Banco Agromercantil de Guatemala, S. A. and Subsidiaries

Consolidated Financial Statements for
the Year Ended December 31, 2017 and
Corresponding Figures for 2016 and
Independent Auditors' Report Dated
February 9, 2018

BANCO AGROMERCANTIL DE GUATEMALA, S. A. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Banco Agromercantil de Guatemala, S. A. and Subsidiaries

We have audited the accompanying consolidated financial statements of Banco Agromercantil de Guatemala, S. A. and Subsidiaries (the "Group") which comprise the consolidated balance sheets as of December 31, 2017 and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. These consolidated financial statements have been prepared by the Bank's Management based on the financial reporting provisions of the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks issued by the Monetary Board.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting provisions of the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks issued by the Monetary Board, which represents a basis of accounting that differs from the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and the resolutions issued by the Guatemalan Institute of Certified Public Accountants and Auditors for the regulated financial sector. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco Agromercantil de Guatemala, S. A. and Subsidiaries as of December 31, 2017, the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with the financial reporting provisions of the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks issued by the Monetary Board of the Republic of Guatemala, as described in Note 2 to the consolidated financial statements.

Deloitte Guatemala, S. A.

Sergio Patzán
CPA Register No. 2200

February 9, 2018
Guatemala, Republic of Guatemala

BANCO AGROMERCANTIL DE GUATEMALA, S. A. AND SUBSIDIARIES

BALANCE SHEETS
AT DECEMBER 31, 2017 AND 2016
(Expressed in Thousands of Quetzales)

ASSETS	**Notes**		**2017**		**2016**
CASH	4	Q.	2,885,604	Q.	2,737,431
INVESTMENTS - NET	5		3,243,154		2,811,840
LOAN PORTFOLIO - NET	6		17,710,559		17,290,803
INTEREST RECEIVABLE			78,164		71,294
ACCOUNTS RECEIVABLE - NET	7		30,948		48,775
ASSETS CLASSIFIED AS HELD-FOR-SALE - NET	8		196,684		196,746
PERMANENT INVESTMENTS	9		38,750		38,586
OTHER INVESTMENTS	10		16,981		16,448
PROPERTY AND EQUIPMENT - NET	11		225,369		236,943
DEFERRED CHARGES - NET	12		103,702		100,973
GOODWILL ACQUIRED			853		853
		Q.	24,530,768	Q.	23,550,692

(Continued)

BANCO AGROMERCANTIL DE GUATEMALA, S. A. AND SUBSIDIARIES

BALANCE SHEETS
AT DECEMBER 31, 2017 AND 2016
(Expressed in Thousands of Quetzales)

LIABILITIES AND STOCKHOLDERS´ EQUITY	**Notes**		**2017**		**2016**
LIABILITIES					
DEPOSITS	13	Q.	16,537,153	Q.	15,860,027
LOANS PAYABLE	14		4,877,095		4,736,140
FINANCIAL OBLIGATIONS	15		16,628		17,087
INTEREST PAYABLE			189,289		169,419
ACCOUNTS PAYABLE	16		311,214		270,192
PROVISIONS	17		149,910		143,094
DEFERRED CREDITS			1,689		1,975
Total liabilities			22,082,978		21,197,934
OTHER CREDIT BALANCES	18		48,328		51,581
NON-CONTROLLING INTEREST			22,131,306		21,249,515
STOCKHOLDERS' EQUITY	19				
Paid-in capital			1,167,588		1,167,588
Additional paid-in capital			407,014		407,014
Capital reserves			183,438		186,776
Reinvestment of profits reserve			5,712		5,729
Valuation of assets of assets classified as held-for-sale			-		30
Revaluation of assets			24,775		25,701
Valuation of assets of doubtful recovery			(48,447)		(48,447)
Gains or losses due to changes in the market value of the available-for-sale investments			764		(1,027)
Retained earnings			658,618		557,795
Total stockholders' equity			2,399,462		2,301,159
		Q.	24,530,768	Q.	23,550,692
Contingencies, commitments and other memorandum accounts		Q.	61,628,347	Q.	58,926,730

The enclosed notes are part of the financial statements. (Concluded)

BANCO AGROMERCANTIL DE GUATEMALA, S. A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Thousands of Quetzales)

	Notes		2017		2016
INTEREST INCOME	20	Q.	1,799,213	Q.	1,738,441
INTEREST EXPENSES	21		(774,302)		(741,596)
Margin from investments			1,024,911		996,845
INCOME FROM SERVICES	22		193,905		187,230
EXPENSES FOR SERVICES	23		(110,583)		(107,492)
Margin from services			83,322		79,738
OTHER OPERATING INCOME AND (EXPENSES) - NET	24		(66,374)		(88,251)
Gross operating margin			1,041,859		988,332
ADMINISTRATIVE EXPENSES	25		(758,583)		(726,288)
Net operating margin			283,276		262,044
EXTRAORDINARY INCOME AND (EXPENSES) - NET	26		49,559		35,484
INCOME AND (EXPENSES) PRIOR PERIODS - NET	27		11,227		(26,499)
Gross Income			344,062		271,029
INCOME TAX	28		(68,023)		(56,889)
Net Income			276,039		214,140
Non-controlling interest			-		1
		Q.	276,039	Q.	214,141

The enclosed notes are part of the financial statements.

BANCO AGROMERCANTIL DE GUATEMALA, S. A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Thousands of Quetzales)

	2017	2016
Shareholders' equity		
Paid-in Capital		
Balance at beginning and end of year	Q. 1,167,588	Q. 1,167,588
Additional Paid-in Capital		
Balance at beginning and end of year	407,014	407,014
Capital Reserves		
Legal Reserve		
Balance at beginning of year	141,416	126,255
Transfer from retained earnings	11,032	15,161
Liquidation of Tarjeta Agromercantil	(402)	-
Balance at end of year	152,046	141,416
Contingencies Reserve		
Balance at beginning of year	45,360	45,360
Transfer from retained earnings	70,000	50,000
Transfer to allowance for doubtful loans	(83,000)	(50,000)
Settlemente of tax adjustments	(968)	-
Balance at end of year	31,392	45,360
Reinvestment of profits reserve		
Balance at beginning of year	5,729	5,746
Depreciation	(17)	(17)
Balance at end of year	5,712	5,729

(Continued)

BANCO AGROMERCANTIL DE GUATEMALA, S. A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Thousands of Quetzales)

	2017	2016
Valuation of assets classified as held-for-sale		
Balance at beginning of year	Q. 30	Q. -
(Decrease) increase due to valuation	(30)	30
Balance at end of year	-	30
Revaluation of Assets		
Balance at beginning of year	25,701	26,679
Decrease due to valuation	-	(43)
Depreciation of the year	(926)	(935)
Balance at end of year	24,775	25,701
Valuation of assets of doubtful recovery		
Balance at beginning and end of year	(48,447)	(48,447)
Gains or losses due to changes in the market value of the available-for-sale investments		
Balance at beginning of year	(1,027)	(5,982)
Gains (losses) due to changes in the market value of the year	1,791	4,955
Balance at end of year	764	(1,027)
Retained earnings		
Balance at beginning of year	557,795	543,963
Net income	276,039	214,141
Effect of consolidation	(100)	(210)
	833,734	757,894
Minus		
Transfer to legal reserve	(11,032)	(15,161)
Declared dividends (Note 19)	(64,584)	(99,361)
Transfer to reserves for contingencies	(70,000)	(50,000)
Compensation of executives and employees	(14,395)	(19,761)
Dividends declared on preferred stock	(15,105)	(15,816)
	(175,116)	(200,099)
	658,618	557,795
TOTAL	Q. 2,399,462	Q. 2,301,159

The enclosed notes are part of the financial statements. (Concluded)

BANCO AGROMERCANTIL DE GUATEMALA, S. A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS AND CASH EQUIVALENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Thousands of Quetzales)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest receivable	Q. 1,453,934	Q. 1,391,551
Commissions receivable	125,411	137,632
Services receivable	155,567	147,144
Interest payable	(704,526)	(704,256)
Services payable	(99,403)	(96,278)
Fees payable	(823)	(1,378)
Administrative expenses payable	(648,436)	(595,789)
Loss from negotiation of securities - Net	512	843
Exchange gain or loss	69,721	71,368
Investments:		
Income from divestiture	37,799,749	27,380,421
Expense for investment	(38,264,840)	(27,196,029)
Loans receivable:		
Income from amortization	16,205,099	14,548,826
Expense for disbursement	(16,641,537)	(15,680,424)
Other investments:		
Income from divestiture	30,774	26,315
Expense for other investments	(31,308)	(26,649)
Deposit obligations:		
Income from deposits	172,755,925	174,637,939
Expense for withdrawal of deposits	(172,231,321)	(174,018,495)
Loans payable:		
Income from loans	4,426,855	4,334,666
Expense for amortization of loans	(4,171,713)	(4,414,050)
Financial obligations:		
Expense for redemption or reacquisition	(459)	(1,238)
Sale of extraordinary assets	6,263	16,843
Income Tax paid	(38,094)	(58,508)
Solidarity Tax (ISO) paid	(20,679)	(20,228)
Contributions to Savings Protection Fund (FOPA)	(32,040)	(32,512)
Other operating income and (expenses) - Net	65,842	(57,712)
Net cash generated by (used in) operating activities	210,473	(209,998)

(Continued)

BANCO AGROMERCANTIL DE GUATEMALA, S. A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS AND CASH EQUIVALENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Thousands of Quetzales)

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES:		
	Q.	Q. -
Expense for investments	(163)	(172)
Dividends received	10,473	7,317
Proceeds from sale of property and furniture	9,830	5,192
Expense for purchase of property and equipment	(22,591)	(16,727)
Net cash flows used in investing activities	(2,451)	(4,390)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(79,560)	(115,011)
Net cash flows used in financing activities	(79,560)	(115,011)
NET INCREASE (DECREASE) IN CASH	128,462	(329,399)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,784,120	3,113,519
CASH AT THE END OF THE YEAR	Q. 2,912,582	Q. 2,784,120
Supplementary Information		
Cash (Note 4)	Q. 2,885,604	Q. 2,737,431
Cash equivalents (Note 5)	26,978	46,689
	Q. 2,912,582	Q. 2,784,120

The enclosed notes are part of the financial statements. (Concluded)

1. OPERATIONS

Banco Agromercantil de Guatemala, S. A. (the Bank) and its subsidiaries Financiera Agromercantil, S. A. ("Financing Entity"), Tarjeta Agromercantil, S. A. (the "Credit Card Company"), Agrovalores, S. A. (the "Brokerage Company") Arrendadora Agromercantil, S. A. (the "Leasing Company"), Agencia de Seguros y Fianzas Agromercantil, S. A. and Asistencia y Ajustes, S. A. (hereinafter referred to as "the Group") are included herein in accordance with the regulations established by the Superintendency of Banks of Guatemala, for the preparation of the accompanying consolidated financial statements, with Banco Agromercantil de Guatemala, S. A. as the controlling entity.

The establishment of the Financial Group was authorized through the resolution of the Monetary Board JM-95-2003 dated July 23, 2003, and formalized per the resolution of the Superintendency of Banks No. 796-2004 dated September 9, 2004.

The companies that form part of the financial group are:

- Banco Agromercantil de Guatemala, S. A.
- Financiera Agromercantil, S. A.
- Tarjeta Agromercantil, S. A.
- Agrovalores, S. A.
- Arrendadora Agromercantil, S. A.
- Mercom Bank Ltd.
- Seguros Agromercantil, S. A.

The Group's holding company is Grupo Agromercantil Holding, whose shareholders are BAM Financial Corporation with a 40% equity interest and Bancolombia (Panama), S.A. with a 60% equity interest as of December 31, 2017 and 2016, respectively. Both entities were organized in the Republic of Panama.

As of December 31, 2017, the company Tarjeta Agromercantil, S.A. is in the liquidation process before the Superintendency for Tax Administration, and is in the process of obtaining authorization from the Superintendency of Banks to separate it from Grupo Financiero Agromercantil.

Description of Operations

The companies included in the consolidated financial statements were organized under the laws of the Republic of Guatemala for an indefinite period of time.

- Banco Agromercantil de Guatemala, S. A. was established on October 18, 2000 through Public Deed No. 179, as a result of the merger of Banco del Agro, S. A., Banco Agrícola Mercantil de Guatemala, S. A. and Corporación del Agro, S. A.

The Bank is in the banking business and its operations are governed by the following Guatemalan laws: Law of Banks and Financial Groups and, as applicable, by the Organic Law of the Guatemalan Central Bank, the Monetary Law, the Law of Financial Oversight, the Law Against the Laundering of Money and Other Assets and the Law for the Prevention and Suppression of the Financing of Terrorism.

- The Financing Entity was organized though Public Deed No. 16 dated March 18, 1996 as a private financing entity. It is entitled to perform all types of operations of private financing corporations, also known as investments banks, allowed by law. The Bank holds an equity interest of 56.76%, the Leasing Company holds 43.23% and the Brokerage Company holds 0.01% in the Financing Entity. Currently, the Financing Entity carries out investment transactions and no lending operations are performed.

- The Credit Card Company was established on May 29, 2000. Its main activity consists of granting financing to third parties through credit cards for local and international use. The Bank holds an equity interest of 98% and the Financing Entity, through the Bamer - Mercom Trust, holds an equity interest of 2% in the Credit Card Company.

  The Credit Card Company has suspended its credit card operations since several years ago; so it is in the process of liquidating its operations. The total assets, liabilities, equity, result of operations and cash flows of this company are not significant in relation to the consolidated financial statements of the Group as of December 31, 2017, and 2016.

- The Brokerage Company was established on October 6, 1987. Its main activity consists of managing the investment portfolio of the Group. The Bank directly holds an equity interest of 7.2% and the Leasing Company holds an equity interest of 92.8% in the Brokerage Company.

- The Leasing Company was established on April 10, 1996. Its main activity consists of the leasing of property, acting as lessor. The Bank holds an equity interest of 99.90% and the Brokerage Company has an equity interest of 0.10% in the Leasing Company.

- Agencia de Seguros y Fianzas Agromercantil, S. A. was established on January 8, 2003. Its main activity consists of supporting the entity Seguros Agromercantil, S. A. (related company, which is not included in the consolidated financial statements). The Bank holds an equity interest of 99% in Agencia de Seguros y Fianzas Agromercantil, S. A. through the Leasing Company, and the Brokerage Company holds an equity interest of 1%.

- Asistencia y Ajustes, S. A. was established on July 12, 2007. Its main activity consists of supporting the entity Seguros Agromercantil, S. A. The Bank holds an equity interest of 99% in Asistencia y Ajustes, S. A. through the Leasing Company, and the Brokerage Company holds an equity interest of 1%.

The entities Agencia de Seguros y Fianzas Agromercantil, S. A. and Asistencia y Ajustes, S. A. are not part of the regulated group.

Agreement number 06-2008 of the Superintendent of Banks requires the consolidation of financial statements under the organizational structure of the responsible company, process through which the financial statements of the members of the Financial Group authorized by the Monetary Board are added or incorporated into, as applicable, the financial statements of the responsible company, eliminating the investments of the companies in the capital of another or others of the group, as well as the reciprocal operations between companies, in accordance with the procedures established in such agreement, and which are not specifically regulated in the accounting standards in effect in Guatemala.

Such consolidated financial statements are presented separately from the individual financial statements of the responsible company.

2. BASES OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used by the Group in the preparation of the consolidated financial statements are based on that established in Resolution JM-150-2006, Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks issued by the Monetary Board, which is applicable to entities that form part of a financial group, including offshore entities.

The significant accounting policies used by the Group in the preparation of the consolidated financial statements are summarized as follows:

a. ***Bases of Presentation -*** The accompanying consolidated financial statements have been prepared in accordance with the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks issued by the Monetary Board, the provisions issued by the Monetary Board and those issued by the Superintendency of Banks.

b. ***Statement of Compliance*** - The accounting policies used by the Group in preparing and presenting its financial information are in accordance with, in all significant aspects, the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks issued by the Monetary Board.

   The financial statements of the entities Agencia de Seguros y Fianzas Agromercantil, S. A. and Asistencia y Ajustes, S. A. have been prepared using accounting practices deriving from the application of the Guatemalan Income Tax Law and have not been converted to those of the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks. The effect of not converting these financial statements is not significant in relation to the consolidated financial statements of the Group as of and for the year ended December 31, 2017 and 2016.

c. ***Basis of Consolidation -*** The consolidated financial statements include the assets, liabilities, shareholders' equity, results of operations and cash flows of the companies that form the Group and which are described in the section on operations of Note 1.

The entities Mercom Bank Ltd. and Seguros Agromercantil, S. A., which form part of the regulated group, have not been included in the accompanying consolidated financial statements as of December 31, 2017 and 2016.

In addition, the entities Agencia de Seguros y Fianzas Agromercantil, S. A. and Asistencia y Ajustes, S. A., which do not form part of the regulated group described in the section on operations of Note 1, have been included in the accompanying consolidated financial statements as of December 31, 2017 and 2016.

The term consolidation and the consolidation policies used in the preparation of the consolidated financial statements of Banco Agromercantil de Guatemala, S. A. and Subsidiaries correspond to the definitions and guidelines established by the Law of Banks and Financial Groups, the provisions issued by the Monetary Board, and those of Agreement No. 6-2008 dated February 18, 2008 issued by the Superintendency of Banks, which may differ from a consolidation of financial statements in accordance with International Financial Reporting Standards (IFRS). However, all of the significant balances and transactions among these entities have been eliminated in the preparation of the consolidated financial statements.

Banco Agromercantil de Guatemala, S. A. is the company responsible for the Group for exercising common control of the companies that comprise the financial group, for ownership interests, administration, and use of the corporate image. It has the same attributes and obligations of a controlling company and may or may not have an equity interest in the companies under its control.

d. ***Functional and Presentation Currency -*** The Group prepares and presents its consolidated financial statements in quetzales (Q.), which is the functional currency. The functional currency is the currency of the main economic environment in which it operates.

e. ***Use of Estimates -*** The preparation of the financial statements requires that management make estimates and assumptions for the determination of balances of assets, liabilities and amounts of income and expenses, and for the disclosure of contingent assets and liabilities, as of the date of the consolidated financial statements. If any subsequent change should occur in the estimates or assumptions due to changes in the circumstances on which such estimates or assumptions were based, the effect of the change shall be included in the determination of the net profit or loss of the period in which the change occurs, and for future periods if applicable. The significant estimates in the consolidated financial statements correspond to the allowance for doubtful loans, the reserve for extraordinary assets, the reserve for accounts receivable, the reserve for permanent investments, and the useful life assigned to property, furniture and equipment.

f. ***Financial Instruments -*** The financial assets and liabilities of the Group are comprised of cash, held-to-maturity investments, permanent investments, loans, discounted documents, other accounts receivable, credits obtained and deposits. These financial assets and liabilities are recognized as such at the time of their negotiation and their recognition ceases when they are settled.

g. ***Allowance for Doubtful Loans*** - The allowance for doubtful loans is determined in accordance with the criteria and percentages established in Resolution JM-93-2005 "Regulation for Credit Risk Management" and its amendments.

The allowance for doubtful loans includes a specific portion and a generic portion. The specific allowance for loans is calculated based on the percentages established in the Resolution of the Monetary Board. The generic allowance for loans is established on a precautionary basis according to the requirements of Resolution JM-167-2008.

The specific allowance may be charged to the expenses of the year or to the equity account for reserves for contingencies.

h. ***Investments –*** Investments in securities held-for-trading: Those securities acquired with the intention of trading them in a period no greater than 30 days are recorded under this category. If the securities are not traded within this period, the securities should be reclassified to the "for sale" category.

The securities held-for-trading are initially recorded at acquisition cost, which does not consider the commissions and other similar charges incurred in the purchase. The book value of these investments is updated at the end of each month based on their market value in the securities market. When there is no market value in the securities market, it is determined based on the rule related to the valuation of investments in securities. The differences deriving from the changes in price are recognized in the results of the period.

Investments in securities available-for-sale: these are initially recorded at acquisition cost, which does not consider the commissions and other similar charges incurred in the purchase. The book value of these investments is updated monthly based on their market value in the securities market. When there is no market value in the securities market, it is determined based on the rule related to the valuation of investments in securities. When dealing with securities issued by the Guatemalan Central Bank or the Public Finance Ministry and it is not possible to establish a reference market value, the valuation is made at acquisition cost. The differences deriving from the variation of prices are recorded in net equity. When the security is sold, the gain or loss accumulated in the net equity shall be recognized in the results.

Investments in securities held-to-maturity: these are initially recorded at acquisition cost, which does not consider the commissions and other similar charges incurred in the purchase. The book value is determined through the amortized cost method.

The investments in repurchase agreements are recognized as memorandum accounts, writing off the financial asset and/or liability reported.

As of the present date, the Superintendency of Banks has not issued the regulations related to the valuation of investments in securities, and thus such investments are recorded by the Bank as follows:

- In securities held-for-trading and in securities available-for-sale: these are initially recorded at acquisition cost, which does not consider the commissions and other similar charges incurred in the purchase. The book value of these investments is updated at the end of each month based on their market value in the securities market. If there is no market value in the securities market, they are valued at cost.

- Investments in securities held-to-maturity and permanent investments: These are valued at acquisition cost.

i. ***Assets Classified as Held for Sale -*** These assets correspond to assets awarded to the Group as a consequence of non-compliance by the borrowers in the payment of the loans granted. The assets received as payments-in-kind are recorded according to the settlement approved by the Board of Directors or the authority that acts as such or by whom such decision is delegated to. This settlement must include the taxes and expenses for the transfer of ownership. The legally awarded assets are recorded at the value established in the settlement approved by the judge, plus the taxes and expenses for the transfer of ownership.

j. ***Permanent Investments*** - The investments in shares, made by the investor, with the intent of maintaining their stake in the capital of the issuer of the shares, will be recorded using the cost method. The investor will recognize the income from the investment only to the extent that the retained earnings from the investee (in which the investment is held) that arose after the acquisition date are distributed. The amounts received over such gains are considered as a recovery of the investment and, therefore, shall be recognized as a reduction in their cost.

k. ***Property and Equipment -*** These assets are recorded at cost, except for property and buildings that were revalued. The last revaluation for property was made in 2012 and for buildings it was in 2009. The appraisal was performed by independent expert appraisers.

The advances for purchases of fixed assets are classified as part of this account, per that established by the Accounting Instructions Manual.

Depreciation is calculated using the straight-line method using the legal percentages established in the Income Tax Law, which are the following:

	Depreciation Rate
Property	5%
Furniture and equipment	20%
Information systems	20%
Vehicles	20%
Telecommunications equipment	20%
Tools	20%
Others	10% and 20%

l. ***Deferred Charges -*** This account records all of the expenses incurred for the organization of the Group, and the improvements on leased properties, which are amortized within the range established by the Income Tax Law.

m. ***Severance Compensation -*** According to the Labor Code of the Republic of Guatemala, entities have the obligation to pay severance to employees dismissed under certain circumstances, on the basis of one month's salary, plus one-twelfth of the Christmas Bonus and mid-year bonus, for each year of service

In case of resignation of the employees, the Company has the policy of paying this benefit in conformity with a percentage scale based on the seniority of the employee, as follows:

- From 1 to 2 years 25%
- From 2 to 3 years 50%
- From 3 to 4 years 75%
- From 4 years and thereafter 100%

On November 30, 2012, the Board of Directors authorized the recording of the supplementary amount needed to cover 100% of the actual labor liability with a charge to the reserves for contingencies.

n. ***Recognition of Revenues -*** The modified accrual basis is used. When using the accrual method, the following prudent criteria should be used: The income obtained from the following items is recorded as revenue: a) interest earned but not collected on bonds or documents issued by the Guatemalan Central Bank and securities from other issuers whose amortization funds are controlled by the Guatemalan Central Bank; b) interest earned but not collected on securities issued by foreign governments or foreign central banks, which have at a minimum a risk rating of A-3 for short-term or BBB- for long-term securities, determined by Standard & Poor's or an equivalent risk rating made by an internationally recognized risk rating agency ; and, c) interest, commissions, income and other revenues on the credit card portfolio.

The income earned from items other than those mentioned above, including the interest on loans, is recorded as other credit balances, and recognized in the statement of income until it is actually collected. In addition, the recording in accounting of income earned but not collected as other credit balances is suspended when there is a delay of 30 calendar days for the investments in securities and 90 calendar days for the rest of the operations and services, counting from the day following the date on which the agreed upon payments should have been made. When such suspension occurs, the income earned but not collected is reversed from the affected other credit balances.

For the credit card operations, the recording in the results is suspended when there is a delay of 90 calendar days, counting from the day following the date on which the agreed upon payments should have been received. When such suspension occurs, the income recorded in income statement accounts that has not been actually received will be recognized as expenses against the account for income receivable in which it was initially recorded; with the exception of the charges to be capitalized in credit card accounts, which shall not be returned.

The income that has been suspended, recorded in other credit balances and in income statement accounts, as well as that which has been earned as of the date of the suspension, is recorded in memorandum accounts.

For the revenues obtained from the sale of assets classified as held-for-sale, these are directly recorded in the income statement when the payment is made in cash. If the payment is made in installments and a profit is made on the sale, it is recorded in other credit balances, and then moved to the income statements as the installments are paid. However, if the sale is made at a price that is less than the book value, the loss is directly recorded in the income statement of the period.

Credit Card:

Service Charges - For those credit cardholders who are over 91 days late in their payments, services charges are no longer accrued.

Late Payment Fees - The Bank charges late payment fees on the amount of the minimum payment not made, which are calculated as of the day following the due date of the respective payment, and are accumulated for up to 3 months of arrears. Once the arrears reach 91 days, such fees are no longer provisioned if the credit cardholder has not made their past due payments.

o. ***Goodwill Acquired -*** This corresponds to the difference between the nominal value of the shares acquired from Agrovalores, S. A. and the amount that the Bank paid for them. This balance is not amortized.

p. ***Recognition of Expenses -*** The Group records the expenses using the accrual method.

q. ***Income and Expenses from Prior Periods -*** The adjustments to income and expenses from prior periods are recorded as part of the results of the operations for the year in which the adjustment is made.

3. DIFFERENCES BETWEEN THE ACCOUNTING INSTRUCTIONS MANUAL FOR ENTITIES SUBJECT TO THE OVERSIGHT AND INSPECTION OF THE SUPERINTENDENCY OF BANKS AND THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The financial statements were prepared in accordance with the format and description of accounts included in the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks issued by the Monetary Board, whose accounting policies differ in certain aspects from the International Financial Reporting Standards (IFRS), mainly in:

- For the recognition of income the modified accrual method is used (see detail in note 2, paragraph "n"). IFRS requires that all income be recorded under the accrual method when it satisfies the definitions and criteria for recognition foreseen for such elements in the Conceptual Framework of the IFRS.

- The securities issued by the Guatemalan Central Bank or the Public Finance Ministry are recorded at cost. IFRS requires that they be valued at fair value or amortized cost, according to the intention of negotiation.

- The evaluation of the allowance for doubtful loans is made according to the regulations established by the Monetary Board, recording the reserve for the valuation of credit assets as a charge to the results or equity. According to IFRS, when there is objective evidence that there is a loss due to impairment in the value of the financial assets measured at amortized cost, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of the future estimated cash flows (excluding the future credit losses which have not been incurred), discounted with the original effective interest rate of the financial asset. The amount of the loss is recognized in the results of the period.

- In addition, IFRS requires an evaluation of whether there is individual objective evidence of impairment in the value for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the entity determines that there is no objective evidence of impairment in the value of a financial asset that has been individually evaluated, whether significant or not, it shall include the asset in a group of financial assets with similar characteristics of credit risk, and shall evaluate its impairment in value on a collective basis. The assets that have been individually evaluated for impairment and for which an impairment loss has been or will continue to be recognized, shall not be included in the collective evaluation for impairment.

- The property and equipment is depreciated using the straight-line method, using the depreciation rates established in the Income Tax Law. IFRS requires that the fixed assets be depreciated according to their estimated useful lives.

- The start-up expenses are recorded as deferred charges and amortized within the range established by the Income Tax Law. IFRS requires that these types of expenses be recorded in the results of the period in which they are incurred.

- The expenditures that constitute intangible assets and that due to their nature can be amortized in various future periods are recorded as an asset. IFRS establishes that the intangible assets with an indefinite useful life should not be amortized. In addition, they establish that the entity verify whether an intangible asset with an indefinite useful life has experienced a loss due to impairment in the value by comparing its recoverable amount with its carrying amount, recording the impairment within the results for the year.

- The Bank constitutes reserves for contingencies, separating them from its retained earnings, according to authorizations from the General Shareholders' Meeting, whenever it is considered advisable to create or increase reserves, in order to face any future problems or ensure coverage for non-specific purposes or unforeseen events.

  According to IFRS, a provision must be recognized with a charge to the results when the following conditions occur:

- The entity has a present obligation (legal or constructive) as a result of a past event;

- It is probable that the entity will have to use resources that incorporate economic benefits in order to settle the obligation; and

- A reliable estimate can be made of the amount of the obligation.

- Corrections made to income and expenses of prior periods resulting from a correction of accounting errors are recorded as part of the operating results of the year in which the correction is made. The corrections to the income tax expense of prior years is charged or credited directly to the retained earnings.

  IFRS requires that the entity correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery, except when it is impracticable to determine the period-specific effects or the cumulative effect of the error, by:

  - Restating the comparative information for the prior period(s) in which the error occurred; or

  - If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities, and equity for such period.

- No deferred income tax is recorded. IFRS requires the recording of deferred income tax assets or liabilities based on temporary differences between the book value of the assets and liabilities and their tax value, which will be deductible or taxable in the future.

- Agreement number 06-2008 of the Superintendent of Banks requires the consolidation of financial statements under the organizational structure of the responsible company, process through which, depending on the case, financial statements of the other companies that are members of the Financial Group authorized by the Monetary Board are added or incorporated into the financial statements of the responsible company, eliminating the investments of the companies in the capital of another or others of its own group, as well as the reciprocal operations between companies, in accordance with the procedures established in said agreement. Such consolidated financial statements are presented separately from the individual financial statements of the responsible company.

  IFRS requires the preparation and presentation of the consolidated financial statements of a group of entities under control of a controlling entity, defining control as the power to direct the financial and operating policies of an entity in order to obtain benefits from its activities. The consolidated financial statements shall include all of the subsidiaries of the controlling entity.

- The assets judicially awarded are recorded in accounting at the value established in the settlement approved by the judge, plus the taxes and expenses for the transfer of ownership. According to IFRS, the entity should value the non-current assets classified as held-for-sale at the lower of carrying amount or its fair value minus the sales costs.

- In repurchase agreements, the financial asset reported is written-off and recorded in a memorandum account. According to IFRS, if the entity substantially retains the risks and inherent benefits of ownership in a financial asset, it must continue recognizing it as such.

- If there are derivative financial instruments, the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks does not establish the form in which they must be recorded. According to IFRS, derivative financial instruments meet the definition of a financial instrument and, therefore, they should be recognized in accounting. Derivative financial instruments create rights and obligations that have the effect of transferring, between the parties implicated in the instrument, one or various types of financial risks inherent to an underlying primary financial instrument. Since the conditions of the exchange are established upon the creation of the derivative instrument, these may become favorable or unfavorable to the extent that the prices change in the financial markets.

- The disclosures made by the Bank according to the accounting basis used differ from the disclosures that would have been necessary had the financial statements been prepared according to IFRS.

4. CASH

	2017	2016
Local currency:		
Cash	Q. 563,438	Q. 518,283
Central Bank legal deposits	1,062,413	992,493
Central Bank special deposits	74,029	68,741
Checks from other local banks	236,189	160,999
Local banks	64,571	41,624
	2,000,640	1,782,140
Foreign currency:		
Cash	61,357	38,384
Central Bank legal deposits	531,332	662,445
Central Bank special deposits	26,198	29,073
Checks and money orders from local and foreign banks	114,215	106,383
Foreign banks	151,862	119,006
	884,964	955,291
	Q. 2,885,604	Q. 2,737,431

The Organic Law of the Guatemalan Central Bank establishes that bank deposits are subject to reserves. The percentage of bank reserves in local and foreign currency is 14.6%.

These reserves must be kept constantly in the form of demand deposits in the Guatemalan Central Bank, of cash funds in the bank's cashiers, and, when the circumstances warrant it, of liquid investments in instruments, documents or securities, local or foreign, in accordance with the regulations issued by the Monetary Board for such purpose.

The mandatory investment in quetzales and in US dollars in the Guatemalan Central Bank as of December 2017 and 2016 is of Q.74,029 and Q. 68,741 and US$3,567 and US$3,865, respectively, earning interest rates of between 3.93% and 4.03% for investments in quetzales and 1.242% and 0.389% for investments in dollars.

As of December 31, 2017 and 2016, the cash is free of pledges.

5. INVESTMENTS - NET

The summary of this account is as follows:

		2017		**2016**
Local currency:				
Available-for-sale securities:				
Bank of Guatemala - Certificates of deposit, maturing in 2018 and 2019 a/	Q.	423,114	Q.	152,392
Certificates of deposit issued by the Ministry of Finance of the Republic of Guatemala, with annual interest rates between 6.625% and 10% and maturing between 2018 and 2027		879,176		776,005
Certificates of deposit issued by the Central Bank of Guatemala, with annual interest rates between 6.625% and 6.750% and maturing between 2020 and 2022		250,000		250,000
F. H. A. Mortgage Bonds with interest rates between 8% and 12% and maturing between 2018 and 2034		1,106		1,729
Promissory note issued by Credomatic de Guatemala, S. A., with an annual interest rate of 6.5% and maturing in 2017		-		10,000
		1,553,396		1,190,126
Held-to-maturity securities:				
F. H. A. Mortgage Bonds, with annual interest rates between 5.57% and 18.00% and maturing between 2018 and 2046		927,457		856,457
Total local currency		2,480,853		2,046,583

	2017	2016
Foreign currency:		
Available-for-sale securities:		
Certificates of deposit issued by the Ministry of Finance of the Republic of Guatemala, with annual interest rates between 4.875% and 5.875% and maturing between 2021 and 2027	515,333	482,984
Eurobonds with annual interest rates between 4.875% and 5.75% and maturing between 2022 and 2028	246,894	282,126
Bonds with local financial institutions with an annual interest rate of 5.50% and maturing in 2022	1,013	982
Bonds with local non-financial institutions, with an annual interest rate of 7.125% and maturing in 2023	7,826	7,930
Total foreign currency	771,066	774,022
Subtotal	3,251,919	2,820,605
Allowance on F. H. A. mortgages notes	(8,765)	(8,765)
	Q. 3,243,154	Q. 2,811,840

a) As of December 31, 2017, the Bank, Financing Entity and Brokerage Company, and for 2016 only the Bank, has investments in certificates of deposit issued by the Central Bank of Guatemala for Q. 423,114 and Q. 152,392, respectively, which were acquired with a discount on the par value. During the year ended December 31, 2017 the Bank obtained Q.16,581 and Q. 15,170, respectively, which was collected upon the maturity of each instrument.

b) As of December 31, 2017 and 2016, the investments have various maturities. The maturities of these investments over the next five years are summarized as follows:

	2017	2016
2017	Q. -	Q. 295,675
2018	519,307	90,811
2019	74,804	78,734
2020	290,496	292,754
2021	662,241	505,747
2022 and thereafter for 2016	333,108	1,556,884
2023 and thereafter	1,371,963	-
	Q. 3,251,919	Q. 2,820,605

c) Cash equivalents are summarized as follows:

		2017		2016
Certificates of deposit issued by the Central Bank of Guatemala	Q.	26,978	Q.	46,689

d) The movement of the allowance for F. H. A. mortgage bonds is summarized as follows:

		2017		2016
Balance at beginning of year	Q.	(8,765)	Q.	(6,265)
Plus:				
Provision of the year charged to profit and loss		-		(2,500)
Balance at end of year	Q.	(8,765)	Q.	(8,765)

As of December 31, 2017 and 2016, the investments are free of pledges.

6. LOAN PORTFOLIO - NET

The summary of the loan portfolio by type of guarantee is as follows:

		2017		2016
Local currency:				
Fiduciary	Q.	3,027,406	Q.	3,052,340
Mortgage		2,691,231		2,400,720
Credits in monetary deposit accounts		1,821,334		1,546,438
Pledge-fiduciary		273,958		263,315
Credit cards		984,066		827,574
Pledge		96,118		99,503
Mortgage-fiduciary		1,053,880		1,127,130
Mortgage-pledge		5,063		5,682
Mortgage-pledge-fiduciary		59,064		69,082
Secured by own obligations		167,165		88,451
Factoring		1,016		1,442
Receivables from sale of realizable assets		35,628		39,422
		10,215,929		9,521,099
Foreign Currency:				
Fiduciary		2,516,983		2,877,930
Mortgage		1,577,123		1,507,290
Notes receivable		869,496		783,816
Credits in monetary deposit accounts		524,995		345,041
Secured by own obligations		24,725		23,203
Receivables from sale of foreclosed assets		7,810		7,139
Pledge		51,381		18,681

	2017	2016
Payments of letters of credit	84,012	63,004
Credit cards	103,700	91,890
Mortgage-fiduciary	1,489,755	1,610,810
Mortgage-pledge	513,058	549,503
Pledge-fiduciary	13,501	76,284
Mortgage-pledge-fiduciary	126,684	163,598
	7,903,223	8,118,189
Subtotal	18,119,152	17,639,288
Minus: Allowance for doubtful loans		
Specific	(142,239)	(142,323)
Generic	(266,354)	(206,162)
Total allowances	(408,593)	(348,485)
	Q. 17,710,559	Q. 17,290,803

The summary of the loan portfolio by status is as follows:

	2017	2016
Local Currency:		
Current	Q. 9,938,703	Q. 9,293,975
Past due:		
In extension process	86,806	91,133
Past due in administrative collection	10,410	359
Past due in judicial collection	180,010	135,632
	277,226	227,124
	10,215,929	9,521,099
Foreign Currency:		
Current	7,817,396	8,036,658
Past due:		
In extension process	53,272	12,399
Past due in administrative collection	7,832	57,485
Past due in judicial collection	24,723	11,647
	85,827	81,531
	7,903,223	8,118,189
	Q. 18,119,152	Q. 17,639,288

The summary of the loan portfolio by category is as follows:

		2017		2016
Local Currency:				
Major corporate borrowers	Q.	5,362,958	Q.	5,192,274
Minor corporate borrowers		1,172,828		1,099,338
Microcredit loans		55,634		59,024
Mortgage loans		1,342,459		1,178,905
Consumer loans		2,282,050		1,991,558
		10,215,929		9,521,099
Foreign Currency:				
Major corporate borrowers		7,322,982		7,597,797
Minor corporate borrowers		309,338		314,679
Microcredit loans		272		440
Mortgage loans		140,019		91,418
Consumer loans		130,612		113,855
		7,903,223		8,118,189
	Q.	18,119,152	Q.	17,639,288

The summary of the loan portfolio by economic activity is as follows:

		2017		2016
Local Currency:				
Consumer	Q.	3,408,388	Q.	2,981,018
Agriculture, livestock, forestry, hunting and fishing		471,374		388,226
Mining and quarrying		37,492		29,427
Manufacturing industry		972,160		1,007,714
Electricity, gas and water		187,980		441,245
Construction		819,204		930,664
Commerce		2,427,268		1,882,068
Transportation and storage		205,783		214,246
Financial establishments, real estate and services provided to companies		1,214,972		1,233,573
Community, social and personal services		255,438		223,763
Transfers		351		475
Other destinations		215,519		188,680
		10,215,929		9,521,099
Foreign Currency:				
Consumer		253,332		190,687
Agriculture, livestock, forestry, hunting and fishing		1,994,766		2,124,743
Manufacturing industry		1,370,037		1,299,381
Electricity, gas and water		1,381,141		1,740,327
Construction		452,076		533,529

	2017	2016
Commerce	1,609,332	1,570,098
Mining and quarrying	4,050	7,085
Transportation and storage	53,550	42,238
Financial establishments, real estate and services provided to companies	621,129	453,244
Community, social and personal services	146,512	142,270
Other destinations	17,298	14,587
	7,903,223	8,118,189
	Q. 18,119,152	Q. 17,639,288

The summary of the loan portfolio by geographical area is as follows:

	2017	2016
Local Currency:		
Guatemala	Q. 10,213,660	Q. 9,510,105
Central America	2,269	9,454
Other countries	-	1,540
	10,215,929	9,521,099
Foreign Currency:		
Guatemala	7,155,153	7,272,692
Central America	746,763	744,548
Other countries	1,307	100,949
	7,903,223	8,118,189
	Q. 18,119,152	Q. 17,639,288

The summary of the loan portfolio by maturity is as follows:

	2017	2016
Local Currency:		
Up to one year	Q. 1,794,725	Q. 1,245,982
From one to three years	2,331,914	2,103,789
From three to five years	2,413,141	2,386,605
Five years or more	3,676,149	3,784,723
	10,215,929	9,521,099
Foreign Currency:		
Up to one year	1,706,779	1,425,544
From one to three years	904,024	625,678
From three to five years	1,393,732	1,074,440
Five years or more	3,898,688	4,992,527
	7,903,223	8,118,189
	Q. 18,119,152	Q. 17,639,288

On May 23, 2005 the Monetary Board issued Resolution JM-93-2005 that repealed resolution JM- 141-2003. This resolution approved the Regulation for Credit Risk Management. In Title IV the valuation of loans receivable is established, indicating that financial institutions should value all of their loans receivable at least four times per year, with balances referenced to the closing of the months of March, June, September, and December, whose results should be recorded in accounting no later than the last day of the month following the month in which the valuation took place. In valuing loans receivable, the guarantee, arrears, and capacity of payment should be considered, and the percentages established by such resolution should be applied.

Financial institutions must record in accounting the reserves for credit assets of doubtful recovery with a charge to profit and loss of the period.

According to the current rules, the Bank must record estimates based on the risk analysis, calculated on the accounts included in the group of loans receivable.

On December 30, 2008, the Monetary Board issued Resolution JM-167-2008, which modified articles 27, 33, 34 and 35 of Resolution JM-93-2005 of the Monetary Board that contains the Regulations for Credit Risk Management. Such modifications refer to the classification of the extended, restructured or novated loans receivable; determination of the base balance; sufficient guarantees and establishment of generic reserves or provisions. At the same time it adds articles 27 bis, 34 bis, 38 bis and 42 bis to the Regulation in reference. Articles 34 and 35 of this Resolution went into effect on January 1, 2010.

One of the important points is that the institutions must establish and maintain, at a minimum, generic reserves that added to the specific reserves total the equivalent of one hundred percent (100%) of the past due portfolio.

The sum of these reserves cannot be less than 1.25% of the total loans receivable. The generic reserves must be recorded within the month following the corresponding quarter.

On December 30, 2008, Resolution JM-168-2008 was published which approved the modifications to the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks. These modifications are mainly to section IV that refers to the Description of Accounts and recording procedures, adding the accounts in which the generic reserves mentioned above should be recorded.

Credit Card:

As of December 31, 2017 and 2016 the Bank has 6 types of credit cards. For collection purposes, the balances of credit card loans are divided into 6 cycles whose cut-off dates are days 1, 5, 10, 15, 21 and 26 of each month. For purposes of the monthly accounting close, the balances are accrued until the last day of the month.

In the account for "additional financing receivable" on credit cards, the consumption for this item is recorded, as the respective installments are due. These are transferred, together with the interest, to the accounts receivable from credit cards and the interest is recorded as revenue. As of December 31, 2017 and 2016 the Bank pre-authorized Q. 1,339,046 and Q. 1,373,101 in additional financing, of which as of December 31, 2017 and 2016 the credit cardholders had used Q. 319,167 and Q.298,672, respectively.

In December 2015, the Congress of the Republic of Guatemala enacted Decree 7-2015 containing the Credit Card Law. The purpose of such law is "To establish the legal framework for regulating credit card transactions and purchases-sales made through credit cards, and the relationships among the issuer, operator, credit cardholder and affiliate."

This Law includes various matters that will have a general impact on the operation and management of credit cards, as follows:

- The annual interest rate cannot exceed a percentage that is double the amount of the last annual weighted average lending rate of the banking system, published by the Central Bank of Guatemala.

- Card issuers cannot capitalize the interest for financing and arrears.

- There is a prohibition against harassment of clients, which restricts telephone calls, electronic mails, and text messages, among others.

- The debt shall be restructured when it reaches 150% of the credit limit or when the cardholder considers that they cannot pay their obligation as scheduled.

- The capacity of payment shall be evaluated and the credit limit granted may only be up to the amount of the last two salaries received.

- Additional information will now be required in the contract and statement of account.

In order to comply with the changes and modifications indicated by the Law, various internal actions have been taken through a Multidisciplinary Committee.

As of December 31, of 2017 and 2016, the total balance for credit cards represents 11.62% and 10.01%, respectively, of the total balance of the fiduciary loan portfolio, and the income from financing interest generated by the credit card portfolio corresponds to 27.05% and 28.07%, respectively, in relation to the total income generated by the total fiduciary loan portfolio for the same item.

On March 31, 2016, the Constitutional Court of Guatemala temporarily suspended Decree No. 7-2015, Credit Card Law.

Movement of the Valuation Allowance

The movement of the valuation allowance is summarized as follows:

		2017		2016
Balance at beginning of year	Q.	348,485	Q.	284,890
Plus increases due to:				
Provision of the year charged to profit or loss		143,553		162,480
Transfer from the contingencies reserve		83,000		50,000
Foreign exchange variation		(1,981)		(1,177)
		573,057		496,193
Less charges for:				
Doubtful accounts written off		(164,464)		(147,655)
Recoveries		-		(53)
		(164,464)		(147,708)
Balance at end of year	Q.	408,593	Q.	348,485

The reconciliation of charges to results of the valuation allowances are summarized as follows:

		2017		2016
Valuation allowances:				
Loan portfolio	Q.	143,553	Q.	162,480
Accounts receivable		928		681
Assets classified as held-for-sale		256		1,045
Investments		-		2,500
	Q.	144,737	Q.	166,706

Credit operations bear variable annual interest rates that range between the percentages shown below:

	2017	2016
The Bank:		
Loan portfolio in local currency	0.00-41.04%	3.50-44.04%
Loan portfolio in foreign currency	0.00-13.50%	4.99-15.00%
Credit card in local currency	0.00-59.88%	0.00-59.88%
Credit card in foreign currency	0.00-48.00%	0.00-48.00%
The Leasing Company:		
Local currency	7.62-19.00%	8.41-19.23%
Foreign currency	0.96-12.09%	6.97-19.49%

As of December 31, 2017 and 2016, the loan portfolio is free of pledges.

7. ACCOUNTS RECEIVABLE - NET

		2017		2016
Local Currency				
Payments for third-party assets under management	Q.	16	Q.	2,209
Advances to suppliers		1,429		3,913
Difference in securities due to repurchase agreement transactions		-		10,000
Remittances		8,262		4,113
Security and maintenance		163		22
Other accounts pending settlement		5,282		5,444
Insurance premiums		1,536		1,367
Service charges		766		712
Taxes, municipal taxes and contributions		1,546		1,072
Shortages in cash and securities		236		140
Other loan portfolio and accounts receivable		5,928		5,497
FHA awards		2,158		2,017
Other		1,590		753
		28,912		37,259
Foreign currency:				
Accounts pending settlement		3,435		12,085
Payments on behalf of third-parties		63		145
Other		290		472
		3,788		12,702
Total accounts receivable		32,700		49,961
Minus: Valuation allowance		(1,752)		(1,186)
	Q.	30,948	Q.	48,775

The movement of the allowance for accounts receivable is summarized below:

		2017		2016
Balance at beginning of year	Q.	1,186	Q.	1,187
Plus:				
Provision for the year		928		681
Minus:				
Write-offs against the allowance		(357)		(648)
Recoveries		-		(4)
Foreign exchange variation		(5)		(30)
		(362)		(682)
	Q.	1,752	Q.	1,186

8. ASSETS CLASSIFIED AS HELD-FOR-SALE - NET

		2017		2016
Property	Q.	215,033	Q.	219,238
Investment securities		230		1,259
Equipment		6,933		7,516
Capitalized foreclosure cost		-		47
		222,196		228,060
Minus:				
Valuation allowance		(25,512)		(31,314)
	Q.	196,684	Q.	196,746

The movement of the valuation allowance for assets classified as held-for-sale is summarized as follows:

		2017		2016
Balance at beginning of year	Q.	31,314	Q.	37,601
Plus:				
Provision for the year		256		1,045
Appraisal loss		898		1,696
		1,154		2,741
Minus:				
Release on realizable assets sale		(252)		-
Write-offs		-		(9,026)
Revenue on foreclosed assets sales		(6,704)		-
Allowance for generic valuation		-		(2)
		(6,956)		(9,028)
Balance at end of year	Q.	25,512	Q.	31,314

9. PERMANENT INVESTMENTS

2017	Percentage of Equity Interest	No. of Shares	Par Value per Share	Investment Cost
Shares:				
Local currency:				
Seguros Agromercantil, S. A. a/	25	12,800	1,000	20,028
Imágenes Computarizadas de Guatemala, S.A.	6.62	881	1,000	1,376
Transacciones y Transferencias, S. A.	14.29	2,428,681	1	2,429
Asociación Bancaria de Guatemala	-	144	5,000	720
Bolsa de Valores Nacional, S. A.	-	1	10,000	21
BAM Financial Corporation	0.03	18,011	-	272
Subtotal				24,846
Foreign currency:				
Banco Latinoamericano de Comercio Exterior, S.A. for US$ 11 b/				89
Compañía de Procesamiento de Medios de Pago Guatemala (Bahamas), S. A. US$ 1,759 b/	10.35	1,263		13,815
				13,904
				38,750

2016	Percentage of Equity Interest	No. of Shares	Par Value per Share	Investment Cost
Shares:				
Local currency:				
Seguros Agromercantil, S. A. a/	25	12,800	1,000	Q. 20,028
Imágenes Computarizadas de Guatemala, S.A.	6.62	881	1,000	1,376
Transacciones y Transferencias, S. A.	14.29	2,428,681	1	2,429
Asociación Bancaria de Guatemala	-	144	5,000	720
Bolsa de Valores Nacional, S. A.	-	1	10,000	21
BAM Financial Corporation	0.03	18,011	-	272
Subtotal				24,846
Foreign currency:				
Banco Latinoamericano de Comercio Exterior, S.A. for US$ 11 b/	-	3,678	-	89
Compañía de Procesamiento de Medios de Pago Guatemala (Bahamas), S. A. US$ 1,759 b/	10.26	1,252		13,651
				13,740
				Q. 38,586

a) Seguros Agromercantil, S. A., is an entity regulated and overseen by the Superintendency of Banks of Guatemala and part of Grupo Financiero Agromercantil (see Note 30).

b) At December 31, 2017 and 2016, permanent investments in foreign currency have been translated at the historical exchange rate in accordance with the requirements of the accounting standards established by the Superintendency of Banks of Guatemala.

c) The dividends received from the investments in shares are summarized below:

		2017		2016
Seguros Agromercantil, S. A.	Q.	8,960	Q.	5,350
Compañía de Procesamiento de Medios de Pago Guatemala (Bahamas), S. A.		-		1,399
Bolsa de Valores Nacional, S. A.		30		29
Banco Latinoamericano de Comercio Exterior, S.A.		42		43
Bam Financial Corporation		28		415
Imágenes Computarizadas de Guatemala, S.A.		1,413		-
Others		-		81
	Q.	10,473	Q.	7,317

10. OTHER INVESTMENTS

This account represents the amortization fund established for servicing the debt for the authorized issuance of mortgage and pledge bonds I.

Debt servicing for the authorized issuance of mortgage bonds is established according to the corresponding schedule and regulations authorized by the Monetary Board (see Note 15).

The summary of this account is as follows:

		2017		2016
Local Currency				
Cash available from F. H. A. transactions	Q.	12,925	Q.	12,341
Certibonos with an annual interest rate of 9.5% and maturing on June 5, 2020		4,000		4,000
F. H. A. mortgage bonds with annual interest rates between 11% and 14% and maturing between 2018 and 2019		56		107
	Q.	16,981	Q.	16,448

11. PROPERTY AND EQUIPMENT - NET

The movement of property and equipment during the years ended December 31, 2017 and 2016 was as follows:

2017

	Initial Balance	**Additions**	**Disposals**	**Transfers**	**Final Balance**
Cost:					
Land	Q. 48,495	Q. -	Q. -	Q. -	Q. 48,495
Buildings	199,069	1,359	(9,182)	-	191,246
Furniture and equipment	21,357	8,690	(4,198)	-	25,849
Computer equipment	110,991	14,067	(25,185)	-	99,873
Vehicles	2,869	326	(1,117)	-	2,078
Communications equipment	4,626	1,676	(281)	-	6,021
Other	2,199	52	(7)	-	2,244
Advances for asset acquisition and construction	1,392	14,102	(1,192)	(11,829)	2,473
	390,998	40,272	(41,162)	(11,829)	378,279
Accumulated depreciation cost	(179,756)	(33,936)	36,007	-	(177,685)
	211,242	6,336	(5,155)	(11,829)	200,594
Revaluated fixed assets:					
Land	16,042	-	-	-	16,042
Buildings	18,530	-	-	-	18,530
	34,572	-	-	-	34,572
Accumulated depreciation on revaluated buildings	(8,871)	(926)	-	-	(9,797)
	25,701	(926)	-	-	24,775
	Q. 236,943	Q. 5,410	Q. (5,155)	Q. (11,829)	Q. 225,369

2016

	Initial Balance	Additions	Disposals	Transfers	Final Balance
Cost:					
Land	Q. 49,449	Q. -	Q. (954)	Q. -	Q. 48,495
Buildings	200,110	4,151	(5,192)	-	199,069
Furniture and equipment	22,043	2,511	(3,197)	-	21,357
Computer equipment	123,466	10,330	(22,805)	-	110,991
Vehicles	2,489	602	(222)	-	2,869
Communications equipment	4,727	172	(273)	-	4,626
Other	2,151	57	(9)	-	2,199
Advances for asset acquisition and construction	665	3,173	(558)	(1,888)	1,392
	405,100	20,996	(33,210)	(1,888)	390,998
Accumulated depreciation cost	(172,361)	(42,698)	30,085	5,218	(179,756)
	232,739	(21,702)	(3,125)	3,330	211,242
Revaluated fixed assets:					
Land	16,042	-	-	-	16,042
Buildings	18,530	-	-	-	18,530
Furniture	65	-	(65)	-	-
	34,637	-	(65)	-	34,572
Accumulated depreciation on revaluated buildings	(7,958)	(935)	22	-	(8,871)
	26,679	(935)	(43)	-	25,701
	Q. 259,418	Q. (22,637)	Q. (3,168)	Q. 3,330	Q. 236,943

The Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks issued by the Monetary Board indicates that when the assets are totally depreciated they must be recorded in memorandum accounts with a value of Q. 1 per totally depreciated asset. During the years ended December 31, 2017 and 2016, totally depreciated assets were disposed of for Q.30,687 and Q. 26,394, respectively.

During the years ended December 31, 2017 and 2016, Q.11,829 and Q. 1,888 were transferred to improvements to leasehold properties.

As of December 31, 2017 and 2016, the property and equipment are free of pledges.

12. DEFERRED CHARGES - NET

		2017		2016
Improvements to leasehold properties a)	Q.	58,646	Q.	47,544
Organization expenses		318		318
		58,964		47,862
Less: accumulated amortization b)		(21,516)		(19,520)
		37,448		28,342
Prepaid expenses:				
Taxes, municipal taxes and contributions (note 28)		50,555		49,107
Services		15,699		19,887
Materials and supplies		-		3,637
		66,254		72,631
	Q.	103,702	Q.	100,973

a) As of December 31, 2017 and 2016 Q.11,829 and Q. 1,888, respectively, were transferred from property and equipment to leasehold improvements (see note 11).

b) The movement of the accumulated amortization is the following:

		2017		2016
Initial balance	Q.	19,520	Q.	17,669
Plus:				
Amortization expense for the year		2,415		2,344
Minus:				
Write-offs of fully amortized assets		(419)		(482)
Transfer		-		(11)
Final balance	Q.	21,516	Q.	19,520

13. DEPOSITS

	2017	2016
Local Currency		
Demand deposits	Q. 4,278,193	Q. 4,209,043
Savings deposits	2,635,951	2,613,647
Time deposits	5,093,938	4,228,281
Restricted deposits	41,655	51,485
Other deposits	53,505	26,603
	12,103,242	11,129,059
Foreign currency:		
Demand deposits	1,596,144	1,703,561
Savings deposits	844,645	922,540
Time deposits	1,981,713	2,089,818
Restricted deposits	5,718	5,711
Other deposits	5,691	9,338
	4,433,911	4,730,968
	Q. 16,537,153	Q. 15,860,027

The summary of deposits by geographical area is as follows:

	2017	2016
Local currency:		
Guatemala	Q. 11,819,232	Q. 10,892,743
Central America	101,995	76,867
Other countries	182,015	159,449
	12,103,242	11,129,059
Foreign currency:		
Guatemala	3,919,266	4,207,903
Central America	170,907	250,991
United States of America	32,458	30,474
Other countries	311,280	241,600
	4,433,911	4,730,968
	Q. 16,537,153	Q. 15,860,027

The summary of deposits by maturity is as follows:

	2017	2016
Local currency:		
Up to one year	Q. 12,035,277	Q. 11,107,058
From one to three years	67,965	22,001
	12,103,242	11,129,059

	2017	2016
Foreign currency:		
Up to one year	4,292,357	4,569,140
From one to three years	95,218	103,347
From three to five years	46,336	58,481
	4,433,911	4,730,968
	Q. 16,537,153	Q. 15,860,027

Deposit operations bear annual interest rates fluctuating between the percentages shown below:

	2017	2016
Local Currency		
Demand deposits	0.00 - 5.50%	0.00 - 5.00%
Savings deposits	0.00 - 7.00%	0.00 - 6.50%
Time deposits	1.50 - 7.75%	1.50 - 8.25%
Foreign currency:		
Demand deposits	0.00 - 5.00%	0.00 - 4.00%
Savings deposits	0.00 - 5.00%	0.00 – 2.75%
Time deposits	0.50 - 7.25%	0.50 - 7.25%

As of June As of June 1, 2002 the Law of Banks and Financial Groups, Decree 19-2002 went into effect. It provided for the creation of the Savings Protection Fund (FOPA - per its Spanish acronym), which covers all deposits made at the Bank by individuals and legal entities for up to Q. 20,000 or its equivalent in foreign currency.

The contributions of the fixed component are equivalent to one-twelfth of two per thousand of the monthly average of the total demand deposits recorded by the Bank, during the immediately preceding month.

On June 21, 2013 the Monetary Board issued resolution No. JM-56-2013, incorporating into the calculation of the fixed component for the FOPA, the calculation of the variable component, the applicable rates, as well as the mechanism through which the variable component of the contribution that banks must make monthly to the FOPA will be calculated.

For the variable component, the contribution that banks must make monthly to the FOPA will be determined based on the local or national long-term risk ratings issued by risk rating agencies registered with the Superintendency of Banks; the latter, in conformity with that established in article 58 bis of the Law of Banks and Financial Groups.

The applicable rate for calculating the variable component of the contributions that the banks are obligated to make to the FOPA is established by taking as a reference the ratings issued by Fitch Ratings, or if the corresponding bank is not rated by this rating agency, by taking as a reference an equivalent rating issued by another rating agency registered with the Superintendency of Banks.

The variable component for the Bank is determined by taking fifty percent of one-twelfth of one point twenty-five per thousand of the monthly average of the total demand deposits recorded by the Bank, during the immediately preceding month. This component of fifty percent is calculated for the period from July 2015 to March 2016.

The amount determined for the variable component plus the amount corresponding to the fixed component will be the total amount of the contribution to be made by the banks on a monthly basis to the FOPA.

The Bank's obligation to contribute such amounts ceases when the balance of such contributions reaches five percent (5%) of the total bank deposits in the National Financial System.

During the year ended December 31, 2017, the Bank made contributions to the FOPA, recording them against profit or loss of the year for Q. 22,914 and $1,240 equivalent to Q. 169, and Q. 22,684 and $1,290 equivalent to Q.9,828, respectively.

As of December 31, 2017 and 2016 the third-party deposit accounts include Q.41,655 and $778 equivalent to Q.5,718, and Q. 51,485 and $ 759 equivalent to Q. 5,711, respectively, seized by a court order.

14. LOANS PAYABLE

At December 31, 2017 and 2016, this account is summarized as follows:

2017	Authorized US$	Used US$	Committed Letters of Credit US$	Available US$	Maturity
BAC Florida Bank	23,000	-	-	23,000	Indefinite
Banco Mercantil Commercebank	2,000	-	-	2,000	01/31/2018
Bank of America, Merrill Lynch Miami	20,000	5,512	394,618	14,094	Indefinite
Banco Internacional de Costa Rica, S.A.	4,000	-	-	4,000	Indefinite
Deutsche Bank	30,000	29,998	-	2	Indefinite
Banco Latinoamericano de Comercio Exterior, S. A.	20,000	20,000	-	-	Indefinite
Citibank, N.A. New York	50,743	8,882	1,743	40,117	Indefinite
Cobank	20,000	10,200	-	9,800	Indefinite
Cobank CCC	52,000	49,597	-	2,403	Indefinite
Commerzbank	33,561	20,000	1,093	12,468	Indefinite
Eastern National Bank	7,000	2,887	-	4,113	08/31/2018
Standard Chartered Bank	30,000	7,000	257	22,743	Indefinite
US Century Bank	10,000	4,282	-	5,718	Indefinite
Wells Fargo Bank	40,000	10,960	1,090	27,950	Indefinite
Banque de Commerce et de Placements	2,929	-	651	2,278	Indefinite
Deutsche Bank	11,986	-	-	11,986	Indefinite
Banitsmo, S. A.	10,000	-	360	9,640	Indefinite
Bancolombia, S. A.	20,000	-	-	20,000	Indefinite
KBC Bank NV	5,993	-	-	5,993	Indefinite
Societe Generale	1,000	-	-	1,000	Indefinite
Banco del Bajio (L/C)	450	-	131	319	Indefinite
Sumitomo Mitsui Banking	20,000	18,038	-	1,962	Indefinite
Inter-American Development Bank (BID)	30,000	-	-	30,000	Indefinite
Scotiabank	20,000	20,000	-	-	Indefinite

2017	Authorized US$	Used US$	Committed Letters of Credit US$	Available US$	Maturity
Bancolombia Panama	100,000	80,000	-	20,000	05/31/2018
BMO Capital Market (Bank Of Montreal)	20,000	10,000	-	10,000	08/31/2018
	584,662	297,356	5,720	281,586	
Bank of America N.A. (a)	300,000	300,000			04/10/2019
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) and DEG-Deutsche Investitions - UND Entwicklungsgesellschaft MBH (b)					
Tranche A (b)	50,000	50,000			10/15/2020
Tranche B (b)	16,667	16,667			10/15/2018
	366,667	366,667			
Total in thousands of dollars of the United States of America	951,329	664,023	5,720	281,586	
Total in thousands of quetzales	Q. 6,987,290	Q. 4,877,095	Q. 42,014	Q. 2,068,181	

2016	Authorized US$	Used US$	Committed Letters of Credit US$	Available US$	Maturity
BAC Florida Bank	23,000	5,600	-	17,400	Indefinite
Banco Mercantil Commercebank	2,000	-	-	2,000	Indefinite
Bank of America, Merrill Lynch Miami	20,000	18,641	523	836	Indefinite
Banco Internacional de Costa Rica, S.A.	4,000	-	300	3,700	05/31/2017
Deutsche Bank	30,000	5,111	-	24,889	Indefinite
Banco Latinoamericano de Comercio Exterior, S. A.	20,000	20,000	-	-	Indefinite
Citibank, N.A. New York	52,382	41,283	2,238	8,860	Indefinite
Cobank	20,000	3,546	-	16,454	Indefinite
Cobank CCC	52,000	43,307	-	8,693	Indefinite
Commerzbank	19,149	6,500	3,485	9,165	Indefinite
Eastern National Bank	7,000	6,073	-	927	07/31/2017
Standard Chartered Bank	30,000	27,000	292	2,708	Indefinite
US Century Bank	10,000	8,764	-	1,236	Indefinite
Wells Fargo Bank	40,000	36,369	1,331	2,300	Indefinite
Banque de Commerce et de Placements	3,050	-	-	3,050	Indefinite
Deutsche Bank	10,545	-	3,829	6,716	Indefinite
Banitsmo, S. A.	10,000	-	410	9,590	Indefinite
Bancolombia, S. A.	10,000	-	-	10,000	Indefinite
KBC Bank NV	5,273	-	-	5,273	Indefinite
Central American Bank for Economic Integration	30,000	9,987	-	20,013	Indefinite
Societe Generale	1,000	-	-	1,000	Indefinite
Banco del Bajio (L/C)	450	-	118	332	08/31/2017
Sumitomo Mitsui Banking	15,000	14,113	-	887	Indefinite
	414,849	246,294	12,526	156,029	
Bank of America N.A. (a)	300,000	300,000	-	-	04/10/2019

2016	Authorized US$	Used US$	Committed Letters of Credit US$	Available US$	Maturity
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) and DEG-Deutsche Investitions - UND Entwicklungsgesellschaft MBH (b)					
Tranche A (b)	50,000	50,000	-	-	10/15/2020
Tranche B (b)	33,333	33,333	-	-	10/15/2018
	383,333	383,333	-	-	
Total in thousands of dollars of the United States of America	798,182	629,627	12,526	156,029	
Total in thousands of quetzales	6,004,029	4,736,140	94,223	1,173,666	

(a) Loan granted by Bank of America, N. A.

On April 10, 2014 the Bank subscribed a loan with Bank of America, N. A. (Financial Entity) for three hundred million dollars of the United States of America, (US$ 300 million) with a term of 5 years, a fixed interest rate of 6.25% annually and interest payments due on day 10 of the months of April and October of each year, beginning on October 10, 2014, with amortization of the total principal amount upon maturity of the obligation, which is on April 10, 2019.

This financing agreement contains covenants for the Bank, with the main ones being as follows:

- To keep current all government approvals, permissions or licenses of any governmental entity having jurisdiction over the entities, their business or the transactions considered in the contract.

- To keep books, accounts, and necessary records in order to comply with the applicable laws and that allow for the preparation of the financial statements.

- To provide access to the lending entity and the administrative agent to its books and records.

- To maintain an office or agent in New York, where notifications and lawsuits against the borrower regarding this contract can be received.

- To notify the lender and administrative agent of any non-compliance or event of non-compliance with the terms of the contract, as well as of the actions the borrower proposes for resolving the issue.

- To deliver to the lender and administrative agent within a term of 120 days following the end of each fiscal period, starting with the fiscal period ended December 31, 2014, a certification indicating that during the period there has been no instance of non-compliance or event of non-compliance.

- To provide to the lender, within the 120 days following the end of each fiscal period: (i) with the audited consolidated financial information, including the statement of profit or loss, balance sheet, statement of cash flows and related notes for the most recent fiscal periods; (ii) an English version of the annual audited financial statements of the borrower; and (iii) a summary of management's comments on the results of operations of the borrower and its subsidiaries for the presented periods.

- To provide the lender, within the 60 days following the end of each quarter, with unaudited consolidated financial information, including the statement of profit or loss, balance sheet and their related notes.

- To preserve and keep current the existence and rights of the Bank and its subsidiaries.

- The debtor shall not merge, consolidate or transfer in a single transaction or a series of transactions, all or substantially its assets and property to any person unless:

  - The resulting entity, if other than the borrower, is organized and exists under the laws of Guatemala and assumes all the obligations of the borrower, these being:

    (i) To pay the principal, premium and interest of the loan; and
    (ii) To perform and observe all the obligations included in the loan documents and any other signed document related to it.

  - The borrower or any successor entity is immediately, after the transaction, obligated to comply with the loan and any other document signed in relation to it.

  - The borrower shall provide to the lender a certification, together with a written opinion of the attorney in Guatemala, in a form that is reasonably satisfactory to the creditors, confirming the occurrence of the consolidation, merger, or transfer, confirming that the requirements will be met.

(b) As of December 31, 2013 the Group contracted a syndicated long-term loan with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N. V. (FMO) and DEG - Deutsche Investitions – UND Entwicklungsgesellschaft MBH amounting to US$ 100,000,000, allocated as follows:

- Tranche A for US$ 50,000,000 with an annual interest rate of 4.25% and an initial payment of principal in the fifth year.

- Tranche B for US$ 50,000,000 with an annual interest rate of 4.0% and an initial payment of principal in the third year.

This financial agreement contains the following covenants for the Group:

- Equity adequacy ratio > 11%
- Cost income ratio < 70% (as of March 31, 2016)
- Asset exposure ratio < 20%
- Exposure ratio for groups < 30%
- Exposure ratio for individual clients < 15%
- Loans with related parties ratio < 30%
- Liquidity hedge > 100%
- Net financing > 100%
- Tier 1 equity ratio > 8%
- Unhedged foreign currency ratio < 45%

As of December 31, 2017 and 2016, the Bank complies with the indicators of the preceding restrictive clauses.

(c) As of December 31, 2017 and the loans obtained earn annual interest rates that fluctuate between LIBOR plus 1.3% and 1.5% and LIBOR plus 1.3% and 1.85%, respectively with a fiduciary guarantee of the Bank.

(d) Lines of credit with indefinite maturity dates are uncommitted revolving lines of credit.

The amortizations of these loans for the next years are as follows:

	2017	2016
2017	$ -	$ 262,960
2018	330,690	33,333
2019	316,667	316,667
2020	16,667	16,667
	$ 664,024	$ 629,627

15. FINANCIAL OBLIGATIONS

	2017	2016
Banco Agromercantil de Guatemala, S. A. (a):		
Mortgage bonds II	Q. 15,590	Q. 16,026
Mortgage bonds I	152	164
Pledge bonds I	28	28
	15,770	16,218
Financiera Agromercantil, S. A. (b):		
Promissory note Agrofin I	858	869
	Q. 16,628	Q. 17,087

a) The authorizations for issuing the mortgage bonds BANAGRO II and pledge bonds BANAGRO I are contained in the corresponding Resolutions of the Monetary Board.

The total amount authorized is for up to Q. 1,000 million overall. Proceeds will be used to finance operations authorized by the Law of Banks and Financial Groups.

The bonds are guaranteed by the total number of loans and their related collateral, which are financed with the funds obtained through their placement and the other investments and assets of the Bank. The term is for up to twenty-five (25) years, with a variable annual interest rate ranging between 0.25% and 7.25%.

The bonds will be amortized through annual payments according to the amortization plan established for each series.

To service the debt, an amortization fund was created, which is represented by other investments listed in note 10.

b) The financial liabilities correspond to the financial promissory notes issued by the Financing Entity. Authorizations for the issuance of those promissory notes are contained in the corresponding resolutions of the Monetary Board. The issues have an authorized amount for Promissory Notes Agrofin I for Q. 500 million.

The promissory notes are guaranteed with the assets of the Financing Entity and have a variable annual interest rate that ranges between 0.25% and 5.5% and maturities in 2017.

To service the debt, an amortization fund was created equivalent to 24.39% of the outstanding debt, which is represented by other investments listed in note 10.

16. ACCOUNTS PAYABLE

	2017	2016
Local currency:		
Demand obligations	Q. 62,948	Q. 63,272
Obligations from issuance of documents	39,523	32,169
Income tax payable	66,768	56,072
Deferred income	72,622	58,478
Third-party management	24,157	22,500
Security deposits	2,900	2,120
	268,918	234,611
Foreign currency:		
Demand obligations	10,191	2,936
Obligations from issuance of documents	27,684	27,115
Deferred income	3,050	1,954
Third-party management	953	250
Security deposits	403	3,298
Other	15	28
	42,296	35,581
	Q. 311,214	Q. 270,192

17. PROVISIONS

	2017	2016
Bonuses	Q. 8,788	Q. 7,881
Severance compensation (a)	132,236	128,265
Other	8,886	6,948
	Q. 149,910	Q. 143,094

(a) The movement of the provision for severance compensation is summarized as follows:

	2017	2016
Initial balance	Q. 128,265	Q. 121,139
Provision for the year	23,556	21,384
Payments applied to the provision	(19,585)	(14,258)
Final balance	Q. 132,236	Q. 128,265

18. OTHER CREDITS BALANCES

	2017	2016
Local currency:		
Investments	Q. 16,132	Q. 14,274
Loan portfolio	12,369	10,296
Commissions	454	892
Accounts receivable	7	7
	28,962	25,469
Capitalized income	14,459	19,062
	43,421	44,531
Foreign currency:		
Loan portfolio	4,781	6,735
Commissions earned but not collected	37	224
Investments	89	91
	4,907	7,050
	Q. 48,328	Q. 51,581

The total balance of financial income earned but not yet collected recorded in other accounts payable, per the type of currency, is summarized below:

	2017	2016
Local currency	Q. 28,962	Q. 25,469
Foreign currency	4,907	7,050
	Q. 33,869	Q. 32,519

19. SHAREHOLDERS' EQUITY

- ***Authorized and Paid Capital:*** The authorized and paid capital of the companies that form the Group, as of December 31, 2017 and 2016, is presented as follows:

	2017	**2016**
Banco Agromercantil de Guatemala, S.A.: The authorized capital of the Bank amounts to two billion quetzales (Q. 2,000,000,000), divided and represented by 200 million common shares with a nominal value of Q. 10 each. As of December 31, 2017 and 2016, there are 99,360,541 common shares and 17,398,153 preferred shares, with a nominal value of Q. 10 each for both years, subscribed and paid.	Q. 1,167,588	Q. 1,167,588
Agencia de Seguros y Fianzas, S. A.: The authorized capital of the Company is Q.500,000, divided into 500,000 common shares with a nominal value of Q. 1 each. As of December 31, 2017 and 2016 the subscribed and paid capital amounts to Q.100,000, divided into 100,000 shares.	100	100
Asistencia y Ajustes, S. A.: The authorized, subscribed and paid capital of the Company amounts to Q. 5,000, divided and represented by 100 common shares with a nominal value of Q. 50 each.	5	5
Financiera Agromercantil, S. A.: The authorized, subscribed and paid capital is divided and represented by 10,640 common shares with a nominal value of Q.1,000 each.	10,640	10,640
Arrendadora Agromercantil, S. A.: The authorized, subscribed and paid capital is represented by 10,270 common shares with a nominal value of Q.1,000 each.	10,270	10,270
Tarjeta Agromercantil, S. A.: The authorized, subscribed and paid capital is divided and represented by 9,500 common shares of Q. 100 each.	-	950

	2017	2016
Agrovalores, S. A:		
The authorized, subscribed and paid capital is divided into 5,390 common shares with a nominal value of Q. 100 each.	539	539
	1,189,142	1,190,092
Minus: eliminations in the consolidated equity	(21,554)	(22,504)
	Q. 1,167,588	Q. 1,167,588

As of December 31, 2017 and 2016, dividends were declared for the companies that form the Financial Group, as follows:

	2017	2016
Banco Agromercantil de Guatemala, S. A.	Q. 79,689	Q. 115,177
Arrendadora Agromercantil, S. A.	3,081	3,163
Financiera Agromercantil, S. A.	872	862
Agrovalores, S. A.	593	135
Agencia de Seguros y Fianzas, S. A.	1,000	2,250
Asistencia y Ajustes, S. A.	110	159
	85,345	121,746
Minus: eliminations in the consolidated equity	(5,656)	(6,569)
	Q. 79,689	Q. 115,177

Bank

Per the Minute of the Shareholders' Meeting of the Bank No. 1-2017 dated February 28, 2017, it was agreed to declare dividends on common shares in the amount of sixty-five cents of a quetzal (Q.0.65) per share, for a total amount of Q.64,584. As of December 31, 2017m preferred dividends were paid in the amount of Q. 15,105.

Per the Minute of the Shareholders' Meeting of the Bank No. 1-2016 dated February 25, 2016, it was agreed to declare dividends on common shares in the amount of one quetzal (Q.1) per share, for a total amount of Q. 99,361. As of December 31, 2016, preferred dividends were paid in the amount of Q.15,816.

Financing Entity

Per the Minute of the Shareholders' Meeting of the Financing Entity No. 22 dated February 28, 2017, it was agreed to declare dividends in the amount of Q. 82 per share; the dividends declared amounted to Q. 872.

Per the Minute of the Shareholders' Meeting of the Financing Entity No. 25 dated February 25, 2016, it was agreed to declare dividends in the amount of Q. 81 per share; the dividends declared amounted to Q. 862.

Leasing Company

Per the Minute of the Shareholders' Meeting of the Leasing Company No. 1-2017 dated February 28, 2017, it was agreed to declare dividends in the amount of Q.300 per share; the dividends declared amounted to Q. 3,081.

Per the Minute of the Shareholders' Meeting of the Leasing Company No. 1-2016 dated February 25, 2016, it was agreed to declare dividends in the amount of Q.308 per share; the dividends declared amounted to Q. 3,163.

Brokerage Company

Per the Minute of the General Ordinary Shareholders' Meeting of the Brokerage Company No. 35 dated February 28, 2017, it was agreed to declare dividends on common shares in the amount of Q.593 per share, for a total amount of Q. 0.11.

Per the Minute of the General Ordinary Shareholders' Meeting of the Brokerage Company No. 34 dated February 25, 2016, it was agreed to declare dividends on common shares in the amount of Q.25 per share, for a total amount of Q. 135.

Per the Minute of the Shareholders' Meeting of the companies of the Group, the percentage approved and distributed during the year ended December 31, 2017 and 2016 was 5.22% and 5.31%, respectively, calculated on the gross earnings of the years ended December 31, 2017 and 2016.

- ***Soundness of the equity***. The Law of Banks and Financial Groups establishes that with the purpose of promoting the solvency of banking institutions with its deposit holders and creditors, all financial institutions must permanently maintain a minimum amount of equity with respect to their assets and contingencies. The amount of equity required is 10%, which is calculated in accordance with the procedures determined by such Law and the Resolution of the Monetary Board JM-46-2004 amended by resolutions JM-62-2006, JM-124-2006 and JM-41-2008.

  As of December 31, 2017 and 2016, the Bank and Subsidiaries show a positive equity position determined as follows:

	2017	**2016**
Computable equity	Q. 2,645	Q. 2,487
Required equity	1,882	1,852
	Q. 763	Q. 635

Capital Reserves

Legal Reserve: According to the legislation of Guatemala, companies are obligated to separate as a legal reserve 5% of the net earnings of each year.

Reserve for Future Dividends**:** This reserve represents the amount that, per the decisions of the Shareholders' Meetings of the Company and its Subsidiaries, is separated from the earnings in order to ensure that there are sufficient funds to cover the payment of dividends in the periods in which the earnings are insufficient for remunerating the shareholders for their capital.

Reserves for Contingencies and Other Reserves**:** According to that established in the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks, the General Shareholders' Meeting has approved separating certain amounts from the profits in order to face any future problems, ensure coverage for non-specific purposes or unforeseen events, and create reserves or provisions (allowances) according to Article 53 of the Law of Banks and Financial Groups.

Per the decisions of the Ordinary General Shareholders' Meeting the shareholders approved the application to the reserves for contingencies of the amount of Q. 70,000 each year to increase the reserves for contingencies.

In addition, as of December 31, 2017 and 2016 the Board of Directors of the Bank approved the application to the reserves for contingencies of the amounts of Q.83,000 and Q. 50,000, respectively, in order to increase the loan portfolio reserve.

Reinvestment of Profits Reserve**:** This account represents the reinvestment of profits made in equipment in previous years, as part of the tax benefits that the Income Tax Law allowed.

Revaluation of Assets**:** This account represents the increases in the realizable value as a result of the appraisal performed by an independent appraiser.

The revalued assets are properties and vehicles, which depreciate at the rate of 5% and 20% annually, respectively. During the year 2017 the depreciation for revalued properties was Q. 926, and during the year 2016 the depreciation for revalued properties and vehicles was Q. 926 and Q. 9, respectively.

Valuation of Assets of Doubtful Recovery: It represents the amount pending settlement corresponding to reserves or estimates made for the loan portfolio and accounts receivable, whose balance shall be credited only upon the disposal, favorable development or liquidation of the credit asset that had previously been constituted as a reserve. If the conditions indicated above are not met, the balance shall not decrease.

The Monetary Board, through resolution JM-168-2008 of 2008, suspended the use of credits or debits to the accounts for valuation of assets of doubtful recovery in the equity.

Gains or Losses due to Changes in the Market Value of Held-for-Sale Investments**:** This account represents the gains or losses due to changes in the market value of the securities that are held for sale.

20. INTEREST INCOME

	2017	**2016**
Interest	Q. 1,643,362	Q. 1,578,209
Commissions	155,851	160,232
	Q. 1,799,213	Q. 1,738,441

21. INTEREST EXPENSES

	2017	2016
Interest	Q. 715,783	Q. 691,017
Additional benefits	11,947	12,227
FOPA formation contribution	32,040	32,512
Negotiation of securities	1,284	1,335
Price differences in repurchase agreement transactions	12,314	3,870
Brokerage commissions	209	209
Commissions	725	426
	Q. 774,302	Q. 741,596

22. INCOME FROM SERVICES

	2017	2016
Commissions	Q. 158,745	Q. 144,958
Account management	24,350	30,242
Leases	418	447
Related insurance services	-	8,976
Other	10,392	2,607
	Q. 193,905	Q. 187,230

23. EXPENSES FOR SERVICES

	2017	2016
Commissions	Q. 110,583	Q. 107,492

24. OTHER OPERATING INCOME AND (EXPENSES) - NET

	2017	2016
Other operating income:		
Exchange gain	Q. 70,922	Q. 72,169
Dividends	10,473	7,317
	81,395	79,486
Other operating expenses:		
Doubtful accounts	(144,737)	(166,706)
Exchange variations and losses	(3,032)	(1,031)
	(147,769)	(167,737)
	Q. (66,374)	Q. (88,251)

25. ADMINISTRATIVE EXPENSES

		2017		2016
Board of Directors	Q.	1,338	Q.	1,676
Executives and employees		377,919		340,146
Taxes, municipal taxes, contributions and fees (does not include Income Tax)		23,061		22,235
Professional fees		24,809		19,291
Leases		44,647		42,710
Repairs and maintenance		53,106		45,575
Security and surveillance		38,827		40,601
Marketing		22,663		21,793
Insurance and bonds		5,871		6,220
Depreciations and amortizations		37,365		40,013
Stationery and office supplies		6,806		6,946
Others (a)		122,171		139,082
	Q.	758,583	Q.	726,288

(a) The summary of other expenses is shown below:

		2017		2016
Freight and haulage	Q.	9,683	Q.	10,998
Infrastructure services		19,952		29,656
Electricity		10,024		10,993
Communications		36,550		44,372
Advisory, courier and business support services		14,520		10,361
Telephone		5,008		4,727
Mail		3,318		3,294
Photocopying services		3,626		4,010
Compensation services		1,903		1,984
Common expenses		3,063		2,950
Publishing		569		832
Claims		700		1,005
Dues to associations		410		443
Parking		230		273
Others		12,615		13,184
	Q.	122,171	Q.	139,082

26. EXTRAORDINARY INCOME AND (EXPENSES) - NET

		2017		2016
Income:				
Recoveries a/	Q.	46,357	Q.	34,744
Proceeds from sale of realizable assets		2,053		6,897
Proceeds from liquidation of property		9,830		5,192
Compensation for damages		12		-
Other		1,107		431
		59,359		47,264
Expenses:				
Loss in liquidation, holding and exploitation of realizable assets		(8,701)		(11,735)
Loss in valuation of realizable assets		(897)		-
Others		(202)		(45)
		(9,800)		(11,780)
	Q.	49,559	Q.	35,484

a/ This account is used to record the recoveries of the credit assets, whose balances had been written off from the loan portfolio and transferred to other memorandum accounts for their control in previous years, and which had been estimated to be of doubtful recovery.

27. INCOME AND (EXPENSES) FROM PRIOR YEARS - NET

		2017		2016
Income:				
Reversal of provisions	Q.	13,432	Q.	4,697
Expenses:				
Supplementary provisions a/		(2,205)		(31,196)
	Q.	11,227	Q.	(26,499)

a/ Through Resolution of the Monetary Board No. 55-2016 dated July 6, 2016, Banco Agromercantil de Guatemala S.A., was notified that it should adjust Q.23,932, of the account for Prepaid Expenses to Prior Period Expenses, which corresponds to expenses for loans acquired from Bank of America (BOFA) and FMO.

28. TAXES

Income Tax:

In Guatemala, the right of the tax authorities to perform reviews of companies' accounting records and additional legal documentation has a statute of limitations of four years, counting from the date on which the tax returns were filed.

The Income Tax returns filed by the Group for the years ended December 31, 2013 to 2017 are pending review by the tax authorities. For the Bank, in the year 2013, the tax authorities have already issued the corresponding resolutions and the defense process is in the administrative phase (see Note 32).

The Income Tax return of Agrovalores S.A. for the period from January 01 to December 31, 2013 was reviewed by the tax authorities who have not issued any resolution in this regard.

As of January 1, 2013 a new Income Tax Law included in Book I of the Tax Law Update, Decree 10-2012 went into effect. This new law includes two regimes for paying the tax as of the year 2013:

a) Regime over Profits from Lucrative Activities, which consists of applying the rate of 25% to the taxable income determined based on the accounting profit. The tax is paid through quarterly payments at the end of each quarter, with a settlement at the end of the year. The Bank selected this Regime.

b) The Simplified Optional Regime over Income from Lucrative Activities, which consists of applying the rate of 7% to the total taxable income and paying such tax through definitive withholdings, or in its absence, through direct payment at the tax office, with the proper authorization from the tax office. The first Q.30,000 of monthly income pays 5% tax.

The new Income Tax Law establishes a tax of 5% on the distributions of dividends and profits for both resident and non-resident shareholders.

In addition, a new Regime of Income from Capital, Capital Gains and Losses was created that establishes a rate of 10% for income from movable and immovable capital, as well as for net capital gains.

The Income Tax calculation was made under the Regime over Profits from Lucrative Activities, except for Agencia de Seguros y Fianzas Agromercantil, S. A. which selected the Simplified Optional Regime over Income from Lucrative Activities.

The income tax expense of Banco Agromercantil de Guatemala, S. A. and Subsidiaries as of December 31, 2017 and 2016 was Q. 68,023 and Q. 56,889, respectively, which represent an effective rate of 20.5% and 20%, as follows:

	2017	2016
Companies that adopted the Regime over Profits from Lucrative Activities:		
Banco Agromercantil de Guatemala, S. A.	Q. 66,056	Q. 55,121
Arrendadora Agromercantil, S. A.	1,491	1,279
Financiera Agromercantil, S. A.	162	194
Agrovalores, S. A.	72	86
Asistencia y Ajustes, S. A.	72	46
Tarjeta Agromercantil, S. A.	-	5
	67,853	56,731
Companies that adopted the Simplified Optional Regime over Income from Lucrative Activities:		
Agencia de Seguros y Fianzas, S. A.	170	158
	Q. 68,023	Q. 56,889

The tax expenses differ from the one that would result from applying the corresponding rates to the profit before income Tax, according to the following summary:

	2017	2016
Gross income (total income)	Q. 2,155,015	Q. 2,066,161
Minus:		
Exempt income and non-taxable income	(122,568)	(142,925)
Deductible expenses	(1,753,882)	(1,691,026)
Capital income	(11,539)	(7,968)
Taxable income	267,026	224,242
Tax rate	25%	25%
Income tax determined	66,757	56,061
Simplified Optional Regime:		
Income before tax expenses	2,460	2,274
Exempt income and non-taxable income	(156)	(176)
Fixed tax payment	(360)	(360)
Taxable income	1,944	1,738
Tax rate	7%	7%
	135	122
Plus fixed tax expense	18	18
Income tax expense under simplified optional regime	154	140
Capital gains tax expense	1,112	688
Total income tax expense	68,023	56,889

	2017	2016
Minus:		
Capital gains tax payments	(1,112)	(688)
Advanced payment of taxes	(142)	(129)
Income tax payable a/	Q. 66,768	Q. 56,072

The determination of the income tax expense indicated above was prepared, in all material respects, in accordance with that established in Book I of the Tax Update Law, Decree No. 10-2012 of the Congress of the Republic of Guatemala and its reforms, which contains the regulation applicable to the income tax. The amounts that are declared could be subject to subsequent changes, depending on the criteria applied by the tax authorities when they analyze the transactions.

Other important changes included in the new Income Tax Law in effect as of January 2013:

The new Income Tax Law establishes a tax of 5% on the distributions of dividends and profits for both resident and non-resident shareholders.

A new Regime of Income from Capital, Capital Gains and Losses is created that establishes a rate of 10% for income from movable and immovable capital, as well as for net capital gains.

Transfer Pricing rules went into effect as of January 1, 2013 and obligate all taxpayers that have transactions with non-resident related parties that have an impact on the tax basis (income, costs and expenses with non-resident related parties) to determine the prices of these transactions according to the Arm's Length Principle. The new Law requires a Transfer Pricing Study, which taxpayers that have transactions with non-resident related parties must have available together with the annual income tax return.

As of the date of this report, the Bank's management has contracted the performance of the transfer pricing study and in accordance with the financial statements, the transactions subject to analysis comply with the arm's length principle, and thus there is no impact on the Income Tax provision for the year under audit.

These rules are not applicable to the other companies since they have no transactions with related parties that are non-residents of Guatemala.

Solidarity Tax (ISO):

On December 22, 2008, Decree 73-2008, "Law of the Solidarity Tax" –ISO was published in the Official Newspaper, which contains the following:

This tax is the responsibility of individual persons or legal entities, trust funds, shareholding contracts, irregular corporations, de facto corporations, in the behalf of a trust, temporary or permanent branches, agencies or establishments of foreigners which operate in the country, joint tenancies, jointly owned properties, indivisible inheritances and other forms of corporate organization that have their own equity, that perform commercial or agricultural activities in the national territory and obtain a gross margin of over four percent (4%) of their gross income.

The tax period is quarterly and is calculated per calendar quarters.

The tax base for this tax is the greater between:

a) One-fourth of the amount of net assets; or
b) One-fourth of gross income.

In the case of taxpayers whose net assets are greater than four (4) times their gross income, the applicable tax base shall be the one established in letter b) above; and the applicable tax rate is 1%.

The ISO and the Income Tax may compensate each other as follows:

a) The ISO paid during the four quarters of the calendar year may be accredited towards the payment of the Income Tax until its exhaustion during the three immediately following calendar years, for that which must be paid monthly or quarterly, as well as for that determined in the definitive annual settlement, as applicable.

b) The quarterly Income Tax payments may be accredited towards the payment of the ISO within the same calendar year. The taxpayers who adopt this form of accreditation may only change it with the authorization of the Tax Administration.

The remainder of the ISO that is not accredited in accordance with that regulated in the Law of its creation shall be considered as a deductible expense for Income Tax purposes, for the period of definitive annual settlement in which the three years referred to in the previous paragraph conclude.

Written Notifications of the Superintendency of Banks

In Written Notification 8345-2015 dated September 17, 2015, the Superintendency of Banks has notified the banks regarding the application of the accounting entry for the Income Tax expense as of January 1, 2016. It is now established that such entry must be recorded as of the closing of each month, regardless of the tax regime that the entities are registered in, estimating its amount and making the accounting entry as follows:

a. **Entities registered under the Simplified Optional Regime over Income from Lucrative Activities, whose settlement period is monthly.**

   The amount of Income Tax to be recorded shall correspond to the amount resulting from the settlement made per the Income Tax Law. For such purpose, the resulting amount should be charged to an expense account.

b. **Entities registered under the Regime over Profits from Lucrative Activities, whose settlement period is annually.**

   The amount of Income Tax to be recorded shall correspond to the amount resulting from applying, as of the date of the interim period referred to in the statement of income, the procedure for the calculation that the Income Tax law establishes for the annual definitive settlement of such tax. For such purpose, the resulting amount should be charged to an expense account with a credit made to a liability account. These accounts must be adjusted monthly with the corresponding amount, by increasing or decreasing the provision, depending on the retained earnings as of the date of the interim period.

29. MEMORANDUM ACCOUNTS

This is an account that summarizes all the memorandum accounts, in accordance with the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks. The summary of this account is as follows:

	2017	2016
In local currency:		
Third-party management	Q. 3,189,095	Q. 2,794,817
Commitments and contingencies	2,483,436	2,438,295
Loan portfolio guarantees	11,209,613	10,940,951
Classification of investments, loan portfolio and other credit assets	10,217,854	9,526,129
Authorized issues of financial obligations	2,500,000	2,500,000
Financial obligations	2,116,422	2,115,963
Amortized financial obligations	366,950	366,950
Own documents and securities issued	1,227,470	1,049,916
Other	1,122,334	1,013,307
Repurchase agreement transactions	-	410,000
Securities and assets pledged as collateral	18,746	20,039
Other memorandum accounts	3,788,238	3,438,883
	38,240,158	36,615,250
Foreign currency:		
Commitments and contingencies	1,565,439	1,004,993
Loan portfolio guarantees	9,575,767	9,438,017
Classification of investments, loan portfolio and other credit assets	7,911,072	8,141,260
Third-party management	2,063,540	2,180,612
Margin for withdrawing	2,068,181	1,173,666
Own securities issued	75,886	73,178
Other	54,856	66,568
Repurchase agreement transactions	73,448	233,186
	23,388,189	22,311,480
	Q. 61,628,347	Q. 58,926,730

The item for third-party management includes the trusts managed by the Group as follows:

	2017	2016
Local currency:		
Management	Q. 445,243	Q. 523,527
Guarantee	969,658	785,556
Investment	13,187	13,390
Other	95,620	85,548
	Q. 1,523,708	Q. 1,408,021

- **Commitments and Contingencies**

  The amount for commitments and contingencies consists of the formalized loans pending usage and the standby letters of credit.

- **Securities and assets pledged as collateral**

  The securities recorded in memorandum accounts correspond to assets pledged as collateral for loans obtained. These assets constitute a specific guarantee in favor of third parties, as a result of the placement of financial obligations.

- **Loan portfolio guarantees**

  The amount of the guarantees in favor of the institution for the loan portfolio, securities that guarantee loans granted by the institution, mortgaged assets and pledged assets in favor of the institution, assets placed in a trust that guarantee credits, when the entity acts as a trustee and the guarantees that the institution receives in its favor.

- **Classification of Investments, Loan Portfolio and Other Credit Assets**

  This corresponds to the investments and credit assets classified into categories per the provisions of the corresponding regulation.

- **Third-Party Management**

  The securities recorded in memorandum accounts correspond to documents and securities received for their management, mortgage bonds, securities and portfolio managed on account of third parties. Recording of the capital for the trusts that the Institution manages.

- **Authorized Issues of Financial Obligations**

  Recording of the authorizations granted by the Monetary Board for the issuance of bonds and promissory notes authorized by the Monetary Board.

- **Financial Obligations**

  Recording of the authorizations granted by the Monetary Board for keeping control and a record of the process for the issuance of bonds, which include the Innovative Capital Instruments, and authorizations for issuing bonds and/or financial promissory notes.

- **Amortized Financial Obligations**

  The securities that are recorded in memorandum accounts correspond to the amount of the amortized bonds.

- **Own Documents and Securities Issued**

  Recording of the documents and securities that the institution sends or transfers to its legal department or to third parties for their collection and the documents and securities that the institution gives on consignment.

- **Amounts Insured and Bonds Retained**

  This account is made up of the direct insurance and ceded reinsurance in effect.

- **Other**

  These correspond to the approved loans pending formalization, uncollectible assets and interest that have ceased being collected due to lack of payment by borrowers, which are all recorded in memorandum accounts.

- **Repurchase Agreement Transactions**

  The recording of the amount entered in the contracts for repurchase agreement transactions, per that established by the law.

- **Securities and Assets Pledged as Collateral**

  Recording of the assets pledged as collateral in favor of the Central Bank and/or other financial entities, as collateral for loans obtained.

- **Margin for Withdrawing**

  Recording of the margins for withdrawing in favor of the entity for loans obtained.

- **Other Memorandum Accounts**

  Recording of the own or third-party documents and securities in custody, assets that have been totally depreciated or amortized, stock of blank forms, and unembossed plastic cards.

30. FORMATION OF THE FINANCIAL GROUP

Article 27 of the Law of Banks and Financial Groups, Decree 19-2002, provides for the establishment of a Financial Group, which should be organized under the common control of a controlling entity organized in Guatemala for that specific purpose, or otherwise, of an entity responsible for the financial group, which shall be the Bank. In the case of the latter, it should be established according to the organizational structure authorized by the Monetary Board, and with a previous opinion from the Superintendency of Banks, in accordance with the reasoned request presented for such purpose.

On September 9, 2004, the Bank was notified by the Monetary Board regarding Resolution JM-796-2004 which authorized the forming of Grupo Financiero Agromercantil.

The entities forming the regulated Group named Grupo Financiero Agromercantil are:

- Banco Agromercantil de Guatemala, S. A. (Company responsible for the Group)
- Financiera Agromercantil, S. A.
- Mercom Bank Ltd.
- Tarjeta Agromercantil, S. A. (in the process of liquidation)
- Agrovalores, S. A.
- Arrendadora Agromercantil, S. A.
- Seguros Agromercantil, S. A.

Agreement number 06-2008 of the Superintendent of Banks requires the consolidation of financial statements under the organizational structure of the responsible company, process through which, depending on the case, financial statements of the other companies that are members of the Financial Group authorized by the Monetary Board are added or incorporated into the financial statements of the responsible company, eliminating the investments of the companies in the capital of other or others of its own group, as well as the reciprocal operations between companies, in accordance with the procedures established in such agreement and in what is not specifically regulated, in the current accounting standards in Guatemala.

Such consolidated financial statements are presented separately from the individual financial statements of the responsible company.

As explained in Note 2b, Mercom Bank Ltd and Seguros Agromercantil, S. A. have not been included in the accompanying consolidated financial statements as of and for the years ended December 31, 2017 and 2016.

The transactions carried out with companies of the Agromercantil Financial Group included in the consolidated financial statements are summarized below:

		2017		**2016**
Income:				
Interest	Q.	128	Q.	49
Dividends		8,960		5,350
Services		41,759		33,832
	Q.	50,847	Q.	39,231

	2017		2016	
Expenses:				
Interest	Q.	2,967	Q.	6,025
Insurance premiums		11,483		11,676
	Q.	14,450	Q.	17,701

Balances with companies of the Agromercantil Financial Group are summarized as follows:

	2017		2016	
Assets:				
Equity securities	Q.	20,028	Q.	20,028
Accounts receivable		265		145
Liabilities:				
Deposits		215,253		237,607
Financial expenses payable		303		311
Accounts payable		-		86

In addition, there are other balances and transactions with other related parties, which are summarized as follows:

	2017		2016	
Income:				
Interest	Q.	1,458	Q.	1,692
Services		4		1
	Q.	1,462	Q.	1,693
Expenses:				
Interest	Q.	329	Q.	370
Services		34,225		39,406
Fees		96		181
	Q.	34,650	Q.	39,957
Other related parties:				
Compensation of directors and employees	Q.	14,395	Q.	19,761

The balances are as follows:

	2017		2016	
Assets:				
Loan portfolio	Q.	19,579	Q.	23,034
Liabilities:				
Financial expenses payable		-		4
Deposits		18,948		21,819

The following is prohibited for the companies of the Financial Group:

- Providing direct or indirect financing for the acquisition of shares representing its equity that of its holding company, of the responsible company or of any other financial company of the Financial Group.

- Carrying out financial transactions or providing services among group companies under conditions where terms, rates, amounts, guarantees and fees are different from the ones used in similar transactions with third parties. The Monetary Board shall regulate the transactions such entities may engage in among themselves; and,

- Carrying out transactions and providing financial services that the Monetary Board deems inconsistent with the financial business.

31. COMMITMENTS

- **Letters of credit**

  At December 31, 2017 and 2016 the Group has contingent liabilities resulting from letters of credit issued for Q.1,933 and $35,315, which is equivalent to Q.259,381 in 2017, and Q.3,194 and $ 45,676, which is equivalent to Q.343,548 in 2016.

- **Third Party Management - Trusts**

  The operations of the Trusts managed by the Bank and the Financing Entity are kept separate from the Bank's accounting records, and thus they are not included in its financial statements because the Bank it is not the owner and does not assume the risks and benefits of the assets, liabilities and equity of the trust.

  The operations of the Trusts are recorded in memorandum accounts, as established by the Accounting Instructions Manual for Entities Subject to the Oversight and Inspection of the Superintendency of Banks.

  The Bank and the Financing Entity managed as trustees 14 and 37 trust contracts for the year 2017, and 14 and 36 trust contract for the year 2016, for which the services of the external audit firm have not been required. Per the opinion of the attorneys and tax advisors of the Bank and the Financing Entity, as well as of the management, there is no known or potential litigation deriving from the actions of the Bank and the Financing Entity as trustees.

  According to the law, the Bank is responsible before third parties for compliance with the obligations contained in the contracts subscribed, including compliance with the tax obligations of the trusts.

  The trusts of the State have been audited by the office of the Comptroller General; likewise, in their majority they have also been audited by the Superintendency of Banks, and in general they are audited at the request of the trustors, as contractually established.

- **Leasing commitments**

  The companies that form the Group entered into operating leasing contracts for the use of some agencies, furniture and equipment and other assets, per the terms stipulated in the contracts. The amount of the expense for this item was Q. 44,647 in 2017 and Q. 42,710 in 2016.

- **Repurchase agreement liabilities**

  As of December 31, 2017 the Bank does not have repurchase agreement liabilities pending settlement, and as of December 31, 2016 it has repurchase agreement liabilities pending settlement for $15,000, which is equivalent to Q. 112,832.

32. CONTINGENCIES

As of December 31, 2017 and 2016, there are tax adjustments pending resolution for claims of additional taxes for Q.68,485 and Q. 69,460, respectively, as a result of the reviews performed by the Superintendency for Tax Administration.

The amounts claimed do not include fines and compensatory interest, as summarized below:

		2017		2016
Legal:				
Income tax for fiscal year 2013. File 2016-21-01-44-000019 Resolution A-2016-21-01-000084	Q.	52,240	Q.	52,240
Judicial proceeding:				
Income tax for fiscal year 2007 Case 01012-2014-00144		157		157
Income tax for fiscal year 1995 Case No. 286-2003		1,880		1,880
Income tax for fiscal year 1999 Case No. 206-2003		4,667		4,667
Income tax for fiscal year 1992 Case No. 155-99		-		975
Income tax for fiscal year 2003 Case No. 1013-2009-00060		6,950		6,950
Income tax for fiscal year 2013 Case 01013-2016-00120		44		44
Income tax for fiscal year 2004 Case No. 1013-2009-00060		2,547		2,547
	Q.	68,485	Q.	69,460

According to the opinion of the Group's attorneys, tax advisors and management, it is possible that the outcome of this litigation will be favorable. Therefore, no provision has been recorded in the accompanying consolidated financial statements for covering possible losses from these tax claims.

33. CONCENTRATION OF INVESTMENTS AND CONTINGENCIES

On June 1, 2002 the Law of Banks and Financial Groups, Decree 19-2002, went into effect and the reforms to this law contained in decree No. 26-2012 went into effect as of April 1, 2013. According to these regulations, banks, financial entities, offshore entities and companies specializing in financial services that are part of financial groups, except for financial transactions they may carry out, without limitation, in securities issued by the Ministry of Finance or the Bank of Guatemala, may not carry out direct or indirect financing operations of any nature, regardless of the legal form adopted, such as but not limited to: bonds, promissory notes, obligations and or loans, or grant guarantees or endorsements that in the aggregate exceed the percentages noted below:

- Fifteen percent (15%) of the statutory equity for financing operations with individuals, legal private sector entities or one sole company or governmental or autonomous entity. Temporary excesses resulting from interbank deposits of an operating nature or from the deposits and investments that companies of the financial group may have in the Bank of their financial group are exempt from this limitation.

- Thirty percent (30%) of the statutory equity for financing operations of two or more related entities that form part of a single risk unit. Such percentage may be increased to up to fifty percent (50%) of the statutory equity, if the excess is comprised of credit assets that are totally secured, during the term of the loan, with term deposit certificates or financial promissory notes issued by the institution itself, which should remain in its custody. In addition, it must be agreed in writing that the guarantee shall be enforced, without need for any formalities, in the event that the borrower is sued or falls into default.

  The deposits and investments that companies maintain in the bank of their financial group should not be calculated for purposes of the limits established in this clause.

- Thirty percent (30%) of the statutory equity in investments made by offshore entities in sovereign debt securities of countries other than Guatemala, in accordance with the scale of limitations established by the Monetary Board based on the sovereign risk rating given by risk rating agencies recognized by the Securities and Exchange Commission (SEC).

  One hundred percent (100%) of the statutory equity in the total investments made by banks or financial institutions in sovereign debt securities of countries other than Guatemala, with the highest sovereign risk rating that on the scale of degree of investment is granted by risk rating agencies recognized by the Securities and Exchange Commissions (SEC).

When the entities exceed the limits established by the law, they must immediately deduct such excess from their statutory equity, without facing potential sanctions in accordance with the law.

34. NET POSITIONS IN FOREIGN CURRENCY

As of December 31, 2017 and 2016 the balances of financial assets and liabilities denominated in foreign currency are expressed in quetzales at the closing exchange rate published by the Guatemalan Central Bank in effect at those dates, for each currency. Such balances are summarized as follows:

	2017	2016
Assets:		
Cash and cash equivalents	$ 120,489	$ 126,997
Investments	104,982	102,899
Loan portfolio	1,059,951	1,068,545
Financial income receivable	1,973	2,309
Accounts receivable	487	1,660
Foreclosed assets	22,513	20,296
Investments in equity	1,893	1,770
	1,312,288	1,324,476
Liabilities:		
Deposits	603,683	628,940
Loans obtained	665,080	629,628
Financial expenses payable	11,677	10,914
Accounts payable	5,759	4,732
Deferred credits	10	6
Other credit accounts	668	937
Total liabilities	1,286,877	1,275,157
Net position	$ 25,411	$ 49,319

Most of the assets and liabilities in foreign currency of the Group are in dollars of the United States of America. As of December 31, 2017 and 2016 the exchange rate established by the Guatemalan Central Bank used to express in quetzales the balances in such foreign currency was Q. 7.34477 and Q. 7.52213 per US$1, respectively.

In Guatemala, foreign currency transactions must be carried out through the banking system. On November 6, 1989 the Monetary Board freed the exchange rate of the quetzal with respect to the dollar of the United States of America and thus the exchange rate is determined by the supply and demand of the dollar in the market.

As of December 31, 2017 and 2016, the Group has recorded net gains from exchange differences for Q.67,890 and Q. 71,138, respectively, which are presented in the account "Exchange Variations and Gains (losses) in Foreign Currency."

35. RISK MANAGEMENT

The Group is exposed to the following risks that, upon occurrence, might have a significant adverse effect on its consolidated financial statements:

- **Credit Risk**

  It is the contingency that an institution may incur in losses as a consequence of a borrower or counterparty not complying with their obligations under the agreed terms.

- **Liquidity Risk**

  It is the contingency that an institution may not have the capacity to fund increases in its assets or timely comply with its obligations, without incurring in financial costs outside of the market.

- **Market Risk**

  It is the contingency that an institution could incur in losses as a consequence of adverse movements in financial market prices. This includes interest rate and exchange rate risk.

- **Operating Risk**

  It is the contingency that an institution could incur in losses due to inadequacies or failures in processes, personnel, and internal systems or due to external events. It includes technological and legal risks.

- **Corporate Governance Risk**
  It is the contingency that an institution does not implement sound and efficient practices, per international standards on the matter, that contribute to the effective management of its activities, the strengthening of the levels of trust by the market, and protection and fair treatments.

- **Country Risk**

  It is the contingency that an institution could incur in losses, associated with the economic, social and political environment in the country where the borrower or counterparty has its operations and/or domicile. It includes sovereign, political and transference risk.

- **Risk of the Laundering of Assets and Financing of Terrorism**

  This is the contingency that the services and products of an institution could be used to cover financial assets, such that they can be used without detecting the illegal activity that generates them. In addition to possible penalties or reprimands for non-compliance with the current Law Against the Laundering of Money and Other Assets and the Law for the Prevention and Suppression of the Financing of Terrorism, it also puts at risk the image of the institution.

- **Regulatory Risk**

  It is the contingency that an institution could incur in losses due to non-compliance with the regulatory or legal requirements in the relevant jurisdiction in which the institution operates.

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