Banco de los Trabajadores

Financial Statements

December 31, 2018

(With the Independent Auditors' Report)

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KPMG

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Guatemala, C.A.

Independent Auditor's Report

To the Shareholders of Banco de los Trabajadores:

Opinion

We have audited the financial statements of Banco de los Trabajadores (hereinafter referred to as the "Bank"), which comprise the statement of financial position as at December 31, 2018, and the statements of them, statement of changes in equity and statement of cash flows for the year ended and notes to the financial statements, numbered from 1 to 37 which includes a summary of the significant accounting policies. These financial statements have been prepared by the management of the Bank according to the Manual of Accounting Instructions for Entities Subject to the Surveillance and Inspection of the Superintendency of Banks issued by the Monetary Board.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Banco de los Trabajadores as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with the Manual of Accounting Instructions for Entities Subject to Surveillance and Inspection of the Superintendency of Banks issued by the Monetary Board of the Republic of Guatemala, as described in notes 2 and 3 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and resolutions performed by College of Certified Public Accountants and Auditors of Guatemala used for the regulated sector. Our responsibilities under those standards are further described in Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Guatemala, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw attention to notes 2 and 3 to the financial statements, which describe the accounting base used in their preparation. The financial statements have been prepared according to the accounting base established in the Manual of Accounting Instructions for Entities Subject to Surveillance and Inspection of the Superintendence of Banks, which differs in some aspects from the International Financial Reporting Standards as described in note 37. Our audit conclusion have not modified in related to this matter.

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Klynveld Peat Marwick Goerdeler, S.A. es una sociedad anónima guatemalteca y firma miembro de la red de firmas miembro independientes de KPMG afiliadas a KPMG International Cooperative ("KPMG International"), una entidad suiza.

Key Audit Matters
The key matters in audit are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion of these matters.

Loan portfolio (estimate on valuation note 6)

The key audit matter	*How was the matter addressed in our audit*
The valuation estimate of loan's portfolio is a key matter due to relative importance that has on financial statements the loan's portfolio and the valuation related. The risk is that the calculation to determine the amount of the valuation estimate may contain an error. The determination of the loan's portfolio estimate made by the management is base on the following: in payment default of customers and the application of the required guidelines in the Regulation to Manage Credit Risk approved by the Monetary Board of Guatemala, Resolution JM-93-2005 of May 23, 2005 and its modifications according to Resolution JM-167-2008.	In planning and execution of our audit we considered the valuation estimate of loan's portfolio as a major relevance account, our procedures included: • Get an understanding of Bank control environment. • Evaluate and test the controls designed to determine customer's payment default. • Recalculate base on the guidelines required for loan portfolio. • Inspect the documentation that contains the authorization to apply the loans against the estimate on valuation of loan portfolio. • Inspect collections received on the agreed dates. • Consider the appropriate disclosures in financial statements performed by management.

Other Matter
The bank's financial statements for the year ended on December 31, 2017 were audited by another independent auditor, who expressed an unqualified opinion on January 29, 2018.

Responsibilities of Management and Those charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Manual of Accounting Instructions for Entities Subject to the Surveillance and Inspection of the Superintendence of Banks issued by the Monetary Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Bank´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank´s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing - ISA and resolutions issued by the College of Public Accountants and Auditors of Guatemala for the regulated financial sector will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an Audit in accordance with International Standards on Auditing - ISA and the resolutions issued by the College of Public Accountants and Auditors of Guatemala for the regulated financial sector, we exercise professional judgment and maintain professional skepticism throughout the audit. We Also:

- Identified and assess the risks of material misstatement of the financial statements, whether due to fraud of error, we design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtained an understanding of internal control relevant to the audit 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 Bank´s internal control.

- Evaluate the appropriatenessof accounting policies used an the reasonableness of accounting estimates and related disclosures made by management.

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the Bank ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw the attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to continue as a going concern.

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- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Arturo José Aldana A.
CPA No. – 1379

February 6, 2019

KPMG

Balance Sheet

As of December 31, 2018 and 2017
(Figures expressed in Quetzales)

	2018 Q	2017 Q
Assets		
Cash (note 4)	3,175,155,410	3,034,573,936
Investments, net (note 5)	7,537,227,762	5,818,038,103
Loans portfolio, net (note 6)	13,062,519,525	11,848,442,871
Financial products receivable (note 7)	336,173,827	277,637,650
Accounts receivable, net (note 8)	20,983,615	37,580,478
Foreclosed assets, net (note 9)	45,892,899	67,923,365
Permanent investments, net (note 10)	73,886,172	73,886,172
Property and equipment, net (note 11)	177,613,365	168,925,359
Deferred charges, net (note 12)	185,927,613	241,038,668
	24,615,380,188	21,568,046,602
Liabilities, Other Credit Accounts and Equity		
Deposit obligations (note 13)	19,652,386,153	17,165,767,625
Loans obtained (note 14)	1,160,542,500	1,101,715,500
Financial obligations (note 15)	598,000	838,000
Financial expenses payable (note 16)	30,675,964	11,854,720
Accounts payable (note 17)	625,217,658	607,952,223
Provisions (note 18)	50,990,131	116,430,952
Deferred credits (note 19)	92,737,615	233,149
Total liabilities	21,613,148,021	19,004,792,169
Other credit accounts (note 20)	293,765,007	247,935,171
Total liabilities and other credit accounts	21,906,913,028	19,252,727,340
Equity (notes 21 and 22)	2,708,467,160	2,315,319,262
Commitments and contingencies (note 33)		
	24,615,380,188	21,568,046,602
Contingencies, commitments, other liabilities and memorandum accounts (note 30)	17,349,657,530	15,850,592,729

See accompanying notes to the financial statements.

Statement of Income

Year ended at December 31, 2018 and 2017
(Figures expressed in Quetzales)

	2018 Q	2017 Q
Financial income (note 23)	3,073,300,396	2,738,868,633
Financial expenses (note 23)	(1,579,609,230)	(1,316,615,839)
Net financial income	1,493,691,166	1,422,252,794
Service income (note 24)	38,232,914	197,492,828
Services expenses (note 24)	(39,595,667)	(73,834,531)
Net services income	(1,362,753)	123,658,297
Other operating income and expenses, (note 25):		
Other operating income	28,486,491	21,230,483
Uncollectible and doubtful accounts (note 6)	(164,793,718)	(74,694,720)
Other operating expenses	(10,294,838)	(102,337)
Other operating income and expenses, net	(146,602,065)	(53,566,574)
Gross operating margin	1,345,726,348	1,492,344,517
Administrative expenses (note 26)	(834,005,596)	(953,568,055)
Operating margin, net	511,720,752	538,776,462
Extraordinary income and expenses, net (note 27)	30,295,143	18,239,508
Income and expenses from previous periods, net (note 28)	21,988,830	7,581,280
Gross income	564,004,725	564,597,250
Income tax expense (note 29)	(51,159,233)	(73,645,198)
Net income	512,845,492	490,952,052

See accompanying notes to the financial statements.

Statement of Changes in Equity

Year ended at December 31, 2018 and 2017
(Figures expressed in Quetzales)

	2018 Q	2017 Q
Equity:		
Paid-in capital (note 21):		
Common shares:		
Balance at the beginning of period	42,258,840	42,253,770
(Decrease) increase in capital	(5,420)	5,070
Balance at period end	42,253,420	42,258,840
Preferred shares:		
Balance at the beginning of period	157,597,290	157,597,290
Decrease in capital	(15,000)	-
Balance at period end	157,582,290	157,597,290
Permanent contributions:		
Balance at the beginning and end of period	8,011	8,011
Capital reserves:		
Legal reserve (note 3n):		
Balance at the beginning of period	120,936,549	99,172,729
Transfer of earnings from previous periods	24,547,603	21,763,820
Balance at period end	145,484,152	120,936,549
Reserve for contingencies (note 22):		
Balance at the beginning of period	151,017,321	2,717,708
Transfer of earnings from previous periods	108,388,290	155,799,613
Transfer from reserve for assets revaluations	-	(7,500,000)
Balances applied in period	(66,246,370)	-
Balance at year end	193,159,241	151,017,321
Reserve for reinvestment of profit		
Balance at the beginning and end of period	2,927,808	2,927,808
Carried forward	541,414,922	1,777,551,970

(Continue)

Statement of Changes in Equity

	2018 Q	2017 Q
Brought forward	541,414,922	1,777,551,970
Other reserves:		
Balance at the beginning of period	1,302,806,151	1,069,124,105
Transfer of earnings from previous periods	325,164,868	233,699,420
Transfer of dividends from own shares held by the Republic of Guatemala	60,000	60,000
Dividends paid from previous periods	(6,369)	(77,374)
Balance at period end	1,628,024,650	1,302,806,151
Revaluation of Assets:		
Balance at beginning of period	42,030,528	45,161,118
Depreciation of current period (note 11)	(3,130,590)	(3,130,590)
Balance at period end	38,899,938	42,030,528
Fair value on available for sale investments:		
Balance at beginning of period	4,784,712	(3,967,238)
Movement of the year	(17,502,554)	8,751,950
Balance at period end	(12,717,842)	4,784,712
Earnings from previous periods:		
Balance at beginning of period	490,952,052	435,276,399
Net income	512,845,492	490,952,052
	1,003,797,544	926,228,451
Less:		
Transfer to other reserves	(325,164,868)	(233,699,420)
Transfer to reserve for contingencies	(108,388,290)	(155,799,613)
Transfer to legal reserve	(24,547,603)	(21,763,820)
Dividends decreed (note 22)	(24,014,154)	(24,013,546)
Board of Directors bonus (note 22)	(8,837,137)	-
	(490,952,052)	(435,276,399)
Balance at period end	512,845,492	490,952,052
Total equity	2,708,467,160	2,315,319,262

See accompanying notes to the financial statements.

Statement of Cash Flows

Year ended December 31, 2018 and 2017
(Figures expressed in Quetzales)

	2018 Q	2017 Q
Cash flow from operating activities:		
Interest collection	2,970,480,655	2,706,875,061
Commission collection	71,061,651	29,816,185
Service collection	38,232,915	197,492,828
Payment for interests	(1,525,452,932)	(1,257,041,251)
Payment for services	(39,595,667)	(73,834,531)
Payments for administrative expenses	(783,757,090)	(953,568,055)
Exchange gain (net)	-	4,862,328
Lost from the holding or use of foreclosed assets	-	(1,678,839)
Investment in securities:		
Income from divestment	109,413,274,602	43,591,373,478
Disbursements from investments	(110,138,621,628)	(43,870,653,707)
Loan portfolio:		
Income from amortizations	2,555,590,158	7,038,810,590
Disbursements from loans	(3,762,781,825)	(8,475,658,523)
Deposit obligations:		
Income from depositors	7,094,870,802	30,371,428,332
Disbursements from withdrawals of deposits	(7,607,461,904)	(27,563,529,979)
Loans obtained:		
Income from loans	-	12,070,500
Disbursements from amortization of loans	-	(38,674,500)
Financial obligations:		
Cash from placement	-	3,753,996
Sale of foreclosed assets	21,598,231	-
Income tax paid	(48,780,697)	(60,517,782)
Other income and expenses (net):	2,316,260,644	(5,508,335)
Net cash flows coming from operating activities	574,917,915	1,655,817,796
Cash flow from investment activities:		
Dividends received	27,073,215	12,009
Income for sale of property and equipment	15,640	13,373,000
Disbursement for purchase of property and equipment	(29,246,921)	(17,748,630)
Net cash flows used in investments activities	(2,158,066)	(4,363,621)
Carried forward	572,759,849	1,651,454,175

(Continue)

Statements of Cash Flows

	2018 Q	2017 Q
Brought forward	572,759,849	1,651,454,175
Cash flows from financing activities:		
Dividends paid	(1,829,270)	(3,195,140)
Board of Directors bonus	(8,837,137)	-
Return of shares	(22,550)	(5,070)
Net cash flows used in financing Activities	(10,688,957)	(3,200,210)
Net increase of cash and cash equivalents	562,070,892	1,648,253,965
Cash and cash equivalents at the beginning of year	3,034,573,936	1,386,319,971
Cash and cash equivalents at period end	3,596,644,828	3,034,573,936

Complementary information

The following is a summary of cash and cash equivalents:

	Q
Cash (note 4)	3,175,155,410
Investments (note 5)	421,489,418
	3,596,644,828

See accompanying notes to the financial statements.

Notes to the Financial Statements

December 31, 2018 and 2017

1 Operations

Banco de los Trabajadores (the "Bank") was organized under decree of law number 383 of October 1, 1965 and its modifications, in which, a bank institution is set with special nature, legal person and own capital with the main objective to promote the economic development and well-being of workers.

Its operations relate to banking and are governed, sort by importance the following Guatemalan laws: Organic Law of Banco de los Trabajadores, Law of Banks and Financial Groups and, as applicable, the Monetary Law, Law of Financial Supervision, Law against the Laundering of Money and Other Assets, and the Law to prevent and Repress the Financing of Terrorism.

The Bank has its central offices at Reforma Avenue 6-20 zone 9, Guatemala City. The 99.75% of the Bank belongs to common and preferred shareholders and 0.25% belongs to the State of Guatemala.

2 Basis of Preparation

a Basis of Accounting

The accounting policies used for the preparation and presentation of financial information are in agreement, in all material respects, with general practice in banking activity regulated in Guatemala and with the Manual of Accounting Instructions for Entities Subject to the Surveillance and Inspection of the Superintendency of Banks (MIC) approved in Monetary Board Resolution JM-150-2006 and its subsequent amendments.

The purpose of the MIC is to standardize the accounting record of all financial activities of the entities subject to the surveillance and inspection of the Superintendency of Banks of Guatemala.

Additionally, these accounting policies and reports are ruled by the Organic Law of Banco de Los Trabajadores, Law of Banks and Financial Groups, Monetary Law, Law of Financial Supervision, Law against the Laundering of Money and other Assets, Law to Prevent and Repress the Financing of Terrorism, and other applicable laws, as well as the provisions of the Monetary Board and the Superintendency of Banks of Guatemala.

b Basis of Measurement

The assets and liabilities are measured at cost. In cases, some investment available for sale, are measured at their fair value; for some investment at maturity, at amortized cost and in the case of foreclosed assets, to their adjudication value or as stated in note 3g.

Notes to Financial Statements

c Presentation Currency

The financial statements are expressed in Quetzales (Q), the functional and legal currency of Guatemala. At December 31, 2018, the reference exchange rates of the Bank of Guatemala and forex banking market was around Q7.74 per US$1.00 (Q7.34 per US$1.00 in 2017).

d Use of Estimates

In the preparation of the financial statements, the management has made estimates and assumptions in order to report on the assets, liabilities, results of operations and disclosure of contingent liabilities. Actual results may differ from these estimates. Important estimates that are particularly susceptible to significant changes are related mainly to the determination of the estimate for valuation of the loan portfolio, the valuation of security investments, the valuation of foreclosed assets and recovery of accounts receivable.

3 Significant Accounting Policies

The attached information contained in the financial statements and their notes has been prepared and is the responsibility of, the Bank's management. The accounting policies summarized below were applied in the preparation and presentation of these financial statements. These accounting policies differ from the International Financial Reporting Standards (IFRS), mainly as described in note 37.

a Cash Equivalents

Include investments with maturities of three months or less from the date of the financial statements.

b Investments

i. Investments securities

The investment portfolio includes the following:

- **Securities available for sale**

  The initial accounting record is made at the acquisition cost without considering commissions and other similar charges incurred to purchase. Purchases and sales are recorded at the date of the transaction.

  The book value of these investments is updated on a monthly basis based on their value quoted in the stock exchange market. When there is no exchange quotation this is determined based on the regulations related to the valuation of stock investments. In the case of certificates issued by the Bank of Guatemala or the Finance Ministry of Guatemala in which a reference market value cannot be established, the valuation is made at the acquisition cost.

Notes to the Financial Statements

The differences resulting from changes in prices are recorded in the equity. When the certificate is sold, the accumulated earning or loss in equity is recognized in the result of the year.

- **Securities held-to-maturity**
  The initial accounting record is made at the acquisition cost without considering commissions and other similar charges incurred to purchase.

  The book value of these investments is determined by the amortized cost method. Purchases, amortizations and maturities are recorded at the date of the transaction.

- **Repurchase and resale agreement of securities**
  Investments in securities that the Bank bought under agreement to resale are accounted at the acquisition cost.

  Investments in securities that the Bank has granted under repurchase agreements are written off against the investment account recorded in the balance sheet and are recorded in memorandum accounts.

ii. Estimate for investments valuation
According to the existing regulations an estimate must be register for investments valuations as a result of a risk analysis.

c Loan Portfolio

i. Loans and others
According to the Manual of Accounting Instructions, the loan portfolio represents the amount of the loans granted by the bank in both local and foreign currency, plus-minus the exchange rate adjustment for loans in foreign currency. The commissions and any incremental cost related to the loans granted are recorded directly in the profit or loss of the year.

The balances of the accounts receivable from credit cards are divided into cycles, which monthly cut-dates are due in different days each month. For monthly accounting closure purposes, the amounts of purchases in establishments are recorded as accounts receivable when the transactions are carried out by the cardholder.

ii. Estimate for valuation of loan portfolio and accounts receivable
According to the Credit Risk Management Regulation, Resolution JM-93-2005 of May 23, 2005 and its modifications according to Resolution JM-167-2008 a reserve must be recorded against the year results according to the valuation of its loan portfolio assets.

Notes to the Financial Statements

If the reserve exceeds the legal maximum permitted as deductible expense for the purpose of the income tax expense determination, the excess may be recorded directly against capital reserve accounts in equity.

The creation and holding of generic reserves or provisions added to the specific reserves or provisions must cover the equivalent to one hundred percent of the overdue portfolio, and in any case it may be not less than 1.25% of the total gross credit assets.

d Permanent Investments

Investments in shares of entities with the purpose of holding permanent participation, are recognized using the cost method, independently from the share percentage, significant influence or control had in these entities.

Income obtained from such investments is recorded only as the accrued earnings of the shared entity – in which the investment is held – are distributed, occurred after the acquisition date.

Permanent investments in foreign currency are recorded at their equivalent in Quetzales, using the exchange rate in force when the acquisition is made and are kept recorded at the historic exchange rate, as required by the Manual of Accounting Instructions for Entities Subject to the Surveillance and Inspection of the Bank Superintendency of Guatemala.

e Property and Equipment

i. Assets acquired

Property and equipment are presented at the acquisition cost, except for the revalued fixed assets.

ii. Revalued assets

Revalued property is recorded at the value corresponding to the appraisal made by independent appraisers.

i. Surplus on revaluation

Surplus on revaluation of property is included as part of equity in the assets revaluation account.

ii. Disbursements subsequent to acquisition

Important renovations and improvements are capitalized, whereas disbursements for repairs and maintenance that do not extend the useful life of the assets are recognized as expenses in results of the period.

Notes to the Financial Statements

iii. Depreciation

Property and equipment recorded at cost (except land) and revalued building are depreciated by the straight-line method, using rates based on the percentages required by the tax law.

The depreciation percentages used are the following:

	%
Buildings at cost and revaluated	5
Vehicles	20
Furniture and equipment	20
Telecommunications equipment	20
Information systems	33.33
Other	20

Depreciation expense is recorded against the results for the year, except for the depreciation expense on revalued buildings, which is charged directly to the asset revaluation account that forms part of equity.

Totally depreciated assets are disposal from the respective cost and accumulated depreciation accounts and are controlled in memorandum accounts.

f Amortization

Goodwill and merge expenses are deferred and amortized by 10% annual. The improvements to leased properties amortized by the time specified on the respective contracts. The amortization expense is recorded in the result of the period.

g Foreclosed Assets

These correspond to property and furniture granted in payment of credits in favor of the Bank. Initially they are recorded at the loan value owed plus interests and expenses incurred to the adjudication.

The valuation of these assets is updated by an independent appraiser in a period not exceeding three months as of the acquire date. If the valuation is lower than the book value, a valuation provision is created against the results of the year; otherwise a deferred profit is recorded in other creditor accounts.

Foreclosed assets must be sold within a maximum of two years as of the date of the award. If the sale is not made in this time they must be offered at public auction. If the foreclosed assets are not sold in public auction a new one will be held every three months, and the base price will be lower each time by 10% in relation with the first auction’s base.

Notes to the Financial Statements

If the base price for the auction of a foreclosed asset is less than the book value a reserve equivalent to the difference between both values is automatically created.

The net profits from the holding or use of foreclosed assets must be recorded as an increase in the special reserve for cover losses in the realization of these assets. The balance of specific reserve for each foreclosed assets is transfer to the results of the year when exist a formal agreement of sell.

If the sale is a cash sale and the sale value is greater than the book value, the difference is recorded directly to the results of the year. If the sale is on terms and the value of the sale is greater than the book value, the difference is recorded as a deferred profit and transferred to results as the installments are collected. If the sale value is less than the book value, a loss is recorded in results, independently of whether the sale is on cash or on terms.

The capitalized income from foreclosed assets, if any, are recorded by the cash method.

h Provisions

A provision is recognized in the balance sheet when there is a legal or implicit obligation as a result of past events and it is likely that a disbursement will be required to settle the obligation.

The provision made is close to its liquidation value, however it may defer from the definitive amount.

i Labor Indemnification

According to the Manual of Accounting Instructions for Entities Subject to the Surveillance and Inspection of the Banks Superintendency of Guatemala, the Bank monthly records a provision against results in the proportion equivalent to the compensation on termination of the labor relationship, either in accordance with the provisions contained in the Labor Code, collective agreements, policies established by the entity or, in this case, individual labor contracts.

In conformity with the Guatemalan laws, employers must pay to their employees and workers, in case of unjustified dismissal, severance pay compensation equivalent to one-month salary for each year of continuous work, or to their beneficiaries in case of death, according to Article 85 (a) of the Labor Code. The Bank policy relates to the labor laws of the Republic of Guatemala and the payments for this concept are made against provision.

Notes to the Financial Statements

j Income Recognitions

Incomes earned from concepts other than those indicated in the following items i, ii and iii are recorded in income receivable and deferred profit accounts, as appropiate, and are recorded in the results of the year until received.

Incomes obtained for the following concepts are recorded using the accrual basis in result accounts detail as follow:

i. Interests earned, not received, upon bonds or documents issued by the Bank of Guatemala and securities from other issuers whose amortization funds are controlled by the Bank of Guatemala;

ii. Interests earned, not received, on securities issued by foreign governments or foreign central banks, which have at least an A-3 risk rating for short term or BBB- for long term granted by Standard & Poor's, or an equivalent rating granted by a recognized prestige international risk rating organization, and,

iii. Interest, commissions, rents and other income from credit card portfolio.

Record of incomes earned, not received, in the deferred profits account is suspended when a delay of 30 calendar days occurs for investments in certificates and 90 calendar days for the rest of operations and services, counting from the day following that when agreed payments should have been made. When the referred suspension occurs, income earned, not received, should be reversed from the balance sheet accounts affected.

For credit card operations the accounting recording in results is suspended when a delay of 90 calendar days occurs counting from the day following that when payments agreed should have been received. When the referred suspension occurs income earned is recognized as expenses against the income receivable account in which it was recorded initially. Charges capitalized in credit card accounts are excluded and will not be reversed.

The suspended balances that have been recorded in balance sheet accounts and result accounts and those that have been earned from the suspension date will be recorded in memorandum accounts.

k Decreed Dividends

Dividends are decreed according to the authorization of the Shareholders' Meeting, reducing the capital reserves account and recording an account payable.

Notes to the Financial Statements

The Bank Superintendency according to the corresponding process will be able to limit banks, financial entities and off-shore entities on the distribution of dividends, under any method or form adopted by such dividends, when upon the criteria of said body and as a cautious measure it will be necessary to strengthen the liquidity and/or solvency of the bank, financial institution and off-shore entity. Such limitation will not apply to the limited vote share with preferential dividends.

l Board of Directors Bonus

In accordance with the Shareholders Meeting, it is approved annually a productivity bonus to the Board of Directors. The amount assigned is reduced from the earnings from previous periods and a payable account is registered. The payment is made in cash during the year in which the assignment is declared.

m Reserve for Contingencies and Other Reserves

The reserve for contingencies and other reserves are used to record the amounts that in conformity with the decisions of the directive organs of the Bank are separated from profit since it is convenient to create or increase reserves in order to face eventual losses, ensure coverage for non-specific or unexpected situations, as well as reserves or provisions (estimates) according to article 53 of the Act of Banks and Financial Groups.

n Legal Reserve

According to articles 36 and 37 of the Commerce Code of Guatemala, all partnership must separate annually at least five percent (5%) of the net profit of each exercise to create the legal reserve. Such reserve could not be distributed in any way among the shareholders until the dissolution of the partnership. However annually could be capitalized the exceeding of five percent (5%) when if exceeds fifteen percent (15%) of the paid in capital at the closing of the previous period without detriment of keeping reserving the abovementioned five percent (5%) on an annual basis. A five percent (5%) of the net profit of the previous year must be recorded during the current year.

o Income Tax

Income tax is the estimate tax payable on the year's taxable revenue using the tax rate in force at the balance sheet date and any other adjustment on the tax payable with respect to previous years.

p Assets and Liabilities in Foreign Currency

Assets and liabilities in foreign currency are presented at their equivalent in Quetzales, using the exchange rate issued by the monetary authorities (see note 2c).

q Transactions in Foreign Currency

Transactions in foreign currency are recorded at their equivalent in Quetzales using the exchange rate in force when the operation is carried out.

Notes to the Financial Statements

The foreign currency differences, if any, resulting between the date when the operation is recorded and the date of the payment or the accounting close is recorded against the results of the accounting period.

4 Cash

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Cash	133,621,131	150,713,316
Central Bank legal deposit (a)	2,695,942,981	2,380,389,468
Central Bank special deposits	116,810,800	100,924,600
Checks for compensation	44,676,866	43,182,171
Local Banks	7,230,726	6,193,652
Total local currency	2,998,282,504	2,681,403,207
Foreign currency:		
Cash	5,983,734	9,625,901
Central Bank legal deposit (a)	42,692,483	227,337,559
Central Bank special deposits	681,625	740,353
Foreign banks (b)	126,840,473	114,433,497
Checks for compensation	674,591	1,033,419
Total foreign currency	176,872,906	353,170,729
	3,175,155,410	3,034,573,936

(a) The balance of this account is applied to cover the required legal banking reserve on its deposit obligations; therefore, these funds are construed as restricted (see note 13).

(b) The balance of this account includes a deposit for US$12,500,000 held by the Entity Société Générale for a credit derivatives transaction with an interest rate of 1% annual and a maturity on August 17, 2027. The final payment amount will be of US$25,000,000. This deposit can be use before the maturity date.

Notes to the Financial Statements

5 Investments, net

The summary of this account as of December 31, 2018 is as follows:

	Annual interest ranges	Maturity	Amount in US$	Amount in Q
Local Currency:				
Securities available for sale:				
Representative certificates of Treasury Bonds of the Republic of Guatemala (d)	6.5% to 10%	from 2019 to 2033	-	4,172,800,305
Term deposit certificates of Bank of Guatemala	7.12% to 9.25%	from 2021 to 2030	-	1,300,000,000
				5,472,800,305
Securities held to maturity:				
Term deposit certificates of Bank of Guatemala	0%	2019	-	874,864,300
F.H.A. mortgage debentures (f)	9% to 13.2%	from 2019 to 2040	-	15,908,090
Financial promissory notes (Financiera de los Trabajadores, S.A.)	6%	2019	-	1,843,583
				892,615,973
Resale agreement of securities:				
Representative certificates of Treasury Bonds of the Republic of Guatemala	2.70% to 3.85%	2019	-	344,000,000
Term deposit certificates of Bank of Guatemala	3.25%	2019	-	6,000,000
				350,000,000
Total local currency				6,715,416,278
Carried forward				6,715,416,278

Notes to the Financial Statements

	Annual interest ranges	Maturity	Amount in US$	Amount in Q
Brought forward				6,715,416,278
Foreign currency:				
Securities available for sale:				
Representative certificates of Treasury Bonds of the Republic of Guatemala	4.38% to 6.2%	from 2020 to 2028	84,857,386	656,537,355
Securities held to maturity:				
Term deposit certificates of Bank of Guatemala	2.75%	2019	10,000,000	77,369,500
Term deposit certificates of Bank of Ficohsa Guatemala, S.A.	4.15%	2019	3,000,000	23,210,850
				100,580,350
Resale agreement of securities:				
Representative certificates of Treasury Bonds of the Republic of Guatemala	3% to 3.4%	2019	9,240,000	71,489,418
Total foreign currency				828,607,123
Total investments in foreing currency				7,544,023,401
Less: estimate on valuation				(6,795,639)
Total investments, net				7,537,227,762

Notes to the Financial Statements

The summary of this account as of December 31, 2017 is as follows:

	Annual interest ranges	Maturity	Amount in US$	Amount in Q
Local currency:				
Securities available for sale:				
Representative certificates of Treasury Bonds of the Republic of Guatemala (d)	7.37% to 12.94%	from 2019 to 2031	-	4,711,155,000
				4,711,155,000
Securities held to maturity:				
Representative certificates of Treasury Bonds of the Republic of Guatemala	1.75%	2018	-	300,000,000
Financial promissory notes (Financiera de los Trabajadores)	6%	2018	-	23,200,000
F.H.A. mortgage debentures	8.5% to 13.95%	from 2017 to 2040	-	20,167,848
				343,367,848
Resale agreement of securities:				
Representative certificates of Treasury Bonds of the Republic of Guatemala	3.05%	2018	-	200,000,000
Total local currency				5,254,522,848
Carried forward				5,254,522,848

Notes to the Financial Statements

	Annual interest ranges	Maturity	Amount in US$	Amount in Q
Brought forward				5,254,522,848
Foreign currency:				
Securities for sale:				
Representative certificates of Treasury Bonds of the Republic of Guatemala	4% to 6.2%	from 2027 to 2028	75,149,095	551,952,822
Securities held to maturity:				
Representative certificates of Treasury Bonds of the Republic of Guatemala	3.12%	2018	2,500,000	18,361,925
Total foreign currency				570,314,747
Total investments				5,824,837,595
Less: estimate on valuation				(6,799,492)
Total investments, net				5,818,038,103

Notes to the Financial Statements

a. The investments are securities issued by entities located in Guatemala for both years.

b. The investments at December 31, 2018 included cash equivalents for Q421,489,418.

c. At December 31, 2018 the investments have maturities that range from 2019 to 2040. The maturities during the next five years are summarized as follows:

	Q
2019	1,403,407,849
2020	155,446,545
2021	536,267,150
2022	150,756,656
2023 onwards	5,298,145,201
	7,544,023,401

d. At December 31, 2018 and 2017 representative certificates of Treasury Bonds of the Republic of Guatemala for Q1,655,000 it seized by judicial order (see note 33).

e. The accounting movement of the estimate valuation for investment is summarized as follows:

	Q
Balance at beginning of the year	6,799,492
Less charges for:	
Balances applied to estimate	(3,853)
Balance at year end	6,795,639

f. At December 31, 2018 F.H.A. mortgage debentures for Q4,829,947 have a maturity more than 90 days.

Notes to the Financial Statements

6 Loans Portfolio, net

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Unsecured	12,724,958,697	11,579,109,846
Credit cards	201,262,119	239,059,885
Mortgage	108,115,970	104,020,040
Mortgage-unsecured	87,718,895	79,622,178
With own guarantee	79,539,520	78,782,418
In monetary deposit accounts	23,803,605	8,933,166
Debtors on sale of foreclosed assets	1,279,231	1,530,553
Pledged-unsecured	1,207,607	1,267,839
Total local currency	13,227,885,644	12,092,325,925
Foreign currency:		
Unsecured	61,906,753	59,567,426
Mortgage	20,683,172	27,213,111
Mortgage-unsecured	11,377,970	13,010,266
Payments by credit letters	9,296,613	13,550,683
Credit cards	7,116,964	5,812,620
In monetary deposit accounts	3,165,470	3,146,737
Pledged-unsecured	1,583,889	1,503,603
Pledged	-	43,974
Total foreign currency	115,130,831	123,848,420
Total loan portfolio, gross	13,343,016,475	12,216,174,345
Less:		
Estimate on valuation:		
Specific	(214,628,879)	(336,140,350)
Generic	(65,868,071)	(31,591,124)
Total estimate on valuation	(280,496,950)	(367,731,474)
Total loan portfolio, net	13,062,519,525	11,848,442,871

Loan operations earn variable annual interest rates vary between the percentages indicated in the next page:

Notes to the Financial Statements

	December 31	
	2018	**2017**
	%	**%**
Loans:		
In local currency	1 – 42	7 – 42
In foreign currency	1 – 12.40	4 – 12.40
Credit card:		
In local currency	0 – 58.80	0 – 58.80
In foreign currency	8 – 49.92	11.82 – 49.92

The summary of the loan portfolio by situation is set out below:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Current	13,045,364,667	11,806,825,010
Past due:		
In extension process	338,008	338,008
In administrative collection	85,041,588	71,239,848
In legal collection	97,141,381	213,923,059
	182,520,977	285,500,915
Total local currency	13,227,885,644	12,092,325,925
Foreign currency:		
Current	44,672,285	54,954,946
Past due:		
In administrative collection	53,998,021	52,263,190
In legal collection	16,460,525	16,630,284
	70,458,546	68,893,474
Total foreign currency	115,130,831	123,848,420
Total loan portfolio	13,343,016,475	12,216,174,345

The summary of the loan portfolio according to category is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Major debtors	6,416,370	8,513,611
Carried forward	6,416,370	8,513,611

Notes to the Financial Statements

	December 31	
	2018	**2017**
	Q	**Q**
Brought forward	6,416,370	8,513,611
Minor debtors	83,558,935	52,828,122
Microcredits	224,721	250,627
Mortgage loans for housing	42,949,459	44,379,618
Consumption	13,094,736,159	11,986,353,947
Total local currency	13,227,885,644	12,092,325,925
Foreign currency:		
Major debtors	73,497,719	71,088,229
Minor debtors	15,648,805	24,117,541
Mortgage loans for housing	6,629,871	8,145,680
Consumption	19,354,436	20,496,970
Total foreign currency	115,130,831	123,848,420
Total loan portfolio	13,343,016,475	12,216,174,345

The loan portfolio according to geographical area is located in Guatemala.

The summary of the credit portfolio according to maturities is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Up to one year	616,373,569	448,123,456
From one to three years	914,644,845	1,785,258,790
From three to five years	2,365,948,946	2,703,715,822
More than five years	9,330,918,284	7,155,227,857
Total local currency	13,227,885,644	12,092,325,925
Foreign currency:		
Up to one year	78,995,210	24,941,494
From one to three years	1,416,192	2,482,031
From three to five years	1,430,534	2,511,450
More than five years	33,288,895	93,913,445
Total foreign currency	115,130,831	123,848,420
Total loan portfolio	13,343,016,475	12,216,174,345

Notes to the Financial Statements

The accounting movement of the estimate on valuation of the loan portfolio is summarized as follow:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Balance at beginning of the year	367,731,474	401,904,535
Plus increases for:		
Provision charged to results	150,000,000	54,500,000
Transfer to the reserve for contingencies	-	7,500,000
Recoveries	-	7,006,602
Exchange rate fluctuation, net	3,730,192	-
	153,730,192	69,006,602
Less charges for:		
Loans applied to the estimate	(240,964,716)	(103,179,663)
Balance at period of the year	280,496,950	367,731,474

The valuation estimates charged to results are summarized as follow:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Estimates for valuation:		
Loan portfolio	150,000,000	54,500,000
Accounts receivable (note 8)	6,000,000	-
Foreclosed Assets (note 9)	8,793,718	20,194,720
	164,793,718	74,694,720

7 Financial Products Receivable

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Loan portfolio	204,375,295	185,930,009
Investments	95,474,729	77,760,981
Carried forward	299,850,024	263,690,990

Notes to the Financial Statements

	December 31	
	2018	**2017**
	Q	**Q**
Brought forward	299,850,024	263,690,990
Accounts receivable	25,152,450	4,551,992
Cash	376,994	321,438
Total local currency	325,379,468	268,564,420
Foreign currency:		
Investments	10,598,591	8,807,808
Loan portfolio	195,768	265,422
Total foreign currency	10,794,359	9,073,230
	336,173,827	277,637,650

8 Accounts Receivable, net

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Accounts receivable employees	10,875,164	5,046,741
Payments on account of third party	5,952,968	5,166,959
Advance on loans	5,683,548	5,692,123
Difference in prices on resale agreement	2,500,000	-
Rights per services	1,927,075	1,960,016
Legal expenses	1,100,698	1,054,065
Insurance premiums	416,291	445,461
Advances on expenses	228,070	-
Advances on salaries	133,066	151,026
Others	736,791	1,884,200
Total local currency	29,553,671	21,400,591
Foreign currency:		
Difference in prices on resale agreement	10,645,993	-
Rights per services	159,442	125,108
Deposits in guarantee	-	29,437,631
Carried forward	10,805,435	29,562,739

Notes to the Financial Statements

	December 31	
	2018	2017
	Q	Q
Brought forward	10,805,435	29,562,739
Others	29,672	22,916
Total foreign currency	10,835,107	29,585,655
Total accounts receivable	40,388,778	50,986,247
Less: estimate on valuation	(19,405,163)	(13,405,768)
	20,983,615	37,580,478

The accounting movement of the estimate on valuation of the accounts receivable for the year ended at December 31, 2018 summarized as follows:

	Q
Balance at the beginning of the year	13,405,768
Plus increases for:	
Provisions charged to results	6,000,000
Less expenses for:	
Balances applied to estimate	(605)
Balance at year end	19,405,163

9 Foreclosed Assets, net

The summary of this account is as follows:

	December 31	
	2018	2017
	Q	Q
Local currency:		
Property	89,788,395	118,415,530
Movable assets	497,805	497,805
Total in local currency	90,286,200	118,913,335
Foreign currency:		
Property	38,385,394	35,261,635
Total in foreign currency	38,385,394	35,261,635
	128,671,594	154,174,970
Less: estimate on valuation	(82,778,695)	(86,251,605)
	45,892,899	67,923,365

Notes to the Financial Statements

The accounting movement of the valuation estimate of foreclosed assets is summarized as follow:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Balance at the beginning of the year	86,251,605	65,556,249
Plus increases for:		
Provisions charged to results	8,793,718	20,194,720
Record of valuation performed to foreclosed assets (nota 27)	3,552,072	-
Others	-	514,429
Exchange rate fluctuation, net	-	119,031
	12,345,790	20,828,180
Less charges for :		
Balances applied to the estimate	(15,818,700)	(132,824)
Balance at year end	82,778,695	86,251,605

Notes to the Financial Statements

10 Permanent Investments, net

The summary of this account as of December 31, 2018 and 2017 is as follows:

	Percentage of participation	Number of shares	Nominal amount Per share Q	Nominal amount Total Q	Cost of investment Total US$	Cost of investment Total Q
Shares:						
Local currency:						
Financiera de los Trabajadores, S.A.	94.49	39,120	1,000	39,120,000	-	36,700,000
Aseguradora de los Trabajadores, S.A.	99.18	34,912	801	27,964,512	-	35,018,666
Casa de Bolsa de los Trabajadores, S.A.	99.00	99	10,000	990,000	-	990,000
Imágenes Computarizadas de Guatemala, S.A.	3.36	504	1,000	504,000	-	815,100
Útil Valor, S.A.	4.00	40,000	10	400,000	-	402,400
Other partnerships and institutions:						
Asociación Bancaria de Guatemala	4.17	72	5,000	360,000	-	360,000
						74,286,166
Foreign currency:			**US$**	**US$**		
VISA Inc.		7,952	0.0001	0.7952	0.7952	6
						74,286,172
Less: estimate on valuation						(400,000)
Total						73,886,172

(a) The entities Financiera de los Trabajadores, S.A, Aseguradora de los Trabajadores, S.A. and Casa de Bolsa de los Trabajadores, S.A. are entities regulated and supervised by the Superintendency of Banks of Guatemala and are part of Grupo Financiero de los Trabajadores (note 32).

(b) The dividends received as of September 31, 2018 due to the investments in shares in the entity Aseguradora de los Trabajadores, S. A. by Q26,977,455 and Imágenes Computarizadas de Guatemala, S.A. by Q95,760 amounts to Q27,073,215 y Q16,265,818 corresponding to Aseguradora de los Trabajadores, S.A. in 2017. (note 25).

Notes to the Financial Statements

11 Property and Equipment, net

The movement of this account for the year ended December 31, 2018 is summarized as follows:

	Initial balance Q	Additions Q	Transfers Q	Disposals Q	Final balance Q
Cost:					
Lands	44,305,121	-	-	-	44,305,121
Buildings	61,681,205	1,146,124	5,054,666	(302,418)	67,579,577
Furniture and equipment	54,222,448	2,059,843	1,693,753	(12,399,515)	45,576,529
Vehicles	745,020	-	60,016	-	805,036
Information systems	23,168,892	12,838,890	2,878,860	(5,131,688)	33,754,954
Telecommunications equipment	2,845,503	360,239	561,832	(253,726)	3,513,848
Gallery paints	189,819	-	-	(187,809)	2,010
Others	32,427	1,589,738	1,176,015	(76,744)	2,721,436
Advances for assets acquisition	18,519,594	26,171,854	(11,425,142)	(7,387,799)	25,878,507
	205,710,029	44,166,688	-	(25,739,699)	224,137,018
Accumulated depreciation - cost	(84,053,600)	(24,648,191)	-	18,039,798	(90,661,993)
	121,656,429	19,518,497	-	(7,699,901)	133,475,025
Revalued fixed assets:					
Lands	2,875,359	-	-	-	2,875,359
Buildings	62,611,795	-	-	-	62,611,795
	65,487,154	-	-	-	65,487,154
Accumulated depreciation – revaluated buildings	(18,218,224)	(3,130,590)	-	-	(21,348,814)
	47,268,930	(3,130,590)	-	-	44,138,340
Total	168,925,359	16,387,907	-	(7,699,901)	177,613,365

Notes to the Financial Statements

The movement of this account for the year ended December 31, 2017 is summarized as follows:

	Initial balance Q	Additions Q	Transfers Q	Disposals Q	Final balance Q
Cost:					
Lands	44,305,121	-	-	-	44,305,121
Buildings	61,572,233	108,972	-	-	61,681,205
Furniture and equipment	58,787,756	5,727,327	(29,150)	(10,263,485)	54,222,448
Vehicles	168,211	600,809	-	(24,000)	745,020
Information systems	20,100,502	11,011,361	-	(7,942,971)	23,168,892
Telecommunications equipment	2,692,421	301,377	-	(148,295)	2,845,503
Gallery paints	340,869	-	-	(151,050)	189,819
Others	-	32,427	-	-	32,427
Advances for assets acquisition	10,834,166	7,685,428	-	-	18,519,594
	198,801,279	25,467,701	(29,150)	(18,529,801)	205,710,029
Accumulated depreciation - cost	(80,610,494)	(21,878,475)	211,934	18,223,435	(84,053,600)
	118,190,785	3,589,226	182,784	(306,366)	121,656,429
Revalued fixed assets:					
Lands	2,875,359	-	-	-	2,875,359
Buildings	62,611,795	-	-	-	62,611,795
	65,487,154	-	-	-	65,487,154
Accumulated depreciation – revaluated buildings	(15,087,634)	(3,130,590)	-	-	(18,218,224)
	50,399,520	(3,130,590)	-	-	47,268,930
Total	168,590,305	458,636	182,784	(306,366)	168,925,359

Notes to the Financial Statements

12 Deferred Charges, net

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Merge expenses (a)	158,123,618	158,123,618
Improvements to leased properties	98,403,376	97,050,333
Software licenses	11,793,681	4,755,779
Goodwill (b)	4,077,500	4,077,500
Brands and licenses	20,448	20,448
	272,418,623	264,027,678
Less: accumulated amortization	(187,754,362)	(162,988,431)
	84,664,261	101,039,247
Pre-paid expenses:		
Income tax payments	41,880,400	39,370,952
Solidarity tax	26,099,716	24,008,433
Services	25,972,818	72,425,541
Materials and suppliers	7,310,418	4,194,495
	101,263,352	139,999,421
	185,927,613	241,038,668

(a) Corresponds to the merge expenses incurred in the merger with Banco de la República, S.A. according to Resolution JM-50-2009 may 13, 2009 of the Monetary Board.

(b) The goodwill corresponds to overprice paid for the acquisition of share of Aseguradora de los Trabajadores, S.A.

Notes to the Financial Statements

The accounting movement of the accumulative amortization of the deferred charges for year ended on December 31, 2018 is as follow:

	Improvements to leased properties Q	Merge expenses Q	Goodwill, brands and licenses Q	Software licenses Q	Total Q
Balance at the beginning of the year	29,646,722	130,451,986	2,387,317	502,406	162,988,431
Plus increases for:					
Amortization expense of year	8,632,891	15,812,361	408,772	1,607,987	26,462,011
Amortization of previous years (note 28)	-	-	-	258,221	258,221
Less:					
Fully amortized assets	(1,954,301)	-	-	-	(1,954,301)
Balance at the end of year	36,325,312	146,264,347	2,796,089	2,368,614	187,754,362

Notes to the Financial Statements

The accounting movement of the accumulative amortization of the deferred charges for the year ended on December 31, 2017 is as follow:

	Improvements to leased properties Q	Merge expenses Q	Goodwill, brands and licenses Q	Software licenses Q	Total Q
Balance at the beginning of the year	23,712,700	114,639,625	1,978,545	249,014	140,579,884
Plus increases for:					
Amortization expense of year	7,805,822	15,812,361	408,772	253,392	24,280,347
Less:					
Fully amortized asset	(1,871,800)	-	-	-	(1,871,800)
Balance at the end of year	29,646,722	130,451,986	2,387,317	502,406	162,988,431

Notes to the Financial Statements

13 Deposit Obligations

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Current accounts	1,046,541,194	912,197,527
Savings deposits	1,835,644,165	1,555,790,252
Term deposits	16,640,674,982	14,558,056,674
Demand deposits	12,876	15,475
Deposits with restrictions	18,817,188	16,860,091
Total local currency	19,541,690,405	17,042,920,019
Foreign currency:		
Current accounts	49,340,744	56,231,537
Savings deposits	48,222,507	49,490,492
Term deposits	12,593,948	16,606,169
Demand deposits	-	734
Deposits with restrictions	538,549	518,674
Total foreign currency	110,695,748	122,847,606
	19,652,386,153	17,165,767,625

- Deposits operations earn annual interest rates that fluctuate between the percentages shown below:

	December 31	
	2018	**2017**
	%	**%**
Local currency:		
Current accounts	0.00-7.23	0.00-7.23
Savings deposits	0.00-7.23	0.00-7.23
Term deposits	2.75-9.65	3.56-9.65
Foreign currency:		
Current accounts	0.00-0.50	0.00-0.50
Savings deposits	0.00-0.50	0.00-0.50
Term deposits	0.25-3.56	0.25-3.56

- Bank deposits are subject to banking reserves, which are calculated in local and/or foreign currency as a percentage of the total amount of such deposits.

Notes to the Financial Statements

This banking reserve will have to be maintained constantly as deposits of immediate demand at the Central Bank of Guatemala, as cash funds in the cashiers of the banks, and when the circumstances deserve it, as net investment in titles, documents or securities, either local or foreign, in conformity with the regulations issued by Monetary Board for this purpose.

- The percentage of the banking reserve on financial obligations in local and foreign currency is of 14.6%. The Bank of Guatemala pays on availability balances that conform the calculated banking reserve (see note 4).

- On June 1, 2002, the Banks and Financial Groups Act, Decree No. 19-2002, came into force establishing the creation of the Fund for the Protection on Savings (FOPA, by its acronym in Spanish), which covers deposits made in the Bank by individuals or companies up to Q20,000 or its equivalent in foreign currency.

  The quotas that each bank has to contribute monthly to FOPA are determined according to the regulations in force. The Bank's obligation to contribute these quotas ceases when the balance of this contribution reaches five percent (5%) of the total deposit obligations in the local banking system.

  During the period ended on December 31, 2018 the Bank carried out contributions to FOPA amounting to Q46,902,728 and US$38,195 (Q38,355,768 and US$42,185 in 2017) which were recorded against the result of the year.

- At December 31, 2018 the accounts making up the deposit obligations include balances in the amount of Q18,817,188 and US$69,607 that correspond to third party deposits which are seized for a court decision.

14 Loans Obtained

At November 14, 2013 the bank contracted a loan without warranty with the financial institution Deutsche Bank AG, London Branch for US$150,000,000 with interest rate of 9% per annum and term of 7 years, interest payment on a semi-annual basis and capital at the expiration of the term. This loan has an unsecured guarantee from the Bank. This Loan was formal established by a promise to pay under the figure of a trust between Intertrust SPV (Cayman) Limited as an unsecured trustee and the Bank as a principal unsecured Bank. The funds of this loan come from the placement of certificates in international market placed by the Bank. The balance of this loan at December 31, 2018 is in the amount of US$150,000,000 equivalent to Q1,160,542,500. (US$150,000,000 equivalent to Q1,101,715,500 in 2017).

During the term of this financing, the Bank must comply with the financial parameters and the agreements established in the clauses of doing or not doing, contents in the contract of the respective loan.

Notes to the Financial Statements

15 Financial Obligations

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Mortgage bonds with general guarantee	598,000	838,000
	598,000	838,000

The authorizations of issued bonds are contained in the Resolution of Monetary Board JM-166-97 of April, 1997.

All issued mortgage bonds have an authorized amount of up to Q300,000,000. Resources obtained have been allocated to finance active operations authorized under The Law of Bank and Financial Group.

Mortgage bonds are guaranteed with the Bank's assets. These mortgage bonds accrue a variable interest rate that oscillates between 7.75% and 8% annually.

16 Financial Expenses Payable

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Deposit obligations	12,952,951	11,633,778
Loans obtained	3,190	18,685
	12,956,141	11,652,463
Foreign currency:		
Deposit obligations	311,685	202,257
Loans obtained	17,408,138	-
	17,719,823	202,257
	30,675,964	11,854,720

Notes to the Financial Statements

17 Accounts Payable

The summary of this account is as follows:

	December 31 2018 Q	December 31 2017 Q
Local currency:		
Income pending application (a)	286,955,099	260,519,042
Dividends payable	123,907,289	101,716,035
Immediate obligations	95,562,565	121,216,493
Income tax payable (note 29)	51,159,234	73,645,198
Obligations on issuance of documents	38,540,053	34,120,834
Retentions	11,201,954	10,262,823
Obligations on management	1,909,280	2,079,975
Others	2,222,172	2,223,855
Total local currency	611,457,646	605,784,255
Foreign currency:		
Obligations on issuance of documents	11,101,554	1,683,494
Immediate obligations	2,260,107	54,873
Income pending application	398,351	429,601
Total foreign currency	13,760,012	2,167,968
	625,217,658	607,952,223

(a) At December 31, 2018 and 2017 the balance of this account corresponds to loan payment remittances received in the last days of December that was not applied.

18 Provisions

The summary of this account is as follows:

	December 31 2018 Q	December 31 2017 Q
Reserve for labour compensation	45,604,534	41,001,357
Employee bonuses	5,385,597	1,786,787
Other provisions	-	73,642,808
	50,990,131	116,430,952

The accounting movement of the reserve for labour compensation is summarized in the next page.

Notes to the Financial Statements

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Balance at beginning of the year	41,001,357	43,998,123
Plus increases for:		
Provision of the year charged to results	11,416,654	8,399,834
Less charges for:		
Payments applied to the reserve	(6,813,477)	(11,396,600)
Balance at year end	45,604,534	41,001,357

19 Deferred Credits

This account relates to the income that the Bank has already perceived, but has not been accrued yet. The summary of this account is as follow:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Loan portfolio commissions	87,248,030	120,734
Loan portfolio interest	5,475,116	-
Income from services	14,469	112,415
	92,737,615	233,149

20 Other Credit Accounts

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Loan portfolio	204,375,295	185,930,009
Commissions	13,363,347	-
Investments	2,366,431	1,727,302
Accounts receivable	16,750	4,551,993
	220,121,823	192,209,304
Capitalized income	72,059,593	54,878,061
Total local currency	292,181,416	247,087,365
Carried forward	292,181,416	247,087,365

Notes to the Financial Statements

	December 31	
	2018	2017
	Q	Q
Brought forward	292,181,416	247,087,365
Foreign currency:		
Loan portfolio	195,767	265,422
Investments	237,521	-
	433,288	265,422
Capitalized income	1,150,303	582,384
Total foreign currency	1,583,591	847,807
	293,765,007	247,935,171

21 Paid-in Capital

The authorized capital is Q200,000,000 distributed in 20,000,000 registered shares with a face value of Q10 each.

At December 31, 2018 the subscribed and paid capital amounts up to Q199,835,710 distributed in 4,225,342 common shares and 15,758,229 preferred shares (Q199,856,130 distributed in 4,225,884 common shares and 15,759,729 preferred shares in 2017).

During the year ended on December 31, 2016 the Lower Court of forfeiture of the Republic of Guatemala ordered the seizure, abduction and suspension of the property rights of the preferred shares of the shareholder DHK Finance Inc. in the amount of Q156,550,000 equivalents to 15,655,000 preferred shares. The Bank was constituted as a private prosecutor in this process and is still cooperating with judicial authorities.

The capitalization management of the Bank proceed with the measures in place to satisfy the measures before mentioned, recorded in the data base of the seizure shareholder confiscation and suspension of the preferred shares rights.

22 Capital Reserves

Decreed dividends and Board of Directors bonus:

- In conformity with the minute Ordinary General Shareholders' Assembly No.156 of February 27, 2018 and as part of the profit distribution project of 2017 was authorized, dividends to: common shareholder by Q5,071,060; preferred series by Q18,943,094 and a Board of Directors bonus by Q8,837,137 were authorized.

Notes to the Financial Statements

- In conformity with the minute Ordinary General Shareholders' No. 154 of February 3, 2017 as part of the profit distribution Project of 2016, dividends were decreed to the common shares in the amount of Q5,070,452 and preferred shares in the amount of Q18,943,094.

Reserve for contingencies and other reserves

- In conformity with the minute Ordinary General Shareholders' Assembly No.156 of February 27, 2018, it was approved to transfer the result of previous years to this account the amount of Q108,388,290. To increase the reserve for contingencies and Q325,164,868 to increase other reserves.

  According to Monetary Board Resolution No. 183/2018 of the act No. 64/2018 of July 26, 2018 and No. 221/2018 of the minute No. 76/2018 of September 4, 2018 it was authorized to apply the reserve for contingencies Q36,601,791 to end up the disputes against the Bank

  According to Monetary Board Resolution No. 374/2018 fifth bullet of the minute No. 108/2018 of December 11, 2018 was approved the application of the reserve for contingencies in the amount of Q29,644,579 to end up the disputes against the Bank.

- In conformity with the minute Ordinary General Shareholders' Assembly No.154 of February 3, 2017, it was approved to transfer the result of previous years to this account the amount of Q155,799,613. To increase the reserve for contingencies and Q233,699,420 to increase other reserves.

23 Net Financial Income

The summary of income and expenses generated from financial operations is as follows:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Financial income:		
Income from interests:		
Loan portfolio	2,507,912,116	2,285,348,507
Investments	462,500,272	421,393,338
Other Investments	39,104	78,121
Accounts receivable	29,163	55,095
Carried forward	2,970,480,655	2,706,875,061

Notes to the Financial Statements

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Brought forward	2,970,480,655	2,706,875,061
Commissions:		
Loan portfolio	69,384,598	28,766,173
Others	1,677,053	1,050,012
	71,061,651	29,816,185
Other financial income:		
Securities negotiation	22,599,625	-
Price difference in resale agreement of securities	9,158,465	2,177,387
Total financial income	3,073,300,396	2,738,868,633
Financial expenses:		
Expenses from interests:		
Deposit obligations	(1,417,328,348)	(1,164,346,268)
Loans obtained	(108,066,392)	(92,628,194)
Financial obligations	(58,192)	(66,790)
	(1,525,452,932)	(1,257,041,252)
Other financial expenses:		
Additional benefits	(4,438,958)	(4,076,743)
Securities negotiation	(2,008,840)	-
FOPA formation quote	(47,190,508)	(38,665,680)
Price difference in resale agreement of securities	(517,992)	(16,832,164)
	(54,156,298)	(59,574,587)
Total financial expenses	(1,579,609,230)	(1,316,615,839)
Net financial income	1,493,691,166	1,422,252,794

24 Net Services Income

The summary of the income and expenses from services is as follows:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Services income:		
Commissions	34,321,106	21,217,214
Leases	4,833	-
Carried forward	34,325,939	21,217,214

Notes to the Financial Statements

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Brought forward	34,325,939	21,217,214
Others	3,906,975	176,275,614
Total services income	38,232,914	197,492,828
Services expenses:		
Commissions	(39,595,667)	(73,834,531)
Total service expenses	(39,595,667)	(73,834,531)
Net services income	(1,362,753)	123,658,297

25 Other Operating Income and Expenses, net

The summary of other operating income and expenses is as follows:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Income:		
Exchange rates movements and gain in foreign currency	1,413,276	4,964,665
Dividends (note 10)	27,073,215	16,265,818
Total other operating income	28,486,491	21,230,483
Expenses:		
Exchange rates movements and losses in foreign currency	(10,294,838)	(102,337)
Sub-total other operating expenses	(10,294,838)	(102,337)
Plus:		
Uncollectible and doubtful accounts		
Loan portfolio (note 6)	(150,000,000)	(54,500,000)
Foreclosed Assets (note 9)	(8,793,718)	(20,194,720)
Accounts receivable (note 8)	(6,000,000)	-
	(164,793,718)	(74,694,720)
Total other operating expenses	(175,088,556)	(74,797,057)
	(146,602,065)	(53,566,574)

Notes to the Financial Statements

26 Administrative Expenses

The summary of administrative expenses is as follows:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Officers and employees	242,499,242	254,539,911
Outsourcing personnel services	232,366,936	320,619,458
Marketing and advertising	68,415,360	56,135,826
Leases (note 33)	62,765,989	53,813,107
Security and surveillance	28,171,642	30,695,838
Repairs and maintenance	27,210,986	29,373,846
Amortizations	26,462,011	24,280,347
Depreciations	23,786,496	21,877,876
Taxes, import duties and contributions	22,039,523	22,201,955
Professional fees	21,953,921	50,381,960
Communications	20,558,604	17,615,566
Board of Administrative Directors	16,337,803	22,836,604
Electricity	8,816,577	8,050,766
Freight and carriage	6,428,743	6,760,799
Stationery and office supplies	5,418,937	5,113,996
Insurance premium and bonds	4,827,834	5,598,126
General expenses	3,754,491	2,152,390
Donation	2,242,462	2,844,856
Parking service	2,107,824	1,940,989
Processing data service	1,278,345	1,329,668
Personal recruitment	1,242,197	655,327
Customer service	884,550	12,718,961
Fuel and lubricants	843,216	757,089
Contributions to various associations	551,513	476,672
Water	240,713	256,607
Subscriptions	240,367	46,587
Miscellaneous expenses	2,559,314	492,928
	834,005,596	953,568,055

The account miscellaneous expenses include penalties expenses, various post and other minor expenses.

Notes to the Financial Statements

27 Extraordinary Income and Expenses, net

The summary of the extraordinary income and expenses are as follows:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Income:		
Recoveries (a)	26,613,974	16,031,201
Foreclosed assets	3,863,275	924,828
Gain on sale of property and equipment	5,552	3,400
Others	5,736,692	6,970,428
Total extraordinary income	36,219,493	23,929,857
Expenses:		
Loss on possession and misuse of foreclosed assets (note 9)	(4,428,404)	(1,678,839)
Compensation for damages	(78,798)	(605,610)
Loss on sale of property and equipment	(24,565)	(52,091)
Others	(1,392,583)	(3,353,809)
Total extraordinary expenses	(5,924,350)	(5,690,349)
	30,295,143	18,239,508

(a) This account is used to record the recovery of credit assets, which balances were written off the credit portfolio and transferred to other memorandum accounts for their control since they were considered irrecoverable at certain moment.

28 Income and Expenses from Previous Periods, net

The summary of income and expenses from previous periods is as follows:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Income		
Loan portfolio interests	8,671,080	9,199,353
Loan portfolio reserves regularization	1,433,828	1,056,730
Remittances commissions	238,088	48,229
Carried forward	10,342,996	10,304,312

Notes to the Financial Statements

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Brought forward	10,342,996	10,304,312
Provisions reversals for:		
Board of Administrative Directors	10,019,430	-
Income tax	3,365,516	-
Professional fees	1,950,499	-
Accounts payable	866,738	1,908,682
Leases	115,565	56,186
Labour Benefits	19,021	22,430
Officers and employees	11,800	27,099
Electricity	-	52,031
Others	169,952	352,257
Total Income of previous years	26,861,517	12,722,997
Expenses:		
Marketing and advertising	(1,356,131)	(326,488)
Payments made to suppliers	(1,225,840)	(1,955,040)
Depreciations (note 11)	(861,695)	-
Labour benefits	(336,525)	(117,626)
Loan portfolio reserved interest	(468,115)	(324,981)
Amortizations (note 12)	(258,221)	-
Professional fees	(214,597)	(1,179,207)
Income Tax retentions	(70,319)	-
Others	(81,244)	(1,238,375)
Total expenses of previous years	(4,872,687)	(5,141,717)
	21,988,830	7,581,280

29 Income Tax

The statutory declarations of the income tax presented to the Bank from fiscal years ended on December 31, 2014 to 2018 are subject to review from the fiscal authorities. The State's right to carry out the review is limited to four years being counted from the maturity date of the tax payment.

Notes to the Financial Statements

In accordance with the Book I Income Tax Decree No. 10-2012 of the Congress of the Republic of Guatemala issued on March 5, 2012, the Bank adopted, from January 1, 2014, the regime upon the earnings coming from profit activities for the determination of the income tax which establishes a taxable rate of 25%. Besides, capital revenues and capital earnings are imposed with a taxable rate of 10% and the distribution of dividends, profits, and earnings is imposed with a rate of 5%.

The income tax of the period ended on December 31, 2018 amounted up Q51,159,233 (Q73,645,198 in 2017), which represents an effective rate of 9.07% (13.04% in 2017).

The integration of the taxable rate determination and the income tax expense is as follows:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Gross revenue (total income)	3,203,100,811	2,994,244,798
Less non-taxable income	(386,878,387)	(330,545,409)
Less deductible costs and expenses	(2,611,585,491)	(2,369,118,597)
Taxable income	204,636,933	294,580,792
Taxable rate	25%	25%
Income tax expense	51,159,233	73,645,198
Less payments performed (a)	-	-
Income Tax Payable (note 17)	51,159,233	73,645,198

(a) The payments of income tax for the period ended on December 31, 2018 amounted up Q41,880,400 (Q39,370,952 in 2017) it is shown in the amount of deferred taxes, import duties and contributions (note 12).

The determination of the income tax above was prepared in all significant aspects, in conformity with the provision contained in Book I Income Tax, Decree No. 10-2012 of the Congress of the Republic of Guatemala and its amendments which contain the regulation applicable to the income tax. The amounts stated might be subject to subsequent changes depending on the criteria applied by the fiscal authorities when analyzing the transactions.

Notes to the Financial Statements

30 Contingencies, Commitments, Other Liabilities and Memorandum Accounts

This is an account that summarizes all the memorandum accounts recorded in the Bank as required by the Manual of Accounting Instructions.

The summary of this account is as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Local currency:		
Commitments and contingencies	170,714,799	150,281,670
Loan portfolio guarantee	538,482,888	511,111,842
Classification of investments and loan portfolio and other assets	13,015,761,943	11,838,390,387
Third-party administration	517,087,789	512,750,942
Documents and own securities remitted	9,725,891	9,725,891
Authorized issuance of financial obligations	817,357,000	817,357,000
Financial obligations	703,357,000	703,357,000
Other memorandum accounts	997,698,055	971,845,447
Register accounts	1,961,727	2,362,917
Total local currency	16,772,147,092	15,517,183,096
Foreign currency:		
Commitments and contingencies	68,839,304	61,301,719
Classification of investments and loan portfolio and other assets	115,716,592	131,628,613
Third-party administration	-	888,288
Documents and securities remitted	238,994,386	-
Other memorandum accounts	153,960,156	139,591,013
Total foreign currency	577,510,438	333,409,633
	17,349,657,530	15,850,592,729

The item of third-party administration includes trust funds managed by the Bank (note 33) according to the following summary described in the next page:

Notes to the Financial Statements

	December 31	
	2018	2017
	Q	Q
Local currency:		
Administration	516,855,262	512,529,410
Others	232,524	221,530
	517,087,786	512,750,940

31 Concentration of Investments and Contingencies

On June 1, 2002 the Banks and Financial Groups Act, Decree No.19-2002 came into force and on April 1, 2013 the amendments to the law contained in Decree No. 26-2012 took effect. According to these regulations, the banks, the financial entities, as well as the off-shore entities and the companies specialized in financial services forming part of the financial groups – not taking into consideration the financial operations that can be carried out, without limitations, in securities issued by the Ministry of Finance or the Banco de Guatemala – will not bring about operations resulting in direct or indirect financing of any nature, no matter the legal form adopted, such as, but not limited to, bonds, promissory notes, liabilities and/or loans, neither granting guarantees or receipts, that in the overall exceed the percentages indicated as follows:

a) Fifteen percent (15%) of the calculated equity to a single individual person, a legal entity or a government or autonomous entity. Excluded from this limit all transitory surplus derived from the interbank deposits of operating nature or from the investments that the companies of the financial group may have in the bank of their financial group.

b) Thirty percent (30%) of the calculated equity to two or more persons related to each other forming part of a risk unit.

c) Thirty percent (30%) of the calculated equity to two or more persons related to each other; this will be considered as a sole risk unit. This percentage may increase up to fifty percent (50%) of the calculated equity if the surplus is constituted by credit assets totally guaranteed during the term of the loan with term deposit certificates or financial promissory notes issued by the institution, which are to remain in its custody.

   The deposits and investments that the companies of the financial group keep with the bank of their financial group will not have to be calculated for the limit effects established in this item.

Notes to the Financial Statements

d) Thirty percent 30% of the net worth in investments made by offshore entities in title-securities of sovereign debt of countries other than Guatemala, according to the scale of limits established by the Monetary Board based on the sovereign risk rating, that grant risk rating agencies recognized by the Securities an d Exchange Commission of the United States of America – SEC.

e) One hundred percent (100%) of the calculated equity to all the investments carried out by the banks or financial entities in representative title-securities of sovereign debt of countries other than Guatemala, counting with the outstanding sovereign risk rating which, in the investment grade range, be awarded by the risk rating agencies certified by the Securities and Exchange Commission of the United States of America – SEC.

When entities exceed the limits established by law, they will have to deduct such surplus immediately from their calculated equity for they could be penalized according to the law.

32 Conformation of the Financial Group

Article 27 of the Law of Banks and Financial Groups, establishes the constitution of Financial Group, which must be organized under the common control of a ruling company incorporated in Guatemala specifically for this purpose or a controlling company of the financial group.

On September 29, 2010 the Monetary Board issued Resolution No. JM 99-2010 fully formalizing the conformation of Grupo Financiero de los Trabajadores, which in this case is the Banco de los Trabajadores the responsible entity.

On June 6, 2018 the Monetary Board issued Resolution No. JM 35-2018 where authorizes the modification of the Grupo Financiero de los Trabajadores, in the meaning of adding Casa de Bolsa de los Trabajadores S.A. as part of the Group.

At December 31, 2018 the companies making part of Grupo Financiero de los Trabajadores are:

- Banco de los Trabajadores (responsable entity)
- Aseguradora de los Trabajadores, S.A.
- Financiera de los Trabajadores, S.A.
- Casa de Bolsa de los Trabajadores, S.A.

Notes to the Financial Statements

The transactions made with companies of Grupo Financiero de los Trabajadores are as follow:

	Years ended on December 31	
	2018	**2017**
	Q	**Q**
Income:		
Dividends	26,977,455	-
Interests	323,626	1,392,000
	27,301,081	1,392,000
Expenses:		
Interests	2,835,768	2,246,255
Services	4,240,348	4,897,722
	7,076,116	7,143,977

The balances with companies of Grupo Financiero de los Trabajadores are summarized below:

	December 31	
	2018	**2017**
	Q	**Q**
Assets:		
Investments	1,843,583	23,200,000
Permanent Investments	72,708,666	72,708,666
	74,552,249	95,908,666
Liabilities:		
Deposit Obligations	63,490,284	66,643,437
Accounts payable	655,535	1,093,299
	64,145,819	67,736,736

The companies of the financial group are not allowed to:

a) Grant direct or indirect financing for the acquisition of representative shares from the parent company, the responsible company or any other financial company of the group to which it belongs;

b) Carry out financial operations or services rendering among each other, under conditions such as terms, rates, amounts, guarantees and commissions other than those used in similar operations with third party.

   The Monetary Board will rule the operations that could be carried out among entities; and

c) Perform operations or provide financial services that the Monetary Board considers incompatible with the financial business.

Notes to the Financial Statements

33 Commitments and Contingencies

- **Credit lines**
  As of December 31, 2018 the Bank has contingent liabilities due to credit lines authorized and pending to be released for loans and credit cards in the amount of Q151,859,720 and US$8,897,473 equivalent to Q68,839,303 (Q127,769,529 and US$8,224,220 equivalent to Q60,405,004).

- **Credit letters**
  As of December 31, 2018 The Bank has contingent liabilities due to credit letters issued in the amount of Q12,845,163 (Q10,058,812 and US$122,088 equivalent to Q896,710 in 2017).

- **Trust funds**
  As of December 31, 2018 and 2017, the Bank manages a trustee (11) trust contracts. In conformity with the Code of Commerce, the trustee is a responsible before third parties for the compliance of liabilities contained in the subscribed trust contracts, including the compliance of the corresponding tax obligations. These trust funds are not audited by Klynveld Peat Marwick Goerdeler, S.A. (4) trust funds are audited by the General Comptroller of Accounts of the Nation and (1) of them also is audited by other independent auditors.

- **Lease commitments**
  The Bank entered into operating lease contracts for the use of some buildings, furniture and equipment, and other assets, according to the conditions stipulated in the contracts. The amount of the expense of 2018 for this concept is worth of Q62,765,989 (Q53,813,107 in 2017)

- **Pending disputes**
  As of December 31, 2018, are pending of resolution the following civil and fiscal litigations.

  The amounts of the additional taxes claimed do not include fines and compensation interests and are summarized as follows:

	December 31	
	2018	**2017**
	Q	**Q**
Additional taxes claimed		
In administrative instance:		
Income tax – tax on earnings from lucrative activities fiscal year 2015	61,297,804	-
Carried forward	61,297,804	-

Notes to the Financial Statements

	December 31	
	2018	**2017**
	Q	**Q**
Brought forward	61,297,804	-
Solidarity tax – adjustment of third quarter fiscal period 2015	506,608	-
Tax adjustments for solidarity tax fourth quarter fiscal period 2015	506,608	-
	62,311,020	-
Judicial process:		
Income tax – financial income fiscal year (ISPF) year1998	3,832,541	3,832,541
Income tax – financial income fiscal year (ISPF) year 1999	1,998,094	2,176,072
	5,830,635	6,008,613
Civil process:		
Precautionary seizure resulting from decisions made against previous owners of Certificates of Treasury of the Republic of Guatemala (see note 5)	1,655,000	1,655,000
	69,796,655	7,663,613
Foreign currency:		
Litigation presented in the South Florida District, Case Number 1: 41-CV-23193-UU (b)	-	3,250,000
	-	3,250,000

a. According to the opinion of the attorneys and tax advisors as well as the administration, there is a possibility that the result of these litigations will be favorable. For this reason, no provision has been recorded as of December 31, 2018 to cover possible losses from these claims.

b. At January 2018 the court issued against the Bank and requested a deposit in cash in favor of the plaintiff which amounted to US$4,007,971.

Notes to the Financial Statements

Other processes:
During the year 2016 as a result of a complaint filed by the Administration for Special Verification of the Superintendency of Banks, on December 31, 2016 the Public Ministry initiated proceedings against certain former executives of the Bank for the crimes of illicit association, embezzlement and money laundering.

The defrauded amounts were recorded in the income statement of the years ended on 2010 and 2011, so the Bank´s Administration considers that the final result of these processes will not have an additional adverse effects on the assets in future financial statements. The Bank is constituted in the aforementioned criminal process as an adhesive complainant, expecting worthy reparation in favor of the Bank damage caused to the equity.

Labour processes
As of December 31, 2018 there are labour litigations in which the Bank can be found as demanded. Those process were initiated by ex-collaborators of the Bank and other people that were hired by the entity of whom the Bank hire the personal outsourcing services, claiming employee compensation, and other labour benefits and adjustments amounted up Q30,322,427 approximately.

There are another labour processes that according to it nature cannot be quantified, until the court that has knowledge of this case deliver liquidation sentence.

34 Net Position in Foreign Currency

The net position in foreign currency is as follows:

	December 31	
	2018	**2017**
	US$	**US$**
Assets:		
Cash	22,860,805	48,084,655
Investments	107,097,386	77,649,095
Loans portfolio	14,880,648	16,862,124
Financial products receivable	1,395,170	1,235,332
Accounts receivable	1,400,436	4,028,125
Foreclosed assets	5,218,372	4,797,090
Permanent investments	1	1
Total assets	152,852,818	152,656,422
Carried forward	152,852,818	152,656,422

Notes to the Financial Statement

	December 31	
	2018	**2017**
	US$	**US$**
Carried forward	152,852,818	152,656,422
Liabilities:		
Deposit obligations	(14,307,414)	(16,725,862)
Loans obtained	(150,000,000)	(150,000,000)
Financial expenses payable	(2,290,285)	(27,538)
Accounts payable	(1,778,480)	(295,172)
Other credit accounts	(204,679)	(115,429)
Total liabilities	(168,580,858)	(167,164,001)
Net position	(15,728,040)	(14,507,579)

35 Presentation of the Financial Statements

According to Agreement Number 06-2008 of the Superintendent of Banks, the Bank as the responsible entity of a Financial Group must present the individual financial statements and the consolidated financial statements along with those of the companies conforming Grupo Financiero Banco de los Trabajadores.

The cash flow of the Bank for the period ended on December 31, 2017 was prepared in accordance with the instructive to send information to The Superintendency of Banks of Guatemala without taking into consideration the regularization of all accounting items that not represents cash flow and cash equivalents as required by the Manual of Accounting Instructions for Entities Subject to the Surveillance and Inspection of the Superintendency of Banks.

36 Risk Management

The Bank is exposed to the following risks that, if they occur, could have an adverse material effect on its financial statements:

- **Credit risk**
  Is the contingency that an institution incurs losses as a consequence of the non-compliance of a debtor or counterparty with its obligations in the agreed terms.

- **Liquidity risk**
  Is the contingency that an institution that does not have the capacity to fund increases in its assets or cannot comply with its liabilities in a timely manner, without incurring financial costs off the market.

- **Market risk**
  Is the contingency that an institution incurs losses as a consequence of adverse movements in the financial market prices. This includes interest rates and effects of movements in exchange rates risks.

Notes to the Financial Statement

- **Operating risk**
  Is the contingency that an institution incurs losses due to inadequacy or mistakes in processes, personnel, internal systems or else from external events. It includes technological and legal risks.

- **Country risk**
  Is the contingency that an institution incurs losses, associated with the economic, social, and political environment in the country where the debtor or counterparty performs its operations and/or have its domicile. It includes sovereign, political, and transference risk.

- **Money laundering and terrorist financing risk**
  Is the contingency that the services and income of an institution are used to cover financial assets, in a way that they can be used without detecting the illegal activity that creates them.

  In addition of having penalty implications or admonitions for incompliance of the Money and Other Assets Laundering Act in force and the Prevention and Repression of Terrorist Financing Act, the institution's image is also put at risk.

- **Regulatory risk**
  Is the contingency that an institution incurs losses for stop complying with the regulatory or statutory requirements in the relevant jurisdiction in which the institution operates.

37 Basis of Presentation

The accounting policies used for the preparation of the accompanying financial statements differ, in some aspects, from the international financial reporting standards (IFRS). The main conceptual differences as below:

a. Recognition of income on the cash received basis of accounting
   The Manual of Accounting Instructions provides that income for interest on the loan portfolio must be recognized by the accounting method of cash received.

   IFRS provide that this income should be recognized according to the accounting method of accrual.

b. Valuation of credit assets
   The Manual of Accounting Instructions provides that the estimate for valuation of credit assets, including generic and specific reserves, must cover total the equivalent of 100% of the past due loan portfolio. The sum of these reserves may not be, in any case, less than the equivalent of 1.25% of the total of the gross credit assets.

Notes to the Financial Statement

IFRS provide that impairment assessment of the credit assets should be performed at least once a year and reserves should be created for credit risks as considered necessary.

c. Valuation of extraordinary assets – foreclosed assets
The MIC provide that assets adjudicated judicially must be recorded initially at the value established in the liquidation approved by the judge, plus taxes and transfer-of-domain expenses. Subsequently, banks must value the extraordinary assets for no longer than three (3) months from the date of the acquisition of the property, in order to adjust the value recorded in the accounts to the value established in such valuation.

Extraordinary assets that the banks hold or acquire must be sold within a period of two (2) years from the acquisition date. If the sale is not carried out during that term, they must be offered in public auction. If there are no bidders on the date, time and place appointed for the auction, a new one must be held every three (3) months. The basis for this auction and the subsequent ones must be a price that will be less, each time, than the previous sum by at least ten (10) percent of the base of the first auction.

IFRS indicates that a non-current asset will be classified as held for sale if its book value can be recovered fundamentally through a sales transaction, instead of its continued use. Non-current assets classified as held for sale will be measured to the lesser of its book value or its fair value less costs of sale. IFRS do not allow capitalizing holding expenses and costs.

d. Determination of the property and furniture depreciation
The MIC indicates the recording of the depreciation of property and furniture and for the calculation of such depreciation the rates allowed for fiscal purposes are used.

IFRS establishes that fixed assets must be depreciated throughout their useful life.

e. Recording of the depreciation of revalued assets
The MIC provides that the depreciation of revalued assets be written off from equity.

IFRS stipulates that the depreciation charges of all fixed assets be recognized in the income of the period and subsequently, the corresponding adjustment be made among the affected equity accounts.

Notes to the Financial Statement

f. Goodwill
The MIC establish that goodwill must be amortized.

IFRS stipulates that intagible assets with indefinite useful life could not be amortized. An impairment test of assets must be performed annually for this account.

g. Repurchase and resale agreement of securities
The MIC provides that repurchase and resale agreement of securities guarantees are written off from assets and recorded in memorandum accounts.

IFRS provides that while the property, risks and benefits of an investment are maintained, such investment be recorded as financial asset, recording as liability the obligation assumed by the counterpart received in repurchase and resale agreement.

h. Costs of transaction associated with the loan portfolio, to the loans obtained and other obligations
According to the MIC, associated costs of transactions are recorded in the results when incurred.

In accordance with IFRS, transaction costs must form part of the determination of the effective interest rate and are amortized during the term of the financial assets or liabilities.

i. Employee benefits
The MIC sets out the creation of a reserve for labor compensation.

IFRS provides that termination benefits must be recorded as only when employer recognize a liability, independently of the decision of the employee.

j. Recording and presentation of other reserves in equity
The MIC provides that certain reserves, such as reserves for contingencies, valuation of doubtful recovery assets, and provisions for severance pay compensation, may be recorded in equity.

IFRS establishes that reserves, such as those for valuation of doubtful recovery assets and provision for severance pay compensation, be recorded regularizing the asset or liability as corresponds, charging them to the profit or loss of the year. Reserves for contingencies are not allowed.

Notes to the Financial Statement

k. Adjustments to previous years
The MIC provides that adjustments to previous years be presented in the income statement of the year as income and expenses of previous periods.

IFRS provides that the financial statements presented for the current year and previous years be restated retroactively correcting the error. The effect of the correction of an error in previous periods will not be included in the result of the period in which the error was discovered.

l. Extraordinary income and expenses
The MIC considers the presentation of extraordinary income and expenses in profit and loss statement.

IFRS establishes that entries of income or expenses cannot be presented as extraordinary entries in the profit and loss statement, nor in other integral result of the period or in the notes.

m. Consolidation of financial statements
The MIC provides that the Bank must carry out the consolidation of the financial statements of the companies that make up the financial group authorized by the Monetary Board.

IFRS indicates that the consolidation is based on the concept of control and it is necessary to analyze every particular case, not only those companies in which there is majority of profit sharing participation and/or those within the regulated group.

n. Business merge – fair value on acquisitions
Regulations establish that business merge can be performed as follows: Absorption of one or more entities by other entity, and produce dilution of those entities that were absorbed or creation of a new entity and all prior entities integrate the new one. In practice the balances of assets, liabilities and equity of the absorbed entities unify to the carrying value of themselves.

IFRS stipulates that an acquiring Company of business merge recognize the acquiring assets and the liabilities assumed to fair value in the date of acquisition.

o. Notes to the financial statements
The MIC does not require minimum mandatory disclosures to the financial statements.

IFRS establishes that the entire financial statements include, besides the basic financial statements, the disclosure of the accounting policies and explanatory notes.

Notes to the Financial Statement

p. Some disclosures required by IFRS related to financial instruments mainly referring to the following:

- Classification of assets and liabilities according to their maturity dates and disclosures referring to financial instruments (for example: relevance of the financial instruments and the nature and scope of the risks from such financial instruments).
- Registry referring to derivatives contracts.
- Participation in other entities
- Fair value measurement

q. Use of accounts
In the creation of accounts needed to record transactions not covered by the MIC, entities must first obtain the authorization from the Superintendency of Banks.

IFRS does not include a nomenclature of accounts. IFRS provide that operations must be recorded according to their substance.

r. Deferred income tax
The MIC does not consider in its section IV - Description of Accounts and Procedure of Registration, the recording of the deferred income tax, which is required when temporary differences are identified under IFRS.

s. Non-financial assets value impairment
The MIC does not require carrying out an assessment of impairment of non-financial assets.

IFRS establishes that an assessment must be done at each year end whether or not there is any evidence of asset value impairment. If such evidence exists, an estimate of its recoverable amount will be done. The carrying amount of an asset will be reduced to its recoverable value if, specifically, the recoverable amount is less than the carrying amount. That decrease is an impairment loss.

t. Conciliation financing activities
The MIC does not require the conciliation between initial and final balances of liabilities related to financing activities and net cash flows coming from or used in financing activities presented in cash flow statement. The conciliation is an IFRS requirement.