



**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

(With Independent Auditors' Report Thereon)

# OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

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## **Independent Auditors' Report**

The Board of Directors  
Opportunity International, Inc.:

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Opportunity International, Inc. and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2012, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 audit. We did not audit the financial statements of Oportunidad Microfinanzas, S.A. DE C.V. and MicroEnsure LLC and Subsidiaries, wholly owned subsidiaries, which statements reflect total assets constituting 1.92% of consolidated total assets at December 31, 2012, and total revenues constituting 6.60% of consolidated total revenues for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Oportunidad Microfinanzas, S.A. DE C.V. and MicroEnsure LLC and Subsidiaries, is based solely on the reports of the other auditors. We did not audit the financial statements of certain wholly owned subsidiaries, which statements reflect total assets constituting 15.42% of consolidated total assets at December 31, 2012, and total revenues constituting 12.27% of consolidated total revenues for the year then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose reports have been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of the wholly owned subsidiaries which conform those financial statements to U.S. generally accepted accounting principles. Our opinion, insofar as it relates to the amounts included for those wholly owned subsidiaries prior to these conversion adjustments, is based solely on the report of the other auditors. We conducted our audit 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. We conducted our audit 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 auditors' 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 entity'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 entity'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, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Opportunity International, Inc. and Affiliates as of December 31, 2012, and the changes in its financial position and its cash flows, and its functional expenses for the years then ended in accordance with U.S. generally accepted accounting principles.

***Report on Summarized Comparative Information***

We have previously audited the Opportunity International, Inc. and Affiliates 2011 consolidated financial statements, and we expressed an unqualified audit opinion on those audited consolidated financial statements in our report dated October 24, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

**KPMG LLP**

October 29, 2013  
Chicago, Illinois

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statement of Financial Position

December 31, 2012

(with comparative totals for 2011)

	<b>2012</b>				
<b>Assets</b>	<b>Charitable activities</b>	<b>Banking activities</b>	<b>Eliminations</b>	<b>Total</b>	<b>2011</b>
Cash and cash equivalents	\$ 6,970,794	65,950,609	—	72,921,403	82,945,261
Restricted cash and investments:					
Cornerstone Fund	6,539,514	—	—	6,539,514	6,469,150
Loan Guarantee Fund	3,411,905	—	—	3,411,905	7,815,016
Other	2,218,957	—	—	2,218,957	4,051,405
Pledges receivable, net	15,993,515	—	—	15,993,515	15,882,162
Investments, at fair value	3,066,282	—	—	3,066,282	945,727
Notes receivable, net	17,416,477	—	(13,410,374)	4,006,103	1,924,556
Loans receivable, net	—	171,398,213	—	171,398,213	153,451,743
Other receivables	4,394,546	—	(568,168)	3,826,378	3,305,000
Donor-advised assets	629,557	—	—	629,557	377,407
Prepaid expenses and other assets	615,484	20,221,911	(482,808)	20,354,587	19,095,406
Investment in other institutions	10,895,900	—	(4,181,273)	6,714,627	6,881,505
Building, furniture, and equipment, net	1,748,961	25,438,076	—	27,187,037	30,135,099
Total assets	\$ <u>73,901,892</u>	<u>283,008,809</u>	<u>(18,642,623)</u>	<u>338,268,078</u>	<u>333,279,437</u>
<b>Liabilities and Net Assets</b>					
Accounts payable and accrued liabilities	\$ 18,260,132	20,360,993	(4,714,838)	33,906,287	31,614,729
Notes payable	17,638,210	62,411,483	(14,213,401)	65,836,292	81,013,992
Deferred revenue	12,500	5,026,579	(12,500)	5,026,579	3,682,567
Deposits from customers	—	126,644,618	—	126,644,618	113,635,314
Total liabilities	<u>35,910,842</u>	<u>214,443,673</u>	<u>(18,940,739)</u>	<u>231,413,776</u>	<u>229,946,602</u>
Noncontrolling interest	231,549	21,174,490	(1,120)	21,404,919	17,892,911
Net assets:					
Unrestricted	9,499,461	47,390,646	299,236	57,189,343	44,912,940
Temporarily restricted	23,252,415	—	—	23,252,415	35,519,359
Permanently restricted	5,007,625	—	—	5,007,625	5,007,625
Total net assets	<u>37,759,501</u>	<u>47,390,646</u>	<u>299,236</u>	<u>85,449,383</u>	<u>85,439,924</u>
Total liabilities and net assets	\$ <u>73,901,892</u>	<u>283,008,809</u>	<u>(18,642,623)</u>	<u>338,268,078</u>	<u>333,279,437</u>

See accompanying notes to consolidated financial statements.

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statement of Activities

Year ended December 31, 2012  
(with comparative totals for 2011)

	2012							2011
	Unrestricted			Total	Temporarily restricted	Permanently restricted	Total	
	Charitable activities	Banking activities	Eliminations					
Operating activities:								
Charitable support, gains, and losses:								
Private contributions	\$ 11,098,292	—	—	11,098,292	23,769,263	—	34,867,555	26,504,615
Government grants	207,150	—	—	207,150	541,179	—	748,329	975,454
Other	3,168,037	—	(30,000)	3,138,037	—	—	3,138,037	2,395,552
Gain (loss) on investments, net	1,480,660	—	(747,536)	733,124	60,833	—	793,957	(198,722)
Net assets released from restrictions	36,638,219	—	—	36,638,219	(36,638,219)	—	—	—
Total charitable support, gains, and losses	52,592,358	—	(777,536)	51,814,822	(12,266,944)	—	39,547,878	29,676,899
Banking revenue:								
Loan interest income	—	61,894,879	(27,902)	61,866,977	—	—	61,866,977	56,327,810
Other fees and income	—	14,238,771	—	14,238,771	—	—	14,238,771	12,764,736
Total banking revenue	—	76,133,650	(27,902)	76,105,748	—	—	76,105,748	69,092,546
Total support and revenue	52,592,358	76,133,650	(805,438)	127,920,570	(12,266,944)	—	115,653,626	98,769,445
Expenses:								
Charitable expenses:								
Program services:								
Grants for partner organizations for operations and client loans	4,901,293	—	—	4,901,293	—	—	4,901,293	7,725,330
Development of partner organizations	18,017,283	—	—	18,017,283	—	—	18,017,283	18,424,418
Total program services	22,918,576	—	—	22,918,576	—	—	22,918,576	26,149,748
Supporting services:								
Fundraising	7,152,356	—	—	7,152,356	—	—	7,152,356	7,295,039
Management and general	2,726,808	—	—	2,726,808	—	—	2,726,808	2,586,758
Total supporting services	9,879,164	—	—	9,879,164	—	—	9,879,164	9,881,797
Total charitable expenses	32,797,740	—	—	32,797,740	—	—	32,797,740	36,031,545
Banking expenses:								
Interest	—	11,552,210	(777,536)	10,774,674	—	—	10,774,674	10,779,266
Provision for loan losses	—	5,950,772	—	5,950,772	—	—	5,950,772	8,935,456
Operating expenses	—	62,619,575	—	62,619,575	—	—	62,619,575	57,648,608
Total banking expenses	—	80,122,557	(777,536)	79,345,021	—	—	79,345,021	77,363,330
Total expenses	32,797,740	80,122,557	(777,536)	112,142,761	—	—	112,142,761	113,394,875
Increase (decrease) in net assets from operating activities	19,794,618	(3,988,907)	(27,902)	15,777,809	(12,266,944)	—	3,510,865	(14,625,430)
Nonoperating activities:								
Foreign currency translation (loss)	25,046	(8,121,500)	487,335	(7,609,119)	—	—	(7,609,119)	(1,284,339)
Noncontrolling interest in net (gain) loss of consolidated subsidiaries	(16,750)	4,124,463	—	4,107,713	—	—	4,107,713	3,066,576
Increase (decrease) in net assets from nonoperating activities	8,296	(3,997,037)	487,335	(3,501,406)	—	—	(3,501,406)	1,782,237
Investment in banking and insurance activities	(19,057,571)	19,057,571	—	—	—	—	—	—
Increase (decrease) in net assets	745,343	11,071,627	459,433	12,276,403	(12,266,944)	—	9,459	(12,843,193)
Net assets:								
Beginning of year	8,754,118	36,319,019	(160,197)	44,912,940	35,519,359	5,007,625	85,439,924	98,283,117
End of year	\$ 9,499,461	47,390,646	299,236	57,189,343	23,252,415	5,007,625	85,449,383	85,439,924

See accompanying notes to consolidated financial statements.

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statement of Cash Flows

Year ended December 31, 2012  
(with comparative amounts for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 9,459	(12,843,193)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	5,408,397	5,228,529
Foreign currency translation loss	7,609,119	1,284,339
Provision for loan losses	5,950,772	8,935,456
Noncontrolling interest in net loss of consolidated subsidiaries	(4,107,713)	(3,066,576)
Realized gain on sale of stock of consolidated subsidiary	—	—
Realized loss (gain) on sale of investments	(978,003)	187,459
Unrealized gain on investments	(119,993)	(517,764)
Equity in loss of investment in other institutions	557,189	316,055
Goodwill impairment	—	889,647
Changes in assets and liabilities:		
Pledges and other receivables	(884,881)	16,582,789
Prepaid expenses and other assets	(1,259,181)	(5,611,136)
Accounts payable and accrued liabilities	2,110,524	1,365,005
Deferred revenue	1,525,046	124,495
Noncontrolling interest	7,619,720	4,970,003
Net cash provided by operating activities	<u>23,440,455</u>	<u>17,845,108</u>
Cash flows from investing activities:		
Loan origination and principal collections, net	(23,897,241)	(36,111,733)
Purchase of investments in unconsolidated affiliates	(390,311)	(2,144,220)
Purchase of investments	(6,333,411)	(1,736,606)
Sale of investments	5,310,852	1,604,465
Purchase of restricted cash and investments	(1,959,837)	(16,812,262)
Sale of restricted cash and investments	8,125,032	20,664,259
Net additions of building, furniture, and equipment	(2,460,335)	(10,390,067)
Principal (issuance) payments on notes receivable	(2,081,547)	1,201,362
Net cash used in investing activities	<u>(23,686,798)</u>	<u>(43,724,802)</u>
Cash flows from financing activities:		
Proceeds from notes payable	12,037,712	29,791,948
Principal payments of notes payable	(27,215,412)	(19,995,418)
Deposits from customers	13,009,304	22,975,256
Net cash (used in) provided by financing activities	<u>(2,168,396)</u>	<u>32,771,786</u>
Effect of exchange rate changes on cash	<u>(7,609,119)</u>	<u>(1,284,339)</u>
Net (decrease) increase in cash and cash equivalents	<u>(10,023,858)</u>	<u>5,607,753</u>
Cash and cash equivalents at beginning of year	<u>82,945,261</u>	<u>77,337,508</u>
Cash and cash equivalents at end of year	<u>\$ 72,921,403</u>	<u>\$ 82,945,261</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest and taxes	\$ 10,575,607	6,784,979
Supplemental disclosures of noncash investing and financing transactions:		
Conversion of notes receivable into investment in subsidiaries	\$ 1,458,015	7,634,203
Sale of consolidated subsidiary:		
Investment in consolidated subsidiary	\$ —	—
Loss on sale of consolidated subsidiary	—	—
Net proceeds from the sale of consolidated subsidiary	<u>\$ —</u>	<u>—</u>

See accompanying notes to consolidated financial statements.

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year ended December 31, 2012  
(with comparative amounts for 2011)

	<b>2012</b>						
	<b>Charitable activities</b>						
	<b>Program services</b>	<b>Fundraising</b>	<b>Management and general</b>	<b>Total</b>	<b>Banking activities</b>	<b>Total</b>	<b>2011 Total</b>
Grants for Opportunity International Network	\$ 5,580,261	—	—	5,580,261	—	5,580,261	5,772,309
Grants for partner organizations for operations and client loans	4,597,988	—	—	4,597,988	—	4,597,988	5,315,172
Provision for government agreement closeout costs	303,305	—	—	303,305	—	303,305	2,110,158
Grants to partner organizations for loan funds	—	—	—	—	—	—	300,000
Salaries and benefits	5,581,885	5,092,409	1,306,022	11,980,316	32,127,069	44,107,385	40,203,653
Provision for loan loss	—	—	—	—	5,950,772	5,950,772	8,935,456
Rent and utilities	224,413	15,453	303,375	543,241	6,714,491	7,257,732	6,073,256
Travel and hosting	974,020	814,050	88,399	1,876,469	2,896,432	4,772,901	4,611,534
Professional fees	3,012,585	437,325	407,983	3,857,893	4,129,856	7,987,749	8,031,384
Miscellaneous expense	857,849	245,371	44,629	1,147,849	6,991,282	8,139,131	9,037,029
Interest expense	761,520	—	209,240	970,760	10,774,674	11,745,434	11,203,179
Telephone	110,659	71,655	46,400	228,714	1,893,154	2,121,868	2,019,582
Foreign exchange gain (loss)	51,944	—	—	51,944	(3,186,293)	(3,134,349)	(956,766)
Depreciation expense	207,533	—	41,824	249,357	5,159,040	5,408,397	5,228,529
Board meetings and conferences	26,476	164,830	29,512	220,818	474,403	695,221	478,469
Supplies, printing, and office equipment	145,501	107,297	205,731	458,529	1,907,574	2,366,103	2,661,735
Income tax expense	10,735	—	—	10,735	145,251	155,986	(2,638,107)
Postage and shipping	18,927	59,412	9,562	87,901	164,077	251,978	331,420
Training	6,667	61,417	8,887	76,971	662,351	739,322	645,112
Promotional materials	101,130	82,909	1,002	185,041	1,021,552	1,206,593	1,609,630
Donor-advised grant expense	286,750	228	—	286,978	—	286,978	777,091
Insurance	58,428	—	24,242	82,670	1,519,336	1,602,006	1,645,050
<b>Total expenses</b>	\$ <u>22,918,576</u>	<u>7,152,356</u>	<u>2,726,808</u>	<u>32,797,740</u>	<u>79,345,021</u>	<u>112,142,761</u>	<u>113,394,875</u>

See accompanying notes to consolidated financial statements.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

#### (1) Organization

Opportunity International, Inc., d/b/a/ Opportunity International – U.S. (Opportunity), is a tax-exempt, publicly supported Christian-based corporation, whose purpose is to create employment and improve income for the poor by assisting in the establishment of small businesses and microbusinesses in developing countries. Opportunity's programs are financed through direct solicitation of funds from individuals, corporations, foundations, churches, and government grants.

Opportunity fulfills its mission through nongovernmental organizations and commercial microfinance institution partners in developing countries. A partner organization is an implementer of microenterprise development and provider of financial services within the Opportunity network. Funds are disbursed to partner organizations to capitalize various local commercial start-up ventures and to fund their own operations. While partner organizations are critical in assisting Opportunity to achieve its purpose, they are not legally affiliated with Opportunity (with the exception of the microfinance institutions that incorporated as for-profit microfinance institutions, as discussed below), and accordingly, their accounts are not included in these consolidated financial statements.

Similarly, entities within the Opportunity support network, including Opportunity International Australia, Opportunity International United Kingdom, Opportunity International Germany, and Opportunity International Canada, raise funds in their respective countries and operate independently of Opportunity. Their accounts are not included in these consolidated financial statements.

Effective January 1, 1998, all affiliated partner organizations of Opportunity signed a membership agreement formalizing the Opportunity International Network (Network). The Network was established to coordinate a common strategy among all partners, to develop an accreditation process for participating partners, and to manage standardization and quality throughout the Network member organizations. The Network operates a service organization that provides training, consulting, and other services to member organizations. The Network is not consolidated in these accompanying consolidated financial statements as the Network is not a legal subsidiary of Opportunity.

Opportunity provides a majority of the funding for the Network's operations, along with providing accounting and management services. These services are considered Opportunity's dues for Network membership. Total costs incurred by Opportunity, included in development of partner organizations on the consolidated statements of activities, related to the Network are \$5,580,261 and \$5,772,309 for the years ended December 31, 2012 and 2011, respectively.

Program services expense in the charitable activities section of the accompanying consolidated statement of activities includes grants made to the Network and disbursements for program services made to its partner organizations. The partner organizations are not required to pay these grants back to Opportunity. Program services are as follows:

- a. Grants for revolving loans – amounts disbursed to partner organizations, which in turn, provide small commercial loans to borrowers/entrepreneurs.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

- b. Grants for partner lending operations and training – amounts disbursed to partner organizations for their operating costs, as well as management and business training and technical assistance to the borrower/entrepreneur.
- c. Development of partner organizations – amounts expended by Opportunity and the Network, to the extent of dues paid by Opportunity, to support partner organization growth and maturation.

Effective June 19, 2000, Opportunity incorporated Opportunity Transformation Investments (OTI), which is intended to invest in and hold ownership positions in microfinance institutions as they convert from nongovernmental organizations to commercial microfinance institutions. OTI's board of directors is controlled by Opportunity. Accordingly, OTI and its majority-owned banks are consolidated in Opportunity's financial statements. If a majority interest is acquired in more than one transaction at different dates, cost is determined separately for the percentage of ownership interest in net assets acquired at the date of each transaction. All intercompany transactions have been eliminated in consolidation. The acquired interests in the microfinance organizations are as follows:

- (i) In July 2002, Opportunity International Stock Savings Bank, Novi Sad (Opportunity Bank Serbia) was capitalized with an initial investment of \$1,100,000 from OTI to acquire all outstanding shares of common stock of Opportunity Bank Serbia (OBS). In December 2002, additional common stock was sold for \$1,000,000, of which an investment was made by OTI in the amount of \$200,000. This resulted in OTI's ownership percentage decreasing to 62.0% at December 31, 2002. In December 2003, OTI made an additional investment in Opportunity Bank Serbia, increasing its ownership percentage to 77.0%. During 2005, OTI made a \$2.4 million investment in Opportunity Bank Serbia, bringing its ownership percentage up to 93.6%. OTI made an additional investment of \$5.7 million in December 2005. In 2006, in compliance with the National Bank of Serbia's (NBS) new law recognizing only banks, Opportunity Bank Serbia was dissolved, and Opportunity Bank a.d. Novi Sad became the legal successor of all Opportunity Bank Serbia's rights and obligations. On February 7, 2007, NBS issued the permanent banking license to Opportunity Bank a.d. Novi Sad (Opportunity Bank Serbia). During 2007, two institutions purchased shares in Opportunity Bank Serbia, which diluted OTI's ownership to 63.5%. During 2010, OTI made an additional equity investment of \$2,480,127. In 2012, OTI made an equity investment of \$1,591,193. As of December 31, 2012 and 2011, OTI owned 67.0% and 63.5% of the outstanding shares of Opportunity Bank Serbia, respectively.
- (ii) In February 2003, Oportunidad Microfinanzas, S.A. de C.V., SOFOM ENR (Opportunity Mexico) was capitalized with an initial investment of \$4,558 for 99% ownership in Opportunity Mexico by OTI; Opportunity owned the other 1%. Subsequently, OTI made an additional investment of \$353,067 in December 2003. OTI made an additional investment of \$625,000 during 2004, bringing its total investment up to almost \$1 million. During 2005 and 2006, OTI advanced \$664,979 and \$1,102,917 to Opportunity Mexico, respectively, which was converted to equity in 2007. In 2008, OTI advanced \$330,936, which was converted to equity in 2008. During 2011, OTI made an additional equity investment of \$11,583. As of December 31, 2012 and 2011, OTI owned essentially 100% of the outstanding shares of Opportunity Mexico. On May 2, 2013, OTI and OIUS sold all of their ownership interest in Opportunity Mexico. See note 18 for further information.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

- (iii) In February 2005, Banco Oportunidade de Mocambique, SARL (Opportunity Bank Mozambique) was capitalized with an initial OTI investment of \$1,220,900 for 58.7% ownership in Opportunity Bank Mozambique. During 2006, OTI made an additional investment of \$839,142 in Opportunity Bank Mozambique to maintain 58.7% ownership. During 2008, OTI purchased 292 shares from minority investors for \$392,635. During 2009 and 2008, respectively, OTI advanced \$280,489 and \$326,520 in convertible loans. During 2010, OTI invested an additional \$556,413 and converted the outstanding loans to equity. During 2011, OTI made an additional equity investment of \$482,824. During 2012, additional investments by minority shareholders diluted OTI's ownership stake. As of December 31, 2012 and 2011, OTI owned 60.6% and 71.4% of the outstanding shares of Opportunity Bank Mozambique, respectively.
- (iv) As of December 31, 2005, OTI had an investment of \$1,139,725 or 35.1% of Opportunity International Savings & Loans Limited in Ghana (Opportunity Bank Ghana). In May 2006, OTI made an additional investment of \$1,082,332 in Opportunity Bank Ghana increasing its percentage of ownership to 44.9%. In July 2006, OTI made another investment of \$933,268, which included the conversion of notes receivable of \$323,753, in Opportunity Bank Ghana further increasing its percentage of ownership to 59.6%, making OTI the majority shareholder. The results of operations of Opportunity Bank Ghana were included in the consolidated financial statements of OTI starting in the year 2006. Even though OTI invested an additional \$1,030,349 of equity in Opportunity Bank Ghana during 2007, its percentage of ownership was diluted by other shareholder investments to 51.5%. During 2010 and 2009, respectively, OTI advanced \$843,504 and \$186,000 in convertible loans. During 2011, OTI made a \$2,107,641 equity investment and converted \$1,029,504 of loans to equity. In 2012, OTI made an additional \$1,416,756 equity investment. As of December 31, 2012 and 2011, OTI owned 66.7% and 62.5%, respectively, of the outstanding shares of Opportunity Bank Ghana.
- (v) As of December 31, 2005, OTI had a net investment of \$1,011,020 or 27.1% in Opportunity International Bank of Malawi, Ltd. (Opportunity Bank Malawi). During 2006, OTI made investments totaling \$1,567,087 in Opportunity Bank Malawi through conversion of notes receivable to equity and additional cash payments increasing its ownership to 53.7%. The results of Opportunity Bank Malawi were included in the consolidated financial statements beginning in 2006. During March 2008, OTI converted \$362,764 of loans to equity and made an additional equity investment of \$1,404,878, increasing share ownership by 6.9%. During 2011, OTI converted \$1,069,000 of loans to equity and made an equity investment of \$1,992,929. During 2012, OTI made an additional equity investment of \$1,784,965. As of December 31, 2012 and 2011, OTI owned 53.5% and 51.2%, respectively, of the outstanding shares of Opportunity Bank Malawi.
- (vi) In June 2006, OTI made an initial investment of \$178,336 in Opportunity International Bank Rwanda, S.A. (Opportunity Bank Rwanda) for which it received 961 shares or 96.6% of the common stock of Opportunity Bank Rwanda. Opportunity International – Deutschland and the officers and directors owned the other shares. In July 2006, OTI was gifted equity totaling \$249,975 from Opportunity International Canada. In September 2006, OTI made an additional investment of \$2,450,000, which increased its ownership percentage to 99.8%. The financial statements of Opportunity Bank Rwanda are included in the consolidated financial statements of OTI beginning in the year 2006. On July 1, 2007, Opportunity International Bank Rwanda merged with Urwego

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Community Banking S.A. A new entity called Urwego Opportunity Microfinance Bank S.A. (Opportunity Bank Rwanda) was formed and its financial statements were included in the OTI consolidated financial statements beginning in 2007. During March 2008, minority shareholders purchased 9.6% of outstanding shares of Opportunity Bank Rwanda from OTI for \$331,821. During 2009, OTI issued \$321,000 in convertible loans. OTI advanced \$613,900 and \$88,362 as convertible loans during 2012 and 2011, respectively. During 2012, OTI also made an equity investment of \$250,000. As of December 31, 2012 and 2011, OTI owned 49.9% of the outstanding stock of Opportunity Bank Rwanda.

- (vii) In 2006, OTI made an initial capital investment of \$15, along with \$1,266,000 of loans convertible to equity, in Opportunity Finance (Proprietary) Limited, South Africa (Opportunity South Africa). OTI owns 100% of Opportunity South Africa and its financial statements were included in the OTI consolidated financial statements beginning in 2006. The 2006 loans totaling \$1,266,000 plus 2007 convertible loans of \$418,658 were converted to equity in November 2007. During 2008, additional convertible loans of \$2,071,000 were made to Opportunity South Africa, which were converted to equity in March 2009. During 2009, OTI's ownership percentage was diluted by an equity investment from a new shareholder. During 2012 and 2011, OTI made additional investments of \$164,966 and \$1,000,000, respectively. As of December 31, 2012 and 2011, OTI owned 76.5% and 73.7%, respectively, of the outstanding shares of Opportunity South Africa.
- (viii) On July 31, 2006, OTI acquired specific assets of Wedco Enterprises Development Ltd for \$700,000. A new entity was formed in Kenya, Opportunity International-Wedco Limited (Opportunity Kenya). During 2008, the company changed its name to Opportunity Kenya Limited. OTI owns 51% of the common shares and Wedco Enterprises owns 49% of the common shares. The financial statements of Opportunity Kenya were included in the consolidated financial statements of OTI beginning in 2006. During 2008 and 2007, convertible loans of \$98,776 and \$1,900,000 were made to Opportunity Kenya, respectively. During 2009, \$354,662 of the loans were converted to equity and OTI advanced additional convertible loans of approximately \$1,000,000. During 2010, OTI advanced additional convertible loans of approximately \$1,200,000. During 2011, \$3,850,894 of convertible loans was converted to equity and an additional \$462,545, of convertible loans were advanced. During 2012, OTI advanced additional convertible loans of \$1,228,317. As of December 31, 2012 and 2011, OTI owned 84% of the outstanding shares of Opportunity Kenya.
- (ix) On December 15, 2006, OTI purchased 31.5% of the common shares of Faulu Uganda Limited for \$347,870. During May 2007, OTI acquired another 31.5% of the outstanding common shares of Faulu Uganda from Opportunity International Australia for \$300,000 making it majority owner with 63.0% ownership. During May 2007, OTI made an additional equity investment of \$750,000. The results of operations of Faulu Uganda were included in the consolidated financial statements beginning in the year 2007. During October 2008, OTI made an additional equity investment of \$1,115,000. On December 16, 2008, the company acquired a license from the Bank of Uganda as a two tier financial institution. During 2009, the company changed its registered name to Opportunity Uganda Limited (Opportunity Uganda) and OTI made an equity investment of \$500,000 and advanced an additional \$200,000 of convertible loans. During 2010, the \$200,000 of convertible loans was converted to equity, and OTI made an additional equity investment of \$1,334,309. During 2012 and 2011, OTI made equity investments of \$2,091,434 and \$2,213,285, respectively. As of

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December 31, 2012 and 2011, OTI owned 84.6% and 83.2% of the outstanding shares of Opportunity Uganda, respectively.

- (x) On December 20, 2007, OTI acquired 60% of the stock of Faulu Tanzania Limited for \$1. During 2008, the company changed its name to Opportunity Tanzania Limited (Opportunity Tanzania). The results of operations of Opportunity Tanzania were included in the consolidated financial statements of OTI beginning in 2007. During 2008, OTI made convertible loans of \$1,700,000 to Opportunity Tanzania, which were converted to equity in May 2009. Additional equity investments of \$887,415, \$1,712,040, \$749,217 and \$1,500,000 were made by OTI in 2012, 2011, 2010 and 2009, respectively. During 2012, \$920,080 of convertible loans were also converted to equity. As of December 31, 2012 and 2011, OTI owned 66.1% and 64.4%, respectively, of the outstanding shares of Opportunity Tanzania.
- (xi) As of December 31, 2009, OTI had a net investment of \$193,976, or 34.5% of the shares in Opportunity Microcredit Romania IFN SA (Opportunity Romania). On October 27, 2010, OTI purchased an additional interest in Opportunity Romania for \$1,482,910 increasing its ownership position to 57.2%. The results of Opportunity Romania are included in the consolidated financial statements as of October 2010. During 2012, OTI made an additional equity investment of \$900,000. As of December 31, 2012 and 2011, OTI owned 66.5% and 57.2%, respectively, of the outstanding shares of Opportunity Romania.
- (xii) During 2010, OTI invested \$2,000,000 to establish a microfinance company, Opportunity International DRC SPRL (Opportunity DRC) in the Democratic Republic of Congo. Opportunity DRC was incorporated and 32,400 shares were issued to OTI for its \$2,000,000 investment. The financial statements of Opportunity DRC were included in the consolidated financial statements during the year ended December 31, 2010. During 2012 and 2011, OTI invested an additional \$1,544,695 and \$1,500,000, respectively. As of December 31, 2012 and 2011, OTI owned 100% of the outstanding shares of Opportunity DRC.
- (xiii) During 2012, OTI invested \$7,636,220 to establish a microfinance company, Opportunity International Colombia S.A. Compania de Financiamiento (Opportunity Colombia) in Colombia. Opportunity Colombia became legally authorized to operate as a regulated financial intermediary in June 2012 and issued 1,351,731,310 shares to OTI for its initial investment. As of December 31, 2012, OTI owned 71.1% of the outstanding shares of Opportunity Colombia.

Opportunity Loan Guarantee Fund I, Inc. (the Fund) was established in January 2005 for the purpose of supporting microfinance institutions in developing countries to increase the availability of loans and related microfinance services to the poor by providing collateral support or similar means to enable microfinance institutions to borrow or otherwise acquire funds in local currency.

MicroEnsure LLC, formerly known as Micro Insurance Agency Holdings LLC, was incorporated on November 4, 2005 in the State of Illinois. Collectively, MicroEnsure LLC and its subsidiaries are referred to as "MicroEnsure." The primary purpose of MicroEnsure is to serve as an agent to provide the poor in developing countries with access to affordable and appropriate insurance products.

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MicroEnsure fulfills its mission by working with local insurance company partners and other stakeholders to develop a range of low cost insurance products designed to match the specific needs of the poor. The insurance products primarily include credit life, term life, funeral, property, weather indexed crop, and health insurance. All insurance policies are written by the local insurance company partners, and MicroEnsure receives a commission based upon the number of insurance policies sold. MicroEnsure does not retain any risk associated with the insurance policies. MicroEnsure distributes its products by working in partnership with a range of organizations that are currently serving the poor and also via subsidiary insurance agencies in Africa and Asia. Administrative offices for MicroEnsure are located in the United Kingdom. Opportunity is the sole member of MicroEnsure and as such, MicroEnsure is consolidated in the accompanying consolidated financial statements.

#### (2) Summary of Significant Accounting Policies

##### (a) *Basis of Presentation*

Opportunity's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles and are presented on the accrual basis of accounting.

**Charitable Activities** – this category reports Opportunity's fund-raising activities performed in the United States of America.

In order to ensure the observance of limitations and restrictions placed on the use of available resources, Opportunity maintains its accounts in accordance with the principles and practices of fund accounting. This is the procedure by which resources are classified into funds established according to their nature and purpose. For external reporting purposes, however, Opportunity's consolidated financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions.

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Net assets and related activities are classified as unrestricted, temporarily restricted, and permanently restricted activities as follows:

**Unrestricted** – net assets that are not subject to donor-imposed restrictions. Unrestricted net assets consist of the following as of December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Opportunity International – United States earnings	\$ 9,798,695	8,593,925
Opportunity Bank Serbia capital and accumulated earnings	8,734,312	7,326,704
Opportunity Mexico capital and accumulated earnings	2,267,740	2,128,963
Opportunity Bank Mozambique capital and accumulated earnings	2,483,318	3,084,181
Opportunity Bank Ghana capital and accumulated earnings	5,435,186	4,409,419
Opportunity Bank Malawi capital and accumulated earnings	4,804,190	6,156,083
Opportunity Bank Rwanda capital and accumulated earnings	2,943,092	1,981,981
Opportunity South Africa capital and accumulated earnings	3,086,685	2,734,322
Opportunity Kenya capital and accumulated earnings	2,347,680	2,487,981
Opportunity Uganda capital and accumulated earnings	7,007,906	4,594,393
Opportunity Tanzania capital and accumulated earnings	2,702,220	1,115,550
Opportunity Romania capital and accumulated earnings	656,772	(175,681)
Opportunity DRC capital and accumulated earnings	(655,534)	475,119
Opportunity Colombia capital and accumulated earnings	5,577,081	—
Total	\$ 57,189,343	44,912,940

The net assets of the banks are unrestricted as they are not subject to donor restrictions; however banking regulators in each jurisdiction have minimum capital requirements which could limit access to these net assets.

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**Temporarily Restricted** – net assets that are subject to donor-imposed restrictions that will be met either by actions of Opportunity or by the passage of time. Temporarily restricted net assets are available for the following purposes or periods as of December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
For periods after December 31	\$ 13,225,781	13,737,533
MicroEnsure Programs	517,593	1,578,244
Programs in Latin America and Colombia	44,812	5,554,170
Programs in Asia	766,184	—
Programs in Africa	5,369,689	10,550,868
Other programs	3,328,356	4,098,544
Total	\$ 23,252,415	35,519,359

Net assets were released from donor restrictions during the years ended December 31, 2012 and 2011 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	<b>2012</b>	<b>2011</b>
MicroEnsure Programs	\$ 1,496,274	3,463,194
Programs in Africa	18,684,394	18,114,859
Programs in Latin America and Colombia	7,574,270	1,939,529
Programs in Asia	2,029,939	50,258
Other programs	6,853,342	7,214,008
Total	\$ 36,638,219	30,781,848

**Permanently Restricted** – net assets that are subject to donor-imposed restrictions to be maintained permanently by Opportunity. Generally, donors of these assets permit Opportunity to use all or part of the income earned on related investments for general or specific purposes. As of December 31, 2012 and 2011, permanently restricted net assets consist of the Cornerstone Fund, which was instituted in 2002 as a means of providing collateral for the existing line of credit.

**Banking Activities** – this category reports the consolidated results of the commercial banks in which OTI has investments of greater than 50%. Assets and liabilities of foreign investments are translated at year-end exchange rates, with the related translation adjustments reported as a change in unrestricted net assets. Income statement accounts are translated at the average exchange rate during the period. Minority investors own portions of the ten microfinance institutions that OTI has majority interest in: Opportunity Bank Serbia, Opportunity Bank Mozambique, Opportunity Bank Ghana, Opportunity Bank Malawi, Opportunity Bank Rwanda, Opportunity Kenya, Opportunity Uganda, Opportunity South Africa, Opportunity Tanzania, and Opportunity Romania. The outside investors' shares are shown in Opportunity's consolidated financial statements as noncontrolling interest.

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#### **(b) Revenue and Expense**

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Private gifts, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful pledges receivable is provided based upon management's judgment considering such factors as prior collection history, type of contribution, and nature of fund-raising activity. Contributions received with donor-imposed restrictions are reported as revenue of the unrestricted net asset class if those restrictions are met within the same year as received. Donor-restricted contributions received and whose restrictions were met within the same year were \$17,984,870 and \$13,341,451 in 2012 and 2011, respectively.

Revenue from governmental grant agreements is recognized as it is earned through expenditure in accordance with the agreement. Revenue from governmental grant agreements to operate and maintain loan portfolios over an extended period of time under specific conditions is recognized on a straight-line basis over the grant period until the conditions are fulfilled. Amounts received in advance of expenditure are recorded as deferred revenue until recognized over the grant period.

The consolidated results of the banks presented in the accompanying consolidated financial statements recognize fee and commission income for the services provided by each bank. Fee and commission income is recognized when the related service is performed. Loan fees are offset by the costs of originating such loans.

Opportunity records in-kind support for contributed equipment and contributed professional services. Contributed equipment and services are recorded at fair value. Opportunity recorded \$774,620 and \$639,993 as contribution revenue in the accompanying consolidated statement of activities, and the corresponding amount was included as equipment and services or as grants to the Network and partner organizations in the accompanying consolidated statement of financial position for 2012 and 2011, respectively.

#### **(c) Accrued Interest Receivable on Loans**

Interest is accrued on loans when earned. Accrual of interest is ceased on loans when interest is more than six months delinquent. Interest accrued at the date a loan is placed on nonaccrual status is reversed and charged against income.

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**(d) Allowance for Loan Losses**

Allowances have been established for probable loan losses. While the allowance calculation varies by country, each OTI member assesses exposure to their loan portfolio on both an individual and group level. Individually significant loans are evaluated for specific impairment based on management's best estimate of the timing and amount of future cash flows that will be collected. Groups of loans with similar credit risk characteristics that are not individually significant are collectively evaluated for impairment on the basis of historical loss experience adjusted for current economic conditions, the value of the underlying collateral and management's judgment.

Management believes that these allowances represents the best estimate the credit losses inherent in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in economic or political conditions or significant changes in the borrower's financial position. OTI monitors credit risk exposure by product and by customer and regularly reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Impairment is recognized by allocating a portion of the allowance for loan losses to such a loan to the extent that the recorded investment of an impaired loan exceeds its value. A loan's value is based on the loan's underlying collateral or the calculated present value of projected cash flows discounted at the contractual interest rate. Allocations on impaired loans are considered in relation to the overall adequacy of the allowance for loan losses, and adjustments are made to the provision for loan losses as deemed necessary.

The recorded investment in impaired loans is periodically adjusted to reflect cash payments, revised estimates of future cash flows, and increases in the present value of expected future cash flows due to the passage of time. Cash payments representing interest income are reported as such. Other cash payments are reported as reductions in recorded investment. Increases or decreases due to changes in estimates of future payments and the passage of time are considered in relation to the overall adequacy of the allowance for loan losses.

**(e) Allocation of Expenses**

Opportunity considers Network Services Organization expenses as a component of its program expense. The amounts relate to dues paid to the Network, which, in turn, support the Network partners and the Opportunity program objectives. Certain costs are paid by Opportunity on behalf of the Network as part of Opportunity's annual dues and are included in program grant expense.

**(f) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and highly liquid, short-term investments with original maturities of 90 days or less.

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**(g) *Restricted Cash and Investments***

Restricted cash and investments at December 31, 2012 and 2011 consist of permanently restricted funds received for the Cornerstone endowment fund, and restricted investments of the former Loan Guarantee Fund. Restricted cash and investments also consist of loan proceeds lent to OTI from the Bill and Melinda Gates Foundation (the Gates Foundation). Gates Foundation funds yet to be distributed remain in a segregated, interest-bearing account and will be utilized to extend partner loans in accordance with the loan agreement. All interest earned on funds in the segregated account and 1% interest on the amounts withdrawn from the segregated account for partner loans is remitted quarterly to the Gates Foundation. Additionally, as of December 31, 2012 and 2011, there was \$542,797 and \$1,932,725, respectively, in a segregated bank account related to funds received from the Gates Foundation to be spent in accordance with the related grant agreements.

**(h) *Investments***

Investments in securities are reported at fair value based on quoted market prices for publicly traded securities and estimates provided by investment managers for nonmarketable investments in certain closely held companies. Donated investments are recorded at fair value at the date of the gift and, based on Opportunity's investment policy, are generally liquidated within 30 days.

**(i) *Investment in Other Institutions***

Investments in other institutions in which OTI holds less than 50% are recorded using the equity method of accounting. Accordingly, the initial investment is increased or decreased by Opportunity's proportionate share of income or loss.

**(j) *Building, Furniture, and Equipment***

Building, furniture, and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, ranging from 3 to 50 years. Accumulated depreciation on building, furniture, and equipment was \$18,533,405 and \$16,915,431 at December 31, 2012 and 2011, respectively.

**(k) *Charitable Gift Annuities***

Opportunity has a gift annuity program whereby it enters into irrevocable contracts with certain donors. Opportunity agrees to make payments to donors at prescribed intervals over the life of the donor. The assets received are recorded at their fair value, and the related liability is recorded as an annuity obligation. Annuity obligations are recorded at the present value of expected future payments based on the Internal Revenue Service (IRS) mortality tables and the prevailing interest rate. A discount rate of 1.2% was utilized as of December 31, 2012. The difference is classified as unrestricted contributions on the consolidated statements of activities and changes in net assets. Opportunity maintains charitable gift annuities in a separate portfolio, and the assets are invested in accordance with applicable state laws.

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#### **(l) *Income Taxes***

Opportunity and OTI have received determination letters from the IRS indicating that they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly, no tax provision has been made in the accompanying consolidated financial statements for charitable activities.

Opportunity has adopted the requirements for accounting for uncertain tax positions in accordance with Accounting Standards Codification (ASC) 740-10 (formerly known as Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The only significant tax position management has identified is that of Opportunity's tax-exempt status. No other tax positions, certain or uncertain, have been identified.

The microfinance institutions included in the accompanying consolidated financial statements pay taxes in accordance with their respective country's laws at rates from 9% to 32% of taxable income and current tax expense is recorded for these amounts. Income taxes for the overseas for-profit microfinance institutions are accounted for under the asset and liability method. Deferred taxes and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax carryforwards. Deferred tax assets and liabilities are measured using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### **(m) *Goodwill***

Goodwill is tested for impairment using a two-step process on an annual basis or when current facts or circumstances indicate that a potential impairment may exist. The first step is to identify a potential impairment and the second step measures the amount of the impairment loss, if any. Goodwill is deemed to be impaired if the carrying amount of a reporting unit's goodwill exceeds its estimated fair value. Please refer to note 7 for further discussion of goodwill and impairment charges.

#### **(n) *Derivatives***

Derivatives (swap agreements) are used by Opportunity principally in the management of its foreign currency exposure. Opportunity records the swap agreements on the consolidated statement of financial position at fair value in investments, and records the changes in fair value through the statement of activities in investment income. Opportunity does not hold or issue derivatives for speculative purposes. When hedged assets or liabilities are sold or extinguished or the forecasted transactions being hedged are no longer expected to occur, Opportunity recognizes the gain or loss on the designated hedging financial instrument in the consolidated statement of activities.

#### **(o) *Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date

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of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

**(p) Comparative Financial Information**

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with Opportunity's consolidated financial statements for the year ended December 31, 2011, from which the summary information was derived.

**(q) New Accounting Pronouncements**

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring*, is a Troubled Debt Restructuring. The purpose of this update is to clarify which loan modifications constitute a troubled debt restructuring, for the purposes of recording an impairment loss and for disclosure of the troubled debt restructuring. The new guidance in this update is effective for nonpublic entities for annual periods ending on or after December 15, 2012. OTI adopted this standard for the year ended December 31, 2012.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU No. 2011-04 provides guidance as to how fair value should be applied clarifying the existing measurement and disclosure requirements and expanding the disclosure requirements for certain fair value measurements. ASU No. 2011-04 is effective for the year beginning January 1, 2012. Opportunity adopted this standard and has included the required disclosures in note 3.

In September 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, to enhance the disclosures required for financing receivables and allowances for credit losses under FASB ASC 310, *Receivables*. The amended disclosures are designed to provide more information to financial statement users about the credit quality of a creditor's financing receivables and the adequacy of its allowance for credit losses. Most of the existing disclosures in FASB ASC 310, *Receivables*, have been amended to require information on a more disaggregated basis, which includes by portfolio segment and class of financing receivables. In addition, the amended guidance requires disclosure of the following: aging of past-due receivables, the nature and extent of troubled debt restructurings and their effect on the allowance for credit losses, significant purchases, and sales of financing receivables. Opportunity adopted this standard for the year ended December 31, 2011.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial

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statements prepared under U.S. GAAP with financial statements prepared under International Financial Reporting Standards (IFRS). The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. Opportunity will implement the provisions of ASU 2011-11 in the year beginning January 1, 2013. Management does not expect the adoption of this ASU to significantly affect OTI's financial statements.

**(r) Subsequent Events**

Management has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through October 29, 2013, the date the consolidated financial statements were issued.

**(3) Fair Value of Financial Instruments**

Effective January 1, 2008, Opportunity adopted ASC 820, *Fair Value Measurement*, as amended, which requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels: quoted market prices in active markets for identical assets or liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for an asset or liability (Level 3).

Opportunity's notes receivable, loans receivable and notes payable in the accompanying consolidated financial statements are generated by the charitable activities of Opportunity. The terms of these notes and loans are not commensurate with current market terms in a commercial environment, as they are executed for the purpose of furthering Opportunity's mission. Fair value cannot be determined for these notes and loans due to their charitable nature and they are carried at book value in Opportunity's financial statements.

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary.

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Opportunity's other financial instruments, including cash and cash equivalents, accrued interest and expenses and deferred revenue, are carried at historical cost, which approximates their fair values because of the short-term nature of these instruments. At December 31, 2012 and 2011, Opportunity's restricted cash and investments, and investment securities are accounted for at fair value using the fair value hierarchy of ASC 820 as follows:

		<b>December 31, 2012</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds – restricted	\$	2,457,471	746,008	—
Money market funds – unrestricted		3,357,997	—	—
Short-term investments		843,433	—	—
Common stock		—	—	2,458,394
U.S. government securities and bonds		—	5,228,331	—
Corporate bonds		—	2,787,022	—
Foreign currency swap asset		—	173,748	—
Foreign government securities and bonds		365,374	37,566	—
Total	\$	<u>7,024,275</u>	<u>8,972,675</u>	<u>2,458,394</u>
		<b>December 31, 2011</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds – restricted	\$	5,983,114	793,850	—
Money market funds – unrestricted		14,480,023	—	—
Short-term investments		1,303,859	—	—
Common stock		—	—	409,512
U.S. government securities and bonds		271,977	8,287,636	—
Corporate bonds		—	1,695,134	—
Foreign currency swap asset		—	172,621	—
Foreign government securities and bonds		10,906,089	41,015	—
Total	\$	<u>32,945,062</u>	<u>10,990,256</u>	<u>409,512</u>

The following table presents a summary of changes in the fair value of Opportunity's Level 3 assets for the year ended December 31, 2012:

Beginning balance, January 1, 2012	\$	409,512
Stock donations received		2,265,275
Sales		(159,499)
Unrealized losses		(56,894)
Ending balance, December 31, 2012	\$	<u>2,458,394</u>

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

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**(4) Pledges Receivable**

Unconditional pledges receivable at December 31, 2012 and 2011 are due to be received as follows:

	<b>2012</b>	<b>2011</b>
Within one year	\$ 13,432,422	11,681,325
One year to eight years	3,404,583	7,492,427
Less:		
Allowance on pledges receivable	(773,656)	(3,207,519)
Discounts to net present value	(69,834)	(84,071)
Net unconditional pledges receivable	\$ 15,993,515	15,882,162

The discount rate used in determining the net present value of unconditional pledges receivable ranges between 0.20% and 2.91%, based on the treasury bill rate with the closest maturity date. The discount rate was determined individually for each pledge received depending on the date received and the term of the pledge.

**(5) Endowments**

Endowment fund agreements are between Opportunity and various donors. Opportunity's endowment funds are managed by the Senior Vice President – Chief Financial Officer in accordance with the endowment fund agreements. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowment funds, are classified and reported based on the existence of donor-imposed restrictions.

In the investment and handling of funds, Opportunity is subject to the law of Illinois, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which became effective June 30, 2009. The board of directors of Opportunity has interpreted the UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment contributions absent explicit donor stipulations to the contrary. As a result of this interpretation, Opportunity classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. As of December 31, 2009, the reclassification to reflect this change in classification between unrestricted net assets and temporarily restricted net assets amounted to \$737,352.

The endowment fund was established with the intent of maintaining the fund permanently to provide collateral for the line of credit to support the activities of Opportunity. However, if such permanent status becomes impractical or unwise, the fund may be more expeditiously used in total to further the purposes of Opportunity. Any expenditure of permanent endowment must be approved by Opportunity's board of

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directors. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- i. The uses, benefits, purposes, and duration for which the endowment fund was established
- ii. The duration and preservation of the fund
- iii. The purposes of the organization and the donor-restricted endowment fund
- iv. General economic conditions
- v. The possible effect of inflation and deflation
- vi. The expected total return from income and the appreciation of investments
- vii. Other resources of the organization
- viii. The investment policies of the organization.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the UPMIFA requires Opportunity to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions. Any deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2012.

Opportunity has adopted an investment policy for endowment assets that attempts to provide a reasonably predictable stream of funding to support its activities while seeking to preserve capital. Endowment assets include those assets of donor-restricted funds that Opportunity must hold in perpetuity as well as board-designated funds. Opportunity's policy requires assets to be invested in a manner that emphasizes low risk and safety of the principal. Opportunity expects that its endowment assets, under the current strategy, will produce an average rate of return of 3% to 4% annually. Actual returns in any given year may vary from this amount.

To satisfy its current rate of return objective, Opportunity relies on a strategy in which investment returns are achieved primarily through interest income. As Opportunity's endowment funds grow, this strategy may be revised to accommodate capital appreciation through investment in equity securities. However, the size of the current endowment assets prohibits Opportunity from adopting an effective diversification strategy at this time.

Opportunity has established the objective of reinvesting the appreciation and investment income to further grow the endowment assets until the board of directors determines the growth needs for the Fund have been achieved.

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Changes in the fair value of Opportunity's endowment assets were as follows for the years ended December 31, 2012 and 2011:

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Investment return:								
Investment income	\$ —	60,833	—	60,833	—	227,611	—	227,611
Net appreciation (depreciation)	—	9,531	—	9,531	—	15,327	—	15,327
Total investment return	—	70,364	—	70,364	—	242,938	—	242,938
Endowment net assets at:								
Beginning of year	—	1,461,524	5,007,625	6,469,149	—	1,218,586	5,007,625	6,226,211
End of year	\$ —	1,531,888	5,007,625	6,539,513	—	1,461,524	5,007,625	6,469,149
Net assets by type of fund:								
Donor-restricted endowment	\$ —	—	5,007,625	5,007,625	—	—	5,007,625	5,007,625
Investment return	—	1,531,888	—	1,531,888	—	1,461,524	—	1,461,524
Total net assets	\$ —	1,531,888	5,007,625	6,539,513	—	1,461,524	5,007,625	6,469,149

**(6) Investments and Investment in Other Institutions**

Investments consist of the following as of December 31, 2012 and 2011:

	2012	2011
Common stock	\$ 2,774,040	654,994
Certificate of deposit in the Philippines	80,928	77,097
Treasury bonds at MicroEnsure Kenya	37,566	41,015
Swap asset	173,748	172,621
Total investments at fair value	\$ 3,066,282	945,727

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OTI holds varying noncontrolling interests in other financial institutions, three and five of which are members of the Opportunity Network in 2012 and 2011, respectively, as follows:

	<u>2012</u>	<u>2011</u>
Zambuko Trust Limited, Zimbabwe (25.0%)	\$ 250,000	250,000
Development Finance Equity Partners AG (40.0%) <sup>1</sup>	—	—
BFSE General Partner BV (40%)	42,299	96,964
Balkan Financial Sector Equity Fund C.V (4.3%)	1,550,730	1,693,558
MFX Solutions LLC (1.9%)	199,796	199,405
Opportunity Kauswagan Bank, Inc. (18%)	584,213	896,910
Growing Opportunity Finance (India) Pvt. Ltd (25.6%)	320,363	313,280
Growing Opportunity Finance (India) Pvt. Ltd (preferred shares)	2,036,044	2,036,044
Redeemable noncontrolling interest in Opportunity Serbia	1,981,181	1,645,344
Subtotal	<u>6,964,626</u>	<u>7,131,505</u>
Less amounts reserved	<u>(250,000)</u>	<u>(250,000)</u>
Total investment in other institutions	<u>\$ 6,714,626</u>	<u>6,881,505</u>

Equity income (loss) from the investment in the other institutions is included in the net gain (loss) on investments on the consolidated statements of activities and consists of the following:

	<u>2012</u>	<u>2011</u>
Opportunity Microcredit Romania IFN SA – goodwill impairment	\$ —	(889,647)
Development Finance Equity Partners AG	—	(99,800)
BFSE General Partner BV	(54,665)	(2,978)
Balkan Financial Sector Equity Fund C.V.	(197,299)	(98,810)
MFX Solutions LLC	391	(595)
Opportunity Kauswagan Bank, Inc.	(312,699)	(112,594)
Growing Opportunity Finance (India) Pvt. Ltd	7,083	(1,278)
Total equity (loss) income from other institutions	<u>\$ (557,189)</u>	<u>(1,205,702)</u>

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Investment income from charitable activities for the years ended December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Interest	\$ 357,997	291,551
Dividends	74,307	157,513
Realized gain (loss) on investments	978,003	(187,459)
Unrealized gain (loss) on investments	<u>(119,993)</u>	<u>517,764</u>
Return on investments, net	\$ <u>1,290,314</u>	<u>779,369</u>

**(7) Goodwill**

Goodwill impairment testing was performed as of December 31, 2011 using a two step process. The fair value of the net assets of Opportunity Romania was compared to the carrying value, and as the fair value was less than the carrying value, an impairment loss was recognized in the consolidated statement of activities totaling \$889,647 during the year ended December 31, 2011, which eliminated all goodwill recorded in the consolidated financial statements as of December 31, 2011.

**(8) Notes Receivable**

Notes receivable as of December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Microfinance Loan Obligations S.A. (MLO), interest rate 0% Association de Oportunidad y Desarrollo Economico de Nicaragua (ASODENIC), interest rate 0%	\$ 200,429	196,390
ASODENIC, interest rate 3%	130,000	130,000
Sinapi Aba Trust (SAT), Ghana, interest rate 0%	1,958,809	1,390,710
Opportunity International (An Hui) Guaranteed Company Limited, China, interest rate at 0%	1,864,879	40,250
Asociacion Opportunity International para Lationamerica, interest rate 0%	—	203,860
D. Mutombo Foundation, interest rate 3%	250,000	250,000
Alalay Sa Kaunlaran Sa Gitnang Luzon Inc (ASKI), interest rate 0%	32,794	26,829
Accion de Servicio y Desarrollo para la Micro Empresa (ASIDME) interest rate 0%	—	100,000
Taytay Sa Kauswagan Inc. (TSKI), interest rate 0%	25,607	44,560
Taytay Sa Kauswagan Inc. (TSKI), interest rate 9%	<u>88,855</u>	<u>83,187</u>
Subtotal notes receivable	4,651,373	2,565,786
Less allowance for uncollectible amounts	<u>(645,270)</u>	<u>(641,230)</u>
Total net notes receivable	\$ <u>4,006,103</u>	<u>1,924,556</u>

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

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The MLO, ASODENIC (0% interest rate) and Opportunity International Guaranteed Company Limited, China (OI China) notes are all convertible to equity upon demand. The OI China convertible loan agreement states that the loan will be converted into common equity if OI China is able to attract further funds in the amount of \$2,767,371 from outside sources by December 10, 2014 otherwise the loan will be converted to a grant provided all deliverables of the agreement have been met.

#### (9) Loans Receivable

Loans represent microloans granted to individuals and private entrepreneurs by microfinance banks for the purpose of providing financing support to small enterprises. In addition, loans may be made for the purpose of financing agriculture activities. These loans are granted generally for a period of between three months and eight years at interest rates of between 2% and 60%. Certain loans may be collateralized by security such as cash or mortgages. Loans outstanding as of December 31, 2012 and 2011 consist of the following:

	<b>2012</b>	<b>2011</b>
Loans receivable	\$ 181,958,682	168,459,030
Less loan loss allowance	(10,560,469)	(15,007,287)
Net loan portfolio	\$ 171,398,213	153,451,743

Gross loan portfolio by product for the years ended December 31, 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
Individual	\$ 79,285,360	70,449,360
Small and medium enterprise (SME)	52,118,860	53,724,077
Individual groups	44,055,050	43,541,646
Nonbusiness	1,863,980	84,047
Other	4,635,432	659,900
Total gross loans	\$ 181,958,682	168,459,030

A summary of the activity in the allowance for loan losses for the years ended December 31, 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
Balance at beginning of year	\$ 15,007,287	11,878,722
Provision for loan losses	5,950,772	8,935,456
All other subsidiary loans charged off	(6,452,063)	(5,275,709)
All other subsidiary foreign currency translation loss	(3,945,527)	(531,182)
Balance at end of year	\$ 10,560,469	15,007,287

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The following table summarizes the activity in the loan loss allowance by product for the year ended December 31, 2012:

	<u>Individual</u>	<u>SME</u>	<u>Individual Groups</u>	<u>Nonbusiness</u>	<u>Other</u>	<u>Total</u>
Year ended December 31, 2012:						
Balance at beginning of year	\$ 8,379,622	5,861,708	572,182	1,859	191,916	15,007,287
Provision for loan losses	2,482,345	1,832,755	753,146	181,447	701,079	5,950,772
Loans charged off, net	(2,774,078)	(2,787,792)	(355,367)	(110,136)	(424,690)	(6,452,063)
Foreign currency translation loss	<u>(2,552,183)</u>	<u>(1,052,907)</u>	<u>(161,025)</u>	<u>(48,011)</u>	<u>(131,401)</u>	<u>(3,945,527)</u>
Balance at end of year	<u>\$ 5,535,706</u>	<u>3,853,764</u>	<u>808,936</u>	<u>25,159</u>	<u>336,904</u>	<u>10,560,469</u>
Reserve components:						
Individually evaluated for impairment	\$ 5,598,876	790,494	419,945	9,984	183,017	7,002,316
Collectively evaluated for impairment	<u>(63,170)</u>	<u>3,063,270</u>	<u>388,991</u>	<u>15,175</u>	<u>153,887</u>	<u>3,558,153</u>
Total	<u>\$ 5,535,706</u>	<u>3,853,764</u>	<u>808,936</u>	<u>25,159</u>	<u>336,904</u>	<u>10,560,469</u>
Year ended December 31, 2011:						
Balance at beginning of year	\$ 9,868,308	1,267,009	654,782	—	88,623	11,878,722
Provision for loan losses	852,141	7,519,742	449,013	1,724	112,836	8,935,456
Loans charged off, net	(2,162,809)	(2,633,659)	(472,706)	—	(6,535)	(5,275,709)
Foreign currency translation loss	<u>(178,018)</u>	<u>(291,384)</u>	<u>(58,907)</u>	<u>135</u>	<u>(3,008)</u>	<u>(531,182)</u>
Balance at end of year	<u>\$ 8,379,622</u>	<u>5,861,708</u>	<u>572,182</u>	<u>1,859</u>	<u>191,916</u>	<u>15,007,287</u>
Reserve components:						
Individually evaluated for impairment	\$ 3,761,339	5,425,739	188,514	387	182,641	9,558,620
Collectively evaluated for impairment	<u>4,618,283</u>	<u>435,969</u>	<u>383,668</u>	<u>1,472</u>	<u>9,275</u>	<u>5,448,667</u>
Total	<u>\$ 8,379,622</u>	<u>5,861,708</u>	<u>572,182</u>	<u>1,859</u>	<u>191,916</u>	<u>15,007,287</u>

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The lending activities of OTI's banks are primarily conducted within their respective countries. The following is a summary of loans outstanding, net of the related allowance, by country as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Opportunity Bank Serbia	\$ 62,822,759	51,011,461
Opportunity Mexico	1,181,493	942,731
Opportunity Bank Mozambique	7,035,932	6,854,069
Opportunity Bank Ghana	27,533,933	24,299,848
Opportunity Bank Malawi	11,704,445	20,068,997
Opportunity Bank Rwanda	16,550,055	12,219,430
Opportunity Bank Romania	13,504,134	12,769,573
Opportunity South Africa	3,541,180	4,577,866
Opportunity Kenya	5,054,322	4,884,070
Opportunity Uganda	12,045,757	1,762,734
Opportunity Tanzania	3,138,367	13,576,082
Opportunity DRC	928,500	484,882
Opportunity Colombia	6,357,336	—
Balance at end of year	\$ <u>171,398,213</u>	<u>153,451,743</u>

The following is a summary of expected loan maturities as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Less than 1 month	\$ 21,153,105	25,478,727
From 1 to 3 months	24,540,870	30,554,751
From 3 to 12 months	57,651,662	46,782,529
Over 1 year	68,052,576	50,635,736
Balance at end of year	\$ <u>171,398,213</u>	<u>153,451,743</u>

Aging analysis of gross loans receivable as of December 31, 2012 is as follows:

Current	\$ 164,963,696
30 – 59 days past due	2,914,616
60 – 89 days past due	1,677,471
90 days and over past due	<u>12,402,899</u>
Total gross loans receivable	\$ <u>181,958,682</u>

Loans to employees and officers of these banks totaled \$2,813,064 and \$2,173,228 at December 31, 2012 and 2011, respectively.

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OTI's banks will often make loans to borrowers that would be unable to secure financing from commercial sources. The ability of each borrower to repay its respective bank depends on the entrepreneurial success of each borrower. In addition, payments to OTI banks depend on the economic and political environment of each locality in which loans are made.

OTI's banks carry their impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate. The balance of impaired loans at OTI's banks at December 31, 2012 and 2011 was \$32.1 million and \$19.3 million, respectively. Impaired loan statistics at December 31, 2012 are summarized in the following table:

	<u>Amount with impairment reserves</u>	<u>Amount without impairment reserves</u>	<u>Total impaired loans</u>	<u>Impairment reserve</u>	<u>Interest income recognized</u>
Individual	\$ 15,829,500	958,191	16,787,691	1,618,029	308,218
SME	2,598,311	109,767	2,708,078	2,809,046	—
Groups	7,551,563	4,456,142	12,007,705	633,813	38,786
Nonbusiness	504,707	43,516	548,223	832	466
Other	14,905	47,241	62,146	2,365	255
Total	<u>\$ 26,498,986</u>	<u>5,614,857</u>	<u>32,113,843</u>	<u>5,064,085</u>	<u>347,725</u>

Troubled debt restructurings represent loans for which the original contractual terms have been modified to provide for terms that are less than what we would be willing to accept for new loans with comparable risk because of deterioration in the borrower's financial condition. Loan restructurings occur for reasons including delinquency or anticipation of financial difficulty due to seasonal issues or natural disasters (such as the earthquake in Kraljevo Serbia). Modifications may include one or more of the following changes to the terms of the loan, including, but not limited to, a change in interest rate, reduction in the payment amount, or an extension of the reimbursement period. Once a loan is restructured, loss provision is determined in the same manner as that of a regular loan. The following table presents information about receivables which were modified during the year ended December 31, 2012 and as a result became classified as TDR's:

	<u>Amount with Allowance</u>	<u>Amount without Allowance</u>	<u>Total TDR Loans</u>	<u>Related Allowance</u>	<u>Average TDR Balance</u>	<u>Interest income recognized</u>
In individual	\$ 3,629,783	—	3,629,783	627,785	8,808	823
SME	1,486,843	264,611	1,751,454	1,093,274	622,016	52,202
Total	<u>\$ 5,116,626</u>	<u>264,611</u>	<u>5,381,237</u>	<u>1,721,059</u>	<u>630,824</u>	<u>53,025</u>

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The commercial microfinance banks in which OTI holds an interest are exposed to a number of risks. The following outlines some of these risks:

**(a) Credit Risk**

Credit risk is the risk of financial loss arising from the failure of a customer to settle financial obligations to the bank as they fall due. This is an inherent risk associated with the microfinance industry. OTI's financial institutions manage exposure to credit risk on a regular basis by closely monitoring credit limits, loan portfolios and concentration of exposure. Credit policies cover collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

**(b) Foreign Currency Risk**

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates. The risk is controlled by each OTI financial institution by managing the size of the difference in value between foreign assets and foreign liabilities. The exposure to exchange rate risk is continually monitored to ensure compliance with regulatory and bank policy limits.

**(c) Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. OTI financial institutions manage interest rate risk by monitoring market conditions and applying pricing based on the cost analysis of each product. The majority of loans are short-term in nature; about 60% and 67% are due within one year as of December 31, 2012 and 2011, respectively.

**(d) Liquidity Risk**

Liquidity risk is the risk that the banks will encounter difficulty in raising funds to meet the commitment associated with financial instruments. Each country has minimum capital requirements that the microfinance institutions must adhere to. Additionally, each institution monitors liquidity on a daily basis to meet its internal liquidity requirements. Total cash on hand of the combined banks is \$66 million and \$64 million as of December 31, 2012 and 2011, respectively, which is 23% and 24% of total assets of the combined banks in 2012 and 2011, respectively.

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**(10) Deposits from Customers**

Deposits from customers as of December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Opportunity Bank Mozambique:		
Demand deposits	\$ 3,808,042	3,227,324
Short-term deposits	1,037,728	812,494
Total Opportunity Bank Mozambique	<u>4,845,770</u>	<u>4,039,818</u>
Opportunity Bank Serbia:		
Demand deposits	9,937,011	2,738,925
Short-term deposits	24,457,835	24,599,864
Long-term deposits	16,712,289	6,581,860
Total Opportunity Bank Serbia	<u>51,107,135</u>	<u>33,920,649</u>
Opportunity Bank Ghana:		
Demand deposits	3,525,915	2,404,198
Short-term deposits	14,255,254	12,301,815
Long-term deposits	8,202,521	6,488,337
Total Opportunity Bank Ghana	<u>25,983,690</u>	<u>21,194,350</u>
Opportunity Kenya:		
Demand deposits	2,620,770	2,477,945
Opportunity Bank Malawi:		
Demand deposits	17,827,915	31,158,530
Short-term deposits	3,231,172	8,293,437
Total Opportunity Bank Malawi	<u>21,059,087</u>	<u>39,451,967</u>
Opportunity Bank Rwanda:		
Demand deposits	10,491,686	7,852,895
Short-term deposits	245,397	174,461
Total Opportunity Bank Rwanda	<u>10,737,083</u>	<u>8,027,356</u>
Opportunity Uganda:		
Demand deposits	2,754,121	2,273,247
Short-term deposits	1,440,960	1,394,833
Long-term deposits	193,314	98,906
Total Opportunity Uganda	<u>4,388,395</u>	<u>3,766,986</u>
Opportunity Tanzania:		
Demand deposits	836,670	586,209

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	<u>2012</u>	<u>2011</u>
Opportunity DRC:		
Demand deposits	\$ 283,807	170,034
Opportunity Colombia		
Demand deposits	180,972	—
Short-term deposits	4,601,164	—
Long-term deposits	75	—
Total Opportunity Colombia	<u>4,782,211</u>	<u>—</u>
Total deposits from customers	\$ <u>126,644,618</u>	<u>113,635,314</u>

**(11) Notes Payable**

Notes payable as of December 31, 2012 and 2011 include the following:

	<u>2012</u>	<u>2011</u>
Banking notes payable:		
Opportunity Bank Serbia:		
Note payable, 7.70% interest, maturity – equal semiannual installments from July 2009 to January 2013	\$ 66,306	710,192
Note payable, 6-month Euribor + 5.50% interest, maturity – equal semiannual installments from January 2011 to January 2014	2,841,331	4,611,681
Note payable, 5.50% interest, maturity – equal annual installments from March 2015 to March 2020	7,955,724	7,747,608
Note payable, 8.78% interest until 2014; 12.68% interest thereafter, maturity July 2018 to December 2018	7,955,745	7,747,620
Note payable, 7.5% interest – equal semiannual installments from June 2013 to June 2014	1,325,945	1,291,262
Note payable, 12-month Euribor + 1.5% interest, maturity – January 2015	662,976	645,629
Note payable, 7.75% interest, maturity Jan 2013 – July 2014	<u>2,651,905</u>	<u>—</u>
Subtotal Opportunity Bank Serbia	<u>23,459,932</u>	<u>22,753,992</u>
Opportunity Bank Ghana:		
Note payable, 5.00% interest, maturity September 2013	484,529	506,924
Note payable, 12.5% interest, maturity November 2013	20,288	23,881
Note payable, 15% interest, maturity July 2014	1,050,400	1,236,400

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
Note payable, 182 day T-bill rate + 4.70% interest, maturity September 2014	\$ 751,830	1,108,519
Note payable, 16.00% interest, maturity May 2015	1,301,971	—
Note payable, 18.00% interest, maturity September 2014	1,970,025	—
Subtotal Opportunity Bank Ghana	<u>5,579,043</u>	<u>2,875,724</u>
Opportunity Bank Malawi:		
Note payable, 8.50% interest, maturity March 2012	—	3,110,000
Note payable, 0.00% interest, maturity March 2013	880,218	1,264,682
Note payable, 7.00% interest, maturity December 2012	—	3,043,720
Note payable, 9.00% interest, maturity January 2012	—	3,043,664
Note payable, 2.50% interest, maturity June 2012	—	101,461
Note payable, 8.5% interest, maturity June 2012	—	3,078,900
Note payable, 9.0% interest, maturity September 2012	—	3,043,707
Subtotal Opportunity Bank Malawi	<u>880,218</u>	<u>16,686,134</u>
Opportunity Mozambique:		
Note payable, 21.00% interest, maturity June 2012	—	775,355
Note payable, FPC + 3.00% interest, maturity December 2012	—	42,665
Note payable, 14.00% interest, maturity October 2014	475,440	792,540
Note payable, 5.00% interest, maturity December 2016	—	286,617
Subtotal Opportunity Mozambique	<u>475,440</u>	<u>1,897,177</u>
Opportunity Kenya:		
Note payable, 2.00% interest, maturity March 2012	—	85,813
Note payable, 14.00% interest, maturity July 2014	589,840	603,980
Subtotal Opportunity Kenya	<u>589,840</u>	<u>689,793</u>
Opportunity South Africa:		
Note payable, 0.00% interest, maturity December 2013	590,000	—
Opportunity Uganda:		
Note payable, interest T-bill rate +5% but never less than 14.00%, maturity September 2012	—	335,455
Note payable, 13.20% interest, maturity July 2012	—	312,410
Note payable, 13.20% interest, maturity December 2013	380,000	820,000
Note payable, 13.00% interest, maturity September 2013	213,637	537,840

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
Note payable, 13.00% interest, maturity March 2014	\$ 108,572	585,715
Note payable, 12.00% interest, maturity June 2014	621,818	1,118,182
Note payable, 15.30% interest, maturity June 2014	932,915	1,677,610
Note payable, 14.00% interest, 1st quarter then T-bill rate + 2.75% up to max of 12.00%, maturity May 2017	<u>1,140,000</u>	<u>—</u>
Subtotal Opportunity Uganda	<u>3,396,942</u>	<u>5,387,212</u>
Opportunity Rwanda:		
Note payable, T-bill rate + 5.50% interest, maturity November 2013	1,469,735	1,514,819
Note payable, 12.00% interest, maturity November 2013	2,192,539	1,014,013
Note payable, 6.00% interest + SWAP cost, maturity December 2014	490,750	505,803
Note payable, 12.00% interest, maturity December 2014	—	971,040
Note payable, 5.00% interest, maturity May 2016	187,494	193,245
Note payable, 12.10% interest, maturity April 2012	<u>—</u>	<u>1,010,105</u>
Subtotal Opportunity Rwanda	<u>4,340,518</u>	<u>5,209,025</u>
Opportunity Romania:		
Note payable, 10.50% interest, maturity June 2013	975,950	983,155
Note payable, 10.50% interest, maturity December 2013	975,950	983,155
Note payable, 6-month Bubor + 3.00%, maturity March 2013	151,980	153,102
Note payable, 6-month Bubor + 4.00%, maturity September 2013	579,312	583,589
Note payable, Euro Swap Rate + 5.17% maturity June 2013	1,759,690	1,729,452
Note payable, 3-month Bubor + 4.60% maturity January 2013	366,838	739,393
Note payable, 3-month Bubor + 4.6%, maturity May 2013	998,896	1,006,270
Note payable, 6-month Bubor + 4.6%, maturity May 2015	1,319,753	1,296,564
Note payable, 6-month Euribor + 4.00% maturity February 2016	659,876	648,132
Note payable, 6-month Bubor + 4.6%, maturity November 2013	<u>476,800</u>	<u>—</u>
Subtotal Opportunity Romania	<u>8,265,045</u>	<u>8,122,812</u>

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
Opportunity Colombia		
Note payable, 9.13% interest, maturity November 2014	\$ 335,960	—
Note payable, 8.73% interest, maturity December 2014	182,400	—
Note payable, 8.73% interest, maturity November 2014	273,125	—
Note payable, 9.16% interest, maturity November 2014	163,875	—
Note payable, 8.91% interest, maturity November 2015	36,298	—
Note payable, 8.91% interest, maturity November 2014	112,254	—
	<hr/>	<hr/>
Subtotal Opportunity Colombia	1,103,912	—
	<hr/>	<hr/>
Total banking notes payable	48,680,890	63,621,869
	<hr/>	<hr/>
Charitable notes payable:		
Note payable, 0.00% interest, maturity July 2013	250,000	250,000
Note payable, 3.00% interest, maturity December 2012	—	154,500
Note payable, 5.00% interest, maturity July 2017	117,682	—
Note payable, 3.00% interest, maturity August 2013	1,000,000	—
Notes payable, 1.0% interest, maturity November 2016	10,000,000	10,000,000
Note payable, 15.75% interest on KES/MZN prime +3.75% interest on MZN, maturity October 2014	2,562,720	2,698,435
Note payable, 3.25% interest, maturity September 2012	—	400,000
Note payable, 3.25% interest, maturity September 2012	—	200,000
Note payable, 3.00% interest, maturity September 2012	—	100,000
Note payable, 3.25% interest, maturity September 2012	—	100,000
Note payable, 2.75% interest, maturity September 2012	—	100,000
Note payable, 2.00% interest, maturity September 2012	—	250,000
Note payable, 3.00% interest, maturity September 2013	100,000	100,000
Note payable, 3.00% interest, maturity September 2013	1,000,000	1,000,000
Note payable, 2.00% interest, maturity September 2013	125,000	125,000
Notes payable, 2.00% interest, maturity December 2013	2,000,000	2,000,000
	<hr/>	<hr/>
Total charitable notes payable	17,155,402	17,477,935
	<hr/>	<hr/>
Total notes payable	\$ 65,836,292	81,099,804
	<hr/> <hr/>	<hr/> <hr/>

The banking notes payable are the obligations of each individual bank. These borrowings are nonrecourse to OTI.

On November 22, 2006, OTI entered into a \$10 million loan agreement with the Gates Foundation. The proceeds are used to support microfinance initiatives in the impoverished regions in Africa. As of December 31, 2012 and 2011, there were \$8,500,000 in notes receivable outstanding to six majority-owned partners in Africa, with terms in accordance with the Gates Foundation agreement, which were eliminated in consolidation.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2012  
(with comparative totals for 2011)

On October 2, 2011, OTI entered into a \$2.5 million loan agreement with Minlam, a microfinance lending company, which provides loans in local currency. The proceeds are used to support microfinance initiatives in Kenya and Mozambique. As of December 31, 2012, \$1,000,000 and \$1,500,000 in note receivables were outstanding from Opportunity Kenya and Opportunity Mozambique, respectively, which were eliminated in consolidation. As of December 31, 2011, \$1,000,000 in a note receivable from Opportunity Kenya was outstanding, which was eliminated in consolidation.

As of December 31, 2012, the rights of the note holder of two \$1,000,000 notes with 2% interest maturing December 2013 have been subordinated to the rights of the other former Loan Guarantee Fund note holders. The remaining \$1,225,000 of notes payable is senior to these subordinated notes in priority of payment. Interest payments on the subordinated debt may be deferred at the election of OTI but all interest has been paid as of December 31, 2012.

Aggregate maturities of notes payable as of December 31, 2012 are as follows:

2013	\$	20,085,627
2014		13,292,768
2015		5,177,328
2016		12,173,322
2017		2,583,634
Thereafter		<u>12,523,613</u>
Total notes payable	\$	<u><u>65,836,292</u></u>

#### (12) Lines of Credit

Opportunity has entered into a line of credit agreement with one bank providing for borrowings up to \$5,250,000. The line has an interest rate based on the three-month LIBOR (London Interbank Offered Rate) plus 1.50%. The assets of the Cornerstone Fund provide collateral for this line. As of December 31, 2012 and 2011, there was no balance outstanding under this line of credit.

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

**(13) Noncontrolling Interest**

Below is the activity in noncontrolling interest for the year ended December 31, 2012:

	<u>Beginning balance</u>	<u>Interest in net gain (loss) of consolidated subsidiaries</u>	<u>Increase (decrease) in share capital</u>	<u>Ending balance</u>
Opportunity Bank Ghana	\$ 2,602,560	33,215	17,000	2,652,775
Opportunity Kenya	(943,083)	(26,671)	—	(969,754)
Opportunity Bank Malawi	2,338,157	(2,726,551)	1,955,868	1,567,474
Opportunity Mexico	(19,231)	—	—	(19,231)
Opportunity Bank Mozambique	345,714	(391,432)	1,156,240	1,110,522
Opportunity Romania	2,117,679	66,012	(268,267)	1,915,424
Opportunity Bank Rwanda	1,800,392	264,342	513,275	2,578,009
Opportunity Bank Serbia	5,758,878	(90,615)	—	5,668,263
Opportunity South Africa	1,246,762	(249,122)	—	997,640
Opportunity Tanzania	1,559,146	(113,443)	726,770	2,172,473
Opportunity Uganda	861,653	(54,849)	403,740	1,210,544
Opportunity Colombia	—	(818,599)	3,115,095	2,296,496
Microensure LLC	224,284	—	—	224,284
Total	\$ <u>17,892,911</u>	<u>(4,107,713)</u>	<u>7,619,721</u>	<u>21,404,919</u>

**(14) USAID Agreements**

Opportunity entered into funding agreements with the United States Aid for International Development (USAID) over various periods for microenterprise development purposes in overseas countries as follows:

<u>Program</u>	<u>Total grant</u>	<u>Funds received through December 31, 2012</u>	<u>Completion date</u>
Serbia 2003	\$ 9,966,025	9,966,025	September 2018
Ghana Implementation Grant Program	1,189,120	727,312	July 2012

Included in the charitable funds accrued liabilities is \$8,000,000, payable to USAID upon the termination of the Serbia 2003 Cooperative Agreement. See note 18(b) for further information.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

#### (15) Commitments and Contingencies

##### (a) *Lease Obligations*

Opportunity leases office space in Illinois, New York, Pennsylvania, and Washington D.C. under operating leases. MicroEnsure leases office space in Cheltenham, United Kingdom. The Illinois lease was renewed in May 2011 and expires August 31, 2014. The other offices are rented on a month-to-month basis. Rent expense for the years ended December 31, 2012 and 2011 was approximately \$532,618 and \$548,056, respectively. Future minimum operating lease payments as of December 31, 2012 are as follows:

2013	\$	485,166
2014		423,588
2015		298,263
2016		70,787
2017		70,561
Thereafter		<u>26,816</u>
Total	\$	<u><u>1,375,181</u></u>

The banks lease office space and equipment in the various countries in which they are located under operating leases. Rent expense for the years ended December 31, 2012 and 2011 was \$3,464,127 and \$2,628,372, respectively. Future minimum operating lease payments as of December 31, 2012 are as follows:

2013	\$	2,080,020
2014		1,924,202
2015		1,428,445
2016		1,090,030
2017		1,003,951
Thereafter		<u>1,038,268</u>
Total	\$	<u><u>8,564,916</u></u>

##### (b) *Government Grants*

The amount of U.S. government grant revenue reflected in the accompanying consolidated financial statements is subject to review and possible adjustment by granting agencies. Amounts recovered from the U.S. government include indirect costs based upon calculated overhead rates, which are subject to possible increases or decreases under audit by the granting agencies. The amount of costs that may be disallowed by the granting agencies cannot be determined at this time. It is the opinion of management that unallowable costs, if any, will be insignificant.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2012  
(with comparative totals for 2011)

Certain of the grant agreements with the U.S. government have fiscal matching requirements to satisfy the conditions of the grant. Opportunity contractually passes those fiscal matching requirements through to its nongovernmental organizational partners. Opportunity management believes its nongovernmental organizational partners have satisfied those matching requirements.

#### (c) *Reserve and Regulatory Capital Requirements*

OTI's foreign for profit microfinance companies have certain regulatory capital requirements that they must maintain.

The Bank of Ghana requires Opportunity Bank Ghana to maintain a prescribed ratio of total capital to total risk weighted assets. A minimum capital adequacy ratio of 10% must be maintained. As of December 31, 2012 and 2011, Opportunity Bank Ghana met these regulatory requirements.

The Reserve Bank of Malawi requires Opportunity Bank Malawi to maintain a 1% general provision against risk assets and a minimum capital of 8% of risk-weighted assets. As of December 31, 2012 and 2011, Opportunity Bank Malawi met these regulatory requirements.

The Central Bank of Mozambique requires Opportunity Bank Mozambique maintain a reserve of 8% of total qualifying liabilities in terms of Law number 02/GBM/2012 of July 4, 2012 and to maintain a prescribed ratio of total capital to total risk-weighted assets of not less than 8%. As of December 31, 2012 and 2011, Opportunity Bank Mozambique met these regulatory requirements.

The National Bank of Rwanda requires Opportunity Bank Rwanda to maintain minimum reserves of 8% of deposits, 100% liquidity of three-month assets to three-month liabilities, and 10% capital adequacy. As of December 31, 2012 and 2011, Opportunity Bank Rwanda met these regulatory requirements.

Opportunity Bank Serbia is required to maintain a minimum capital adequacy ratio of 12% as established by the National Bank of Serbia. Pursuant to the Law on Banks and Other Financial Institutions, savings banks registered in Serbia are required to maintain total qualifying capital at a minimum amount of €10 million in dinar counter value. As of December 31, 2012 and 2011, Opportunity Bank Serbia met these regulatory requirements.

Opportunity Uganda is required to maintain a core capital ratio of 8% and a total capital ratio of 12% under the Financial Institutions Act 2004 of Uganda. As of December 31, 2012 and 2011, Opportunity Uganda met these regulatory requirements.

#### (d) *Guarantees*

As of December 31, 2012 OTI had a total of three outstanding collateral support agreements. OTI has determined that there is no fair value liability associated with these support agreements because there was no net savings to the banks in 2012, as the amounts paid to OTI for the collateral agreement exceeded what the cost would have been had the bank obtained the financing elsewhere without the collateral support agreement. OTI had stand-by letters of credit outstanding in the amount of \$1,267,941 as of December 31, 2012 and 2011, respectively, which is equivalent to the maximum potential future payments OTI could be required to make under the guarantees. The

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

expiration dates of the stand-by letters of credit range from January 1, 2013 to November 30, 2013. OTI has not recorded any liability for the draws on the stand-by letters of credit because OTI does not believe such guarantees are likely to be drawn.

#### **(16) Employee Benefit Plan**

All domestic and expatriate employees of Opportunity who have completed three months of service are eligible to participate in a defined-contribution benefit plan (403(b) plan) sponsored by Opportunity. Participants are eligible to make individual contributions up to a limit determined by age and salary level. Benefit expense amounted to \$485,840 and \$502,700 for the years ended December 31, 2012 and 2011, respectively.

#### **(17) Related-Party Transactions**

Included in program services in the consolidated statement of activities are grant expenses of \$10,481,554 and \$13,497,639 in 2012 and 2011, respectively, which relate to disbursements made by Opportunity to its affiliated partner organizations.

Certain key employees and board members affiliated with Opportunity and the microfinance institutions own portions of the minority interest in the microfinance banks. During the years ended December 31, 2012 and 2011, these individual ownership positions did not exceed 0.32% of the common stock outstanding in each microfinance bank.

Notes payable totaling \$125,000 as of December 31, 2012 and 2011 were due to a board member of Opportunity.

#### **(18) Subsequent Events**

##### **(a) Amended Shareholder Agreement**

Under the terms of a shareholder agreement, originally dated September 14, 2006 and amended September 27, 2012 between Opportunity Transformation Investments, Inc. (OTI), its subsidiary Opportunity Bank Serbia (OBS) and three other noncontrolling shareholders, the noncontrolling interest owners have the right to require OTI to purchase (the Put Option) their interest (a total of approximately 36.5%) of the outstanding capital stock of OBS. The Put Option is exercisable from March 31, 2014 to March 31, 2019, provided there has not been a strategic investor in OBS or an exit initial public offering. The price paid upon exercise will be determined based on the greater of established multiples of OBS capital shares and the exchange rate of Serbian Dinar to Euro as calculated on September 30, 2012. Accordingly, Opportunity recorded approximately \$1.98 million in the investment in other financial institutions and in accrued liabilities in the accompanying consolidated statement of financial position. In order to satisfy the terms of this shareholder agreement, Opportunity is exploring strategic alternatives, such as identifying a strategic investor and a possible initial public offering.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2012

(with comparative totals for 2011)

**(b) Amended Grant Agreement**

On August 29, 2013, Opportunity and USAID agreed to an amendment of the 2003 Serbia Cooperative agreement, which extended the termination date from September 27, 2013 to September 27, 2018 or when special provisions are met, whichever is sooner. The agreement provides required steps leading to the final disposition of Opportunity's requirement to return the \$8,000,000 capital contribution or accomplishment of specific milestones which will satisfy Opportunity's requirement for repayment of the \$8,000,000, which has been accrued through December 31, 2012.

**(c) MicroEnsure LLC**

On January 7, 2013 Opportunity exchanged substantially all the assets and liabilities of MicroEnsure for 100% of the shares of MicroEnsure Holding Limited, a limited company organized under the laws of England and Wales on November 16, 2012 (MEHL). On January 16, 2013 additional capital was contributed by new investors which diluted Opportunity's percentage of ownership to 22% of MEHL. Opportunity's divestiture of MicroEnsure was a strategic move to bring additional capital and relationships required to scale the MicroEnsure business with continued rapid growth to serve more clients in need.

**(d) Sale of Opportunity Mexico**

On April 30, 2013, Opportunity entered into a share purchase agreement to sell and transfer all of its shares in Opportunity Mexico for a total purchase price of \$550,000. Purchase price is to be paid by buyer in two installments: \$200,000 and \$350,000 on the second and third anniversary of the closing date, respectively.

**(e) Exchange Rate Fluctuations (Unaudited)**

Through September 30, 2013, exchange rates fluctuated such that foreign assets and liabilities decreased in value by approximately \$10.3 million and \$7.7 million, respectively, resulting in a decrease in net assets of approximately \$2.6 million due solely to exchange rate.

**(f) Reserve and Regulatory Capital Requirements (Unaudited)**

As of September 30, 2013, OTI's foreign for-profit microfinance companies in Ghana, Malawi, Mozambique, Rwanda, Serbia and Uganda met the regulatory requirements in their respective countries.

**(g) Debt Extension – Opportunity Romania (Unaudited)**

The management of Opportunity Romania (OMRO) has finalized negotiations with their external lenders that resulted in an extension of terms by 12 months for 60% of all notes due and postponement of payments due during the period April to July 2013 until October 2014. OMRO has also entered into a loan agreement with a new lender, Banca Transilvania (BT) which is expected to be finalized in November 2013.