FINCA Microfinance Holding Company, LLC and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended December 31, 2017 and 2016,
and Independent Auditors' Report

FINCA MICROFINANCE HOLDING COMPANY, LLC AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of the Audit Committee
FINCA Microfinance Holding Company, LLC
Washington, DC

We have audited the accompanying consolidated financial statements of FINCA Microfinance Holding Company, LLC and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of profit or loss, other comprehensive income or loss, changes in equity, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FINCA Microfinance Holding Company, LLC and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte + Touche LLP

May 7, 2018

FINCA MICROFINANCE HOLDING COMPANY, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
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 (Note 12)	6,168,125	7,416,713
FINANCIAL ASSETS HELD-TO-MATURITY (Note 13)	42,032,786	25,360,625
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Note 14)	31,266,196	19,491,195
LOANS RECEIVABLE—NET OF ALLOWANCE (Note 15)	777,645,735	741,756,202
DUE FROM BANKS	377,904	7,610,297
OTHER RECEIVABLES, PREPAID, AND OTHER ASSETS (Note 16)	20,587,625	27,149,189
PROPERTY AND EQUIPMENT (Note 17)	30,814,276	29,192,235
INTANGIBLE ASSETS (Note 18)	9,012,029	8,029,035
GOODWILL	989,143	1,042,135
CURRENT INCOME TAX ASSETS	923,351	3,400,776
DEFERRED TAX ASSETS (Note 11)	5,725,698	2,469,769
TOTAL ASSETS	$1,109,648,220	$1,032,101,999
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable and other accrued liabilities (Note 19)	$ 31,602,183	$ 24,333,896
Financial liability at fair value through profit or loss (Note 14)	11,213,302	8,259,574
Client deposits (Note 20)	372,744,174	262,340,157
Bank deposits	62,546,969	38,341,222
Notes payable (Note 21)	372,642,350	448,544,183
Subordinated debt (Note 22)	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 (Note 11)	2,138,352	2,119,289
Total liabilities	868,723,111	804,937,404
EQUITY:		
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)
Equity attributable to equity holders of FMH	236,926,261	224,074,890
Non-controlling interest	3,998,848	3,089,705
total equity	240,925,109	227,164,595
TOTAL LIABILITIES AND EQUITY	$1,109,648,220	$1,032,101,999

See notes to the consolidated financial statements.

FINCA MICROFINANCE HOLDING COMPANY, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CONTINUING OPERATIONS		
INTEREST INCOME	$ 283,720,807	$ 285,200,992
INTEREST EXPENSE	(69,424,597)	(70,395,302)
NET INTEREST INCOME (Note 6)	214,296,210	214,805,690
IMPAIRMENT LOSSES ON LOANS (Note 15)	(28,550,245)	(57,253,878)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON LOANS	185,745,965	157,551,812
OTHER OPERATING INCOME (Note 7)	34,610,506	29,787,946
NET OPERATING INCOME	220,356,471	187,339,758
LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FVTPL	(3,027,546)	(5,785,999)
PERSONNEL EXPENSES (Note 8)	(108,384,776)	(94,929,708)
OTHER OPERATING EXPENSES (Note 9)	(73,550,189)	(68,771,823)
MANAGEMENT SERVICES EXPENSES (Note 10)	-	(18,076,287)
DEPRECIATION AND AMORTIZATION (Note 17 AND 18)	(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 (Note 11)	(13,230,591)	(17,542,567)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	$ 15,937,160	$ (23,130,089)
DISCONTINUED OPERATIONS		
(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS (Note 23)	$ (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
TOTAL PROFIT (LOSS) FOR THE YEAR	$ 10,890,215	$ (24,245,829)

See notes to the consolidated financial statements.

FINCA MICROFINANCE HOLDING COMPANY, LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
TOTAL PROFIT/(LOSS) FOR THE YEAR	$ 10,890,215	$ (24,245,829)
OTHER COMPREHENSIVE INCOME, Net of tax	2,870,299	2,245,534
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:	2,870,299	2,245,534
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(1,930,614)	(8,961,798)
NET GAINS/(LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(41,805)	141,448
RECLASSIFICATION ADJUSTMENTS RELATING TO FOREIGN OPERATIONS DISPOSED OF IN THE YEAR	4,842,718	11,065,884
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, Net of tax	$ 13,760,514	$ (22,000,295)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:		
Equity holders of FMH	$ 12,851,371	$ (22,697,678)
Non-controlling interest	909,143	697,383
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	$ 13,760,514	$ (22,000,295)

See notes to the consolidated financial statements.

FINCA MICROFINANCE HOLDING COMPANY, LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Share Capital	Reserves	Retained Earnings	Foreign Currency Translation Reserve	Total Equity Attributable to Equity Holders of FMH	Non-controlling Interest	Total Equity
BALANCE—December 31, 2015	$ 298,331,058	$ 17,170,307	$ 15,822,582	$ (86,006,803)	$ 245,317,144	$ 2,553,322	$ 247,870,466
Comprehensive income:							
Profit (Loss) for the year	-	-	(24,940,749)	11,065,884	(13,874,865)	694,920	(13,179,945)
Foreign currency movement during the year	-	-	-	(8,962,805)	(8,962,805)	1,007	(8,961,798)
Fair value revaluation reserve	-	139,992	-	-	139,992	1,456	141,448
Total comprehensive income (loss)	-	139,992	(24,940,749)	2,103,079	(22,697,678)	697,383	(22,000,295)
Capital contribution (distribution) from parent	3,034,114	-	(1,578,690)	-	1,455,424	-	1,455,424
Dividends paid to noncontrolling shareholders	-	-	-	-	-	(161,000)	(161,000)
Transfer to reserve	-	1,621,151	(1,621,151)	-	-	-	-
BALANCE—December 31, 2016	301,365,172	18,931,450	(12,318,008)	(83,903,724)	224,074,890	3,089,705	227,164,595
Comprehensive income:							
Profit for the year	-	-	9,773,297	4,842,718	14,616,015	1,116,918	15,732,933
Foreign currency movement during the year	-	-	-	(1,722,417)	(1,722,417)	(208,197)	(1,930,614)
Fair value revaluation reserve	-	(42,227)	-	-	(42,227)	422	(41,805)
Total comprehensive income (loss)	-	(42,227)	9,773,297	3,120,301	12,851,371	909,143	13,760,514
Capital contribution from parent	-	-	-	-	-	-	-
Dividends paid to noncontrolling shareholders	-	-	-	-	-	-	-
Transfer to reserve	-	-	-	-	-	-	-
BALANCE—December 31, 2017	$ 301,365,172	$ 18,889,223	$ (2,544,711)	$ (80,783,423)	$ 236,926,261	$ 3,998,848	$ 240,925,109

See notes to the consolidated financial statements.

FINCA MICROFINANCE HOLDING COMPANY, LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit (loss) for the period after tax	$ 10,890,215	$ (24,245,829)
Adjustments for:		
Depreciation and amortization	10,227,069	12,592,109
Gain (Loss) on disposal of fixed assets and intangibles	(79,523)	806,325
Impairment on loan losses and other financial assets	27,730,738	60,649,024
Impairment on other assets	881,011	2,449,501
Foreign exchange losses	6,620,203	6,805,905
Changes in deferred tax assets and liabilities	(3,500,797)	3,344,210
Loss/(gain) on disposal of subsidiaries before tax and translation adjustments	558,860	(9,032,489)
Other non-cash adjustments	(12,928,260)	(4,099,302)
Increase (decrease) of assets and liabilities from operating activities after non-cash items:		
Change in loans receivable, including interest receivables	(64,139,623)	(39,913,861)
Change in due from banks	7,218,551	(3,727,694)
Change in other receivables and other assets	(24,066,978)	370,577
Change in customer deposits	120,619,706	99,747,105
Change in due to banks	24,326,580	19,215,624
Change in deferred income	(473,877)	1,708,034
Change in other liabilities	3,770,217	5,176,921
Net cash provided by operating activities	107,654,092	131,846,160
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of financial assets	(18,140,895)	(15,028,910)
Purchase of property and equipment	(9,791,240)	(11,156,347)
Purchase of intangible assets	(4,414,406)	(2,874,873)
Proceeds from sales/disposal of fixed assets	1,011,430	501,006
Principal collections from note receivable	-	5,320,662
Net cash inflow on disposal of subsidiaries (Note 23)	238,367	14,944,775
Net cash used by investing activities	(31,096,744)	(8,293,687)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of shares	-	3,034,114
Proceeds from lenders	326,263,548	232,392,248
Repayment of loans and borrowings to lenders	(387,935,273)	(342,337,887)
Net cash used by financing activities	(61,671,725)	(106,911,525)

(Continued)

FINCA MICROFINANCE HOLDING COMPANY, LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 14,885,623	$ 16,640,948
CASH AND CASH EQUIVALENTS—beginning of year	136,453,449	127,248,503
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,225,092)	(7,436,002)
CASH AND CASH EQUIVALENTS—End of year	$ 150,113,980	$ 136,453,449
SUPPLEMENTAL DISCLOSURES TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$ 328,689,312	$ 267,329,591
Interest paid	$ (85,515,417)	$ (73,062,852)
Income taxes paid	$ (12,167,277)	$ (4,244,371)

See notes to the consolidated financial statements. (Concluded)

1. NATURE OF ACTIVITIES

FINCA Microfinance Holding Company, LLC (FMH) is a limited liability company formed under the laws of the State of Delaware, United States of America (USA). FINCA International, Inc. ("FINCA"), a New York not-for-profit corporation, is the substantial majority (62.93%) shareholder of FMH with the remaining minority positions held by social and development institutions. FINCA established FMH to carry out FINCA's mission of providing financial services to the world's lowest income entrepreneurs in order to alleviate poverty through lasting solutions that help people build assets, create jobs, and raise their standard of living. FMH's purpose is consistent with FINCA's mission. FMH's headquarters is located in Washington, DC, USA.

As of December 31, 2017, FMH has microfinance operations in 20 developing countries in Latin America (Ecuador, Guatemala, Haiti, Honduras, and Nicaragua), Africa (Democratic Republic of the Congo, Malawi, Nigeria, Tanzania, Uganda, and Zambia), Eurasia (Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyzstan, and Tajikistan), and the Middle East (Afghanistan, Jordan, and Pakistan). FMH operates through local entities ("Subsidiaries") that are owned and/or controlled by it, including predominantly corporations and, in some cases, nongovernmental organizations. The Subsidiaries principally provide small loans to individuals and to groups of individuals that lack access to traditional financial institutions. In most cases, FMH loans are made to either groups, individuals, or small- and medium-sized enterprises. Loans consist of agricultural loans, education loans, and other microfinance loans. Group and village loans consist of individuals that know each other, guarantee each other's loans, and provide a network of support for the group members. Individual loans, typically larger in size, are made where individual small businesses demonstrate adequate need and creditworthiness. In addition to loans, FMH, through a growing number of its Subsidiaries, provides other financial services needed by the working poor, including savings deposits, remittances, and micro insurance.

FMH has transformed all of its Subsidiaries, with the exception of FINCA Kosovo and FINCA Guatemala, into for-profit commercial corporate forms, including banks or nonbank financial institutions, in order to provide the services mentioned above as well as to enhance FMH's ability to attract funding and support needed for growth and infrastructure development. As of December 31, 2017, the majority of the Subsidiaries are commercial corporate entities that are subject to financial regulation.

Until December 31, 2016, FMH was operated by FINCA under the terms of a Management Services Agreement (MSA). On December 31, 2016 FINCA, FMH and FINCA Microfinance Global Services LLC (FMGS), a wholly owned services subsidiary, entered into a Staff Transfer Agreement under the terms of which the employment agreements for certain dedicated employees were transferred from FINCA to FMGS in exchange for a fee for each employee transferred, while preserving FINCA's ability to request services from FMGS and continuing to share in the expertise of the employees transferred. On January 1, 2017 FMH entered into an MSA with FMGS. Under the provisions of this MSA, FMGS provides management services to FMH for which FMH pays a services fee. On January 1, 2017, the

MSAs between FMH and its Subsidiaries were assigned to FMGS. FMH does not have any employees and, therefore, does not bear any employee-related costs. FMH incurred actual management services expense in the amount of $9.3 million in 2017 under the MSA with FMGS and $18.1 million in 2016 under the MSA with FINCA.

In addition, on December 31, 2016 FINCA and FMGS entered into a License Agreement under which FMGS agreed to license a pro-rata portion of the licensed premises leased by FINCA in Washington D.C through the lease maturity in 2025.

2. BASIS OF PREPARATION

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

The consolidated financial statements were approved by the Board of Directors on May 4, 2018.

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 (FVTPL) are measured at fair value.

Available-for-sale (AFS) financial assets are measured at fair value.

Held-for-sale assets are measured at fair value, less costs of sale.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

To conform to our current period presentation, we have reclassified certain amounts reported in our prior year's consolidated financial statements. 'Current income tax assets' has been broken out from the 'Other Receivables, Prepaid and Other Assets' line item to its own line item to conform to the current reporting format and the presentation in our consolidated financial statements for the year ended December 31, 2017. Such reclassifications had no impact on profit or loss or equity. Management considered it more informative to create a separate line item.

3. SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Significant accounting policies

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

Principles of Consolidation—The consolidated financial statements consolidate the financial statements of FMH and entities controlled by FMH and its Subsidiaries. Control is achieved when FMH:

has power over the investee;

is exposed, or has rights, to variable returns from its involvement with the investee; and

has the ability to use its power to affect its returns.

FMH reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

Non-controlling Interests—Noncontrolling interests represent the portion of profit or loss and net assets of Subsidiaries not owned, directly or indirectly, by FMH. Noncontrolling interests are presented separately in the consolidated statements of profit or loss and within equity in the consolidated statements of financial position, separately from equity holders of parent company.

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

Discontinued Operations—In the consolidated statements of profit or loss of the reporting period and other comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations. The resulting profit or loss (after taxes) is reported separately in the statements of profit or loss.

Revenue Recognition—Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis

using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Other operating income includes fees and commission income which is 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. Loan servicing fees are recognized as revenue as the services are provided.

Other non-operating income includes grant revenue that is recognized when there is reasonable assurance that FMH has complied with the terms and conditions associated with the grant and that grants will be received. Grants are recognized in profit or loss over the periods in which the underlying grant expense is recognized.

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

Foreign Currency Transactions and Balances—For the purposes of presenting these consolidated financial statements the assets and liabilities of FMH's subsidiaries are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

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

Income Tax Expense—FMH is a limited liability company and is structured as a partnership for US federal, state, and local income tax purposes. Accordingly, no provision for income taxes is made in the consolidated financial statements. However, FMH is subject to certain state and local taxes. In addition, some of the foreign operations of the Subsidiaries are subject to local income tax in the jurisdictions where they operate and certain cross-border payments are subject to foreign withholding taxes.

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

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

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

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

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

Financial Assets—FMH recognizes its financial assets within the following specified categories: at FVTPL, AFS, held-to-maturity (HTM), and loans receivable. The classification depends on the nature and purpose for which the financial assets were acquired and is determined at the time of initial recognition.

AFS Financial Assets—AFS are either designated as AFS or are classified as (a) loans and receivables, (b) HTM investments, or (c) financial assets at FVTPL. AFS are stated at fair value at the end of reporting period. Changes in the carrying amount of AFS financial assets realized and unrealized gains or losses relating to changes in foreign currency rates, interest income, and dividends on AFS equity investments are recognized in the consolidated statement of profit or loss. Other changes in the carrying amount of AFS are recognized in other comprehensive income and accumulated under the investment valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to the consolidated statement of profit or loss.

HTM Investments—HTM investments are nonderivative financial assets with fixed or determinable payments and fixed maturities that FMH has positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less any impairment.

Financial Assets at FVTPL—Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as FVTPL and:

it has been acquired principally for the purpose of selling it in the near term, or

it is a derivative that is not designated, nor effective as, a hedging instrument.

Financial assets at FVTPL are stated at fair value, with remeasurement gains or losses recognized in the consolidated statement of profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the (loss) gain on financial assets and liabilities at FVTPL. Fair value is determined in the manner described in Note 5.

Loans Receivable—Net of Allowance—Loans receivable are financial assets with fixed or determinable payments and that FMH does not intend to sell immediately or in the near term.

Loans receivable are initially measured at fair value, plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method, less any impairment.

Impairment of Loans—FMH assesses at each consolidated statements of financial position date whether there is objective evidence that its loans receivable are impaired. If there is objective evidence of the occurrence of an impairment of a credit exposure, or a portfolio of credit exposures, the respective losses are measured and immediately recognized. Depending on the nature or type of the credit exposure, such losses are either measured on an individual credit exposure basis or are collectively assessed for a portfolio of credit exposures. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of profit or loss through impairment losses on loans. FMH does not recognize losses from expected but not incurred credit losses.

Credit exposures are considered individually significant if they have a certain size, partly depending on the individual Subsidiary. FMH’s policy sets country specific thresholds for the assessment of individual credit exposures, all credit exposures over a country-specific threshold are individually assessed for impairment. For such credit exposures, it is assessed whether objective evidence of impairment exists, i.e., any factors which might influence the client’s ability to fulfill his contractual payment obligations towards the individual Subsidiary, such as:

Delinquencies in contractual payments of interest or principal

Breach of covenants or conditions

Initiation of bankruptcy proceedings

Any specific information on the client’s business (e. g., reflected by cash flow difficulties experienced by the client)

Changes in the client’s market environment

The general economic situation

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

If FMH determines that no objective evidence of impairment exists for an individually assessed loans receivable whether individually significant or not, it includes the loans receivable asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (impairment for collectively assessed credit exposures). The group of credit exposures which do not show signs of impairment in order to cover all losses which have already been incurred but not detected on an individual credit exposure basis.

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

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

Charging off Loans—When a loan is determined uncollectible, the amount of loss is determined and charged off against the allowance for loan impairment. Such loans are charged off after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the consolidated statements of profit or loss.

FMH charges off a loan (and any related provision for impairment losses) when a Subsidiary's audit committee determines that the loans are uncollectible. This determination is reached after considering information, such as the occurrence of significant changes in a client's financial position, such that the client can no longer pay the obligation, or that proceeds from collateral, if any, will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge-off decisions are generally based on a product-specific past due status.

Derecognition of Financial Assets—FMH derecognizes a financial asset when the contractual rights to the cash flow for the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of the financial asset, the difference between the asset's carrying amount and the sum of consideration received and receivable as well as the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss. Any interest in transferred financial assets that is created or retained by FMH is recognized as a separate asset or liability.

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

Impairment of Financial Assets—At each consolidated statements of financial position date, FMH assesses whether there is objective evidence that financial assets not carried at FVTPL 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 of the asset that can be reliably estimated.

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 the consolidated statements of profit or loss and reflected in an allowance account against the financial assets.

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

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

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

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

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

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

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

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

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

It is technically feasible to complete the software product so that it will be available for use;

Management intends to complete the software product and use it;

There is an ability to use or sell the software product;

It can be demonstrated that the software product will generate probable future economic benefits;

Adequate technical, financial, and other resources to complete the development and to use or sell the software product are available; and

The expenditure attributable to the software product during its development can be reliably measured.

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

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

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

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

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

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

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

amount. Such an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in previous years.

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

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

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

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

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

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

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

Application of New and Revised IFRSs

The following amendments to IFRS became mandatorily effective for the annual period beginning on or after 1 January 2017.

Amendments to IAS 7, Disclosure Initiative;

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses; and

Amendments to IFRS 12 included in Annual Improvements to IFRS Standards 2014-2016 Cycle.

Amendments to IAS 7 Disclosure Initiative

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of note payable (note 21) and subordinated debt (note 22). Consistent with the transition provisions of the amendments. The application of these amendments has had no impact on the Company's financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Company's financial statements.

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

Effective for Annual Periods Beginning on or after January 1, 2018, with Earlier Application Permitted.

IFRS 9, Financial Instruments;

IFRS 15, Revenue from Contracts with Customers and the related Clarifications;

IFRS 16, Leases;

Annual Improvements to IFRSs 2014-2016 Cycle; and

IFRIC 22 Foreign Currency Transactions and Advance Consideration; and

IFRIC 23 Uncertainty Over Income Tax Treatments.

IFRS 9 (as revised in 2014)

(Effective for Annual Periods Beginning on or after January 1, 2018)

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 applicable for the Company are:

Classification and Measurement of Financial Assets. All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding which is generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding is generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

Impairment. In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The Company will adopt IFRS 9 from the effective date of January 1, 2018; apply it retrospectively and recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as of January 1, 2018. The Company continues to evaluate the impact of this guidance on the financial statements. The Company expects that the application of the expected credit loss model of IFRS 9 will

result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognized for these items.

IFRS 15

(Effective for Annual Periods Beginning on or after January 1, 2018)

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

IAS 18, *Revenue*

IAS 11, Construction Contracts

IFRIC 13, Customer Loyalty Programs

IFRIC 15, Agreements for the Construction of Real Estate

IFRIC 18, Transfers of Assets from Customers

SIC 31, Revenue-Barter Transactions Involving Advertising Services

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.

As mentioned above, the new revenue standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new revenue standard introduces a five-step approach to revenue recognition and measurement:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e., when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Company does not anticipate the application of this standard to have a material impact on the Company's financial statements.

IFRS 16

(Effective for Annual Periods Beginning on or after January 1, 2019)

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The standard has superseded the following lease Standard and Interpretations upon its effective date.

IAS 17, *Leases*

IFRIC 14, Determining whether an Arrangement contains a Lease

SIC—15, Operating Lease—Incentives; and

SIC—27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company has not completed the process of evaluating the impact that will result from adopting this standard. The Company is therefore unable to disclose the impact that adopting IFRS 16 will have on its financial statements when such statement is adopted.

Annual Improvements to IFRSs 2014-2016 Cycle

(Effective for Annual Periods Beginning on or after January 1, 2018)

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. The package also includes amendments to IFRS 12 which is mandatorily effective for the Company in the current year – see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

The Company does not anticipate the application of this standard to have a material impact on the Company's financial statements.

IFRIC 22

(Effective for Annual Periods Beginning on or after January 1, 2018)

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign

currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The IFRIC specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Company does not anticipate the application of this IFRIC to have a material impact on the Company's financial statements.

IFRIC 23

(Effective for Annual Periods Beginning on or after January 1, 2019)

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. Entities can apply the IFRIC either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The Company does not anticipate the application of this IFRIC to have a material impact on the Company's financial statements.

Critical Accounting Estimates and Judgments

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

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan credit loss allowances, management considers

factors, such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counterparty allowances are forecast and the model assumptions and parameters used in determining collective allowances.

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

4. FINANCIAL RISK MANAGEMENT

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

FMH's risks are generally categorized into:

Credit risk

Market risk
- Interest rate risk
- Foreign currency risk

Liquidity risk

Third-party risk

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

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

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

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

In 2017, the Company adopted a new capital policy based on the Standardized and Basic Indicator approaches stipulated by the Basel framework of Risk Weighted Assets (RWA) and Risk-Weighted Capital Adequacy Ratio (RCAR). All components of Risk Weighted Assets (Credit Risk, Operational and Market Risk) are calculated based on a Subsidiary's balance sheet and income statement. Under the policy, Core RCAR and Total RCAR should not be less than 10% and 12% respectively (Basel limit plus a capital conservation and countercyclical buffer). Core RCAR is equivalent to Core Capital divided by total RWA while Total RCAR is equivalent to Total Capital (Core Capital plus qualifying subordinated debt) divided by total RWA. Core Capital is total equity less intangible assets. At December 31, 2017, all Subsidiaries (with the exception of FINCA DRC, Malawi and Zambia) were in compliance with this policy.

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

FMH's loan portfolio is made up entirely of loans made to individuals, groups of individuals, and Small and Mid-Sized Enterprises for a specific purpose and is sufficiently diversified to reduce concentration risk. At December 31, 2017 and 2016, FMH had 0.8 million and 0.9 million borrowers, respectively.

FMH's aggregate gross loan portfolio was $797.5 million and $784.6 million as of December 31, 2017 and 2016, respectively (see Note 15). FMH's total allowances for impairment were $19.9 million, a coverage ratio of 2.5% of total loans; and $42.9 million, a coverage ratio of 5.5% of total loans as of December 31, 2017 and 2016, respectively.

Regionally, impairment losses on loans approximate 1.6% to 9.4% and 1.9% to 10.1% of the average total loan portfolio at December 31, 2017 and 2016, respectively. 2016 includes operations that were discontinued in 2017.

	Impairment Losses on Loans		Average Gross Loans to Customers		Impairment Losses as Percentage of Average Gross Loans	
	2017	2016	2017	2016	2017	2016
Eurasia	$ 4,831,229	$ 37,392,874	$ 307,283,717	$ 363,269,987	1.6 %	10.1 %
Latin America	4,826,635	6,438,828	149,033,762	128,878,059	3.2	5.0
Africa	15,099,363	11,174,980	160,993,629	161,856,200	9.4	6.9
MESA	3,793,018	2,247,196	170,345,059	120,301,645	2.2	1.9

FMH conducts biannual historical loan-loss migration analysis across its subsidiary network in order to determine the probability of default, defined as all loans in arrears in excess of 180 days, as well as an examination of other current observable factors (e.g., macroeconomic, operational, policy and systems changes, political risk) in order to establish subsidiary credit reserves. The loan-loss migration data is used to form the statistical base of the credit risk calculation in order to estimate the probability of default over a six-month period.

The regional segmentation, by arrears category, for gross loans and allowances at December 31, 2017, is as follows:

	Total Gross Loans for Each Portfolio-Aging Segment						
			Gross Loan Portfolio				Total Gross
	Current	**1–30**	**31–60**	**61–90**	**91–180**	180+	Loan Portfolio
Eurasia	$ 276,243,830	$ 4,423,299	$ 1,490,715	$ 1,041,819	$ 1,776,090	$ 1,689,971	$ 286,665,724
Latin America	156,720,742	2,896,138	1,349,968	856,781	1,660,496	582,681	164,066,806
Africa	136,615,764	5,188,615	2,288,338	2,006,552	4,161,741	1,988,640	152,249,650
MESA	188,878,842	2,612,980	800,251	567,661	1,674,947	-	194,534,681
Total	$ 758,459,178	$ 15,121,032	$ 5,929,272	$ 4,472,813	$ 9,273,274	$ 4,261,292	$ 797,516,861

	Aging of Allowance for Impairment						
	Current	**1–30**	**31–60**	**61–90**	**91–180**	180+	Total allowance for impairment
Eurasia	$ 1,276,285	$ 383,991	$ 531,457	$ 488,553	$ 1,356,415	$ 1,772,279	$ 5,808,980
Latin America	339,818	303,125	432,304	472,625	1,311,696	603,507	3,463,075
Africa	543,201	829,965	848,807	1,072,517	3,185,522	1,890,430	8,370,442
MESA	462,209	232,579	242,189	215,975	1,075,677	-	2,228,629
Total	$ 2,621,513	$ 1,749,660	$ 2,054,757	$ 2,249,670	$ 6,929,310	$ 4,266,216	$ 19,871,126

The regional segmentation, by arrears category, for gross loans and allowances at December 31, 2016, is as follows:

	Total Gross Loans for Each Portfolio-Aging Segment						
			Gross Loan Portfolio				Total Gross
	Current	**1–30**	**31–60**	**61–90**	**91–180**	180+	Loan Portfolio
Eurasia	$ 269,428,810	$ 10,738,716	$ 6,164,643	$ 5,144,013	$ 13,081,589	$ 30,187,421	$ 334,745,192
Latin America	126,916,142	2,319,243	1,177,709	1,011,717	2,136,172	439,736	134,000,719
Africa	153,867,922	5,329,790	2,524,532	1,647,639	3,368,948	2,998,776	169,737,607
MESA	142,335,309	1,733,524	606,227	431,799	1,048,577	-	146,155,436
Total	$ 692,548,183	$ 20,121,273	$ 10,473,111	$ 8,235,168	$ 19,635,286	$ 33,625,933	$ 784,638,954

	Aging of Allowance for Impairment						
	Current	**1–30**	**31–60**	**61–90**	**91–180**	180+	Total allowance for impairment
Eurasia	$ 2,273,357	$ 2,660,040	$ 2,287,999	$ 2,063,864	$ 5,899,804	$ 15,027,508	$ 30,212,572
Latin America	1,460,855	162,162	303,956	471,599	1,031,158	219,615	3,649,345
Africa	1,986,704	617,861	844,839	599,715	1,535,198	1,953,816	7,538,133
MESA	112,928	164,976	195,745	220,082	788,971	-	1,482,702
Total	$ 5,833,844	$ 3,605,039	$ 3,632,539	$ 3,355,260	$ 9,255,131	$ 17,200,939	$ 42,882,752

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

Interest rate risk is the risk to earnings from changes in interest rates

Foreign exchange rate risk arises from the different markets in which FMH operates, which are mostly developing countries with so-called exotic currencies

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

Neither the assets nor the liabilities of the Subsidiaries are tied to one specific short-term market index and, therefore, are unlikely to automatically "reprice" during their stated tenor and

The short-term tenor of Subsidiaries' loans to its clients mean that changes in market rates will have little or no impact on prepayment activity.

Consideration of interest rate risk, by term of asset and liability, as of December 31, 2017, is as follows:

	Up to 3 Months	**3–6 Months**	**7–12 Months**	**1–3 Years**	More than 3 Years	Non-interest -Sensitive Balances	2017 Total
Cash and cash equivalents	$ 49,568,799	$ -	$ -	$ -	$ -	$ 100,545,181	$ 150,113,980
Restricted cash and cash equivalents	16,070,790	3,526	1,011,411	50,000	27,964	16,827,681	33,991,372
AFS Financial Assets	3,193,730	-	-	11,357	24,000	2,939,038	6,168,125
Financial assets at HTM	31,801,112	5,030,502	4,459,331	741,841	-	-	42,032,786
Financial assets FVTPL	20,710,219	10,260,882	195,929	-	-	99,166	31,266,196
Loans receivable—net	119,068,917	156,397,392	239,550,494	228,213,780	34,415,152	-	777,645,735
Due from banks	377,904	-	-	-	-	-	377,904
Other receivables, prepaid, and other assets	2,051,172	804,294	41,186	55,421	-	18,624,695	21,576,768
Property and equipment—net	-	-	-	-	-	30,814,276	30,814,276
Intangible assets—net	-	-	-	-	-	9,012,029	9,012,029
Current tax assets	-	-	-	-	-	923,351	923,351
Deferred tax assets	-	-	-	-	-	5,725,698	5,725,698
Total assets	242,842,643	172,496,596	245,258,351	229,072,399	34,467,116	185,511,115	1,109,648,220
Accounts payable and other accrued liabilities	-	-	-	-	271,533	31,330,650	31,602,183
Financial liability at FVTPL	401,138	10,200,840	(123,112)	562,699	-	171,737	11,213,302
Client deposits	122,204,750	44,198,482	58,174,895	53,220,881	19,663,069	75,282,097	372,744,174
Bank deposits	36,878,616	17,028,807	6,722,485	1,805,567	-	111,494	62,546,969
Notes payable	61,288,272	34,264,357	79,245,458	176,285,685	21,558,578	-	372,642,350
Subordinated debt	-	65,740	3,268,849	2,488,735	3,000,000	-	8,823,324
Deferred revenue	-	-	-	-	-	2,691,990	2,691,990
Current income tax liability	-	-	-	-	-	4,320,467	4,320,467
Deferred tax liabilities	-	-	-	-	-	2,138,352	2,138,352
Total liabilities	220,772,776	105,758,226	147,288,575	234,363,567	44,493,180	116,046,787	868,723,111
Open position	$ 22,069,867	$ 66,738,370	$ 97,969,776	$ (5,291,168)	$ (10,026,066)	$ 69,464,328	$ 240,925,109

Consideration of interest rate risk, by term of asset and liability, as of December 31, 2016, is as follows:

	Up to 3 Months	**3–6 Months**	**7–12 Months**	**1–3 Years**	More than 3 Years	Non-interest -Sensitive Balances	2016 Total
Cash and cash equivalents	$ 28,852,945	$ -	$ -	$ -	$ -	$ 107,600,504	$ 136,453,449
Restricted cash and cash equivalents	13,901,643	3,601	1,160,000	50,000	-	7,615,135	22,730,379
AFS Financial Assets	5,490,187	-	11,925	-	-	1,914,601	7,416,713
Financial assets at FVTPL	997,445	9,195,564	1,789,005	828,242	-	6,680,939	19,491,195
Financial assets HTM	16,855,821	2,248,156	5,530,111	471,513	255,024	-	25,360,625
Loans receivable—net	125,240,836	154,538,186	232,685,940	212,487,596	16,803,644	-	741,756,202
Due from banks	2,667,265	1,574,133	1,305,821	-	-	2,063,078	7,610,297
Grants receivable-net	2,976	-	-	-	-	644,377	647,353
Other receivables, prepaid, and other assets	12,455,961	279,345	-	-	-	14,445,404	27,180,710
Property and equipment—net	-	-	-	-	-	29,192,235	29,192,235
Intangible assets—net	-	-	-	-	-	9,071,170	9,071,170
Current tax assets	-	-	10,844	-	-	2,711,058	2,721,902
Deferred tax assets	-	-	-	-	-	2,469,769	2,469,769
Total assets	206,465,079	167,838,986	242,493,646	213,837,351	17,058,668	184,408,270	1,032,101,999
Accounts payable and other accrued liabilities	373,947	-	29,614	-	-	23,930,335	24,333,896
Financial liability at FVTPL	250,379	7,869,650	-	92,257	-	47,288	8,259,574
Client deposits	129,232,050	23,542,847	42,316,305	44,604,042	5,802,484	16,842,429	262,340,157
Bank deposits	17,969,580	9,866,487	10,220,843	256,332	-	27,980	38,341,222
Notes payable	162,983,408	32,395,771	92,467,926	140,849,113	19,847,965	-	448,544,183
Subordinated debt	-	-	3,031,970	2,437,396	-	3,067,272	8,536,638
Deferred revenue	7,999	-	-	-	-	3,300,069	3,308,068
Current income tax liability	-	-	-	-	-	9,154,377	9,154,377
Deferred tax liabilities	68,854	-	-	-	-	2,050,435	2,119,289
Total liabilities	310,886,217	73,674,755	148,066,657	188,239,140	25,650,449	58,420,185	804,937,404
Open position	$ (104,421,138)	$ 94,164,230	$ 94,426,988	$ 25,598,211	$ (8,591,781)	$ 125,988,085	$ 227,164,595

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

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

USD/EUR net interest income impact @ 200 bps (USD MM)	0.30
Local current net interest income impact (USD MM)	4.88
Total	5.18
Total as percentage of total capital	2.15 %

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

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

	Shock (Average)	Economic Value Impact (USD MM)
USD/EUR	200 bps	(0.12)
Local	734 bps	4.13
Total		4.01
Total as percentage of total capital		1.66 %

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

Subsidiaries match their non-functional currency assets with their non-functional currency liabilities to the fullest possible extent, thereby minimizing or reducing any foreign currency risk. This matching occurs either by converting non-functional currency borrowings into functional currency borrowings, by lending in non-functional currency, and by maintaining other assets in non-functional currency. It is FMH's policy not to allow speculative open currency positions; rather, each Subsidiary's open currency position is maintained within prescribed limits relative to the Subsidiary's capital. Currency positions are measured and reported to each Subsidiary's ALCO on a monthly basis. At the consolidated level, FMH experienced transaction gains of $2.7 million in 2017 in comparison to transaction gains of $4.3 million in 2016, representing about 0.3% and 0.4% of average total assets in 2017 and 2016, respectively. For assessment of the group foreign exchange risk, a Value-at-Risk (VaR) analysis is performed on a quarterly basis. The VaR measure estimates the potential loss in capital over a given holding period for a specified confidence level. The VaR is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between markets. Risks can be measured consistently across all markets, and risk measures can be aggregated to arrive at a single risk number. The methodology employed is the variance-covariance approach, also known as the delta-normal approach. The holding period is one year, and the look-back period is 3.5 years. A limitation of the variance-covariance, or delta-normal, approach is the assumption of a standard normal (or Gaussian) distribution of portfolio returns, and therefore the methodology may underestimate the proportion of outliers and hence the VaR.

The results are shown in the following table:

	95% Confidence	99% Confidence
As of December 31, 2017	$14.0 million	$19.8 million

	95% Confidence	99% Confidence
As of December 31, 2016	$16.6 million	$23.5 million

FMH's portfolio VaR decreased in 2017 primarily due to a $9.2M reduction of net peso assets in Mexico as well as disposal of net ruble assets (and the attendant volatility). The reduction in portfolio volatility was 83 basis points. Overall correlation among FMH's basket of currencies was stable.

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

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

Total cash and cash equivalents totaled $150.1 million as of December 31, 2017, compared to $136.5 million as of December 31, 2016. FMH has maintained total cash balance equal to 13.5% and 13.2% of total assets as of December 31, 2017 and 2016, respectively.

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

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

A traditional view of FMH's liquidity is provided by a gap analysis. Considering the contractual terms of client loans, FMH has a substantial amount of excess liquidity in the under one-year time frame (gap < one year of $248.2 million in 2017 and $169.9 million in 2016). Due to the short-term nature of the loan portfolio (66.2% of which matures

within one year), the $4.9 and $9.6 million negative liquidity gaps in years one to three and three to five, respectively, will be covered by the normal course of business operations as new loans are disbursed.

At December 31, 2017	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Total
Cash and cash equivalents	$ 150,113,980	$ -	$ -	$ 150,113,980
Restricted cash and cash equivalents	33,913,408	50,000	27,964	33,991,372
AFS financial assets	5,922,190	35,357	210,578	6,168,125
Financial assets HTM	41,290,945	741,841	-	42,032,786
Financial assets at FVTPL	31,245,538	20,658	-	31,266,196
Loans receivable—net	515,016,803	228,213,780	34,415,152	777,645,735
Due from banks	377,904	-	-	377,904
Other financial assets	24,348,710	361,793	-	24,710,503
	802,229,478	229,423,429	34,653,694	1,066,306,601
Other financial liabilities	4,598,086	-	-	4,598,086
Financial liability at FVTPL	10,605,074	608,228	-	11,213,302
Clients deposits	299,860,226	53,220,881	19,663,067	372,744,174
Bank deposits	60,741,402	1,805,567	-	62,546,969
Notes payable	174,876,974	176,206,797	21,558,579	372,642,350
Subordinated debt	3,334,589	2,488,735	3,000,000	8,823,324
	554,016,351	234,330,208	44,221,646	832,568,205
Liquidity gap	$ 248,213,127	$ (4,906,779)	$ (9,567,952)	$ 233,738,396

At December 31, 2016	Up to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Total
Cash and cash equivalents	$ 136,453,449	$ -	$ -	$ 136,453,449
Restricted cash and cash equivalents	22,328,399	377,083	24,897	22,730,379
AFS financial assets	7,098,794	-	317,920	7,416,714
Financial assets HTM	24,634,088	471,513	255,024	25,360,625
Financial assets at FVTPL	18,662,953	44,151	784,091	19,491,195
Loans receivable—net	512,464,962	212,487,596	16,803,644	741,756,202
Due from banks	7,610,297	-	-	7,610,297
Grants receivable	618,566	-	28,787	647,353
Other financial assets	14,976,507	-	-	14,976,507
	744,848,015	213,380,343	18,214,363	976,442,721
Other financial liabilities	25,952,069	-	-	25,952,069
Financial liability at FVTPL	8,123,166	136,408	-	8,259,574
Clients deposits	211,933,633	44,597,393	5,809,131	262,340,157
Bank deposits	38,084,891	256,331	-	38,341,222
Notes payable	287,847,108	140,849,112	19,847,963	448,544,183
Subordinated debt	3,031,970	2,437,396	3,067,272	8,536,638
	574,972,837	188,276,640	28,724,366	791,973,843
Liquidity gap	$ 169,875,178	$ 25,103,703	$ (10,510,003)	$ 184,468,878

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

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

5. FINANCIAL ASSETS AND LIABILITIES—FAIR VALUE MEASUREMENTS

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

In estimating the fair value of an asset or a liability, FMH takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis and measurements that have some similarities to fair value, but are not fair value, such as value in use in IAS 36. The following tables set forth, by level within the fair value hierarchy, the fair value of FMH's financial assets and liabilities as of December 31, 2017 and 2016. This table includes both financial assets and liabilities accounted for at fair value on a recurring basis and amortized cost. As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. FMH's assessment of the significance of a particular input to the fair value measurement requires the exercise of judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

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

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

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

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

The fair value of loans receivable, notes payable, deposits from clients, and subordinated debt categorized as Level 2 are based on a blend of quoted prices for the instruments and quoted prices for similar instruments on the measurement date. FMH adjusted the discount rate on notes payable by using a credit margin that reflects the credit risk rating for companies similar to FMH.

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

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values and are categorized as Level 2.

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans receivable	$ 777,645,735	$ 774,852,759	$ 741,756,202	$ 763,784,531
Financial Liabilities				
Financial liabilities held at amortized cost:				
Deposits from clients	$ 372,744,174	$ 376,578,972	$ 262,340,157	$ 260,875,587
Notes payable	372,642,350	371,944,105	448,544,183	448,873,847
Subordinated debt	8,823,324	8,878,355	8,536,638	8,562,281

Fair value hierarchy as at December 31, 2017, is as follows:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Loans receivable	$ -	$774,852,759	$ -	$774,852,759
Financial Liabilities				
Financial liabilities held at amortized cost:				
Deposits from clients	$ -	$295,684,179	$ 80,894,793	$376,578,972
Notes payable	12,132,769	235,914,144	123,897,192	371,944,105
Subordinated debt	-	6,301,975	2,576,380	8,878,355

Financial Assets/ Financial Liabilities	Fair Value as at December 31 2017 Asset (Liability)	2016 Asset (Liability)	Fair Value Hierarchy	Valuation Techniques and Key Inputs	Significant Unobservable Inputs	Relationship of Unobservable Inputs to Fair Value
1) Foreign currency forward contracts measured at FVTPL (Note 14)	$ 276,545 (646,346)	$ 5,733,680 (13,798)	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract	N/A	N/A
2) Foreign exchange swaps measured at FVTPL (Note 14)	10,709,417 (10,566,956)	13,757,515 (8,245,776)	2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (spot exchange rate at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparty in the contract	N/A	N/A
3) AFS financial assets—Treasury bills (Note 12)	2,694,745	2,620,655	1	Quoted bid prices in an active market	N/A	N/A
4) AFS financial assets—time deposits (Note 12)	3,473,380	4,496,059	2	Quoted prices of similar instruments traded in active markets	N/A	N/A

6. NET INTEREST INCOME BEFORE IMPAIRMENT LOSSES ON LOANS

Net interest income for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Interest income:		
Cash and cash equivalents	$ 6,145,496	$ 8,039,617
Loans receivable	277,575,311	277,161,375
Total interest income	283,720,807	285,200,992
Interest expense:		
Client deposits	30,499,340	20,197,311
Notes payable and subordinated debt	38,925,257	50,197,991
Total interest expense	69,424,597	70,395,302
Net interest income	$ 214,296,210	$ 214,805,690

7. OTHER OPERATING INCOME

Total operating income for the years ended December 31, 2017 and 2016, was $34.6 million and $29.8 million, respectively. Included in this amount is $5.6 million and $5.8 million of fines and penalties income and $2.0 million and $1.3 million of insurance income for the years ended December 31, 2017 and 2016, respectively and includes principal forgiveness for certain debt obligations of FINCA Azerbaijan totaling $14.7 million and $9.4 million in 2017 and 2016, respectively.

8. PERSONNEL EXPENSES

Personnel expenses for the years ended December 31, 2017 and 2016, consist of the following:

	2017	2016
Wages and salaries	$ 84,831,395	$ 74,297,020
Compulsory social security obligations	7,040,598	7,035,719
Allowances, incentives, and other benefits	12,557,488	10,668,137
Health insurance	3,955,295	2,928,832
	$ 108,384,776	$ 94,929,708

9. OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31, 2017 and 2016, consist of the following:

	2017	2016
Rent/utilities	$ 14,160,663	$ 13,443,132
Professional fees	12,937,815	13,520,954
Travel	10,359,156	8,414,538
Communication	5,533,285	4,738,806
Taxes other than income	4,386,021	2,564,422
Security	4,394,595	4,466,156
Consumables and office supply	3,380,679	3,367,539
Marketing	4,090,330	3,883,139
Training and hiring	2,799,955	1,633,810
Motor vehicles expenses	1,767,619	1,435,471
Repairs and maintenance	2,651,303	2,364,856
License/memberships/meetings	2,370,450	1,764,986
Other expenditures	4,718,318	7,174,014
	$ 73,550,189	$ 68,771,823

10. MANAGEMENT SERVICES EXPENSES

On December 31, 2016 FINCA, FMH and FINCA Microfinance Global Services LLC (FMGS), a wholly owned services subsidiary, entered into a Staff Transfer Agreement under the terms of which the employment agreements for certain dedicated employees were transferred from FINCA to FMGS in exchange for a fee for each employee transferred, while preserving FINCA's ability to request services from FMGS and continuing to share in the expertise of the employees transferred.

On January 1, 2017 FMH entered into an MSA with FMGS. Under the provisions of this MSA, FMGS provides management services to FMH for which FMH pays a services fee.

11. INCOME TAX EXPENSE

This item includes all taxes on income. Income tax expense for the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Current tax expense	$ 16,468,963	$ 13,724,173
Deferred tax benefit (expense)	(3,238,372)	3,818,394
Total income tax expense	$ 13,230,591	$ 17,542,567

In calculating both the current tax and the deferred tax, the respective country-specific tax rates are applied. The total income tax expense includes the local country income taxes for the Subsidiaries and foreign withholding taxes on certain cross-border payments. The average actual income tax rate for the Subsidiaries was 26.5% in 2017 and 26.1% in

2016. FMH is a limited liability company and is structured as a partnership for US federal, state, and local income tax purposes. Accordingly, no provision is made for federal income taxes for FMH in the consolidated financial statements. FMH is subject to state and local taxes.

Reconciliation of income tax expense for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Profit/(loss) before income tax	$ 29,167,751	$ (5,587,521)
Income tax expense	(13,230,591)	(17,542,567)
Profit/(loss) for the year from continuing operations	$ 15,937,160	$ (23,130,088)

	2017	2016
Tax rate using domestic tax rate of parent company (exempt on US federal taxes on income)	$ -	$ -
Income tax (taxable Subsidiaries) at local statutory rates	10,348,159	(970,002)
Expenses not deductible for tax purposes	1,631,692	3,829,730
Tax-exempt income	(3,568,851)	(155,478)
Recognition of previously unrecognized tax losses	(1,887,515)	(90,055)
Adjustment for under provision in prior periods	2,000,904	871,840
Foreign withholding taxes	3,294,959	3,394,675
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	1,423,000	7,291,838
Other	(11,757)	3,370,019
Total	$ 13,230,591	$ 17,542,567

Deferred income taxes are calculated, under the balance sheet method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts, using the applicable tax rate as stipulated by the tax legislation of the respective countries.

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

In 2017, FMH recorded $1.3 million of income tax expense on $18.2 million of temporary differences associated with FMH's investments in Subsidiaries because it was probable that the temporary differences associated with the distribution of retained earnings through payments of dividends will reverse in the foreseeable future. The temporary differences of

$18.2 million included $17.1 million of expected distributions of retained earnings from 2017 and $1.1 million for an increase of expected distributions of retained earnings from prior years. In 2016, FMH recorded $2.1 million of income tax expense on $18.5 million of temporary differences associated with FMH's investments in Subsidiaries because it was probable that the temporary differences associated with the distribution of retained earnings through payments of dividends will reverse in the foreseeable future. The temporary differences of $18.5 million included $14.3 million of expected distributions of retained earnings from 2016 and $4.3 million for an increase of expected distributions of retained earnings from prior years. The deferred tax liability related to the future distributions of earnings by Subsidiaries is $1.4 million and $1.8 million as of December 31, 2017 and 2016, respectively.

Deferred Tax Assets—Deferred tax assets were recognized by the Subsidiaries in the following jurisdictions in 2017: Armenia, Tajikistan, Democratic Republic of Congo (DRC), Tanzania, Pakistan, Azerbaijan, USA, Kyrgyzstan, and Zambia (2016—Armenia, Georgia, Tajikistan, Honduras, DRC, Tanzania, and Pakistan).

2017	Assets (Liabilities)	(Charged) Credited to Profit or Loss	(Charged) Credited to to Equity	(Charged) Credited to to Disc Ops
Property and equipment, and software	$ 12,192	$ 131,083	$ (4,873)	$ -
Provision for loan loss impairment	1,102,734	(847,884)	53,411	-
Cash flow hedges	-	893,922	(87,035)	-
Deferred income/accrued interest	636,927	(119,397)	21,531	-
Tax loss carryforwards	2,828,171	2,707,184	(1,324)	-
Other	1,145,674	511,224	38,495	-
Net tax assets (liabilities)	$ 5,725,698	$ 3,276,132	$ 20,204	$ -

2016	Assets (Liabilities)	(Charged) Credited to Profit or Loss	(Charged) Credited to to Equity	(Charged) Credited to to Disc Ops
Property and equipment, and software	$ (123,763)	$ 86,816	$ (23,494)	$ 14,867
Provision for loan loss impairment	2,004,029	38,548	(147,986)	(715,361)
Cash flow hedges	(980,957)	720,101	19,414	-
Deferred income/accrued interest	777,855	(552,781)	(26,630)	-
Tax loss carryforwards	119,663	(3,193,018)	(44,295)	-
Other	672,942	161,586	(12,681)	(757,073)
Net tax assets (liabilities)	$ 2,469,769	$ (2,738,748)	$ (235,672)	$ (1,457,567)

Deferred Tax Liabilities—Deferred tax liabilities were recorded by FMH parent company, the Netherlands, USA, Ecuador, Nicaragua, Malawi, Uganda, Georgia, and Honduras in 2017 (2016—FMH parent company, the Netherlands, USA, Kyrgyzstan, Ecuador, Nicaragua, Malawi, and Uganda) as follows:

2017	Assets (Liabilities)	(Charged) Credited to Profit or Loss	(Charged) Credited to Equity
Property and equipment and software	$ (473,271)	$ (216,414)	$ 1,766
Provision for loan-loss impairment	(258,928)	(3,573)	5,119
Deferred income/accrued interest	1,963	(10,823)	1,346
Tax loss carryforwards	130,830	61,835	11,215
Future distribution of retained earnings	(1,435,114)	325,759	-
Other	(103,832)	(194,511)	(782)
Net tax (liabilities) assets	$ (2,138,352)	$ (37,727)	$ 18,664

2016	Assets (Liabilities)	(Charged) Credited to Profit or Loss	(Charged) Credited to Equity
Property and equipment and software	$ (258,623)	$ (134,165)	$ (3,170)
Provision for loan-loss impairment	(260,474)	(1,956)	(26,567)
Deferred income/accrued interest	11,440	133,662	388
Tax loss carryforwards	57,780	(6,548)	6,398
Future distribution of retained earnings	(1,760,873)	(1,284,995)	1
Other	91,461	214,356	(19,391)
Net tax (liabilities) assets	$(2,119,289)	$(1,079,646)	$(42,341)

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in treasury bills and certificates of deposit are qualified and reported as AFS financial assets in the consolidated statements of financial position, in the amount of $6.2 million and $7.4 million at December 31, 2017 and 2016, respectively.

13. FINANCIAL ASSETS HELD-TO-MATURITY

Financial assets HTM in the amount of $42.0 million and $25.4 million at December 31, 2017 and 2016, respectively. In 2017, this includes $26.9 million of market Treasury bills issued by State Bank of Pakistan, of which $22.9 million mature within three months of the consolidated statements of financial position date and $7.3 million of Georgia Ministry of Finance Treasury Bills, of which $6.6 million mature within 12 months of the consolidated statements of financial position date.

During 2016, FMH held an investment in the FINCA microfinance fund. The microfinance fund provided $20.6 million in subordinated loans to a number of Subsidiaries. The notes matured in November 2016 at which time available funds were insufficient to pay in full all amounts due on the notes. The fund was wound up and liquidated and the investment of FMH was written off. The total impairment, including accrued unpaid interest, was $1.4 million and was written off through the impairment loss line item in the consolidated statements of profit or loss.

14. FINANCIAL ASSETS AND LIABILITIES AT FVTPL

The financial assets and liabilities at FVTPL as of December 31, 2017 and 2016, are represented by the following balances:

2017	Notional Amount	Fair Value Assets	Liabilities
Financial assets and liabilities at FVTPL			
Foreign exchange swaps	$ 23,549,720	$ 10,709,417	$ 10,566,956
Foreign exchange forwards	15,473,360	276,545	646,346
Other securities	-	20,280,234	-
Total	$ 39,023,080	$ 31,266,196	$ 11,213,302

2016	Notional Amount	Fair Value Assets	Liabilities
Financial assets and liabilities at FVTPL			
Foreign exchange swaps	$ 60,581,978	$ 13,757,515	$ 8,245,776
Foreign exchange forwards	20,094,840	5,733,680	13,798
Total	$ 80,676,818	$ 19,491,195	$ 8,259,574

15. LOANS RECEIVABLE—NET OF ALLOWANCE

Loans receivable as at December 31, 2017 and 2016, consist of the following:

	2017	2016
Gross loans to clients—current	$ 532,015,233	$ 509,130,748
Gross loans to clients—noncurrent	265,501,628	275,508,206
Total loans to clients	$ 797,516,861	$ 784,638,954
Gross loans to clients	$ 797,516,861	$ 784,638,954
Less allowances for impairment	(19,871,126)	(42,882,752)
Loans receivable	$ 777,645,735	$ 741,756,202

	2017	2016
Allowances for impairments—Balance		
at January 1	$ 42,882,752	$ 24,923,718
Discontinued operations	(110,712)	(2,812,559)
Impairment loss for the year:		
Charge for the year	28,550,245	57,253,878
Amounts written off—net of recovery	(52,218,771)	(34,873,929)
Effect of foreign currency movements	767,612	(1,608,356)
Balance at December 31	$ 19,871,126	$ 42,882,752

While not all products require collateral, and collateral requirements vary by country, FMH utilizes several methods for clients to collateralize their loans, including mandatory savings, real estate, fixed assets, or an additional guarantor.

Collateral—Two forms of collateral may be applied against impairment losses: cash and marketable precious metals. Compulsory cash collateral is required from the clients in some subsidiaries. The use of precious metals is mainly presented in the Pakistan Subsidiary. Where local law allows, voluntary client deposits are also considered collateral for the purposes of calculating the allowance for impairments.

Collateral as at December 31, 2017 and 2016, is represented as follows:

Outstanding Amount of Loan	Balance at January 1, 2017	Discontinued Operations	Collateral Accepted	Collateral Released	Effect of Foreign Currency Movements	Balance at December 31, 2017
up to $1,000	$10,349,033	$ -	$ 7,036,059	$ (7,420,367)	$ (587,209)	$ 9,377,516
$1,001–$5,000	14,639,563	-	3,175,055	(12,467,086)	(531,961)	4,815,571
$5,001–$10,000	6,634,569	-	227,972	(6,497,471)	(636)	364,434
more than $10,001	11,010,717	-	255,354	(11,241,873)	91,952	116,150
Total	$42,633,882	$ -	$10,694,440	$(37,626,797)	$(1,027,854)	$14,673,671

Outstanding Amount of Loan	Balance at January 1, 2016	Discontinued Operations	Collateral Accepted	Collateral Released	Effect of Foreign Currency Movements	Balance at December 31, 2016
up to $1,000	$17,218,477	$(602,312)	$ 4,283,191	$(10,616,209)	$ 65,886	$10,349,033
$1,001–$5,000	22,202,829	(2,056)	9,312,641	(19,154,396)	2,280,545	14,639,563
$5,001–$10,000	13,267,922	-	3,555,313	(10,236,548)	47,882	6,634,569
more than $10,001	25,132,211	-	7,286,441	(17,387,095)	(4,020,840)	11,010,717
Total	$77,821,439	$(604,368)	$24,437,586	$(57,394,248)	$(1,626,527)	$42,633,882

16. OTHER RECEIVABLES, PREPAID, AND OTHER ASSETS

The balances represent other receivables, prepaid, and other assets at December 31, 2017 and 2016, as follows:

	2017	2016
Receivable commission, rebates, and refunds from banks and agencies	$ 500,511	$ 191,774
Receivable from money remittance and other agencies	1,339,914	1,863,609
Grants receivable	33,722	647,353
Receivable from FINCA	1,284,842	377,572
Deposit with Internal Revenue Service and other fiduciary duties	2,407,512	998,979
Financial assets other than cash and cash equivalents and loans receivable	5,566,501	4,079,287
Prepaid rent	2,479,312	2,383,502
Taxes	650,799	1,148,435
Other prepayments	5,676,481	1,296,035
Office supplies	1,157,803	1,232,698
Staff advances and loans	547,704	314,204
Receivables from sale of discontinued operations	2,482,106	12,113,000
Investment property	-	1,080,792
Other debtors	2,026,919	3,501,236
	$ 20,587,625	$ 27,149,189

17. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016, is as follows:

Cost	Total	Buildings and Offices	Construction in Progress	Leasehold Improvements	Computer Equipment	Furniture and Office Equipment	Vehicles	Other
Balance—January 1, 2016	$ 60,107,436	$ 6,338,580	$ 2,881,746	$ 11,902,704	$ 18,681,907	$ 13,204,196	$ 3,840,180	$ 3,258,123
Acquisitions	11,255,282	2,756,649	1,748,934	1,815,201	2,160,014	2,142,479	526,621	105,384
Disposals	(5,284,796)	1,072,753	(1,466,592)	(1,836,290)	(1,594,456)	(726,360)	(426,841)	(307,010)
Currency translation	(843,749)	(27,580)	115,522	(315,812)	(212,832)	(288,765)	(96,642)	(17,640)
Disposal related to discontinued operations	(3,797,022)	-	-	(804,938)	(1,117,117)	(781,618)	(688,678)	(404,672)
Balance—December 31, 2016	$ 61,437,150	$ 10,140,402	$ 3,279,610	$ 10,760,865	$ 17,917,516	$ 13,549,932	$ 3,154,640	$ 2,634,185
Balance—January 1, 2017	$ 61,437,150	$ 10,140,402	$ 3,279,610	$ 10,760,865	$ 17,917,516	$ 13,549,932	$ 3,154,640	$ 2,634,185
Acquisitions	9,786,547	448,035	583,425	2,729,297	2,777,690	2,672,310	506,961	68,829
Disposals	(4,520,847)	(948)	(17,609)	(444,815)	(2,238,693)	(1,114,199)	(330,452)	(374,131)
Currency translation	(810,875)	(110,317)	(85,868)	(234,370)	(165,441)	(275,104)	52,748	7,477
Disposal related to discontinued operations	(250,192)	-	-	(54,560)	(103,177)	(56,923)	-	(35,532)
Balance—December 31, 2017	$ 65,641,783	$ 10,477,172	$ 3,759,558	$ 12,756,417	$ 18,187,895	$ 14,776,016	$ 3,383,897	$ 2,300,828
Depreciation and Impairment Losses								
Balance—January 1, 2016	$ 30,740,181	$ 1,675,791	$ -	$ 5,036,554	$ 11,183,404	$ 8,768,409	$ 2,966,954	$ 1,109,069
Depreciation and amortization	7,582,890	471,656	-	1,353,255	3,017,767	1,966,504	456,140	317,568
Disposals	(2,640,210)	8,811	-	(498,482)	(863,675)	(589,012)	(422,524)	(275,328)
Currency translation	(510,125)	(2,912)	-	(87,770)	(205,252)	(135,671)	(62,119)	(16,401)
Disposal related to discontinued operations	(2,927,821)	-	-	(549,641)	(1,039,196)	(459,797)	(685,689)	(193,498)
Balance—December 31, 2016	$ 32,244,915	$ 2,153,345	$ -	$ 5,253,916	$ 12,093,047	$ 9,550,433	$ 2,252,763	$ 941,410
Balance—January 1, 2017	$ 32,244,915	$ 2,153,345	$ -	$ 5,253,916	$ 12,093,047	$ 9,550,433	$ 2,252,763	$ 941,410
Depreciation and amortization	7,234,665	536,704	-	1,464,902	2,459,780	2,120,136	397,168	255,975
Disposals	(4,167,368)	-	-	(358,132)	(2,314,452)	(945,820)	(286,943)	(262,021)
Currency translation	(239,844)	(11,295)	-	(71,370)	(118,574)	(105,048)	64,477	1,967
Disposal related to discontinued operations	(244,861)	-	-	(54,565)	(100,979)	(54,699)	-	(34,618)
Balance—December 31, 2017	$ 34,827,507	$ 2,678,754	$ -	$ 6,234,751	$ 12,018,822	$ 10,565,002	$ 2,427,465	$ 902,713
Net Carrying Amounts								
Balance—December 31, 2016	$ 29,192,235	$ 7,987,056	$ 3,279,610	$ 5,506,949	$ 5,824,468	$ 3,999,499	$ 901,878	$ 1,692,775
Balance—December 31, 2017	$ 30,814,276	$ 7,798,418	$ 3,759,558	$ 6,521,666	$ 6,169,073	$ 4,211,014	$ 956,432	$ 1,398,115

Depreciation and amortization expense from continuing operations charged for the years ended December 31, 2017 and 2016, was $7.2 million and $7.6 million, respectively. 2016 includes operations that were discontinued in 2017.

18. INTANGIBLE ASSETS

Intangible assets at December 31, 2017 and 2016, consist of the following:

Costs	Total	Capitalized Software	Work In Progress	Other
Balance—January 1, 2016	$ 23,134,635	$ 20,815,917	$ 1,567,344	$ 751,374
Acquisition	3,316,356	2,482,377	833,979	-
Disposals	(5,832,560)	(3,885,008)	(1,947,552)	-
Currency translation	(109,505)	(74,857)	(34,648)	-
Disposal related to discontinued operations	(2,627,181)	(2,627,181)	-	-
Balance—December 31, 2016	$ 17,881,745	$ 16,711,248	$ 419,123	$ 751,374
Balance—January 1, 2017	$ 17,881,745	$ 16,711,248	$ 419,123	$ 751,374
Acquisition	4,336,857	4,211,012	125,845	-
Disposals	(1,212,398)	(1,212,398)	-	-
Currency translation	(249,816)	(234,312)	(15,504)	-
Disposal related to discontinued operations	(575,139)	(575,139)	-	-
Balance—December 31, 2017	$ 20,181,249	$ 18,900,411	$ 529,464	$ 751,374
Amortization and Impairment				
Balance—January 1, 2016	$ 12,149,002	$ 11,529,264	$ -	$ 619,738
Amortization for the year	2,961,723	2,858,029	49,223	54,471
Disposals	(4,116,225)	(4,108,196)	(8,029)	-
Currency translation	20,963	20,963	-	-
Disposal related to discontinued operations	(1,162,753)	(1,162,753)	-	-
Balance—December 31, 2016	$ 9,852,710	$ 9,137,307	$ 41,195	$ 674,209
Balance—January 1, 2017	$ 9,852,710	$ 9,137,307	$ 41,195	$ 674,209
Amortization for the year	2,945,829	2,878,117	13,221	54,491
Disposals	(953,369)	(971,705)	18,336	-
Currency translation	(141,893)	(141,893)	-	-
Disposal related to discontinued operations	(534,058)	(534,058)	-	-
Balance—December 31, 2017	$ 11,169,220	$ 10,367,768	$ 72,752	$ 728,700
Net Carrying Amounts				
Balance—December 31, 2016	$ 8,029,035	$ 7,573,941	$ 377,929	$ 77,165
Balance—December 31, 2017	$ 9,012,029	$ 8,532,643	$ 456,712	$ 22,674

Amortization expense for the years ended December 31, 2017 and 2016, was $2.9 million and $3.0 million, respectively. 2016 includes operations that were discontinued in 2017.

19. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities at December 31, 2017 and 2016, are as follows:

	2017	2016
Other accounts payable and accrued expenses	$ 7,692,645	$ 4,921,526
Other professional services	3,112,631	2,447,202
Insurance	841,295	578,341
Office supplies	3,289,017	1,633,595
Payable to FINCA	1,990,957	1,010,357
Total financial liabilities, excluding notes payable, classified as financial liabilities measured at amortized cost	16,926,545	10,591,021
Personnel	9,787,041	8,007,887
Tax and other budget liability	4,282,576	5,345,922
Legal provision	606,021	389,066
	$ 31,602,183	$ 24,333,896

All accounts payable and other accrued liabilities have a maturity of no more than 12 months from the consolidated statements of financial position date. Carrying values approximates fair value at December 31, 2017 and 2016.

20. CLIENT DEPOSITS

FMH accepts and maintains saving deposits from clients in Subsidiary operations. FMH has been pursuing a strategy to increase client savings in Subsidiary 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 FMH'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 FMH.

	2017	2016
Compulsory savings/cash collateral	$ 11,417,725	$ 8,148,912
Voluntary savings:		
Saving accounts	95,758,136	84,416,693
Term deposit accounts	239,176,269	147,252,736
Other voluntary savings	26,392,044	22,521,816
Total voluntary savings	361,326,449	254,191,245
Total deposits from clients	$ 372,744,174	$ 262,340,157

21. NOTES PAYABLE

FMH and its Subsidiaries have two broad categories of debt: charitable and commercial. The majority of FMH loans are sourced from international financial institutions supporting microfinance, but FMH has also borrowed from private sources. Interest rates paid by Subsidiaries range from six months' London InterBank Offered Rate, plus 450 bps up to 21.0% floating and up to 23.1% fixed in local currencies for commercial loans in countries with high perceived risk or with depreciating currencies.

In some situations, FMH, as the parent company, may be directly liable or may offer support for loans provided to Subsidiaries without adequate credit standing, which may be in the form of a direct guarantee, letter of credit, comfort letter, or another form of credit enhancement.

As of the consolidated statements of financial position date, some Subsidiaries have breached covenants contained in financing agreements underlying these obligations. Management believes that these breaches are primarily due to recent global economic conditions which have affected microfinance, or in some cases due to local political and economic developments. A breach of a loan covenant could permit a lender to accelerate payment of the loan, but would not permit a cross-default beyond the particular Subsidiary. As of December 31, 2017, subsidiaries in DRC, Malawi, Tanzania, Azerbaijan, and Guatemala were in breach of financial covenants regarding loans from international financial institutions amounting to $37.0 million. As of December 31, 2017, Subsidiaries had obtained formal waivers for these breaches of covenants accounting for $24.3 million. All loans for which no formal waivers were obtained are classified as current in the maturity table below. Although management has obtained formal waivers of some of these breaches or assurances from lenders that the covenants will be waived, there is no assurance that these waivers or assurances will be extended indefinitely or that performance can be brought into full compliance.

Notes payable at December 31, 2017 and 2016, are as follows:

	2017	2016
Overdraft	$ 493,674	$ 3,401,291
Notes payable:		
Principal amount	369,256,021	442,068,944
Accrued interest	2,892,655	3,073,948
	$ 372,642,350	$ 448,544,183

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

2018	$ 171,754,974
2019	129,816,084
2020	46,597,654
2021	10,717,463
2022	3,388,004
Thereafter	7,475,516
	$ 369,749,695

The book value of notes payable at December 31, 2017 and 2016, is as follows:

	2017	2016
Noncurrent:		
Notes payable:		
Secured	$ 27,195,043	$ 40,242,686
Unsecured	126,586,833	118,491,403
Collateralized borrowings	45,526,926	1,862,147
	199,308,802	160,596,236
Current:		
Overdraft	493,674	3,401,291
Notes payable:		
Secured	27,442,428	38,074,794
Unsecured	143,186,243	246,471,862
Collateralized borrowings	2,211,203	-
	173,333,548	287,947,947
Total notes payable	$ 372,642,350	$ 448,544,183

22. SUBORDINATED DEBT

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

Included in the subordinated debt balance is subordinated debt from FINCA of $3.2 million and $2.9 million as at December 31, 2017 and 2016, respectively. The interest rate is 6%.

Subordinated debt totaling $5.7 million and $5.6 million consists of debt from external financial institutions to FINCA Georgia and FINCA Nicaragua as of December 31, 2017 and 2016, respectively.

23. DISCONTINUED OPERATIONS

In 2017, FMH sold its interest in Microfinance Company FINCA Joint Stock Company (FINCA Russia) and, in 2016, sold two subsidiaries—FINCA S.A de CV ("FINCA El Salvador") was sold in June 2016 and Financiera Finca S.A de C.V SOFOM ENR Mexico (SOFOM) was sold in November 2016.

FINCA Russia, FINCA El Salvador and SOFOM represent discontinued operations in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*.

Results of the discontinued operations in 2017 and 2016 includes the net income or loss for FINCA Russia, FINCA El Salvador, and SOFOM for the period up to disposition.

	2017	2016
Net operating income	$ 1,997,680	$ 21,487,906
Expenses	(1,813,815)	(20,899,222)
Intercompany expenses eliminated on consolidation	366,534	1,931,234
Other income (expense)	(157,028)	519,966
Profit before income tax of discontinued operations	393,371	3,039,884
Tax	(38,738)	(841,225)
Profit after income tax of discontinued operations	354,633	2,198,659
Loss on sale after income tax	(5,401,578)	(3,314,400)
Loss from discontinued operations	$ (5,046,945)	$ (1,115,741)

The loss on sale from assets of the disposal group in the years ending December 31, 2017 and 2016, is as follows:

	2017	2016
Consideration received	$ 807,724	$ 29,049,635
Net assets disposed of	(1,366,584)	(20,017,146)
(Loss) gain on sale before income tax and reclassification of foreign currency translation reserve	(558,860)	9,032,489
Reclassification of foreign currency translation reserve	(4,842,718)	(11,065,884)
Income tax expense on gain	-	(1,281,005)
Loss on sale after income tax	$ (5,401,578)	$ (3,314,400)

Net cash inflow on sale of assets of the disposal group in the years ending December 31, 2017 and 2016, is as follows:

	2017	2016
Consideration received in cash and cash equivalents	$ 807,724	$ 16,623,734
Less: cash and cash equivalent balances disposed of	(569,357)	(1,678,959)
Net cash consideration received	$ 238,367	$ 14,944,775

Cash flows from the activities of assets of the disposal group for the years ending December 31, 2017 and 2016, are as follows:

	2017	2016
From operating activity	$ 1,042,622	$ 7,102,999
From investing activity	(79,579)	1,060,562
From financing activity	(760,863)	(14,283,112)
Total cash flows (provided) used by disposal group	$ 202,180	$ (6,119,551)

24. EQUITY

Share Capital—During 2017, FMH did not issue new membership interests. The ownership percentages as of December 2017 are reflected in the table below:

Members	January 1, 2017 Number of Membership Interests	January 1, 2017 Ownership of Interest in Percentage	New Membership Interest	December 31, 2017 Number of Membership Interests	December 31, 2017 Ownership of Interest in Percentage
FINCA International, Inc. Washington, DC., USA	54,956	62.93 %	-	54,956	62.93 %
IFC—International Finance Corporation— Washington DC	12,462	14.27	-	12,462	14.27
KfW—Frankfurt am Main, Germany	7,743	8.87	-	7,743	8.87
FMO—Netherlands Development Finance Company	6,330	7.25	-	6,330	7.25
The Hague, The Netherlands responsibility Global Microfinance Fund (GMF), Luxembourg	2,581	2.96	-	2,581	2.96
Triple Jump B.V., Amsterdam The Netherlands	1,460	1.67	-	1,460	1.67
Triodos Investment Management Amsterdam The Netherlands	1,794	2.05	-	1,794	2.05
Balance	87,326	100.00 %	-	87,326	100.00 %

During 2016, FMH issued 675 new membership interests to FINCA in exchange for $3 million of capitalized grants to FMH Subsidiaries in El Salvador, Haiti, and Tanzania. The issuance of new membership interests in 2016 resulted in changes in ownership percentages, which are reflected in the table below:

	January 1, 2016			December 31, 2016	
Members	Number of Membership Interests	Ownership of Interest in Percentage	New Membership Interest	Number of Membership Interests	Ownership of Interest in Percentage
FINCA International, Inc. Washington, DC., USA	54,281	62.64 %	675	54,956	62.93 %
IFC—International Finance Corporation— Washington DC	12,462	14.38	-	12,462	14.27
KfW—Frankfurt am Main, Germany	7,743	8.94	-	7,743	8.87
FMO—Netherlands Development Finance Company	6,330	7.31	-	6,330	7.25
The Hague, The Netherlands responsibility Global Microfinance Fund (GMF), Luxembourg	2,581	2.98	-	2,581	2.96
Triple Jump B.V., Amsterdam The Netherlands	1,460	1.68	-	1,460	1.67
Triodos Investment Management Amsterdam The Netherlands	1,794	2.07	-	1,794	2.05
Balance	86,650	100.00 %	675	87,326	100.00 %

25. COMMITMENTS AND CONTINGENCIES

In accordance with IFRS, FMH recognizes a provision when there is a present obligation from a past event, a transfer of economic benefits is probable, and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the consolidated financial statements could have a material effect on FMH’s financial position. Application of these accounting principles to legal cases requires FMH management to make a determination about various factual and legal matters beyond its control. FMH has outstanding legal cases, makes assessments of the legal proceedings at each reporting date, and makes a determination as to their status, in order to assess the need for provisions and disclosures in its consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim, or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim, or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements, but before those consolidated statements are issued), the opinions or

views of legal advisers, experience on similar cases, and any decision of FMH's management as to how it will respond to the litigation, claim, or assessment. As of December 31, 2017 or 2016, there are no material legal contingencies.

At December 31, 2017 and 2016, FMH 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 FMH operates, the operating lease agreements are negotiated on a month-to-month or year-by-year basis and are in line with general rental market conditions.

Future minimum lease payments under existing lease contracts are due, in dollars, as follows:

	2017	2016
Less than one year	$ 4,816,976	$ 5,326,437
Between one and five years	16,062,834	14,512,275
More than five years	3,264,608	3,123,666
	$ 24,144,418	$ 22,962,378

Rent expense was $11.9 million and $11.3 million for years ended December 31, 2017 and 2016, respectively.

There are no contingent assets, contingent liabilities, and capital commitments at December 31, 2017 and 2016.

26. FMH ENTITIES

Through its headquarters, foreign representative offices and branches, FMH owns or controls microfinance operating Subsidiaries and affiliates in 20 countries. All subsidiaries are controlled by FMH directly or indirectly through FMC. The microfinance Subsidiaries and controlled affiliates of FMH at the end of the reporting period are listed below:

Americas	
Ecuador	Banco para la Asistencia Comunitaria, FINCA S.A. Joint Stock Company
Guatemala	Fundación Internacional para la Asistencia Comunitaria de Guatemala Foundation
	FINCA Microfinanzas, S.A.
Haiti	FINCA HAITI Non-Governmental Organization
	FINCA Haiti. S.A.
Honduras	Sociedad Financiera FINCA Honduras, S.A. Joint Stock Company
Nicaragua	Financiera FINCA Nicaragua, S.A. Joint Stock Company
	Fundación Internacional para la Asistencia Comunitaria de Nicaragua Not-for-profit Foundation
Africa	
Congo	FINCA DR CONGO SARL Limited Liability Joint Stock Company
Malawi	FINCA Limited Company Limited by Shares
Nigeria	FINCA Microfinance Bank Limited
Tanzania	FINCA Tanzania Limited Company Limited by Shares
Uganda	Foundation for International Community Assistance Uganda Limited Company Limited by Shares
Zambia	Foundation for International Community Assistance-Zambia Limited Company Limited by Shares
Eurasia	
Armenia	FINCA Universal Credit Organization Closed Joint Stock Company
Azerbaijan	FINCA Azerbaijan Limited Liability Company
Georgia	JSC FINCA Bank Georgia Closed Joint Stock Company
Kosovo	FINCA International, Inc. (Branch)
Kyrgyzstan	FINCA Bank Closed Joint Stock Company
Tajikistan	FINCA Micro-Credit Deposit Organization Limited Liability Company
Middle East	
Jordan	FINCA Jordan Specialized Micro Loans Company
Afghanistan	FINCA Afghanistan Joint Stock Company Limited by Shares
Pakistan	FINCA Microfinance Bank Ltd.
Non-microfinance Subsidiaries	
El Salvador	Associacion de Forrento Integral Communitana de El Salvador Not-for-profit Association
Mexico	Tenedora SAPI de C.V
Mexico	Fundación Integral Comunitaria, A.C. Civil Association
Netherlands	FINCA Network Support Services BV.
Netherlands	FINCA Microfinance Cooperatief U.A.
USA	FINCA Services USA LLC
USA	FINCA Microfinance Global Services LLC

In 2016, FMH sold its interests in FINCA El Salvador in El Salvador and in Financiera Finca S.A. de C.V. SOFOM E.N.R Mexico (see Note 23). FMH retained ownership or control in Fundacion Integral Comunitaria A.C. Civil Association and Tenedora SAPI de CV in Mexico. In 2017, FMH sold its interest in FINCA Joint Stock Company (Russia).

A non-controlling interest is attributable to non-controlling shareholders of FINCA Microfinance Bank Ltd. (Pakistan) holding 13.6% of shares and voting rights as of December 31, 2017. Assets and liabilities attributable to non-controlling interests are $30.9 million and $20.2 million, and $26.9 million and $17.1 million, as of December 31, 2017 and 2016, respectively. Net income and accumulated net income for the year is $1.1 million and $0.7 million, and $2.4 million and $1.3 million, for the years ended December 31, 2017 and 2016, respectively.

27. RELATED PARTIES

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

Related parties of FMH include the ultimate parent company, FINCA, and companies under common control, FINCA Canada and FINCA UK.

Transactions of FMH with FINCA and companies under common control for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Management services fees income/(expense)	$ 991,899	$ (18,076,287)
Interest expense	(187,556)	(172,145)
Other expense	(1,871,105)	(417,898)
Other income	168,926	-
Grants and donation revenue	931,882	2,829,058
	$ 34,046	$ (15,837,272)

Management Service Fees—In 2016, FMH had an MSA with FINCA for services to manage and protect FINCA's trademarks, brands, and capital investments in its indirectly controlled subsidiaries to ensure FMH's compliance with regulatory, tax, and other applicable legal requirements. The MSA expired on December 31, 2016.

Interest Expense—Interest incurred by Subsidiaries on borrowings and subordinated debt from FINCA.

Board Remuneration – FMH recorded board remuneration expenses of $0.1 million and $0.1 million in 2017 and 2016, respectively.

Other Expense—Other expenses represent intercompany services that do not fall within the management services category.

Grants and Donation Revenue—Revenue recognized by Subsidiaries that were received from donors via related parties.

Outstanding balances of FMH with FINCA and companies under common control at the end of the reporting period are as follows:

	2017	2016
Assets—other receivables	$ 1,284,842	$ 377,572
Liabilities:		
Notes payable and accrued interest payables	844,480	300,000
Subordinated debt	3,172,272	2,938,527
Management service fees payable	-	1,392,994
Other payables	1,990,957	1,010,357

Other Receivables—Other receivables consist of amounts primarily due from FINCA for grants and contributions FINCA received on behalf of its Subsidiaries.

Subordinated Debt—FINCA has issued subordinated debt to FINCA Guatemala (see Note 22).

Other Payables—Other payables consist of amounts primarily due to FINCA for grants and contributions FINCA received on behalf of its Subsidiaries.

Guarantees—In accordance with FMH's management strategy, FMH acts as an additional provider of funds and credit lines for its Subsidiaries. FMH issues guarantees to third parties on behalf of its Subsidiaries. The issued guarantees serve to secure the main liability outstanding to the institutions in question against default on principal payments. Total exposures related to loan guarantees provided were $13.6 million and $18.7 million at December 31 2017 and 2016, respectively.

In addition, FMH provides joint and several standby letters of credit under a Citibank facility that support local currency borrowings of Subsidiaries. Cash deposits are not required to support the letters of credit. At December 31, 2017 and 2016, FMH had provided guarantees of up to $4.75 million and $4.9 million, respectively, of which $4.0 million and $3.3 million, respectively, was outstanding.

In some situations, FMH may be directly liable or may offer support to loans for subsidiaries without adequate credit standing, which may be in the form of a direct guarantee, standby letter of credit, comfort letter, or another form of credit enhancement. As of each balance sheet date, some subsidiaries have breached covenants contained in financing agreements underlying these obligations. Management believes that these breaches are primarily due to recent global economic conditions that have affected microfinance or, in some cases, due to local political and economic developments. A breach of a loan covenant could permit a lender to accelerate payment of the loan, but would not permit a cross-default beyond the particular subsidiary. 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.

28. SUBSEQUENT EVENTS

In April 2017, FINCA Azerbaijan entered into a Wind-Down Agreement with the majority of its lenders under the terms of which FINCA Azerbaijan continues to operate to collect amounts outstanding on its loan portfolio in return for certain forgiveness of debt from the lenders to meet regulatory capital standards. The Wind-Down Period under the Agreement was set to initially expire on June 30, 2018 but under an Amendment dated November 30, 2017 was extended to October 31st 2018 and, in March 2018, was further extended through January 31, 2019.

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