



Financial Statements

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

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

FINANCIAL STATEMENTS
at December 31 and June 30, 2020

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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 as of December 31 and June 30, 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 December 31 and June 30, 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 (the "SUDEBAN").

Basis for opinion

We conducted our audits in accordance with international standards on auditing generally accepted in Venezuela (Ven-ISA). 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, and we have fulfilled our 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 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain 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.

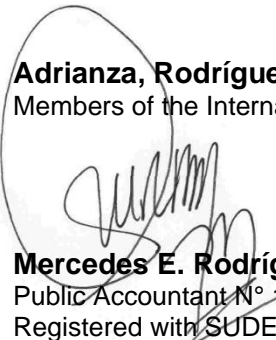
As part of an audit in accordance with Ven-ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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



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

Caracas, Venezuela
January 21, 2021

Financial Statements

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

Balance sheets at December 31 and June 30, 2020

(Expressed in bolivars)

	Notes	31-12-20	30-06-20
ASSETS			
Cash and due from banks:			
Cash		2,030,919,758,828	298,198,843,643
Banco Central de Venezuela	4	13,918,269,829,974	2,710,927,694,685
Domestic banks and other financial institutions		8,000,249	251,003
Foreign banks and correspondents		11,917,026,400,248	5,272,710,503,354
Clearing house funds		105,610,751,131	4,207,473,267
(Allowance for cash and due from banks)		-	-
		<u>27,971,834,740,430</u>	<u>8,286,044,765,952</u>
Investment securities:	5		
Placements in Banco Central de Venezuela and interbank transactions		-	479,000,000,000
Available-for-sale investment securities		82	204,234,145,997
Held-to-maturity investment securities		45,240,974,851,730	4,863,465,456,771
Restricted cash investments		6,723,966,425,237	1,240,433,012,263
Other investment securities		26,312	29,159
		<u>51,964,941,303,361</u>	<u>6,787,132,644,190</u>
Loan portfolio:	6		
Current loans		6,266,812,589,381	480,284,780,172
Restructured loans		-	-
Past-due loans		125,155,904	359,528,288
Loans in litigation		-	-
(Allowance for loan portfolio)		<u>(111,181,271,185)</u>	<u>(8,485,803,233)</u>
		<u>6,155,756,474,100</u>	<u>472,158,505,227</u>
Interests and commissions receivable:			
Accrued interest receivable from cash and due from banks		-	-
Accrued interest receivable from investment securities		422,515,064,192	49,954,232,795
Accrued interest receivable from loan portfolio		11,435,595,073	1,134,988,133
Commissions receivable		3,367,846,877	725,774,771
Accrued interest and commissions receivable from other accounts receivable		-	-
(Allowance for accrued interest receivable and other)		<u>(3,658,125)</u>	<u>(11,916,188)</u>
		<u>437,314,848,017</u>	<u>51,803,079,511</u>
Premises and equipment	8	50,264,582,527	19,507,631,785
Other assets	9	2,340,721,750,890	310,146,640,815
Total assets		<u><u>88,920,833,699,325</u></u>	<u><u>15,926,793,267,480</u></u>
Memorandum accounts:	18		
Contingent debit accounts		474,302,204,463	137,933,611,936
Trust assets		12,629,585,905,309	2,355,154,742,315
Other trusts		342,667,128,000	106,436,921,000
Other debit memorandum accounts		4,870,658,268,072	5,359,850,404,221
		<u><u>18,317,213,505,844</u></u>	<u><u>7,959,375,679,472</u></u>

The accompanying notes (1 to 23) are an integral part of these financial statements.

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

Balance sheets at December 31 and June 30, 2020

(Expressed in bolivars)

	Notes	31-12-20	30-06-20
LIABILITIES AND SHAREHOLDERS' EQUITY			
Bank deposits:	10		
Demand deposits			
Non-interest-bearing current accounts		5,520,959,273,115	1,136,622,675,227
Interest-bearing current accounts		44,749,356,356,854	8,610,146,674,017
Current accounts under Foreign Exchange Agreement N° 20		414,646,525,011	80,316,856,622
Demand deposits and certificates		614,367,764,277	37,173,137,071
		51,299,329,919,257	9,864,259,342,937
Other demand obligations		2,987,429,116,236	733,723,112,162
Savings deposits		524,076,466,146	121,578,514,654
Restricted bank deposits		708,475,615,470	90,157,877,073
		55,519,311,117,109	10,809,718,846,826
Other borrowings:	11		
Obligations with domestic financial institutions due in one year or less		1,280,000,000,052	51
Obligations with foreign financial institutions due in one year or less		92,752,837	5,869,635
		1,280,092,752,889	5,869,686
Interests and commissions payable:			
Accrued expenses for bank deposits		10,685,941,436	1,502,261,340
Accrued expenses for other borrowings		6,356,111,111	-
		17,042,052,547	1,502,261,340
Accruals and other liabilities	12	19,286,361,909,663	3,315,523,252,725
Total liabilities		76,102,807,832,208	14,126,750,230,577
Shareholders' equity:	15		
Paid-in capital		3,306	3,306
Uncapitalized equity contributions		29,999,249	-
Capital reserves		3,636	3,636
Equity adjustments		10,704,841,584,179	1,596,930,724,017
Retained earnings		2,113,154,276,747	210,588,070,106
Unrealized loss from available-for-sale investment securities		-	(7,475,764,162)
Total shareholders' equity		12,818,025,867,117	1,800,043,036,903
Total liabilities and shareholders' equity		88,920,833,699,325	15,926,793,267,480
Per contra memorandum accounts	18	18,317,213,505,844	7,959,375,679,472

The accompanying notes (1 to 23) 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 December 31 and June 30, 2020
(Expressed in bolivars)

	Notes	31-12-20	30-06-20
Financial income:			
Cash and due from banks		419,904,509	1,469,983,589
Investment securities		917,189,994,776	129,851,728,669
Loan portfolio		2,123,584,780,994	249,337,815,668
Other accounts receivable		44,740,990,557	12,383,460,638
Other		-	64
		<u>3,085,935,670,836</u>	<u>393,042,988,628</u>
Financial expenses:			
Bank deposits		164,794,232,757	28,445,210,441
Obligations with Banco Central de Venezuela		-	-
Other borrowings		47,177,127,778	5,112,480,305
Other financial intermediation obligations		-	-
Other		24,209,928,572	6,967,603,874
		<u>236,181,289,107</u>	<u>40,525,294,620</u>
Gross financial margin		2,849,754,381,729	352,517,694,008
Income from recovery of financial assets		-	63
Expenses for uncollectible and impaired financial assets:			
Uncollectible loans and other accounts receivable	6	<u>97,046,862,666</u>	<u>7,638,322,378</u>
Net financial margin		2,752,707,519,063	344,879,371,693
Other operating income	16	3,336,007,096,654	450,525,322,430
Other operating expenses	16	<u>(1,605,560,945,112)</u>	<u>(143,523,093,048)</u>
Financial intermediation margin		4,483,153,670,605	651,881,601,075
Less- operating expenses:			
Personnel		1,194,485,442,380	188,522,555,392
General and administrative expenses		669,263,999,380	195,681,643,885
Contributions to Fondo de Protección Social de los Depósitos Bancarios	14	26,481,922,123	9,486,030,408
Contributions to Superintendencia de las Instituciones del Sector Bancario	14	<u>37,920,859,868</u>	<u>10,473,337,686</u>
		<u>1,928,152,223,751</u>	<u>404,163,567,371</u>
Gross operating margin		2,555,001,446,854	247,718,033,704
Sundry operating income	16	12,773,645,140	399,275,310
Expenses for foreclosed assets		-	-
Sundry operating expenses	16	<u>(174,652,847,251)</u>	<u>(59,742,640,582)</u>
		<u>(161,879,202,111)</u>	<u>(59,343,365,272)</u>
Net operating margin		2,393,122,244,743	188,374,668,432
Extraordinary income	17	-	-
Extraordinary expenses	17	<u>(41,800,000)</u>	<u>(679,385,283)</u>
Gross income before income taxes		2,393,080,444,743	187,695,283,149
Income taxes	14	<u>(246,415,000,000)</u>	<u>(5,435,000,000)</u>
Net income		<u>2,146,665,444,743</u>	<u>182,260,283,149</u>
Allocation of income, net			
Statutory earnings			
Board of Directors	15	203,534,198,852	17,267,096,812
Other mandatory reserves	12	-	-
Retained earnings	12	<u>1,943,131,245,891</u>	<u>164,993,186,337</u>
		<u>2,146,665,444,743</u>	<u>182,260,283,149</u>

The accompanying notes (1 to 23) 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 December 31 and June 30, 2020
(Expressed in bolívares)

Notes	Paid-in capital	Uncapitalized equity contributions	Capital reserves	Equity adjustments	Retained earnings			Unrealized gain or (loss) from available-for-sale investment securities	Total shareholders' equity
					Restricted undistributed earnings	Available undistributed earnings	Total		
BALANCES at December 31, 2019	3,306	-	3,636	294,108,714,202	37,266,525,808	7,891,207,616	45,157,733,424	(1,501,532,470)	337,764,922,098
Net income for the six-month period	15	-	-	-	-	182,260,283,149	182,260,283,149	-	182,260,283,149
Other income and expenses presented in equity accounts:									
-Unrealized exchange gain from valuation of foreign currency assets and liabilities	15	-	-	1,282,286,602,939	-	-	-	-	1,282,286,602,939
-Financial income from loans adjusted at UVCC and UVCP, net of collections	15	-	-	23,834,136,072	-	-	-	-	23,834,136,072
-Supplemental financial cost for legal reserve deficit	15	-	-	(3,236,418,692)	-	437,150,345	437,150,345	-	(2,799,268,347)
-General allowances for loans adjusted at UVCC or UVCP	15	-	-	(62,310,504)	-	-	-	-	(62,310,504)
-Statutory earnings - Board of Directors	15	-	-	-	-	(17,267,096,812)	(17,267,096,812)	-	(17,267,096,812)
-Net unrealized loss from adjustment in market value of available-for-sale investment securities	5.c	-	-	-	-	-	-	(5,974,231,692)	(5,974,231,692)
Transfer from net income of the Bank and its branch to restricted undistributed earnings:									
Net income for the six-month period of foreign branch	15	-	-	-	90,003,007,584	(90,003,007,584)	-	-	-
50% of net income for the six-month period (Res. N° 329-99)	15	-	-	-	37,495,089,377	(37,495,089,377)	-	-	-
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 loans adjusted at UVCC and UVCP, net of collections	15	-	-	1,649,426,822,126	-	-	-	-	1,649,426,822,126
-Supplemental financial cost for legal reserve deficit	15	-	-	(55,040,136,074)	-	-	-	-	(55,040,136,074)
-General allowances for loans adjusted at UVCC or UVCP	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 unrealized 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 with effect on income, as provided by SUDEBAN through official communication N° SIB-II-GGIBPV-GIBPV6-06071	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

The accompanying notes (1 to 23) 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 December 31 and June 30, 2020
(Expressed in bolivars)

	31-12-20	30-06-20
Cash flows provided by operating activities:		
Net income for the six-month period	2,146,665,444,743	182,260,283,149
Adjustments to reconcile net income to cash provided by operating activities-		
Provisions and depreciations in income accounts:		
Allowance for uncollectible and impaired financial assets	102,687,209,890	6,848,456,009
Depreciation and amortization	5,863,937,297	2,488,618,135
Income and expenses presented in equity accounts::		
Unrealized exchange gain from the valuation of foreign currency assets and liabilities with effect on equity	7,523,491,138,881	1,282,286,602,940
Financial income from loans adjusted at UVCC and UVCP, net of collections	1,649,426,822,126	23,834,136,072
Supplemental financial cost of legal reserve related to loans adjusted at UVCC or UVCP	(55,040,136,074)	(2,799,268,348)
General and countercyclical allowances for loans adjusted at UVCC and UVCP	(9,966,964,773)	(62,310,504)
Statutory earnings to directors	(203,534,198,852)	(17,267,096,812)
	9,012,927,808,495	1,295,329,137,492
Net change in other assets	(2,032,425,184,756)	(232,189,436,071)
Net change in interests and commissions receivable	(385,503,510,443)	(41,354,088,931)
Net change in accruals and other liabilities	15,970,838,656,938	2,527,172,210,094
Net change in interests and commissions payable	15,539,791,207	426,917,761
Net cash provided by operating activities	24,728,043,006,184	3,731,645,023,494
Cash flows provided by financing activities:		
Net change in bank deposits	44,709,592,270,283	8,350,965,397,612
Net change in other borrowings	1,280,086,883,203	5,206,289
Dividends paid	(40,535,040,000)	-
Net cash provided by financing activities	45,949,144,113,486	8,350,970,603,901
Cash flows used in investing activities:		
Loans granted for the period	(27,235,349,306,507)	(1,165,901,471,929)
Loans collected for the period	21,449,055,869,682	778,441,912,840
Net change in placements in Banco Central de Venezuela and interbank transactions	479,000,000,000	(362,000,000,000)
Net change in available-for-sale investment securities	211,709,910,077	137,872,181,257
Net change in held-to-maturity investment securities	(40,377,509,394,959)	(4,198,209,212,716)
Net change in restricted cash investments	(5,483,533,412,974)	(958,668,028,931)
Net change in other investment securities	2,847	2,348
Collections from assignment of premises and equipment	3,249,527,475	-
Additions to premises and equipment and foreclosed assets, net	(38,020,340,833)	(13,207,404,854)
Net cash used in investing activities	(50,991,397,145,192)	(5,781,672,021,985)
Net increase in cash and due from banks	19,685,789,974,478	6,300,943,605,410
CASH AND DUE FROM BANKS, at the beginning of the six-month period	8,286,044,765,952	1,985,101,160,542
CASH AND DUE FROM BANKS, at the end of the six-month period	27,971,834,740,430	8,286,044,765,952

The accompanying notes (1 to 23) are an integral part of these financial statements.

Note to the Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS

At December 31 and June 30, 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 were approved for public issue by the Board of Directors at meetings held on January 7, 2021 and July 7, 2020, respectively. The Bank’s financial statements for the six-month period ended June 30, 2020 were approved by the Shareholders’ Meeting on August 18, 2020.

c. Regulatory regime-

c.1 Legal framework for banking activities:

Venezolano de Crédito, S.A., Banco Universal 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. For the six-month periods ended December 31 and June 30, 2020, the legal reserve on net obligations in local currency is of 93% and of 31% in foreign currency, except for certain activities such as deposits in foreign currency in the national financial system and provided from offices abroad, 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 following their allocation. The foreign currency position that is not sold at the end of every week is automatically repurchased by the BCV at the foreign exchange intervention rate for purchases, which is 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. **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:
 - **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, resulting from the application of the Commercial Credit Value Unit (the "UVCC") generated on commercial loans, 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, addressing, regulation and evaluation of the resources available for the financing of that portfolio. The debtors and amounts of UVCP loans are assigned by the National Executive to each bank through the Governing Committee.

Within the framework of the CPUN, BCV issued Resolution N° 20-02-01 dated February 20, 2020 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 Productive Credit Value Unit (UVCP), (hereinafter "UVCP loans"), the value of which shall be the result of dividing the settled amount in bolivars by the Investment Index (hereinafter the "IDI")¹ effective at that date. The IDI is

¹ At December 31 and June 30, 2020, the IDI is equal to 5,324.35 and 989.19, respectively.

determined by the BCV considering the reference exchange rate fluctuation in the market and published daily on its website. 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 debtor 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 Commercial Credit Value Unit (hereinafter the "UVCC loans"), which will result from the division of the settled amount in bolivars by the investment index in effect at that date. This index shall be determined by the BCV considering the reference exchange rate fluctuation in the market and published daily on its website. Banks may charge their customers for transactions agreed through this modality an annual interest rate between 4% and 6%.

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 UVCP loan principal restatement.

- **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. At December 31 and June 30, 2020, these loans shall be expressed in UVCC and bear a minimum annual interest rate of 4% and maximum annual interest rate of 6%, in conformity with Resolution N° 20-02-01 issued by BCV on February 20, 2020. Those loans that have been granted before that date are expressed in historical bolivars and bear an annual interest rate of 40%.

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.

- iv. **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.

- 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:	December 31, 2020		June 30, 2020	
	Maximum	Minimum	Maximum	Minimum
	Limits		Limits	
UVCP productive loans ²	0%	-	0%	-
UVCP loans in default ²	0.5%	-	0.5%	-
UVCC commercial loans ²	6%	4%	6%	4%
UVCC microfinance sector loans ²	6%	4%	6%	4%
Historical microfinance sector loans ²	40%	-	40%	-
Residential mortgage loan (effective until 29-01-20) ³	12.66%	-	12.66%	-
Other mortgage loans (effective until 29-01-20) ⁴	40%	-	40%	-
Credit cards ⁴	40%	17%	40%	17%
Default other than loans UVCC and UVCP ⁵	3%	-	3%	-
Credit transactions other than above ⁶	36%	-	36%	-
Balances in favor of cardholders ⁷	21%	-	21%	-
Savings deposits ⁸	21%	-	21%	-
Term deposits ⁸	24%	-	24%	-

- vi. **Limits on banks' 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.

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.

- vii. **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.

² Productive loans expressed in UVCP or UVCC, as applicable, provided by Resolution N° 20-02-01 published in Official Gazette N° 41.834 dated March 6, 2020. Banks are not allowed to collect interest on lending transactions agreed in UVCP.

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

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

⁵ As provided by Resolution N° 19-01-06 published in Official Gazette N° 41.575 dated January 30, 2019.

⁶ Commercial loans granted before October 28, 2019, as provided by Resolution N° 20-02-01 published in Official Gazette N° 41.834 dated March 6, 2020.

⁷ As provided by Resolution N° 19-01-06 published in Official Gazette N° 41.575 dated January 30, 2019.

- viii. **Temporary measures for assessing loan portfolio:** SUDEBAN issued Resolution N° 041.20 on 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 temporarily also suspends 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. That decision has been in force until December 31, 2020.
- ix. **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.
- x. **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 (annual 10%)⁸ 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*).
- xi. **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.
- xii. **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.
- xiii. **Minimum capitalization and solvency levels:** Financial institutions shall maintain minimum capitalization levels, as provided by SUDEBAN through special resolutions (see *Note 15*).
- xiv. **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:

⁸ As provided by Resolution N° 09-06-01 published in Official Gazette N° 39.193 dated June 4, 2009, in accordance with official notice monthly published.

- **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 Units⁹ 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 TU⁹) 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).

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 December 26, 2020. 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 February 24, 2021, date on which the circumstances that motivated the decree enactment would be assessed, and therefore, its continuance.

⁹ At December 31 and June 30, 2020, one tax unit (TU) is equivalent to Bs. 1,500, for both six-month periods.

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 shall 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 new 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, 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 December 31 and June 30, 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. 58,734,829,329 (Bs. 14,636,941,719 at June 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 December 31 and June 30, 2020 are as follows:

31-12-20		30-06-20	
Purchase	Sale	Purchase	Sale
Bs. per dollar			
1,104,430.5870	1,107,198.5835	203,906.6473	204,417.6916

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, with the exception of those linked to priority sectors including the banking, energy, food and health sectors, among others. The state of alarm is valid for 30 days and has been successively extended, the latest was enacted under Decree N° 4.382 dated December 2, 2020.

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. Therefore, 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. 479,000,000,000, at June 30, 2020.
- 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 under “*Other operating income*”. Under 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. 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 UVCP and UVCC:** The effects of the valuation of loans expressed in UVCP and UVCC resulting from the application of IDI¹⁰, are recognized within equity under “*Equity adjustments*”, 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, UVCP and UVCC 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 December 31, 2020 amounts to Bs. 7,523,491,138,883 (Bs. 1,282,286,602,939, for the six-month period ended June 30, 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 provisioned in accordance with expected recovery.
- **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 may be presented as extraordinary items 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 UVCP/UVCC 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 require neither general allowances nor creation of allowances charged to equity accounts.

¹⁰ At December 31 and June 30, 2020, the IDI is equal to 5,324.35 and 989.19, respectively.

- **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.
- **Statutory earnings:** Statutory earnings are reported as a decrease in equity. Ven-NIF require their recognition as expenses in the statement of income.
- **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 assets and liabilities for all leases with a term of more than 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 4,311% per year, according to certain estimations, and an annual exchange rate fluctuation of 2,130%. Although the accompanying financial statements at December 31 and June 30, 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 of banking business.
- 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):** The official exchange rate is applied to foreign currency assets and liabilities. 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 cause 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, and sometimes 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 December 31 and June 30, 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 or 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 December 31 and June 30, 2020, the exchange rates applied by the Bank for the translation of the financial statements of its foreign branch were Bs. 1,104,430.5870/US\$1 and Bs. 203,906.6473/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, bearing financial interest, CPUN loans expressed in UVCP obtaining gains or losses from adjustment for valuation derived from fluctuation of IDI¹¹ (non-interest bearing) and commercial loans and microcredits expressed in UVCC bearing financial interest and gains or losses derived from fluctuation of IDI¹¹. UVCC commercial loans and microcredits have been granted since November 2019 and UVCP loans since June 2020, in accordance with the new regulations established by the BCV (see Note 1.c.c.).

Upon settlement, loans are expressed in UVCP or UVCC, as the case may be, and are valued on a daily basis in accordance with the fluctuation of IDI¹¹, 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 UVCC and UVCP loan portfolio at IDI¹¹ 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 gains are presented under *“Financial income”*.

¹¹ At December 31 and June 30, 2020, the IDI is equal to 5,324.35 and 989.19 respectively.

In conformity with Resolution 20-02-01 dated March 20, 2020 issued by BCV, UVCP loans that contemplate the single payment modality at maturity will have an additional special charge of 20% upon settlement of the loan, which shall be also expressed in UVCP, and will be deducted from the debtor balance of the loan at the time of payment. As provided by the SUDEBAN this special charge shall be recognized in income under "*Financial income*".

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

On the other hand, in applying the association principle of revenues and expenses, the Bank recognizes also in equity the portion of supplemental financial costs calculated on the basis of the IDI fluctuation over the legal reserve deficit considered to be attributed to UVCP and UVCC loans at IDI value and transferred to income as "*Other operating expenses*" in the same proportion as revenues from collected loans (see Notes 2.f and 15).

A detail of unrealized and realized gains from UVCC commercial loans and microcredits and from UVCP 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 UVCP/UVCC loans that may be created, at the Bank's discretion, 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.

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 TU¹² (Bs. 480,000 for both six-month periods), 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 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, in case of employees, and with charge to shareholders' equity 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.

¹² At December 31 and June 30, 2020, one tax unit (TU) is equivalent to Bs. 1,500, for both six-month periods.

- **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 UVCP loans and UVCC commercial loans and microcredits that are adjusted at IDI value are recognized in equity as caused and reported in income as collected. On the other hand, they may be used for the creation of general or countercyclical allowances for the relevant loan portfolio. In addition, the supplemental financial costs applied to the legal reserve deficit are recognized in equity based on IDI and directly attributable to UVCP and UVCC loans that are also adjusted at IDI value and transferred to expenses in the same proportion as income from collected loans where they are not applied to the creation of general or countercyclical allowances, as allowed by the accounting guidelines for banks (*see Notes 2.f and 15*).

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 are not available for dividends for the two six-month periods of 2020.

At December 31 and June 30, 2020, the exchange rates used by the Bank were Bs. 1,104,430.5870/US\$1 and Bs. 203,906.6473/US\$1, respectively.

The foreign currency balances reported in the balance sheets as at December 31 and June 30, 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 seven 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 cause uncertainty in all areas of the country and 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.

Consequently, 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 92% (97%, at June 30, 2020). They are independent from price fluctuations; accordingly, the Bank is exposed to moderate price risk. The Bank does not use hedging instruments to manage its exposure to price risk.

b. Exchange rate risk-

The Bank is exposed to moderate exchange rate risks for transactions recognized in assets and liabilities denominated in currency other than the bolivar because it maintains its foreign currency denominated asset position and is represented 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 for both six-month periods. In addition, the bank deposits in foreign currency received under the Foreign Exchange Agreement N° 20 have been 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 implement 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, and UVCP loan portfolio, which is non-interest-bearing. 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 32% of financial assets (53%, at June 30, 2020), including 16% in BCV (17% at June 30, 2020) and 10% in two foreign banks), 60% in foreign financial and nonfinancial entities resulting from the operations in the Cayman Islands, which individually do not exceed 5% of financial assets (40%, at June 30, 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 these 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 December 31 and June 30, 2020 are shown below:

	At December 31, 2020					Total
	Due within 6 months	Due after 6 through 12 months	Due after 12 through 18 months (In bolivars)	Due after 18 through 24 months	Due after 24 months	
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>

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)					
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>
At June 30, 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	8,286,044,765,952	-0-	-0-	-0-	-0-	8,286,044,765,952
Investment securities	1,923,667,158,280	528,855,340,493	730,280,443,748	1,910,211,139,381	1,694,118,562,288	6,787,132,644,190
Loan portfolio, net	457,685,720,825	2,868,998,984	207,462	-0-	11,603,577,956	472,158,505,227
Interest and commissions receivable	51,803,079,511	-0-	-0-	-0-	-0-	51,803,079,511
	<u>10,719,200,724,568</u>	<u>531,724,339,477</u>	<u>730,280,651,210</u>	<u>1,910,211,139,381</u>	<u>1,705,722,140,244</u>	<u>15,597,138,994,880</u>
LIABILITIES:						
Bank deposits	10,809,718,846,826	-0-	-0-	-0-	-0-	10,809,718,846,826
Other borrowings	5,869,686	-0-	-0-	-0-	-0-	5,869,686
Interest and commissions payable	1,502,261,340	-0-	-0-	-0-	-0-	1,502,261,340
	<u>10,811,226,977,852</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>10,811,226,977,852</u>

NOTE 4.- LEGAL RESERVE AND 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 made of 93% 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. 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 N° 20-03-01¹³ dated March 26, 2020. 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 of March 2020, as set out in Resolution N° 20-03-01, the financial cost for the legal reserve deficit was incorporated and therefore, it only consists of the interest rate applicable to the deficit plus the variation of the Investment Index (IDI); thus, establishing that the effective interest rate cannot be less than 138% per annum.

¹³ Resolution N° 20-03-01 published in Official Gazette N° 41.850 dated March 30, 2020.

In September 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.

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 (Bs. 51,445,369,336 at June 30, 2020) reducing the net equity in the same amount. In applying the association principle of revenues and expenses, 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 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 (Bs. 48,208,950,644, at June 30, 2020), for expenses of the legal reserve deficit, the amortization expenses for the IDI variation 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 attributed to collectible loans (Bs. 3,236,418,692, at June 2020 shown under “*Available undistributed earnings*”) (see Note 2.f).

The legal reserve required by BCV amounts to a total of Bs. 12,483,546,194,169 (Bs. 2,617,152,992,442, at June 30, 2020), and the Bank maintained balances available in BCV to cover such legal reserve.

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:

	31-12-20	30-06-20
	(In bolivars)	
Investment securities-		
Placements in BCV and interbank transactions	-0-	479,000,000,000
Available-for-sale investment securities	82	204,234,145,997
Held-to-maturity investment securities	45,240,974,851,730	4,863,465,456,771
Restricted cash investment securities	6,723,966,425,237	1,240,433,012,263
Other investment securities	26,312	29,159
	<u>51,964,941,303,361</u>	<u>6,787,132,644,190</u>

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

“*Placements in Banco Central de Venezuela and interbank transactions*” are as follows:

	30-06-20
	(In bolivars)
Interbank transactions:	
<i>Demand and term deposits in domestic financial institutions-</i>	
Banco Mercantil, C.A., Banco Universal, annual interest rate of 145%, nominal value of Bs. 150,000,000,000, due in one day.	150,000,000,000 ¹⁴
Banco Provincial, S.A., Banco Universal, annual interest rate between 138% and 140%, nominal value of Bs. 150,000,000,000, due in one day.	150,000,000,000 ¹⁴
Banco Nacional de Crédito, C.A., Banco Universal, annual interest rate of 120%, nominal value of Bs. 139,000,000,000, due in one day.	139,000,000,000 ¹⁴
Banco Exterior, S.A., Banco Universal, annual interest rate of 135%, nominal value of Bs. 40,000,000,000, due in one day.	40,000,000,000 ¹⁴
	<u>479,000,000,000</u>

¹⁴ Market value is equivalent to nominal value that is equal to acquisition cost.

b. Available-for-sale investment securities-

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

	At December 31, 2020			At June 30, 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 companies-						
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	81	-0-	81
Corporación Suitché 7B, C.A., (89,217 shares, nominal value of Bs. 0.0001 and 0.08% of equity share).	1	-0-	1 ¹⁵	1	-0-	1 ¹⁵
	82	-0-	82	82	-0-	82
Obligations issued by foreign private nonfinancial companies-						
Diageo (annual interest rate of 4.828%, acquisition cost of US\$ 1,038,269, nominal value of US\$ 1,000,000 and due in July 2020).	-0-	-0-	-0-	211,709,910,078	(7,475,764,163)	204,234,145,915 ¹⁵
	-0-	-0-	-0-	211,709,910,078	(7,475,764,163)	204,234,145,915
	82	-0-	82	211,709,910,160	(7,475,764,163)	204,234,145,997

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 (Bs. 26,690,972,328, at June 30, 2020), and incurred losses for Bs. 42,265,244,294 (Bs. 2,556,332,781, at June 30, 2020), 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.

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

	At December 31, 2020		
	Acquisition cost	Amortized cost/ carrying value	Fair value
	(In bolivars)		
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 ¹⁶

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

¹⁶ Fair value is equivalent to cost, as instructed by SUDEBAN.

	At December 31, 2020		
	Acquisition cost	Amortized cost/ carrying value (In bolivars)	Fair value
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 ¹⁷
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 ¹⁸
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 ¹⁸
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 ¹⁸
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 ¹⁸
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 ¹⁸
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 ¹⁸
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 ¹⁸
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 ¹⁸
Bayer US Finance II LLC (annual interest rate of 2.85%, nominal value US\$ 1,350,000 and due in April 2025).	1,582,612,585,021	1,578,745,973,536	1,581,290,581,608 ¹⁸
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 ¹⁸
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 ¹⁸
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 ¹⁸
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 ¹⁸
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 ¹⁸
	22,971,661,425,557	22,778,629,809,609	23,022,974,375,059
Obligations issued by foreign private nonfinancial companies -			
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 ¹⁸
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 ¹⁸
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 ¹⁸

¹⁷ 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.

¹⁸ 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
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
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 ¹⁹
	22,791,565,243,019	22,462,344,977,112	22,864,137,376,891
	45,763,226,734,174	45,240,974,851,730	45,887,111,818,298
	At June 30, 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 ²⁰
Obligations and Bonds of the National Public Debt-			
Bonds issued by the Bolivarian Republic of Venezuela, nominal value of Bs. 33,623, annual interest rate between 19.19% and 20.29% and due between February 2024 and July 2033.	33,752	33,542	28,575 ²¹
Obligations issued by foreign financial entities-			
Standard Chartered PLC. (annual interest rate of 5.70%, nominal value of US\$ 1,629,000 and due in January 2022).	354,174,427,711	348,586,569,947	351,956,535,108 ²²

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

²⁰ Fair value is equivalent to cost, as instructed by SUDEBAN.

²¹ 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.

²² Fair value is equivalent to quotation value on a foreign stock exchange or referential value reported by the custodian agent.

	At June 30, 2020		
	Acquisition cost	Amortized cost/ carrying value (In bolivars)	Fair value
Morgan Stanley (annual interest rate of 3.125%, nominal value of US\$ 1,500,000 and due in January 2023).	317,453,899,119	315,826,520,167	324,425,263,486 ²²
Wells Fargo & CO (annual interest rate of 3.069%, nominal value of US\$ 1,000,000 and due in January 2023).	208,769,820,911	208,087,753,175	211,339,248,574 ²²
Citigroup Inc. (annual interest rate of 2.75%, nominal value of US\$ 1,000,000 and due in April 2022).	207,179,145,155	206,321,105,983	211,323,343,856 ²²
BPCE SA (annual interest rate of 3%, nominal value of US\$ 1,000,000 and due in May 2022).	208,618,114,365	207,612,446,780	211,084,161,358 ²²
HSBC Holdings PLC (annual interest rate of 2.95%, nominal value of US\$ 1,000,000 and due in May 2021).	207,186,281,887	205,816,437,030	208,192,765,099 ²²
General Motors Financial Company INC (annual interest rate of 3.45%, nominal value of US\$ 1,000,000 and due in April 2022).	209,043,055,818	207,986,819,385	207,963,777,934 ²²
General Electric (annual interest rate of 3.92%, nominal value of US\$ 1,000,000 and due in May 2026).	201,459,767,603	202,332,080,240	176,603,547,288 ²²
Morgan Stanley (annual interest rate of 4.875%, nominal value of US\$ 475,000 and due in November 2022).	103,698,560,680	102,917,802,128	105,326,755,260 ²²
	<u>2,017,583,073,249</u>	<u>2,005,487,534,835</u>	<u>2,008,215,397,963</u>
Obligations issued by foreign private nonfinancial companies -			
AT&T (annual interest rate of 4.45% and 3%, nominal value of US\$ 2,000,000 and due in February 2022 and April 2024).	431,121,251,883	429,193,314,532	441,448,307,946 ²²
Ralph Lauren Corp (annual interest rate of 3.75%, nominal value of US\$ 1,500,000 and due in September 2025).	323,355,161,401	323,048,077,990	339,868,541,238 ²²
HP Inc. (annual interest rate of 4.375%, nominal value of US\$ 1,515,000 and due in September 2021).	321,996,531,409	317,811,551,379	323,066,429,588 ²²
Campbell Soup Co. (annual interest rate of 8.875%, nominal value of US\$ 1,500,000 and due in May 2021).	335,802,438,783	323,038,902,191	323,064,594,428 ²²
Molson Coors Brewing Co. (annual interest rate of 3.50%, nominal value of US\$ 1,500,000 and due in May 2022).	315,647,490,130	313,328,867,643	319,225,643,978 ²²
Kraft Heinz Food (annual interest rate of 3.5%, nominal value of US\$ 1,500,000 and due in June 2022).	316,909,264,464	315,113,662,527	319,186,289,995 ²²
Walgreens Boots Alliance Inc (annual interest rate of 3.30% nominal value of US\$ 1,000,000 and due in November 2021).	208,191,745,566	206,943,429,070	210,146,190,781 ²²
Sysco Corp (annual interest rate of 2.5%, nominal value of US\$ 1,000,000 and due in July 2021).	205,721,416,533	205,525,462,244	207,430,154,238 ²²
Dow Chemical CO. (annual interest rate of 3.50%, nominal value of US\$ 500,000 and due in October 2024).	108,022,605,044	107,870,286,779	110,049,641,026 ²²
CVS Health Corp. (annual interest rate of 2.75%, nominal value of US\$ 500,000 and due in December 2022).	104,217,095,285	103,883,096,196	106,425,404,276 ²²
Macy's Retail Holdings INC (annual interest rate of 3.875%, nominal value of US\$ 500,000 and due in January 2022).	104,683,429,787	104,056,824,660	90,004,394,150 ²²
DowDuPont INC (annual interest rate of 4.205%, nominal value of US\$ 250,000 and due in November 2023).	55,085,380,787	54,956,307,879	55,909,979,269 ²²
Viacom INC (annual interest rate of 3.875%, nominal value of US\$ 250,000 and due in April 2024).	53,284,885,091	53,208,073,458	54,915,322,643 ²²
	<u>2,884,038,696,163</u>	<u>2,857,977,856,548</u>	<u>2,900,740,893,556</u>
	<u>4,901,621,835,010</u>	<u>4,863,465,456,771</u>	<u>4,908,956,351,940</u>

During the six-month period ended December 31, 2020, the obligations issued by the foreign private nonfinancial company AT&T had an advance redemption on July 23, 2020, with an original maturity date in February 2022.

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:

	December 31, 2020		June 30, 2020	
	Amortized cost/ carrying value	Fair value	Amortized cost/ carrying value	Fair value
	(In bolivars)			
Due within one year	7,837,356,766,430	7,884,319,636,881	528,855,339,221	531,257,359,527
Due after one year through five years	28,128,918,588,384	28,682,196,170,789	3,809,229,931,835	3,861,226,875,312
Due after five years through ten years	9,274,699,496,916	9,320,596,010,628	525,380,185,715	516,472,117,101
	<u>45,240,974,851,730</u>	<u>45,887,111,818,298</u>	<u>4,863,465,456,771</u>	<u>4,908,956,351,940</u>

During the six-month period ended December 31, 2020, the Bank recorded gains from amortization of discounts in the acquisition of investment securities for Bs. 28,380,563,840 (Bs. 176,334,391, at June 30, 2020) and losses from amortization of premiums for Bs. 323,402,688,833 (Bs. 34,630,291,826, at June 30, 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:

	December 31, 2020		June 30, 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 no interest and due in January 2021 (nominal value of US\$ 5,446,356 annual interest rate of 0.83% and due in July 2020).	6,015,121,767,765	6,015,121,767,765 ²³	1,110,548,122,071	1,106,266,356,661 ²³
PNC Bank nominal value of US\$ 515,909, annual interest rate of 0.053% and due in January 2021 (nominal value of US\$ 515,784, annual interest rate of 0.64% and due in July 2020).	569,785,193,780	569,785,193,780 ²³	105,171,837,287	109,453,417,989 ²³
	<u>6,584,906,961,545</u>	<u>6,584,906,961,545</u>	<u>1,215,719,959,358</u>	<u>1,215,719,774,650</u>
Restricted funds delivered to trust-				
Trust fund of Fondo Social para contingencias, maintained in Banco Exterior, Banco Universal (Note 15.d).	1,039	1,039 ²⁴	717	717 ²⁴
Other restricted cash investments-				
MasterCard, Inc. (22,940 class “B” shares with nominal value of US\$ 70,574).	77,944,073,206	77,944,073,206 ²⁵	14,390,505,692	14,390,505,692 ²⁵
Swift (9 shares, nominal value of € 4,665 each and 4 shares, nominal value of € 771 each).	61,115,389,446	100,571,658,117 ²⁶	10,322,549,726	10,322,549,726 ²⁶
Caja Venezolana de Valores, S.A., (2,542.896 shares, nominal value of Bs. 0.00003 each and 17.64% of equity investment).	1	1 ²⁷	1	1 ²⁷
	<u>139,059,462,653</u>	<u>178,515,731,324</u>	<u>24,713,055,419</u>	<u>24,713,055,419</u>
	<u>6,723,966,425,237</u>	<u>6,763,422,693,908</u>	<u>1,240,433,012,263</u>	<u>1,240,432,830,786</u>

Restricted cash investments include term deposits maintained in foreign financial institutions destined 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.

²³ Fair value corresponds to nominal value that is equal to cost.

²⁴ Fair value corresponds to the value of net assets obtained from the financial statements of the trusts issued by the trustee.

²⁵ Market value corresponds to the redemption value paid by MasterCard in May 2016.

²⁶ It is shown at the release value at December 31 and June 30, 2020 issued by SWIFT, for € 5,705, respectively.

²⁷ Market value corresponds to acquisition cost.

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 June 30, 2019, the Bank reached the limit of 10% of the capital stock, as provided by the Law on Banking Sector Institutions (see Note 15.d). At December 31, 2020 interests were capitalized for Bs. 767 (Bs. 267 at June 30, 2020) with a return for the period of Bs. 97 (Bs. 48 at June 30, 2020).

The trust net assets for contingencies for Bs. 1,140 (Bs. 766, at June 30, 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:

	31-12-20		30-06-20	
	Bs.	%	Bs.	%
Obligations issued by diverse foreign financial institutions	22,778,629,809,609	43.83	2,205,487,534,835	29.55
Foreign private nonfinancial companies	22,462,344,977,112	43.23	3,062,212,002,463	45.12
Term deposits in foreign financial institutions-				
JP Morgan Chase Bank (VISA)	6,015,121,767,765	11.58	1,106,266,356,661	16.30
Other	647,729,266,986	1.25	123,844,105,158	1.82
	6,662,851,034,751	12.83	1,230,110,461,819	18.12
Demand and term deposits in four domestic financial institutions	-0-	-	479,000,000,000	7.06
Swift shares and other	61,115,481,889	0.12	10,322,645,073	0.15
	51,964,941,303,361	100	6,787,132,644,190	100

The Cayman Islands Branch maintains placements and obligations issued by financial institutions and diverse foreign private companies, denominated in U.S. dollars. obligations issued by financial and nonfinancial companies 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:

	31-12-20	30-06-20
	(In bolivars)	
Manufacturing industries	1,925,334,060,674	85,112,345,652
Agriculture and fishing	1,411,731,249,426	53,203,889,174
Construction, engineering and related services	1,098,146,564,223	180,828,930,180
Wholesale and retail trade, restaurants and hotels	951,612,501,355	44,096,849,472
Community-based, social and personal services	847,061,491,735	116,955,345,327
Transportation, warehouse and communication services	32,894,120,364	38,834,383
Financial establishments, insurance, real estate	144,305,404	322,396,889
Mining and quarrying	13,452,104	38,316,365
Activities not elsewhere specified	-0-	47,373,625
Electricity, gas and water	-0-	27,393
	6,266,937,745,285	480,644,308,460
Allowance for loan portfolio	(111,181,271,185)	(8,485,803,233)
	6,155,756,474,100	472,158,505,227

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

	31-12-20	30-06-20
	(In bolivars)	
Commercial loans	5,487,986,559,821	393,801,801,655
Fixed-term loans	444,988,915,280	71,475,747,351
Installment loans	322,748,568,019	14,791,777,171
Consumer loans	11,199,053,343	543,800,072
Current account loans	14,648,822	31,182,211
	<u>6,266,937,745,285</u>	<u>480,644,308,460</u>
Allowance for loan portfolio	<u>(111,181,271,185)</u>	<u>(8,485,803,233)</u>
	<u>6,155,756,474,100</u>	<u>472,158,505,227</u>

The loan portfolio includes UVCC commercial loans and UVCP loans of the CUPN, which are adjusted at the IDI value²⁸, 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:

	December 31, 2020			June 30, 2020		
	Current	Past-due (In bolivars)	Total	Current	Past-due (In bolivars)	Total
Guarantees	3,007,920,257,862	221,555	3,007,920,479,417	150,947,740,299	7,337,792	150,955,078,089
Pledge	296,872,946,666	-0-	296,872,946,666	24,410,655,187	-0-	24,410,655,187
Mortgage and guarantee	8,633,589,704	-0-	8,633,589,704	10,269,589,369	202,484,395	10,472,073,764
Pledge and guarantee	3,852,316,737	-0-	3,852,316,737	50,000,000	-0-	50,000,000
Mortgage	201,493,495	-0-	201,493,495	221,932,613	-0-	221,932,613
Unsecured	2,949,331,984,917	124,934,349	2,949,456,919,266	294,384,862,705	149,706,102	294,534,568,807
Total	<u>6,266,812,589,381</u>	<u>125,155,904</u>	<u>6,266,937,745,285</u>	<u>480,284,780,172</u>	<u>359,528,288</u>	<u>480,644,308,460</u>
Allowance for loan portfolio			<u>(111,181,271,185)</u>			<u>(8,485,803,233)</u>
			<u>6,155,756,474,100</u>			<u>472,158,505,227</u>

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

	December 31, 2020			June 30, 2020		
	Current	Past-due (In bolivars)	Total	Current	Past-due (In bolivars)	Total
Due within 30 days	4,049,152,577,652	124,934,349	3,927,691,819,126	449,569,427,615	149,664,435	449,719,092,050
Due after 31 through 60 days	491,877,865,458	-0-	491,877,865,458	-0-	-0-	-0-
Due after 61 through 90 days	1126,998,856,682	-0-	1,435,887,090,700	-0-	-0-	-0-
Due after 91 through 180 days	308,888,234,018	-0-	-0-	16,139,639,167	-0-	16,139,639,167
Due after 181 through 360 days	280,626,205,815	-0-	280,626,205,815	2,935,522,986	41,667	2,935,564,653
Due after 360 days	9,268,849,756	221,555	130,854,764,186	11,640,190,404	209,822,186	11,850,012,590
Total	<u>6,266,812,589,381</u>	<u>125,155,904</u>	<u>6,266,937,745,285</u>	<u>480,284,780,172</u>	<u>359,528,288</u>	<u>480,644,308,460</u>
Allowance for loan portfolio			<u>(111,181,271,185)</u>			<u>(8,485,803,233)</u>
			<u>6,155,756,474,100</u>			<u>472,158,505,227</u>

²⁸ At December 31 and June 30, 2020, the IDI is equal to 5,324.35 and 989.19 respectively.

b. Single National Productive Portfolio (CPUN)-

At December 31 and June 30, 2020, the Bank maintains noninterest-bearing UVCP 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 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	-

At June 30, 2020					
Activity	UVCP Computable amount	Required %	N° of debtors	N° of loans	Maximum annual interest rates %
Single Productive Portfolio - Agriculture	15,589,639,166	min 10% max 25%	1	2	-

c. Microfinance portfolio-

Information on the microfinance portfolio is summarized below:

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%
UCVV Microcredits	147,797,605,353			43	50	6%
Total	147,801,772,020					

At June 30, 2020						
Activity	Computable amount in loan portfolio	Computable maintained %	Required %	N° of debtors	N° of loans	Maximum annual interest rates
Microcredits (nominal)	583,375,001	30.74%	3.00%	26	26	40%
UCVV Microcredits	2,902,189,652			6	6	6%
Total	3,485,564,653					

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:

Credit intended to:	Required %	At December 31, 2020		At June 30, 2020	
		Amount of microfinance portfolio (In bolivars)	Maintained %	Amount of microfinance portfolio (In bolivars)	Maintained %
Marketing activities	Max. 40%	68,324,836,574	46.23%	83,333,333	2.39%
Public transport activities	Max. 40%	-0-	0.00%	-0-	0.00%
Community-based services, craft activities and other	Min. 20%	79,476,935,446	53.77%	3,402,231,320	97.61%
Total		147,801,772,020	100.00%	3,485,564,653	100.00%

d. Allowance for loan portfolio-

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

	31-12-20	30-06-20
	(In bolivars)	
<i>Balances, at the beginning of six-month period</i>	8,485,803,233	1,647,229,826
<i>Add: Increase in allowance-</i>		
Charged to income	92,721,241,779	6,772,543,422
Charged to equity	9,966,964,773	62,310,504
Transfers from "Allowance for interest receivable" and other	10,907,094	3,720,148
<i>Less: Decrease in allowance-</i>		
Write-offs	(3,645,694)	(667)
<i>Balances, at the end of six-month period</i>	<u>111,181,271,185</u>	<u>8,485,803,233</u>

The allowance for loan portfolio includes general and counter-cyclical allowances for a total amount of Bs. 111,149,794,357 (Bs. 8,448,671,488, at June 30, 2020).

During the six-month period ended December 31, 2020, the Bank increased the counter-cyclical allowance for Bs. 39,124,808,993 charged to income for the six-month period presented within "Expenses for uncollectible and impaired financial assets" (Bs. 2,900,906,603, at June 30, 2020) and Bs. 9,966,964,773 charged to equity, presented within "Equity adjustments", as allowed by Resolution N° 070.19 of SUDEBAN dated December 20, 2019 (Bs. 62,310,504, at June 2020).

The non-interest bearing past-due portfolio amounts to decreases to Bs. 125,155,904 (Bs. 359,528,288, at June 30, 2020).

Deferred financial income and interest collected in advance decrease to Bs. 6,407,407, at June 30, 2020 and are presented within "Accruals and other liabilities" (see Note 12).

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:

	31-12-20		30-06-20	
	Bs.	US\$	Bs.	US\$
ASSETS:				
Cash and due from banks	6,556,317,605,103	5,936,378	4,371,875,733,332	21,440,575
Investment securities	51,886,997,137,712	46,980,768	6,293,742,043,151	30,865,802
Interest and commissions receivable	422,515,062,816	382,564	49,954,231,092	244,985
Other assets	290,465,343,791	263,000	12,283,138,648	60,239
	<u>59,156,295,149,422</u>	<u>53,562,710</u>	<u>10,727,855,146,223</u>	<u>52,611,601</u>
MEMORANDUM ACCOUNTS:				
Other debit memorandum accounts	-0-	-0-	407,813,294,744	2,000,000
LIABILITIES:				
Bank deposits	38,644,220,907,510	34,990,176	7,051,396,368,043	34,581,493
Other borrowings	192,835,082,523	174,601	35,296,517,973	173,101
Accruals and other liabilities	773,151,430,589	700,044	127,788,106,273	626,699
	<u>39,610,207,420,622</u>	<u>35,864,823</u>	<u>7,214,480,992,289</u>	<u>35,381,293</u>
Allocated capital and accumulated surplus	19,546,087,728,800	17,697,889	3,513,374,153,934	17,230,308
	<u>59,156,295,149,422</u>	<u>53,562,710</u>	<u>10,727,855,146,223</u>	<u>52,611,601</u>
PER CONTRA MEMORANDUM ACCOUNTS:				
Other credit memorandum accounts	-0-	-0-	407,813,294,744	2,000,000
STATEMENTS OF INCOME:				
Financial income	661,108,858,200	598,597	99,103,061,514	486,022
Financial expenses	(1,752,444,190)	(1,587)	(270,953,192)	(1,329)
	<u>659,356,414,010</u>	<u>597,010</u>	<u>98,832,108,322</u>	<u>484,693</u>

	31-12-20		30-06-20	
	Bs.	US\$	Bs.	US\$
Other operating income	502,069,992,210	454,597	95,702,494,043	469,345
Other operating expenses	(483,502,205,782)	(437,785)	(58,009,126,837)	(284,489)
Operating expenses	(101,297,942,716)	(91,719)	(41,479,346,788)	(203,423)
Other income or expenses, net	(100,708,099,471)	(91,185)	(5,043,121,156)	(24,732)
	(183,438,255,759)	(166,092)	(8,829,100,738)	(43,299)
Net income for the six-month period	475,918,158,251	430,918	90,003,007,584	441,394

NOTE 8.- PREMISES AND EQUIPMENT:

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

At December 31, 2020					
	Useful life	Balance at June 30, 2020	Additions	Disposals	Balance at December 31, 2020
			(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)	55,646,075,383
		(2,904,548,353)	(4,013,865,769)	1,536,921,257	(5,381,492,865)
ACCUMULATED DEPRECIATION					
		19,507,631,776	34,058,867,829	(3,301,917,087)	50,264,582,518
Land		9	-0-	-0-	9
		19,507,631,785	34,058,867,829	(3,301,917,087)	50,264,582,527

At June 30, 2020					
	Useful life	Balance at December 31, 2019	Additions	Disposals	Balance at June 30, 2020
			(Expressed in bolivars)		
COST:					
Computers	3 and 4	629,842,783	455	(455)	629,842,783
Buildings and facilities	40	266,532	-0-	-0-	266,532
Sundry office equipment	3 and 4	1,394,130,959	13,252,555,871	(45,151,016)	14,601,535,814
Furniture	10	32,070,936	-0-	-0-	32,070,936
Vehicles	5 and 4	7,148,463,594	-0-	-0-	7,148,463,594
Other	5 and 10	470	137	(137)	470
		9,204,775,274	13,252,556,463	(45,151,608)	22,412,180,129
		(1,141,711,822)	(1,762,838,909)	2,378	(2,904,548,353)
ACCUMULATED DEPRECIATION					
		8,063,063,452	11,489,717,554	(45,149,230)	19,507,631,776
Land		9	-0-	-0-	9
		8,063,063,461	11,489,717,554	45,149,230	19,507,631,785

The Bank acquired new assets for Bs. 38,072,733,598 (Bs. 13,252,556,463, for the six-month period ended June 30, 2020) mainly accounted for equipment for the datacenter and office security systems.

The net carrying values of “*Buildings and facilities*” include two partial revaluations of the main office of the Bank, in accordance with SUDEBAN’s guidelines for the years 2016 and 2017. These assets are composed as follows:

	December 31, 2020			June 30, 2020		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Cost	17,255	(2,097)	15,158	17,255	(1,735)	15,520
Revaluation (Note 15.c)	249,277	(21,172)	228,105	249,277	(18,056)	231,221
	<u>266,532</u>	<u>(23,269)</u>	<u>243,263</u>	<u>26,532</u>	<u>(19,791)</u>	<u>246,741</u>

The Bank recorded expenses for depreciation of premises and equipment amounting to Bs. 4,013,865,769 (Bs. 1,762,838,909, during the six-month period ended June 30, 2020), which are reported as “*General and administrative expenses*” under “*Operating expenses*” and include the depreciation expense of the revalued amount for Bs. 3,478 (Bs. 3,477, at June 30, 2020), (see Note 15.c).

NOTE 9.- OTHER ASSETS:

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

	31-12-20	30-06-20
	(In bolivars)	
Prepaid expenses:		
Prepaid insurance premiums	259,161,277,652	32,615,558,090
Maintenance services and repairs	148,284,616,230	11,520,301,052
Prepaid taxes	93,746,304,213	11,818,655,103
Prepaid technological maintenance contracts and other	63,567,601,920	34,486,617,874
Prepaid professional services	55,708,182,878	40,828,323,859
	<u>620,467,982,893</u>	<u>131,269,455,978</u>
Advances to suppliers	1,140,806,390,860	4,757,120,235
Accounts receivable from other banks for P2P operations	325,052,869,686	110,007,842,491
Recoverable expenditures	82,501,907,176	20,962,471,515
Cost of foreign currencies acquired in point-of-sale terminals (US\$ 56,431 and US\$ 40,859, respectively)	58,875,288,819	8,244,840,413
Items to be applied	45,006,921,402	6,737,983,612
Deferred expenses (net of accumulated amortization for Bs. 2,670,472,777 and Bs. 820,431,909, respectively)	27,631,691,608	6,962,961,897
Other	41,864,937,587	22,904,434,863
	<u>1,721,740,007,138</u>	<u>180,581,655,026</u>
	2,342,207,990,031	311,851,111,004
	<u>(1,486,239,141)</u>	<u>(1,704,470,189)</u>
Allowances for other assets	<u>2,340,721,750,890</u>	<u>310,146,640,815</u>

“*Prepaid technological maintenance contracts*” are mainly composed of maintenance and support services of technological platform equipment and renewal of software and internet service licenses.

“*Prepaid taxes*” are mainly composed of: (i) Prepaid income taxes as special taxpayers for Bs. 85,244,061,042 (Bs. 2,463,466,068, at June 2020), (ii) VAT on account of non-domiciled third parties for Bs. 5,091,869,963, (iii) value-added tax credits for Bs. 2,417,133,643 (Bs. 1,547,524,589, at June 2020), (iv) taxes paid by the Branch for the annual operating license in the Cayman Islands for Bs. 7,460,000,140, at June 2020.

“*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. 71,568,930,985 (Bs. 18,675,137,245, at June 2020), resulting from the net effect of 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 (see Note 1.c.4). During the six-month period ended June 30, 2020, the Bank wrote off the balance of recoverable expenditures related to the expense for penalty of the legal reserve performed by BCV related to the foreign exchange intervention charged to income, as instructed by SUDEBAN in its Official Communication N° SIB-II-GGIBPV-GIBPV6-02729 dated May 22, 2020. Consequently, during the six-month period ended December 31, 2020, Bs. 5,926,917,674 were amortized for recoverable expenditures over one year and during the six-month period ended June 30, 2020, the expenses for the legal reserve penalty incurred in the failure to participate in the foreign exchange intervention mechanism were amortized for Bs. 4,382,861,287, shown under “Other operating expenses” in the accompanying statements of income.

The “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 December 31, 2020, the Bank sold US\$ 959,915 (US\$ 889,758 at June 30, 2020), and has recorded net exchange gains for Bs. 10,751,538,685 (Bs. 4,197,350,449 at June 30, 2020) shown under “Other operating income” in the accompanying statements of income.

The movement of “Deferred Expenses” is shown below:

December 31, 2020					
	Useful life	Balance at June 30, 2020	Additions	Disposals	Balance at December 31, 2020
(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>
		<u>6,962,961,897</u>			<u>27,631,691,608</u>

June 30, 2020					
	Useful life	Balance at December 31, 2019	Additions	Disposals	Balance at June 30, 2020
(In bolivars)					
EXPENSES:					
Leasehold improvements	3 and 4	-0-	-0-	-0-	-0-
Licenses purchased	4	5,281,329,157	2,397,142,136	(30,914)	7,678,440,379
Software	4	-0-	-0-	-0-	-0-
Other deferred expenses	2 and 3	104,955,803	-0-	(2,375)	104,953,428
		<u>5,386,284,960</u>	<u>2,397,142,136</u>	<u>(33,289)</u>	<u>7,783,393,807</u>

Useful life	June 30, 2020			Balance at June 30, 2020
	Balance at December 31, 2019	Additions	Disposals	
		(In bolivars)		
ACCUMULATED AMORTIZATION:				
Leasehold improvements	-0-	-0-	-0-	-0-
Licenses purchased	(63,311,113)	(699,652,364)	30,915	(762,932,562)
Software	-0-	-0-	-0-	-0-
Other deferred expenses	(31,372,481)	(26,129,242)	2,375	(57,499,348)
	<u>(94,683,594)</u>	<u>(725,781,606)</u>	<u>33,290</u>	<u>(820,431,910)</u>
	<u>5,291,601,368</u>			<u>6,962,961,897</u>

During the six-month period ended December 31, 2020, the Bank made disbursements for Bs. 22,518,804,391 for the development of financial messaging exchange system software and the improvement of the counter (Bs. 2,397,142,134 for the acquisition of systems for the migration to a new platform, for the six-month period ended June 30, 2020).

The Bank recorded amortization expenses of deferred charges for a total amount of Bs. 1,850,074,682 (Bs. 725,781,606, for the six-month period ended June 30, 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:

	31-12-20	30-06-20
	(In bolivars)	
<i>Balances, at the beginning of the six-month period</i>	(1,704,470,189)	(65,782,644)
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	-0-	(1,427,346,532)
Transfers and revenues	218,231,048	(211,341,013)
<i>Balances, at the end of the six-month period</i>	<u>(1,486,239,141)</u>	<u>(1,704,470,189)</u>

NOTE 10.- BANK DEPOSITS:

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

	31-12-20		30-06-20	
	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	21%	-	21%	-
Term deposits	24%	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\$ 375,439, equivalent to Bs. 414,646,525,011 (US\$ 393,890, equivalent to Bs. 80,316,856,622, at June 30, 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" (see Note 1.c.4).

“*Other demand obligations*” are mainly composed of: (i) trust current accounts managed by the Bank for Bs. 924,770,959,673 (Bs. 54,306,968,465, at June 30, 2020), (ii) cashier’s checks for Bs. 705,481,734,714 (Bs. 428,834,570,997, at June 30, 2020), (iii) drafts and transfer payable for Bs. 539,446,949,416 (Bs. 96,420,687,919, at June 30, 2020), (iv) other obligations for offsetting accounts for Bs. 390,469,363,866 (Bs. 38,480,332,312, at June 30, 2020) and (v) payment orders on behalf of customers to be applied to their accounts for Bs. 232,291,351,752 (Bs. 94,901,270,921, at June 30, 2020).

“*Restricted bank deposits*” include balances of customers of the Branch equivalent to Bs. 707,094,100,818, which guarantee current account loans, among other loan transactions (Bs. 89,670,344,085, at June 30, 2020).

Deposits of the Cayman Islands Branch of the Bank 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:

	31-12-20	30-06-20
	(In bolivars)	
Obligations with domestic financial institutions due within one year or less	1,280,000,000,052	51
Obligations with foreign financial institutions due within one year or less	92,752,837	5,869,635
	<u>1,280,092,752,889</u>	<u>5,869,686</u>

At December 31, 2020, “*Obligations with domestic financial institutions*” are mainly composed of overnight with other domestic financial institutions for Bs. 1,280,000,000,000, bearing interest rates between 150% and 225%, maturing in four days.

NOTE 12.- ACCRUALS AND OTHER LIABILITIES:

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

	31-12-20	30-06-20
	(In bolivars)	
Allowance for contingencies (US\$ 14,269,102 and US\$ 14,171,328)	15,766,246,623,606	2,899,979,479,882
Items to be applied (US\$ 92,511 and US\$ 102,221)	1,711,923,663,447	244,534,251,536
Profit-sharing payable to employees (US\$ 912,645 and US\$ 295,645)	719,309,737,888	40,189,657,360
Statutory earnings payable	288,031,722,873	20,098,868,618
Provision for taxes (<i>Note 17</i>)	254,257,856,147	6,590,243,849
Accrual for employee benefits payable	151,193,134,210	18,126,648,363
Contracted services payable	78,731,821,432	28,632,833,552
Other sundry accounts payable in foreign currency	70,804,746,739	11,334,615,901
Sports Law contribution payable (<i>Note 17</i>)	21,198,604,667	2,119,373,243
Law on Drugs contribution payable (<i>Note 17</i>)	23,606,956,175	1,711,075,716
Deferred income (<i>Note 6</i>)	-0-	6,407,407
Other	201,057,042,479	42,199,797,298
	<u>19,286,361,909,663</u>	<u>3,315,523,252,725</u>

“*Contingency allowances*” 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:

	31-12-20	30-06-20
	(In bolivars)	
Balances, at the beginning of six-month period	2,899,979,479,882	658,308,170,083
Increases charged to income, except for those referred to foreign exchange fluctuation effects for the valuation of foreign currency balances, shown within equity (Note 15.c)	12,969,917,226,153	2,241,902,763,319
Decrease for payments and other	(24,678,384,124)	(231,453,520)
Balances, at the end of six-month period	15,766,246,623,606	2,899,979,479,882

“Items to be applied” mainly include amounts received from customers to pay credit transactions for Bs. 1,711,268,460,002 (Bs. 242,653,265,730, at June 30, 2020) which were applied to the relevant accounts during the first business days following year-end.

“Profit-sharing payable to employees” and “Statutory earnings payable” 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. During the six-month period ended December 31 and June 30, 2020, 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 accrual in case of retirement of each employee for a guarantee estimated on a quarterly basis, which is equivalent to a 15-day integral salary and accrued interests amounting to Bs. 130,439,549,017 (Bs. 11,516,868,126, at June 30, 2020), net of advances, plus an estimate on the expected employee benefits in addition to the quarterly amount previously estimated for Bs. 20,753,585,193 (Bs. 6,609,780,237, at June 30, 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 this 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:

	31-12-20	30-06-20
	(In bolivars)	
Accrued actuarial liabilities at the beginning	5,921,979,789	2,904,018,601
Cost of interest	3,434,748,278	1,684,330,788
Cost of services	324,871,656	168,550,030
Benefits paid	(1,500,389,771)	(652,884,665)
Actuarial losses (gains) from obligations	12,572,375,241	1,817,965,036
Estimated actuarial liabilities	20,753,585,193	5,921,979,789

During the six-month period ended December 31, 2020, the Bank recorded expenses for Bs. 148,986,335,474 (Bs. 17,545,890,424 at June 30, 2020), corresponding to the cost of termination 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 December 31 and June 30, 2020 are the following:

	31-12-20
Turnover rate	%
Mortality rate	22.12%
2021 Rate of salary increase	GAM 83
2021 Discount rate	150%
Long-term geometric mean inflation rate	170%
	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 removed checks for Bs. 52,539,176,697 (Bs. 9,700,100,216, at June 30, 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. For those employees with more seniority the possibilities of retirement remain in accordance with the replaced plan. 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 December 31, 2020, 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:

	31-12-20	30-06-20
	(In bolivars)	
Estimated obligation for benefits	1,330,350,427	538,578,271
Cost of interest	771,603,247	312,375,397
Cost of services	22,691,809	9,257,645
Benefits paid	(2,486,443)	(4,886,443)
Actuarial losses (gains) from obligations	2,731,891,331	475,025,557
Net financial position of the estimated pension plan	4,854,050,371	1,330,350,427

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. 2,731,891,331 (Bs. 475,025,557 at June 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 December 31 and June 30, 2020, are the following:

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

Independent actuaries made an actuarial calculation of the projected obligation of the retirement pension 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 December 31, 2020, the Bank recorded expenses for Bs. 6,350,034,742 (Bs. 1,010,458,346 for the six-month period ended June 30, 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 31-12-20	Six-month period ended 30-06-20
	(In bolivars)	
<i>Income tax expense determined on book income</i>	957,232,177,897	75,078,113,260
<i>Differences between book and tax expense, net due to:</i>		
Tax-exempted income from public securities	(1,516)	(1,787)
Sundry provisions, net of payments	(111,006,009,628)	(9,011,258,274)
Asset valuation allowance, net of write-offs	1,246	1,246
Income (expense) from gold revaluation	(4,369,631,926)	(8,771,685,991)
Other, net	(595,446,341,748)	(51,861,759,955)
	<u>(710,821,983,572)</u>	<u>(69,644,704,760)</u>
Estimated income tax expense	<u>246,410,194,325</u>	<u>5,433,408,499</u>

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

	31-12-20	30-06-20
	(In bolivars)	
Balances at the beginning of the six-month period	5,435,000,000	1,821,487,076
Add: Provisions with charge to expenses	246,415,000,000	5,435,000,000
Less: Payments	-0-	(1,821,487,076)
Balances at the end of six-month period	<u>251,850,000,000</u>	<u>5,435,000,000</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 December and June 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 payments 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 December 31, 2020 the Bank, in its capacity of withholding agent, collected and paid to the National Treasury Bs. 1,287,596,879,509 (Bs. 311,169,137,472, during the first half of 2020).

During the six-month period ended December 31, 2020, the Bank recognized expenses for taxes on large financial transactions for Bs. 28,578,732,125 (Bs. 4,310,187,566, at June 30, 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 TU²⁹, currently equivalent to Bs. 1,800 million; for legal entities, where their net assets exceed 100 million TU²⁹, 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 TU²⁹, and (vi) this tax is not deductible for income tax purposes (ISLR).

During the six-month period ended December 31, 2020, the Bank recognized an expense for the Tax on Large Assets for Bs. 5,727,926,804 (Bs. 111,888,053, at June 30, 2020), which is shown under "*General and administrative expenses*" within "*Operating expenses*".

²⁹ At December 31 and June 30, 2020, one tax unit (UT) is equivalent to Bs. 1,500.

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 TU³⁰ 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, 2020, the Bank paid the contribution corresponding to year 2019 for Bs. 1,237,930,958 and recognized an expense of Bs. 618,965,479 with charge to the first half of 2020, which are shown under “*General and administrative expenses*” within “*Operating expenses*”. The balance of prepaid taxes is shown under “*Other assets*”. At June 30, 2020, 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. 21,895,880,459 (Bs. 1,711,075,716, at June 2020), which are shown under “*Sundry operating expenses*”, and the related liability amounting to Bs. 23,606,956,175 (Bs. 1,711,075,716, at June 30, 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 TU³⁰ 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, 2020, the Bank submitted a formal request to IND to have 50% of the 2019 contribution at its disposal (Bs. 234,720,690 of the contribution amounting to Bs. 469,441,380). 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*” and shall be executed by the Bank itself; and the second one is named “*Académicas VBC Liga Venezolana de Voleibol Femenina temporada 2020*” which has been presented by an entity engaged in promoting sports. The approved amount was Bs. 117,360,345 for each project.

³⁰ At December 31 and June 30, 2020, one tax unit (UT) is equivalent to Bs. 1,500.

The Bank recognized expenses for this concept amounting to Bs. 19,431,312,459 (Bs. 1,649,931,863, at June 2020), which are shown under “*Sundry operating expenses*”, and the related liability amounting to Bs. 21,198,604,667 (Bs. 2,119,373,243, at June 30, 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. 8,521,409,317 (Bs. 1,790,836,496, for the six-month period ended June 30, 2020), which are shown under “*Sundry operating expenses*”. The related liability for the contributions 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 December 31 and June 30, 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. 37,920,859,868 (Bs. 10,473,337,686, at June 30, 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. 26,481,922,123 (Bs. 9,486,030,408, at June 30, 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 December 31 and June 30, 2020 is as follows:

	31-12-20	30-06-20
	(In bolivars)	
Net shareholders’ equity at the beginning of period	1,800,043,036,903	337,764,922,099
Net income for the six-month period with effect on income	2,146,665,444,743	182,260,283,149
Other net performance results with effect on equity	8,871,317,385,471	1,280,017,831,655
Total results for the six-month period	11,017,982,830,214	1,462,278,114,804
Net shareholders’ equity at the end of period	12,818,025,867,117	1,800,043,036,903

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%
	139,776	3,306	100.00%

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. 1,039 at December 31, 2020 (Bs. 717 at June 30, 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:

	31-12-20	30-06-20
Equity adjustments-	(Expressed in Bs.)	
Net accumulated exchange gains from the valuation of foreign currency assets and liabilities and transactions in foreign exchange systems	9,084,608,424,016	1,561,117,285,134
Accumulated unrealized income or gains from the valuation of UVCC and UVCC loans adjusted at IDI value	1,678,509,465,651	39,049,608,298
Financial costs associated to UVCC and UVCC loans adjusted at IDI value	(58,276,554,765)	(3,236,418,692)
Revaluation surplus (Note 8)	249,277	249,277
	<u>10,704,841,584,179</u>	<u>1,596,930,724,017</u>

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

Six-month period ended December 31, 2020					
	Exchange gain	Income from UVCC/UVCP	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>

Six-month period ended June 30, 2020					
	Exchange gain	Income from UVCC/UVCP	Cost of legal reserve (In bolivars)	Revaluation surplus	Equity adjustments
Beginning balance	278,830,682,195	15,277,782,730	-0-	249,277	294,108,714,202
Unrealized exchange gain for the six-month period	1,282,286,602,939	-0-	-0-	-0-	1,282,286,602,939
Accrued income from UVCC/UVCP loans	-0-	253,179,745,368	-0-	-0-	253,179,745,368
Transfer from collected revenues to income	-0-	(229,345,609,296)	-0-	-0-	(229,345,609,296)
Transfer to general and counter-cyclical allowances	-0-	(62,310,504)	-0-	-0-	(62,310,504)
Financial cost of legal reserve attributable to income from UVCC loans	-0-	-0-	(14,148,695,167)	-0-	(14,148,695,167)
Transfer from cost of legal reserve to expenses upon collection of loan	-0-	-0-	10,912,276,475	-0-	10,912,276,475
Ending balance	<u>1,561,117,285,134</u>	<u>39,049,608,298</u>	<u>(3,236,418,692)</u>	<u>249,277</u>	<u>1,596,930,724,017</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 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. Such amount shall be restricted for sharing dividends for the two six-month periods of 2020.

- *Unrealized gains from the valuation of UVCC/UVCP 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 December 31, 2020, the Bank created general allowances with charge to these gains for the amount of Bs. 9,966,964,773 (Bs. 62,310,504, at June 30, 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:

	31-12-20	30-06-20
	(In bolivars)	
Restricted earnings as per Resolution N° 329-99	644,948,305,747	48,114,775,912
Retained earnings of foreign branch	592,568,005,105	116,649,846,855
Restricted earnings, according to release of balance of account 352.00 at 31-12-19 official communication N° SIB-II-GGIBPV-GIBPV6-06071	273,546,027,971	-0-
Accumulated unrealized gain from valuation of gold coins	3	3
	<u>1,511,062,338,826</u>	<u>164,764,622,770</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 December 31, 2020, the Bank restricted a total amount of Bs. 596,833,529,835 (Bs. 37,495,089,377, at June 30, 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 December 31, 2020, the Bank restricted the net income generated by its foreign branch amounting to Bs. 475,918,158,251 (Bs. 90,003,007,584, at June 30, 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-GIBP V6-06071 (see Note 15.d).

e.2 Cash dividends declared and paid:

During Extraordinary and Regular Shareholders’ Meetings held on July 7 and August 18, 2020, it was approved to declare and pay 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.4 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:

	31-12-20		30-06-20	
	Index maintained	Index required	Index maintained	Index required
Total equity adequacy	20.25%	12%	20.74%	12%
Solvency declaration	20.25%	6%	20.74%	6%
Carrying equity adequacy	16.95%	9%	13.54%	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, and (d) exclusion of balances of the “*Clearing house funds*” account and the increase of cash generated in December 2017 with respect to November 2016 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:

	31-12-20	30-06-20
	(In bolivars)	
Other operating income		
Exchange gains (Note 22)	1,732,011,960,816	110,114,158,158
Commissions for services	1,575,475,645,674	313,543,951,350
Gains from investment securities (Notes 5.c and 5.d)	28,519,490,164	26,867,212,922
	<u>3,336,007,096,654</u>	<u>450,525,322,430</u>
Other operating expenses		
Exchange loss (Note 22)	(890,103,092,113)	(2,050,851,368)
Losses from investment securities (Notes 5.c and 5.d)	(365,667,933,506)	(37,186,624,605)
Commissions for services	(349,789,919,493)	(104,285,617,075)
	<u>(1,605,560,945,112)</u>	<u>(143,523,093,048)</u>
Other sundry operating income		
Refunds of favorable experience of insurance policies	9,317,090,835	-0-
Other minor revenues	3,456,554,305	399,275,310
	<u>12,773,645,140</u>	<u>399,275,310</u>

	31-12-20	30-06-20
	(In bolivars)	
Other sundry operating expenses		
Allowance for contingent losses	(101,965,593,094)	(2,773,130,404)
Penalties for failure to comply with legal reserve provisions (Note 4)	(20,559,879,442)	(48,208,950,644)
Other operating expenses (Note 14)	(52,127,374,715)	(8,760,559,534)
	<u>(174,652,847,251)</u>	<u>(59,742,640,582)</u>

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

NOTE 17.- OTHER EXTRAORDINARY INCOME AND EXPENSES:

“Extraordinary income” and “Extraordinary expenses” shown in the statements of income correspond to donations made by the Institution for Bs. 41,800,000 and Bs. 679,385,283, for the six-month periods ended December 31, 2020 and June 30, 2020, respectively.

NOTE 18.- MEMORANDUM ACCOUNTS:

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

	31-12-20	30-06-20
	(In bolivars)	
Contingent debit accounts:		
Guarantees granted	435,905,848,593	102,331,734,177
Automatic-use line of credit	<u>38,396,355,870</u>	<u>35,601,877,759</u>
	474,302,204,463	137,933,611,936
Trust assets	<u>12,629,585,905,309</u>	<u>2,355,154,742,315</u>
Other trusts	<u>342,667,128,000</u>	<u>106,436,921,000</u>
Other debit memorandum accounts:		
Guarantees received	1,955,090,343,969	4,502,707,822,178
Custodial services received	1,890,978,584,553	756,937,185,823
Other record accounts	594,990,224,916	100,205,396,175
Payments into court received	429,599,114,589	-0-
Collections	45	45
	<u>4,870,658,268,072</u>	<u>5,359,850,404,221</u>
	<u>18,317,213,505,844</u>	<u>7,959,375,679,472</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. 474,302,204,463 (Bs. 137,933,611,936, bonds and letters of credit at June 30, 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. 5,427,582,803 (Bs. 1,104,610,946 at June 30, 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:

	31-12-20	30-06-20
	(In bolivars)	
ASSETS:		
Cash and due from banks	2,684,952,355,760	603,725,506,460
Investment securities	329,381,767,829	63,164,842,270
Loan portfolio, net	9,579,400,471,789	1,682,189,502,092
Interest and commissions receivable	16,113,030,691	3,030,850,050
Assets received for management	684,747	126,422
Other assets	19,737,594,493	3,043,915,021
	<u>12,629,585,905,309</u>	<u>2,355,154,742,315</u>
LIABILITIES AND NET ASSETS:		
Liabilities	<u>3,630,445,468</u>	<u>757,625,558</u>
Trust net assets	12,456,359,382,549	2,313,221,580,885
Retained earnings	<u>169,596,077,292</u>	<u>41,175,535,872</u>
	<u>12,625,955,459,841</u>	<u>2,354,397,116,757</u>
	<u>12,629,585,905,309</u>	<u>2,355,154,742,315</u>

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

At December 31, 2020					
Types of trust	Individuals	Companies	Public, state and municipal and Capital District administrations	Decentralized and other special-regime bodies	Total
		(In bolivars)			
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
	<u>7,170,349</u>	<u>12,444,583,300,287</u>	<u>1</u>	<u>11,768,911,912</u>	<u>12,456,359,382,549</u>
Participation percentage	<u>0%</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>	<u>100%</u>
At June 30, 2020					
Types of trust	Individuals	Companies	Public, state and municipal and Capital District administrations	Decentralized and other special-regime bodies	Total
		(In bolivars)			
Administration	4,904,844	2,313,185,929,135	1	161	2,313,190,834,141
Investment	19	30,696,833	-0-	-0-	30,696,852
Guarantee	-0-	49,877	-0-	15	49,892
	<u>4,904,863</u>	<u>2,313,216,675,845</u>	<u>1</u>	<u>176</u>	<u>2,313,221,580,885</u>
Participation percentage	<u>0%</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>	<u>100%</u>

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 capital increases*”. At December 31 and June 30, 2020, the total amount of trusted funds does not exceed the net assets ratio.

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

At December 31, 2020, four customers of termination benefit administration trust in foreign currency account for 80% of net assets allocated to trusts (three customers account for 82%, at June 30, 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:

	31-12-20	30-06-20
	(In bolivars)	
Deposits in foreign institutions Brown Brothers Harriman US\$ 1,300,806 (US\$ 2,600,806, at June 30, 2020)	1,436,649,404,080	54,306,968,465
Deposits in the institution including US\$ 545,489 (US\$ 65,134, at June 30, 2020)	924,770,959,673	530,321,534,047
Other cash and due from banks available on cash (US\$ 292,940 (US\$ 93,655, at June 2020)	323,531,992,007	19,097,003,948
	<u>2,684,952,355,760</u>	<u>603,725,506,460</u>

“*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 December 31 and June 30, 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:

	31-12-20		30-06-20	
	Amortized cost/ carrying value	Fair value	Amortized cost/ carrying value	Fair value
	(In bolivars)			
<i>Investment securities issued and/or guaranteed by the Government-</i>				
VEBONO issued by the Ministry of People's Power for Planning and Finance of the Bolivarian Republic of Venezuela, with 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 (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 213 and 4,769 days, at June 2020).	15,956	15,956 ³¹	16,270	14,817 ³²
Fixed-interest securities issued by the Bolivarian Republic of Venezuela with 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 (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 219 and 4,251 days, at June 2020).	4,921	4,921 ³¹	5,011	5,127 ³²
	<u>20,877</u>	<u>20,877</u>	<u>21,281</u>	<u>19,944</u>
<i>Demand and term deposits in domestic financial institutions-</i>				
Banco Mercantil, C.A., Banco Universal, with annual interest rate of 65%, nominal value of Bs. 121,606,066,795, and due in 28 days, at December 2020 (annual interest rate between 95% and 100% nominal value of Bs. 17,514,083,291, and due between 28 and 29 days, at June 2020).	121,606,066,795	121,606,066,795 ³³	17,514,083,291	17,514,083,291 ³³

³¹ Fair value is equivalent to amortized cost.

³² Fair value is equivalent to the value provided by the yield curve performed for each investment security.

³³ Fair value corresponds to nominal value.

	31-12-20		30-06-20	
	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 105% and 130%, nominal value of Bs. 107,980,131,088, and due in 28 days, at December 2020 (annual interest rate between 100% and 140%, nominal value of Bs. 18,549,899,809, and due between 28 and 29 days, at June 2020).	107,980,131,088	107,980,131,088 ³⁴	18,549,899,809	18,549,899,809 ³⁴
Bancreer S.A., Banco Microfinanciero, with 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 (annual interest rate between 105% and 140%, nominal value of Bs. 13,508,507,829, and due between 27 and 28 days, at June 2020).	42,685,990,025	42,685,990,025 ³⁴	13,508,507,829	13,508,507,829 ³⁴
Banco del Caribe, C.A., Banco Universal, with 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 (annual interest rate between 80% and 105% nominal value of Bs. 8,597,795,516, and due between 28 and 29 days, at June 2020).	40,672,743,147	40,672,743,147 ³⁴	8,597,795,516	8,597,795,516 ³⁴
	<u>312,944,931,055</u>	<u>312,944,931,055</u>	<u>58,170,286,445</u>	<u>58,170,286,445</u>
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 (annual interest rate between 23.50% and 39.50%, nominal value of Bs. 40,001,800, and due between 152 and 326 days, at June 2020).	20,000,000	17,538,946 ³⁵	40,001,800	29,700,969 ³⁵
Automercados Plaza's C.A., with annual interest rate of 26.08%, nominal value of Bs. 10,000,000, and due in 102 days, at June 2020.	-0-	-0-	10,000,000	9,376,540 ³⁵
DEFORSA II (Desarrollos Forestales San Carlos II S.A.), with annual interest rate between 21% and 24.50%, nominal value of Bs. 9,200, and due between 272 and 334 days, at June 2020.	-0-	-0-	9,200	7,797 ³⁵
	<u>20,000,000</u>	<u>17,538,946</u>	<u>50,011,000</u>	<u>39,085,306</u>
Corporate commercial papers issued by domestic private companies-				
Mercantil Servicios Financieros, C.A., with 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 (annual interest rate of 85%, acquisition cost of Bs. 3,344,828,000, nominal value of Bs. 4,000,000,000, and due in 55 days, at June 2020).	10,780,444,267	10,823,059,687 ³⁵	3,599,617,112	3,647,408,000 ³⁵
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.	5,636,371,630	5,722,547,572 ³⁵	-0-	-0-
Pasteurizadora Táchira C.A., with annual interest rate of 85%, acquisition cost of Bs. 859,900,000 and nominal value of Bs. 1,000,000,000, and due in 60 days, at June 2020.	-0-	-0-	896,222,221	904,094,000 ³⁵
S.A., Nacional Farmacéutica (SANFAR) with annual interest rate of 88%, acquisition cost of Bs. 425,000,000, nominal value of Bs. 500,000,000, and due in 26 days, at June 2020.	-0-	-0-	448,684,211	477,716,000 ³⁵
	<u>16,416,815,897</u>	<u>16,545,607,259</u>	<u>4,944,523,544</u>	<u>5,029,218,000</u>
	<u>329,381,767,829</u>	<u>329,508,098,137</u>	<u>63,164,842,270</u>	<u>63,238,609,696</u>

The maturities of investment securities are the following:

	31-12-20		30-06-20	
	Amortized cost or acquisition cost	Fair value	Amortized cost or acquisition cost	Fair value
	(In bolivars)			
Due within six months	329,381,752,097	329,508,082,405	63,124,812,589	63,208,883,495
Due after six months through one year	6,974	6,976	14,706	379
Due after one year through five years	8,758	8,756	2,469	15,269
Due after five years	-0-	-0-	40,012,506	29,710,553
	<u>329,381,767,829</u>	<u>329,508,098,137</u>	<u>63,164,842,270</u>	<u>63,238,609,696</u>

³⁴ Fair value corresponds to nominal value.

³⁵ Fair value is equivalent to the current value of discounted future cash flows.

Investment securities are mainly concentrated as follows:

	31-12-20		30-06-20	
	In bolivars	%	In bolivars	%
Placements in domestic financial institutions-				
Banco Mercantil, C.A., Banco Universal	121,606,066,795	37%	17,514,083,291	28%
Banco Exterior, C.A., Banco Universal	107,980,131,088	33%	18,549,899,809	29%
Bancrecer, S.A., Banco Micro Financiero	42,685,990,025	13%	13,508,507,829	21%
Banco del Caribe, C.A., Banco Universal	40,672,743,147	12%	8,597,795,516	14%
	312,944,931,055	95%	58,170,286,445	92%
Obligations and corporate commercial papers issued by three domestic private companies	16,436,815,897	5%	4,994,534,544	8%
Investments issued and/or guaranteed by the Government	20,877	0%	21,281	0%
	329,381,767,829	100%	63,164,842,270	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.

Loans granted to beneficiaries are 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	December 31, 2020			June 30, 2020		
	Current	Past-due	Total	Current	Past-due	Total
	(In bolivars)			(In bolivars)		
Guarantee on monies	9,579,400,460,655	-0-	9,579,400,460,655	1,682,189,490,618	-0-	1,682,189,490,618
Chattel mortgage	11,022	-0-	11,022	11,344	-0-	11,344
Retention of title	77	-0-	77	95	-0-	95
Real estate mortgage	-0-	103	103	-0-	103	103
Total	9,579,400,471,754	103	9,579,400,471,857	1,682,189,502,057	103	1,682,189,502,160
Allowance for loan portfolio			(68)			(68)
			9,579,400,471,789			1,682,189,502,092

“*Guarantees on monies*” mainly corresponds to loans granted to beneficiaries guaranteed on their termination benefits in foreign currency for Bs. 8,866,888,542,497 (Bs. 1,586,880,168,574 at June 30, 2020).

Loans to beneficiaries with chattel mortgage and retention of title guarantees amount to Bs. 11,022 and Bs. 77, respectively (Bs. 11,344 and Bs. 95, respectively, at June 30, 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.

At December 31, 2020, loans to beneficiaries with real estate mortgage guarantees amount to Bs. 103 (Bs. 103 at June 30, 2020), which correspond to loans granted with funds from customer-directed trusts. These trusts have been created by trustors for granting financing programs for their employees’ housing acquisition, improvement or repair (trust beneficiaries), which are guaranteed by real estate mortgages. 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:

	31-12-20	30-06-20
	(In bolivars)	
Due within six months	477	407
Due after 6 months through 12 months	366	350
Due after 12 months through 24 months	711	735
Due after 24 months	9,647	10,049
Undefined maturity or variable maturities	9,579,400,460,656	1,682,189,490,619
	9,579,400,471,857	1,682,189,502,160
Allowance for loan portfolio	(68)	(68)
	9,579,400,471,789	1,682,189,502,092

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.

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

	31-12-20	30-06-20
	(In bolivars)	
Balances, at the beginning of six-month period	68	80
Add: Increase in allowance charged to income	-0-	-0-
Less: Recoveries	-0-	(12)
Balances, at the end of six-month period	68	68

c. Other trusts-

Trusts correspond to credit securities of customers (principals) 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 December 31, 2020, the Bank obtained income from commissions for Bs. 295,490,153,665 (Bs. 79,757,206,651, for the six-month period ended June 30, 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:

	31-12-20		30-06-20	
	Carrying value	Fair value	Carrying value	Fair value
	(In bolivars)			
ASSETS:				
Cash and due from banks	27,971,834,740,430	27,971,834,740,430	8,286,044,765,952	8,286,044,765,952
Investment securities	51,964,941,303,361	52,650,720,048,437	6,787,132,644,190	6,509,558,763,454
Loan portfolio	6,155,756,474,100	6,155,756,474,100	472,158,505,227	472,158,505,227
Interests and commissions receivable	437,314,848,017	437,314,848,017	51,803,079,511	51,803,079,511
	86,529,847,365,908	87,215,626,110,984	15,597,138,994,880	15,319,565,114,144
LIABILITIES:				
Bank deposits	55,519,311,117,109	55,519,311,117,109	10,809,718,846,826	10,809,718,846,826
Other borrowings	1,280,092,752,889	1,280,092,752,889	5,869,686	5,869,686
Interests and commissions payable	17,042,052,547	17,042,052,547	1,502,261,340	1,502,261,340
	56,816,445,922,545	56,816,445,922,545	10,811,226,977,852	10,811,226,977,852
MEMORANDUM ACCOUNTS:				
Contingent debit accounts	137,933,611,936	137,933,611,936	137,933,611,936	137,933,611,936

NOTE 20.- CONTINGENCIES AND COMMITMENTS:

At December 31 and June 30, 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 December 31, 2020, the Bank maintains exchange losses from the intervention mechanism over one year as recoverable expenditures within "Other assets" for Bs. 71,568,930,985 (Bs. 18,675,137,245, at June 30, 2020) (see Note 9).
- Research of transfers made on a bank account with a precautionary measure to freeze funds. The Bank has created a provision for US\$ 400,484, which has been recorded under "Accruals and other liabilities" (see Note 12).

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 fund-raising operations and banking and security services, the effects of which are presented below:

	31-12-20	30-06-20
	(In bolivars)	
Operating expenses:		
Vencred, S.A.	3,674,373,691	813,271,189
Inversiones 120915, C.A.	3,526,738,857	81,354,325
Inversiones Las Monjas, C.A.	991,800,000	469,800,000
Other	146	75
	<u>8,192,912,695</u>	<u>1,364,425,589</u>

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

	31-12-20	30-06-20
	(In bolivars)	
Bank deposits and other demand obligations:		
Vencred, S.A.	2,457,787,378	944,586,742
Valores Vencred Casa de Bolsa, S.A.	1,329,424,330	711,610,001
Venezolana de Bienes, S.A.	139,653,582	213,665,067
Inversiones Bonorum, C.A.	128,553,113	442,727
Inversiones 120915, C.A.	8,321,916	3,545,643,294
Other	147,883,574	54,325,445
	<u>4,211,623,893</u>	<u>5,470,273,276</u>

NOTE 22.- FOREIGN CURRENCY BALANCES AND TRANSACTIONS:

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

	31-12-20		30-06-20	
	US\$	Bs.	US\$	Bs.
ASSETS:				
Cash and due from banks	13,251,840	14,635,737,174,261	27,669,058	5,641,904,915,034
Investment securities	47,051,342	51,964,941,210,918	30,936,375	6,308,132,548,843
Interests and commissions receivable	382,564	422,515,062,816	244,986	49,954,231,092
Other assets	11,738	12,963,982,940	60,124	12,259,736,282
	<u>60,697,484</u>	<u>67,036,157,430,934</u>	<u>58,910,543</u>	<u>12,012,251,431,253</u>
LIABILITIES:				
Bank deposits	(35,854,054)	(39,598,314,381,935)	(35,448,250)	(7,228,133,912,583)
Accruals and other liabilities	<u>(15,424,252)</u>	<u>(17,035,015,250,100)</u>	<u>(14,647,032)</u>	<u>(2,986,627,250,044)</u>
	<u>(51,278,306)</u>	<u>(56,633,330,129,029)</u>	<u>(50,095,282)</u>	<u>(10,214,761,162,627)</u>
Carrying asset position, net	<u>9,419,178</u>	<u>10,402,827,301,906</u>	<u>8,815,261</u>	<u>1,797,490,268,625</u>
Other debit memorandum accounts, net	<u>-0-</u>	<u>-0-</u>	<u>(1,500)</u>	<u>(310,750,000)</u>

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

During the six-month period ended December 31, 2020, the Bank recorded unrealized exchange gains and losses from the valuation of foreign currency balances for a net amount of Bs. 7,523,491,138,882 (Bs. 1,282,286,602,939, for the six-month period ended June 30, 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.c).

During the six-month period ended December 31, 2020, the Bank recorded realized gains mainly from operations carried out by the Bank, as foreign exchange operator, and by its foreign branch for Bs. 1,732,011,960,816 (Bs. 110,114,158,158, for the six-month period ended June 30, 2020), and losses for Bs. 890,103,092,113 (Bs. 2,050,851,368, at June 30, 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 December 31 and June 30, 2020, the net foreign currency position maintained by the Bank, calculated based on its individual financial statements, amounts to US\$ 9,419,178 (Bs. 10,402,827,301,906) and US\$ 8,096,077 (Bs. 376,502,660,338), 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.

NOTE 23.- SUBSEQUENT EVENTS:

a. Resolution N° 21-01-01 related to the amendment to the legal reserve:

The BCV issued Resolution N° 21-01-01 on January 7, 2021, on the *Standards ruling the creation of the legal reserve*, as published in the Official Gazette dated January 19, 2021, with the following significant changes: (a) decrease in the legal reserve from 93% to 85% of net obligations and assigned investments in local currency for universal banks, and (b) increase in the legal reserve from 20% to 40% of net obligations and assigned investments in local currency for micro financial banks, whose intermediation index is not lower than 50% (formerly 70%).

The other provisions such as the calculation method of the legal reserve, the exceptions for the legal reserve regime, the legal reserve percentage for obligations in foreign currency and the cost of the legal reserve deficit of 138% remain without any changes.

This standard supersedes the former standard contained in Resolution N° 20-03-01 dated March 26, 2020 and becomes effective the day following its publication.

b. Standard related to the foreign currency intermediation:

SUDEBAN issued Bulletin N° SIB-DSB-CJ-OD-00317 through which banks are prohibited from granting loans in foreign currency with funds obtained from customers' bank deposits in foreign currency or any other modality unless they are authorized by BCV and SUDEBAN.

c. Standard related to loans and limits for lending and saving interest rates:

The BCV issued Resolution N° 21-01-02, on January 7, 2021, as published in the Official Gazette dated January 19, 2021, related to standards ruling the loans and the interest rates of the financial system, with the following main aspects:

1. Loans referred to by the resolution shall be expressed in Commercial Credit Value Units (the "UVC"), which result from the division of the settled amount of the loan by the investment index (the "IDI") in effect at that date, as determined by the BCV, considering the reference exchange rate fluctuation in the market and published daily on the website of the issuer.
2. Interest rates collectible and payable by banks to their customers have been increased as follows:

Type of loan	Interest rate
<ul style="list-style-type: none"> - Loans granted within the framework of the CPUN - Commercial loans and microcredits expressed in UVC - Loans to employees and directors 	<ul style="list-style-type: none"> - Annual rate of 2% (formerly 0%) - Annual minimum rate of 4% and annual maximum rate of 10% (formerly 4% and 6%) - 90% of interest rate for credit card transactions, as monthly published by BCV (formerly 100%)
<ul style="list-style-type: none"> - For default on UVCC loan payments - Consumer loans and on credit cards, with the following lines of credit: <ul style="list-style-type: none"> • equal or higher than 20,400 UVC • less than 20,400 UVC - For default in payments of other than UVC loans 	<ul style="list-style-type: none"> - Annual rate of 0.8% (formerly 0.5%) - Annual minimum rate of 10%. - Interest rate for credit card transactions, as monthly published by BCV
<ul style="list-style-type: none"> - Savings deposits - Term deposits - Discount, rediscount and advance transactions to be collected by BCV to banks. 	<ul style="list-style-type: none"> - Annual 3% in addition to agreed interest rate. - Annual rate of 32% on daily balances (formerly 21%) - Annual rate of 36% (formerly 24%). - Annual rate of 12% (formerly 10%).

3. Certain conditions are provided for inclusion in loan agreements, which shall be approved by SUDEBAN.
4. This resolution becomes effective on February 1st, 2021.

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