

Banco de los Trabajadores

Financial Statements

September 30, 2020

(With the Independent Auditor's Report on Review of Interim)



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Independent Auditor’s Report on Review of Interim Financial Statements

To the Shareholders of Banco de los Trabajadores:

We have reviewed the accompanying balance sheet of Banco de los Trabajadores (hereinafter referred to as the “Bank”) as of September 30, 2020 and the related statements of income, changes in equity and cash flows for the nine months period then ended, and notes to the interim financial statements. Management is responsible for the preparation and presentation of these interim financial statements 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. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements as at and for nine months ended on September 30, 2020 are not prepared, in all material respects, in accordance to the Manual of Accounting Instructions for Entities Subject to the Surveillance and Inspection of the Superintendency of Banks issued by the Monetary Board.

(Continue)

Emphasis of Matters

Accounting Base

Without modifying our review conclusion, we draw attention to notes 2 and 3 to the financial statements, which describe the basis of accounting used in their preparation. The financial statements have been prepared according to the basis of accounting established in the Manual of Accounting Instructions for Entities Subject to Surveillance and Inspection of the Superintendency of Banks, which differs in some aspects from the International Financial Reporting Standards.



Arturo José Aldana A.
CPA - 1379

November 30, 2020



Interim Unaudited Balance Sheets

As of September 30, 2020 and December 31, 2019

(Figures expressed in Quetzales)

	September 30, 2020 Q	December 31, 2019 Q
Assets		
Cash (note 4)	4,328,198,101	3,177,381,760
Investments, net (note 5)	8,551,932,617	8,263,647,779
Loans portfolio, net (note 6)	14,836,802,561	14,006,607,271
Financial products receivable (note 7)	376,684,937	349,507,468
Accounts receivable, net (note 8)	20,332,297	17,711,920
Foreclosed assets, net (note 9)	37,787,663	33,979,336
Permanent investments, net (note 10)	73,886,172	73,886,172
Property and equipment, net (note 11)	202,253,215	194,255,775
Deferred charges, net (note 12)	135,640,346	172,412,699
	<u>28,563,517,909</u>	<u>26,289,390,180</u>
Liabilities, Other Credit Accounts and Equity		
Deposit obligations (note 13)	22,407,055,947	20,541,208,616
Loans obtained (note 14)	1,167,903,000	1,154,826,000
Financial expenses payable (note 15)	55,099,816	27,921,517
Accounts payable (note 16)	630,622,328	749,168,846
Provisions (note 17)	116,213,812	72,448,860
Deferred credits (note 18)	110,562,104	115,818,559
Total liabilities	<u>24,487,457,007</u>	<u>22,661,392,398</u>
Other credit accounts (note 19)	<u>327,208,330</u>	<u>310,005,495</u>
Total liabilities and other credit accounts	<u>24,814,665,337</u>	<u>22,971,397,893</u>
Equity (notes 20 and 21)	3,748,852,572	3,317,992,287
Commitments and contingencies (note 31)	<u>28,563,517,909</u>	<u>26,289,390,180</u>
Contingencies, commitments, other liabilities and memorandum accounts (note 29)	<u>19,500,033,306</u>	<u>18,644,412,707</u>

See accompanying notes to the interim unaudited financial statements.

Interim Unaudited Statements of Income

For the nine months periods ended on September 30, 2020 and 2019

(Figures expressed in Quetzales)

	2020 Q	2019 Q
Financial income (note 22)	2,674,476,411	2,529,123,541
Financial expenses (note 22)	<u>(1,124,151,510)</u>	<u>(1,166,132,477)</u>
Net financial income	<u>1,550,324,901</u>	<u>1,362,991,064</u>
Service income (note 23)	27,486,195	29,770,075
Services expenses (note 23)	<u>(23,574,080)</u>	<u>(21,707,219)</u>
Net services income	<u>3,912,115</u>	<u>8,062,856</u>
Other operating income and expenses, (note 24):		
Other operating income	7,737,506	1,903,522
Uncollectible and doubtful accounts	(155,769,448)	(119,729,221)
Other operating expenses	<u>(24,201)</u>	<u>(90,556)</u>
Other operating income and expenses, net	<u>(148,056,143)</u>	<u>(117,916,255)</u>
Gross operating margin	1,406,180,873	1,253,137,665
Administrative expenses (note 25)	<u>(749,904,659)</u>	<u>(720,033,175)</u>
Operating margin, net	656,276,214	533,104,490
Extraordinary income and expenses, net (note 26)	39,671,498	41,086,470
Income and expenses from previous periods, net (note 27)	<u>(13,721,278)</u>	<u>(705,476)</u>
Gross income	682,226,434	573,485,484
Income tax expense (note 28)	<u>(115,153,961)</u>	<u>(87,785,649)</u>
Net income	<u><u>567,072,473</u></u>	<u><u>485,699,835</u></u>

See accompanying notes to the interim unaudited financial statements.

Interim Unaudited Statements of Changes in Equity

For the nine months periods ended on September 30, 2020 and 2019

(Figures expressed in Quetzales)

	2020 Q	2019 Q
Equity:		
Paid-in capital (note 20):		
Common shares:		
Balance at the beginning of period	42,256,500	42,253,420
Increase (decrease) in capital	<u>(1,760)</u>	<u>1,100</u>
Balance at period end	<u>42,254,740</u>	<u>42,254,520</u>
Preferred shares:		
Balance at the beginning and end of period	<u>157,582,290</u>	<u>157,582,290</u>
Permanent contributions:		
Balance at the beginning and end of period	<u>8,011</u>	<u>8,011</u>
Capital reserves:		
Legal reserve (note 3o):		
Balance at the beginning of period	171,126,428	145,484,152
Transfer of earnings from previous periods	<u>34,923,724</u>	<u>25,642,276</u>
Balance at period end	<u>206,050,152</u>	<u>171,126,428</u>
Reserve for contingencies (note 21):		
Balance at the beginning of period	267,335,196	193,159,241
Transfer of earnings from previous periods	<u>203,139,810</u>	<u>74,175,955</u>
Balance at period end	<u>470,475,006</u>	<u>267,335,196</u>
Reserve for reinvestment of profit:		
Balance at the beginning of period	2,927,808	2,927,808
Transfer to other reserves	<u>(2,927,808)</u>	<u>-</u>
Balance at period end	<u>-</u>	<u>2,927,808</u>
Other reserves:		
Balance at the beginning of period	1,924,771,581	1,628,024,650
Transfer of earnings from previous periods	304,709,716	296,703,820
Transfer of reserve for reinvestment of profit	2,927,808	-
Transfer of dividends from own shares held by the Republic of Guatemala	75,000	60,000
Dividends paid from previous periods	<u>(3,161)</u>	<u>(10,731)</u>
Balance at period end	<u>2,232,480,944</u>	<u>1,924,777,739</u>
Carried forward	3,108,851,143	2,566,011,992

(Continue)

Interim Unaudited Statements of Changes in Equity

	2020 Q	2019 Q
Brought forward	3,108,851,143	2,566,011,992
Revaluation of Assets:		
Balance at beginning of period	35,769,349	38,899,938
Increase on revaluation of assets in period (note 11)	2,565,928	-
Depreciation of current period (note 11)	(2,732,832)	(2,347,942)
Balance at period end	<u>35,602,445</u>	<u>36,551,996</u>
Fair value on available for sale investments:		
Balance at beginning of period	17,740,649	(12,717,842)
Movement of the year	10,416,153	27,634,148
Balance at period end	<u>28,156,802</u>	<u>14,916,306</u>
Earnings from previous periods:		
Balance at beginning of period	698,474,475	512,845,492
Net income	567,072,473	485,699,835
	<u>1,265,546,948</u>	<u>998,545,327</u>
Less:		
Transfer to other reserves	(304,709,716)	(296,703,820)
Transfer to reserve for contingencies	(203,139,810)	(74,175,955)
Transfer to legal reserve	(34,923,724)	(25,642,276)
Dividends decreed (note 21)	(29,975,819)	(24,011,253)
Board of Directors bonus (note 21)	(20,954,234)	(15,385,365)
Bonus for employees by collective agreement of working conditions (note 21)	(95,601,463)	(76,926,823)
	<u>(689,304,766)</u>	<u>(512,845,492)</u>
Balance at period end	<u>576,242,182</u>	<u>485,699,835</u>
Total equity	<u><u>3,748,852,572</u></u>	<u><u>3,103,180,129</u></u>

See accompanying notes to the interim unaudited financial statements.

Interim Unaudited Statements of Cash Flows

For the nine months periods ended on September 30, 2020 and 2019

(Figures expressed in Quetzales)

	2020 Q	2019 Q
Cash flow from operating activities:		
Interest collection	2,530,776,522	2,412,618,687
Commission collection	98,446,040	78,903,156
Service collection	27,486,195	29,770,075
Payment for interests	(1,032,610,628)	(1,080,168,919)
Payment for services	(23,574,080)	(21,707,219)
Payments for administrative expenses	(639,369,174)	(601,637,029)
Investment in securities:		
Income from divestment	115,077,983,999	30,530,657,450
Disbursements from investments	(114,565,782,953)	(31,034,237,847)
Loan portfolio:		
Income from amortizations	2,262,602,384	2,968,033,721
Disbursements from loans	(2,995,537,715)	(2,981,308,446)
Deposit obligations:		
Income from depositors	6,268,822,101	6,798,610,656
Disbursements from withdrawals of deposits	(5,611,138,238)	(6,882,396,127)
Financial obligations:		
Expense from redemption or reacquisition	-	(598,000)
Sale of foreclosed assets	2,943,616	8,959,493
Income tax paid	(86,242,852)	(13,191,758)
Other income and expenses (net):	825,641,916	569,316,841
Net cash flows coming from operating activities	<u>2,140,447,133</u>	<u>781,624,734</u>
Cash flow from investment activities:		
Dividends received	151,993	186,318
Income for sale of property and equipment	350,665	33,300
Disbursement for purchase of property and equipment	<u>(22,996,828)</u>	<u>(18,342,530)</u>
Net cash flows used in investments activities	<u>(22,494,170)</u>	<u>(18,122,912)</u>
Cash flows from financing activities:		
Dividends paid	(1,083,699)	(1,683,704)
Board of Directors bonus	(20,954,234)	(15,385,365)
Bonus for employees by collective agreement	<u>(95,601,463)</u>	<u>(76,926,823)</u>
Carried forward	(117,639,396)	(93,995,892)

(Continue)

Interim Unaudited Statements of Cash Flows

	2020 Q	2019 Q
Brought forward	(117,639,396)	(93,995,892)
Redemption of shares	<u>(2,730)</u>	<u>(2,350)</u>
Net cash flows used in financing activities	<u>(117,642,126)</u>	<u>(93,998,242)</u>
Net increase of cash and cash equivalents	2,000,310,837	669,503,580
Cash and cash equivalents at the beginning of the period	<u>3,991,941,226</u>	<u>3,596,644,828</u>
Cash and cash equivalents at period end	<u><u>5,992,252,063</u></u>	<u><u>4,266,148,408</u></u>

Complementary Information

The following is a summary of cash and cash equivalents:

	Q
Cash (note 4)	4,328,198,101
Investments (note 5)	<u>1,664,053,962</u>
	<u><u>5,992,252,063</u></u>

See accompanying notes to the interim unaudited financial statements.

Notes to the Interim Unaudited Financial Statements

For the nine months period ended September 30, 2020 and for the year ended December 31, 2019

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 personality 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 as 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 the Interim Unaudited Financial Statements

c Presentation Currency

The financial statements are expressed in Quetzales (Q), the functional and legal currency of Guatemala. At September 30, 2020 the reference exchange rates of the Bank of Guatemala and forex banking market was around Q7.79 per US\$1.00 (Q7.70 per US\$1.00 in December 2019).

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.

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 Interim Unaudited 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 Interim Unaudited 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 period.

Notes to the Interim Unaudited Financial Statements

v. Depreciation

Property and equipment recorded at cost (except land) and revalued buildings 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
Others	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 and goodwill are deferred and amortized by 10% annual and software licenses by 20% 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 Interim Unaudited 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 Interim Unaudited Financial Statements

j Income Recognition

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.

Income 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 earnings from previous periods and recording an account payable.

Notes to the Interim Unaudited 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

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

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 Interim Unaudited 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:

	September 30, 2020 Q	December 31, 2019 Q
Cash	144,570,396	169,852,463
Central Bank legal deposit (a)	3,905,424,383	2,701,766,655
Central Bank special deposits	132,788,000	124,035,539
Central Bank other deposits	4,271,043	-
Local Banks	95,344	3,182,336
Banks abroad	120,755,210	156,295,968
Checks for compensation	20,293,725	22,248,799
	<u>4,328,198,101</u>	<u>3,177,381,760</u>

- (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).

Notes to the Interim Unaudited Financial Statements

5 Investments, net

The summary of this account as of September 30, 2020 is as follows:

	Annual interest rate ranges	Maturity	Balance in Q
Securities available for sale	4.38% to 10%	From 2020 to 2035	6,860,303,718
Securities held to maturity	1% to 13.20%	From 2020 to 2040	1,391,427,291
Resale agreement of securities	1.65% to 3%	2020	299,270,642
Interest paid on purchase of securities			7,726,605
Total investments			<u>8,558,728,256</u>
Less: valuation estimate			(6,795,639)
Total investments, net			<u><u>8,551,932,617</u></u>

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			<u>8,270,443,418</u>
Less: valuation estimate			(6,795,639)
Total investments, net			<u><u>8,263,647,779</u></u>

Notes to the Interim Unaudited Financial Statements

- a) The investments are securities issued by entities located in Guatemala for both years.
- b) As of September 30, 2020, this item includes US\$100,130,660 equivalent to Q779,619,324 (see note 2c).
- c) The investments at September 30, 2020 included cash equivalents for Q1,664,053,962.
- d) At September 30, 2020 the investments have maturities that range from 2020 to 2040. The maturities during the next five years are due as follows:

	Q
2020	1,666,197,653
2021	604,471,010
2022	156,860,714
2023	1,650,575
2024 onwards	6,129,548,304
	<u>8,558,728,256</u>

- e) At September 30, 2020 and December 31, 2019 representative certificates of Treasury Bonds of the Republic of Guatemala for Q1,655,000 it seized by judicial order (see note 31).
- f) At September 30, 2020 F.H.A. mortgage debentures for amounts Q3,694,461 have 90 days of default or more.

Notes to the Interim Unaudited Financial Statements

6 Loans Portfolio, net

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Unsecured	14,518,331,529	13,649,764,292
Credit cards	218,077,117	232,089,476
Mortgage	152,430,244	146,786,947
Mortgage-unsecured	112,519,140	106,281,332
With own guarantee	66,737,059	76,197,076
In monetary deposit accounts	42,583,201	35,167,776
Payments by credit letters	8,819,805	8,117,156
Pledged-unsecured	2,739,451	2,721,603
Debtors on sale of foreclosed assets	859,833	1,128,843
	<u>15,123,097,379</u>	<u>14,258,254,501</u>
Less:		
Estimate on valuation:		
Specific	(144,302,227)	(153,681,226)
Generic	(141,992,591)	(97,966,004)
Total estimate on valuation	<u>(286,294,818)</u>	<u>(251,647,230)</u>
Total loan portfolio, net	<u>14,836,802,561</u>	<u>14,006,607,271</u>

As of September 30, 2020, this item includes US\$13,980,387 equivalent to Q108,851,569 (see note 2c).

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

	September 30, 2020 %	December 31, 2019 %
Loans	1 – 39	4 – 39
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 Interim Unaudited Financial Statements

	September 30, 2020 Q	December 31, 2019 Q
Current	<u>14,954,606,751</u>	<u>14,060,207,769</u>
Past due:		
In administrative collection	116,268,748	147,938,532
In legal collection	52,122,418	50,108,200
In extension process	99,462	-
	<u>168,490,628</u>	<u>198,046,732</u>
Total loan portfolio	<u><u>15,123,097,379</u></u>	<u><u>14,258,254,501</u></u>

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

	September 30, 2020 Q	December 31, 2019 Q
Major debtors	79,818,797	74,033,485
Minor debtors	149,884,965	127,765,495
Microcredits	608,210	183,210
Mortgage loans for housing	52,437,275	50,231,784
Consumption	<u>14,840,348,132</u>	<u>14,006,040,527</u>
Total loan portfolio	<u><u>15,123,097,379</u></u>	<u><u>14,258,254,501</u></u>

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

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

	September 30, 2020 Q	December 31, 2019 Q
Up to one year	457,386,785	500,511,853
From one to three years	1,015,361,487	982,591,771
From three to five years	3,308,935,795	3,225,680,450
More than five years	<u>10,341,413,312</u>	<u>9,549,470,427</u>
Total loan portfolio	<u><u>15,123,097,379</u></u>	<u><u>14,258,254,501</u></u>

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

Notes to the Interim Unaudited Financial Statements

	Period ended on	
	September 30, 2020 Q	December 31, 2019 Q
Balance at the beginning of year	<u>251,647,230</u>	<u>280,496,950</u>
Plus increases for:		
Provision charged to results (note 24)	155,402,490	187,050,000
Exchange rate fluctuation, net	<u>858,805</u>	<u>-</u>
	156,261,295	187,050,000
Less charges for:		
Loans applied to the estimate	(121,613,707)	(215,538,560)
Exchange rate fluctuation, net	<u>-</u>	<u>(361,160)</u>
	(121,613,707)	(215,899,720)
Balance at period / year end	<u>286,294,818</u>	<u>251,647,230</u>

7 Financial Products Receivable

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Loan portfolio	238,740,673	220,799,985
Investments	137,578,855	128,278,405
Cash	<u>365,409</u>	<u>429,078</u>
	<u>376,684,937</u>	<u>349,507,468</u>

8 Accounts Receivable, net

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Accounts receivable employees	10,907,879	12,114,746
Difference in prices on resale agreement	7,732,946	8,547,150
Advance on loans	5,629,775	5,629,775
Payments on account of third-party	<u>5,480,355</u>	<u>4,761,444</u>
Carried forward	29,750,955	31,053,115

Notes to the Interim Unaudited Financial Statements

	September 30, 2020 Q	December 31, 2019 Q
Brought forward	29,750,955	31,053,115
Rights per services	2,784,107	2,851,933
Advances on salaries	2,963,600	13,063
Legal expenses	1,259,058	1,273,898
Advances on expenses	1,025,771	383,013
Insurance premiums	413,191	429,170
Others	2,040,734	1,612,847
Total accounts receivable	<u>40,237,416</u>	<u>37,617,039</u>
Less: estimate on valuation	<u>(19,905,119)</u>	<u>(19,905,119)</u>
	<u>20,332,297</u>	<u>17,711,920</u>

The accounting movement of the valuation estimate of the accounts receivable for the year ended December 31, 2019 is summarized as follows:

	Q
Balance at the beginning of the year	19,405,163
Plus increases by:	
Provision for the year charged to results	500,000
Less charges for:	
Exchange rate fluctuation, net	<u>(44)</u>
Balance at the end of the year	<u>19,905,119</u>

9 Foreclosed Assets, net

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Property	95,322,267	92,286,286
Movable assets	389,150	389,150
Expenditures for realizable assets	955,629	-
	<u>96,667,046</u>	<u>92,675,436</u>
Less: estimate on valuation	<u>(58,879,383)</u>	<u>(58,696,100)</u>
	<u>37,787,663</u>	<u>33,979,336</u>

Notes to the Interim Unaudited Financial Statements

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

	Period ended on	
	September 30, 2020 Q	December 31, 2019 Q
Balance at the beginning of the year	58,696,100	82,778,695
Plus increases for:		
Provisions charged to results (note 24)	316,764	7,709,157
Record of valuation performed to foreclosed assets (note 26)	<u>700,427</u>	<u>1,698,366</u>
	1,017,191	9,407,523
Less charges for:		
Balances applied to the estimate	<u>(833,908)</u>	<u>(33,490,118)</u>
Balance at period year end	<u><u>58,879,383</u></u>	<u><u>58,696,100</u></u>

Notes to the Interim Unaudited Financial Statements

10 Permanent Investments, net

The summary of this account as of September 30, 2020 and December 31, 2019 is as follows:

	Percentage of participation	Number of shares	Nominal amount Per share Q	Total Q	Cost of investment Total US\$	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	
					<u>74,286,166</u>	
Foreign currency:						
VISA Inc.		7,952	0.0001	0.7952	0.7952	6
					<u>74,286,172</u>	
Less: estimate on valuation						(400,000)
Total						<u>73,886,172</u>

- 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 30).

Notes to the Interim Unaudited Financial Statements

11 Property and Equipment, net

The movement of this account for the year ended September 30, 2020 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	32,676,485	-	2,471,351	(104,733)	35,043,103
Furniture and equipment	33,339,828	250,619	664,031	(5,463,506)	28,790,972
Vehicles	815,758	-	1,110,062	(92,035)	1,833,785
Information systems	46,843,915	2,799,785	12,908,218	(6,609,266)	55,942,652
Telecommunications equipment	4,606,193	10,469	2,390,414	(46,256)	6,960,820
Gallery paints	2,010	-	-	-	2,010
Others	8,863,278	1,528,307	3,990,762	-	14,382,347
Advances for assets acquisition	39,821,025	31,256,143	(29,342,958)	(15,336)	41,718,874
	<u>211,273,613</u>	<u>35,845,323</u>	<u>(5,808,120)</u>	<u>(12,331,132)</u>	<u>228,979,684</u>
Accumulated depreciation - cost	<u>(58,025,589)</u>	<u>(21,738,625)</u>	<u>-</u>	<u>12,196,898</u>	<u>(67,567,316)</u>
	<u>153,248,024</u>	<u>14,106,698</u>	<u>(5,808,120)</u>	<u>(134,234)</u>	<u>161,412,368</u>
Revalued fixed assets:					
Lands	2,875,359	-	-	-	2,875,359
Buildings	62,611,795	-	-	-	62,611,795
Vehicles	-	2,565,928	-	-	2,565,928
	<u>65,487,154</u>	<u>2,565,928</u>	<u>-</u>	<u>-</u>	<u>68,053,082</u>
Accumulated depreciation – revalued fixed assets	<u>(24,479,403)</u>	<u>(2,732,832)</u>	<u>-</u>	<u>-</u>	<u>(27,212,235)</u>
	<u>41,007,751</u>	<u>(166,904)</u>	<u>-</u>	<u>-</u>	<u>40,840,847</u>
Total	<u>194,255,775</u>	<u>13,939,794</u>	<u>(5,808,120)</u>	<u>(134,234)</u>	<u>202,253,215</u>

Notes to the Interim Unaudited Financial Statements

The movement of this account for the year ended December 31, 2019 is summarized as follows:

	Initial balance Q	Additions Q	Disposals Q	Transfers Q	Final balance Q
Cost:					
Lands	44,305,121	-	-	-	44,305,121
Buildings	67,579,577	453,515	(36,188,932)	832,325	32,676,485
Furniture and equipment	45,576,529	696,475	(14,559,488)	1,626,312	33,339,828
Vehicles	805,036	307,900	(297,178)	-	815,758
Information systems	33,754,954	7,285,656	(6,947,097)	12,750,402	46,843,915
Telecommunications equipment	3,513,848	202,305	(169,305)	1,059,345	4,606,193
Gallery paints	2,010	-	-	-	2,010
Others	2,721,436	2,541,976	(134,132)	3,733,998	8,863,278
Advances for assets acquisition	25,878,507	41,268,920	(5,210,278)	(22,116,124)	39,821,025
	<u>224,137,018</u>	<u>52,756,747</u>	<u>(63,506,410)</u>	<u>(2,113,742)</u>	<u>211,273,613</u>
Accumulated depreciation - cost	(90,661,993)	(24,884,307)	57,520,711	-	(58,025,589)
	<u>133,475,025</u>	<u>27,872,440</u>	<u>(5,985,699)</u>	<u>(2,113,742)</u>	<u>153,248,024</u>
Revalued fixed assets:					
Lands	2,875,359	-	-	-	2,875,359
Buildings	62,611,795	-	-	-	62,611,795
	<u>65,487,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,487,154</u>
Accumulated depreciation – revaluated buildings	(21,348,814)	(3,130,589)	-	-	(24,479,403)
	<u>44,138,340</u>	<u>(3,130,589)</u>	<u>-</u>	<u>-</u>	<u>41,007,751</u>
Total	<u>177,613,365</u>	<u>24,741,851</u>	<u>(5,985,699)</u>	<u>(2,113,742)</u>	<u>194,255,775</u>

Notes to the Interim Unaudited Financial Statements

12 Deferred Charges, net

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Improvements to leased properties	95,056,997	99,658,237
Software licenses	12,060,686	11,953,864
Brands and licenses	20,448	20,448
Goodwill (a)	-	4,077,500
	<u>107,138,131</u>	<u>115,710,049</u>
Less: accumulated amortization	<u>(50,156,298)</u>	<u>(50,645,659)</u>
	<u>56,981,833</u>	<u>65,064,390</u>
Pre-paid expenses:		
Income tax payments	32,470,232	46,199,814
Solidarity tax	22,902,167	28,073,519
Services	19,372,068	28,066,305
Materials and suppliers	3,914,046	5,008,671
	<u>78,658,513</u>	<u>107,348,309</u>
	<u>135,640,346</u>	<u>172,412,699</u>

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

Notes to the Interim Unaudited Financial Statements

The accounting movement of the accumulated amortization of the deferred charges for the nine months period ended on September 30, 2020 is as follow:

	Improvements to leased properties Q	Goodwill, brands and licenses Q	Software licenses Q	Total Q
Balance at the beginning of the year	43,163,252	3,204,861	4,277,546	50,645,659
Plus increases for:				
Amortization expense of year	6,725,282	767	1,804,785	8,530,834
Amortization of previous years (note 27)	-	73,621	-	73,621
Less:				
Fully amortized assets	<u>(5,780,709)</u>	<u>(3,267,663)</u>	<u>(45,444)</u>	<u>(9,093,816)</u>
Balance at the end of year	<u>44,107,825</u>	<u>11,586</u>	<u>6,036,887</u>	<u>50,156,298</u>

Notes to the Interim Unaudited Financial Statements

The accounting movement of the accumulated amortization of the deferred charges for the 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	<u>(2,611,024)</u>	<u>(158,123,617)</u>	<u>-</u>	<u>(435,552)</u>	<u>(161,170,193)</u>
Balance at the end of year	<u>43,163,252</u>	<u>-</u>	<u>3,204,861</u>	<u>4,277,546</u>	<u>50,645,659</u>

Notes to the Interim Unaudited Financial Statements

13 Deposit Obligations

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Current accounts	1,633,609,623	1,329,385,197
Savings deposits	3,343,429,848	2,440,086,248
Term deposits	17,406,329,893	16,748,379,284
Order deposits	12,909	12,909
Deposits with restrictions	23,673,674	23,344,978
	<u>22,407,055,947</u>	<u>20,541,208,616</u>

- As of September 30, 2020 this item includes US\$12,514,875 equivalent to Q97,441,064 (see note 2c).
- Deposit operations earn annual interest rates that fluctuate between the percentages shown below:

	September 30, 2020 %	December 31, 2019 %
Current accounts	0 – 5	0 – 6
Savings deposits	0 – 7	0 – 7
Term deposits	0.25 – 9.25	0.25 – 9.25

- 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 Interim Unaudited 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 pay 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 September 30, 2020 the Bank carried out contributions to FOPA amounting to Q35,885,360 (Q35,603,571 on September 30, 2019), which were recorded against the results of the year.
- At September 30, 2020 the accounts making up the deposit obligations include balances in the amounts of Q23,121,853 and US\$70,873 (Q22,799,063 and US\$70,909 in December 2019) 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 September 30, 2020 is in the amount of US\$150,000,000 equivalent to Q1,167,903,000. (150,000,000 equivalent to Q1,154,826,000 at December 31, 2019).

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 Expenses Payable

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Deposit obligations	11,300,076	10,590,369
Loans obtained	43,799,740	17,331,148
	<u>55,099,816</u>	<u>27,921,517</u>

Notes to the Interim Unaudited Financial Statements

16 Accounts Payable

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Immediate obligations	187,064,686	95,483,014
Dividends payable	174,401,858	145,508,781
Income tax payable (note 28)	115,153,961	127,789,361
Obligations on issuance of documents	70,603,359	52,461,527
Special State Funds	46,115,000	-
Income pending application (a)	19,373,097	310,680,724
Retentions	9,548,615	12,054,158
Obligations on management	5,626,734	3,074,371
Others	2,735,018	2,116,910
	<u>630,622,328</u>	<u>749,168,846</u>

(a) At September 30, 2020 and December 31, 2019 the balance of this account corresponds to loan payment remittances received in the last days before close the period, that were not applied.

17 Provisions

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Reserve for labor compensation	69,684,316	65,906,213
Employee bonuses	12,834,993	6,542,647
Other provisions	33,694,503	-
	<u>116,213,812</u>	<u>72,448,860</u>

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

	September 30, 2020 Q	December 31, 2019 Q
Balance at beginning of the year	65,906,213	45,604,534
Plus increases for:		
Provision of the year charged to results	14,779,848	22,765,469
Less charges for:		
Payments applied to the reserve	<u>(11,001,745)</u>	<u>(2,463,790)</u>
Balance at period/year end	<u>69,684,316</u>	<u>65,906,213</u>

Notes to the Interim Unaudited Financial Statements

18 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:

	September 30, 2020 Q	December 31, 2019 Q
Loan portfolio commissions	110,467,062	111,819,281
Loan portfolio interest	57,424	3,972,809
Income from services	37,618	26,469
	<u>110,562,104</u>	<u>115,818,559</u>

19 Other Credit Accounts

The summary of this account is as follows:

	September 30, 2020 Q	December 31, 2019 Q
Loan portfolio	232,641,407	220,845,342
Investments	737,320	874,150
Performance for resale agreement	152,642	747,449
Commissions	120,492	120,000
	<u>233,651,861</u>	<u>222,586,941</u>
Capitalized income	<u>93,556,469</u>	<u>87,418,554</u>
	<u>327,208,330</u>	<u>310,005,495</u>

20 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 September 30, 2020 the subscribed and paid capital amounts up to Q199,837,030 distributed in 4,225,474 common shares and 15,758,229 preferred shares (Q199,836,810 distributed in 4,225,452 common shares and 15,758,229 preferred shares in September 30, 2019). 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.

Notes to the Interim Unaudited Financial Statements

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.

21 Capital Reserves

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

- In conformity with the minute of the Ordinary General Shareholders' Assembly No. 162 of February 7, 2020 and as part of the profit distribution project of 2019 was authorized, dividend to common shareholder by Q6,338,475; preferred series by Q23,637,344 and a Board of Directors bonus by Q20,954,234 were authorized. Additionally, in order to comply with the collective agreement of working conditions, a bonus was decreed for employees of Q104,771,171.
- In conformity with the minute 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.

Reserve for contingencies and other reserves

- In conformity with the minute Ordinary General Shareholders' Assembly No. 162 of February 7, 2020, it was approved to transfer the result of previous years to this account the amount of Q203,139,810 to increase the reserve for contingencies and Q304,709,716 to increase 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 Interim Unaudited Financial Statements

22 Net Financial Income

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

	Period ended on September 30	
	2020 Q	2019 Q
Financial income:		
Income from interests:		
Loan portfolio	2,150,335,993	2,032,027,142
Investments	379,923,770	379,766,164
Cash	496,259	746,196
Other investments	20,500	20,461
Accounts receivable	-	62,217
	<u>2,530,776,522</u>	<u>2,412,622,180</u>
Commissions:		
Loan portfolio	98,328,910	78,765,681
Others	117,130	137,475
	<u>98,446,040</u>	<u>78,903,156</u>
Other financial income:		
Securities negotiation	37,981,395	27,041,534
Price difference in resale agreement of securities	7,272,454	10,556,671
	<u>45,253,849</u>	<u>37,598,205</u>
Total financial income	<u>2,674,476,411</u>	<u>2,529,123,541</u>
Financial expenses:		
Expenses from interests:		
Deposit obligations	(998,078,427)	(1,045,487,185)
Loans obtained	(77,992,402)	(78,000,998)
Financial obligations	-	(25,816)
	<u>(1,076,070,829)</u>	<u>(1,123,513,999)</u>
Other financial expenses:		
Additional benefits	(3,679,478)	(4,383,134)
Securities negotiation	(8,334,377)	(2,627,361)
FOPA formation quota	(35,885,360)	(35,603,571)
Price difference in resale agreement of Securities	(101,121)	(4,412)
Uncollected products	(80,345)	-
	<u>(48,080,681)</u>	<u>(42,618,478)</u>
Total financial expenses	<u>(1,124,151,510)</u>	<u>(1,166,132,477)</u>
Net financial income	<u>1,550,324,901</u>	<u>1,362,991,064</u>

Notes to the Interim Unaudited Financial Statements

23 Net Services Income

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

	Period ended on September 30	
	2020 Q	2019 Q
Services income:		
Commissions	24,104,548	24,993,146
Others	3,381,647	4,776,929
Total services income	<u>27,486,195</u>	<u>29,770,075</u>
Services expenses:		
Commissions	<u>(23,574,080)</u>	<u>(21,707,219)</u>
Total service expenses	<u>(23,574,080)</u>	<u>(21,707,219)</u>
Net services income	<u>3,912,115</u>	<u>8,062,856</u>

24 Other Operating Income and Expenses, net

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

	Period ended on September 30	
	2020 Q	2019 Q
Income:		
Dividends	151,993	186,318
Exchange rates movements and gain in foreign currency	7,585,513	1,717,204
Total other operating income	<u>7,737,506</u>	<u>1,903,522</u>
Expenses:		
Exchange rates movements and losses in foreign currency	<u>(24,201)</u>	<u>(90,556)</u>
Sub-total other operating expenses	<u>(24,201)</u>	<u>(90,556)</u>
Plus:		
Uncollectible and doubtful accounts		
Loan portfolio	(155,452,684)	(116,073,696)
Foreclosed assets	(316,764)	(3,155,525)
Accounts receivable	-	(500,000)
	<u>(155,769,448)</u>	<u>(119,729,221)</u>
Total other operating expenses	<u>(155,793,649)</u>	<u>(119,819,777)</u>
	<u>(148,056,143)</u>	<u>(117,916,255)</u>

Notes to the Interim Unaudited Financial Statements

25 Administrative Expenses

The summary of administrative expenses is as follows:

	Period ended on September 30	
	2020 Q	2019 Q
Officers and employees	235,551,553	236,846,513
Outsourcing personnel services	208,299,212	167,908,912
Leases (note 31)	60,589,066	53,499,419
Professional fees	36,788,118	26,196,137
Marketing and advertising	34,983,589	55,093,979
Repairs and maintenance	23,304,441	27,600,529
Depreciations	21,738,625	17,924,023
Taxes, import duties and contributions	21,080,970	18,606,491
Security and surveillance	20,993,062	20,596,678
Communications	20,142,025	16,968,285
Board of Administrative Directors	15,550,527	16,328,848
General expenses	11,324,076	3,753,435
Amortizations	8,530,834	20,984,183
Electricity	7,908,389	7,283,308
Freight and carriage	4,666,356	5,013,386
Insurance premium and bonds	4,407,691	4,139,579
Stationery and office supplies	3,919,920	5,155,081
Donation	1,994,628	33,750
Contributions to various associations	1,599,748	409,096
Personal recruitment	1,493,612	720,873
Sponsorship	1,350,000	1,437,094
Processing data service	886,055	2,283,503
Parking service	876,827	1,614,432
Messenger service	709,578	897,552
Fuel and lubricants	517,017	655,665
Water	287,127	190,967
Customer service	255,665	6,725,784
Miscellaneous expenses	155,948	1,165,673
	<u>749,904,659</u>	<u>720,033,175</u>

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

Notes to the Interim Unaudited Financial Statements

26 Extraordinary Income and Expenses, net

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

	Period ended on September 30	
	2020 Q	2019 Q
Income:		
Recoveries (a)	35,118,981	37,149,656
Foreclosed assets	2,049,684	1,849,430
Gain on sale of property and equipment	343,515	5,132
Others	<u>3,314,805</u>	<u>3,789,743</u>
Total extraordinary income	<u>40,826,985</u>	<u>42,793,961</u>
Expenses:		
Loss on possession and misuse of foreclosed assets (note 9)	(700,427)	(484,099)
Compensation for damages	(122,325)	(127,512)
Loss on sale of property and equipment	(13,142)	(144,708)
Loss on liquidation on foreclosed assets	-	(28,912)
Others	<u>(319,593)</u>	<u>(922,260)</u>
Total extraordinary expenses	<u>(1,155,487)</u>	<u>(1,707,491)</u>
	<u>39,671,498</u>	<u>41,086,470</u>

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

27 Income and Expenses from Previous Periods, net

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

	Period ended on September 30	
	2020 Q	2019 Q
Income:		
Loan portfolio interests	1,274,744	1,811,481
Remittances commissions	332,434	481,338
Credit reserve regularization	-	980,721
Other	-	368,581
Provisions reversals for:		
Accounts payable provisions	1,713	-
Accounts payable	-	14,970
Income tax	-	<u>322,073</u>
Carried forward	<u>1,608,891</u>	<u>3,979,164</u>

Notes to the Interim Unaudited Financial Statements

	Period ended on September 30	
	2020	2019
	Q	Q
Brought forward	1,608,891	3,979,164
Officers and employees	-	678,433
Others	121,413	250,660
Total income of previous periods	<u>1,730,304</u>	<u>4,908,257</u>
Expenses:		
Professional fees	(12,476,797)	(72,323)
Payments made to suppliers	(1,266,561)	(3,309,164)
Goodwill (note 12)	(809,836)	-
Amortization (note 12)	(73,621)	-
Depreciations (note 11)	-	(139,489)
Marketing and advertising	-	(34,839)
Labor benefits	-	(529,190)
Loan portfolio reserved interest	-	(9,438)
Remodeling and improvements	-	(1,217,628)
Loans obtained	-	(12,297)
Others	(824,767)	(289,365)
Total expenses of previous periods	<u>(15,451,582)</u>	<u>(5,613,733)</u>
	<u>(13,721,278)</u>	<u>(705,476)</u>

28 Income Tax

The statutory declarations of the income tax presented to the Bank from fiscal years ended on December 31, 2016 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.

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 September 30, 2020 amounted up Q115,153,961 (Q87,785,649 in September 30, 2019), which represents an effective rate of 16.88% (15.31 % in September 30, 2019).

Notes to the Interim Unaudited Financial Statements

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

	Period ended on September 30	
	2020 Q	2019 Q
Gross revenue (total income)	2,752,257,401	2,608,499,356
Less non-taxable income	(295,639,606)	(298,508,664)
Less deductible costs and expenses	<u>(1,996,001,949)</u>	<u>(1,958,848,096)</u>
Taxable income	460,615,846	351,142,596
Taxable rate	25%	25%
Income tax payable (note 16)	<u>115,153,961</u>	<u>87,785,649</u>

The determination of the income tax above was prepared in all significant aspects, in conformity with the provision contained in Book I of the Tax Updating Act, 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.

29 Contingencies, Commitments, Other Liabilities and Memorandum Accounts

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

The summary of this account is as follows:

	September 30,	December 31,
	2020 Q	2019 Q
Commitments and contingencies	334,512,465	300,164,187
Loan portfolio guarantee	663,400,328	638,471,322
Classification of investments and loan portfolio and other assets	14,710,781,416	14,059,104,049
Third-party administration	550,601,642	494,957,354
Documents and own securities remitted	250,236,049	247,543,059
Authorized issuance of financial obligations	703,357,000	703,357,000
Financial obligations	703,357,000	703,357,000
Resale agreement	1,500,000	3,700,000
Other memorandum accounts	1,580,601,280	1,492,247,821
Register accounts	<u>1,686,126</u>	<u>1,510,915</u>
	<u>19,500,033,306</u>	<u>18,644,412,707</u>

Notes to the Interim Unaudited Financial Statements

The item of third-party administration includes trust funds managed by the Bank (note 31) according to the following summary:

	September 30, 2020 Q	December 31, 2019 Q
Local currency:		
Administration	500,443,239	494,575,914
Others	158,403	154,589
	<u>500,601,642</u>	<u>494,730,503</u>

30 Conformation of the Financial Group

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

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

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

At September 30, 2020 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:

	Period ended on September 30	
	2020 Q	2019 Q
Income:		
Services	801,636	894,465
Interests	-	81,292
Gain on sale of securities	8,559,384	-
	<u>9,361,020</u>	<u>975,757</u>

Notes to the Interim Unaudited Financial Statements

	Period ended on September 30	
	2020	2019
	Q	Q
Expenses:		
Services	7,275,577	5,626,850
Interests	1,516,819	2,049,108
	<u>8,792,396</u>	<u>7,675,958</u>

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

	September 30,	December 31,
	2020	2019
	Q	Q
Assets:		
Permanent investments	72,708,666	72,708,666
Accounts receivable	170,492	120,000
	<u>72,879,158</u>	<u>72,828,666</u>
Liabilities:		
Deposit obligations	44,013,414	58,717,954
Accounts payable	2,742,492	1,513,940
	<u>46,755,906</u>	<u>60,231,894</u>

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 parties.

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

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

Notes to the Interim Unaudited Financial Statements

31 Commitments and Contingencies

- **Credit lines**

As of September 30, 2020 the Bank has contingent liabilities due to credit lines authorized and pending to be released for loans and credit cards in the amount of Q193,790,935 and US\$14,058,645 equivalent to Q109,460,891 (Q172,687,839 and US\$12,557,116 equivalent to Q96,675,228 in December 31, 2019).

- **Credit letters**

As of September 30, 2020 and December 31, 2019 the Bank has contingent liabilities due to credit letters issued in the amount of Q17,000,000.

- **Trust funds**

As of September 30, 2020 and December 31, 2019 the Bank manages as trustee nine (9) trust contracts. In conformity with the Code of Commerce, the trustee is 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 Comptroller of Accounts of the Nation and one (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 2020 for this concept is worth of Q60,589,066 (Q53,499,419 in September 30, 2019).

- **Pending litigations**

As of September 30, 2020 and December 31, 2019 are pending of resolution the following civil and fiscal litigations.

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

	September 30, 2020 Q	December 31, 2019 Q
Additional taxes claimed		
In administrative instance:		
Income tax – tax on earnings from lucrative activities fiscal year 2015	58,038,770	61,297,804
Carried forward	58,038,770	61,297,804

Notes to the Interim Unaudited Financial Statements

	September 30, 2020 Q	December 31, 2019 Q
Brought forward	58,038,770	61,297,804
Income tax – tax on earnings from lucrative activities fiscal year 2016	53,322,282	53,322,282
Solidarity tax – adjustment of third quarter fiscal period 2015	-	506,608
Tax adjustments for solidarity tax fourth quarter fiscal period 2015	-	506,608
	<u>111,361,052</u>	<u>115,633,302</u>
Judicial process:		
Income tax – financial income fiscal year (ISPF) year 1998	3,832,541	3,832,541
Income tax – financial income fiscal year (ISPF) year 1999	1,998,094	1,998,094
	<u>5,830,635</u>	<u>5,830,635</u>
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
	<u>118,846,687</u>	<u>123,118,937</u>

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 September 30, 2020 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.

Notes to the Interim Unaudited Financial Statements

The loss resulting from de 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 effect 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.

32 COVID-19 Pandemic

In December 2019 the appearance of a new coronavirus strain called COVID-19 was reported, which has spread as a pandemic among the world population during the first quarter of 2020. On March 13, 2020 the first case of COVID-19 in Guatemala was confirmed, and as of that date, the Government of the Republic has taken preventive measures that may affect the Bank´s operations. Currently, it is not possible to determine or quantify the effect that such a subsequent event may have on the Bank, since it will depend on future developments and the national and international levels, which are uncertain and cannot be predicted.