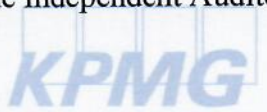
**Banco de los Trabajadores**

# Financial Statements

## December 31, 2019 and 2018

(With the Independent Auditors' Report)



# Contents

Independent Auditors' Report

Balance Sheets
Statements of Income
Statements of Changes in Equity
Statements of Cash Flows
Notes to the Financial Statements

**Klynveld Peat Marwick Goerdeler, S.A.**
Contadores Públicos y Auditores
Apartado Postal 1020
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, 2019, 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, 2019 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.

(Continue)

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.<br><br>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:<br><br>• Get an understanding of Bank control environment.<br>• Evaluate and test the controls designed to determine customer's payment default.<br>• Recalculate base on the guidelines required for loan portfolio.<br>• Inspect the documentation that contains the authorization to apply the loans against the estimate on valuation of loan portfolio.<br>• Inspect collections received on the agreed dates.<br>• Consider the appropriate disclosures in financial statements performed by management. |

***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.

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.

(Continue)

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 appropriateness of accounting policies used and 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.

- 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.

(Continue)

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 5, 2020

# Balance Sheets

*As of December 31, 2019 and 2018*
*(Figures expressed in Quetzales)*

| | 2019<br>Q | 2018<br>Q |
|---|---|---|
| **Assets** | | |
| Cash (note 4) | 3,177,381,760 | 3,175,155,410 |
| Investments, net (note 5) | 8,263,647,779 | 7,537,227,762 |
| Loans portfolio, net (note 6) | 14,006,607,271 | 13,062,519,525 |
| Financial products receivable (note 7) | 349,507,468 | 336,173,827 |
| Accounts receivable, net (note 8) | 17,711,920 | 20,983,615 |
| Foreclosed assets, net (note 9) | 33,979,336 | 45,892,899 |
| Permanent investments, net (note 10) | 73,886,172 | 73,886,172 |
| Property and equipment, net (note 11) | 194,255,775 | 177,613,365 |
| Deferred charges, net (note 12) | 172,412,699 | 185,927,613 |
| | 26,289,390,180 | 24,615,380,188 |
| **Liabilities, Other Credit Accounts and Equity** | | |
| Deposit obligations (note 13) | 20,541,208,616 | 19,652,386,153 |
| Loans obtained (note 14) | 1,154,826,000 | 1,160,542,500 |
| Financial obligations (note 15) | - | 598,000 |
| Financial expenses payable (note 16) | 27,921,517 | 30,675,964 |
| Accounts payable (note 17) | 749,168,846 | 625,217,658 |
| Provisions (note 18) | 72,448,860 | 50,990,131 |
| Deferred credits (note 19) | 115,818,559 | 92,737,615 |
| Total liabilities | 22,661,392,398 | 21,613,148,021 |
| Other credit accounts (note 20) | 310,005,495 | 293,765,007 |
| Total liabilities and other credit accounts | 22,971,397,893 | 21,906,913,028 |
| Equity (notes 21 and 22) | 3,317,992,287 | 2,708,467,160 |
| Commitments and contingencies (note 33) | | |
| | 26,289,390,180 | 24,615,380,188 |
| Contingencies, commitments, other liabilities and memorandum accounts (note 30) | 18,644,412,707 | 17,349,657,530 |

See accompanying notes to the financial statements.

# Statements of Income

*Years ended at December 31, 2019 and 2018*
*(Figures expressed in Quetzales)*

| | 2019<br>Q | 2018<br>Q |
|---|---|---|
| Financial income (note 23) | 3,402,397,238 | 3,073,300,396 |
| Financial expenses (note 23) | (1,548,882,327) | (1,579,609,230) |
| Net financial income | 1,853,514,911 | 1,493,691,166 |
| Service income (note 24) | 39,770,756 | 38,232,914 |
| Services expenses (note 24) | (29,633,938) | (39,595,667) |
| Net services income | 10,136,818 | (1,362,753) |
| Other operating income and expenses, (note 25): | | |
| Other operating income | 27,388,141 | 28,486,491 |
| Uncollectible and doubtful accounts (note 6) | (195,315,953) | (164,793,718) |
| Other operating expenses | (57,530) | (10,294,838) |
| Other operating income and expenses, net | (167,985,342) | (146,602,065) |
| Gross operating margin | 1,695,666,387 | 1,345,726,348 |
| Administrative expenses (note 26) | (922,234,103) | (834,005,596) |
| Operating margin, net | 773,432,284 | 511,720,752 |
| Extraordinary income and expenses, net (note 27) | 55,368,316 | 30,295,143 |
| Income and expenses from previous periods, net (note 28) | (2,536,764) | 21,988,830 |
| Gross income | 826,263,836 | 564,004,725 |
| Income tax expense (note 29) | (127,789,361) | (51,159,233) |
| Net income | 698,474,475 | 512,845,492 |

See accompanying notes to the financial statements.

# Statements of Changes in Equity

*Years ended at December 31, 2019 and 2018*
*(Figures expressed in Quetzales)*

| | 2019<br>Q | 2018<br>Q |
|---|---|---|
| Equity: | | |
| Paid-in capital (note 21): | | |
| Common shares: | | |
| Balance at the beginning of period | 42,253,420 | 42,258,840 |
| Increase (decrease) in capital | 3,080 | (5,420) |
| Balance at period end | 42,256,500 | 42,253,420 |
| Preferred shares: | | |
| Balance at the beginning of period | 157,582,290 | 157,597,290 |
| Decrease in capital | - | (15,000) |
| Balance at period end | 157,582,290 | 157,582,290 |
| Permanent contributions: | | |
| Balance at the beginning and end of period | 8,011 | 8,011 |
| Capital reserves: | | |
| Legal reserve (note 3o): | | |
| Balance at the beginning of period | 145,484,152 | 120,936,549 |
| Transfer of earnings from previous periods | 25,642,276 | 24,547,603 |
| Balance at period end | 171,126,428 | 145,484,152 |
| Reserve for contingencies (note 22): | | |
| Balance at the beginning of period | 193,159,241 | 151,017,321 |
| Transfer of earnings from previous periods | 74,175,955 | 108,388,290 |
| Balances applied in period | - | (66,246,370) |
| Balance at year end | 267,335,196 | 193,159,241 |
| Reserve for reinvestment of profit | | |
| Balance at the beginning and end of period | 2,927,808 | 2,927,808 |
| Carried forward | 641,236,233 | 541,414,922 |

(Continue)

# Statements of Changes in Equity

| | 2019<br>Q | 2018<br>Q |
|---|---|---|
| Brought forward | 641,236,233 | 541,414,922 |
| Other reserves: | | |
| Balance at the beginning of period | 1,628,024,650 | 1,302,806,151 |
| Transfer of earnings from previous periods | 296,703,820 | 325,164,868 |
| Transfer of dividends from own shares held by the Republic of Guatemala | 60,000 | 60,000 |
| Dividends paid from previous periods | (16,889) | (6,369) |
| Balance at period end | 1,924,771,581 | 1,628,024,650 |
| Revaluation of Assets: | | |
| Balance at beginning of period | 38,899,938 | 42,030,528 |
| Depreciation of current period (note 11) | (3,130,589) | (3,130,590) |
| Balance at period end | 35,769,349 | 38,899,938 |
| Fair value on available for sale investments: | | |
| Balance at beginning of period | (12,717,842) | 4,784,712 |
| Movement of the year | 30,458,491 | (17,502,554) |
| Balance at period end | 17,740,649 | (12,717,842) |
| Earnings from previous periods: | | |
| Balance at beginning of period | 512,845,492 | 490,952,052 |
| Net income | 698,474,475 | 512,845,492 |
| | 1,211,319,967 | 1,003,797,544 |
| Less: | | |
| Transfer to other reserves | (296,703,820) | (325,164,868) |
| Transfer to reserve for contingencies | (74,175,955) | (108,388,290) |
| Transfer to legal reserve | (25,642,276) | (24,547,603) |
| Dividends decreed (note 22) | (24,011,253) | (24,014,154) |
| Board of Directors bonus (note 22) | (15,385,365) | (8,837,137) |
| Bonus for employees by collective agreement of working conditions (note 22) | (76,926,823) | - |
| | (512,845,492) | (490,952,052) |
| Balance at period end | 698,474,475 | 512,845,492 |
| Total equity | 3,317,992,287 | 2,708,467,160 |

See accompanying notes to the financial statements.

# Statements of Cash Flows

*Years ended December 31, 2019 and 2018*
*(Figures expressed in Quetzales)*

| | 2019<br>Q | 2018<br>Q |
|---|---|---|
| Cash flow from operating activities: | | |
| Interest collection | 3,238,967,178 | 2,970,480,655 |
| Commission collection | 110,124,607 | 71,061,651 |
| Service collection | 39,770,756 | 38,232,914 |
| Payment for interests | (1,475,814,311) | (1,525,452,932) |
| Payment for services | (29,633,938) | (39,595,667) |
| Payments for administrative expenses | (779,118,364) | (783,757,090) |
| Investment in securities: | | |
| Income from divestment | 34,406,298,763 | 109,413,274,602 |
| Disbursements from investments | (35,256,470,952) | (110,138,621,628) |
| Loan portfolio: | | |
| Income from amortizations | 3,777,454,171 | 2,555,590,158 |
| Disbursements from loans | (4,011,132,279) | (3,762,781,825) |
| Deposit obligations: | | |
| Income from depositors | 9,368,358,046 | 7,094,870,802 |
| Disbursements from withdrawals of deposits | (9,510,227,921) | (7,607,461,904) |
| Financial obligations: | | |
| Expenses for redemption or re-acquisition | (598,000) | - |
| Sale of foreclosed assets | 15,373,749 | 21,598,231 |
| Income tax paid | (29,056,858) | (48,780,697) |
| Other income and expenses (net): | 632,304,462 | 2,316,260,645 |
| Net cash flows coming from operating activities | 496,599,109 | 574,917,915 |
| Cash flow from investment activities: | | |
| Dividends received | 24,528,739 | 27,073,215 |
| Income for sale of property and equipment | 309,050 | 15,640 |
| Disbursement for purchase of property and equipment | (31,399,313) | (29,246,921) |
| Net cash flows used in investments activities | (6,561,524) | (2,158,066) |
| Carried forward | 490,037,585 | 572,759,849 |

(Continue)

# Statements of Cash Flows

| | 2019<br>Q | 2018<br>Q |
|---|---|---|
| Brought forward | 490,037,585 | 572,759,849 |
| Cash flows from financing activities: | | |
| Dividends paid | (2,426,649) | (1,829,270) |
| Board of Directors bonus | (15,385,365) | (8,837,137) |
| Bonus for employees by collective agreement of working conditions | (76,926,823) | - |
| Return of shares | (2,350) | (22,550) |
| Net cash flows used in financing activities | (94,741,187) | (10,688,957) |
| Net increase of cash and cash equivalents | 395,296,398 | 562,070,892 |
| Cash and cash equivalents at the beginning of year | 3,596,644,828 | 3,034,573,936 |
| Cash and cash equivalents at period end | 3,991,941,226 | 3,596,644,828 |

**Complementary Information**

The following is a summary of cash and cash equivalents:

| | Q |
|---|---|
| Cash (note 4) | 3,177,381,760 |
| Investments (note 5) | 814,559,466 |
| | 3,991,941,226 |

See accompanying notes to the financial statements.

# Notes to the Financial Statements

*December 31, 2019 and 2018*

## 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, 2019, the reference exchange rates of the Bank of Guatemala and forex banking market was around Q7.70 per US$1.00 (Q7.74 per US$1.00 in 2018).

**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.

**iii. Surplus on revaluation**

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

**iv. 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

**v. 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**

Merge expenses, software licenses and goodwill and 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 appropriate, 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 management 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 Bonus for Employees by Collective Agreement of Working Conditions**

In accordance with the Shareholders Meeting, it is approved the payment of an annual bonus to employees in accordance with the collective agreement of working conditions. The amount allocated is reduced from the income statement for previous years and an account payable is registered. The payment becomes effective during the year in which the bond is decreed.

**n 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.

**o Legal Reserve**

In accordance with the articles 36 and 37 of the Guatemalan Commercial Code, every company shall annually separate at least five percent (5%) of the net accounting profit of each fiscal year to form the legal reserve. This may not be distributed in any way among the shareholders until the liquidation of the company. However, the surplus of five percent (5%) thereof may be capitalized annually when the annual legal reserve exceeds fifteen percent (15%) of the capital paid at the close of the previous year, without prejudice to continuing to reserve the five percent (5%) annual mentioned above. A Five percent (5%) of the net profit of the previous year is accounted for in the current year.

**p 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.

# Notes to the Financial Statements

**q 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).

**r 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.

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 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Cash | 169,852,463 | 139,604,865 |
| Central Bank legal deposit (a) | 2,701,766,655 | 2,738,635,464 |
| Central Bank special deposits | 124,035,539 | 117,492,425 |
| Local Banks | 3,182,336 | 7,230,726 |
| Banks abroad (b) | 156,295,968 | 126,840,473 |
| Checks for compensation | 22,248,799 | 45,351,457 |
| Total local currency | 3,177,381,760 | 3,175,155,410 |

(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 as of December 31, 2018 included a deposit by US$12,500,000 constituted in the entity Societé Génerale 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 was settled during the year ended December 31, 2019 as it could be withdrawn before its expiration.

# Notes to the Financial Statements

## 5 Investments, net

The summary of this account as of December 31, 2019 is as follows:

| | Annual interest rate ranges | Maturity | Balance in Q |
|---|---|---|---|
| Securities available for sale | 4.38% to 10% | From 2020 to 2034 | 6,503,635,094 |
| Securities held to maturity | 1.75% to 13.20% | From 2020 to 2040 | 1,322,307,871 |
| Resale agreement of securities | 2.55% to 3.50% | 2020 | 443,528,666 |
| Interest paid on purchase of securities | | | 971,787 |
| Total investments | | | 8,270,443,418 |
| Less: valuation estimate | | | (6,795,639) |
| Total investments, net | | | 8,263,647,779 |

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

| | Annual interest rate ranges | Maturity | Balance in Q |
|---|---|---|---|
| Securities available for sale | 4.38% to 10% | From 2019 to 2033 | 6,129,337,660 |
| Securities held to maturity | 0% to 13.20% | From 2019 to 2040 | 993,196,323 |
| Resale agreement of securities | 2.70% to 3.85% | 2019 | 421,489,418 |
| Total investments | | | 7,544,023,401 |
| Less: valuation estimate | | | (6,795,639) |
| Total investments, net | | | 7,537,227,762 |

# Notes to the Financial Statements

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

b. As of December 31, 2019, this item includes US$113,041,095 equivalent to Q870,285,305 (see notes 2c and 34).

c. The investments at December 31, 2019 included cash equivalents for Q814,559,466.

d. At December 31, 2019 the investments have maturities that range from 2020 to 2040. The maturities during the next five years are summarized as follows:

| | **Q** |
|---|---|
| 2020 | 1,873,083,118 |
| 2021 | 647,948,245 |
| 2022 | 156,903,710 |
| 2023 | 2,004,601 |
| 2024 onwards | 5,590,503,744 |
| | 8,270,443,418 |

e. At December 31, 2019 and 2018 representative certificates of Treasury Bonds of the Republic of Guatemala for Q1,655,000 it seized by judicial order (see note 33).

f. The accounting movement of the estimate valuation for investment for the year ended December 31, 2018 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 |

g. At December 31, 2019 F.H.A. mortgage debentures for Q3,915,155 have 90 days of default or more.

# Notes to the Financial Statements

## 6 Loans Portfolio, net

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Unsecured | 13,649,764,292 | 12,786,865,450 |
| Credit cards | 232,089,476 | 208,379,083 |
| Mortgage | 146,786,947 | 128,799,142 |
| Mortgage-unsecured | 106,281,332 | 99,096,865 |
| With own guarantee | 76,197,076 | 79,539,520 |
| In monetary deposit accounts | 35,167,776 | 26,969,075 |
| Payments by credit letters | 8,117,156 | 9,296,613 |
| Debtors on sale of foreclosed assets | 2,721,603 | 2,791,496 |
| Pledged-unsecured | 1,128,843 | 1,279,231 |
| Total local currency | 14,258,254,501 | 13,343,016,475 |
| Less: | | |
| Estimate on valuation: | | |
| Specific | (153,681,226) | (214,628,879) |
| Generic | (97,966,004) | (65,868,071) |
| Total estimate on valuation | (251,647,230) | (280,496,950) |
| Total loan portfolio, net | 14,006,607,271 | 13,062,519,525 |

As of December 31, 2019, this item includes US$14,902,989 equivalent to Q114,735,728 (see notes 2c and 34).

Loan operations earn variable annual interest rates vary between the percentages indicated is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **%** | **%** |
| Loans: | 4 – 39 | 1 – 42 |
| Credit card: | 0 – 58.80 | 0 – 58.80 |

The summary of the loan portfolio by situation listed as shown in the next page:

# Notes to the Financial Statements

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Current | 14,060,207,769 | 13,090,036,952 |
| Past due: | | |
| In extension process | - | 338,008 |
| In administrative collection | 147,938,532 | 139,039,609 |
| In legal collection | 50,108,200 | 113,601,906 |
| | 198,046,732 | 252,979,523 |
| Total loan portfolio | 14,258,254,501 | 13,343,016,475 |

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Major debtors | 74,033,485 | 79,914,089 |
| Minor debtors | 127,765,495 | 99,207,740 |
| Microcredits | 183,210 | 224,721 |
| Mortgage loans for housing | 50,231,784 | 49,579,330 |
| Consumption | 14,006,040,527 | 13,114,090,595 |
| Total loan portfolio | 14,258,254,501 | 13,343,016,475 |

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 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Up to one year | 500,511,853 | 695,368,779 |
| From one to three years | 982,591,771 | 916,061,037 |
| From four to five years | 3,225,680,450 | 2,367,379,480 |
| More than five years | 9,549,470,427 | 9,364,207,179 |
| Total loan portfolio | 14,258,254,501 | 13,343,016,475 |

The accounting movement of the estimate on valuation of the loan portfolio is summarized in the next page:

# Notes to the Financial Statements

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Balance at beginning of the year | 280,496,950 | 367,731,474 |
| Plus increases for: | | |
| Provision charged to results | 187,050,000 | 150,000,000 |
| Exchange rate fluctuation, net | - | 3,730,192 |
| | 187,050,000 | 153,730,192 |
| Less charges for: | | |
| Loans applied to the estimate | (215,538,560) | (240,964,716) |
| Exchange rate fluctuation, net | (361,160) | - |
| | (215,899,720) | (240,964,716) |
| Balance at period of the year | 251,647,230 | 280,496,950 |

The valuation estimates charged to results are summarized as follow:

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Estimates for valuation: | | |
| Loan portfolio | 187,106,796 | 150,000,000 |
| Accounts receivable (note 8) | 500,000 | 6,000,000 |
| Foreclosed Assets (note 9) | 7,709,157 | 8,793,718 |
| | 195,315,953 | 164,793,718 |

## 7 Financial Products Receivable

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Loan portfolio | 220,799,985 | 204,571,063 |
| Investments | 128,278,405 | 106,073,320 |
| Accounts receivable | - | 25,152,450 |
| Cash | 429,078 | 376,994 |
| | 349,507,468 | 336,173,827 |

# Notes to the Financial Statements

## 8 Accounts Receivable, net

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Accounts receivable employees | 12,114,746 | 10,875,164 |
| Difference in prices on resale agreement | 8,547,150 | 13,145,993 |
| Advance on loans | 5,629,775 | 5,683,548 |
| Payments on account of third-party | 4,761,444 | 5,952,968 |
| Rights per services | 2,851,933 | 2,086,517 |
| Legal expenses | 1,273,898 | 1,100,698 |
| Insurance premiums | 429,170 | 416,291 |
| Advances on expenses | 383,013 | 228,070 |
| Advances on salaries | 13,063 | 133,066 |
| Others | 1,612,847 | 766,463 |
| Total accounts receivable | 37,617,039 | 40,388,778 |
| Less: estimate on valuation | (19,905,119) | (19,405,163) |
| | 17,711,920 | 20,983,615 |

The accounting movement of the valuation estimate of the accounts receivable summarized as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Balance at the beginning of the year | 19,405,163 | 13,405,768 |
| Plus increases by: | | |
| Provision for the year charged to results | 500,000 | 6,000,000 |
| Less charges for: | | |
| Balances applied to the estimate | - | (605) |
| Exchange rate fluctuation, net | (44) | - |
| Balance at the end of the year | 19,905,119 | 19,405,163 |

# Notes to the Financial Statements

## 9 Foreclosed Assets, net

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Property | 92,286,286 | 128,173,789 |
| Movable assets | 389,150 | 497,805 |
| Total in local currency | 92,675,436 | 128,671,594 |
| Less: estimate on valuation | (58,696,100) | (82,778,695) |
| | 33,979,336 | 45,892,899 |

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

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Balance at the beginning of the year | 82,778,695 | 86,251,605 |
| Plus increases for: | | |
| Provisions charged to results | 7,709,157 | 8,793,718 |
| Record of valuation performed to foreclosed assets (nota 27) | 1,698,366 | 3,552,072 |
| | 9,407,523 | 12,345,790 |
| Less charges for: | | |
| Balances applied to the estimate | (33,490,118) | (15,818,700) |
| Balance at year end | 58,696,100 | 82,778,695 |

# Notes to the Financial Statements

## 10 Permanent Investments, net

The summary of this account as of December 31, 2019 and 2018 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. | 3.79 | 504 | 1,000 | 504,000 | | 815,100 |
| Útil Valor, S.A. | 8.89 | 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 December 31, 2019 due to the investments in shares in the entity Aseguradora de los Trabajadores, S. A. by Q24,299,546, VISA Inc. by Q128,393 and Imágenes Computarizadas de Guatemala, S.A. by Q100,800 for a total of Q24,528,739 (Aseguradora de los Trabajadores, S.A. for Q26,977,455 and Imágenes Computarizadas de Guatemala, S.A. for Q95,760 in 2018) (see note 25).

# Notes to the Financial Statements

## 11 Property and Equipment, net

The movement of this account for the year ended December 31, 2019 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 | 67,579,577 | 453,515 | 832,325 | (36,188,932) | 32,676,485 |
| Furniture and equipment | 45,576,529 | 696,475 | 1,626,312 | (14,559,488) | 33,339,828 |
| Vehicles | 805,036 | 307,900 | - | (297,178) | 815,758 |
| Information systems | 33,754,954 | 7,285,656 | 12,750,402 | (6,947,097) | 46,843,915 |
| Telecommunications equipment | 3,513,848 | 202,305 | 1,059,345 | (169,305) | 4,606,193 |
| Gallery paints | 2,010 | - | - | - | 2,010 |
| Others | 2,721,436 | 2,541,976 | 3,733,998 | (134,132) | 8,863,278 |
| Advances for assets acquisition | 25,878,507 | 41,268,920 | (22,116,124) | (5,210,278) | 39,821,025 |
| | 224,137,018 | 52,756,747 | (2,113,742) | (63,506,410) | 211,273,613 |
| Accumulated depreciation - cost | (90,661,993) | (24,884,307) | - | 57,520,711 | (58,025,589) |
| | 133,475,025 | 27,872,440 | (2,113,742) | (5,985,699) | 153,248,024 |
| 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 | (21,348,814) | (3,130,589) | - | - | (24,479,403) |
| | 44,138,340 | (3,130,589) | - | - | 41,007,751 |
| Total | 177,613,365 | 24,741,851 | (2,113,742) | (5,985,699) | 194,255,775 |

# Notes to the Financial Statements

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

## 12 Deferred Charges, net

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Merge expenses (a) | - | 158,123,618 |
| Improvements to leased properties | 99,658,237 | 98,403,376 |
| Software licenses | 11,953,864 | 11,793,681 |
| Goodwill (b) | 4,077,500 | 4,077,500 |
| Brands and licenses | 20,448 | 20,448 |
| | 115,710,049 | 272,418,623 |
| Less: accumulated amortization | (50,645,659) | (187,754,362) |
| | 65,064,390 | 84,664,261 |
| Pre-paid expenses: | | |
| Income tax payments | 46,199,814 | 41,880,400 |
| Solidarity tax | 28,073,519 | 26,099,716 |
| Services | 28,066,305 | 25,972,818 |
| Materials and suppliers | 5,008,671 | 7,310,418 |
| | 107,348,309 | 101,263,352 |
| | 172,412,699 | 185,927,613 |

(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, 2019 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 | 36,325,312 | 146,264,347 | 2,796,089 | 2,368,614 | 187,754,362 |
| Plus increases for: | | | | | |
| Amortization expense of year | 9,448,964 | 11,859,270 | 408,772 | 2,344,484 | 24,061,490 |
| Less: | | | | | |
| Fully amortized assets | (2,611,024) | (158,123,617) | - | (435,552) | (161,170,193) |
| Balance at the end of year | 43,163,252 | - | 3,204,861 | 4,277,546 | 50,645,659 |

# Notes to the Financial Statements

The accounting movement of the accumulative amortization of the deferred charges for the 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

## 13 Deposit Obligations

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Current accounts | 1,329,385,197 | 1,095,881,938 |
| Savings deposits | 2,440,086,248 | 1,883,866,672 |
| Term deposits | 16,748,379,284 | 16,653,268,930 |
| Order deposits | 12,909 | 12,876 |
| Deposits with restrictions | 23,344,978 | 19,355,737 |
| | 20,541,208,616 | 19,652,386,153 |

- As of December 31, 2019 this item includes US$12,496,781 equivalent to Q96,210,715 (see notes 2c and 34).

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **%** | **%** |
| Current accounts | 0 - 6 | 0 - 7.23 |
| Savings deposits | 0 - 7 | 0 - 7.23 |
| Term deposits | 0.25 - 9.25 | 2.75 - 9.65 |

- 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. 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.

# Notes to the Financial Statements

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, 2019 the Bank carried out contributions to FOPA amounting to Q47,233,796 and US$ (Q47,190,508 in 2018) which were recorded against the result of the year.

- At December 31, 2019 the accounts making up the deposit obligations include balances in the amount of Q22,799,063 and US$70,909 (Q18,817,188 and US$69,607 in 2018) 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, 2019 is in the amount of US$150,000,000 equivalent to Q1,154,826,000 (US$150,000,000 equivalent to Q1,160,542,500 in 2018).

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.

## 15 Financial Obligations

The balance of this account as December 31, 2018 corresponds to mortgage bonds with general guarantee.

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.

# Notes to the Financial Statements

## 16 Financial Expenses Payable

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| | Q | Q |
| Deposit obligations | 10,590,369 | 13,264,636 |
| Loans obtained | 17,331,148 | 17,411,328 |
| | 27,921,517 | 30,675,964 |

## 17 Accounts Payable

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | 2019 | 2018 |
| | Q | Q |
| Income pending application (a) | 310,680,724 | 287,353,450 |
| Dividends payable | 145,508,781 | 123,907,289 |
| Income tax payable (note 29) | 127,789,361 | 51,159,233 |
| Immediate obligations | 95,483,014 | 97,822,672 |
| Obligations on issuance of documents | 52,461,527 | 49,641,607 |
| Retentions | 12,054,158 | 11,201,954 |
| Obligations on management | 3,074,371 | 1,909,280 |
| Others | 2,116,910 | 2,222,173 |
| | 749,168,846 | 625,217,658 |

(a) At December 31, 2019 and 2018 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 | |
|---|---|---|
| | 2019 | 2018 |
| | Q | Q |
| Reserve for labor compensation | 65,906,213 | 45,604,534 |
| Employee bonus | 6,542,647 | 5,385,597 |
| | 72,448,860 | 50,990,131 |

The accounting movement of the reserve for labor compensation is summarized in the next page:

# Notes to the Financial Statements

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Balance at beginning of the year | 45,604,534 | 41,001,357 |
| Plus increases for: | | |
| Provision of the year charged to results | 22,765,469 | 11,416,654 |
| Less charges for: | | |
| Payments applied to the reserve | (2,463,790) | (6,813,477) |
| Balance at year end | 65,906,213 | 45,604,534 |

## 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 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Loan portfolio commissions | 111,819,281 | 87,248,030 |
| Loan portfolio interest | 3,972,809 | 5,475,116 |
| Income from services | 26,469 | 14,469 |
| | 115,818,559 | 92,737,615 |

## 20 Other Credit Accounts

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Loan portfolio | 220,845,342 | 204,571,062 |
| Commissions | 120,000 | 13,363,347 |
| Investments | 874,150 | 2,603,952 |
| Performance for resale agreement | 747,449 | - |
| Accounts receivable | - | 16,750 |
| | 222,586,941 | 220,555,111 |
| Capitalized income | 87,418,554 | 73,209,896 |
| | 310,005,495 | 293,765,007 |

# Notes to the Financial Statements

## 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, 2019 the subscribed and paid capital amounts up to Q199,838,790 distributed in 4,225,650 common shares and 15,758,229 preferred shares (Q199,835,710 distributed in 4,225,342 common shares and 15,758,229 preferred shares in 2018). Series "A" and "B" preferred shares have no voting rights, their maturity is indefinite and they have a guaranteed non-cumulative dividend of 15% and 12% respectively.

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 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, assignment to the Board of Directors and Bonus for Employees by Collective Agreement of Working Conditions

- In conformity with the minutes of the Ordinary General Shareholders' Assembly No. 160 of February 8, 2019 and as part of the profit distribution project of 2018 was authorized, dividend to common shareholder by Q5,070,410; preferred series by Q18,940,843 and a Board of Directors bonus by Q15,385,365 were authorized. Additionally, in order to comply with the collective agreement of working conditions, a bonus was decreed for employees of Q76,926,823.

- 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 dividend to: common shareholder by Q5,071,060; preferred series by Q18,943,094 and a Board of Directors bonus for Q8,837,136 were authorized.

Reserve for contingencies and other reserves

- In conformity with the minute Ordinary General Shareholders' Assembly No. 160 of February 8, 2019, it was approved to transfer the result of previous years to this account the amount of Q74,175,955 to increase the reserve for contingencies and Q296,703,820 to increase other reserves.

# Notes to the Financial Statements

- 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 Q325,164,869 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. 307/2018 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.

## 23 Net Financial Income

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

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Financial income: | | |
| Income from interests: | | |
| Loan portfolio | 2,733,132,141 | 2,507,912,116 |
| Investments | 504,359,664 | 462,500,272 |
| Cash | 1,389,702 | - |
| Accounts receivable | 62,217 | 29,163 |
| Other investments | 23,454 | 39,104 |
| | 3,238,967,178 | 2,970,480,655 |
| Commissions: | | |
| Loan portfolio | 109,939,612 | 69,384,598 |
| Others | 184,995 | 1,677,053 |
| | 110,124,607 | 71,061,651 |
| Other financial income: | | |
| Securities negotiation | 39,887,133 | 22,599,625 |
| Price difference in resale agreement of securities | 13,418,320 | 9,158,465 |
| | 53,305,453 | 31,758,090 |
| Total financial income | 3,402,397,238 | 3,073,300,396 |
| Carried forward | 3,402,397,238 | 3,073,300,396 |

# Notes to the Financial Statements

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Brought forward | 3,402,397,238 | 3,073,300,396 |
| Financial expenses: | | |
| Expenses from interests: | | |
| Deposit obligations | (1,394,286,492) | (1,417,328,348) |
| Loans obtained | (98,829,845) | (108,066,392) |
| Financial obligations | (24,525) | (58,192) |
| | (1,493,140,862) | (1,525,452,932) |
| Other financial expenses: | | |
| Additional benefits | (4,586,840) | (4,438,958) |
| Securities negotiation | (3,865,615) | (2,008,840) |
| FOPA formation quote | (47,233,796) | (47,190,508) |
| Price difference in resale agreement of securities | (55,214) | (517,992) |
| | (55,741,465) | (54,156,298) |
| Total financial expenses | (1,548,882,327) | (1,579,609,230) |
| Net financial income | 1,853,514,911 | 1,493,691,166 |

## 24 Net Services Income

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

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Services income: | | |
| Commissions | 33,286,091 | 34,321,106 |
| Leases | - | 4,833 |
| Others | 6,484,665 | 3,906,975 |
| Total services income | 39,770,756 | 38,232,914 |
| Services expenses: | | |
| Commissions | (29,633,938) | (39,595,667) |
| Total service expenses | (29,633,938) | (39,595,667) |
| Net services income | 10,136,818 | (1,362,753) |

# Notes to the Financial Statements

## 25 Other Operating Income and Expenses, net

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

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Income: | | |
| Dividends (note 10) | 24,528,739 | 27,073,215 |
| Exchange rates movements and gain in foreign currency | 2,859,402 | 1,413,276 |
| Total other operating income | 27,388,141 | 28,486,491 |
| Expenses: | | |
| Exchange rates movements and losses in foreign currency | (57,530) | (10,294,838) |
| Sub-total other operating expenses | (57,530) | (10,294,838) |
| Plus: | | |
| Uncollectible and doubtful accounts | | |
| Loan portfolio (note 6) | (187,106,796) | (150,000,000) |
| Foreclosed Assets (note 9) | (7,709,157) | (8,793,718) |
| Accounts receivable (note 8) | (500,000) | (6,000,000) |
| | (195,315,953) | (164,793,718) |
| Total other operating expenses | (195,373,483) | (175,088,556) |
| | (167,985,342) | (146,602,065) |

## 26 Administrative Expenses

The summary of administrative expenses is as follows:

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Officers and employees | 294,099,075 | 242,499,242 |
| Outsourcing personnel services | 242,686,277 | 232,366,936 |
| Marketing and advertising | 72,201,534 | 68,415,360 |
| Leases (note 33) | 67,743,979 | 62,765,989 |
| Security and surveillance | 26,823,761 | 28,171,642 |
| Repairs and maintenance | 25,870,785 | 27,210,986 |
| Carried forward | 729,425,411 | 661,430,155 |

# Notes to the Financial Statements

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Brought forward | 729,425,411 | 661,430,155 |
| Professional fees | 25,834,052 | 21,953,921 |
| Taxes, import duties and contributions | 24,945,768 | 22,039,523 |
| Depreciations | 24,548,178 | 23,786,496 |
| Amortizations | 24,061,490 | 26,462,011 |
| Board of Administrative Directors | 21,624,004 | 16,337,803 |
| Communications | 20,918,704 | 20,558,604 |
| Electricity | 9,571,068 | 8,816,577 |
| Customer service | 7,032,054 | 884,550 |
| Stationery and office supplies | 6,891,520 | 5,418,937 |
| Freight and carriage | 6,190,192 | 6,428,743 |
| General expenses | 5,460,602 | 3,754,491 |
| Insurance premium and bonds | 5,376,232 | 4,827,834 |
| Parking service | 2,097,567 | 2,107,824 |
| Sponsorships | 1,927,094 | - |
| Processing data service | 1,099,352 | 1,278,345 |
| Personal recruitment | 954,142 | 1,242,197 |
| Fuel and lubricants | 858,941 | 843,216 |
| Messenger service | 653,646 | - |
| Contributions to various associations | 550,859 | 551,513 |
| Water | 236,821 | 240,713 |
| Donation | 194,180 | 2,242,462 |
| Subscriptions | 37,044 | 240,367 |
| Miscellaneous expenses | 1,745,182 | 2,559,314 |
| | 922,234,103 | 834,005,596 |

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 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Income: | | |
| Recoveries (a) | 52,733,258 | 26,613,974 |
| Foreclosed assets | 3,232,698 | 3,863,275 |
| Gain on sale of property and equipment | 239,231 | 5,552 |
| Others | 4,648,620 | 5,736,692 |
| Total extraordinary income | 60,853,807 | 36,219,493 |
| Expenses: | | |
| Loss on possession and misuse of foreclosed assets (note 9) | (3,818,582) | (4,428,404) |
| Loss on sale of property and equipment | (401,926) | (24,565) |
| Compensation for damages | (243,537) | (78,798) |
| Loss in liquidation on foreclosed assets | (28,912) | - |
| Others | (992,534) | (1,392,583) |
| Total extraordinary expenses | (5,485,491) | (5,924,350) |
| | 55,368,316 | 30,295,143 |

(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 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Income: | | |
| Loan portfolio interests | 1,489,636 | 8,671,080 |
| Credit reserve regularization | 980,720 | 1,433,828 |
| Remittances commissions | 481,338 | 238,088 |
| Others | 368,581 | - |
| Carried forward | 3,320,275 | 10,342,996 |

# Notes to the Financial Statements

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Brought forward | 3,320,275 | 10,342,996 |
| Provisions reversals for: | | |
| Accounts payable | 1,375,566 | 866,738 |
| Officers and employees | 689,382 | 11,800 |
| Income tax | 322,072 | 3,365,516 |
| Financial products receivable | 1,649 | - |
| Board of Administrative Directors | - | 10,019,430 |
| Professional fees | - | 1,950,499 |
| Leases | - | 115,565 |
| Labor Benefits | - | 19,021 |
| Others | 513,611 | 169,952 |
| Total income of previous years | 6,222,555 | 26,861,517 |
| Expenses: | | |
| Payments made to suppliers | (3,786,317) | (1,225,840) |
| Professional fees | (1,254,772) | (214,597) |
| Remodeling and improvements | (1,217,627) | - |
| Labor benefits | (614,021) | (336,525) |
| Depreciations (note 11) | (336,129) | (861,695) |
| Marketing and advertising | (234,838) | (1,356,131) |
| Loan portfolio reserved interest | (9,438) | (468,115) |
| Amortizations (note 12) | - | (258,221) |
| Income tax retentions | - | (70,319) |
| Others | (1,306,177) | (81,244) |
| Total expenses of previous years | (8,759,319) | (4,872,687) |
| | (2,536,764) | 21,988,830 |

## 29 Income Tax

The statutory declarations of the income tax presented for the Bank from fiscal years ended on December 31, 2015 to 2018 and the one which correspond to 2019 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, 2019 amounted up Q127,789,361 (Q51,159,233 in 2018), which represents an effective rate of 15.47% (9.07% in 2018).

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

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Gross revenue (total income) | 3,536,632,503 | 3,203,100,811 |
| Less non-taxable income | (420,992,064) | (386,878,387) |
| Less deductible costs and expenses | (2,604,482,997) | (2,611,585,491) |
| Taxable income | 511,157,442 | 204,636,933 |
| Taxable rate | 25% | 25% |
| Income tax expense | 127,789,361 | 51,159,233 |
| Less payments performed (a) | - | - |
| Income tax payable (note 17) | 127,789,361 | 51,159,233 |

(a) The payments of income tax for the period ended on December 31, 2019 amounted up Q46,199,814 (Q41,880,400 in 2018) it is shown in deferred charges (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 as required by the Manual of Accounting Instructions.

The summary of this account is as follows:

| | December 31 | |
|---|---|---|
| | 2019 Q | 2018 Q |
| Commitments and contingencies | 300,164,187 | 239,554,103 |
| Loan portfolio guarantee | 638,471,322 | 538,482,888 |
| Classification of investments and loan portfolio and other assets | 14,059,104,049 | 13,131,478,535 |
| Third-party administration | 494,957,354 | 517,087,789 |
| Documents and own securities remitted | 247,543,059 | 248,720,277 |
| Authorized issuance of financial obligations | 703,357,000 | 817,357,000 |
| Financial obligations | 703,357,000 | 703,357,000 |
| Resale agreement | 3,700,000 | - |
| Other memorandum accounts | 1,492,247,821 | 1,151,658,211 |
| Register accounts | 1,510,915 | 1,961,727 |
| | 18,644,412,707 | 17,349,657,530 |

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

| | December 31 | |
|---|---|---|
| | 2019 Q | 2018 Q |
| Local currency: | | |
| Administration | 494,575,914 | 516,855,262 |
| Others | 154,589 | 232,524 |
| | 494,730,503 | 517,087,786 |

## 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.

# Notes to the Financial Statements

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. In addition, they must agree in writing that, in case the debtor is sued or commits a breach, without further processing, the guarantee will be effective.

   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.

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.

# Notes to the Financial Statements

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 by property relationship and administration.

At December 31, 2019 the companies making part of Grupo Financiero de los Trabajadores are:

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

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

| | Years ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Income: | | |
| Dividends | 24,299,545 | 26,977,455 |
| Services | 1,331,018 | - |
| Interests | 81,292 | 323,626 |
| | 25,711,855 | 27,301,081 |
| Expenses: | | |
| Services | 7,380,534 | 4,240,348 |
| Interests | 2,599,781 | 2,835,768 |
| | 9,980,315 | 7,076,116 |

# Notes to the Financial Statements

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Assets: | | |
| Permanent investments | 72,708,666 | 72,708,666 |
| Accounts payable | 120,000 | - |
| Investments | - | 1,843,583 |
| | 72,828,666 | 74,552,249 |
| Liabilities: | | |
| Deposit obligations | 58,717,954 | 63,490,284 |
| Accounts payable | 1,513,940 | 655,535 |
| | 60.231.894 | 64,145,819 |

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.

## 33 Commitments and Contingencies

- **Credit lines**
  As of December 31, 2019 the Bank has contingent liabilities due to credit lines authorized and pending to be released for loans and credit cards in the amount of Q172,687,839 and US$12,557,116 equivalent to Q96,675,228 (Q151,859,720 and US$8,897,473 equivalent to Q68,839,303 in 2018).

- **Credit letters**
  As of December 31, 2019 the Bank has contingent liabilities due to credit letters issued in the amount of Q17,000,000 (Q12,845,163 in 2018).

# Notes to the Financial Statements

- **Trust funds**
  As of December 31, 2019 the Bank manages a trustee nine (9) trust contracts (eleven (11) trust contracts in 2018). 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., five (5) trust funds are audited by the General Controller 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 2019 for this concept is worth of Q67,743,979 (Q62,765,989 in 2018)

- **Pending litigations**
  As of December 31, 2019, are pending of resolution the following fiscal and civil litigations.

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

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| **Additional taxes claimed** | | |
| **In administrative instance:** | | |
| Income tax – tax on earnings from lucrative activities fiscal year 2015 | 61,297,804 | 61,297,804 |
| Income tax – tax on earnings from lucrative activities fiscal year 2016 | 53,322,282 | - |
| Solidarity tax – adjustment of third quarter fiscal period 2015 | 506,608 | 506,608 |
| Tax adjustments for solidarity tax fourth quarter fiscal period 2015 | 506,608 | 506,608 |
| | 115,633,302 | 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 | 1,998,094 |
| | 5,830,635 | 5,830,635 |
| Carried forward | 121,463,937 | 68,141,655 |

# Notes to the Financial Statements

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **Q** | **Q** |
| Brought forward | 121,463,937 | 68,141,655 |
| **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 |
| | 123,118,937 | 69,796,655 |

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, 2019 to cover possible losses from these claims.

**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 loss resulting from the previous case 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.

**Labor processes**
As of December 31, 2019 there are labor 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 labor benefits and adjustments amounted up Q7,508,790 approximately.

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

# Notes to the Financial Statements

## 34 Net Position in Foreign Currency

The net position in foreign currency is as follows:

| | December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **US$** | **US$** |
| Assets: | | |
| Cash | 35,667,671 | 22,860,805 |
| Investments | 113,041,095 | 107,097,386 |
| Loans portfolio | 14,902,989 | 14,880,648 |
| Financial products receivable | 1,499,956 | 1,395,170 |
| Accounts receivable | 581,741 | 1,400,436 |
| Foreclosed assets | 2,635,490 | 5,218,372 |
| Permanent investments | 1 | 1 |
| Total assets | 168,328,943 | 152,852,818 |
| Liabilities: | | |
| Other credit accounts | (343,729) | (204,679) |
| Accounts payable | (1,109,999) | (1,778,480) |
| Financial expenses payable | (2,303,139) | (2,290,285) |
| Deposit obligations | (12,496,781) | (14,307,414) |
| Loans obtained | (150,000,000) | (150,000,000) |
| Total liabilities | (166,253,648) | (168,580,858) |
| Net position | 2,075,295 | (15,728,040) |

## 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.

## 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.

# Notes to the Financial Statements

- **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.

- **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.

# Notes to the Financial Statements

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.

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.

# Notes to the Financial Statements

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.

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

IFRS stipulates that intangible 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 Statements

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.

# Notes to the Financial Statement

u. Leases – rents
The MIC establishes that the lease expense is recorded against the results of the year.

IFRS indicates that the lessee recognizes a right-of-use asset that represents his right to use the underlying asset and a lease liability that represents his obligation to make lease payments. The asset by right in use is subsequently depreciated from the results, using the straight line method during the term of the contract.