



Financial Statements

at June 30, 2021
and December 31, 2020
and Independent Auditors' Report

Venezolano de
Crédito, S.A.
Banco Universal and
its Cayman Islands
Branch



**Venezolano de Crédito, S.A.,
Banco Universal
and its Cayman Islands Branch**

Financial Statements
at June 30, 2021 and December 31, 2020
and Independent Auditors' Report

**VENEZOLANO DE CRÉDITO, S.A., BANCO UNIVERSAL
AND ITS CAYMAN ISLANDS BRANCH**

FINANCIAL STATEMENTS
at June 30, 2021 and December 31, 2020

	Page
Independent Auditors' Report	1-3
Balance sheets	4-5
Statements of income and allocation of net income	6
Statements of changes in the shareholders' equity	7
Statements of cash flows	8
Notes to the financial statements	9-62

Auditors' Report

(Translation into English of financial statements and independent auditors' report
originally in Spanish is made solely for reader's convenience)

INDEPENDENT AUDITORS' REPORT

**To the Shareholders and Board of Directors of
Venezolano de Crédito, S.A., Banco Universal
and its Cayman Islands Branch**

Opinion

We have audited the accompanying financial statements of **Venezolano de Crédito, S.A., Banco Universal and its Cayman Islands Branch** (hereinafter the "Bank"), which comprise the balance sheets at June 30, 2021 and December 31, 2020, the statements of income and allocation of net income, statements of changes in the shareholders' equity and statements of cash flows for the six-month periods then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Venezolano de Crédito, S.A., Banco Universal and its Cayman Islands Branch** at June 30, 2021 and December 31, 2020, and the results of their operations and their cash flows for the six-month periods then ended in conformity with accounting standards and guidelines provided by Superintendencia de las Instituciones del Sector Bancario de Venezuela (SUDEBAN).

Basis for opinion

We conducted our audits in accordance with international standards on auditing generally accepted in Venezuela (Ven-ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audits of the financial statements in Venezuela. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the accompanying financial statements to the fact that the Bank, in its condition of financial institution of the Venezuelan banking sector, is liable to prepare and present its financial statements in conformity with accounting standards and instructions set forth by SUDEBAN, which significantly differ from accounting principles generally accepted in Venezuela. In Note 2 the Bank has identified the most significant criteria for valuation and exposure. The financial statements should be read, for their proper understanding, in the light of these circumstances.

Without qualifying our opinion, we draw attention to Notes 1 and 3 to the financial statements to the fact that the state of economic emergency, as declared by the National Executive since 2016, remained in effect during the six-month period. Within this context, the Central Bank of Venezuela has issued monetary policies on liquidity restrictions by means of legal reserve standards for the banking sector, which have effects on the financial intermediation.

Without qualifying our opinion, we draw attention to Notes 1.c.5 and 3 to the financial statements, which describes the uncertainty related to the economic effects of measures implemented in the country and worldwide to prevent the spread of COVID 19. Our opinion is not qualified in respect of this matter; however, it is not possible to objectively foresee the effects and consequences in the financial statements and in future operations.

Responsibilities of Management and Those Charged with Governance of the Bank for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards and guidelines provided by SUDEBAN, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Management is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Ven-ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Adrianza, Rodríguez, Céfalo & Asociados
Members of the International Firm Mazars

Caracas, Venezuela
July 23, 2021

Mercedes E. Rodríguez S.
Public Accountant N° 17.299
Registered with SUDEBAN under N° CP 564

Financial Statements

VENEZOLANO DE CRÉDITO, S.A. AND ITS CAYMAN ISLANDS BRANCH
BALANCE SHEETS AT JUNE 30, 2021 AND DECEMBER 31, 2020
(EXPRESSED IN BOLIVARS)

	Notes	30-06-21	31-12-20
ASSETS			
Cash and due from banks:			
Cash		8,459,300,617,726	2,030,919,758,828
Banco Central de Venezuela	4	35,075,278,121,304	13,918,269,829,974
Domestic banks and other financial institutions		294,670,253	8,000,249
Foreign banks and correspondents		45,923,845,320,019	11,917,026,400,248
Clearing house funds		127,428,510	105,610,751,131
		<u>89,458,846,157,812</u>	<u>27,971,834,740,430</u>
Investment securities:	5		
Placements in Banco Central de Venezuela and interbank transactions		1,068,000,000,000	-
Available-for-sale investment securities		82	82
Held-to-maturity investment securities		110,215,340,123,302	45,240,974,851,730
Restricted cash investments		19,416,489,863,472	6,723,966,425,237
Other investment securities		23,565	26,312
		<u>130,699,830,010,421</u>	<u>51,964,941,303,361</u>
Loan portfolio:	6		
Current loans		16,446,859,981,721	6,266,812,589,381
Past-due loans		304,851,175,663	125,155,904
(Allowance for loan portfolio)		<u>(340,652,153,289)</u>	<u>(111,181,271,185)</u>
		16,411,059,004,095	6,155,756,474,100
Interests and commissions receivable:			
Accrued interest receivable from investment securities		1,045,018,364,020	422,515,064,192
Accrued interest receivable from loan portfolio		43,882,142,802	11,435,595,073
Commissions receivable		23,739,222,465	3,367,846,877
(Allowance for accrued interest receivable and other)		<u>(1,133,383)</u>	<u>(3,658,125)</u>
		1,112,638,595,904	437,314,848,017
Premises and equipment	8	209,671,756,035	50,264,582,527
Other assets	9	7,112,091,875,900	2,340,721,750,890
Total assets		<u>245,004,137,400,167</u>	<u>88,920,833,699,325</u>
Memorandum accounts:			
	18		
Contingent debit accounts		1,307,356,814,670	474,302,204,463
Trust assets		35,368,447,559,149	12,629,585,905,309
Other trusts		602,324,087,000	342,667,128,000
Other debit memorandum accounts		17,361,203,770,022	4,870,658,268,072
		<u>54,639,332,230,841</u>	<u>18,317,213,505,841</u>

The accompanying notes (1 to 22) are an integral part of these financial statements.

VENEZOLANO DE CRÉDITO, S.A. AND ITS CAYMAN ISLANDS BRANCH
BALANCE SHEETS AT JUNE 30, 2021 AND DECEMBER 31, 2020
(EXPRESSED IN BOLIVARS)

	Notes	30-06-21	31-12-20
LIABILITIES AND SHAREHOLDERS' EQUITY			
Bank deposits:	10		
Demand deposits			
Non-interest-bearing current accounts		18,475,056,095,206	5,520,959,273,115
Interest-bearing current accounts		120,231,149,633,608	44,749,356,356,854
Current accounts under Foreign Exchange Agreement N° 20		1,141,807,451,837	414,646,525,011
Demand deposits and certificates		3,026,489,975,978	614,367,764,277
		142,874,503,156,629	51,299,329,919,257
Other demand obligations		6,321,490,070,958	2,987,429,116,236
Savings deposits		1,659,153,508,000	524,076,466,146
Restricted bank deposits		1,771,807,463,465	708,475,615,470
		<u>152,626,954,199,052</u>	<u>55,519,311,117,109</u>
Other borrowings:	11		
Obligations with domestic financial institutions due in one year or less		52	1,280,000,000,052
Obligations with foreign financial institutions due in one year or less		646,892,316	92,752,837
		<u>646,892,368</u>	<u>1,280,092,752,889</u>
Interests and commissions payable:			
Accrued expenses for bank deposits		33,459,572,009	10,685,941,436
Accrued expenses for other borrowings		-	6,356,111,111
		<u>33,459,572,009</u>	<u>17,042,052,547</u>
Accruals and other liabilities	12	<u>55,218,062,641,415</u>	<u>19,286,361,909,663</u>
Total liabilities		207,879,123,304,844	76,102,807,832,208
Shareholders' equity:	15		
Paid-in capital		3,306	3,306
Uncapitalized equity contributions		29,999,249	29,999,249
Capital reserves		3,636	3,636
Equity adjustments		29,122,365,554,584	10,704,841,584,179
Retained earnings		8,002,618,534,548	2,113,154,276,747
Total shareholders' equity		<u>37,125,014,095,323</u>	<u>12,818,025,867,117</u>
Total liabilities and shareholders' equity		<u>245,004,137,400,167</u>	<u>88,920,833,699,325</u>
Per contra memorandum accounts	18	<u>54,639,332,230,841</u>	<u>18,317,213,505,844</u>

The accompanying notes (1 to 22) are an integral part of these financial statements.

VENEZOLANO DE CRÉDITO, S.A. AND ITS CAYMAN ISLANDS BRANCH
STATEMENTS OF INCOME AND ALLOCATION OF NET INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2021 AND DECEMBER 31, 2020
(EXPRESSED IN BOLIVARS)

	Notes	30-06-21	31-12-20
Financial income:			
Cash and due from banks		15,664,294,071	419,904,509
Investment securities		3,682,553,500,316	917,189,994,776
Loan portfolio		11,700,014,420,146	2,123,584,780,994
Other accounts receivable		46,439,388,924	44,740,990,557
		<u>15,444,671,603,457</u>	<u>3,085,935,670,836</u>
Financial expenses:			
Bank deposits		692,071,277,041	164,794,232,757
Other borrowings		645,374,537,119	47,177,127,778
Other		106,950,525,679	24,209,928,572
		<u>1,444,396,339,839</u>	<u>236,181,289,107</u>
Gross financial margin		<u>14,000,275,263,618</u>	<u>2,849,754,381,729</u>
Expenses for uncollectible and impaired financial assets:			
Uncollectible loans and other accounts receivable	6	<u>196,538,533,466</u>	<u>97,046,862,666</u>
Net financial margin		<u>13,803,736,730,152</u>	<u>2,752,707,519,063</u>
Other operating income	16	8,694,971,137,850	3,336,007,096,654
Other operating expenses	16	<u>3,160,319,811,662</u>	<u>1,605,560,945,112</u>
Financial intermediation margin		<u>19,338,388,056,340</u>	<u>4,483,153,670,605</u>
Less- operating expenses:			
Personnel		6,337,511,873,552	1,194,485,442,380
General and administrative expenses		3,784,287,830,540	669,263,999,380
Contributions to Fondo de Protección Social de los Depósitos Bancarios	14	116,042,653,748	26,481,922,123
Contributions to Superintendencia de las Instituciones del Sector Bancario	14	<u>222,806,762,997</u>	<u>37,920,859,868</u>
		<u>10,460,649,120,837</u>	<u>1,928,152,223,751</u>
Gross operating margin		<u>8,877,738,935,503</u>	<u>2,555,001,446,854</u>
Sundry operating income	16	11,943,020,219	12,773,645,140
Sundry operating expenses	16	<u>1,875,838,254,306</u>	<u>174,652,847,251</u>
		<u>(1,863,895,234,087)</u>	<u>(161,879,202,111)</u>
Net operating margin		<u>7,013,843,701,416</u>	<u>2,393,122,244,743</u>
Extraordinary expenses	17	<u>26,025,923,487</u>	<u>41,800,000</u>
Gross income before income taxes		<u>6,987,817,777,929</u>	<u>2,393,080,444,743</u>
Income taxes	14	<u>500,000,000,000</u>	<u>246,415,000,000</u>
Net income		<u><u>6,487,817,777,929</u></u>	<u><u>2,146,665,444,743</u></u>
Allocation of income, net			
Statutory earnings			
Board of Directors	15	-	203,534,198,852
Retained earnings	12	<u>6,487,817,777,929</u>	<u>1,943,131,245,891</u>
		<u><u>6,487,817,777,929</u></u>	<u><u>2,146,665,444,743</u></u>

The accompanying notes (1 to 22) are an integral part of these financial statements.

VENEZOLANO DE CRÉDITO, S.A. AND ITS CAYMAN ISLANDS BRANCH
STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2021 AND DECEMBER 31, 2020
(EXPRESSED IN BOLIVARS)

	Notes	Paid-in capital	Uncapitalized equity contributions	Capital reserves	Equity adjustments	Retained earnings		Total	Unrealized gain or (loss) from available-for-sale investment securities	Total shareholders' equity
						Restricted undistributed earnings	Available undistributed earnings			
BALANCES at June 30, 2020		3,306	-	3,636	1,596,930,724,017	164,764,622,769	45,823,447,337	210,588,070,106	(7,475,764,162)	1,800,043,036,903
Net income for the six-month period	15	-	-	-	-	-	2,146,665,444,743	2,146,665,444,743	-	2,146,665,444,743
Other income and expenses presented in equity accounts:										
-Unrealized exchange gain from valuation of foreign currency assets and liabilities net of transfer to income for Bs. 273,546,027,971, as authorized by SUDEBAN	15	-	-	-	7,523,491,138,883	-	-	-	-	7,523,491,138,883
-Financial income from UVCC or UVCP loans, net of collections	15	-	-	-	1,649,426,822,126	-	-	-	-	1,649,426,822,126
-Supplemental financial cost for legal reserve deficit, net	15	-	-	-	(55,040,136,074)	-	-	-	-	(55,040,136,074)
-General allowances for UVCC or UVCP loans	15	-	-	-	(9,966,964,773)	-	-	-	-	(9,966,964,773)
-Statutory earnings - Board of Directors	15	-	-	-	-	-	(203,534,198,852)	(203,534,198,852)	-	(203,534,198,852)
-Net realized loss from adjustment in market value of available-for-sale investment securities	5.c	-	-	-	-	-	-	-	7,475,764,162	7,475,764,162
Cash dividends declared	15	-	-	-	-	-	(40,565,039,250)	(40,565,039,250)	-	(40,565,039,250)
Uncapitalized equity contributions	15	-	29,999,249	-	-	-	-	-	-	29,999,249
Transfer to restricted undistributed earnings:										
Restricted exchange gain recognized in income, as authorized by SUDEBAN through official communication N° SIB-IT-GGIBPV-GIBPV6-06071 until it is available	15	-	-	-	-	273,546,027,971	(273,546,027,971)	-	-	-
Net income for the six-month period of foreign branch	15	-	-	-	-	475,918,158,251	(475,918,158,251)	-	-	-
50% of net income for the six-month period (Res. N° 329-99)	15	-	-	-	-	596,833,529,835	(596,833,529,835)	-	-	-
BALANCES at December 31, 2020		3,306	29,999,249	3,636	10,704,841,584,179	1,511,062,338,826	602,091,937,922	2,113,154,276,747	-	12,818,025,867,117
Net income for the six-month period	15	-	-	-	-	-	6,487,817,777,929	6,487,817,777,929	-	6,487,817,777,929
Other income and expenses presented in equity accounts:										
-Unrealized exchange gain from valuation of foreign currency assets and liabilities	15	-	-	-	18,373,885,775,516	-	-	-	-	18,373,885,775,516
-Financial income from UVC loans, net of collections and realized supplemental financial cost for legal reserve deficit for Bs. 58,276,554,765	15	-	-	-	85,040,151,064	-	-	-	-	85,040,151,064
-General allowances for UVC loans	15	-	-	-	(41,401,956,175)	-	-	-	-	(41,401,956,175)
Cash dividends declared	15	-	-	-	-	-	(598,353,520,128)	(598,353,520,128)	-	(598,353,520,128)
Transfer from/to restricted undistributed earnings:										
Transfer of 50% available exchange gain to Available Undistributed Earnings, recorded during the second half of 2020, as authorized by SUDEBAN	15	-	-	-	-	(136,773,013,985)	136,773,013,985	-	-	-
Net income for the six-month period of foreign branch	15	-	-	-	-	1,857,910,424,966	(1,857,910,424,966)	-	-	-
50% of net income for the six-month period (Res. N° 329-99)	15	-	-	-	-	2,314,953,676,482	(2,314,953,676,482)	-	-	-
BALANCES at June 30, 2021		3,306	29,999,249	3,636	29,122,365,554,584	5,547,153,426,288	2,455,465,108,260	8,002,618,534,548	-	37,125,014,095,323

The accompanying notes (1 to 22) are an integral part of these financial statements.

VENEZOLANO DE CRÉDITO, S.A. AND ITS CAYMAN ISLANDS BRANCH
STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2021 AND DECEMBER 31, 2020
(EXPRESSED IN BOLIVARS)

	30-06-21	31-12-20
Cash flows provided by operating activities:		
Net income for the six-month period	6,487,817,777,929	2,146,665,444,743
Adjustments to reconcile net income to cash provided by operating activities-		
Provisions and depreciations in income accounts:		
Allowance for uncollectible and impaired financial assets	196,538,533,466	102,687,209,890
Accrual for employee benefits	825,006,843,911	151,881,246,850
Statutory earnings to directors	929,792,337,269	-
Depreciation and amortization	17,703,548,185	5,863,937,297
Income and expenses presented in equity accounts:		
Unrealized exchange gain from the valuation of foreign currency assets and liabilities with effect on equity	18,373,885,775,516	7,523,491,138,881
Financial income from loans adjusted at UVC, net of collections	26,763,596,298	1,649,426,822,126
Supplemental financial cost of legal reserve related to loans adjusted at UVCC or UVCP	58,276,554,766	(55,040,136,074)
General and countercyclical allowances for loans adjusted at UVCC and UVCP	(41,401,956,175)	(9,966,964,773)
Statutory earnings to directors	-	(203,534,198,852)
	20,386,565,233,236	9,164,809,055,345
Net change in other assets	(4,776,127,328,316)	(2,032,425,184,756)
Net change in interests and commissions receivable	(675,321,223,145)	(385,503,510,443)
Net change in accruals and other liabilities	34,168,437,227,847	15,818,957,410,088
Net change in interests and commissions payable	16,417,519,462	15,539,791,207
Net cash provided by operating activities	55,607,789,207,013	24,728,043,006,184.00
Cash flows provided by financing activities:		
Net change in bank deposits	97,107,643,081,943	44,709,592,270,283
Net change in other borrowings	(1,279,445,860,521)	1,280,086,883,203
Dividends paid	(598,353,520,128)	(40,535,040,000)
Net cash provided by financing activities	95,229,843,701,294	45,949,144,113,486
Cash flows used in investing activities:		
Loans granted for the period	(44,724,496,782,215)	(27,235,349,306,507)
Loans collected for the period	34,281,117,516,737	21,449,055,869,682
Net change in placements in Banco Central de Venezuela and interbank transactions	(1,068,000,000,000)	479,000,000,000
Net change in available-for-sale investment securities	-	211,709,910,077
Net change in held-to-maturity investment securities	(64,974,365,271,572)	(40,377,509,394,959)
Net change in restricted cash investments	(12,692,523,438,235)	(5,483,533,412,974)
Net change in other investment securities	2,747	2,847
Collections from assignment of premises and equipment	157,804,912	3,249,527,475
Additions to premises and equipment and foreclosed assets, net	(172,511,323,299)	(38,020,340,833)
Net cash used in investing activities	(89,350,621,490,925)	(50,991,397,145,192)
Net increase in cash and due from banks	61,487,011,417,382	19,685,789,974,478
CASH AND DUE FROM BANKS, at the beginning of the six-month period	27,971,834,740,430	8,286,044,765,952
CASH AND DUE FROM BANKS, at the end of the six-month period	89,458,846,157,812	27,971,834,740,430

The accompanying notes (1 to 22) are an integral part of these financial statements.

Notes to the Financial Statements

**Venezolano de Crédito, S.A., Banco Universal
and its Cayman Islands Branch**

**Notes to the Financial Statements
At June 30, 2021 and December 31, 2020
(Expressed in Bolivars)**

NOTE 1.- INCORPORATION, OPERATIONS AND LEGAL FRAMEWORK:

a. Incorporation and operations-

Venezolano de Crédito, S.A., Banco Universal (hereinafter the “*Bank*”) was incorporated in Caracas on June 4, 1925. The principal business purpose of the Bank and its foreign Branch is to carry out the banking business and operations allowed by laws. The Bank is domiciled in Caracas and has incorporated branches and agencies in the country and in Cayman Islands.

The registered office of the Bank is located in: Avenida Alameda, Edificio Venezolano de Crédito, piso 3, Urbanización San Bernardino, Caracas.

The Bank and its Branch are members of Vencred Group and conduct transactions with other members of the Group.

b. Date of approval of the financial statements-

The Bank’s financial statements for the six-month periods ended June 30, 2021, and December 31, 2020 were approved for public issue by the Board of Directors at meetings held on July 8, 2021 and January 7, 2021, respectively. The Bank’s financial statements for the six-month period ended December 31, 2020 were approved by the Shareholders’ Meeting on February 18, 2021, and the financial statements for the six-month period ended June 30, 2021 are expected to be approved without any changes.

c. Regulatory regime-

c.1 Legal framework for banking activities:

The Bank is ruled by the Decree Law on Banking Sector Institutions (hereinafter the “Law on Banking Sector Institutions”) and the Trust Law, as well as by applicable standards and regulations of Superintendencia de las Instituciones del Sector Bancario (hereinafter “SUDEBAN”), Banco Central de Venezuela (hereinafter the “BCV”) and Fondo de Protección Social de los Depósitos Bancarios (hereinafter “FOGADE”).

The Cayman Islands Branch is subject to the supervision and control of The Cayman Islands Monetary Authority and by SUDEBAN in Venezuela.

Within the legal framework ruling the Venezuelan financial sector, banks are governed by other social, economic or monetary-policy laws and regulations that impose criteria for carrying out operations, including restrictions on interest rates, commissions and other bank services and/or that require funding in certain economic sectors. An overview of the most important regulations that have an impact on the performance of banking activities in Venezuela and the Bank’s operational ability is shown below:

- i. **Legal reserve:** Financial institutions shall maintain certain levels of liquidity deposited in BCV, determined on the basis of net obligations and assigned investments, as established by BCV. In January 2021, the BCV reduced the minimum legal reserve from 93%, in effect at December 31, 2020, to 85% on net obligations in local currency and is of 31% in foreign currency, except for certain activities such as deposits received in foreign currency in the national financial system and provided from foreign offices, among others. The legal reserve related to computable foreign currency transactions shall be deposited in local currency in BCV. Bank deposits derived from the superseded Foreign Exchange Agreement N° 20 are not subject to financial intermediation. The BCV imposes financial sanctions and interests on those legal reserve deficits that have not been deposited on the corresponding date, representing financial costs for the Bank. The legal reserve thus calculated limits the financial intermediation activities of banks (see *Notes 3, 4 and 23*).
- ii. **Foreign exchange intervention mechanism:** BCV is allowed to sell automatically foreign currencies to banks, as it deems appropriate, by debiting from the single account kept by these banks in the BCV and without prior authorization from the Bank for the amount in bolivars equivalent to the foreign exchange operation performed at the exchange rate for sales fixed by the BCV for foreign exchange intermediation, which may be different from the market exchange rate. Foreign currencies allocated under this mechanism must be sold to customers during the week when they were allocated. The foreign currency position that is not sold at the end of every week is automatically repurchased by the BCV at the exchange rate for sales of the foreign exchange intervention reduced by 5.2375 percentage points, thus generating an exchange loss. In addition, the unsold portion is not deducted from the legal reserve, resulting in additional financial costs that are calculated at an interest rate of 126%, and automatically debited from the single account maintained in BCV.
- iii. **Loan portfolio:** The BCV issued new standards ruling the loans and the interest rates of the financial system through Resolution N° 21-01-02, as published in the Official Gazette dated January 19, 2021. These standards provide, among others, that commercial loans and microcredits, and loans granted within the framework of the Single National Productive Portfolio (hereinafter the "CPUN"), which are explained below (hereinafter collectively referred to as the "UVC loans") shall be expressed in Commercial Credit Value Units (hereinafter the "UVC"), which results from the division of the settled amount of the loan granted by the Investment Index (hereinafter the "IDI")¹ effective at that date. The IDI is determined by the BCV considering the reference exchange rate fluctuation in the market and published daily on the website of the issuer. This rule also establishes the interest rates applicable to the different types of loan; as well as the mandatory terms and conditions to be included in loan agreements. Loans to employees and directors of the bank and credit cards, installment commercial loans for payroll and other consumer loans with limits or amounts lower than 20,400 UVC, which are expressed in historical bolivars, are excluded from this resolution.

In conformity with the former Resolution in effect at December 31, 2020, commercial loans and microcredits were expressed in Commercial Credit Value Units (the "UVCC") and the Single National Productive Portfolio was expressed in Productive Credit Value Units (the "CPUN"), which were determined on the IDI basis, as explained below.

- iv. **Mandatory loan portfolio:** The loan portfolio is subject to mandatory percentages destined to the Single National Productive Portfolio and Microcredits, which are subject to a special regime, as follows:

¹ At June 30, 2021 and June 30, 2020, the IDI is equal to 15,664.57 and 5,324.35 respectively.

- **Single National Productive Portfolio:** The Single National Productive Portfolio (hereinafter the “CPUN”) was created under the Constituent Decree published in the Extraordinary Official Gazette N° 6.507 dated January 29, 2020, which shall be complied by the country's financial institutions and shall be equivalent to a mandatory minimum percentage of 10% and a maximum of 25% of the gross portfolio and in accordance with the accounting year-end of banks, as established by the Governing Committee of the Single National Portfolio every month, in accordance with the guidelines of the National Executive. For the purpose of determining the balance of the gross loan portfolio, the increase derived from the principal restatement, generated on commercial loans for effects of the IDI fluctuation, shall be excluded. This decree also creates the Governing Committee of the Single National Productive Portfolio, whose duties are determined by the National Executive. This Governing Committee has within its powers the approval of the policy, regulation and evaluation of the resources available for the financing of that portfolio. The debtors and amounts of CPUN loans are assigned by the National Executive to each bank through the Governing Committee.

On April 8, 2020, by means of Resolution N° 2020-01, the CPUN Governing Committee established that the mandatory percentage of the CPUN to be maintained by banks is 25% of their gross portfolio, excluding the increase resulting from the loan principal restatement (expressed in UVC) for effects of the IDI fluctuation.

The aforementioned Resolution N° 21-01-02 also establishes that this type of loan shall have an additional special charge of 20% at the time of the settlement of the loan, which will also be expressed in UVC, and will be deducted from the debit balance of the loan at the time of its settlement.

- **Microfinance portfolio:** The Law on Banking Sector Institutions sets forth that banks must destine not less than 3% of the prior six-month period loan portfolio to the microfinance system. In addition, the microfinance portfolio amount must be distributed among marketing activities, public transport activities, community-based services and craft activities, among others, according to the following percentages on the total portfolio, established by SUDEBAN by means of Resolution N° 021.18 dated April 5, 2018:

Financing intended to:	Required %
Marketing activities	Max. 40%
Public transport activities	Max. 40%
Community-based services, craft activities and other	Min. 20%

The microfinance loan portfolio is subject to creation of allowances based on default on loan payments.

At December 31, 2020, BCV's Resolution N° 20-02-01 dated February 20, 2020, was in effect, which was superseded by Resolution N° 21-01-02 dated January 7, 2021, establishing the following rules on the regulation of loans and their interest rates:

- The loans granted within the framework of the CPUN shall be expressed at the date of their granting only through the use of the UVCP, (the “UVCP loans”), the value of which shall be the result of dividing the settled amount in bolivars by the IDI effective at that date. The UVCP loans that consider the single payment modality at maturity will have an additional special charge of 20% also expressed in UVCP, which will be deducted from the debit balance at the time of payment of the loan. These loans are non-interest-bearing.

- Commercial loans and microcredits in local currency shall be expressed at the granting date solely by using the UVCC (hereinafter the “UVCC loans”), which will result from the division of the settled amount in bolivars by the IDI in effect at that date. Those loans bear a minimum annual interest rate of 4% and maximum annual interest rate of 6%.

The IDI is determined by the BCV considering the reference exchange rate fluctuation in the market and published daily on its website.

- v. **Limits for lending and saving interest rates:** BCV and the National Executive have set forth limits for lending and saving interest rates, in local currency, collectible from or payable to customers by banks, considering the diverse banking products and economic sectors that benefit, as provided by social, economic and/or monetary policy laws and regulations.

A summary of limits for lending and saving interest rates in effect at the end of each six-month period follows:

Type of transaction:	June 30, 2021		December 31, 2020	
	Maximum Limits	Minimum	Maximum Limits	Minimum
UVC or UVCP productive loans ²	2%	-	0%	-
UVC or UVCP loans in default ²	0.8%	-	0.5%	-
UVC or UVCC commercial loans ²	10%	4%	6%	4%
Microcredits (expressed in UVC or UVCC) ²	10%	4%	6%	4%
Microcredits (expressed in historical Bs) ²	40%	-	40%	-
Residential mortgage loans (effective until 29-01-20) ³	12.66%	-	12.66%	-
Other mortgage loans (effective until 29-01-20) ⁴	40%	-	40%	-
Credit cards ^{2 and 4}	60%	17%	40%	17%
Default other than UVC, UVCC and UVCP loans ²	3%	-	3%	-
Credit transactions other than above ²	36%	-	36%	-
Balances in favor of cardholders ²	21%	-	21%	-
Savings deposits ²	32%	-	21%	-
Term deposits ²	36%	-	24%	-

- vi. **Law on Credit Cards, Debit Cards, Prepaid Cards and other Financing or Electronic Payment Cards:** This law is aimed at regulating all aspects related to the credit card system and operators in order to ensure user rights. The most important regulations provided by this Law are as follows: (a) the amounts of borrowing interests may not be capitalized; hence, charging interest on interest is not allowed, (b) charging collection expenses not incurred or charging for maintenance expenses and costs for renewal of cards, or for issuance of statements of account are not allowed, and (c) BCV sets, on a monthly basis, the limits of the financial interest rate and maximum moratorium rate for the financing of credit cards, as well as commissions, fees or charges for services provided in the use of credit, debit or prepaid cards and other financing or electronic payment cards. In addition, the prudential rules provided by SUDEBAN set forth limits to lines of credit of this instrument and a fixed and controlled interest rate.
- vii. **Limits on commissions, surcharges and fees:** The BCV has set forth limits or restrictions on the banks' collection of commissions, fees, and other costs that customers are charged for different transactions or services, considering diverse banking products, type of customer (individual or company) and the economic and/or social sector involved.

² As provided by Resolution N° 21-01-02 published in Official Gazette N° 42.050 dated January 19, 2021 (UVCP or UVCC, as provided by Resolution N° 20-02-01 published in Official Gazette N° 41.834 dated March 06, 2020, at 31/12/2021).

³ It is based on information monthly published by BCV. Effective official notice as published in Official Gazette N° 41.575 dated 30/01/2019.

⁴ It is based on information monthly published by BCV. Effective official notice as published in Official Gazette N° 42.026 dated 10/12/2020.

In addition, BCV has issued prohibitions in respect of establishing maximum or minimum balances for opening or maintaining savings accounts and term deposits, as well as inactivating, blocking or canceling accounts.

- viii. **Countercyclical and general allowances:** Under Resolution N° 146.13 dated September 10, 2013 of SUDEBAN, banks have to create a countercyclical allowance, in addition to the specific and general allowances for loan portfolio, which shall be equivalent to 0.75% of the gross loan portfolio. Under Resolution N° 070.19 dated December 20, 2019, SUDEBAN established that the creditor balance shown at the close of each month in account 358.00 "*Changes in commercial loans determined as established by the BCV*" under "*Equity adjustments*" may be applied for the creation of general and countercyclical allowances that are generated from the portions corresponding to the variation of the loan principal.
- ix. **Temporary measures for assessing loan portfolio:** SUDEBAN issued Resolution N° 002.21 dated January 20, 2021, and Resolution N° 041.20 dated September 11, 2020, to establish special and temporary conditions for managing the collection of the loan portfolio, risks and the gradual creation of allowances for loans that have fully or partially settled until March 13, 2020, whose debtors have been affected by the suspension of their business activities during the State of Alarm. Beneficiaries of current commercial loans and the CPUN's may therefore request the restructuring of principal and interest payments during the period of the State of Alarm. Likewise, term or fixed-term loans granted before March 13, 2020 and those loans that are past-due but not restructured shall maintain their risk classification as shown at March 31, 2020 and those loans granted during the State of Alarm shall remain in the Risk "A" category. This Resolution also suspends temporarily the legal possibility of enforcing guarantees corresponding to the maturities of loans for defaults during the effectiveness of the State of Alarm decreed by the national government.
- x. **Special contributions to SUDEBAN and FOGADE:** Banks and other financial institutions shall make special contributions in order to support the operations of SUDEBAN, which is calculated based on 1 per thousand of the average of assets for the two months prior to the bimonthly period, and of FOGADE's operations (calculated based on 0.75% of the bank deposits' balance at the end of the six-month period). These contributions are shown under "*Operating expenses*" in the accompanying statements of income.
- xi. **Limits of foreign currency balances:** Universal banks shall maintain their net foreign currency positions within the limits provided by BCV through special resolutions. In accordance with BCV's Resolution 19-04-01, foreign currency position limits shall be established for each bank. On April 8, 2019, as provided by official communication N° VOI-GOC-DNPC-004, the BCV temporarily suspended the application of such index solely regarding the net foreign currency asset positions and for the excess of foreign currency liabilities on assets, it provided the charge of an annual interest rate, which shall be equivalent to the discount and rediscount rate (12%, at June 30, 2021 and 10%, at December 31, 2020)⁵ plus 10% applied on the exceeded amount. Furthermore, foreign currency arbitration and exchange transactions are subject to limits and restrictions set forth in the laws and standards pertinent to the current foreign exchange regime and resolutions issued by BCV (see *Notes 1.c.4. and 22*).

⁵ As provided by Resolution N° 21-01-02 published in Official Gazette N° 42.050 del 19 de January 2021 (Resolution N° 09-06-01 published in Official Gazette N° 39.193 dated June 4, 2009, applicable at December 31, 2020), in accordance with official notice monthly published.

- xii. **Limits of interbank transactions:** Interbank placements of funds should not exceed 10% of the lower of the net assets of the bank placing the funds or the bank receiving the funds, except for guaranteed transactions made through the system for interbank loans managed by BCV and those transactions carried out to meet the managed portfolios.
- xiii. **Prohibition on investing in structured investment securities:** On May 19, 2008, the Ministry of People's Power for Finance published Resolution N° 2.044 in Official Gazette N° 38.933, which prohibited domestic banks and other financial institutions from acquiring or accepting investment securities as payment or gift, including structured notes in bolivars, issued by foreign financial or nonfinancial institutions. The Bank does not maintain in its financial statements or in those of the trust fund, simple or derivative, financial instruments denominated in bolivars issued by foreign entities.
- xiv. **Minimum capitalization and solvency levels:** Financial institutions shall maintain minimum capitalization levels, as provided by SUDEBAN through special resolutions (see Note 15).
- xv. **Contributions:** The Law on Banking Sector Institutions and other special laws require banks to make contributions and/or accruals from their profits, in addition to income taxes, for social projects with specific purposes:
- **Contribution to community associations:** 5% of gross income before taxes of banks is aimed at complying with the social responsibility that will finance community associations or other social organizations' projects. SUDEBAN, through Resolution N° 233.11 dated August 22, 2011, established that said contribution should be recorded as a prepaid expense and monthly amortized by 1/6, once the payment has been made and the related expense is shown under "Other operating expenses" (see Note 14.h).
 - **Contribution to the social fund for contingencies:** Banks must create a social fund for contingencies, by way of cash transfers to a trust fund in another bank, which shall be equivalent to 10% of capital stock, to guarantee its employees the payment of their work-related liabilities in case the liquidation of the bank is decided. Such percentage will be reached through semiannual contributions of 0.5% of capital stock (see Notes 5.e and 15.d.2).
 - **Contribution to antidrug programs:** The Law on Drugs published in Official Gazette N° 39.510 on September 17, 2010, and Resolution N° 119.10 issued by SUDEBAN on March 9, 2010, set forth that 1% of financial institutions' annual operating income is intended for Fondo Nacional Antidrogas to finance prevention plans, projects and programs to avoid illegal drug traffic, as provided by said Law (see Notes 12 and 14.f).
 - **Contribution to scientific and technological activities:** The Law on Science, Technology and Innovation sets forth that companies with annual gross income exceeding 100,000 Tax Units⁶ shall make a contribution to finance scientific and technological activities that promote the social development, which is estimated based on a percentage of gross income obtained in the immediately previous year (see Note 14.e).
 - **Contribution to the development of sports:** The Law on Sports and Physical Activity, published in Official Gazette N° 39.741 dated August 23, 2011, establishes that profit-making private and public companies must contribute 1% of their annual net income (when this amount exceeds 20,000 TU⁶), to Fondo Nacional para el Desarrollo del Deporte, la Actividad Física y la Educación Física, which shall be declared and paid within 120 days after the year-end and recognized as expenses as paid (see Notes 12 and 14.g).

⁶ At June 30, 2021 and December 31, 2020, one tax unit (TU) is equivalent to Bs. 20,000 and Bs. 1,500, respectively.

c.2. Unit of measure:

The accompanying financial statements are presented in bolivars (Bs.) and any amount herein contained is expressed in this same unit of measure, unless otherwise indicated.

c.3. Decree of State of Emergency and Economic Emergency:

The decree of State of Emergency and Economic Emergency has been in force since January 14, 2016 in the country, date on which it was originally issued by the National Executive and has been successively extended; the latest was on February 23, 2021. Under this decree the National Executive assumes powers to adopt exceptional measures on agricultural production, feeding, health, personal hygiene, basic services, public security and any other social, economic, political and juridical measures it deems convenient to ensure population rights, preserve internal order, and timely access to goods, services, food, medicines and other products essential for life. As a result of this declaration of state of emergency, certain guarantees for exercising constitutional rights might be restricted, upon application of certain exceptional measures contemplated by this decree. In addition, the Ministry of People's Power for Banking and Finance, together with the BCV, may fix maximum limits of inflow or outflow of legal tender in cash, restrictions of certain commercial and financial transactions and limit payments to the use of duly authorized electronic payment means in the country. These measures are in force for 60 days and may be extended to additional 60 days, as allowed by the National Constitution; accordingly, this state of emergency under this last decree would be in force until April 24, 2021. To date, the National Executive has not made any pronouncement on the effectiveness of the circumstances that motivated the decree and therefore, its continuance.

c.4. Foreign exchange regime:

On January 21, 2003, the National Executive established a foreign exchange control that imposed limitations or restrictions on the free convertibility of the local currency and the transfer of funds from the country to abroad. Since its creation, the foreign exchange regime has been constantly reviewed thus implementing various controlled mechanisms for acquiring foreign currency.

On August 2, 2018, through a decree of the National Constituent Assembly published in the Official Gazette N° 41.452, the Law on the Foreign Exchange Regime and its Offenses was repealed, which defined the assumptions that might be considered to be foreign exchange offenses and established certain obligations, as well as pecuniary and criminal sanctions applicable.

The Foreign Exchange Agreement N° 1 was published in the Official Gazette N° 6.405 on September 7, 2018, which established the current regulatory framework that governs the foreign exchange market in Venezuela and superseded the regime in force since 2003. The following are the main features of the new foreign exchange system:

- i. ***Mechanism applicable to the public sector:*** The foreign exchange transactions of the public sector are centralized on the BCV, i.e., public bodies and entities only can purchase and sell foreign currency through the BCV.
- ii. ***Mechanism applicable to the private sector:*** Purchases and sales of foreign currencies, by individuals and legal entities from the private sector are performed through authorized foreign exchange operators, through the use of the Foreign Exchange Market System (the "SMC"). This system consists of the purchase and sale of foreign currency, in bolivars, in which sellers and purchasers participate without any restriction. Such a system is ruled and managed by the BCV and operates under a form of auction, but participants ignore the quotations of supply and demand during the quotation process and cross-transactions. This information together with the identification of the resulting counterpart will be made public after the process for the purposes of the settlement of agreed transactions. The minimum amount for quotation of demand and supply through the SMC should be determined by the BCV. Other characteristics of this market are shown below:

- The exchange rate in force for the purchase and sale of foreign currencies will fluctuate freely in accordance with supply and demand through the SMC.
- The operations of retail in the private sector are allowed, i.e., foreign exchange transactions for amounts equal to or less than € 8,500 made directly before the foreign exchange operators. Universal banks and currency exchange offices governed by the Law on Banking Sector Institutions may perform operations as intermediaries specialized in the retail foreign exchange transactions.
- Universal banks are authorized to act as foreign exchange operators in the SMC. The BCV's Governing Body may authorize other banks to act as foreign exchange operators in such a system.
- Operations through investment securities issued by the private sector are allowed in the framework of the capital market. That is, security brokerage firms and currency exchange offices, as well as Bolsa Pública de Valores Bicentennial, may perform trading operations, in local currency, of securities issued by any, national or foreign, private entity listed in regulated markets and of public offering.
- Contracts may be entered into by agreeing the foreign currency as the currency of account or payment.
- The reference exchange rate shall be a single fluctuating rate calculated by the BCV, according to the average of operations agreed on the SMC.
- Neither banks, insurance companies nor stock market institutions are allowed to make quotations of demand through the Foreign Exchange Market System nor in the stock market.
- The BCV must publish on the website the weighted average exchange rate of operations traded on the SMC. In addition, authorized foreign exchange operators must announce the reference exchange rate in their offices.
- While any economic operator may trade on this market, operations apart from this foreign exchange system are not recognized. Individuals may carry out foreign exchange transactions solely in accordance with the regulation issued for such purposes.

The Foreign Exchange Agreement N° 1 sets forth that the application of the foreign exchange regime is subject to the regulation issued by the BCV. During 2019, the BCV issued Resolutions N° 19-01-04, 19-04-01, 19-05-01, 19-05-02 and 19-09-03, as well as diverse official notices and communications, through which it implements a new operating and regulatory scheme thus eliminating the participation of BCV, previously provided by the agreement and granting independence to the banking system for carrying out foreign currency arbitration operations with individuals and legal private entities under the following modalities:

- **Retail transactions:** Banks are allowed for buying and/or selling (through counters) foreign currencies for amounts lower than € 8,500 from/to individuals of legal age, under the terms provided by the BCV.
- **Foreign exchange market:** Direct purchase-sale of foreign currencies with clients and/or in the interbank market is allowed without intermediation of the BCV. Each bank arranges its foreign exchange market according to availability of offers and its operational capacity to structure operations.

The BCV regulates high-value foreign exchange transactions, retail transactions, transactions in foreign exchange markets and operations with investment securities. Operations agreed upon through foreign exchange markets shall be reported to the B.C.V. on a daily basis.

- iii. **Foreign exchange intervention mechanism:** Through Resolution N° 19-09-03 dated September 5, 2019 (formerly N° 19-05-03 dated May 25, 2019), the BCV established a foreign exchange intervention mechanism allowing it to sell foreign currencies to universal banks by debiting from the single account kept by these banks in the BCV for the amount in bolivars equivalent to the foreign exchange operation performed. This purchase of foreign currencies is carried out by BCV at the exchange rate for purchases fixed by BCV and without any authorization of the Bank. Foreign currencies assigned to the banks under this mechanism are for the mandatory sale to private sector customers at the exchange rate applied by the BCV for the foreign exchange intervention based on the objectives of the foreign exchange policy. Foreign currencies that are not sold to the public shall be returned to the BCV at the exchange rate for sale less 5.2375 percentage points, thus generating an exchange loss plus the monetary sanctions imposed by the Institution for such a refund.

During the six-month period ended June 30, 2019, the Bank filed a claim for annulment with request of precautionary measure for the suspension of effects against the BCV's resolutions concerning the foreign exchange intervention mechanism; based on the argument that the foreign exchange intervention mechanism violates the principles of economic freedom enshrined in the National Constitution (see Notes 3.b, 9 and 20).

During the six-month periods ended June 30, 2021 and December 31, 2020, the BCV made automatic purchases and sales of foreign currency through debits and credits to the accounts maintained by the Bank in such institution, which generated losses from foreign exchange intermediation and expenses for sanctions imposed by the BCV for a total amount of Bs. 702,774,171,309 (Bs. 58,734,829,329 at December 2020 (see Notes 9 and 20).

- iv. Banks shall publish the weighted average exchange rate resulting from traded operations at the close of business, by indicating the traded volume.

The resulting exchange rates under the foreign exchange regime in force at June 30, 2021 and December 31, 2020 are as follows:

30-06-2021		31-12-2020	
Purchase	Sale	Purchase	Sale
Bs. per dollar			
3,212,546.8573	3,220,598.3532	1,104,430.5870	1,107,198.5835

c.5. Decree of state of alarm related to COVID-19:

On March 13, 2020, through the Extraordinary Official Gazette N° 6.519, the National Executive decreed a State of Alarm throughout the national territory in order to mitigate the epidemic risks associated with COVID-19. The health protection and control measures provided for in that decree include the restriction of vehicular and pedestrian traffic in the national territory, with alternative measures for the acquisition of essential goods, as well as the restriction of labor activities, except for priority sector activities including banking, energy, food and health, among others. The state of alarm is valid for 30 days and has been successively extended, the latest was enacted under Decree N° 4.448 dated February 28, 2021, therefore, the State of Alarm under this last decree would be in force until March 30, 2021. To date, the Venezuelan State has not made any pronouncement on the effectiveness of the circumstances that motivated the decree and therefore, its continuance; however, certain measures restricting free mobility are maintained (see Note 3).

NOTE 2.- ACCOUNTING POLICIES AND PRACTICES:

A summary of the most significant accounting policies and practices followed by the Bank and its Branch in the preparation of their financial statements follows:

a. Basis of presentation-

The accompanying financial statements have been prepared in accordance with the accounting framework required and/or allowed by SUDEBAN. This framework significantly differs from accounting principles generally accepted in Venezuela (Ven-NIF), which are commonly applied when preparing financial statements of other industries. The financial statements shall be read, for their proper understanding, in the light of these circumstances. For reporting purposes of the Bank, the most significant differences of presentation, valuation and exposure are the following:

- i. **Historical cost basis:** The financial statements are presented on the historical cost basis, i.e., without recognition of the effects of inflation considered to be relevant under Ven-NIF for financial reporting interpretation purposes (see *Notes 2.b and 3*).
- ii. **Complete set of financial statements:** In conformity with accounting principles for banks, a complete set of financial statements comprises a statement of income for the period instead of the statement of comprehensive income. Those items of income and expense that are not recognized in income for the period are recorded in *Other comprehensive income* under equity. Ven-NIF require entities to present a statement of income for the period and other comprehensive income as part of the complete set of financial statements, either in a single statement or in a separate statement but with equal prominence for all of the financial statements for the adequate explanation of the entity's financial performance and financial position.
- iii. **Cash and equivalents:** The accounting framework for banks does not consider funds placed in other financial institutions to be cash and equivalents although they are easily convertible into cash, have maturities of 3 months or less and are not subject to significant fluctuation risks. Interbank placements are classified as "*Investment securities*", and amount to Bs. 1,068,000,000,000, at June 30, 2021.
- iv. **Limitation of classification of available-for-sale investment securities:** The accounting framework for banks provides that investments may be classified as available-for-sale only for one year or less, which is not required under Ven-NIF.
- v. **Transfers between investment categories:** The accounting framework for banks allows to transfer between categories of investment securities, including held-to-maturity securities, upon authorization of SUDEBAN or for particular unforeseeable events, without impacting the classification of the remaining investment securities maintained in that category, which is not considered under Ven-NIF.
- vi. **Presentation of financial income:** The amortization of premiums and discounts resulting from held-to-maturity investment securities is presented within the gain or loss from the sale of investment securities within "*Other operating income*". In conformity with Ven-NIF it is part of income from the investment securities, and accordingly, it is presented as part of financial income.
- vii. **Impairment of financial assets:** The accounting standard for banks provides (i) models of estimation of losses incurred in the determination of allowances for uncollectible financial assets, including the loan portfolio and interest receivable; (ii) criteria for the allowance for interest on past-due and restructured loan portfolio that consider parameters additional to recovery assessments based on applicable risks, (iii) creation of general, countercyclical and voluntary allowances for the loan portfolio, which is not required under Ven-NIF; and (iv) temporary criteria of allowances under the state of alarm caused by Covid-19 pandemic. To this purpose, *IFRS 9 – Financial Instruments* requires an expected credit loss model for which financial assets are classified in three stages, based on changes in credit risk since initial recognition. This model provides how an entity estimates impairment losses and applies the effective interest method.

- viii. **Amortization of foreclosed assets:** The accounting framework for banks provides criteria for the amortization of repossessed chattels and real estate, idle assets and other foreclosed assets, which is not required under Ven-NIF that require their presentation at fair value.
- ix. **Partial revaluation model of premises and equipment:** The revaluation model has been applied for certain stories of the building of the main office and its subsequent revaluation surplus resulting from comparing the revalued asset with the carrying value in historical amounts is recognized. Under Ven-NIF, selective revaluations on historical amounts are not applicable and the Revaluation Model may be applied only on the balance of assets previously adjusted for inflation and for all the items that belong to a same class of assets (see Notes 8 and 15.c).
- x. **Deferred tax recognition:** Neither deferred tax assets resulting from certain allowances for loan portfolio nor deferred tax liabilities resulting from valuations with effect on equity accounts are recognized, in conformity with the accounting interpretation resulting from the accounting guidelines contained in the Accounting Manual for Banks, Resolution N° 198 dated June 17, 1999, Resolution N° 025.17 dated March 28, 2017, and Resolution N° 101.17 dated September 12, 2017, issued by SUDEBAN. Under Ven-NIF, deferred tax assets or liabilities are fully recognized using the balance sheet method with effect on income (profit and loss) or as a decrease in its related account under equity in accordance with the item originating the deferred taxes.
- xi. **Revenue and expense recognition and presentation:** The accounting practices for banks provide for the recognition of certain significant revenues and expenses resulting from banking business operations, which differ from Ven-NIF; mainly regarding their recording in the single account of “*Equity adjustments*” or regarding their deferral, while other significant financial costs are recorded in income; the consequences are the exclusion of such revenues/expenses from the analysis of the business and operating performance, among others. The most significant are as follows:
- **Financial income from loans expressed in UVC (formerly UVCP and UVCC):** The effects of the valuation of loans expressed in UVC resulting from the application of IDI⁷, are recognized within equity under “*Equity adjustments*”, (at December 2020, net of the financial cost that may be assigned to such income), and are reclassified to income as the corresponding loans are collected. Under Ven-NIF, UVC loans should be valued at amortized cost by applying the effective interest method and the related revenues should be presented in income for the six-month period as “*Financial income*” as earned, as well as the related financial costs (see Note 15.c).
 - **Exchange gain:** The unrealized exchange gain from the valuation of foreign currency assets and liabilities at the official exchange rate in effect at each half-yearly closing is presented in equity accounts and might be reclassified to income for the period where there are no deficit balances of provisions or expenses to be offset and as authorized by SUDEBAN, which may occur during a period other than that when it arose. Under Ven-NIF, unrealized exchange gains or losses resulting from the valuation of foreign currency balances at the closing exchange rate are presented in income for the period as earned or incurred and are presented as part of operating income. The net unrealized exchange gain for the six-month period ended June 30, 2021, amounts to Bs. 18,373,885,775,516 (Bs. 7,523,491,138,883, for the six-month period ended December 31, 2020) and is shown within “*Equity adjustments*” account (see Note 15.c).
 - **Interest income due after 180 days:** It is recognized in income on the cash basis instead of on the accrual basis of accounting. Ven-NIF require interest income to be recognized as earned and subsequently provisioned in accordance with expected recovery.

⁷ At June 30, 2021 and December 31, 2020, the IDI is equal to 15,664.57 and 5,324.35 respectively.

- **Operating and extraordinary income:** Accounting guidelines for banks provide the recognition of certain operating revenues as collected and the presentation of realized gains from the sale of assets as extraordinary income. Ven-NIF recognize revenues as earned and no income or expense item is recognized as extraordinary item in the statements of income for the period and other comprehensive income or in the notes to the financial statements.
- **Allowance for loan portfolio:** Basically, the allowances for the loan portfolio are recognized in income for the period, which consider specific allowances for uncollectible loans and additional general and/or countercyclical allowances determined on the total amount of gross loan portfolio and contingent loans; except for general and countercyclical allowances resulting from changes in the principal of UVC loans, which may be created, at the Bank's discretion, and charged to unrealized gains from valuation of UVCC loans, which are presented within "Equity adjustments", as instructed by SUDEBAN under Resolution N° 070.19 dated December 20, 2019. Ven-NIF do not consider general allowances or creation of allowances charged to equity accounts.
- **Allowances:** Under prudential standards entities are required to record automatic allowances for certain items based on aging criteria; these standards impose or permit general, countercyclical and voluntary risk allowances. Under Ven-NIF allowances are recorded based on the particular analysis of recovery but they do not establish criteria of terms or aging.
- **Leases:** Leases are recognized as expenses based on lease terms in accordance with the contract terms. Under IFRS leases are considered a right and an obligation, and accordingly, they are recognized as financial assets and liabilities when they exceed 12 months and the corresponding depreciation and financial interests are reported in the income for the period.
- **Other expenses:** Under accounting standards for banks, expenses may be deferred while under Ven-NIFs they are charged to income as incurred. On the other hand, certain taxes, such as contributions for community projects and development of sports are recognized on the basis of the amount paid.

b. Significant accounting judgements and estimates-

The preparation of the financial statements requires Management to make estimates based on certain assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The following are the critical judgements that have been made in the process of applying the accounting policies and that have a significant effect on the amounts recognized in the financial statements:

- i. **Historical financial statements and effects of inflation on the financial information (Notes 2.a and 3):** The Bank presents its financial statements on the historical cost basis, in conformity with the accounting guidelines of SUDEBAN. For the last years, the country has maintained levels of hyperinflation of about 2.700% per year according to certain estimations, and an annual exchange rate fluctuation of 1.467%. Although the accompanying financial statements at June 30, 2021 and December 31, 2020, are presented in historical bolivars rather than in constant currency, their amounts are not comparative between them in terms of purchasing power; accordingly, the significant increase in all their accounts shall be analyzed in the light of the prevailing economic environment and shall not be interpreted exclusively as an increase in the turnover.
- ii. **Fair value of financial instruments, including held-to-maturity investments (Note 5):** Fair value of financial instruments that are not traded in active markets, on initial recognition and on

subsequent assessment of permanent potential losses, if any, is determined using the price reported by the custodian agent for foreign investments and the yield curve methodology calculated on the basis of quotations published by BCV under SICET system for domestic investments, if there are no market values. The Bank does not estimate permanent losses from those investment securities considered to be a higher risk. The Bank uses judgement to make estimates mainly based on market conditions at the balance sheet date.

- iii. **Useful life and fair value of premises and equipment (Note 8):** The useful life of these assets is determined based on the parameters established by SUDEBAN. The Bank analyzes the asset and market conditions at the balance sheet date to recognize losses, if necessary.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the financial statements for the next six-month period:

- i. **Foreign currency assets and liabilities (Notes 1.c.4 and 3.b):** Foreign currency assets and liabilities are translated into bolivars by applying the exchange rate published by BCV. If the foreign currency transactions were not completed under the estimates provided by the accounting standard, there were changes in the foreign exchange regime and/or for effects of exchange rate fluctuations, these might involve more cash flows than estimated.
- ii. **Allowances for credit risk of financial assets and other assets (Notes 5, 6 and 9):** Estimates for potential losses are based on the assessment of probability of occurrence on each individual analysis of cases considering the factors for the classification of the loan portfolio provided by current accounting guidelines, and sometimes based on the opinions of external legal advisors, as required.
- iii. **Impairment loss on premises and equipment (Note 8):** When there is an indication that the long-lived assets may be impaired the Bank reduces their value based on estimates of market value made by independent experts that base their judgement on market values. At June 30, 2021 and December 31, 2020, the Bank has not observed any indication of impairment losses for its long-lived assets.
- iv. **Labor obligations for employee benefits and retirement plan (Note 12):** Labor liabilities are estimated based upon actuarial surveys, considering their labor conditions in effect at year-end and projected, which include seniority and salary factors that may vary in the future.
- v. **Deferred taxes:** Estimates of income taxes and deferred taxes are made on the historical cost basis, as provided by tax legislation and the accounting basis, an uncertainty exists regarding their applicability in the future because they are subject to potential changes in tax legislation and interpretations. In addition, the Bank recognizes neither deferred tax liabilities of long-lived assets, regarding gains and losses recognized in equity, nor deferred tax assets resulting from temporary differences derived from the accounting and tax basis due to their uncertain recovery and/or application of the banking accounting standards.

c. Translation and integration of the foreign branch's financial statements-

The financial statements include the accounts of the Bank and its Cayman Islands Branch. For combination or integration purposes of the accounts of the Bank with its foreign branch, the accounting records of which are stated in US Dollars, the financial statements of the Branch have been translated into bolivars by applying the official exchange rate in effect at year-end, as reported by BCV.

Significant balances between the Bank and its Branch were eliminated in combination.

At June 30, 2021 and December 31, 2020, the exchange rates applied by the Bank for the translation of the financial statements of its foreign branch were Bs. 3,212,546.8573/US\$1 and Bs. 1,104,430.5870/US\$1, respectively (see Note 7).

d. Cash and equivalents-

For reporting purposes of the statements of cash flows, the Bank considers cash and due from banks in local and foreign currency represented by cash, gold in coins and bars, deposits in BCV, deposits in banks and other financial institutions and clearinghouse funds, which are available on demand to be cash.

e. Investment securities-

“Placements in BCV and interbank placements” include liquidity surplus placements made in BCV and/or in domestic banks due in 12 months or less, which are recorded at their realizable value, equivalent to cost and nominal value.

“Restricted cash investments” include term deposits in other financial institutions presented at their nominal value, which is similar to their fair value and the investment trust of social fund for contingencies presented at the net equity value of the trusts' financial statements.

Investment securities other than those referred to in the preceding paragraphs are classified as trading, available-for-sale and held-to-maturity. This classification is based on the Management's intent with respect to these investment securities and based on the time estimated to hold such securities. Those investment securities acquired to obtain benefits from price fluctuations within 90 days or less and whose market value can be easily determined are classified as *“Trading investment securities”* and carried at fair market value; the unrealized gains/losses are included in income for the six-month period. *“Held-to-maturity investment securities”* correspond to debt securities for which the Bank has the intention and the capacity of holding until maturity. Such investment securities are accounted for at cost adjusted for the amortization of premiums or discounts, which are included in income for the six-month period. *“Available-for-sale investment securities”* are those that do not classify in the foregoing categories; they are valued at fair market values and the unrealized gains/losses are reported in equity, except for certificates of participation for the financing of social programs of governmental institutions *“Fondo Simón Bolívar para la Reconstrucción S.A.”*, which are recorded and valued at the acquisition cost. *“Available-for-sale investment securities”* may remain in this classification for up to one year.

The Bank uses the acquisition cost of the specific securities to be traded as calculation basis to determine the realized gain or loss from the sale of investment securities.

Permanent decreases in fair values of available-for-sale or held-to-maturity investment securities are charged to income for the period as they arise.

f. Loan portfolio

The Bank's loan portfolio includes loans granted in historical bolivars, solely bearing financial interest, as well as CPUN loans, commercial loans and microcredits expressed in UVC (formerly UVCP and UVCC, for the year ended 2020) bearing financial interest and gains or losses derived from fluctuation of IDI (for the year ended 2020, UVCP loans only bore gains or losses from adjustment for valuation derived from fluctuation of IDI⁸) (see Note 1.c).

⁸ At June 30, 2021 and December 31, 2020, the IDI is equal to 15,664.57 and 5,324.35 respectively.

Upon settlement, loans are expressed in UVC (formerly UVCP or UVCC, as the case might be), and are valued on a daily basis in accordance with the fluctuation of IDI, which is determined by the BCV based on the reference exchange rate fluctuations of the free exchange market. Unrealized gains or losses from the valuation of the UVC loan portfolio at IDI⁹ are recorded on the accrual basis of accounting in equity, within the account “*Equity adjustments*” and they are subsequently reclassified to income as collected. These realized revenues are presented under “*Financial income*”.

As provided by SUDEBAN, accumulated unrealized gains from the valuation of UVC loans adjusted at IDI may be used for creating general and countercyclical allowances.

A detail of unrealized and realized gains from UVC loans (commercial loans, microcredits and CPUN loans) is presented under “*Equity adjustments*” in *Note 15*.

g. Allowance for loan portfolio and contingent portfolio-

The specific allowance for the loan portfolio and the contingent portfolio is maintained at levels adequate to cover potential losses from loans determined based on the standards provided by SUDEBAN, through Resolution N° 009-1197 dated November 28, 1997, in Resolution N° 010.02 dated January 24, 2002, and Resolution N° 021.18 dated April 5, 2018, for the microcredit portfolio, and in Resolutions N° 027.13 dated March 14, 2013 and N° 028.13 dated March 18, 2013 for the agriculture portfolio. Management determines the adequacy of such allowances through specific credit reviews, recent loss experience, current economic conditions, risk characteristics of the loan categories, fair value of the guarantees received and other relevant factors.

In addition to the individual allowances determined on the criteria mentioned in the preceding paragraph, the allowance for loan portfolio includes a general allowance of at least 1% of the gross loan portfolio, except for the microfinance loan portfolio that requires a general allowance of 2%, and a countercyclical allowance of at least 0.75% of the gross loan portfolio. The balance of the allowance for loan portfolio shall not be less than the balance of the past due and in litigation portfolio. Furthermore, the off-balance sheet risk loan portfolio that is shown within “*Contingent memorandum accounts*” requires a general allowance of 1% of the balance of such portfolio, which is shown under “*Accruals and other liabilities*”.

The allowance for loan portfolio is increased with charges to income and reduced for recognized portfolio losses, as incurred, except for general and countercyclical allowances resulting from changes in the principal of UVC loans, which may be created, at the Bank’s discretion, charged to unrealized gains from valuation of UVC loans, which are presented within “*Equity adjustments*”, as instructed by SUDEBAN under Resolution N° 070.19 dated December 20, 2019.

h. Premises and equipment-

Premises and equipment correspond to chattels and real estate owned by the Bank for its use. These assets are recorded at acquisition cost and depreciated using the straight-line method based on the estimated useful lives of assets, except for some stories of the building where the main office of the Bank is located, including a revaluation recognized in 2017 and determined using the appraisal of independent experts at that date, reduced to an amount of less than Equity Tier 1 in effect at December 31, 2017.

As provided by SUDEBAN, those assets with a cost lower than 320 TU⁹ (Bs. 6,400,000 at June 2021 and Bs. 480,000 at December 2020), or useful life under 4 years are expensed as acquired. Expenditures for maintenance and repairs are charged directly to income and improvements and renewals that may increase the capacity of service and efficiency or extend useful life are added to the cost of the related properties. Upon sale or disposal of assets, the cost and related accumulated

⁹ At June 30, 2021 and December 31, 2020, one tax unit (TU) is equivalent to Bs. 20,000 and Bs. 1,500, respectively.

depreciation are eliminated from the accounts and the resulting gain or loss is shown in income for the six-month period.

i. Deferred expenses-

Deferred expenses include organization and start-up expenses of own branches and agencies, leasehold improvements, purchased software and licenses, which are not recognized as expenses as paid but allocated to future periods, since the benefits to be received extend further than the period in which they were incurred. Deferred expenses are recorded at cost and amortized over a maximum term of 4 years.

j. Allowance for other uncollectibility and impairment risks-

Management determines the adequacy of the allowance for potential losses from uncollectibles or recovery of other assets through the application of criteria similar to those applied to the loan portfolio, as applicable, by considering the aging analysis of balances, as required by SUDEBAN, and by assessing other relevant risk factors. The allowance for other assets is increased through charges to income and reduced by losses recognized from such assets through the related write-offs, as known.

k. Employees and directors' benefits-

Employees and directors' benefits are recognized as caused, when the legal or implicit obligation arises as a result of the service provided by employees, and a reliable estimate of the labor liability can be made. Employee benefits are classified as follows:

- **Short-term employee benefits:** The bylaws, legal provisions and the collective and individual bargaining contracts entered into with directors and/or employees set forth their participation in net profits, and other short-term employee benefits. The main accruals for this concept are composed of employees' profit-sharing and vacation bonus. The Bank recognizes such cost based on the current regulations during the period when incurred with charge to income, (with charge to shareholders' equity in the prior six-month period, in case of directors), in conformity with undiscounted calculations, based on labor legislation and the current collective bargaining agreement.
- **Defined benefit plans:** It considers the accrual for employees' termination benefits, which is estimated on a discounted basis that considers the employee's salary and length of service based on current labor regulations and conditions at the balance sheet date. Employee benefit costs are determined based on actuarial calculations made by independent actuaries using actuarial assumptions such as: discount rate, rate of inflation, employee turnover, mortality rates and salary increases, among others. These assumptions are revised on an annual basis and may impact the obligation amount and future contributions if significant variations are determined. The costs of employee severance benefits and interest expenses are recognized in income for the six-month period. Gains or losses resulting from changes in assumptions derived from new measurements of actuarial calculations are recorded under the "*Available undistributed earnings*" account.
- **Employee termination benefits:** The current regulation sets forth the payment of an additional indemnity in the event of unjustified dismissal, which is calculated based on severance benefits and in addition thereto. Termination benefits are expensed when the entity has made a plan, without the possibility of waiving thereto, to terminate the employment contract or has made offers to encourage termination. The Bank has determined that at the date of the balance sheets there are no obligations or plans to encourage termination. Additional indemnities paid for unjustified dismissals are recorded as known.

I. Taxation-

The income tax provision is calculated on the basis of net taxable income determined pursuant to the current tax legislation. The income tax liability calculated on this basis is shown under “*Accruals and other liabilities*”.

The Bank has not recorded the tax effect, caused by the temporary differences between accounting and taxable profit, due to its uncertain recovery. Also, as provided by SUDEBAN’s accounting guidelines, the Bank has not recognized the deferred tax liabilities for the resulting temporary difference in equity accounts.

m. Trust assets-

Trust assets are valued based on the same standards used by the Bank to value its own assets, except that: (i) general allowances are not created within the loan portfolio caption, (ii) all investment securities are recorded at acquisition cost, adjusted for the amortization of premiums or discounts, and (iii) the unrealized and realized exchange gain is recorded in income for the period instead of in the trust net assets, as required for the Bank.

n. Financial income and expenses-

Gains or losses from the valuation of UVC loans (CPUN, commercial loans and microcredits) that are adjusted at IDI value are recognized in equity as caused and reported in income as collected. Alternatively, the accumulated gains may be used for creating general or countercyclical allowances for the relevant loan portfolio. For the six-month period ended December 31, 2020, the net gain from the valuation of UVCC and UVCP loans adjusted at IDI value was presented net of the supplemental financial cost of the legal reserve deficit also based on IDI and directly attributable to UVCP and UVCC loans and were transferred to expenses in the same proportion as income from collected loans, following the matching principle. At June 2021, such financial cost is reported in income as paid.

Interest income and expense are recorded in the income for the period as earned or incurred, respectively, depending on the effectiveness of the transactions generating them, in conformity with the following accounting criteria provided by SUDEBAN:

- Interest on past due loans and loans in litigation and the loan portfolio classified as high-risk or irrecoverable are recorded under memorandum accounts and recognized as income when collected.
- Accrued interest receivable is provisioned based on the same risk classification percentage as that determined for the loan portfolio that originated them. Nevertheless, accrued interest on the portfolio with a loss risk over 15% classified as actual risk, high-risk or irrecoverable, accrued interest on the loan portfolio classified as past due and in litigation, as well as interest on installment loans past due in 30 days or more, are fully provisioned.
- Interest payable in terms of 180 days or after is deferred and recognized as collected.

The Bank determines lending and saving interest rates with its customers taking into account the financial market conditions and limitations for lending and saving rates for each type of loan fixed by BCV through special resolutions (see Note 1.c).

Commissions and other financial interests resulting from transactions where the Bank assumes risks are recorded as caused and shown in “*Income from other accounts receivable*” under “*Financial income*” caption.

o. Other operating income-

Income from commissions and nonfinancial services where the Bank does not assume any risk, income from the sale of nonfinancial assets, from foreign exchange intermediation operations and income from the recovery of disposed, written-off or depreciated assets, are recorded when they are settled or collected under “*Other operating income*”, “*Income from foreclosed assets*”, “*Extraordinary income*”, “*Miscellaneous operating income*” and “*Income from recovery of financial assets*”.

Commissions, fees, surcharges and supplementary and related services are agreed by the Bank with its customers, considering the financial market conditions and in accordance with the limitations fixed by BCV through special resolutions (see Note 1.c).

p. Foreign currency transactions and balances-

Foreign currency transactions are recorded at the official exchange rate in effect at the transaction date. At the end of every six-month period, foreign currency balances are adjusted at the official reference exchange rate for purchases in effect at that date, as published by BCV. Unrealized exchange gains resulting from the valuation of foreign currency balances are recognized as “*Equity adjustments*” under “*Shareholders’ Equity*”, except for minor amounts resulting from fluctuations of other currencies as compared to the dollar, which are recognized in income. As provided by SUDEBAN, exchange gains might be reclassified to income where there are no deficit balances of provisions or expenses to be offset and as authorized by SUDEBAN, which may occur during a period other than that when they arose (see Notes 1.c.4, 15.c and 22).

During the six-month period ended December 31, 2020, SUDEBAN authorized the Bank to transfer the amount of Bs. 273,546,027,971 of accumulated exchange gains from “*Equity adjustments*” to income, which are shown within “*Other operating income*”. Such realized gains were not available for dividends for the two six-month periods of 2020.

At June 30, 2021 and December 31, 2020, the exchange rates used were Bs. 3,212,546.8573/US\$1 and Bs. 1,104,430.5870/US\$1, respectively.

The foreign currency balances reported in the balance sheets, at June 30, 2021 and December 31, 2020, are detailed in Note 22.

q. Fair value of financial instruments-

Prudential accounting standards require the disclosure of information on the fair value of those financial instruments for which it is practical to estimate this value. Fair values included herein do not necessarily show the amounts for which the Bank might trade its financial instruments in the market. The Bank applied the following methods and assumptions to estimate the fair value of those financial instruments for which it is practical to calculate such value:

- i. Cash and due from banks:** The carrying value for these short-term instruments is equivalent to fair value.
- ii. Investment securities:**
 - *Listed investment securities:* The market price effective at the half-year closing is considered as fair value.
 - *Unlisted debt securities:* (i) the fair value of placements in BCV is equivalent to nominal value since they are short-term investments, (ii) the fair value of investments in mid-term obligations or papers corresponds to the quoted value on stock exchange, the price reported by the foreign custodian agent or the value resulting from the application of the yield curve, as applicable, (iii) the fair value of investment securities issued or guaranteed by the Venezuelan

Government is that published by BCV of the SICET system, and (iv) the fair value of mortgage securities under the program “*Gran Misión Vivienda Venezuela*” of the National Government is the acquisition cost, as required by SUDEBAN.

- iii. **Loan portfolio:** The productive loan portfolio of the Bank (current and restructured loans) is mainly composed of short-term loans and as applicable, the value of loans is adjusted on a daily basis based on the IDI published by BCV; accordingly, the carrying value of the productive loan portfolio (except for the general and counter-cyclical allowance) is equivalent to its fair value. The commercial loan and microcredit portfolio (past due and in-litigation loans), totally or partially provisioned, and their interests are recorded as collected, the net carrying value of which is equivalent to their fair value.
- iv. **Bank deposits, other financial intermediation obligations and other borrowings:** These are demand and short-term instruments; accordingly, the fair values approximate the nominal value equivalent to their carrying value.

NOTE 3.- FINANCIAL RISK MANAGEMENT:

Due to the nature of its business, the Bank is exposed to market risk (i.e., price and exchange rate), credit risk and liquidity risk, cash flows and interest rates. The Bank controls these risks by creating approval, supervision and control mechanisms by following risk management policies administered by the Steering Committee.

Since January 2016, the National Executive has declared a state of economic emergency in the whole country, through which it is granted extraordinary powers to legislate and adopt social, political and economic measures for dealing with the current economic situation of the country, which has had an increasingly drop for eight consecutive years, according to the latest indicators published by the BCV and other estimates, characterized by sustained hyperinflation, decrease in the gross domestic product, failure to comply with the payment schedules of the foreign debt and its interests by the Venezuelan state and a reduction of international reserves in an environment of foreign exchange restrictions, interest rate, bank fees and price controls. In addition, the sanctions imposed by the United States, other American countries and the European Union on PDVSA and other Venezuelan entities have imposed limitations to international correspondents to operate with Venezuelan entities. These economic conditions cause an impact on business operations and conditions in the country by increasing the exposure of entities and banks to different financial risks.

The BCV has implemented certain monetary policy measures in order to mitigate inflationary pressures and decrease exchange rate, which have a direct impact on the banking sector since they have generated a restriction on liquidity that significantly limits the credit intermediation, within a framework of controls of interest rates and commissions, regulation on loans and negative actual rates.

On the other hand, on March 11, 2020, the World Health Organization characterized the outbreak of coronavirus disease (COVID-19), which was first reported in Wuhan, China on December 31, 2019, as a pandemic, that is, as an epidemic disease that simultaneously spreads in several countries around the world. This announcement has prompted governments around the world, including Venezuela, to take measures that restrict people's mobility in cities, regions and countries to contain the spread, which have an impact on all economic activities. It is not yet possible to establish the effects and consequences of these measures on the future financial position and operating results of companies and, therefore, banks; hence, the accompanying financial statements must be read taking into account these circumstances.

Considering these challenges, the Bank has created mechanisms to monitor and manage these risks, reviews its business model, as deemed appropriate, and has created provisions to cover general risks inherent in the Venezuelan banking sector.

In this context, an overview of the Bank's exposure to risks is shown below:

a. Price risk-

Financial assets are mainly maintained in placements in BCV, in domestic and foreign banks, and in obligations in foreign companies, which are classified as held-to-maturity investment securities, totally accounting for 93% (92%, at December 31, 2020).

b. Exchange rate risk-

The Bank maintains transactions recognized in assets and liabilities denominated in currency other than the bolivar and it has a foreign currency denominated asset position, mainly in a currency less volatile than the reporting currency. The assets of the Cayman Islands Branch account for 67% of total assets of the Bank. In addition, the bank deposits in foreign currency received under the Foreign Exchange Agreement N° 20 are placed in foreign banks in the same currency as shown as "*Cash and due from banks*" in the accompanying balance sheets (see *Note 10*).

On the other hand, as a foreign exchange operator, the Bank is subject to the foreign exchange intervention mechanism implemented by the BCV for foreign exchange intermediation operations, which stipulates that in the event that the Bank is not able to sell to customers the foreign currencies that were automatically sold thereto by the BCV, they will be repurchased by the BCV at a price lower than the sale price and, furthermore, the Bank would be fined for failing to perform the foreign exchange intermediation. As a result, this activity has generated financial expenses for the penalties, which are shown in income under "*Other operating expenses*", and losses from the allocation of foreign currencies by the BCV, which are shown under "*Other assets*" as recoverable expenditures, based on the expected recovery supported by the annulment appeal filed before the Supreme Court of Justice for the unconstitutional measure. Therefore, the exchange rate risks of the Bank are determined by future financial transactions as exchange operator (see *Notes 1.c.4, 9 and 20*).

c. Cash flow and fair value interest rate risk-

The Bank's interest rate risks may arise mainly from short and long-term financial assets and liabilities at fixed or variable interest rates, as the case may be. Variable interest rates expose the Bank to cash flow risks while fixed interest rates expose the Bank to fair value risks.

The Bank's operating income and cash flows are exposed to risk of changes in market interest rates. The Bank maintains obligations issued by foreign financial institutions. Furthermore, the cash flow risks might result from restrictions on cash and due from banks in the BCV destined to the legal reserve limiting its main financial intermediation activity.

The loan portfolio bears fixed interest rates that are agreed with customers considering the limits published by BCV. The National Executive maintains restrictions on interest rates for loans (see *Note 1.c.1*).

Since the Bank's financial liabilities consist of bank deposits mainly demand or term deposits due within 6 months or less and at fixed interest rates, considering the limits published by BCV, the exposure to cash flow risk is considered as moderate.

d. Credit risk-

The Bank has determined that financial instruments that could be exposed to credit risk are mainly comprised of cash equivalents, investment securities and actual and contingent loan portfolio.

Cash and due from banks account for 38% of financial assets (32%, at December 31, 2020), including BCV and four foreign banks, 46% in foreign financial and nonfinancial entities resulting from the operations in the Cayman Islands, which individually do not exceed 5% of financial assets (60%, at December 31, 2020) and 7% is placed in sundry debtors of the loan portfolio.

The country remains under a state of economic emergency decreed by the National Executive and in an ongoing process of enactment of new laws, regulations and economic and monetary policy measures, including expropriation of goods or intervention of companies, which have economic impact on companies and modify the way of doing business. The Bank's Management is constantly interpreting and evaluating the economic and operating effects of the current situation and the new laws and the credit risks that could derive therefrom (see Note 1.c.3).

The Bank has policies to limit the amounts exposed to risk with issuing companies and financial institutions and financial transactions are limited to financial entities with adequate creditworthiness.

e. Liquidity risk-

The nature of the business requires maintaining adequate levels of liquidity to finance the operation through sufficient cash and availability of credit financing. The Bank maintains its investments mainly on demand and/or with short-term maturities for managing liquidity risks and it makes cash flow forecasts for assessing available liquid assets and borrowing requirements.

In compliance with standards ruling the legal reserve, "*Cash and due from banks*" includes the amounts as required by BCV, which have effect on liquidity indicators. Given their nature, they are restricted-use deposits and limit the credit activity.

The maturities of financial assets and liabilities at June 30, 2021 and December 31, 2020 are shown below:

At June 30, 2021						
	Due within 6 months	Due after 6 through 12 months	Due after 12 through 18 months	Due after 18 through 24 months	Due after 24 months	Total
(In bolivars)						
Assets:						
Cash and due from banks	89,458,846,157,812	-0-	-0-	-0-	-0-	89,458,846,157,812
Investment securities	1,068,000,001,689	27,271,517,128,008	29,657,643,825,820	3,204,769,282,855	69,497,899,772,049	130,699,830,010,421
Loan portfolio, net	16,399,382,019,944	7,890,818,218	-0-	3,785,445,041	-0-	16,411,059,004,095
Interest and commissions receivable	1,112,638,595,904	-0-	-0-	-0-	-0-	1,112,638,595,904
	<u>108,038,866,775,350</u>	<u>27,279,407,946,226</u>	<u>29,657,643,825,820</u>	<u>3,208,554,727,896</u>	<u>69,497,899,772,049</u>	<u>236,868,115,326,317</u>
Liabilities:						
Bank deposits	152,626,954,199,052	-0-	-0-	-0-	-0-	152,626,954,199,052
Other borrowings	646,892,368	-0-	-0-	-0-	-0-	646,892,368
Interest and commissions payable	33,459,572,009	-0-	-0-	-0-	-0-	33,459,572,009
	<u>152,661,060,663,429</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>152,661,060,663,429</u>
At December 31, 2020						
	Due within 6 months	Due after 6 through 12 months	Due after 12 through 18 months	Due after 18 through 24 months	Due after 24 months	Total
(In bolivars)						
Assets:						
Cash and due from banks	27,971,834,740,430	-0-	-0-	-0-	-0-	27,971,834,740,430
Investment securities	10,497,084,683,559	3,925,179,046,796	10,272,712,621,926	1,110,856,518,363	26,159,108,432,717	51,964,941,303,361
Loan portfolio, net	5,872,412,415,277	274,237,229,493	-0-	13,438,370	9,093,390,960	6,155,756,474,100
Interest and commissions receivable	437,314,848,017	-0-	-0-	-0-	-0-	437,314,848,017
	<u>44,778,646,687,283</u>	<u>4,199,416,276,289</u>	<u>10,272,712,621,926</u>	<u>1,110,869,956,733</u>	<u>26,168,201,823,677</u>	<u>86,529,847,365,908</u>
Liabilities:						
Bank deposits	55,519,311,117,109	-0-	-0-	-0-	-0-	55,519,311,117,109
Other borrowings	1,280,092,752,889	-0-	-0-	-0-	-0-	1,280,092,752,889
Interest and commissions payable	17,042,052,547	-0-	-0-	-0-	-0-	17,042,052,547
	<u>56,816,445,922,545</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>56,816,445,922,545</u>
	<u>55,519,311,117,109</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>55,519,311,117,109</u>

NOTE 4.- LEGAL RESERVE, OTHER DEPOSITS MAINTAINED IN BANCO CENTRAL DE VENEZUELA AND OTHER RESTRICTED CASH AND DUE FROM BANKS:

The BCV, in accordance with its legal powers, determines the amount in bolivars to be maintained in the single account in that institution, corresponding to the legal reserve, according to resolutions issued to this purpose. The regular legal reserve fixed by BCV is created based on 85% (93% at December 31, 2020) of net obligations in local currency, excluding certain obligations exempted by regulations. BCV deducts operations with other banks and financial institutions and amounts

resulting from the sale of foreign currencies under the foreign exchange intervention mechanism, if any, from the resulting legal reserve position. The unsold amounts under such mechanism are not deducted for the calculation of the legal reserve, resulting in the application of an annual interest rate of 126% for the remaining amount not sold. In addition, on September 17, 2020, BCV established a discount of Bs. 30 trillion to the total legal reserve requirements of the banking sector. Such discount is allocated for each financial institution using the parameters defined by BCV. The legal reserve must be made up in legal tender.

Bank deposits in foreign currency derived from the alternative foreign exchange system under the superseded Foreign Exchange Agreement N° 20 and the Foreign Exchange Market System under the current Foreign Exchange Agreement N° 1, are excluded from the calculation of the legal reserve in foreign currency and are equivalent to 31% of bank deposits in foreign currency, as provided by BCV's Resolution 21-01-01¹⁰ dated January 19, 2021, and the recently superseded Resolution N° 20-03-01¹¹ dated March 26, 2020 effective until January 19, 2021. However, these bank deposits are totally maintained in bank accounts and/or in cash in the same currency in which they originate (see Note 10).

As set out in such resolutions, the legal reserve deficit causes a financial cost comprised of the interest rate applicable to the deficit plus the variation of the Investment Index (IDI) since the effective interest rate cannot be less than 138% per year.

During the six-month period ended December 31, 2020, the Bank received charges from BCV for interest on legal reserve deficit and variation of IDI for a total amount of Bs. 75,600,015,516 reducing the net equity in the same amount. In applying the matching principle, the Bank recognizes these expenses in the same way that it recognizes financial income from the commercial loan portfolio adjusted at IDI that was financed with the legal reserve funds. Consequently, the Bank records upon payment the portion associated to the interest rate for deficit in the creation of the legal reserve charged to income and the effect of IDI variation charged to equity; the latter reclassifies to income upon collection of loans granted, which may be attributed to the legal reserve deficit. Therefore, other operating expenses for the six-month period ended December 31, 2020 include Bs. 20,559,879,442, for expenses of the legal reserve deficit, the amortization expenses for the IDI variation, which may be attributed to collected loans, and the penalty of legal reserve derived from the foreign exchange intervention mechanism, and the *"Equity adjustments"* account includes Bs. 55,040,136,074 for the effect of IDI variation, which may be attributed to collectible loans (see Note 2.f).

During the six-month period ended June 30, 2021, the Bank received financial charges from BCV for Bs. 1,357,636,365,404 for interest on legal reserve deficit, variation of IDI and the penalty of legal reserve derived from the foreign exchange intervention mechanism shown under *"Other operating expenses"*, together with the realized amount of the prior six-month period referred to above.

The legal reserve required by BCV amounts to a total of Bs. 33,453,321,550,365 (Bs. 12,483,546,194,169, at December 31, 2020), and the Bank maintained balances available in BCV to cover such legal reserve.

¹⁰ Resolution N° 21-21-01 published in Official Gazette N° 42.050 dated January 19, 2021.

¹¹ Resolution N° 20-03-01 published in Official Gazette N° 41.850 dated March 30, 2020.

NOTE 5.- INVESTMENT SECURITIES:

Investments in debt and equity securities have been classified in the financial statements based on Management's intent. "Investment securities" are composed as follows:

	30-06-21	31-12-20
	(In bolivars)	
Investment securities-		
Placements in Banco Central de Venezuela and/or interbank transactions	1,068,000,000,000	-0-
Available-for-sale investment securities	82	82
Held-to-maturity investment securities	110,215,340,123,302	45,240,974,851,730
Restricted cash investment securities	19,416,489,863,472	6,723,966,425,237
Other investment securities	23,565	26,312
	<u>130,699,830,010,421</u>	<u>51,964,941,303,361</u>

a. Placements in Banco Central de Venezuela and/or interbank transactions-

"Placements in Banco Central de Venezuela and/or interbank transactions" correspond to a placement in Banco Provincial, S.A., Banco Universal with a nominal value of Bs. 1,068,000,000,000, at annual interest rate of 204% and due in one day.

b. Available-for-sale investment securities-

"Available-for-sale investment securities" are presented at fair value as follows:

	At June 30, 2021			At December 31, 2020		
	Acquisition cost	Unrealized gain (loss)	Carrying value / fair value	Acquisition cost	Unrealized gain (loss)	Carrying value / fair value
	(In bolivars)					
Participations in domestic private nonfinancial entities-						
Sociedad de Garantías Recíprocas para la Pequeña y Mediana Empresa del Sector Turismo, SOGATUR, S.A., (4,476 class "B" shares, nominal value of Bs. 0.018 each).	81	-0-	81 ¹²	81	-0-	81 ¹²
Corporación Suiche 7B, C.A., (89,217 shares, nominal value of Bs. 0.0001 and 0.08% of equity share).	1	-0-	1 ¹²	1	-0-	1 ¹²
	<u>82</u>	<u>-0-</u>	<u>82</u>	<u>82</u>	<u>-0-</u>	<u>82</u>

During the six-month period ended December 31, 2020, the Branch obtained gains from the purchase and sale of available-for-sale investment securities for the amount equivalent to Bs. 138,926,324, and incurred losses for Bs. 42,265,244,294, shown under "Other operating income" and "Other operating expenses", respectively (see Note 16).

Investments in shares in SOGATUR, an association created by the Ministry of People's Power for Tourism, were acquired to comply with the minimum loan portfolio for the tourism sector, as required by the National Executive (See Note 6.b).

c. Held-to-maturity investment securities-

"Held-to-maturity investment securities" mainly correspond to debt securities for which the Bank has the intention and capacity of holding until maturity.

¹² Fair value is equivalent to quotation value on a foreign stock exchange or referential value reported by the custodian agent.

The following is a detail of such held-to-maturity investment securities, at June 30, 2021 and December 31, 2020:

	At June 30, 2021		
	Acquisition cost	Amortized cost/ carrying value (In bolivars)	Fair value
Dematerialized certificates of participation-			
Fondo Simón Bolívar para la Reconstrucción, S.A., nominal value of Bs. 31,846, annual interest rate between 4.66% and 6.05% and due between June 2023 and November 2024.	31,846	31,846	31,846 ¹³
Obligations and Bonds of the National Public Debt-			
Bonds issued by the Bolivarian Republic of Venezuela, with nominal value of Bs. 28,575, annual interest rate between 19.19% and 20.34% and due between February 2024 and July 2033.	32	32,965	33,378 ¹⁴
Obligations issued by foreign financial institutions-			
Morgan Stanley (annual interest rate between 3.125% and 4.875%, nominal value of US\$ 1,975,000 and due between November 2022 and January 2023).	6,635,252,104,946	6,495,323,201,482	6,635,791,812,818 ¹⁵
Société Générale SA (annual interest rate of 5%, nominal value of US\$ 1,600,000 and due in January 2024).	5,648,987,369,562	5,518,506,566,405	5,595,822,931,620 ¹⁵
Bank of America (annual interest rate of 4.183%, nominal value of US\$ 1,550,000 and due in November 2027).	5,764,706,519,910	5,704,278,513,524	5,581,562,436,121 ¹⁵
Barclays Bank PLC (annual interest rate between 4.375% and 5.200%, nominal value of US\$ 1,500,000 and due between January and May 2026).	5,519,605,257,431	5,405,289,990,060	5,433,091,370,563 ¹⁵
Standard Chartered PLC REGS (annual interest rate of 5.7%, nominal value of US\$ 1,629,000 and due in January 2022).	5,580,013,988,536	5,327,445,899,773	5,379,306,911,078 ¹⁵
Wells Fargo & CO (annual interest rate between 3.069% and 4.1%, nominal value of US\$ 1,500,000 and due between January 2023 and June 2026).	5,123,578,543,595	5,055,058,131,675	5,068,756,431,475 ¹⁵
BPCE SA REGS (annual interest rate between 3% and 4.625%, nominal value of US\$ 1,500,000 and due between May 2022 and July 2024).	5,080,668,555,222	4,994,508,048,508	5,058,797,536,217 ¹⁵
Bayer US Finance II LLC (annual interest rate of 2.85%, nominal value of US\$ 1,350,000 and due in April 2025).	4,603,473,632,489	4,562,719,263,057	4,506,037,086,307 ¹⁵
Harley-Davidson Financial Services INC REGS (annual interest rate of 3.35%, nominal value of US\$ 1,000,000 and due in June 2025).	3,377,308,747,988	3,351,036,539,789	3,435,144,229,061 ¹⁵
General Motors Financial Company INC (annual interest rate of 3.45%, nominal value of US\$ 1,000,000 and due in April 2022).	3,293,470,912,653	3,240,675,917,600	3,272,004,674,552 ¹⁵
Citigroup (annual interest rate of 2.75%, nominal value of US\$ 1,000,000 and due in April 2022).	3,264,105,021,830	3,229,676,157,160	3,268,891,716,647 ¹⁵
Ford Motor Credit (annual interest rate of 3.339%, nominal value of US\$ 1,000,000 and due in March 2022).	3,259,931,923,462	3,240,161,910,103	3,259,771,296,120 ¹⁵
General Electric (annual interest rate of 0.56%, nominal value of US\$ 1,000,000 and due in May 2026).	3,173,996,295,029	3,191,983,344,883	3,150,287,699,222 ¹⁵
	60,325,098,872,653	59,316,663,484,019	59,645,266,131,801
Obligations issued by foreign private nonfinancial entities-			
Molson Coors Beverage Company (annual interest rate between 3% and 3.5%, nominal value of US\$ 2,500,000 and due between May 2022 and July 2026).	8,428,566,436,731	8,298,673,529,649	8,388,020,882,845 ¹⁵
Walgreens Boots Alliance INC (annual interest rate between 3.3% and 3.45%, nominal value of US\$ 2,000,000 and due between November 2021 and June 2026).	6,839,464,071,025	6,735,804,821,580	6,731,846,963,852 ¹⁵
Ralph Lauren Corp (annual interest rate of 3.75%, nominal value of US\$ 1,500,000 and due in September 2025).	5,094,456,806,333	5,037,678,253,177	5,309,568,943,899 ¹⁵
Kraft Heinz Food (annual interest rate of 3.5%, nominal value of US\$ 1,500,000 and due in June 2022).	4,992,901,775,080	4,889,236,100,541	4,948,398,363,465 ¹⁵
HP Inc. (annual interest rate of 4.375%, nominal value of US\$ 1,515,000 and due in September 2021).	5,073,051,606,623	4,891,417,419,857	4,908,251,165,389 ¹⁵
Sysco Corp (annual interest rate of 5.65%, nominal value of US\$ 1,000,000 and due in April 2025).	3,854,991,977,843	3,739,966,737,617	3,722,795,674,665 ¹⁵
Micron Technology INC (annual interest rate of 4.975%, nominal value of US\$ 1,000,000 and due in February 2026).	3,763,498,643,347	3,698,495,970,236	3,693,882,752,949 ¹⁵
AT&T (annual interest rate of 4.45%, nominal value of US\$ 1,000,000 and due in April 2024).	3,507,192,017,430	3,421,584,068,776	3,508,165,419,127 ¹⁵
Dell International LLC (annual interest rate of 5.45%, nominal value of US\$ 1,000,000 and due in June 2023).	3,542,491,482,298	3,451,322,615,034	3,484,810,203,475 ¹⁵
General Motors Company (annual interest rate of 6.125%, nominal value of US\$ 490,000 and due in October 2025).	1,855,448,200,553	1,816,197,303,050	1,864,154,202,536 ¹⁵

¹³ Fair value is equivalent to cost value, as instructed by SUDEBAN.

¹⁴ Fair value is determined on the basis of the yield curve methodology calculated on the basis of prices of investment securities of national public debt published by BCV under SICET system.

¹⁵ Fair value is equivalent to quotation value on a foreign stock exchange or referential value reported by the custodian agent.

	At June 30, 2021		
	Acquisition cost	Amortized cost/ carrying value (In bolivars)	Fair value
CVS Health Corp (annual interest rate of 2.75%, nominal value of US\$ 500,000 and due in December 2022).	1,641,939,123,868	1,624,122,338,998	1,650,728,652,070 ¹⁶
Macy's Retail Holdings INC (annual interest rate of 3.875%, nominal value of US\$ 500,000 and due in January 2022).	1,649,286,218,531	1,617,967,099,219	1,614,304,795,802 ¹⁶
Dupont De Nemours (annual interest rate of 4.205%, nominal value of US\$ 250,000 and due in November 2023).	867,869,533,504	847,273,638,598	870,153,654,320 ¹⁶
Viacom INC (annual interest rate of 3.875%, nominal value of US\$ 250,000 and due in April 2024).	839,502,744,754	828,936,678,140	864,544,547,507 ¹⁶
	51,950,660,637,920	50,898,676,574,472	51,559,626,221,901
	112,275,759,576,171	110,215,340,123,302	111,204,892,418,926
	At December 31, 2020		
	Acquisition cost	Amortized cost/ carrying value (In bolivars)	Fair value
Dematerialized certificates of participation-			
Fondo Simón Bolívar para la Reconstrucción, S.A., nominal value of Bs. 31,846, annual interest rate between 4.66% and 6.05% and due between June 2023 and November 2024.	31,846	31,846	31,846 ¹⁷
Obligations and Bonds of the National Public Debt-			
Bonds issued by the Bolivarian Republic of Venezuela, with nominal value of Bs. 28,575, annual interest rate between 19.19% and 20.34% and due between February 2024 and July 2033.	33,752	33,163	34,502 ¹⁸
Obligations issued by foreign financial institutions-			
Morgan Stanley (annual interest rate between 3.125% and 4.875%, nominal value of US\$ 1,975,000 and due between November 2022 and January 2023).	2,281,110,814,226	2,250,392,181,878	2,313,635,190,583 ¹⁹
Ford Motor Credit (annual interest rate between 3.336% and 3.339%, nominal value of US\$ 2,000,000 and due between March 2021 and March 2022).	2,231,226,997,901	2,229,893,950,182	2,222,666,556,421 ¹⁹
Bank of America (annual interest rate of 4.183%, nominal value of US\$ 1,550,000 and due in November 2027).	1,981,828,900,457	1,980,337,919,165	1,985,920,815,782 ¹⁹
Société Générale SA (annual interest rate of 5%, nominal value of US\$ 1,600,000 and due in January 2024).	1,942,046,206,282	1,922,482,322,863	1,950,857,353,505 ¹⁹
Barclays Bank PLC (annual interest rate between 4.375% and 5.2%, nominal value of US\$ 1,500,000 and due between January and May 2026).	1,897,566,368,819	1,879,778,409,784	1,915,038,460,706 ¹⁹
Standard Chartered PLC REGS (annual interest rate of 5.7%, nominal value of US\$ 1,629,000 and due in January 2022).	1,918,334,081,578	1,859,555,181,305	1,881,859,157,010 ¹⁹
Wells Fargo & CO (annual interest rate between 3.069% and 4.1%, nominal value of US\$ 1,500,000 and due between January 2023 and June 2026).	1,761,417,688,202	1,749,010,514,987	1,769,205,028,271 ¹⁹
BPCE SA REGS (annual interest rate between 3% and 4.625%, nominal value of US\$ 1,500,000 and due between May 2022 and July 2024).	1,746,665,808,850	1,730,628,372,296	1,761,494,998,343 ¹⁹
Bayer US Finance II LLC (annual interest rate of 2.85%, nominal value of US\$ 1,350,000 and due in April 2025).	1,582,612,585,021	1,578,745,973,536	1,581,290,581,608 ¹⁹
Harley-Davidson Financial Services INC REGS (annual interest rate of 3.35%, nominal value of US\$ 1,000,000 and due in June 2025).	1,161,073,518,559	1,158,029,707,861	1,196,308,167,577 ¹⁹
Citigroup (annual interest rate of 2.75%, nominal value of US\$ 1,000,000 and due in April 2022).	1,122,155,593,533	1,113,883,408,436	1,137,439,808,427 ¹⁹
General Motors Financial Company INC (annual interest rate of 3.45%, nominal value of US\$ 1,000,000 and due in April 2022).	1,132,251,193,529	1,120,264,808,368	1,135,900,232,188 ¹⁹
HSBC Holdings PLC (annual interest rate of 2.95%, nominal value of US\$ 1,000,000 and due in May 2021).	1,122,194,248,603	1,108,989,676,505	1,115,695,779,029 ¹⁹
General Electric (annual interest rate of 0.648%, nominal value of US\$ 1,500,000 and due in May 2026).	1,091,177,419,997	1,096,637,382,443	1,055,662,245,609 ¹⁹
	22,971,661,425,557	22,778,629,809,609	23,022,974,375,059
Obligations issued by foreign private nonfinancial entities-			
Molson Coors Beverage Company (annual interest rate between 3.000% and 3.500%, nominal value of US\$ 2,500,000 and due between May 2022 and July 2026).	2,897,628,265,385	2,871,126,349,018	2,927,008,327,861 ¹⁹

¹⁶ Fair value is equivalent to quotation value on a foreign stock exchange or referential value reported by the custodian agent.

¹⁷ Fair value is equivalent to cost value, as instructed by SUDEBAN.

¹⁸ Fair value is determined on the basis of the yield curve methodology calculated on the basis of prices of investment securities of national public debt published by BCV under SICET system.

¹⁹ Fair value is equivalent to quotation value on a foreign stock exchange or referential value reported by the custodian agent.

	At December 31, 2020		
	Acquisition cost	Amortized cost/ carrying value (In bolivars)	Fair value
Sysco Corp (annual interest rate of 2.500% and 5.650%, nominal value of US\$ 2,000,000 and due between July 2021 and April 2025).	2,439,554,635,104	2,418,641,137,507	2,428,587,639,374 ²⁰
Walgreens Boots Alliance INC (annual interest rate between 3.300% and 3.450%, nominal value of US\$ 2,000,000 and due between November 2021 and June 2026).	2,351,316,153,352	2,331,860,504,131	2,348,904,076,950 ²⁰
Ralph Lauren Corp (annual interest rate of 3.75%, nominal value of US\$ 1,500,000 and due in September 2025).	1,751,406,024,930	1,740,741,643,182	1,862,053,403,293 ²⁰
Kraft Heinz Food (annual interest rate of 3.50%, nominal value of US\$ 1,500,000 and due in June 2022).	1,716,492,765,212	1,693,703,944,479	1,729,405,767,636 ²⁰
HP Inc. (annual interest rate of 4.375%, nominal value of US\$ 1,515,000 and due in September 2021).	1,744,047,203,929	1,701,327,828,822	1,717,565,167,312 ²⁰
Dupont De Nemours (annual interest rate between 2.169% and 4.205%, nominal value of US\$ 1,500,000 and due between May and November 2023).	1,711,812,188,385	1,703,887,898,923	1,703,443,917,827 ²⁰
Campbell Soup Company (annual interest rate of 8.875%, nominal value of US\$ 1,500,000 and due in May 2021).	1,818,824,885,685	1,693,559,264,073	1,701,043,990,161 ²⁰
Micron Technology INC (annual interest rate of 4.975%, nominal value of US\$ 1,000,000 and due in February 2026).	1,293,840,432,719	1,289,470,200,886	1,305,381,732,353 ²⁰
AT&T (annual interest rate of 4.45%, nominal value of US\$ 1,000,000 and due in April 2024).	1,205,725,647,193	1,189,224,349,792	1,233,405,990,996 ²⁰
Dell International LLC (annual interest rate of 5.450%, nominal value of US\$ 1,000,000 and due in June 2023).	1,217,861,130,483	1,207,298,356,349	1,221,522,317,879 ²⁰
General Motors Company (annual interest rate of 6.125%, nominal value of US\$ 490,000 and due in October 2025).	637,878,243,143	634,076,793,063	656,423,841,561 ²⁰
Dow Chemical CO. (annual interest rate of 3.50%, nominal value of US\$ 500,000 and due in October 2024).	585,088,669,944	580,468,836,798	604,893,319,231 ²⁰
CVS Health Corp. (annual interest rate of 2.75%, nominal value of US\$ 500,000 and due in December 2022).	564,476,681,898	560,491,896,340	574,250,892,593 ²⁰
Macy's Retail Holdings INC (annual interest rate of 3.875%, nominal value of US\$ 500,000 and due in January 2022).	567,002,514,651	559,892,190,531	548,250,387,713 ²⁰
Viacom INC (annual interest rate of 3.875%, nominal value of US\$ 250,000 and due in April 2024).	288,609,801,006	286,573,783,218	301,996,604,151 ²⁰
	<u>22,791,565,243,019</u>	<u>22,462,344,977,112</u>	<u>22,864,137,376,891</u>
	<u>45,763,226,734,174</u>	<u>45,240,974,851,730</u>	<u>45,887,111,818,298</u>

During the six-month period ended June 30, 2021, certain obligations issued by foreign private nonfinancial entities were redeemed early. The following entities redeemed securities: (i) Dupont de Nemours INC, on May 13, 2021, being May 2023 its original maturity date, (ii) Dow Chemical CO, on June 02, 2021, being October 2024 its original maturity date, and (iii) Sysco Corporation on June 15, 2021, being April 2025 its original maturity date, thus generating realized losses on derecognition of investments for US\$ 23,421 equivalent to Bs. 75,241,059,945 shown under “Other operating expenses”.

Investments in obligations issued by foreign private companies are held by the Bank's Cayman Islands Branch and listed on the New York Stock Exchange.

Maturities of held-to-maturity investment securities are as follows:

	June 30, 2021		December 31, 2020	
	Amortized cost/ carrying value	Fair value	Amortized cost/ carrying value	Fair value
	(In bolivars)			
Due within one year	37,774,944,249,855	38,122,885,562,330	7,837,356,766,430	7,884,319,636,881
Due after one year through five years	63,309,830,095,677	64,058,682,317,129	28,128,918,588,384	28,682,196,170,789
Due after five years through ten years	9,130,565,777,770	9,023,324,539,467	9,274,699,496,916	9,320,596,010,628
	<u>110,215,340,123,302</u>	<u>111,204,892,418,926</u>	<u>45,240,974,851,730</u>	<u>45,887,111,818,298</u>

During the six-month period ended June 30, 2021, the Bank recorded gains from amortization of discounts in the acquisition of investment securities for Bs. 82,954,577,702 (Bs. 28,380,563,840, at December 31, 2020) and losses from amortization of premiums for Bs. 1,231,375,378,500

²⁰ Fair value is equivalent to quotation value on a foreign stock exchange or referential value reported by the custodian agent.

(Bs. 323,402,688,833, at December 31, 2020), which are shown under “*Other operating income*” and “*Other operating expenses*”, respectively (see Note 16).

d. Restricted cash investments-

“*Restricted cash investments*” are composed as follows:

	June 30, 2021		December 31, 2020	
	Cost/ carrying value	Fair value	Cost/ carrying value	Fair value
	(In bolivars)			
Investment securities pledged in guarantee-				
JP Morgan Chase Bank, New York nominal value of US\$ 5,446,356, noninterest-bearing and due in July 2021 (nominal value of US\$ 5,446,356, noninterest-bearing and due in January 2021).	17,496,675,104,523	17,496,671,891,976 ²¹	6,015,121,767,765	6,015,121,767,765 ²¹
PNC Bank nominal value of US\$ 515,960, annual interest of 0.0201% and due in July 2021 (nominal value of US\$ 515,909, annual interest of 0.053% due in January 2021)	1,657,545,676,501	1,657,548,889,048 ²¹	569,785,193,780	569,785,193,780 ²¹
	<u>19,154,220,781,024</u>	<u>19,154,220,781,024</u>	<u>6,584,906,961,545</u>	<u>6,584,906,961,545</u>
Restricted funds delivered to trust-				
Trust fund of Fondo Social para contingencias, maintained in Banco Exterior, Banco Universal (Note 15.d).	1,688	1,688 ²²	1,039	1,039 ²²
Other restricted cash investments-				
MasterCard, Inc. (22,940 class “B” shares, nominal value of US\$ 0.0001 for US\$ 70.574).	226,722,249,783	226,722,249,783 ²³	77,944,073,206	77,944,073,206 ²³
Swift 2 shares, nominal value of € 4,665 each (9 shares, nominal value of € 4,665 each and 4 shares, nominal value of € 771 each).	35,546,830,976	46,135,385,418 ²⁴	61,115,389,446	100,571,658,117 ²⁴
Caja Venezolana de Valores, S.A., (2,542,896 shares, nominal value of de Bs. 0.00003 each and 17.64% of equity investment).	1	1 ²⁵	1	1 ²⁵
	<u>262,269,080,760</u>	<u>272,857,635,202</u>	<u>139,059,462,653</u>	<u>178,515,731,324</u>
	<u>19,416,489,863,472</u>	<u>19,427,077,775,405</u>	<u>6,723,966,425,237</u>	<u>6,763,422,693,908</u>

During the six-month period ended June 30, 2021, as a result of the reassignment of shares made by Swift SC, as provided by its standards, the Branch reduced part of its investment in shares in such entity and received in exchange the amount of US\$ 70,013 in cash. Accordingly, the Bank derecognized such shares for US\$ 40,976 and generated a realized gain on investments for US\$ 26,707, equivalent to Bs. 85,797,488,918 shown under “*Other operating income*”.

Restricted cash investments include term deposits maintained in foreign financial institutions intended to guarantee those transactions related to the license contract on the nonexclusive and free use of the MASTERCARD and VISA trademarks in the credit cards.

The shares of MasterCard Incorporated were received by the Bank as a consequence of the conversion of said entity into a company in May 2006. MasterCard Inc.'s class “B” common shares can only be held by Class “A” shareholders.

The trust fund of Fondo Social para Contingencias was created in compliance with the Law on Banking Sector Institutions to guarantee employees the payment of their labor liabilities in case of liquidation of the bank. During the six-month period ended December 31, 2020, the Bank reached the limit of 10% of the capital stock, as provided by the Law on Banking Sector Institutions (see Note

²¹ Fair value corresponds to nominal value that is equal to cost.

²² Fair value corresponds to the net asset value obtained from the financial statements of the trusts issued by the trustee.

²³ Market value corresponds to the redemption value paid by MasterCard in May 2016.

²⁴ It is shown at the release value at June 30, 2021 and December 31, 2020 issued by SWIFT, for € 5,705, respectively.

²⁵ Market value corresponds to acquisition cost.

15.d). At June 30, 2021, interests were capitalized for Bs. 649 (Bs. 767 at December 31, 2020) with a return for the period of Bs. 250 (Bs. 97 at December 31, 2020). The trust net assets for contingencies for Bs. 1,944 (Bs. 1,140, at December 31, 2020) are composed of cash and due from banks and investments.

e. Concentration of operations-

The Bank has focused its investing activities on the following:

	30-06-21		31-12-20	
	Bs.	%	Bs.	%
Obligations issued by diverse foreign financial entities	59,316,663,484,019	45.38	22,778,629,809,609	43.83
Foreign private nonfinancial entities	50,898,676,574,472	38.94	22,462,344,977,112	43.23
Term deposits in foreign financial institutions-				
JP Morgan Chase Bank (VISA)	17,496,675,104,523	13.39	6,015,121,767,765	11.58
Other	1,884,267,926,284	1.44	647,729,266,986	1.25
	129,596,283,089,298	14.83	6,662,851,034,751	12.83
Interbank transactions	1,068,000,000,000	0.82	-0-	0.00
Swift shares and other	35,546,921,123	0.03	61,115,481,889	0.12
	130,699,830,010,421	100	51,964,941,303,361	100

The Cayman Islands Branch maintains placements and obligations issued by financial institutions and diverse foreign private entities, denominated in U.S. dollars. Obligations issued by financial and nonfinancial entities are maintained with entities listed on the New York Stock Exchange, which individually do not exceed 6% of investments.

NOTE 6.- LOAN PORTFOLIO:

a. Classification of the loan portfolio-

The loan portfolio is mainly composed of loans and discounts granted to private entities in accordance with the Bank's objectives. The loan portfolio is classified by the debtor's economic activity as follows:

	30-06-21	31-12-20
	(In bolivars)	
Manufacturing industry	5,243,009,343,627	1,925,334,060,674
Agriculture and fishing	4,635,916,027,084	1,411,731,249,426
Community-based, social and personal services	3,565,126,975,903	847,061,491,735
Wholesale and retail trade, restaurants and hotels	3,086,956,023,016	951,612,501,355
Financial establishments, insurance, real estate	127,416,028,120	144,305,404
Construction, engineering and related services	93,211,381,422	1,098,146,564,223
Transportation, warehouse and communication services	55,434,005	32,894,120,364
Mining and quarrying	19,944,207	13,452,104
	16,751,711,157,384	6,266,937,745,285
Allowance for loan portfolio	(340,652,153,289)	(111,181,271,185)
	16,411,059,004,095	6,155,756,474,100

The loan portfolio is classified by type of loan as shown below:

	30-06-21	31-12-20
	(In bolivars)	
Fixed-term loans	14,521,395,872,329	5,932,975,475,101
Installment loans	2,216,823,077,500	322,748,568,019
Consumer loans	11,725,126,934	11,199,053,343
Current account loans	1,767,080,621	14,648,822
	16,751,711,157,384	6,266,937,745,285
Allowance for loan portfolio	(340,652,153,289)	(111,181,271,185)
	16,411,059,004,095	6,155,756,474,100

The loan portfolio includes UVC loans, commercial loans, microcredits and CPUN loans, which are adjusted at the IDI value²⁶, as determined by the BCV based on the quotation of the dollar with respect to the bolivar on the free exchange market.

The loan portfolio is classified by type of guarantee as shown below:

	June 30, 2021			December 31, 2020		
	Current	Past-due (In bolivars)	Total	Current	Past-due (In bolivars)	Total
Guarantees	10,260,621,376,691	303,000,784,242	10,563,622,160,933	3,007,920,257,862	221,555	3,007,920,479,417
Pledge	918,982,601,914	-0-	918,982,601,914	296,872,946,666	-0-	296,872,946,666
Pledge and guarantee	5,151,707,392	-0-	5,151,707,392	3,852,316,737	-0-	3,852,316,737
Mortgage and guarantee	3,750,697,904	-0-	3,750,697,904	8,633,589,704	-0-	8,633,589,704
Mortgage	-0-	-0-	-0-	201,493,495	-0-	201,493,495
Unsecured	5,258,353,597,820	1,850,391,421	5,260,203,989,241	2,949,331,984,917	124,934,349	2,949,456,919,266
Total	16,446,859,981,721	304,851,175,663	16,751,711,157,384	6,266,812,589,381	125,155,904	6,266,937,745,285
Allowance for loan portfolio			(340,652,153,289)			(111,181,271,185)
			16,411,059,004,095			6,155,756,474,100

The loan portfolio is classified by original maturity as shown below:

	June 30, 2021			December 31, 2020		
	Current	Past-due (In bolivars)	Total	Current	Past-due (In bolivars)	Total
Due within 30 days	8,364,969,495,276	1,850,391,421	8,366,819,886,698	4,049,152,577,652	124,934,349	3,927,691,819,126
Due after 31 through 60 days	2,043,410,137,923	-0-	2,043,410,137,923	491,877,865,458	-0-	491,877,865,458
Due after 61 through 90 days	3,890,326,080,945	-0-	3,890,326,080,945	1126,998,856,682	-0-	1,435,887,090,700
Due after 91 through 180 days	1,404,143,158,371	-0-	1,404,143,158,371	308,888,234,018	-0-	-0-
Due after 181 through 360 days	740,158,620,233	303,000,334,242	1,043,158,954,475	280,626,205,815	-0-	280,626,205,815
Due after 360 days	3,852,488,999	450,000	3,852,938,999	9,268,849,756	221,555	130,854,764,186
Total	16,446,859,981,748	304,851,175,663	16,751,711,157,411	6,266,812,589,381	125,155,904	6,266,937,745,285
Allowance for loan portfolio			(340,652,153,289)			(111,181,271,185)
			16,411,059,004,095			6,155,756,474,100

b. Single National Productive Portfolio (CPUN)-

At June 30, 2021 and December 31, 2020, the Bank maintains UVC loans, within the framework of the CPUN, which is composed of debtors and amounts assigned to the national banking sector at the discretion of the Governing Committee of the CPUN. To date, the Bank has been instructed to grant borrowing to agriculture sector companies, as summarized below:

At June 30, 2021					
Activity	UVCP Computable amount	Required %	N° of debtors	N° of loans	Maximum annual interest rates
Single Productive Portfolio - Agriculture	1,707,143,492,612	min 10% max 25%	3	4	2%
At December 31, 2020					
Activity	UVCP Computable amount	Required %	N° of debtors	N° of loans	Maximum annual interest rates
Single Productive Portfolio - Agriculture	444,975,203,725	min 10% max 25%	4	6	-

²⁶ At June 30, 2021 and December 31, 2020, the IDI is equal to 15,664.57 and 5,324.35, respectively.

c. Microfinance portfolio-

Information on the microfinance portfolio is summarized below:

At June 30, 2021						
Activity	Computable amount in loan portfolio	Computable maintained %	Required %	N° of debtors	N° of loans	Maximum annual interest rates
UVCC Microcredits	305,511,068,091	162%	3.00%	55	66	10%

At December 31, 2020						
Activity	Computable amount in loan portfolio	Computable maintained %	Required %	N° of debtors	N° of loans	Maximum annual interest rates
Microcredits (nominal)	4,166,667	30.75%	3.00%	1	1	40%
UVCC Microcredits	147,797,605,353			43	50	6%
Total	147,801,772,020					

The microfinance portfolio is distributed as follows based on amounts and percentages with respect to the total microfinance portfolio, in accordance with the activities to be financed:

At June 30, 2021				At December 31, 2020	
Financing intended to:	Required %	Amount of microfinance portfolio (In bolivars)	Maintained %	Amount of microfinance portfolio (In bolivars)	Maintained %
Marketing activities	Max. 40%	167,402,211,296	54.79%	68,324,836,574	46.23%
Public transport activities	Max. 40%	-0-	0.00%	-0-	0.00%
Community-based services, craft activities and other	Min. 20%	138,108,856,795	45.21%	79,476,935,446	53.77%
Total		305,511,068,091	100.00%	147,801,772,020	100.00%

d. Allowance for loan portfolio-

The movement of the allowance for loan portfolio is shown below:

	30-06-21	31-12-20
	(In bolivars)	
Balances, at the beginning of six-month period	111,181,271,185	8,485,803,233
Add: Increase in allowance-		
Charged to income	188,073,773,861	92,721,241,779
Charged to equity	41,401,956,175	9,966,964,773
Transfers from "Allowance for interest receivable" and other	2,961,622	10,907,094
Less: Decrease in allowance-		
Write-offs	(7,809,554)	(3,645,694)
Balances, at the end of six-month period	340,652,153,289	111,181,271,185

The allowance for loan portfolio, which is consolidated with the foreign branch, includes general and counter-cyclical allowances for a total amount of Bs. 295,188,497,067 (Bs. 111,149,794,357, at December 31, 2020).

The increase in allowance for loan portfolio includes the increase in the counter-cyclical allowance for Bs. 79,649,284,512 charged to income for the six-month period presented within "Expenses for uncollectible and impaired financial assets" (Bs. 39,124,808,993, at December 31, 2020) and Bs. 41,401,956,175 charged to equity, presented within "Equity adjustments", as allowed by Resolution N° 070.19 of SUDEBAN dated December 20, 2019 (Bs. 9,966,964,773, at December 2020).

The non-interest bearing past-due portfolio decreases to Bs. 304,851,175,663 (Bs. 125,155,904, at December 31, 2020).

NOTE 7.- FINANCIAL STATEMENTS OF THE FOREIGN BRANCH:

Below is a summary of the financial statements of the Cayman Islands Branch, which have been integrated with the financial statements of the Bank:

	30-06-21		31-12-20	
	Bs.	US\$	Bs.	US\$
Assets:				
Cash and due from banks	31,778,862,298,793	9,892,109	6,556,317,605,103	5,936,378
Loan portfolio	1,154,910,595,205	359,500	-0-	-0-
Investment securities	129,405,107,670,491	40,281,158	51,886,997,137,712	46,980,768
Interest and commissions receivable	1,051,124,418,034	327,193	422,515,062,816	382,564
Other assets	191,061,116,389	59,474	290,465,343,791	263,000
	<u>163,581,066,098,912</u>	<u>50,919,434</u>	<u>59,156,295,149,422</u>	<u>53,562,710</u>
Memorandum accounts:				
Other debit memorandum accounts	<u>1,090,659,658,059</u>	<u>339,500</u>	<u>-0-</u>	<u>-0-</u>
Liabilities:				
Bank deposits	102,554,017,353,189	31,922,964	38,644,220,907,510	34,990,176
Other borrowings	-0-	-0-	192,835,082,523	174,601
Interest and commissions payable	10,954,780	3	-0-	-0-
Accruals and other liabilities	<u>2,313,836,102,972</u>	<u>720,250</u>	<u>773,151,430,589</u>	<u>700,044</u>
	104,867,864,410,947	32,643,217	39,610,207,420,622	35,864,823
Allocated capital and accumulated surplus	<u>58,713,201,687,965</u>	<u>18,276,217</u>	<u>19,546,087,728,800</u>	<u>17,697,889</u>
	<u>163,581,066,098,912</u>	<u>50,919,434</u>	<u>59,156,295,149,422</u>	<u>53,562,710</u>
Per contra memorandum accounts:				
Other credit memorandum accounts	<u>1,090,659,658,059</u>	<u>339,500</u>	<u>-0-</u>	<u>-0-</u>
Statements of income:				
Financial income	2,334,139,495,487	726,570	661,108,858,200	598,597
Financial expenses	<u>(4,483,848,025)</u>	<u>(1,396)</u>	<u>(1,752,444,190)</u>	<u>(1,587)</u>
	<u>2,329,655,647,462</u>	<u>725,174</u>	<u>659,356,414,010</u>	<u>597,010</u>
Other operating income	1,786,384,097,204	556,065	502,069,992,210	454,597
Other operating expenses	<u>(1,671,509,589,675)</u>	<u>(520,307)</u>	<u>(483,502,205,782)</u>	<u>(437,785)</u>
Operating expenses	<u>(377,607,512,177)</u>	<u>(117,541)</u>	<u>(101,297,942,716)</u>	<u>(91,719)</u>
Other income or expenses, net	<u>(209,012,217,845)</u>	<u>(65,061)</u>	<u>(100,708,099,471)</u>	<u>(91,185)</u>
	<u>(471,745,222,493)</u>	<u>(146,844)</u>	<u>(183,438,255,759)</u>	<u>(166,092)</u>
Net income for the six-month period	<u>1,857,910,424,969</u>	<u>578,330</u>	<u>475,918,158,251</u>	<u>430,918</u>

NOTE 8.- PREMISES AND EQUIPMENT:

“Premises and equipment” shown in the balance sheets are composed as follows:

At June 30, 2021				
Useful life	Balance at December 31, 2020	Additions	Disposals	Balance at June 30, 2021
		(Expressed in bolivars)		
Cost:				
Computers	3 and 4	3,675,321,696	11,868,453,014	-0-
Buildings and facilities	40	266,532	-0-	-0-
Sundry office equipment	3 and 4	49,576,397,737	160,642,870,283	-0-
Furniture	10	32,070,936	-0-	-0-
Vehicles	5 and 4	2,362,018,014	-0-	(265,500,930)
Other	5 and 10	470	-0-	-0-
		<u>55,646,075,385</u>	<u>172,511,323,297</u>	<u>(265,500,930)</u>
Accumulated Depreciation		<u>(5,381,492,865)</u>	<u>(12,946,344,879)</u>	<u>107,696,018</u>
		<u>50,264,582,520</u>	<u>159,564,978,418</u>	<u>(157,804,912)</u>
Land		9	-0-	-0-
		<u>50,264,582,529</u>	<u>159,564,978,418</u>	<u>(157,804,912)</u>
				<u>209,671,756,035</u>

At December 31, 2020					
	Useful life	Balance at December 31, 2020	Additions	Disposals	Balance at June 30, 2021
(Expressed in bolivars)					
Cost:					
Computers	3 and 4	629,842,783	3,045,479,210	(298)	3,675,321,696
Buildings and facilities	40	266,532	-0-	-0-	266,532
Sundry office equipment	3 and 4	14,601,535,814	35,027,254,115	(52,392,192)	49,576,397,737
Furniture	10	32,070,936	-0-	-0-	32,070,936
Vehicles	5 and 4	7,148,463,594	-0-	(4,786,445,581)	2,362,018,014
Other	5 and 10	470	273	(273)	470
		22,412,180,129	38,072,733,598	(4,838,838,344)	55,646,075,385
Accumulated Depreciation		(2,904,548,353)	(4,013,865,769)	1,536,921,257	(5,381,492,865)
		19,507,631,776	34,058,867,829	(3,301,917,087)	50,264,582,520
Land		9	-0-	-0-	9
		19,507,631,785	34,058,867,829	(3,301,917,087)	50,264,582,529

The Bank recognized expenses for depreciation of premises and equipment amounting to Bs. 12,946,344,879 (Bs. 4,013,865,769, for the six-month period ended December 31, 2020), which are reported as “*General and administrative expenses*” under “*Operating expenses*”.

NOTE 9.- OTHER ASSETS:

“*Other assets*” shown in the balance sheets are composed as follows:

	30-06-21	31-12-20
	(In bolivars)	
Prepaid expenses:		
Prepaid technological maintenance contracts and other	925,754,968,333	63,567,601,920
Maintenance services and repairs	466,283,797,510	148,284,616,230
Prepaid taxes	423,794,411,456	93,746,304,213
Prepaid professional services	408,284,730,032	55,708,182,878
Prepaid insurance premiums	309,629,927,476	259,161,277,652
	2,533,747,834,807	620,467,982,893
Advances to suppliers	1,853,781,419,489	1,140,806,390,86
Accounts receivable from other banks for P2P operations	964,605,680,207	325,052,869,686
Recoverable expenditures	912,722,724,085	82,501,907,176
Cost of foreign currencies acquired in point-of-sale terminals (US\$ 88,503 and US\$ 56,431, respectively)	280,104,286,329	58,875,288,819
Items to be applied	78,040,313,723	45,006,921,402
Deferred expenses (net of accumulated amortization for Bs. 7,356,949,025 and Bs. 2,670,472,780, respectively)	37,738,229,584	27,631,691,608
Other	455,677,283,713	41,864,937,587
	4,582,669,937,130	1,721,740,007,138
	7,116,417,771,937	2,342,207,990,031
Allowances for other assets	(4,325,896,037)	(1,486,239,141)
	7,112,091,875,900	2,340,721,750,890

“*Prepaid technological maintenance contracts and other*” are mainly composed of maintenance and support services of technological platform equipment and renewal of software and internet service licenses for a one-year period.

“*Prepaid taxes*” are mainly composed of: (i) Prepaid income taxes as special taxpayers for Bs. 269,646,720,864 (Bs. 85,244,061,042, at December 2020), (ii) taxes paid by the Branch for the annual operating license in the Cayman Islands for Bs. 117,532,215,417, (iii) value-added tax credits for Bs. 27,451,369,245 (Bs. 2,417,133,643, at December 2020), (iv) VAT on account of non-domiciled third parties for Bs. 5,091,869,963 at December 2020.

“*Prepaid insurance premiums*” are composed of advance payments for the financial crime policy.

“*Advances to suppliers*” are composed of maintenance services and repairs.

“Items to be applied and P2P” are mainly composed of customers’ debit and credit card transactions and differences to be offset, which were mostly applied to the corresponding accounts during the first days of the month following the year-end.

“Recoverable expenditures” are mainly composed of Bs. 746,216,652,345 (Bs. 71,568,930,985, at December 2020), resulting from the net loss from debit and credit notes made unilaterally by the BCV in the single account maintained by the Bank in the BCV, shown under “Cash and due from banks” for the difference between the discretionary exchange rate applied in the charges and credits received in applying the foreign exchange intervention mechanism provided by Resolutions N° 19-01-04 and N° 19-05-03 issued by the BCV. During the six-month period ended June 30, 2019, the Bank filed a request for an annulment with request of precautionary measure for the suspension of effects against such resolutions and based on the opinion of its legal advisors on the unconstitutionality of such measure, the Bank has recognized such net deductions as recoverable expenditures as these are not purchase-sale transactions for the Bank and it expects their recovery. Expenses incurred in the penalty of legal reserve, as applied by BCV, derived from the foreign exchange intervention mechanism, as explained in Note 4, are charged to income, in compliance with the instructions of SUDEBAN through official communication N° SIB-II-GGIBPV-GIBPV6-02729 dated May 22, 2020. Consequently, during the six-month period ended June 30, 2021, Bs. 12,538,691,898 (Bs. 5,926,917,674, at December de 2020) were amortized for recoverable expenditures over one year, and in addition the Bank recognized expenses for penalty of legal reserve derived from failure to participate in the foreign exchange intervention mechanism for Bs. 251,010,300,879 (Bs. 4,382,861,287 at December 2020), shown under “Other operating expenses” in the accompanying statements of income (see Note 1.c.4).

“Cost of foreign currencies acquired in point-of-sale terminals” corresponds to consumptions made in commercial establishments by individuals with international debit and credit cards in foreign currency, through ATMs and points of sale. Such foreign currencies are available to be sold to the Bank’s customers, as allowed by the BCV through communication dated May 14, 2019. During the six-month period ended June 30, 2021, the Bank sold US\$ 839,670 (US\$ 959,915 at December 31, 2020) and accordingly, it has recognized realized net exchange gains for Bs. 166,272,385,704 (Bs. 10,751,538,685 at December 31, 2020) shown under “Other operating income” in the accompanying statements of income.

The movement of “Deferred Expenses” is shown below:

At June 30, 2021					
	Useful life	Balance at December 31, 2020	Additions	Disposals	Balance at June 30, 2021
(Expressed in bolivars)					
Expenses:					
Leasehold improvements	3 and 4	54,544,373	-0-	-0-	54,544,373
Licenses purchased	4	30,142,666,587	-0-	(41,465,757)	30,101,200,830
Software	4	-0-	14,863,741,280	-0-	14,863,741,280
Other deferred expenses	2 and 3	104,953,428	-0-	(29,261,302)	75,692,126
		<u>30,302,164,388</u>	<u>14,863,741,280</u>	<u>(70,727,059)</u>	<u>45,095,178,609</u>
Accumulated amortization:					
Leasehold improvements		-0-	(6,818,047)	-0-	(6,818,047)
Licenses purchased		(2,586,844,388)	(3,800,149,266)	41,465,757	(6,345,527,897)
Software		-0-	(928,983,830)	-0-	(928,983,830)
Other deferred expenses		(83,628,392)	(21,252,161)	29,261,302	(75,619,251)
		<u>(2,670,472,780)</u>	<u>(4,757,203,304)</u>	<u>70,727,059</u>	<u>(7,356,949,025)</u>
		<u>27,631,691,608</u>			<u>37,738,229,584</u>

At December 31, 2020					
	Useful life	Balance at December 31, 2020	Additions	Disposals	Balance at June 30, 2021
(Expressed in bolivars)					
Expenses:					
Leasehold improvements	3 and 4	-0-	54,544,373	-0-	54,544,373
Licenses purchased	4	7,678,440,379	22,464,260,020	(33,812)	30,142,666,587
Software	4	-0-	-0-	-0-	-0-
Other deferred expenses	2 and 3	104,953,428	-0-	-0-	104,953,428
		<u>7,783,393,807</u>	<u>22,518,804,393</u>	<u>(33,812)</u>	<u>30,302,164,388</u>
Accumulated amortization:					
Leasehold improvements		-0-	-0-	-0-	-0-
Licenses purchased		(762,932,562)	(1,823,945,638)	33,812	(2,586,844,388)
Software		-0-	-0-	-0-	-0-
Other deferred expenses		(57,499,348)	(26,129,044)	-0-	(83,628,392)
		<u>(820,431,910)</u>	<u>(1,850,074,682)</u>	<u>33,812</u>	<u>(2,670,472,780)</u>
		6,962,961,897			27,631,691,608

During the six-month periods ended June 30, 2021 and December 31, 2020, the Bank made disbursements for Bs. 14,863,741,280 and Bs. 22,518,804,391, respectively, for security management software and collaborative enterprise support and the development of financial messaging exchange system software and the improvement of the counter.

The Bank recorded amortization expenses of deferred charges for a total amount of Bs. 4,757,203,304 (Bs. 1,850,074,682, for the six-month period ended December 31, 2020).

The Bank provisions other assets based on the particular analysis of recovery and aging made in conformity with SUDEBAN's standards. The movement of the allowance for other assets is shown below:

	30-06-21	31-12-20
	(In bolivars)	
<i>Balances, at the beginning of the six-month period</i>	(1,486,239,141)	(1,704,470,189)
<i>Add: Additions with charge to expenses, except for those referred to the exchange rate fluctuation effects for the valuation of foreign currency balances, shown in equity</i>	(2,839,656,896)	-0-
<i>Transfers</i>	-0-	218,231,048
<i>Balances, at the end of the six-month period</i>	<u>(4,325,896,037)</u>	<u>(1,486,239,141)</u>

NOTE 10.- BANK DEPOSITS:

"Bank deposits" bear annual interest rates fluctuating between the following parameters:

	30-06-21		31-12-20	
	Rates denominated in Bs.	Rates denominated in US\$	Rates denominated in Bs.	Rates denominated in US\$
Interest-bearing current accounts	0.01%	0.01%	0.01%	0.01%
Demand deposits and certificates	0.01%	-	0.01%	-
Other demand obligations	0.01%	-	0.01%	-
Savings deposits	32%	-	21%	-
Term deposits	36%	0.02% - 0.03%	24%	0.02% - 0.03%
Restricted bank deposits	0.10% 21.00%	0.01%	0.10% 21.00%	0.01%

Individuals and private sector entities account for 99% of bank deposits.

The balances of bank deposits classified under "Foreign Exchange Agreement N° 20" for US\$ 355,421, equivalent to Bs. 1,141,807,451,837 (US\$ 375,439, equivalent to Bs. 414,646,525,011, at December 31, 2020), correspond to transactions provided by the foreign exchange agreements, which are fully hedged by demand deposits in foreign currency within "Foreign banks and correspondents", shown under "Cash and due from banks".

“Other demand obligations” are mainly composed of: (i) drafts and transfer payable for Bs. 1,672,165,334,740 (Bs. 539,446,949,416, at December 31, 2020), (ii) cashier's checks for Bs. 1,427,593,599,122 (Bs. 705,481,734,714, at December 31, 2020), (iii) payment orders on behalf of customers to be applied to their accounts for Bs. 1,191,201,313,772 (Bs. 232,291,351,752, at December 31, 2020), (iv) trust current accounts managed by the Bank for Bs. 1,162,911,437,199 (Bs. 924,770,959,673, at December 31, 2020), and (v) other obligations for offsetting accounts for Bs. 763,372,588,378 (Bs. 390,469,363,866, at December 31, 2020).

“Restricted bank deposits” include balances of customers of the Branch for US\$ 550,114, equivalent to Bs. 1,767,267,001,866, which guarantee current account loans, among other loan transactions (US\$ 640,234, equivalent to Bs. 707,094,012,464, at December 31, 2020).

Deposits of the Cayman Islands Branch are susceptible to the Venezuelan market and, during the last six-month periods, have experienced withdrawals characteristic of the cash needs arising from the country's inflationary effects. As a result, the Bank monitors its liquidity risks and modifies its investment strategy as needed.

The maturity of “Bank deposits” is shown in Note 3.e.

NOTE 11.- OTHER BORROWINGS:

“Other borrowings” shown in the balance sheets consist of the following:

	30-06-21	31-12-20
	(In bolivars)	
Obligations with domestic financial institutions due within one year or less		
Overnight operations, interest rate between 150% and 225% and 4-day term.	52	1,280,000,000,052
Obligations with foreign financial institutions due within one year or less	646,892,316	92,752,837
	<u>646,892,368</u>	<u>1,280,092,752,889</u>

NOTE 12.- ACCRUALS AND OTHER LIABILITIES:

“Accruals and other liabilities” shown in the balance sheets are composed as follows:

	30-06-21	31-12-20
	(In bolivars)	
Allowances for contingencies (US\$ 14,332,699 and US\$ 14,269,102)	46,055,535,303,072	15,766,246,623,606
Profit-sharing payable to directors and employees (including US\$ 678,914 and US\$ 912,645, respectively)	3,110,869,787,044	1,007,341,460,761
Items to be applied (US\$ 99,576 and US\$ 92,511)	3,048,490,276,500	1,711,923,663,447
Accrual for employee benefits payable	594,775,670,669	151,193,134,210
Provision for taxes (Note 17)	516,532,893,201	254,257,856,147
Contracted services payable	283,975,225,364	78,731,821,432
Other sundry accounts payable in foreign currency	205,955,511,635	70,804,746,739
Sports Law contribution payable (Note 17)	70,138,437,014	21,198,604,667
Law on Drugs contribution payable (Note 17)	64,989,193,758	23,606,956,175
Other	1,266,800,343,158	201,057,042,479
	<u>55,218,062,641,415</u>	<u>19,286,361,909,663</u>

“Allowances for contingencies” include estimates made by Management to cover tax, labor, administrative and/or civil contingencies, among others of voluntary nature to cover general risks inherent in the banking activity. The movement of such allowance is as follows:

	30-06-21	31-12-20
	(In bolivars)	
<i>Balances, at the beginning of six-month period</i>	15,766,246,623,606	2,899,979,479,882
Increases charged to income, except for those referred to foreign exchange fluctuation effects for the valuation of foreign currency balances, shown within equity (<i>Note 15.c</i>)	30,398,650,121,168	12,969,917,226,153
Decrease for payments and other	(109,361,441,702)	(24,678,384,124)
<i>Balances, at the end of six-month period</i>	<u>46,055,535,303,072</u>	<u>15,766,246,623,606</u>

“Items to be applied” mainly include amounts received from customers to pay credit transactions for Bs. 3,047,224,822,166 (Bs. 1,711,268,460,002, at December 31, 2020), which were applied to the relevant accounts during the first business days following year-end.

“Profit-sharing payable to directors and employees” are calculated on the basis of the liquid profits for the six-month period, as provided by the current collective bargaining contract and the Bank’s bylaws. The Steering Committee decided that the currency for paying the amounts due for employees’ and statutory profit-sharing should be the US dollar, to avoid, to the extent possible, the effects of inflation on the purchasing power to the beneficiary, which is generated from the moment the obligation is caused until their settlement.

“Accrual for employee benefits payable” accounts for the estimated guarantee for Bs. 435,314,006,302 (Bs. 130,439,549,017, at December 31, 2020), net of advances, which represents the amount that each employee would be entitled to in case of retirement, estimated on a quarterly basis being equivalent to a 15-day integral salary and accrued interests, plus an estimate on the expected employee benefits in addition to the quarterly amount previously estimated for Bs. 159,461,664,367 (Bs. 20,753,585,193, at December 31, 2020), determined on the basis of the last salary, as provided by the current labor laws.

Defined benefits are obtained based on the employee’s salary and the years of service. The obligation for the additional benefit is estimated based on actuarial surveys conducted on an annual basis by independent actuaries using the *Projected Unit Credit* method. The obligation of termination benefits of guarantee is credited into a trust in a local bank on behalf of the employee and the additional termination benefits are accrued in the Bank’s accounting records.

Independent actuaries made an actuarial calculation of the projected obligation of the termination benefits, under the assumption that the initial application date was December 31, 2019. The movement of results for the period is as follows:

	30-06-21	31-12-20
	(In bolivars)	
Accrued actuarial liabilities at the beginning	20,753,585,193	5,921,979,789
Cost of interest	15,988,984,627	3,434,748,278
Cost of services	1,353,021,699	324,871,656
Benefits paid	(3,364,910,897)	(1,500,389,771)
Actuarial losses (gains) from obligations	124,730,983,745	12,572,375,241
Estimated actuarial liabilities	<u>159,461,664,367</u>	<u>20,753,585,193</u>

During the six-month period ended June 30, 2021, the Bank recorded expenses for Bs. 815,614,098,085 (Bs. 148,986,335,474 at December 31, 2020), corresponding to Accrual for employee benefits, which are shown under *“Personnel expenses”*.

The assumptions used by independent actuaries to calculate the projected benefit obligation, the costs of services and interest, according to the last actuarial report at June 30, 2021 and December 31, 2020, are the following:

	30-06-21	31-12-20
	%	%
Turnover rate	22.12%	22.12%
Mortality rate	GAM 83	GAM 83
2021 Rate of salary increase	100%	150%
2021 Discount rate	116%	170%
Long-term geometric mean inflation rate	1,000%	1,000%

“*Contracted services payable*” consist of a variety of services that the Bank engages during the six-month period where it records the corresponding provisions.

“*Other sundry accounts payable in foreign currency*” mainly correspond to checks pending to be claimed for Bs. 152,824,966,063 (Bs. 52,539,176,697, at December 31, 2020).

NOTE 13.- POST-EMPLOYMENT BENEFIT PLAN:

The Bank manages a post-employment benefit plan for its employees in conformity with the collective bargaining contract. The benefits payable under this plan are obtained on the basis of age, the years of services provided and the employee's last salary. The obligation under this plan is calculated on the basis of actuarial surveys conducted on an annual basis by independent actuaries using the *Projected Unit Credit* method.

On September 25, 2017, the Bank and its employees jointly and severally, represented by their labor union, entered into an agreement to replace the retirement plan then in force by a Post-employment Benefit Plan that covers all its employees, regardless of their aging in the bank, with benefits that include the withdrawal of contributed funds upon termination of the employment relationship. The Post-Employment Benefit Plan is contributive and enables the employee to make monthly and extraordinary contributions and the Bank is liable to make contributions in the benefit of each employee; both of them are estimated on the basis of the monthly basic salary of employees under certain conditions. Contributions are managed by a civil association incorporated under mutual agreement by employees to such purpose, which is responsible for making the investment of funds received and distribute returns obtained, if any, among beneficiary employees during the employment relationship. Such funds may be withdrawn only upon termination of the relationship. The Bank is solely responsible for making its contributions and does not assume any liability for the management and/or assignment of the plan's funds.

At June 30, 2021, the Bank has made extraordinary and regular contributions set forth by the contractual agreement.

The Pension Plan funds are managed by a domestic financial institution through a trust fund contract aimed at administrating and investing the funds received from the Bank for pension payments. Management and its actuaries consider that the trust for the social fund for contingencies also covers the employees' post-employment benefits of the going concern and, therefore, is part of the assets of the retirement and pension plan.

The reconciliation of the plan's financial position of the estimated retirement pensions, as per the last actuarial survey, is as follows:

	30-06-21	31-12-20
	(In bolivars)	
Estimated obligation for benefits	4,854,050,370	1,330,350,427
Cost of interest	4,125,942,815	771,603,247
Cost of services	80,842,312	22,691,809
Benefits paid	(42,086,442)	(2,486,443)
Actuarial losses (gains) from obligations	29,176,080,853	2,731,891,331
Net financial position of the estimated pension plan	38,194,829,908	4,854,050,371

At June 30, 2021, the Bank maintains accruals for the post-employment benefit plan for Bs. 35,133,883,339 (Bs. 2,883,250,463, at December 31, 2020), which are presented within “*Accruals and other liabilities*” within *Other*.

The net assets placed in trusts were taken from the actuary’s report and from the financial statements of the trust, which have not been audited by independent public accountants.

The actuarial net loss amounts to Bs. 29,176,080,853 (Bs. 2,731,891,331 at December 2020), in accordance with the last actuarial plan projection, and results from differences between the actuarial assumptions applied and the actual values arising from differences in salary increases, higher or lower turnover, and mortality occurred, among others. These net losses are generally amortized over the remaining average years for retirement of the active group, which was estimated in 9 years determined on the basis of statistical experience of personnel benefitted from this plan. The assumptions used by independent actuaries to calculate the projected benefit obligations, the costs of services and interest, according to the last actuarial report projected at June 30, 2021 and December 31, 2020, are the following:

	30-06-21	31-12-21
	%	%
Turnover rate	22.12%	22.12%
Mortality rate	GAM 83	GAM 83
2021 Rate of salary increase	100%	150%
2021 Discount rate	116%	170%
Long-term geometric mean inflation rate	1,000%	1,000%

Independent actuaries made an actuarial calculation of the projected obligation of the post-employment benefit plan under the assumption that the initial application date was June 30, 2000, in order to determine the unrecognized initial obligation, which is amortized by the Bank since July 1, 2000, over the remaining average years necessary for retirement of the active group of employees, and made the corresponding updating of the assumptions considering changes in contractual conditions during the six-month period.

During the six-month period ended June 30, 2021, the Bank recorded expenses for Bs. 45,627,900,541 (Bs. 6,350,034,742 for the six-month period ended December 31, 2020), corresponding to the cost of contributions (regular and extraordinary) to the post-employment benefit plan and the actuarial cost of retirement pensions, which are shown under “*Personnel expenses*”.

NOTE 14.- TAXATION REGIME AND OTHER CONTRIBUTIONS:

a. Income taxes-

The Income Tax Law sets forth, among other issues, the guidelines for the payment of income taxes on operating income and capital gains, worldwide income system, international tax transparency regime, transfer-pricing system and inflation adjustment, among others. The concepts related to the calculation of the income tax expense impacting the Bank in accordance with current Venezuelan laws are described below:

a.1- Book to tax reconciliation of income tax expense:

The Bank’s fiscal year ends on December 31. The Bank presents its income tax returns on an annual basis and estimates the income tax expense on a semiannual basis at the end of each fiscal year.

The provisions for income taxes are calculated on the basis of an income that differs from book income due to nontaxable or deductible items, which are permanent or temporary. The reconciliation of the estimated tax expense determined on book income and the estimated tax expense calculated on taxable income is shown below:

	Six-month period ended 30-06-21	Six-month period ended 31-12-20
	(In bolivars)	
<i>Income tax expense determined on book income</i>	2,795,127,111,172	957,232,177,897
<i>Differences between book and tax expense, net due to:</i>		
Tax-exempted income from public securities	(1,811)	(1,516)
Sundry provisions, net of payments	(42,171,822,079)	(111,006,009,628)
Asset valuation allowance, net of write-offs	1,246	1,246
Income (expense) from gold revaluation	38,614,238,851	(4,369,631,926)
Other, net	(2,309,868,494,333)	(595,446,341,748)
	<u>(2,313,426,078,126)</u>	<u>(710,821,983,572)</u>
Estimated income tax expense	<u>481,701,033,046</u>	<u>246,410,194,325</u>

The movement of the provision for income taxes is as follows:

	30-06-21	31-12-20
	(In bolivars)	
Beginning balance	251,850,093,788	5,435,093,788
Add: Provisions with charge to expenses	500,000,000,000	246,415,000,000
Less: Payments	<u>(251,843,602,825)</u>	<u>-0-</u>
Ending balance	<u>500,006,490,964</u>	<u>251,850,093,788</u>

a.2- Loss carryforwards:

The Venezuelan Income Tax Law allows carrying forward operating tax losses that have not been offset for up to three years subsequent to the period in which they were incurred. The Bank does not maintain tax loss carryforwards.

a.3- Transfer-pricing system:

Taxpayers carrying out transactions with foreign shareholders or foreign related companies shall determine their income from exports made and the cost of goods and services acquired from foreign related parties, by applying the methods provided by the Law. Assessment of the Bank's activities and applicable regulations on transfer pricing conducted by Management and its tax advisors concluded that the Bank does not carry out activities that might be subject to this system.

a.4- Tax on capital gains:

The Income Tax Law sets forth a tax on dividends with a taxable base composed of the excess of the company's non-exempted net financial income over its net taxable income. The applicable tax rate is 34% and shall be fully withheld by the Bank when dividends, arising from this excess, are paid or credited into account. As withholding agent, the Bank is subject to this regime due to the dividends payable to its shareholders.

b. Value-added tax-

The Value-added Tax (VAT) Law levies the disposal of assets and the import of goods and services, and the provision of services by applying a tax rate of 16%, at June 2021 and December 31, 2020. The services provided by financial institutions only cause VAT for financial leasing. The VAT collected and paid every month is offset and the resulting tax debits or credits are paid to the Tax Authorities or deferred to be offset in the future, as the case may be. The main operations of the Bank do not generate tax debit; therefore, tax credits are charged to the cost of the asset or service acquired.

Taxpayers classified as special by SENIAT will serve as VAT withholding agents when they purchase chattels or receive services from suppliers that are considered regular taxpayers. The amount to be withheld will be 75% of the tax caused, and in certain situations it may reach 100%. For taxes withheld by customers (asset), not offset within 3 months or after, the full or partial recovery of the accumulated balance may be requested to SENIAT. The taxes withheld to suppliers (liability) are paid on a weekly basis.

c. Law for Taxes on Large Financial Transactions-

The Decree-Law of Tax on Large Financial Transactions (IGTF) was enacted in Official Gazette N° 41.520 on November 8, 2018, which has been in force since November 19, 2018, and consists of a 2% tax of the amount of each debit on bank accounts, levied transaction or cashier's check amount of special taxpayers qualified as such by SENIAT or on the amounts of settlements of debts by means other than the financial system. Banks are qualified as withholding or collection agents and are liable to transfer on a daily basis those taxes paid to the account provided by the Finance Ministry to this purpose. Taxpayers other than banks shall declare and pay in accordance with the payment schedule provided for value-added tax withholdings. This tax is not deductible from income taxes.

The Constituent Decree amending the Decree-Law of Tax on Large Financial Transactions was published in Extraordinary Official Gazette N° 6.396 dated August 21, 2018 (the original decree had been published in Official Gazette N° 6.210 dated December 30, 2015), thus modifying the rate from 0.75% to 1%. Subsequently, the Presidential Decree N° 3.654 was published in Official Gazette N° 41.520 dated 08/11/2018 adjusting again the rate to 2%.

During the six-month period ended June 30, 2021 the Bank, in its capacity of withholding agent, collected and paid to the National Treasury Bs. 5,149,316,241,767 (Bs. 1,287,596,879,509, during the second half of 2020).

During the six-month period ended June 30, 2021, the Bank recognized expenses for taxes on large financial transactions for Bs. 88,867,892,522, (Bs. 28,578,732,125, during the six-month period ended December 31, 2020), within "*General and administrative expenses*" in the accompanying statement of income. The liability generated by the Bank in its capacity of withholding agent is shown under "*Accruals and other liabilities*" (see Note 12).

d. Constitutional Law for the Tax on Large Assets (LIGP)-

The Constitutional Law for the Tax on Large Assets (LIGP) was published in Official Gazette N° 41.667 dated July 3, 2019 and enacted by the National Constituent Assembly, the most important aspects of which are the following: (i) this tax is applicable to individuals and legal entities considered as special taxpayers, (ii) net assets of the taxpayer are levied with a tax rate of 0.25%, (iii) the first fiscal year for applying this tax shall be on the net assets existing at September 30, 2019, (iv) for individuals, this tax is applicable where their net assets exceed 36 million TU²⁷, currently equivalent to Bs. 1,800 million; for legal entities, where their net assets exceed 100 million TU²⁷, currently equivalent to Bs. 5,000 million. Taxes shall be determined on the portion exceeding such amounts, (v) the IGP return shall be filed as the taxpayer owns or has an asset equal or exceeding 150 million TU²⁷, and (vi) this tax is not deductible for income tax purposes (ISLR).

During the six-month period ended June 30, 2021, the Bank recognized an expense for the Tax on Large Assets for Bs. 11,915,948,333 (Bs. 5,727,926,804, at December 31, 2020), which is shown under "*General and administrative expenses*" within "*Operating expenses*".

²⁷ At June 30, 2021 and December 31, 2020, one tax unit (TU) is equivalent to Bs. 20,000 and Bs. 1,500, respectively.

e. Law on Science, Technology and Innovation-

The Law on Science, Technology and Innovation enacted since December 16, 2010, and its Regulation set forth that those companies with gross revenues exceeding 100,000 TU are liable to contribute with the competent authority under the Ministry of Science and Technology for technological and scientific activities of social development mentioned by the Law. Such contribution ranges from 0.5% to 2% of total gross revenues obtained in the country in the prior fiscal year, depending on the economic activity of the company and those entities liable to make this contribution shall be registered with Observatorio Nacional de Tecnología (National Technology Observatory) and file a return and pay the contribution during the second quarter following year end.

During the six-month period ended June 30, 2021, the Bank paid the contribution corresponding to year 2020 for Bs. 36,650,019,109 and recognized an expense of Bs. 18,395,367,418 with charge to the first half of 2021, which are shown under "*General and administrative expenses*" within "*Operating expenses*". The balance of prepaid taxes is shown under "*Other assets*". At June 30, 2021, the Bank does not maintain accruals for this concept, as this contribution is caused and paid in the same fiscal year.

f. Law on Drugs-

The Law on Drugs was published in Official Gazette N° 39.510 on September 15, 2010. This Law imposes obligations to financial institutions as entities susceptible to be used for money laundering from illegal activities. Under this law, entities with more than 50 employees are liable to destine 1% of their annual operating income to the Anti-Drug Fund (FONA). This Fund shall destine this contribution to finance prevention plans, projects and programs against the illegal drug traffic. Entities must file a return and make annual payment of this contribution to FONA within the 60 calendar days following the respective fiscal year-end.

The Bank recognized expenses for this concept amounting to Bs. 70,138,437,014 (Bs. 21,895,880,459, at December 2020), which are shown under "*Sundry operating expenses*", and the related liability amounting to Bs. 70,138,437,014 (Bs. 23,606,956,175, at December 31, 2020) is shown under "*Accruals and other liabilities*" (see Note 12).

g. Law on Sports and Physical Activity-

The Law on Sports and Physical Activity passed on August 23, 2011 and its Regulation dated February 28, 2012 establish that profit-making private and public companies or other organizations with annual net income exceeding 20,000 TU must contribute 1% of such annual net income to Fondo Nacional para el Desarrollo del Deporte, la Actividad Física y la Educación Física. This law also provides the guidelines for the execution of projects, returns and installment payments, among others.

The taxpayer may destine up to 50% of said contribution to the execution of its own projects, subject to the related guidelines established by Instituto Nacional de Deportes (IND). Also, entities may provide commercial sponsorship to social organizations that promote sports in the country, which are duly registered before Registro Nacional del Deporte, and must report their agreements to IND within 15 days following the signature of the respective contract.

During the six-month period ended June 30, 2021, the Bank submitted a formal request to IND to have 50% of the 2020 contribution at its disposal (Bs. 10,540,622,160 of the contribution amounting to Bs. 21,081,244,322). The Bank received authorization to finance two sport projects under the Direct Contribution from the Taxpayer modality. The first of these projects is named "*El Deporte y la Recreación como Herramienta de Protección Integral*" year 2021 to be executed by the Bank itself; and the second one is named Aguas Abiertas – Isla de Margarita, of the entity Tu Torneo Deportivo, C.A., which has been presented by an entity engaged in promoting sports. The approved amount was Bs. 5,270,311,080 for each project.

The Bank recognized expenses for this concept amounting to Bs. 64,878,177,779 (Bs. 19,431,312,459, at December 2020), which are shown under “*Sundry operating expenses*”, and the related liability amounting to Bs. 64,989,193,758 (Bs. 21,198,604,667, at December 31, 2020) is shown within “*Accruals and other liabilities*” (see Note 12).

h. Contribution for community associations’ projects-

The Law on Banking Institutions establishes that banks must destine 5% of their gross income before taxes to comply with their social responsibility through the contribution to community associations. As established by SUDEBAN, through Resolution N° 233.11 dated August 22, 2011, this contribution must be made within 30 days following the end of the six-month period and is amortized over 6 months corresponding to the six-month period in which it is paid.

The Bank recognized expenses for this concept amounting to Bs. 109,477,312,295 (Bs. 8,521,409,317, for the six-month period ended December 31, 2020), which are shown under “*Sundry operating expenses*”. The related liability for the contribution’s payable for the last six-month period is shown under “*Accruals and other liabilities*” (see Note 12).

i. Contribution to SUDEBAN-

For the financial periods ended June 30, 2021 and December 31, 2020, financial institutions must make special contributions in order to support the operations of SUDEBAN, which are calculated based on 1 per thousand of the average of the assets for the two months prior to the bimonthly period, respectively. The Bank recognized expenses for this concept amounting to Bs. 222,806,762,997 (Bs. 37,920,859,868, at December 31, 2020), which are shown separately under “*Operating expenses*” in the accompanying statements of income.

j. Contribution to FOGADE-

Financial institutions must make special contributions in order to support the operations of FOGADE, which is calculated based on 0.75% of the balance of bank deposits at the end of the six-month period. The Bank recognized expenses for this concept amounting to Bs. 116,042,653,748 (Bs. 26,481,922,123, at December 31, 2020), which are shown separately under “*Operating expenses*” in the accompanying statements of income.

NOTE 15.- SHAREHOLDERS’ EQUITY:

The movement of the shareholders’ equity for the six-month periods ended June 30, 2021, and December 31, 2020, is as follows:

	30-06-21	31-12-20
	(In bolivars)	
Net shareholders’ equity at the beginning of period	12,818,025,867,117	1,800,043,036,903
Net income for the six-month period with effect on income	6,487,817,777,929	2,146,665,444,743
Other net performance results with effect on equity	17,819,170,450,277	8,871,317,385,471
Total results for the six-month period	<u>24,306,988,228,206</u>	<u>11,017,982,830,214</u>
Net shareholders’ equity at the end of period	<u>37,125,014,095,323</u>	<u>12,818,025,867,117</u>

The shareholders’ equity accounts are composed as follows:

a. Paid-in capital-

The Bank’s capital stock amounts to Bs. 3,306, comprised of 139,776 fully paid and registered shares with a nominal value of Bs. 0.02365 each, as shown below:

Shareholders	N° of shares (Class "A")	Nominal value Bs	Ownership percentage
Vencred, S. A.	19,086	451	13.65%
Tabay Netherlands B.V.	13,811	327	9.88%
Great White Investment Fund, Ltd	3,981	94	2.85%
Green View Investment Enterprises L	3,964	94	2.84%
Alivium, Inc	3,925	93	2.81%
Addendum, Inc	3,860	91	2.76%
Inversiones Bonorum, C.A.	2,390	57	1.71%
Inversiones Invema 2000, C.A.	2,107	50	1.51%
Diverse shareholders with individual interest less than 1.5%	86,652	2,049	61.99%
	<u>139,776</u>	<u>3,306</u>	<u>100.00%</u>

b. Uncapitalized equity contributions-

On September 27, 2018, the Bank submitted before the SUDEBAN a meeting draft for the purposes of increasing the capital stock and modifying the nominal value of shares, under the equity strengthening program of the banking system established by SUDEBAN that year.

Upon meeting the requirements of SUDEBAN to complete such capital increase, at an Extraordinary Shareholders' Meeting held on July 7, 2020, the shareholders decided to increase the capital stock by Bs. 29,999,249, through the issuance of 1,268,467,200 new shares, with a nominal value of Bs. 0.02365 each, which shall be subscribed and paid in cash by the current shareholders of the Bank. Accordingly, during the six-month period ended December 31, 2020, the Bank received cash contributions for a total amount of Bs. 29,999,249 from its shareholders, which are shown under "*Uncapitalized equity contributions*", until the Bank receives the related authorizations of the banking regulator for its recording as capital increase.

c. Capital reserves-

c.1- Legal reserve:

As provided by the Law on Banking Sector Institutions, the Bank is required to transfer to the legal reserve a minimum of 20% of the net income for each period until reaching 50% of the capital stock. When this limit is reached, at least 10% of liquid profits for each six-month period shall be used to increase the legal reserve fund until reaching 100% of the capital stock. The legal reserve reached this limit.

c.2- Other mandatory reserves:

The Law on Banking Sector Institutions establishes that banks must create a Social Fund for Contingencies, equivalent to 10% of capital stock by creating a trust fund in cash in another domestic financial institution. This percentage will be reached by making semiannual contributions of 0.5% of the Bank's capital stock less the amount of interest generated by the trust fund, as established by SUDEBAN through Resolution N° 305.11 dated December 28, 2011. Such fund is shown under "*Restricted cash investments*" and reaches the amount of Bs. 1,688 (Bs. 1.039 at December 31, 2020), (see Note 5.e). The other mandatory reserves reached the limit required.

d. Equity adjustments-

"*Equity adjustments*" caption includes revenues and expenses and/or gains and losses presented within shareholders' equity accounts, in conformity with SUDEBAN's accounting guidelines. "*Equity adjustments*" are composed as follows:

	30-06-21	31-12-20
(In bolivars)		
Equity adjustments-		
Net accumulated exchange gains from the valuation of foreign currency assets and liabilities and transactions in foreign exchange systems	27,458,494,199,532	9,084,608,424,016
Accumulated unrealized income or gains from the valuation of UVC loans adjusted at IDI value	1,663,871,105,775	1,678,509,465,651
Financial costs associated to UVC loans adjusted at IDI value	-0-	(58,276,554,765)
Revaluation surplus (<i>Note 8</i>)	249,277	249,277
	<u>29,122,365,554,584</u>	<u>10,704,841,584,179</u>

The movement of “*Equity adjustments*” is as follows:

Six-month period ended June 30, 2021					
	Exchange gain	Income from UVC	Cost of legal reserve (In bolivars)	Revaluation surplus	Equity adjustments
Beginning balance	9,084,608,424,016	1,678,509,465,651	(58,276,554,765)	249,277	10,704,841,584,179
Unrealized exchange gain for the six-month period, net	18,373,885,775,516	-0-	-0-	-0-	18,373,885,775,516
Accrued income from UVC loans	-0-	14,285,058,612,813	-0-	-0-	14,285,058,612,813
Transfer from collected revenues to income	-0-	(14,258,295,016,514)	-0-	-0-	(14,258,295,016,514)
Transfer to general and counter-cyclical allowances	-0-	(41,401,956,175)	-0-	-0-	(41,401,956,175)
Financial cost of legal reserve attributable to income from UVC loans.	-0-	-0-	613,416,954,842	-0-	613,416,954,842
Transfer from cost of legal reserve to expenses upon collection of loan	-0-	-0-	(555,140,400,077)	-0-	(555,140,400,077)
Ending balance	<u>27,458,494,199,532</u>	<u>1,663,871,105,775</u>	<u>-0-</u>	<u>249,277</u>	<u>29,122,365,554,584</u>

Six-month period ended December 31, 2020					
	Exchange gain	Income from UVC	Cost of legal reserve (In bolivars)	Revaluation surplus	Equity adjustments
Beginning balance	1,561,117,285,134	39,049,608,298	(3,236,418,692)	249,277	1,596,930,724,017
Unrealized exchange gain for the six-month period, net	7,523,491,138,882	-0-	-0-	-0-	7,523,491,138,882
Accrued income from UVCC/UVCP loans	-0-	4,248,802,492,392	-0-	-0-	4,248,802,492,392
Transfer from collected revenues to income	-0-	(2,599,375,670,266)	-0-	-0-	(2,599,375,670,266)
Transfer to general and counter-cyclical allowances	-0-	(9,966,964,773)	-0-	-0-	(9,966,964,773)
Financial cost of legal reserve attributable to income from UVCC loans	-0-	-0-	(58,276,554,765)	-0-	(58,276,554,765)
Transfer from cost of legal reserve to expenses upon collection of loan	-0-	-0-	3,236,418,692	-0-	3,236,418,692
Ending balance	<u>9,084,608,424,016</u>	<u>1,678,509,465,651</u>	<u>(58,276,554,765)</u>	<u>249,277</u>	<u>10,704,841,584,179</u>

In accordance with current accounting guidelines for banks, those gains/revenues, net included within “*Equity adjustments*” are restricted and available for use unless the following criteria are met:

- *Exchange gains* can only be used to: (i) extinguish operating losses or deficit maintained in shareholders’ equity accounts, (ii) creation or hedging of deficit balances in allowances for contingent assets, adjustments or certain losses, (iii) capital increase, (iv) offset the amounts paid to local suppliers for supplies required for operations of the Bank, such as hardware, software, among others, and (v) creation of provision for income taxes levied on the sale of foreign currency position, depending on the source of these gains and subject to approval of SUDEBAN (see *Notes 9 and 22*).

On January 27, 2020, the Bank requested authorization from SUDEBAN to reclassify to income the net credit balance of exchange gains accumulated in the account “*Equity adjustments*”.

SUDEBAN, through official communication N° SIB-II-GGIBPV-GIBPV6-06071 dated November 2, 2020, authorized the Bank to record the balance of exchange gains accumulated at December 31, 2019 for an amount of Bs. 273,546,027,971, within income for the six-month period, which was transferred to *Other operating income and other operating expenses*, for the six-month period ended December 31, 2020. During that six-month period it was reclassified to *Restricted Undistributed Earnings* because such amount should be restricted for sharing dividends for the two six-month periods of 2020. During the six-month period ended June 30, 2021, the Bank reclassified 50% of the available amount to *Available Undistributed Earnings*.

- *Unrealized gains from the valuation of UVC loans*: may be used for hedging general and countercyclical allowances for the loan portfolio, as instructed by SUDEBAN under Resolution N° 070.19 dated December 20, 2019. During the six-month period ended June 30, 2021, the Bank created general allowances with charge to these gains for the amount of Bs. 41,401,956,175 (Bs. 9,966,964,773, at December 31, 2020).
- “*Revaluation surplus*” shall not be applied, used or reclassified for capitalization, distribution of dividends, provisions, extinguishment of losses or any other concept (see Note 8).

e. Retained earnings-

e.1- Restricted earnings:

“*Restricted undistributed earnings*” are composed as follows:

	30-06-21	31-12-20
	(In bolivars)	
Restricted earnings as per Resolution N° 329-99	3,096,674,996,213	644,948,305,747
Retained earnings of foreign branch	2,450,478,430,072	592,568,005,105
Restricted earnings, according to release of balance of account 352.00 at 31-12-19 official communication N° SIB-II-GGIBPV-GIBPV6-06071	-0-	273,546,027,971
Accumulated unrealized gain from valuation of gold coins	3	3
	<u>5,547,153,426,288</u>	<u>1,511,062,338,826</u>

- On December 28, 1999, SUDEBAN issued Resolution N° 329-99, under which it is required that 50% of semi-annual income and 50% of the balance of the “*Available undistributed earnings*” account of semiannual periods prior to December 31, 1999, be presented as “*Restricted earnings*”. These amounts may be distributed only if authorized by SUDEBAN. During the six-month period ended June 30, 2021, the Bank restricted a total amount of Bs. 2,314,953,676,482 (Bs. 596,833,529,835, at December 31, 2020), equivalent to 50% of its net available income for the six-month period, once those earnings that are required to be totally restricted are deducted.
- During the six-month period ended June 30, 2021, the Bank restricted the total amount of net income generated by its foreign branch for Bs. 1,857,910,424,966 (Bs. 475,918,158,251, at December 31, 2020). In accordance with current regulations, these amounts are not available for distribution as dividends until the Branch transfers to its Main Office the retained earnings generated in prior periods.
- During the six-month period ended December 31, 2020, the Bank transferred to “*Restricted earnings*” the amount of Bs. 273,546,027,971 for exchange gains accumulated until December 31, 2019, considering the restriction for declaring dividends for the two six-month periods of 2020, as instructed by SUDEBAN through official communication N° SIB-II-GGIBPV-GIBPV6-06071. During the six-month period ended June 30, 2021, the Bank transferred the available amount of Bs. 136,773,013,985 to “*Available undistributed earnings*”, equivalent to 50% of such gain (see Note 15.d).

e.2 Cash dividends declared and paid:

During a Regular Shareholders' Meeting held on February 18, 2021, it was approved to declare a cash dividend for Bs. 4,280,803 per share, which in the aggregate amounts to Bs. 598,353,520,128. This dividend was declared with charge to "Available undistributed earnings" during the six-month period ended June 30, 2021.

During Extraordinary and Regular Shareholders' Meetings held on July 7 and August 18, 2020, it was approved to declare cash dividends for Bs. 214.62375 and Bs. 290,000 per share, which in the aggregate amount to Bs. 40,565,039,249. These dividends were declared with charge to "Available undistributed earnings" during the six-month period ended December 31, 2020.

e.3 Venture capital index:

The indexes maintained, and calculated by the Bank on the basis of the amounts shown in its financial statements, and the minimum indexes required in accordance with the standards provided by SUDEBAN are the following:

	30-06-21		31-12-20	
	Index maintained	Index required	Index maintained	Index required
Total equity adequacy	22.71%	12%	20.25%	12%
Solvency declaration	22.71%	6%	20.25%	6%
Carrying equity adequacy	17.75%	9%	16.95%	9%

For the calculation of equity indexes the prudential standards of SUDEBAN set forth the following regulatory exceptions, based on the applicable index: (a) exclusion of balances with BCV and PDVSA bonds from the total assets, (b) inclusion of general and counter-cyclical allowances as equity Tier 1 in the carrying equity, (c) exclusion of certificates of participation of "Fondo Simón Bolívar para la Reconstrucción, S.A.", and "Certificado Participación BANDES Agrícola" from total assets and/or "zero" weighting.

In accordance with the provisions of official document N° SIB-II-GGR-GNP-16068 dated August 3, 2017, the revaluation surplus is classified as supplemental equity (Tier II).

NOTE 16.- OTHER OPERATING INCOME AND EXPENSES:

"Other operating income" and "Other operating expenses", shown in the statements of income, are composed as follows:

	30-06-21	31-12-20
	(In bolivars)	
Other operating income		
Exchange gains (Note 22)	2,959,227,830,208	1,732,011,960,816
Commissions for services	5,652,788,729,940	1,575,475,645,674
Gains from investment securities (Notes 5.c and 5.d)	82,954,577,702	28,519,490,164
	<u>8,694,971,137,850</u>	<u>3,336,007,096,654</u>
Other operating expenses		
Exchange loss (Note 22)	492,282,022,888	(890,103,092,113)
Losses from investment securities (Notes 5.c and 5.d)	1,231,375,378,698	(365,667,933,506)
Commissions for services	1,436,662,410,076	(349,789,919,493)
	<u>3,160,319,811,662</u>	<u>(1,605,560,945,112)</u>
Other sundry operating income		
Refunds of favorable experience of insurance policies	8,369,151,995	9,317,090,835
Other minor revenues	3,573,868,224	3,456,554,305
	<u>11,943,020,219</u>	<u>12,773,645,140</u>
Other sundry operating expenses		
Penalties for failure to comply with legal reserve provisions (Note 4)	(1,412,676,501,478)	(20,559,879,442)
Allowance for contingent losses	(208,404,885,860)	(101,965,593,094)
Other operating expenses (Note 14)	(254,756,866,968)	(52,127,374,715)
	<u>(1,875,838,254,306)</u>	<u>(174,652,847,251)</u>

Income from commissions is mainly related to transactions by electronic networks, wire and transfer services, account maintenance and debit and credit card transactions, and trust operations.

NOTE 17.- EXTRAORDINARY EXPENSES:

“Extraordinary expenses” shown in the statements of income correspond to donations made by the Bank for Bs. 26,025,923,487, for the six-month period ended June 30, 2021.

NOTE 18.- MEMORANDUM ACCOUNTS:

“Memorandum accounts”, shown in the balance sheets, correspond to the following transactions:

	30-06-21	31-12-20
	(In bolivars)	
Contingent debit accounts:		
Guarantees granted	1,261,112,574,108	435,905,848,593
Automatic-use line of credit	46,244,240,562	38,396,355,870
	<u>1,307,356,814,670</u>	<u>474,302,204,463</u>
Trust assets	<u>35,368,447,559,149</u>	<u>12,629,585,905,309</u>
Other trusts	<u>602,324,087,000</u>	<u>342,667,128,000</u>
Other debit memorandum accounts:		
Guarantees received	9,732,773,150,659	1,955,090,343,969
Custodial services received	5,500,442,833,655	1,890,978,584,553
Other record accounts	2,127,987,785,663	594,990,224,916
Deposits received	-0-	429,599,114,589
Collections	45	45
	<u>17,361,203,770,022</u>	<u>4,870,658,268,072</u>
	<u>53,548,672,572,784</u>	<u>18,317,213,505,844</u>

a. Contingent debit accounts and other debit memorandum accounts-

Credit financial instruments:

In the normal course of business, the Bank maintains off-balance sheet credit financial instruments issued to meet its customers' financial needs. These instruments mainly consist of bonds and lines of credit amounting to Bs. 1,307,356,814,670, bonds and letters of credit at June 30, 2021 (Bs. 474,302,204,463, bonds and letters of credit at December 31, 2020), and are recorded under “Contingent debit accounts”.

The maximum potential credit risk of the off-balance sheet contingent commitments is equal to the nominal value of the contracts if the other parties involved in the financial instrument fail to comply with the terms of the contracts. The Bank controls the credit risk of these instruments by establishing mechanisms of credit approvals, collateral requirements and other monitoring and control procedures. The Bank evaluates each customer's credit capacity, based on the same criteria applied for credit financial instruments recognized in the balance sheet.

The allowances for contingent portfolio for Bs. 13,891,905,528 (Bs. 5,427,582,803 at December 31, 2020) are determined based on 1% of the balances of guarantees granted and are shown under “Accruals and other liabilities” under the “Other” item (see Note 12).

b. Trust assets-

The Bank manages trusted assets on account and behalf of third parties. The balance sheets of the Trust Department are summarized below:

	30-06-21	31-12-20
	(In bolivars)	
Assets:		
Cash and due from banks	6,418,742,070,181	2,684,952,355,760
Investment securities	1,474,885,367,782	329,381,767,829
Loan portfolio, net	27,323,810,792,795	9,579,400,471,789
Interest and commissions receivable	78,418,628,814	16,113,030,691
Assets received for management	-0-	684,747
Other assets	72,590,699,577	19,737,594,493
	<u>35,368,447,559,149</u>	<u>12,629,585,905,309</u>
Liabilities and net assets:		
Liabilities	<u>25,298,393,959</u>	<u>3,630,445,468</u>
Trust net assets	34,625,854,452,901	12,456,359,382,549
Retained earnings	<u>717,294,712,289</u>	<u>169,596,077,292</u>
	<u>35,343,149,165,190</u>	<u>12,625,955,459,841</u>
	<u>35,368,447,559,149</u>	<u>12,629,585,905,309</u>

Trusts are classified by purpose and type of contracting entity as follows:

	At June 30, 2021				
			Public, state and municipal and Capital District administrations	Decentralized and other special- regime bodies	
Types of trust	Individuals	Companies	(In bolivars)		Total
Administration	23,831,569	34,499,356,439,44	1	126,443,435,058	34,625,823,706,06
Investment	19	30,696,885	-0-	-0-	30,696,904
Guarantee	-0-	49,913	-0-	15	49,928
	23,831,588	34,499,387,186,239	1	126,443,435,073	34,625,854,452,901
Participation percentage	0.000069%	99.63476%	0.00000%	0.3651706%	100%
	At December 31, 2020				
			Public, state and municipal and Capital District administrations	Decentralized and other special- regime bodies	
Types of trust	Individuals	Companies	(In bolivars)		Total
Administration	7,170,330	12,444,552,553,507	1	11,768,911,897	12,456,328,635,735
Investment	19	30,696,885	-0-	-0-	30,696,904
Guarantee	-0-	49,895	-0-	15	49,910
	7,170,349	12,444,583,300,287	1	11,768,911,912	12,456,359,382,549
Participation percentage	0%	100%	0%	0%	100%

In accordance with Article N° 71 of the Law on Banking Sector Institutions and Resolution N° 083.12 published in Official Gazette N° 39.941 dated June 11, 2012, all the trust funds shown in the account *"Net assets assigned to trust funds"* may not exceed 5 times the total net assets of the trust institution, excluding the balance of the account *"Contributions for principal increases"*. At June 30, 2021 and December 31, 2020, the total amount of trusted funds does not exceed the net assets ratio.

At June 30, 2021, trusted funds contributed by decentralized bodies account for 0.3651706% of the total net assets allocated to trusts (0%, at December 31, 2020).

At June 30, 2021, four customers of termination benefit administration trust in foreign currency account for 76% of net assets allocated to trusts (four customers account for 80%, at December 31, 2020).

b.1 Cash and due from banks:

The balances shown in the combined balance sheets of the Trust Department as “Cash and due from banks” are composed as follows:

	30-06-21	31-12-20
	(In bolivars)	
Deposits in foreign institutions US\$ 1,335,999 (US\$ 1,300,806, at December 31, 2020)	4,291,960,481,095	1,436,649,404,080
Deposits in the institution US\$ 291,341 (US\$ 545,489, at December 31, 2020)	1,162,911,437,199	924,770,959,673
Other cash and due from banks available on cash for US\$ 300,033 (US\$ 292,940, at December 31, 2020)	963,870,151,887	323,531,992,007
	<u>6,418,742,070,181</u>	<u>2,684,952,355,760</u>

“Deposits in foreign institutions” correspond to: Brown Brothers Harriman & Co for US\$ 800,805 (US\$ 1,300,806, at December 2020) and Amerant for US\$ 535,194.

“Deposits in the institution” correspond to interest-bearing current accounts maintained in Venezolano de Crédito, S.A. Banco Universal, for the deposit of liquid funds provided from trusts.

The Accounting Manual for Banks and other Financial Institutions sets forth that the balances shown in the accounts of Banks and Other financial institutions shall be monthly reconciled and that debit items recorded in books with an aging over 30 days if accounts in domestic banks and 60 days if accounts in foreign banks shall be fully provisioned in the account “Allowance for cash and due from banks” under “Cash and due from banks”, but they shall be removed 180 days after they are recorded. At June 30, 2021 and December 31, 2020, the trust does not have reconciling items that require provisioning.

b.2 Investment securities:

The balances of “Investment securities”, which are mainly composed of debt securities, are shown below:

	30-06-21		31-12-20	
	Amortized cost/ carrying value	Fair value	Amortized cost/ carrying value	Fair value
	(In bolivars)			
Investment securities issued and/or guaranteed by the Government-				
VEBONO issued by the Ministry of People's Power for Planning and Finance of the Bolivarian Republic of Venezuela, with acquisition cost of Bs. 14,472, with nominal value of Bs. 11,582, annual nominal rate of return between 19.19% and 20.34%, and due between 225 and 4,404 days, at June 2021 (acquisition cost of Bs. 18,145, with nominal value of Bs. 14,396, annual nominal rate of return between 19.19% and 20.34%, and due between 29 and 4,585 days, at December 2020).	12,940	12,940 ²⁸	15,956	15,956 ²⁸
Fixed-interest securities issued by the Bolivarian Republic of Venezuela with acquisition cost of Bs. 2,738, with nominal value of Bs. 2,341, annual nominal rate of return between 14.50% and 16.00%, and due between 246 and 3,886 days, at June 2021 (acquisition cost of Bs. 5,655, with nominal value of Bs. 4,636, annual nominal rate of return between 14.50% and 16.50%, and due between 35 and 4,067 days, at December 2020).	2,596	2,596 ²⁸	4,921	4,921 ²⁸
	<u>15,535</u>	<u>15,535</u>	<u>20,877</u>	<u>20,877</u>
Demand and term deposits in domestic financial institutions-				
Banco Mercantil, C.A., Banco Universal, with annual interest rate between 105% and 130%, nominal value of Bs. 534,479,098,171, and due in 28 days, at June 2021 (annual interest rate of 65%, nominal value of Bs. 121,606,066,795, and due in 28 days, at December 2020).	534,479,098,171	534,479,098,171 ²⁹	121,606,066,795	121,606,066,795 ²⁹

²⁸ Fair value is equivalent to amortized cost.

²⁹ Fair value corresponds to nominal value.

	30-06-21		31-12-20	
	Amortized cost/ carrying value	Fair value	Amortized cost/ carrying value	Fair value
	(In bolivars)			
Banco Exterior, C.A., Banco Universal, with annual interest rate between 130% and 140%, nominal value of Bs. 348,142,851,445, and due between 27 and 28 days, at June 2021 (annual interest rate between 105% and 130%, nominal value of Bs. 107,980,131,088, and due in 28 days, at December 2020).	348,142,851,445	348,142,851,445 ³⁰	107,980,131,088	107,980,131,088 ³⁰
Bancrecer S.A., Banco Microfinanciero, with annual interest rate between 130% and 140%, nominal value of Bs. 226,391,603,426, and due in 28 days, at June 2021 (annual interest rate between 110% and 130%, nominal value of Bs. 42,685,990,025, and due between 28 and 29 days, at December 2020).	226,391,603,426	226,391,603,426 ³⁰	42,685,990,025	42,685,990,025 ³⁰
Banco del Caribe, C.A., Banco Universal, with annual interest rate between 120% and 132%, nominal value of Bs. 212,989,446,113, and due in 28 days, at June 2021 (annual interest rate between 85% and 105%, nominal value of Bs. 40,672,743,147, and due between 28 and 29 days, at December 2020).	212,989,446,113	212,989,446,113 ³⁰	40,672,743,147	40,672,743,147 ³⁰
	1,322,002,999,155	1,322,002,999,155	312,944,931,055	312,944,931,055
Obligations issued by domestic private companies-				
Corporación Grupo Químico S.A., with annual interest rate of 39.50%, nominal value of Bs. 20,000,000, and due in 142 days, at December 2020.	-0-	-0-	20,000,000	17,538,946 ³¹
	-0-	-0-	20,000,000	17,538,946
Corporate commercial papers issued by domestic private companies-				
COCA-COLA Femsa de Venezuela, S.A., with annual interest rate of 100%, acquisition cost of Bs. 79,220,000,000, nominal value of Bs. 100,000,000,000, and due in 35 days, at June 2021.	91,443,529,412	93,663,285,820 ³¹	-0-	-0-
Mercantil Servicios Financieros, C.A., with annual interest rate of 100%, acquisition cost of Bs. 32,045,095,000, nominal value of Bs. 41,000,000,000, and due between 7 and 54 days, at June 2021 (annual interest rate of 88%, acquisition cost of Bs. 8,906,664,000, nominal value of Bs. 11,000,000,000, and due between 6 and 18 days, at December 2020).	36,808,245,441	37,891,512,191 ³¹	10,780,444,267	10,823,059,687 ³¹
Comercial Belloso, C.A., with annual interest rate of 100%, acquisition cost of Bs. 11,719,500,000, nominal value of Bs. 15,000,000,000, and due in 15 days, at June 2021.	14,459,258,242	14,572,979,118 ³¹	-0-	-0-
Charcutería Venezolana, C.A., (CHARVENCA), with annual interest rate of 100%, acquisition cost of Bs. 9,387,600,000 and nominal value of Bs. 12,000,000,000, and due in 63 days, at June 2021.	10,171,320,000	10,670,220,290 ³¹	-0-	-0-
Cargill de Venezuela, S.R.L with annual interest rate of 88%, acquisition cost of Bs. 4,760,970,000, nominal value of Bs. 6,000,000,000, and due in 27 days, at December 2020.	-0-	-0-	5,636,371,630	5,722,547,572 ³¹
	152,882,353,095	156,797,997,419	16,416,815,897	16,545,607,259
	1,474,885,367,782	1,478,801,012,109	329,381,767,829	329,508,098,137

The maturities of investment securities are the following:

	30-06-21		31-12-20	
	Amortized cost or acquisition cost	Fair value	Amortized cost or acquisition cost	Fair value
	(In bolivars)			
Due within six months	1,474,885,352,249	1,478,800,996,576	329,381,752,097	329,508,082,405
Due after six months through one year	2,503	2,503	-0-	-0-
Due after one year through five years	4,920	4,920	6,974	6,976
Due after five years	8,110	8,110	8,758	8,756
	1,474,885,367,782	1,478,801,012,109	329,381,767,829	329,508,098,137

³⁰ Fair value corresponds to nominal value.

³¹ Fair value is equivalent to the current value of discounted future cash flows.

Investment securities are mainly concentrated as follows:

	30-06-21		31-12-20	
	In bolivars	%	In bolivars	%
Placements in domestic financial institutions-				
Banco Mercantil, C.A., Banco Universal	534,479,098,171	36%	121,606,066,795	37%
Banco Exterior, C.A., Banco Universal	348,142,851,445	24%	107,980,131,088	33%
Bancrecer, S.A., Banco Micro Financiero	226,391,603,426	15%	42,685,990,025	13%
Banco del Caribe, C.A., Banco Universal	212,989,446,113	14%	40,672,743,147	12%
	1,322,002,999,155	90%	312,944,931,055	95%
Obligations and corporate commercial papers issued by three domestic private companies	152,882,353,092	10%	16,436,815,897	5%
Investments issued and/or guaranteed by the State	15,535	0%	20,877	0%
	1,474,885,367,782	100%	329,381,767,829	100%

b.3 Loan portfolio:

The balances shown in the combined balance sheets of the Trust Department as “*Loan portfolio*” are mainly composed of loans granted to beneficiaries mainly destined to housing construction, acquisition, improvement or repairs, acquisition of vehicles, and transportation vehicles, and other, such as school pensions, medical services and hospital expenses.

Loans receivable from beneficiaries, net of allowances, are classified by type of guarantee as shown below:

Type of guarantee	June 30, 2021			December 31, 2020		
	Current	Past-due	Total	Current	Past-due	Total
	(In bolivars)			(In bolivars)		
Guarantee on monies	27,323,810,782,009	-0-	27,323,810,782,009	9,579,400,460,655	-0-	9,579,400,460,655
Chattel mortgage	10,693	-0-	10,693	11,022	-0-	11,022
Retention of title	58	-0-	58	77	-0-	77
Real estate mortgage	-0-	103	103	-0-	103	103
Total	27,323,810,792,760	103	27,323,810,792,863	9,579,400,471,754	103	9,579,400,471,857
Allowance for loan portfolio			(68)			(68)
			27,323,810,792,795			9,579,400,471,789

“*Guarantees on monies*” mainly corresponds to loans granted to beneficiaries guaranteed on their termination benefits in foreign currency for Bs. 23,988,876,964,859 (Bs. 8,866,888,542,497 at December 31, 2020).

Loans to beneficiaries with chattel mortgage and retention of title guarantees amount to Bs. 10,693 and Bs. 58 respectively (Bs. 11,022 and Bs. 77, respectively, at December 31, 2020), which correspond to loans granted with funds from customer-directed trusts and created by trustors for granting financing programs to their employees and/or exclusive dealers (trust beneficiaries) for the acquisition of automobiles and transportation vehicles, respectively. Customer-directed trust contracts release the Bank’s Trust Department from losses from credit risks.

Loans receivable from beneficiaries classified by maturity are shown below:

	30-06-21	31-12-20
	(In bolivars)	
Due within six months	441	477
Due after 6 months through 12 months	369	366
Due after 12 months through 24 months	662	711
Due after 24 months	9,382	9,647
Undefined maturity or variable maturities	27,323,810,782,009	9,579,400,460,656
	27,323,810,792,863	9,579,400,471,857
Allowance for loan portfolio	(68)	(68)
	27,323,810,792,795	9,579,400,471,789

Loans with undefined maturity mainly correspond to loans receivable from beneficiaries guaranteed by their termination benefits or monies maintained in trust funds or savings funds, which have no payment dates or amortization of principal, in conformity with trust contracts. However, the total payment of such loans will be effective as the beneficiary terminates its employment or contractual employment relationship with the trustor or employer.

c. Other trusts-

Trusts correspond to credit securities of customers (principal parties) received by the Bank, as commission agent, with the commitment to place them with a third party, in accordance with the provisions of the commission contracts. Such contracts empower the Bank to negotiate such securities with other customers in exchange for the collection of a commission and shall only be liable to the commission agent for fraud, negligence, recklessness, or non-compliance with contractual obligations. During the six-month period ended June 30, 2021, the Bank obtained income from commissions for Bs. 486,318,783,396 (Bs. 295,490,153,665, for the six-month period ended December 31, 2020) which are presented within *“Other operating income”* in the statements of income.

NOTE 19.- FAIR VALUE OF FINANCIAL INSTRUMENTS:

Carrying and fair values estimated for the financial instruments of the Bank and its branch are as follows:

	30-06-21		31-12-20	
	Carrying value	Fair value	Carrying value	Fair value
	(In bolivars)			
Assets:				
Cash and due from banks	89,458,846,157,812	89,458,846,157,812	27,971,834,740,430	27,971,834,740,430
Investment securities	130,699,830,010,421	131,699,970,217,978	51,964,941,303,361	52,650,720,048,437
Loan portfolio	16,411,059,004,095	16,411,059,004,095	6,155,756,474,100	6,155,756,474,100
Interests and commissions receivable	1,112,638,595,904	1,112,638,595,904	437,314,848,017	437,314,848,017
	<u>237,682,373,768,232</u>	<u>238,682,513,975,789</u>	<u>86,529,847,365,908</u>	<u>87,215,626,110,984</u>
Liabilities:				
Bank deposits	152,626,954,199,052	152,626,954,199,052	55,519,311,117,109	55,519,311,117,109
Other borrowings	646,892,368	646,892,368	1,280,092,752,889	1,280,092,752,889
Interests and commissions payable	33,459,572,009	33,459,572,009	17,042,052,547	17,042,052,547
	<u>152,661,060,663,430</u>	<u>152,661,060,663,430</u>	<u>56,816,445,922,545</u>	<u>56,816,445,922,545</u>
Memorandum accounts:				
Contingent debit accounts	<u>1,307,356,814,670</u>	<u>1,307,356,814,670</u>	<u>137,933,611,936</u>	<u>137,933,611,936</u>

NOTE 20.- CONTINGENCIES AND COMMITMENTS:

At June 30, 2021 and December 31, 2020, the most significant contingencies and claims are the following:

- The Bank has filed a claim for the annulment with request of precautionary measure to suspend Resolutions N° 19-01-04 and N° 19-05-03 issued by BCV on January 22 and May 30, 2019, concerning the foreign exchange intervention mechanism. To the date of this report the case is before the Court to be resumed effective January 13, 2021 when the Court shall deliver the subpoena referred to by article 81 of the Law concerning contentious-administrative jurisdiction in order that any interested party may appear before the Court to be part of the legal action and be informed on the date of the hearing. At June 30, 2021, the Bank maintains exchange losses from the intervention mechanism aged under one year as recoverable expenditures within *“Other assets”* for Bs. 746,216,652,345 (Bs. 71,568,930,985, at December 31, 2020) (see Note 9).
- Research process with a precautionary measure to freeze funds related to a claim issued by one customer for transfers made on a bank account. The Bank has created a provision for US\$ 400,484 equivalents to Bs. 1,286,573,615,606 shown under allowances for contingencies within *“Accruals and other liabilities”*.

NOTE 21.- BALANCES AND TRANSACTIONS WITH RELATED PARTIES:

The Bank and its foreign branch are members of Vencred Group. Because of the nature of their business, the Bank and its Branch have conducted transactions and maintain balances with other companies of the Group, the effects of which are included in their financial statements.

The most significant transactions conducted by the Bank with shareholders and other related parties are mainly composed of deposits and banking and security services, the effects of which are presented below:

	30-06-21	31-12-20
	(In bolivars)	
Operating expenses:		
Vencred, S.A.	44,057,481,667	3,674,373,691
Inversiones 120915, C.A.	39,443,155,833	3,526,738,857
Inversiones Las Monjas, C.A.	8,729,000,000	991,800,000
Other	217	146
	<u>92,229,637,717</u>	<u>8,192,912,695</u>

As a result of these transactions and other less significant transactions, the following balances are included in various captions of the balance sheets:

	30-06-21	31-12-20
	(In bolivars)	
Bank deposits and other demand obligations:		
Valores Vencred Casa de Bolsa, S.A.	9,337,023,591	1,329,424,330
Venezolana de Bienes, S.A.	4,414,422,193	139,653,582
Inversiones Bonorum, C.A.	3,042,494,325	128,553,113
Inversiones 120915, C.A.	2,584,288,571	8,321,916
Vencred, S.A.	1,602,430,888	2,457,787,378
Inversiones Las Monjas, C.A.	1,571,239,940	27,756,423
Other	545,123,558	120,127,151
	<u>23,097,023,066</u>	<u>4,211,623,893</u>

NOTE 22.- FOREIGN CURRENCY BALANCES AND TRANSACTIONS:

Foreign currency balances and transactions reported in the balance sheets are detailed below:

	30-06-21		31-12-20	
	US\$	Bs.	US\$	Bs.
Assets:				
Cash and due from banks	17,100,050	54,934,711,690,654	13,251,840	14,635,737,174,261
Investment securities	40,351,732	129,631,829,920,274	47,051,342	51,964,941,210,918
Loan portfolio	359,500	1,154,910,595,205	-0-	-0-
Interests and commissions receivable	327,193	1,051,124,418,034	382,564	422,515,062,816
Other assets	59,473	191,061,116,389	11,738	12,963,982,940
	<u>58,197,948</u>	<u>186,963,637,740,560</u>	<u>60,697,484</u>	<u>67,036,157,430,934</u>
Liabilities:				
Bank deposits	(32,799,296)	(105,369,275,158,509)	(35,854,054)	(39,598,314,381,935)
Interests and commissions payable	(3)	(10,954,785)	-0-	-0-
Accruals and other liabilities	(15,597,785)	(50,108,615,993,137)	(15,424,252)	(17,035,015,250,100)
	<u>(48,397,085)</u>	<u>(155,477,902,106,431)</u>	<u>(51,278,306)</u>	<u>(56,633,330,129,029)</u>
<i>Carrying asset position, net</i>	<u>9,800,863</u>	<u>31,485,735,634,129</u>	<u>9,419,178</u>	<u>10,402,827,301,906</u>
<i>Other debit memorandum accounts, net</i>	<u>2,130,921</u>	<u>6,845,685,778,431</u>	<u>-0-</u>	<u>-0-</u>

Amounts shown in dollars include minor amounts in euros, presented at their equivalent value in dollars.

During the six-month period ended June 30, 2021, the Bank recorded unrealized exchange gains and losses from the valuation of foreign currency balances for a net amount of Bs. 18,373,885,775,516 (Bs. 7,523,491,138,882, for the six-month period ended December 31, 2020), which are recorded under "*Equity adjustments*" within equity caption, net of the transfer to income of exchange gains accumulated at December 31, 2020, as authorized by SUDEBAN (see *Note 15.d*).

During the six-month period ended June 30, 2021, the Bank recorded realized gains mainly from operations carried out by the Bank, as foreign exchange operator, and by its foreign branch for Bs. 2,959,227,830,208 (Bs. 1,732,011,960,816, for the six-month period ended December 31, 2020), and losses for Bs. 492,282,022,888 (Bs. 890,103,092,113, at December 31, 2020), shown in the accompanying statements of income under "*Other operating income*" and "*Other operating expenses*", respectively (see *Note 16*).

"*Bank deposits*" result from customer's transactions in legally allowed foreign exchange markets, and where the Bank acts as foreign exchange operator, which are fully hedged by demand placements shown under "*Cash and due from banks*" (see *Note 10*).

At June 30, 2021 and December 31, 2020, the net foreign currency position maintained by the Bank, calculated based on its individual financial statements, amounts to US\$ 9,800,863 (Bs. 31,485,735,634,129) and US\$ 9,419,178 (Bs. 10,402,827,301,906), respectively. On April 8, 2019, the BCV provided, through its Resolution N° VOI-GOC-DNPC-004 that the net monetary asset position in foreign currency will temporarily not be subject to maximum limits.

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