Adjustments for:</b>		
Depreciation and amortization	<b>10,227,069</b>	12,592,109
Gain (loss) on disposal of fixed assets and intangibles	<b>(79,523)</b>	806,325
Impairment on loan losses and other financial assets	<b>27,730,738</b>	60,649,024
Impairment on other assets	<b>881,011</b>	2,449,501
Foreign exchange losses	<b>6,620,203</b>	6,805,905
Changes in deferred tax assets and liabilities	<b>(3,500,797)</b>	3,344,210
Loss (gain) on disposal of subsidiaries before tax and translation adjustments	<b>558,860</b>	(9,032,489)
Other non-cash adjustments	<b>(12,928,260)</b>	(4,099,302)
<b>Increase (decrease) of assets and liabilities from operating activities after non-cash items:</b>		
Change in loans receivable, including interest receivables	<b>(64,139,623)</b>	(39,913,861)
Change in due from banks	<b>7,218,551</b>	(3,727,694)
Change in other receivables and other assets	<b>(24,066,978)</b>	370,577
Change in customer deposits	<b>120,619,706</b>	99,747,105
Change in due to banks	<b>24,326,580</b>	19,215,624
Change in deferred income	<b>(473,877)</b>	1,708,034
Change in other liabilities	<b>3,770,217</b>	5,176,921
<b>Net cash provided by operating activities</b>	<b>107,654,092</b>	131,846,160
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets	<b>(18,140,895)</b>	(15,028,910)
Purchase of property and equipment	<b>(9,791,240)</b>	(11,156,347)
Purchase of intangible assets	<b>(4,414,406)</b>	(2,874,873)
Proceeds from sales/disposal of fixed assets	<b>1,011,430</b>	501,006
Principal collections from note receivable	<b>—</b>	5,320,662
Net cash inflow on disposal of subsidiaries	<b>238,367</b>	14,944,775
<b>Net cash used by investing activities</b>	<b>(31,096,744)</b>	(8,293,687)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of shares	<b>—</b>	3,034,114
Proceeds from lenders	<b>326,263,548</b>	232,392,248
Repayment of loans and borrowings to lenders	<b>(387,935,273)</b>	(342,337,887)
<b>Net cash used by financing activities</b>	<b>(61,671,725)</b>	(106,911,525)
Net increase in cash and cash equivalents	<b>14,885,623</b>	16,640,948
Cash and cash equivalents—beginning of the year	<b>136,453,449</b>	127,248,503
Effect of exchange rate changes on cash and cash equivalents	<b>(1,225,092)</b>	(7,436,002)
<b>Cash and cash equivalents—end of year</b>	<b>150,113,980</b>	136,453,449
<b>SUPPLEMENTAL DISCLOSURES TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	<b>328,689,312</b>	267,329,591
Interest paid	<b>(85,515,417)</b>	(73,062,852)
Income taxes paid	<b>(12,167,277)</b>	(4,244,371)

## LEADERSHIP

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### BOARD OF DIRECTORS

Richard M. Williamson (Chairman)

Shawn Hassel

Michael Barth

Robert W. Hatch

Monish Dutt

Rupert W. Scofield

Johannes Feist

David E. Weisman

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### EXECUTIVE MANAGEMENT COMMITTEE

**Andrée Simon**

President and Chief Executive Officer

**Jeffrey Smith**

Vice President and Global Chief Auditor and  
Chief Risk and Compliance Officer

**Roman Hingorani**

Vice President and Chief Financial Officer

**P. Daniel Smith**

Vice President and General Counsel

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### MANAGEMENT TEAM

**Alexei Chirokikh**

Global Chief Technology Officer

**Keith Gary Sandbloom**

Vice President and Regional Director  
for Latin America and the Caribbean

**Mike Gama-Lobo**

Vice President and Regional Director for Africa

**Zarlasht Wardak**

Vice President and Regional Director  
for the Middle East and South Asia

**Florin Lila**

Vice President and Regional Director for Eurasia

## INVESTORS

FINCA Microfinance Holding Company LLC (FMH) is a social investment partnership that owns and operates the FINCA Impact Finance network. Since 2011, the partners' capital has helped expand FINCA's ability to lend to clients and supported the ongoing transformation of its microfinance subsidiaries into fully licensed financial institutions.



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"The FMH partnership includes seven outstanding organizations that share a commitment to the global mission of FINCA: to help people in developing countries build assets, create jobs and improve their standard of living."

P. Daniel Smith, Vice President and General Counsel

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For women and men who need access to responsible and affordable financial services, our community-based banks offer products that empower people to take control of their financial futures. With more than 30 years of experience and a global staff of more than 10,000, FINCA Impact Finance delivers a double bottom line of profitability and social impact. FINCA Impact Finance is leveraging technology to put financial power in the hands of, or around the corner from, our customers no matter where they live.